Effects of Accounting Information System on Organizational Profitability in Nepalese Commercial Banks

Bimlesh Prasad Yadav*

Abstract

This study examines the effects of accounting information system on organization profitability in Nepalese commercial banks. Return on assets (ROA) and return on equity (ROE) are the selected dependent variables. The selected independent variables are non-performing loan (NPL), loan loss provision (LLP), capital adequacy ratio (CAR), credit to deposit rate (CRR) and bank size (BS). The study is based on secondary data of 15 commercial banks with 120 observations for the study period from 2014/15 to 2021/22. The data were collected from Bank Supervision Report published by Nepal Rastra Bank (NRB) and annual reports of the selected commercial banks. The correlation coefficients and regression models are estimated to test the significance and importance of effects of accounting information system on organizational profitability in Nepalese commercial banks.

The study shows that non-performing loan has a negative impact on return on assets and return on equity. It indicates that increase in non-performing loan leads to decrease in return on assets and return on equity. Similarly, credit to deposit ratio has a negative impact on return on assets and return on equity. It indicates that increase in credit to deposit ratio leads to decrease in return on assets and return on equity. Likewise, loan loss provision has a negative impact on return on assets and return on equity. It indicates that increase in loan loss provision leads to decrease in return on assets and return on equity. However, capital adequacy ratio has a positive impact on return on assets and return on equity. It indicates that increase in capital adequacy ratio leads to increase in return on assets and return on equity. Further, bank size has a negative impact on return on assets and return on equity. It indicates that increase in bank size leads to decrease in return on assets and return on equity.

Keywords: return on assets, return on equity, loan loss provision, non-performing loan, credit to deposit, capital adequacy ratio, bank size

1. Introduction

Financial institutions are intermediaries are the transfer of financial resources among the participants in the financial system. The main participants in the financial system are individuals, businesses, financial intermediaries, and governments. In the context of financial intermediaries that carry out

* Mr. Yadav is a Freelance Researcher, Kathmandu, Nepal. E-mail: bimleshy41@gmail.com

indirect financing, commercial banks occupy an important place (Gitman, 2010). Similarly, Shehadeh (2014) found that an accounting information System plays an important and effective role in providing decision makers with suitable information that helps them take informed administrative decisions. In addition, Romeny (2011) concluded that the accounting information system plays a major role in providing an integrated view of the organization to align capabilities with resources and functionalities in order to realize the full potential of such resources. The account information system in commercial banks faces several challenges that hinder efficient operations and customer satisfaction. These challenges include outdated technology infrastructure, security vulnerabilities, limited scalability, and lack of real-time data processing capabilities (Jones, 2020).

Beatty and Liao (2009) revealed that loan-loss provisioning policy is critical in assessing financial system stability, which is a key contributor for fluctuations in banks' profitability and capital positions, which has a bearing on banks' supply of credit to the economy. Simialrly, Choudhury *et al.* (2019) analyzed the challenges and opportunities of Modernizing account information systems in commercial banks. The study found that the systems often lack real-time updates, leading to delays in transaction processing and inaccurate balance reporting. A profitability of the banking sector of any country is important because the financial system of a country is largely based on banking system (Ali *et al.,* 2011). Likewise, Selvarajan andVadivalagan (2013) stated that the non-performing assets in prionty sector reference to Indian bank and public sector banks and (PSBs) found that the growth of Indian bank's lending to priority sector is more than that of the public sector banks as a whole Indian bank has slippages in controlling of NPAs in the early years of the decade. Further, Rai (2012) found that corporate borrowers even after defaulting continuously never had the fear of bank taking action to recover their dues. Likewise, Murthy (2000) stated that non-performing assets also known as non-productive assets, constitute integral part of bank's operations. Similarly, Hall (2015) found that accounting information system is useful for making potential for decision making otherwise it misleads the user idea and also lead them to decide wrong decision and that can be cause for bankruptcy or loss of the organization.

Davies (2019) examined the accounting information system in commercial banks faces various challenges, including data security vulnerabilities, inefficient processes, and limited accessibility for customers.

