Impact of Credit Risk Management on Profitability of C-class Financial Institution of Nepal

A dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfilment of the requirements for the Master's Degree

By

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Impact of Credit Risk Management on Profitability of C-class Financial Institution of Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has 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 declare that all information sources and literature used are cited in the reference section of the dissertation.

……

Sujata Shrestha

Report of Research Committee

Miss Sujata Shrestha has defended research proposal entitled "**Impact of Credit Risk Management on Profitability of C-class Financial Institution of Nepal**", 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 Ramesh Kumar Paudel and submit the thesis for evaluation and viva voce examination.

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Dissertation Proposal Defended Date

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Dissertation Submitted Date

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Asso. Prof. Dr. Sajeeb Kumar Shrestha
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Dissertation Viva Voce Date

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Approval Sheet

We, the undersigned, have examined the thesis entitled "**Impact of Credit Risk Management on Profitability of C-class Financial Institution of Nepal**" presented by Sujata Shrestha a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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This study entitled **"Impact of Credit Risk Management on Profitability of C-class Financial Institution of Nepal**" has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the use of quantitative aspect.

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Sujata Shrestha
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Abbreviations

BS	:	Bikram Sambat
C&BB	:	Cash and Bank Balance
CRR	:	Cash Reserve Ratio
CS	:	Common Stock
CV	:	Coefficient of Variation
d.f.	:	Degree of Freedom
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Product
LATD	:	Loan and Advance to Total Deposit
No.	:	Number
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
r	:	Coefficient of correlation
R&D	:	Research and Development
r^2	:	Coefficient of determination
ROE	:	Return on Equity
S.D.	:	Standard Deviation
SEBO	:	Security Board
TA	:	Total Assets
TITD	:	Total Investment to Total Deposit
TU	:	Tribhuvan University

Abstract

The main purpose of this study is to examine the impact of non-performing loan ratio, credit deposit ratio, capital adequacy ratio and liquidity ratio on profitability of development banks performance. It also aims to analyze the relationship between return on assets, return on equity, non-performing loan ratio, capital adequacy ratio, credit deposit ratio and liquidity ratio with Nepalese C-class financial institutions' performance. The secondary data was collected from sample banks and examined by applying standard financial analysis and statistical tools. It used the multiple regression analysis to examine the effect of credit risk management on profitability of finance company in Nepal. From the regression outcomes the result found that the result shows that these independent variables have significant relationship with profitability and credit risk management significantly impact the profitability of the selected three finance companies.

It is therefore suggested that to enhance financial performance and minimize the risk of non-performing loans in the future, banks must watch very carefully the loans' performance and analyze thoroughly the clients' credit history and ability to pay back their debts prior to any approval of loan applications. Furthermore, banks should continuously improve their assets utilization, liquidity, and techniques of managing operating costs, improve the impact of capital adequacy, and the use of deposits for lending activities from a weak positive impact to a significant positive impact on their profitability. The researchers recommend that future studies on credit risk management influence on banks' financial performance should consider more independent variables and longer periods of study such as fifteen to twenty years to have more accuracy and generalized results.

Key Words: Credit Risk, Non-performing loan, Profitability and Credit Risk Ratio (CRR).

CHAPTER-I
INTRODUCTION

1.1 Background of the Study

Credit is the risk that the guaranteed incomes from advances and protections held by monetary organizations may not be settled completely. Both the principal amount loaned and the anticipated interest payments are at risk if the borrower defaults. The potential misfortune a monetary foundation can encounter proposes that monetary establishments need to gather data about borrowers whose resources are in their portfolios and to screen those borrowers extra time. Credit risk is the vulnerability related with borrower's advance reimbursements. Overall when borrowers' resource values surpass their obligation they reimburse credits yet when borrowers' resources values are not as much as advance qualities, they don't reimburse and they could accordingly practice their choice to default (Anh, 2023).

Banks face the most significant risk, credit risk, and more than any other risk, the success of their business depends on its accurate measurement and effective management. Expansions in credit hazard will raise the minimal expense of obligation and value, which thusly expands the expense of assets for the bank (Paudel, 2019). The term "credit management" is not clearly defined. Typically, it is regarded as ensuring that buyers pay in full, that credit costs are kept to a minimum, and that bad debts are managed in such a way that payment is received without affecting the buyer's relationship. An exchange credit insurance agency does generally that. either independently or in conjunction with the credit department of a company. A financing bank may receive assurances from an approved credit management policy, which may facilitate financing.

a job that is done within a company to improve and control credit policies that will increase revenues and lower risk. Some of these policies include increasing collections, lowering credit costs, giving more credit to customers who are creditworthy, and creating competitive credit terms. It likewise called credit control. Arrangements ought to be occasionally audited and overhauled to oblige shifts in the bank's essential course, risk resistance, or economic situations. Strategy survey ought to think about the authoritative design, broadness and intricacy of loaning exercises, abilities and abilities of loaning

faculty, and vital portfolio quality and profit targets. The organizational unit in charge of evaluating compliance with policy should be included in all policy reviews.

The banking industry places a significant emphasis on credit risk management, and there are numerous growth opportunities. Banks and other monetary foundations are frequently confronted with risks primarily of a financial nature. Risk management has been an extremely important component of the banks' and a planning and risk mitigation have always been an important part of banking. business. Risk the board assumes an imperative part in a bank's credit the executives. Banking the risks and rewards must remain in balance for professionals. For an enormous client base banks need to have an assortment of credit items that are sufficiently sensible. Assuming the financing costs in credit items are too low, the bank will experience the ill effects of misfortunes (Yahya, 2021).

One of the Commercial Bank's most important and challenging responsibilities is credit risk management. This is due to the fact that they are required to promptly pay deposits made by customers. No customer will accept an explanation that his money account is paid on demand because it was borrowed from another customer for a loan. As a result, Commercial Banks must properly manage loan funds. Any credit institution's success or failure can be directly attributed to poor credit risk management. A systematic loan analysis, which deals with the process of investing those factors that lead to nonpayment of debts, is the key to successful business lending. The productivity of credit choice will be all norms rely on good decisions of the official or supervisor.

The process of managing an institution's activities that create credit risk exposures in a way that significantly reduces the likelihood that such activities will have a negative impact on a bank's earnings and capital is known as effective credit risk management. Credit risk can exist in a bank's other assets and activities as well as its loan portfolio. Similar risks can exist in a bank's on- and off-balance sheet accounts, as well (Kosumi, 2020).

Credit risk the board in Nepalese money organizations is a basic viewpoint that essentially impacts their monetary solidness and benefit. These businesses will face difficulties in 2023 because there will be a high number of non-performing loans (NPLs),

which will make up about 5.6 percent of all loans. This is a slight increase from previous years. This rise in NPLs suggests that borrowers are having trouble meeting their loan obligations, which can cause lending institutions significant financial trouble. Powerful credit risk the executives rehearses, for example, exhaustive credit examinations and market risk investigations, have demonstrated fundamental for alleviating these dangers. Finance companies are able to better assess the creditworthiness of borrowers and make informed lending decisions by utilizing rigorous credit evaluation procedures.

Nepalese banks have a capital adequacy ratio (CAR) that is higher than the minimum regulatory requirement of 10%, demonstrating their ability to absorb losses. The fact that these institutions have a high CAR indicates that they are financially stable and well-capitalized. In addition, despite the current credit risks, these institutions maintain a return on assets (ROA) of around 1.3%, demonstrating their capacity to generate profit from their assets. This benefit is essential for keeping up with financial backer certainty and guaranteeing long haul maintainability. In order to improve long-term financial performance and stability, the integration of comprehensive risk management frameworks continues to be the primary focus. This incorporates taking on cutting edge risk evaluation devices, working on inner controls, and constantly observing the credit climate to proactively address arising chances.

1.2 Problem Statement

Credit risk the executives is difficult for finance organizations in Nepal. Due to the possibility of borrowers defaulting on their loan obligations, these businesses face significant risks. High default rates frequently threaten the stability of these institutions, despite the significant role they play in Nepal's economic development by providing individuals and businesses with essential financial services (Bhattarai 2020).

The essential issue is the insufficiency of existing credit risk the executives rehearses. Strong methods for determining potential borrowers' creditworthiness are lacking in many finance companies. This is made worse by a lack of access to trustworthy credit information and historical data, which makes it hard to accurately predict and reduce potential risks. The risk assessment procedure is further complicated by the absence of comprehensive credit bureaus or by the underutilization of available data (Dhungana, 2020).

In addition, borrowers' capacity to repay loans is significantly impacted by external economic factors like political instability, natural disasters, and economic downturns. According to Bhatta (2019), these external shocks frequently result in higher default rates, placing additional strain on financial institutions. Also, interior factors, for example, unfortunate advance checking, incapable assortment procedures, and inadequate guarantee can additionally disturb credit risk.

Nepal's regulatory system is also fraught with difficulties. While guidelines exist, their requirement is conflicting, and administrative oversight is frequently feeble. This absence of severe administrative practices prompts careless credit approaches and deficient risk the board systems inside finance organizations (Shrestha, 2021).

Finance companies in Nepal must implement more sophisticated credit risk management strategies in order to address these issues. This includes improving data collection and analysis, regulatory frameworks, and credit assessment tools for better oversight and enforcement. Thusly, these organizations can all the more likely shield against defaults, consequently adding to the security and development of Nepal's monetary area.
The following statements were the primary focus of this study.

- What are the structure and pattern of return on assets, return on equity, non-performing loan ratio, capital adequacy ratio, credit deposit ratio and liquidity ratio of selected finance company?
- Is there any relationship among return on assets, return on equity, non-performing loan ratio, capital adequacy ratio, credit deposit ratio and liquidity ratio with Nepalese finance company performance?
- What is the impact of non-performing loan ratio, credit deposit ratio, capital adequacy ratio and liquidity ratio on ROA and ROE of Nepalese finance company performance?

1.3 Objectives of the study

The overall targets of the review is to look at the effect of credit risk the executives on benefit of the money organization of Nepal. The following is a list of the study's specific goals:

- To examine the structure and pattern of return on assets, return on equity, non-performing loan ratio, capital adequacy ratio, credit deposit ratio and liquidity ratio of selected finance company.
- To analyze the relationship among return on assets, return on equity, non-performing loan ratio, capital adequacy ratio, credit deposit ratio and liquidity ratio of Nepalese finance company.
- To examine the impact of non-performing loan ratio, credit deposit ratio, capital adequacy ratio and liquidity ratio on ROA and ROE of Nepalese finance company performance.

1.4 Rationale of the study

Any finance company's primary source of income is lending. There is no question that the benefit procured by any bank relies upon the volume of the great loaning. Concentrate on finance organization's loaning practice convey an incredible importance to investors, experts, brokers themselves and the understudy anxious to realize about loaning rehearses and their administration. The measurement of Goodwill, Manjushree, and Pokhara Finance Company's lending practices serves as the foundation for this study. There is no doubt that this study will be important to a variety of groups, but a particular group is the focus.

The monetary wellbeing and execution of a bank are of foremost significance to different partners. The management team relies on these outcomes to demonstrate their effectiveness and secure their positions, and shareholders rely on strong financial results to secure returns on their investments. Clients esteem a bank's soundness and dependability as it guarantees them that their assets are protected and that they will keep on getting quality help. Because a bank's performance can have a significant impact on market stability and investor confidence, stock exchanges and financial institutions closely monitor banks. The health of the banking industry has a direct impact on economic stability and influences regulatory decisions, so policymakers and government bodies have a stake in its health. Investors, rivals, stockbrokers, dealers, and market makers, among others, rely on timely and accurate financial data to make educated decisions and preserve market integrity. Lastly, financial data from banks is analyzed by

academic and professional institutions to comprehend market trends, enhance financial models, and educate future financial professionals.

1.5 Limitation of the Study

The advantages and disadvantages are two sides of the same coin. Each research project has some or all limitations. To make this study exact, significant and important a few restrictions are made so the goal of this study is accomplished inside restricted time, asset and data. A few constraints of this study are recorded underneath:

- The study is limited to only three finance companies or C-class financial institution of Nepal, namely Goodwill, Manjushree and Pokhara Finance.
- The study based on only the past 10 years periods since F/Y 2013/14 AD to F/Y 2022/23 AD.
- The study mainly focuses on the factors relating to credit risk and performance of the selected finance company in Nepal. It is not considered the other factors.
- The study is based on secondary data such as annual report, financial statement etc of respective organization's.
- Inaccessibility of information which could have helped to analyze other aspects of non-performing loan functioning as well. Thus, overall financial position of the finance companies cannot be judged by this report and this study is only helpful for credit risk analysis only.

CHAPTER-II
LITERATURE REVIEW

The review of relevant literature on the loan and its overall effects on finance companies is the primary focus of this chapter. Each study is based on information and data from the past; this information serves as the foundation for the current study. This chapter contributes to the collection of sufficient feedback to broaden the information-based and inputs of this study; consequently, it has its own significance in this research. This section is dedicated into the calculated system, survey diaries and articles and audit of proposal.

2.1 Conceptual Review

2.1.1 Concept of Credit

The delivery of cash or other assets by a lender to a borrower in exchange for an obligation to repay on a specified date on demand is known as credit or loan. A loan is the amount of money lent to a borrower (customers) by a creditor (a bank) with or without security. Amount of the cash loaned by a bank is the credit (Chopra, 1989).

