

# **CREDIT MANAGEMENT PRACTICES AND PROFITABILITY OF NEPALESE COMMERCIAL BANK**

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

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## **CERTIFICATION OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Credit Management Practices and Profitability of Nepalese Commercial Bank**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degree nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declared that all information sources and literature used are cited in the reference section of the dissertation.

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December 2023

## REPORT OF RESEARCH COMMITTEE

Ms. Lalita Thapa has defended research proposal entitled “**Credit Management Practices and Profitability of Nepalese Commercial Bank**”, successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Asso. Prof. Dr. Kapil Khanal and submit the thesis for evaluation and viva voce examination.

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Any remaining errors are mine.

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## **ABBREVIATIONS**

ADBL	:	Agriculture Bank Limited
ANOVA	:	Analysis of Variance
CA	:	Credit Appraisal
CP	:	Collection Policy
CRC	:	Credit Risk Control
KBL	:	Kumari Bank Limited
LP	:	Lending Policy
MBS	:	Master in Business Studies
NABIL	:	Nabil Bank Limited
NRB	:	Nepal Rastra Bank
P	:	Profitability
SD	:	Standard Deviation
SPSS	:	Statistical Package for the Social Sciences

## **ABSTRACT**

The objectives of research are to explore the factor of credit management practice to affect the profitability of commercial bank in Nepal, to examine the relationship between Credit Appraisal, Credit Risk Control, Collection Policy, lending policy to the Profitability of commercial bank in Nepal and to examine the impact of Credit Appraisal, Credit Risk Control, Collection Policy, lending policy to the Profitability of commercial bank in Nepal. Descriptive and casual comparative research design has been employed. The research is conducted based on the primary data collected from the respondent of the research. The convenience sampling tools is used for selection of the respondent. The research has questionnaire for data collection. Data are collected and analysis made through descriptive statistics, correlation and regression analysis. SPSS and excel are the tools for analysis of the research. The finding of the research is that the credit management is found through article and journal reviews and they are credit management practice are Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy. The relationship between the independent variables Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy with dependent variables profitability is perfectly positive and significant. The impact of each independent variables Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy to the dependent variables profitability is significant.

**Keywords:** *Credit Appraisal, Credit Risk Control, Collection Policy, lending policy and Profitability*

# CHAPTER –I

## INTRODUCTION

### 1.1 Background of the study

Nepal Bank Limited (NBL), being the first commercial bank in Nepal, plays a crucial role in the economic development of the country. Commercial banks, including NBL, are pivotal financial institutions that manage deposits from individuals, government entities, and businesses. They facilitate economic activities by providing funds through lending and investment. Additionally, commercial banks contribute significantly to the flow of goods and services, handle financial transactions for the government, and serve as a key medium through which monetary policy is implemented.

Loans, whether short-term, medium-term, or long-term, are a vital service provided by deposit money banks like NBL. These loans are extended to individuals, businesses, and even the government to support various investment and development projects, fostering growth at both the individual and national levels. For instance, agricultural loans contribute to increased productivity in the agricultural sector, enabling farmers to invest in their operations and boost agricultural output. Similarly, loans to diverse individuals and corporate entities help enhance income and profits, allowing them to strategically utilize funds as needed.

Efficient financial decision-making, particularly in loan management, is crucial for the success of banking transactions, ensuring the bank's effectiveness and profitability. The development and implementation of well-defined credit management policies are essential. These policies delineate terms and conditions for extending credit, establish customer qualification requirements, outline collection processes, and prescribe actions to be taken in the event of client insolvency.

According to Pandey (2004), credit is viewed as a marketing tool to increase sales, and its careful regulation is necessary to prevent liquidity issues that could hinder business expansion. Effective credit management is especially vital in controlling credit-based sales to customers.

The banking industry, even with the evolution of financial systems globally, maintains its fundamental role in lending. Lending remains a crucial function, with various types of lending, including fund-based (such as cash credit, overdrafts, demand and term credits, bills purchased and discounted, export packing credits, project loans) and non-fund-based (like documentary credit and guarantees).

In Nepal, the credit management practices of commercial banks, encompassing Credit Appraisal, Credit Risk Control, Collection Policy, and Lending Policy, significantly impact the profitability of these banks. This study aims to shed light on how credit management influences the financial success of commercial banks in Nepal.

## **1.2 Problem Statement**

The commercial banking industry has faced significant challenges primarily due to inadequate credit management practices. It is imperative for banks to recognize, assess, monitor, and control credit risks while ensuring they possess adequate capital to mitigate these risks. Proper compensation mechanisms need to be in place to address these risks adequately. Consequently, establishing robust creditworthiness becomes a pressing concern in the commercial banking sector.

The profitability and success of businesses, as well as their ability to fulfill the needs of clients and the broader community, hinge on maintaining a high level of creditworthiness. Enhancing the bank's standing in terms of creditability is crucial for improving its overall profitability. Given that creditworthiness serves as the primary source, elevating this position remains a key strategy for any commercial bank. Credit, being the core of commercial banking, is considered the most influential and critical sector.

In the context of the banking industry in Nepal, credit management is perceived as the heart of the commercial banking sector. However, this perspective is not universally acknowledged within the banking industry. Consequently, there is a notable gap in scientific and empirical studies that could identify credit management issues specific to Nepali commercial banks.

Therefore, there is a compelling need to investigate the concept of credit management within Nepal's commercial banking industry. The absence of comprehensive studies highlighting credit management challenges in Nepalese commercial banks underscores the importance of evaluating their credit performance. The current situation prompts the

formulation of study questions focusing on credit practices, credit efficiency, liquidity position, industrial environment, management quality, and organizational climate. Hence, the following research questions addressing credit management in the commercial banking sector of Nepal have been identified:

1. What is the factor of credit management practice to affect the profitability of commercial bank in Nepal?
2. What is the relationship between Credit Appraisal, Credit Risk Control, Collection Policy, and lending policy to the Profitability of commercial bank in Nepal?
3. What is the impact of Credit Appraisal, Credit Risk Control, Collection Policy, and lending policy to the Profitability of commercial bank in Nepal?

### **1.3 Objectives of the Study**

There is no doubt that the role of the commercial banks is significant in the development of the country. Banks help in the development of the country by providing credit to the necessary sectors. The breakdown of the objectives of the study is as follows:

1. To explore the factor of credit management practice to affect the profitability of commercial bank in Nepal.
2. To examine the relationship between Credit Appraisal, Credit Risk Control, Collection Policy, lending policy to the Profitability of commercial bank in Nepal.
3. To examine the impact of impact of Credit Appraisal, Credit Risk Control, Collection Policy, lending policy to the Profitability of commercial bank in Nepal.

### **1.4 Hypotheses of the Study**

The link between the independent and dependent variables is described in this section. Whether there is a significant relationship between two variables. After evaluating the hypothesis, either a positive significant relationship exists, or a negative one. Related hypotheses are described in null form in this case.

H0 1: There is a relationship Credit Appraisal, Credit Risk Control, Collection Policy, lending policy to the Profitability of commercial bank in Nepal.

H0 2: There is a significant impact of Credit Appraisal, Credit Risk Control, Collection Policy, lending policy to the Profitability of commercial bank in Nepal.

### **1.5 Rationale of the Study**

Effective credit management is instrumental in reducing customer default rates, providing a foundation for banks to excel in generating loans, and ultimately bolstering their profitability. This study aims to be a valuable resource for bank management seeking to enhance the bank's financial performance by addressing credit risk, a key factor in banking failures. The tight control of credit has far-reaching implications, influencing the development, sustainability, and overall well-being of deposit money banks and the broader economy. The primary objective of this study is to examine how credit management practices impact the financial success of commercial banks in Nepal. The findings of this research will offer transparency to customers and investors regarding the efficient management and utilization of their deposits, serving as an enlightening resource. Moreover, the study will contribute to the knowledge base of individuals, management professionals, and practitioners within both the banking and non-bank financial sectors. The academic community will also benefit from the results obtained in this research.

### **1.6 Limitations of the Study**

The research is following limitations;

- Primary source of data is taken for the research propose and 400 respondent are the questionnaire summation from three sample bank.
- Only four independent variables are taken for study and relation is with one dependent variables.
- Excel and SPSS 22 version is the tools for data presentation, different statistical calculation and analysis.

## **CHAPTER-II**

### **LITERATURE REVIEW**

The primary focus of this chapter involved conducting extensive research. The researcher possesses comprehensive knowledge of the subject from multiple angles and perspectives. The approach encompasses various components related to the subject. Furthermore, the researcher has a theoretical understanding of the variables and a strong conceptual foundation. Performing subsequent tasks accurately and smoothly is contingent upon a thorough comprehension of every concept associated with the issue. A literature review serves as a crucial assessment of a segment of published knowledge, involving the summarization, categorization, and comparison of previous works. Additionally, it entails a review of pertinent literature and theoretical studies, comprising three distinct parts.

