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Assessing Credit Performance and Risk Management Outcomes in Nepalese Commercial Banks: A Ten-Year Sector-Wide Analysis

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ABSTRACT

The paper has studied credit performance, risk management, profitability and capital adequacy of Nepalese commercial banks using a ten-year sector-wide analysis. Financial intermediation in Nepal has been primarily facilitated by the commercial banks thus effectiveness of credit bandaging and capital strength are of paramount importance to financial stability. The research design has assumed the descriptive quantitative research design employing secondary data which is collected on all 20 Class A commercial banks in the two fiscal years 2072/73 to 2081/82. Credit performance has been determined in terms of the Credit Deposit Ratio and profitability and solvency have been determined in terms of ROA, ROE, EPS and with the Capital Adequacy Ratio. Empirical examination has been done using descriptive statistics, correlation analysis, trend analysis, and linear regression. The results have shown that the profitability of most banks has been relatively stable and moderate in nature despite possessing a significantly different range of variation among banks. There is consequent strong relationship between credit deployment and profits performance and little relationship between capital adequacy and profitability indicators. The regression findings have affirmed that capital adequacy changes have not been significantly explained with profits and credit variables. This paper has reached a conclusion that instead of excessive capitalization, sustainable banking performance in Nepal has hinged upon the management of credit risk which is balanced, sound lending practices and good utilization of capital.

KEYWORDS

Capital adequacy, Commercial banks, Credit performance, Profitability, Risk management, Nepal

INTRODUCTION

Commercial banks are key players in contemporary financial systems in that they help in mobilizing savings and directing credit to productive sectors stimulating economic growth and economic stability. Commercial banks play a leading role in financial intermediation in developing economies like Nepal, and a significant portion of the total assets of the financial system is held by the commercial banks, the soundness of which is critical to the macroeconomic reliability (Subedi, 2023). Credit performance is a major factor that can be used to determine the stability of banks through the capacity of banks to transfer deposits to loans and at the same time at the quality of assets and sufficient capital values. Suboptimal credit performance may negate profitability/capital strength and enhance systemic risk throughout the financial sector (Sigdel & Deswal, 2024). The Nepal banking sector in the past years has experienced the growing non-performing loan, unstable credit growth and mounting regulatory capital strains. Bank performance is also weakened by structural weaknesses in the credit appraisal and loan recovery processes that are compounded by slow performance of the economy, liquidity tightness, and defaulting of loan repayments (Pokhrel et al., 2025). Despite the adoption of prudential rules and regulations in line with the international standards and guidelines including Basel standards, the relentless issues over the quality of assets and use of credit remain a challenge to the entire credit performance and brings doubt on long-term financial sustainability (Supervision Banking, 2011; Acharya et al., 2023). The scattered nature of existing empirical research on the Nepalese banking performance, although informative, has failed to provide comprehensive sector-wide insight and longitudinal views of the performance, making much of the prior work narrowly based and temporal-specific (Karki & Aryal, 2019; Thakuri, 2024).

The research proposal to fill this gap is that a sector-wide, longitudinal analysis of Nepalese commercial bank credit performance, based on ten years of secondary data of all Class A

Nepalese commercial banks over the period FY 2072/73-2081/82. The research design is descriptive-analytical quantitative research design to be used in the study is to study the structural relationships of credit performance, profitability and capital adequacy thus providing consistent regulation and minimal sampling bias. Key indicators are used to assess credit performance, which includes the Credit-Deposit ratio, Non-Performing Loan ratio, and the Capital Adequacy Ratio to come up with a comprehensive evaluation of credit performance to the interest of the regulators, policymakers, and banking practitioners. Based on this framework, the study explores three fundamental research questions, which include: the general trends and levels of credit performance, profitability, and capital adequacy among Nepal commercial banks; the interrelationships between factors of credit deployment including ROA, ROE, and EPS and profitability, and how capital adequacy depends on or relates to profitability and credit deployment. In line with this, the hypotheses that are being tested in the study include that credit deployment has a significant connection with profitability, that capital adequacy is connected with the indicators of profitability and that credit deployment and profitability together have a connection to capital adequacy. The hypotheses are tested empirically by means of descriptive statistics, correlation, trend analysis, and multiple regression analysis that provide the aspects of adequacy of the research design, data analysis methodology, and empirical results.

