

NON-PERFORMING ASSETS AND PROFITABILITY OF COMMERCIAL
BANKS IN NEPAL

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RECOMMENDATION

This is to certify that the thesis

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**NON-PERFORMING ASSETS AND PROFITABILITY OF
COMMERCIAL BANKS IN NEPAL**

*has been prepared as approved by this Department in the prescribed format of the
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DECLARATION

I hereby declare that this thesis work entitled **Non-Performing Assets and Profitability of Commercial Banks in Nepal** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Masters of Business Studies which is prepared under the supervision of respected supervisor Dhruba Subedi and Achyut Raj Bhattarai of Shanker Dev Campus, T.U.

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ABBREVIATIONS

ATM	:	Automatic Teller Machine
BS	:	Bikram sambat
CBS	:	Commercial Banks
CEO	:	Chief Executives Officer
CRM	:	Credit Risk Management
CV	:	Coefficient of Variation
EBL	:	Everest Bank Limited
FY	:	Fiscal Year
i.e.	:	that is
JVB	:	Joint Venture Banks
Ktm	:	Kathmandu
L & A	:	Loan and Advance
Ltd.	:	Limited
MBS	:	Masters of Business Studies
NIMB	:	Nepal Investment Mega Bank Limited
NP	:	Net profit
NPL	:	Non-performing Loan
NRB	:	Nepal Rastra Bank
SD	:	Standard Deviation
TA	:	Total Assets
TU	:	Tribhuvan University

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

To characterize NPA significance of Resources, first of all, ought to be perceived. A person's or a company's assets are referred to as assets. This indicates that a company's assets are its property accumulated through sources. The amount of a loan that a customer received from one or more commercial banks but has not paid back by the due date is known as non-performing assets (NPA). When customers fail to repay their distributed loans on time, they become Non-Performing Assets for banks. Monetary administrations and frameworks are the life saver of world economy. The financial business is the center of the Nepal's monetary framework. The historical backdrop of banking has exhibited that it assumes the vital part in the financial development. This area of the economy is exceptionally helpless against different dangers and insecurities emerging from worldwide and nearby occasions to business lifecycle. These dangers are checked, controlled and oversaw together. Nepal's economy is still in its infancy, and sectors dominated by banks play a significant role in financial intermediation. Presently Nepalese financial industry is confronting difficulties in the space of rising Non-performing resources (NPA). Ongoing Coronavirus pandemic and worldwide financial stoppage have helped to this rising test (Nepal Rastra Bank, 2021).

Non-performing resources demonstrate a development for which interest or reimbursement of head or both remaining parts late for a time of 90 days or more (NRB Brought together Mandates 2077). A development/credit is treated as non-performing when it neglects to fulfill its reimbursement commitments. As a result, loans that are not performing are in danger of default. The degree of NPLs is a mark of the proficiency of broker's credit risk the board and effectiveness of asset distribution to useful areas. The Basel Panel on Financial Management characterizes acknowledge risk as likely default of a borrower to meet the commitment as per the concurred terms. Higher non-performing resources brought about many bank disappointments (Nayak et al., 2010).

A Non-Performing resources (NPA) is a credit or advance for which the head or interest installment stayed past due for a time of 90 days. Credits that are being given by the Indian banks and other working monetary establishments whose interests as well as the chief sums

have been in a condition of late status for quite a while. The organizations now and again default on the advance reimbursements and this causes banking NPA (non-performing resources).

The term "non-performing assets" refers to loans that have been granted by a single commercial bank but have not been repaid by the customer before the due date. When the disseminated advance isn't returned opportune by clients and becomes past due then, at that point, it is known as Non-Performing Resources for the bank. Decrease of NPA has forever been a critical issue for each business bank. NPA might be characterized comprehensively as the terrible obligation; nonetheless, it as far as banking area comprises of those credits and advances which are not performing great and liable to be turn as awful obligation. NPA has been classified as classified loans and advances in accordance with the NRB's current guidelines. NPL seriously affects the monetary organizations.

Due to the provision required for risk mitigation, profitability is directly impacted, and the investment loses value because the expected return cannot be realized. The presence of the bank can be addressed in this present circumstance. Accordingly, interest alongside chief must be recuperated opportune and with no hindrances (Bindani, 2003).

The Nepalese financial sector is plagued by the problem of non-performing assets (NPA). The banking industry is experiencing a greater number of NPA issues right now. In the overall setting, a Non-Performing resource is only those advances that don't produce pay. At the end of the day it alludes to those inefficient resources of any firm that can't be changed over into cash inside unambiguous time limit. NPA is created when banks and other financial institutions allow bad credit. The bank's health is shown by the NPA percentage in its assets portfolio. The presentation of any monetary establishment is significantly measure with the inclusion of NPA in the specific foundation. Since, the great types of revenue for the bank are created through pay from credit and advances, expansion in non-performing resources might lead bank in edge of breakdown (NRB, 2016).

According to the guidelines set somewhere near Nepal Rastra Bank, the credit and advance which are past due for multi month or more ought to be treated as NPA. Thusly, the meaning of the review is for banking area. The fact that NPA does not generate income has a significant impact. The credit stays inactive. Due to the fact that overdue aging of more

than three months, six months, and one year necessitates 25 percent, 50 percent, and 100 percent provision for income, respectively, the profit is almost certainly reduced. Other effects include borrowing costs associated with NPL-locked resources and opportunity loss as a result of funds not being recycled. It likewise builds the managerial and recuperation cost and legitimate expense too. Some of the most notable effects include a decrease in investor and foreign aid agency confidence, a decrease in the bank's image and rating, and an impact on employee morale and decision-making (NRB, 2016).

The negative degree of capital asset, elevated degree of NPA, unfortunate gamble the board expertise, government shortcomings and these few lacks have been tracked down in the banking so with the view to resolving the colossal issue and difficulties of this area, the methodologies paper of the public authority in monetary area changes has zeroed in more on the financial area as the abrogating part of the in general monetary area changes technique in the Nepal. Yet, it doesn't imply that different regions have been dismissed. The other region, for example, protection area, protections market and corporate area are additionally being reinforces next to each other the public authority (Brealy, 1991).

Next to take a chance with fundamental in the business different factors likewise impacts in the augmentation of non-performing credit. These are demeanor of the borrower, types and nature of insurance taken and legitimate inconvenience made by the borrower during the advance recuperation process. In recent times, reducing NPA has always been a major issue for every commercial bank. Banks have made NPA management their top priority. It has always been a nerve-wracking task for banks, and the entire banking industry is currently attempting to eliminate it through a variety of means (Singh, 1999).

Loaning is the essential business of any business bank and premium procured from them is the fundamental type of revenue. When the advance is given, it is assumed that the reimbursement of interest and chief will must be served with next to no block. Yet, it isn't correct all the time. All customers have trouble paying back loans and interest. Advances led to the clients go under the Resources heading of accounting report; and those credits which are not paid in time are considered as Non-Performing Advance or Non-Performing resources (NPA) (Crosse, 1963).

1.2 Focus of the Study

The fundamental focal point of this study is to be aware of the non-performing resources of chosen Nepalese business banks and make similar investigation of non-performing resources of chosen business banks. Non-performing resources the board of any business banks is significant capabilities since it influences generally soundness of business banks. Therefore, commercial banks are aware of NPAs. They are mindful while giving credit and advances. In any case, actually banks need to confront NPAs (for example NPL). The majority of commercial banks are dealing with these issues, which are getting worse. This concentrate primarily centers on non-performing credits or resources of Nepal Speculation Uber Bank Restricted and Everest Bank Restricted.

1.3 Statement of the Problem

After the monetary progression of the country in 1980, the amount of the Nepalese Monetary area has expanded immensely. For some financial sector advancement, the central bank implemented prudent regulatory measures. Anyway the genuine execution of the monetary establishment couldn't move along. One of the most significant issues that Nepal's financial institution is currently dealing with is on performing assets.

NPLs affect the bank's benefit and liquidity, which are urgent components of the bank's general viability. When NPLs are provisioned for more, income decreases. Again, befuddles in the developments of resources and liabilities put banks in danger for liquidity issues that harm their standing and credit score overall (Badar and Yasmin, 2013). As a result, banks should carefully manage credit risk and non-performing loans (NPLs), which have a negative impact on their ability to survive.

By giving credits to a scope of organizations and financial backers, business banks contribute fundamentally to the preparation of monetary assets for speculation. Lending is at the heart of the banking industry, and loans and advances are the most important assets because they generate the majority of operational revenue. However, the greatest risk that banks face is from advances. Nepal's financial institutions face a number of challenges. Their investment options are limited. The nation's current and growing development requirements cannot be met by commercial banks' credit for the agricultural and industrial sectors. The investment decisions made by commercial banks are also influenced by

nepotism and political influence.

A few principal blemishes and shaky venture strategies have been distinguished in banks, remembering loaning cash for the premise of deficient stores, exaggerating vowed merchandise, sold land, settling on risk-loath conclusions about credit recuperation, and being reckless with regards to gathering past-due advances. Consequently, investments made by commercial banks are not particularly profitable. This has led to various issues for business banks. Borrowers are still expected to repay loans on time by commercial banks, but this expectation is decreasing. Terrible obligation and non-performing resources are ascending thus, which has supported the development of NPL. The banks are impacted by this NPL in various ways. To begin with, it promptly affects business banks' productivity. On the other hand, they lose money on their investment. Despite commercial banks' recent emphasis on credit risk management, the extent to which this aspect contributes to financial success has not been examined, making this study necessary. Thus, analysts have zeroed in on layaway risk the executives, which gives regular examinations to further developing the exhibition assessment of Nepal's business banks. This study is associated with search reply of the accompanying inquiries:

- What is the credit and profitability position of sample commercial banks?
- Is there any relationship between loan and advance, non-performing loan, total deposit, total investment, size of banks and net profit?
- Does there any effect of credit factors on profitability of sample commercial banks?

1.4 Objectives of the study

The study's overarching goal is to investigate the impact of non-performing assets and credit risk management on the profitability of Nepalese sample commercial banks.

- To examine the credit and profitability position of sample commercial banks.
- To assess the relationship between loan and advance, non-performing loan, total deposit, investment, size of banks and net profit.
- To determine the impact of credit factors on profitability of sample commercial banks.

1.5 Significance of the Study

Nepalese commercial banks face a pressing issue with non-performing loans. Wise speculation strategy of the bank emphatically affects monetary advancement of the nation as well as the other way around. Yet, because of different reasons speculation strategy of business banks are not viable and useful. Non-useful credit increments non-performing resources or non-performing advances. In accordance with the central bank's directive, this raises loan loss provision. The arrangement of advance arrangement and credit misfortune arrangement influence its generally speaking monetary strength of the banks. The purpose of this study is to highlight current problems with loan loss provision and non-performing loans. Yet, this exploration will think about NPL status and its belongings in different parts of their significant exercises like advance loaning, store assortment and so forth between confidential bank and government bank. This concentrate presumably will have significance to different gatherings however specifically it is coordinated to specific gathering which are:

If stockholders believe that the offering price is inadequate, the analysis in this study assists them in effectively preventing takeover attempts. Subsequently, with command over most of parts of an organization's tasks, investors assume a huge part in its general exhibition and benefits. Bank relationship the board gives cycles and innovation that help an organization track and deal with all their bank connections by: Giving a solitary perspective on all records and exercises with a bank, around the world. This incorporates ledgers, protection, credit extensions, and unfamiliar trade. Your customer is the most important part of your business, no matter what industry you're in or what products and services you offer. Without the client, you see no deals. Therefore, they are a basic component while fostering your promoting informing and methodology. Monetary business sectors might appear to be confounding, however basically they exist to unite individuals, so cash streams where it is required the most. Companies can hire, invest, and expand through the financing that markets provide. They give cash to the public authority to assist it with paying for new streets, schools and emergency clinics.

The reasons for doing things a particular way and in that particular direction are outlined in government policies. There are a myriad of possible sources of public issues, each of which necessitates a unique set of policy responses. States lay out numerous approaches

that guide organizations. Foundations likewise play a significant redistributive part to play in the economy, they ensure that assets are appropriately distributed, and guarantee that poor people or those with less monetary assets are safeguarded. They likewise empower trust by giving policing and equity frameworks which comply with a typical arrangement of regulations. The fundamental motivations behind research are to illuminate activity, accumulate proof for hypotheses, and add to creating information in a field of study. Understanding and decision-making are enhanced by research. It is the most useful tool for comprehending the complexity of a problem, rejecting lies, upholding truth, and building knowledge that is trustworthy and authentic. A better understanding and capacity for decision-making are developed through research.

1.6 Limitations of the Study

There are some limitations to the research study. The fundamental impediments of the review are as per the following:

- There are 20 commercial banks operating in Nepal up to now, but only three banks EBL, NBL and NIMB are taken for the study.
- This study concentrates only on non-performing assets management and ignores the other financial aspects.
- The period of the study is limited from fiscal year 2013/14 to 2022/23.
- The study is based on secondary data.
- In this study, only selected financial and statistical tools as well as techniques are used.

1.7 Organization of the Study

There are five chapters to the research work. The main section incorporates general foundation of the review, a short presentation of the example banks, explanation of the issue, objective of the review, meaning of the review, impediments of the review and association of the review. The conceptual framework and a review of related literature—books, dissertations, articles, journals, and reports, among others—are presented in the second chapter. Research hole additionally remembers for this part. The third chapter discusses the research methodology that should be used to achieve the study's goals.

