

**NON-PERFORMING LOAN MANAGEMENT OF
COMMERCIAL BANKS IN NEPAL**

**A Dissertation submitted to the Office the Dean, Faculty of Management
in partial fulfillment of the requirements for the Master's Degree**

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Non-Performing Loan Management of Commercial Banks in Nepal**" The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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REPORT OF RESEARCH COMMITTEE

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**Non-performing Loan Management of Commercial Banks in Nepal**" presented by Pranay Tuladhar, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

A.D.	:	Anno Domini
C.V.	:	Co-efficient of variation
e.g	:	Example
EBL	:	Everest Bank Limited
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Product
i.e.	:	That is
LLP	:	Loan Loss Provision
NBL	:	Nepal Bank Limited
No	:	Number
NPA	:	Non-Performing Loan
NPL	:	Non-Performing Assets
NRB	:	Nepal Rastra Bank
RBB	:	Rastra Banijiya Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
S.D.	:	Standard Deviation
T.U.	:	Tribhuvan University
UAE	:	United Arab Emirates

ABSTRACT

The main objective of the study is to analyze non performing loan of commercial banks. The design of study is competitive in nature. The researcher used regression analysis method to select the data. The main variables of the research are loan and advance, total assets, loan loss provision, non performing loan and net profit. The data presented in the study are secondary type.

The study conducted a research on Nepal Bank and Everest Bank Ltd, which are the growing banks in Nepal. Non-performing loan to total loan ratio of selected banks is in fluctuating trend but Nepal Bank's ratio is higher than Everest Bank. This research is focused on studying the non-performing loans of Nepal Bank Ltd. and Everest Bank Ltd. EBL is more successful than NBL to mobilize its total deposit as loan & advances and acquiring high profit. NBL has huge amount to be made for provision of loan losses. Therefore, NBL has not been able to earn a profit from the point of view average. But both bank can be managed and bring them below 5% by managing loan properly in final year. EBL has the lowest non-performing loan to loan loss provision, thus EBL performing well or maintaining their NPL perfectly than NBL. EBL has the higher ratio signifies that the bank safeguard against future contingencies but it reduces profit. EBL has the lowest ratio thus EBL performing good or maintaining their NPLs perfectly than NBL. EBL has high volume of interest income is an indicator of good performance of lending activities than NBL.

This study is also bounded by many limitations, such as secondary data, unreliability of time and resources. In this study the main focus is given to analyze the non-performing loan of commercial bank through NRB directives. Therefore the study may not be generated in all case and accuracy depends upon data collection and provided by the concerned organizations.

Key words: Loan and advance, Total assets, Loan loss provision, Non- performing loan and Net profit.

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The present deregulation, innovation, competition and globalization in the financial system especially in the banking sector have contributed to making banking business more complex and potentially riskier. This has presented new challenges for regulating body for supervision. In response, supervisors have developed new methods and processes for monitoring and assessing banks and ongoing basis.

Extension of credit is one of the major activities of banks and financial institutions. Credit represents a major segment of the asset portfolio of bank and financial institution. However, increasing NPL have a direct impact on banks profitability as banks are barred to book income on such accounts and at the same time banks are forced to make provision on such assets as per the Central Bank guidelines. Also, with increasing deposits made by the public in the banking system, the banking industry cannot afford default by borrowers since NPL affects the repayment capacity of banks. Further, central Bank successfully creates excess liquidity in the system through various rate cuts and banks fail to utilize this benefit to its advantage due to the fear of burgeoning non-performing assets.

Non-Performing Loan (NPL) means the amount loan that the individual commercial bank had provided and the consumer has not paid it until the time is already matured. Once the distributed loan is not returned timely by clients and overdue then it is known as Non-Performing Loan for the bank. Reduction of (NPL) has always been a significant problem for every commercial banks and proper attention for the management of the NPL now has got the top priority. Due to various hurdles on the way of management of NPL, commercial banks are now losing their profitability and struggling for the existence.

Alton and Hazen (2001) defined non-performing loans as advances that are not being repaid for a specified period of time. Hennie (2003) termed NPLs that are not generating profits. Caprio and Klingebiel (1996), supports the argument that those

loans that do not generate profit for a longer period of time either principal or interest. Michael et al (2006) argues that Non-performing loans affect the overall performance of the banks that in turn threatens the solvency of the banks. The rising level of NPLs can drastically affects the overall performance of banks (DeYoung & Whalen, 1994; Saba et.al., 2012).

The non-performing loans (NPLs) are that loans which are in or close to default. These NPLs normally happened when the principal and interest payments on the loan are overdue by 90 days or more. The NPLs are generally treated as bed debt that is why there is minimum chance of greeting back (The Motley Fool, 2018).

The non-performing loan (NPLs) refers to those loans from which interest or installments are received no longer as on schedule. It is known as non-performing because the loans cases to “perform” or generate income for the bank (Sarker, 2017).

Non-Performing Loan (NPL) is a burning problem of Nepalese financial sector. In the present banking scenario, NPL is being more headaches for the banking sector. In the general context, a non performing Loan is nothing but those advances that do not generate income. In other word it refers to those unproductive assets of any firm that cannot be converted into cash within specific time limit. If the credit allowed by banks and financial institution turns bad, it creates NPL. NPL percentage in assets portfolio show health of bank. The performance of any financial institution is greatly measure with the coverage of NPL in the particular institution. Since, the prime sources of income for the bank are generated through income from loan and advances, increase in non- performing assets may lead bank in verge of collapse (Nepal Rastra Bank, 2010). Similarly, as per the rules laid down by Nepal Rastra Bank, the loan and advance which are overdue for three month or more should be treated as NPL. Therefore, the significance of the study is for banking sector. Major impact of NPL lies in the fact it does not generate income. The credit remains idle. As overdue ageing more than Three-month, six month and one year requires 25%, 50% and 100% provision for income, which is virtually sure to reduce the profit. Furthermore, borrowing cost of resources locked in NPL and opportunity loss due in none recycling of funds are other impact. It also increases the administrative and recovery cost and legal cost as well. Effect on employee morale and decision making, lower image and

rating of bank and reduce investor and foreign aid agency confidence are some of the prominent impact (Nepal Rastra Bank, 2010).

Beside risk underlying in the business other factors also effects in the increment of non- performing loan. These are attitude of the borrower, types and quality of collateral taken and legal complication created by the borrower during the loan recovery process. Reduction of NPA has always been a major problem for ever commercial bank in recent days. NPL management has been the top priority for banks. As easier, said than done, it's always been nerve-racking task for banks and whole banking industry now is struggling to get rid of it through various means. The operating of the banking institutions has been governed by the government rules and regulation, international industry norms, relevant acts, Memorandum of Association (MOA), Article of Association (AOA), instruction given at the time of getting intent and Directives issued by Central bank from time to time. Similarly, the expectation of the stakeholder should also be taken into consideration. All banking institution is supposed to confine their activities within the stated framework.

Financial institutions are very important in the economic growth of the economy as they help to make easy credit flow and enhance economic activity with increasing investment in productive sectors of the economy. Sound financial sector is more important for the economic growth of any country. Commercial banks are the major source of credit for business firms and households in many countries. Better performance of these financial institutions play a significant role for the economic prosperity of any country and poor performance of these institutions result the slowdown of economic growth and affects badly to the region of the world. Since the NPA of banks is an important criterion to assess the financial health of banking sector (Akter & Roy, 2017), identification of the potential problem and close monitoring is paramount importance for the better performance of this sector. Non-performing loan carries significant threat to commercial bank as it can erode the capital. NPL management is the top priority of bank. The study is conducted to examine the non-performing loan of commercial bank with reference to Everest Bank Limited, Nepal Bank Limited, Nepal SBI Bank Limited and Rastriya Banijya Bank Limited. There are twenty commercial banks and the study is conducted with reference to four banks.

1.2 Problem Statement

There is no standard form to define non-performing loans globally. Variation may exist in terms of the classification system, the scope, and contents as per country. As a regulatory financial institution of Nepal, the central bank, that is, Nepal Rastra Bank has classified the loan basically into the pass loan, watchlist, sub-standard loan, doubtful loan and loss or bad loan. It is necessary to control non-performing loans for the economic growth in the country, otherwise the resources can be jammed in unprofitable projects and sectors which not only damages the financial stability but also the economic growth. In order to control the non-performing loans it is necessary to understand the root causes of these non-performing loans in the particular financial sector. If we look into the causes of great recession 2007-2009 which damaged not only economy of USA but also economies of many countries of the world find that non-performing loans were one of the main causes of this recession (Richard, 2011).

Non-performing loan are loan that is borrowed from an individual, corporation for personal as well as for business use whose interest and principal payment has remained past due for a prescribed period of time for which banks should classify the asset keep a provision for loan loss as per directives. Loan loss provision kept by the banks will be deducted from the operating income in income statement. So higher the loan loss provision lower will be the bank's net profit. The success of commercial banks depends on profitability. Loan is the major component of earning assets of commercial banks. However, the profitability will be more if the bank have less non-performing loan. On the other hand if the non-performing loan is high the banks may not be able reap profit instead they may be in loss because the bank need to put reserves for the amount of non-performing loans (Farhan et al., 2012).

None of the financial institutions of the country are growing rapidly. Competition among such institution is on rise as all these institution are educating them in the financial market even the bank have strong credit manual, the NPL level of some of bank are still high comparison with other banks. No company can earn softly and smoothly without well managed loan portfolio. Hence study has taken NPL in EBL,

NSBL, NBL and RBBL. This study attempts to solve the following questions related to these selected banks.

- i. What is the status of non-performing loan of EBL, NSBL, NBL and RBBL?
- ii. What is the relationship of non-performing loan with total assets, loan and advance, loan loss provision, and profitability?
- iii. What is the impact of loan loss provision, loan and advance, bank size and profitability on non-performing loan of the banks?

1.3 Objectives of the Study

The major objective of the study was to examine the level of non-performing loan and impact of NPL of selected commercial banks in Nepal. The specific objectives are:

- i. To identify the status of NPL in EBL, NSBL, NBL and RBBL.
- ii. To examine the relationship of non-performing loan with total assets, loan and advance, loan loss provision and profitability.
- iii. To analyze the impact of loan loss provision, loan and advance, bank size and profitability on non-performing loan of banks.

1.4 Rationale of the Study

The findings of this study added new knowledge to the existing knowledge gap of causes of non-performing loans related to banking. The study is benefits to Banking monitoring master plan and indicator information, financial institutions, financial markets, Policy maker, business community, and the community at large. The study explores and recommends potential areas that bankers need to put more efforts when utilizing loans services.

The main focus of the study will be to know about non-performing loan of the selected Nepalese commercial Banks and make comparative study on non-performing loan of selected commercial banks. So, this research will be able to deliver some of the present issue, latest information and data regarding non-performing loan and loan loss provision. Hence, this study will give the real picture of the non-performing loan which will be significant to bankers, its stakeholders, depositors, and general public who are interested on the current affair of banking industry and also provide literature to the researchers who want to carry on further research in this field.

There is some research conducted on NPL concerning various commercial banks in Nepal. They have conducted research just to show the NPL position in various commercial banks. But this research will compare NPL status and its effects in various aspects of their major activities like loan lending, deposit collection etc. between private bank and government bank.

1.5 Limitations of the Study

As every study has its own limitations. This study also suffers from following limitations:

- i. The study is basically based on only secondary data, articles, publication and journals of the respective banks so, the accuracy of the research work depends on data publication.
- ii. The study only covers the 10 years from fiscal year 2013/14 to 2022/23.
- iii. Among the 20 commercial banks only four sample banks i.e. RBBL, NBL, EBL and NSBL are taken for study.
- iv. This research used only the selective tools for analysis and interpretation of data.

CHAPTER - II

REVIEW OF LITERATURE

This chapter is concerned with review of literature relevant to the topic 'non-performing loan management of commercial bank. The purpose of reviewing of literature is to develop some expertise in one's area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study. This chapter includes main two sections, the first section deals with the conceptual framework of the study while the second section deals with review of previous study journals, review of thesis etc.

2.1 Conceptual Review

Non-performing loans are the loans that do not repay principal and interest timely to the bank. A common feature of NPL appears to be that if a payment is more than 90 days past due. In Nepal, if the loan is past due over 3 months, it is NPL. A loan is an asset for a bank as the interest payments and the repayment of the principal creates a stream of cash flows. It is from the interest payments a bank makes its income and profits.

A bank is judged on the basis of capital Adequacy, Assets Quality, Management Quality, Earning, Liquidity and sensitivity to market Ratio (CAMELS). Almost all the government Banks are running at loss. Though almost all the private sectors banks are showing profit, it is very difficult to call them sound if appraised from CAMELS approach. Some banks have very low capital adequacy ratio (CAR) while some bank have piled up Non-Performing Assets. The people have been raising questions over the correctness of credit classification and provisioning of some banks should the suspicion come true, it will prove very costly to the depositors, creditors and national economy as whole. It would be prudent to advice NRB to strictly implement its recently introduction directive so that other banks avert the fate of NBL, RBB and NIDC (Kerlinnger & Wilnston, 1986).

The timing of loan repayment is a basic term of bank's lending policy. Loan repayment is generally, agreed upon prior to the extension of the loan and should represent a realistic evaluation of the customer's ability to repay. The objective is to secure repayment through liquidation of the transaction being financed by rather than through forced sale of the pledged security. Therefore, term and condition of loan repayment is highly influenced by the nature of transaction type of the loan and the period of loan (Baidhya, 1999).

Performing assets are those assets loans that repay principal and interest to the bank from the cash flow it generates. Loans and risky assets though a bank invest most of its resources in granting loans and advances. If an individual bank has around 10% non-performing assets/loan (NPAs), it sounds the death knell of that bank *ceteris paribus*. The objective of sound loan policy is to maintain the financial health of the banks, which results in safety of depositors' money and increase in the returns to the shareholders. Since the loan is risky asset, there is inherent risk in every loan. However, the bank should not take risk above a certain degree irrespective of returns prospect (Panday, 2000).

Loan review is not a luxury, but a necessity for a sound bank lending program. It not only helps management spot loan-problem more quickly, but also acts as a continuing check on whether loan officers are adhering to the bank's loan policy. For this reason, and to promote objectivity in the loan review process, many of the largest banks separate their loan review personal from the loan department and the bank's board of directors in assessing the bank's overall exposure to risk and its possible need for more capital in the future. Separate loan review division also helps to detect any mishaps and undue influences in the lending process, if any (Singh, 1999).

