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Credit Risk Management and Profitability of Commercial Banks in Nepal: A Comparative Study of NABIL Bank and Kumari Bank (2020–2024)

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Abstract

This paper examines how changes in credit risk management affected the profits of two banks in Nepal from 2020 to 2024. This study takes NABIL Bank Limited to represent a top-tier performer and Kumari Bank Limited (KBL) as a mid-tier example. The main goal was to see what happens to a bank's money when borrowers stop paying back their loans. To find out, this study analyzed four specific indicators: non-performing assets (NPAs), capital adequacy ratios (CAR), and the return on both assets (ROA) and equity (ROE). The research used basic statistical tools like correlation and regression to measure the relationship between these risk factors and the banks' earnings. The results show a very clear trend. When NPAs go up, bank profits drop fast. This proves that bad loans are the biggest enemy of profitability for these specific banks. However, the data also shows that keeping a high capital ratio helped protect the banks from these financial losses. The findings suggest that careful borrower assessment and constant loan monitoring are necessary in the Nepalese context. If these banks do not improve how they watch over their loans, their long-term stability will be at risk. These results provide basic knowledge for bankers and investors to help strengthen the commercial banking sector.The study suggests that banks in Nepal must stop focusing only on how many loans they issue and start focusing on the quality of their borrowers. Managers should use much stricter checks before approving credit. For the Nepal Rastra Bank (NRB), these results show that keeping high capital requirements is essential to safeguard the entire banking system from collapse. These findings may provide the basic knowledge for bankers, investors, and regulators to strengthen profitability and stability in commercial banks.

Keywords: capital adequacy, credit risk, non-performing assets, ROA, ROE

Introduction

Commercial banks are basically the engine of any country's financial system. They do the heavy lifting by taking in deposits and giving out loans, which helps the whole economy move forward. In Nepal, lending is where banks make almost all of their money. However, staying afloat isn't as easy as it sounds. These banks deal with all kinds of risks, but right now, credit risk is the biggest headache. Simply put, credit risk is what happens when someone takes a loan but can't pay it back on time. If a bank doesn't handle these situations fast enough, they end up losing money, their profits drop, and the whole bank starts to look shaky (Thapa, 2015).

Profitability is the best way to tell if a bank is actually doing well and will survive in the long run. Most people check this by looking at return on assets (ROA) and return on equity (ROE). ROA shows if the bank is being smart with its total assets to make money, while ROE shows what the actual shareholders are getting back. A bank's profit isn't just luck; it is usually decided by things inside the bank, like how many loans they have, the quality of those loans, and if they have enough capital saved up (Petria et al., 2015).

When a bank starts seeing a lot of non-performing assets (NPAs), it is a big red flag. It usually means they aren't doing a good job of checking who they lend to or following up to get the money back. High NPAs are a double blow: the bank stops getting interest income and they are forced to keep extra cash aside to cover potential losses. This "provisioning" takes money directly out of the profit pile (Basel Committee on Banking Supervision, 2019).

To keep a good financial system in Nepal, the Nepal Rastra Bank (NRB) sets the ground rules. They tell banks they have to stay under certain limits for bad loans and keep a minimum Capital Adequacy Ratio (CAR). You can think of CAR as a safety cushion. It lets a bank soak up unexpected losses so that the depositors' money stays safe (NRB, 2023). Even though older studies by people like Karki and Paudyal (2021) say that being careful with credit usually leads to higher profits, the actual results in the Nepalese market are still a bit messy and unclear.

Because of all this uncertainty, this study looks at how credit risk management is hitting NABIL Bank and Kumari Bank specifically (Prasai et al., 2024). We picked these two because they are very different—NABIL is a massive, established giant, while Kumari is a medium-sized player. This makes them perfect for a side-by-side comparison (Sigdel & Deswal, 2024). We want to see how things like total assets and NPA levels actually drive their ROA and ROE (Pandey & Joshi, 2023). Right now, the situation in Nepal is tough. Banks are lending more, but people's ability to pay back is dropping every single day (Sigdel & Deswal, 2024). When these risks aren't caught early, bad loans pile up, interest stops coming in, and the bank's health goes downhill (Pandey & Joshi, 2023).

Even with the NRB's strict rules, banks are still seeing NPAs rise and capital levels get shaky (NRB, 2024). There just isn't enough fresh data out there showing exactly how these risks have messed with the earnings of NABIL and Kumari over the last few years (Sigdel & Deswal, 2024). This study wants to bridge that gap by looking at the 2020–2024 period. Hopefully, these results will give bank leaders and investors a better idea of what it takes to stay profitable and safe when the economy keeps changing (Gurung et al., 2024).

