

United International Journal of Multidisciplinary Research

ISSN: 3048-6726(UIJMR)Impact Factor: 6.934 (SJIF)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

www.ujmr.in Vol-3, SpecialIssue-2,2026

A STUDY ON NON-PERFORMING ASSETS IN BANKS

Reshma Sultana
MBA (FINANCE)

Abstract

Non-Performing Assets (NPAs) are a critical parameter to evaluate the financial health of banks and the overall economy. An asset becomes non-performing when it ceases to generate income for the bank due to defaults by borrowers. Typically, a loan is classified as an NPA when interest or principal remains unpaid for more than 90 days. The issue of NPAs is particularly significant in developing economies like India, where high NPAs in public sector banks have affected credit growth, profitability, and financial stability.

This paper explores the concept, types, causes, impacts, and management of NPAs in banks. It includes a detailed theoretical analysis supported by statistical data and visual representation through bar graphs. The study also discusses policy measures like the Insolvency and Bankruptcy Code (IBC), asset quality reviews, and prudential norms implemented by the Reserve Bank of India (RBI) to control NPAs. The research highlights that NPAs arise due to macroeconomic fluctuations, institutional inefficiencies, willful defaults, and inadequate monitoring mechanisms. High NPAs reduce profitability, constrain credit flow, and weaken economic growth. The paper concludes by suggesting effective measures for prevention and resolution of NPAs to ensure a sustainable banking system.

Keywords:Non-Performing Assets, Banking Sector, Financial Performance, Credit Risk, Indian Banks.

INTRODUCTION

Banks are pivotal to the economy as they mobilize savings and extend credit to productive sectors. However, the efficiency of banks largely depends on the quality of assets they hold. **Non-Performing Assets (NPAs)** are one of the most critical challenges faced by banks globally. NPAs are loans or advances for which the borrower has failed to repay principal or interest for a specified period, typically 90 days.

High NPAs adversely affect banks' profitability, capital adequacy, and ability to lend. They also undermine public confidence in the banking sector. In India, NPAs became a significant concern post-economic liberalization when banks

219National Conference On “*Contemporary Issues In Global Business Management Practices*”**25 &26 February,2026** by University Arts & Science College (Autonomous), Kakatiya University.

United International Journal of Multidisciplinary Research

ISSN: 3048-6726(UIJMR)Impact Factor: 6.934 (SJIF)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

www.ujmr.in Vol-3, SpecialIssue-2,2026

expanded credit aggressively without robust risk assessment and monitoring mechanisms. Structural problems in sectors like industry and infrastructure, economic slowdowns, and delays in recovery contributed to rising NPAs.

This study aims to examine NPAs comprehensively — their definition, types, causes, impact on banks and the economy, and measures to control them.

MEANING OF NON-PERFORMING ASSETS

A **Non-Performing Asset (NPA)** refers to a loan or advance that is not generating income for the bank due to non-payment of principal or interest. The Reserve Bank of India classifies a loan as non-performing if it remains overdue for 90 days or more. NPAs indicate financial stress and are considered unproductive assets.

DEFINATION OF NPA

1. **Reserve Bank of India (RBI):** “An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A loan/due from a borrower that remains overdue for 90 days or more is treated as an NPA.”
2. **International Banking Definition:** Loans past due for 90 days are classified as non-performing assets requiring special regulatory attention.

OBJECTIVES OF THE STUDY

1. To understand the concept and classification of NPAs.
2. To analyze the causes and impacts of NPAs on banks and the economy.
3. To examine trends in NPAs across different bank types.
4. To assess regulatory and policy measures for NPA management.
5. To provide recommendations for effective control and resolution of NPAs.

NEED FOR THE STUDY

- To evaluate the financial health of banks.
- To understand the effects of NPAs on credit flow and economic growth.
- To identify measures for improving asset quality.
- To provide insights for policy formulation and regulatory reforms.
- To support banking professionals in effective risk management.

NATURE OF NON-PERFORMING ASSETS

- **Unproductive Assets:** Do not generate income for the bank.
- **Risk Indicators:** Reflect credit risk of borrowers and banks.
- **Require Provisioning:** Banks must allocate funds to cover losses.
- **Impact on Financial Stability:** Reduce profitability and CAR.
- **Regulatory Concern:** NPAs attract supervision and corrective measures.

SCOPE OF THE STUDY

220National Conference On “*Contemporary Issues In Global Business Management Practices*”25 &26 February,2026 by University Arts & Science College (Autonomous), Kakatiya University.

