NON-PERFORMING ASSETS AND PROFITABILITY OF NEPALESE COMMERCIAL BANKS

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

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Non-Performing Assets and Profitability of Nepalese Commercial Banks"**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it 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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REPORT OF RESEARCH COMMITTEE

Mrs. Ishwara Mishra has defended research proposal entitled "**Non- Performing Assets and Profitability 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 suggestions and guidance of supervisor Mr. Rishi Raj Gautam and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled "**Non- Performing Assets and Profitability of Nepalese Commercial Banks"** presented by Ishwara Mishra candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva-voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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This research entitled **"Non-Performing Assets and Profitability in Commercial Banks of Nepal"** has been prepared for the partial fulfillment of the requirement for the Degree of Masters of Business Studies. The general purpose of the study is to discuss, examine and evaluate the Non-Performing Assets, profitability status and the impact of Non-Performing Assets on profitability of the Nepalese commercial banks.

The Completion of the study is a result of help and support of several hands. Therefore, I would like to express my heartfelt gratitude to all those respondents for their help and support.

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TABLE OF CONTENTS

Page No.

LIST OF TABLES

Page No.

ABBREVIATIONS

AM	:	Arithmetic Mean
CEO	:	Chief Executive Office
CV	:	Coefficient of Variation
EBL	:	Everest Bank Ltd
FBM	:	Female Board Member
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Ltd
LR	:	Liquidity Ratio
Ltd	:	Limited
NP	:	Net Profit
NPA	:	Non-Performing Assets
NRB	:	Nepal Rastra Bank
NSBI	:	Nepal SBI Bank Ltd
P.E	:	Probable Error
RBI	:	Reserve Bank of India
ROA	:	Return on Assets
ROE	:	Return on Equity
SANIMA	:	Sanima Bank Limited
SBI	:	State Bank of India
SD	:	Standard Deviation
SIDBL	:	Siddhartha Bank Limited

ABSTRACT

One of the components of the country's financial system is the banking industry. A country's banking system is a key component of its financial system, and the health of its banking sector is a good indicator of how well its economy is surviving. A robust banking industry is necessary for a thriving economy. Any nation's banking industry collapse might have a negative effect on other industries. One of the main issues facing Nepal's banking industry is non-performing assets, or NPAs. The phrase "non-performing assets," or "NPAs," is used in the banking and financial industries. NPAs are mostly employed in the bank's lending department. Non-performing assets are bank assets that don't contribute to the organization's ability to turn a profit. Any nation's bank performance is reflected in its NPAs. Higher NPAs result in worse bank performance. The topic of non-performing assets (NPAs) has been extensively deliberated within global financial systems. Each nation's economy as a whole is impacted by the NPA issue, not just the banks.

An attempt has been made to examine the effect of non-performing assets (NPAs) on the profitability of commercial banks in Nepal. The research covers the last eight fiscal years, from 2014/15 to 2021–2022, and five commercial banks in Nepal. The research uses secondary data and is exploratory and diagnostic in nature.

The present study concludes that a rise in non-performing assets (NPA) is associated with a decline in net profit, ROA, and ROE due to their negative correlation. Nonetheless, it is seen that NPA and Net profit are positively connected, which is an uncommon occurrence, as a result of the bank's increased lending and business volume. An increase in the bank's business volume causes the NPA of the banks to rise within the specified time.

Keywords: NPA, Profitability, ROE, ROA and Net Profit.

CHAPTER I
INTRODUCTION

1.1 Background of study

The amount of a loan that a certain commercial bank gave but that the customer has not paid back till the loan has matured is known as non-performing assets (NPA). When a disbursed loan is past due and not promptly repaid by customers, the bank refers to it as a non-performing asset. Commercial banks are now losing money and fighting for their survival as a result of several obstacles in the way of managing non-performing assets (NPAs). A high non-performing asset (NPA) ratio indicates that there are a lot of profitable loan defaults, which negatively impacts bank profitability and net worth while also devaluing the asset. The whole economy is impacted by the non-performing asset (NPA) crisis, not just the banks.

Financial institutions play a critical role in the expansion of the economy by facilitating the smooth flow of credit, which creates chances for investment in profitable industries. Consequently, a crucial factor in ensuring the stability of the financial system is the soundness of banking institutions. The financial stability of any country is ensured by the banking industry's efficiency and performance throughout time. According to Funso et al. (2012), the rate at which a bank lends money to the general population for productive uses quickens both the country's long-term economic development and sustainability. Non-Performing Assets (NPA) are defined by Gnawali (2020) as the total amount of loans that a certain commercial bank has granted but for which the client has not made payments till the loan has matured. When a dispersed loan is not promptly repaid by consumers and becomes past due, the banks refer to it as a non-performing asset.

According to Batra (2003), NPA management takes precedence over other facets of bank operations.

According to Pokhrel (2010), banking is the lifeblood of all financial activities in the modern era. It has a crucial role in determining the country's financial future. Banks convert assets from ideal portions to lucrative segments. Given their enormous capacity for speculation, banks can play a vital role in eliminating poverty and the unemployment problem.

The following services must be provided by financial institutions: deposits, advances and loans, securities, insurance, corporate bonds and shares, etc. Financial institutions primarily make money via loans and advances, however all of these loans include late payments; these unpaid loans are known as non-performing assets (NPA). Both the financial system and the economy are severely hampered by high NPA levels. Hence, a high NPA percentage raises the bank's risk level. There are most likely several causes for the elevated NPA level. External reasons including a downturn in the economy, a decline in the collaterals' market value, and a decline in the borrower's ability to repay debt might sometimes cause it to occur. It may be brought on by the borrower's wrongdoing, the bank's lax internal management procedures, loan granted to unprofitable projects, or an inadequate system for credit monitoring and supervision.

Non-performing loans are another name for non-performing assets. A bank or financial firm makes it, and they are not making the interest or repayments on schedule. For a bank, a loan is an asset since it generates cash flows from principle repayment and interest payments. A bank's revenues come from the interest it pays customers. If an asset is not serviced for a while, banks often consider it non-performing. A loan is categorized as past due if payments are received after a little period of time; after payments are significantly overdue (often 90 days or more), the loan is categorized as non-performing. A high percentage of nonperforming assets in comparison to lenders of a similar caliber might indicate issues.

NPA refers to the recording of money as a poor asset that results from a client's incorrect decision. Due to funds being blocked, the bank's profitability declines not just in terms of its NPA ratio but also because of lost opportunities and money that might have been invested in assets or projects that would have generated higher returns. NPA therefore has an impact on both present and future profit streams, which might result in the loss of certain long-term advantageous opportunities. Low ROI (return on investment) is another effect of declining profitability, which has a negative influence on bank Balasubramaniam's present earnings.

Commercial banks provide loans and advances that are very advantageous to people, businesses, and industrial enterprises. A major factor in the expansion and diversification of corporate operations is bank finance. Bank advances and loans assist

businesses in addressing their short- and long-term financial demands. The main responsibility of banks is to provide advances and loans to promote economic development. Since the banking industry's lending has the greater impact of moving money out of the system and into useful endeavors, it is typically supported and contributes to economic growth. But there's another risk associated with lending: credit risk, which comes from borrower default. Loans that run the danger of defaulting are referred to as non-performing assets Ibrahim & Thangavelu.

Every firm wants to be profitable. Nonetheless, it serves as a benchmark for the banking sector, and non-performing assets (NPAs) directly affect bank profitability since, according to RBI regulations, banks are legally unable to record revenue on these accounts at the time they are required to make provisions for them. Book and Demyanets (2012) elucidated that both a deceleration in economic growth and a fast expansion of credit are autonomously linked to elevated NPA levels.

While bad debt is often understood to be NPA, in the context of the banking industry, NPA refers to advances and loans that are not performing well and are likely to become bad debt. The effects of NPA on financial institutions are significant. The investment loses all of its value since the anticipated return cannot be achieved, and it also directly affects profitability because of the provisions needed for risk reduction. In this case, one may challenge the bank's very existence. Interest and principal must thus be recouped promptly and without any difficulties. Since the Financial Resolution and Deposit Insurance bill was introduced, the concept of "bail-in" in cases of serious banking instability has been discussed extensively in India. According to Vasudevan (2018), given the sizeable amount of non-performing loans of public sector banks, the Reserve Bank of India and the Indian government, acting as the regulatory body, must move swiftly to ensure that the public's confidence in the soundness of commercial banks is not undermined.

Loans are classified as either performing or non-performing by Nepal Rastra Bank, with the latter group more likely to be turned into non-performing assets. Non-performing assets raise total operating and administrative costs in addition to lowering overall profit.

For banks, a disbursed loan is considered non-performing assets (NPA) when consumers fail to repay it on time and it becomes past due. Every commercial bank has always had a serious challenge in trying to reduce non-performing assets (NPA), and managing NPAs properly should be given high priority. Commercial banks are now losing money and fighting for their survival as a result of several obstacles in the way of managing non-performing assets (NPAs). Any bank's assets section of the balance sheet is dominated by loans and advances. Likewise, a significant portion of the bank's revenue statement is dedicated to earnings from these loans and advances. Recalling that the majority of bank failures worldwide were caused by a decline in the value of advances and loans is crucial. Loans are hence referred to be hazardous investments. The chance of a loan not being repaid is referred to as credit risk or default risk. While non-performing loans deplete even existing capital, productive loans help society in many ways.

According to Gayanwali, non-performing assets (NPAs) are loans that certain commercial banks have given out but for which the borrower has not made payments till the loan has matured. When a dispersed loan is not promptly repaid by consumers and becomes past due, the banks refer to it as a non-performing asset.

According to Batra (2003), NPA management takes precedence over other facets of bank operations.

According to Pokhrel (2010), banking is the lifeblood of all financial activities in the modern era. It has a crucial role in determining the country's financial future. Banks convert assets from ideal portions to lucrative segments. Given their enormous capacity for speculation, banks can play a vital role in eliminating poverty and the unemployment problem.

1.2 Problem statement

Because bank lending is the primary driver of the nation's economic development, a high level of non-performing assets (NPAs) is of great concern to both the public and the bank. Since NPLs are thought to be linked to bank failures and crises, Ghosh (2015) investigated how the government and bank management have been keeping an eye on them. High levels of non-performing assets have an impact on the organization's overall financial and operational health in addition to decreasing bank profitability. If the NPA doesn't get under control right now, it will be one of the key

reasons why banks close in the future. According to Adeusi (2014), the cost of poor and dubious loans has an inverse connection with a bank's financial success.