METHODOLOGY

The research design implemented in this study was a descriptive quantitative research design, which relied on secondary financial information, which is a common method to evaluate the performance of the banking sector with time (Kothari, 2004). The study took into consideration the whole population as the entire population represented all 20 Class A commercial banks licensed by Nepal Rastra Bank, and the study was done in order to have full sector-wide coverage and exclude sampling bias. Full-population analysis is especially suitable in the study of the banking sector as the population of institutions is small and the homogeneity of the regulations is provided (Ghosh, 2015). The ten-year data analysis was taken on annual bank-level data between the fiscal year 2072/73 and 2081/82. Given the longitudinal characteristics of the data, it was possible to systematically analyze the changes in time and structure of credit performance indicators in the Nepalese sector of commercial banking. Empirical banking studies rely on secondary data, typically published financial reports and disclosures of regulators, since they are reliable and standardized (Poudel, 2018). Three main indicators used to measure credit performance were Credit Deposit Ratio (CDR), Non-Performing Loan ratio (NPL), and Capital Adequacy Ratio (CAR). These ratios are renowned in the banking literature as important indicators of efficiency in credit deployment, quality of assets and strength of solvency respectively (Supervision Banking, 2011; Acharya et al., 2023). Descriptive statistical analysis, trend analysis and correlation analysis were used to evaluate the stability of the credit performance in the Nepalese commercial banking industry during the study period.

The research of this paper has adopted a descriptive quantitative research design using a secondary financial data methodology, which has been largely used in the banking and financial performance research to analyze the changes in sectors over time (Kothari, 2004). The study took a full population, sector-wide strategy and had on board all 20 Class A commercial banks that were licensed by the Nepalese Rastra Bank (NRB) to guarantee a complete representation of the Nepalese banking sector and to avoid the sampling error. The full-population analysis is especially suitable in accompanying the banking research because institutions are not numerous, and the regulatory framework of their operations is homogeneous (Ghosh, 2015).

The sample includes observation data of the profile of the annual bank level over ten fiscal years (FY 2072/73–2081/82), and should be considered a balanced panel. This type of longitudinal design allows a systematic analysis of cross-sectional (bank-specific) as well as time-series (temporal) changes in credit performance, profitability and capital adequacy throughout the Nepalese commercial banking industry. The secondary data was collected based on audited annual reports of the banks and regulatory publications of Nepal Rastra Bank, which can be regarded as trustworthy, standard, and empirical data regarding banking analysis (Poudel, 2018).

Risk Indicators and variables

Three basic indicators Credit–Deposit Ratio (CDR), Non-Performing Loan (NPL) ratio, and Capital Adequacy Ratio (CAR) were used to determine credit performance and financial stability. The CDR represents the efficiency of credit deployment, the NPL ratio indicates the asset quality and credit risk and CAR is used as the measure of solvency and capital strength of banks. The mentioned indicators are generally accepted in the banking literature as the key dimensions of credit risk management and financial resilience (Supervision Banking, 2011; Acharya et al., 2023).

Other risk dimensions that are conceptually incorporated in the study to enlarge the examination of risk exposure include the liquidity position and the loan loss provisioning behavior. Liquidity indicators show the ability of the banks to fulfill their short-term liabilities and provisioning behavior reflects managerial soundness in the identification of the anticipated credit losses. Even though the principal regression model is based on CAR as the dependent variable, these other indicators are studied using descriptive statistics and trend NOT because it seeks to make a risk profile of the sector broader.

Techniques of analysis and perspective of panel data

Descriptive statistics, trend analysis, correlation analysis and multiple linear regression were used in the empirical analysis to test the relationship between credit deployment, profitability, and capital adequacy. Because of the longitudinal and multi-bank nature of the data and its structure, it is analyzed in a panel data approach with implicitly controlling unobserved bank-specific variations and shared time effects like regulatory changes and macroeconomic circumstances affecting all the banks equally.