A development bank's asset side of the balance sheet includes loan and advances, which are a significant item. Bank procures revenue borrowed and progresses, which is one of the significant types of revenue for banks. If the bank does not prepare its loan portfolio, it will not only add bad debts but also have a negative impact on profitability (Varshney & Swaroop, 1994).

A finance company's primary objective is to maximize shareholder wealth by accepting deposits and making loans to the public. To give greatest re-visitation of investors, the bank is expected to put the vast majority of its asset in credits and advances, unsafe resources. As a result, in order to ensure the safety of depositor funds and an adequate return to shareholders, a clear and solid loan credit policy is essential. The decision that is made in advance regarding the management of a loan is known as lending policy.

The bank's loan activity is the most important and vital, second only to deposit mobilization. The activity is the primary source of the bank's revenue. As a result, the activity should be carried out with extreme caution and professionalism. Policies and

procedures for ensuring that a bank's loan portfolio is sufficiently diverse in light of its target markets and overall credit strategy should be developed and implemented. Specifically, these mix-and-set exposure limits apply to particular industries or economic sectors, geographic regions, and products, as well as to groups of connected counterparties. Banks ought to guarantee that their own inward openness limits suggest set by the financial bosses. Loaning strategies lay out the system for loaning and guide the credit conceding exercises of the bank (Crosse, 1963).

2.1.2 Types of Credit

The most significant function of financial institutions is lending. The fundamental types of loans provided by the bank are as follows:

a) Overdraft

It indicates the difference between their deposits and withdrawals. An expansion of credit from a consummation organization when a record arrives at nothing. It lets the person keep taking money out of the account even if there are no funds in it. The bank basically lets people borrow a certain amount of money.

b) Cash Credit

The credit isn't given straightforwardly in real money however store account is being opened on the name of credit taker and the sum credited to that record. According to Rose (2002), every credit results in a deposit.

c) Direct Credit

In banking, an immediate credit is a store of cash by a payer straightforwardly in to a payee's ledger. The following types of credit are covered by this:

i) Term Credit

It alludes to cash loan in singular amount to the borrowers. It is the most common type of medium-term debt financing with maturities ranging from one to eight years. It refers to money lent to borrowers in one lump sum. It is the most common type of medium-term debt financing with maturities ranging from one to eight years.

A bank credit with developments surpassing 1 year is called term credits. The firm consents to pay revenue in light of the bank's excellent rate and to reimburse head in the ordinary portions. In order to meet the specific requirements of the business, special patterns of periodic principal payments can be negotiated (Richard, 1996).

ii) Working Capital Credit

The difference between current assets and current liabilities is referred to as working capital. It is allowed to the clients to meet their functioning capital hole for supporting creation process. According to Richard (1996), a natural process takes place during the cycle in which funds are generated to repay a working capital credit.

iii) Priority or deprived sector credit

The goal of deprived sector is to make sure that deprived sectors get enough credit, make it easier for them to get banking services, and make lending to deprived sectors easier. The money related strategy has made it obligatory to increment advance payment of such gatherings to 4.5 percent of complete portfolio for finance organizations, 4% for finance organizations and 3.5 percent for finance organizations. Additionally, the NRB has mandated that financial institutions raise the loan limit for the energy and agricultural sectors to at least 12% of total loan investment. The policy of requiring development banks to invest at least 20% of their loan portfolio in productive sectors has been maintained by the central bank. The approach has likewise made it compulsory for BFIs to build their settled up capital by mid-July 2014.

iv) Hire Purchase Financing (Installment Loan)

Over the course of the credit's term, hire-purchase credits are characterized by periodic principal and interest repayments. Hirer consents to take the merchandise on recruit at an expressed rental including their reimbursement of chief as well as interest with a choice to buy. According to a recent survey of development banks, these institutions intend to offer variable-rate installment loans. It can be direct or indirect installment credit, and it can be secured or unsecured (Richard, 1996).

v) Housing Loan (Real Estate Loan)

Customers of financial institutions can also obtain housing loans. It comes in a variety of forms, including residential structures, development complexes, and warehouse

construction, among others. It is given to people who make a regular income or who are able to make money from the housing project itself (Richard, 1996).

vi) Project Loan

Project advance is allowed to the clients according to project reasonability. The borrowers need to contribute specific extent to the task from their value and the rest will be funded as venture credit. Development advances are momentary credits made to designers to finish proposed projects. Depending on the size of the project, construction loan maturities can be as short as one year or as long as five years (Johnson, 1940).

The fundamental guiding principle of the disbursement policy is to advance funds in accordance with the project's completion stage. Thus, what percent of the credit will be dispensed at which phase of finishing should be spelled in payment strategy? Term of advance required for project fall under it.

vii) Consortium Loan

No single monetary establishment award advance to the venture because of single borrower limit or other explanation and at least two such foundations might agree to concede credit office to the task of which is purified through water as consortium credit. It lowers the project's risk for each of them. The project's assets are banked at an equal (or likely) charge by financiers (Richard, 1996).

viii) Credit Cards and Revolving Lines of Credit

The operating and processing costs of a revolving credit line reduce the cost of making credit. Because of normalization, concentrated division processes rotating credits coming about decrease on authoritative expense. Kept acquiring game plan upgrades cost benefits. The customer can borrow money and repay it as needed once the credit line is established, and the bank can offer the customer the money at a lower cost.

The two most common types of revolving credit agreements are credit lines linked to demand deposit accounts and charge cards. It very well may be additionally separated into Mastercards, programmed overdrafts lines and huge credit lines (Richard, 1996).

ix) Off-balance Sheet Transaction

In fact, off-balance-sheet financial institution transactions are referred to in bank guarantees and letters of credit. It is otherwise called contingent risk. Contingent obligation pinpoints the risk, which could possibly emerge during the occurrence of specific occasion. Instead of being recorded in the books of accounts, footnotes are kept as a reference. It is based remunerative facilities that are not funded, but until adequate collateral is taken, they are more risky than funded facilities. Let's talk about its two different varieties separately (Richard, 1996).

x) Bank Guarantee

It is utilized for the clients for the other party (recipient) up to as far as possible. For the most part, a specific percent sum is taken as edge from the client and the client's edge account is credited.

xi) Letter of Credit (L/C)

It is given for the client (purchaser/merchant) for the exporter (vender) for the import of labor and products expressing to pay specific amount of cash on the accommodation of specific archives going along the specified agreements according to the arrangement of L/C. Since the importer's bank does not open a separate L/C for the trade of the same goods, it is also known as an importers letter of credit (Richard, 1996).

d) Discounting of Bills

It is development banks' primary function. Discounting a bill means paying off bills issued by development banks and the National Reserve Bank (NRB) before they expire or are due. In this manner, installment ought to be not exactly the aggregate sum due to their vulnerability.

2.1.3 Loan Management Objectives

Credit targets lay out unambiguous quantifiable objectives for the bank. The governing body should guarantee that advances are made considering the accompanying three essential goals (Crosse, 1963).

- To make loans that are safe and can be repaid.

- To contribute the banks reserves productively to serve investors and the assurance of contributors.
- To meet the real credit requirements of their communities.

2.1.4 Principle of Lending Policy

To run the lending business more efficiently, good lending policy is essential. A few strategies are as per the following (Mishkin, 1998):

a) Principle of safety fund: The borrower's dishonesty or unproductive or speculative venture should be investigated by banks.

b) Principle of liquidity: Liquidity is the ability to pay bills and have access to cash when it's needed without having to sell long-term assets at a loss in a bad market. A banker must guarantee that money will arrive on demand or in accordance with agreed- upon repayment terms.

c) Principle of security: Advances and credits are cushioned by it. Sufficient upsides of pledges guarantee the recuperation of credit accurately brilliantly. Accepted security ought to be practical, easy to sell, and free of encumbrances.

d) Principle of purpose of lending: In most cases, lending requests are only accepted for the productive sector. Because they are unproductive, bank loan requests for speculation, social events, pleasure trips, ceremonies, and repayment of previous credit should be rejected.

e) Principle of profitability: Benefit means the worth made by the utilization of asset is more than the all out of the information assets. The bank ought to contribute to a project with the greatest potential for return. By providing credit to risky projects, banks should take a little risk for this reason.

f) Principle of spread: The portfolio of credit advances will not be distributed solely among numerous industry-related borrowers. It across the ventures to limit the risk of loaning keeping "Don't place your all eggs in a similar crate" as a main priority.

g) Principle of national interest: In loaning and allowing progresses, interest of country ought not be contorted (whenever sabotaged). When making advancements, priority and disadvantaged sectors of the economy, as well as other alarming sectors, should be given proper attention.

2.1.5 Procedures of Loan Policy

A sound credit strategy communicate every one of the areas of advance really that eventually assists with working the association effectively. In essence, a bank must adhere to the following credit policy systems and procedures.

a) Loan Origination

For both the expansion of existing loans and the creation of new loans, banks must operate within a framework that is solid and well-defined. The loans ought to be extended within the institution's lending strategy and target markets. Prior to permitting a credit office, the banks should make an evaluation of hazard profile of the client exchange. This might include:

- Evaluation of the borrower's industry and macroeconomic factors in relation to the loan.
- The reason for advance and wellspring of reimbursement.
- The borrower's track record and repayment history.
- Evaluate the borrower's ability to pay back the loan
- The covenants and proposed terms and conditions.
- The collaterals' suitability and enforceability
- Approved by the relevant authority (Reed et al., 1980).

When starting a new relationship, it's important to think about the borrowers' or counterparty's reputation, integrity, and legal ability to take on the debt. Preceding going into any new credit relationship, the bank should get comfortable with the borrower or counter party and be sure that they are managing individual or association of sound notoriety and cordite value. However, name lending should be discouraged (Koch & Macdonald, 2004) because a bank cannot simply grant credit based on the borrower's perceived high reputation.

The amount and timing of cash flows, the borrower's financial situation, and the funds' intended use should all be considered by institutions when structuring lending facilities. Due thought must ought to be given to the risk reward compromise in conceding a credit office and credit ought to be valued to take care of every implanted expense. To safeguard the institution's interests, pertinent terms and conditions should be established (Joseph, 1998).

The loan must be utilized for the intended purpose by the institution. Institutions ought to take steps to ascertain the effects on creditworthiness of the obligor's use of funds for purposes not disclosed in the initial proposal. If there should be an occurrence of corporate credits where borrower own gathering of organizations such determination turns out to be more significant. These connected businesses ought to be categorized by financial institutions and their credit assessments ought to be group-based.

In advance partnership, by and large the lead organization does the majority of the credit appraisal and examination. While such data is significant, organizations shouldn't over depend on that. Each member of the syndicate should conduct their own independent analysis. The institution should not overrely on the agreement or collateral. Albeit the significance of pledges held against credit is unquestionably, yet these ought to be considered as a support giving security in the event of default, essential spotlight ought to be on obligor's obligation overhauling capacity and notoriety on the lookout (Grywinski, 1991).

b) Limit Setting

A significant component of credit risk the board is to lay out unprotected (for example open) limits for single obligors and gathering of associated obligors. It is expected of institutions to develop their own limit structure while remaining within the central bank's exposure limits (i.e. Rastra Bank of Nepal). The size of the cutoff points ought to be founded on the credit strength of the obligor, veritable necessity of credit, financial circumstances and the establishment's risk resilience. Suitable cutoff points ought to be set for individual items and exercises. Foundations might lay out limits for a particular industry, monetary area or geographic locales to stay away from focus risk (Shrestha, 1993).

Now and again, the obligor might need to share its office limits with its connected organizations. If the transactions are significant and frequent, institutions should examine these arrangements and impose any necessary restrictions. Credit cutoff points ought to be surveyed routinely in some measure yearly or all the more every now and again assuming obligor's credit quality decays. All solicitations of expansion in credit cutoff points ought to be validated.

c) Loan Administration

An essential component of the loan procedure is the ongoing administration of the loan portfolio. Credit organization capability is fundamentally an administrative center movement that help and control expansion and support of advance. The following are typical responsibilities of a loan administration unit:

i) Documentation

It is the obligation of advance organization to guarantee culmination of documentation (credit arrangements, ensures, move of title of securities and so on) as per supported agreements. Exceptional reports ought to be followed and followed up to guarantee execution and receipt (Desai, 1967).

ii) Loan Disbursement

Before entering facility limits into computer systems, the loan administration function ought to check that the loan application has received the appropriate approval. Only after the covenants have been completed and the collateral holdings have been received should the distribution be affected. In the event of special cases vital endorsement ought to be gotten from capable specialists (Desai, 1967).

iii) Credit Monitoring

After the credit is endorsed and draw down permitted, the advance ought to be constantly looked after. These incorporate monitoring borrowers' consistence with credit terms, recognizing early indications of abnormality, directing occasional valuation of insurance and observing opportune reimbursements.

iv) Loan Repayment

When the principal or markup payment is due, the obligors should be informed in advance. The management ought to be informed of any exceptions, such as late or non- payment. Legitimate records and updates ought to likewise be made after receipt (Desai, 1967).

v) Maintenance of Loan Files

Foundations ought to devise procedural rules and guidelines for upkeep of advance documents. Not only should the loan files include all of the borrower's correspondence, but they should also include enough information to assess the borrower's financial health and repayment performance. It need not notice that data ought to be documented in coordinated manner so outside/interior evaluators or NRB auditor could survey it effectively (Desai, 1967).

vi) Collateral and Security Documents

All security documents ought to be stored in a double-controlled fireproof safe by institutions. To keep track of where documents go, records should be kept in registers. Additionally, it is necessary to establish procedures for tack and reviewing relevant insurance coverage for particular facilities and collateral. Security documents should be physically checked on a regular basis (Desai, 1967).