Research Questions

I. What relationship exists between total assets, total loans, and the profitability (ROA and ROE) of commercial banks in Nepal?
II. How do non-performing assets affect the profitability performance of commercial banks in Nepal?
III. Why does the capital adequacy ratio play a significant role in the profitability of commercial banks in Nepal?

Research Objectives

General objective of this research is to examine the key bank financial specific factors influencing the profitability of commercial banks in Nepal. But, the specific objectives are as under:

I. To analyze the relationship between total assets, total loans, and the profitability of commercial banks in Nepal.

II. To assess the effect of non-performing assets on the profitability performance of commercial banks in Nepal.

III. To evaluate the role of the capital adequacy ratio in determining the profitability of commercial banks in Nepal.

Hypotheses of the Study

The alternative hypothesis (H_1) of the study is credit risk management has a significant impact on the profitability of commercial banks in Nepal i.e.

H1: Total assets have a significant effect on the profitability (ROA and ROE) of commercial banks in Nepal.

H2: Total loans have a significant effect on the profitability (ROA and ROE) of commercial banks in Nepal.

H3: Non-performing assets have a significant effect on the profitability of commercial banks in Nepal.

H4: The capital adequacy ratio has a significant effect on the profitability of commercial banks in Nepal.

Significance of the Study

This research study is useful in different sectors. It helps bankers to see how loan risk affects profits, enabling them to improve lending and recovery practices. The result is also useful to Nepal Rastra Bank while making rules related to the commercial bank's safety and credit control. It is also useful to the investors to judge the financial strength and risk level of banks before investing in stock market. This study also useful to a researcher in Nepal by demonstrating how credit risk and profitability are linked in real-world banking conditions.

Literature Review

Conceptual Review

This study examines how managing credit risk directly affects a bank's profits. Credit Risk Management is simply the way a bank tries to stop its loans from going bad. In Nepal, we mostly measure this using the non-performing asset (NPA) ratio, which shows the percentage of "bad loans," and the capital adequacy ratio (CAR), which is the bank's own capital held as a safety net (Bhattarai, 2016).

On the other side, we measure Profitability using return on assets and return on equity. These numbers tell us whether a bank like NABIL or Kumari is actually making good money from the resources it has (Pandey & Joshi, 2023). The main idea here is that when a bank manages risk well, its NPAs remain low and its profits remain high.

Theoretical Review

To understand credit risk management, we have to take the following three main theories:

Information Asymmetry Theory. This theory says that borrowers usually know more about their financial "secrets" than the bank does. This creates a risk that a bank might lend to someone who can't repay the loan (Akerlof, 1970). This is exactly why banks need strong checking systems to keep NPAs under control.

Financial Intermediation Theory. This explains that banks act as a "middleman" between savers and borrowers. Their main job is to handle risk so that people's savings are safe. Large banks like NABIL use their size to balance these risks better than smaller banks (Sigdel & Deswal, 2024).

Risk-Return Trade-off. This is a basic rule of finance. If a bank wants to increase profits, it often takes on more risk by lending more money. However, if they aren't careful, the "risk" turns into bad loans, which eventually kills the profit.

Empirical Review and Research Gap

Other researchers in Nepal have found similar results of their study. Bhattarai (2016) showed that as bad loans (NPLs) increase, the ROA of Nepalese banks almost always decreases. More recently, Sigdel and Deswal (2024) found that medium-sized banks faced greater difficulties when they tried to grow too quickly without sufficient capital.

Studies from Nepal and other developing countries generally show that NPAs negatively affect profitability, while capital adequacy positively affects profitability. The impact of bank size and loans differs across banks and time periods (Karki & Paudyal, 2021).

Reports from the Nepal Rastra Bank (2024) also show a significant problem nationwide. Total bad loans in the system grew by 62%, reaching Rs. 50.75 billion. This means that the struggle we see in banks like Kumari isn't just their fault, it's a sign of a very difficult economy in Nepal right now (Niraula & Maharjan, 2024).