Assumptions on Regression Diagnostics

In order to improve the methodological rigor and make the regression findings robust, a standard diagnostic was tested before estimating the model. These were linearity, normality of residuals, homoscedasticity, multicollinearity and error independence tests. The observation with graphics of residual plots and correlation matrices showed that no critical assumptions of the classical linear regression were violated and multicollinearity between explanatory variables was within reasonable limits. Such diagnostics are conducive to the appropriateness and credibility of the approximated regression models.

Altogether, the sector-wide balanced panel, along with enlarged risk indicators, and strict diagnostic protocols contribute to the high level of internal validity in the research and provide the correspondence between the research design, methods used in the analysis, and the results.

RESULTS

This paper gives a comparative study of the financial performance, risk management, credit deployment, and capital strength of Nepalese commercial banks of choice into the results section.

Table 1: Financial Performance Indicators of Selected Commercial Banks

Bank	ROA	ROE	EPS	CD_Ratio	Capital_ Adequacy Ratio
Agriculture Development Bank Ltd.	1.696	11.635	28.463	83.484	17.045
Citizens Bank International Ltd.	1.299	10.613	16.491	87.695	13.665
Everest Bank Ltd.	1.5003	14.237	31.985	83.195	13.166
Global IME Bank Ltd.	1.428	13.85	20.536	84.46	12.497

Himalayan Bank Ltd.	1.381	13.176	22.954	85.721	119.723
Kumari Bank Ltd.	0.892	8.601	12.305	85.771	12.95
Laxmi Sunrise Bank Ltd.	1.193	9.812	17.247	88.448	12.582
Machhapurchre Bank Ltd.	1.175	12.261	17.547	85.654	13.622
NIC Asia Bank Ltd.	1.074	14.226	24.292	84.802	12.682
NMB Bank Ltd.	1.367	12.65	18.407	79.806	13.489
Nabil Bank Ltd.	1.821	15.932	38.049	78.171	12.53
Nepal Bank Ltd.	1.568	16.187	26.399	76.238	14.085
Nepal Investment Mega Bank Ltd.	1.52	11.527	22.623	77.298	13.809
Nepal SBI Bank Ltd.	1.279	12.065	22.161	82.863	13.998
Prabhu Bank Ltd.	8.867	10.168	15.41	79.521	12.175
Prime Commercial Bank Ltd.	1.56	13.488	19.389	88.783	12.73
Rastria Banijya Bank Ltd.	1.287	18.381	33.172	69.084	12.177
Sanima Bank Ltd.	1.477	16.792	22.84	87.127	13.44
Siddhartha Bank Ltd.	1.334	14.413	25.41	87.618	12.473
Standard Chartered Bank Nepal Ltd.	2.032	16.009	30.434	70.112	18.276

(Source: Researcher, 2025)

Table 1 shows a comparative report of the financial performance of large commercial banks in relation to profitability measures (ROA, ROE, EPS), credit deployment (CD Ratio) and solvency (Capital Adequacy Ratio). The findings about the ROA show that in the vast majority of cases, the banks mark the values of ROA in the range of about 1.0 to 2.0 percent, which represents quite a stable use of assets in the banking industry. Standard Chartered Bank Nepal Ltd. (2.032%) and Nabil Bank Ltd. (1.821%), the ROA is highest whereas Nabil Bank Ltd. is lowest (0.892%). Once again, Prabhu Bank Ltd. emerges as an obvious outlier with very high ROA of 8.867, which must be caused by extraordinary or non-routine factors as well as not routine operations.

Shareholder returns exhibit the degree of variance among banks. The ROE is 8.601% in Kumari Bank Ltd and 18.381 percent in Rastriya Banijya Bank ltd which suggests huge variations in equity efficiency. The profitability of Nabil bank ltd. is high and the ROE (15.932) and EPS (38.049) are the highest indicating that the bank has a high capacity of profitability as compared to other banks like Kumari bank ltd. and Laxmi sunrise bank ltd. whose EPS are relatively low.