#### **2.1 Theoretical Review**

##### **Profitability**

The foundation for product innovation, diversification, and efficiency in commercial banks lies in their profitability (Helpell, 2002). The overall stability of the economy's commercial banks hinges on their level of profitability, as a higher profitability level tends to absorb the risks and shocks that these banks may encounter. Furthermore, profitability is a prerequisite for the efficiency of commercial banks. Empirical evidence from Detriguache (1999) demonstrates that the performance soundness of commercial banks is contingent upon their profitability. Contrary to this, Mills (2006) suggests that market reforms in sub-Saharan Africa have negatively impacted the profitability of commercial banks, primarily due to a high level of non-performing loans. This contradicts an earlier study by Chijoriga (1997), which emphasized the essential role of market liberalization in achieving high levels of profitability for commercial banks. The Bank of Tanzania (2010) reports that commercial banks' profitability has significantly improved, with most of them surpassing regulatory requirements. The notable profitability achieved by these commercial banks indicates a substantial contribution from internal factors, as highlighted by Xuezhi and Qin (2012).

### **Credit Appraisal**

Credit appraisal is the thorough examination conducted by a bank before granting loans, advances, or project finance. It involves evaluating the commercial, financial, and technical viability of the proposed project, its funding structure, and assessing the availability of primary and collateral security for fund recovery. This process aims to identify and understand the risks associated with extending credit facilities. Financial institutions engaged in providing funding to customers typically carry out credit appraisal. The lender, in this context, assesses the creditworthiness of the potential borrower by scrutinizing their payment history and evaluating the sustainability and quality of their income. The lender also ensures the borrower's good intentions, often through a personal interview (source: <https://www.toppers4u.com>).

### **Credit Risk Control**

Credit serves as one of the various tools that a firm can employ to influence the demand for its products. According to Kaaya, the advantages of credit for firms materialize only when the increased profitability resulting from enhanced sales surpasses the additional costs associated with receivables. In a broader context, credit is characterized as a process allowing the possession of goods or services without an immediate payment, contingent upon a contractual agreement for deferred payment (Catherine, 2019). It is crucial to promptly identify potential credit defaults, as high default rates can lead to reduced cash flows, diminished liquidity levels, and financial distress. Conversely, a lower credit exposure implies an optimal level of debtors, reducing the likelihood of bad debts and thereby contributing to financial health. In today's challenging business environment, risk management and the enhancement of cash flows are particularly demanding (Catherine, 2019). According to Markowitz, credit risk refers to the likelihood that a borrower will default on any type of debt by failing to meet obligatory payments. This risk primarily concerns lenders and encompasses potential losses in principal and interest, disruptions to cash flows, and increased collection costs. Losses may be either complete or partial, arising under various circumstances. For banks, effective credit risk management is crucial, providing insights into the extent of exposure with counterparties versus the counterparty exposure against contracts. Assessing counterparty risk and implementing mitigation strategies are important components of credit risk management.

**Collection Policy**

The bank's approach to debt collection centers on treating customers with dignity and respect, avoiding coercive policies for collecting dues. The policy emphasizes courtesy and adherence to principles of fair treatment. The bank is committed to practicing fairness in the collection of dues and repossession of security, aiming to build customer confidence and foster long-term relationships. Both the bank and its representatives are expected to consistently adhere to the Code of Conduct during interactions with customers. For any loan sanctioned by the bank, the repayment schedule will be determined based on the borrower's paying capacity and cash flow pattern. The bank is transparent with customers, explaining the method of interest calculation and how Equated Monthly Installment (EMI) or any other repayment mode will be allocated against interest and principal amounts due. The collection method for EMI, such as post-dated checks, direct debit, ECS, ACH, etc., will be established with consideration for the borrower's convenience. The bank anticipates customers to adhere to the agreed-upon repayment schedule and encourages them to seek assistance and guidance from the bank in case of genuine difficulties in meeting repayment obligations (Mamari, Ghassani, and Ahmed, 2022).

**Lending Policy**

In the effort to mitigate credit risk, a lending institution should seek opposite indications for the parameter of a specific explanatory variable in two distinct equations. This implies that variables contributing to a higher probability of positive granting decisions should concurrently decrease the likelihood of default, or vice versa. However, the study reveals that certain variables, such as the duration of job tenure, education level, and credit card ownership, exhibit consistent signs, indicating a policy that conflicts with the minimization of default risk. As mentioned earlier, lenders may still prefer such a policy, providing loans with a higher default risk, as it may yield a higher expected rate of return (Jacobson & Roszbach, 2003).

## **2.2 Review of Literature**

### **2.2.1 Article Reviews in International Content**

Natufe and Evbayiro-Osagie (2023) investigated the relationship between credit risk management and the return on equity (ROE) of Nigerian deposit money banks. The study utilized a dataset comprising independent variables such as capital adequacy ratio (CAR), liquidity ratio (LQR), loan-to-deposit ratio (LDR), risk asset ratio (RAR), non-performing loans ratio (NPLR), loan loss provision ratio (LLP), and size (SZ), with the dependent variable being ROE. Through panel data regression analysis, the researchers identified CAR, RAR, NPLR, and SZ as significant determinants of ROE.

Abdulnafea, Almasria, and Alawaqleh (2022) explored the impact of Working Capital Management (WCM) and Credit Management Policy (CMP) on the Financial Performance (FP) of Jordanian banks. Using panel data and analyzing 64 financial reports from Jordanian banks, the study found a statistically significant relationship between WCM and FP. Additionally, the study confirmed a significant relationship between CMP and FP.

Mamari, Ghassani, and Ahmed (2022) conducted a quantitative study to examine the relationship between risk management practices and a bank's financial performance. Using data collected from the annual reports of eight banks listed on the Muscat Stock Exchange, the researchers employed Structural Equation Modeling (SEM) with Partial Least Square (PLS) Software. The findings indicated a positive and significant relationship between risk management and the return on assets (ROA). However, there was no significant relation found between risk management and return on equity (ROE).

Obae and Jagongo (2022) investigated the impact of credit rationing and client appraisal on the loan performance of commercial banks in Kenya. Employing a descriptive survey design with data collected from 38 commercial banks, the study found that credit rationing and client appraisal significantly contributed to the prediction of loan performance, emphasizing the importance of efficient credit management practices.

Emmanuel, Olaoye, and Afolabi (2021) explored the effect of credit risk on bank performance in Nigeria. Using three randomly selected banks, the study employed return on assets (ROA) as the dependent variable and considered factors such as capital adequacy ratio, non-performing loans ratio, total loans to total assets, total deposit, and

interest rate as independent variables. The study revealed a negative impact of credit risk on bank performance in the short run and established a long-run relationship between credit risk and bank performance.

Kulchittivej, Pornpundejwittaya, and Silpcharu (2020) investigated credit management guidelines to strengthen the Thai industrial sector. Utilizing qualitative and quantitative data from 500 questionnaires distributed to industrial business executives in Thailand, the study identified four key factors in credit management guidelines and emphasized the importance of characteristics management and financial management in influencing operations and assets management.

Zimon and Dankiewicz (2020) presented a study on trade credit management strategy in Polish group purchasing organizations during the COVID-19 pandemic. Focusing on the construction sector, the study highlighted mechanisms employed by SMEs in purchasing groups to adapt their trade credit management strategies during the pandemic, including purchasing goods with a large reserve and closely monitoring receivables.

Jahan and Rahman (2020) aimed to understand credit risk management and its impact on a bank's performance, specifically return on equity (ROE). The study compared non-performing loans (NPL) with total loan outstanding and conducted a survey on 12 banks in Bangladesh. Statistical tools such as mean, standard deviation, regression analysis, and one-way ANOVA were employed. The findings showed a significant relationship between credit risk management and bank profitability.

Olabamiji and Michael (2018) examined the influence of credit management practices on the financial performance of Nigerian banks, with a specific focus on First Bank Plc. Using purposive sampling and both descriptive and inferential statistics, the study found that credit management practices significantly positively influenced the financial performance of First Bank, with client appraisal, credit risk control, and collection policy identified as major predictors.

Asant (2018) investigated the credit risk management of microfinance institutions in Ghana. The study surveyed microfinance institutions in the Ashanti region, revealing exposure to credit risk from corporate, individual, and SMEs commercial loans. The study recommended regular capacity-building for the credit administration department to enhance credit risk management.

