CHAPTER I

INTRODUCTION

1.1 General Background

Non-performing Assets [NPA] means the amount of loan that the individual Commercial bank had provided and the consumer has not paid it until the time is already matured. Once the distributed loan is not returned timely by clients and becomes overdue then, it is known as Non-Performing Assets for the bank. Reduction of NPA has always been a significant problem for every commercial banks and proper attention for the management of the NPA now has got the top priority. Due to various hurdles on the way of management of NPA, commercial banks are now losing their profitability and struggling for the existence. Authentic history of banking tells that it deals with lending and collection of money. However, it followed the basic law of demand and supply where persons having excess money lent to persons who needed it for more productive purposes and were willing to pay a price for this. The operations were limited to the money lender knowing every person he lent money to.

Non-Performing Assets are also called as Non-Performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time, a loan is classified as past due and once a payment becomes really late (usually 90 days), the loan is classified as non-performing. A high level of nonperforming assets, compared to similar lenders, may be a sign of problems, (Sing, 2016)

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

Loans and advances granted by commercial banks are highly beneficial to individuals, firms, companies and industrial concerns. The growth and diversification of business activities are effected to a large extent through bank financing. Loans and advances granted by banks help in meeting short-term and long term financial needs of business enterprises. Granting loans and advances for economic growth is the prime duty of banks. Lending by the banking sector is generally encouraged because it has the more effect of funds being transferred from the system to productive purposes, thereby the economy grows. However the process of lending also carries a risk called credit risk, which arises from the failure of borrower. Non-performing Asset refers to loans that are in risk of default, (Ibrahim & Thangavelu, 2014)

Profitability is main outcome for any business. However it is a benchmark for banking industry and NPAs has direct impact on profitability of bank as legally banks are not allowed to book income on such accounts at the time banks are force to make provision on such asset as per the reserve bank of India (RBI) (Balasubramaniam, 2012)

NPA may be defined broadly as the bad debt; however, in terms of banking sector consists of those loans and advances which are not performing well and likely to be turn as bad debt. NPA has severe impacts on the financial institutions. On the one hand, the investment becomes worthless as expected return cannot be realized and on the other, due to the provision required for the risk mitigation the profitability is directly affected. The existence of the bank can be questioned in this situation. Thus, interest along with principal has to be recovered timely and without any obstacles. The idea of “bail-in” in cases of serious banking instability has been widely discussed in India ever since the introduction of the financial Resolution and deposit Insurance

Bill. Given the large non-performing loans of public sector banks, the government of India and the Reserve bank of India as the regulatory authority have to quickly act to ensure that public confidence in the soundness of commercial banks is not breached (Vasudevan, 2018).

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

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

1.2 Statement of the Problems and Research Questions

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

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

1. What is the recent trend of the NPA and the net profit of the selected commercial banks in Nepal?
2. What is the impact of NPA on net profit of the selected commercial banks in Nepal?

1.3 Purpose of the Study

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

1. To analyze the recent trend of the NPA and net profit of the selected commercial banks in Nepal.
2. To analyze the impact of NPA on net profit of the selected commercial banks in Nepal?

1.4 Significance of the Study

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

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

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

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

1.5 limitations of the Study

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

1. Data are taken from banks secondary sources (like financial reports, websites etc.).
2. The study would mainly focus Non-Performing assets of Commercial Bank of Nepal and doesn't cover other aspects.
3. This study has taken 4 commercial banks among 28 commercial banks.
4. This research is based on data and information of only five fiscal years.

1.6 Chapter plan

The study on relationship between NPA and profitability of commercial Banks has been divided into five chapters respectively; Introduction, Literature Review, Methodology, Results and Conclusion.

Chapter-I: Introduction

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

Chapter-II: Literature Review

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

Chapter-III: Methodology

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

Chapter-IV: Results

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

Chapter V: Conclusion

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

CHAPTER - II
REVIEW OF LITERATURE

The review of literature for the concerned subject matter for the present study has been presented in this chapter. Here, in this chapter review of concept of financial performance tools and techniques of concept of liquidity and profitability performance related research studies, regulating relating to commercial banks is strived to present briefly. The main purpose of doing research is reviewing and gaining new knowledge and the reviewing. The literature of the related documents helps the researcher to reach near his purpose. This chapter highlights upon the existing literature.

2.1 Theoretical Review

2.1.1 Concept of Non-Performing Assets

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

NPA is an advance which is considered written off, for bank has made provisions, and which is still held in banks' books of account. Gross NPA (non-performing asset) refers to overall quantity of loans that have gone bad debts. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss asset. an asset makes non-performing when it stops to generate income for the bank. Recently an asset was measured as non-performing asset (NPA) stand on the concept of 'Past Due'. A non-performing asset was examined as credit in respect of which interest of principal has remained ‘past due’ for a particular time, (Dudhe, 2017).

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

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

Likewise, the term loan is defined as a lending, a sum of money, Delivery by one party and receipt by another party upon agreement expressed to implied, to repay it with or without interest, (Boerne & Colwell, 1997).

NPAs affect profitability, liquidity, and solvency of the bank. Continuous decline in profitability due to increase in NPAs would ultimately jeopardize the viability of the bank. Mounting NPAs reduce the interest spread of the bank (Brahmananda, 1999).

2.1.2 Classification of NPA

Nepal Rastra Bank has published Unified Directives 2075 and has addressed various changes for the banks and financial institutions. As per the unified directives, the loans which have defaulted their payment by 1 month are to be excluded from the 'Pass' loan category. Previously, loans that have missed out their payments upto 3 months were termed as pass loan. So, the banks and financial institutions need to create a provision of 5% in case the delay in payment exceeds 1 month. Pass and watch list loans and advances are categorized as performing loans while other are classified as non -performing loan.

As per NRB directives 2075 the NPA of bank is classified as below:

1. Pass

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

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

2. Watch list

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

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

3. Substandard

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

4. Doubtful

Loans and assets in this category have all the weaknesses inherent in substandard assets but the loans are not well-secured. Weaknesses make collection in full highly questionable and improbable on the basis of existing facts, conditions, and value. The possibility of loss is high, but the actual amount of loss cannot be fully determined because specific pending factors may mitigate. Pending factors may include a merger, acquisition, or liquidation; a capital injection; obtaining additional collateral; or refinancing. If pending events do not occur within 180 days and repayment must again be deferred, Loss classification is warranted.

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

5. Loss

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

- Any asset which is past due 1 year or more shall be classified as Loss

Furthermore the provision made for the NPA according to their classification is as below:

Table 2.1 Classification of Loan and Advances.

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

Source: Nepal Rastra Bank, Unified Directives 2075

2.2 Concept of Profitability

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

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

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

Profitability ratio indicates the degree of success in achieving desired profit. It furnishes answers to how efficiently the bank is being managed. Although profitability ratio mainly studies the earning power of the bank, it depicts almost entire performance of the bank, (Khan & Jain, 2010).

Relationship between Non-Performing Assets and Profitability

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

Profitability Impact:

- The resources locked up in NPA are borrowed incur a cost and need a minimum return to service this cost.
- NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirements.
- Since they do not earn interest they bring down the yield on advances and the net interest margin or spread.
- NPA have a direct impact on assets and return on equity, which are the two main parameters for measuring profitability of the Commercial Banks.

- NPA do not yield any return that has direct impact on Return on assets being calculated in total assets.
- Return on equity is also affected as provisioning eats more and more into profits earned.
- The cost of maintaining these include administration costs, legal costs and cost of procuring the resources locked in them.
- NPA bring down the profits, affects the investor's value and thus, adversely affect the shareholders confidence.

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

- Lower ROE and ROA
- Lower image and rating of Banks
- Disclosure reduces investor's confidences
- Increases costs/difficulties in raising capital.
- NPA do not generate income.
- They require provisioning
- Borrowing cost of resources locked in
- Opportunity loss due to non-recycling of funds.
- 100% risk weight on net NPA for CRR
- Capital gets blocked in NPA
- Utilizes capital but does not generate income to sustain the capital that is locked
- Recapitalization by government comes with string.
- Administration and recovery costs of NPA

Effects in employee morale and decision-making, (Ghimire, 2005)

2.3 Review of Related Studies

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

2.3.1 Review of Journal and Articles

Pyakuryal (2001) has stated in his article entitled 'Our Economy is in a Volatile Stage' that the banks have not able to collect their overdue due to the increasing cumulative NPAs in Nepalese commercial banks. There is no additional demand of the investment due to the higher risk and present uncertainty. According to his article, revenue collection was negative and regular expenditure was higher than the revenue during that time which indicated volatility of the economy. Even before the declaration of emergency, the government didn't have surplus revenue to pay for the remuneration and benefits of retired civil servants. Up to 65% of the country's development expenditure was being financed by foreign aid. He also predicted that if Nepal couldn't meet the regular expenditure through its revenue, it would be very difficult to convince the donor community. This could push the society toward what is called a 'mass unrest society.' He also added the need to establish some kind of Asset Management Company to take over the non-performing assets (NPAs) of the government-owned banks.