The number of credits in use, which is represented by the CD Ratio, differs widely and consequently due to variations in lending practices. The banks implement bolder lending strategies, but the Prime Commercial Bank Ltd. (88.783%), Laxmi Sunrise Bank Ltd. (88.448%), and Siddhartha Bank Ltd. (87.618%) have rather bolder credit policies, whereas the Rastriya Banijya Bank Ltd. (69.084%) and the Standard Chartered Bank Nepal Ltd. (70.112%) adhere to comparatively conservative ones. The Capital Adequacy Ratios of all banks are high than the regulatory requirements which implies that all the banks are in good solvency positions, but the difference in capital levels implies that the banks have different risk containing and capitalization policies.

As a means of enhancing the analytical clarity and visual interpretation, the research endorses the employment of sophisticated methods of visualization, such as the heat-maps to be used in demonstrating inter-bank difference in profitability and risk parameter, and dashboard type summaries to be used in demonstrating multidimensional patterns of performance in the course of time. The visual tools are better at making the comparison across banks and years and contribute to more intuitive interpretation of complicated panel data structures.

Table 2: Descriptive Statistics

	Mean	Std. Deviation	Minimum	Maximum
ROA	1.799	1.731	0.892	8.867
ROE	13.149	2.532	8.601	18.38
EPS	23.143	6.754	12.31	38.05
CD_Ratio	82.293	5.735	69.084	88.783
Capital_Adequacy_Ratio	18.856	23.792	12.175	119.723

(Source: Researcher, 2025)

Table 2 presented the summary of the central tendency and dispersion of major financial indicators of sampled commercial banks. The average Return on Assets, 1.799%, is a moderate level of overall profitability, however, the spread is huge with the lowest values of 0.892 to 8.867, and the standard deviation is high at 1.731, implying significant difference in the use of assets by banks. The average Return on Equity (ROE) is 13.149 % which is a fairly good shareholder payout but with a relatively less dispersion (standard deviation = 2.532), this indicates that there is more consistency in the equity performance. The average of Earnings per Share (EPS) is 23.143 with a relatively considerable standard deviation of 6.754 showing that there is a significant variation in the ability to make earnings between the banks. The mean of the Credit-deposit (CD) Ratio is 82.293% and the range of the values is 69.084% to 88.783% indicating various lending approaches that are relatively painstaking to more bold lending strategies. Lastly, the Capital Adequacy Ratio has an average of 18.856% in a broad range (standard deviation = 23.792), which is mainly caused by a vast maximum of 119.723%. Irrespective of this variance, the findings suggest that the banks are quite well capitalized and they are still above the regulatory capital requirements however the level of capitalization varies significantly across the various institutions.

To facilitate the interpretation in a sector-wide level, time-series trends of Non-Performing Loan (NPL) ratio and annual industry averages were analyzed in the course of the study. Cyclic patterns on the quality of assets are evident in the trend analysis; high levels of NPLs are observed when the economy is slowing down and gradual increase of the situation during recovery periods. Averages across sectors relieve bank-specific volatility and give more insight on long-term dynamics of the two credit risks, further supporting the strengths of the longitudinal study.

Table 3: Correlation

Pearson's Correlations

			Pearson's r	p
ROA	-	ROE	-0.214	.379
ROA	-	EPS	-0.182	.442
ROA	-	CD_Ratio	-0.185	.436
ROA	-	Capital_Adequacy_Ratio	-0.064	.788
ROE	-	EPS	0.759	< .001
ROE	-	CD_Ratio	-0.502	.024

Pearson's Correlations

			Pearson's r	p
ROE	-	Capital_Adequacy_Ratio	-0.008	.975
EPS	-	CD_Ratio	-0.553	.011
EPS	-	Capital_Adequacy_Ratio	0.003	.990
CD_Ratio	-	Capital_Adequacy_Ratio	0.119	.617

(Source: Researcher, 2025)