It comprises of exploration configuration, test and populace, wellsprings of information, information assortment strategy, techniques and apparatuses of information investigation. The fourth chapter is the most significant and essential component of this research. This section manages show, examination and understanding of information as expected by the goals expressed in this review. These gathered information have been dissected and deciphered by the assistance of different factual and bookkeeping instruments and methods. It also contains the study's major findings. The conclusion and brief summary of the entire research report are presented in the final chapter. It likewise gives some helpful idea and suggestions to concerned parties.

CHAPTER - II

REVIEW OF LITERATURE

This part essentially looks to audit different books, hypotheses and standards, as well as different examinations connected with the idea of capital construction and all the more fundamentally advance administration of business banks to satisfy the target of this postulation. The reason for writing audit is to foster a skill in one's space to see what new commitment can be made and to survey some thought for creating configuration (Wolf and Gasp, 2002).

2.1 Theoretical Review

2.1.1 Concept of Loan

A significant item on the asset side of a commercial bank's balance sheet is loans and advances. Bank acquires revenue borrowed and progresses, which is one of the significant kinds of revenue for banks. Bank gets ready credit portfolio, if not it won't just add awful obligations yet in addition influence productivity unfavorably (Varshney and Swaroop, 1994).

The significant capability of business banks is to gather stores or assets and dispense it to financial backers as credit and advances. This credit and advances are primary types of revenue. Any bank's assets side of the balance sheet is dominated by loans and advances. Same way procuring from credits and advances involve a significant part of the pay proclamation of the banks. This resource creates pay to the bank. Therefore, it also determines banks' profitability. Credit and advances allowed to clients procures interest. Banks rely heavily on this interest as a source of revenue. Overdraft cash advances and direct loans are two types of loans. Banks award advance on the foundation of guarantee hidden the credit. Banks make cautious appraisal prior to giving advances to financial backers or business endeavors.

A loan is the amount of money given to a borrower by a creditor, whether with or without security. A significant item on the asset side of a commercial bank's balance sheet is loans and advances. Bank acquires revenue on credits and advances which is one of the significant types of revenue for banks. Bank plans credit portfolio; any other way it won't

just impact obligations yet in addition influence productivity unfavorably (Nwankwo, 1991).

It is vital to be helped that most to remember the bank disappointments on the planet are because of shrinkage in the worth of credit and advances. Consequently, credit risk or default risk refers to the possibility of loan default (Dahal, 2002).

The essential motivation behind a business bank is to boost the investors' abundance by tolerating stores and conceding credits in the general public. The majority of the bank's funds are required to be invested in loans and advances, which are risky assets, in order to maximize shareholder returns. As a result, in order to ensure the safety of depositor funds and an adequate return to shareholders, a clear and solid loan credit policy is essential. Loaning strategy can be characterized as the choice made ahead of time about the administration of advance.

Credit is the crucial and the main action in the bank, next just to store preparation. The movement creates the fundamental revenue stream for the bank. The action ought to accordingly be sought after with the greatest possible level of impressive skill protection and attentiveness. Banks ought to create and carry out approaches and methodology to guarantee that the advance portfolio is satisfactorily broadened given the bank's objective business sectors and in general credit technique. Specifically, these mix-and-set exposure limits apply to particular industries or economic sectors, geographic regions, and products, as well as to groups of connected counterparties. Banks ought to guarantee that their own inward openness limits infer set by the financial bosses. According to Crosse (1963), lending policies establish the framework for lending and direct the bank's credit-granting activities.

2.1.2 Classification of Loan

The process by which banks review their credit portfolio and assign loans to categories or grades based on the perceived risk and other relevant loan characteristics and in accordance with central bank guidelines is referred to as loan classification. The ongoing review and classification of loans by the process enables the bank to monitor the quality of their loan portfolios and take risk-reducing measures. Using authority granted by sub section 1 of section 23 of the NRB Act 2012 (revised) and section 19 (ka) of the Commercial Bank Act

(revised), Nepal Rastra Bank has provided the following directives for the classification of loans and advances as well as its loss provision with the intention of minimizing possible risk in the bank's lending in the context of Nepal.

2.1.3 Loan Management Objectives

The bank's loan objectives establish specific, measurable objectives. The governing body should guarantee that credits are made in light of the accompanying three essential targets (Crosse, 1963). It award credits on a sound and collectible premise. To contribute the banks reserves beneficially to support investors and the security of contributors and to serve the authentic credit needs of their networks.

2.1.4 Factor Affecting Loan Policy

The credit strategy of a firm gives the structure to decide if to stretch out endlessly advance such to broaden. The credit strategy choices of banks have two expansive aspects; credit norms and credit investigation. A firm needs to lay out and utilize norms to pursuing credit choice, foster proper wellsprings of advance data and strategies for credit examination.

A tool for evaluating and controlling credit risk is the loan management strategy, also known as the credit policy. For the most part the accompanying variables are to be considered to make powerful credit risk the executives. It is additionally called the elements of credit strategy. It assists with getting powerful credit value.

Industry Environment: It determines the attractiveness of the industry structure, the company's position within the industry, a disadvantaged company's structural weakness, theaters first way out, and security value.

Financial Conditions: It looks at the borrower's ability to pay back using cash flow as the first option. Additionally, the strength of the second option, which is collateral liquidation, is evaluated. Furthermore, in the event of a financial crisis, the sister company's ability to repay is threatened by the possibility of going bankrupt.

Management Quality: It determines the nature, credibility, and competence of the borrower's management team's alliances. Shortcoming in substitutions should be assessed.

TechNBLal Strength: It is necessary to evaluate the strength and quality of the technological support needed for the company's sustainable operation in terms of

manpower, the viability of technology uses, the availability of after-sales services, and the cost of maintenance and replacement.

Security Realization: It decides the command over different protections got by bank to get the credit given volatility of the security archives and present worth of the properties sold with the bank. Shortcoming in security undermines the bank's subsequent way out.

2.1.5 Principle of Loan Policy

Great loaning strategy is vital for complete the matter of loaning all the more successfully. (Mishkin, 1998), some policies are as follows:

Principle of Safety Fund: Banks ought to look the way that is there any useless or speculative endeavor or untrustworthy way of behaving of the borrower.

Principle of Liquidity: According to the American Institute of Banking (1972), liquidity is the ability to access cash when it is required without having to sell long-term assets at a loss in an unfavorable market. A financier needs to guarantee that cash will come in as on request or according to concurred terms of reimbursement.

Principle of Security: It goes about as pad to allow advances and credits. Satisfactory upsides of pledges guarantee the recuperation of credit accurately brilliantly. Accepted security ought to be practical, easy to sell, and free of encumbrances.

Principle of Purpose of Lending: In most cases, lending requests are only accepted for the productive sector. Bank ought to be dismissed advance solicitation for theory, social capabilities, joys outings, services and reimbursement of earlier credit as they are inefficient.

Principle of Profitability: The term "profitability" refers to a situation in which the value generated by utilizing a resource is greater than the sum of all input resources. Bank ought to give to such project that can give ideal measure of return. For such reason, bank ought to take a tad risk by giving credit to bold task.

Principle of Spread: The portfolio of credit advances will not be distributed solely among numerous industry-related borrowers. It across the businesses to limit the gamble of loaning keeping "Don't place your all eggs in a similar crate" as a top priority.

Principle of National Interest: The national interest should not be distorted when lending or providing advances. Need and denied area of economy and other disturbing area ought to be given appropriate accentuation while broadening propels.

2.1.6 Managing Loan Problems

The institution ought to develop a method for assisting in the identification of problematic loans ahead of time, when additional options for corrective measures may be available. A specialized remedial procedure should be used to manage the loan once it has been identified as a problem.

How a bank will deal with bad credit should be clearly outlined in its loan risk policies. Banks contrast on the techniques and association they use to oversee issue credits. Obligation regarding such attributes might be relegated to the starting industry capability, a particular exercise segment or a blend of the two, contingent on the size and nature of the credit and the justification for its concerns. It is essential for a bank to separate the credit origination function from the workout function when it has significant credit-related issues. The extra assets, skill and more thought focal point of a specific exercise segment typically further develop assortment results. The fundamental components of a problem loan management procedure are as follows (William, 1990).

Negotiation and Follow-up: In dealing with obligors, proactive efforts should be made to implement remedial plans by keeping internal records of follow-up actions and regular contact. According to William (1990), institutions are frequently spared from lawsuits and loan losses through diligent early efforts.

Workout Remedial Strategies: Now and then fitting healing techniques, for example, rebuilding of advance office, upgrade in credit cutoff points or decrease in loan fees assist with further developing obligor's reimbursement limit. Anyway it relies on business condition, the idea of issues being confronted and in particular obligor's responsibility and readiness to reimburse the credit. While such therapeutic systems frequently raise positive outcomes, foundations need to practice extraordinary watchfulness in embracing such measures and guarantee that such a strategy should not urge obligors to deliberately default. The establishment's advantage ought to be the essential thought in the event of such exercise plans it needs not notice here that skilled power, before their execution, ought to support such exercise plan (William, 1990).

Review of Collateral and Security Document: The loan recoverable amount must be determined by institutions by formally valuing the available collateral's values. Security

records ought to likewise be audited to guarantee the culmination and enforceability of agreements and insurance ensure (William, 1990).

Status Report and Review: The credit issue ought to be reviewed and monitored more frequently. The progress of the remedial plans and the status of the loan accounts should be updated during the review. Senior management ought to be informed of any progress made on the problematic loan (William, 1990).

2.1.7 Non-Performing Assets/Loans (NPAs/NPL)

Bad debt is what NPAs are. Be that as it may, NPA as far as banking area comprise of those credits and advances, which are not performing great and liable to turn as awful advances. One of the most arising issues of the business banks is to the administration of non-performing resources/credits. Therefore, banks must exercise caution when considering such a loan. While giving advance wary, cautious and through evaluation, the venture or financial backer or business undertakings ought to be made.

The bank's non-productive assets are referred to as NPA. All in all, it is the advance or terrible obligation and dubious obligations that doesn't reimburse ideal. A non-performing loan is typically one that is not repaid within three months. The advance sum that doesn't covered by guarantee in the wake of selling is known as non-banking resources (NBA), Non-performing resources additionally incorporates the suspend revenue. It is the interest, which becomes receivable. Unutilized resources and those ventures which produce no money or earnings to the bank are likewise non-performing resources (NPAs). Management of non-performing sets is the correct management of those assets to generate income (Shrestha, 2004).

The meaning of NPAs varies from country to country. In certain nations, it implies that the credit is debilitated. In certain nations, it implies that the installment are expected yet there are critical different among nations how long an installment ought to be financially past due before past due status is set off (Shrestha, 2004).

The current banking act requires banks to make provisions for doubtful and bad debts. In the wake of deducting the terrible and far fetched obligations from the non-performing resources, net non-playing out a can be accomplished. As per the NRB, national banks

NPAs are characterized credits and advances as indicated by their inclination of late timing. NRB has coordinated to keep up with credit misfortune arrangement as indicated by maturing reason for risk alleviation. The credit arrangement is to LT be kept up with by charging benefit account. In this manner as the nature of advance corrupts the proportion of credit misfortune arrangement is expanded influencing the benefit of the banks.

2.1.8 Cause of Occurring NPA

The number of NPAs rises for a variety of reasons. NPAs can be expanded due to:

- Selecting the wrong project and company to lend the money
- A lending policy that is not clear and transparent
- Absence of successful and logical conjecture in the genuine results of business.
- Bank managers lack a strong willingness to do so.
- Absence of appropriate lawful system (Pandey, 2000).

2.1.9 Effect of NPAs

Its immediate impact is on the benefit of business banks. In future, it influences by and large execution of banks. Additionally, it has an impact on public and private sector banks' liquidity and competitiveness, as well as bankers' psychological dispositions toward credit delivery and expansion.

Customers, investors, and banks all suffer directly as a result of an increase in non-performing assets. It has adverse consequence to the financial wellbeing and business of country. It makes two kinds of impacts (Batra & Dass, 2003).

A) Internal Effects

Any business, including commercial banks, must strive for profitability as a primary goal. Yet, business banks can't prepare the non-performing resources for increment benefit. They must also use their profits and other resources to cover uncertain debts. Bank profits have decreased as a result, and losses may result. Accordingly, share capital additionally becomes capital disintegration and capital insufficiency.

The national bank can make a move on those banks, which have low capital or capital sufficiency proportion. Banks must increase their provision for doubtful debts when non-

performing assets rise, and profits are treated as profits when loans are repaid. The bank must pay income tax as profit if the provision for doubtful debts exceeds 5% of the total loan amount. Thus, it has direct impacts to the income of banks'. Thus, the work of HR and benefit of the bank has additionally impacted.

B) External Effects

The banks acknowledge stores from general society and give credit to the activity of business and different purposes. When the loan doesn't pay back with interest, it becomes non-performing assets, and banks can't give their customers back the money they put in. Banks lose public support and faith if they are unable to return deposited funds. not just that amount but also To pay deposits, banks are forced to take out loans at a higher interest rate, which has a direct impact on their profitability and eventually leads to bankruptcies and dissolution. The country's economy and monetary system are also impacted.