Jonathan and Michael (2018) analyzed the relationship between credit risk management and bank performance in Nigeria, focusing on Fidelity Bank Nigeria PLC. Using descriptive survey research and data from annual reports, the study concluded that there was no significant relationship between credit risk management and bank performance, although weak negative relationships were observed.

Nwanna and Oguezie (2017) examined the nexus between credit management and profitability (ROA) of Deposit Money Banks (DMBs) in Nigeria from 2006 to 2015. Using multiple regression, the study found that loans and advances and loan loss provision had positive and insignificant effects on profitability, while non-performing loans had a negative and insignificant effect. The study concluded that sound credit management heightens profitability in DMBs.

Alemarga, Tekalign, and Abera (2014) studied credit management in Dashen Bank S.C., presenting elements such as loan processing, loan granting, loan disbursement, and loan recoveries. The study used both primary and secondary sources, employing qualitative and descriptive methods. The findings highlighted the importance of credit management policies and practices.

Orag, Nkamare, and Effiong (2014) determined how commercial bank credit can influence the manufacturing sector in Nigeria. Using secondary data from the Central Bank statistical bulletin, the study found that commercial bank credit had a significant positive relationship with the manufacturing sector.

Nazari and Alidadi (2013) explored the classification criteria for good and bad customers in Iranian banks using artificial neural network techniques. The study identified individual loan frequency and amount of loan as the most important determinants for rating customers in Iran's banking sector.

Charles and Kenneth (2013) investigated the impact of credit risk management and capital adequacy on banks' financial performance in Nigeria. Using panel data models, the study found that sound credit risk management and capital adequacy positively impacted bank financial performance, with the exception of loans and advances, which had a negative impact.

These studies collectively contribute to the understanding of credit management practices, their impact on financial performance, and the broader dynamics of credit risk in various banking and financial contexts.

Table 1

*Article reviews in international content*

S. N	Date of publication	Article	Writers	Objectives	Methodology	Findings
1	2023	Credit Risk Management and the Financial Performance of Deposit Money Banks: Some New Evidence.	Natufe and Evbayiro-Osagie	To examine credit risk management and return on equity of Nigerian deposit money banks.	Using a panel data regression analysis, data analysis made.	They found that CAR, RAR, NPLR, and SZ are the significant determinants of ROE.
2	2022	The effect of working capital management and credit management policy on Jordanian banks' financial performance.	Abdulnafea, Almasria and Alawaqleh	To investigate the impact of Working Capital Management (WCM) and Credit Management Policy (CMP) on the Financial Performance (FP) of Jordanian banks (JB).	The study used panel data and to test hypotheses, multiple regression was used.	The research identified a statistically significant correlation between Working Capital Management (WCM) and Financial Performance (FP). The independent variable demonstrated the ability to account for a certain proportion of the variations observed in the dependent variable.
3	2022	Risk Management	Mamari, Ghassani and	To teste the relationship	This is a quantitativ	The results indicated a

		nt Practices and Financial Performance: The Case of Sultanate of Oman.	Ahmed		between risk management practices and a bank's financial performance.	e study, where the quantitative data was collected via secondary data.	significant correlation between risk management and the return on assets (ROA). This suggests that management plays a crucial role in influencing the performance of banks, as measured by ROA.
4	2022	Credit management practices and loan performance of commercial banks in Kenya.	Obae Jagongo	and	To examine the objectives of the effect of credit rationing and client appraisal, on the loan performance of commercial banks in Kenya.	The appropriate research design was descriptive survey and Questionnaire instrument assisted in collecting primary data.	The results from the regression analysis revealed a positive correlation between the model predictions and loan performance. The predictors, including credit rationing and client appraisal, demonstrated significant associations.
5	2021	Impact of credit risk on bank Performance in Nigeria.	Emmanuel, Olaoye and Afolabi		The study considered the effect of credit risk on bank performance in Nigeria.	Use of the classical Ordinary Least Square and panel co integration Techniques .	Credit risk exerts a negative influence on short-term bank performance, and although

6	2020	Credit Management Guidelines to Strengthen Thai Industrial Sector.	Kulchittivej, Pornpundejwittaya and Silpcharu	This research investigates the credit management guidelines to strengthen Thai industrial sector.	The data were analyzed by descriptive analysis categorized into SME and large enterprises, and SEM to conduct the model in consistent with the empirical data.	this risk is also associated with long-term bank performance, the impact persists over an extended period. The results indicate that managerial characteristics play a crucial role as the initial component in SEM, and among the variables, financial management has the highest impact on assets management based on standard regression.
7	2020	Trade Credit Management Strategies in SMEs and the COVID-19 Pandemic —A Case of Poland	Zimon and Dankiewicz	To present the trade credit management strategy in Polish group purchasing organizations During the COVID-19 pandemic.	The study uses data on the construction sector because it is one of the most important segments of the Polish economy, which is financed to a large extent with trade	The paper outlines the mechanisms applied by SMEs within purchasing groups, enabling them to modify trade credit management strategies, ensuring these units can operate in the market securely and

					credit.	confidently. The analysis reveals that businesses shifted their trade credit management strategies from moderately conservative to highly conservative
8	2019	An Evaluation of The Credit Management policy of National Bank Limited (NBL): A study on Gulshan Branch, Dhaka.	Nurul Mohammad Zayed	To get an idea about the process of credit management practices of NBL. To examine the credit recovery performance of NBL. To present the major findings of NBL. To prescribe some suggestions to overcome the problems	The report is fully exploratory in nature. Data has been gathered from secondary sources. Due to increased cost of fund, the bank has to charge high interest rate on loan.	There is a lack of proper advertisement for different loan scheme of the bank. It makes the customer ignorant about the bank's credit service. The National Bank has no well effective Recovery unit.
9	2018	Credit Management Practices and Bank Performance: Evidence from First Bank.	Olabamiji and Michael	The study examined the influence of credit management practices on financial performance of Nigerian banks with specific	Both descriptive and inferential statistics were used to analyze data, such as Frequency, percentage, weighted mean	The result revealed that credit management practices have a significant positive influence on the financial performance of First bank.

10	2018	Credit Management in Microfinance Institutions: A Case Study of Some Selected Microfinance Institutions in the Ashanti Region of Ghana.	Asant		reference to First bank Plc. To investigate the credit risk management of microfinance institutions in Ghana.	score, and multiple regression. Used questionnaires as its main data collection instrument.	Key credit risk sources the surveyed microfinance institutions were exposed to in their operations were
11	2018	An Analysis of the Relationship between Credit Risk Management and Bank Performance in Nigeria: A Case Study of Fidelity Bank Nigeria PLC	Jonathan and Michael		To analyses the relationship between credits risk management and bank performance in Nigeria.	Descriptive survey research was used and data were collected via Annual reports of the sampled bank within the period of 2010-2016. Pearson Coefficient of Correlation was the statistical tool used to analyze the hypotheses	The researcher concluded that there is no significant relationship between credit risk management and bank performance in Nigeria.
12	2017	Effect of Credit Management on Profitabilit	Nwanna and Oguezue		The study examined the nexus between credit	The study employed multiple regression technique	The study found that loans and advances and loan loss

			<p>y of Deposit Money Banks in Nigeria.</p>	<p>managem nt and profitability of Deposit Money Banks in Nigeria context</p>	<p>in analyzing the data that gathered, the analysis was done using ordinary least square with Econometr ic tool.</p>	<p>provision have positive and insignificant effect on profitability, while non- performing loan has a negative and insignificant effect on profitability.</p>
13	2016	Effectivene ss of Credit Risk Manageme nt and Its Impact on Financial Performanc e of Banks in Bangladesh : An Empirical Investigatio n	Nusrat Jahan Benazir Rahman	<p>The research objective is formulated in order to obtain a better understandi ng of credit risk manageme nt and its impact on bank's performanc e (return on equity).</p>	<p>Different statistical tools have been used such as mean, standard deviation, regression analysis, one way ANOVA etc.</p>	<p>The overall study shows that the relationship between NPL and Profitability is highly significant for private commercial banks, whereas the association between these two factors lacks significance for state- owned commercial banks. The analysis indicates that credit risk management has no significant impact on state-owned banks, while private commercial banks effectively handle or</p>

- |    |      |   |                              |  |  |   |
|----|------|---|------------------------------|--|--|---|
| 14 | 2014 | Commercial Bank Credit and Its Contributions on Manufacturing Sector In Nigeria | Orag, Nkamare and Effiong    | The objective of the study was to investigate the impact of commercial bank loans on manufacturing sector and to establish the relationship between interest rate and manufacturing sector performance.  | An ex-post-facto research design will be employed, A multiple regression analysis would be used to measure the relationship between these variables.             | manage credit risk. commercial bank credit had a significant relationship on Manufacturing sector.  |
| 15 | 2014 | Assessment of credit management policy and practice-the case of dashen bank s.c | Alemarga, Tekalign and Abera | To examine the effort that the credit department of the bank extends to assure the repayment of loans. To assess the procedures that the bank has used to reduce the amount of nonperforming loans in the past. To explore the essence of credit follow up | The student researchers have been conducted using descriptive research method. Both primary and secondary sources have been used throughout this research paper. | The primary reason for non-performing loans at the borrower level is the diversion of borrowed funds for other purposes. At the bank level, the major factor contributing to non-performing loans is the absence of consistent follow-up. On an economic scale, the |

				and reviewing the follow up systems and timely settlement of loans.		primary cause of non-performing loans is attributed to weak economic planning and strategy implementation.
16	2013	Measuring Credit Risk of Bank Customers Using Artificial Neural Network	Nazari Alidadi	and the relationship between development of financial markets and economic Growth has been proved.	This study can Classified in applied studies group and the research strategy is descriptive. Calculations have been done by using SPSS and MATLAB software.	Discovered that the frequency and amount of individual loans had the most significant impact, while the status of the customer's bank account, history of the customer's relationship with the bank, and received services had the least significant effect in determining the classification criteria for distinguishing between good and bad customers.