2.1.1 Loan and Advances

The major function of commercial banks is to collect deposits or funds and disburse it to investors as loan and advances. This loan and advances are main sources of income. Loan and advances dominate the assets side of balance sheet of any bank. Same way earning from loans and advances occupy a major portion of the income statement of the banks. This asset generates income to the bank. So, it also determines profitability of banks. Loan and advances granted to customers earns

interest. This interest is major source of income of banks. Loan is granted as overdraft cash credits and direct loans. Banks grant loan on the base of collateral underlying the loan. Banks make careful assessment before granting loans to investors or business enterprises.

2.1.2 Performing Assets/Loans

Performing loans are those loans, which repay principal and interest timely to the bank from the cash flow it generates. In other word, performing loan are the productive assets that generate some profits. Loans have the certain period to return its principle with its interest. If anyone repays loan with its interest on time is known as the performing loan. It is the most profitable assets of bank. Its help in rapid growth of banking sector in this fast pace competitive age. Better performing loan are the symbol of success of bank. It ultimately helps in economic growth and development. So, such loans are necessary for overall development and prosperity of country. However, many banks are suffering from the non-repayment of loan amount.

2.1.3 Non-Performing Assets/Loans (NPAs/NPLs)

NPA in terms of banking sector consist of those loans and advances, which are not performing well and likely to turn as bad loans. Once the borrower has failed to make interest and principal payments for 90 days the loan is considered to be non-performing assets. Non-performing assets are problematic for financial institutions since they depend on the interest payments for income. One of the most emerging problems of the commercial banks is to the management of non-performing assets/loans.

NPA can be defined as the non-productive assets of the banks. In other words, it is the loan or bad debt and doubtful debts that does not repay timely. Generally, the loan which does not repay within three months is known as non-performing loan. The loan amount that does not covered by collateral after selling is also known as non-banking assets (NPA), Non-performing assets also includes the suspend interest. It is the interest, which becomes receivable. Unutilized assets and those investments which do not generate any cash or incomes to the bank are also non-performing assets (NPAs). The proper management of those assets to generate income is known as management of non-performing assets (Regmi, 2005).

According to the NRB, central banks NPAs are classified loans and advances according to their nature of overdue timing NRB has directed to maintain loan loss provision according to aging basis for risk mitigation. The loan provision is to LT be maintained by debiting profit account. Thus, as the quality of loan degrades the ratio of loan loss provision is increased affecting the profitability of the banks.

2.1.4 Cause of Occurring NPAs

There are various causes to increase the NPAs. NPAs can be increased due to:

- Lack of Effective Credit Appraisal Techniques
- Wrong credit delivery timing
- Lack of transparent and clear lending policy
- Lack of effective and scientific forecast in the actual outcomes of business.
- Lack strong willingness in managerial level of banks.
- Lack of proper legal framework.
- Inadequate Monitoring

2.1.5 Effect of NPLs

Its direct effect is on the profitability of commercial banks. In future, it affects overall performance of banks. It also affects liquidity ad competitive functioning of public and private sector banks and finally the psychology of the bankers in respect to their disposition towards credit delivery and credit expansion.

“Increasing Non-Performing Assets has the direct effects to banks, investors and customers. It has negative impact to the economic health and business of country. It has two types of effects” (Batra & Dass, 2003).

A) Internal Effects

Internal Effects Profitability is major objective of any business enterprises and commercial banks are not exceptional. But commercial banks cannot mobilize the non-performing assets to increase profitability. They also have to make provision for doubtful debts from their profits and other resources. That's why the profit of banks decreased and may cause losses. As a result, share capital also becomes capital erosion and capital inadequacy. The central bank can take action on those banks,

which have low capital or capital adequacy ratio. When the non-performing assets increase, the banks have to increase the amount of provision for doubtful debts and when the loan is repaid, the profit treated as profit. If the provision for doubtful debts crosses 5% of the total loan amount, the bank has to pay income tax as profit. So, it has direct effects to the cash flow of banks. As a result, the employment of human resources and profit of the bank has also affected.

B) External Effects

The banks accept deposits from the public and provide loan to the operation of business and other purposes. When the loan does not return with interest, it becomes non-performing assets and banks will not be able to return the deposited amount to their customers. If the banks unable to return the deposited amount the banks are loosed public supports and faiths. Not only that much but also. The banks have to take loan at a higher rate to pay deposit, which directly affects the profitability of banks and which leads the bank bankruptcy and dissolve. It also affects the monetary system and economy of the country.

C) Impact on Profitability

The NPLs has negative impacts on the profitability of the bank. Non-performing loans are the idle assets of the banks, which do not generate any return for the banks. Thus, we can say that the NPLs reduce the profitability of the banks due to the becoming the idle resources. NPL not only reduced the profitability of the banks but also it may cause for losing the customer's faiths and supports.

D) Impact on the Outlook of Banker towards Credit Delivery

The psychology of the banks today is to insulate them with zero percent risk and turn lukewarm to fresh credit. This has affected adversely credit growth compared to growth of deposits, resulting a low C/D ratio around 50% to 54% for the industry. It is evident that the existence of collateral security at best may convert the credit extended to productive sectors into an investment against real estate, but will not prevent the account turning into NPA. Further blocked assets and real estate represent the most illiquid security and, in such advance, has the tendency to persist for a long duration. Nationalized banks have reached a dead-end of the tunnel and their future prosperity depends on an urgent solution of this hovering threat.

E) Excessive Focus on Credit Risk Management

The most important business implication of the NPAs is that it leads to the credit risk management assuming priority over other aspects of bank's functioning. The bank's whole machinery would thus be pre-occupied with recovery procedures rather than concentrating on expanding business. A bank with high level of NPAs would be forced to incur carrying costs on a non-income yielding assets. Other consequence would be reduction in interest income, high level of provisioning, stress on profitability and capital adequacy, gradual decline in ability to meet steady increase in cost, increased pressure on net interest margin (NIM) thereby reducing competitiveness, steady erosion of capital resources and increased difficulty in augmenting capital resources. The lesser-appreciated implications are reputation risks arising out of greater disclosures on quantum and movement of NPAs, provisions etc. the non-quantifiable implications can be psychological like 'play safe' attitude and risk aversion, lower morale and disinclination to take decisions at all levels of staff in the banks.

Two decades of regimented and directed banking to credit delivery has deprived bank managers of the instinct skill and knowledge. Nationalized banking did not produce a spring of talent resources. Directive inputs and course direction came externally from NRB and Finance Ministry, which were external to the day-to-day affairs and problems of the Nepalese banking industry. The system did not promote initiative and talent, but bred corruption and nepotism. This is the sense of Nepalese Banking struggling hard to transaction from old primitive systems and values to modern professional business ethics and corporate good governance.

F) High Cost of Fund Due to NPLs

Quite often genuine borrowers face the difficulties in raising funds from banks due to mounting NPLs.' Either the bank is reluctant in providing the requisites funds to the genuine borrowers or if the funds are provided, come at a very high cost to compensate the lender's losses caused due to high level of NPLs. Therefore, quite often corporate prefer to raise funds through commercial papers. where the interest rate on working capital charged by banks in higher. There are other various pressing factors that are relevant from the point of view Nepalese banking operations with a view to focusing on NPAs and its related effects:

G) Excess Liquidity Lending Default

The banks in Nepal are faced with the problem of increasing liquidity in the System. Further, the Rastriya Banijya Bank (RBB) is increasing liquidity in the system through various rate cuts. Banks can get rid of its excess liquidity by increasing its lending but, often shy away from such an option due to the high risk of default. In order to promote certain norms for healthy banking practices, most of the developed economies require all banks to maintain minimum liquid and cash reserves broadly classified into cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR). A rate cut (for instance, decrease in RR) result into lesser funds to be locked up in NRB's vaults and further infuses greater funds into a system. However almost all the banks are facing the problem of bad loans, nonperforming? Assets, thinning margins, etc., as result of which, banks are little reluctant in granting loans to corporate. As such, though in its monetary policy NRB announces the bankers no longer warmly greet rate cut but such news.

2.1.6 Loan Loss Provision

Risk exists if there are two or more than two outcomes. There is risk in every loan. Loan loss provision is the accumulated fund that is divided as safeguard to cover possible losses. It means that it is accumulated provisioning fund, which is used as safety fund to cover future losses. It is the expected provision fund. The amount of required for provisioning depends upon the level of NPAs, trends of repayment of loan and economic stage of country. The high-quality loan requires low loss provision, whereas bad loan requires high loan loss provision. Loan loss provision made for performing loan is called "general loan loss provision" and loan loss provision made for non-performing loan is called specific loan loss provisioning".

2.1.7 Principles of Lending Loan and Advances

The precautions to be taken by a banker, and the principles to be taken care of, while granting advances. By way of introduction, an attempt is being made in the following paragraphs to discuss the general principle to be in mind by a banker while grating advances (K.C., 1999).

A) Liquidity

The term 'liquidity' implies the ability to produce cash on demand. A bank mainly utilizes its deposits for the purpose of granting advances. These deposits are repayable on demand or on the expiry of a specified period. In either case, the banker must be ready to meet these liabilities whenever necessary. The advances granted by the banker are as liquid as possible.

B) Profitability

Banks are essentially commercial ventures. It is true that excessive and unjustifiable profits can only be at the cost of the customers, in so far higher lending rates push up production costs, and in the ultimate analysis, adversely affects society in general. At the same time, the facts remain that while strong operation profits allow for full prudential provisioning high net profits allow for allocation to capital and reserves, which is essential for any bank to maintain its competitive viability and expand its lending operations. Also, the shareholders of banks are entitled to reasonable dividend. All this indicates that it is that their lending operations are sufficiently profitable.

C) Safety and Security

The banker should ensure that the borrower has the ability and will to repay Advances as per agreement. The banker should carefully consider the margin of Safety. If it is as unsecured advance, its repayment depends on the creditworthiness of the borrower, and that of guarantor. The banker should consider the Charter, Capacity and Capital or reliability, Responsibility and resources of the borrower and the guarantor.

D) Purposes

The banker has to carefully examine applied. Of course, the exact purpose the purpose for which the advance has been for which the advance is actually utilized. There is always the possibility that the advances, once granted, may be diverted for purpose so that indicated by the borrower at the time application. Thus, there should be proper analysis of purpose.

E) Social Responsibility

While admitting that banker is essentially commercial venture, a bank should not forget the fact that it is not enough that only people of means are given banks finance. The identification of property sectors for the purpose of extending bank credit should be considered as a positive development in the banking system, aimed at effectively discharging its responsibility towards society. At the same time, this social responsibility should not deter the banks from paying adequate attention to the qualitative aspects of lending. Social responsibility is, no doubt, highly exacting.

Ratio Analysis

Ratio analysis is the most effective tool of financial analysis. It is the widely used tool in financial analysis. A ratio simplify shows the relationship between the two variables or one another. It presents the relative strengths and weakness of any firm or organization. It also shows the financial growth of the organization and financial performances of the organizations. It summaries the financial figures and make quantitative judgment about the financial performances and positions. The relationship between two accounting figures expressed mathematically is known as financial ratio.

Loan and Advances to Total Assets Ratio

The loan and advances to total assets ratio measures the amount of loan and Advances in the total assets. It means that it shows the proportion of loan and Advances to total assets. High degree of loan and advances indicates the good position of the organization that of good mobilization of deposits of funds. In inverse, low degree of loan indicates that is no use of fund properly. Loan is the risky assets. Thus, higher loan and advances to total assets ratio shows high risk and inversely low loan and advances to total assets ratio shows low risk. Risk consist the uncertainty and future is uncertain.

Loan and Advances to Total Deposit Ratio (CD Ratio)

The loan and advance to total deposit ratio show the relationship between the loan and advance and total deposit. It shows how much funds of deposit are provided as loan and advance. This ratio is used to find out how successfully the banks are utilizing their deposited fund on credit or loan for profit generating purpose as loans and

advances yield high rate of return. Higher CD Ratio implies the better utilization of total deposits and better earning.

Non-performing Assets to Total Loans and Advances Ratio

This ratio determines the non-performing assets in the total loan and advances portfolio' Greater ratio implies the bad quality of loan of the bank. Hence lower non-performing assets to loans and advances ratio are preferable.

Non – performing Loan to Assets Ratio

This ratio represents the proportion between the non-performing loans and total assets of banks. It shows the how many loans are non-performing or idle in the total assets of banks. Higher NPL, to total assets ratio indicates the works performance, which reduces the profitability of the banks.

Loan loss provision to Non-performing Assets Ratio

This ratio describes the proportion of provision held to non-performing assets of the bank. This ratio measures up to what extent of risk inherent in NPA is covered by the total loan provision. Higher ratio signifies that the banks are safeguarded against future contingencies that may create due to non-performing assets.

Return on Loans and Advances

This ratio indicates the proportion of the return over total loans and advances. It Describe show efficiently the bank has utilized and mobilized its resources in the form of loans and advances of the banks.

Return on Total Assets Ratio

The ratio calculates the relationship between the net profit and total assets. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice versa.

2.2 Review of NRB Directives

NRB issues various directives relating banking regulations and prudential norms. Among various directives issued in Unified Directives 2073/74 (Amended each year) B.S. directive No.2 is relating to loan Classification and provisioning.

Directive No. 2: Loan Classification and Provisioning

Nepal Rastra Bank act, 2058 B. S., granted the central bank full independence in the pursuit of its mandate. It is the duty if independent central bank to be transparent and to communicate. Nepal Rastra Bank's act 2058 B.S. mentioned its role at preamble" whereas, it is expedient to established a Nepal Rastra Bank to function as the central bank to formulate necessary monetary and foreign exchange policies, to maintain the stability of price, to consolidate balance of payment for sustainable development of the economy of the kingdom of Nepal, and to develop a secure, healthy and efficient system of payment, to appropriately regulate, inspect and supervise I order to maintain the stability and healthy development of banking and financial system, and for the enhancement of public credibility towards the entire banking and financial system of country. "To fulfill the theme that mentioned on Sits preamble of act, 2058 B.S. the act 2058 B.S. Chapter 2 sections 4 defined the objectives of Nepal Rastra Banks. Objectives (d) and (e) are related to manage bank and financial system, which are as follows:

- To regulate, inspect, supervise and monitor the banking system
- To promote the entire banking and financial system of the kingdom of Nepal and to enhance its public credibility.