2.1.6 Credit Monitoring and Control

Credit risk observing alludes to ceaseless checking of individual credits comprehensive of wobbly sheet openings to obligors as well as in general credit arrangement of the bank. Banks need to articulate a framework that empowers them to screen nature of the credit arrangement of everyday premise and go to healing lengths as and when any decay happens. A bank would be able to use such a system to check whether loans are being serviced in accordance with facility terms, whether provisions are adequate, and whether the overall risk profile is within management's limits and regulatory limits.

Senior management would have an easier time keeping an eye on the overall quality of the credit portfolio and its trends if it had an efficient and effective credit monitoring system. Subsequently the administration could calibrate or reevaluate its credit technique/strategy appropriately prior to experiencing any significant difficulty. The

credit policy of the bank ought to expressly include guidelines for the procedure of monitoring credit risk. It should, at a minimum, outline the procedure for;

- The jobs and obligations of people answerable for credit risk observing
- The methods of evaluation and analysis (for each loan and the portfolio as a whole)
- The recurrence of observing
- Examining loan covenants and collateral on a regular basis
- How often people go to the site
- Finding out if the loan is getting worse (Gupta, 1984).

a) Financial Position and Business Conditions

Because it would determine an obligor's ability to repay, its financial health is the most crucial aspect. Thusly organizations need cautiously watch monetary remaining of obligor. The profitability, equity, leverage, and liquidity key financial performance indicators ought to be examined. When conducting such an analysis, appropriate consideration ought to be given to the risk of the business or industry, the position of the borrowers within the industry, and external factors like the state of the economy, government policies, and regulations. For organizations whose monetary position is subject to key administration staff and/or investors, for instance, in little and medium endeavors, establishments would have to give specific consideration to the evaluation of the ability and limit of the administration/investors (Khan, 1982).

b) Conduct of Accounts

In the event of existing obligor the activity in the record would give a fair thought regarding the nature of credit office. The obligor's account activity, repayment history, and instances of exceeding credit limits should all be monitored by financial institutions. For trade financing, institutions should keep an eye out for instances in which trust receipts and bills are repeatedly extended past their due dates (Khan, 1982).

c) Loan Covenants

The obligor's capacity to stick to negative vows and monetary contracts expressed in the credit arrangement ought to be evaluated and any break identified ought to be tended to expeditiously (Khan, 1982).

d) Collateral Valuation

Since the worth of guarantee could crumble bringing about unstable loaning, banks need to rethink worth of pledges in occasional premise. The recurrence of such valuation is extremely emotional and relies on nature of pledges. For instance, a loan secured by shares requires nearly daily revaluation, whereas a mortgage secured by a residential property may not necessitate revaluation as frequently. In the event of credit offices got against stock or products at the obligor's premises, suitable examination ought to be led to confirm the presence the valuation of the guarantee. Any deterioration in the issuer's credit rating as well as a significant decline in the market price of securities purchased as a form of lending or long-term investment should be monitored. Unfriendly changes ought to set off extra work to survey the reliability (Khan, 1982).

2.1.7 Managing Loan Problems

The institution ought to develop a method for assisting in the identification of problematic loans ahead of time, when additional options for corrective measures may be available. A specialized remedial procedure should be used to manage the loan once it has been identified as a problem. A bank's advance risk strategies ought to plainly set out how the bank will oversee issue credits. Problem credit management strategies and organizational structures utilized by banks vary. Obligation regarding such attributes might be doled out to the starting industry capability, a particular exercise segment or a mix of the two, contingent on the size and nature of the credit and the justification for its concerns. It is essential for a bank to separate the credit origination function from the workout function when it has significant credit-related issues. Collection outcomes typically improve as a result of a specialized workout section's more focused focus, expertise, and additional resources. The following fundamental components make up a problem loan management process (William, 1990):

a) Negotiation and follow-up

Proactive exertion ought to be taken in managing obligors to carry out therapeutic plans, by keeping in touch and inward records of follow-up activities. Early, arduous efforts frequently save institutions from lawsuits and loan losses.

b) Workout Remedial Strategies

Restructuring the loan facility, increasing credit limits, or lowering interest rates are examples of appropriate corrective actions that can sometimes help the obligor become more receptive to repayment. Anyway it relies on business condition, the idea of issues being confronted and above all obligor's responsibility and readiness to reimburse the credit. Institutions must exercise extreme caution when implementing such measures and ensure that a policy does not encourage obligors to intentionally default. Despite the fact that such remedial strategies frequently result in positive outcomes, The organization's advantage ought to be the essential thought in the event of such exercise plans it needs not notice here that capable power, before their execution, ought to support such exercise plan (William, 1990).

c) Review of Collateral and Security Document

The loan recoverable amount must be determined by institutions by formally valuing the available collateral's values. Also, security documents should be checked to make sure that contracts and collateral guarantees are complete and can be enforced (William, 1990).

d) Status Report and Review

Issue of credits ought to be likely to more continuous audit and checking. The progress of the remedial plans and the status of the loan accounts should be updated during the review. Senior management ought to be informed of any progress made on the problematic loan (William, 1990).

2.1.8 Loan Criteria

While screening a credit application, 5Cs to be first viewed as upheld by records.

Character

Character analysis is a look at an applicant's ability to keep his promises to the lending institution. For this examination, for the most part the accompanying archives are required.

- Articles and memorandum of association
- Enrollment confirmation
- Certificate of tax registration (Renewal)

- The decision to borrow
- Approval individual approving to manage the bank
- Reference of different loan specialists with whom the candidate has managed previously or bank A/C proclamation of the client (Chhabra and Taneja, 1991).

Capacity

Portrays client's capacity to pay. It is estimated by candidates past execution records and followed by actual perception. For this, a meeting with candidate's clients/providers will additionally explain what is going on. The following documents pertain to this area:

- Confirmed monetary record and benefit and misfortune represent recent years.
- Bank A/C or references or other lenders the applicant has worked with in the past (Chhabra & Taneja, 1991).

Capital

Capital gives a mindfulness to retain working and resources misfortunes that could somehow impede obligation reimbursement. This demonstrates the applicant's ability to contribute his own funds. It is possible to determine through capacity analysis whether the borrower is attempting to play solely with the lender's funds or whether he is also contributing his own funds to the project. The only tools for capital analysis are certified balance sheets and profit and loss accounts (Chhabra & Taneja, 1991).

d. Collateral

The security offered by the borrower is called collateral. Adequacy of guarantee is important to guarantee the recuperation of credit. Insurance might be of either nature versatile or relentless. Stock, inventories, and plying CARs are all examples of movable collateral. According to Chhabra & Taneja (1991), an immovable object can be land with or without structures or plant machinery attached.

e. Conditions

Certain loan conditions or loan contingencies will be met even if the loan is approved. The requirement that you purchase hazard insurance in the amount of the mortgage loan and name the lender as an insured party on the policy is one of the loan conditions that applies to all loans. Different circumstances might be intended for your credit.

2.1.9 Provision of NRB Directives Relating to Loan

1. Arrangements of Credit and Advances: Powerful from FY 2078/79 banks will group extraordinary chief measure of advance and advances based on maturing. According to the orders gave by NRB, all credits and advances will be characterized into the accompanying five classes:

a. Pass Loan: This category includes loans and advances whose principal balance is unpaid and has been unpaid for up to three months. The term "performing loans" is used to describe these.

b. Watch List: Watch Rundown likewise incorporates credits which have not been adjusted for quite some time. Be that as it may, it incorporates advances whose head and interest have not been paid inside the reimbursement period.

c. Sub-Standard Loan: This group includes all loans and advances that have not been paid back for three to six months.

d. Doubtful Loan: All credits and advances which are past due for a time of a half year to 1 year will be remembered for this classification.

e. Loss: This category encompasses all loans and advances that have not been paid back for more than a year, as well as those with the smallest chance of recovery, those that are deemed unrecoverable, and those that may only be partially recovered in the future.

Non-performing loans are loans and advances that fall into the substandard, doubtful, and loss categories. It is fitting in the perspective on the banks the board; there isn't limitation in ordering the credit and advances from generally safe classification to high risk with classification. For instance, loans falling under the substandard category could be categorized as doubtful or loss, and loans falling under the doubtful category could be categorized as loss. The term credit and advances additionally incorporates bulls bought and limited.

2. Additional Arrangement in Respect of Pass Loan: Advance and advances completely got by gold, silver, fixed store receipts, Mastercards and government protections will be incorporate under "pass" class. Under the pass loan, loans against other banks' fixed deposit receipts are also eligible. However, loans that include fixed deposit receipts, government securities, or NRB bonds as additional security must be classified according to clauses 1 through 7. While reestablishing working capital advance having development period as long as one year can be delegated pass credit. Assuming that the interest of working capital nature credits and advance isn't standard, such advance and advances ought to be grouped based on interest extraordinary period.

3. Additional Arrangement in Respect of loss Loan: Loans with any or all of the following discrepancies will be considered a "loss" even if they are not past due.

i. Security is inadequate,
ii. The borrower has been proclaimed bankrupt,
iii. The borrower is slipping away or can't be found,
iv. Non-fund based letters of credit, guarantees, etc., are not realized within 90 days of the date of conversion into fund based, and purchased or discounted bills are not realized within 90 days of the due date.
v. The credit has not been utilized for the reason initially expected,
vi. Due to non-recovery, the beginning of the auctioning of the collateral has been delayed for six months, and if the process of recovery is being litigated,
vii. Advance gave to the borrowers remembered for the boycott of credit data focus (CIC),
viii. The project or business is not operating, the conditions are not operative,
ix. Mastercard Advance isn't discounted in something like 90 days from past due date.

4. Additional Arrangements in Respects of Term Loan: In regard of term advances, the characterization will be made against the whole extraordinary credit based on the past due time of late portion.

5. Prohibition to Recover Principal and Interest by Overdrawing the Current Account and Exceeding the Overdraft Limit: Head and premium on credits and advance will not be recuperated by overdrawing the borrower's ongoing record or where

overdraft office has been reached out, by overdrawing such breaking point. However, the customers' accounts may still be debited in order to recover the principal and interest under this arrangement. If a bank has a system for recovering principal and interest by debiting a customer's account, and the overdraft is not settled within a month, the overdrawn principal will be included in the outstanding loan and the loan will be downgraded one step from its current classification. Regarding the recognition of interest, the same procedure as for income recognition as outlined in directive No. 4 applies.

6. Letter of Credit and Guarantees: A loan must be classified as a pass loan within 90 days of the date of conversion into fund-based liabilities if letter of credit, guarantees, and other contingent liabilities are converted into fund-based liabilities and must be paid. This loan will be considered a loss loan after 90 days.

7. Rescheduling and Restructuring of the Loan: On the off chance that the bank is sure on the accompanying bases of composed strategy presented by borrower, it might reschedule or rebuild the credits and advances. Loan files ought to be attached to clear grounds for rescheduling or restructuring.

- Assuming there is verification of sufficient archives and insurance security connecting with credit.
- If the bank is certain that rescheduled or restructured loans and advances will be repaid.

Notwithstanding composed game plan for rescheduling or rebuilding of advance, installment of no less than 25% of absolute gathered interest up to the date of rescheduling of rebuilding ought to have been gathered.

8. Loan Loss Provisioning: The credit misfortune provisioning, based on the exceptional advances and advances and bills buys named per this mandates, will be given as follows:

Table 1

Loan Loss Provision

S.N.	Classification of Loan	Loan Loss Provision
1.	Pass	1.5%
2.	Watch List	5%
3.	Sub-standard	25%
4.	Doubtful	50%
5.	Loss	100%

Source: NRB Directives, 2023

2.2 Theoretical Review

2.2.1 Portfolio Theory

The theory of portfolios, commonly referred to as modern portfolio theory. Financial institutions have been dealing with credit defaults for a while now. The Modern Portfolio Theory was developed by Harry Markowitz in 1952 and is extensively utilized by MFIs and the banking industry. The value at risk and portfolio at risk are used by the majority of MFIs to manage exposure resulting from changes in interest rates and market conditions. This theory lets investors assess the expected risk and return in their investment portfolios Wong (2013). The 14 MPT is a sophisticated technique to investing that has shown to be successful in helping investors and financial institutions construct their asset portfolios. Markowitz measured exposure and provided mathematical evidence of how portfolio diversity lowers risk and boosts investors' return on investment. By adopting a statistical measure for their asset portfolios, investors can use modern portfolio theory to predict both the expected return and their risk exposure. Markowitz (1952) provided examples of how to combine assets to create portfolios that are well diversified. According to this theory, the majority of investors failed to properly account for the high connection between security incomes. The theory posits that by pooling securities with diverging value actions, a portfolio's exposure can be reduced and its predicted rate of return can be increased. According to Markowitz, diversity reduces vulnerability when securities are combined and their prices move at different times or in opposition to one another.