The seamless operation of their daily operations after implementing the Nepal Rastra bank rules has been one of the many issues that Nepal's commercial banks and financial institutions have been dealing with. Banking institutions do not appropriately adhere to the framework and policies for financial sector reforms in order to provide economic advantage. NPAs may seriously harm the bank's ability to make money. Risk associated with lending is the possibility that the borrower won't carry out the contractual commitment that drives the transaction. Another issue is that banks are under ongoing pressure to raise their investments in priority sectors, yet they also have a growing amount of nonperforming assets to deal with. An increasing NPA is a major issue for the economy of the whole country. It is necessary to examine the underlying cause of NPA. It is necessary to look at how NPA affects a bank's profitability. These areas are the specific focus of this study. With particular reference to Everest Bank Ltd. [EBL], Himalayan Bank Limited [HBL], Nepal SBI Bank Ltd. [NSBI], Sanima Bank Ltd. [SANIMA], and Siddhartha Bank Ltd. [SIDBL], the research topic related NPA has been identified for this study.

- What is the pattern of the NPA, net profit, Return on Equity and Return on Assets of the selected commercial banks in Nepal?
- What is the relationship between NPA, ROE ,ROA ,NP of Nepalease commercial bank?
- How does the NPA affect profitability of Nepalease commercial bank?

1.4 Objective of the study

Growing non-performing assets (NPAs) are now every commercial bank's main concern. These days, every bank has made managing non-performing assets (NPAs) their main concern and is working to remove the majority of them off the assets side of their balance sheet. The primary goal of the research is to get access to the non-performing assets held by the several study banks. The following is a list of the study's other specific goals:

- To examine the current status of non performing assets and profitability.

- To examine the relationship between Non Performing Assets, Return on Equity, Return on Assets and net profit of the selected commercial banks in Nepal.
- To analyze the effect of NPA on profitability of the selected commercial banks in Nepal.

1.5 Rationale of the study

The study is predicated on how non-performing assets (NPAs) affect commercial banks' profitability. Many Nepalese commercial banks are now dealing with a significant volume of non-performing assets. For banks to meet their financial targets, the NPA level should be kept to a minimum.

Increasing non-performing loans and subsequently higher loan loss provisions are two of the issues that commercial banks are now facing. In addition to strengthening the banks' financial stability, accurately classifying loans and allocating sufficient loan loss provisions also accurately depict the banks' asset holdings. Some of the most recent information, statistics, and concerns about non-performing loans and loan loss provisioning will be provided by this study. As a result, investors, bankers, depositors, students, and future scholars will find value in this study.

Out of all the assets a bank has, loans and advances are the most lucrative. The bank's main revenue streams originate from these assets. This indicates that a significant portion of the bank's revenue statement is devoted to interest on these loans and advances. The bank is ready to lend as much of its funds as it can as loans and advances are the most lucrative assets. However, it must exercise caution over the security of these advances and loans. Therefore, it is crucial to keep in mind that the majority of bank failures worldwide are caused by a decline in the value of advances and loans. Loans are hence referred to be hazardous investments. The chance of a loan not being repaid is referred to as credit risk or default risk. While non-performing loans and assets deplete even money that already exists, performing loans and assets provide many advantages. As a result, a bank's ability to succeed rests more on the quality of its loans than on the amount of money it can give. Consequently, the quantity of loans and performing assets determines a bank's success. Loans that create

cash flow for the bank and return principle and interest are referred to as performing assets.

To expedite financial reforms in the banking sector, the government of Nepal passed the Debt Recovery Act and adopted the much anticipated Debt Recovery Regulation. The planned research would compare the commercial banks' NPA levels. It will dispel certain myths that the general public may have about commercial banks' nonperforming assets.

1.6 Limitations of the study

Every study has its bounds. This study's primary weakness is that it mostly relies on secondary data from public papers, books that have been published, unpublished reports, essays written by various authors, yearly reports from the chosen banks, and other sources. Although mistakes are unavoidable, we must work tirelessly to reduce them. We have a lot of tasks to do while adhering to a variety of restrictions and guidelines. The following restrictions apply to the research.

- The research will primarily concentrate on the Commercial Bank of Nepal's non-performing assets; it will not address other factors such as borrowing, credit risk, or other financial instruments.
- Out of 20 commercial banks, Himalayan Bank Ltd. (HBL), Everest Bank Limited (EBL), Nepal SBI Bank Ltd. (NSBI), Sanima Bank Ltd. (SANIMA), and Siddhartha Bank Ltd. (SIDBL) are the five commercial banks that were included in this research.
- The data and information used in this study only cover the first eight fiscal years, from 2014–15 to 2021/222.
- The majority of the data are secondary in nature, and the study's calculations and conclusion entirely rely on the veracity of the data supplied by the corresponding bank's annual report.
- The study's findings may not be fully applicable to every kind of commercial bank.

CHAPTER – II
LITERATURE REVIEW

2.1 Theoretical review

2.1.1 Concept of non-performing assets

Non-performing assets are bank assets that don't contribute to the organization's ability to turn a profit. According to Ibrahim & Thangavelu (2014), a non-performing asset (NPA) is an advance that is unpaid for a certain amount of time when interest or principal payments (if term loans are distributed by commercial banks) are not made.

An advance that is still recorded in a bank's books of account but is deemed written off because provisions have been made by the bank is known as an NPA. Gross non-performing assets, or NPAs, are the total number of loans that have defaulted. It is made up of all nonstandard assets, including lost, substandard, and questionable assets. When an asset ceases to bring in money for the bank, it becomes non-performing. Recently, the notion of "Past Due" was used to assess an asset as a non-performing asset (NPA). A non-performing asset was defined as "credit in respect of which interest of principal has remained 'past due' for a particular time," according to Dudhe (2017).

"An asset becomes non-performing when it ceases to generate income for the bank," said the Reserve Bank of India. An asset was formerly classified as a non-performing asset (NPA) using the "Past Due" theory. The term "non-performing asset" (NPA) refers to a credit that includes interest and/or principal installments that are past due for a certain amount of time.

A loan is any amount of money given to someone else for short-term usage with the understanding that it would be returned, with or without interest, in accordance with the conditions of the loan arrangement as stated in any bond, note, mortgage, or other documentation pertaining to debt. However, a loan or debt in the context of money signifies that the borrower is receiving principle or interest in exchange for a security. Debt is defined as the amount of money a bank owes or loans to a person.

The profitability of an investment may be characterized as its capacity to generate income from its use. While profit is an absolute notion, profitability is a relative idea. Profitability analysis is regarded as one of the finest methods for measuring operational efficiency, and Tulsian (2014) examined the productivity of capital

utilized. If the borrower has stopped making principle and interest payments as specified in the loan repayment contract, the loan would be considered non-performing. Non-performing loans (NPLs), according to Jaffery (2015), are advances and loans with markups that are 90 days or more past due or more. The problem of non-performing loans (NPLs) is a big one in the banking sector. NPL reduction is essential to the growth of the sector and, by extension, to the expansion of the economy.

2.1.2 Classification of NPA

Unified Directives 2078, which Nepal Rastra Bank released, addressed a number of modifications pertaining to banks and financial organizations. Loans that have fallen behind on their payments by more than one month are not eligible for the 'Pass' loan category, according the unified guidelines. In the past, loans with up to three months' worth of missing payments were referred to as pass loans. As a result, banks and other financial organizations must set up 5% in case the payment is delayed for more than one month. While certain loans are classed as non-performing, pass and watch list loans and advances are considered as performing loans.

NPA classification for the bank is as follows, under NRB directives:

- Pass loans: Advances and loans that are past due but not past due by more than one month. A provision of 1.30% of the total loan amount is needed for these loans.
- Watch list loans: A loan that the company has obtained should be labeled as "watch list" if the borrower's cash flow is not sufficient to meet loan repayment obligations. Loans obtained by companies whose net worth, cash flow, or working capital have decreased over the last two years must also be placed on a "watch list," even if the company is paying its principle and interest on time. Furthermore, loans acquired by the same borrower from another financial institution should be placed on a "watch list" in the event that the credit becomes non-performing. The instruction further states that credit received by borrowers who have missed installment payment deadlines on a monthly, quarterly, or half-yearly basis shall be placed on a "watch list." It is necessary to set aside 5% of the entire loan amount for this kind of credit.

- Sub-standard: Advances and loans that are past due for a maximum of six months, with a three-month grace period. A provision of twenty-five percent of the entire loan amount is needed for such loans.
- Doubtful: Advances and loans that are past due for a maximum of one year, or six months. A fifty percent contingency is needed for these loans.
- Loss: Advances or loans that are past due by more than a year. Complete provisioning is necessary for these loans.

2.2 Concept of profitability

When a company's sales outpace its costs, it is said to be profitable if its net income is positive. The Banks' operations provide income, while the cost of the resources utilized to make a profit is an expenditure. The primary goal of the company is to be profitable. Without profitability, businesses cannot survive in the market over the long term. Therefore, it is critical for the business to assess historical profitability, compute present profitability, and forecast future profitability. According to Das et al. (2015), revenue and expenses are shown on the income statement, which represents the company's profitability, while cash inflow and outflow are displayed on the cash flow statement, which represents the company's liquidity.

The terms "profit" and "ability" combine to form the word profitability. The definition of profit was previously discussed, and ability refers to a company's capacity to turn a profit. An organization's ability also indicates its profitability or operational effectiveness. According to Aulsian (2014), profitability may be summed up as an investment's capacity to generate income. The difference between sales and costs for a certain time period, generally a year, is called profit. A company's profit is its ultimate "output," and without enough profit, it will not be able to survive. As a result, the financial management has to constantly assess the business's profitability. The profitability ratios are computed to assess the business's operational effectiveness. In addition to the company's management, the firm's profitability is of importance to creditors and shareholders. Regular principle repayment and interest payments are what creditors expect. Owners want a needed rate of return on their investment, as stated by Pandey (2012). This can only happen when the business produces a sufficient profit.

The profitability ratio shows how successful the endeavor was in producing the intended profit. It provides information on how well the bank is run. Although the profitability ratio primarily examines the bank's earning potential, Khan and Jain (2014) note that it represents the bank's almost whole performance.

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 borrowed resources that are locked up in NPA have a cost associated with them and need a minimum return to cover this cost.
- NPA drains the profits made by operating assets via claims related to provisioning needs, but on the one hand they do not generate any revenue.
- They lower the return on advances as well as the net interest margin or spread since they don't generate interest.
- The two primary indicators of the Commercial Banks' profitability—assets and return on equity—are directly impacted by NPA.
- The return that net present assets (NPA) provide has no bearing on the return on assets as determined by total assets.
- As provisioning depletes earnings more and more, return on equity is also impacted.
- Negative profit margins reduce investor value, which in turn undermines shareholder trust.
- The following tools may be used to evaluate the overall effect of NPA:
- Reduced ROA and ROE.
- A rise in expenses or challenges in obtaining funding.
- NPAs don't bring in money.
- They need to be provisioned.
- A 100% risk weight for CRR on net NPA
- In NPA, capital is barred
- Makes use of capital but fails to provide revenue to maintain the capital that is locked in.
- The government's recapitalization is subject to restrictions.
- NPA administration and recovery expenses.