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

Pradhan (2058) expressed that unless the growth of NPA is kept in control, it has the potential to cause systematic crisis. He has mentioned that a dream of globalization led to huge investment which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate bodies misused the credits and delayed payments and contributed indirectly for enhancing NPA ratio. He further argues that lack of vision in appraisal of proposal while loan sanctioning, reviewing or enhancing credit limits, absence of risk management policy of financing, concentration of credit in few group or parties and sector, lack of coordination among various financiers, lack of initiatives to take timely action against willful defaulters, indecision on existing out of bad loans for fear of investigating agencies like special police, CIAA, Public Accounts Committee of the parliament have also contributed in whatsoever measures to the worsening situation of NPA front. He further pointed out that most crucial reason for the increase in the NPA is the shabby and defaulter friendly legal system. Suggesting the remedy of NPA, he adds that administrative system should be strengthened. Legal reforms should be made and Assets Reconstruction Company should be formed. Henderson (2003) CEO of RBB during his interview to New Business Age agrees that the challenging target of RBB turn around in restructuring and collection of NPA.

Khadka (2004) has explained about the topics in which he had objectives to study and examine the level of NPAs in total assets, total deposits and total lending of commercial banks. He also had studied whether the Nepalese Commercial Banks have been following the directives of NRB regarding loan loss provision for non-performing loan/ assets or not. He had taken sample banks as Nepal SBI Bank Limited, Nepal Investment Bank limited, Nepal Bangladesh Bank limited, Bank of Kathmandu limited, Nabil Bank Limited. From his studies, it is found that the level of NPA of Nepal Bangladesh limited seemed greater than all of the other banks under his study. Similarly, Nepal SBI Bank and Bank of Kathmandu stand at second and third position respectively. The position of Nabil Bank limited seemed to be quite satisfactory because, the bank has been reducing its NPA every year. NPA of Nepal Investment Bank stands at minimum than that of all the other banks. From the study it has also been found that none of the banks have been following the directives of NRB regarding the loan loss provision. Despite of high level of NPA the loan loss provision made by the Nepal Bangladesh Bank seemed to be quite satisfactory than any of the other banks. Despite of the outstanding success in managing the NPA the loan loss provision made by Nepal Investment Bank is not considerable. It meant the loan loss provision of Nepal Investment Bank is very less than the requirement.

Sapkota (2004) has highlighted the fact of NPA as being less in private banks in comparison to public banks. He has mentioned that the NPA of two big nationalized banks (NBL and RBB) was about 60% and the loans were in very serious situation. He further added that in order to improve this situation and to make healthy banking environment, financial reform program had been brought; as its consequences, the management of these two big banks was handed to foreign company on a contract but the ratio of NPL was not reduced.

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

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

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

Abdelrahim (2013) identified various challenges regarding the effectiveness of credit risk management that are of vital importance to Saudi banks. They include: low quality of assets, inadequate training, weak corporate governance, lack of credit diversification, granting credit ceiling exceeding customer’s repayment capacity, absence of risk premium on risky loans, priority of loan guarantees at expense of customer repayment capacity, absence of analysis of customer’s financial position, corruption of some credit officers and priority of profit at expense of credit safety. To alleviate these challenges, he recommends for Saudi Arabian banks to have a comprehensive strategy for managing credit risk, to strengthen the role of credit risk committee, to implement Basel III accord, and to adopt available sophisticated technique to mitigate credit risk.

Samir and Karma (2013) aim to analyze the trends in NPAs in terms of values, gross and net NPAs as a percentage of gross advances and net advances, gross and net NPAs as a percentage of Total Assets respectively. With the introduction of international norms for income recognition, asset classification and provisioning in the banking sector, managing NPAs has emerged as one of the major challenges facing Indian banks. Banks today are judged not only on the basis of number of branches and volume of deposits but also on the basis of quality of assets. Non-performing assets constitute a major portfolio of the Banks portfolio and hence are an inevitable burden on the banking industry. NPAs adversely affect the profitability, liquidity and solvency of the banks. This paper analyses the position of NPAs in selected banks namely State Bank of India (SBI), Punjab National Bank (PNB) and Central Bank of India (CBI).It also highlights the policies pursued by the banks to tackle the NPAs and suggests a multi-pronged strategy for speedy recovery of NPAs in banking sector.

Selvarajan & Vadivalagan (2013) the magnitude of the problem of bad debts was not taken seriously. Subsequently, following the recommendations of Narasimham committee and Verma committee, some steps have been taken to solve the problem of old NPAs in the balance sheets of the banks. It continues to be expressed from every corner that there has rarely been any systematic evaluation of the best way of tackling the problem. There seems to be no unanimity in the proper policies to be followed in resolving this problem. There is also no consistency in the application of NPA norms, ever since these have been recognized. Non-performing Assets are also called as Non-performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. The problem of NPA is not limited to only Indian public sector banks, but it prevails in the entire banking industry. Major portion of bad debts in Indian Banks arose out of lending to the priority sector at the dictates of politicians and bureaucrats. If only banks had monitored their loans effectively, the bad debt problem could have been contained if not eliminated. The top management of the banks was forced by politicians and bureaucrats to throw good money after bad in the case of unscrupulous borrowers. Non-performing assets of banks are one of the biggest hurdles in the way of socio-economic development of India. The level of NPAs of the banking system in India is still too high. It affects the financial standing of the banks so that it is a heavy burden to the banks. A vigorous effort has to be made by the banks to strengthen their internal control and risk management systems and to setup early warning signals for timely detection and action.

The problem of NPAs is tied up with the issue of legal reforms. This is an area which requires urgent consideration as the present system that substantially delays in arriving at a legal solution of a dispute is simply not tenable. The absence of a quick and efficient system of legal redress constitutes an important ‘moral hazard’ in the financial sector, as it encourages imprudent borrowers. NPAs can create many challenges. There are many other reasons why public sector banks have highest level of NPAs. The NPA problem of banking institutions in India is exaggerated by deriving NPA figures based on percentage against risk assets instead of total earning assets. To improve recovery and to minimize NPAs, banks are expected to do a continuous recovery exercise through various methods adopting newer strategies. Besides, the borrowers are to be educated again and again about the benefits they derive from bank loans comparing to the local money lenders. The defaulters with genuine reason must be taken care of by the banks. But this attitude becomes an act of mockery when blanket write-off is affected. The above are various issues faced by banks related to lending and recovery. Banks cannot stop lending. Lending will continue, recovery also must be continued.

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

Kurawa & Garba (2014) devoted effort to assess the effect of credit risk management on the profitability of Nigerian banks during the period 2002 to 2011 using the generalized least square regression technique as a methodology. The credit risk management indicators used in this study are default rate, cost per loan asset and capital adequacy ratio. The profitability ratio indicator like many other studies is ROA. The findings of this study show that default rate, cost per loan assets and capital adequacy ratio have a significant positive relationship with ROA. The authors recommend that it is necessary for Nigerian banks to practice scientific credit risk control, improve their efficacy in credit analysis and loan management, and minimize the high incidence of non-performing loans and their negative effect on profitability

Saeed and Zahid (2015) have analyzed this paper aimed to analyze the impact of credit risk on profitability of five big UK commercial banks. For measuring profitability, two dependent variables ROA and ROE were considered whereas two variables for credit risks were: net charge off (or impairments), and nonperforming loans. Multiple statistical analyses were conducted on bank data from 2007 to 2015 to cover the period of financial crisis. It was found that credit risk indicators had a positive association with profitability of the banks. This means that even after the deep effects of credit crisis in 2008, the banks in the UK are taking credit risks, and getting benefits from interest rates, fee, and commissions etc. The results also reveal that the bank size, leverage, and growth were also positively interlinked with each other, and the banks achieved profitability after the financial crisis and learned how to tackle the credit risk over the year.