C) Impact on Profitability

The NPAs adversely affects the benefit of the bank. Banks' non-performing assets are inactive assets that do not bring in any money for the banks. Hence, we can say that the NPAs lessen the productivity of the banks because of the turning into the inactive assets. Not only has it hurt the banks' profitability, but it may also have caused them to lose customers' trust and support.

D) Impact on the Outlook of Banker towards Credit Delivery

The brain research of the banks today is to protect them with zero percent chance and go tepid to new credit. As a result, the industry has a low C/D ratio of around 60% due to this negative impact on credit growth in comparison to deposit growth. Evidently, the existence of collateral security will not stop the account from becoming non-performing assets (NPA), but it will, at best, allow the credit granted to productive sectors to be invested in real estate. Further hindered resources and land address the most illiquid security and NPA in such advances tends to continue for a long span. Nationalized banks have arrived at an impasse of the passage and their future success relies upon an earnest arrangement of this drifting danger (Shrestha, 2004).

E) Excessive Focus on Credit Risk Management

The most significant business impact of NPAs is that they cause credit risk management to take precedence over other bank operations. The bank's entire hardware would accordingly be pre-busy with recuperation strategies instead of focusing on extending business. A save money with elevated degree of NPAs would be compelled to cause conveying costs on a non-pay yielding resources. Another outcome would be a decrease in interest income, a high level of provisioning, pressure on profitability and capital adequacy, a gradual decline in the ability to meet a steady increase in costs, increased pressure on the net interest margin (NIM), resulting in a decrease in competitiveness, a steady eroding of capital resources, and an increase in the difficulty of enhancing capital resources. The non-quantifiable implications can be psychological, such as a "play safe" attitude and risk aversion, lower morale, and a disinclination to take decisions at all levels of staff in the banks. The lesser-appreciated implications include reputation risks resulting from greater disclosures on the quantum and movement of NPAs, provisions, and other matters.

Twenty years of controlled and guided banking to credit conveyance has denied bank administrators of the impulse ability and information. There was no spring of talent resources as a result of nationalized banking. Mandate information sources and course heading came remotely from NRB and Money Service, which were outer to the day-today issues and issues of the Nepalese financial industry. The framework didn't advance drive and ability, however reproduced debasement and nepotism. This is the impression that Nepalese banking is having a difficult time transitioning from outdated, antiquated values and systems to professional business ethics and corporate good governance.

F) Excess Liquidity Lending Default

The banks in Nepal are confronted with the issue of expanding liquidity in the Framework. Further, the Rastriya Banijya Bank (RBB) is expanding liquidity in the framework through different rate cuts. Banks can dispose of its overabundance liquidity by expanding its loaning be that as it may, frequently avoid such a choice because of the great gamble of default to advance specific standards for sound financial practices, the vast majority of the created economies require all banks to keep up with least fluid and money holds comprehensively characterized into cash Save Proportion (CRR) and the Legal Liquidity Proportion (SLR). A rate cut (for example, decline in CRR) result into lesser assets to be secured in NRB's vaults and further implants more noteworthy assets into a framework.

Anyway practically every one of the banks are dealing with the issue of awful credits, nonperforming? Resources, diminishing edges, and so forth, as consequence of which, banks are minimal hesitant in allowing credits to corporate. Consequently, despite the NRB's announcement in its monetary policy, bankers no longer warmly welcome rate cuts.

G) High Cost of Fund Due to NPAs

Due to rising NPAs, genuine borrowers frequently have difficulty obtaining bank funding. Either the bank is reluctant to provide the necessary funds to genuine borrowers or, if it does, the funds come at a very high cost to compensate the lender for the lender's losses caused by the high rate of non-performing loans. In this manner, regularly corporate like to raise subsidizes through business papers (CPS) where the loan fee on working capital charged by banks in higher. Nepalese banking operations must also consider a number of other pressing issues in order to concentrate on NPAs and the effects they have.

2.1.10 General concept of Profitability

In business, profit is the difference between the prices paid for goods or services and the costs associated with producing and marketing them. Benefit is a fundamental serious component of trading in the financial framework. Loss is the opposite of profit, which occurs when the price a customer is willing to pay for a product or service exceeds the cost of producing it. In unrestricted economy, the will to make and work by benefits is named the benefit thought process. However typically taken as the essential thought process in business, its comprehensiveness has been tested by the hypothesis of the firm. Japanese firms, particularly, are famous for favoring piece of the pie over to some extent momentary benefits.

The sum of money earned from a sale that is greater than the amount spent is called the profit. The dictionary of commerce defines profit as "the surplus that results after a defined trading period." However, profit must be considered the first essential charge to a business because it is a reward for engaging resources in conditions of speculative risk for the satisfaction of consumer demand. It outfits assets to put resources into future tasks and thusly its nonappearance should bring about a decrease in powerful capital assets and eventually cutthroat elimination of the business (Lynch and Williamson, 1989).

There are two possible meanings for the term "profit." As a proprietor situated idea it allude to sum and portion of public pay which is paid to the proprietors of business, that is the individuals who supply value capital as variation is depicted as productivity. In other word, benefit alludes to circumstance where result surpasses input that is the worth made by the utilization of assets is more than the all out of info asset. The term "profitability" is a deviant from "profit," indicating that a company's capacity to generate a profit serves as the primary metric for determining its level of success. It is the essential test execution of any business just expressing. Benefit is cash abundance of offer over cash spent yet the expression "Benefit" is extremely questionable and there are a few distinct translations about it.

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A financial expert will say that benefit is the prize of business venture for risk taking. A labor leader might assert that it serves as a basis for negotiating a wage increase and is a measure of how effectively labor has produced. Additionally, investors will interpret it as a measure of their investment's return. An inner income specialist could see it as a base for deciding personal duties. The bookkeeper will characterize it just as the abundance of company's income over use of delivering income in given financial period (Lynch and Williamson, 1989).

According to in such manner, American Establishment of Banking, under the free endeavor framework like USA, the premium of the country as well as those of the singular investors should be best served by enthusiastically looking for benefit. However, a company's profit cannot be its only goal, and it should not be evaluated solely on the basis of its profit. Neither bank nor the local area will be the best served it the broker preposterously forfeits security assets of the liquidity of bank with an end goal to increment pay.

Each business firm has various sorts of objective. The objective of any business is to maximize profits. Profit is very important to a company's success. It is just as essential as water. to cover costs associated with remaining in business, such as machine replacement,

furniture replacement, machine obsolescence, market or technical risks, etc. Benefit is fundamental in the sense to oneself supporting head. It helps to reduce capital expenditures while also providing structure. Benefit of business is fascination for financial backers. So financial backers would put away their cash where there is sufficient benefit. Consequently benefit is expected to guarantee and fulfill the whole assumption for the board, investors, financial backers, representatives and country as entirety.

2.1.9.1 Traditional Approach towards Profit

The conventional approach of business environment and economic theory based on firm profit is known as profit maximization. Profit maximization is one of the assumptions in economic theory. In managerial economics, the central belief is that a company sets a goal to maximize profit, which is discretionary behavior on the part of the company. The performance of the business as a whole is measured by profit. A business firm can guarantee it to find lasting success in the event that it can keep up with greatest benefit to legitimize the value of profit from venture. This prevents a company from running out of money and provides the best opportunities to expand assets to grow the business (Shrestha, 1980).

The commitment of benefit gives areas of strength for a to proprietors and supervisor to effectively act. Thusly it is normal in monetary hypothesis to speculation that the measures for assessing the activity of the firm are benefit amplification. The fundamental impetuses for business are to deliver labor and products. In this sense, the profit is the revenue that remains after deducting both explicit and implicit costs, including the entrepreneur's services' nominal profit. "Profit is essential for every business's long-term survival and capital adequacy through retained earnings." In addition, "to provide funds for increased assistance to the productive sector, it is necessary to accept market for both equity and equity." (Robinson, 1951)

2.1.9.2 Modern Approach towards Profit

The business environment has changed dramatically over time. In previous time one of fundamental goals of firm was benefit boost. Be that as it may, today sales amplification is the fundamental goal of the firm. So that company's goal might be to augment its development rate or fulfillment investors' abundance boost.

Today every business firms finance by value proprietors, loan bosses. Proficient administration is connected with client, representative, government and society worried about firm. Other than different targets of business firm, abundance expansion of investors' is typical goal of firm or generally a firm ought to set a norm for sensible benefit.

There are dangers given to benefit augmentation and the financial analysts to the productivity idea of firm give such countless other options. However there are dissents towards benefit expansion model of a firm. Financial specialists actually don't have bound together perspectives to cover the elective model when markets are wonderful serious, monopolistic or oligopolistic structure. In this way, the benefit model is still in the presence. A business firm actually likes to expand benefit quite far. "Business has numerous objectives and the necessities of endurance, generosity, security and both generally require some penance of momentary benefits. Most business does, in any case, rate productivity reliably high among their term targets and it very well may be contended momentary objective, for example, security and development rate, subordinate to long haul productivity" (Lynch and Williamson, 1989).

2.1.11 Theories of Profitability

The hypotheses that are surveyed in this study are: liquidation cost hypothesis, market power hypothesis and productivity hypothesis.

2.1.10.1 The efficiency theory

On the other hand, the efficiency hypothesis states that banks make a lot of money because they are more efficient than other businesses. There are additionally two particular methodologies inside the effectiveness; the X-productivity and Scale-proficiency speculation. The X-efficiency approach asserts that lower costs make more efficient businesses more profitable. Such firms will more often than not gain bigger pieces of the pie, which might appear in more elevated levels on market focus, however with practically no causal relationship from fixation to productivity (Athanasoglou et al. 2008).

2.1.10.2 The market power theories

As verified in Tregena (2009) applied in banking the market power speculation sets that the presentation of bank is affected by the market design of the business. The market power theory has two distinct approaches: the Relative Market Power (RMP) and Structure

Conduct Performance (SCP) hypotheses. As per the SCP approach, the degree of focus in the financial market brings about potential market power by banks, which might raise their benefit. Despite their efficiency, banks in more concentrated markets are more likely to make abnormal profits due to their ability to lower deposits rates and charge higher loan rates as a result of collusive (explicit or tacit) or monopolistic reasons (Tregenna, 2009).

2.1.10.3 The balanced portfolio theory

According to Olweny & Shipo (2011), the most applicable approach, portfolio theory, is utilized in bank performance studies. As per the Portfolio balance model of resource broadening, the ideal holding of every resource in an abundance holder's portfolio is an element of not entirely set in stone by various factors, for example, the vector of rates of return on all resources held in the portfolio, a vector of dangers related with the responsibility for monetary resources and the size of the portfolio. It implies that decisions made by bank management determine portfolio diversification and desired portfolio composition for commercial banks. In addition, Olweny & Shipo (2011) state that the bank's unit costs for producing each asset component and the feasible set of assets and liabilities determined by management are critical to maximizing profits.

2.1.10.4 Bankruptcy Cost Theory

Aremu, Ekpo and Mustapha (2013) propose that —Bankruptcy Cost Theory make sense of the positive connection between capital sufficiency and benefit. In the event that the liquidation costs are startlingly high because of the ecological changes, banks should hold greater value and increment their capital proportion to lessen the normal worth of chapter 11 expense and stay away from monetary pain.

2.1.10.5 Risk return Hypothesis

As indicated by Olweny and Shipho (2011), Hazard Return hypothesis made sense of negative connection between capital sufficiency and benefit. At the point when a bank chooses to face up more challenge to accomplish higher expected returns, the bank will build influence or obligation to help up productivity. This proposes that in the event that a bank means to increment influence, the bank should diminish the value to-resource proportion (capital). Subsequently, this hypothesis made sense of capital ampleness can be adversely connected to banks productivity because of that bank likes to utilize influence instead of value

2.1.12 Factors Affecting the Profitability

2.1.12.1 Firm Size

Size is thought to be a proxy for many good things, like profitability. When Ha-Brookshire (2009) looked at non-manufacturing companies in the United States, he discovered a positive and significant relationship between size and profitability. Comparable outcomes were accounted for by Stierwald (2010) when he analyzed enormous organizations in Australia. According to the resource-based theory, the lower the cost of capital, the more access there is to financial resources. This is material for large size firms. The company can access more financial resources more easily as it grows in size, resulting in a lower cost of capital and a higher profit. Punnose (2008) and Malik (2011) showed a positive connection between firm size and benefit. Nguyen (1985) found that enormous unfamiliar possessed firms for the most part acquire higher benefits than huge homegrown firms. Notwithstanding, Keith (1998) found that size has a restricted worth in making sense of productivity when he inspected 38 little assembling firms in the Tayside Locale of Scotland. Goddard et al. (2005) analyzed the determinants of benefit for assembling and administration firms in Belgium, France, Italy and the UK. The outcomes give proof of a negative connection between size, equipping proportion and benefit. This study inspects the relationship between firm size and productivity. Kajüter's measurement of firm size, total sales, is the same as the one used here.