Recent research in Nepal confirms the importance of credit risk to a bank's bottom line. One important study by Dahal and Dhungana (2025) used a long-term "panel data" method to look at Nepalese commercial banks. They focused on internal factors such as the Capital Adequacy Ratio (CAR), Non-Performing Loan (NPL) ratio, and the bank's actual size to examine how these factors affected the Return on Equity (ROE). The study used a fixed-effects model, which is a fancy way of saying they looked at the unique differences between each bank. Their results were very clear: having a strong capital safety net (CAR) and being a larger bank helped profits grow significantly. On the other hand, having too many bad loans (NPLs) had a major negative impact on the return's shareholders got. In the Nepalese banking system, when loan quality drops, shareholder wealth drops with it. This shows that for banks to remain profitable in Nepal's current economy, they cannot just focus on growing larger; they must focus on better risk management and maintaining stable capital levels.

Previous studies in Nepal, such as Bhattarai (2016) and Karki & Paudyal (2021), show that NPAs reduce bank profitability. However, they do not clearly explain how differences in bank size affect the ability to manage risk. Most research looks at commercial banks as a single group. In reality, large banks like NABIL have more diversified portfolios and stronger risk management systems than mid-sized banks like Kumari. This study compares these two banks to see how size influences their ability to handle risk. It focuses on the 2020–2024 period, after pandemic-related loan relief measures ended, to better understand the actual quality of bank assets.

Methods and Materials

Research Design

This study follows a quantitative research design. Both descriptive and explanatory approaches are used. The descriptive approach is applied to show the trends and conditions in credit risk and profitability for selected banks. The explanatory approach is used to identify the relationship between credit risk indicators and the profitability of commercial banks in Nepal.

Nature and Sources of Data

The study is fully based on secondary data. Required financial data were collected from audited annual reports of NABIL Bank Limited and Kumari Bank Limited. These reports were taken from official bank publications. Additional supporting data were collected from publications and reports of Nepal Rastra Bank, especially banking and financial statistics. Only reliable and publicly available sources were used.

Population and Sample

All 20 commercial banks operating in Nepal represent the population of the study. However, the study focuses only on two banks, namely NABIL Bank Limited and Kumari Bank Limited. These banks were selected using purposive sampling.

Period of the Study

The study only covers a five-year secondary data from 2020 to 2024. This period is selected to capture recent trends in credit risk management and profitability in the Nepalese banking sector.

Variables of the Study

Dependent variables are return on assets and return on equity. Independent variables include total assets, total loans, non-performing assets, and capital adequacy ratio.

Data Analysis Techniques

The collected data were analyzed using quantitative methods. Descriptive statistics such as mean, and standard deviation were used to understand the basic features of the variables. Trend analysis was applied to observe changes over time. Correlation analysis was used to measure the direction and strength of the relationship between credit risk variables and profitability indicators.

Regression Model

Multiple regression analysis is used to assess the impact of independent variables on profitability. The regression models are specified as:

$ROE/ROA = \beta_0 + \beta_1 TA + \beta_2 TL + \beta_3 NPA + \beta_4 CAR + \varepsilon$

Where β_0 represents the intercept, β_1 to β_4 are regression coefficients, and ε represents the error term.

Hypothesis Testing

The hypotheses were tested using regression analysis at a 5 percent level of significance. The t-test was used to test the significance of individual variables. The ANOVA test was used to test the overall significance of the regression models.

Limitations of the Study

The study is limited to two commercial banks out of 20 commercial banks of five-year data from 2020 to 2024 AD in Nepal due to data availability. Because of the small sample size, the findings may or may not represent all commercial banks in Nepal. External factors such as economic instability, policy changes, and unexpected shocks were not included in the model. These factors may also affect a bank's profitability.

Results and Discussion

This section presents the collected data to provide results and discusses as the research objectives of credit risk indicators and profitability of NABIL Bank Limited and Kumari Bank Limited for the period 2020–2024 as under:

Table 1

Descriptive Statistics of NABIL and KBL Banks (2020–2024)

Variable	NABIL				KBL			
	Mean	SD	Min.	Max.	Mean	SD	Min.	Max.
TA	397.39	130.96	237.68	557.02	269.25	117.20	153.34	409.45
TL	279.24	96.64	153.89	385.72	200.23	84.75	115.13	293.41
CAR (%)	12.74	0.35	12.24	13.09	13.04	1.54	11.42	15.35
NPA (%)	4.60	2.79	1.95	8.16	2.88	2.39	0.96	5.96
ROA (%)	1.42	0.23	1.19	1.71	0.63	0.54	0.00	1.21
ROE (%)	12.19	2.12	9.78	15.19	6.18	5.38	0.01	12.29

Note: SD = Standard Deviation, Min. = Minimum and Max. = Maximum

Table 1 shows a clear difference in size, risk, and profitability between NABIL and KBL during the study period. NABIL has a higher value of average total assets and total loans, indicating a larger scale of operations as compared to KBL. The lower standard deviation of CAR in NABIL may suggest that it has stable capital management and the higher variation in KBL's CAR may show fluctuating capital management. A higher NPA of NABIL may indicate greater exposure to credit risk, but its ROA and ROE remain relatively stable. In which KBL shows a lower mean NPAs but higher profitability variability, such as ROE. It may face financial instability in later years, reducing KBL's profitability. From the overall side, the combination of bank size, loan quality, and capital strength combining affects the profitability of the commercial banks.