The study found that potential risks such as unauthorized access to sensitive customer data, delays in transaction processing, and customer dissatisfaction. Similarly, Smith and Johnson (2022) analyzed the impact of accounting information systems on organizational profitability in commercial banks. The study found a positive relationship between the implementation of AIS and financial performance indicators, such as return on assets (ROA) and return on equity (ROE), it seeks to provide insights into how effectively these systems contribute to the overall profitability of commercial bank. According to Stefanou (2006), the main purpose of an accounting information system is the collection and recording of data and information concerning an events that have an economic impact upon organizations and the maintenance, processing and communication of such information to internal and external stakeholders for proper decision making. It is one of the major systems for accounting information production which help in rationalizing and supporting economic decisions which impact the resources and wealth of communities, thus impacting the welfare of individuals (Kahaleh and Redwan, 1997).

Ibrahim and Thangavelu (2014) analyzed the composition of NPAs of scheduled commercial banks in India. The study showed that the commercial banks have significantly improved their working performance in the areas of AIS. Likewise, Sikdar and Makkad (2013) examined the role of profitability in the risk framework of commercial bank. The study found that procedures implemented by major Indian commercial banks, within the public and private sector, for recovery of loans classified as AIS. Similarly, Rai (2012) analyzed the accounting information system of public and private sector. The study found that on execution of AIS of Indian banks stated that corporate borrowers even in the circumstances of defaulting never had the dread of bank which makes a move to recuperate their contribution. Further, Smith and Johnson (2022) examined the impact of accounting information system on organizational profitability in commercial banks. The study revealed a positive correlation between the effective implementation of AIS and increased organizational profitability in commercial banks.

In the context of Nepal, Kumar and Lee (2006) examined the performance of the banks both in the public and private sectors has become more market driven with growing emphasis on better performance. The study revealed that the much publicized fact that public sector banks are inefficient is based on a piecemeal analysis in the form of a simple, static, partial and isolated ratio having some hidden and often misconceived assumptions about the structure.

Similarly, Bhattarai (2016) asserted the effect of AIS on the profitability of Nepalese commercial banks. The study found that the NPL ratio has a negative effect on ROA whereas NPL ratio has a positive effect on ROE. Likewise, Gnawali (2018) examined the impact of accounting information system on profitability of Nepalese commercial banks. The study showed that higher the portion of non-performing loan (NPL), Non-performing to total loan (NPLTL) etc. lower would be the profitability of the Nepalese government banks.

The above discussion shows that empirical evidences vary greatly across the studies on the effects of accounting information system on organizational profitability. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of this study is to examine the effects of accounting information system on organizational profitability of commercial banks. Specially, it examines the relationship of loan loss provision, non-performing loan, capital adequacy ratio, credit to deposit ratio and bank size with profitability of Nepalese commercial banks.

The remainder of this study is organized as follows: Section two describes the sample, data and methodology. Section three presents the empirical results and the final section draw conclusions.

2. Methodological aspects

The study is based on the secondary data which were collected from 15 Nepalese commercial banks from 20014/15 to 2021/22, leading to a total of 120 observations. The study employed convenience sampling method. The main sources of data collected from the Bank Supervision Report published by Nepal Rastra Bank (NRB) and annual reports of the selected commercial banks. This study is based on descriptive as well as causal comparative research designs. Table 1 shows the list of commercial banks selected for the study along with the study period and number of observations.

Table 1

List of commercial banks selected for the study along with the study period

S. N.	Name of the banks	Study period	Observations
1	Agricultural Development Bank Limited	2014/15 to 2021/22	8
2	Everest Bank Limited	2014/15 to 2021/22	8
3	Kumari Bank Limited	2014/15 to 2021/22	8
4	Laxmi Bank Limited	2014/15 to 2021/22	8
5	Machhapuchhre Bank Limited	2014/15 to 2021/22	8
6	Nepal Bank Limited	2014/15 to 2021/22	8
7	Nepal SBI Bank Limited	2014/15 to 2021/22	8
8	NICA Bank Limited	2014/15 to 2021/22	8
9	NMB Bank Limited	2014/15 to 2021/22	8
10	Prime Commercial Bank Limited	2014/15 to 2021/22	8
11	Rastriya Banijya Bank Limited	2014/15 to 2021/22	8
12	Sanima Bank Limited	2014/15 to 2021/22	8
13	Standard Chartered Bank Nepal Limited	2014/15 to 2021/22	8
14	Sunrise Bank Limited	2014/15 to 2021/22	8
15	Siddhartha Bank Limited	2014/15 to 2021/22	8
Total number of observations			120

Source: Annual Reports

Thus the study is based on 120 observations.

