CHAPTER I

INTRODUCTION

1.1 Background of the study

This chapter deals with the background and the subject matter of the study. It consists of introduction of research, which explains the focus of the study, statement of the problem, purpose of the study, significance of the study, limitation of the study and chapter plan. The main purpose of the study is to analyze the performing recent trend of NPA and profitability of the banks.

Non-performing Assets (NPA) means the amount of 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 becomes overdue then, it is known as NPA for the bank. Reduction of NPA has always been a significant problem for every commercial bank and proper attention for the management of the NPA now has got the top priority. Due to various hurdles on the way of management of NPA, commercial banks are now losing their profitability and struggling for their existence. Authentic history of banking tells that it deals with lending and collection of money. However, it followed the basic law of demand and supply where persons having excess money lent to persons who needed it for more productive purposes and were willing to pay a price for this. The operations were limited to the money lender knowing every person lent money too.

According to NRB, Non-Performing Assets is a loan that is overdue for more than three months. Restricted and rescheduled loans and loans not following the criteria policy/ directive of NRB are also included in NPL. (According to NRB Directive no.2), NPL are classified as follows:

Substandard loan (3 to 6 months overdue)

Doubtful loan (overdue from 6 months to 1 year)

Loss loan (overdue for more than 1 year.

NPA are also called Non-Performing Loans. It is made by a bank and financial institutions (BFIs) on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the

principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time, a loan is classified as past due and once a payment becomes really late (usually 90 days), the loan is classified as non-performing. A high level of non-performing assets, compared to similar lenders, may be a sign of problems, (Sing, 2016)

NPA means booking of money in terms of bad assets, which occurred due to wrong choice of client. Because of the money getting blocked the prodigality of the bank decreases not only by the amount of NPA but NPA leads to opportunity cost also as that much of profit is invested in some return earning project/asset. So NPA does not affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low ROI (return on investment), which adversely affects current earnings of the bank. (Balasubramaniam, 2012)

NPA may be defined broadly as the bad debt; however, the banking sector consists of those loans and advances which are not performing well and likely to be turned into bad debt. NPA has severe impacts on the financial institutions. On the one hand, the investment becomes worthless as expected return cannot be realized and on the other, due to the provision required for the risk mitigation the profitability is directly affected. The existence of the bank can be questioned in this situation. Thus, interest along with principal has to be recovered timely and without any obstacles. The idea of “bail-in” in cases of serious banking instability has been widely discussed in India ever since the introduction of the financial Resolution and deposit Insurance Bill. Given the large non-performing loans of public sector banks, the government of India and the Reserve bank of India have regulatory authority which quickly act to ensure that public confidence in the soundness of commercial banks is not breached (Vasudevan, 2018).

As per the Nepal Rastra bank, loans are categorized as performing and non-performing loans where the non-performing loans are more likely to be converted as non-performing assets. Non- Performing assets not only reduces the overall profit but also the overall operational and administrative cost.

Once the distributed loan is not returned timely by clients and becomes overdue then it is known as NPA for the banks. Reduction of NPA has always been a significant problem for every commercial bank. Due to various hurdles on the management of NPA, commercial banks are now losing their profitability and struggling for their existence. Loans and Advances dominate the assets side of the balance sheet of any bank. Similarly, earning from such loans and advances occupy major space in the income statement of the banks. However, it is very important to be reminded that most of the bank failures in the world were due to shrinkage in the value of the loan and advances. Hence, loans are known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society while non-performing loans erode even existing capital.

1.2 Problem statement

High level of NPA is uniformly matter of grave concern for the bank and public alike because bank credit is the catalyst to the economic growth of the country. Rapid rise in NPA level brings an adverse economic environment to the country. In order to have a permanent presence in the market, bankers must have enough vigilance to control the NPA within a reasonable limit.

Commercial banks in Nepal have been facing several problems like lack of smooth functioning of economy, different policies and guidelines of NRB, political instability, security problem, poor information system, over liquidity caused by lack of good lending opportunities, increasing non-performing assets etc. In the present context where Nepalese banks are facing the problem of increasing NPAs, more amounts have to be allocated for loan loss provision. As earlier mentioned, the provision amount is taken out by deducting from the profit of the bank; the bank's profit might come down. This study will try to sick the answer of the following questions

i. What is the recent trend of the net profit of selected commercial banks in Nepal?

ii. What is the impact of NPA, CAR, and TLTD with respect to ROA, ROE and net profit of selected commercial banks in Nepal?

1.3 Objectives of the study

Increasing NPA has now become the major issue for every commercial bank. Every bank now has put the NPA management under the top priority and is functioning to reduce the major part of it from the assets side of their balance sheet. The main objective of the study is to access the non-performing assets of the different banks under the study. The other specific purpose of the present study is listed as follows:

i. To analyze the recent trend of the net profit of selected commercial banks in Nepal.
i. To analyze the impact of NPA, CAR, TLTD with respect to ROA, ROE and net profit of selected commercial banks in Nepal.

1.4 Rationale of the study

The research is based on the impact of NPA on profitability of commercial banks. Currently, some Nepalese commercial banks are facing huge amounts of Non-Performing Assets. Banks should minimize NPA level to achieve their financial goal.

Increasing non-performing loans followed by increased loan loss provision is one of the challenges faced by commercial banks in the present context. Proper classification of loans and adequate loan loss provisioning strengthens the financial health of the banks and also reflects the true picture of a bank's asset. This research will be able to deliver some of the present issues, latest information and data regarding non-performing loan and loan loss provisioning. Hence this study will be significant to shareholders, bankers, depositors, students and further researchers.

Loans and advances are the most profitable of all the assets of a bank. These assets constitute primary sources of income to the bank. It means interest earned from such loans and advances occupy major space in the income statement of the bank. Since loans and advances are more profitable than any of other assets, the bank is willing to lend as much as its fund as possible. But it has to be careful about the safety of such loans and advances. It is very important, therefore, to remember that most of the bank's failures in the world are due to the shrinkage of the value of loans and advances. Hence loans are known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loan/assets has multiple benefits while non-performing loan/ assets erode even existing capital. Therefore, the success of any bank doesn’t depend upon how much money a bank is able to lend, but it

depends upon the quality of the loan. So success of a bank depends upon the amount of performing assets/ loan. Performing assets are those loans that repay principal and interests to the bank from the cash flow it generates.

The Nepal Government has just enacted the debt recovery act and approved the long awaited regulation on debt recovery to speed up the financial reforms in the financial sector. The proposed study will make comparison between the NPA of commercial banks of Nepal and International standard. It will also check the NPA level between the commercial banks. It will wipe out some misconception that general people have about NPA of commercial banks.

1.5 Limitations of the study

Every study has its limitations. The main limitation of this study is that, this study is mainly based on secondary data, published books, unpublished reports, public documents, articles of different writers, annual reports of the selected banks and so on. Errors are inevitable but we have to give full effort to minimize them. We have to do many things staying within many types of limitations and boundaries. The study has been subject to the following limitations.

i. Data is taken from banks secondary sources (like financial reports, websites etc.).
ii. The study would mainly focus on Non-Performing assets of Commercial Bank of Nepal and doesn't cover other aspects.
iii. This study has taken 5 commercial banks among 27 commercial banks.
iv. This research is based on data and information of only ten fiscal years.

1.6 Chapter plan

The study on the relationship between NPA and profitability of commercial Banks has been divided into five chapters respectively; introduction, literature review, methodology, results and conclusion.

Chapter-I: Introduction

The introduction chapter deals with the general background and the subject matter of the study. It consists of introduction of research study, which explains the focus of the study, statement of the problem, purpose of the study, significance of the study and limitations of the study.

Chapter-II: Literature review

In the second chapter, the relevant and pertinent literature and various studies have been reviewed. The review has been made in terms of the theoretical background of banking principles that are relevant to this research work.

Chapter-III: Methodology

The third chapter briefly explains about the research methodology, which has been used to evaluate the NPA and profitability position of banks under consideration. This chapter consists of research design, sample and population, sources of data, and statistical and financial tools and techniques to measure the NPA and profitability position of commercial Banks.

Chapter-IV: Results and discussion

In the fourth chapter, the data required for the study has been presented, analyzed and interpreted by using various tools and techniques of financial management and statistics to present the result relating to the study.

Chapter V: Conclusion and implication

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to draw out a conclusion of the study and attempts to offer various suggestions and implications for the improvement of the future performance of the banks under review. Finally, references and appendices are also included at the end of the study.

CHAPTER - II

LITERATURE REVIEW

2.1 Background of the study

The review of literature for the concerned subject matter for the present study has been presented in this chapter. It deals with the theoretical review, section two empirical review, section three research gap and section four research framework and definition of variable. The main purpose of doing research is reviewing and gaining new knowledge. The literature of the related documents helps the researcher to reach near his purpose. This chapter highlights the existing literature.

2.2 Theoretical review

(Ibrahim & Thangavelu, 2014). The assets of banks which do not perform any role in getting profit to the organization, such assets are called Non-performing Assets. Non-Performing Asset (NPA) is defined as an advance, where payment of interest or repayment of installment of principal (in case of term loans disbursed by the commercial banks) or both remains unpaid for a certain period,

According to the Reserve Bank of India "An asset becomes non-performing when it ceases to generate income for the bank. Earlier an asset was considered as non-performing asset (NPA) based on the concept of 'Past Due'. A 'non-performing asset' (NPA) was defined as credit in respect of which interest and/or installment of principal has remained 'past due' for a specific period of time."

Loan is defined as a sum of money transferred to another for temporary use, to be repaid with or without interest according to terms of the loan agreement written in the accompanying bond, note, mortgage or other document of indebtedness. However, in financial terms loan or debt means principal or interest availed of to the borrower against the security. Debt means the money that a bank owes or lends to an individual or person.

To be concluded, interest/installment of principal remain overdue for a period of more than 90 days in respect of a term loan.

Causes of non-performing assets

1. Miss-utilization of loan assets: When the borrower uses the loan amount for any other purpose instead of using it for the purpose he/she takes loan.
2. Intentional Defaulter: When defaulter applied a loan on fake ground or providing false information or documents.
3. No Proper follow up: Once the loan amount is disbursed by bank to borrower, banks need to take timely follow up or need to be in contact with the borrower.
4. Industrial sickness (loss): Business cycle has many phases. Some industries are running in profit, while in some other industries there can be slow down, strike or other unfavorable situations. Borrowers who take loans for expansion or to set up industry, will not be able to earn profit or will fail to meet their liability of loan.
5. Defective lending policy: It is the major reason for increasing NPA for the bank. When loan is grant to a person without proper analysis of creditworthiness may be,

- Borrower already has other loans too.
- His earnings are not good enough to repay the loan.
- Loan purpose.

6. Political pressure: The NPA for banks increases when the loan or debt forgiven by the government. Example farmer debt forgiven by the government.
7. Economic conditions
8. Large branch expansion
9. Pressure from seniors
10. Under/ over financing

Classification of NPA

Nepal Rastra Bank has published Unified Directives 2078 and has addressed various changes for the banks and financial institutions. As per the unified directives, the loans which have defaulted their payment by 1 month are to be excluded from the 'Pass' loan category. Previously, loans that have missed out their payments up to 3 months were termed as pass loans. So, the banks and financial institutions need to create a provision of 5% in case the delay in payment exceeds 1 month. Pass and

watch list loans and advances are categorized as performing loans while others are classified as non -performing loans. As per NRB directives 2078 the NPA of bank is classified as below:

1. Pass

Loans or assets in this category are fully protected by the current sound worth and paying capacity of the obligor or the collateral pledged, are performing in accordance with contractual terms, and are expected to continue doing so.

- Any asset which is past due period up to 1 month shall be classified as Pass.
- Loans and advances against fixed deposit receipt
- Loans and advances against debentures and securities issued by Nepal Government and Nepal Rastra Bank.
- Loans and advances against silver and gold up to 1 million.