2.2.2 Value at Risk Theory

This theory is used to calculate the probability of portfolio losses based on mathematical analyses of historical price fluctuations and volatility. Since it can measure risk as it happens, banks and financial firms frequently employ it. It is a crucial factor for businesses to take into account when deciding how to trade and hedge. (Kaplanski & Levy 2013). Three variables—the total potential loss, the chance of that total loss, and the time period—can be used to calculate value at risk. This theory is relevant to the study because it helps measure credit risk associated with non-performing loans and portfolios that are at risk in relation to MFIs' financial health. This approach also helps in determining the pertinent risk elements influencing the different MFI portfolios.

2.2.3 Liquidity Risk Theory

One significant danger that comes before every unrelenting market disaster is liquidity risk. It is called the method that transforms isolated loss trades into widespread financial institution collapses, and it is contended to be the decisive indicator that causes credit risks to soar in addition to market risks. This is also true of the unparalleled catastrophe that the US mortgage industry experienced in 2007. Acerbi and Scandolo (2007) depicts that Any financial institution should be able to identify and group the many types of liquidity risk to which it is subject. Microfinance institutions' balance sheet composition, product portfolio, cash flow reports, and deals all play a significant role in determining their liquidity requirements and the sources of liquidity available to meet them. Therefore, in order to prevent a negative impact on its earnings and capital, any financial institution must assess its liquidity position. This theory is relevant to the study because it helps to quantify the liquidity risk associated with non-performing loans and portfolios that are at risk, which in turn affects the financial stability and performance of MFIs. This theory also helps in determining the pertinent variations in capital and revenue that impact the MFIs' overall stability.

2.3 Review of Empirical Studies

Selvaraj (2015) examined a study on the impact of credit risk on profitability performance of commercial banks in Ethiopia. The study's objective was to empirically investigate the impact of credit risk on the profitability of Ethiopian commercial banks. The review utilized the engaging statics and board information relapse model. CRR, NPLR, LLPR, CAR, and profitability are variables. The finding demonstrated that credit risk indicators

like capital sufficiency, non-performing loan provisions, and loan loss provisions have a significant impact on the profitability of commercial banks in Ethiopia. R-square=0.51, Coefficient of (NPLR=-0.076, CAR=0.045, LTD=-0.00054, LLPR=0.081, C=0.023) A R-square of 0.51 shows that 51% of productivity change is made sense of by NPLR, CAR, LTD, and LLPR. Profitability is shown by coefficients for each variable. The study found that the profitability of Ethiopian commercial banks is significantly affected by non-performing loans (NPLR), loan loss provisions (LLPR), and the capital adequacy ratio (CAR). A R-square of 0.51 shows that these elements make sense of 51% of productivity varieties. The coefficients (NPLR=-0.076, CAR=0.045, LTD=-0.00054, LLPR=0.081, C=0.023) uncover every variable's particular effect, with NPLR adversely influencing productivity and LLPR, CAR emphatically adding to it.

Paudel (2018) studied on impact of credit risk on profitability of commercial banks in Nepal. The study's primary objective was to investigate how credit risk affects the profitability of Nepal's commercial banks. The One way fixed Effect Model was used in the study. Regression of panel data. Factors: NPL, CAR, TA, ISR, GDPG, INF). The findings confirmed that Nepal's commercial banks' profitability is significantly impacted by credit risk. In addition, profitability is marginally impacted by the solvency ratio, interest spread rate, and inflation. (R-square = 0.61, Coefficient = -0.7, NPL = -0.7, Solvency = -0.21, TA = -0.04, GDP = 0.92, INF = -0.41)

Dhiman (2019) investigated on the impact of credit risk management on profitability of public sector commercial banks in India. The review utilized the Board information relapse model. CRR, NPLR, LLPR, CAR, AQ, Management, Earning, Liquidity, and Profitability are all variables. The study found that certain Indian public sector banks' financial performance is significantly influenced by credit risk management indicators. ROA (profitability) was found to be negatively correlated with AQ and liquidity, whereas it was found to be positively correlated with CAR, management quality, and earnings ability. R-square is 0.96, the coefficient CAR is 0.25 (t=1.08, f=0.28), the MGT is 1.004 (t=16.22, f=0.00), the E is 1.06 (t=5.73, f=0.00), and the constant is -1.49 (f=0.000). According to the findings of the study, certain Indian public sector banks' financial performance is significantly influenced by indicators of credit risk management. In particular, benefit (ROA) is emphatically affected by Capital Sufficiency Proportion (CAR), the board quality, and profit capacity. Notwithstanding, it is adversely

impacted by resource quality and liquidity. The high explanatory power of the model is indicated by its R-square of 0.96. CAR (0.25), management quality (.004), and earnings ability (1.06) are the key coefficients, with significant t and f values confirming the findings.

Rehman (2019) examined a study on impact of risk management strategies on the credit risk faced by commercial banks of Balochistan. The goal of this research is to learn about risk management practices that commercial banks in Balochistan, Pakistan, use to reduce or eliminate credit risk. The Multiple Regression Analysis was used in the study. Factors: Credit Chance, Corporate administration, Supporting, CAR, ROA, ROE). The outcomes recognized four areas of effect using a loan risk the board (CRM): corporate administration applies the best effect, trailed by expansion, which assumes a critical part, supporting and, at long last, the bank's Capital Sufficiency Proportion. (R-square = 0.361, p = 0.000, Coefficient of determination = 1.765, CG = 0.288, H = 0.250, DM = 0.263, CAR = 0.040, and F = all have 0.000)

Paudel (2020) studied on role of credit risk in performance difference between A and B class banks in Nepal. The differences in credit risk-related performance between A and B class financial institutions were explained in this study. The review utilized the Quantitative exploration strategy utilizing factors: LLPTLA, NPLR, CAR, CDR, Gross domestic product, Expansion, ROA, ROE, NIM). This review showed that the A class business banks are less defenseless than the B class bank as estimated by Standard deviation of ROA (standard deviation of return on value (SDROE) both, yet offer considerably higher ROE and genuinely higher NIM. (R square = 0.72, p = 0.00, ROE = 0.72, CAR = -0.563, NPLR = 4.05, LLPTLA = 4.05, CDR = 0.07, GDP = 0.037, and
inflation = 0.026, all p-values = 0.00)

Sarpong (2020) examined a study on the impact of credit risk on performance: a case of South African commercial banks. The study's objective was to compare how credit risk affected the performance of large and small South African banks. The panel data regression analysis was used in the study. When compared to big banks, it was discovered that non-performing loan (NPL), CAR, LR, LTDR, and bank age all have a greater impact on small banks' ROA performance. Shockingly, NPL was uncovered to lesserly affect the ROE of little banks when contrasted with the ROE of huge banks however

showed no effect on the ROA. (R-square=0.488, p=0.018, Coefficient-NPLGL=-0.259, CAR=1.0428, LTDR=-0.065, LR=0.23, BGD=-0.343, TA=1.90, AGE=-0.302, constant=0.0363, f=0.0178). The review revealed that non-performing advances (NPL), capital sufficiency proportion (CAR), credit to-store proportion (LTDR), liquidity proportion (LR), and the time of banks altogether impact the presentation of little banks, especially their profit from resources (ROA), more than bigger banks. Interestingly, NPL had no effect on ROA, despite having a smaller impact on ROE for smaller banks than for larger ones. The relapse investigation yielded a R-square worth of 0.488, demonstrating a moderate prescient power, with a critical p-worth of 0.018.

Bhattarai (2020) analyzed the study on Assessing banks internal and macroeconomic factors as 5 determinants of non-performing loans: evidence from Nepalese commercial banks. The purpose of this study was to investigate the factors that influence nonperforming loans in Nepalese commercial banks. The review took on elucidating and causal relative examination plans utilizing the factors: NPL, TA, ROA, LTD, CAR, RGDP, INF). The assessed standard least square (OLS) relapse model uncovered that the bank explicit: ROA, LTD and CAR and macroeconomic variables Gross domestic product essentially affect nonperforming credit in Nepalese business banks. Coefficient: TA = -0.698, ROA = -0.410, LTD = 0.028, CAR = -0.209, GDP = 0.135, INF = 0.156; R-
square = 0.510; f = 7.465; P = 0.000). The outcomes from the customary least square (OLS) relapse examination show that few bank-explicit and macroeconomic factors essentially impact nonperforming credits in Nepalese business banks. In particular, factors like Profit from Resources (ROA), Credit to Store Proportion (LTD), Capital Ampleness Proportion (CAR), and GDP (Gross domestic product) display genuinely critical effects. The model has a significant F-statistic of 7.465 (p-value 0.001) and an R- square value of 0.510, both of which indicate that it has moderate explanatory power.

Kawor (2022) published a research paper on the link between credit risk and profitability of universal banks in Ghana. The purpose of the study was to investigate how bank credit risk affected the profitability of universal banks in Ghana. The credit risk and profitability variables were used in the panel data regression analysis to analyze the study. The outcomes uncovered NP/LA and LA/TD to affect ROA, while PLL/NL was adversely connected with ROA. Overall, the findings indicated that credit risk has an impact on a company's profitability. As a result, the management of universal banks in Ghana must

take practical steps to reduce the risks posed by credit risk. R-square=0.675, coefficient of credit risk is - 22.528, p=0.000, constant=-0.847, p=0.000).

Mastoi (2021) examined a study on the effects of credit risk on the profitability of commercial banks in Afghanistan. The purpose of this study was to investigate how credit risk affects the profitability of commercial banks in Afghanistan. Fixed impact model board information examination has been utilized to break down the review. The review tracked down a strong negative and huge impact of LLRTL on ROAA, and ROAE, however certain and immaterial on NIM. The results also show that TLTA has a significant positive effect on NIM, but that it has no significant negative effect on ROAA or ROAE. ROAA, ROAE, and NIM were all negatively affected by TLTD, but only NIM was significantly affected. In addition, the study found that size had a significant and strong negative impact on all profitability indicators.

Sharma and Kaur (2021) studied on the relationship between credit risk management and profitability performance of Indian public sector banks. The review investigated the connection between credit risk the executives and banks' productivity of Indian public area banks. The review utilized Relapse examination. utilizing the ROA, ROE, CAR, NPA, and LR variables. It was uncovered that banks' benefit execution (ROA and ROE) having a positive and critical relationship with CAR; though NPA having a the other way around relationship. However, there is no significant relationship between LR and profitability performance (ROA and ROE). (R-square = 0.773 and 0.792, P = 0.000, coefficient-constant = -1.056 and -1.336, CAR = 3.452 and 3.344, NPA = -10.446 and - 11.312, and LR = -0.936 and 0.299) The Capital Adequacy Ratio (CAR) has a positive and significant relationship with banks' profitability, as measured by Return on Assets (ROA) and Return on Equity (ROE), whereas the relationship between non-performing assets (NPA) is negative. The Liquidity Ratio (LR) and profitability are not significantly correlated. With significant p-values (P=0.000) and coefficients demonstrating the positive impact of CAR and the negative impact of NPA on profitability, the high R- squared values (0.773 and 0.792) indicate strong model fit.

Kosumi (2021) investigated a study on A study on banks specific factor that determinate the profitability of commercial banks in republic of North Macedonia. The purpose of this study was to determine, using the Republic of North Macedonia as a case study, the

primary factors that influence commercial banks' profitability. The review utilized the relapse investigation utilizing ROA, CAR, Size, Income, Liquidity, Influence factors. Since liquidity and bank size have a significant positive effect on profitability, the study found that commercial banks' profitability has been driven primarily by these factors. In contrast, this study also found that banks' ROA was inversely correlated with their capital adequacy, credit risk, and leverage. R-square =0.3755, f = 0.000 coefficient: CAR = - 0.022, t = -0.175, p = 0.86; CAR = -0.02, t = -0.313, p = 0.754; DIV = 0.002, t = 0.14, p = 0.888; LEV = -0.0005, t = -0.61, p = 0.5427); LIQ = 0.022, t = 1.99,

Yahya (2021) studied on Impact of non-performing loans, loan to deposit ratio and education diverstiy on firm performance of Indonesia banking sectors. The study wanted to find out how non-performing loans, education diversity, and the ratio of loans to deposits affect return on assets in Indonesian banks. The outcomes showed that the non- performing credit, the credit to store proportion and training variety all the while altogether affected return on resources. The loan-to-deposit ratio had a significant positive impact on return on assets, while non-performing loans had a significant negative impact on return on assets. R-square=0.53, f=0.000, Coefficient-NPL=0.328, p=0.075, LLR=1.105, p=0.000, constant=16.181, p=0.000). Return on assets was influenced by non-performing loans, the loan-to-deposit ratio, and education diversity as a whole, according to the findings. In particular, non-performing credits showed a striking unfavorable effect, while the advance to store proportion emphatically impacted return on resources. The model had moderate overall explanatory power (R-squared=0.53). Non- performing loans and the loan-to-deposit ratio both had significant coefficients in the statistical tests (p=0.075), indicating that they had a significant impact on asset return.