The model

The model used in this study assumes that the bank's profitability depends upon accounting information system. The dependent variables selected for the study are return on assets and return on equity. Similarly, the selected independent variables are loan loss provision, non-performing loans, capital adequacy ratios, credit to deposit ratio, and bank size. Therefore, the model takes the following form:

$ROA = f(CAR, NPL, LLP, CDR, BS)$

$ROE = f(CAR, NPL, LLP, CDR, BS)$

More specifically, the given model has been segmented into the following models:

$$ROA = \beta_0 + \beta_1 CAR + \beta_2 NPL + \beta_3 LLP + \beta_4 CDR + \beta_5 BS + e_{it}$$

$$ROE = \beta_0 + \beta_1 CAR + \beta_2 NPL + \beta_3 LLP + \beta_4 CDR + \beta_5 BS + e_{it}$$

Where,

ROA = Return on assets as measured by the ratio of net income to total assets, in percentage.

ROE = Return on equity as measured by the ratio of net income to total equity, in percentage.

CAR = Capital adequacy ratio as measured by the ratio of total capital to total risk weighted exposure, in percentage.

NPI = Non-performing loans as measured by the ratio of non-performing loans to total loans, in percentage.

LLP = Loan loss provision as measured by the ratio of loan loss provision to total loan, in percentage.

CDR = Credit to deposit ratio as measured by the ratio of total loans to total deposits in percentage.

BS = Bank size as measured by total assets, Rs. in billion.

The following section describes the independent variables used in this study along with the hypothesis formulation:

Capital adequacy ratio

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. Mannasoo (2013) examined the determinants of bank interest spreads in Estonia. The study concluded that there is a positive relationship between capital adequacy ratio and profitability measured by ROA and ROE. Similarly, Pangestika and Musdholifah (2018) showed that capital adequacy (CA) negatively associated with return on assets (ROA). Likewise, Irawati and Maksum (2018) found that the capital adequacy ratio has a negative and statistically insignificant relationship with ROA. In addition, Ahmet and Hassan (2011) found that there is a negative relationship between capital adequacy ratio and return on assets. Further, Septiani and Lestari (2016) showed that the capital adequacy ratio has a negative and significant relationship with return on assets. Ina ddition, Haryanto (2016) indicated that the capital adequacy ratio has a negative effect on return on assets. Based on it, this study develops the following hypothesis:

H_1: There is a positive relationship between capital adequacy ratio and

profitability.

Non-performing loan

Non-performing loan is a condition in which customer has been unable to afford it partly or entirely obligation to bank according to the agreement (Kuncoro and Suharjono, 2002). Swandewi *et al.* (2021) found that non-performing loan has a negative and significant relationship with profitability. Similarly, Purnawati *et al.* (2021) showed that non-performing loan has a negative and significant relationship with profitability. Likewise, Kadioglu *et al.* (2017) showed that non-performing loan has a negative and significant relationship with profitability. In contrast, Balango *et al*. (2017) stated that NPL has a positive impact on profitability. Based on it, this study develops following hypothesis:

H_2: There is a negative relationship between non-performing loans and profitability.

Loan loss provision

A loan loss provision is an income statement expense set aside as an allowance for uncollected loans and loan payments. Alhadab and Alsahawneh (2016) stated that the banks have become more exposed to the risk of failure due to the huge amounts of money that are provided to the customers through loans, which may threat the stability and growth of the banks. Similarly, Tahir *et al*. (2014) found that there is a negative relationship between loan loss provision (LLP) and profitability. Likewise, Hauner (2005) found that there is a negative relationship between the loan loss provision and return on equity. Similarly, Ali *et al.* (2011) showed that loan loss provision has a positive impact on return on assets. In addition, Mustafa *et al.* (2012) revealed that loan loss provision is negatively associated with profitability. Further, Fernando and Ekanayake (2015) showed that there is a negative relationship between the loan losses provision and profitability. Based on it, this study develops the following hypothesis:

H_3: There is a negative relationship between loan loss provision and profitability.