### 2.2.2 Review of Previous Thesis

Aryal (2022) conducted an assessment of credit investment and recovery in Financial Public Enterprises in Nepal under ADB/N. The research aimed to address the issue of people facing challenges in repaying credit due to high interest rates from non-

institutional sources, leading to potential landlessness. While ADB/N supports various sectors, including agriculture, industries, tea, coffee, and livestock farming, the credit collection efficiency was reported to be suboptimal. The study found an increasing but decelerating trend in actual credit disbursement, collection, and outstanding amounts. The positive relationship between credit disbursement and collection was high (0.996). Recommendations included increasing awareness among borrowers about credit policies, improving credit collection, addressing outstanding amounts, and ensuring strict supervision of personnel involved in credit decisions.

Gautam (2021) analyzed the finance companies in Nepal with a focus on the interest rate structure and credit repayment. The study observed a decline in the use of funds for hire purchase credit. Analyzing credit quality involved examining credit loss provisions, which showed a significant and increasing trend annually. The study recommended controlling credit loss and suggested that companies with above-average credit loss provisions reassess their investment and repayment policies.

Chand (2020) explored credit disbursement and repayment at the Agriculture Development Bank Nepal. The study highlighted challenges such as the bank not adequately benefiting small farmers and slow credit collection impeding economic growth. The research found a systematic relationship (correlation coefficient of 0.94) between credit disbursement and repayment, with satisfactory repayment in certain sectors. Recommendations included ADB/N playing a significant role in meeting rural credit demands and channeling credit through borrower groups for effective recovery.

Joshi (2018) aimed to understand the fund mobilization and investment policies of EBL, Nabil, and BOK. The study revealed differences in liquidity positions, total investments, and interest earned on outside assets among the banks. EBL was found to have better liquidity but lower interest earned compared to Nabil and BOK. Capital risk ratios and credit risk ratios were also compared, indicating higher capital risk and average credit risk for EBL.

Panta (2019) investigated commercial banks' deposits and utilization, emphasizing the need for a fair and sector-wise policy. The study noted a consistent percentage of total credit supplied by commercial banks over five years but a significant increase in deposit collection. The increasing gap between collection and utilization highlighted the

economic requirement, suggesting the need for planned policies. The research aimed to contribute to the economic upliftment of the country by providing insights into credit management.

In her research on Nepal Bangladesh Bank Limited, Panta (2019) aimed to develop expertise and contribute new ideas to credit management. The study emphasized the continuity in research and the importance of linking the present study with past research to provide a foundation. The research focused on analyzing different procedures of credit management specific to NB Bank, examining liquidity levels, and evaluating resource utilization effectiveness. The study utilized various financial and statistical tools, including trend analysis of investment and profit.

These studies collectively contribute to the understanding of credit management, its challenges, and the implications for financial institutions in different sectors and regions.

### **2.3 Reviews Gaps**

Many researchers have concentrated on studying credit management and profitability in specific countries, yielding varied results. However, a noticeable gap exists in the literature concerning a comprehensive investigation in the context of Nepal, encompassing all deposit money banks operating in the country. Recognizing this geographical void, our research endeavors to fill this gap by focusing specifically on Nepal. Additionally, we observed a temporal gap in the existing body of research, with most studies extending only up to the year 2022. Given that our study period spans up to 2022, coinciding with a period marked by global economic recession and consequential challenges in credit management for banks, we strive to bridge this temporal gap through our research efforts.

The data utilized in our research are primarily sourced, emphasizing firsthand information for a more accurate and contextually relevant exploration. Previous researchers have predominantly relied on primary data, incorporating various credit management variables. In alignment with this approach, our research employs primary data and introduces four independent variables along with one dependent variable into the study. It is worth noting that future research endeavors may consider a combination of both primary and secondary data sources, providing a more comprehensive perspective on credit management practices in the banking sector.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

The research methodology serves as the systematic and planned approach to addressing a problem, involving the collection, analysis, and interpretation of facts and figures. It encompasses the design, structure, and strategy of investigations aimed at answering research questions or testing hypotheses. Within the scope of this study, the chapter on research methodology is composed of key components, including research design, data sources, population and sample considerations, as well as methods and tools employed for data analysis. The primary elements of the research methodology in the course of this study are outlined below:

#### **3.1 Research Design**

This study employs both descriptive and explanatory research designs to investigate a diverse array of variables and factors influencing the credit management decisions of banks. By presenting comparative data from various banks, the report aims to provide informative insights to the reader. The analysis of financial information involves the utilization of financial and statistical tools to interpret the data. The descriptive aspect of the research is evident in the attempt to comprehensively describe elements such as Credit Appraisal, Credit Risk, Collection Policy, Lending Policy, and Profitability. Through this combined approach, the study seeks to offer a thorough understanding of the multifaceted aspects of credit management in the banking sector.

#### **3.2 Nature and Source of Data**

In this section, the researcher elucidates the characteristics and origins of the data. Two primary natures of data are distinguished: primary data and secondary data. Various research tasks have access to different sources, which can be broadly categorized into broadcast and non-broadcast sources. Examples of broadcast sources encompass articles by researchers, annual reports, newspapers, tax reports, government policies, and books. Non-broadcast sources include internal organizational materials like decision-making records, meeting minutes, and vouchers. For the current research, data collection relies on questionnaires, constituting a primary source of data.

### 3.3 Population and Sample

There are total 20 commercial banks working all over the country at present because of the merger (<https://en.wikipedia.org/>), which are taken as a population of this study work. Among them, this study uses only three commercial banks namely; Nabil Bank Limited, Agriculture Development Bank and Kumari Bank Limited which have been selected as a sample for this research study.

Table 2

*Population and Sample*

Populations	20 banks as per <a href="https://en.wikipedia.org/">https://en.wikipedia.org/</a> and all the employee working of their respective bank.
Sample	Three banks with 413 observation
Name of the bank	NABIL,ADBL and KBL
Variables	Credit Appraisal, Credit Risk, Collection Policy, lending policy and Profitability

### 3.4 Instrument of Data Collection

The term "instrument" pertains to the tools employed for data collection. Various instruments are utilized for gathering primary data, including questionnaires, laboratory experiments, quasi-experiments, observations, interviews, and scales. Secondary data, on the other hand, are sourced from the websites of the relevant banks. The collection of data from annual reports published by the banks is a key method. Additionally, economic reports from the Nepal Rastra Bank (NRB) such as Banking and Financial Statistics, along with other published statistical data, have been utilized. To supplement this information, informal discussions and procedures have been employed to obtain additional insights.

### 3.5 Methods of Analysis

To attain the study's objectives, diverse statistical tools have been employed, including descriptive statistics, correlation analysis, and multiple regression analysis. The examination of data aligns with the patterns inherent in the available dataset.

### 3.5.1 Reliability Analysis

The assessment of reliability employs the Cronbach's alpha measurement technique, which evaluates the reliability of surveys employing multiple-question Likert scales. A rule of thumb for interpreting alpha in the context of Likert scale questions is:

Table 3

*Cronbach's Alpha table*

Cronbach's Alpha	Internal Consistency
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$\alpha < 0.5$	Unacceptable

Source: *Adhikari & Pandey (2022)*

### 3.5.2 Statistical Analysis

#### Mean ( $\bar{X}$ )

The mean is the average or the most common value in a collection of numbers. In statistics, it is a measure of central tendency of a probability distribution along median and mode. It is also referred to as an expected value.