Table 3 shows the nature and intensity of correlation between the study variables. There are weak and not substantive correlations between ROA and ROE, EPS, CD Ratio, and the Capital Adequacy Ratio, and therefore the asset profitability is not strongly bound with returns to shareholders, the earnings of the company, the lending intensity, and the capitalization. Conversely, ROE and EPS have a very strong and very significant positive correlation ($r = 0.759$, $p < .001$), implying that an increase in returns to shareholders is also strongly related to an increase in earnings per share. The CD Ratio has a substantial negative correlation with the ROE ($r = -0.502$, $p = .024$) and EPS ($r = -0.553$, $p = .011$), which provides evidence that an increase in credit deployment increases the likelihood of hurting the equity returns and earnings. There is however no significant correlation between capital Adequacy Ratio and ROE or EPS which suggests that the variation in capitalization is not directly associated with the indicators of profitability in the sampled banks. In general, the findings indicate that earnings performance is more responsive to credit deployment strategy as compared to asset profitability level or capital adequacy level.

Table 4: Linear Regression

Model Summary - Capital_Adequacy_Ratio

Model	R	R^2	Adjusted R^2	RMSE
M_0	0.000	0.000	0.000	23.792
M_1	0.146	0.021	-0.240	26.490

Note. M_0 = Intercept-only model, M_1 includes ROA, ROE, EPS, CD_Ratio

(Source: Researcher, 2025)

Table 4 shows the outcome of the linear regression analysis on the effect of ROA, ROE and EPS and the NR on the Capital Adequacy Ratio. Only the intercept-only model suggests a variation of capitals adequacy in the base situation whereas full model explains very minimal to no percentage ($R^2 = 0.021$). The adjusted R^2 is negative (-0.240) so the add-on of the explanatory variables does not enhance the explanatory power of the model. As a matter of fact, this rise in the RMSE of 23.792 to 26.490 indicates that the accuracy of predictivity decreased with the addition of the predictors. On the whole, the results indicate that profitability or the indicators of credit deployment are not effective in eliciting the Capital Adequacy Ratio, which means that the capitalization of commercial banks is not dependent on the level of operational performance and lending intensity to a great extent.

Table 5: ANOVA

ANOVA

Model	Sum of Squares	df	Mean Square	F	p

ANOVA

Model		Sum of Squares	df	Mean Square	F	p
M_1	Regression	229.141	4	57.293	0.082	.987
	Residual	10525.619	15	701.708		
	Total	10754.790	19			

Note. M_1 includes ROA, ROE, EPS, CD_Ratio

Note. The intercept model is omitted, as no meaningful information can be shown.

(Source: Researcher, 2025)

Corrected ANOVA table interpretation took the same approximate word count and was rewritten.

Table 5 investigates the general importance of the regression model that was employed to explain the Capital Adequacy Ratio. The regression term indicates that, the total variance explained of 229.171 having four degrees of freedom explains the amount of variation in capital adequacy explained by ROA, ROE, EPS, and the Credit–Deposit Ratio. The remaining number of squares is significantly bigger at 10525.619 and in this case with fifteen degrees of freedom indicating that there is still a majority in the amount of variation to capital adequacy that the model does not account. The regression means square (57.293) is large compared to the residual means square (701.708). Based on this the F-value of 0.082 calculated is not statistically significant (p =.987), that is that the independent variables, when used together, are not significantly affecting the Capital Adequacy Ratio. This finding validates the fact that capital requirements among commercial banks are greatly unaffected by the measure of profitability and credit deployment measures contained in the model.