2. Watch list

Loans and advances are to be taken as watch list that comply the following criteria

- Loans and advances that are due from 1 month to 3 month.
- Loans and advances extended without renewal
- Loans and advances provided to the party categorized as Non-performing loans in the banks.
- Loans and advances that are paying interest and principal on time but are in loss from the last 2 years or have negative net worth provided that this clause will be effective for the projects under construction after the completion of the project only.
- Loans and advances up to 1 Arab or more that are financed by more than one bank and are yet to be classified as joint financing.
- Loans and advances that are instructed by Nepal Rastra Bank to be kept in this category as reviewing their Cash Flow and Operational Management.

3. Substandard

Loans and advances that are due from 3 months to 6 months are to be categorized under this category.

4. Doubtful

Loans and assets in this category have all the weaknesses inherent in substandard assets but the loans are not well-secured. Weaknesses make collection in full highly

questionable and improbable on the basis of existing facts, conditions, and value. The possibility of loss is high, but the actual amount of loss cannot be fully determined because specific pending factors may mitigate. Pending factors may include a merger, acquisition, or liquidation; a capital injection; obtaining additional collateral; or refinancing. If pending events do not occur within 180 days and repayment must again be deferred, Loss classification is warranted.

- Any asset which is past due 6 months and not more than 1 year are to be classified as Doubtful.

5. Loss

Loans and assets in this category are deemed uncollectible or of such little value that carrying on the books is no longer warranted. Loss classification does not mean there will never be a recovery, but rather that it is no longer appropriate to defer writing off the asset. Losses shall be taken when identified as uncollectible and shall not remain on the books while pursuing long-term recovery efforts.

- Any asset which is past due 1 year or more shall be classified as Loss Furthermore the provision made for the NPA according to their classification is as below:

Table 2.1

Classification of loan and advances.

Classification of loans and advances	Criteria for provisioning	Provision rate
Pass	Any asset which is past due period up to 1 month(performing loans)	1%
watch list	Loans and advances that are due from 1 month to 3.	5%
Doubtful	Any asset which is past due 6 months and not more than 1 year	25%
Sub standard	Any asset which is past due more than 6 months and less than a year.	50 %
Loss	Any asset which is past due 1 year or more	100 %

Source: Nepal Rastra Bank, Unified Directives 2078

Concept of profitability

Profitability refers to the net income of the Bank where the company's revenues exceed its expenses. Income is generated from the activities of the Banks and expense is the cost of resources which are used to generate profit. Profitability is the main objective of the companies. Business cannot survive in the market for the long run without profitability. So evaluating past profitability, calculating current profitability and foretelling future profitability is very important for the company. Revenue and expense are shown at the income statement which refers to the profitability of the company while cash inflow & cash outflow are shown at the cash flow statement which refers to the liquidity of the company, (Das, Chowdhury, Rahman, & Dey, 2015).

The word profitability is composed of two words, namely, profit and ability. The term profit has been explained above and the term ability indicates the power of a business entity to earn profits. The ability of a concern also denotes its earning power or operating performance. The profitability may be defined as the ability of a given investment to earn a return from its use, (Aulsian, 2014).

Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate 'output' of a company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profits, (Pandey, 2012).

Relationship between non-performing assets and profitability

Under the circumstances assets that do not earn any income to the bank affect the profits in a number of ways, which are explained as follows:

Profitability Impact: Pandey, (2012)

- The resources locked up in NPA are borrowed incur a cost and need a minimum return to service this cost.

- NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirements.
- Since they do not earn interest they bring down the yield on advances and the net interest margin or spread.
- NPA have a direct impact on assets and return on equity, which are the two main parameters for measuring profitability of the Commercial Banks.
- NPA do not yield any return that has a direct impact on Return on assets being calculated in total assets.
- The cost of maintaining these include administration costs, legal costs and cost of procuring the resources locked in them.
- NPA brings down the profits, affects the investor's value and thus, adversely affects the shareholders confidence.

As a whole, this impact of NPA can be assessed with the following:

Ekwe & Daru (2012) He has concluded "high level of non-performing assets not only decrease the profitability of the banks but also affect the entire financial as well as operational health of the organization. If the NPA doesn't control immediately, it will be main causes for shutdown of the banks in future. ROA is the measuring tools of bank profitability and also the ability of the bank management to generate the income by utilizing the company assets as their disposal used return on assets as dependent variable because it is an indicator of managerial efficiency. Khrawish (2011) states that ROA indicates the efficiency of the management of a company in generating net income from all the resources of the institution. Miller & Noulas (1997) found a negative relationship between credit risk and profitability. It shows that whenever there is negative relationship between them, then it signify that greater risk linked with loans, higher the level of loan loss supplies which thereby and create a trouble at the profit maximizing strength of a bank.

2.3 Empirical review

Various studies have been conducted in different aspects of commercial banks and JVBs. The conclusion of the previous studies on the different aspects of commercial Banks is relevant to this study. Thus, the studies of previous articles, journals and thesis are reviewed in this regard.

Khadka (2004) has explained about the topics in which he had objectives to study and examine the level of NPAs in total assets, total deposits and total lending of

commercial banks. He also studied whether the Nepalese Commercial Banks have been following the directives of NRB regarding loan loss provision for non-performing loan/ assets or not. He had taken sample banks as Nepal SBI Bank Limited, Nepal Investment Bank limited, Nepal Bangladesh Bank limited, Bank of Kathmandu limited, and Nabil Bank Limited. From his studies, it is found that the level of NPA of Nepal Bangladesh limited seemed greater than all of the other banks under his study. Similarly, Nepal SBI Bank and Bank of Kathmandu stand at second and third position respectively. The position of Nabil Bank limited seemed to be quite satisfactory because the bank has been reducing its NPA every year. The NPA of Nepal Investment Bank stands at a lower level than that of all the other banks. From the study it has also been found that none of the banks have been following the directives of NRB regarding the loan loss provision. Despite the high level of NPA the loan loss provision made by the Nepal Bangladesh Bank seemed to be quite satisfactory than any of the other banks. Despite the outstanding success in managing the NPA the loan loss provision made by Nepal Investment Bank is not considerable. It means the loan loss provision of Nepal Investment Bank is very less than the requirement.

Ghimire (2005) studied the internal and the external factors that affect the non-performing assets to increase from the loan and advances. The internal factors that influence and the effective management of the NPA and its increment. The objective of his studies is also to find out the relationship between the non- banking assets and the Non-Performing Assets, in which he was able to find out very important results from the survey. The study was able to find out the internal responsible factors that contribute to turning good loans into bad loans, bad intention, weak monitoring and miss management are the most responsible factors. Similarly, weak legal provision and credit concentration are also found as the least preferred factors in turning good loans into bad loans. Some factors such as lack of portfolio analysis, not having effective credit policy and shortfall on security were identified as having average effect on NPA growth. In connection to external factors it has been found that recession, political and legal issues are more relevant factors in turning good loans into bad one. Likewise legal provisions for recovery as a reason for increment in NPA in Nepalese Banks have been found to have less impact. Supervision and monitoring systems have been identified as average factors. It is therefore, can be generalized that

economic and industrial recession and not having strong legal provision for loan recovery are the major external factors that have major contribution for the increment of NPA.

It has also been concluded in the study that Nepalese Commercial Banks gave much priority to the trade sector for lending its resources, at the same time it is found that service sectors are not being given that much emphasis. He had recommended to the sample banks, Nepal Bangladesh Bank Ltd, Nepal SBI Bank Ltd, and Bank of Kathmandu Ltd, as on different headings, subject matter such as financial strength, personal integrity and security, monitoring and control system, avoidance of credit concentration, strong legal system, assets management company, avoidance of undue pressure, etc.

Ahmad & Ariff (2007) states that non-performing is the percentage of loan values that are not serviced for three months and above. Basically, Non- performing loans reflect the performance standard of the banks. A high level of NPL reflects the high probability of loss and net worth get affected due to large number of credit defaults and similarly low level of NPL reflects the high probability of profit due to low credit default. Parul (2012) states that the NPL growth involves the necessity of provisions because it decreases the overall profits and shareholders. If there is a high proportion in bank credit there will be a higher probability that the banks can suffer from the financial crisis and vice versa.

Yadav (2010) banks directly or indirectly affect economic development because of their many facets. During colonial rule in India, banks were geographically confined to urban areas and provided credit, particularly business and trading class and were restructured into nationalized banks during the post –independence period to achieve broader economic objectives and registered an overall impressive achievement. Despite this, the question has been raised time and again on the myriad restriction of nationalized banks which merely fulfills the social agenda of the government and increased non-performing assets. This paper deals with the concept of non-performing assets, its magnitude and impact. One fourth credit of total advances was in the form of doubtful asset in the initial year of the nineties and has an adverse impact on profitability of public banks at aggregate or sectorial level indicating high degree of riskiness in credit portfolio and raising question mark on the credit appraisal. The profitability of all public sector banks is affected to a very large extent when non-

performing assets (NPAs) work with other banking strategic variables and also affect productivity and efficiency.

Afriyie & Akotey (2012) examined the impact of credit risk management on the profitability of rural and community banks in Ghana using panel regression models for the period 2006 to 2010. He authors have taken non-performing loan and capital adequacy ratio as indicators of credit risk management, and ROA and ROE as indicators of bank profitability. The findings of the study show the existence of a significant positive relationship between non-performing loans and bank profitability meaning that even though there is huge loan default, non-performing loans are increasing proportionately to profitability. The authors have found the reason for ineffective credit risk management practice among the rural and community banks of Ghana and reported that banks shift the cost of loan default to other customers with higher interest on loans. Due to this practice the community banks remained profitable. This however reveals that rural and community banks in Ghana do not have sound and effective credit risk management practice because theoretically, nonperforming loans reduce the bank profitability. The authors strongly recommend for the Bank of Ghana to tighten its control mechanism of the rural banking industry to stop this practice.

Nawaz (2012) has studied that recently banks witnessed rising non-performing credit portfolios and this significantly contributed to financial distress in the banking sector. Banks collect deposits and lend to customers but when customers fail to meet their obligations problems such as non-performing loans arise. This study evaluates the impact of credit risk on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk were the data collected from secondary sources mainly the annual reports and accounts of sampled banks from 2004 - 2008. Descriptive, correlation and regression techniques were used in the analysis. The findings revealed that credit risk management has a significant impact on the profitability of Nigeria banks. Therefore, management needs to be cautious in setting up a credit policy that might not negatively affect profitability and also they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits.

Selvarajan & Vadivalagan (2013) the magnitude of the problem of bad debts was not taken seriously. Subsequently, following the recommendations of Narasimham

committee and Verma committee, some steps have been taken to solve the problem of old NPAs in the balance sheets of the banks. It continues to be expressed from every corner that there has rarely been any systematic evaluation of the best way of tackling the problem. There seems to be no unanimity in the proper policies to be followed in resolving this problem. There is also no consistency in the application of NPA norms, ever since these have been recognized. Non-performing Assets are also called as Non-performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. The problem of NPA is not limited to only Indian public sector banks, but it prevails in the entire banking industry. Major portion of bad debts in Indian Banks arose out of lending to the priority sector at the dictates of politicians and bureaucrats. If only banks had monitored their loans effectively, the bad debt problem could have been contained if not eliminated. The top management of the banks was forced by politicians and bureaucrats to throw good money after bad in the case of unscrupulous borrowers. Non-performing assets of banks are one of the biggest hurdles in the way of socio-economic development of India. The level of NPAs of the banking system in India is still too high. It affects the financial standing of the banks so that it is a heavy burden to the banks. A vigorous effort has to be made by the banks to strengthen their internal control and risk management systems and to set up early warning signals for timely detection and action.