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Ibrahim & Thangavelu (2014) has analyzed the assets of bank which do not perform any role in getting profit to the organization; such assets are called Non-performing Assets. NPAs reflect the performance of banks in any country. The more the NPA, the lower the performance of the banks. The issue of NPAs has been discussed at length of financial system all over the world. The problem of NPAs is not only affecting the banks but also the entire economy of any country. In this paper, an effort has been made to analyze the concept of NPAs, components of loan assets the commercial banks in India with especial reference to the public sector, private sector and the foreign bank. The study is diagnostic and exploratory in nature and makes use of secondary data. The study finds and concludes that the commercial banks have significantly improved their working performance in the areas of NPAs.

Kiran & jones (2016) has stated the amount of Non-performing Assets affects not only the banking industry but the total financial system and there by the economy of the country. Thus a selective study has been done on public sector banks in India to evaluate the effect of Non-performing Assets on the profitability of banks. NSBL and 5 nationalized banks were selected for the study and the relation between their gross Non-performing Assets and net profit was measured. The result shows that except for NSBL all the other banks exhibit a negative correlation between their gross Non-performing Assets and net profits. But for NSBL the net profit is not at all affected by Gross Non-performing Assets and it is in continuous profits only.

Dudhe (2017) has analyzed that the non-performing Asset is a vital factor in the examination of financial performance of a bank. Non-performing Asset is the key term for the banking corporations. Non-performing Assets show the competence of the performance of the banks. Non-performing Assets means which amount is not received by the bank in return of loans disbursed. Non-performing Assets affect not only the finance institution but the total financial system.

Singh (2016) The NPAs growth has a direct impact on profitability of banks. Non-performing assets are one of the major concerns for scheduled commercial banks in India. The recommendations of Narasimham committee and Verma committee, some steps have been taken to solve the problem of old NPAs in the balance sheets of the banks. It continues to be expressed from every corner that there has rarely been any systematic evaluation of the best way of tackling the problem. There seems to be no unanimity in the proper policies to be followed in resolving this problem. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The problem of NPAs is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. It is necessary to trim down NPAs to improve the financial health in the banking system. An attempt is made in this paper to understand NPA, the status and trend of NPAs in Indian Scheduled commercial banks, The factors contributing to NPAs, reasons for high impact of NPAs on Scheduled commercial banks in India and recovery of NPAS through various channels.

M.Z.A. (2010) an effective risk management is central to good banking and the tradeoff between risk and return is one of the prime concerns of any investment decision whether long term or short term and effective credit risk management allows a bank to reduce risks and potential NPAs. Once a bank understands their risks and their costs, they will be determining their most profitable business, thus price products according the risk. Therefore, the bank must have an explicit credit risk strategy and support by organizational changes, risk management technique and fresh credit process and systems.

Adhikari (2015) the presence of an alarming amount of NPLs both in the Nationalized Commercial Banks (NCBs) and in the Development Financial Institutions (DFIs), along with maintenance of inadequate loan loss provisions, diminishes the overall credit quality of Bangladesh. Poor enforcement of laws relating to settlement of NPLs, followed by insufficient debt recovery measures on the part of the banks, has also aggravated the financial malaise, although a decrease in NPLs is noticed since the year 2000. The paper suggests that the prevention of the 'flow problem of bad loans' accompanied by other resolution measures might help to sort out the nonperforming loan mess in Bangladesh.

Neupane (2013) the productivity change of commercial banks in Nepal has improved over the sample period and that the increase in productivity change in Nepalese commercial banks is due to the technical progress rather than efficiency components. It also reports that the decline in efficiency change is due to decline in both pure efficiency change and scale efficiency change. The Tobit regression model found positive relationship between debt to equity ratio and efficiency as well as between capital adequacy and efficiency. Further, profitable banks with lower leverage and higher capital adequacy ratio are found to be more efficient and bank loans seem to be more highly valued than alternative bank outputs i.e., investments and securities.

Abderaman (2017) Credit risk management is inversely associated with bank performance. The nonperforming loan and loan and advances ratios significantly and negatively affected performance of the commercial banks. The result indicates that loan and advances ratio is negative but statistically insignificant. There is a positive relationship between CAR and ROA. The significant positive relationship between loan loss provision and commercial banks performance in this study could indicate the presence of potential earning management activities by bank managers.

Bhattarai (2015) the study found that macroeconomic variables such as the real effective exchange rate have significantly negative impact on non-performing loan. The impact of GDP growth rate was found to be insignificant in this study. One year lagged inflation rate has significant positive impact on non-performing loan. The banks which charge relatively higher real interest rate have higher non-performing loan, which is consistent with the findings of previous studies. The ownership dummy has positive coefficient and significant at one percent level showing that if the bank is government owned the non-performing loan would be higher than that of the private owned banks. As well, more lending in the previous years and current year reduces the non-performing loan since the coefficient of change in loan in current and previous years have negative coefficient and significant at one percent level.

Dhiya & Bhatia (2016) has described that the process of credit creation leads to credit risk which in turn leads Non–Performing Assets (NPA's).While the prime function of banks is to lend funds to various sectors such as agriculture, industry, personal loans, etc., but in recent times the banks have become very vigilant in extending loans. With the introduction of income recognition, asset classification and provisioning norms in the banking sector, managing NPAs has emerged as one of the major challenges facing public sector banks in India. In today's competitive scenario banks are judged not only on the basis of number of anches and volume of deposits but also on quality of assets. Non–performing assets form a major part of Banks portfolio and hence are an inexorable burden on the banking industry. The objective of this research is to study trends and position of NPAs of public sector banks across different sectors i.e. priority and non priority sectors, to identify and study the reasons for occurrence of NPAs, to examine the steps taken for recovery of NPAs and to suggest measures for efficient management of NPA's.

Yadav2010) banks directly or indirectly affect economic development because of their many facets. During colonial rule in India, banks were geographically confined to urban areas and provided credit particularly business and trading class and were restructured into nationalized banks during post –independence period to achieve broader economic objectives and registered an overall impressive achievement. Despite of this, the question has been raised time and again on myriad restriction of nationalized banks which merely fulfills social agenda of the government and increased non-performing assets. This paper deals with the concept of non-performing assets, its magnitude and impact. One fourth credit of total advances was in the form of doubtful asset in the initial year of the nineties and has an adverse impact on profitability of public banks at aggregate or sectorial level indicating high degree of riskiness in credit portfolio and raising question mark on the credit appraisal. The profitability of all public sector banks affected at very large extent when non-performing assets (NPAs) work with other banking strategic variables and also affect productivity and efficiency.

Garg (2016) many banks are facing the problem of NPAs which hampers the business of the banks. Nonperforming assets are a drain to the banks. Various research studies have been conducted to analyze the root causes of NPA. The following study tries to understand the concept of NPA, its causes and impact on profitability. The problem of NPA impacts profitability, Liquidity and results in credit loss. Unless and otherwise proper remedial measures are taken the quantum of non-performing assets cannot be reduced and the bank will incur losses to a great extent.

Dudhe (2016) non-performing Asset is a vital factor in the examination of financial performance of a bank. Non-performing Asset is the key term for the banking corporations. Non-performing Assets show the competence of the performance of the banks. Non-performing Assets means which amount is not received by the bank in return of loans disbursed. Non-performing Assets affect not only the finance institution but the total financial system. Thus a selective study has been done on public sector banks in India to evaluate the effect of Non-performing Assets on the profitability of banks. Banks today are not judged only on the basis of number of branches and volume of deposits but also on the basis of standard of assets. NPAs negatively affect on the profitability, liquidity and solvency of the banks. This paper analyses the circumstances of NPAs in selected banks namely State Bank of India (SBI), Bank of India, United Bank of India, Bank of Baroda, Indian Overseas Bank, Punjab National Bank and Central Bank India. It also highlights the policies followed by the banks to tackle the NPAs and suggests a multi-pronged strategy for speedy recovery of NPAs in banking sector. Seven Public Sector Banks has been selected for the study the relation between Gross NPA and Net Profit of seven banks. In this paper is applying the panel regression. The result shows that except for SBI and PNB all the other banks exhibit a negative correlation between their gross Non-performing Assets and net profits. But SBI and PNB is increased the net profit every year not affected by Gross Non-performing Assets. Both banks are paying attention towards their NPA to recover their pending loans. The study is based upon secondary data recovered from Report of Progress of banking in India, Websites, Journals and Articles. The scope of the study is limited to analysis of nonperforming assets of public sector banks covering the period of 2007-2016.