To fulfill objectives as a central bank Nepal Rastra bank issue various directive. Banking business is changing day by day not only from the external element but also within the banks. It is also observed from different element of the society that banking in Nepal is not being operated in such a manner to deserve sufficient public confidence. It is also not operated with due consideration of its long-term financial health. This environment in banking business is not only the challenge to the individual bank but also became big challenge to banking and financial as whole and more to the central bank of the country. In order to safe guard from future damage on the banking sector and to have health competition with the banking sector, new directives on code of ethics may help a lot this banking industry.

Directives related to loan classification and provisioning (Unified Directives No.2) effective from FY 2073/74 B.S., banks shall classify outstanding loan and advance on the basis of aging of principal amount into the following 5 categories.

1) Pass Loan

Loans and advances whose principal amount is not past due for period up to three months shall be included in this category. These are classified and defined as performing loans.

2) Watch List

All loan and advance, whose borrowers missed the loan repayment deadline by a month. If the borrower maintained negative working capital, cash flow or net worth for two consecutive years. If borrowers failed to clear payments of domestic raw material suppliers or if, renewal process of loans, such as working capital was delayed.

3) Sub-Standard Loan

All loans and advances that are past due for a period of 3 months to 6 months shall include in this category.

4) Doubtful Loan

All the loans and advances which are past due for a period of 6 months to 1 year will be included in this category.

5) Loss

All loans and advances, which are past due for one year or a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery I future shall be included in this category. Loans and advances failing in the category of sub-standard, Doubtful, and loss are classified and defined as Non-performing Loan.

Directive No. 2(a): Additional Arrangement in Respect of “Pass” Loan

Loan and Advances fully secured by bullions, fixed deposit receipts and Government of Nepal securities shall be included under "Pass" category. However, where

collateral of fixed deposit receipt or Government of Nepal Securities or NRB Bonds is placed as security against loan for other purposes, such a loan has to be classified on the basis of ageing loan against FDRs of other banks shall also qualify for inclusion under Pass Loan.

The respective overdue period of pass, sub-standard and doubtful loans will be considered for higher classification from the next day of date of expiry of the overdue period provided for each class.

Directive No. 2(b): Additional Arrangement in Respect of “Loss” Loan

Even if the loan is not past due, loans having any or all of the following discrepancies shall be classified as “loss”.

- No security at all or security that is not in accordance with the borrower's agreement with the bank.
- The borrower has been declared bankrupt.
- The borrower is absconding or cannot be found
- Purchased or discounted bills are not realized within 90 days from the due date.
- The credit has not been used for the purpose originally intended.
- Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if there convey process is under litigation.
- Loans provided to the borrowers included in the blacklist and where the credit information bureau blacklists the borrower.

Directive No. 2 (c): Additional Agreement in Respect of “Term” Loan

In respect of term loans, the classification shall be made against the entire outstanding loan on the basis of the past due period of overdue installment.

Loan Loss Provision

The loan loss provisioning, on the basis of the outstanding loan and advances and bills purchases classified as per NRB directives, shall be provided as follow:

- Pass loan: loan loss provision for pass loan is 1%
- Watch list: for watch list loan loss provision is 5%
- Sub-standard: loan loss provision for sub- standard loan is 25%

- Doubtful: for doubtful loan loss provision is 50%
- Loss: provision for loss is 100%

Loan Loss provision set aside for Performing Loan is defined as "General Loan Loss Provision" and Loan loss provision set aside for non-performing loan is defined as "specific Loan Loss Provision".

Where the banks provide for loan loss provisioning in excess of the proportional required under the directives of NRB, the whole amount of such additional provisioning may be included in General Loan Provision under the supplementary capital.

2.3 Empirical Review

2.3.1 Review of Journals and Articles

Thabiso (2022) had conducted a study on *factors affecting non-performing loans in commercial banks of selected west African countries*. This paper examines the macro-economic and bank-specific factors affecting non-performing loans in commercial banks. Using 47 listed commercial banks from six countries, namely 19 banks from Nigeria, 14 banks from Benin, 3 banks from Burkina Faso, 3 banks from Gambia, 3 banks from Guinea, and 5 banks from Liberia for the period 2008 to 2019, fixed and random effect model was used. The Hausman test favored the selection of fixed effect model, and it was found from the estimation that the liquidity ratio, capital adequacy ratio and inflation rate significantly affect non-performing loans. As a result, it is advised that banks depend not only on their ability to achieve the capital adequacy ratio, but also guarantee that loans are thoroughly scrutinized before being issued to beneficiaries. Bank managers should guarantee that banking staff is not simply awarding loans to secure their jobs by accumulating deposits from consumers at the price of the bank's long-term stake. In addition, the economies of West Africa should keep their inflation rates low so that repayment of loans on time is cheap and realistic.

Tchakoute, Issouf, Helyouth & Hessouc (2021) studied on *Lending and Business Cycle: Evidence from Microfinance Institutions*. Analyzing a sample of 5996 firm-year observations from 1444 microfinance institutions (MFIs) worldwide over the

2001–2014 period, we find evidence that the cyclical behavior of MFIs' lending documented in previous literature is not homogenous across MFI regulated status and lending categories. Among other things we find evidence that regulated MFIs (mostly comprised of privately-owned-MFIs) drive the cyclical behavior of lending in the microfinance industry. This might be due to regulatory pressures and the high exposure of these MFIs to economic uncertainties. Business cycles affect non-regulated and pro-poor MFIs to a lesser degree. Additionally, the findings reveal that individual loan contracts are more pro-cyclical than group loan contracts.

Meka and Nazaj (2020) studied on *Loan Management and Its Ex Ante & Ex Post Role in the Lending Process*. Bank loan management is crucial and it is instrumental in ensuring the success or failure of any credit institution. Albanian banking system as a relatively newcomer in the market economy, started to apply modern lending rules & procedures after the major loan portfolio was already created, whereas the key role of risk management and its respective procedures was mostly unknown for the majority of banks in Albania, during the credit boom. On the other side, Bank of Albania has been relatively late in taking up its role in controlling and monitoring the process of setting up the lending structure and regulation, as a mandatory standard, applicable in lending practices for commercial banks in Albania. The adjusted Basel I standards helped banks in Albania to weather the effects of the last financial crisis, but proved incomplete, in terms of ensuring long - term loan quality management. The paper shed light on main reasons why Albanian banks lagged behind in terms of applying and implementing modern risk management practices and procedures, during the credit boom period and explain why applying rules, procedures, intending to correct mistakes done during lending process, or improving the low quality portfolio, proved to be costly and of less success. Also, the paper put emphasis on lack of properly qualified and well-trained credit officers, within Albanian banks, as most of them practiced “on job training”, and only a few banks took care of training the staff, and arranging proper organizational structures, which were mostly focusing to sales rather than risk. Finally, the paper provides some recommendations on improving internal lending practices and procedures, along with modern risk management principles and near-future full implementation of Basel II standards by Bank of Albania.

Nsengiyera, Musabyemariya, and Muhimpundu (2020) had conducted a research on “*the Assessment of Loan Management On Financial Performance of Banking Institutions In Rwanda Case Study*”. This study examines the effect of loan management on the performance of banking institutions basing on the factors of loan management, challenges faced in loan management, and the level of the financial performance of BK. It was indicated that receivables are increasing year by year, this calls the researcher to assess loan management as on the contrary Bank of Kigali is opening new branches across the country, and this study seeks to find out to what extent loan management has an effect on the performance of banking institution. The study uses a descriptive research design to establish if there was any relationship between factors of loan management and indicators of financial performance. Both primary and secondary data were applied in the Research and were collected using a research questionnaire. The data collected was interpreted, analyzed and necessary comparisons made using descriptive, correlation statistics with the help of Statistical Package for Social Sciences (SPSS). It founded that there is a significant relationship between loan management and performance of Bank of Kigali Ltd. We may conclude that loan as the act of giving money, property, or other material goods to another party in exchange for future repayment of the principal amount along with interest or other financial concerns. A loan might be for a precise, one-time amount or can be obtained as open- ended credit up to a specified ceiling amount. This brings performance to the banks. Performance refers to the potential of a venture to be financially successful.

Nyamrigo, Felix and Makena (2019) had conducted a research on “*Credit Management Practices and Financial Performance of Microfinance Institutions*”. The study sought to establish the effect of credit management practices on financial performance of microfinance institutions in Nairobi County, Kenya. The study adopted a descriptive survey design. The target population of the study was 159 employees of microfinance institutions in Nairobi. This study adopted purposive sampling technique to select a sample population of 159 employees, who will be used in this study. The questionnaires were used to collect primary data. The researcher administered the questionnaires to the respondents personally. Descriptive statistics and multiple regression analysis and correlation analysis were used to analyze data. The study concludes that client appraisal significantly influenced the financial

performance of microfinance institutions in Nairobi County, Kenya. There was positive relationship between client appraisal and financial performance of microfinance institutions in Nairobi County, Kenya. Credit risk control significantly influence financial performance of microfinance institutions in Nairobi County, Kenya. There is a positive relationship between credit risk control and financial performance of microfinance institutions in Nairobi County, Kenya. There is positive relationship between collection policy and financial performance of microfinance institutions in Nairobi County, Kenya. Terms of credit was found to significantly influence financial performance of microfinance institutions in Nairobi County, Kenya. The study also found that terms of credit had positive relationship with financial performance of microfinance institutions in Nairobi County, Kenya.

Ogunlade (2018) had conducted a study on "*Credit Management Practices and Bank Performance: Evidence from First Bank*". The study examined the influence of credit management practices on financial performance of Nigerian banks with specific reference to First bank Plc. Data was collected using Purposive sampling technique from thirty (30) respondents as a sample size used to collect data from the respondents. Both descriptive and inferential statistics were used to analyze data, such as frequency, percentage, weighted mean score, and multiple regression. The result revealed that credit management practices have a significant positive influence on the financial performance of First bank. The result concluded that client appraisal, credit risk control, and collection policy are major predictors of financial performance of First bank. Subsequently, the study recommended that management of other banks should learn from First bank by enhancing their client appraisal techniques, credit risk control and adopting a more stringent policy to improve their financial performance. The study examined the influence of credit management practices on financial performance of Nigerian banks with specific reference to first bank Plc.

Gladys, Willy and Vitalis (2017) had conducted a study on "*Effects of Loan Management Practices on the Financial Performance of Deposit Taking SACCOs in Kisii County*". The main objective of the study was to determine the effect of loan management on the financial performance of Deposit Taking SACCOs in Kisii County. The target population of this study was 120 employees of all the six Deposit Taking SACCOs in Kisii County. The study used census technique. Primary data

were collected using a questionnaire. The data were analyzed by use of descriptive statistics and inferential statistics. The study found that loan collection policies have a great influence on the financial performance of deposit taking SACCOs. Secondly, the credit risk measures adopted by SACCOs include; offering long loan repayment duration and update borrower's credit files. The study recommended that the SACCOs should uphold monitoring of loans that are in arrear, also penalize clients for late payment and limit access to repeat loans for defaulters, monitor the flow of borrower's business through the SACCO's account, make regular review of the borrower's reports, be supportive to borrowers whenever they are in difficulties, make frequent contact with borrowers and that they make on-line visits.

Alice and Shukla (2016) had conducted a study on "*Effect of Credit Management on Performance of Commercial Banks in Rwanda (A Case Study of Equity Bank Rwanda Ltd)*". The study sought to determine the effect of credit management on the financial performance of commercial banks in Rwanda. The study adopted a descriptive survey design. The target population of study consisted of 57 employees of Equity bank in credit department. Entire population was used as the sample giving a sample size of size of 57 employees. Purposive sampling technique was used in sampling where the entire population was included in the study. Primary data was collected using questionnaires which were administered to the respondents by the researcher. Descriptive and inferential statistics were used to analyze data. The study found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank. The study established that there was strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of Equity bank. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy.

Hyun and Zhang (2016) investigated the impact of macroeconomic and bank-specific variables on non-performing loans in US for two distinct sub-sample periods from 2002-2006 (pre financial crisis) and 2007-2010(during financial crisis).The variables included both macroeconomic variables namely GDP growth rate, unemployment rate and lending rate, and bank specific variables such as return on equity, solvency ratio,

inefficiency, bank size and non-interest income. In pre-financial crisis period, the study found as solvency ratio, ROE, lending rate, GDP growth rate and unemployment rate negatively affect NPLs. Negative effect of lending rate on NPLs implies that an increase in lending rate curtail peoples' business entity's ability to borrow, which decreases the amount of loan and then reduce NPLs.

Swamy, (2016) carried a study on macroeconomic and indigenous determinants of non-performing loans in the Indian banking sector using panel data a period from 1997 to 2009. The variables included were GDP growth, inflation rate, per capital income, saving growth rate, bank size, loan to deposit ratio, bank lending rate, operating expense to total assets, ratio of priority sector's loan to total loan and ROA. The study found that real GDP growth rate, inflation, capital adequacy, bank lending rate and saving growth rate had insignificant effect; whereas loan to deposit ratio and ROA has strong positive effect but bank size has strong negative effect on the level of non-performing loans.

Djiogap and Ngomsi (2015) investigated the determinants of bank long-term loan in the Central African Economic and Monetary Community. It used the panel data of 35 commercial banks from six African countries over the period 2001-2010 and fixed effect model to examine impact of bank size, GDP growth and capital adequacy ratio on NPLs. The study found negative significant impact of CAR on the level of NPLs. The study found that as more diversified banks and well capitalized banks are better able to withstand potential credit. However, inflation variable is statistically insignificant in explaining the total business loans ratios of banks.

Farhan (2015) examined the economic determinants of non-performing loans: perception of Pakistani bankers utilized both primary and secondary data in 2006 years. The data was collected from 201 bankers who are involved in the lending decisions or handling non-performing loans portfolio. Correlation and regression analysis was carried out to analyze the impact of selected independent variables. The variables included were interest rate, energy crisis, unemployment, inflation, GDP growth, and exchange rate. The study found that interest rate, energy crisis, unemployment, inflation and exchange rate has a significant positive relationship

whereas GDP growth has insignificant negative relationship with the non-performing loans.