2.1.12.2 Working Capital

Grinyer and McKiernan (1991) observed that functioning capital is among the factors that assumes a critical part in making sense of corporate productivity. When 45 electrical companies in the United Kingdom's data were examined, this was the conclusion that was reached. Chowdhury and Amin (2007), who looked into the profitability of pharmaceutical companies listed on the Dhaka Stock Exchange, came to similar conclusions. The results show that working capital has an effect on profitability as measured by ROA. Additionally, Alipour (2011) used the Pearson correlation test and the multiple regression method on 1,063 Tehran Stock Exchange businesses. The outcomes show a huge connection between working capital administration and benefit. In agricultural nations, Malik (2011) tried the productivity of 35 life and non-disaster protection organizations in Pakistan. Working capital and profitability have a positive and significant relationship, according to the findings. Burja came to similar conclusions (2011). In any case, Dong and Su (2010) found a negative connection between working capital administration and productivity for firms

recorded on the Vietnam Financial exchange. This study examines the relationship between working capital and profitability in Nepalese listed companies due to inconsistent results in developing nations.

2.1.12.3 Company Efficiency

There is no question that effectiveness is the foundation to accomplish higher benefits. Efficiency can refer to individual operations or the entire business. The pharmaceutical industry's profitability in Nigeria was examined by Innocent et al. (2013) over a period of eleven years, from 2001 to 2011. The outcomes show a negative and unimportant connection among benefit and obligation turnover proportion, bank's speed and complete resources turnover proportion. Stock turnover proportion is likewise found to have a negative however critical relationship with benefit. Warrad and Al Omari (2015) concentrated on the effect of absolute resources turnover proportion and fixed resources turnover proportion on ROA of firms in the Jordanian modern area. The impact was examined using a straightforward liner regression from 2008 to 2011. The study demonstrates that the Jordanian industrial sector's ROA is significantly affected by the total assets turnover ratio. As a result, the total assets turnover ratio can provide an explanation for ROA shifts. In any case, an earlier report led by Selling and Stickney (1989), utilizing information from a gathering of Treated the soil organizations over a period from 1977 to 1986, analyzed complete resources turnover and working net revenue proportions as they connected with ROA. Their example was arranged into 22 ventures; they tracked down bad relationships between's all out resources turnover and working overall revenue proportions in 15 of them. One more concentrate by Reed and Reed (1989) found the absolute resources turnover and working overall revenue proportions are adversely corresponded.

Operating profit margin and assets turnover ratio forecasting were studied by Fairfield and Yohn (2001). They discovered that there is a statistically significant negative correlation between the two variables. Skolnik (2002) investigated the connection between operating returns, operating profit margin, and total assets turnover ratios by employing non-financial S&P 500 companies from 1989 to 1999. He found that the absolute resources turnover proportion diminished over the review period while the working net revenue proportion expanded. Thus, he tracked down a measurably critical and negative relationship between's all out resources turnover and working net revenue proportions. As the outcomes show logical inconsistency in this relationship, this study looks at the resources turnover

proportion as one of productivity estimations. Profitability is expected to be correlated positively with company efficiency, which is measured by the assets turnover ratio.

2.1.12.4 Company Liquidity

Liquidity is characterized as the capacity of a firm to switch a resource over completely to cash rapidly. It is likewise characterized as the capacity of a firm to take care of its momentary commitments. A number of ratios, such as the current ratio, quick ratio, and cash ratio, are used to measure liquidity. Liquidity is vital to appropriately maintain the business. Bhayani (2010) inspected factors that impact productivity for concrete firms covering the period from 2001 till 2008. He reasoned that liquidity, age of the firm, working proportion, loan cost and expansion, are significant determinants of benefit for the Indian concrete industry. Boadi, Antwi, and Lartey (2013) tracked down a positive connection among liquidity and productivity. Elsiefy (2013) tried the determinants of benefit of business banks in Qatar and tracked down proof of major areas of strength for an among liquidity and productivity for Islamic banks. A later report by Al-Jafari and Alchami (2014) researched the determinants of productivity of Syrian banks using the summed up strategy for minutes (GMM) procedure. Their outcomes uncover that liquidity proportion, credit risk, bank size and the executives effectiveness and influence altogether the productivity of Syrian banks. In a similar vein, Pratheepan (2014) utilized static panel models to examine the factors that influence profitability in manufacturing businesses in Sri Lanka. The findings demonstrate that profitability is significantly influenced by size.

2.1.12.5 Company Leverage

Influence is one part of the capital design of an organization. This is due to the fact that choosing between equity and debt suggests a compromise between business and financial risk. At the point when organizations pick more borrowings to fund their requirements, they don't influence corporate proprietorship (Yazdnafar, 2013). In the wake of looking at the information of 12,530 non-monetary miniature firms working in four modern areas in Sweden to gauge the variables influencing productivity as well as industry connection, the scientist presumed that organizations with an enormous extent of value in view of investors' venture offer better FICO score for the organizations. Thusly, organizations utilizing enormous borrowings face higher dangers while those utilizing greater value will generally work all the more safely by depending on inner assets. The optimal debt level, according to the trade-off theory of capital structure, strikes a balance between the benefits and costs

of debt. The tax breaks of obligation rule up to specific obligation proportion, bringing about higher ROE, yet the advantage would be not exactly the expense after a specific degree of obligation proportion. According to Myers (1984), a company's financial risks increase with its use of debt, but its income tax liability decreases. Charumathi (2012) analyzed the determinants of benefit for the Indian disaster protection organizations. He found that influence fundamentally affects benefit.

2.1.13 Review of NRB Directives Relating to Loan

2.1.13.1 Classifications of Loan and Advances

Beginning in FY 2077/78, banks will be required to classify loan and advance principal balances based on their age. According to the mandates gave by NRB, all credits and advances will be ordered into the accompanying five classifications:

Pass Loan: Those credits and Advances whose portion (reimbursement) are not due or due as long as 90 days are delegated pass advance. These credits are characterized as performing advances.

Watch List: Those credit and Advances lies under pass credit and having following elements should be delegated watch list. Head and premium installments are expected for over one month, not recharged on time however briefly development period broadened present moment and working capital credit, credit provided to a borrower has been delegated non-performing credit other Bank and Monetary Establishments. (To a similar Borrower), those ordinary credits (for example Working Capital Loans, also known as short-term loans, are loans made to businesses and corporate bodies whose net worth has been consistently negative for the past two years. However, under-construction projects, loans and advances with poor cash flow during bank inspection and order to be placed on a Watch List, and projects where multi-bank financing is enjoyed but not transferred to Consortium Financing in accordance with Section 33 of Directive No. 2 are not included.

Sub-Standard Loan: Substandard loans are loans and advances with installment (repayment) due dates of more than three months but less than six months.

Doubtful Loan: Those credits and Advances whose portions (reimbursement) are expected for over a half year yet short of what one year are named dicey credit.

Bad Loan (Loss): A bad loan (loss) is any loan or advance whose installment (repayment) is due for more than one year.

2.1.13.2 Additional Arrangement in Respect of Pass Loan:

The term "pass" refers to loans and advances that are entirely backed by gold, silver, fixed deposit receipts, credit cards, or government securities. Advances against fixed store receipts of different banks will likewise meet all requirements for incorporation under pass credit. However, loans that include fixed deposit receipts, government securities, or NRB bonds as additional security must be classified according to clauses 1 through 7. While recharging working capital credit having development period as long as one year can be delegated pass advance. Working capital nature loans and advances should be categorized according to the duration of the outstanding interest if the interest rate is irregular.

2.1.13.3 Additional Arrangement in Respect of loss Loan:

Regardless of whether the advance isn't past due, credits having any or the accompanying errors will be all delegated "misfortune".

- a. Security isn't adequate,
- b. The borrower's bankruptcy has been declared,
- c. The borrower is slipping away or can't be found,
- d. Bought or limited bills are not understood in somewhere around 90 days from the due date and non-store based letter of credit and certifications and so forth are not understood in no less than 90 days from the date of change into reserve based are not understood in 90 days or less,
- e. The credit has not been put to use for what it was intended for,
- f. Due to non-recovery, the beginning of the auctioning of the collateral has been delayed for six months, and if the process of recovery is being litigated,
- g. Advance gave to the borrowers remembered for the boycott of credit data focus (CIC),
- h. The project or business is not operating, the conditions are not operative,
- i. If the loan on a credit card is not paid off within 90 days of the due date,

2.1.13.4 Additional Arrangements in Respects of Term Loan:

The classification of term loans will be based on the amount of the loan that is still outstanding and the length of time that an installment has been late.

2.1.13.5 Prohibition to Recover Principal and Interest by Overdrawing the Current Account and Exceeding the Overdraft Limit:

Head and premium on credits and advance will not be recuperated by overdrawing the borrower's ongoing record or where overdraft office has been reached out, by overdrawing such breaking point. However, the customers' accounts may still be debited in order to recover the principal and interest under this arrangement. Where a framework in the bank exists as to recuperation of head and premium by charging the clients' record, and recuperation is made as such bringing about overdraft, which isn't settled in the span of one month, such overdrawn chief sum will likewise be responsible to be incorporate under the extraordinary credit and such advance will be downsized by one stage from its ongoing characterization. Regarding the recognition of interest, the same procedure as for income recognition as outlined in directive No. 4 applies.

2.1.13.6 Letter of Credit and Guarantees:

In the event that letter of credit and certifications and other contingent liabilities changed over into reserve based liabilities and must be paid, in such condition such advance will be delegated pass credit in somewhere around 90 days from the date of transformation into store based. Following 90 days such advance will be delegated misfortune credit.

2.1.13.7 Rescheduling and Restructuring of the Loan:

It may reschedule or restructure the loans and advances if the bank is confident based on the borrower's written plan of action. Loan files ought to be attached to clear grounds for rescheduling or restructuring. If the bank is confident in the recovery of restructured or rescheduled loans and advances, and if there is evidence of sufficient loan documents and collateral security. Likewise, notwithstanding composed strategy for rescheduling or rebuilding of advance, installment of somewhere around 25% of absolute gathered interest up to the date of rescheduling of rebuilding ought to have been gathered.

2.1.13.8 Loan Loss Provisioning:

The credit misfortune provisioning, based on the exceptional advance and advances and bills buys named per this orders, will be given as follow:

Table 1

Loan loss Provision

S.N.	Classification of loan	Loan loss Provision
1.	Pass	1.3%
2.	Watch List	5%
3.	Sub-standard	25%
4.	Doubtful	50%
5.	Loss	100%

Source: NRB Directives no.2, 2080

Advance Misfortune arrangement put away for Performing Credit is characterized as "General Credit Misfortune Arrangement" and Advance misfortune arrangement put away for Non-Performing advance is characterized as "Explicit Credit Misfortune Arrangement".

The total amount of the banks' loan loss provisioning may be included in the general loan provision under the supplementary capital if it is greater than the proportion required by NRB directives.

2.2 Empirical Review

Yagli and Topcu (2023) researched on Determinants of credit risk in the turkish banking sector: does ownership matter? This study expects to decide the inner and outer elements influencing credit risk in the Turkish financial area from 2003-2018. Not at all like past writing, has the study utilized the Expanded Mean Gathering assessor with recompense for heterogeneity and cross-sectional reliance to break down the impact of outer variables inside a unique structure. Discoveries show that inward and outer variables influence credit risk, and the effect of these elements differs decisively across possession structures. These outcomes recommend that one guideline doesn't fit all to update credit risk the executives in the Turkish financial area.

Bhatt (2023) studied on examining the determinants of credit risk management and their relationship with the performance of commercial banks in Nepal. The objective of the ongoing review was to explore the elements that impact credit risk the executives and how they connect with Nepal's business banks' functional results. It likewise sees what credit risk the executives means for how well Nepali business banks capability. The discoveries

recommend that ecological gamble and credit risk the board are emphatically related. Additionally, credit appraisal measurements are found to have a significant impact on credit risk management. The discoveries show that credit risk the executives is fundamentally affected by market risk examination. The discoveries show that market risk investigation, credit evaluation measurements, natural gamble, and business bank execution are undeniably interceded by credit risk the executives. Thusly, to bring down credit risk and accomplish solid monetary execution, administrators ought to attempt to carry out risk anticipation and control measures.

Shah (2023) directed an exploration on job of balance tech in credit risk the executives: an examination of Islamic banks in Indonesia, Malaysia, UAE and Pakistan. This study means to explore how blade tech influences Islamic banks' pre-and post-funding credit gambles. This study utilizes optional information on a scope of monetary and financial pointers from 2009 to 2021 notwithstanding essential information on balance tech take-up and mindfulness. Pattern relapse is utilized to decide what blade tech arbitrators mean for Gross domestic product, size, influence, and return on resources. By applying vigor against key variable predisposition, the outcomes are approved. For endogeneity, it moreover utilizes a unique board two-stage summed up strategy for minutes. The review presumes that there are contrasts in balance tech take-up and mindfulness among Islamic countries. The Asia Pacific region beats the other two, with Malaysia helping more from credit risk the executives and Indonesia driving the way in blade tech mindfulness and execution. Pre-funding credit risk is undeniably more affected by fintech than post-supporting credit risk. When adhering to Shariah regulations, the study claims that Islamic banks encounter difficulties with adverse selection.

Msomi (2022) conducted a research on factors affecting non-performing loans in commercial banks of selected West African countries. This article examines the macroeconomic and bank-specific factors that influence non-performing loans in commercial banks. A fixed and irregular impact model was applied to 47 recorded business banks from six nations somewhere in the range of 2008 and 2019: 19 banks from Nigeria, 14 banks from Benin, 3 banks from Burkina Faso, 3 banks from Gambia, 3 banks from Guinea, and 5 banks from Liberia. The assessment uncovered that the expansion rate, capital sufficiency proportion, and liquidity proportion all considerably affected non-performing credits, and the Hausman test upheld the decision of the proper impact model.