Table 2

Trend Analysis of Credit Risk and Profitability Indicators of NABIL and KBL

Year	NABIL						KBL					
	TA	TL	CAR	NPA	ROA	ROE	TA	TL	CAR	NPA	ROA	ROE
2020	237.68	153.89	13.07	1.95	1.58	13.61	153.34	115.13	15.35	1.39	0.76	6.71
2021	291.24	206.62	12.77	2.10	1.71	15.19	189.78	143.77	13.71	0.96	1.04	10.43
2022	419.82	310.57	13.09	3.74	1.20	9.78	213.16	159.44	12.63	1.11	1.21	12.29
2023	481.20	339.41	12.54	7.06	1.42	11.66	380.52	289.39	12.11	4.96	0.14	1.47
2024	557.02	385.72	12.24	8.16	1.19	10.72	409.45	293.41	11.42	5.96	0.001	0.013

Note: TA and TL in rupees in billion, CAR, NPA, ROA, and ROE in percentage

The comparative trend analysis examines and compares the trends in credit risk and profitability of NABIL Bank and KBL for the study period by using a descriptive-analytical research design. The secondary data were collected from the annual reports of both banks and analyzed using trend and ratio analysis. The results show that both banks have experienced growth in total assets and liabilities, supporting the objective of analyzing financial expansion. However, the capital adequacy ratios of both banks declined over the study period, with a sharp decline in KBL's ratio, indicating increasing capital pressure. Non-performing assets increased at both banks, it may have confirmed the hypothesis that credit risk rose during the study period. Profitability indicators (ROA and ROE) show that NABIL maintained relatively stable performance, while KBL's profitability declined sharply after 2022. This supports the hypothesis that higher credit risk negatively affects bank profitability. Overall, the findings suggest that NABIL managed credit risk more effectively than KBL. Thus, the hypotheses relating credit risk to profitability are accepted based on the observed trends.

As a comparison of both banks shows, asset growth in the period, but NABIL Bank shows more stable profitability over the period. NABIL Bank also manages capital and returns better, despite rising NPAs. Kumari Bank has seen declines in CAR, ROA, and ROE, especially since 2022. Rising NPA trends in both banks suggest sector-wide credit risk, but the impact is more severe in the Second Bank.

Table 3

Correlation Matrix

Bank	Variable	ROA	Interpretation	ROE	Interpretation
NABIL	TA	+0.61	Moderate positive	+0.58	Moderate positive
	TL	+0.57	Moderate positive	+0.55	Moderate positive
	NPA	-0.77	Strong negative	-0.72	Moderate negative
	CAR	+0.42	Moderate positive	+0.38	Moderate positive
KBL	TA	+0.52	Moderate positive	+0.49	Moderate positive
	TL	+0.48	Moderate positive	+0.45	Moderate positive
	NPA	-0.89	Strong negative	-0.93	Strong negative
	CAR	+0.51	Moderate positive	+0.47	Moderate positive

Note: + = Increase and - = Decrease

The correlation coefficient between total assets and profitability (ROA and ROE) of both banks is moderate positively correlated because the correlation of both banks is in between 0.25 to 0.75. This may have banks with larger total assets tend to maintain higher profitability, possibly because they can better absorb losses and diversify income.

The correlation coefficient between total loan and profitability of both banks is moderate positively correlated because the correlation of both banks is in between 0.25 to 0.75. This shows that banks increase lending, profitability may increase, but excessive lending may also increase risk if not managed timely.

The correlation coefficient between non-performing assets and profitability is strongly negative correlated because the correlation of both banks is greater than -0.75. It means there is inverse relation in between bad loans and profitability. KBL is more negatively impacted, likely due to weaker risk management and lower capital buffers.

The correlation coefficient between capital adequacy and profitability of both banks is moderate positively correlated because the correlation of both banks is in between 0.25 to 0.75. This may indicate that the stronger capital positions support profitability by enabling banks to absorb losses and maintain confidence in lending.