Laveena and Kumar (2016) have aims to know what reasons in bank branch for non-performing assets were. Strategies for overcoming non-performing assets Period in banks after that bank declares assets as non-performing assets. Panel interest on non-performing assets in different banks highlights the concept of non-performing assets and its management by different Public, Private and Cooperative bank. The study based on different trends of nonperforming assets. In this paper it is try to find various factors about NPAs .NPAs is the huge problem facing by banks .This research project works on "Management of Non-performing assets on profitability of public and private sectors bank. "Analysis of management of non-performing assets on profitability of different public and private banks and the recovery of non-performing assets by different banks has been analysis.

Bag and Islam (2017) aims of this paper was to analyze the recent trend of NPAs in banking with reference to India and Bangladesh and also to find out the relationship between NPAs and profitability. The present study is based on the secondary data which have been collected from the report of RBI and website of the State Owned bank as well as private bank of Bangladesh from the year 2010-2016. The researchers considered ten banks from each of the countries and make a blend of public private banks for this study. The researcher has used SPSS-22 for analyzing the data and interpreted accordingly.

Vikram and Gayathri (2018) have find out the sector which has higher NPAs (Public/Private sector banks), causes and control measures for rising NPAs. The article from 2010 to 2017 is used for the study of NPAs in banking sector of India. Majority of the articles deals with level and controlling measures of NPAs in Indian banking sector. The best indicator for the soundness of the banking sector of a country is its level of Non-performing resources (NPAs).

Reddy and Naidu (2018) Indian Economy has seen sharp increase in credit facilities (Bank Loans) mainly to drive the economy's growth rate after the Global Financial Crisis (GFC) in 2007-08. This lending streak let the economy grow as expected and at the same time brought newer problems. Mostly, Credit was granted to borrowers without proper credit appraisal. Added to this post-credit sanction monitoring was also not so stronger. This led to the increase in NPAs (Non –Performing assets) of banks. NPA is a dual edged sword. On one side it reduces the income generating capacity of Banks i.e., the assets of the banks (Loans) do not yield interest income and on the other it reduces the profitability of banks by increasing the requirement of higher provisioning which is made from profits before interest and tax. At present, NPA situation is worse than expected by the RBI. In the recent Financial Stability Report (June, 2017) RBI has warned that gross NPA ratio could rise to as high as 10.2% of the total loans by March 2018 from 9.6% in March 2017. RBI also directed banks to device suitable mechanisms to deal with NPAs. Though various legal and systematic schemes were launched, they have hardly done anything that is laudable. In this context, the proposed research paper tries to explore in detail the root causes of NPAs, its impact on profitability i.e., Return on Assets and Return on Equity. It also focuses on the dynamics of provisions with regard to various categories of Nonperforming assets. It is a sincere attempt to analyze various schemes launched by the government to tackle NPAs and provide suggestions or recommendations based on the study.

Tuladhar (2017) credit risk management in the banking sector is important not only because of the Global Financial Crisis (GFC) experienced in recent years but also due to its greater impact on bank’s financial performance, growth and survival. Credit loans is one of the key sources of income of commercial banks, therefore managing the risk related to credit greatly impacts the bank’s profitability. This study investigates the impact of credit risk management on the profitability of Nepalese commercial banks. Data from 28 commercial banks for the period 2011 to 2015 have been collected and analyzed using pooled regression analysis and panel data analysis. In the model specification, return on asset (ROA) and return on equity (ROE) were used as bank profitability indicators while capital adequacy ratio (CAR), liquidity ratio (LR), bank size (BS), asset quality (AQ), leverage ratio (LER), non-performing loan ratio (NPLR), cash reserve ratio (CRR), coverage ratio (CR), and the number of female board member (FBM) were used as indicators of credit risk management. The findings indicate that credit risk management has significant impact on the profitability of Nepalese commercial banks. Results show that coverage ratio, capital adequacy ratio, and bank size have a positive impact on bank performance. On the other hand, leverage ratio, non-performing loan ratio and female board member are found to have a negative impact on bank performance. However, liquidity ratio, asset quality, and cash reserve ratio turned out to be not significant variables in determining bank’s performance. The study thus recommends an effective credit risk management for commercial banks of Nepal based that maintains an optimum level of capital adequacy ratio, controls and monitors non-performing loan, enhances coverage ratio, balances leverage ratio, motivates female board members, and increases bank size to enhance financial performance.

2.4 Research Gap

From the review of various literatures, it has been found this researcher works have been done on the study of its compliance and analysis of NPA through loan loss provision, non-performing loans, and Profitability. But previous researcher has been found that the NPA has negative impact on profitability. Total lending ,interest rate in market, operating profit Nature of non-performing assets are also the factor that effect profitability in Nepalese commercial banks .Previous researcher using few samples but this researcher using four samples taking 10 years data.

CHAPTER-III
METHODOLOGY

3.1 Research Design

This study seeks to analyze and evaluate the effect of non-performing assets on profitability of the selected bank and provide suggestions on the basis of the evaluation. To accomplish this objective descriptive and analytical research approach has been adopted. It tries to describe and analyze all these facts that have been collected for the purpose of the study.

Mostly the secondary data have been used for the research study. The data are collected from the various websites, annual reports of the respective banks etc. Hence, the research design is made by collecting the information from the different source and data have been tabulated and analyzed by using various financial and statistical tools. The financial tools include ratio analysis. Similarly, the statistical tools include average mean, standard deviation and coefficient of variation, coefficient of correlation.

3.2 Sampling Procedure

The universe of the study is all commercial banks of Nepal operating and facilitating credit products to its customers. There are 28 commercial banks in Nepal. All the banks have been involving the banking activities since long and offering credit to its customers. Out of them, four commercial banks have been chosen on judgmental sampling method. The sample consist four commercial banks among the top ten commercial banks having highest profit. The Everest Bank limited (EBL) is the joint venture of Punjab National Bank (PNB). Himalayan Bank Limited (HBL) is the joint venture of Habib Bank of Pakistan. The Nepal NSBL (NSBL) is the subsidiary of State Bank of India (SBL). The NABIL Bank is owned by the different Nepalese Investors. In this way the sample banks consists banks from different background and performing capacity.

3.3 Research Instrument

This research instruments included secondary data. In this research data collected from the annual reports of the commercial Banks and annual supervision report of NRB.

3.4 Collection of Data

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

3.5 Data Analysis Tools

The collected data analyzed with the help of different financial and statistical tools.

3.5.1 Financial Tools

The financial tool is one of the most important tool, which includes ratio analysis and the other one financial statement analysis have been used in this study. Financial tools are used to examine the financial strength and weakness of bank. Although there are many financial ratios, only selected ratios are used in this study.

i) **Return on Assets Ratio** Return on total assets or simply return on assets, measures the productivity of the assets. This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. ROA is calculated as under;

$$\mathrm{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

ii) Return on Equity Ratio Return on equity relates the profitability of a company to equity shareholders' equity. ROE measures the company's profitability in terms of return to equity shareholders. It is calculated as under:

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}}$$

Where,

Shareholder's Equity = Share Capital + Reserve & Surplus

3.5.2 Statistical Tools

Various statistical tools can be used to analyze the data available to the researcher. These tools are used in research in order to draw the reliable conclusion through the analysis of financial data. Following tools are used for our purposes:

i) Average/Mean

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

Mathematically, Arithmetic Mean (AM) is given by,

$$\overline{X} = \frac{\sum X}{n}$$

Where, $\overline{X}$ = Arithmetic mean

Σx = Sum of all the values of the variable

n = Number of observations or year

ii) Standard Deviation (SD)

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

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

$\sum(X - \overline{X})$= Sum of the squares of the deviations measured from mean, and

N = Number of Observations

iii) Coefficient of Variation (CV)

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations known as coefficient of variation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the CV. It is used for comparing variability of two distributions; the CV is defined as,

$$CV = \frac{SD}{Mean} \times 100 \ , \ \frac{\sigma}{\overline{\overline{X}}} X\ 100$$

iv) Coefficient of correlation (r)

Correlation analysis deals to determine the degree of relationship between two or more variables. In correlation analysis, only one variable is treated as dependent and one or more variables are treated as independent. The correlation coefficient between two variables X and Y, denoted by r, is a numerical measure of linear relationship between them. The correlation coefficient is a statistical measure that calculates the strength of the relationship between the relative movements of the two variables. The range of values for the correlation coefficient bounded by 1.0 on an absolute value basis or between -1.0 to 1.0. If the correlation coefficient is greater than 1.0 or less than -1.0, the correlation measurement is incorrect. A correlation of -1.0 shows a perfect negative correlation, while a correlation of 1.0 shows a perfect positive correlation. A correlation of 0.0 shows zero or no relationship between the movements of the two variables.