Consequently, it is suggested that banks depend not just on their ability to meet the capital sufficiency proportion yet in addition guarantee that credits are painstakingly evaluated preceding being allowed to recipients. Bank the board need to ensure that workers aren't just giving out advances to keep their work by gathering stores from clients to the detriment of the bank's drawn out revenue. In addition, countries in West Africa must maintain low inflation rates in order to make timely loan repayments affordable and feasible.

Yeasin (2022) conducted a research on impact of credit risk management on financial performance: A study of commercial banks in Bangladesh. The review expects to look at the impact of credit risk the board on the monetary execution of business banks since credit risk is affecting Bangladesh's financial area. The review utilized a rational exploration approach and designated six business banks in Bangladesh. Board relapse examination was utilized to investigate auxiliary information from 2010 to 2019 for the entirety of the information. Four factors that affect Bangladeshi business banks' monetary presentation were picked and inspected. The review utilizes advance to store proportion (LDR), capital sufficiency proportion (Vehicle), and non-performing advance (NPL) as signs of credit chance and return on resource (ROA) as a device for estimating bank execution. Board information relapse concentrate on uncovered that the Capital Sufficiency Proportion (Vehicle) and Non-performing Credit (NPL) adversely affected the monetary execution of business banks. Then again, the Advance to Store Proportion (LDR) emphatically and genuinely essentially impacted the business banks' monetary exhibition. Consequently, credit risk has a negative effect on the financial performance of commercial banks.

Agaba and Eton (2022) conducted a research credit risk management practices and loan performance of commercial banks in Uganda. The review took a gander at the association between Mbarara City's business banks' credit execution and their credit risk the executive's techniques. 19 business banks were remembered for the review. The connection between different credits risk the board procedures and advance execution in a subset of the city's business banks was resolved utilizing a correlational plan. The credit staff and the board of 19 business banks gave mathematical information to the review utilizing a normalized poll. The linkages and effects between credit risk the board and advance execution of business banks in Mbarara City are examined utilizing relapse and relationship examination. The study found a significant correlation between the performance of loans and the identification, assessment, monitoring, and control of credit risks. The study also

found that not all commercial banks had the experts they needed to accurately evaluate the outcomes of loan officer decisions or predict credit risks.

Jati (2021) has examined the study on the effect of non-performing loan and capital adequacy ratio on return on assets in bank Victoria international, TBK period 2009-2018. The goal of this exploration is to learn what Capital Ampleness Proportion and Non-Performing Advances mean for Return on Resources at PT. Bank Victoria Worldwide, TBK, somewhere in the range of 2009 and 2018. Illustrative examination is the system utilized. Relapse testing, relationship, assurance, and speculation testing are totally utilized in the factual examination strategy. The review's discoveries show that non-performing advances altogether influence return on value. The Capital Adequacy Ratio has a significant impact on the Return on Assets. Both non-performing loans and the capital adequacy ratio have a significant impact on return on equity simultaneously.

Birhanu (2021) examined a study on determinants of commercial bank loan and advance disbursement: the case of private Ethiopian commercial banks. The motivation behind this study was to take a gander at the variables that impact credits and advances from Ethiopian confidential business banks. Seven business banks were picked indiscriminately by the review to mirror the populace delineated by resource, store, and settled up capital sums. The study used an unbalanced panel data model and looked at secondary data from 1995 to 2016 because each bank started up at a different time. The outcomes showed that the loaning and development of private business banks were altogether and decidedly affected by the size of the store, credit risk, portfolio venture, normal loaning rate, genuine GDP (Gross domestic product), and expansion rate. On the other hand, the credits and advances made by confidential business banks were essentially and harmed by the liquidity proportion. At last, the review sent a doable proposal for concerned organs to zero in on store size, credit risk, portfolio venture, normal loaning rate, genuine Gross domestic product, and expansion rate and liquidity proportion.

Bhattarai (2020) has examined the study on effect of non-performing loan on profitability of commercial banks in Nepal. The report resolves the essential issue confronting the financial area, which is non-performing advances (NPLs). It essentially affects overall revenues and bank achievement or disappointment. This study takes a gander at how non-performing credits influence the benefit of business banks in Nepal. Board information

from twelve business banks was assembled during a five-year time span, from 2013-2014 to 2017-2018, adding up to sixty perceptions. The information has been investigated utilizing the numerous relapse model. The fixed effect model, the random effect model, and the pooled ordinary least square model have all been used to examine profitability. The productivity metric, return on value (ROE), was viewed as the reliant variable, though the autonomous factors were expansion (INF), non-performing advances (NPL), capital sufficiency proportion (Vehicle), liquidity (LIQ), and bank size (SIZE). ROE was found to have a significant and negative correlation with NPL, CAR, and LIQ in the results of three distinct models. In like manner, there is areas of strength for a connection among's SIZE and ROE. Concerning ROE, the INF, Disc shows an ideal yet immaterial outcome. The examination reached the resolution that the factors NPL, Vehicle, LIQ, and SIZE fundamentally affected productivity. Benefit isn't enormously affected by the INF. In any case, nonperforming credits adversely affect productivity. The bankers have received sincere payments for over ninety days. It coherently affects public economy too.

Jha (2020) published an article on analysis of non-performing assets (NPAs) among SBI bank and ICICI bank for operating 2011-2018. As per the report, non-performing resources (NPAs) are as of now seen as a significant issue in banks. The greatest and most difficult issue that has stunned the entire financial area is the dangerous non-performing resources (NPAs) in Indian banks. The optional information is utilized in the review to analyze the non-performing resources (NPAs) among ICICI and State Bank of India (SBI). Information from yearly reports covering the seven-year time frame (2011-2018) is being utilized in the review. ICICI Bank's absolute arrangement proportion was observably more prominent than SBI Bank's. Investor risk proportions, be that as it may, were comparative for PNB and ICICI banks. Moreover, ICICI Bank's exceptional sum diminished altogether in contrast with PNB Bank. However, the provision thereon (in terms of total assets) made by SBI Bank and ICICI Bank were comparable. The examination reasons that SBI Bank's nonperforming resources (NPAs) are filling in contrast with ICICI Bank. When contrasted with ICICI banks, the size of SBI Bank's NPAs is developing. For SBI Bank to contend with ICICI Bank, they should zero in on their effective tasks. Thusly, to help their benefit, SBI banks should actually deal with their non-performing resources (NPAs).

Sushmitha (2020) conducted a study on non-performing assets management in the co-operative banks in India: A descriptive analysis. The report says that India's banking

industry operates in a competitive and lively market. The exceptionally cutthroat person of the business has presented banks to various monetary emergencies and issues lately. The bank's exhibition is adversely affected by these monetary emergencies. The bank is as of now managing a critical issue with a rising number of non-performing resources. Credits and advances that have a 90-day past due rule or interest balance are considered non-performing resources. The bank's non-performing resource proportion fills in as a sign of its monetary wellbeing. Through an assessment of the patterns in non-performing resources over the concentrated on period, the ongoing review endeavored to look at the exhibition of helpful banks. Measurable apparatuses, for example, arrangement and line charts were utilized in the information handling process. As opposed to the DCCBs, PACs, SCARDBS, and PCARDBS, the report noticed that the UCBs and StCBs have shown a striking improvement in the administration of non-performing resources.

Rizvi (2019) conducted a study on a hierarchical model of the determinants of non-performing assets in banks: an ISM and MICMAC approach. The different elements that impact non-performing resources (NPAs) in the Indian financial industry are featured in this paper. A hierarchical model was built using the ISM/TISM method to show the driving forces and dependencies between various components. By distinguishing various factors and deciding how they cooperate and connect with each other, the review will add to the assortment of information and impact how the Indian financial area creates from now on. According to a systemic perspective, the exploration has consolidated subjective and quantitative philosophies. To start with, the factors found in the writing survey are classified utilizing a topical examination in light of the assessments of subject matter experts. The creators have made a significant improvement to the ongoing MCDM procedure by incorporating the changed TISM technique with the ISM/TISM system. The work has likewise made a commitment by showing how tasks research approaches can be applied to investigate a down to earth issue that could hold any importance with different scholastics. In that capacity, it very well may be viewed as an important commitment to the exploration about the most major problem confronting the Indian financial area right now.

Shah (2019) published an article on credit risk management and profitability: commercial bank. The essential objective of the examination is to figure out what credit risk the executives means for the productivity of business banks in Nepal. Return on resources is a reliant variable, while the non-performing advance proportion, influence proportion, capital

sufficiency proportion, credit misfortune arrangement, and credit interest to credit offices are free factors. Information was assembled from Banking and Monetary Insights, Nepal Rastra's Bank Management Report, and the Yearly Reports of a couple of picked business banks. In view of 250 perceptions from 25 examples, the review was led. A mix of the Free t-test, Pearson's Rectification, examination of fluctuation (ANOVA), and various relapse investigation is utilized to finish the autonomous review. The outcome demonstrates that the dependent variable return on assets has a negative relationship with the capital adequacy ratio, leverage ratio, non-performing loan ratio, and loan loss provision ratio. Moreover, credit interest to credit offices is decidedly connected with return on resources.

Adhikari (2019) had conducted a thesis entitled on a study of non-performing assets (with special reference to Nepal bank limited and Rastriya Banijya bank limited). The essential objectives were to examine the normal reasons for resources in NBL and BKLL turning negative. To achieve the objectives, the study is analyzed using multiple linear regression. As per the review, BKLL and NBL represent practically half of the resources and liabilities of the financial business. Indeed, even with the administration of these banks by overall monetary specialists, the outcomes are not satisfactory, especially with regards to bringing down how much non-performing resources. Despite the fact that neither individual from the supervisory group's monetary presentation is at all palatable, they have gained ground in different regions. Many are questioning the profit from such an enormous speculation. In NBL and BKLL, the condition of store assembly is desperate. Rather than accentuating credit value, NBL and BKLL are focusing on advance volume. Various regulations and guidelines have been passed to change the monetary area, yet it is significant to put arrangements and orders such coordinated area credit, sufficient advance misfortune arrangements, and NPA volume into training.

Neupane (2018) had conducted a thesis entitled on non-performing assets and profitability of commercial banks in Nepal. The study's objective was to investigate the nature and development of commercial banks' non-performing assets. To analyze the essential business banks' productivity measurements. to have access to the link between profitability and the non-performing assets of commercial banks. to investigate the impact of non-performing assets on the earnings of commercial banks. To achieve the review objectives in this paper, a quantitative examination configuration has been utilized. All through the review period, the all out credit and advance sum showed a rising inclination, while the

non-performing resources (NPA) of NABIL showed a rising pattern, except for the financial year 2012/13. The exploration time frame's all's NPA rates have expanded, except for 2010-12. The bank's NPA proportion found the middle value of 1.18% during the review time frame, with a 0.44% standard deviation. Throughout the review period, NABIL's net revenue is declining every year, and the ROTA and ROLA proportions are likewise shifting. The ROTA ratio, ROLA ratio, and SCBNL's net profit margin have all changed over the course of the study period. These changes happen yearly.

Kjosevski and Petkovski (2017) conducted a study on non-performing loans in Baltic States: Determinates and macroeconomic effects. This article investigates the relationship between bank-specific and macroeconomic causes of non-performing loans (NPLs) and their impact on macroeconomic performance in the Baltic States using two complimentary methodologies. First, we examine the macroeconomic and bank-specific factors that contribute to non-performing loans (NPLs) for a panel of 27 Baltic banks using annual data covering the years 2005–2014. GDP growth, domestic credit to the private sector, and inflation are three of the most important macroeconomic factors. It was found that the growth of gross loans, the return on equity, the return on assets, and the equity to total assets ratio were the key variables that were specific to each bank. Second, we investigate the feedback loop that occurs between the macroeconomic variables influencing non-performing loans and the loans themselves. According to the results, macroeconomic variables like GDP growth, unemployment, inflation, and domestic lending to the private sector have a substantial feedback loop with non-performing loans (NPLs), and NPLs have an effect on the real economy. Nonetheless, credit risk can be prevented from increasing and, as a result, the negative feedback loop between the financial sector and the whole economy can be reduced with a better understanding of the particular factors that contribute to some institutions' stronger resistance to adverse economic trends.

Siraj and Pillai (2016) in this article management of NPAs in Indian SCBs examined the performance of NPL in Indian banking during post-millennium period. To achieve their objectives, the authors examined bank-group performance data from the post-millennium period through December 31, 2011. According to the report, non-performing loans (NPLs) still pose a major risk, and the incremental component that may be explained by the addition of NPLs raises serious questions about how well Indian banks' credit risk management

practices are working. It achieved this by employing a range of statistical techniques, such as regression analysis, correlation, and the AAG rate.

Bhattarai (2016) published an article on determinants of non-performing loans: perception of Nepali bankers argues that energy crisis; The government's inability to timely spend its budget and the unstable political climate contribute to an increase in non-performing loans. Lenders also think that better loan monitoring and assessment, along with genuine information disclosure by borrowers, have a significant negative impact on non-performing loans. However, bankers believe that macroeconomic variables like unemployment, inflation, interest rates, and exchange rates have little effect on the non-performing loans that Nepal's commercial banks have. Furthermore, bankers anticipate that Nepal's commercial banks will have a smaller ratio of non-performing loans if GDP growth is higher.