2.3 Empirical review

Numerous research on various aspects of JVBs and commercial banks have been carried out. This study may benefit from the findings of earlier research on the many facets of commercial banks. In light of this, the research from earlier papers, journals, and theses is examined.

An increase in non-performing loans (henceforth NPLs) in bank loan portfolios is often indicative of a financial crisis. According to Ghosh (2015), since non-performing loans (NPLs) are linked to bank failures and financial crises, the government and bank management have been keeping a close eye on them since the Global Financial Crises. This situation is made worse in nations like Indonesia that mostly depend on banks to act as financial middlemen and distribute money across the economy. Because of the increased risk and ongoing uncertainty, there is no need for the investment. His paper claims that during that period, recurring expenses exceeded income and revenue collection was negative, indicating economic instability. The government lacked the excess funds to provide retired governmental officials' salaries and benefits even prior to the emergency declaration. Up to 65% of the nation's development expenditures were funded by help from outside. Additionally, he projected that it would be very difficult to persuade the donor community if Indonesia was unable to cover its monthly expenses with its earnings. In addition, he mentioned the need of creating an asset management company of some kind to take over the banks' non-performing assets (NPAs), since this might lead society into what is known as a "mass unrest society."

Partovi and Matousek (2019) used Aparicio's Data Envelopment Analysis Framework to investigate the relationship between bank production and non-performing loans (NPLs) in Turkish financial institutions from December 2002 to December 2017. The findings imply that the state of bank management in that region's banking industry, and therefore, NPLs, has a detrimental effect on technical quality. As a result, Turkish banks may vary depending on their ownership structure and level of performance. The results showed that NPLs are influenced by bank- and nation-specific characteristics when the GMM regression model is used. Nevertheless, growing losses from non-performing loans would cause European banks to fail between 1990 and 2015.

According to an NRB investigation, non-performing loans are not universally defined. There may be variations in the categorization scheme and contents depending on the

nation. The Nepal Rastra Bank, the country's central bank and a regulatory financial agency, has categorized loans primarily into four categories: pass loans, substandard loans, dubious loans, and loss or bad loans. A pass loan is one in which the principle or interest payments are past due by less than three months. loans that fall below conventional guidelines if the principle or interest payments are more than three months overdue. It is dubious that ongoing obligations will be fully paid off, and the accounts indicate that a loss—the precise amount of which is unknown—will occur. Loans to businesses that have filed for bankruptcy protection and legal resolution are often considered non-collectable losses. Pass loans go into the performing loan category, whereas loss, questionable, and subpar loans fall into the non-performing loan category. It provided an explanation of the subjects on which he planned to research and investigate the percentage of non-performing assets (NPAs) in commercial banks' total assets, total deposits, and total loans. It looked into whether or not Nepalese Commercial Banks were adhering to the NRB's guidelines on loan loss provisions for non-performing loans and assets. The following banks are used as examples: Bank of Kathmandu Limited, Nepal Bangladesh Bank Limited, Nepal SBI Bank Limited, Nepal Investment Bank Limited, and Nabil Bank Limited. Research indicates that Nepal Bangladesh Limited's nonperforming asset (NPA) level seemed to be higher than that of any other bank included in this analysis. Similarly, Bank of Kathmandu and Nepal SBI Bank are ranked second and third, respectively. Because Nabil Bank Limited has been lowering its non-performing assets (NPA) annually, the bank's status seemed to be rather favorable. Compared to all other banks, Nepal Investment Bank has the lowest NPA. The investigation also revealed that no bank was adhering to the NRB's guidelines on the loan loss provision. Even with a high percentage of non-performing assets, Nepal Bangladesh Bank's loan loss provision seemed to be more than adequate compared to other banks. Even though Nepal Investment Bank has managed the NPA very well, the loan loss provision it has made is not significant. It indicated that Nepal Investment Bank's loan loss provision is much lower than what is needed.

Ghimire (2014) conducted an analysis of the internal and external variables that contribute to the rise in non-performing assets resulting from advances and loans. the internal variables that affect the NPA's growth and efficient management. His research aims to determine the correlation between non-banking assets and non-

performing assets. Through the survey, he obtained significant insights into this link. The research was able to determine that the most significant internal variables that result in excellent loans becoming bad loans are ill intentions, inadequate supervision, and poor management. Comparably, it is discovered that the least desirable elements that convert excellent loans into bad loans are credit concentration and lax legal provisions. Certain issues, such inadequate portfolio analysis, ineffective lending policies, and insufficient security, were shown to have a moderate impact on the increase of non-performing assets (NPAs). Regarding the external elements, research indicates that economic downturns, political unrest, and legal disputes are more significant contributors in converting favorable loans into unfavorable ones. Similarly, it has been shown that legislative provisions for recovery have less of an influence when it comes to the rise in non-performing assets (NPA) in Nepalese banks. The monitoring system and supervision have been determined to be average factors. Therefore, it can be generally concluded that the two main external causes contributing to the increase in non-performing loans (NPA) are the economic and industrial slump and the absence of robust legislative provisions for debt recovery.

The survey also indicated that although Nepalese Commercial Banks prioritized lending to the commerce sector when allocating their resources, they did not place as much focus on the service sectors. He had made recommendations on various topics, including financial strength, personal integrity and security, monitoring and control systems, avoiding credit concentration, robust legal systems, asset management companies, avoiding undue pressure, etc. to the sample banks, Nepal Bangladesh Bank Ltd., Nepal SBI Bank Ltd., and Bank of Kathmandu Ltd.

According to Arujo et al. (2018), the inclusion of loan loss provisions in accounting information enables users to more accurately predict an entity's net cash flows when assessing the likelihood of a return on capital invested. The clause results in the early acknowledgment of losses, creating a valuable reserve that will be used in the event that losses materialize. The effects of upcoming financial crises are lessened when these losses are recognized early.

Jha and Hui (2015) discovered a negative correlation between return on assets, capital adequacy ratio, and non-performing loans. Similarly, there is a negative correlation between return on equity (ROE) and the capital adequacy ratio and nonperforming

loans. It also showed that there is a favorable correlation between return on equity (ROE) and total loan to total deposit with return on assets (ROA) and ROE.

A study on non-performing assets of commercial banks with references to SCBNL, RBB, Everest Bank, NB Bank, and NBBL was carried out by Pradhan (2014). His study's primary goals are to determine the percentage of non-performing loans and the amount of NPA in total assets, total deposits, and total lending in the chosen commercial bank, as well as the relationship between loan loss provisions in commercial banks and the effects of non-performing assets on commercial bank performance. According to his findings, the main reasons why non-performing assets (NPAs) develop include poor lending policies, political pressure to lend, a lack of oversight and monitoring, a downturn in the economy, and an overvaluation of collateral. Both public sector banks (RBB and NBL) and private sector banks (NBBL, EBL, and SCBNL) have been attempting in recent years to hold onto their loans and advances in order to avoid becoming nonperforming assets. They should attempt to recoup their loan and interest amount on time and create an appropriate loan loss strategy in order to overcome the non-performing assets (NPA) from public banks. He has come to the conclusion that "a high percentage of non-performing assets affects the organization's overall financial and operational health in addition to decreasing bank profitability." If the NPA doesn't get under control right now, it will be one of the key reasons why banks close in the future.

According to a 2012 study by Nawaz, banks have been seeing an increase in non-performing loan portfolios, which has greatly exacerbated financial turmoil within the banking industry. Banks take deposits from clients and provide loans to them, but when clients don't pay their debts, issues like non-performing loans occur. The effect of credit risk on Nigerian banks' profitability is assessed in this research. Data from secondary sources, namely the annual reports and accounts of selected banks from 2004 to 2008, were used to calculate financial ratios as indicators of bank performance and credit risk. Regression, correlation, and descriptive analysis approaches were used. The results showed that the profitability of Nigerian banks is significantly impacted by credit risk management. In order to guarantee prudent deposit use, managers must exercise caution while establishing a credit policy that

would not have a detrimental impact on profitability. They also need to be aware of how credit policy influences the way their banks operate.

Afriyie and Akotey (2012) studied the influence 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 used ROA and ROE as measures of bank profitability and non-performing loan and capital adequacy ratio as indications of credit risk management. The study's conclusions demonstrate a strong positive correlation between non-performing loans and bank profitability, indicating that despite high loan default rates, non-performing loan growth is proportional to profitability. The authors have discovered the cause of Ghana's rural and community banks' poor credit risk management practices and have shown that the banks transfer the expense of loan default to other clients who pay higher interest rates. Community banks continued to earn a profit as a result of this approach. However, because nonperforming loans should lower bank profitability, this indicates that rural and community banks in Ghana lack strong and effective credit risk management practices. To put an end to this behavior, the authors highly advise the Bank of Ghana to improve its oversight of the rural banking sector.

Abdelrahim (2013) pointed out a number of issues that are critical to Saudi banks and the efficacy of credit risk management. These include: poor asset quality, insufficient training, weak corporate governance, lack of credit diversification, granting credit ceilings higher than the ability of the customer to repay the loan, lack of risk premium on loans that are too risky, importance of loan guarantees over the ability of the customer to repay the loan, lack of examination of the customer's financial situation, dishonesty of some credit officers, and profit over credit safety. He suggests that Saudi Arabian banks implement Basel III, establish a comprehensive plan for managing credit risk, enhance the function of the credit risk committee, and use advanced techniques to minimize credit risk in order to address these issues.

Gross and net NPAs as a proportion of gross advances and net advances, as well as gross and net NPAs as a percentage of total assets, were the metrics used by Samir and Karma (2013) to assess the trends in non-performing assets. Managing non-performing assets (NPAs) has become a significant concern for Indian banks as a result of the adoption of international standards for revenue recognition, asset

categorization, and provisioning in the banking industry. These days, banks are evaluated based on the caliber of their assets as well as the quantity of deposits they receive and the number of branches they have. Since non-performing assets make up a significant portion of banks' portfolios, they will always be a burden on the banking sector. The profitability, liquidity, and solvency of the banks are all negatively impacted by NPAs. In addition to highlighting the policies the banks have taken to address the NPAs, this paper analyzes the position of non-performing assets (NPAs) in a few selected banks, namely State Bank of India (SBI), Punjab National Bank (PNB), and Central Bank of India (CBI). It also offers a multifaceted recovery plan for NPAs in the banking industry.