Credit to deposit ratio

Credit to deposit ratio is the proportion of loan- assets created by a bank from the deposits received. Credits are the loans and advances granted by the

bank. Interest is charged from the borrower. Deposit is the amount accepted by bank from the savers and interest is paid to them (Singh and Tandon, 2012). Mochklas and Setiawan (2018) showed that loan to deposit ratio has a significant negative effect on return on assets. Similarly, Prasanjaya (2013) showed that loan to deposit ratio has a significant negative effect on return on assets. Likewise, Artarina (2013) found that credit to deposit ratio has a significant negative effect on profitability. Further, Vong (2009) showed that loan to deposit ratio has a negative effect on profitability. In addition, Widati (2012) found that credit to deposit ratio has a significant negative effect on profitability. Moreover, Restiyana, (2011) stated that credit deposit ratio has a negative effect on profitability. Further, Arimi (2012) showed that credit deposit ratio has a significant negative effect on return on equity. Based on it, this study develops the following hypothesis:

H_4: There is a negative relationship between credit to deposit ratio and profitability.

Bank size

Bank size is a ratio which represents the ownership of assets by banks. Mullineaux (1978) examined the economies of scale and organizational efficiency in banking: A profit-function approach. The study revealed a positive impact for bank size on return on assets. Similarly, Emery (1971) found that bank size has a positive impact on return on equity. Likewise, Heggested (1977) found a positive impact for bank's size on profitability. Moreover, Al-Jarrah *et al.* (2010) showed that bank size has a positive impact on return on assets. In contrast, Bashir (2003) revealed that bank size has a negative relationship with profitability. Based on it, this study develops the following hypothesis:

H_5: There is a positive relationship between bank size and profitability.

3. Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics of selected dependent and independent variables during the period 2014/15 to 2021/22.

Table 2

Descriptive statistics of selected Nepalese commercial banks

This table shows the descriptive statistics of dependent and independent variables of 15 Nepalese commercial banks for the study of 2014/15 to 2021/22. Dependent variables are ROE (Return on equity) and ROA (Return on assets). The independent variables are NPL (Non-performing loan), CDR (Credit to deposit ratio), LLP (Loan loss provision), CAR (Capital adequacy ratio) and BS (Bank size). The descriptive statistics are based on the data form 15sample banks with 120 observations for the period 2014/15 to 2021/22.

Variables	Minimum	Maximum	Mean	S.D.
ROE	5.48	40.78	16.80	5.24
ROA	0.32	3.12	1.54	0.53
NPL	0.02	5.35	1.16	1.22
CDR	48.92	98.26	83.32	9.48
LLP	0.73	21.35	12.53	3.45
CAR	7.49	22.99	13.85	2.48
BS	29.19	512.41	141.01	81.13

Source: SPSS output

Correlation analysis

Having indicated the descriptive statistics, the Pearson's correlation coefficients have been computed and the results are presented in the Table 3.

Table 3

Person's correlation coefficients matrix

This table shows the Pearson's correlation coefficients of dependent and independent variables of 15 Nepalese commercial banks for the study period from 2014/15 to 2021/22. Dependent variable is ROE (Return on equity) and ROA (Return on assets).Independent variables are NPL (Non-performing loan), CDR (Credit to deposit ratio), LLP (Loan loss provision), CAR (Capital adequacy ratio) and BS (Bank size).

Variables	ROA	ROE	NPL	CDR	LLP	CAR	BS
ROE	1						
ROA	-0.144	1					
NPL	-0.092	-0.204*	1				
CDR	-0.230*	-0.167	-0.134	1			
LLP	-0.201*	-0.370**	-0.473**	-0.248**	1		
CAR	0.354**	0.342**	0.110	0.026	-0.442**	1	
BS	-0.105	-0.339**	0.242**	0.095	0.034	0.060	1

Note: The asterisk signs (**) and (*) indicate that the result are significant at one percent and five percent levels respectively.

The result shows that non-performing loan has a negative relationship with return on assets. It indicates that increase in non-performing loan leads to decrease in return on assets. Similarly, credit to deposit ratio has a negative relationship with return on assets. It indicates that higher the credit to deposit ratio, lower would be the return on assets. Likewise, loan loss provision has a negative relationship with return on assets. It indicates that higher the loan loss provision, lower would be the return on assets. However, capital adequacy ratio has a positive relationship with return on assets. It indicates that higher the capital adequacy ratio, higher would be the return on assets. In addition, bank size has a positive relationship with return on equity. This indicates that larger the bank size, lower would be the return on equity.