Correlation analysis enables to have an idea about the degree and direction of the relationship between the two variables under study. However, it fails to reflect upon the cause and effect relationship between the variables. The coefficient of correlation, denoted by r is computed as under

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

v) Regression Analysis

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

$Y = a + bX$……………………….. (I)

Where, a = constant

b = regression coefficient

CHAPTER IV
RESULTS

This chapter entitled “Results” is a crucial chapter and has been organized to present the result, analyze and interpret them accordingly. The basic objective of this study is the credit risk management of the selected commercials banks .In this chapter, efforts have been made to present and analyze the collected data. Data collected from various sources were classified and tabulated as requirement of the study and in accordance to the nature of collected data. Different financial and statistical tools are used to analysis the data. To make easier and make clearer to understand, data are presented in the required figure also.

4.1 Trend Analysis

4.1.1 Net Profit Trend

The main objective of the bank is to achieve profit. Further, profit is the lifeblood of each organization, without which the organization cannot sustain. Thus, the bank should also gain profit for survival. The net profit gained by the sampled banks is presented in the table below.

Table 4.1 Net Profit Trend (in millions)

Year	EBL	HBL	NSBL	NABIL
2007/08	451	636	248	746
2008/09	638	753	316	1031
2009/10	831	509	392	1138
2010/11	931	893	464	1344
2011/12	1091	959	480	1696
2012/13	1471	944	771	2219
2013/14	1550	959	923	2320
2014/15	1574	1112	1065	2094
2015/16	1730	1935	1332	2819
2016/17	2006	2178	1523	3613

Table 4.1 we see the net profit of the selected sample bank is in increased trend as the lowest net profit of the Everest bank is 451 in the fiscal year 2007/08 and is gradually increasing which is highest in the fiscal year 2016/17 i.e. 2006 millions. In the same way the net profit of other selected banks has been increasing in recent years. Similarly, the lowest net profit of HBL is 636 million in the fiscal year 2007/08 and the highest is 2178 million in the fiscal year 2016/17. The lowest net profit of NSBL bank is 248 million in fiscal year 2007/08 and the highest is 1523 million in the fiscal year 2016/17. Finally the net profit of NABIL bank was 746 million in the year 2007/08 and the highest was 3613 million in the year 2016/17. In this way we observe the increasing trend of net profit in the selected sample banks. This shows that the Net Profit Margin of selected commercial banks is increasing gradually. Since the Net Profit Margin of selected commercial banks is lowest in the initial year of the study and highest in the recent years.

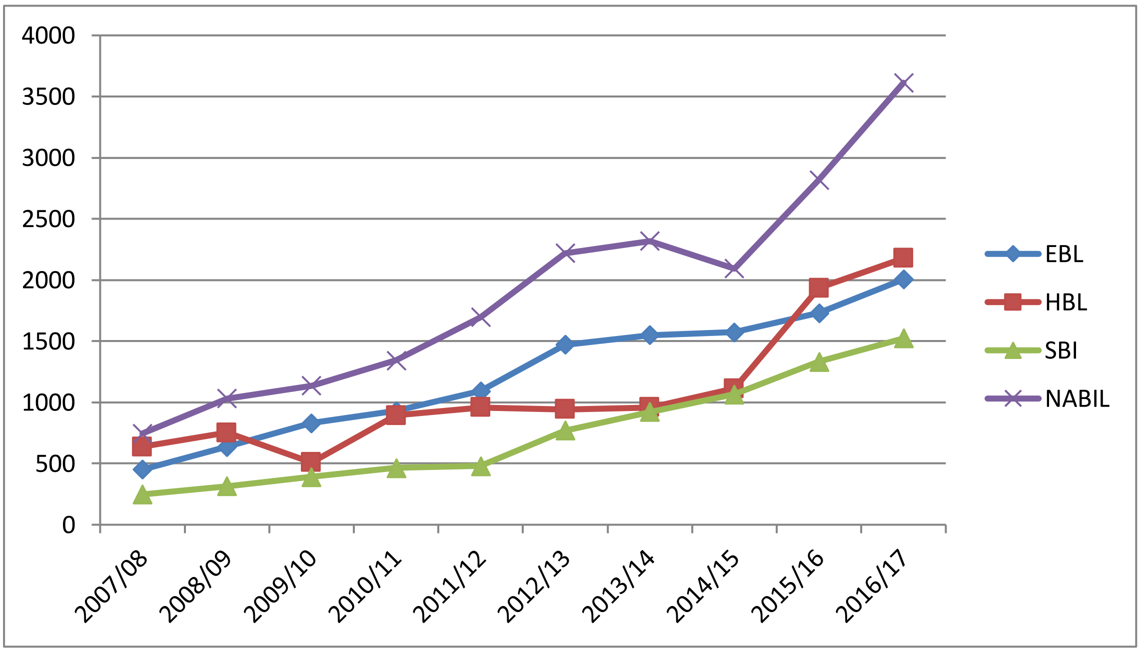

Figure 4.1 Net Profit Trend (in millions)

Figure 4.2 graph represent the different Net Profit Margin of selected bank in the period of study. The Net Profit Margin of EBL was 251 million in the year 2007/08 which went on different fluctuation and the highest was in the year 2016/17 i.e.2006 million and the lowest was 451 million in the year 2007/08.similary the Net Profit Margin of HBL was 636 million in the year 2007/08 which increased to 753 million in the year 2008/09.showing the different fluctuation the Net Profit Margin of HBL was highest in the year 2016/17 i.e.2178 million and the lowest was 509 million in the year 2009/10.

The Net Profit Margin of NSBL bank was highest was in the year was in the year 2016/17 i.e. 1523 million and the lowest was in the year 2007/08. The Net Profit Margin of NABIL bank was highest in the year 2016/17 and the lowest was in the year 2007/08. This shows that the Net Profit Margin of selected commercial banks is increasing gradually. Since the Net Profit Margin of selected commercial banks is lowest in the initial year of the study and highest in the recent years.

4.1.2 Non-performing Asset

Non – performing assets are those assets that don't produce any return to the bank . They are becoming the major problem in the banking industry as they reduce the profit of the organization. The non-performing assets are the major problem in the Nepalese Banking Industry. Nepal has got the Banking industry in developing phase so that the many factors like weak loan policy; economic factors etc the non-performing assets becoming harder to reduce. The following table shows the details of the non-performing assets of selected banks in back ten years.

Table 4. 2 Non-performing Assets (in millions)

Year	EBL	HBL	NSBL	NABIL
2007/08	113.2	641.6	45.8	178.3
2008/09	121	1024	464.9	171.4
2009/10	117.5	551	305.7	220.7
2010/11	43.7	920	264.9	45.6
2011/12	108.4	751	245.5	689.9
2012/13	307.5	1186	143.8	969.3
2013/14	367	911	109.7	1015.2
2014/15	302.5	1793	91.2	1256.1
2015/16	196	851	78.9	777
2016/17	198	661	65.8	914

Table 4.2 shows that the non-performing assets of selected commercial banks tend to be fluctuating as we can see dissimilar trend in the non-performing assets over a selected period of study. The highest non-performing assets of EBL is 43.7 millions in the year 2010/11 and the highest was 307.5 million and the lowest was 43.7 million in the year 2010/11.The highest non-performing assets of HBL was 1793 million in the year 2014/15 which was the highest under the period of the study and the lowest was 551 million in the year 2009 /10.

The non-performing assets of NSBL were 464.9 million in the year 2008/09 and the lowest was 45.8 million in the year 2007/08. Similarly the highest non-performing assets of NABIL bank was highest in the year 2014/15 i.e. 1256.1 million and the lowest was 45.6 million in the year 2010/11.this show that there is huge fluctuation among the sample banks throughout the period of the study.