Wondimagegnehu (2015) analyzed study on the determinants of non-performing loan on commercial banks of Ethiopia and reported that poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity, unfair competition among banks, willful defaults by borrower and the knowledge limitation, fund diversion for un expected purposes and overdue financing has significant effect on NPLs. This study also considered interest rate as bank specific variables and revealed as interest rate has no impact on the level of NPLs of commercial banks in Ethiopia.

Skarica (2014) also carried out a study on the determinants of non-performing loans in Central and Eastern European countries. In the study, fixed effect model and seven Central and Eastern European countries for 2007-2012 periods was used. The finding revealed that GDP growth rate and unemployment rate has statistically significant negative association with non-performing loans with justification of rising recession and falling during expansions and growth has an impact on the levels of non-performing loans, economic developments have a strong impact on the financial stability and inflation has positive impact with justification as inflation might affect borrowers' debt servicing capacities

Shingjergji (2014) examined the impact of bank specific variables on non-performing loans in Albanian banking system. In the study, capital adequacy ratio, loan to asset ratio, net interest margin, and return on equity were considered as a determinant variables of non-performing loans. The study utilized simple regression model for the panel data from 2002 to 2012 period and found as capital adequacy ratio has negative but insignificant whereas ROE and loan to asset ratio has negative significant effect on non-performing loans. Besides, total loan and net interest margin has positive significant relation with non-performing loans. The study justifies that an increase of the capital adequacy ratio will cause a reduction of the non-performing loans. Besides, an increase of ROE will determine a reduction of non-performing loans.

Daniel and Wandera (2014) conducted the study on the effects of credit information sharing on the nonperforming loan of commercial banks in Kenya. The objectives of the study was to assess the impact of credit information sharing on nonperforming loans, to identify the factors that account for bad loans and to determine the economic sector that records higher bad loans and the efforts taken to reduce the risk in this sector. Data was collected from primary sources and secondary data between 2007 to 2012 period. The variables included in the study were Information Asymmetry; Interest/lending rates, Management of loans and legal framework and Credit Criteria. The study found as lending rates has positive significant effect on NPLs. It justifies as these causes make many borrowers not to pay their loans hence leading to many bad loans.

Meta Tables

S.N.	Author/ Year	Article	Objective	Methodology	Findings
1	Thabiso Sthembiso Msomi, 2022	Factors affecting non-performing loans in commercial banks	to study the macro-economic and bank-specific factors that affect non-performing loans in commercial banks	Descriptive statistics, 47 listed commercial banks, 2008 to 2019, fixed and random effect model	the determinants of NPLs in West African countries' commercial banks are capital adequacy ratio, liquidity and inflation rate, based on the fact that they are the only significant factors
2	(Tchakoute, Issouf, Helyouth & Hessouc, 2021)	Lending and business cycle: evidence from microfinance institutions.	To analyze the cyclical behavior of MFIs' lending documented.	The study uses a descriptive research design to establish if there was any relationship between behaviour of lending documentation and indicators of financial performance.	Individual loan contracts are more pro-cyclical than group loan contracts.
3	(Meka and Nazaj, 2020).	Loan Management and Its Ex Ante & Ex Post Role in the Lending Process.	To analyze the bank loan management system, and to analyze the instrumental ensuring in the success or failure of any credit institution.	Descriptive and analytical research design has been used. Primary and secondary data collection method has been applied. Simple regression, correlation were used.	Properly qualified and well-trained credit officers, within Albanian banks, as most of them practiced "on job training", and only a few banks took care of training the staff, and arranging proper organizational structures, which were mostly focusing to sales rather than risk.
4	(Nsengiyera,	The	To examine the	Descriptive	Relationship between

	Musabyemariya and Muhimpundu, 2020)	Assessment of Loan Management on Financial Performance of Banking Institutions in Rwanda Case Study	effect of loan management on the performance of banking institutions.	research design, primary and secondary data were applied.	loan management and performance.
5	Nyamrigo, Feli and Meken, 2019)	Credit Management Practices and Financial Performance of Microfinance Institutions	The effect of credit management practices on financial performance of microfinance institutions.	Descriptive design, purposive sampling based on primary data, 159 surveys.	Client appraisal significantly influenced the financial performance of microfinance institutions. There was positive relationship between client appraisal and financial performance.
6	(Ogunlade, 2018)	Credit Management and Bank Performance	To establish the effect of credit management on the financial performance.	Descriptive research design, purposive sampling and data analysis.	Credit management practices have a significant positive influence on financial performance.
7	Gladys, Willy and Vitalis, 2017)	Effects of Loan Management Practices on the Financial Performance	To determine the effect of loan management on the financial performance.	Census technique, using a questionnaire, use of descriptive statistics and inferential statistics.	Loan collection policies have a great influence on the financial performance. Credit risk management practices have a significant effect on the financial performance.
8	(Alice and Shukla, 2016)	Effect of Credit Management on Performance of Commercial Banks	To determine the effect of credit appraisal on financial performance.	Descriptive design, total population sampling technique.	Client appraisal, credit risk and credit policy had effect on financial performance of equity bank. The study established strong relationship between financial performance of equity bank and client appraisal, credit risk control and collective policy.
9	Hyun and Zhang (2016)	impact of macroeconomic and bank-specific variables on non-performing loans in US	The variables included both macroeconomic variables namely GDP growth rate	Descriptive design, total population sampling technique.	Found as solvency ratio, ROE, lending rate, GDP growth rate and unemployment rate negatively affect NPLs
10	Swamy, (2016)	Impact of macroeconomic and endogenous variables on non-performing bank assets	determinants of non-performing loans in the Indian	collected from supervision report published by Nepal Rastra Bank and annual reports of selected banks	Real GDP growth rate, inflation, capital adequacy, bank lending rate and saving growth rate had insignificant effect; whereas loan to deposit ratio and ROA has strong positive effect but bank size has strong negative effect on the level of non-performing loans

11	Djiogap and Ngoms (2015)	the determinants of bank long-term loan in the Central African Economic and Monetary Community	the panel data of 35 commercial banks from six African countries	collected from supervision report published by Nepal Rastra Bank and annual reports of selected banks	More diversified banks and well capitalized banks are better able to withstand potential credit. However, inflation variable is statistically insignificant in explaining the total business loans ratios of banks
12	Farhan (2015)	the economic determinants of non-performing loans: perception of Pakistani	Non-performing loans: perception of Pakistani	Correlation and regression analysis was carried out to analyze the impact of selected independent variables	Interest rate, energy crisis, unemployment, inflation and exchange rate has a significant positive relationship whereas GDP growth has insignificant negative relationship with the non-performing loans
13	Wondimagegnehu (2015)	the determinants of non-performing loan on commercial banks of Ethiopia	Non-performing loan on commercial banks	collected from supervision report published by Nepal Rastra Bank and annual reports of selected banks	Interest rate as bank specific variables and revealed as interest rate has no impact on the level of NPLs of commercial banks in Ethiopia
14	Skarica (2014)	on the determinants of non-performing loans in Central and Eastern European countries	In the study, fixed effect model and seven Central and Eastern European countries for 2007-2012 periods was used	collected from supervision report published by Nepal Rastra Bank and annual reports of selected banks	GDP growth rate and unemployment rate has statistically significant negative association with non-performing loans with justification of rising recession and falling during expansions and growth
15	Shingjergji (2014)	the impact of bank specific variables on non-performing loans in Albanian banking system	the study, capital adequacy ratio, loan to asset ratio, net interest margin, and return on equity	The study utilized simple regression model for the panel data from 2002 to 2012 period	An increase of the capital adequacy ratio will cause a reduction of the non-performing loans. Besides, an increase of ROE will determine a reduction of non-performing loans.
16	Daniel and Wandera (2014)	the study on the effects of credit information sharing on the nonperforming loan of commercial banks in Kenya	the study was to assess the impact of credit information sharing on nonperforming loans	Data was collected from primary and secondary data between 2007 to 2012 period	Lending rates has positive significant effect on NPLs. It justifies as these causes make many borrowers not to pay their loans hence leading to many bad loans

2.3.2 Review of Thesis

Ojha (2021) has conducted a study on, *Lending practices: A study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Limited* with the following objectives to determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices. To measure the bank's lending strength. To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector. To measure the lending performances in quality, efficiency and its contribution in total income. The major findings of the study are as follows: The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current asset. The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean. The ratio of investment to loan and advances has measured the total portion of investment in total of investment and loans and advances. The mean ratio among the banks does not have deviated significantly. The lending in commercial purpose is highest in case of NABIL Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47% of its total credit in general use and social purpose. The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this case is the best. The ratio of total income to total expenses reflects the earning capacity of a rupee of expenses. The productivity of expenses in SCBNL is the best. The performance of SCBNL is significantly better than other two banks in case of profitability. EPS is highest in case of SCBNL.

Chand (2021) conducted a study entitled with, *Credit Disbursement and repayment of Agriculture Development Bank Nepal* with the following objectives: To see the repayment situation. To find out the rate of growth of investment. To explain possible causes of none and delayed payment. The major findings of the study are as follows there is a systematic relationship between credit disbursement and repayment. The coefficient of correlation value as calculated is 0.94 which shows significant relationship. Repayment situation is satisfactory on production inputs and agro-based

industry, warehouses and marketing percentage of repayment to due to the farm mechanization and irrigation and tea horticulture and livestock, poultry and fisheries in much less satisfactory.

Shrestha (2020) conducted a study on, *Effective Implementation of Credit Policy in Nepalese Commercial Banks* with the following objectives: To study the relationship between deposits & lending. To study the classification, provision for loan & advances and its effect in profitability. To examine the sector wise and security wise lending. To identify and analyze the problems and prospects of lending practice of Nepalese commercial Banks. The major findings of the study are as follows: Flow of lending depends upon the availability of low cost deposit in the market. Consumer financing and loan to manufacturing units are more secured than other sectors. First preference of the Banks for security to loan is fixed assets collateral followed by Government Bonds.

Nepal (2018) conducted a study on, *Credit Management of Commercial Banks in Nepal* with the following objectives: To assess the credit practices of selected Nepalese commercial banks. To explore the credit efficiency, analyze the industry environment and management quality in terms of credit practices. To explore the relationship with loan & advances, NPA and Net profit. The major findings of the study are as follows: Repayment is satisfactory in agro based industry and production sector compared to other sectors. Management quality and credit efficiency of selected banks found satisfactory as they have standard credit practices. Credit disbursement and repayment has significant relationship. Flow of new credit depends upon the recovery status.

Gurung (2018) has conducted a study on, *Loan Management of Commercial Banks* with the following objectives: To analyze the financial position of the selected sample banks. To measure the performance in quality, efficiency and contribution of profitability. To examine the trend of the deposit and loan of commercial bank. To study the liquidity position, the impact of deposit in liquidity and its effect on lending performance. To provide the suggestion and recommendation for the proper loan system. The major findings of the study are as follows current ratio of sample banks showed fluctuating trend, HBL is more capable of meeting immediate liabilities in

contrast to NBBL. Hypothesis test showed that the mean ratio of two banks did not differ significantly. After analyzing the liquid fund to current liability ratio, can conclude that both bank do not differ significant with respect to this ratio. Loan and Advance to total asset ratio of NBBL is higher than HBL. The overall performance of NBBL seems the best with the higher mean ratio.

Lekhak (2017) conducted a study entitled with, *Loan Management of Commercial Bank* with the following objectives: To examine the total amount of loan disbursed with respect to total deposit within selected time period. To examine the loan disbursed under various heading. To measure the percentage of performing and non-performing loan to total loan. To analyze the total loan recovery with respect to the total loan disbursed and outstanding loan. To provide the recommendation and suggestion to the organization under study on the basis of finding. The major findings of the study are as follows: Deposit collection and loan disbursement are positively correlated. This bank has successfully mobilized its increasing deposit in granting during these five fiscal years. There is negative trend of individual growth of loan disbursement and loan collection. If loan collection is high then there will be high amount of loan disburse. The total loan outstanding is increased. It indicated that, the highest outstanding loan has been viewed in marketing and lowest outstanding loan is mines and transportation instrument production.

Gurung (2016) has conducted a study on *Loan Management of Nepal bank Himalayan bank and Global IME Bank Commercial Banks* with the following objectives to analyze the financial position of the selected sample banks. To measure the performance in quality, efficiency and contribution of profitability. To examine the trend of the deposit and loan of commercial bank. To study the liquidity position, the impact of deposit in liquidity and its effect on lending performance. The major findings of the study are as follows current ratio of sample banks showed fluctuating trend, HBL is more capable of meeting immediate liabilities in contrast to NBBL. Hypothesis test showed that the mean ratio of two banks did not differ significantly. After analyzing the liquid fund to current liability ratio, can conclude that both bank do not differ significant with respect to this ratio. Loan and Advance to total asset ratio of NBBL is higher than HBL. The overall performance of NBBL seems the best with the higher mean ratio.

Sharma (2018) has conducted a study on *Loan Management of Kumari Bank Limited and Everest bank Limited* with following objective to study the relationship between deposits & lending. To study the classification, provision for loan & advances and its effect in profitability. To examine the sector wise and security wise lending. To identify and analyze the problems and prospects of lending practice of Nepalese commercial Banks. The major findings of the study are as follows flow of lending depends upon the availability of low cost deposit in the market. Consumer financing and loan to manufacturing units are more secured than other sectors. First preference of the Banks for security to loan is fixed assets collateral followed by Government Bonds. Lengthy procedure in loan processing and tedious legal procedures is the key factor affecting growth of lending. Lack in follow-ups and irregular site visits lead to generation of NPA.

Nepal (2018) has conducted a study on *Loan Management of Century and Prime Commercial Banks* with the following objective: To assess the credit practices of selected Nepalese commercial banks. To explore the credit efficiency, analyze the industry environment and management quality in terms of credit practices. To explore the relationship with loan & advances, NPA and Net profit. The major findings of the study are as follows repayment is satisfactory in agro based industry and production sector compared to other sectors. Management quality and credit efficiency of selected banks found satisfactory as they have standard credit practices. Credit disbursement and repayment has significant relationship. Flow of new credit depends upon the recovery status. Low cost deposits shall be increased and NPA shall be decreased to increase the profitability. Credit policies and procedures shall be tightened to ensure no further losses due to flow of new loans.