Basnet (2016) had conducted a thesis entitled on non-performing assets of Nepalese Commercial Banks. One of the main objectives was to analyze the non-performing assets of the commercial banks. to determine the total amount of non-performing assets, deposits, and loans held by commercial banks. to ascertain whether Nepal's commercial banks are following the NRB's guidelines regarding nonperforming assets. In order to compare two variables, pannel data were used in this study. Based on the data, it seems that Nepal Bangladesh Bank Limited had more non-performing assets (NPA) than all the other banks that were looked at. In a similar vein, Nepal SBI Banks and Bank of Kathmandu are placed third and second, respectively. The bank's status seems to be pretty excellent because NABIL Bank Limited has been lowering its net present value (NPA) annually and Nepal Investment Mega Bank has been lowering its NPA at a slower rate than all other banks. But it turns out that when it comes to the loan loss provision, none of the other banks have been following the NRB's recommendations.

Shakya (2015) had conducted a thesis entitled on a study on the credit risk management of Nepalese commercial banks (with reference to kumari bank ltd. and Machhapuchre bank ltd.). The study's objective was to evaluate the credit risk circumstances of the selected Nepalese commercial banks. to assess the credit risk management policies and practices of MBL and NIMB. to evaluate the organizational structures of MBL and NIMB in order to manage credit risk. It was found that concentration risk is the main cause of credit risk for

both MBL and NIMB. A design of casual comparative study has been used to analyze the data. Similar to this, these institutions' primary source of credit risk is a deficiency in thorough and organized credit processing. Some of the problems with credit processing include incomplete credit assessments, a lack of testing and validation of novel lending methods, arbitrary judgments made by upper management, a lackluster credit review procedure, the incapacity of banks to keep track of borrowers or collateral values, and a failure to adequately take business cycle effects into account. Due to these institutions' vulnerability to liquidity and market conditions, their credit risk is further elevated. Parallel to this, it is found that every bank has a different approach for rating industries and credit customers.

Narula and Singla (2015) had written an article on the non-performing assets of Punjab National Bank, their impact on profitability, and the correlation between total advances, net profits, gross profits, and net non-performing assets are evaluated through an empirical examination of the bank's non-performing assets. The Punjab National Bank annual reports for the six-year period between 2007–2008 and 2012–2013 are used in the analysis. These research conclude that there is a favorable correlation between PNB's NPA and Net Profits. The inadequate management of the bank is the cause of this.

Arora and Ostwal (2014) conducted an article on unearthing the epidemic of non-performing assets: an investigation into the concept of non-performing assets and the methods used by public and private sector banks to classify their loan holdings. It also compares the loan assets of banks in the public and private sectors. According to the study, because of the recovery management efforts made in the nonperforming assets (NPAs), private sector banks were outperforming public sector banks in terms of the ratio of NPAs. To increase the effectiveness of the Indian banking system, it was also suggested that the non-performing assets (NPAs) of public sector banks be examined.

Lama (2014) had conducted a thesis entitled on non -performing loan management of commercial bank (with reference to NIMB). One of the main objectives was to investigate the relationship between loan quantity and non-performing loans by analyzing Nepal Investment Mega Bank Ltd.'s NPL level. to investigate the impact of non-performing assets on the profits of commercial banks. The primary findings of the study indicated that there are patterns in the ratio of loans and advances to total deposits. The mean and the ratio at

the bank rise annually. It recommends more effective deposit mobilization. It illustrates how the deposit is quickly converted into loans and advances in order to make money. A higher ratio mean suggests that the bank is making more advances and loans in an effort to increase returns.

Pradhan (2013) had conducted a thesis entitled on non-performing loan management of Nabil bank. The main objective was to analyze the percentage of non-performing loans at Nabil Bank Ltd. to assess Nabil Bank Ltd.'s loan loss provision against the NPL. to look into the relationships between the bank's assets, profitability, and company turnover and its non-performing loans (NPL). The poll also indicates that the ratio of loans and advances to total deposits is changing. By using descriptive statistics and linear multiple regression analysis. It implies that there will be less fluctuation and greater regularity when loans are provided against deposits. It may be argued that the bank is handling its non-performing loans well. There is sufficient percentage of total non-performing loans held in provisions. It demonstrates that the bank has taken sufficient precautions to guard against non-performing loans. The percentage of non-performing loans allocated against loans increases with the size of the buffer against the risk of actual loan loss. The ratio of net income to total loans and advances shows how efficiently the bank lends money. Deposits, loans, and advances are positively and strongly correlated.

Table 2

Summary of Empirical Review

Authors	Objective	Methodology	Findings
Yagli & Topcu (2023)	This study aims to determine the internal and external factors affecting credit risk in the Turkish banking sector from 2003-2018.	Population: 20 Sample: 18 Ordinary least square (OLS) is primarily used in the study.	The findings demonstrate that the ownership structure has a significant impact on the effects of both internal and external factors on credit risk. These discoveries suggest that there is certainly not a solitary guideline that works for all Turkish banks with regards to further developing credit risk the board. Credit risk diminishes by 0.228 percent for each 1% increment in financial

				development, 0.227 percent for each 1% increment in joblessness, and 0.292 percent for each 1% expansion in expansion. Moreover, there is minimal measurable proof to help the effect of the worldwide monetary emergency.
Kwashi e, et al. (2022)	To investigate the impact of credit risk with focus on non-performing loans on the financial performance of commercial banks in Ghana	Population: 6 Banks Sample: 5 Banks Variance Inflation Factor (VIF) and the Tolerance test were conducted for multicollinearity test.	ROA and ROE are adversely affected by non-performing credits (- 0.028 and - 17.4785). The monetary policy rate also has a negative impact on ROA and ROE (-0.3304 and -29.9483, respectively). P-esteem is more prominent than 5%, regardless of whether it isn't critical for the financial worth added measure. It also reveals that return on asset is unaffected by the gross domestic product, bank age, or size (0.0016, 0.0102, and 0.4577, respectively).	
Gnawali (2021)	To assess the relationship between non-performing loan and firm's financial performance in Nepalese commercial banks	Population: 42 Sample: 8 commercial banks (SIBs) Random effect regression model, Fixed effect model and Diagnostic test were used during the study.	The review tracked down issue of non-performing credits (NPL) has acquired expanding considerations over the most recent couple of many years. The prompt result of huge measure of NPLs in the financial framework is bank disappointment.	
Goet (2021)	To evaluate the determinants of banks	Population: 22 banks	LNLA and LNTD have a strong positive correlation (0.975),	

	lending behavior of selected joint venture banks in Nepal.	Sample: 6 Banks Regression and Correlation analysis	according to this study. The association among LNLA and IR is significant and negative (- 0.598). Additionally, this study demonstrates that LNTD and IR have a significant impact on LNLA, whereas CRR and ISR do not (P-value greater than 5%).
Swande wi Purnaw ati (2021)	To analyze the effect of non-performing loans on return on assets with a capital adequacy ratio as a mediator	Population: 31 Sample: 4 Banks Fixed Effects Model (FEM) and Random Effects Model (REM) were employed to test the relationship between variables	Negative credits represent 37.2% of the vacillation in the capital sufficiency proportion. Varieties in capital ampleness proportions and non-performing credit rates represent 35.2% of the variety consequently on resources; different elements excluded from the model record for 64.8% of the distinction.
Jati (2021)	to determine the effect of Non-Performing Loans and Capital Adequacy Ratio on Return on Assets at PT. Bank Victoria International	Population: 18 Banks Sample: 13 Banks the Hausman test, the random effects model	As indicated by the review's discoveries, non-performing advances essentially influence return on value by 60.4%. T count > t table, or (3.496 > 2.306), is the aftereffect of speculation testing. The Capital Adequacy Ratio has a significant impact on Return on Assets by 2.8%, as determined by hypothesis testing, or t count t table, or (- 0.477 > 2.306).
Bhattar ai (2020)	deals with the Non-performing loan (NPL) and its major problem in banking industry.	Population: 6 Sample: 5 banks on the Palestine Exchange	Three particular models' outcomes showed that ROE is fundamentally and adversely corresponded with NPL, Vehicle, and LIQ. Similarly, there is major areas of strength for a

			A general linear relationship among's SIZE and model of regression ROE. As to ROE, the INF, Cd shows test was conducted an ideal however immaterial to study the outcome. relationship between the variables.
Jha (2020)	to analyze the non- performing assets (NPAs) among state bank of India (SBI) and ICICI for which the secondary data is used	Population: 14 banks Sample: 14 banks Time of Study: 2010-2015 Dependent Variables: (ROA) Independent Variables: cost per loan assets, Capital adequacy ratio, Non-performing loan ratio, Cash reserve ratio, Bank size	According to the study, SBI bank's NPAs are growing faster than those of ICICI banks. As the extent of NPAs is expanding in SBI bank contrasted with the ICICI banks. SBI bank needs to offer consideration on their compelling attempting to contend with ICICI banks.
Sushmi ta (2020)	to compare the performance of Co-operative banks by analyzing the trends of Non- performing assets for the period 2008-2018.	Population: 56 Sample: 18 private commercial banks Ordinary least square (OLS) is primarily used in the study. Moreover, panel data involves two models which are OLS fixed effect	As opposed to the DCCBs, PACs, SCARDBS, and PCARDBS, the report noticed that the UCBs and StCBs have exhibited a prominent improvement in the administration of non-performing resources.

			model and OLS random effect model, Hansuman test, Basic panel linear regression model, Generalized Least Square (GLS).
Rizvi (2019)	highlights the interactions and interplay among the determinants of NPAs in the Indian banking sector	Population: 13 Jordanian listed banks Sample: A panel data analysis of both fixed and random-effect models and GLS method are employed for the study. The unit root tests were also used.	By distinguishing various factors and deciding how they communicate and connect with each other, the review will add to the assemblage of information and impact how the Indian financial area creates from here on out.
Shah, & Vongbu sin, (2019)	To investigate the impact of credit risk management on bank profitability in Nepalese commercial banks.	Sample: 26 commercial Banks (state-owned banks, privately-owned banks and foreign banks) Operating in Turkey. The Hausman test, the random effects model and regression analysis were used to determine	The result shows that the reliant variable, return on resources, has a negative relationship with the capital sufficiency proportion, influence proportion, non-performing credit proportion, and credit misfortune arrangement proportion. Essentially, there is a positive connection between's return on resources and credit interest to credit offices.

			relationship between variables.	
Adhika ri (2019)	To study the general reason for assets becoming NPA in NBL and BKLL.	Population: 29 Banks Sample: 15 Banks Regression analysis		As per the review, BKLL and NBL represent practically half of the resources and liabilities of the financial business. Even though these banks are being run by experts in global finance, the results aren't good enough, especially when it comes to reducing the number of non-performing assets.
Neupan e (2018)	to examine the trend and composition of non-performing assets of commercial banks.	Sample: 18 South African banks Time of Study: 2008 to 2018 Static panel data techniques, namely the pooled regression model (Ordinary Least Squares [OLS]), Fixed Effects Model (FEM) and Random Effects Model (REM) were employed to test the relationship between variables.		All through the review period, the absolute credit and advance sum showed a rising propensity, while the non-performing resources (NPA) of NABIL showed a rising pattern, except for the financial year 2012/13. The examination time frame's all's NPA rates have expanded, except for 2010-12.
Khanal (2017)	To examine the liquidity and assets	Population: 23 Sample: 15 commercial banks of Ghana		The ratio is deemed satisfactory because the study reveals that the bank's current assets have exceeded its current liabilities. Be that as it

	management of GIBL and SBI.	Correlation analysis, Multiple regressions with the Panel data analysis, Hausman specification test, fixed effect and random effect estimators are used in this research.	may, the money hold proportions have changed in serious level
Kjosevs ki & Petkovs ki (2017)	analyses the linkages between macroeconomic and bank-specific determinants of non-performing loans (NPLs) and their impact on macroeconomic performance	Population:10 years of PT Bank Sample: Saturated (i.e. financial statements for 10 years) The method used is explanatory research. The analysis technique uses statistical analysis with regression testing, correlation, determination, and hypothesis testing.	The discoveries infer that NPLs affect the genuine economy and that macroeconomic variables including Gross domestic product development, joblessness, expansion, and homegrown loaning to the confidential area have a huge criticism circle with NPLs.
Siraj & Pillai (2016)	To examined the performance of NPA in Indian banking during post-millennium period	Population: 41 banks Sample: 22 Banks Correlation analysis and regression analysis	The report recognized that non-performing resources (NPA) keep on representing a serious danger, and the steady part coming about because of NPA increases raises serious worries about the viability of

				Indian banks' credit risk the executives strategies.
Bhattar ai (2016)	lack of timely budgetary expenditure by the government and instable political environment increases the non-performing loan	Population: Sample: 19 banks Ordinary least Square method		Moreover, brokers accept that a higher Gross domestic product development rate will bring about a lower level of non-performing credits for Nepal's business banks.
Sharma (2015)	To evaluate the various financial ratios of the EBL and to determine the impact of deposit in liquidity and its effect on lending practices.	Population: 48 banks Sample: 24 banks Regression Analysis		The bank's cash and bank balance to current deposit ratio fluctuated during the study period, according to the findings. In a similar vein, the cash and bank balance to interest sensitive ratio of EBL fluctuates as well.
Ghimir e (2015)	To access the condition of NPA in NIMB and MBL and to analyze the impact of NPA on total assets, total deposit, total loan and advances, performing loan and net profit of selected banks.	Population:61 Sample:10 Commercial Banks Regression and descriptive statistics		The review reasons that nonperforming resources influence the Nepalese business banks' benefit. As the normal degree of NPA of NIMB is slowly low the net benefit is step by step expanding, trailed by MBL separately
Rana (2014)	to access assess total amount of	Population: banks	47	The investigation discovers that the store assortment of SVBL has

loan and to	Sample: 35 banks	essentially expanding pattern. There
evaluate the	Regression and	is a trend of constant growth.
performance of	correlation analysis	Throughout the entire year, total
SVBL in terms of	has been done	fixed deposits contributed more than
liquidity,		any other deposit.
profitability,		
sector wise loan,		
and non-		
performing loan		

2.3 Research Gap

It refers to a research gap in the preceding study. To start with, there is a contrast between the current review period and past examinations time span and the example banks. Something else is that they tracked down the particular setting of the circumstance. They couldn't have the option to survey hypothetical perspective appropriately on the field of the credit the executives. In order to conduct new research on loan management, this study was required. This study differs from previous ones because of this.