#### Standard Deviation ( $\sigma$ ):

Standard deviation is a measure of the amount of variation or dispersion of a set of values. The standard deviation is calculated as the square root of variance by determining each data point's deviation relative to the mean. It is denoted by ( $\sigma$ ).

$$\text{Standard Deviation } (\sigma): \text{S.D} = \sqrt{\frac{\sum(X - \bar{X})^2}{N}}$$

Where,

X=variables

$\bar{X}$  = mean

N= No. of Period

**Coefficient of Correlation (r):**

It is the simplest of ascertaining the correlation between two variables. It is not influenced by the size of the extreme items. Karl Pearson coefficient of correlation is usually denoted by 'r'.

$$\text{Correlation Coefficient (r)} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{[n \sum x^2 - (\sum X)^2] [n \sum Y^2 - (\sum Y)^2]}}$$

Where,

N = number of of X and Y

$\sum XY$  = Sum of the series X and Y

$\sum X$  = Sum of the series X

$\sum Y$  = Sum of the series Y

$\sum X^2$  = Sum of the square of the series X

$\sum Y^2$  = Sum of the square of the series Y

It is a statistical tool utilized to ascertain the direction and strength of the relationship between two sets of variables. This tool illustrates how two variables co-vary and indicates the degree of association between them. The Pearson correlation coefficient is employed to elucidate the relationship. The correlation coefficient value ranges from -1 to +1. A correlation coefficient of exactly -1 signifies a perfect negative correlation, indicating that the two variables move precisely in opposite directions. Conversely, a correlation coefficient of +1 denotes a perfect positive correlation, indicating a direct relationship between the variables.

**Multiple Regression Analysis**

Multiple regression analysis could be described as a statistical technique which is used to analyze the relationship between a single dependent (criterion) variable and several independent (predictor) variables. The objective of multiple regression analysis is to predict the changes in the dependent variable in response to changes in the independent variables. It can be interpreted as how good a predictor your multiple regressions are likely to be. Also a multiple determination can be interpreted as the percentage of variation in the dependent variables that can be explained by the regression equation. The multiple regression equation can be as follows:

Model

$$P = \alpha + \beta_1 \times CA + \beta_2 \times CRC + \beta_3 \times CP + \beta_4 \times LP + e$$

Where,

P=Profitability

CA= Credit Appraisal

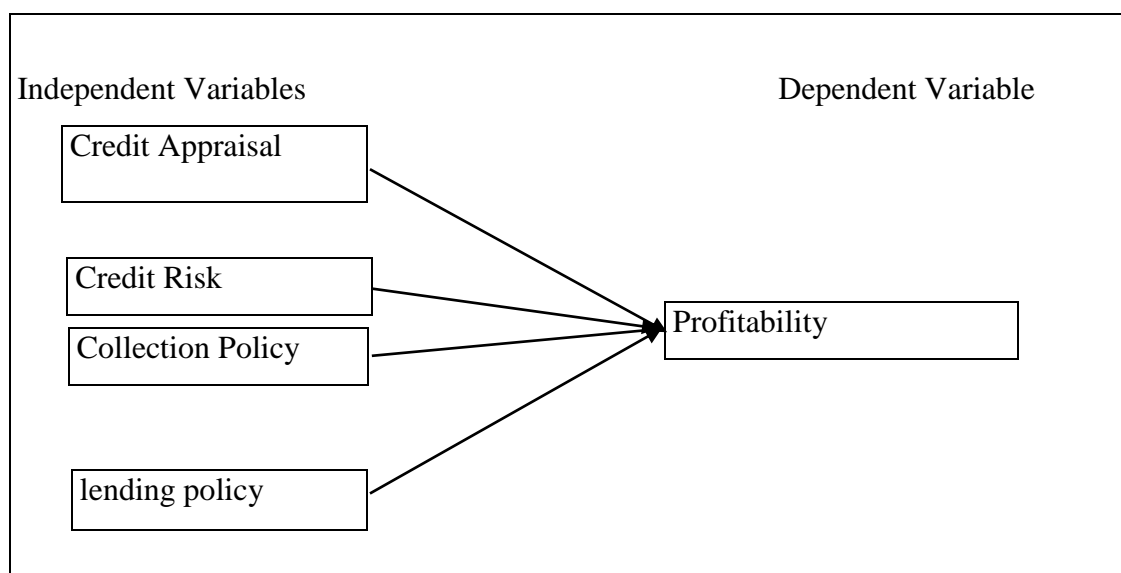
CRC=Credit Risk Control

CP=Collection Policy

LP=Lending Policy

### 3.6 Research Framework

For the convenient presentation of the research, the variables are abbreviated as follows. This can be shown in the following figure.



Source: *Obae & Jagongo (2022); Catherine, (2019)*

*Figure 1: Research Framework*

### 3.7 Definition of Variables

#### **Profitability**

Banking profitability can serve as an indicator of managerial risk tolerance. Financial institutions that generate substantial profits often exhibit a willingness to engage in riskier endeavors. Conversely, banks struggling with managerial effectiveness may encounter elevated levels of bad debt. The assessment of profitability holds particular importance for investors. Shareholders in a bank closely scrutinize the level of profitability as it

reflects the efficiency with which management has utilized their investments (Devinaga, 2010).

### **Credit Appraisal**

Credit appraisal refers to the thorough investigation and assessment conducted by a bank before disbursing loans, advances, or project finance. This evaluation encompasses scrutinizing the commercial, financial, and technical feasibility of the proposed project, including its funding pattern, and verifying the availability of primary and collateral security for fund recovery. Credit appraisal is a systematic process employed by financial institutions engaged in providing funding to customers, aiming to identify and assess the risks associated with extending credit facilities. This appraisal is typically carried out by assessing the creditworthiness of the potential borrower, involving an examination of their payment history and the sustainability of their income. The lender ensures the borrower's good intentions, often through an interview (source: <https://www.toppers4u.com/2021/03/what-is-credit-appraisal-benefits.html>).

### **Credit Risk Control**

Credit serves as one of the numerous tools that a company can utilize to impact the demand for its products. As per Kaaya's perspective, the advantages of credit for firms materialize only when the profitability resulting from increased sales surpasses the additional costs associated with receivables. Credit is defined as a process allowing the possession of goods or services without immediate payment, based on a contractual agreement for deferred payment (Catherine, 2019). The prompt identification of potential credit defaults holds significance, as elevated default rates can lead to reduced cash flows, diminished liquidity, and financial distress. Conversely, maintaining lower credit exposure implies an optimal level of debtors with minimized risks of bad debts, contributing to overall financial health.

In the contemporary business environment, Catherine (2019) emphasizes the challenging aspects of risk management and the enhancement of cash flows. According to Markowitz, credit risk pertains to the possibility that a borrower might fail to meet obligations by defaulting on any type of debt. This risk predominantly affects lenders, encompassing the loss of principal and interest, disruption to cash flows, and escalated collection costs. Losses may be complete or partial and can manifest under various circumstances. The management of credit risk holds significant importance for banks, offering insights into

their exposure with counterparties and assessing counterparty risk against existing contracts. Consequently, implementing mitigation strategies becomes crucial in this context.

### **Collection Policy**

The bank's approach to debt collection revolves around principles of dignity and respect towards customers, emphasizing policies that avoid coercion in the collection of dues. Anchored in courtesy and the principles of fair treatment, the policy is designed to uphold fair practices in the collection of dues and the repossession of security, fostering customer confidence and nurturing long-term relationships. The bank, along with its representatives, is mandated to consistently adhere to the Code of Conduct during all interactions with customers.

For any loan sanctioned by the bank, the repayment schedule is meticulously established, taking into account the borrower's paying capacity and cash flow pattern. The bank is committed to transparent communication with customers, providing a clear explanation of the interest calculation method. Additionally, the bank ensures that the Equated Monthly Instalment (EMI) or any other mode of repayment is allocated appropriately against the interest and principal amounts due from customers. The collection method for EMIs, whether through post-dated cheques, direct debit, ECS, ACH, etc., is determined with the convenience of the borrower in mind. While expecting customers to adhere to the agreed repayment schedule, the bank encourages open communication, urging customers to approach for assistance and guidance in cases of genuine difficulties in meeting repayment obligations (Mamari, Ghassani & Ahmed, 2022).

### **Lending Policy**

In order to mitigate credit risk, a lending institution should observe opposite signs for a specific explanatory variable's parameter in two distinct equations. This suggests that factors enhancing the likelihood of a positive granting decision should concurrently reduce the chances of default, and vice versa. However, the study reveals that variables such as job tenure duration, education, and credit card ownership exhibit equal signs, signaling a policy misalignment with the minimization of default risk. As previously mentioned, lenders may still favor such a policy that involves providing loans with a heightened default risk because it promises a higher expected rate of return (Jacobson & Roszbach, 2003).