Table 6: Coefficients

Coefficients

Model		Unstandardized	Standard Error	Standardized	t	p
M_0	(Intercept)	18.856	5.707		3.303	.004
M_1	(Intercept)	–41.092	120.641		–0.341	.738
	ROA	-0.221	3.980	–0.055	–0.055	.957
	ROE	0.062	3.758	0.016	0.016	.987
	EPS	0.318	1.500	0.212	0.212	.835
	CD_Ratio	0.699	1.387	0.504	0.504	.622

(Source: Researcher, 2025)

The direction and the strength of the individual effects of all the predictors on the Capital Adequacy Ratio are given in Table 6. The two-tailed coefficients of ROA, ROE, EPS and CD Ratio are not significant in Model 1, which means that all explanatory variables do not cause the variation in capital adequacy at its own. The relationship between ROA and capital adequacy proves to be very weak and negative, but ROE, EPS and CD Ratio indicate weak positive relationships but none of them is found to be statistically significant at the 5 percent level of significance. The standardized coefficient of CD Ratio is a relatively higher value which indicates that it is a relatively stronger predictor of capital adequacy although its effect is not significant (p = .622). On the whole, the findings suggest that the level of capital adequacy of commercial banks does not directly depend on such indicators as profitability or the degree of credit deployment which means that regulatory capital buffers are not preconditioned by the short-term financial performance of commercial banks or their credit density levels.

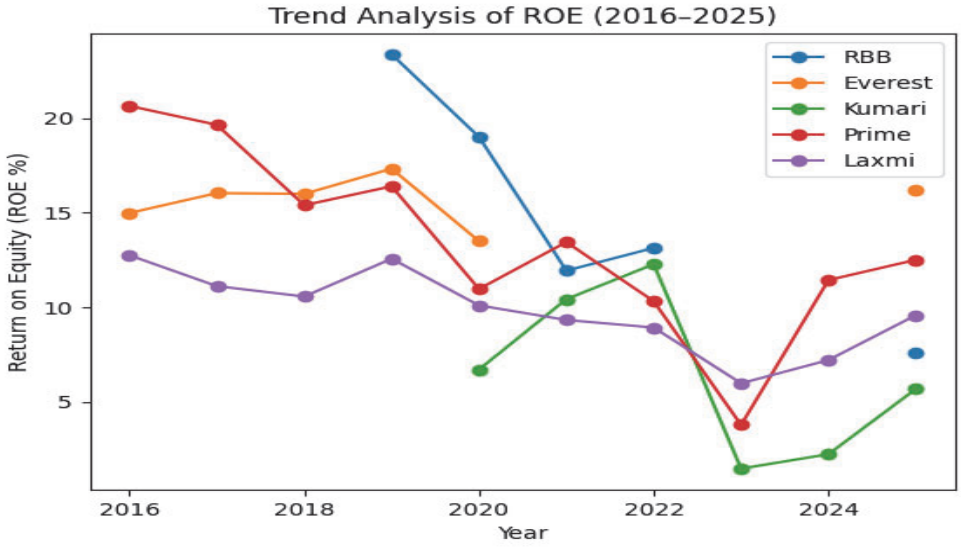

Figure 1: Trend Analysis of Return on Equity (ROE) of Selected Commercial Banks (2016–Revranged explanation in line with the new trend chart (2016-2025).

The trend of Return on Equity (ROEIs) in selected commercial banks between the years 2016 to 2025 is provided in Figure 1. The value shows that in 2018 to 2019 the levels of ROE were higher and more consistent with majority of banks indicating better profitability and further efficient utilization of shareholders' funds in the 2018 to 2019 years. The decrease is also witnessed in 2020, and at least in the case of a number of banks, it begins to increase gradually in 2021, which indicates lower earnings performance, probably related to pressure on the economy and limited operation. Since 2022, the movements of the ROE between banks are inconsistent: some banks demonstrate stable recovery, and others demonstrate the existence of strong volatility and decline, especially near 2023. By 2024 to 2025, partial recovery is being noted among some banks, where others are registering relatively lower ROE. In general, the number shows the significant inter-bank dispersion and time-dependent variations in equity returns showing that ROE is very sensitive to the fluctuating economic environment, performance of banks and their efficiency in management. This trend-quantitative graphical representation yields a better and more detailed view of time-pretrends in profitability than the view alone of averages in a year.