Lekhak (2017) has conducted a study on *Loan Management of Commercial Banks* with the following objective to examine the total amount of loan disbursed with respect to total deposit within selected time. To examine the loan disbursed under various heading. To measure the percentage of performing and non-performing loan to total loan. To analyze the total loan recovery with respect to the total loan disbursed and outstanding loan. The major findings of the study are as follows deposit collection and loan disbursement are positively correlated. This bank has successfully mobilized its increasing deposit in granting during these five fiscal years. There is negative trend

of individual growth of loan disbursement and loan collection. If loan collection is high then there will be high amount of loan disburse. The total loan outstanding is increased. It indicated that, the highest outstanding loan has been viewed in marketing and lowest outstanding loan is mines and transportation instrument production.

2.4 Research Gap

This study focuses the analysis of non-performing loan management of RBBL, NBL, NSBI and EBL. Financial tools and statistical tools are used in this study for various ratio analysis, correlation coefficient and regression analysis. This study is concerned with providing the real condition of non-performing loan management of sample banks with the help of various financial and statistical tools. This study has been conducted considering the data of ten year from 2013/14 to 2022/23. This study is different in the sense that the selected banks are not included together in the previous studies. This study covers latest financial data and analysis based on the Nepalese commercial banks particularly of the RBBL, NBL, NSBI and EBL and this study uses t-test to decide whether the value of correlation coefficient(r) is significant or not.

CHAPTER –III

RESEARCH METHODOLOGY

Research Methodology is a systematic inquiry of any particular topic and methodology is the method of doing research in well manner. Thus Research Methodology is a way to solve the research problem systematically. It is analysis of specific topic by a proper method. This chapter includes the research design, Population and sample, Source of data, Data processing procedures and analysis.

3.1 Research Design

The main objective of research design is to examine the level of non-performing loan of Commercial banks in Nepal. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedures and technique which guides the study and propounds ways or doing research. Research design is planned structure and strategy of investigation conceived to obtain answer to research objective through analysis of data. The research covers the four commercial banks in Nepal particular in their non-performing loan. This study is designed to the non-performing loan of commercial banks reference to Everest bank limited, Nepal SBI bank limited, Nepal bank limited and Rastriya Banijya bank limited. A descriptive and casual research design has been used in this study.

Descriptive research design describes the general attitude of the Nepalese depositors, business environment, problems regarding the deposit mobilization and lending policy aspects, etc. Similarly, the The causal research design is used when researchers are trying to identify the cause-and-effect relationship between two variables. Some statistical and accounting tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate non-performing loan of Everest bank limited, Nepal SBI bank limited, Nepal bank limited and Rastriya Banijya bank limited.

3.2 Population and Sample

Mainly the commercial banks or “A” class financial institutions as categorized by NRB are the population samples considered for the study. Population refers to the institutions of same nature and their services and product is general. A sample is a collection of items or elements from the population. In the fiscal year 2013/14 to 2022/23 there are 20 commercial banks four banks namely Everest bank, Nepal SBI bank, Nepal bank and Rastriya Banijya bank has been taken as sample randomly and tried to achieve the objectives set out by analyzing the data.

3.3 Source of Data Collection Procedure

This research depends upon secondary data. Secondary data are those which have already been collected by someone else and which have already been passed through the statistical process. This study is mainly based on secondary data. Secondary data are collected from information available through NRB, annual reports of selected banks and journals, articles unpublished data and different websites.

3.4 Tools for Analysis

To compare these commercial banks, these following accounting and statistical tools are used for financial analysis.

3.4.1 Financial Ratio Analysis

A ratio analysis is simply one number expressed in terms of another and as such it express the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as coefficient. The technique of ratio analysis is a part of the whole process of analysis of financial statements of any business of industrial concern especially to take output and credit decision. Through this technique, a comparative study can be made between different statistics concerning varied facts of a business different statistics concerning varied facts of business units. Just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic financial health of a business concern. Thus, the technique of ratio analysis is of a considerable significance in studying the financial

stability, liquidity profitability and the quality of the business and industrial concerns (Kothari, 1994).

Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out, how successful the bank is utilizing their total deposition loan and advances for profit generation purpose. Higher the ratio implies the better utilization of loan and advances out of total deposit.

This is calculated as,

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}} * 100\%$$

Total Investment to Total Deposit Ratio

Investment is one of the major components of credit created to earn profit. This implies the utilization of firm's deposit on investment in government securities and shares, debenture of other companies and bank. This ratio can be calculated as,

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}} * 100\%$$

The numerator Total Investment consists of investment on government securities, investment on debentures, share in other companies and other investment.

Credit Risk Ratio

This ratio measures the possibility that loan will not be repaid or the investment will deteriorate in quality of going into default with consequently loss to the bank. According to definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. The ratio can be computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Non performing Loans}}{\text{Total Loans and Advances}} * 100\%$$

Loan Loss Provision to Total Loan and Advances Ratio

This ratio describes the quality of assets that a bank is holding. The low ratio indicates the good quality of assets in total volume of loan and advances and high ratio indicates more risky assets in total volume of loan and advances. The ratio can be computed as follow:

$$\text{Loan Loss Provision to Total Loan and Advances Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Loan And Advances}} * 100\%$$

Return on Total Asset Ratio

Net profit refers to the profit after interest and taxes. This ratio evaluates the efficiency of company in utilizing and mobilizing of assets and its survival. How efficiently the assets of a firm is able to generate more profit are measured by this ratio and provides the foundation necessary for a company to deliver a good return on equity. Higher return on assets indicates higher efficiency in utilization of total assets and vice- versa. This ratio can be calculated as follows:

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} * 100\%$$

Return on Net Worth Ratio

Net worth or the shareholders equity is the owners claim on the assets of the bank. This ratio measure the profit earned by the commercial banks by the utilization of owner's equity and there by generating return to satisfy the owner. Simply, this ratio indicates how well the banks have used the resources of the owners. Higher ratio indicates sound management, efficiency and wealth maximization of the banks, which in turn is the wealth maximization of the shareholders. It is calculated by dividing net profit by net worth which is express as follows;

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Net Worth}} * 100\%$$

Note: Total Shareholders equity consists of preference share capital, ordinary shareholders equity consisting of equity share capital, share premium, reserve and surplus less accumulated losses.

Earning Per Share

The earning per share exhibits that the owner is theoretical entitles to get from company. EPS is also identified to measure the profitability of the shareholders investment. It simply shows the profitability of bank on a per share basis. This ratio can be calculated

by dividing net profit after interest and taxes less preference dividend divided by the total number of equity shares outstanding of banks.

Net Profit Margin

Net profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have met. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

$$\text{Net Profit Margin} = \frac{\text{NPAT}}{\text{Interest Income}} * 100\%$$

3.4.2 Statistical Tools

Arithmetic Mean

Arithmetic Mean of a given set of observations is the sum of the observation divided by the number of observations. In such as case all the items are equally important. Simple Arithmetic Mean is used in this study as per necessary for analysis

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n}$$

Where $\sum x$ = sum of all values of the observations

n = Number of observation

x = Value of variables

Standard Deviation

The standard deviation is usually denoted by the letters (σ). Karl Pearson suggested it as a widely used measure of dispersion and defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis.

We have,

$$\text{Standard Deviation} = \sqrt{\frac{\sum (X - \bar{X})^2}{(n-1)}}$$

Coefficient of Variation (C.V.)

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 time coefficient of standard deviation is called coefficient of variation. It is denote by C.V. Thus,

$$C.V. = \frac{\sigma}{\bar{x}} \times 100\%$$

Where σ = Standard Deviation

\bar{X} = Mean Value of Variables

The distribution having less C.V. is said to be less variable or more consistent. A distribution having greater C.V. is said to be more variable or less consistent.

Correlation Coefficient (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by 'r' can be obtained as:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Correlation analysis between non-performing loan and total assets,

Correlation analysis between non-performing loan and loan and advance,

Correlation analysis between non-performing loan and loan loss provision and

Correlation analysis between non-performing loan and profitability

Coefficient of Determination (r^2)

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

T- Test

The hypothesis test decides whether the value of the population correlation coefficient r is significant or not. The simplest formula for computing the appropriate t value to test significance of a correlation coefficient employs the t distribution:

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Where,

t = value of calculated t

r = value of correlation coefficient

n = no of observations

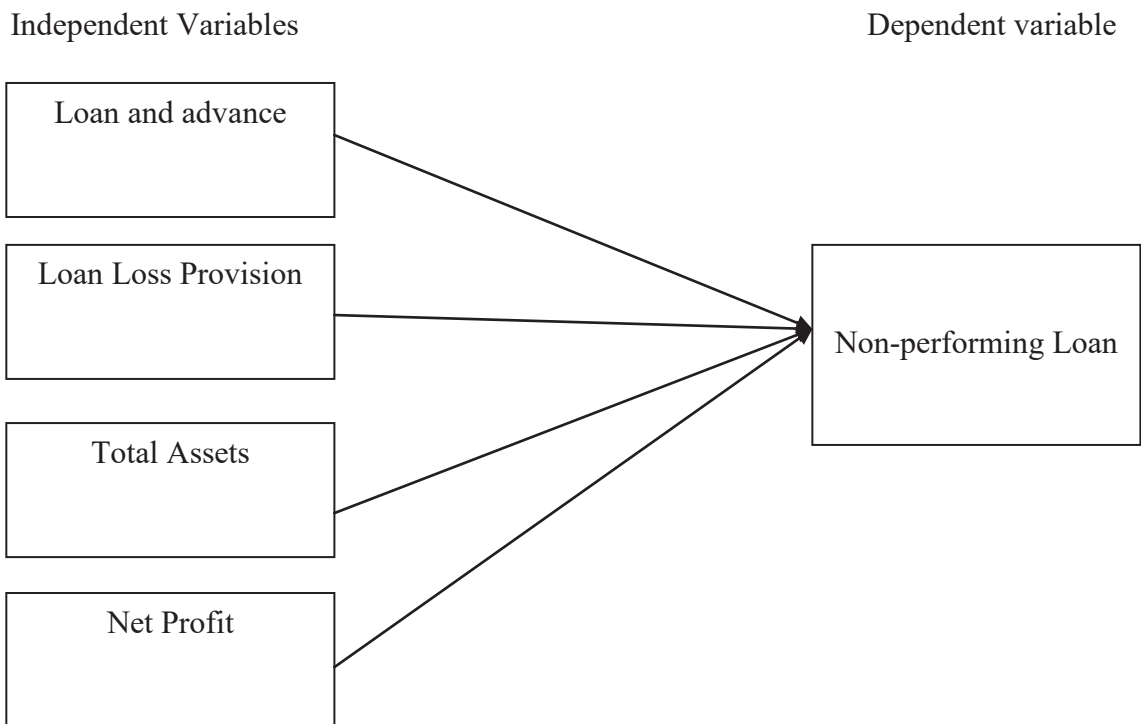
It is used in interpretation whether calculated value of ' r ' is significant or not.

If the calculated t is higher than the tabulated value of t , there is statistically significance relationship evidence between variable but if calculated t is lower than the tabulated value of t , value of r is statistically insignificance.

Multiple Regression Analysis

Regression analysis determines the relationship between two variables. One variable called the dependent variable and other variable called independent variable. In this study, multiple regression analysis has been used to determine the relationship between the non performing loan and other variables.

3.5 Conceptual Framework



(Source: Swamy, 2016)

Figure 3.1: Conceptual Framework

Loans and Advance

Loans and advances means a specified sum of money lent to a Member Institution, at a specified rate of interest on specified collaterals, for a specified period of time for repayment. loans and advances means any direct or indirect advance of funds (including obligations as maker or endorser arising from discounting of commercial/business paper) which are made to a person on the basis of an obligation to repay the funds.

Loan Loss Provision

A loan loss provision is an income statement expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy, and renegotiated loans that incur lower-than-previously-estimated payments. Loan loss provisions are then

added to the loan loss reserves, a balance sheet item that represents the total amount of loan losses subtracted a company's loans.

Total Assets

The meaning of total assets is all the assets, or items of value, a small business owns. Included in total assets is cash, accounts receivable (money owing to you), inventory, equipment, tools etc. The assets are items that the bank owns. This includes loans, securities, and reserves.

Net Profit

Net profit mean net profit divided by net revenues, often expressed as a percentage. This number is an indication of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit.

Non Performing Loan

A nonperforming loan (NPL) is a loan that is in default due to the fact that the borrower has not made the scheduled payments for a specified period. Although the exact elements of nonperforming status can vary depending on the specific loan's terms, "no payment" is usually defined as zero payments of either principal or interest. A nonperforming loan is a loan in which the borrower is in default and hasn't made any scheduled payments of principal or interest for a certain period of time. In banking, commercial loans are considered nonperforming if the borrower is 90 days past due.

CHAPTER – IV

RESULT AND DISCUSSION

This chapter includes the presentation of data in appropriate format, then analyzed and discussed. In the results section, the effort has been made to present and analyze the collected data of Everest Bank Limited, Nepal Bank Limited, Nepal NSBI Bank Limited and Rastriya Banijya Bank Limited. Analysis of data and the reporting of the results of those analyses are fundamental aspects of this study. For the meaningful presentation of data, they are inserted in tabular form and shown in graphical form. The data have been analyzed by using financial and statistical tools. In the discussion section, attempt has been made to evaluate and interpret the results from the analyzed data. Further, the discussion attempt is also made with regard to the consistency or inconsistency as predicted to the results of the findings. For analysis, balance sheet and income statement of financial year from 2013/14 to 2022/23 has been presented.

4.1 Financial Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

4.1.1 Loan and Advances to Total Deposit Ratio

Bank grants loan and advances to gain interest income, which is the main source of income. To examine what portion of the total deposit has been mobilized by Everest Bank Limited, Nepal Bank Limited, Nepal NSBI Bank Limited and Rastriya Banijya Bank Limited the loan and advances to total deposit ratio has been computed.