Rahman (2021) examined a study on effects of nonperforming loan on financial performance: A hypothetical evaluation on all scheduled banks in Bangladesh. The study's objective was to ascertain how non-performing loans affect the financial performance of all listed Bangladeshi banks. The study found that banks' return on assets was significantly influenced by all independent variables, including non-performing loans, capital adequacy, provision margin ratio, and inflation rate. Coefficient-NPL=-0.223 t=-2664, p=0.009; CDR=0.174 t=2260, p=0.009; constant=71450 t=2078, p=0.039) According to the findings of the study, the dependent variable, return on assets (ROA), in banks is significantly influenced by a number of independent variables, including non-

performing loans (NPL), capital adequacy, the provision margin ratio, and the inflation rate. The regression analysis revealed an F-statistic of 0.006 and an R-square value of 0.061, indicating the overall explanatory power of the model. In particular, the constant term (71450, t=2078, p=0.039) and the coefficients for NPL (-0.223, t=-2664, p=0.009) were both statistically significant.

Fauziah (2022) publisged a research paper on impact of credit risk on the profitability with characteristics bank as control variables. The relationship between bad credit and return on assets (ROA) is the focus of this research. According to the findings of this study, asset return is influenced simultaneously by bad loans. To some degree, net performing credits affect return on resources. Then, the return on assets is also positively and significantly affected by the Loan to Deposit Ratio. R-square= 0.612, f=0.000, Coefficient-NPL=-0.369, t=0.783, p=0.435, LDR=0.081, t= 0.808, p=0.421, CAR=0.099, t=1.553, p=0.123, Size=2939, t=0.597, p= 0.552, Constant= 0.006,, t= 0.783, p= 0.435).

Return on assets (ROA) is negatively impacted by bad loans, while ROA is positively impacted by the Loan to Deposit Ratio (LDR), according to the study. In particular, LDR has a significant positive effect (coefficient: 0.081), while non-performing loans (NPL) have a significant negative effect (coefficient: -0.369). (R-square = 0.612) The model accounts for 61.2 percent of the variance in ROA. Other factors, such as the size of the business and the capital adequacy ratio (CAR), had less of an impact. The general model fit was critical (f = 0.000).

Taiwo (2023) examined a study on risk management and profitability of quoted banks in Nigeria. The purpose of the study is to investigate how risk management affects bank profitability in Nigeria. Relationship investigation, pooled customary least square gauge, and fixed and arbitrary impact assessments. ROA, LR, CR, OR, MR, CAPR, and BZ are variables. Return on asset is negatively impacted by liquidity risk, capital risk, and bank size, while marketing risk is significantly and positively impacted, but operational risk and credit risk are only marginally and positively impacted. Coefficient (beta): LR=-0.0001123, t=-0.43, p=0.666; CR=-0.0271, t=-1.58, p=0.009; OR=-0.0000209, t=-0.61, p=545, MR=0.6792, t=12.78, p=0.000; CAPR=-0.00569, t=-0.28, p=0.778; BZ=0.0003276, t= According to the findings, marketing risk has a positive impact on return on assets (ROA), while liquidity risk, capital risk, and bank size have a negative impact. Positive, but not significant, correlations exist between credit risk and operational risk. The model's R-square is 0.6998, showing great illustrative power. Marketing risk has

a positive coefficient, while credit risk has a negative coefficient. Other coefficients, like liquidity and capital risk, have negative but less significant impacts.

Anh (2023) researched on impact of credit risk management on the financial stability of Vietnamese commercial banks. The purpose of this research is to learn more about how 27 Vietnamese commercial banks' financial stability is affected by credit risk management. The review utilized the relapse examination utilizing the NPL, LLR, ROA factors. Profitability and financial stability were directly impacted by loan loss provisions and non-performing loans, according to the findings of the study. In addition, there was a roundabout connection between credit risk the board, productivity, and monetary security. Coefficient NPL=0.328, p=0.075, LLR=1.105, p=0.000, constant=16.181, p=0.000), R-square=0.53, f=0.000). According to research, loan loss provisions (LLPs) and non-performing loans (NPLs) have a direct impact on profitability and financial stability. Profitability, financial stability, and credit risk management practices all have an indirect connection. The review's outcomes show that the model makes sense of 53% of the difference (R-square=0.53), with huge coefficients for NPLs (0.328, p=0.075) and LLPs (1.105, p=0.000), and a critical consistent (16.181, p=0.000), featuring the significance of overseeing credit risk.

2.4 Research Gap

The gap between previous and current research is referred to as the "research gap." Various students, professionals, and researchers have conducted a few studies on loan management. Since those review (for example the previously mentioned examinations) offer restricted discoveries, greater testing, and change of essential factors are required in arranged to be more convincing about the advance administration. The purpose of this research is quite distinct from that of the previous studies.

At first, fiscal years, or time period, and in the sample banks, there is a research gap between this study and previous ones. This study incorporates various devices like proportion examination, relationship investigation and co-productive of variety, t- measurements, pattern examination as unambiguous apparatuses which various apparatuses were not utilized in past reaseach. However, the loan management practices of three Nepali finance companies—Goodwill, Manjushree, and Pokhara Finance—are the focus of this study. Additionally, it is completely comparable to three finance

companies that rarely receive Anh. In the past examination, there was no obvious computation with advance and they could exclude by and large credit standard and credit methodology in Nepalese viewpoints while setting up those review (Taiwo, 2023). Those who are interested in and want to learn more about loans will benefit from its clear concepts and knowledge. The researchers who carry out their research will also benefit from it (Rahman, 2022). It will set an example regarding loan through this research work.

CHAPTER-III

RESEARCH METHODOLOGY

The main components of a scientific study's methodology are the techniques, methods, and procedures used. The study looked at credit risk and bank performance in Nepal using both descriptive and causal-comparative research designs. The elucidating approach was utilized to detail, measure, look at, and arrange the monetary states of Nepalese monetary establishments, especially zeroing in on C-class banks. In the meantime, the causal-comparative design investigated the effects of various factors on the outcomes of Nepalese finance companies' performance. This double methodology gave a complete comprehension of the monetary scene and the particular difficulties looked by these banks.

3.1 Research design

This study dealt with issues related to credit risk and bank performance in Nepal using a descriptive and causal research design. The descriptive research design was used to describe, measure, compare, and categorize the financial circumstances of Nepalese banks, particularly C-class banks. The concentrate additionally applied easygoing near research plan to investigate the exhibition of Nepalese money organizations. The essential motivation behind utilizing causal near research configuration in this study is to comprehend and analyze whether it is feasible to foresee bank execution estimated by ROA and ROE based on data about credit risk factors. All the more explicitly, the review examinations the connection between capital sufficiency proportions, liquidity proportion, credit and advance proportion non-performing credit proportion and return on resources and return on value of the Nepalese money organization during the time span of 2013/14 to 2022/23.

3.2 Population and sample

Nepal Rastra Bank (NRB) controls all the bank and monetary organizations of Nepal. Nepal currently has 17 "C" class banks, or finance companies, according to the Nepal Rastra Bank's most recent report from mid-July 2023. This study's population includes every finance company. Out of 17 money organization three C-class banks to be specific Goodwill, Manjushree and Pokhara Money chose for concentrate deliberately as test for financial time of 2013/14 to 2022/23. Non likelihood testing strategy with the purposive

and accommodation strategy for inspecting procedure is applied while choosing test from populace.

3.3 Nature and source of data and instrument of data collection

This study depends on optional wellsprings of information to meet its certified targets and answer the examination questions which are gotten from chosen three money organization in Nepal for the time of 2013/14 to 2022/23. The auxiliary wellsprings of information for the review are acquired from following sources:

- Mandates of NRB
- Measurements and Bank Management report distributed by Nepal Rastra Bank.
- The finance companies' annual reports
- Internet, visit to homepage and related links
- Several authors have written previous studies, research papers, articles, journals, and reports on the subject.

3.4 Data collection technique

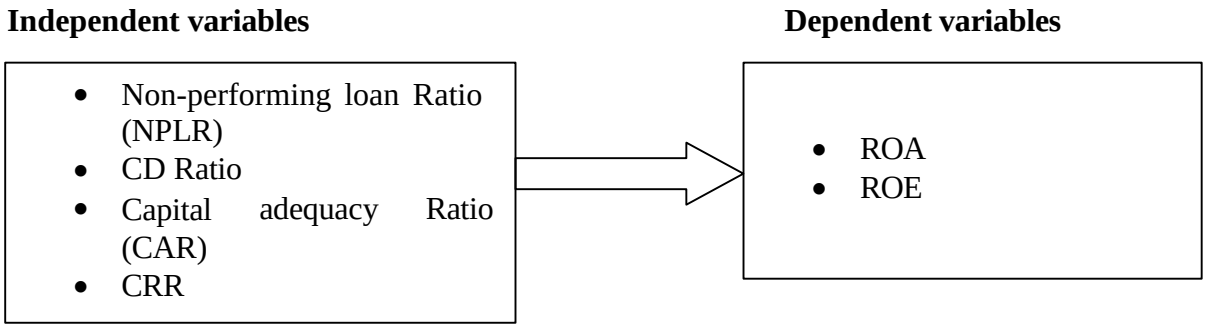
The information gathered from optional wellspring of information from chose banks yearly report, NRB mandates, distributed diaries, papers, articles, past reports with respect to subject. In order to determine the connection between research and theory, the study employs quantitative research methods. Quantitative examination is estimated concerning numbers. In the quantitative examination technique, the accentuation is on the evaluation of the gathered information.

3.5 Research framework

The research framework assists the researcher in establishing pertinent objectives and provides a clear illustration of the structure of the research plan. This study center around the credit risk the executives and bank execution of Nepalese money organizations. Different measurable instruments are utilized to figure out the connection among factors and depict the outcomes. The factors utilized in this study are Return on resources (ROA) and Return on value (ROE) as reliant factors which addresses the banks execution and Non-performing advance proportion (NPLR), Credit Store Proportion (CDR), Capital sufficiency proportion (CAR) and money save proportion (CRR) as autonomous factors which addresses credit risk the board.

Figure 1

Conceptual model of the variables



(Source: Modified From Zaidanin 2021)

Figure 1 shows the particular factors utilized in this review to quantify the credit risk the executives and bank execution of money companys in Nepal. The independent variables that represent credit risk management are the non-performing loan ratio (NPLR), the capital adequacy ratio (CAR), and the liquidity ratio (LR). The dependent variables that represent the performance of the bank are the return on assets (ROA) and return on equity (ROE).

Definitions of variables

Dependent Variables

The reliant variable is the variable being tried and estimated in an examination. Furthermore, the independent variable is reliant on the dependent variable. ROA and ROE are the study's dependent variables.

Return on Assets (ROA)

Return on resources (ROA) is a mark of how well a bank uses its resources, by deciding how productive an organization is comparative with its all out resources. ROA which express the risk taking way of behaving of bank the executives in acquiring the fulfilled degree of benefit per unit of complete assets. An analyst, manager, or investor can get a sense of how effectively a bank's management uses its assets to generate profits from the ROA number (Zaidanin, 2021).

Return on Equity (ROE)

The ratio of a bank's profitability to shareholders' equity is known as return on equity (ROE). Return on equity, or ROE, is a measure of a company's ability to return shareholders' money invested in it (Zaidanin, 2021).

Independent Variables

A variable is called free factor in the event that its worth isn't impacted by some other variable under the review. Changes in the dependent variables follow any shift in the independent variable. A variable independent and isn't changed by different factors. Therefore, the variables that serve as the foundation for predictions are the independent variables (Zaidanin 2021).

Non-performing loan ratio (NPLR)

The non-performing credit proportion is the proportion of how much non-performing advances in a bank's advance portfolio to the aggregate sum of remarkable credits the bank holds. A non-performing loan is one in which the borrower has fallen behind on payments for a predetermined amount of time and is in default. If the borrower is 90 days overdue on a development loan, it is considered non-performing in banking. If there is a high degree of uncertainty regarding the payment that will be made in the future, loans that are less than 90 days late are deemed non-performing by the International Monetary Fund (Zaidanin, 2021).

Credit to Deposit Ratio (CDR)

Reserves acquired by a substance from another element, repayable after a particular period conveying financing cost are known as credit. It is a commitment which should be reimbursed back after the expiry of the specified period. Advances are the money that a bank gives to a company for a specific purpose and has to be paid back in a short amount of time. It is a credit office which ought to be reimbursed in something like one year according to the terms, conditions and standards gave by Nepal Rastra bank for loaning and furthermore by the plans of concerned bank. The ability of banks to get deposits is a big part of how much money they can lend and give out. The loan and advances are provided by banks based on deposits. Loans, advances, and deposits are all dependent on one another at banks. Subsequently, credit a development proportion got based on banks absolute stores (Kwashie 2022).

Capital adequacy ratio (CAR)

The capital sufficiency proportion (CAR) is an estimation of a bank's accessible capital communicated as a level of banks risk weighted credit openness. The amount of capital required by a financial regulator for a bank or other financial institution is known as capital adequacy. This helps to ensure that financial institutions do not participate in or hold investments that increase the likelihood of default. What's more, to ensure that monetary establishments have sufficient money to support working misfortunes while regarding withdrawals (Kwashie 2022).