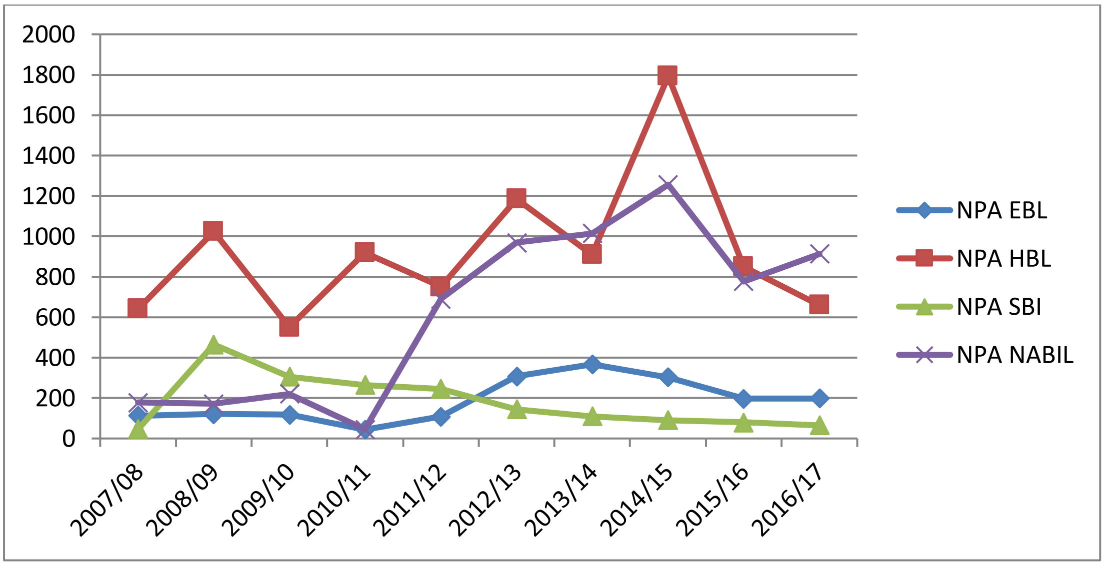

Figure 4.2 Non-performing Assets (in millions)

Figure 4.2 graph represent the different NPA of selected bank in the period of study the NPA of EBL was 113.2 million in the year 2007/08 which went on different fluctuation and the highest was in the year 2012/13 i.e.307.5 million and the lowest was 43.7 million in the year 2010/11.similary the non-performing assets of HBL was 441.6 million in the year 2007/08 which increased to 1024 million in the year

2008/09.showing the different fluctuation the NPA of HBL was highest in the year 2012/13 i.e.1186 million and the lowest was 551 million in the year 2009/10.

The non-performing assets of NSBL bank was highest was in the year was in the year 2008-09 and the lowest was in the year 2007/08. The non-performing assets of NABIL bank were in the year 2014/15 and the lowest was in the year 2010/11.

4.2 Ratio Analysis

4.2.1 Return on Assets Ratio

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

Table 4. 3 Return on Assets Ratio of selected Banks

Year	EBL	HBL	NSBL	NABIL
2007/08	1.66	1.76	1.44	2.01
2008/09	1.73	1.92	1.02	2.35
2009/10	2.01	1.19	1.03	2.19
2010/11	2.01	1.91	1.01	2.31
2011/12	1.95	1.76	0.83	3.68
2012/13	2.24	1.54	1.19	3.03
2013/14	2.2	1.3	1.51	2.66
2014/15	1.59	1.34	1.8	1.81
2015/16	1.52	1.94	1.7	2.21
2016/17	1.72	2.03	1.53	2.57
Mean	1.86	1.67	1.31	2.48
S.D.	0.25	0.3	0.33	0.54
CV	13.6	18.22	25.45	21.89

Table 4.3 shows the ROA of EBL is 2.24 % in the year 2012/13 which was the highest and the 1.52 % in the year 2015/16, which was the lowest. The average ROA of the EBL is 1086 % and the CV is 13.6 %. The ROA of HBL is highest in the year

2015/16 i.e. 1.94 % and the lowest is in the year 2013/14 i.e. 1.3. The average ROA of the HBL is 1067 % and the CV is 18.22%.

The highest ROA of the NSBL bank was 1.53 % in the year 2016/17 and the lowest was in the year 2011/12 i.e.0.83. The average ROA of the NSBL bank is 1.31 % throughout the period of the study. The CV of the NSBL bank is 25.45%. The ROA of NABIL bank highest in the year 2011/12 i.e. 3.68 % and the lowest in the year 2014/15 i.e. 1.81 %. The average ROA of the NABIL bank is 2.48 % and the CV is 21.89 %. From these data we see that the return on assets of NABIL Bank is highest and the Return on assets of NSBL is lowest. This shows that the assets utilization of NABIL is much better than other selected commercial banks in relation to profit earned.

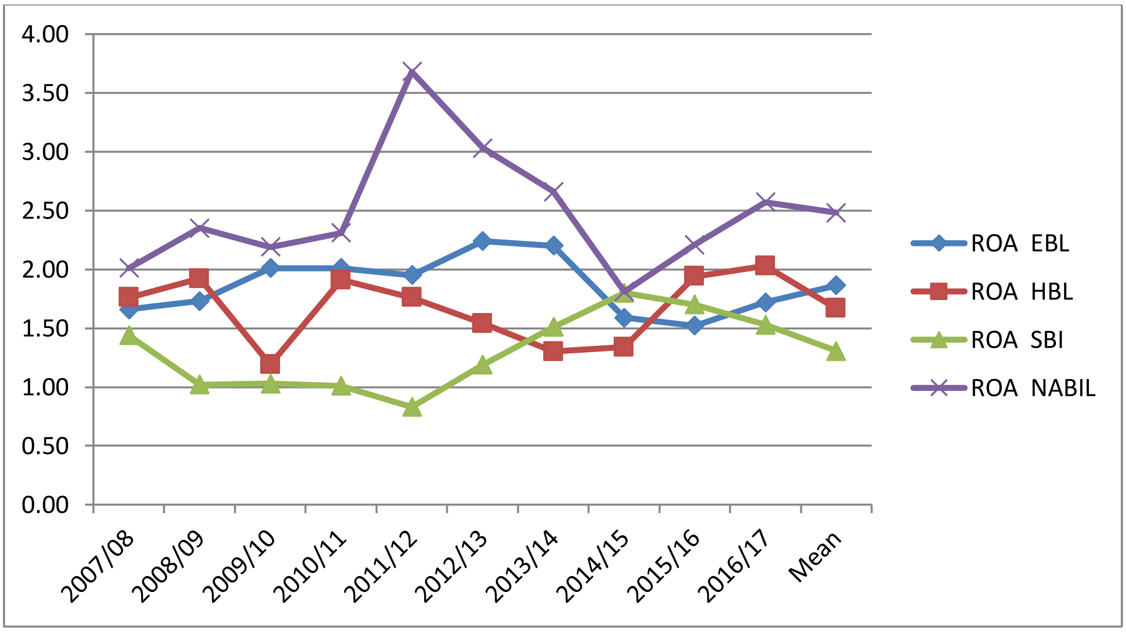

Figure 4. 3 Return on Assets Ratio of selected Banks

Figures 4.3 show the different level of ROA of the selected banks in the different years under study. The NABIL bank has highest ROA in the year 2011/12 and the lowest was in the year 2014/15. The ROA of the NABIL bank fluctuated throughout the years of the study. The ROA of HBL was 1.76 % in the year 2007/08 which fluctuated throughout the period of study. The highest ROA of HBL was highest in the year 2016/17 and the lowest was in the year 2013/14. The ROA of NSBL was highest in the year 2013/14 and was lowest in the year 2011/12. The ROA of NABIL was highest in the year 2011/12 and was lowest in the year 2014/15. This shows that the ROA of selected bank fluctuated throughout the period of study. From these data we see that the return on assets of NABIL Bank is highest and the Return on assets of NSBL is lowest. This shows that the assets utilization of NABIL is much better than other sleeted commercial banks in relation to profit earned.