This study centers in examination of advance administration of Nepal Investment Mega Bank Limited, Nepal Bank Limited and Everest Bank Limited. This review is a progression of examination work in the field of investigation of non-performing resources which gives total and most recent data about non-performing resources of test banks. It will act as wellspring of reference for comparative field in future.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

Descriptive and casual comparative research was carried out on the loan management practices of Nepal Investment Mega Bank Limited, Everest Bank Limited, and Nepal Bank Limited in order to accomplish the specific objective of the study.

3.2 Population and Sample

The populace information for this study contains all recorded 20 business banks, which are right now working in Nepal from the mid February, 2024 (NRB Report). Only Nepal Investment Mega Bank Limited, Nepal Bank Limited and Everest Bank Limited—one joint venture banks, one private and one public—are included in the sample for the study. These two banks are thought to be Nepal's leading commercial banks at the moment.

3.3 Nature and Sources of Data

The study uses the secondary data to fulfill its objectives. The secondary data is gathered merely from

- Annual report of selected commercial banks.
- Website of Nepal Rastra Bank.

3.4 Method of Data Analysis

To make the study more specific and reliable, the researcher uses two types of tool for analysis,

Financial Tools

Statistical Tools

3.4.1 Financial Tools

Monetary examination is the approach to seeing the monetary strength and shortcoming of the firm by laying out a relationship to the things found in benefit and misfortune record and Asset report. Numerous proportions reflecting to the term credit is evaluated to represent the outcome that has been come about subsequent to overseeing or controlling advance.

3.4.2 Statistical Tools

The statistical tool is essential to measure the relationship of two or more variable. It is the mathematical technique used to facilitate the analysis and interpretation of the performances of the organizations. It also helps to present the data, show the relation and deviations or differences of variables of organizations. In this research study some statistical tools are used for the analysis of the data more accurately, which are given below.

Arithmetic Mean

The arithmetic mean or simple mean of set of observations in the sum of all the observation divided by the number of observations. It is the best value, which Represent to the whole group means is the arithmetic average of a variable. Arithmetic mean of a series is given by:

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

Where,

\bar{X} = Sum of the variables 'x'

N = No. of Observation

Standard Deviation

The standard deviation is the absolute measure of dispersion in which the drawback present in other measure of dispersion as it satisfied most of the requisites of a good measure of dispersion. Standard deviation is defined as the positive square root of the mean as square of the deviation takes from the arithmetic mean. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the standard deviation Higher will be the variability and vice versa. Dispersion measures the variation of the data from the central value. In other words, it helps to analyze the quality of data regarding its variability. It is calculate as:

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

Coefficient of Variation (CV)

Standard deviation is the absolute measure of dispersion. The relative measure of dispersing based on the standard deviation is known as the measurement of coefficient of standard deviation. The percentage of measure of co-efficient of so is called co- efficient of variation.

Less CV is the more uniformity and consistency and vice versa. Only standard deviation is not appropriate to compare two pairs of variables but also CV is capable to compare two variables independently in terms of their variability. It is calculated as under:

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\text{Mean}} \times 100$$

Correlation Coefficient (r)

Correlation coefficient is defined as the association between the independent Variable and independent variable. It is a method of determining the relationship between these two variables. If the two variables are so related change in the value of independent variable cause the change in the value of dependent variable then it is said to have correlation coefficient.

$$\text{Correlation Coefficient (r)} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

Regression Analysis

Regression analysis is a set of statistical methods used for the estimation of relationships between a dependent variable and one or more independent variables. It can be utilized to assess the strength of the relationship between variables and for modeling the future relationship between them.

It can be express in following Equation:

$$Y = a + b_1X_1 + b_2X_2 + \dots + e$$

Where,

Y = Dependent Variables

a = Intercept or Average

b1, b2.... = Slope of

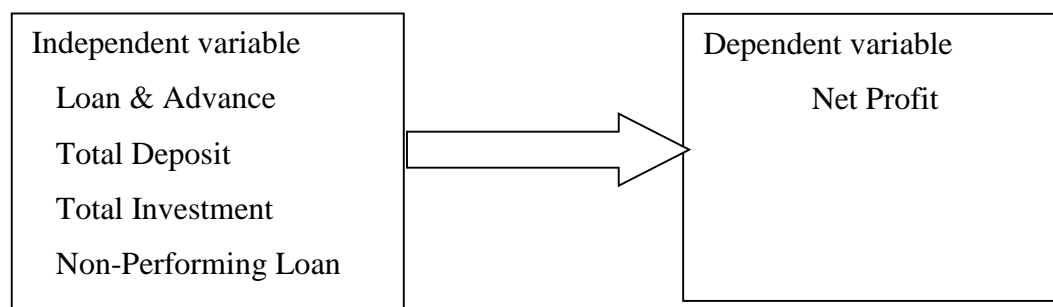
X1, X2... = Independent Variables

e = Error

3.5 Research Framework and Definitions of variables

Figure 1

Research Framework



(Source: Kolade, 2012)

Variable Specification

Net profit

Subsequent to deducting interest, charges, functional costs, and devaluation from complete incomes, an organization's benefit is determined as net benefit. Each bank puts forth a deliberate attempt to raise Net Benefit.

Loan and Advances

Real estate, business, and consumer loans are just a few of the kinds of loans that banks provide. The two advances and credits are unstable and gotten. Advances and credits got by versatile and resolute property, monetary organization ensures against trade documentation, endorsements of fixed store, government protections, and individual certifications are undeniably utilized as insurance. Banks offer unsecured loans and advances based on the creditworthiness and track record of borrowers.

Deposits

Deposits are what draw people's unused savings to banks. Deposits account for a sizable portion of the bank's total funding sources. Therefore, a bank's viability depends on its ability to attract stores. Banks' capacity to make a profit is determined by the variety and quantity of their deposits. In Nepal, banks offer a wide range of deposit account options to customers. Different banks may offer different kinds of deposits. Margin deposits, call deposits, hybrid deposits, term/fixed deposits, savings deposits, and current deposits are the five main types.

Investment

At the point when we discuss speculations, we suggest the responsibility of assets by banks to different protections like offers, corporate securities, government securities, and depository bills, among others. Securities were purchased by banks for trading, selling, and earning profits. Therefore, there are three types of investments: T-bills, saving bonds, bonds issued by Nepal Rastra Bank, shares, bonds, and company debentures are among the government assets in which funds from Nepalese commercial banks are invested. Foreign securities can also be invested in.

Non-performing loan

A loan is deemed non-performing when the principal and interest payments are overdue by more than ninety days. A loan is deemed non-performing if it is not repaid within a specified period of time under applicable law. For the beyond couple of many years, monetary foundations' non-performing credits (NPL) have been seen as a difficult issue in Nepal. Bank disappointment is the immediate consequence of an elevated degree of non-performing credits in the financial framework. One proportion of its exhibition is the amount of non-performing advances. A lower NPL demonstrates further developed bank monetary sufficiency. An elevated proportion of non-performing loans is a sign of poor financial health and, possibly, economic disaster.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

The examination of information gathering and show is shrouded in this part. An endeavor has been made to evaluate the business banks' credit the executives in this part. The study's primary focus is on data analysis and presentation. After natural information is introduced in an understandable way, the objective of this part is to assess and explain the assembled information to achieve the review's objective. Information gathered from various sources have been placed into a table and shown in an outline for this examination.

The data have been analyzed using a mix of financial and statistical methods. Appropriated tables have moreover given a synopsis of the calculation's results. An attempt is made, specifically with regard to Nepalese commercial banks, to analyze and diagnose Nepal's most recent commercial banks against the backdrop of the reading and literature study from the preceding chapter. The computing samples for each model are contained in the appendices. From the list of commercial banks, only EBL, NBL and NIMB have been chosen as examples. Different tables and figures (graphs) are made to streamline and work on the comprehension of the result.

4.1 Descriptive Analysis

Table 3 displays the descriptive statistics for the following metrics: mean, maximum value, minimum value, standard deviation for net profit, non-performing loan (NPL), deposit, investment, loan and advance (L&A).

Table 3

Descriptive statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Loan & Advance	30	39036.00	302874.00	109884.47	55405.68
Total Investment	30	6504.00	61254.00	26067.67	13749.03
Total Deposit	30	62108.00	354414.00	136981.00	61248.73
Non-performing Loan	30	153.00	13750.00	2128.40	2602.47
Net Profit	30	484.00	3797.00	2576.43	849.17

(Source: Annual report of respective banks)

The descriptive statistics table pertaining to the performance of the bank is displayed in Table 2 and provides an overview of the salient features of each variable in the dataset. Six variables are listed in the table: Net profit, loan and advance, total deposit, total investment, non-performing loan.

The average value of every variable is denoted by the term "Mean". To illustrate the average net profit over the studied, the mean net profit is 2576.43. In a similar vein, the averages for the loan and advance, total deposit, total investment, non-performing loan, respectively, 109884.47, 26067.67, and 158686.20.

The maximum value recorded for every variable is indicated by the term "Maximum". As an illustration, the maximum net profit of 3362 is the highest of the 10 fiscal years.

For every variable, the "Minimum" displays the lowest value that has been seen. For example, the lowest net profit price among the 10 fiscal years is indicated by the minimum net profit of 3362.

The dispersion or spread of data points around the mean is measured by the "Std. Dev." (Standard Deviation). It offers details regarding the data's variability. For instance, the net profit standard deviation is 651.686, indicating that the net profit values fluctuate somewhat close to the mean value.

4.2 Coefficient of Correlation

The statistical method used to quantify the relationship between two or more population or sample variables is correlation. Stated differently, it indicates the extent to which two variables have a linear relationship. The degree of relationship between two sets of figures is measured by the coefficient of correlation. Karl Pearson's approach is used in the study among the several techniques for determining the coefficient of correlation. Coefficient of correlation results are always in the range of +1 and -1. A perfect relationship exists between two variables when $r = +1$ and vice versa. There is no relationship between the two of them when $r = 0$.

Table 4

Correlation Coefficients

Variables	L&A	TD	TI	NPL	Profit
Loan and Advance Sig. (2-tailed)	1				
Total deposit Sig. (2-tailed)	.859** .000	1			
Total Investment Sig. (2-tailed)	.991** .002	.892** .000	1		
Non-Performing Loan Sig. (2-tailed)	.735** .000	.605** .000	.760** .010	1	
Net profit Sig. (2-tailed)	.649* .000	.455* .012	.618** .000	.398* .030	1

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

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

Source Appendix III

Table 4 offers important information on how the variables under investigation relate to one another. The linear relationship between two variables is measured by the correlation coefficient, which also indicates its direction and strength. The six variables in this context are Net profit, loan and advance, total deposit, total investment, non-performing loan and size of banks. The correlation matrix looks at the relationships between these variables.

According to the data, net profit shows strong positive correlations with the loan and advance (0.685), total deposit (0.645), and size (0.674), indicating a slight tendency for these variables to move in the same direction. These correlations' respective p-values of 0.029, 0.044, and 0.032 indicate that they are statistically significant. Conversely, net profit and NPL have a relatively weak positive correlation (0.451), suggesting a considerable propensity for higher profit to be related with lower NPL. With a p-value of 0.191, this link is statistically insignificant.

Lastly, total investment exhibit a moderate positive correlation (0.511), indicating that higher investment are associated with lower profit. This correlation is statistically insignificant (p-value = 0.131).

4.3 Regression Analysis

The average association between two or more variables expressed in terms of the original data units is determined mathematically through regression analysis. Regression can

therefore be defined as the estimation or forecast of one variable's value based on the known value of another variable. The link between each independent variable; loan and advance, total deposit, total investment, non-performing loan and size of banks. Net Profit, is assumed by the regression model utilized in this study. The study's model would be described as follows:

Impact of Loan & Advance, investment, deposit and NPL on Profit through Regression Analysis

A collection of statistical techniques called regression analysis is used to estimate the associations between a dependent variable and one or more independent variables. It can be used to simulate the future relationship between variables and evaluate how strongly the variables are related to one another. Profit is regarded as the dependent variable in this study, whereas loan and advance, total deposit, total investment, non-performing loan and size of banks are regarded as the independent variable.