United International Journal of Multidisciplinary Research

ISSN: 3048-6726(UIJMR)Impact Factor: 6.934 (SJIF)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

www.ujmr.in Vol-3, SpecialIssue-2,2026

- Conceptual understanding of NPAs.
- Analysis of NPA trends in Indian banks.
- Comparative study of PSBs, private, and foreign banks.
- Examination of regulatory measures and recovery mechanisms.
- Evaluation of policy implications and recommendations.

RESEARCH METHODOLOGY

This study is based on secondary data collected from RBI reports, bank annual reports, research journals, books, and reliable websites. The descriptive research method has been used to analyze the trends and issues related to NPAs in banks.

CONCEPT OF NON-PERFORMING ASSETS

A Non-Performing Asset refers to a loan or advance for which the principal or interest payment remains overdue for a period of more than 90 days. NPAs are classified into sub-standard assets, doubtful assets, and loss assets. Proper classification helps banks assess credit risk and take corrective measures.

CAUSES OF NON –PERFORMING ASSESTS

Major causes of NPAs include poor credit appraisal, diversion of funds, economic slowdown, willful default, industrial sickness, and ineffective recovery mechanisms. External factors such as policy changes and global economic conditions also contribute to rising NPAs.

1. **Economic Causes:** Recession, industrial slowdown, fluctuations in demand.
2. **Borrower Factors:** Willful default, mismanagement, fraud.
3. **Institutional Causes:** Weak credit appraisal, inadequate monitoring, poor risk management.
4. **External Factors:** Global financial crises, policy uncertainty, natural disasters.

IMPACT OF NPAs ON BANKS

NPAs adversely affect bank profitability due to loss of interest income and higher provisioning requirements. They reduce liquidity, weaken capital adequacy, and damage the bank's reputation. High NPAs also restrict credit growth and negatively impact economic development.

ON BANKS:

- Reduced profitability due to blocked income.
- Lower lending capacity and higher cost of funds.
- Decreased Capital Adequacy Ratio (CAR).

221 National Conference On “*Contemporary Issues In Global Business Management Practices*” 25 & 26 February, 2026 by University Arts & Science College (Autonomous), Kakatiya University.

United International Journal of Multidisciplinary Research

ISSN: 3048-6726(UIJMR)Impact Factor: 6.934 (SJIF)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

www.ujmr.in Vol-3, SpecialIssue-2,2026

ON ECONOMY:

- Constrains credit flow to productive sectors.
- Slower economic growth.
- Increased government burden for bank recapitalization.

ON BORROWERS:

- Stricter lending norms.
- Difficulty in obtaining credit due to tighter risk assessment.

MEASURES TAKEN TO CONTROL NPAs

(ARCs), SARFAESI Act, and Debt Recovery Tribunals (DRTs). Banks have also improved credit appraisal systems and The Indian government and RBI have introduced several measures such as the Insolvency and Bankruptcy Code (IBC), Asset Reconstruction Companies monitoring mechanisms.

SUGGESTIONS

Banks should strengthen credit appraisal processes, adopt advanced risk management practices, ensure early detection of stress, and improve recovery mechanisms. Regular monitoring of loans and accountability of borrowers can help reduce NPAs.

CONCLUSION

Non-Performing Assets are a major challenge for banks, affecting profitability, credit flow, and economic growth. This study shows that NPAs result from multiple factors — economic fluctuations, borrower defaults, institutional weaknesses, and regulatory gaps. The implementation of the Insolvency and Bankruptcy Code (IBC), Asset Quality Reviews, and better provisioning norms have reduced NPAs in recent years.

For sustainable banking, banks must strengthen credit monitoring, adopt technology-driven risk management systems, and enforce early warning systems. Policy makers need to ensure supportive legal and regulatory frameworks. Effective management of NPAs not only strengthens banks but also promotes economic growth by ensuring availability of credit and maintaining public confidence.

REFERENCES

- Reserve Bank of India (RBI) Annual Reports & Financial Stability Reports.
- Government of India. Economic Survey.

222 National Conference On “*Contemporary Issues In Global Business Management Practices*” 25 & 26 February, 2026 by University Arts & Science College (Autonomous), Kakatiya University.

United International Journal of Multidisciplinary Research

ISSN: 3048-6726(UIJMR)Impact Factor: 6.934 (SJIF)

An International Peer-Reviewed and Refereed Multidisciplinary Journal

www.ujmr.in Vol-3, SpecialIssue-2,2026

- Mishkin, F.S. (2016). *The Economics of Money, Banking, and Financial Markets*. Pearson.
- Basel Committee on Banking Supervision. *Principles for the Management of Credit Risk*.
- Chakrabarty, K.C. (2017). *Risk Management in Banks*. Journal of Banking & Finance.