4.2.2 Return on Equity

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

Table 4. 4 Return on Equity of selected commercial banks

Year	EBL	HBL	NSBL	NABIL
2007/08	23.48	25.31	17.53	30.61
2008/09	28.96	24.13	18.45	32.94
2009/10	30.12	14.80	16.00	29.68
2010/11	29.90	22.35	16.12	29.21
2011/12	26.12	20.70	15.01	31.11
2012/13	30.47	17.81	20.29	33.17
2013/14	28.40	31.10	20.35	30.36
2014/15	22.84	15.98	18.86	22.07
2015/16	20.32	21.93	19.25	24.31
2016/17	17.38	18.61	14.65	25.63
Mean	25.80	21.27	17.65	28.91
S.D.	4.59	4.85	2.11	3.71
CV	17.77	22.81	11.94	12.82

The table 4.4 shows that the ROE of the EBL was highest in the year 2012/13 i.e. 30.47 % and the lowest was 17.38 % in the year 2016/17. The average ROE of the

EBL is 25.80 % and the CV is 17.77 % . The highest ROE of the HBL was in the year 2013/14 i.e. 31.10 % and the lowest was in the year 2009.10 i.e. 14.80 %. The average ROE of the HBL was 21.27 % throughout the period of the study and the CV was 22.81 %.

The highest ROE of the NSBL was in the year 20.35 in the year 2013/14 and the lowest was in the year 2011/12 i.e. 15.01 %. The average ROE of the NSBL was 17.65 % and the CV was 11.94 %. The highest ROE of the NABIL bank was in the year 2012/13 i.e. 33.17 % and the lowest was in the year 2014/15 i.e. 22.07 %. The average ROE of the NABIL bank is 28.91 % and the CV is 12.82 %. This show that return on equity of NABIL is highest over the period of study i.e. the shareholder of NABIL got highest earning from their investment. The lowest ROE is of NSBL, it means the share holders of NSBL received lowest return on their investment among the selected commercial banks.

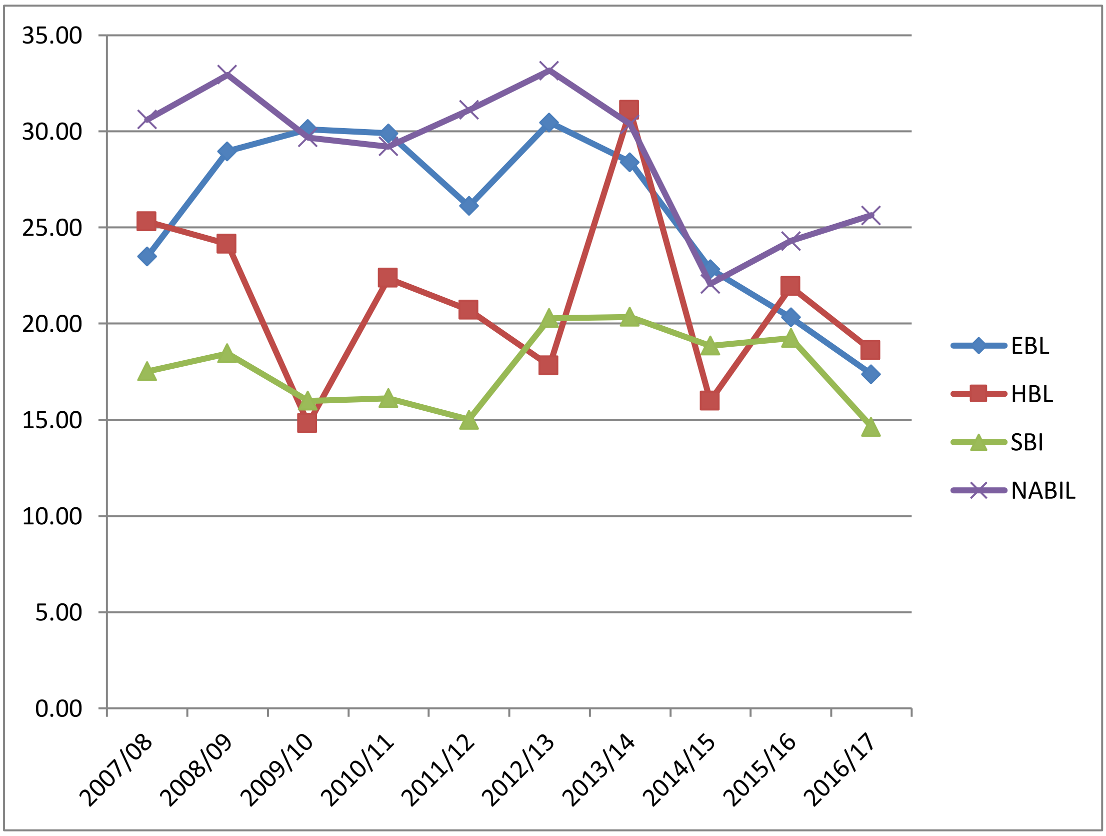

Figure 4. 4 Return on Equity of selected commercial banks

Figure 4.4 represents the ROE of the selected sample banks in the different years of the study. The highest ROE of the EBL was in the year 2012/13 and the lowest was in the year 2016/17. The ROE of the HBL was highest in the year 2013/14 and the lowest was in the year 2009/10. Similarly the highest ROE of the NSBL was in the year 2013/14 and the owest was in the year 2011/12. The above graph shows that the highest ROE of the NABIL was in the year was in the year 2012/13 and the lowest was in the year 2014/15.

This shows that that the ROE of the selected sample banks fluctuated in the different years of the study. This show that return on equity of NABIL is highest over the period of study i.e. the shareholder of NABIL got highest earning from their investment. The lowest ROE is of NSBL, it means the shareholders of NSBL received lowest return on their investment among the selected commercial banks.

4.3 Relationship of NPA with ROA, ROE and Net Profit

NPA plays vital role in determine the companies' profits. NPA not only make the assets unproductive there need to be provision for them which significantly affects the earning. When the earning is affected, it shows huge impact on return on assets, return on equity and ultimately the profitability of the bank.

When the interest are not recovered the profit decreases and the provisions again affects the other earned interest. Non-performing Assets are part of total assets that don't yield anything so they make adverse effect on the return on assets.

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

Table 4. 5 Correlation between NPA and ROA, ROE, Net profit

		ROA	ROE	NP	NPA
ROA	Pearson Correlation	1	1.000**	.595**	.165
	Sig. (2-tailed)		.000	.000	.308
	N	40	40	40	40
ROE	Pearson Correlation	1.000**	1	.595**	.165
	Sig. (2-tailed)	.000		.000	.308
	N	40	40	40	40
NP	Pearson Correlation	.595**	.595**	1	.352*
	Sig. (2-tailed)	.000	.000		.026
	N	40	40	40	40
NPA	Pearson Correlation	.165	.165	.352*	1
	Sig. (2-tailed)	.308	.308	.026	
	N	40	40	40	40

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

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

Table 4.5 shows that the correlations between different variables are displayed. As the table shows the correlation between NPA and ROA is positive .i.e. 0.165. This means that the correlation between ROA and NPA is insignificant. The correlation between NPA and ROE is also positive i.e. 0.308. The correlation between NP and NPA is 0.352 which is significant in in 0.05 level .Usually the increase in NPA has bad impact on the different income indicators i.e. ROA, ROE and Net Profit.

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

4.4 Analysis of the impact of NPA on Profitability, ROA and ROE

4.4.1 Impact of NPA on Profitability

Table 4. 6 Analysis of Regression results between NPA and Profitability

Model summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.352[a]	.124	.101	694.450

a. Predictors: (Constant), NPA

Table 4.6 shows R^2: = 0.124. This means that the model using NPA could be used to explain 12.4% of the variability of Net Profit. We can therefore say that NPA has significant bearing on Profitability.

Table 4.7 ANOVA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2584945.687	1	2584945.687	5.360	.026[b]
	Residual	18325928.688	38	482261.281		
	Total	20910874.375	39			

a. Dependent Variable: net profit
b. Predictors: (Constant), NPA

ANOVA (analysis of variance) is used to report quantities related to the overall explanatory power and significance of the regression model. Since p-value is less than 0.05 (critical level of significance) it is concluded that there is significant relationship between NPA and Profitability.

Table 4.7 shows F- value of 5.360, with a corresponding p-value of 0.026, which means that the overall fitness of the model is well justified .This means that the model using NPA to measure profitability can be relied on to explain the variability in Profitability.

Table 4.8 Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	951.721	166.705		5.709	.000
	NPA	.604	.261	.352	2.315	.026

a. Dependent Variable: Net profit

Table 4.8 shows that the Coefficient of regression Profitability on NPA is Positive with 0.604. While determining Profitability, the impact of NPA is positive that shows that the increase in NPA leads to increase in Profitability. This regression coefficient has 0.261 as SE, which measures the variability of the observed values around the fitted line of regression. This coefficient's t-statistic is 2.315 and p-value is 0.026. So, t-statistic is significant and p-value is significant at 5% significance level. The positive coefficient is due to the increase in total lending.