According to Dao et al. (2020), academics and financial specialists are still researching non-performing loans (NPLs) and their significant effects on GDP creation, deflation, inflation, interest rates, exchange rates, asset returns, capital adequacy, unemployment, and the banking industry in particular. It's also critical to recognize that a number of financial sector factors influence the amount of bad debt. Work on the bank's bad debt and its repercussions is required in the case of Vietnam. By completing a study on commercial banks in Vietnam from 2008 to 2017, policymakers and bank managers will be able to create risk-reduction strategies and solutions that will lower bad debt and boost banking efficiency.

According to Selvarajan and Vadivalagan's (2013) analysis, the extent of the bad debt issue was not given enough attention. Following the Narasimham and Verma committees' recommendations, various actions have been done to address the issue of old non-performing assets (NPAs) on bank balance sheets. People keep saying that there hasn't been a systematic assessment of the most effective approach to solving the issue. There doesn't seem to be agreement on the best course of action to take in order to solve this issue. The way the NPA rules have been applied has likewise not been consistent since their recognition. Non-performing loans are another term for non-performing assets. A bank or financial firm makes it, and they are not making the interest or repayments on schedule. For a bank, a loan is an asset since it generates cash flows from principle repayment and interest payments. A bank's revenues come from the interest it pays customers. The issue of non-performing assets (NPAs) affects not only Indian public sector banks but the whole banking system as a whole. A

significant amount of bad debts in Indian banks resulted from loans made to the priority sector at the behest of officials and politicians. Had banks supervised their loans more efficiently, the issue of bad debt may have been reduced, if not completely eradicated. Politicians and bureaucrats compelled the bank's senior management to pour good money after bad when dealing with dishonest debtors. One of the main obstacles to India's socioeconomic growth is non-performing bank assets. The Indian banking system's non-performing assets (NPAs) remain too high. It has a significant impact on the banks' financial situation, making them very burdened. The banks must work hard to improve their risk management and internal control systems, as well as to build up early warning signals for prompt identification and response.

Legal changes are a related issue to the NPA problem. This is an issue that has to be given serious thought right now since the current system, which significantly delays finding a legal settlement to a disagreement, is untenable. An key "moral hazard" in the financial industry is the lack of a prompt and effective judicial redress mechanism, which promotes reckless borrowing. NPAs may lead to a variety of problems. The largest percentage of NPAs in public sector banks may be attributed to several different factors. Deriving NPA estimates based on percentage against risk assets rather than total earning assets exaggerates the issue of nonperforming assets (NPA) in Indian banking institutions. Banks are required to engage in a continual recovery exercise using a variety of techniques and novel ideas in order to maximize recovery and decrease non-performing assets. Additionally, consumers must be repeatedly informed about the advantages of bank loans over those from neighborhood money lenders. The banks need to take care of the defaulters who have a good justification for doing so. However, when universal write-off is implemented, this attitude turns into a mocking behavior. These are a few of the several problems with lending and recovery that banks confront. Lending by banks is unabated. Lending will go on, and so too must recovery.

Adeusi (2014) used secondary data from annual reports and financial statements of 10 Nigerian banks for the years 2006 to 2009 to assess the relationship between risk management methods and banks' financial performance in Nigeria. Since the data used in the research are cross-sectional units recorded across time, the authors have elected to use the panel data estimation approach. The cost of bad and doubtful loans, non-performing loans, liquidity, equity-total asset ratio, equity-loan ratio, and debt-

equity ratio were among the independent variables that the authors used. In contrast, return on equity (ROE) and return on asset (ROA) are the dependent variables that are used. The study's conclusions indicate that although there is a positive and substantial correlation between the capital assets ratio and banks' financial performance, there is an inverse link between those two variables and the cost of poor and questionable loans. The authors came to the conclusion that risk management and bank performance were significantly correlated. To improve banks' financial performance, the authors advise that the credit risk indicators—cost of bad and doubtful loans, debt-to-equity ratio, and managed fund needs—be handled more effectively.

Non-performing assets are bank assets that don't contribute to the organization's earnings; Ibrahim and Thangavelu (2014) examined these assets. Any nation's bank performance is reflected in its NPAs. Lower bank performance is a direct result of more NPA. The topic of non-performing assets (NPAs) has been extensively deliberated within global financial systems. Each nation's economy as a whole is impacted by the NPA issue, not just the banks. This essay aims to examine the notion of non-performing assets (NPAs), which are components of loan assets held by commercial banks in India, with particular attention to the public, private, and international banking sectors. The research uses secondary data and is exploratory and diagnostic in nature. The research reveals that there has been a notable improvement in the functioning performance of commercial banks with regard to non-performing assets.

Kurawa and Garba (2014) used the generalized least square regression approach as a methodology to thoroughly examine the impact of credit risk management on the profitability of Nigerian banks from 2002 to 2011. The research used default rate, cost per loan asset, and capital adequacy ratio as credit risk management indicators. ROA is used as the profitability ratio statistic in many other research. The study's conclusions demonstrate a strong positive correlation between ROA and the default rate, cost per loan asset, and capital adequacy ratio. The authors suggest that scientific credit risk control be implemented by Nigerian banks, that they enhance their effectiveness in credit analysis and loan management, and that they reduce the high percentage of non-performing loans and their detrimental impact on profitability.

Using quarterly data from 2003 to 2009, Louzis et al. (2012) examined the macroeconomic and bank-specific factors that contribute to non-performing loans in Greece's banking industry. The real GDP growth rate, the unemployment rate, lending rates, and public debt were explicitly taken into consideration as the explanatory factors in this research to see how they affected the amount of non-performing loans. The main explanatory factors influencing non-performing loans in the case of banks were performance (measured by ROE), efficiency (measured by the ratio of operating expenditures to operating revenue), and loan type.

This study, which examined the effect of credit risk on the profitability of five significant UK commercial banks, was examined by Saeed and Zahid (2015). Two dependent variables—ROA and ROE—were taken into account for assessing profitability, while net charge off (or impairments) and nonperforming loans were taken into account for credit risks. Several statistical analysis covering the financial crisis period of 2007–2015 were performed using bank data. It was discovered that there was a positive correlation between bank profitability and credit risk indicators. This indicates that UK banks are still assuming credit risks despite the severe consequences of the 2008 financial crisis in exchange for interest rates, fees, commissions, and other rewards. The findings also show that bank growth, size, and leverage were all positively correlated. After the financial crisis, the banks turned a profit and improved their capacity to manage credit risk over the course of the year.

According to Bhattarai (2015), macroeconomic factors like real effective exchange rates have a very detrimental influence on non-performing loans. This research indicated that the GDP growth rate had no effect. Non-performing loans are significantly improved by an inflation rate that is one year behind. According to earlier research, banks that charge comparatively higher real interest rates also have higher non-performing loan rates. The ownership dummy has a positive coefficient and statistical significance at the one percent level, indicating that the non-performing loan ratio of a government-owned bank would be greater than that of a bank with private ownership. Additionally, as the coefficient of change in loans between the current and previous years has a negative coefficient and is significant at the one percent level, greater lending in the prior years and this year lowers the non-performing loan.

According to Dhiya and Bhatia (2016), the process of creating credit increases credit risk, which in turn causes non-performing assets (NPAs). Although banks' primary purpose is to lend money to a variety of industries and sectors, including personal loans, business, and agriculture, they have recently become much more cautious when making loan extensions. Managing non-performing assets (NPAs) has become a significant concern for public sector banks in India, particularly with the implementation of revenue recognition, asset categorization, and provisioning requirements in the banking industry. In the current competitive environment, banks are evaluated based on the caliber of their assets in addition to the quantity and number of accounts they have. Because they make up a sizable portion of banks' portfolios, non-performing assets are an unavoidable burden on the banking sector. This study's goals are to look at the position and trends of public sector banks' non-performing assets (NPAs) in priority and non-priority sectors, as well as to identify and investigate the causes of NPAs, analyze the efforts made to recover NPAs, and make recommendations for effective NPA management.

NPAs are an issue that many banks are dealing with, and Garg (2016) found that this negatively impacts the banks' ability to do business. For banks, nonperforming assets are a burden. Numerous studies have been carried out to examine the underlying reasons of non-performing assets (NPAs). This research aims to explain the idea of non-performing assets (NPAs), as well as its origins and effects on profitability. Profitability, liquidity, and credit loss are all impacted by non-performing assets. In the absence of appropriate corrective action, the amount of non-performing assets cannot be decreased, and the bank would suffer significant losses.

According to Dudhe (2021), non-performing assets are an important consideration when assessing a bank's financial performance. For financial companies, the phrase "non-performing asset" is crucial. Non-performing assets demonstrate the banks' performance competency. Non-performing assets are sums of money that the bank does not receive in exchange for making loan disbursements. The whole financial system is impacted by non-performing assets, not just the lending institution. As a result, a focused investigation of Indian public sector banks has been conducted to assess the impact of non-performing assets on bank profitability. In addition to the quantity of deposits and the number of branches, banks are also evaluated based on the quality of their assets. NPAs have a detrimental impact on banks' profitability,

liquidity, and solvency. The State Bank of India (SBI), Bank of India, United Bank of India, Bank of Baroda, Indian Overseas Bank, Punjab National Bank, and Central Bank of India are the banks whose NPA situations are examined in this paper. It also describes the procedures that banks use to deal with non-performing assets (NPAs) and offers a multifaceted plan for the quick recovery of NPAs in the banking industry. Seven public sector banks have been chosen to investigate the relationship between each bank's net profit and gross non-profitability. Panel regression is used in this work. The findings indicate that every bank, with the exception of SBI and PNB, has a negative relationship between their net profits and gross non-performing assets. However, SBI and PNB saw annual increases in net profit, unaffected by gross non-performing assets. To recover their outstanding debts, both banks are focusing on their nonperforming assets (NPA). The study's foundation is secondary data that was found on websites, journals, articles, and the Report on the Progress of Banking in India.

Laveena and Kumar (2016) investigated the causes of banks' non-performing assets. Techniques for resolving non-performing asset periods in banks after the declaration of assets as non-performing. The notion of non-performing assets and how various public, private, and cooperative banks handle them are highlighted by panel interest in non-performing assets at various banks. The research was conducted using several nonperforming asset patterns. This research project examines the impact of "Management of Non-performing Assets on Profitability of Public and Private Sector Banks." NPAs are a major concern for banks, and it is the goal of this study to identify several aspects related to NPAs. Analysis has been done on the impact of managing non-performing assets on the profitability of various public and private banks as well as the recovery of non-performing assets by various banks.