Table 1

Loan and Advances to Total Deposit Ratio

(Ratio in %)

Fiscal Year	EBL	NBL	NSBI	RBBL
2013/14	71.81	49.37	49.01	41.90
2014/15	75.18	56.54	48.69	50.06
2015/16	76.60	56.30	64.74	53.36
2016/17	65.57	65.35	77.44	58.02
2017/18	75.87	70.27	72.03	55.93
2018/19	83.95	78.10	86.19	66.52
2019/20	81.53	78.66	96.13	73.97
2020/21	86.45	81.68	90.51	77.44
2021/22	82.95	75.48	85.50	67.24
2022/23	84.37	87.19	95.58	73.26
Mean	78.43	69.89	76.58	61.77
S.D.	6.58	12.56	17.67	11.69
C.V	8.39	17.96	23.07	18.92

Source: Appendix I

The table 1 shows the total loans and advances to the total deposits ratio of the EBL, NBL, NSBI and RBBL during the fiscal year 2013/14 to 2022/23. The loans and advances to the total deposits ratios of EBL are in fluctuating trends. The loans and advances to the total deposits ratio are ranged from 65.57% in the fiscal year 2016/17 to 86.45% in the fiscal year 2020/21. Similarly, the loan and advance to total deposit ratios of NBL are in fluctuating trends and ranged from 49.37% in the fiscal year 2013/14 to 87.19% in the fiscal year 2022/23.

Likewise, the loan and advance to total deposit ratio of NSBI also are in fluctuating trends and ranged from 49.01% in the fiscal year 2013/14 to 96.13% in the fiscal year 2019/20. And the ratio in RBBL also in fluctuating trends with 41.90% to 73.26% in the fiscal year 2013/14 and 2022/23 respectively.

The average loan and advance to total deposit ratio of EBL, NBL, NSBI and RBBL is 78.43%, 69.89%, 76.58% and 61.77% respectively. The average loans and advances to the total deposits ratio of EBL is higher compared to NBL, NSBI and RBBL which indicates EBL has a greater ability of successfully utilizing their total deposits on granting loans and advances to earn more profit. Therefore, it can be concluded that

EBL has a greater efficient and effective capability of utilizing its funds than NBL, NSBI and RBBL.

4.1.2 Total Investment to Total Deposit Ratio

The banks mobilize its deposit collection in investment in various sectors like government securities, corporate shares and debentures and others like certificate of deposit, mutual fund to earn interest, dividend and capital gain. The mobilization of total deposit in investment of EBL, NBL, NSBI and RBBL has been presented in the table below.

Table 2

Total Investment to Total Deposit Ratio

	(Ratio in %)			
Fiscal Year	EBL	NBL	NSBI	RBBL
2013/14	15.73	14.97	45.87	30.19
2014/15	16.05	17.43	43.82	32.57
2015/16	10.47	32.69	32.52	29.89
2016/17	18.18	21.67	18.05	28.43
2017/18	10.05	14.38	14.25	29.94
2018/19	8.35	13.00	9.82	24.92
2019/20	13.47	16.41	10.59	27.80
2020/21	16.58	14.11	9.66	21.39
2021/22	20.35	23.10	11.35	32.56
2022/23	19.95	18.50	20.39	27.13
Mean	14.92	18.63	21.63	28.48
S.D.	4.20	5.93	14.05	3.43
C.V	28.16	31.85	64.97	12.03

Source: Appendix I

The table 2 shows the investment to total deposit ratio of EBL, NBL, NSBI and RBBL during the fiscal year 2013/14 to 2022/23. The total investment to total deposit ratio of EBL has fluctuated trend and ranged from 8.35% in the fiscal year 2018/19 to 20.35% in the fiscal year 2021/22. The average investment to total deposit ratio of EBL is 14.92% with the coefficient of variation 28.16%.

Similarly, NBL has also fluctuating trend in the total investment to total deposit ratio and ranged from 13.00% in the fiscal year 2018/19 to 32.69% in the fiscal year

2015/16. The average investment to total deposit ratio of NBL is 18.63% with the coefficient of variation 31.85%.

Likewise, the investment to total deposit ratio of NSBI is also in fluctuating trend and ranged from 9.66% in the fiscal year 2020/21 to 45.87% in the fiscal year 2013/14 with the coefficient of variation 64.97%. Similarly, the investment to total deposit ratio of RBBL is ranged from 21.39% in the fiscal year 2020/21 to 32.57% in the fiscal year 2014/15 with the coefficient of variation 12.03%.

The average investment to total deposit ratio of EBL, NBL, NSBI and RBBL is 14.92%, 18.63%, 21.63% and 28.48% respectively. RBBL's capacity to mobilize their deposit on total investment is higher than EBL, NBL and NSBI as the investment to total deposit ratio of RBBL has the higher.

4.1.3 Non performing Loan to Loan and advance Ratio

Bank utilizes its collected fund in providing credit to different sectors. While making the investment, bank examines the credit risk involved in the project which may be the risk of default or the non-payment of loan.

Table 3

Non Performing Loans to Total Loans and Advances Ratio

	(Ratio in %)			
Fiscal Year	EBL	NBL	NSBI	RBBL
2013/14	0.84	5.58	0.54	7.27
2014/15	0.62	5.24	0.37	5.32
2015/16	0.97	5.12	0.26	6.38
2016/17	0.66	3.98	0.19	5.35
2017/18	0.38	3.11	0.14	4.25
2018/19	0.25	3.32	0.10	3.77
2019/20	0.20	3.37	0.20	4.75
2020/21	0.16	2.64	0.20	4.79
2021/22	0.22	2.47	0.23	4.08
2022/23	0.12	2.05	0.23	3.23
Mean	0.44	3.69	0.25	4.92
S.D.	0.31	1.25	0.13	1.22
C.V	69.45	33.77	51.14	24.79

Source: Appendix I

The table 3 shows the non performing loan to loan and advance ratios of EBL, NBL, NSBI and RBBL during the fiscal year 2013/14 to 2022/23. The non performing loan to loan and advance ratios EBL are in fluctuating trend and the ratios ranged from 0.12% in the fiscal year 2022/23 to 0.97% in the fiscal year 2015/16. The average non performing loan to loan and advance ratio of EBL is 0.44% with the coefficient of variation 69.45%. Likewise, the credit risk ratio of NBL is ranged from 2.05% in the fiscal year 2022/23 to 5.58% in the fiscal year 2013/14.

Similarly, the non performing loan to loan and advance ratios of NSBI also are in fluctuating trend and the non performing loan to loan and advance ratios are ranged from 0.10% in fiscal year 2018/19 to 0.54% in fiscal year 2013/14. The credit risk ratio of NSBI is 0.25% with the coefficient of variation 51.14%. Lastly, the non performing loan to loan and advance ratio of RBBL of also are in fluctuating trend and ranged from 3.77% in the fiscal year 2018/19 to 7.27% in the fiscal year 2013/14.

The average credit risk ratios of EBL, NBL, NSBI and RBBL Bank are 0.44%, 3.69%, 0.25% and 4.92% respectively. Higher the average credit risk ratio of RBBL than EBL, NBL and NSBI reveals that RBBL has more non-performing loan or risky assets than EBL, NBL and NSBI. The lower ratio of NSBI indicates its lower chances of having their loan being defaulted and presence of more less risky assets in the volume of loans and advances as compared to EBL, NBL and RBBL.

4.1.4 Loan Loss Provision to Total Loan and Advances Ratio

The loan loss provision reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its Positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduces the risks related to deposits. The low ratio indicates the good quality of assets in total volume of loan and advances. Higher the ratio indicates riskier assets in total volume of loan and advances.

Table 4

Loan Loss Provision to Total Loan and Advances Ratio

(Ratio in %)

Fiscal Year	EBL	NBL	NSBI	RBBL
2013/14	1.97	7.33	1.23	9.98
2014/15	1.85	6.29	1.41	7.56
2015/16	1.85	5.59	1.23	6.22
2016/17	1.62	4.74	1.23	5.21
2017/18	1.38	3.62	1.21	4.51
2018/19	1.26	3.59	1.04	4.18
2019/20	1.00	3.25	1.01	1.11
2020/21	1.13	3.16	0.99	1.20
2021/22	1.38	1.20	1.17	0.90
2022/23	1.26	1.29	1.45	1.20
Mean	1.47	4.01	1.20	4.21
S.D.	0.33	2.00	0.16	3.13
C.V	22.63	50.00	13.08	74.43

Source: Appendix I

The table 4 reveals the loan loss provision to total loan and advances ratio of EBL, NBL, NSBI and RBBL during the fiscal year 2013/14 to 2022/23. The loan loss provision to total loan and advances ratios of EBL are in fluctuating trend and the ratios are ranged from 1.00% in the fiscal year 2019/20 to 1.97% in the fiscal year 2013/14. Similarly, the loan loss provision to total loan and advances ratios of NBL are also in fluctuating trend and the ratios are ranged from 1.29% in the fiscal year 2022/23 to 7.33% in the fiscal year 2013/14.

Likewise, the loan loss provision to total loan and advances ratio of NSBI is ranged from 0.99% in the fiscal year 2020/21 to 1.45% in the fiscal year 2022/23. Similarly, the loan loss provision to total loan and advances ratio of RBBL also are in fluctuating trends and ranged from 0.90% in the fiscal year 2021/22 to 9.98% in the fiscal year 2013/14.

The average loan loss provision to total loan and advances ratios of EBL, NBL, NSBI and RBBL is 1.47 4.01%, 1.20% and 4.21% respectively. RBBL has the higher mean ratio than EBL, NBL and NSBI it means that the RBBL has always been provisioning higher than EBL, NBL and NSBI. Generally, increase in this ratio suggests the

increase in the non-performing loans, which might result in questioning about the effectiveness in the credit policy of the company.

4.1.5 Return on Total Asset Ratio

This ratio is a measuring tool of profitability with respect to each financial resources investment of the assets. If bank's total assets is well managed and utilized efficiently, return on such assets will be higher and vice – versa. The following comparative table shows the return on total assets ratio of sample banks recorded over the study period.

Table 5

Return on Total Assets Ratio

	(Ratio in %)			
Fiscal Year	EBL	NBL	NSBI	RBBL
2013/14	1.95	0.30	0.83	1.26
2014/15	2.24	1.07	1.19	1.29
2015/16	2.20	0.92	1.51	1.50
2016/17	1.59	0.55	1.80	3.33
2017/18	1.59	2.40	1.70	1.42
2018/19	1.81	1.34	1.57	1.60
2019/20	1.78	2.35	1.97	1.85
2020/21	1.80	1.51	1.94	2.23
2021/22	1.36	1.22	1.17	1.64
2022/23	0.84	1.33	0.70	1.39
Mean	1.72	1.30	1.44	1.75
S.D.	0.41	0.68	0.45	0.62
C.V	23.93	52.15	31.17	35.69

Source: Appendix I

The table 5 shows the return on total assets ratio of EBL, NBL, NSBI and RBBL during the fiscal year 2013/14 to 2022/23. The return of total assets of EBL is in fluctuating trends during the study period and the ratio ranged from 0.84% in 2022/23 to 2.24% in the fiscal year 2014/15. In average, the EBL generated 1.72% of its total assets investment as net profit with the coefficient of variation 23.93%. Likewise, the return on total assets ratio of NBL is also in fluctuating trends and ranged from 0.30% in the fiscal year 2013/14 to 2.35% in the fiscal year 2019/20. The average return on assets ratio of NBL is 1.30% with the coefficient of variation 52.15%.

Likewise, the ratio followed fluctuating trend in NSBI and ranged from 0.70% in the fiscal year 2022/23 to 1.97% in the fiscal year 2019/20. NSBI converted 1.44% of its total assets in net profit in average with 31.17% coefficient of variation. Likewise, the return on total assets ratio of RBBL is also in fluctuating trends and ranged from 1.26% in the fiscal year 2013/14 to 3.33% in the fiscal year 2016/17. The average return on assets ratio of RBBL is 1.75% with the coefficient of variation 35.69%.

The average return of total assets ratio of EBL, NBL, NSBI and RBBL is 1.72%, 1.30%, 1.44% and 1.75% respectively. Comparing the return on assets of sampled banks, the return on assets of RBBL is higher than that EBL, NBL and NSBI which clearly indicated that RBBL is more successful in generating profit from the investment in total assets than EBL, NBL and NSBI and the coefficient of variation describe that the return on assets ratio of EBL are more consistent than NBL, NSBI and RBBL.

4.1.6 Return on Equity Ratio

This ratio measure the profit earned by the commercial banks by utilizing owner's equity there by generating return to safety the owners. The following table presents the net profit to net worth ratio of the banks.

Table 6

Return on Equity Ratio

	(Ratio in %)			
Fiscal Year	EBL	NBL	NSBI	RBBL
2013/14	27.15	-4.10	15.02	-37.88
2014/15	31.52	-21.30	20.31	102.96
2015/16	29.04	86.09	20.35	76.96
2016/17	23.25	12.68	18.87	69.56
2017/18	18.60	42.94	19.25	27.37
2018/19	16.13	15.26	15.05	26.48
2019/20	16.00	14.03	15.81	19.19
2020/21	17.33	8.87	16.20	23.38
2021/22	13.50	7.77	10.44	19.01
2022/23	8.56	8.92	6.26	15.08
Mean	20.11	17.12	15.75	34.21
S.D.	7.37	29.07	4.51	39.51
C.V	36.65	169.86	28.66	115.49

Source: Appendix I

The table 6 shows the return of equity ratio of EBL, NBL, NSBI and RBBL during the fiscal year 2013/14 to 2022/23. The return on shareholders' equity of EBL almost is in decreasing trends during the periods taken for research. The ratio is lowest in the fiscal year 2022/23 i.e. 8.56% and highest in the fiscal year 2014/15 i.e. 31.52%. EBL generated 20.11% of shareholders' equity as net profit in average and the coefficient of variation is 36.65%. Likewise, the return on shareholders' equity of NBL also is in fluctuating trends and ranged from -21.30% in the fiscal year 2014/15 to 86.09% in the fiscal year 2015/16. The average return on shareholders' equity of NBL is 17.12% with the coefficient of variation 169.86%.

Similarly, the ratio in NSBI fluctuating trends during the period and ranged from 6.26% in the fiscal year 2022/23 to 20.35% in the fiscal year 2015/16. In average, the shareholders' of NSBI got 15.75% return from their investment and the coefficient of variation is 28.66%. Likewise, the return on shareholders' equity of RBBL also almost is in decreasing trends and ranged from 15.08% in the fiscal year 2022/23 to 102.96% in the fiscal year 2014/15. The average return on shareholders' equity of RBBL is 34.21% with the coefficient of variation 115.49%.