## CHAPTER-IV

### RESULT AND DISCUSSION

This chapter is included the result and discussion. The result is the calculation of different statistical factor for achieve the objectives of the research. Discussion is the comparative analysis of the result in detail. The comparison with the previous scholar and journal and article.

#### 4.1 Result

##### 4.1.1 Realistic Analysis

The Cronbach's alpha method is employed in this context to assess reliability, specifically for Likert scale surveys with multiple questions. The interpretation guidelines for Alpha Likert scale are as follows:

Table 4

*Reliability Statistics*

Variables	Cronbach's Alpha	N of Items	Internal Consistency
Profitability	0.776	4	Acceptable
Credit Appraisal	0.983	4	Excellent
Credit Risk	0.981	4	Excellent
Collection Policy	0.746	4	Acceptable
Lending Policy	0.959	4	Excellent

Source: *Questionnaire Survey-2023*

Table 4 shows the acceptability of the variables question to the respondent. The Cronbach's Alpha shows the question is appropriate for the research or not. Here in the given research table the all the alpha value is more than acceptable level for 4 question of each variable i.e.  $\alpha > 0.7$ . So the question set for the data are appropriate.

#### 4.1.2 Demographic Characteristics

Demographic characteristics were another aspect covered during the data collection phase of the research through questionnaires. Respondents provided the information, and the details of the demographic data are presented in the research.

Table 5

##### *Demographic Variable*

Variables	Detail	Frequency	Percent	Cumulative Percent
Organization	Nabil Bank limited	99	24.0	24.0
	Agriculture Bank Limited	128	31.0	55.0
	Kumari bank Limited	186	45.0	100.0
Total		413	100.0	
Marital Status	Married	113	27.4	27.4
	Unmarried	300	72.6	100.0
Total		413	100.0	
Educations	intermediate	211	51.1	51.1
	bachelor	104	25.2	76.3
	master and above	98	23.7	100.0
Total		413	100.0	
experience in the Bank	Below 1 year	182	44.1	44.1
	1-3 year	121	29.3	73.4
	More than 3 year	110	26.6	100.0
Total		413	100.0	

Source: *Questionnaire Survey-2023*

Table 5 shows the demographic variable related information. The table provided the information of organization where the respondent involvement and they are of Nabil Bank limited, Agriculture Bank Limited and Kumari bank Limited are in number 99, 128 and 186 respectively. In percent of them are 24.0, 31.0 and 45.0 percent respectively of Nabil Bank limited, Agriculture Bank Limited and Kumari bank Limited. Marital status

of the respondent in number are 113 and 300 of married and unmarried respectively. The marital status in percent are 27.4 and 72.6 respectively. The education of the respondent are mention in three categories they are intermediate, bachelor level and master and above and they are in number 211, 104 and 98 respectively out of 413 and in percent 51.1, 25.2 and 23.7 percent respectively. The respondent involvement with in the experience in the bank were three categories and they are below 1 years, 1-3 years and more 3 three years and in number they are 182, 121 and 110 respectively. They are in percent are 44.1, 29.3 and 26.6 percent respectively.

#### 4.1.3 Descriptive statistics Analysis

The descriptive statistics analysis involved examining the minimum, maximum, mean, and standard deviation of the research data. The present status of the research is illustrated through the results of the descriptive statistics analysis.

Table 6

##### *Descriptive Statistics Analysis*

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	413	3.75	5.00	4.52	.39
Credit Appraisal	413	3.75	5.00	4.53	.48
Credit Risk Control	413	3.75	5.00	4.54	.489
Collection Policy	413	3.75	5.00	4.49	.38
Lending Policy	413	4.00	5.00	4.51	.47
Valid N (list wise)	413				

Source: *Questionnaire Survey-2023*

Table 6 show the descriptive statistics analysis of the research. Here the minimum, maximum, mean and standard deviation of the all independent and dependent variables are calculated. The independent variables are Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy. The dependent variables is profitability. Using convenience sampling the data are collected from the 413 respondent so the table shows the number of reservation “N” 413.

The profitability has minimum, maximum, mean and standard deviation are 3.75, 5.00, 4.52 and 0.39 respectively. The Credit Appraisal has minimum, maximum, mean and standard deviation are 3.75, 5.00, 4.53 and 0.48 respectively. The Credit Risk Control has

minimum, maximum, mean and standard deviation are 3.75, 5.00, 4.54 and 0.489 respectively. The Collection Policy has minimum, maximum, mean and standard deviation are 3.75, 5.00, 4.49 and 0.38 respectively. The Lending Policy has minimum, maximum, mean and standard deviation are 4.00, 5.00, 4.51 and 0.47 respectively.

The result of the given minimum, maximum, mean standard deviation shows the minimum and maximum has a very lows different and mean has a near to maximum. Also the standard deviation has very lows. The result show the current status of the variables are very consistence, it means the credit management practice has a very goodly implemented and they are working in the profitability increasing level.

#### **4.1.4 Correlation Analysis**

Correlation refers to the association between two variables, indicating whether they are perfectly correlated, have a low correlation, or fall somewhere in between. The correlation value ranges from -1 to +1, with values close to +1 indicating a strong positive correlation, values close to -1 indicating a strong negative correlation, and values close to 0 suggesting a low correlation, whether positive or negative. Correlation measures the relationship between independent variables and the dependent variable.

The table below presents the correlation calculations, which aim to achieve the second objective of the research by exploring the relationship between independent variables (Credit Appraisal, Credit Risk Control, Collection Policy, and Lending Policy) and the dependent variable (Profitability). The data, obtained through convenience sampling from 413 respondents, are used to analyze correlations across the 413 observations.

Table 7  
*Correlation of the Variables*

		Profitability	Credit Appraisal	Credit Risk Control	Collection Policy	Lending Policy
Profitability	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	413				
Credit Appraisal	Pearson Correlation	.940**	1			
	Sig. (2-tailed)	.000				
	N	413	413			
Credit Risk Control	Pearson Correlation	.924**	.991**	1		
	Sig. (2-tailed)	.000	.000			
	N	413	413	413		
Collection Policy	Pearson Correlation	.972**	.910**	.896**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	413	413	413	413	
Lending Policy	Pearson Correlation	.910**	.973**	.980**	.908**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	413	413	413	413	413

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

Source: *Questionnaire Survey-2023*

Table 7 shows the correlation of the dependent and independent variables of the research. The independent variables are Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy. The dependent variables is profitability. Using convenience sampling the data are collected from the 413 respondent so the table shows the number of reservation "N" 413. Based on the respondent response the correlation are analysis for 413 observation.

The profitability and credit appraisal has perfectly positive relationship and the relationship are significant too so the hypothesis is true. The correlation value positive 0.940 is the value of the relationship showing perfectly positive and significant value of the profitability and credit appraisal has 0.000 which is significant too because less than 0.01 called 1 percent level of significant.

The profitability and Credit Risk Control has perfectly positive relationship and the relationship are significant too so the hypothesis is true. The correlation value positive 0.924 is the value of the relationship showing perfectly positive and significant value of the profitability and Credit Risk Control has 0.000 which is significant too because less than 0.01 called 1 percent level of significant.

The profitability and Collection Policy has perfectly positive relationship and the relationship are significant too so the hypothesis is true. The correlation value positive 0.972 is the value of the relationship showing perfectly positive and significant value of the profitability and Collection Policy has 0.000 which is significant too because less than 0.01 called 1 percent level of significant.

The profitability and Lending Policy has perfectly positive relationship and the relationship are significant too so the hypothesis is true. The correlation value positive 0.91 is the value of the relationship showing perfectly positive and significant value of the profitability and Lending Policy has 0.000 which is significant too because less than 0.01 called 1 percent level of significant.

#### **4.1.5 Multiple Regression Analysis**

Multiple regression analysis is a statistical technique that involves examining the relationship between a single dependent variable, also known as the criterion, and multiple independent variables, or predictors. The main purpose of this analysis is to predict how changes in the independent variables affect the dependent variable. It provides an indication of how well the multiple regressions can forecast future outcomes. Additionally, assessing the overall predictive ability involves determining the proportion of variance in the dependent variable explained by the regression equation. The computations involved in this analysis include model summary, ANOVA, and coefficients.