Singh (2016) found that the rise of non-performing assets (NPAs) directly affects bank profitability. One of the main issues facing India's scheduled commercial banks is non-performing assets. Following the Narasimham and Verma committees' recommendations, some action has been done to address the issue of old non-performing assets (NPAs) on bank balance sheets. People keep saying that there hasn't been a systematic assessment of the most effective approach to solving the issue. There doesn't seem to be agreement on the best course of action to take in order to solve this issue. The performance of banks is reflected in NPAs. A high percentage of

non-performing assets (NPAs) indicates a higher likelihood of many loan defaults, which may negatively impact bank profitability and net worth while also devaluing the asset. Non-performing assets (NPAs) have an impact on banks' liquidity and profitability, as well as constituting a danger to their longevity. The whole economy is impacted by the NPA issue, not just the banks. The high percentage of non-performing assets (NPAs) in Indian banks is, in reality, only a reflection of how the business and trade are doing. Reducing non-performing assets (NPAs) is crucial for enhancing the banking system's financial stability. In this article, an effort is made to comprehend non-performing assets (NPAs), their status and trend in Indian Scheduled Commercial Banks, the elements that lead to NPAs, the reasons behind the significant effect of NPAs on Scheduled Commercial Banks in India, and the methods by which NPAS may be recovered.

According to Kiran and Jones (2016), the quantity of non-performing assets has an impact on the nation's economy as well as the banking sector and the whole financial system. As a result, a focused investigation of Indian public sector banks has been conducted to assess the impact of non-performing assets on bank profitability. For the research, five nationalized banks and NSBL were chosen, and the relationship between their net profit and gross non-performing assets was calculated. The findings indicate that, with the exception of NSBL, all other banks have a negative relationship between their net earnings and gross non-performing assets. However, for NSBL, net profit is only in continuous earnings and is not impacted in the slightest by gross non-performing assets.

According to Dudhe's (2017) analysis, non-performing assets—the buzzword for banking corporations—are an essential component in evaluating a bank's financial performance. Non-performing assets demonstrate the banks' performance competency. Non-performing assets are sums of money that the bank does not receive in exchange for making loan disbursements. The whole financial system is impacted by non-performing assets, not just the lending institution.

According to Ozili and Outa (2017), banks are financial organizations that mainly take deposits from the public and lend money to people, businesses, and governments to fund capital expenditures, investment, and consumption—all of which support economic development. When borrowers are unable to repay the principle and/or

interest on a loan facility because of adverse economic circumstances and associated causes, bank lending to them often results in credit risk. Loan loss provision estimates are a credit risk management tool used by banks to mitigate expected losses on bank loan portfolios. Generally speaking, banks will set aside a specific amount as a cushion to absorb expected loss on banks' loan portfolios; this amount is referred to as loan loss provisions (LLPs) or provisions for bad debts.

According to Tuladhar (2017), credit risk management in the banking industry is crucial since it has a bigger influence on a bank's ability to survive, develop, and perform financially than it does because of the current Global Financial Crisis (GFC). Since credit loans are one of the main sources of revenue for commercial banks, controlling credit risk has a significant influence on the profitability of the bank. This research looks at how Nepalese commercial banks' profitability is affected by credit risk management. Pooled regression analysis and panel data analysis have been used to gather and examine data from 28 commercial banks for the years 2011 to 2015. Return on equity (ROE) and return on asset (ROA) were used as indicators of bank profitability in the model specification, while the indicators of credit risk management included the number of female board members (FBM), cash reserve ratio (CRR), coverage ratio (CR), asset quality (AQ), leverage ratio (LER), non-performing loan ratio (NPLR), capital adequacy ratio (CAR), liquidity ratio (LR), bank size (BS), and asset quality (AQ). The results show that the profitability of Nepalese commercial banks is significantly impacted by credit risk management. The findings indicate that bank size, capital adequacy ratio, and coverage ratio all positively affect bank performance. Conversely, it has been shown that the non-performing loan ratio, the leverage ratio, and the presence of female board members adversely affect bank performance. But it turned out that the cash reserve ratio, asset quality, and liquidity ratio had little bearing on how well the bank performed. Thus, the study suggests that commercial banks in Nepal implement an efficient credit risk management strategy that keeps the capital adequacy ratio at an optimal level, monitors and controls non-performing loans, improves the coverage ratio, balances the leverage ratio, encourages female board members, and grows bank size to improve financial performance.

Bag and Islam (2017) examined the current pattern of non-performing assets (NPAs) in banking, specifically focusing on India and Bangladesh, and also examined the correlation between NPAs and profitability. The secondary data used in this research was gathered from the RBI report and the websites of Bangladesh's state-owned and commercial banks between the years of 2010 and 2016. For this investigation, the researchers combined public and private banks, taking into account 10 banks from each of the nations. The data was analyzed and evaluated by the researcher using SPSS-22.

In 2018, Vikram and Gayathri conducted an analysis of the reasons and control strategies associated with the growing non-performing assets (NPAs) in the public and private sector banks. The NPAs in India's banking industry are studied using articles from 2010 to 2017. The majority of the articles discuss NPA levels and management strategies in the Indian banking industry. The amount of non-performing assets (NPAs) in a nation's banking system is the greatest measure of its health.

The most significant factors contributing to the rise in non-performing loans, according to Bhattarai (2014), are the energy crisis, the government's tardiness in making budgetary expenditures, the unstable political climate, the dishonesty of borrowers in disclosing information during the borrowing period, and the underutilization of the loan amount.

According to Kingu et al. (2018), a rise in non-performing loans is linked to a fall in return on assets. These findings' exposure to credit risk, as determined by NPLs, is often linked to higher operational costs and worse profitability.

According to Abale and Ingal (2013), non-performing assets (NPAs) have become a concerning danger to the banking sector, raising concerns about the viability and longevity of the impacted institutions. This trend has been going on for more than ten years. The economy is also impacted by the NPA issue in addition to the banks. Therefore, to lower bank non-performing assets (NPAs), banks must have improved credit evaluation procedures. However, once NPA arises, it can only be resolved with a strong legal framework; in order to recover stock loans, NPA often has to file lawsuits and get court orders. Reducing non-performing assets (NPAs) will enable banks to increase their profitability and ensure seamless capital recycling throughout the country.

Adebisi and Matthew (2015) provide an analysis of their research, "The Impact of Non-Performing Loans on Firms Profitability," which was published in the American Research Journal of Business and Management and focused on the Nigerian banking sector. "There is no relationship between NPL and ROA of Nigerian banks, which means that the level of NPL does not affect the assets value of the firms. However, the result shows that there is a negative relationship between ROE and NPL of Nigerian banks, which affects the shareholder's wealth maximization."

This study, conducted by Pokhrel and Pokhrel (2020), examined the effect of non-performing assets on the profitability of Nepalese commercial banks. According to study, banks get their revenue from the loans and advances that are given; they are unable to make money if these loans are not returned. The whole economy is impacted if the profitability of the banks is impacted. However, in the Nepalese context, the banks' aggressive policies hasten nonperforming assets (NPAs), while more investment yields higher returns. However, throughout the country's growing economic era, borrowers did not always repay their loans and advances on time. Nevertheless, due to strict regulatory body policies, all outstanding payments were eventually settled. The study's overall conclusion regarding its primary goal showed that NPA had a favorable effect on Nepalese commercial banks' profitability as measured by return on assets and earnings per share. In addition, compared to private sector banks, the sample of government-owned banks has the largest percentage of nonperforming loans. Thus, government-owned banks need to reduce their nonperforming loan portfolio. Conversely, the fact that private sector banks have the fewest nonperforming assets suggests that their lending practices are generally excellent. When compared to government-owned banks, the evaluation of private sector banks shows a lower growth rate for non-performing assets (NPAs). Because the government-owned bank has been unable to adequately address the problem of bad loans, the number of these debts has grown astronomically.

According to Khan et al. (2020), there is a statistically substantial negative correlation between operational efficiency and profitability indicators and non-performing loans (NPLs), while there is a statistically negligible correlation between capital sufficiency and revenue diversification and NPLs. Return on equity (ROE), return on assets

(ROA), and net interest margin (NIM) are the three common metrics used to assess bank profitability. ROA is the most often used measure of profitability and one of the important indications of a bank's overall performance. A decline in ROA may result in a bank's being shut down or being disappointed for a variety of reasons, including large non-performing assets (NPAs), poor charge-based compensation, insufficient capital, excessive intermediation costs from overstaffing, decreased noninterest pay, and so on. Higher total revenue savings may maintain the macroeconomic shocks and prevent their disappointment during a budgetary emergency.

Chhetri (2057) discussed the need of making connections between non-performing assets (NPAs), their potential causes, and the effects of NPAs on the banking industry in South Asia in his study, Non-Performing Assets: A Need for Rationalization. He also suggested possible NPA containment strategies. Financial institutions' loans and advances are intended to be repaid in full, plus interest, within the time frame that was agreed upon by the parties at the loan settlement. The loans become non-performing assets once the due date has passed. In order for the loan to continue to be performed, the debtor must actually execute transactions via the lending institution's book of accounts."

Pyakuryal (2001) has made the following claims in his writings. Due to the growing total amount of non-performing assets (NPAs) in Nepalese commercial banks, our economy is at a volatile stage where banks are struggling to recover past due amounts. Because of the increased risk and current uncertainty, there is no need for further investments. He said that routine spending exceeds income and that revenue collection is negative. This suggests that the economy is unstable. The government did not have enough money even prior to the emergency declaration to provide retired governmental personnel' salaries and benefits. 2002 is likely to be challenging since significant prohibitions will become more pronounced. Additionally, debt payment will need a considerable portion of the budget. It will be quite difficult for us to persuade the donor community to support up to 65 percent of our development spending (via our income). This has the potential to move our civilization closer to being a "mass unrest society." Additionally, he states that "the government is about to seatback an assets management company to take over the non-performing assets (NPAs) of the government-owned banks. On the other hand, it appears that the government's entire concentration has been on two commercial banks only (Nepal

Bank Ltd. and Rastriya Banijya Bank)." Because of the cumulative growth of the NPAs, the banks haven't taken on any risks, and there is essentially a demand for new investments, which is why many banks are focusing on traditional areas. As a result, the researchers haven't been able to investigate potential areas of competitive advantage in the regional context.

2.4 Research gap

From the review of various literatures, it has been discovered that this researcher has worked on the study of its compliance and analysis of non-performing loans (NPA) through loan loss provision, non-performing loans, and profitability. However, prior research has found that the NPA has a negative impact on profitability; total lending interest rate in the market, operating profit, and the nature of non-performing assets are additional factors that affect profitability in Nepalese commercial banks; previous research has used very few and different samples, but we conducted research using eight years of data from five commercial banks with various characteristics.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Research design

The general approach used to address a research topic is referred to as research design. It chooses how information is gathered and examined. The study uses a causal comparative research design and a descriptive research design, depending on the researcher's perspective and beliefs about the nature of reality and knowledge. Valid responses to research questions are produced by strong research designs; unreliable, inaccurate, or irrelevant replies are produced by poor designs. A structure developed to address research problems is known as a research design.

