

NON-PERFORMING ASSETS & PROFITABILITY ANALYSIS OF NEPALESE COMMERCIAL BANKS

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

by

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “Non-Performing Assets & Profitability Analysis of Nepalese Commercial Banks”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degree nor it has been proposed and presented as part of requirements for any other academic purposes.

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

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September 2022

Report of Research Committee

Ms./Mr. Krishna Hari Bhattarai has defended research proposal entitled Non-Performing Assets & Profitability Analysis of Nepalese Commercial Banks successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidance of supervisor Asst. Prof. Dr. Bal Ram Duwal and submit the thesis for evaluation and viva voce examination.

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We have examined the dissertation entitled Non-Performing Assets & Profitability Analysis of Nepalese Commercial Banks presented by Krishna Hari Bhattarai for the degree of **Master of Business Studies**. We hereby certify that the dissertation is acceptable for the award of degree.

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ABBREVIATIONS

ANOVA	:	Analysis of Variance
BFI	:	Bank and Financial Institution
EBL	:	Everest Bank Ltd.
EPS	:	Earnings per Share
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Ltd.
KBL	:	Kumari Bank Ltd.
Laxmi	:	Laxmi Bank Ltd.
MBL	:	Machapuchre Bank Ltd.
NBBL	:	Nepal Bangladesh Bank Ltd.
NBL	:	Nepal Bank Ltd.
NCCBL	:	Nepal Credit and Commerce Bank Ltd.
NIBL	:	Nepal Investment Bank Ltd.
NIM	:	Net Interest Margin
NPA	:	Non-Performing Assets
NSBI	:	Nepal SBI Bank Ltd.
POLS	:	Pooled Ordinary Least Square
ROA	:	Return on Assets
ROE	:	Return on Equity
SBI	:	State Bank of India
SCBL	:	Standard Chartered Bank Ltd.
SPSS	:	Statistical Package for the Social Sciences
TA	:	Total Assets
TD	:	Total Deposit
TL	:	Total Loan

ABSTRACTS

This selective study explores the effect of non-performing assets on the profitability of commercial banks in Nepalese context. A pooled data of ten commercial banks with 100 observations during the period of 2012 to 2021 has been used for the study. It examines the relation between the gross non-performing assets and profitability of the bank. The Pearson's correlation coefficient indicates negative influence of NPA with the firm's profitability reflected by ROA, ROE and NIM. Firm size, deposit and loans are positively related with these profitability indicators. The multiple regression analysis of non-performing assets also shows significant negative relation with respect to bank profitability (ROA) meaning that when there is a lower non-performing asset of banks, the return on asset increases. NPA has insignificant negative relation with respect to shareholders' return (ROE) and NIM. In contrary, size of the firm and deposit show the positive correlation with respect to ROA, ROE and NIM. Total loan shows positive relationship with ROA and ROE and significant negative relationship with NIM. It is concluded that profitability of Nepalese commercial banks is influenced by non-performing assets and other covariates such as: bank size, deposit and loans.

The study implies that banks should adopt new aspects, qualitative and creative young personnel to create better health and wealth for the banks. Furthermore, banks should highly re-consider on the appropriate portion of loans and advances on the assets and management. It should try developing an appropriate recovery policy and investment policy.

Keywords: Non-performing assets, Profitability, Commercial Banks, Nepal.