Cash Reserve Ratio (CRR)

Cash save proportion (CRR) is the level of a bank's all out stores that it needs to keep up with as fluid money. This is required by Nepal Rastra Bank, and the cash reserve is held with the Central Bank, which is NRB. According to Kwashie 2022, a bank cannot use this liquid cash for investing or lending because it does not earn interest on it (Kwashie 2022).

3.6 Data analysis tools

This part manages monetary and factual models utilized with the end goal of investigation of optional information. This includes the most common way of investigating the information that has been gathered. Tools for data analysis aid in making sense of the collected data. It makes it possible to report results and draw conclusions.

Descriptive analysis

A given data set, which may be a sample of a population or a representation of the entire population, is summarized using brief informational coefficients known as descriptive statistics. Proportions of focal propensity and proportions of changeability (spread) are the two principal classes of unmistakable insights. The mean, middle, and mode are estimations of focal inclination, while the standard deviation, fluctuation, least and greatest factors, kurtosis, and skewness are proportions of inconstancy.

Correlation Analysis

The direction and magnitude of the linear relationship between various pairs of variables will be determined using this design. It demonstrates the degree of association between two variables and how they move together. The bi-variant Pearson correlation coefficient

will be used to explain the relationship. It measures the correlation coefficient between X and y, which is typically indicated by the letter "r" and can be obtained as:

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - \left(\sum X\right)^2}\sqrt{n\sum Y^2 - \left(\sum Y\right)^2}}$$

Where,

n = number of observation in series X and Y

$\sum$X = sum of observation in series X

$\sum$Y = sum of observation in series Y

$\sum X^2$ = sum of squared observation in series X

$\sum Y^2$ = sum of squared observation n series y

$\sum$XY = sum of the product of observations in series X and Y

The value of correlation coefficient ranges from -1 to +1.

r = 0 means variables are correlated lies between -1 and +1

r = -1 means perfect negative correlation between the variables

r = +1 means positive correlation between the variables

Regression Analysis

In terms of the original units of the data, regression analysis is a mathematical measure of the average relationship between two or more variables. As a result, regression can be defined as the estimation or prediction of one variable's value from other variables' values. The relationship between each independent variable—NPLR, LLPR, LAR, CAR, and LR—and the dependent variables—ROA and ROE—is assumed by the regression model utilized in this investigation. The model that was used in this study is as follows:

Mode l

$ROA = \alpha + \beta_1 NPLR + \beta_2 CDR + \beta_3 CAR + \beta_4 CRR + e$ ..... (i)

Model 2

$ROE = \alpha + \beta_1 NPLR + \beta_2 CDR + \beta_3 CAR + \beta_4 CRR + e$.....(ii)

Where,

ROA = Return on assets

ROE= Return on equity

NPLR = Non-performing loan ratio

CDR = Credit Deposit Ratio

CAR= Capital adequacy ratio

CRR= Liquidity ratio i.e. Cash Reserve Ratio

α = constant term,

$e_=$ error term,

β_1, β_2, β_3, β_4,β_5 = Beta coefficient of variables

CHAPTER-IV
RESULT AND DISCUSSION

Data collection analysis and presentation are covered in this chapter. The bulk of the research can be found in the chapter Data presentation and analysis. After converting unprocessed data into an understandable presentation, the purpose of this chapter is to analyze and clarify the collected data in order to achieve the study's goal. Following the research methodology discussed in the third chapter, the data have been analyzed and interpreted using financial and statistical tools in this chapter. The data that was gathered from a variety of sources has been arranged in the required tables in accordance with their homogeneity in the analysis portion.

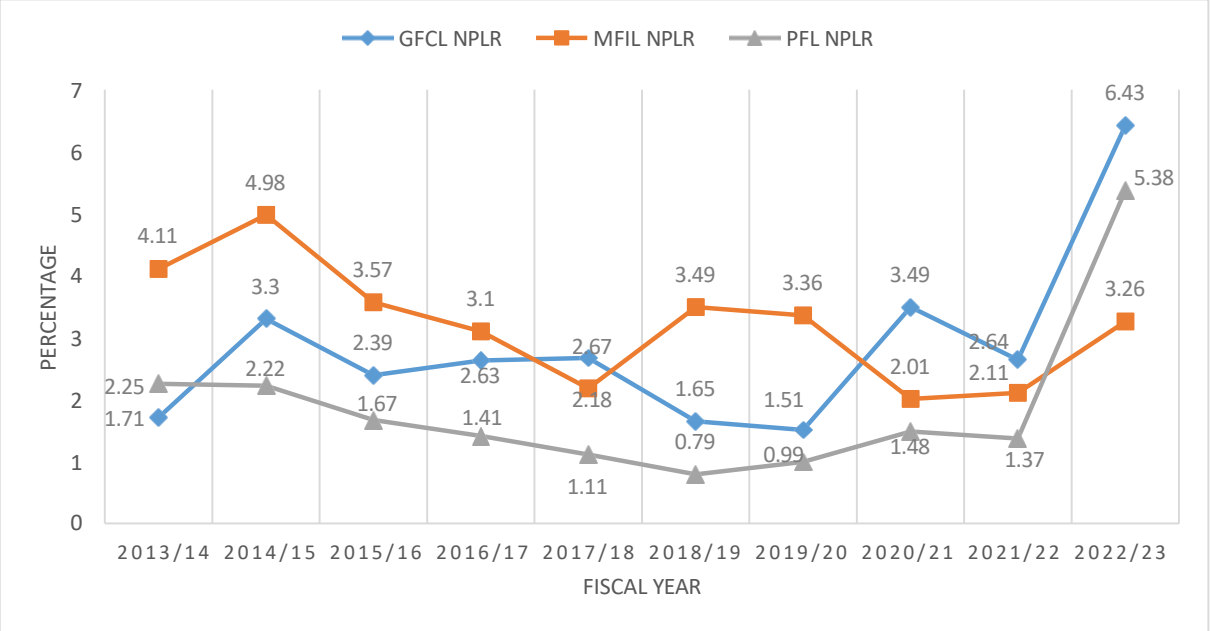
4.1 Structure and Patterns of Dependent and Independent Variables

1. Structure patterns of Non-Performing Loan Ratio

The non-performing credit proportion is the proportion of how much non-performing advances in a bank's advance portfolio to the aggregate sum of remarkable credits the bank holds. A non-performing loan is one in which the borrower has fallen behind on payments for a predetermined amount of time and is in default. If the borrower is 90 days overdue on a development loan, it is considered non-performing in banking. If there is a high degree of uncertainty regarding the payment that will be made in the future, loans that are less than 90 days late are deemed non-performing by the International Monetary Fund (Zaidanin, 2021).

Figure 2

Non-Performing Loan



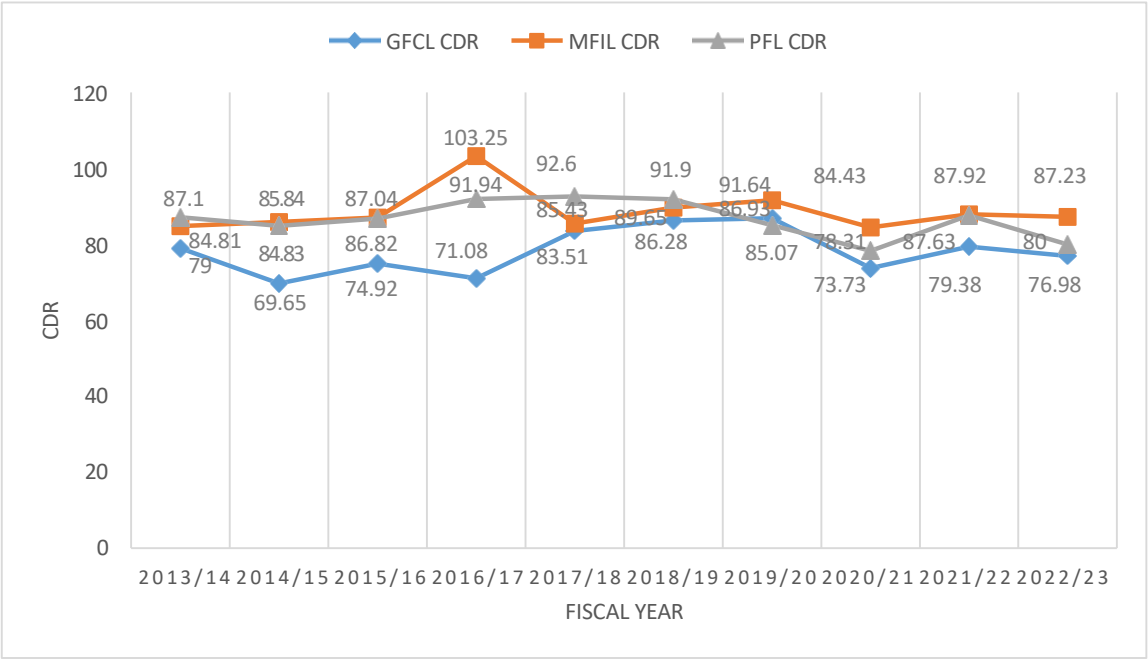
Above Figure 2 portray ta pattern of non-performing advance of goodwill finance restricted, manjushree finance restricted and pokhara finance restricted for the time of 2013/14 to 2022/23. The non-performing loan ratio fluctuates in all three finance companies. GFCL, MFIL, and PFL have ratios of 6.43, 4.98, and 5.38, respectively, while the lowest ratios are 1.51, 2.01, and 0.79 for the selected period.

2. Structure of Credit Deposit Ratio

The credit-deposit ratio, also known as the CD ratio, is the ratio of a bank's lending to its deposits. RBI doesn't specify a base or most extreme level for the proportion, however an exceptionally low proportion shows banks are not taking advantage of their assets. Advances are the money that a bank gives to a company for a specific purpose and has to be paid back in a short amount of time. The ability of banks to get deposits is a big part of how much money they can lend and give out. The loan and advances are provided by banks based on deposits. Loans, advances, and deposits are all dependent on one another at banks. Subsequently, credit a development proportion got based on banks absolute stores (Kwashie 2022).

Figure 3

Credit Deposit Ratio



The credit deposit ratio trend analysis for goodwill finance limited, manjushree finance limited, and pokhara finance limited from 2013/14 to 2022/23 is depicted in Figure 3. Credit store proportion of goodwill finance restricted, manjushree finance restricted and pokhara finance restricted shows change from 2013/14 to 2022/23. GFCL, MFIL, and PFL have the highest CD ratios of 86.93, 103.25, and 92.60, respectively. Similarly, 69.65, 84.43, and 78.31 are the lowest ratios.

3. Structure of Capital Adequacy Ratio

The capital sufficiency proportion (CAR) is an estimation of a bank's accessible capital communicated as a level of banks risk weighted credit openness. The amount of capital required by a financial regulator for a bank or other financial institution is known as capital adequacy. This helps to ensure that financial institutions do not participate in or hold investments that increase the likelihood of default. What's more, to ensure that monetary establishments have sufficient money to support working misfortunes while regarding withdrawals (Kwashie 2022).

Figure 4

Capital Adequacy Ratio

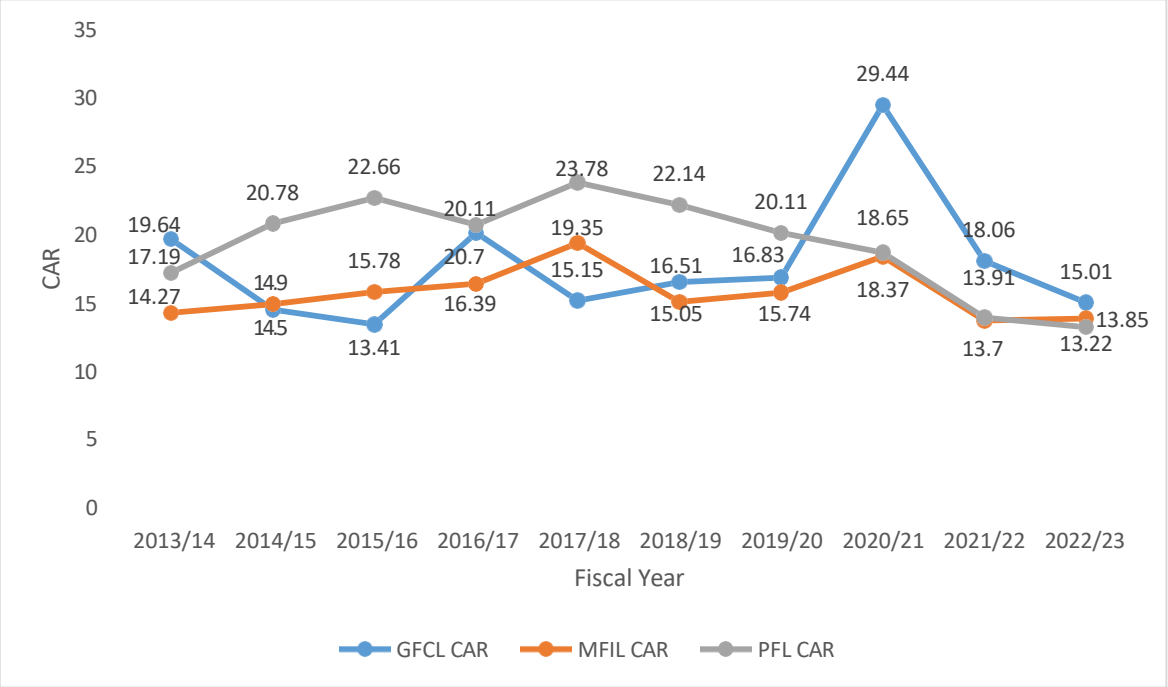


Figure 4 shows the rising pattern till 2020/21 however after that it goes descending slant which shows diminishing pattern in capital ampleness proportion of pokhara finance restricted. Essentially, it shows vacillation in capital ampleness proportion of goodwill finance restricted and manjushree finance restricted. In fiscal years 2020/21, 2017/18, and 2018, goodwill finance limited, manjushree finance limited, and pokhara finance limited had the highest ratios of 29.44, 19.35, and 23.78, respectively.