3.2 Sampling procedure

The study's scope included all of Nepal's commercial banks that offered loan products to their clientele. In Nepal, there are twenty commercial banks. Every bank has long been engaged in banking operations and providing credit to its clientele. Using a judgmental selection technique, five commercial banks have been selected from among them. Using the judgmental sampling approach, which is a non-probability sampling technique, the researcher chooses which units to sample based on his professional judgments or his own prior knowledge. Punjab National Bank (PNB) and Everest Bank Limited (EBL) are partners in this joint venture. Habib Bank of Pakistan's joint venture is called Himalayan Bank Limited (HBL). State Bank of India's (SBI) subsidiary is the Nepal SBI Bank Limited (NSBI). Various Nepalese investors hold the Sanima Bank Limited (SANIMA) and Siddhartha Bank Limited (SIDBL). In this sense, the sample banks are made up of banks with various histories and levels of performance.

3.3 Collection of data

The primary source of data for the research is secondary data, both internal and external, that was gathered from various published sources. The secondary data was gathered from a variety of sources, including the annual reports of the relevant banks, other NRB papers, and other reports. In addition to this, more crucial data and information were gathered from both public and unpublished sources. Throughout the research process, the study has also contacted the library to get the data and information required.

3.4 Data analysis tools

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

3.4.1 Financial tools

One of the most crucial tools for this research is the financial toolkit, which comprises ratio analysis and financial statement analysis. To assess a bank's financial health, financial instruments are used. Even though there are several financial ratios, this research just uses a few of them.

i. **Net Profit (NP)**: Net profit is the total amount of money your bank earned in a period of time, minus all of its expenses, taxes, and interest. It measures your company's profitability. Net profit is calculated as under:

   Net Profit = Net Interest Income + Other Operating Income + Other Non-Operating Income – Operating Expenses- Impairment Charge- Income Tax.

ii. The productivity of the assets is gauged by the return on assets ratio (ROA), often known as return on total assets or just return on assets. This ratio assesses how well the whole amount provided by the creditors and owners was used. ROA is determined as follows:

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

iii. Return on Equity Ratio (ROE): This straightforward measure assesses the profitability of investments. A company's profitability is correlated with its shareholders' equity via return on equity. Return on Equity (ROE) calculates the profitability of the firm by returning equity to shareholders. It is computed as follows:

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

   Where,

   Shareholder's Equity = Share Capital + Reserve & Surplus

3.4.2 Statistical tools

The data that the researcher had access to was analyzed using a variety of statistical techniques. These resources were used in the study to analyze financial data and come to a trustworthy result. The following instruments were used by us:

i) Average/Mean

A single value that is connected to a group of values in order to represent them in some manner is called an average. This value is meant to represent the whole group of values of which it is a part as being typical of all the values in the group. Averages come in several varieties. By adding up each item and dividing the result by the total number of things, one may get the value of the Arithmetic Mean.

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)

The fluctuation of a period's results is known as risk. The fundamental random variable used to calculate the risk of an investment is the one-period rate of return. The standard deviation is one such risk indicator. The positive square root of the mean of the square of the deviation subtracted from the arithmetic mean is the definition of standard deviation. This formula may be used to determine risk on individual assets or standard deviation for assets based on historical returns.

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

$\sum(X - \overline{X})^2$ = Sum of the squares of the deviations measured from mean, and

N = Number of Observations

iii) Coefficient of Variation (CV)

The relationship between the standard deviation and mean is shown in the coefficient of variation. The coefficient of variation is a relative measure of dispersion based on standard deviations. The CV is the coefficient of dispersion based on standard

deviation times 100. The CV is defined as follows and is used to compare the variability of two distributions:

$$\text{CV} = \frac{SD}{Mean} \times 100$$

iv) Coefficient of Correlation (r)

Finding the degree of link between two or more variables is the focus of correlation analysis. One or more variables are considered independent in correlation analysis, whereas just one variable is considered dependent. A numerical indicator of the linear connection between two variables, X and Y, is their correlation coefficient, or r. One statistical metric used to determine the strength of the association between the relative movements of two variables is the correlation coefficient. The correlation coefficient's range of values is between -1.0 and 1.0, or, in absolute terms, is restricted by 1.0. The correlation measurement is inaccurate if the correlation coefficient is higher than 1.0 or lower than -1.0. Perfect negative correlation is represented by a correlation of -1.0, while perfect positive correlation is represented by a correlation of 1.0. A correlation value of 0.0 indicates that there is no link at all between the two variables' movements.

Understanding the strength and direction of the link between the two variables under investigation is made possible by correlation analysis. It does not, however, consider the cause-and-effect connection between the variables. The correlation coefficient, represented by r, is calculated as follows:

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

v) Regression Analysis

By establishing an estimated functional link between the variables, regression is a statistical approach for establishing relationships between the variables. It is seen to be a helpful tool for figuring out how strongly two variables relate to one another (simple regression) or to many variables (multiple regression). When the value of one variable is known, it might be helpful to anticipate or estimate the value of another variable or variables. The following represents the dependent variable (Y) regression line on the independent variable (X):

$$Y = a + bX$$

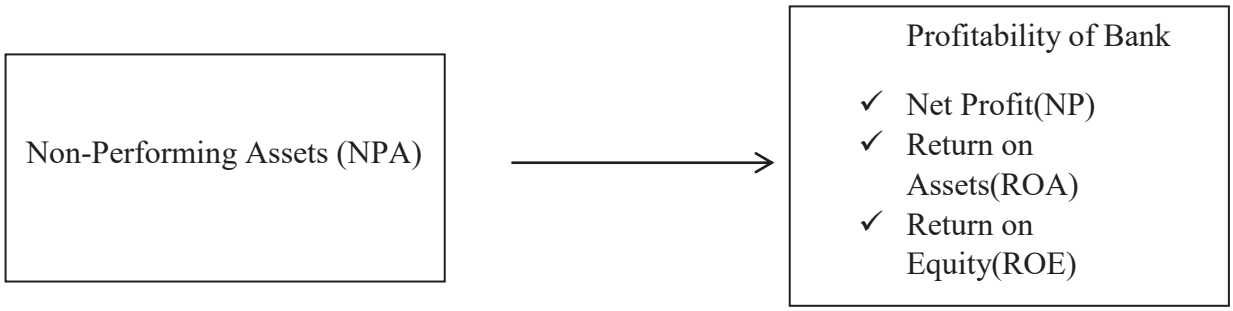
Where, a = Y-intercept

b = rate of change of Y with respect to X.

3.5 Research Framework and Definition of Variables

The link between the independent and dependent variables may be determined in the manner described below, taking into account the specified research challenges and goals.

Independent Variable **Dependent Variable**



3.5 Definition of Variables

Non-Performing Asset (NPA)

An advance that is still recorded in a bank's books of account but is deemed written off because provisions have been made by the bank is known as an NPA. It is made up of all nonstandard assets, including lost, substandard, and questionable assets. When an asset ceases to bring in money for the bank, it becomes non-performing.

Net Profit (NP)

The entire amount of money your bank made during a certain period of time, less all of its costs, taxes, and interest, is known as its net profit. It gauges the profitability of your business.

Return on Asset (ROA)

The productivity of the assets is gauged by return on total assets, or simply return on assets. Net Profit divided by Total Assets is how it is computed.

Return on Equity (ROE)

A company's profitability is correlated with its shareholders' equity via return on equity. Net Profit divided by Shareholder Equity is how it is computed.

CHAPTER IV
RESULTS AND DISCUSSION

The purpose of this important chapter, "Results and Discussion," is to provide the results and provide an analysis and interpretation of them. The credit risk management of the chosen commercial banks is the main goal of this research. This chapter attempts to provide and evaluate the data that was gathered. Data gathered from many sources were categorized and tallied in compliance with the study's requirements and the kind of data that was gathered. The data is analyzed using a variety of statistical and financial instruments. The necessary figure also presents the facts in an easy-to-understand manner.

4.1 Trend analysis

4.1.1 Net profit trend

The bank's primary goal is to earn a profit. Furthermore, an organization's ability to survive depends on its ability to make a profit. For the bank to survive, profit must also be made. The table below displays the net profit earned by the banks that were tested.

Table 1

Net profit trend

Year	EBL	HBL	NSBI	SANIMA	SIDBL
2014/15	1,574	1,112	1,065	624	767
2015/16	1,730	1,936	1,332	996	1,255
2016/17	2,006	2,178	1,523	1,304	1,386
2017/18	2,582	1,876	2,024	1,698	1,904
2018/19	3,054	2,764	2,293	2,258	2,258
2019/20	2,516	2,587	1,543	1,776	2,144
2020/21	1,771	2,999	963	2,318	2,855
2021/22	2479	2367	1638	2093	2909

Source: Appendix 1

Table 1 demonstrates that the net profit of the chosen sample bank is trending upward. The lowest net profit of Everest Bank Ltd. was 1574 million in the 2014–15 fiscal year, and it has been steadily rising since then, reaching its greatest point in the 2018–19 fiscal year (3054 million). Similarly, other chosen banks' net profits have been rising in recent years. Comparably, HBL's net profit ranges from 1112 million in the 2014–15 fiscal year to 2999 million in the 2020–21 fiscal year. The NSBI Bank's net

profit ranges from 963 million in the fiscal year 2020–2021 to 2293 million in the fiscal year 2018–19. Sanima Bank's net profit peaked in 2020–2021 at 2318 million, down from 624 million in 2014–2015. Similar to this, Siddhartha Bank Ltd.'s net profit ranges from 767 million in the 2014–15 fiscal year to 2909 million in the 2021–22 fiscal year. The net profit of every one of the chosen commercial banks fell in 2019–20. Thus, we can see that, with the exception of 2019–20, net profit has been trending upward in the sample banks that were chosen. This indicates that the net profit margin of the chosen commercial banks is rising steadily, with the exception of 2019/20, as it was lowest in the study's first year and has been at its greatest in subsequent years.

4.1.2 Non-performing Asset

An asset is considered non-performing if it doesn't provide any profit for the bank. As they lower the company's earnings, they are turning into a significant issue for the banking sector. The main issue facing the banking sector in Nepal is non-performing assets. Nepal's banking sector is still in its infancy, making it more difficult to eliminate non-performing assets due to a variety of issues including lax credit policies and other economic issues. Details on the non-performing assets of a few chosen banks during the last eight years are shown in the following table.