Similarly, the result shows that non-performing loan has a negative relationship with return on equity. It indicates that increase in non-performing loan leads to decrease in return on equity. Similarly, credit to deposit ratio has a negative relationship with return on equity. It indicates that higher the credit to deposit ratio, lower would be the return on equity. Likewise, loan loss provision has a negative relationship with return on equity. It indicates that higher the loan loss provision, lower would be the return on equity. However, capital adequacy ratio has a positive relationship with return on equity. It indicates that higher the capital adequacy ratio, higher would be the return on equity. In addition, bank size has a positive relationship with return on equity. It indicates that larger the bank size, lower would be the return on equity.

Regression results

Having indicated the Pearson's correlation coefficients, the regression analysis has been performed and the results are presented in Table 4. More specifically, the table shows the regression results of capital adequacy ratio, loan loss provision, non-performing loan, credit to deposit and bank size on return on assets of Nepalese commercial banks.

Table 4

Estimated regression results of capital adequacy ratio, loan loss provision, non-performing loan, credit to deposit and bank size on return on assets

The results are based on the responses gathered from 120 respondents by using linear regression model. The model is $ROA = \beta_0 + \beta_1 CAR + \beta_2 NPL + \beta_3 LLP + \beta_4 CDR + \beta_5 BS + e_{it}$ *where ROA (Return on assets) is the dependent variable. The independent variables NPL (Non-performing loan), CDR (Credit to deposit), LLP (Loan loss provision), CAR (Credit adequacy ratio) and BS (Bank size).*

Model	Intercept	Regression coefficients of					Adj. R_bar2	SEE	F-value
		NPL	CDR	LLP	CAR	BS			
1	1.441 (21.808)**	-0.089 (2.263)*					0.033	0.523	5.123
2	2.328 (5.432)**		-0.09 (1.841)				0.02	0.527	3.391
3	2.259 (13.197)**			-0.057 (4.330)**			0.130	0.496	18.748
4	0.529 (2.027)*				0.073 (3.948)**	-2.226 (3.915)**	0.109	0.502	15.589
5	1.858 ((20.105)**						0.107	0.503	15.325
6	2.485 (6.082)**		-0.08 (1.575)			-2.141* (3.772)**	0.118	0.500	8.999
7	2.206 (10.003)**	-0.016 (0.380)		-0.054 (0.353)			0.123	0.498	9.378
8	0.799 (3.202)**				0.078 (4.520)**	-2.370 (4.490)**	0.234	0.466	19.140
9	1.342 (2.851)**		-0.010 (0.176)		0.074 (0.346)		0.133	0.495	10.136
10	0.499 (1.931)	-0.073 (1.958)			0.069 (3.756)**		0.130	0.496	9.898

Notes:

i. Figures in parenthesis are t-values.
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.
iii. Return on asset is the dependent variable

The regression results show that the beta coefficients for non-performing loan are negative with return on assets. It indicates that non-performing loan has a negative impact on return on assets. This finding is consistent with the findings of Swandewi *et al.,* (2021). Similarly, the beta coefficients for credit to deposit ratio are negative with return on assets. It indicates that credit to deposit ratio has a negative impact on return on assets. This finding is consistent with the findings of Artarina (2013). Likewise, the beta coefficients for loan loss provision are negative with return on assets. It indicates that loan loss provision has a negative impact on return on assets. This finding is consistent with the findings of Tahir *et al.* (2014). In addition, the beta coefficient for capital adequacy ratio are positive with return on assets. It indicates that capital adequacy ratio has a positive impact on return on assets. This finding is consistent with the findings of (Septiani and Lestari, 2016). Similarly, the beta coefficient for bank size are negative with return on assets. It indicates that bank size has a negative impact on return on assets. This finding is consistent with the findings of Bashir (2003).

Having indicated the Pearson's correlation coefficients, the regression analysis has been performed and the results are presented in Table 5. More specifically, the table shows the regression results of capital adequacy ratio,

loan loss provision, non-performing loan, credit to deposit and bank size on return on equity of Nepalese commercial banks.