The problem of NPAs is tied up with the issue of legal reforms. This is an area which requires urgent consideration as the present system that substantially delays in arriving at a legal solution of a dispute is simply not tenable. The absence of a quick and efficient system of legal redress constitutes an important ‘moral hazard’ in the financial sector, as it encourages imprudent borrowers. NPAs can create many challenges. There are many other reasons why public sector banks have the highest level of NPAs. The NPA problem of banking institutions in India is exaggerated by deriving NPA figures based on percentage against risk assets instead of total earning assets. To improve recovery and to minimize NPAs, banks are expected to do a continuous recovery exercise through various methods adopting newer strategies. Besides, the borrowers are to be educated again and again about the benefits they

derive from bank loans compared to the local money lenders. The defaulters with genuine reason must be taken care of by the banks. But this attitude becomes an act of mockery when blanket write-off is affected. The above are various issues faced by banks related to lending and recovery. Banks cannot stop lending. Lending will continue, recovery also must be continued.

Adeusi (2014) evaluated the association of risk management practices and banks' financial performance in Nigeria using secondary data from annual reports and financial statements of ten Nigerian banks for the period 2006 to 2009. The authors have adopted the panel data estimation technique as the data collected for their study is cross-sectional units observed over time. The independent variables used by the authors included the cost of bad and doubtful loans, non-performing loan, liquidity, equity-total asset ratio, equity-loan ratio and debt-equity ratio. Whereas the dependent variables used are return on asset (ROA) and return on equity (ROE). The findings of this study show that there is an inverse relationship between banks' financial performance and cost of bad and doubtful loans; but a positive and significant relationship between capital assets ratio and banks' financial performance. The authors concluded that there is a significant relationship between bank's performance and risk management. The authors recommend that the credit risk indicators identified which include cost of bad and doubtful loans, debt-equity ratio, and managed fund needs to be managed in a better way to achieve better banks' financial performance.

Pradhan (2014) has conducted research on "A Study on Non- Performing Assets of Commercial Banks with References to SCBNL, RBB, Everest bank, NB bank and NBBL". Main objective of his study are to find out the proportion of non-performing loans and the level of NPA in total assets, total deposit and total lending in the selected commercial bank relationship between loan loss provisions in the commercial bank impact of non-performing assets in the performance of commercial banks. He has concluded improper credit policy, political pressure to lend, lack of supervision and monitoring, economic slowdown, overvaluation of collateral are the major cause of occurring NPA. In recent years, not only the private sector's banks (like NBBL, EBL and SCBNL) but also public sector's banks (RBB and NBL) are trying to maintain their loans and advances to control over becoming the non-performing assets. To overcome the NPA from public banks, they should try to recover their loan and interest amount on time and also make a suitable loan loss policy. He has

concluded "high level of non-performing assets not only decrease the profitability of the banks but also affect the entire financial as well as operational health of the organization. If the NPA doesn't control immediately, it will be the main cause for the shutdown of the banks in future. ROA is the measuring tools of bank profitability and also the ability of the bank management to generate the income by utilizing the company assets at their disposal.

Bhattarai, (2015) the non-performing loans (NPL) of financial institutions are considered as a significant issue in the context of Nepal for the last few decades. The paper aims to identify the impact of macroeconomic variables (GDP, Inflation, and Real Effective Exchange Rate) and bank specific variables (size, change in loan, real lending rate of interest, and share of loan to total assets) on the non-performing loan of the commercial banks in Nepal. The study was conducted mainly with secondary sources. The data were collected for 26 commercial banks covering the period of 2002-2012 with 227 observations. The study found that macroeconomic variables such as the real effective exchange rate have a significantly negative impact on non-performing loans. The impact of GDP growth rate was found to be insignificant in this study. One year lagged inflation rate has a significant positive impact on non-performing loans. The banks which charge relatively higher real interest rates have higher non-performing loans, which is consistent with the findings of previous studies. The ownership dummy has positive coefficient and significant at one percent level showing that if the bank is government owned the non-performing loan would be higher than that of the private owned banks. As well, more lending in the previous years and current year reduces the non-performing loan since the coefficient of change in loan in current and previous years have negative coefficient and significant at one percent level.

Dudhe, (2017) the assets of banks which do not perform any role in getting profit to the organization, such assets are called Non-performing Assets. Non-Performing Asset (NPA) is defined as an advance, where payment of interest or repayment of installment of principal (in case of term loans disbursed by the commercial banks) or both remains unpaid for a certain period, (Ibrahim & Thangavelu, 2014) NPA is an advance which is considered written off, for bank has made provisions, and which is still held in banks' books of account. Gross NPA (non-performing asset) refers to the overall quantity of loans that have gone bad debts. It consists of all the nonstandard

assets like sub-standard, doubtful, and loss assets. An asset makes non-performing when it stops to generate income for the bank. Recently an asset was measured as non-performing asset (NPA) standing on the concept of 'Past Due'. A non-performing asset was examined as credit in respect of which interest of principal has remained ‘past due’ for a particular time.

Herroro, (2017) claims that despite the operating costs of holding a large portfolio of loans, bank profitability should increase with a higher ratio of loans to assets as long as interest rates on loans are liberalized and the bank applies markup pricing. Among the different types of risk which are faced by banks, credit risk seems to have more impact on bank’s profitability because bank’s revenue is generated from loans from which interest is derived. NPA are classified as classified loans according to the NRB directives categories into sub-standard, doubtful and loss. The circular further says a NPA is a credit facility in respect of which interest has remained unpaid for two quarters. According to the circulars, the loans are classified based on weakness and dependence on collateral securities into four categories and prescribed the provisioning rate as follows:

Gnawali, (2018) the level of NPA in Nepalese banking system is very alarming. It is well-known fact that the bank and financial institution in Nepal have been facing the problem of swelling non-performing assets and the issue of becoming more and more unmanageable day by day. This study examines the impact of non-performing loans on profitability of Nepalese commercial banks. Return on assets and return on equity are taken as dependent variables. Non-performing loan, loan loss provision, capital adequacy ratio, ratio of loan loss provision to total loan, ratio of total loan to total deposit and size of the firm are selected as independent variables. This study is based on the secondary data, which are collected from various issues of Banking and Financial Statistics, Bank Supervision Report published by Nepal Rastra Bank and annual reports of the banks. The study covers the period of 2010 to 2017for 3 government banks and 10 non -government banks with 24 and 80 observations respectively. The regression models were estimated to test the significance and impact of non-performing loans on profitability on Nepalese commercial banks.

2.3.1 Summary of articles and theses

Table 2.2

Summary of literature review

	Dependent variable	Independent	Data Analysis Method	Findings
Khadka (2004)	Level of NPAs	Total assets, total deposit and total lending of commercial banks	Descriptive and analytical research	It is found that the level of NPA of Nepal Bangladesh bank ltd seemed greater than all of the other sample banks. Whereas, Nabil Bank ltd, seemed to be quite satisfactory because the bank has been reducing its NPA every year.
Ghimire (2005)	Internal and external factors that affect the NPA.	Loan and advances	descriptive and analytical research	It is found that the internal responsible factors that contribute to turning good loans into bad loans are: bad intention, weak monitoring, miss management etc. Whereas, in connection to the external factors it has been found that recession, political and legal issues are more relevant factors in turning good loans into bad loans.
Ahmad & Ariff (2007)	Size of the bank, level of debt, debt	Loan loss provision.	Descriptive	The results indicate that when return on assets (ROA) before tax and loss provisions for the current year is higher than the prior year ROA and the actual

	to equity.			capital reserve is below the legal required reserve, then management is expected to increase loss provisions for the current year. This result is robust for all the years of this study.
Yadav, (2010)	Total advances and doubtful assets	Non-performing assets, its magnitude.	Descriptive	The profitability of all public sector banks is affected to a very large extent when non-performing assets work with other banking strategic variables and also affect productivity and efficiency.
Nawaz, (2012)	Credit risk	Deposit and lends	Descriptive	The findings revealed that credit risk management has a significant impact on the profitability of Nigeria banks. Therefore, management needs to be cautious in setting up a credit policy that might not negatively affect profitability and also they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits.
Afriyie & Akotey, (2012)	Capital adequacy ratio	ROA and ROE	Descriptive	The findings of the study shows the existence of a significant positive relationship between non-

				performing loans and bank profitability. Even though there is a huge loan default, non-performing loans are increasing proportionately to profitability.
Adeusi (2014)	return on asset (ROA) and return on equity (ROE)	Cost of bad and doubtful loans, non-performing loan, liquidity, equity-total asset ratio, equity-loan ratio and debt-equity ratio.	Panel data estimation technique	The findings of this study show that there is an inverse relationship between banks' financial performance and cost of bad and doubtful loans; but a positive and significant relationship between capital assets ratio and banks' financial performance. The authors concluded that there is a significant relationship between bank's performance and risk management. The authors recommend that the credit risk indicators identified which include cost of bad and doubtful loans, debt-equity ratio, and managed fund needs to be managed in a better way to achieve better banks' financial performance.
Bhattrai 2015	Loan and advance, market share of Bank,	Loans/ Assets, Weighted average lending rate	Descriptive	The banks which charge relatively higher real interest rates have higher non-performing loans. As well as, if the bank is government

	annual growth rate.	of bank, annual inflation rate.		owned the non-performing loan would be higher than that of the private owned banks. Similarly, the change in loan rate of the previous year has a significantly negative impact on non-performing loans. As there is a higher increase in loan of the previous year non-performing loan will decrease significantly.
Dudhe 2017	Net profit	Gross Non-Performing Assets	Descriptive	It is found that NPAs affect the financial performance of Indian banks as well as financial growth of the economy. Preparation of credit planning, proper credit appraisals, disbursements, post sanction, follow-up and need based credit are the some areas of credit management that needs improvement in order to reduce the NPAs.
Herroro (2017)	Operational efficiency and loan loss provision	Return on equity (ROE) Return on assets (ROA)	Generalized Method	Profitability seems to be quite persistent in China, which probably signals barriers to competition but also a high degree of government intervention, as banks are given yearly targets for asset quality and capitalization. This again shows how much

				profitability is influenced by government decisions.
Gnawali (2018)	Return on assets and return on equity	Non-performing loan, loan loss provision, capital adequacy ratio, ratio of loan loss provision to total loan, ratio of total loan to total deposit and size of the firm.	Descriptive research	There is a negative impact of non-performing loans on return on assets in the context of Nepalese government banks. Non-performing loan variables like non-performing loan to total loan (NPLTL), and size have a negative relationship with ROA of selected government banks. The result shows that higher the portion of non-performing loan (NPL), Non-performing to total loan (NPLTL) and bank size lower would be the profitability of the Nepalese government banks.

2.4 Research gap

Since the above mentioned studies offer limited findings, more extensive testing and adjustment of necessary variables are needed in ordered to be more conclusive about the non-performing assets and profitability. Previous studies were unable to present the exact condition of non-performing assets and profitability in Nepalese banking sector Nepal.