Table 2

Non-performing Assets (in millions)

Year	EBL	HBL	NSBI	SANIMA	SIDBL
2014/15	367.16	1,783.95	74.92	20.81	669.48
2015/16	264.42	851.38	65.98	7.64	828.96
2016/17	198.9	661.81	64.2	4.99	871.61
2017/18	187.72	1,218.34	154.25	20.04	939.87
2018/19	177.26	1,098.58	177.87	68.35	819.52
2019/20	265.72	1,083.58	214.5	422.63	1,754.05
2020/21	158.55	635.85	237.09	146.37	1,649.54
2021/22	183.71	1134	163.2	251.83	1,196.00

Source: Appendix 1

Table 2 demonstrates that, as we can see from different patterns in the non-performing assets during a chosen research period, the non-performing assets of certain commercial banks tend to fluctuate. The non-performing assets of HBL were 1783.95 million in the year 2014/15, which was the highest during the study period, and the

lowest was 635.85 million in the year 2020/21. The non-performing assets of NSBI were 237.09 million in the year 2020/21 and the lowest was 64.20 million in the year 2016/17. The lowest non-performing assets of EBL was 158.55 million in the year 2020/21 and the highest was 265 million in the year 2019/20. In a similar vein, Sanima Bank's biggest non-performing asset was 422.6 million in 2019–20, while its lowest was 4.99 million in 2016–17. Comparably, Siddhartha Bank's greatest non-performing asset was 1754 million in 2019–20, while its lowest was 669.48 million in 2014–15. This demonstrates the significant variation that exists across the sample banks during the course of the investigation.

4.2 Ratio analysis

4.2.1 Return on Assets (ROA)

The profitability of a bank's asset investments in relation to each financial resource is gauged by the return on total assets (ROA) ratio. The return on all of the bank's assets will be greater if they are properly managed and used. Net profit is divided by total assets to get the ratio.

Table 3

Return on Assets Ratio (%)

Year	EBL	HBL	NSBI	SANIMA	SIDBL
2014/15	1.59	1.34	1.8	1.55	1.51
2015/16	1.52	1.94	1.7	1.78	1.69
2016/17	1.72	2.03	1.53	1.86	1.54
2017/18	1.78	1.61	1.97	1.85	1.59
2018/19	1.8	2.08	1.94	2.07	1.47
2019/20	1.36	1.66	1.17	1.41	1.17
2020/21	0.84	1.68	0.7	1.44	1.25
2021/22	1.1	1.09	1.07	1.08	1.09
Mean	1.46	1.68	1.49	1.63	1.41
S.D.	0.34	0.34	0.46	0.32	0.22
CV	0.23	0.2	0.31	0.2	0.16

Source: Appendix 1

According to Table 3, the ROA of EBL was 1.80% in 2018/19, the greatest year, and 0.84 % in 2020/21, the lowest. The EBL has an average ROA of 1.46% and a CV of 23%. The year 2018/19 had the greatest ROA of 1.09 percent, while the year 2021/22 had the lowest ROA of 1.30%. The HBL has an average ROA of 1.68% and a CV of 20%. The NSBI bank's ROA peaked in 2017–18 at 1.97 percent, and it peaked at 0.70

percent in 2020–21. Over the course of the investigation, the NSBI bank's average return on assets (ROA) was 1.49 percent. The NSBI bank's CV for ROA is 31%. Sanima Bank's return on assets (ROA) peaked in 2018/19 at 1.08 percent, and peaked in 2021/22 at 1.41%. The Sanima bank has a 20% CV and an average ROA of 1.63%. In 2015/16, Siddhartha Bank's ROA reached its maximum point of 1.69 percent, while in 2021/22, it was at its lowest point of 1.09%. Over the course of the research, the Siddhartha bank's average return on assets (ROA) was 1.41%. The Siddhartha Bank's CV is sixteen percent. These statistics show that SIDBL has the lowest return on assets and HBL has the greatest average return on assets. This demonstrates that, in comparison to other chosen commercial banks, HBL's asset utilization is much superior in terms of profit gained.

4.2.2 Return on equity

To determine the profitability of the owner's investment, the ratio is examined. It shows the degree to which the business's goal is achieved. Both current and potential shareholders are very interested in the ratio, and management, who is in charge of optimizing the owner's wealth, finds it to be very important. The return on equity for a few chosen banks is shown in the following table.

Table: 4. 4

Return on Equity (%)

Year	EBL	HBL	NSBI	SANIMA	SIDBL
2014/15	22.85	15.98	18.87	18.19	20.48
2015/16	20.32	21.94	19.25	18.61	20.11
2016/17	17.38	18.61	14.65	14.26	12.47
2017/18	16	13.27	15.81	15.74	13.9
2018/19	17.33	17.28	16.2	18.83	15.02
2019/20	13.5	14.71	10.44	13.86	13.39
2020/21	8.56	14.89	6.26	15.53	13.99
2021/22	10.88	10.76	9.57	12.38	13.44
Mean	15.85	15.93	13.88	15.93	15.35
S.D.	4.73	3.41	4.66	2.41	3.14
CV	0.3	0.21	0.34	0.15	0.2

Source: Appendix 1

Table 4 displays the ROE of the EBL by year: the greatest was 22.85% in 2014/15, and the lowest was 8.56% in 2020/21. The EBL's average ROE is 15.85%, and its CV is 33%. The year 2015/16 had the greatest ROE of the HBL at 21.94%, while the year

2021/22 saw the lowest ROE at 10.76%. Over the course of the research, the HBL's average ROE was 15.76%, and its CV was 21%. The National Security Bureau of India's ROE peaked in 2015–16 at 19.25%, and peaked in 2020–21 at 6.26%. The NSBI had an average ROE of 13.88% and a CV of 34%. The year 2018/19 saw the Sanima bank's ROE reach its maximum point of 18.83%, while the year 2021/22 saw its lowest point of 12.38%. The Sanima bank's average ROE is 15.93%, and its CV is 15%. In 2014–15, the Siddhartha Bank had its greatest ROE of 20.48%, while in 2016–17, it was at its lowest of 12.47%. The Siddhartha Bank's average ROE is 15.35%, while its CV is 20%. This demonstrates that Sanima and Himalayan Bank's return on equity has been the greatest over the research period, meaning that its shareholders have earned the most from their investments. Of the chosen commercial banks, Nepal SBI Bank had the lowest return on equity (ROE), indicating that its shareholders earned the least return on their investment.

4.3 Relationship of NPA with ROA, ROE and Net Profit

NPA plays vital role in NPA is a key factor in assessing a company's profitability. Not only do non-performing assets become unproductive, but they also need provisioning, which has a substantial impact on earnings. Affected earnings have a significant effect on return on equity, return on assets, and ultimately bank profitability.

Profit declines and provisions once more impact other earned interest when interest is not recovered. Non-performing assets have a negative impact on the return on assets since they represent a portion of the total assets that produce no income. The link between NPA and ROA, ROE, and net profit is shown in the following table.

Table 5

Correlation between NPA and ROA, ROE, Net profit

Correlations					
		NPA	NP	ROA	ROE
NPA	Pearson Correlation	1			
	Sig. (2-tailed)				
NP	Pearson Correlation	.261	1		
	Sig. (2-tailed)	.104			
ROA	Pearson Correlation	-.172	.074	1	
	Sig. (2-tailed)	.290	.649		
ROE	Pearson Correlation	.002	-.143	.663**	1
	Sig. (2-tailed)	.989	.377	<.001	

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

Source: Appendix 1

Table 5 illustrates that the relationships between various factors. As the table demonstrates the association between NPA and ROA is negative .i.e. -0.172. This indicates that their association is inverse but negligible. Additionally, there is a positive connection (p = 0.002) between NPA and ROE, indicating a slight but favorable association. The positive correlation of 0.261 indicates a negligible positive association between NP and NPA. There is a clear and positive association between net profit and non-performing assets (NPA).

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

4.4.1 Impact of NPA on Net Profit

Table 6

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.261[a]	.068	.044	504.10461

a. Predictors: (Constant), NP

As seen in Table 6, R2 = 0.068. This indicates that 6.8% of the variation in net profit might be explained by the NPA-based model. Thus, we may conclude that NPA significantly affects profitability.

Table 7

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	706438.096	1	706438.096	2.780	.104[b]
	Residual	9656615.228	38	254121.453		
	Total	10363053.324	39			

a. Dependent Variable: NPA

b. Predictors: (Constant), NP

Quantities pertaining to the regression model's overall explanatory power and significance are reported using an ANOVA (analysis of variance). There is a significant relationship between NPA and Net Profit because the p-value is less than 0.05. Table 7's F-value of 2.780 indicates that the model's overall fitness is well justified, meaning that the model that uses NPA to measure profitability can be trusted to explain the variability in profitability.

Table 8

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	121.902	255.922		.476	.637
	NP	.212	.127	.261	1.667	.104

a. Dependent Variable: NPA

Table 8 demonstrates that the profitability regression coefficient on net present value (NPA) is positive at.212. The positive effect of non-performing assets (NPA) on profitability indicates that higher NPA levels are associated with higher profitability. The standard error of this regression coefficient, which gauges how variable the observed values are around the fitted line of regression, is.127. The p-value for this coefficient is 0.104 and its t-statistic is 1.667. At the 5% significance level, the t-statistic and p-value are both significant.

4.4.2 Impact of NPA on ROA

Table 9

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.172[a]	.029	.004	514.46581

a. Predictors: (Constant), ROA

According to Table 9, R2 = 0.029 indicates that 2.9% of the variability in ROA could be explained by the NPA-based model. Thus, we may conclude that NPA significantly affects ROA.

Table 10

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	305400.867	1	305400.867	1.154	.290[b]
	Residual	10057652.458	38	264675.065		
	Total	10363053.324	39			

a. Dependent Variable: NPA

b. Predictors: (Constant), ROA

With an F-value of 1.154 in Table 10, the model's overall fitness is well justified, indicating that the model that uses NPA to evaluate ROA is a reliable way of explaining profitability fluctuation.

Table 11

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	923.575	377.697		2.445	.019
	ROA	-258.234	240.400	-.172	-1.074	.290

a. Dependent Variable: NPA

The standard error of the regression coefficient, which expresses the degree of variability of the observed values around the fitted line of regression, is 240.40, as

seen in Table 11. The t-statistic for this coefficient is -1.074. At the 5% significance level, the t-statistic and p-value are both significant.

4.4.3 Impact of NPA on ROE

Table 12

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.002[a]	.000	-.026	522.21701

a. Predictors: (Constant), ROE

R2: = 0.000 in Table 12 indicates that 0.5% of the variability in ROE could be explained by the NPA-based model. As a result, we may conclude that NPA significantly affects ROE.

Table 13

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50.180	1	50.180	.000	.989[b]
	Residual	10363003.145	38	272710.609		
	Total	10363053.324	39			

a. Dependent Variable: NPA

b. Predictors: (Constant), ROE

Table 13's F-value of.000 indicates that the model's overall fitness is well justified, meaning that the model that uses NPA to calculate ROE is a reliable source of information for explaining profitability fluctuation.