The return of equity ratio of EBL, NBL, NSBI and RBBL is 20.11%, 17.12%, 15.75% and 34.21% respectively. Comparing the return on shareholders' equity, it can be concluded that the shareholders of RBBL remained more satisfied than EBL, NBL and NSBI as RBBL generated more percentage of return from shareholders' equity than EBL, NBL and NSBI.

4.1.7 Earning Per Share (EPS)

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance of share value. It is the profit after tax dividend by the number of common shares outstanding. This ratio measures how much earning does the common shareholders get for every share held.

Table 7

Earning Per Share

	(Ratio in Rs.)			
Fiscal Year	EBL	NBL	NSBI	RBBL
2013/14	88.55	46.36	22.93	307.49
2014/15	91.88	198.53	32.75	21.79
2015/16	86.04	18.08	34.83	21.38
2016/17	78.04	7.48	34.48	54.07
2017/18	40.33	44.59	36.78	27.42
2018/19	32.48	38.77	33.46	32.32
2019/20	32.78	39.98	25.16	30.26
2020/21	38.05	26.99	27.13	56.04
2021/22	29.71	20.68	17.23	48.61
2022/23	19.91	23.43	10.15	37.27
Mean	53.78	46.49	27.49	63.67
S.D.	28.56	54.90	8.72	86.59
C.V	53.10	118.10	31.73	136.01

Source: Appendix I

The table 7 shows the earning per share of EBL, NBL, NSBI and RBBL during the study period 2013/14 to 2022/23. The earning per share of EBL has followed almost decreasing trend. The earning per share of the EBL is ranged from Rs.91.88 in the fiscal year 2014/15 to Rs.19.91 in the fiscal year 2022/23. The bank has earned Rs.53.78 per share within the ten consecutive fiscal years, and the variation in such earning is 53.10%. Similarly, the earning per share in NBL followed fluctuating trend and the earning per share has ranged from Rs.7.48 in the fiscal year 2016/17 to Rs.198.53 in the fiscal year 2014/15. The earning per share of the NBL is Rs.46.49 in average within the ten fiscal year periods. Further the fluctuation in earning per share of the bank is 118.10%, indicating consistency.

Likewise, the earning per share in NSBI followed fluctuating trend and the earning per share has ranged from Rs.17.23 in the fiscal year 2022/23 to Rs.36.78 in the fiscal year 2017/18. Moreover, the earning per share of the NSBI is Rs.27.49 in average within the ten fiscal year periods. Further the fluctuation in earning per share of the bank is 31.73%, indicating inconsistency. Similarly, the earning per share in RBBL followed fluctuating trend and the earning per share has ranged from Rs.21.38 in the fiscal year 2015/16 to Rs.307.49 in the fiscal year 2014/15. The earning per share of

the RBBL is Rs.63.67 in average within the ten fiscal year periods. Further the fluctuation in earning per share of the bank is 136.01%, indicating consistency.

The average earning per share of EBL, NBL, NSBI and RBBL is Rs.53.78. Rs.46.49, Rs.27.49 and Rs.63.67 respectively. RBBL is more successful in mobilizing the shareholders' equity to earn high profit per share. As a result, both the existing shareholders' and the potential investors might have been fascinated toward the RBBL for being part of it by buying its share. The earning per share of RBBL are more fluctuating and NSBI are less fluctuating as coefficient of variation of RBBL is higher and NSBI is lower among the three sampled banks.

4.1.8 Net Profit Margin

Net profit mean net profit divided by net revenues, often expressed as a percentage. This number is an indication of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit. The net profit margin is a good way of comparing companies in the same industry, since such companies are generally subject to similar business conditions. However, the net profit margins are also a good way to compare companies in different industries in order to gauge which industries are relatively more profitable.

Table 8

Net Profit Margin

	(Ratio in %)			
Fiscal Year	EBL	NBL	NSBI	RBBL
2013/14	19.80	3.58	11.25	16.43
2014/15	26.45	13.00	16.47	17.92
2015/16	26.63	10.91	19.97	23.21
2016/17	27.20	7.33	21.36	39.22
2017/18	29.75	30.54	25.56	24.60
2018/19	26.75	30.81	22.38	33.95
2019/20	22.86	30.32	19.87	25.97
2020/21	21.13	21.51	18.33	30.43
2021/22	16.25	17.34	12.33	23.17
2022/23	13.54	21.23	9.30	18.61
Mean	23.04	18.66	17.68	25.35
S.D.	5.28	9.94	18.33	26.24
C.V	22.93	53.27	18.51	27.08

Source: Appendix I

The table 8 shows the net profit margin of EBL, NBL, NSBI and RBBL during the fiscal 2013/14 to 2022/23. The net profit margin of EBL is in fluctuating trend during the study period. The net profit margin ratio of EBL is ranged from 13.54% in the fiscal year 2022/23 to 29.75% in the fiscal year 2017/18. In average, the net profit margin of EBL is 23.04% and the coefficient of variation in the ratio is 22.93%. Similarly, the net profit margin of NBL is in fluctuating trends and ranged from 3.58% in the fiscal year 2013/14 to 30.81% in the fiscal year 2018/19. The average net profit margin of NBL is 18.66% with the coefficient of variation 53.27%.

Likewise, the net profit margin of NSBI is in fluctuating trend during the study period and ranged from 9.30% in the fiscal year 2022/23 to 25.56% in the fiscal year 2017/18. In average, NSBI is able to kept 17.68% as the net profit margin and the coefficient of variation in the ratio is 18.51%. Similarly, the net profit margin of RBBL is in fluctuating trends and ranged from 16.43% in the fiscal year 2013/14 to 39.22% in the fiscal year 2016/17. The average net profit margin of RBBL is 25.35% with the coefficient of variation 27.08%.

The average net profit margin of EBL, NBL, NSBI and RBBL is 23.04%, 18.66%, 17.68% and 25.35%. On the basis of net profit margin, it can be concluded that the RBBL is more successful and stable than EBL, NBL and NSBI in controlling the operating and other non operating cost; as a result their net profit margin is higher.

4.2 Statistical Analysis

Under this part of the study, mainly the correlation and regression of different financial variables have been analyzed. The correlation analysis measures the relationship between variables. Mainly, the correlation analysis between non-performing loan and loan and advances, loan loss provision and loan and advances, non performing and loan and loan loss provision, are analyzed.

4.2.1 Correlation between Non performing Loan and Loan and Advances

The coefficient of correlation between non-performing loan and loans and advances measures the degree of relationship between these two variables. For this study, loan and advance is taken as independent variable (x) and non-performing loan is dependent variables (y).

Table 9

Correlation between Non performing Loan to Loan and Advances

Particulars	EBL	NBL	NSBI	RBBL
Correlation Coefficient (r)	-0.6931	0.9267	0.7409	0.9162
Coefficient of Determination (r^2)	0.4804	0.8588	0.5490	0.8395
Calculated T	-2.7194	6.9742	3.1205	6.4687
Tabulated T	1.860	1.860	1.860	1.860
Remarks	Insignificant	Significant	Significant	Significant

Source: Appendix II

The table 9 shows the relationship between non-performing loan and loan & advances of EBL, NBL, NSBI and RBBL. The correlation coefficient between non-performing loan and loan & advances is -0.6931 in EBL, 0.9267 in NBL, 0.7409 in NSBI and 0.9162 in RBBL. There perfect positive correlation between non-performing loan and loan & advances in NBL, NSBI and RBBL and negative in EBL.

Similarly, since the value of calculated T is greater than the tabulated T of NBL, NSBI and RBBL it can be considered that the relationship between non-performing loan and loan & advances is statistically significant in NBL, NSBI and RBBL. But in EBL the value of calculated T is lower than the tabulated T, it can be considered that the relationship between non-performing loan and loan & advances is statistically insignificant in EBL.

4.2.2 Correlation between Non performing Loan and total assets

The coefficient of correlation between non performing loan and total assets measures the degree of relationship between these two variables. For this analysis total assets is taken as independent variable (x) and non performing loan (y) is taken as dependent variables.

Table 10

Correlation between Non performing Loan and total assets

Particulars	EBL	NBL	NSBI	RBBL
Correlation Coefficient (r)	-0.6711	0.9217	0.7801	0.8854
Coefficient of Determination (r^2)	0.4504	0.8495	0.6085	0.7839
Calculated T	-2.5603	6.7204	3.5263	5.3872
Tabulated T	1.860	1.860	1.860	1.860
Remarks	Insignificant	Significant	Significant	Significant

Source: Appendix II

The table 10 shows the correlation between non performing loan and total assets of EBL, NBL, NSBI and RBBL. The coefficient of correlation between non performing loan and total assets of EBL is negative and of NBL, NSBI and RBBL is positive. The value of correlation between loan non performing loan and total assets of EBL, NBL, NSBI and RBBL is -0.6711, 0.9217, 0.7801 and 0.8854 respectively.

Since, the value of calculated T is higher than the value of tabulated T in NBL, NSBI and RBBL so the coefficient of correlation between non performing loan and total assets for NBL, NSBI and RBBL is statistically significant. Similarly, the value of calculated T is lower than the value of tabulated T in EBL, the coefficient of correlation non performing loan and total assets for EBL bank is statistically insignificant.

4.2.3 Correlation between nonperforming loan and loan loss provision

The correlation between loan loss provision and non-performing loan describes the relationship between them. It shows how a unit increase in non-performing loan effect the loan loss provision is exhibited by this correlation. Here non-performing loan is independent variable and non-performing loan is dependent variable.

Table 11

Correlation between Non Performing Loan and Loan Loss Provision

Particulars	EBL	NBL	NSBI	RBBL
Correlation Coefficient (r)	-0.4812	-0.0638	0.7884	-0.8546
Coefficient of Determination (r^2)	0.2315	0.0041	0.6216	0.7304
Calculated T	-1.5525	-0.1807	3.6249	-4.6558
Tabulated T	1.860	1.860	1.860	1.860
Remarks	Insignificant	Insignificant	Significant	Insignificant

Source: Appendix II

The coefficient of correlation between loan loss provision and non-performing loan of EBL, NBL and RBBL is negative and the coefficient of correlation between loan loss provision and non-performing loan of NSBI is positive. The value of coefficient of correlation of EBL, NBL, NSBI and RBBL is -0.4812, -0.0638, 0.7884 and -0.8546 respectively. Since, the value of calculated T is lower than the value of tabulated T in EBL, NBL, and RBBL the coefficient of correlation between loan loss provision and non-performing loan for EBL, NBL and RBBL is statistically insignificant. But the value of calculated T is higher than the value of tabulated T in NSBI, the coefficient of correlation between loan loss provision and non-performing loan for NSBI is statistically significant.

4.2.4 Correlation between Net Profit and Non performing Loan

To find out the correlation between net profit and non performing loan Karl Pearson's coefficient of correlation (r) is determined. For this purpose non performing loan (x) are assumed to be dependent variable and net profit (y) are assumed to be independent variable.

Table 12

Correlation between Net Profit and Non performing Loan

Particulars	EBL	NBL	NSBI	RBBL
Correlation Coefficient (r)	-0.5660	0.7789	0.2188	0.8545
Coefficient of Determination (r ²)	0.3203	0.6067	0.0479	0.7302
Calculated T	-1.9417	3.5127	0.6343	4.6531
Tabulated T	1.860	1.860	1.860	1.860
Remarks	Insignificant	Significant	Insignificant	Significant

Source: Appendix II

The table 12 shows the correlation between net profit and non performing loan of EBL, NBL, NSBI and RBBL during the study period 2013/14 to 2022/23. There is positive correlation between net profit and non performing loan in NBL, NSBI and RBBL and negative in EBL. The correlation coefficient of EBL, NBL, NSBI and RBBL is -0.5660, 0.7789, 0.2188 and 0.8545 respectively.

Similarly, the value of calculated 't' is higher than the tabulated 't' in NBL and RBBL so there is statistically significant relationship between net profit and non performing

loan. But in EBL and NSBI the value of calculated 't' is lower than the tabulated 't' so there is statistically insignificant relationship between net profit and non performing loan of EBL and NSBI.

4.2.5 Regression Analysis

In this study, it is investigated the association between NPLs and various independent variables in regression. The bank-specific model is given as follows:

$$NPL_{it} = \beta_0 + \beta_1 TA_{it} + \beta_2 LLP_{it} + \beta_3 LA_{it} + \beta_4 NP_{it}$$

Where NPL_{it} denotes the NPL ratio for bank i in time period t . β_0 denotes the intercept. TA_{it} shows the size of bank, NP_{it} shows the profitability of the bank of the individual banks in time period t . LLP_{it} denotes the loan loss provision of the bank in time period t . LA_{it} represents the loan and advance individual bank for time period t . t represents the time period from 2013/14 to 2022/23, and i represents the banks, while $\beta_1, \beta_2, \beta_3$ and β_4 represent respective coefficient terms.

Regression Analysis of EBL

Table 13

Model Summary of EBL

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.842 ^a	.710	.477	66988.09104

a. Predictors: (Constant), NP, LLP, TA, LA

Source: SPSS

The adjusted R^2 value in the table 13 clearly tells us that 71.0% of variation in the dependent variable i.e. non performing loan is explained by the explanatory variables.

Table 14

ANOVA of EBL

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	54828421975.988	4	13707105493.997	3.055	.126 ^b
	Residual	22437021706.912	5	4487404341.382		
	Total	77265443682.900	9			

a. Dependent Variable: NPL

b. Predictors: (Constant), NP, LLP, TA, LA

Source: SPSS

Table 4.14 gives the results of the ANOVA and the significant value clearly indicates that model is insignificant at 5% chosen level of significant ($0.126 > 0.05$).

Regression Analysis of NBL

Table 15

Model Summary of NBL

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.939 ^a	.881	.786	200910.48504

a. Predictors: (Constant), NP, LLP, LA, TA

Source: SPSS

The adjusted R^2 value in the table 4.15 clearly tells us that 88.1% of variation in the dependent variable (NPL) is explained by the explanatory variables. This indicates a good explanatory power of the regression model.