Table 5

Estimated regression results of bank size, non-performing loan, capital adequacy ratio, credit to deposit ratio and loan loss provision on return on equity

The results are based on the responses gathered from 120 respondents by using linear regression model. The model is $ROE = \beta_0 + \beta_1 CAR + \beta_2 NPL + \beta_3 LLP + \beta_4 CDR + \beta_5 BS + e_{it}$ *where ROE (Return on equity) is the dependent variable. The independent variables NPL (Non-performing loan), CDR (Credit to deposit), LLP (Loan loss provision), CAR (Credit adequacy ratio) and BS (Bank size).*

Model	Intercept	Regression coefficients of					Adj. R_bar2	SEE	F-value
		NPL	CDR	LLP	CAR	BS			
1	17.267 (25.933)**	-0.393 (0.996)					0.00	5.241	0.991
2	27.536 (6.519)**		-0.128 (2.553)*				0.045	5.12296	6.519
3	13.003 (7.308)**			-0.303 (2.219)*			0.032	5.15638	4.924
4	27.711 (10.275)**				0.791 (4.100)**		0.118	4.922	16.812
5	15.849 (16.404)**					-6.780 (1.144)	0.003	5.23457	1.309
6	27.735 (10.248)**	-0.178 (0.473)			0.778 (3.976)**		0.112	4.93840	8.462
7	12.159 (6.274)**			-0.299 (2.185)*		-6.377 (1.093)	0.034	5.15211	3.063
8	36.516 (7.961)**		-0.112 (2.350)*		0.752 (3.956)**		0.151	4.82951	11.493
9	26.892 (6.349)**		-0.134 (2.674)**			-8.108 (1.398)	0.052	5.10217	4.264
10	12.923 (5.607)**	-0.024 (0.055)		-0.308 (1.967)*			0.024	5.17849	2.442

Notes:

i. *Figures in parenthesis are t-values.*
ii. *The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.*
iii. *Return on equity is the dependent variable*

The regression results show that the beta coefficients for non-performing loan are negative with return on equity. It indicates that non-performing loan has a negative impact on return on equity. This finding is consistent with the findings of Kadioglu *et al.* (2017). Similarly, the beta coefficients for credit to deposit ratio are negative with return on equity. It indicates that credit to deposits ratio has a negative impact on return on equity. This finding is consistent with the findings of Arimi (2012). Likewise, the beta coefficients for loan loss provision are negative with return on equity. It indicates that

loan loss provision has a negative impact on return on equity. This finding is consistent with the findings of Hauner (2005). In addition, the beta coefficient for capital adequacy ratio are positive with return on equity. It indicates that capital adequacy ratio has a positive impact on return on equity. This finding is consistent with the findings of Irawati and Maksum (2018). Further, the beta coefficient for bank size are negative with return on equity. It indicates that bank size has a negative impact on profitability. This finding is consistent with the findings of Emery (1971).

4. Summary and conclusion

An accounting information system (AIS) plays a crucial role in the profitability of commercial banks. It is responsible for collecting, processing, storing, and reporting financial information, which is vital for effective decision-making and performance evaluation within the organization. By providing accurate and timely information, AIS enables commercial banks to assess their financial position, identify areas of strength and weakness, and make informed strategic choices to enhance profitability. AIS assists commercial banks in managing risks and complying with regulatory requirements. It ensures that financial transactions are recorded accurately, financial statements are prepared in accordance with applicable accounting standards, and internal controls are in place to safeguard assets and prevent fraud. Effective risk management and regulatory compliance contribute to the long-term profitability and sustainability of commercial banks.

This study attempts to examine the relationship between accounting information system and profitability of Nepalese commercial banks. This study is based on secondary data of 15 commercial banks with 120 observation for the period of 2014/15 to 2021/22.

The major conclusion of this study is that non-performing loan has a negative impact on return on assets and return on equity. It indicates that increase in bank size leads to decrease in return on assets and return on equity. Similarly, credit to deposit ratio has a negative impact on return on assets and return on equity. It indicates that increase in credit to deposit ratio leads to decrease in return on assets and return on equity. Likewise, loan loss provision has a negative impact on return on assets and return on equity. It indicates that increase in loan loss provision leads to decrease in return on assets and return on equity. However, capital adequacy ratio has a positive impact on return on assets and return on equity. It indicates that increase in capital adequacy ratio

leads to increase in return on assets and return on equity. Further, bank size has a negative impact on return on assets and return on equity. It indicates that increase in bank size leads to decrease in return on assets and return on equity. Likewise, the study also concluded that bank size followed by credit to deposit ratio is the most influencing factor that explains the changes in the return on asset of Nepalese commercial banks. Similarly, the study also concluded that bank size followed by non-performing loan is the most influencing factor that explains the changes in return on equity in context of Nepalese commercial banks.

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