Table 8

*Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.985 <sup>a</sup>	.970	.970	.067

a. Predictors: (Constant), Lending Policy, Collection Policy, Credit Appraisal, Credit Risk Control

Source: *Questionnaire Survey-2023*

Table 8 shows the model summary of based on profitability of the commercial bank as a dependent variables and independent variables are different types of Lending Policy, Collection Policy, Credit Appraisal, and Credit Risk Control. Here R square is the value of 0.97 which represent the cumulatively the independent variables impact to the dependent variables. That means in 100% the independent variables cumulatively impacted to the dependent variable by 97% and remaining 3% is impacted by other variables which are not consider in this research.

Table 9

*ANOVA of the Model*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.876	4	15.219	3349.058	.000
	Residual	1.854	408	.005		
	Total	62.730	412			

a. Dependent Variable: Profitability

b. Predictors: (Constant), Lending Policy, Collection Policy, Credit Appraisal, Credit Risk Control

Source: *Questionnaire Survey-2023*

Table 9 shows the ANOVA of the regression model called employee on profitability of the commercial bank as a dependent variables and independent variables are different types of Lending Policy, Collection Policy, Credit Appraisal, and Credit Risk Control. This table shows the overall regression significant level. Here significant value is 0.000 and the value represent the overall regression is significant. Its means the Lending Policy,

Collection Policy, Credit Appraisal, and Credit Risk Control are cumulatively significantly impacted to the profitability of the commercial bank.

Table 10

*Coefficient of Regression*

Model		Unstandardized		Standardized		
		Coefficients		Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.210	.041		5.091	.000
	Credit Appraisal	.384	.055	.477	6.916	.000
	Credit Risk Control	.194	.062	.244	3.136	.002
	Collection Policy	.767	.023	.748	33.984	.000
	Lending Policy	-.389	.038	-.472	-10.266	.000

a. Dependent Variable: Profitability

Source: *Questionnaire Survey-2023*

The Regression Equation  $P = 0.21 + 0.384 \times CA + 0.194 \times CRC + 0.767 \times CP - 0.389 \times LP + e$

Table 10 shows the coefficient of the regression model called dependent variables profitability based regression coefficient. Here profitability of a bank as a dependent variables and independent variables are Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy. The multiple regression equation statement is  $P = \beta_0 + \beta_1 \times CA + \beta_2 \times CRC + \beta_3 \times CP + \beta_4 \times LP + e$ . The table explain beta, standard error and significant value.

The impact of the credit appraisal is positive and significant to the profitability of the Bank and so the hypothesis statement of the research is related to the credit appraisal and profitability is true. Here beta value is the 0.384 which is positive so the impact is positive, the value said that 1% change in to the credit appraisal than the profitability positive change in to 0.384 percent. Standard error calculated is 0.055 which is lows it means the calculated result is high accurate. The significant value is 0.000 which is less than 0.05 so the impact is called significant.

The impact of the Credit Risk Control is positive and significant to the profitability of the bank and so the hypothesis statement of the research is related to the Credit Risk Control

and profitability is true. Here beta value is the 0.194 which is positive so the impact is positive, the value said that 1% change in to the Credit Risk Control than the profitability positive change in to 0.194 percent. Standard error calculated is 0.062 which is lows it means the calculated result is high accurate. The significant value is 0.000 which is less than 0.05 so the impact is called significant.

The impact of the Collection Policy is positive and significant to the profitability of the bank and so the hypothesis statement of the research is related to the Collection Policy and profitability is true. Here beta value is the 0.767 which is positive so the impact is positive, the value said that 1% change in to the Collection Policy than the profitability positive change in to 0.194 percent. Standard error calculated is 0.023 which is lows it means the calculated result is high accurate. The significant value is 0.000 which is less than 0.05 so the impact is called significant.

The impact of the Lending Policy is negative and significant to the profitability of the bank and so the hypothesis statement of the research is related to the Lending Policy and profitability is true. Here beta value is the 0.389 which is negative so the impact is negative, the value said that 1% change in to the Lending Policy than the profitability negative change in to 0.389 percent. Standard error calculated is 0.038 which is lows it means the calculated result is high accurate. The significant value is 0.000 which is less than 0.05 so the impact is called significant.

## **4.2 Discussion**

The first objective of research is to explore the factor of credit management practice to affect the profitability of commercial bank in Nepal. Based on the article reviews the It is found that the credit management practice are Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy are found. The result is consistence with the result of (Natufe & Evbayiro-Osagie, 2023). The result is also consistence with the result of (Obae and Jagongo, 2022).

The second objective of research is to examine the relationship between Credit Appraisal, Credit Risk Control, Collection Policy, and lending policy to the Profitability of commercial bank in Nepal. It is found that the profitability and credit appraisal has perfectly positive relationship and the relationship are significant too so the hypothesis is true. The result is consistence with the result of (Olabamiji & Michael, 2018). The

profitability and Credit Risk Control has perfectly positive relationship and the relationship are significant too so the hypothesis is true. The result is consistence with the result of (Jahan & Rahman, 2020). The profitability and Collection Policy has perfectly positive relationship and the relationship are significant too so the hypothesis is true. The result is consistence with the result of (Abdulnafea, Almasria & Alawaqleh, 2022). The profitability and Lending Policy has perfectly positive relationship and the relationship are significant too so the hypothesis is true. The result is consistence with the result of (Natufe & Evbayiro-Osagie, 2023).

The third objective of the research is to examine the impact of impact of Credit Appraisal, Credit Risk Control, Collection Policy, and lending policy to the Profitability of commercial bank in Nepal. It is found that the impact of the credit appraisal is positive and significant to the profitability of the Bank and so the hypothesis statement of the research is related to the credit appraisal and profitability is true. The result is consistence with the result of (Mamari, Ghassani & Ahmed, 2022). The impact of the Credit Risk Control is positive and significant to the profitability of the bank and so the hypothesis statement of the research is related to the Credit Risk Control and profitability is true. The result is consistence with the result of (Zimon & Dankiewicz, 2020). The impact of the Collection Policy is positive and significant to the profitability of the bank and so the hypothesis statement of the research is related to the Collection Policy and profitability is true. The result is consistence with the result of (Kulchittivej, Pornpundejwittaya & Silpcharu, 2020) also the result is consistence with the result of (Alemarga, Tekalign & Abera, 2014). The impact of the Lending Policy is negative and significant to the profitability of the bank and so the hypothesis statement of the research is related to the Lending Policy and profitability is true. The result is consistence with the result of (Emmanuel, Olaoye & Afolabi, 2021).

## CHAPTER-V

### SUMMARY AND CONCLUSION

This chapter encompasses the research summary, conclusion, and implications. The summary provides a detailed overview of the research from its initiation to its culmination. The conclusion incorporates findings based on the objectives and includes a conclusive statement. The implications section delves into the practical consequences of the research on the relevant sector, individuals, and the broader societal membership.

#### 5.1 Summary

Banks play a crucial role in fostering economic development by extending loans and advances to various sectors, such as industries, individuals, and companies, thereby contributing to the nation's productivity. For instance, loans provided to the agricultural sector can boost agricultural output as farmers utilize the funds according to their needs. This supports the growth of agricultural products. Similarly, loans and advances offered to individuals and corporate entities contribute to increased income and profits, empowering them to use the funds strategically. Banks, as financial institutions, engage in monetary transactions, generating funds from clients' savings and lending them to those in need through various financial instruments like term loans, advances, and investments.

Credit management policies, outlined in written form, establish the terms and conditions for providing credit, criteria for qualifying customers, procedures for collections, and steps to be taken in case of client insolvency. In Nepal, credit management practices involve aspects such as Credit Appraisal, Credit Risk Control, Collection Policy, and lending policy. These factors significantly impact the profitability of commercial banks in Nepal. On the given background of the study the research is conducted on “Credit Management Practices and Profitability of Nepalese Commercial Bank”.

The objectives of research are to explore the factor of credit management practice to affect the profitability of commercial bank in Nepal, to examine the relationship between Credit Appraisal, Credit Risk Control, Collection Policy, lending policy to the Profitability of commercial bank in Nepal and to examine the impact of Credit Appraisal, Credit Risk Control, Collection Policy, lending policy to the Profitability of commercial bank in Nepal. The objectives are set because of the given problems and they are; what is

the factor of credit management practice to affect the profitability of commercial bank in Nepal? What is the relationship between Credit Appraisal, Credit Risk Control, Collection Policy, and lending policy to the Profitability of commercial bank in Nepal? What is the impact of Credit Appraisal, Credit Risk Control, Collection Policy, and lending policy to the Profitability of commercial bank in Nepal? Descriptive and casual comparative research design has been employed. The research is conducted based on the primary data collected from the respondent of the research. The convenience sampling tools is used for selection of the respondent. The research has questionnaire for data collection. Data are collected and analysis made through descriptive statistics, correlation and regression analysis. SPSS and excel are the tools for analysis of the research. The finding of the research is that the credit management is found through article and journal reviews and they are credit management practice are Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy. The relationship between the independent variables Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy with dependent variables profitability is perfectly positive and significant. The impact of each independent variables Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy to the dependent variables profitability is significant.