It can be express in following Equation:

$$Y = a + b_1L\&A + b_2TI + b_3TD + b_4NPL + \dots e$$

Where,

Y = Dependent Variables i.e. Net Profit

a = Intercept or Average

b1, b2, b3, b4.... = Slope of

X1 i.e. L&A = Loan and Advance

X2 i.e. TI = Total Investment

X3 i.e. TD = Total Deposit

X4 i.e. NPL = Non-performing Loan

e = error

Table 5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.707a	.500	.396	659.94346

a. Predictors: (Constant), Non-performing Loan, Total Investment, Loan & Advance, Total Deposit

The percentage of net profit variability that may be accounted for by loan and advance, total investment, total deposit, and non-performing loan is represented by r^2 . The degree to which the connection is dependable and how much it is influenced by the inclusion of independent variables is assessed using adjusted R-squared. Adjusted r-squared will go down as more pointless variables are added to the model, but it will go up if more helpful variables are added. The magnitude of an independent variable's effect on a dependent variable is indicated by the size of its coefficient. The direction of the influence is indicated by the coefficient's sign (positive or negative).

Table 6

ANOVA Table

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10458910.478	5	2091782.096	4.803	.003b
	Residual	10452608.888	24	435525.370		
	Total	20911519.367	29			

a. Dependent Variable: Net Profit

b. Predictors: (Constant), Non-performing Loan, Total Investment, Loan & Advance, Total Deposit

The ANOVA table shows the overall summary and significance of dependent variable and independent variable. In this table, it indicates that the impact of independent variable i.e. Loan & Advance, total investment, total deposit, non-performing loan on dependent variable i.e. Net Profit is statistically insignificant at significance level 0.05 i.e. 0.003. Thus, obtained p-value should be below 5% significance level to conclude significant relation between these variables.

Table 7

Regression Coefficients

	Model	Unstandardized		Standardize		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	1486.419	472.040		3.149	.004
	Loan & Advance	.014	.020	.919	.706	.487
	Total Investment	-.025	.023	-.411	-1.102	.281
	Total Deposit	-.016	.024	-1.129	-.649	.522
	Non-performing Loan	-.051	.080	-.156	-.636	.531

a. Dependent Variable: Net Profit

Source: Appendix V

Regression analysis output: coefficient

The linear equation of this model is,

$$Y = a + \beta_1 L\&A + \beta_2 TI + \beta_3 TD + \beta_4 NPL + \beta_5 TA + \dots e$$

$$\text{Net Profit} = 566.764 + 0.049X_1 + 0.024X_2 - 0.048X_3 + 0.409X_4 - 0.033X_5$$

The coefficient of determination r^2 indicating the percent of how much of the Net Profit is explained by the independent variable is 0.795 i.e. 79.50%. The negative coefficient of deposit and size tends to decrease the net profit. As table above, the loan and advance, investment, deposit, NPL and size of bank as independent variable is statistically insignificant because their p-value is equal to 0.291, 0.838, 0.505, 0.679 and 0.691 which is more than significance level 5%. From above interpretation of regression model, it conclude that there is negative impact of deposit and size on Net Profit and positive impact of loan and advance, investment and NPL on net profit.

4.4 Major Findings

On the basis of above analysis of data, the study has following findings made.

- Under descriptive statistics, concluded that NIMB is more successful to mobilize its total deposit as loan and advances and earning more interest income but the bank may not have enough liquidity to cover any unforeseen fund requirements than that of EBL and NBL.
- While examining the data through correlation analysis, we found significant relation between loan and advance and non-performing loan of NIMB but insignificant relation of EBL and NBL. Similarly we found significant relationship between Total Deposit and Loan and Advances of sample commercial banks.
- The multiple regression is applied in this study and the decision to be taken depends on the P values obtained. As table above, the loan and advance, investment, deposit, NPL as independent variable are insignificant because their p-value is equal to 0.487, 0.21, 0.522 and 0.531 which is less than significance level 5%.
- Similarly while analyzing the credit efficiency of Nepalese Commercial Banks through the help of profitability ratios we found that the mean ratio for return on assets of EBL is highest which indicates that, EBL could manage their overall operations better than that of NIMB and NBL.
- While analyzing the credit efficiency of Nepalese Commercial Banks through the help of activity ratios we came to conclusion that bank with higher ratio of loan and

advances to total deposit indicates earning more interest income whereas lower ratio indicates strong liquidity position, so NBL is more successful in earning interest income but the bank may not have enough liquidity to cover any unforeseen fund requirements than that of EBL and NIMB.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Loans and advances dominate the asset side of balance sheet of any bank. Similarly earnings from such loans and advances occupy major space in the income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world due to shrinkage in the value of loan and advances. Hence loan is known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. The purpose of the loan management policy is to define rules on all steps that are likely to generate business risk by committing financial resources. This is done in order to manage credit risk and to minimize them. Well managed, a risk can become an opportunity. Therefore in order to survive and to achieve desired profit bank should focus on proper loan management. All of their profitability position is heavily influenced by the proper management of loan. Deposit from public are the major source of loan amount so bank should provide attractive interest rate in order collect more deposit. Interest on deposit is expenses to the bank and interest on loan is major source of income. There bank loan management should carefully analyze the market situation and determine the rate of interest charged on deposit and loans and advances since it significantly impact on their profitability position. Similarly bank should carefully disburse the loan to the safe and productive sector in order to minimize the risk and to earn desired profit.

This research was conducted to study the credit risk and financial performance of Nepalese Commercial Banks. For this purpose we have analyzed the credit efficiency ratios, examined the relationship of loan and advances with total deposit and non-performing loan and finally we have analyzed the impact of loan and advance, investment, deposit, NPL and size of banks on net profit of three commercial banks i.e. EBL, NBL and NIMB are selected as a sample out of 20 commercial banks of population at the end of 30st, Kartik, 2080. Major reason to select these particular banks for the study is mainly because of accessibility and availability of financial data for last ten fiscal years. Based on the several articles and journals, appropriate variables were selected for the analysis. Each of the variables was properly defined. In this study, dependent and independent variables which have not been used in previous studies were added i.e. Net profit as dependent variable and loan and advance, investment, deposit, NPL and size of banks as independent variables.

Similarly, to fulfill the objective of the study, descriptive and explanatory research design has been adopted and an appropriate research methodology has been developed and applied which includes financial analysis and statistical tools. The data collected from secondary sources are recorded systematically and presented in the appropriate tables as prescribed by APA 6th edition to analyze and interpret the data. For the reliable result of the study, 10 years secondary data has been analyzed, interpret and discussed. Based on financial and statistical tools, a researcher has found the evidence of significant relationship between Total Deposit and Loan and Advances of all three sample commercial banks and found significant relation between loan and advance and non-performing loan but insignificant relation deposit and net profit. From interpretation of regression model, it is concluded that there is negative and insignificant relation between dependent variable i.e. Net Profit and selected independent variables i.e. the loan and advance, investment, deposit, NPL and size of bank.

In the final chapter of the study, the chapter briefly explains the summary of the study and tries to fetch out conclusions and attempts to shows the implications of the study to other users of this research study.

5.2 Conclusion

This research was conducted to study the Loan Management of Nepalese Commercial Banks. On the basis of our research objectives following conclusion has been made.

While examining the data through correlation analysis, we found significant relationship of Total Deposit and Loan and Advances of sample commercial banks. It shows the positive relationship between these variables of sample banks. The positive relationship shown by their correlation coefficient points out the fact that the changes in each variable are taking place in the same direction, i.e., an increase in total loan is supported by an increase in the total deposit. Similarly we found significant relation between loan and advance and non-performing loan but insignificant relation of deposit and net profit. It suggest us to maintain good quality of assets in total volume of loan and advances as it helps to minimize the credit risk.

The study analyze the impact of loan & advance, investment, deposit, NPL and bank size on net profit of Nepalese Commercial Banks. The major independent variables used for the study are Loan & Advance, total investment, total deposit, non-performing loan and size of bank. On the other hand, Net profit has been selected as dependent variable. The multiple regression is applied to study and the decision to be taken depends on the P values obtained. We came to conclusion that the NPL, Total Deposit and size of bank as independent variable is statistically significant because their p-value is equal to 0.005, 0.006 and 0.016 which is less than significance level 5%. On the other hand, total investment is also statistically significant at significance level of 10%. But Loan and Advance is not significant even at 10% significance level i.e. 0.209. Thus it suggest us to reduce the non-performing loan and size of bank to increase the profit and increase the amount of deposit to generate more profit. From interpretation of regression model, it is conclude that there is negative relation between dependent variable i.e. Net Profit and selected independent variables i.e. total investment, NPL and size. But total deposit and loan and advance have positive relation with Net Profit.

The data derived from this study highlight the importance of Loan Management of the Nepalese Commercial banks. The study reveals that the BFIs follow the lending principles as mentioned in chapter 5 sections 55 of BAFIA 2073, guidelines provided by monetary policy & directives issued by Nepal Rastra Bank, as well as 5C and other prevailing laws before disbursing loans and advances to individuals or organization to prevent credit risk.

5.3 Recommendation

In an attempt to study the Loan Management of Nepalese Commercial Bank, this study has been able to document the significant influence of various variables as mentioned above. Since bank deals with other people money, the findings of this study is equally important for the promoters of banks, regulators, depositors and many others. Thus, based on the result and findings obtained from this study, following set of recommendations are offered:

- Study provides reliable information to the investors and stakeholders of the commercial bank to make rationale and sound financial decision.
- This research study will facilitate the management of the commercial banks to create and carry the plans and policies and restructure it accordingly.

- The findings of this study will be valuable to the academicians, who may find useful research gaps that may stimulate interest in further research in the same topic.
- It will be useful to spread the financial literacy to the readers regarding the credit risk management and its impact for various other purposes.

This study is expected to give valuable insight specifically to the students of business management.

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APPENDICES

Appendix – I

NIMB	Loan and Advance	Total Deposit	Total Investment	NPL	Net Profit
2013/14	52019	73831	15384	947	1940
2014/15	66219	90631	21463	844	1962
2015/16	85461	108627	29227	593	2551
2016/17	104625	125669	25616	888	3114
2017/18	120826	140328	13742	1665	3659
2018/19	127141	152183	17227	3641	3324
2019/20	140002	168824	26332	4199	2423
2020/21	156816	174558	36023	3858	3558
2021/22	157157	184791	45399	2342	3797
2022/23	302874	354414	61254	13750	3721

EBL	Loan and Advance	Total Deposit	Total Investment	NPL	Net Profit
2013/14	47572	62108	6504	470	1550
2014/15	54482	83094	15103	367	1574
2015/16	67955	93735	18199	264	1730
2016/17	77288	95094	11964	199	2006
2017/18	94183	116428	15552	188	2582
2018/19	112007	130177	21748	177	3054
2019/20	119069	144728	29193	266	2516
2020/21	127687	160220	31964	153	1771
2021/22	145480	172739	36867	175	2429
2022/23	159479	198008	40930	1260	3362

NBL	Loan and Advance	Total Deposit	Total Investment	NPL	Net Profit
2013/14	39036	69,338	22664	2045	717
2014/15	50971	77,999	16902	2610	484
2015/16	50971	77,999	12843	2028	2883
2016/17	61250	89410	12181	1905	3118
2017/18	78296	99831	16248	2638	3216
2018/19	95725	118275	16426	2527	2597
2019/20	106825	142989	32596	2638	2333
2020/21	135420	162813	30009	2776	2961
2021/22	177641	196075	42787	3251	2923
2022/23	182057	244514	59683	5188	3438

Appendix – II

Relationship between L&A, NPL, Deposit, Investment and Net Profit

Variables		LA	TI	TD	NPL	NP
LA	Pearson Correlation	1	.859**	.991**	.735**	.649**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	30	30	30	30	30
TI	Pearson Correlation	.859**	1	.892**	.605**	.455*
	Sig. (2-tailed)	.000		.000	.000	.012
	N	30	30	30	30	30
TD	Pearson Correlation	.991**	.892**	1	.760**	.618**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	30	30	30	30	30
NPL	Pearson Correlation	.735**	.605**	.760**	1	.398*
	Sig. (2-tailed)	.000	.000	.000		.030
	N	30	30	30	30	30
NP	Pearson Correlation	.649**	.455*	.618**	.398*	1
	Sig. (2-tailed)	.000	.012	.000	.030	
	N	30	30	30	30	30

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

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

Impact of Loan & Advance, investment, deposit and NPL on Net Profit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.707a	.500	.396	659.94346

a. Predictors: (Constant), Non-performing Loan, Total Investment, Loan & Advance, Total Deposit

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	10458910.478	5	2091782.096	4.803	.003b
Residual	10452608.888	24	435525.370		
Total	20911519.367	29			

a. Dependent Variable: Net Profit

b. Predictors: (Constant), Non-performing Loan, Total Investment, Loan & Advance, Total Deposit

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	1486.419	472.040		3.149	.004
	Loan & Advance	.014	.020	.919	.706	.487
	Total Investment	-.025	.023	-.411	-1.102	.281
	Total Deposit	-.016	.024	-1.129	-.649	.522
	Non-performing Loan	-.051	.080	-.156	-.636	.531

a. Dependent Variable: Net Profit

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