4. Structure of Cash Reserve ratio

The patterns and trends of the credit risk and performance of Manjushree finance company are depicted in the figure that follows, which also depicts the patterns and trends of the variables.

Figure 5

Cash Reserve ratio

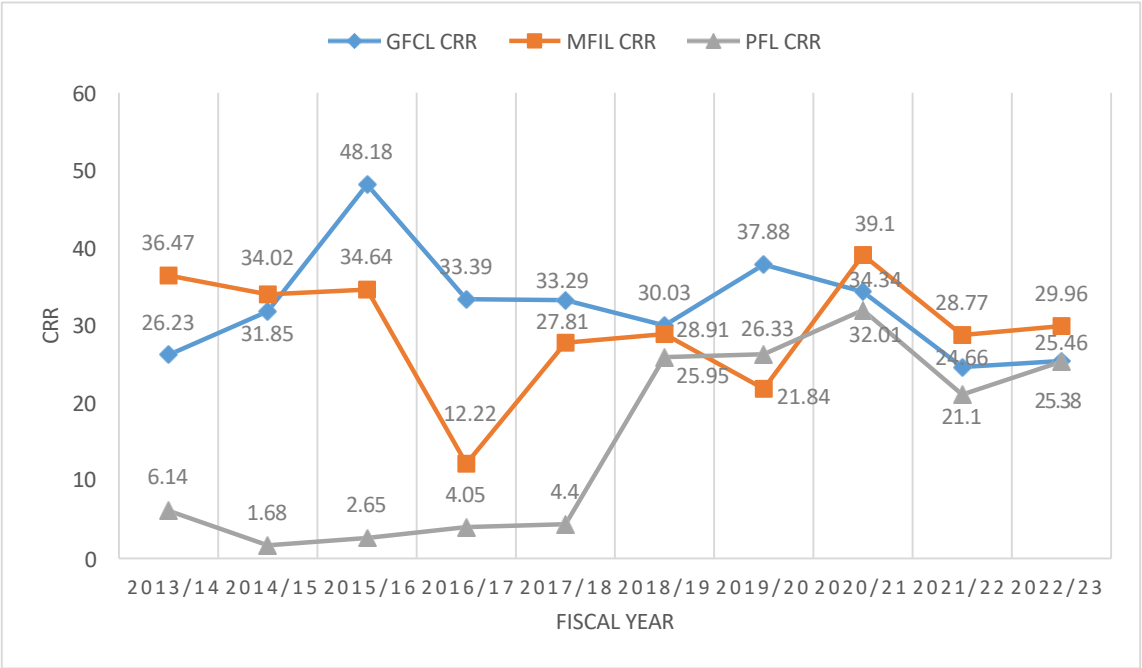


Figure 5 shows the pattern investigation of money save proportion of generosity finance restricted, manjushree finance restricted and pokhara finance restricted for the time of 2013/14 to 2022/23. From 2013/14 to 2015/16, this trend analysis shows an increase, but a decrease in 2016/17. Also, it shows again expanding pattern till 2020/21, a while later there is descending incline of pattern.

The highest cash reserve ratios are 48.18 for goodwill finance limited, 39.10 for manjushree finance limited, and 32.01 for pokhara finance limited, respectively. Similarly, goodwill finance limited, manjushree finance limited, and pokhara finance limited have the lowest cash reserve ratios of 24.66, 12.22, and 1.68, respectively.

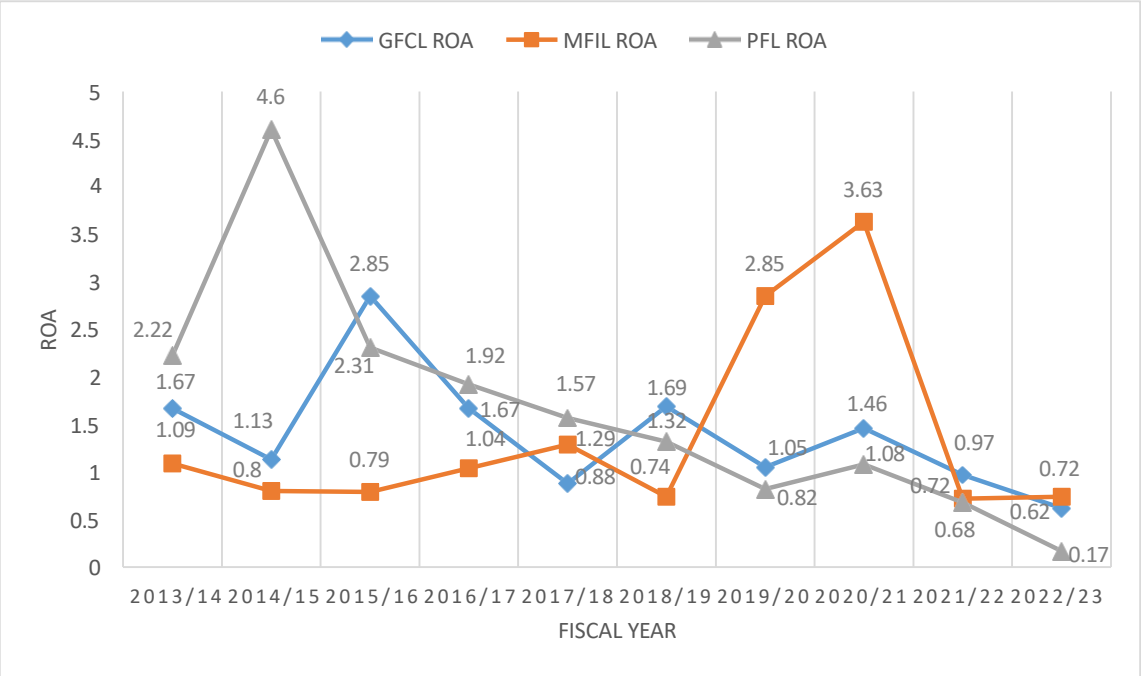
5. Structure patterns of Return on Assets

Return on resources (ROA) is a mark of how well a bank uses its resources, by deciding how productive an organization is comparative with its all-out resources. ROA which express the risk taking way of behaving of bank the board in getting the fulfilled degree of benefit per unit of absolute assets.

An analyst, manager, or investor can get a sense of how effectively a bank's management uses its assets to generate profits from the ROA number (Zaidanin, 2021).

Figure 6

Return on Assets



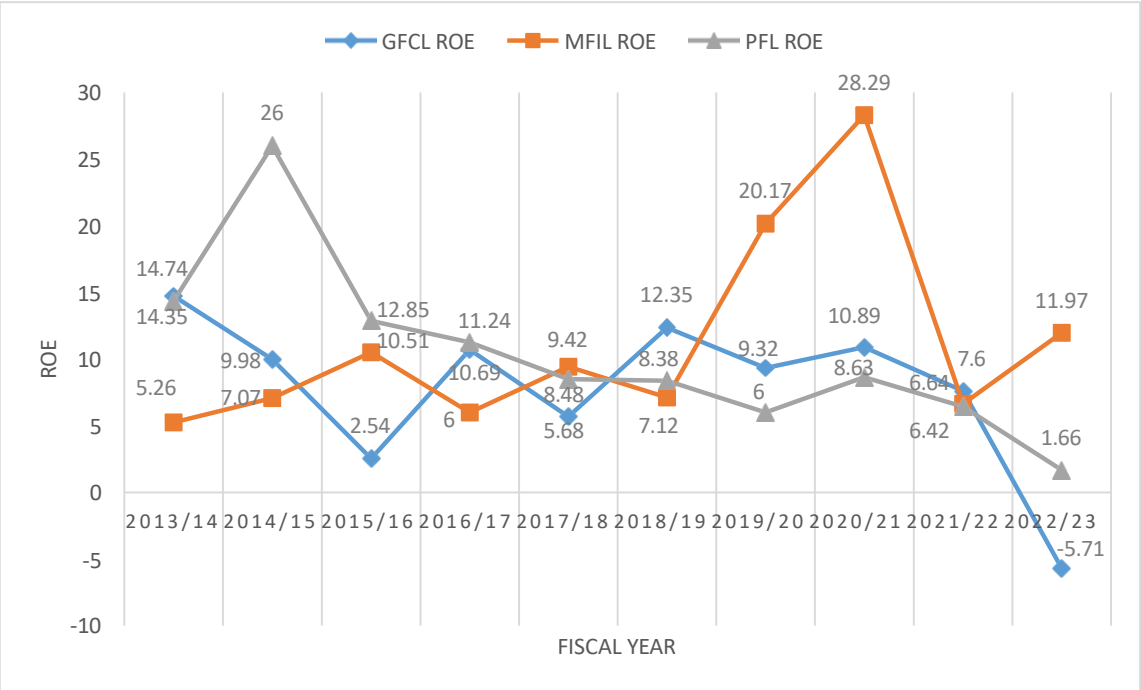
The return on assets trends for goodwill finance limited, manjushree finance limited, and pokhara finance limited from 2013/14 to 2022/23 are depicted in Figure 6. Goodwill Finance Limited and Manjushree Finance Limited's Return on Assets fluctuate, whereas Pokhara Finance decreases from 2014/15 to 2018/19, increases until 2020/21, and then decreases again until 2022/23. Goodwill Finance Limited, Manjushree Finance Limited, and Pokhara Finance Limited have ROAs of 2.85, 3.63, and 4.60, respectively; the ratios with the lowest values are 0.62, 0.72, and 0.17.

6. Structure of Return on Equity

The ratio of a bank's profitability to shareholders' equity is known as return on equity (ROE). The company's return on equity (ROE) is a measure of how well it is reinvesting its shareholders' money. A company's ROE is calculated by dividing its net income by its shareholders' equity. The return on equity (ROE) is a measure of a company's profitability and profitability efficiency. A company's ability to turn equity financing into profits increases with ROE (Zaidanin, 2021).

Figure 7

Return on Equity



Above figure 7 shows the pattern examination of return on value of goodwill finance restricted, manjushree finance restricted and pokhara finance restricted for the time of 2013/14 to 2022/23. Up until 2018/19, this trend of return on assets demonstrates the fluctuating trend. In a similar vein, it exhibits a trend of increasing until 2020/21, after which it decreases until 2022/23. The profit from value of generosity finance restricted, manjushree finance restricted and pokhara finance restricted has most elevated proportion of 14.74, 28.29 and 26.00 while least proportion are - 5.71, 5.26 and 1.66 separately in financial year 2022/23 and 2013/14 individually.

4.2 Descriptive Analysis

Table 2 contains the descriptive statistics for return on assets (ROA), return on equity (ROE), non-performing loan ratio (NPLR), cash deposit ratio (CD ratio), capital adequacy ratio (CAR), and cash reserve ratio (CRR), as well as the mean, median, maximum, minimum, and standard deviation.

Table 2

Descriptive analysis of the variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	.17	4.60	1.479	.9703
ROE	30	1.66	28.29	10.198	5.947
NPLR	30	.79	6.43	2.642	1.335
CDR	30	69.65	103.25	84.497	7.060
CAR	30	13.22	29.44	17.64	3.728
CRR	30	1.68	48.18	25.625	11.834

(Source: Calculation from MS Excel 2013)

The descriptive statistics table that summarizes key characteristics for each dataset variable related to finance company credit risk management is shown in Table 2. Return on assets (ROA), return on equity (ROE), non-performing loan ratio (NPLR), credit deposit ratio (CDR), capital adequacy ratio (CAR), and cash reserve ratio (CRR) are the six variables that are discussed in the table.

The "Actually imply" addresses the typical worth of every variable. For example, the mean ROA and ROE is 1.479 and 10.198, showing the typical ROA across the contemplated of chosen finance organizations. In a similar vein, the mean values of NPLR, CDR, CAR, and CRR are, respectively, 2.642, 84.497, 17.64, and 25.625.

The "Most extreme" shows the most elevated esteem noticed for every variable. For instance, the highest ROA and ROE among the ten fiscal years of the respective businesses is 4.60 and 28.29, respectively. The lowest value that was observed for each variable is shown under "Minimum." For instance, the lowest ROA and ROE among the ten fiscal years is 0.17 and 1.66, respectively.

The "Normal Dev." (Standard Deviation) gauges the spread or scattering of data of interest around the mean. It gives data about the fluctuation of the information. For instance, the standard deviation of ROA and ROE is 0.9703 and 5.947, recommending that the ROA values shift generally near the mean worth.