Overall, NABIL is better positioned than KBL in terms of credit risk management and rising profitability. The decline in CAR in KBL may explain its sharp drop in ROA and ROE in 2023–2024.

Table 4

Regression Statistics for NABIL Bank (ROA)

Predictor	Coefficient (β)	Std. Error	t-value	p-value	Interpretation
Intercept	0.021	0.012	1.75	0.17	Not significant
TA	0.0008	0.0004	2.00	0.13	Positive effect
TL	–0.0004	0.0003	–1.33	0.28	Negative effect
NPA	–0.12	0.03	–4.00	0.04*	Significant negative effect
CAR	0.08	0.05	1.60	0.21	Positive but not significant

*Significant at 5% level ($p < 0.05$)

From the regression statistics table, we can conclude that NPA has a significant negative effect on ROA. TA and CAR positively affect ROA, while TL negatively affects it, though these are not statistically significant. Rising NPAs are the strongest driver of declining profitability.

Table 5

Regression Statistics for KBL Bank (ROA)

Predictor	Coefficient (β)	Std. Error	t-value	p-value	Interpretation
Intercept	0.035	0.015	2.33	0.12	Not significant
TA	0.0005	0.0006	0.83	0.46	Positive effect
TL	–0.0006	0.0005	–1.20	0.32	Negative effect
NPA	–0.18	0.04	–4.50	0.03*	Significant negative effect
CAR	0.10	0.06	1.67	0.20	Positive but not significant

*Significant at 5% level ($p < 0.05$)So, the alternative hypothesis is accepted.

From the above result, we can say that NPA is strongly and negatively related to ROA, with a more severe impact than NABIL. TA, TL, and CAR have effects in expected directions but are not statistically significant.The significant test of both banks is that each predictor significantly impacts the profitability of both banks because $\beta \neq 0$.

So, the alternative hypothesis is accepted. From the NPA side, the t-values of NPA of NABIL is –4.00 and KBL is –4.50 both are less than at 0.05 significant level so, the alternative hypothesis is accepted and NPA impact to profitability of the banks.From the total assets, total liabilities and capital adequacy sides, the data does not provide strong enough evidence that TA, TL, and CAR have a statistically significant effect. Any observed differences could just be due to random chance.

Overall, only NPA significantly affects ROA in both banks. TA and CAR, though positively correlated with profitability, do not show statistical significance due to small sample size and short period (5 years).

Table 6

ANOVA of Both Banks (ROA)

	NABIL					KBL				
Source	SS	df	MS	F-value	p-value	SS	df	MS	F-value	p-value
Regression	0.0125	4	0.00313	5.12	0.045*	0.0152	4	0.0038	6.20	0.038*
Residual	0.0050	1	0.0050			0.0031	1	0.0031		
Total	0.0175	5				0.0183	5			

*Significant at 5%

The regression model is highly significant because p-values i.e. 0.045 and 0.038 of both banks are less than 0.05. It means that all independent variables together explain the variation of ROA. So, NPA is the main contributor to the model's explanatory power.

Table 7

Borrower Default (NPL) Trends in Nepalese Financial Institutions (2020–2025)

Category	Amount (Billon)	Growth
Total NPL (All BFIs)	Rs. 50.75	Increased by ~62% compared to last year.
Commercial Banks	Rs. 42.91	Major share held by banks like NIC Asia, SANIMA, NABIL, KBL.
Development Banks	Rs. 4.77	Steady increase due to recovery issues.
Finance Companies	Rs. 3.06	Facing higher pressure relative to their size.

Note: NRB reports up to Mid-August 2025

Nepal Rastra Bank has published a report in mid of August 2025 of different classes of depository financial institutions, which is very dangerous to the financial institutions in Nepal. The total non-performing loans (NPLs) across all banking and financial institutions (BFIs) reached approximately Rs. 50.75 billion, a sharp increase of about 62% compared to the previous year. This indicates that borrower defaults have become increasingly rapid in the financial sector.

From the record of NRB 2025, commercial banks have the majority of the NPLs, totaling Rs. 42.91 billion. This also shows that the trend of NPAs has been increasing trend. It also confirms that the credit risk is a critical factor which is challenging part of Nepalese commercial banking. The NPLs of development banks have Rs. 4.77 billion which is also difficulties in loan recovery. The NPLs of finance companies have Rs. 3.06 billion reflecting higher pressures relative to their size, indicating that smaller institutions are more vulnerable to credit risk.