Table 14

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	522.619	360.537		1.450	.155
	ROE	.309	22.807	.002	.014	.989

a. Dependent Variable: NPA

The regression coefficient in Table 14 has a SE of 0.002, which indicates how variable the observed values are around the fitted line of regression. The t-statistic for this coefficient is 0.014. At the 5% significance level, the t-statistic and p-value are both significant.

4.6 Discussion

The study's overall conclusions indicate that non-performing assets have a beneficial influence on a Nepalese commercial bank's profits. In contrast to other variables that also contribute to the increase in nonperforming assets but have not been examined in this study, we uncover evidence that non-performing assets positively affect profitability while being very difficult to anticipate. better risks also provide better returns. The study's discussions section is shown in the paragraph that follows.

According to Dhiya and Bhatia's (2012) study, one of the main issues confronting public sector banks in India is managing non-performing assets (NPAs) since the banking industry adopted income recognition, asset categorization, and provisioning regulations. Furthermore, banks are evaluated based on the caliber of their assets as well as the quantity and number of deposits they get in the current competitive environment. Our study also shows that, owing to other variables, a rise in NPA results in a fall in ROE and ROA but an increase in profitability. Therefore, investors monitor non-performing assets (NPAs) to determine their return, the government monitors NPAs to develop monetary policy, and banks monitor NPAs to determine the bank's creditworthiness. According to Garg (2016)'s study, banks are dealing with an issue with non-performing assets (NPAs) that negatively affects their operations, profitability, liquidity, and credit loss. The research by Dudhe (2017) concluded that upon examination of the impact of NPA on profitability, it is found that out of seven banks taken as sample for study, two banks have positive correlation and the remaining five banks have negative correlation between NPA and profitability. Our study also concludes that an increase in NPA poses a threat to the banking industry, causing adverse impact on ROE and ROA. We find a positive correlation between NPA and profitability based on our research. There are more reasons why our study and Dudhe's research vary. According to Vikram and Gyatri (2018), a nation's non-performing resource level serves as the best gauge of the health of its banking system. NPA hurts banks' credit and has a detrimental effect on ROE, ROA, and profitability. There is a negative correlation between NPA, ROE, and ROA. It implies that the

return on equity and return on assets are impacted by the amount of NPA. As a result, the bank's profit drops as its level of non-performing assets (NPA) rises and raises ROE and ROA.

- It is discovered that, for the chosen years, the average net profit of the Himalayan Bank is the highest—2227 million—among the chosen commercial banks, while the average net profit of the Nepal SBI Bank is the lowest—1548 million.
- Over the research period, the chosen commercial bank's nonperforming assets (NPA) have fluctuated. In the most recent fiscal year, Siddhartha Bank had the greatest net present asset (NPA) of 1091 million, while Sanima Bank had the lowest at 118 million. On average, Sanima Bank has a low NPA whereas Siddhartha Bank has a high NPA.
- The average return on assets (ROA) for EBL, HBL, NSBI, SANIMA, and SIDBL is 1.46 percent, 1.68 percent, 1.49 percent, and 1.63 percent, respectively. Comparably, the average return on equity (ROE) for EBL is 15.85%, HBL is 15.93%, NSBI is 13.88%, SANIMA is 15.93%, and SIDBL is 15.35 percent. Of the chosen commercial banks, the Himalayan Bank has the greatest ROA, while the Himalayan Bank and Sanima Bank have the highest ROE.
- There is a positive association between NPA and net profit, as shown by their correlation coefficient of 0.261. This indicates that their connection is meaningful yet good.
- There is a negative association between NPA and ROA, as shown by their correlation coefficient of -0.172. This demonstrates their inverse and negligible connection.
- There is a positive association between NPA and ROE, as shown by their correlation coefficient of 0.002. This demonstrates their meaningful and pleasant friendship.
- A rise in NPA has an impact on profitability. In other words, actual profitability declines as NPA rises, although overall lending is a crucial factor in influencing the outcome.

CHAPTER – V
SUMMARY AND CONCLUSION

5.1 Summary

Commercial banks are organizations that do financial business. The actual middlemen that move deposits from savers to borrowers so that the funds may be used in profitable endeavors are commercial banks.

The purpose of this research is to determine how Everest, Himalayan, Nepal SBI, Sanima, and Siddhartha Bank's nonperforming assets (NPA) and profitability are affected. Two essential elements for a bank to accomplish its goals are profitability and non-performing assets. A high net parent ratio (NPA) prevents the bank from making money. The first chapter covers the context and subject matter of the research, which includes an explanation of the issue, relevance, and limits of the study. This is because the majority of non-performing assets (NPA) are reserved by the bank, meaning that the bank does not benefit from them. The second chapter contains a pertinent survey of the literature that covers the theoretical underpinnings of banking concepts in addition to journal articles and earlier theses. The research approach utilized to assess the liquidity and profitability status of the commercial banks under investigation is covered in the third chapter. Financial and statistical methods are used to display, evaluate, and understand the data and information in the fourth chapter. Ultimately, a summary, conclusion, and suggestions pertaining to the whole research have been provided in the fifth and last chapter.

Several financial and statistical techniques have been employed for trend analysis, analysis, and assessment. In this case, the profitability ratio is a financial tool; average mean, standard deviation, coefficient of variation, coefficient of correlation, and regression analysis are statistical tools. Return on equity and return on assets are two examples of profitability ratios. The profitability condition of banks may be analyzed and assessed with the use of profitability statistics like return on equity and return on asset.

Such a financial and statistical instrument has been used to evaluate data from FY 2014/15 to FY 2021/22. The primary source of data used in this investigation is secondary data. As a result, the study's use of secondary data is inherently limited.

The validity of the data supplied and gathered determines the validity of the research. A strategy for the chapters has been created for the study's methodical examination. The descriptive analysis of the link between NPA and profitability of Nepalese commercial banks has essentially been the main focus of the whole research project. The goal of this research is to learn more about the link between NPA and profitability, as well as the ROA and ROE of certain commercial banks based on their overall profitability and NPA status.

5.2. Conclusion

The most logical and important feature of the bank is its NPA. A rise in non-performing assets (NPA) is often one of the first indications that a bank is having severe financial problems, which erodes public confidence in institutions. Therefore, maintaining 0% NPA is a never-ending challenge for the bank's management that will always have a big impact on the profitability of the bank. Efficiency is measured by profitability. It shows the extent of achievement of the targeted profit. It displays the bank's overall performance.

Based on the analysis, Himalayan Bank's net profit, as measured by ROE and ROA, is superior than that of the other banks in the sample. On the other hand, Sanima Bank can guarantee improved performance by keeping a low level of non-performing assets. When compared to other carefully chosen commercial banks, Everest Bank's average ROA and ROE are somewhat higher.

Furthermore, contrary to the theoretical conclusion that NPA has a negative influence on profitability, research indicates that NPA has a positive impact on net profit and ROE and a negative impact on ROA as a result of higher lending and interest rates over time.

Ultimately, our analysis revealed an inverse link between net profit (NP) and non-performing assets (NPA). Likewise, there is an inverse link between NPA and ROE and NPA and ROA.

5.3. Implications

The implications are presented in the last part of this chapter considering the major findings and gaps found. 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:

- Given that Siddhartha Bank's average return on asset ratio is lower than that of a few other chosen banks, it is advised to boost investment and profit. Since Siddhartha Bank's non-performing assets (NPA) are larger than those of a few other well chosen commercial banks, it is strongly advised to approve loans with more caution.
- The bank need to sustain a sufficient quantity of non-performing assets in order to guarantee improved performance. Not only do non-performing assets reduce interest revenue, but they also optimize the portion of total assets.
- In addition to non-performing assets, other important elements that affect the profitability of banks include total lending, interest rates, operational profit, the state of the nation's economy, and other external factors. Therefore, banks need to handle these variables with sufficient care.
- The provisions that Nepal Rastra Bank makes dictate how much has to be put aside for non-performing assets; in other words, these provisions reduce earnings. Therefore, the profitability is determined not only by the quantity of non-performing assets but also by these central bank provisioning requirements.
- The study could be useful in bridging the knowledge gap on the appropriate investigation of the connection between NPA and profitability. It could provide information on the profitability condition and NPA management of Nepalese commercial banks. This study examines the current methods for managing liquidity, the state of liquidity and its trajectory, and the variables influencing profitability and non-performing assets. With the aid of this study, other researchers may broaden the scope of their work by choosing different topics, such as NPA position, profitability position, NPA provisioning in accordance with NRB regulations, and the impact of NPA and profitability. It also offers various banking tools for both NPA management and profitability position. Similarly one might pick other finances. This work may serve as a roadmap for future research and analysis by other investigators.

5.4 Implication for Further Researcher

The foundation of this research is NPA and how it affects the profitability of commercial banks. The author was inspired to do this study after seeing the devastating effects of non-performing assets (NPAs) on the banking industry's profitability. The goal was to determine the underlying cause of the loan's demise.

Still, there are a number of topics that need further research. Only the impact of NPA on profitability as seen from the perspectives of ROA and ROE has been examined in this research. Additional research may be conducted with an emphasis on factors related to profit measurement, such as revenue, liquidity, and return on investment (ROI). With the aid of this study, other researchers may expand the scope of their work by choosing new topics, such as the relationship between NPA and profitability, the position of NPA relative to NRB regulation, and the influence of NPA on profitability. For more research and analysis, one may choose other financial options; this study might serve as a reference for future researchers.

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ABSTRACT One of the components of the country's financial system is the banking industry. A country's banking system is a key component of its financial system, and the health of its banking sector is a good indicator of how well its economy is surviving. A robust banking industry is necessary for a thriving economy. Any nation's banking industry collapse might have a negative effect on other industries. One of the main issues facing Nepal's banking industry is non-performing assets, or NPAs. The phrase "non-performing assets," or "NPAs," is used in the banking and financial industries. NPAs are mostly employed in the bank's lending department.

Non-performing assets are bank **assets that don't** contribute **to the**

organization's ability to turn a profit. Any nation's bank performance is reflected in its NPAs. Higher NPAs result in worse bank performance. The topic of non-performing assets (NPAs) has been extensively deliberated within global financial systems. Each nation's economy as a whole is impacted by the NPA issue, not just the banks. An attempt has been made to examine the effect of non-performing assets (NPAs) on the profitability of commercial banks in Nepal. The research covers the last eight fiscal years, from 2014/15 to 2021–2022, and five commercial banks in Nepal. The research uses secondary data and is exploratory and diagnostic in nature. The present study concludes

that a rise in non-performing assets (NPA) **is associated with a decline in**

net profit, ROA, and ROE due to their negative correlation. Nonetheless, it is seen that NPA and Net profit are positively connected, which is an uncommon occurrence, as a result of the bank's increased lending and business volume. An increase in the bank's business volume causes the NPA of the banks to rise within the specified time. Keywords: NPA, Profitability, ROE, ROA and Net Profit.
ii