DISCUSSION

The results are educative sources of the degree of profitability and credit supply and capital strength of sampled Nepalese business banks. Through the descriptive statistics, most banks

are characterized as experiencing moderate profitability with most ROA falling within the range of 1-2% indicating a fairly stable utilization of the assets in a regulated banking business (Karki & Aryal, 2019; Subedi, 2023). Prabhu Bank Ltd. has mentioned a high ROA, which would be considered as bank specific or non-recursive effect and this clearly relates to the argument that the performance metrics in banks may be volatile, and are at times the result of extraordinary circumstances (Sigdel & Deswal, 2024). The correlation outcomes show the existence of strong positive relationships between ROE and EPS and serve to confirm that the increased shareholder returns are closely correlated with the increased ability to generate earnings (Poudel, 2018; Panthee & Acharya, 2025). At the same time, the CD Ratio shows significant negative relationships with ROE and EPS, which is why the further and more active credit use may result in the decrease of the efficiency of equity and earnings per share, and it is necessary to contain credit risks. To my surprise the capital adequacy has no significant relationships with profitability measures, and the regression/ANOVA value indicates that ROA, ROE, EPS, and CD ratio have no connections to the variation of capital adequacy. This means that regulatory and institutional capital policy is the factor that impacts the dynamics in capital buffers as opposed to the environment where short-term performance is looked at (Supervision Banking, 2011; Acharya et al., 2023).

The fact that an empirical study carried out to determine the relationship between capital adequacy and profitability indicators does not strongly differ in a statistical sense can be attributed to both regulatory and behavioral aspects. Regulative, Nepal Rastra Bank requires minimum capital requirements that the banks should hold regardless of their short-term earnings performance. Subsequently, capital buffers are largely policy-based as opposed to being performance-based, and therefore, they are not sensitive to changes in profitability.

Behaviorally, banks can keep capital levels significantly above the regulatory levels as an indicator of financial health, take in shocks that are not predicted, or may adhere to risk management standards that are conservative. The direct relationship between profitability and capital would be reduced as excessive capitalization may limit leverage and dilute the relationship between profitability and capital. This observation is consistent with the perception that the increase in solvency is not always associated with an increase in profitability within highly regulated banking systems.

CONCLUSION

The research article has concluded that a sustainable equilibrium between profitability, provision of credit and regulatory capital requirement has defined the financial performance, risk management, and capital structure of the Nepal commercial banks. The evidence of the ten-year analysis proves that most of the banks are employed in medium and stable profitability however there is clear difference in efficiency and profitability ability in operations of different organizations. The levels of capital adequacy within the sector are high and these signify the levels of high regulation as well as the stability of the financial system in general. At the same time, the two findings suggest that the amplified capitalization is not to be tied with the amplified profitability, in fact, both high positive returns to equity and earnings per share are considerably smaller in robustly capitalized banks, which reflect the possibility of trade-off between solvency and profitability. The establishment of the deployment of credit play a crucial part in the establishment of the efficiency of the earnings in the sense that the lending strength of the credit wire lessness is highly related to the returns and per-share earnings of the shareholders. Nevertheless, regression outcomes confirm the fact that the level of profitability and credit indicators in isolation or a combination are not factors of importance on the status of capital adequacy. This demonstrates that the regulatory structures and institutional policy make significant contributions in the capital decisions as compared to the short-term financial performance. Overall, as discussed during the analysis, sustainability of the Nepalese commercial banks in the long run is neither only carried on the foundation of the possibility to possess good capital levels, but also to reach a moderation of the balance between the credit risk management, lending, and the effective utilization of capital resources. In the case of Nepal Rastra Bank (NRB) the findings are that robust capitalization has not necessarily contributed to bank profitability started solely by relying on

regulators must instead be directed towards quality of asset scrutiny, appraisal of risks, and the promotion of sound risk-taking in lieu of tighter capitalization.

To the bank managers, the results emphasize the significance of even credit allocation and leadership on the risks. Unwarranted lending practices, which are manifested in increasing credit-deposit ratio may undermine the quality of earnings unless well-founded risk controls are implemented. Credit screening, NPL containment, and provisioning discipline should be among the priorities of the bank management to remain profitable without violating the capital regulations.

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