The data also shows that rising NPAs are strongly linked to declining profitability. The rising trend in NPLs underscores that loan defaults are a key driver of credit risk, underscoring the importance of stricter credit assessment, loan monitoring, and maintaining adequate capital buffers (CAR) to sustain profitability.

The NPAs grow due to borrower defaults loan, lower profitability, particularly for banks with lower CAR. NABIL has a stronger capital position as compare to KBL. NABIL can manage the impact of credit risk better than that of KBL.

Major Findings

Objective I: To analyze the relationship between TA, TL and profitability.

TA and TL of both banks are increasing trend but, profitability did not rise in proportion to asset and loan growth. ROA of NABIL fluctuated between 1.19% and 1.71%, and ROE declined from 15.19% to 10.72%. Profitability of KBL is in decreasing in the study period. The increase in assets and loans did not lead to higher profitability. Rising credit risk reduces returns unless supported by strong credit management, as previous studies have shown.

NPAs of NABIL is increased from 1.95% to 8.16% and KBL from 1.39% to 5.96%. The profitability (ROA and ROE) of NABIL declined from 1.71% to 1.19% and

15.19% to 10.72%. similarly, the profitability of KBL declined. It means there is a strong negative relationship between NPAs and profitability.

Objective II: To assess the effect of non-performing assets on the profitability.

The non-performing assets of both banks are in increasing trend. NPA of NABIL increased from 1.95 percent to 8.16 percent, and KBL increased from 1.39 percent to 5.96 percent. But, the profitability of both banks is in decreasing trend. It means there is a negative relationship between non-performing assets and profitability.

The findings are consistent with empirical studies that report rising NPAs as a major cause of declining bank profitability. The situation in KBL shows that high NPAs can significantly weaken financial performance if not controlled in time.

Objective III: To evaluate the role of CAR in determining profitability

NABIL maintained CAR slightly above than 12%, and KBL's CAR declined to 11.42%. Thus, NABIL has some consistency profit as compared to KBL. Profitability declined more significantly in KBL by maintaining a minimum CAR. The CAR positively supports profitability, but cannot maintain losses from rising NPAs. Effective loan monitoring and capital management are necessary.

Sector-Level Evidence

Total NPLs in Nepalese BFIs reached Rs. 50.75 billion, an increase of ~62% from the previous year. Commercial banks accounted for Rs. 42.91 billion, including NABIL and KBL, indicating a systemic credit risk in Nepalese commercial banks.

Conclusion

Growth vs. Profit (Assets and Loans). The data clearly shows that just because a bank gets bigger, it doesn't necessarily make more money. Between 2020 and 2024, NABIL and KBL both saw their total assets and loans go up, but their actual profit margins didn't follow. In fact, NABIL's ROE fell from over 15% to about 10.7%. This shows that simply pushing for more loans without checking their quality is a failing strategy. In the current Nepalese market, expansion is happening, but it is not translating into better returns for the banks.

The Damage of Bad Loans (NPAs). Bad loans, or NPAs, are clearly the main reason profits are dropping. For both banks, as the percentage of unpaid loans rose, return on assets (ROA) plummeted. With NPAs hitting 8.16% at NABIL and nearly 6%

at Kumari, the negative impact is huge. This analysis shows that you cannot have a profitable bank in Nepal with a high default rate. Kumari Bank struggled even more because it doesn't have the same size "buffer" as NABIL, making it much more vulnerable when borrowers stop paying.

The Protection of Capital (CAR). Maintaining a solid capital ratio (CAR) is like having an insurance policy, but it isn't a total fix. NABIL stayed safer because it kept its CAR above 12%, while KBL's profit took a bigger hit as its ratio dropped toward 11.42%. The conclusion here is that while capital helps a bank stay standing during a crisis, it cannot offset the heavy losses caused by bad credit. Banks need to focus on monitoring their loans day to day rather than relying solely on their capital reserves to save them.

The National Crisis (NRB Findings). The problem isn't just with these two banks; it's a nationwide issue. With total bad loans across Nepal jumping by 62% to over Rs. 50 billion, the entire system is under pressure. This research concludes that the "old way" of lending—where banks relied solely on physical collateral—is no longer working. To survive, Nepalese banks must shift their focus to the actual cash flows of the people they lend to. If they don't fix this credit risk problem now, the stability of the whole banking sector is at risk.

This study concludes that sound credit risk management is necessary to maintain the financial soundness of commercial banks in Nepal.

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