To accomplish the methodology gap, descriptive and analytical research methodology has been adopted but previous researcher used generalized methodology (Herroro 2017). Previous researcher (Gnawali 2018) has objective of the study is to assess the relationship between non-performing loan and firm's financial performance in Nepalese commercial banks. More specifically, it examines the impact of non-performing loan to total loan, total loan to total deposit, capital adequacy ratio, loan

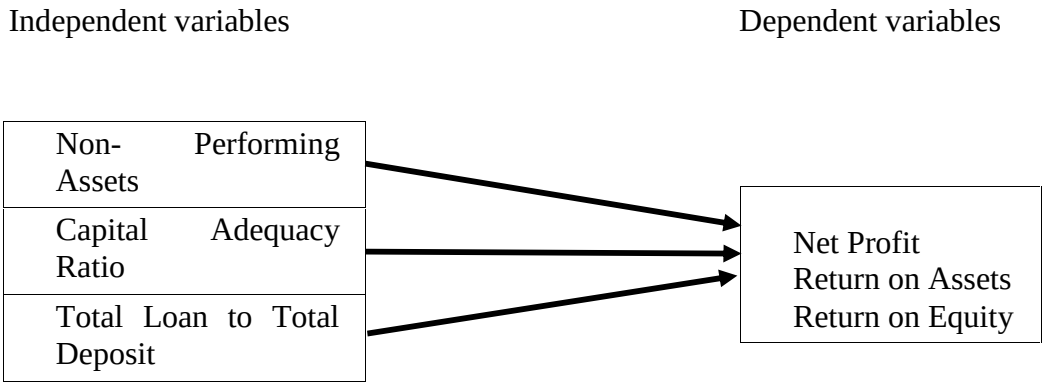
loss provision, firm size on return on assets and return on equity objective but this research examines the trend of net profit and impact of NPA, CAR TLTD with respect to net profit , ROA and ROE. Previous researcher (Gnawali 2018) has various variables i.e. size of firm size, loan loss provision, loan and advance, customer satisfaction, and my research variables are non-performing assets, capital adequacy ratio, total loan to total deposit ratio, return on equity, return on assets and net profit only.

The present study is based on ten years data of commercial banks but (Ghimire 2005) researcher has 7 years data. This study is tries to achieve its objectives by analyzing secondary source of data. (Ghimire 2005) used 4 samples banks but in my research there are 5 samples and he used cluster sampling methods but in my research there is random sample. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese banking sector. Current study is a supplement to an overcome the weakness and limitation of previous studies so, this study will be fruitful to those interested person scholars, students, stakeholders, civil society, businessman and government for academically as well as policy prospective. Therefore this study is to the concern bank as well as different persons: such as shareholders, investors, policymakers, stockbrokers, state of government etc.

2.5 Research framework and definition of variables

The conceptual framework is a written or visual representation of an expected relationship between variables. The conceptual framework is generally developed based on literature review of existing studies and theories about the topic. Variables are simply the characteristics or properties that a researcher wants to study. There are two dependent variables and independent variables. Dependent variables: The dependent variables are the variables that are being measured or tested in an experiment. Here profitability return on assets and return on equity are taken as dependent variables.

Independent variables: The independent variables are the characteristics that are manipulated by the researcher to gauge the effect of the changes on the dependent variables. Here, non-performing assets, capital adequacy ratio and total loan total deposit ratio are independent variables. The theoretical framework shows the relationship of independent variables with the dependent variable.



CHAPTER III

RESEARCH METHODOLOGY

3.1 Background of the study

This chapter has been divided into six section. Section one present the research design of the study, section two deals with the population, sample and sampling design. Section three consist of nature and sources of data , section four explains the data collection instrument and procedure, section five deals with data processing procedure and data analysis method. Finally section six explains the research framework.

3.2 Research design

To accomplish this objective descriptive research approach has been adopted. It tries to describe and analyze all these facts that have been collected for the purpose of the study.

3.3 Population, sample and sampling design

The population of the study consists of 27 commercial banks of Nepal. The sample consists of five commercial banks from highest paid up capital to lowest. They are NMB Bank limited, Nabil Bank limited, Himalayan Bank limited, NSBI bank limited and EBL. In this way the sample banks consist of banks from different paid up capital and performing capacity.

The researcher classified 27 banks into 5 groups by i.e. 1 to 5, 6 to 10, 11 to 15, 16 to 20 and 21 to 27. From this group by selecting random sampling to 1 bank that lies in (1 to 5 group i.e. 1st group, 2nd bank from 2nd group, 3rd bank from 3rd group, 4th bank from 4th group and finally 5th bank from group 5).

3.4 Nature and sources of data

The study is mainly based on the secondary data collected from the different published sources i.e. internal secondary data and external secondary data. The annual reports of respective banks, various reports from NRB and other reports are used to collect the secondary data. Besides these, other essential data and information were collected from some published and unpublished documents. The research has also consulted the library to collect necessary data and information during the course of research work.

3.5 Data collection instrument and procedure

As the study is based mainly on the secondary data, required facts and figures have been obtained from the annual reports collected from the corporate office of the bank. Data have been obtained from the official web sites of NSBI, NMB, NABIL, HBL, EBL and NRB. Other reference materials are collected from the central library.

3.6 Data processing procedure and data analysis method

Only descriptive and analytical methodology is use to get the meaningful result of the collected data and to meet the research objectives. Collected data are tabulated under various heads. Then the tabulated data are analyzed using various statistical tools which are briefly discussed below:

The collected data analyzed with the help of different statistical tools. Various statistical tools can be used to analyze the data available to the researcher. These tools are used in research in order to draw reliable conclusions through the analysis of financial data. Following tools are used for our purposes:

i) Average/mean

An average is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for the whole group of which it is a part, as typical of all the values in the group. There are various types of averages. The value of the Arithmetic Mean is obtained by adding together all the items and by dividing this total by the number of items.

ii) Standard deviation (SD)

Risk is defined as the variability of the returns of a period. The one-period rate of return is the basic random variable used in measuring an investment's risk. One such measure of risk is the standard deviation. Standard deviation is defined as the positive square root of the mean of the square of the deviation taken from arithmetic mean. Risk on individual assets or standard deviation for assets can be calculated using historical returns with this equation.

iii) Coefficient of Variation (CV)

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations known as coefficient of variation.

iv) Coefficient of correlation (r)

The range of values for the correlation coefficient is bounded by 1.0 on an absolute value basis or between -1.0 to 1.0. If the correlation coefficient is greater than 1.0 or less than -1.0, the correlation measurement is incorrect. A correlation of -1.0 shows a perfect negative correlation, while a correlation of 1.0 shows a perfect positive correlation. A correlation of 0.0 shows zero or no relationship between the movements of the two variables.

v) Regression analysis

Regression is a statistical method for investing relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of relationship between two (Simple Regression) or more (Multiple regression) variables. It helps to predict or estimate the value of one variable when the value of other variable/variables is known. The regression line of dependent variable (Y) on independent variable (X) is given by;

Model 1

The model estimated in this study assumes that the impact of non-performing loan on bank's profitability. Therefore, the model takes the following form: Model 1

$$Yi = \beta o + \beta 1X1 + \beta 2X2 + \beta 3X3 + \ldots\ldots + \beta nXn + \varepsilon$$

Where,

Yi = Dependent variable

X = Independent variable

βo = Y-intercept (constant term)

βn = Slope coefficients of each explanatory variable

ε= Error

CHAPTER IV

RESULTS AND DISCUSSION

It is a crucial chapter that organizes, analyzes, and interprets the results correctly. The main purpose of this study is to look into how commercial banks deal with credit risk. We've attempted to provide and evaluate the material we've acquired in this chapter. Data was gathered from a variety of sources, classified, and tabulated according to the study's needs and data type. A number of financial and statistical instruments are used to examine the data. The image also includes data to make it easier and clearer to understand.

4.1 Results

4.1.1 Data presentation and analysis

4.1.1.1 Net profit

The primary goal of the bank is to make a profit. Furthermore, profit is the lifeblood of any business; without it, the business would not be able to survive. As a result, the bank must make a profit in order to survive. The table below shows the net profit earned by the banks in the sample.

Table 4.1

Status of profit in real price

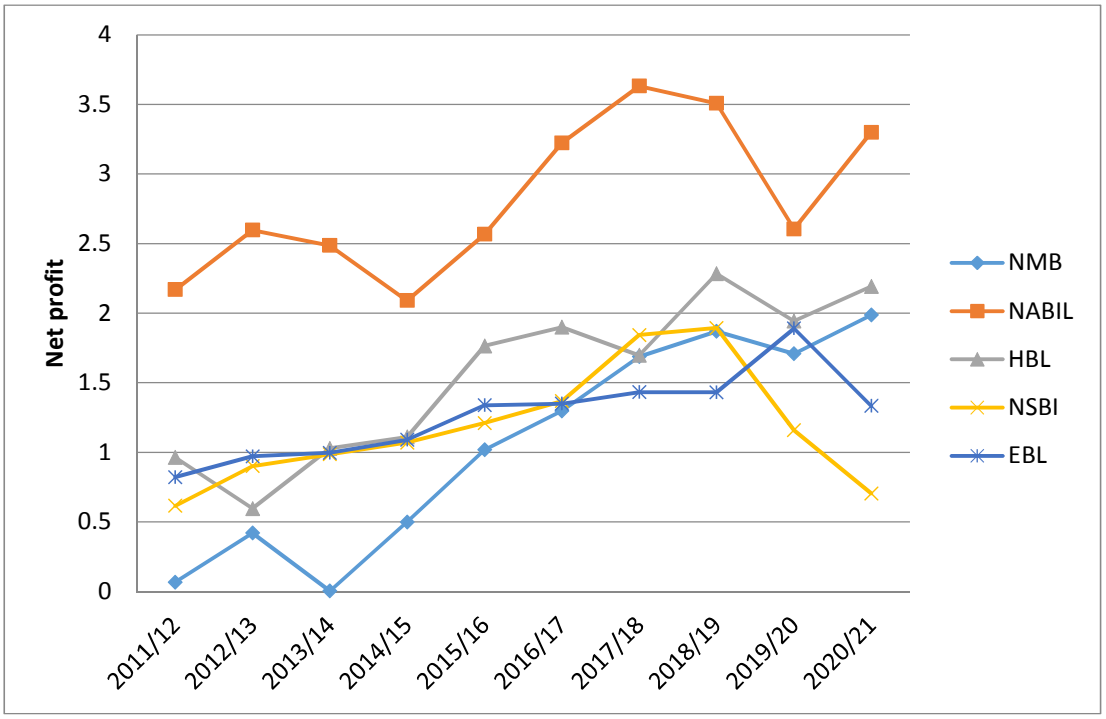
Year	NMB	NABIL	HBL	NSBI	EBL	CPI
2011/12	0.067	2.169	0.963	0.616	0.822	77.9
2012/13	0.42	2.596	0.596	0.901	0.971	85.5
2013/14	0.004	2.486	1.029	0.986	0.997	93.3
2014/15	0.5	2.09	1.11	1.07	1.09	100
2015/16	1.019	2.566	1.765	1.210	1.338	109.9
2016/17	1.298	3.223	1.899	1.368	1.350	114.8
2017/18	1.688	3.631	1.697	1.843	1.432	109.6
2018/19	1.869	3.507	2.283	1.894	1.431	120.9
2019/20	1.709	2.605	1.943	1.159	1.890	132.8
2020/21	1.987	3.299	2.192	0.704	1.334	136.4
Mean	1.0561	2.8172	1.5477	1.1751	1.2655	

* Annual report of banks 2011/12 to 2020/21.

Table 4.1 the highest net profit of mean of the selected banks is NABIL and lowest is NMB bank. The sample banks have fluctuation trend as a looking the fiscal year from 2011/12 to 2020/21. The net profit NMB bank is 1.987% and lowest is 0.0004% in 2020/21 and 2013/14respectively. There is a little bit in decreasing trend almost it has good performance. The highest net profit of NABIL is 3.631% and lowest is 2.09% in the fiscal year 2017/18 and 2014/15 respectively. The highest net profit of HBL is 2.192% and lowest is 0.596% in the fiscal year 2020/21 and 2012/2013. There is normal fluctuation it has good performance. The highest net profit of NSBI is 1.894% and lowest is 0.616% in the fiscal year 2018/19 and 2011/12 there is increasing trend but in last two years there is decreasing trend. The highest net profit of EBL is 1.890% and lowest is 0.822% in the fiscal year 2019/20 and 2011/12 there is increasing trend and it has good performance.