4.4.2 Analysis of the Regression results between NPA and ROA

Table 4.9 Model summery

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.165[a]	.027	.002	.562

a. Predictors: (Constant), NPA

Table 4.6 shows R^2: = 0.027 this means that the model using NPA could be used to explain 2.7% of the variability of ROA. We can therefore say that NPA has significant bearing on ROA.

Table 4. 10 ANOVA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.337	1	.337	1.067	.308[b]
	Residual	11.990	38	.316		
	Total	12.327	39			

a. Dependent Variable: ROA

b. Predictors: (Constant), NPA

Table 4.10 shows F- value of 1.067, with a corresponding p-value of 0.308, which means that the overall fitness of the model is well justified .This means that the model using NPA to measure ROA can be relied on to explain the variability in Profitability.

Table 4. 11 Cofficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.725	0.135		12.794	0.000
	NPA	0.234	0.123	0.165	1.033	0.308

a. Dependent Variable: ROA

Table 4.11 shows that the Coefficient of regression NPA on ROA is Positive with 0.234. While determining ROA, the impact of NPA is positive that shows that the increase in NPA leads to increase in ROA. This regression coefficient has 0.123 as SE, which measures the variability of the observed values around the fitted line of regression. This coefficient's t-statistic is 1.033 and p-value is 0.308 so, t-statistic is significant and p-value is significant at 5% significance level. The positive coefficient is due to the increase in total lending.

4.4.3 Analysis of the Regression results between NPA and ROE

Table 4. 12 Model summery

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.165[a]	.027	.002	.562

a. Predictors: (Constant), NPA

Table 4.12 shows R^2: = 0.027 this means that the model using NPA could be used to explain 2.7% of the variability of ROE. We can therefore say that NPA has significant bearing on ROE.

Table 4.13 ANOVA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.337	1	.337	1.067	.308[b]
	Residual	11.990	38	.316		
	Total	12.327	39			

a. Dependent Variable: ROE

b. Predictors: (Constant), NPA

Table 4.13 shows F- value of 1.067, with a corresponding p-value of 0.308, which means that the overall fitness of the model is well justified .This means that the model using NPA to measure ROE can be relied on to explain the variability in Profitability.

Table 4. 14 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.725	.135		12.794	.000
	NPA	.156	.344	.165	1.033	.308

a. Dependent Variable: ROE

Table 4.14 shows that the Coefficient of regression NPA on ROE is Positive with 0.156. While determining ROE, the impact of NPA is positive that shows that the increase in NPA leads to increase in ROE. This regression coefficient has 0.344 as SE, which measures the variability of the observed values around the fitted line of regression. This coefficient's t-statistic is 1.033 and p-value is 0.308 so, t-statistic is significant and p-value is significant at 5% significance level. The positive coefficient is due to the increase in total lending.

4.5 Major Findings of the Study

1. The Net Profit of the NABIL Bank is found to be highest among the selected commercial banks. The profit is in increasing trend i.e. the net profit of EBL is 2006 million in 2016/17 similarly the net profit of HBL is 2178 million, NSBL is 1523 million and NABIL is 3613 million.

2. The NPA of selected commercial bank is fluctuating over the period of study the highest NPA is of NABIL bank i.e. 914 million and the lowest is of NSBL i.e. 65.8 million, EBL is 198 million and HBL is 661 million.

3. The increase in net profit is seen due to the increase in total lending of the commercial banks. Due to huge increase in total lending the impact of NPA on profitability is not seen so distinct.

4. The average ROA of EBL is 1.86 %, HBL is 1.67 %, NSBL is 1.31 % and NABIL is 2.48 %. Similarly, the average ROE of EBL is 25.80 %, HBL is 21.27 %, NSBL is 17.65 % and NABIL is 28.91 %. The NABIL bank has highest ROA and ROE among the selected commercial banks and NSBL the lowest.

5. The correlation coefficient of NPA with net profit is 0.35. The coefficient is positive and significant. The correlation coefficient of NPA with ROA is 0.165. The coefficient is positive and significant. The correlation coefficient of NPA with ROE is 0.165. The coefficient is positive and significant. Total lending plays vital role for this result.

6. Increasing in NPA can significantly influence the Profitability. That mean, if the NPA increases, real profitability decreases but total lending plays vital role to deviate the result.

CHAPTER – V
CONCLUSION

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

5.1 Summary

1) The institutions, engaged in financial activities are known as commercial banks. Commercial banks are the real intermediaries who transfer savings from the savers to the borrowers so that the money can be used in productive sectors.

2) This study has been prepared to know about the impact NPA and profitability of, Everest, Himalayan, Nepal SBI and Nabil Banks. The NPA and profitability are two major components for a bank to achieve its objectives. If there is high NPA in bank, the bank can't gain profit. Because, most part of the NPA is reserved in the bank, it doesn't give profit to the bank.

3) In the first chapter, the background and subject matter of the study consisting statement of the problem, significance and limitations of the study has been dealt. In the second chapter, the relevant review of literature has been made in terms of theoretical background of banking principles as well journals; articles and previous thesis have been reviewed. Third chapter deals with the research methodology that has been used to evaluate the liquidity and profitability position of commercial banks under study. In the fourth chapter, the data and information are presented, analyzed and interpreted by the help of financial and statistical tools. Finally, in the fifth and last chapter, summary, conclusion and recommendations have been made regarding the entire study.

4) For the purpose of analysis and evaluation, trend analysis, different financial and statistical tools have been used. Here, financial tools include profitability ratio whereas; statistical tools include average mean, standard deviation, co-efficient of variation, co-efficient of correlation and regression analysis. The profitability ratios includes return on assets ratio, return on equity ratio. the profitability ratios such as return on asset, return on equity assist to analyze and evaluate the profitability position of banks.

5) The data that have been analyzed by such financial and statistical tool includes from FY 2007/08 to FY 2016/17. This study is mainly conducted on the basis of

secondary data. Therefore, the study has inherent limitation of the secondary data. The authenticity of the study depends on the authenticity of the data provided and collected. For the systematic analysis of study, chapter plan have been made.

6) Basically, the entire research work has focused on the descriptive study on relationship between NPA and profitability of Nepalese commercial banks.

7) In this study attempts are made to get knowledge about the relationship between NPA and profitability, ROA, ROE of selected commercial banks according to overall profitability and NPA position etc.

5.2. Conclusion

1) NPA is the most sensible and crucial aspect of the bank. Increase in NPA is often one of the first signs that a bank is in serious financial trouble and lead to the loss of public faith upon banks. Thus, ensuring zero NPA is a never-ending problem for the bank management that will always have significant implications for the bank's profitability.

2) Profitability is the measurement of efficiency. It indicates the degree of success in achieving desired profit. It shows entire performance of bank.

3) On the basis of the study, net profit of NABIL is comparatively better than other sampled banks according to ROE and ROA. Whereas, on the basis of NPA Nepal SBI bank is capable of maintaining low level of NPA that insures for better performance.

4) The average ROA and ROE of NABIL bank is comparatively better than other selected commercial banks.

5.3. Implications

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

1. Since, the average return on asset ratio of Nepal SBI is lower than other selected banks so it is recommended to increase the investment and profit. The NPA of Himalayan bank are comparatively higher than other selected commercial banks so it is highly recommended to sanction loans by more care.
2. Bank should maintain the adequate level of non-performing assets to insure the better performance. Non-performing assets not only decrease the interest income, it also makes the part of total assets ideal.
3. A part from the non-performing assets other factors like: total lending, interest rate, operating profit, economic condition of the country and other external factors also play vital role for the determination of profitability of banks. So banks must pay adequate attention to manage these factors.
4. The provisions made by Nepal Rastra Bank determine the provisioning to be made for the non-performing assets i.e. these provisions decrease the profit. So not only amount of non-performing assets but these provisioning rules of central bank also determine the profitability.
5. The study may be helpful to fulfill the gap of proper research about the relationship between NPA and profitability. It may provide the knowledge about NPA management in Nepalese commercial banks and their profitability position. This research covers the existing liquidity management practice, existing liquidity position and its trend, factors affecting the NPA and profitability. It also provides different banking tools for NPA management as well as for profitability position, so other researcher may make their study wider by selecting different topic such as NPA position, profitability position, NPA provisioning as per NRB regulations, impact of NPA and profitability with the help of this study. Similarly one can select other financial. For the further study and analysis, this study may be guideline to other researchers.

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