## **5.2 Conclusion**

The first objective of research is to explore the factor of credit management practice to affect the profitability of commercial bank in Nepal. The finding of the research is that the credit management is found through article and journal reviews and they are credit management practice are Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy. In conclusion the credit management practice has been implemented in the Nepalese commercial bank.

The second objective of research is to examine the relationship between Credit Appraisal, Credit Risk Control, Collection Policy, and lending policy to the Profitability of commercial bank in Nepal. It is found that the relationship between the independent variables Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy with dependent variables profitability is perfectly positive and significant. In conclusion the credit management practice has positive and significant relation to the profitability of the bank.

The third objective of the research is to examine the impact of impact of Credit Appraisal, Credit Risk Control, Collection Policy, and lending policy to the Profitability of commercial bank in Nepal. It is found that the impact of each independent variables Credit Appraisal, Credit Risk Control, Collection Policy and Lending Policy to the dependent variables profitability is significant. In conclusion the credit management practice has significant impact to the profitability of the bank.

### **5.3 Implications**

Effective credit management plays a crucial role in minimizing customer default rates and, consequently, positions banks to excel in the loan-generating sector, ultimately supporting and enhancing their profitability. This research aims to provide valuable insights to bank management, aiding them in optimizing the profitability of the bank. Poor credit management is a significant contributor to credit risk, a key factor leading to bank failures. Moreover, the study recognizes the impact of credit management on the development and sustainability of deposit money banks, influencing the overall economic well-being.

Understanding how credit is managed is essential for depositors and investors who seek assurance that their funds are being handled efficiently. Therefore, this research serves as an informative resource shedding light on the dynamics of credit management and its implications. The study holds relevance in various areas, including:

- This research is helpful to the management of the bank for solving the problem related to the credit management so the well credit practice will be implemented.
- The customer of the bank are aware because of the research gives the different types of credit management practice.
- The owner of the bank be secure to their investment and deposit because the credit management practice.
- The future researcher, academics person take it as a reference to their research.

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## APPENDICES

### Appendix 1: Survey Questionnaire

October- December, 2023

Dear Respondent,

I am conducting this questionnaire survey for an academic research as required by the MBS program. The title of my research is “Credit Management Practices and Profitability of Nepalese Commercial Bank”. I would like to state that this research is purely for an academic propose and I am simply interested in yourself and honest answer. I assure you that strict confidentiality will be maintained and the information furnished by you will be used only for academic purpose.

Thank you for your cooperation.

LALITA THAPA

MBS Student

SHANKER DEV CAMPUS

#### Part I: BIO DATA

1. Your Full Name

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2. Your bank name

- Nabil Bank Limited
- Agriculture Bank Limited
- Kumari Bank Limited

3. Marital status ( fill 1 for married and 2 for unmarried)

- Married ( )
- Unmarried ( )

4. Education ( select any one of the following)

- intermediate ( )
- bachelor level ( )

- master and more ( )
5. How many years you have been work as bank employee? ( select 1 for below one year, 2 for 1-3 year and 3 for more than 3 year)
- Below 1 years ( )
  - 1-3 years ( )
  - More than 3 years ( )
6. Your position in the banking job? ( 1 yes and 2 for No)
- Managerial ( )
  - junior level ( )
7. Please choose the gender of yours? ( 1 yes and 2 for No)
- Male ( )
  - Female ( )

## Part II

Below are several statements about you with which you may agree or disagree. Using the response scale below, indicate your agreement or disagreement with each item by choosing the appropriate number. Please give your responses as follows

(1 = strongly Disagree, 2= Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree)

### A) Profitability

Questions	1	2	3	4	5
In the bank credit appraisal is helpful to the increasing the profitability.					
In the bank credit risk is helpful to the increasing the profitability.					
In the bank collection policy is helpful to the increasing the profitability.					
In the bank lending policy is helpful to the increasing the profitability.					

## B) Credit appraisal

Questions	1	2	3	4	5
It is importance for the improvement of profit in the bank is credit appraisal.					
There is the relationship of credit appraisal and banking profitability.					
Credit appraisal impacted to the profitability of commercial bank in Nepal.					
Credit appraisal maintain by the bank to reduce risk of the bank and increasing the profitability.					

## C) Credit risk

Questions	1	2	3	4	5
In the bank credit risk reduction is helpful to the increasing the profitability.					
Credit risk of the bank decrease the profitability.					
Credit risk is the one of the thing to maintain less so the bank get more profit.					
Profitability is the because of the bank reduction in the credit risk.					

## D) Collection policy

Questions	1	2	3	4	5
It is importance for the improvement of profit in the bank is collection policy.					
There is the relationship of collection policy and banking profitability.					
Collection policy impacted to the profitability of commercial bank in Nepal.					
Collection policy maintain by the bank to reduce risk of the					

bank and increasing the profitability.					
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## E) Lending policy

Questions	1	2	3	4	5
It is importance for the improvement of profit in the bank is lending Policy.					
There is the relationship of lending Policy and banking profitability.					
Lending Policy impacted to the profitability of commercial bank in Nepal.					
Lending Policy maintain by the bank to reduce risk of the bank and increasing the profitability.					

Thank you for your participation. Hope you have a great day!!!

## Appendix 2: calculation of Result

**Reliability Statistics**

Cronbach's Alpha	N of Items
.776	4

**Reliability Statistics**

Cronbach's Alpha	N of Items
.983	4

**Reliability Statistics**

Cronbach's Alpha	N of Items
.981	4

**Reliability Statistics**

Cronbach's Alpha	N of Items
.746	4

**Reliability Statistics**

Cronbach's Alpha	N of Items
.959	4

**marrital status**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid married	113	27.4	27.4	27.4
unmarried	300	72.6	72.6	100.0
Total	413	100.0	100.0	

**Education**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid intermediat	211	51.1	51.1	51.1
bachelor	104	25.2	25.2	76.3
master and above	98	23.7	23.7	100.0
Total	413	100.0	100.0	

**experience in the Bank**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Below 1 year	182	44.1	44.1	44.1
1-3 year	121	29.3	29.3	73.4
More than 3 year	110	26.6	26.6	100.0
Total	413	100.0	100.0	

**Position in the job**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid managerial	114	27.6	27.6	27.6
junior level	299	72.4	72.4	100.0
Total	413	100.0	100.0	

**Gender**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid male	115	27.8	27.8	27.8
Female	298	72.2	72.2	100.0
Total	413	100.0	100.0	

**organization**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Nabil Bank limited	99	24.0	24.0	24.0
Agriculture Bank Limited	128	31.0	31.0	55.0
Kumari bank Limited	186	45.0	45.0	100.0
Total	413	100.0	100.0	

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	413	3.75	5.00	4.5224	.39020
Credit Appraisal	413	3.75	5.00	4.5351	.48551
Credit Risk Control	413	3.75	5.00	4.5375	.48906
Collection Policy	413	3.75	5.00	4.4952	.38039
Lending Policy	413	4.00	5.00	4.5151	.47343
Valid N (listwise)	413				

### Correlations

		Profitability	Credit Appraisal	Credit Risk Control	Collection Policy	Lending Policy
Profitability	Pearson Correlation	1	.940**	.924**	.972**	.910**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	413	413	413	413	413
Credit Appraisal	Pearson Correlation	.940**	1	.991**	.910**	.973**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	413	413	413	413	413
Credit Risk Control	Pearson Correlation	.924**	.991**	1	.896**	.980**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	413	413	413	413	413
Collection Policy	Pearson Correlation	.972**	.910**	.896**	1	.908**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	413	413	413	413	413
Lending Policy	Pearson Correlation	.910**	.973**	.980**	.908**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	413	413	413	413	413

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

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.985 <sup>a</sup>	.970	.970	.06741

a. Predictors: (Constant), Lending Policy, Collection Policy, Credit Appraisal, Credit Risk Control

### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.876	4	15.219	3349.058	.000 <sup>b</sup>
	Residual	1.854	408	.005		
	Total	62.730	412			

a. Dependent Variable: Profitability

b. Predictors: (Constant), Lending Policy, Collection Policy, Credit Appraisal, Credit Risk Control

**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.210	.041		5.091	.000
	Credit Appraisal	.384	.055	.477	6.916	.000
	Credit Risk Control	.194	.062	.244	3.136	.002
	Collection Policy	.767	.023	.748	33.984	.000
	Lending Policy	-.389	.038	-.472	-10.266	.000

a. Dependent Variable: Profitability