Figure 4.1

Trend analysis of net profit through CPI (in %)



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4.1.1.2 Non-performing asset

Non-performing assets (NPAs) are assets that do not generate a profit for the bank. They are becoming a serious issue in the banking business since they lower the organization's earnings. Non-performing assets (NPAs) are a big issue in Nepalese banking. Because Nepal's banking system is still in its early stages, non-performing assets are getting more difficult to eliminate owing to a variety of variables such as lax lending policies, economic considerations, and so on. The table below provides the specifics of selected banks' non-performing assets over the previous 10 years.

Table 4. 2

Non-performing assets (in %)

Years	NMB	NABIL	HBL	NSBI	EBL
2011/12	2.45	2.33	2.09	0.14	0.84
2012/13	1.80	2.13	2.89	0.19	0.62
2013/14	0.55	2.23	1.96	0.26	0.97
2014/15	0.42	1.82	3.22	0.37	0.66
2015/16	1.81	1.14	1.32	0.54	0.38
2016/17	1.68	0.80	0.85	0.10	0.25
2017/18	0.88	0.55	1.40	0.20	0.20
2018/19	0.82	0.74	1.12	0.22	0.16
2019/20	2.68	0.98	1.01	0.25	0.22
2020/21	2.27	0.84	0.48	0.23	0.12
Mean	1.54	1.34	1.63	0.25	0.44
S.D	0.82	0.69	0.89	0.13	0.31

* Annual report of banks 2011/12 to 2020/21.

Table 4.2 shows that the non-performing assets of selected commercial banks tend to be fluctuating as we can see dissimilar trend in the non-performing assets over a selected period of study. Above commercial banks highest mean is 1.63% of HBL

bank and lowest NSBI. The highest standard deviation is 0.89% of HBL bank and lowest is 0.13% of the NSBI bank. The highest non-performing assets of NMB is 2.68% in the year 2019/20 and the lowest is 0.42%. The highest non-performing assets of NABIL is 2.33% in the year 2011/12 and the lowest is 0.55% in the year 2017/18.The highest non-performing assets of HBL is 3.22% in the year 2014/15 which was the highest under the period of the study and the lowest is 0.48% in the year 2020/21. The highest non-performing assets of NSBI is 0.54% in the year 2015/16 and the lowest is 0.10% in 2016/1. Similarly the highest non-performing assets of EBL bank is highest in the year 2013/14 i.e. 0.97% and the lowest is 0.12% in the year 2020/21.This shows that there is huge fluctuation among the sample banks throughout the period of the study.

Figure 4. 1

Non-performing assets

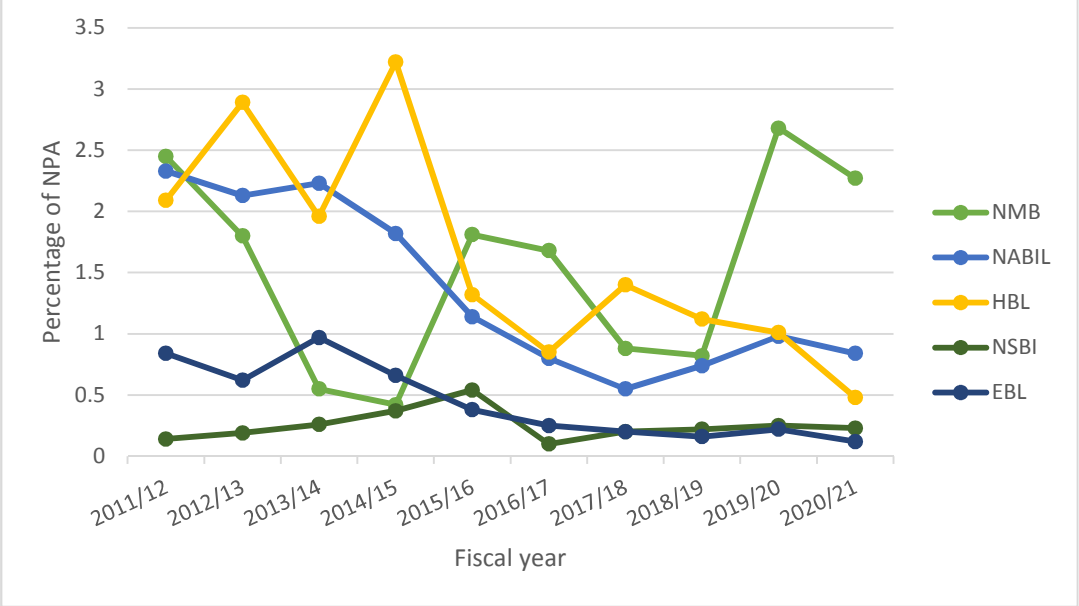


Figure 4.2 graph represents the different NPA of selected bank in the different periods of study. The NPA of lowest NMB was 0.42% in the year 2014/15 which went on different fluctuation and the highest was in the year 2019/20 i.e. 2.68. Similarly the non-performing assets of NABIL was 0.55% in the year 20017/18 which increased to 2.33% in the year 2011/12.Showing the different fluctuation the NPA of HBL was highest in the year 2014/15 i.e.3.22% and the lowest was 0.48% in the year 2020/21.

The non-performing assets of NSBI bank was highest 0.54% in the year 2015/16 and the lowest was 0.10% in the year 2016/17. The highest non-performing assets of EBL bank were in the year 2013/14 and the lowest is in the year 2020/21.

4.1.1.3 Capital adequacy ratio

The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier-1 capital, which can absorb losses without a bank being required to cease trading, and tier -2 capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

Table 4.3

Capital adequacy ratio (in %)

Year	NMB	NABIL	HBL	NSBI	EBL
2011/12	14.84	11.01	11.02	11.21	10.43
2012/13	11.74	11.59	11.55	12.39	11.02
2013/14	10.75	11.18	11.23	13.28	11.59
2014/15	11.13	11.57	11.14	14.02	11.31
2015/16	10.98	11.73	10.84	13.49	13.33
2016/17	13.61	12.9	12.15	15.71	14.54
2017/18	15.75	13	12.17	15.15	14.2
2018/19	15.45	12.5	12.46	14.12	13.74
2019/20	15.08	13.07	12.6	15.55	13.38
2020/21	15.06	12.77	14.89	13.86	12.48
Mean	13.44	12.13	12.01	13.88	12.60
S.D	2.06	0.79	1.19	1.40	1.44

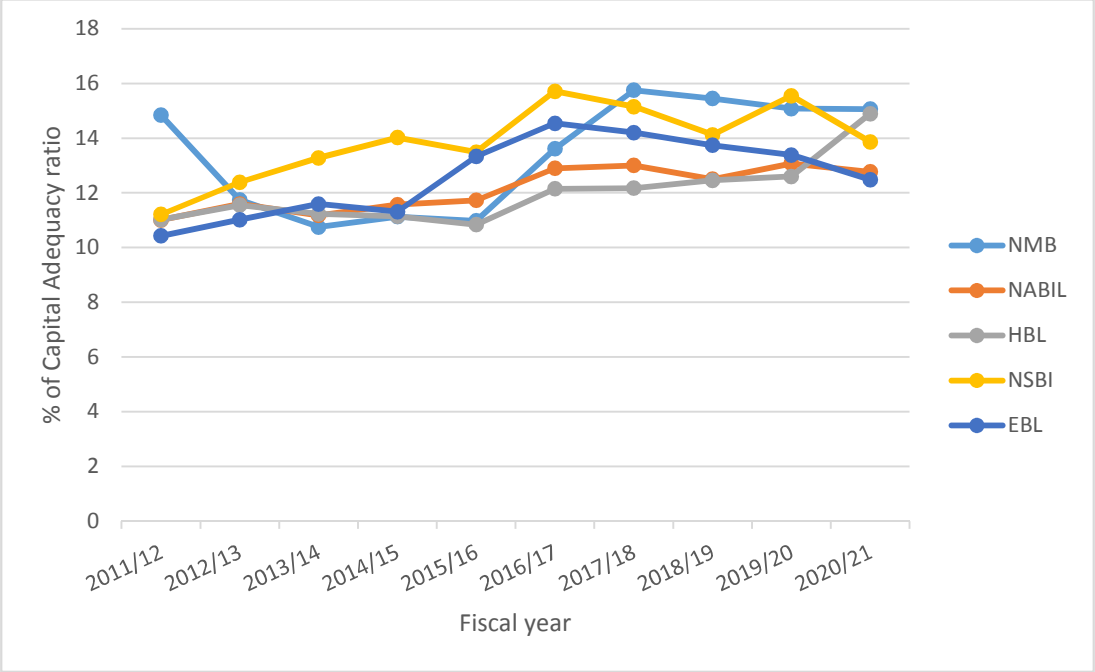
* Annual report of banks 2011/12 to 2020/21.

Table 4.3 shows that the capital adequacy ratio of selected commercial banks tend to be fluctuating as we can see dissimilar trend in the capital adequacy ratio over a selected period of study. The highest mean is 13.88% of NSBI bank and lowest is 12.01% of HBL bank. The highest S.D. is 2.06% of and lowest is 0.79% of NABIL bank. The highest capital adequacy ratio of NMB is 15.75% in the year 2017/18 and the lowest is 10.75% in the year 2013/14. The highest capital adequacy ratio of NABIL is 13.07% in the year 2019/20 and the lowest is 11.01% in the year

2011/12.The highest capital adequacy ratio of HBL is 14.89% in the year 2020/21 which was the highest under the period of the study and the lowest is 10.84% in the year 2015/16. The highest capital adequacy of NSBI is 15.55% in the year 2019/20 and the lowest is 11.21% in 2011/12. Similarly the highest capital adequacy ratio of EBL bank is highest in the year 2016/17 i.e. 14.54% and the lowest is 10.43% in the year 2011/12.This shows that there is huge fluctuation among the sample banks throughout the period of the study.

Figure 4.3

Capital adequacy ratio



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in the year 2011/12.This shows that there is huge fluctuation among the sample banks throughout the period of the study.

4.1.1.4 Total loan and deposit ratio

The loan-to-deposit ratio (LDR) is used to assess a bank's liquidity by comparing a bank's total loans to its total deposits for the same period. If the ratio is too high, it means that the bank may not have enough liquidity to cover any unforeseen fund requirements. Typically, the optimal ratio is 80% to 90%. A ratio above 100% means the bank has loaned out every dollar in deposits. It is the danger zone because it has no reserves to pay customers for demand deposits.

Table 4.4

Total loan to total deposit (in %)

Year	NMB	NABIL	HBL	NSBI	EBL
2011/12	78.01	77.91	75.37	49.62	73.22
2012/13	76.2	74.9	79.12	49.55	76.57
2013/14	76.73	74.55	71.82	65.45	78.01
2014/15	75.32	64.43	75.1	78..39	66.63
2015/16	84.07	70.49	83.59	72.9	73.52
2016/17	85.5	65.38	85.1	78.07	84.05
2017/18	90.46	82.66	88.13	89.6	81.65
2018/19	94.61	81.96	87.37	90.52	87.01
2019/20	92.31	79.72	82.31	85.5	83.52
2020/21	96.69	89.84	89.87	95.58	85.3
Mean	84.99	76.184	81.778	75.198	78.948
S.D	8.18	7.95	6.18	17.26	6.49
C.V	9.62	10.44	7.55	22.96	8.23

* Annual report of banks 2011/12 to 2020/21.

Table 4.4 shows that the total loan to total deposit ratio of selected commercial banks in recent year is highly risky. The highest total loan to total deposit ratio of NMB, NABIL, HBL and NSBI are 90.69%, 89.84%, 89.87%, 95.58% in the year 2020/21 respectively but EBL has the highest total loan to total deposit is 87.01% in the year 2018/19. The lowest TLTD ratio of NMB is 75.32% in the year 2014/15. The lowest TLTD ratio of NABIL is 64.43% in the year 2014/15. The lowest TLTD ratio of HBL is 71.82% in the year 2013/14. The lowest TLTD ratio of NSBI is 49.55% in the year 2012/13. Finally, the lowest TLTD ratio of EBL is 66.63% in the year 2014/15.