Table 16

ANOVA of NBL

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1492120581043.764	4	373030145260.941	9.241	.016 ^b
	Residual	201825114997.136	5	40365022999.427		
	Total	1693945696040.900	9			

a. Dependent Variable: NPL

b. Predictors: (Constant), NP, LLP, LA, TA

Source: SPSS

Table 16 gives the results of the ANOVA and the significant value clearly indicates that model is significant at 5% chosen level of significant ($0.016 < 0.05$).

Thus, total assets, loan and advance, loan loss provision and net profit have significant impact on non performing loan.

Regression Analysis of NSBI

Table 17

Model Summary of NSBI

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847 ^a	.717	.490	44048.78664

a. Predictors: (Constant), NP, LLP, TA, LA

Source: SPSS

The table 17 shows that net profit margin have positive degree of relationship with liquidity and coefficient of determination R^2 shows that 71.7% of profitability is affected by independent variable.

Table 18

ANOVA of NSBI

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	24544002000.123	4	6136000500.031	3.162	.009 ^b
Residual	9701478024.277	5	1940295604.855		
Total	34245480024.400	9			

a. Dependent Variable: NPL

b. Predictors: (Constant), NP, LLP, TA, LA

Source: SPSS

Table 18 gives the results of the ANOVA and the significant value clearly indicates that model is insignificant at 5% chosen level of significant ($0.009 > 0.05$).

Regression Analysis of RBBL

Table 19

Model Summary of RBBL

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.982 ^a	.964	.935	421507.00702

a. Predictors: (Constant), NP, LLP, TA, LA

Source: SPSS

The table 19 shows that non performing loan have positive degree of relationship with independent variable and coefficient of determination R^2 shows that 96.40% of non performing loan is affected by independent variable. This indicates a good explanatory power of the regression model.

Table 20

ANOVA of RBBL

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23704210769003.188	4	5926052692250.797	33.355	.001 ^b
	Residual	888340784836.415	5	177668156967.283		
	Total	24592551553839.600	9			

a. Dependent Variable: NPL
b. Predictors: (Constant), NP, LLP, TA, LA

Source: SPSS

Table 20 gives the results of the ANOVA and the significant value clearly indicates that model is significant at 5% chosen level of significant ($0.001 < 0.05$). Thus, total assets, loan and advance, loan loss provision and net profit have significant impact on non performing loan.

4.3 Major Findings

- The loan and advance to total deposit ratios of NBL are in fluctuating trends and ranged from 49.37% in the fiscal year 2013/14 to 87.19% in the fiscal year 2022/23.
- Similarly, NBL has also fluctuating trend in the total investment to total deposit ratio and ranged from 13.00% in the fiscal year 2018/19 to 32.69% in the fiscal year 2015/16. The average investment to total deposit ratio of NBL is 18.63% with the coefficient of variation 31.85%.
- Similarly, the non performing loan to loan and advance ratios of NSBI also are in fluctuating trend and the non performing loan to loan and advance ratios are ranged from 0.10% in fiscal year 2018/19 to 0.54% in fiscal year 2013/14. The credit risk ratio of NSBI is 0.25% with the coefficient of variation 51.14%.
- The loan loss provision to total loan and advances ratios of EBL, NBL, NSBI and RBBL is 1.47 4.01%, 1.20% and 4.21% respectively. RBBL has the higher mean ratio than EBL, NBL and NSBI it means that the RBBL has always been provisioning higher than EBL, NBL and NSBI. Generally, increase in this ratio

suggests the increase in the non-performing loans, which might result in questioning about the effectiveness in the credit policy of the company.

- The return of total assets ratio of EBL, NBL, NSBI and RBBL is 1.72%, 1.30%, 1.44% and 1.75% respectively. Comparing the return on assets of sampled banks, the return on assets of RBBL is higher than that EBL, NBL and NSBI which clearly indicated that RBBL is more successful in generating profit from the investment in total assets than EBL, NBL and NSBI and the coefficient of variation describe that the return on assets ratio of EBL are more consistent than NBL, NSBI and RBBL.
- The return of equity ratio of EBL, NBL, NSBI and RBBL is 20.11%, 17.12%, 15.75% and 134.21% respectively. Comparing the return on shareholders' equity, it can be concluded that the shareholders of RBBL remained more satisfied than EBL, NBL and NSBI as RBBL generated more percentage of return from shareholders' equity than EBL, NBL and NSBI.
- The earning per share of EBL, NBL, NSBI and RBBL is Rs.53.78. Rs.46.49, Rs.27.49 and Rs.63.67 respectively. RBBL is more successful in mobilizing the shareholders' equity to earn high profit per share.
- The net profit margin of EBL, NBL, NSBI and RBBL is 23.04%, 18.66%, 17.68% and 25.35%. On the basis of net profit margin, it can be concluded that the RBBL is more successful and stable than EBL, NBL and NSBI in controlling the operating and other non operating cost; as a result their net profit margin is higher.
- the relationship between non-performing loan and loan & advances of EBL, NBL, NSBI and RBBL. The correlation coefficient between non-performing loan and loan & advances is -0.6931 in EBL, 0.9267 in NBL, 0.7409 in NSBI and 0.9162 in RBBL.
- The correlation between non performing loan and total assets of EBL, NBL, NSBI and RBBL. The coefficient of correlation between non performing loan and total assets of EBL is negative and of NBL, NSBI and RBBL is positive. The value of correlation between loan non performing loan and total assets of EBL, NBL, NSBI and RBBL is -0.6711, 0.9217, 0.7801 and 0.8854 respectively.

- Loan loss provision and non-performing loan of EBL, NBL and RBBL is negative and the coefficient of correlation between loan loss provision and non-performing loan of NSBI is positive. The value of coefficient of correlation of EBL, NBL, NSBI and RBBL is -0.4812, -0.0638, 0.7884 and -0.8546 respectively.
- The value of calculated 't' is higher than the tabulated 't' in NBL and RBBL so there is statistically significant relationship between net profit and non performing loan. But in EBL and NSBI the value of calculated 't' is lower than the tabulated 't' so there is statistically insignificant relationship between net profit and non performing loan of EBL and NSBI.

4.4 Discussion

Non-Performing Loan (NPL) means the amount loan that the individual commercial bank had provided and the consumer has not paid it until the time is already matured. Once the distributed loan is not returned timely by clients and overdue then it is known as Non-Performing Loan for the bank. Reduction of (NPL) has always been a significant problem for every commercial banks and proper attention for the management of the NPL now has got the top priority. Due to various hurdles on the way of management of NPL, commercial banks are now losing their profitability and struggling for the existence.

This study has attempted to study of the non-performing loan of commercial banks has been made in this report. Everest Bank Limited, Nepal Bank Limited, Nepal NSBI Bank Limited and Rastriya Banijya Bank Limited are taken as sample banks under the study for ten years. This study is summarized into five different chapters including this chapter. Basically, first chapter highlights the concept and importance of the study. It also presented research problem, objective and limitation of the study. Second chapter dealt with various review of literature regarding the concept of loan, loan loss provision and loan management and previous reviews of articles and thesis to provide knowledge about the background of the study. The third chapter of the study included the research design, nature and source of the data, data collection procedure, data processing and tools used for study.

The effect of credit management on the financial performance of commercial banks in Rwanda. The study adopted a descriptive survey design. The target population of study consisted of 57 employees of Equity bank in credit department. Entire population was used as the sample giving a sample size of size of 57 employees. Purposive sampling technique was used in sampling where the entire population was included in the study. Primary data was collected using questionnaires which were administered to the respondents by the researcher. Descriptive and inferential statistics were used to analyze data. The study found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank. The study established that there was strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of Equity bank. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy (Alice and Shukla, 2016).

CHAPTER-V

SUMMARY AND CONCLUSION

This chapter is used to summarize the whole study, to draw the conclusions of the study and forward the applicable recommendations for better and efficient management of loan and non-performing loan analysis of Everest Bank Limited, Nepal Bank Limited, Nepal NSBI Bank Limited and Rastriya Banijya Bank Limited. This chapter is the final chapter of the research study.

5.1 Summary

Loan management, to make it simple, refers to fund and working capital management. However, most people have some miss concepts. They only consider credit management is a short-term process. In fact, if it relates to working capital, it may be right. However, if it relates to fund management, it can be a long-term basis. You may imagine asset valuation for credit evaluation, i.e. a credit management step, refer to fixed assets usually. Value of fixed assets will change over its life. In other words, your credit evaluation will adjust all the time. Credit Management is the process of mitigating the risk involved in granting the credit. It is a key to successfully utilize credit by minimizing risks and losses. Credit is regarded as the most income generating assets especially in commercial banks. A common practice among financial institutions engaged in lending is to provision against expected losses. The provision of loan losses reserves is a mechanism used by such lenders to recognize in a timely fashion impending losses on troubled loans. The fact that a certain proportion of credits will default is acknowledged and accepted by financial institutions. In the same way, an industrial and commercial corporation would have a reserve for expected bad debts. Further, on occasions where changes in the business cycle or local factors have an adverse effect on the loan book or default experience, such reserves or provisions can be used to mitigate the consequences on the lender

Extension of credit is one of the major activities of banks and financial institutions. Credit represents a major segment of the asset portfolio of bank and financial institution. However, increasing NPL have a direct impact on banks profitability as banks are barred to book income on such accounts and at the same time banks are

forced to make provision on such assets as per the Central Bank guidelines. Also, with increasing deposits made by the public in the banking system, the banking industry cannot afford default by borrowers since NPL affects the repayment capacity of banks. Further, central Bank successfully creates excess liquidity in the system through various rate cuts and banks fail to utilize this benefit to its advantage due to the fear of burgeoning non-performing assets.

Non-Performing Loan (NPL) means the amount loan that the individual commercial bank had provided and the consumer has not paid it until the time is already matured. Once the distributed loan is not returned timely by clients and overdue then it is known as Non-Performing Loan for the bank. Reduction of (NPL) has always been a significant problem for every commercial banks and proper attention for the management of the NPL now has got the top priority. Due to various hurdles on the way of management of NPL, commercial banks are now losing their profitability and struggling for the existence.

This study has attempted to study of the non performing loan of commercial banks has been made in this report. Everest Bank Limited, Nepal Bank Limited, Nepal NSBI Bank Limited and Rastriya Banijya Bank Limited are taken as sample banks under the study for ten years. This study is summarized into five different chapters including this chapter. Basically, first chapter highlights the concept and importance of the study. It also presented research problem, objective and limitation of the study. Second chapter dealt with various review of literature regarding the concept of loan, loan loss provision and loan management and previous reviews of articles and thesis to provide knowledge about the background of the study. The third chapter of the study included the research design, nature and source of the data, data collection procedure, data processing and tools used for study.

The fourth chapter dealt with data results and discussion and major findings of the study. In this chapter different financial ratios are calculated and presented in graphical form to analyze the loan, lending, profit & loss and various other factors essential for the analysis of this study. These financial and statistical tools helped to measure the performance of the bank in comparative manner. This chapter i.e. chapter five highlights summary and conclusions on the basis of the findings, which are

derived from the analysis of Everest Bank Limited, Nepal Bank Limited, Nepal NSBI Bank Limited and Rastriya Banijya Bank Limited.

5.2 Conclusion

Based on the analysis and interpretation of data, the following conclusions have been drawn. The average loans and advances to the total deposits ratio of EBL is higher compared to NBL, NSBI and RBBL which indicates EBL has a greater ability of successfully utilizing their total deposits on granting loans and advances to earn more profit. Therefore, it can be concluded that EBL has a greater efficient and effective capability of utilizing its funds than NBL, NSBI and RBBL. RBBL's capacity to mobilize their deposit on total investment is higher than EBL, NBL and NSBI as the investment to total deposit ratio of RBBL has the higher. Higher the average credit risk ratio of RBBL than EBL, NBL and NSBI reveals that RBBL has more non-performing loan or risky assets than EBL, NBL and NSBI. The lower ratio of NSBI indicates its lower chances of having their loan being defaulted and presence of more less risky assets in the volume of loans and advances as compared to EBL, NBL and RBBL. RBBL has the higher mean ratio than EBL, NBL and NSBI it means that the RBBL has always been provisioning higher than EBL, NBL and NSBI. Generally, increase in this ratio suggests the increase in the non-performing loans, which might result in questioning about the effectiveness in the credit policy of the company.

The return on assets of RBBL is higher than that EBL, NBL and NSBI which clearly indicated that RBBL is more successful in generating profit from the investment in total assets than EBL, NBL and NSBI and the coefficient of variation describe that the return on assets ratio of EBL are more consistent than NBL, NSBI and RBBL. Comparing the return on shareholders' equity, it can be concluded that the shareholders of RBBL remained more satisfied than EBL, NBL and NSBI as RBBL generated more percentage of return from shareholders' equity than EBL, NBL and NSBI. RBBL is more successful in mobilizing the shareholders' equity to earn high profit per share. As a result, both the existing shareholders' and the potential investors might have been fascinated toward the RBBL for being part of it by buying its share. The earning per share of RBBL are more fluctuating and NSBI are less fluctuating as coefficient of variation of RBBL is higher and NSBI is lower among the four sampled banks. On the basis of net profit margin, it can be concluded that the RBBL is more

successful and stable than EBL, NBL and NSBI in controlling the operating and other non-operating cost; as a result, their net profit margin is higher. The total assets, loan and advance, loan loss provision and net profit have significant impact on non performing loan in NBL and RBBL but insignificant impact in EBL and NSBI.

5.3 Implication

Future researchers and academicians can test the same variables in the non performing loan analysis laying more variables. The study suggests that a similar research should be conducted after with different sample size and data size to test whether the findings arrived at will still be the same as the current findings. Further studies should be carried out on all the commercial banks or development banks or finance company since this study only concentrated on the four commercial banks. Future on the basis of the findings of the study, following suggestion can be given to sample banks: -

- The loan and advance to total deposit ratio of RBBL is lower than EBL, NBL and NSBI so RBBL should take necessary steps in utilizing its total deposit to earn profit.
- RBBL has the higher non-performing loan to loan and advance ratio than EBL, NBL and NSBI, which might have put at risk its credit and advances management. Thus, it would be better if RBBL grants credit and advances in secured sector only.
- NBL and NSBI have low average proportion of profitability ratio than EBL and RBBL. So, it is suggested to NBL and NSBI should invest in productive sector to increase the degree of profit.
- EBL, NBL, NSBI and RBBL should focus on optimally utilizing the total assets to generate return and should concentrate on generating return from utilizing net worth.

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