Figure 4.4

Total loan to total deposit ratio

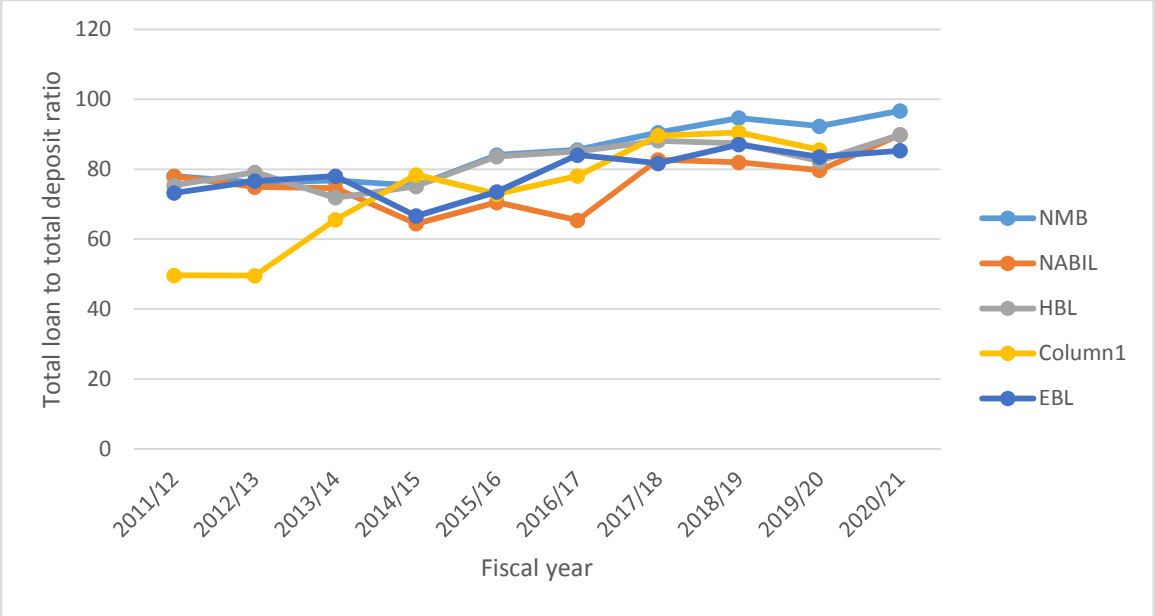


Figure 4.4 shows that the total loan to total deposit ratio of selected commercial banks in recent year is highly risky. The highest total loan to total deposit ratio of NMB, NABIL, HBL and NSBI are 90.69%, 89.84%, 89.87%, 95.58% in the year 2020/21 respectively but EBL has the highest total loan to total deposit is 87.01% in the year 2018/19. The lowest TLTD ratio of NMB is 75.32% in the year 2014/15. The lowest TLTD ratio of NABIL is 64.43% in the year 2014/15. The lowest TLTD ratio of HBL is 71.82% in the year 2013/14. The lowest TLTD ratio of NSBI is 49.55% in the year 2012/13. Finally, the lowest TLTD ratio of EBL is 66.63% in the year 2014/15.

4.1.1.5 Return on assets ratio

Return on total assets (ROA) ratio measures the profitability with respect to each financial resources investment of bank's assets. If the bank's total assets is well managed and effectively utilized, the return on such assets will be higher. The ratio is calculated by dividing Net profit by Total assets.

Table 4. 5
Return on assets ratio of selected banks (in %)

Years	NMB	NABIL	HBL	NSBI	EBL
2011/12	0.28	2.80	1.76	1.01	2.39
2012/13	1.43	3.25	1.34	1.19	2.25
2013/14	1.36	2.65	1.29	1.50	1.85
2014/15	1.21	2.06	1.94	1.70	1.61
2015/16	1.49	2.32	2.03	2.00	1.59
2016/17	1.97	2.69	2.19	1.57	1.83
2017/18	1.96	2.61	1.67	1.97	1.97
2018/19	1.83	2.11	2.21	1.94	1.94
2019/20	1.09	1.58	1.79	1.77	1.42
2020/21	1.32	1.71	1.68	0.88	0.89
Mean	1.39	2.37	1.79	1.55	1.77
S.D.	0.50	0.52	0.32	0.41	0.43
CV	35.68	21.82	17.63	26.07	24.13

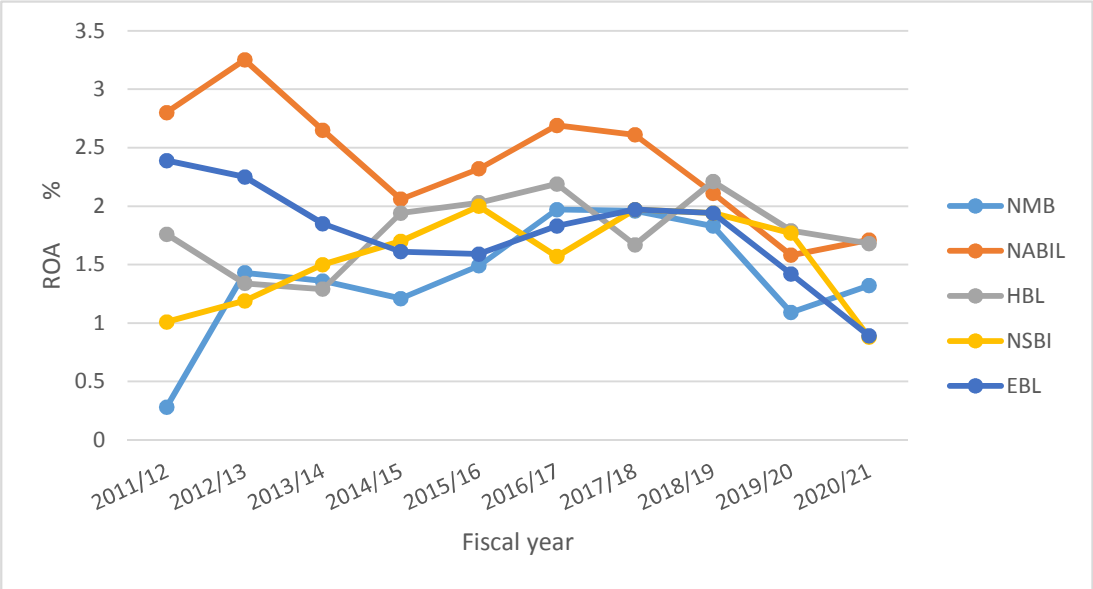
* Annual report of banks 2011/12 to 2020/21.

Table 4.5 shows the ROA of NMB is 1.97 times in the year 2016/17 which was the highest and the 0.28 times in the year 2011/12, which was the lowest. The average ROA of the NMB is 1.39 times and the CV is 35.68 %. The ROA of NABIL is highest in the year 2012/13 i.e. 3.25 times and the lowest is in the year 2019/20 i.e. 1.58. The average ROA of the NABIL is 2.37 times and the CV is 21.82%.

The highest ROA of the HBL was 2.21 times in the year 2018/19 and the lowest was in the year 2013/14 i.e.1.29. The average ROA of the HBL is 1.79 times throughout the period of the study. The CV of the HBL is 17.63%. The ROA of NSBI was highest in the year 2015/16i.e. 2.00 times and the lowest in the year 2020/21 i.e. 0.88 times. The average ROA of the NSBI is 1.55 times and the CV is 26.07 %.The highest ROA of the EBL was 2.39 times in the year 2011/12 and the lowest was in the year 2020/21 i.e. 0.89 times. The average ROA of EBL is 1.77 times and the CV is 24.13. From these data we see that the return on assets of NABIL Bank is highest and the Return on assets of NSBI is lowest. This shows that the assets utilization of NABIL is much better than other selected commercial banks in relation to profit earned.

Figure 4.5

Return on assets ratio of selected banks



Figures 4.5 shows the different level of ROA of the selected banks in the different years under study. The NABIL bank has highest ROA in the year 2012/13 and the lowest was in the year 2019/20. The ROA of the NABIL bank fluctuated throughout the years of the study. The ROA of The highest ROA of NMB was in the year 2016/17 and the lowest was in the year 2011/12. The ROA of HBL was highest in the year 2018/19 and was lowest in the year 2013/14. The ROA of NSBI was highest in the year 2015/16 and was lowest in the year 2020/21.Finally the highest ROA of EBL was in the year 2011/12 and was lowest in the year 2020/21. This shows that the ROA of selected bank fluctuated throughout the period of study. From these data we see that the return on assets of NABIL Bank is highest and the Return on assets of NSBI is lowest. This shows that the assets utilization of NABIL is much better than other sleeted commercial banks in relation to profit earned.

4.1.1.6 Return on equity

The ratio is tested to see the profitability of the owner's investment. It reflects the extent to which the objective of business is accomplished. The ratio is of great interest to present as well as prospective shareholders and also of great significance to management, which has the responsibility of maximizing the owner's welfare. The following table shows return on equity of selected banks as follows.

Table 4. 6

Return on Equity of selected commercial banks (in %)

Years	NMB	NABIL	HBL	NSBI	EBL
2011/12	14.84	30.25	17.81	15.02	26.12
2012/13	11.75	32.78	20.70	20.31	30.47
2013/14	10.75	27.91	16.85	22.85	28.40
2014/15	16.40	22.90	17.06	21.51	22.84
2015/16	21.96	25.61	24.53	22.16	20.32
2016/17	16.49	22.41	21.58	14.85	17.38
2017/18	13.54	20.94	14.17	15.81	19.79
2018/19	13.32	17.76	18.34	16.20	18.13
2019/20	8.94	13.61	15.40	10.44	13.45
2020/21	12.08	15.19	14.89	7.92	11.09
Mean	14.007	22.936	18.133	16.707	20.799
S.D.	3.68	6.33	3.27	5.03	6.26
CV	26.24	27.59	18.01	30.08	30.07

* Annual report of banks 2011/12 to 2020/21.

The table 4.6 shows that the ROE of the NMB was highest in the year 2015/16 i.e. 21.96 times and the lowest was 8.94 times in the year 2019/20. The average ROE of the NMB is 14.007 times and the CV is 26.24 %. The highest ROE of the NABIL was in the year 2012/13 i.e. 32.78 times and the lowest was in the year 2019/20 i.e. 13.61 times. The average ROE of the NABIL was 22.936 times throughout the period of the study and the CV was 27.59 %.

The highest ROE of the HBL was in the year 24.53 times in the year 2015/16 and the lowest was in the year 2017/18 i.e. 14.17 times. The average ROE of the HBL was 18.133 times and the CV was 18.01 %. The highest ROE of the NSBI bank was in the year 2013/14 i.e. 22.85 times and the lowest was in the year 2020/21 i.e. 7.92 times. The average ROE of the NSBI bank is 16.707 times and the CV is 30.08 %. Finally, the highest ROE of EBL was 30.47 times in the year 2012/13 and the lowest was in the year 2020/21 i.e.11.09. This shows that return on equity of NABIL is highest over the period of study i.e. the shareholder of NABIL got highest earning from their

investment. The lowest ROE is of NSBI, it means the shareholders of NSBI received lowest return on their investment among the selected commercial banks.

Figure 4. 6

Return on equity of selected commercial banks

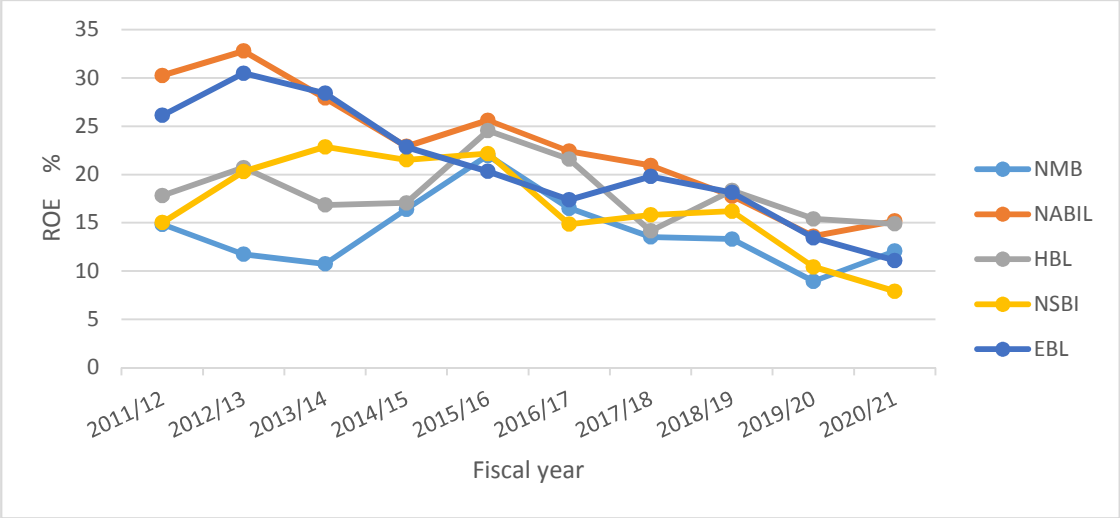


Figure 4.6 represents the ROE of the selected sample banks in the different years of the study. The highest ROE of the NMB was in the year 2015/16 and the lowest was in the year 2019/20. The ROE of the NABIL was highest in the year 2012/13 and the lowest was in the year 2019/20. Similarly the highest ROE of the HBL was in the year 2015/16 and the lowest was in the year 2017/18.Furthermore, the highest ROE of the NSBI was in the year 2013/14 and the lowest was in the year 2020/21. Finally , the highest ROE of EBL was in the year 2012/13 and the lowest was in the year 2020/21.This shows that the ROE of the selected sample banks fluctuated in the different years of the study. This shows that return on equity of NABIL is highest over the period of study i.e. the shareholder of NABIL got highest earning from their investment. The lowest ROE is of NSBI, it means the shareholders of NSBI received lowest return on their investment among the selected commercial banks.

4.1.2 Relationship of NPA, CAR, TLTD with ROA, ROE and net profit

NPA plays vital role in determine the companies' profits. NPA not only make the assets unproductive there need to be provision for them which significantly affects the earning. When the earning is affected, it shows huge impact on return on assets, return on equity and ultimately the profitability of the bank. When the interest are not recovered the profit decreases and the provisions again affects the other earned interest. Non-performing Assets are part of total assets that don't yield anything so they make adverse effect on the return on assets.

The following table shows the correlation between NPA and ROA, ROE, Net profit

Table 4.7

Pearson correlation matrix for selected banks (N=50)

		ROA%	ROE %	NP in billion	NPA %	CAR %	TLTD %
ROA %	Pearson Correlation	1					
	Sig. (2-tailed)						
ROE %	Pearson Correlation	.680**	1				
	Sig. (2-tailed)	0.000					
NP in billion	Pearson Correlation	.437**	-0.031	1			
	Sig. (2-tailed)	0.002	0.829				
NPA %	Pearson Correlation	0.072	0.157	-0.092	1		
	Sig. (2-tailed)	0.620	0.276	0.523			
CAR %	Pearson Correlation	-0.221	-.525**	0.241	-.302*	1	
	Sig. (2-tailed)	0.124	0.000	0.091	0.033		
TLTD %	Pearson Correlation	-0.020	-.426**	.351*	0.042	.512**	1
	Sig. (2-tailed)	0.891	0.002	0.012	0.771	0.000	

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

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

Table 4.7 shows that the correlations between different variables are displayed. As the table shows the correlation between NPA and ROA is positive .i.e. 0.072. This means

that the correlation between ROA and NPA is insignificant. The correlation between NPA and ROE is also positive i.e. 0.157. The correlation between NP and NPA is -0.092 which is insignificant. The correlation between CAR and ROA is negative i.e. -0.221 which is insignificant. Similarly the correlation between CAR and ROE is also negative i.e. -0.525 which is insignificant. Finally the correlation between CAR and NP is positive i.e. 0.241 significant. The correlation between TLTD and ROA is negative i.e. -0.02 which is insignificant. Also the correlation between TLTD and ROE is also negative i.e. -0.426 which is insignificant. Finally the correlation between TLTD and NP is positive i.e. 0.351 which is insignificant.

The correlation between NPA and net profit is seen to be negative. It is usual looking to the effect of the NPA. Due to the increment in total lending the ROE, ROA and Net Profit of the selected commercial bank is increased when there is increase in NPA. So the effect of NPA is not seen in a way in which it would be. Due to the increment in total lending that is simultaneously increasing the total profit. This increment in the total profit is making the effect of the NPA unnoticeable on ROE, ROA and NPA.

4.1.3 Impact of NPA, CAR, TLTD on profitability, ROA and ROE

4.1.3.1 Impact of regression NPA, CAR, and TLTD with ROA

Table 4. 8

Analysis of regression of ROA with NPA, CAR, TLTD

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.247[a]	0.061	-0.00046	0.5394

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	3	0.86645	0.288817	0.992555	0.404731
Residual	46	13.38521	0.290983		
Total	49	14.25166			

Coefficient

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	2.529554327	0.753337	3.357798	0.001585
Non-Performing assets %	-0.014461139	0.098141	-0.14735	0.883499
Capital Adequacy %	-0.101660051	0.061885	-1.64273	0.107259
Total loan to Total Deposit %	0.007117851	0.009232	0.770996	0.444652

a. Dependent Variable: ROA
b. Independent variable: NPL, CAR and TLTD

Table 4.8 represents the regression result of the effect of non-performing assets, capital adequacy ratio and total loan to total deposit ratio on return on assets. The value of R square indicates the 6.10% of the variance in the dependent variables that the independent variables is explained by the model.

ANOVA (analysis of variance) is used to report quantities related to the overall explanatory power and significance of the regression model. Since p-value is greater than 0.05 (critical level of significance) it is concluded that there is insignificant relationship between ROA with NPA, CAR and TLTD F- value of 0.9928, with a

corresponding p-value of 0.4047, which means that the overall fitness of the model is not well justified.

The P value for F statistics in the model represent that the model is fairly fitted since it is less than 0.01. Thus the overall explanatory power of the regression model is fair and statistically fitted the result indicate that the coefficient of NPA is positive and statistically insignificant (P-value = 0.883). The result reveled that NPA has a positive and significant impact on bank profitability.

Further the result indicates that, the effect of CAR is positive an insignificant (P-value =0.10725). The result reveled that CAR ratio has a positive and significant impact on bank profitability

4.1.3.2 Impact of regression of NPA, CAR and TLTD with ROE

Table 4. 9

Analysis of regression of ROE with NPA, CAR, TLTD

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	0.5574[a]	0.3107	0.2657	4.9609	
ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	510.3088	170.1029	6.911569	0.000615
Residual	46	1132.121	24.61133		
Total	49	1642.43			
Coefficients					
	Coefficients	*Standard Error*	*t Stat*	*P-value*	
Intercept	47.26321	6.928248	6.821813	1.69E-08	
Non-Performing assets %	0.322875	0.902573	0.357727	0.722184	
Capital Adequacy %	-1.46196	0.56914	-2.56871	0.013518	
Total loan to Total Deposit %	-0.13026	0.084904	-1.53419	0.131833	

a. Dependent variable: ROE
b. Independent variables: NPA,TLTD and CAR

Table 4.9 represents the regression result of the effect of non-performing assets, capital adequacy ratio and total loan to total deposit ratio on return on equity. The value of R square indicates the 31.07% of the variance in the dependent variables that the independent variables explain by the model.

F- Value of 6.911, with a corresponding p-value of 0.000615, which means that the overall fitness of the model is well justified.

The result indicate that the coefficient of NPA is positive and statistically insignificant (P-value = 0.7221). The result reveled that NPA has a positive and significant impact on bank profitability.

Further the result indicates that, the effect of CAR is significant (P-value =0.0135). The P value for F statistics in the model represent that the model is fairly fitted since it is less than 0.05. The result reveled that CAR ratio has a positive and significant impact on bank profitability.

Finally the result indicates that, the effect of TLTD is insignificant (P-value =0.1318). The P value for F statistics in the model, represent that the model is not fairly fitted since it is more than 0.05. The result reveled that TLTD ratio has a positive and insignificant impact on bank ROE.

4.1.3.3 Impact of regression Net Profit with NPA, CAR and TLTD

Table 4. 10

Analysis of regression of Net Profit with NPA, CAR, TLTD

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.3687	0.1359	0.0796	1.0004

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	3	7.244376	2.414792	2.412722	0.078772
Residual	46	46.03947	1.000858		
Total	49	53.28384			

Coefficient

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	-1.22747	1.397147	-0.87855	0.384211
Non-Performing assets %	-0.11502	0.182012	-0.63194	0.530555
Capital Adequacy %	0.02833	0.114773	0.246834	0.806135
Total loan to Total Deposit %	0.034723	0.017122	2.027984	0.048376

a. Dependent variable: Profitability
b. Independent variables: NPA,TLTD and CAR

Table 4.10 represents the regression result of the effect of non-performing assets, capital adequacy ratio and total loan to total deposit ratio on net profit. The value of R square indicates the 13.59% of the variance in the dependent variables that the independent variables explain by the model.

F- value of 2.412, with a corresponding p-value of 0.07877, which means that the overall fitness of the model is not well justified .This means that the model using NPA, CAR and TLTD to measure net profit cannot be relied on to explain the variability in net profit.

The result indicate that the coefficient of TLTD is positive and statistically significant (P-value = 0.0483), which is less than 0.05. The result reveled that TLTD has a positive and significant impact on bank profitability.

Finally the result indicates that, the effect of NPA and CAR is insignificant (P-value =0.53.5 and 0.8061). The P value for F statistics in the model, represent that the

model is not fairly fitted since it is more than 0.05. The result reveled that NPA and CAR ratio has a positive and insignificant impact on bank net profit.

4.1.4 Findings

i. The highest net profit trend through CPI of mean of the selected banks is NABIL and lowest is NMB bank i.e. 2.817% and 1.056% respectively.
ii. The NPA, CAR and TLTD with respect to ROA and net profit has no significance.
iii. The NPA, CAR and TLTD with respect to ROE has significance.
iv. The increase in net profit is seen due to the increase in total lending of the commercial banks. Due to the huge increase in total lending the impact of NPA on profitability is not seen so distinctly.
v. The value of p: = 0.00061. This means that the model using NPA, CAR and TLTD ratio could be used to explain 0.061% of the variability of ROE which is well justify.
vi. The average ROA of NMB is 1.39 times, NABIL is 2.37 times, HBL is 1.79 times, NSBL is 1.55 times and EBL is 1.77 times. The NABIL bank has the highest ROA and NMB has the lowest among the selected commercial banks.
vii. The average ROE of NMB is 14.01 times, NABIL is 22.94, HBL is 18.13 times, NSBL is 16.71 times and EBL is 20.79 times. The NABIL bank has the highest ROE and NMB has lowest among the selected commercial banks.
viii. The average CAR of NMB is 13.44 times, NABIL is 12.13 HBL is 12.01 times, NSBL is 13.88 times and EBL is 12.60 times. The NMB bank has the highest CAR and NSBI has the lowest among the selected commercial banks.
ix. The average TLTD of NMB is 84.99%, NABIL is 76.18% HBL is 81.78%, NSBL is 75.19% and EBL is 78.94%. The NSBI bank has the highest TLTD and HBL has the lowest among the selected commercial banks.
x. The regression result of the effect of non-performing assets, capital adequacy ratio and total loan to total deposit ratio on net profit. The value of R square indicates the 13.59% of the variance in the dependent variables that the independent variables explain by the model.
xi. F- value of 2.412, with a corresponding p-value of 0.07877, which means that the overall fitness of the model is not well justified .This means that the model using

NPA, CAR and TLTD to measure net profit cannot be relied on to explain the variability in net profit.

xii. The regression result of the effect of non-performing assets, capital adequacy ratio and total loan to total deposit ratio on return on equity. The value of R square indicates the 31.07% of the variance in the dependent variables that the independent variables explain by the model and the F- Value of 6.911, with a corresponding p-value of 0.000615, which means that the overall fitness of the model is well justified.

xiii. The regression result of the effect of non-performing assets, capital adequacy ratio and total loan to total deposit ratio on return on assets. The value of R square indicates the 6.10% of the variance.

4.2 Discussion

On the basis of NPA, CAR and TLTD with respect to ROE which have already tested by ANOVA gave significance result. There are five sample banks NBM, NABIL, HBL, NSBI and EBL which are taken to obtain results. Out of them, only NPA, CAR and TLTD with ROE has significant. This result is consistent with (Ghimire, 2005 and Dudhe, 2017). The result of the study is contradictory with (Gnawali, 2018).

To accomplish the methodology, descriptive and analytical research methodology has been adopted, which is similar with (Ghimire 2005, Dudhe 2017, Bhattrai 2015). But, previous researcher used generalized Methodology (Herroro 2017).

My research have 5 samples and secondary data to meet my research objective which is similar with (Ghimire 2005) whereas (Gnawali 2018,) had taken 13 samples. My sample method is simple random which is similar with (Yadav 2010) and different with (Gnawali 2018) he used cluster sampling method.

The present study is based on ten years data of commercial banks but (Ghimire 2005) researcher has 7 years data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese banking sector. Previous researcher (Gnawali 2018) has objective of the study is to assess the relationship between non-performing loan and firm’s financial performance in Nepalese commercial banks. More specifically, it examines the impact of non-

performing loan to total loan, total loan to total deposit, capital adequacy ratio, loan loss provision, firm size on return on assets and return on equity objective but my research examine the trend of net profit and impact of NPA, CAR TLTD with respect to net profit, ROA and ROE. Previous researcher (Gnawali 2018) has various variables i.e. size of firm size, loan loss provision, loan and advance, customer satisfaction, and my research variables are non-performing assets, capital adequacy ratio, total loan to total deposit ratio, return on equity, return on assets and net profit only. The highest and lowest net profit trend analysis of selected commercial banks are NABIL Bank and NMB The profit is in fluctuation trend. The impact of NPA, CAR and TLTD ratio with respect to ROA and net profit has positive but insignificant relation. Similarly the impact of NPA, CAR and TLTD with net ROE has significant whereas (Gnawali 2018) NPA, CAR and TLTD with ROA has significance and with ROE has insignificant.

Current study is a supplement to an overcome the weakness and limitation of previous studies so, this study will be fruitful to those interested person scholars, students, stakeholders, civil society, businessman and government for academically as well as policy prospective. Therefore this study is to the concern bank as well as different persons: such as shareholders, investors, policymakers, stockbrokers, state of government etc.

CHAPTER – V

SUMMARY AND CONCLUSION

This chapter will handle the summary, conclusion and recommendations of the study.

5.1 Summary

This chapter deals with the background and the subject matter of the study. It consists of introduction of research, which explains the focus of the study, statement of the problem, purpose of the study, significance of the study, limitation of the study and chapter plan. The appropriate review of literature has been done in the second chapter in terms of theoretical underpinning of banking principles as well as journals; articles and prior thesis. The third chapter discusses the research methods used to assess the liquidity and profitability of the commercial banks under investigation. The facts and information are presented, evaluated, and interpreted using financial and statistical methods in the fourth chapter. Finally, in the fifth and last chapter, the study's summary, conclusion, and suggestions are presented.

Commercial banks in Nepal have been facing several problems like lack of smooth functioning of economy, different policies and guidelines of NRB, political instability, security problem, poor information system, over liquidity caused by lack of good lending opportunities, increasing non-performing assets etc. This study will try to sick the answer of the following questions. What is the recent trend of net profit of the selected commercial banks in Nepal? What is the impact of NPA, CAR, and TLTD with respect to ROA, ROE and net profit of selected commercial banks in Nepal?

The main objective of the study is to access the non-performing assets of the different banks under the study. The other specific purpose of the present study is listed as follows: To analyze the recent trend of the net profit of selected commercial banks in Nepal. To analyze the impact of NPA, CAR, TLTD with respect to ROA, ROE and net profit of selected commercial banks in Nepal.

This research will be able to deliver some of the present issues, latest information and data regarding non-performing loan and loan loss provisioning. Hence this study will be significant to shareholders, bankers, depositors, students and further researchers.

It is very important, therefore, to remember that most of the bank's failures in the world are due to the shrinkage of the value of loans and advances.

The objective of the study will make comparison between the NPA of commercial banks of Nepal and International standard. It will also check the NPA level between the commercial banks. It will wipe out some misconception that general people have about NPA of commercial banks.

The main limitation of this study is that, this study is mainly based on secondary data, published books, unpublished reports, public documents, articles of different writers, annual reports of the selected banks and so on. We have to do many things staying within many types of limitations and boundaries. The study has been subject to the following limitations. The study would mainly focus on Non-Performing assets of Commercial Bank of Nepal and doesn't cover other aspects. This study has taken 5 commercial banks among 27 commercial banks. This research is based on data and information of only ten years.

To accomplish the methodology gap, descriptive and analytical research methodology has been adopted but previous researcher used generalized. In my research there are 5 samples used is random sample but previous researcher used cluster sampling. The data evaluated by this statistical tool spans the fiscal years 2011/12 through 2020/21.

Different statistical techniques have been employed for analysis and assessment, as well as trend analysis. Profitability ratio is a financial tool, while average mean, standard deviation, co-efficient of variation, co-efficient of correlation, and regression analysis are statistical tools. Return on assets ratio, return on equity ratio, capital adequacy ratio, and total loan to total deposit ratio are some of the profitability measures that may be used to examine and evaluate a bank's profitability.

The highest and lowest net profit trend analysis of selected commercial banks are NABIL Bank and NMB The profit is in fluctuation trend. The impact of NPA, CAR and TLTD ratio with respect to ROA and net profit has positive but insignificant relation. Similarly the impact of NPA, CAR and TLTD with net ROE has significant.

On the basis of NPA, CAR and TLTD with respect to ROE which have already tested by ANOVA gave significance result. There are five sample banks NBM, NABIL, HBL, NSBI and EBL which are taken to obtain results. Out of them, only NPA, CAR and TLTD with ROE has significant. This result is consistent with (Ghimire, 2005 and Dudhe, 2017). The result of the study is contradictory with (Gnawali, 2018).

To accomplish the methodology, descriptive and analytical research methodology has been adopted, which is similar with (Ghimire 2005, Dudhe 2017, Bhattrai 2015). But, previous researcher used generalized Methodology (Herroro 2017).

5.2. Conclusion

Looking at the profitability trend, the highest and lowest of selected sample banks are NABIL and NMB. The non-performing assets (NPA) of all the banks have been able to reduce but HBL has been unable to do so. The study's main finding is that non-performing loan, capital adequacy ratio and total loan to total deposit have no effect on return on asset. The impact of NPA, CAR, and TLTD on return on equity is significant. Similarly, when comparing net profit to NPA, CAR, and TLTD, the result is minimal.

From the above, we can conclude that one of the key causes of Nepalese commercial banks' rising nonperforming assets (NPA) is a lack of appropriate financial analysis of the borrower by the banks. As a result, before granting a loan to a borrower, a thorough financial investigation should be carried out. Those banks with a high level of nonperforming assets (NPA) should take all required steps to recover their bad loans as soon as feasible. In the event that the borrower is unsure about repaying the loan, the bank should sell the collateral and reclaim the principle and interest.

5.3. Implications

The implications are presented in the last part of this chapter considering the major findings and gaps fund. The implications presented have been certainly milestone to improve existing condition in this field. These implications may also have some repercussions, but there is no doubt of these measures to improve the existing conditions. The following suggestions are recommended to BFIs and for further research:

For the BFIs

i. Since, the highest net profit trend of the selected banks is NABIL bank and lowest net profit is NMB bank, therefore the NABIL bank has good performance, to remain better position the NABIL bank should keep in this way and the NMB bank should increase the investment to make the position better.

ii. The NPA of Himalayan bank are comparatively higher than other selected commercial banks so it is highly recommended to sanction loans by more care.

iii. The capital adequacy ratio of HBL has low, so it is recommend to increase the investment.

iv. The total loan to total deposit ratio i.e. (80% to 90%) is not fulfill by NSBI, NABIL and EBL. So they are to be recommend to increase the loan.

v. Bank should maintain the adequate level of non-performing assets to insure the better performance. Non-performing assets not only decrease the interest income, it also makes the part of total assets ideal.

vi. In addition to non-performing assets, additional factors such as total lending, interest rate, operational profit, national economic conditions, and other external factors all have a role in determining bank profitability. As a result, banks must pay close attention to these aspects.

vii. Nepal Rastra Bank's provisions define the amount of provisioning to be made for non-performing assets, i.e. these provisions reduce earnings. So, not only the volume of non-performing assets, but also the profitability, are determined by the central bank's provisioning requirements.

viii. The research might address a vacuum in knowledge concerning the link between NPA, CAR, TLTD, and profitability. It may give information on NPA management in Nepalese commercial banks as well as their profitability. This study examines current liquidity management practices, current liquidity situation and trends, as well as factors impacting NPA CAR, TLTD, and profitability. It also provides different banking tools for NPA management as well as profitability position, so other researchers can expand their research by using this study to look into different topics like NPA position, profitability position, NPA provisioning as per NRB regulations, and the impact of NPA and profitability.

For future study

There are a number of important topics that should be addressed in future study. The researcher also argues that a more comprehensive study with a bigger and more representative sample is necessary in order to provide a more generalized picture of work activities in the Nepalese setting. Further research might be conducted with a larger sample of banks, as this study only looked at five Nepalese commercial banks. It has the potential to provide new insight into the issue at hand. Last but not least, the Nepalese environment is anticipated to become more globally competitive in the next years. As a result, it would be interesting to broaden the survey to include a longitudinal survey of nonperforming assets change, which would capture changes in strategy adoption and considerable effect on bank performance over time.

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Appendix

Net Profit Trend

(Nrs. in billions)

Year	NMB	NABIL	HBL	NSBI	EBL
2011/12	0.052	1.69	0.75	0.48	0.64
2012/13	0.36	2.22	0.51	0.77	0.83
2013/14	0.41	2.32	0.96	0.92	0.93
2014/15	0.50	2.09	1.11	1.07	1.09
2015/16	1.12	2.82	1.94	1.33	1.47
2016/17	1.49	3.70	2.18	1.57	1.55
2017/18	1.85	3.98	1.86	2.02	1.57
2018/19	2.26	4.24	2.76	2.29	1.73
2019/20	2.27	3.46	2.58	1.54	2.51
2020/21	2.71	4.50	2.99	0.96	1.82
Mean	1.30	3.10	1.76	1.29	1.41
S.D	0.95	0.99	0.89	0.57	0.57

* Annual report of banks 2011/12 to 2020/21.