4.3 Correlation Analysis

The relationship between the return on assets, the return on equity, the non-performing loan ratio, the capital adequacy ratio, the credit deposit ratio, and the cash reserve ratio is

very important because it shows where the total loan is going in relation to changes in the total deposit volume. A bank will not be able to give enormous volumes of credit in the event that it doesn't get satisfactory and adequate stores in an opportune premise.

The correlation coefficient between total credit and total deposits, denoted by r, is shown in the table below. "r" stands for the coefficient of determination, and tcal and ttab stand for the calculated value of the t-statistic and the tabulated value of the t-statistic, respectively, at the 5% level of significance at 3 degrees of freedom. The accompanying outcomes merit featuring.

Table 3

Correlation between Dependent and Independent Variables

Variables	ROA	ROE	NPLR	CDR	CAR	CRR
Return on Assets	1					
Return on Equity	.801**	1				
Non-Performing Loan ratio	-.308*	-.243*	1			
Credit Deposit Ratio	.04*	.074	-.254	1		
Capital Adequacy Ratio	.514**	.456*	-.445*	.335	1	
Cash Reserve ratio	-.276	-.257	-.242	.482**	-.285	1

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

(Source: Appendix-II)

The correlation between ROA and ROE is significant at the 0.05 level of significance, with a coefficient of 0.801 indicating a high degree of positive correlation. Likewise, the connection among NPLR and ROA is - 0.308 showing low level of negative relationship and the relationship is huge at 5% degree of importance. In addition, CDR has a weak positive and statistically significant relationship with ROA but no relationship at all with ROE. Similarly, CAR has a moderately positive and significant relationship with ROE's 0.456 coefficients and a high degree of positive correlation with ROA's 0.514 coefficient. At -0.276 and -0.257, respectively, CRR has a weak negative correlation and no significant relationship with ROA or ROE. Likewise, NPLR showing low level of negative connection with ROE has critical relationship at 5% degree of importance.

4.4 Regression Analysis

Relapse examination is a bunch of measurable strategies utilized for the assessment of connections between a reliant variable and at least one free factors. It can be used to model the future relationship between variables as well as evaluate how strong the relationship is between them. In this study benefit is consider as reliant variable and Money and Bank Equilibrium is consider as free factors.

It tends to be express in following Condition:

Model 1

ROA = a + b1NPLR + b2CDR + b3CAR +b4CRR +e

Model 2

ROE = a + b1NPLR + b2CDR + b3CAR +b4CRR +e

Where,

a = Intercept or Average

b …. = Slope of

ROA = Return on Assets

ROE = Return on Equity

NPLR = Non-performing loan ratio

CDR = Credit Deposit Ratio

CAR = Capital Adequacy Ratio

CRR = Cash Reserve Ratio

e = error

4.4.1 Impact of NPLR, CDR, CAR and CRR on ROA

Table 4

Variables Entered/removed

Model	Variables Entered	Variables Removed	Method
1	CRR, NPLR, CAR, CDR		Enter

a. Dependent Variable: ROA
b. All requested variables entered.

The regression method was used to include all of the specified independent variables in the model, as shown in the table, with ROA serving as the dependent variable and CRR, NPLR, CAR, and CDR serving as the independent variables.

Table 5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599a	.359	.257	.83664

a. Predictors: (Constant), CRR, NPLR, CAR, CDR

The table shows the model outline of the relapse. The coefficient of determination, R2, has a value of 0.359, which indicates that non-performing loan ratio, credit deposit ratio, capital adequacy, and cash reserve ratio all account for 35.90% of the variation in ROA.

Table 6

ANOVA Table

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.804	4	2.451	3.502	.021b
	Residual	17.499	25	.700		
	Total	27.303	29			

a. Dependent Variable: ROA
b. Predictors: (Constant), CRR, NPLR, CAR, CDR

The overall summary and significance of the dependent and independent variables can be seen in the ANOVA table. In this table, it demonstrates that the effect of autonomous variable for example Non-performing advance proportion, credit store proportion, capital sufficiency and money save proportion on subordinate variable for example At significance level 0.05, ROA is statistically significant. 0.021.

Table 7

Regression coefficient

		Unstandardized Coefficients		Standardized Coefficients		
	Model	B	Std. Error	Beta	t	Sig.
1	(Constant)	3.576	2.493		1.434	.164
	NPLR	-.074	.132	-.102	-.564	.042
	CDR	-.043	.026	-.315	-1.668	.011
	CAR	.130	.048	.500	2.691	.013
	CRR	-.021	.015	-.260	-1.400	.141

a. Dependent Variable: ROA
(Source: Appendix III)

Regression analysis output: coefficient

The straight condition of this model is,

ROA = $3.576 - 0.074X_1 - 0.043X_2 + 0.130X_3 - 0.021X_4$

The constant term regression coefficients, NPLR, CDR, and CRR have p-values greater than 0.05, indicating that they have no significant effect on ROA, as shown in Table 6. However, the CAR p-values are 0.013 lower than the 0.05 level of significance. It shows CAR essentially affects ROA.

The beta values of the significant coefficients CRR are -1.400, indicating that an increase of one unit in CRR results in a decrease of 1.400 units in ROA, an increase of one unit in NPLR and CDR results in a decrease of 0.564 and 1.668 units in ROA, respectively, and an increase of one unit in CAR results in a rise of 2.691 units in ROA.

4.4.2 Impact of NPLR, CDR, CAR and CRR on ROE

Table 8

Variables Entered/removed

Model	Variables Entered	Variables Removed	Method
1	CRR, NPLR, CAR, CDR		Enter

a. Dependent Variable: ROE

b. All requested variables entered.

The regression method was used to include all of the specified independent variables in the model, as shown in the table, with ROA serving as the dependent variable and CRR, NPLR, CAR, and CDR serving as the independent variables.

Table 9

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.501a	.251	.132	5.54216

a. Predictors: (Constant), CRR, NPLR, CAR, CDR

The coefficient of determination, R2, has a value of 0.359, which indicates that non-performing loan ratio, credit deposit ratio, capital adequacy, and cash reserve ratio all account for 35.90% of the variation in ROA.

Table 10

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	257.959	4	64.490	2.100	.01b
	Residual	767.889	25	30.716		
	Total	1025.848	29			

a. Dependent Variable: ROE
b. Predictors: (Constant), CRR, NPLR, CAR, CDR

The overall summary and significance of the dependent and independent variables can be seen in the ANOVA table. In this table, it demonstrates that the effect of autonomous variable for example Non-performing advance proportion, credit store proportion, capital sufficiency and money save proportion on subordinate variable for example At the significance level of 0.05, ROE is insignificant. 0.111.

Table 11

Regression coefficient

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	14.339	16.515		.868	.394
	NPLR	-.194	.871	-.043	-.222	.026
	CDR	-.157	.172	-.186	-.915	.039
	CAR	.701	.321	.439	2.185	.038
	CRR	-.106	.101	-.211	-1.053	.03

a. Dependent Variable: ROE
(Source: Appendix IV)

Regression analysis output: coefficient

The linear equation of this model is,

ROE = $14.339 - 0.194X_1 - 0.157X_2 + 0.701X_3 - 0.106X_4$

Table 11 shows the relapse coefficient of consistent term, NPLR, CDR and CRR has p-esteem more noteworthy than 0.05 demonstrating immaterial effect on ROE. However,

the CAR p-values are 0.038 lower than the 0.05 level of significance. It demonstrates that CAR significantly affects ROE.

The significant coefficients' beta values are -1.053, indicating that an increase in CRR decreases ROE by 1.053 units, while an increase in NPLR and CDR decreases ROE by 0.222 and 0.915 units, respectively, and an increase in CAR increases ROE by 2.185 units.

4.5 Discussion

The purpose of the study called for credit risk to be used in the analysis of risk evaluations and management evaluations. The free factors of this study are non- performing advance proportion, capital ampleness proportion, credit store proportion and money hold proportion. The performance of risk and management has been measured and compared using statistical tools in the study.

The findings of this study are more in line with those of Hunjara and Muhammad (2014), who looked at bank performance fluctuations. It explains that the capital market in Nepal is extremely volatile. In respect, The "Imply" addresses the typical worth of every variable. The "Most extreme" shows the most elevated esteem noticed for every variable. The lowest value that was observed for each variable is shown under "Minimum." The "Normal Dev." (Standard Deviation) gauges the spread or scattering of data of interest around the mean.

The correlation between ROA and ROE is significant at the 0.05 level of significance, with a coefficient of 0.801 indicating a high degree of positive correlation. Similar to the findings of Timsina (2017) and Dube (2023), but distinct from those of George and Miroga (2017), the relationship between NPLR and ROA is -0.308, indicating a low degree of negative correlation and is significant at the 5% level of significance.

In addition, CDR has a weak positive and statistically significant relationship with ROA but no relationship at all with ROE. Similarly, CAR has a moderate positive and significant relationship with ROE and a high positive correlation and significant relationship with ROA. CRR has a weak negative correlation and no significant connection to ROA or ROE. Additionally, NPLR showing low level of negative

connection with ROE has critical relationship at 5% degree of importance. This is like the discoveries of Khan (2020) however go against with Olarewaju (2020).

Steady term, NPLR, CDR and CRR has p-esteem more noteworthy than 0.05 demonstrating irrelevant effect on ROA. However, the CAR p-values are below the 0.05 level of significance. It shows CAR altogether affects ROA which is like the discoveries of Mushafiq (2023) and Ramusi (2022). With p-values greater than 0.05, NPLR, CDR, and CRR have no effect on ROE. However, the CAR p-values are below the 0.05 level of significance. It demonstrates that CAR significantly affects ROE. This is in contradiction to Owich's findings, but it is in agreement with those of Kwashie (2022).

CHAPTER-V
SUMMARY AND CONCLUSION

The study's overview, summary, and conclusion are provided in this section, which also includes a brief introduction and conclusion. It features the principal objectives of the examination, gives a fast outline of the techniques and systems utilized, and presents the ends drawn from the outcomes and conversation part. The discoveries are deliberately organized to address the review questions and give an end.

5.1 Summary

Credit risk emerges when advances and protections held by monetary establishments neglect to convey the normal incomes. In the event that a borrower defaults, both the head and the expected interest installments are risked. Because of the potential loss, financial institutions must continuously gather information about borrowers and monitor them. Basically, credit risk mirrors the vulnerability of borrowers reimbursing their advances. Borrowers typically repay their loans when the value of their assets exceeds their debts. However, if their asset values fall below the loan amounts, they may default. The most significant risk for banks is credit risk, and their success depends on its accurate measurement and effective management. The cost of debt and equity rises as a result of increased credit risk, increasing the bank's funding costs. Trade credit insurance is often used to support effective credit management, which ensures timely payments, low credit costs, and managed bad debts. It is critical to intermittently survey and adjust acknowledge arrangements to adjust for the bank's essential objectives and economic situations. In Nepal, finance organizations face difficulties from high non-performing credits (NPLs), influencing their steadiness and productivity. Viable credit risk the board rehearses, as exhaustive credit evaluations, are fundamental for moderating these dangers. Regardless of these difficulties, Nepalese banks keep serious areas of strength for a sufficiency proportion (CAR) and return on resources (ROA), demonstrating hearty monetary wellbeing and benefit. Incorporating progressed risk the board structures is critical to upgrading long haul monetary execution and security. The purpose of this research is to determine how a Nepalese finance company's profitability is affected by credit risk management. It focuses on figuring out how various financial ratios are

structured and organized, how these ratios relate to one another, and how certain ratios affect the company's return on assets (ROA) and return on equity (ROE).

According to a systemic point of view, this study utilized a causal and distinct examination plan to resolve inquiries concerning credit chance and bank execution with regards to Nepal. Using a straightforward and efficient sampling method, participants were selected. To achieve the study's objectives, a descriptive and causal comparative research design was utilized. In a similar vein, secondary sources were consulted in order to collect the required data from FY 2013/14 to FY 2022/23. Also, factors are estimated and investigated utilizing MS-Succeed and SPSS programming to decide the importance of the information that has been accumulated.

The review shows the connection among ROA and ROE is 0.801 showing serious level of positive relationship and the relationship is critical at 0.01 degree of importance. Likewise, the connection among NPLR and ROA is - 0.308 showing low level of negative relationship and the relationship is huge at 5% degree of importance. The significant coefficients' beta qualities show how much and in which bearing they influence ROA and ROE. Specifically, the beta incentive for CRR is - 1.400, truly intending that for each unit ascend in CRR, ROA diminishes by 1.400 units. Similar to this, for every unit increase in NPLR, ROA decreases by 0.564 and 1.668 units, respectively. On the other hand, a one-unit increase in CAR is followed by an increase of 2.691 units in ROA. With a p-esteem bigger than 0.05, the steady term's relapse coefficient, NPLR, CDR, and CRR, shows no detectable impact on ROA. By and by, the CAR's p-worth of 0.013 is beneath the 0.05 importance limit. This suggests that CAR has a significant impact on ROA. As per the beta upsides of critical coefficients, an increment of one unit in CRR causes a lessening in ROE of 1.053 units, while increments of one unit in NPLR and CDR cause decreases in ROE of 0.222 and 0.915 units, separately. Conversely, ROE rises by 2.185 units for each unit increase in CAR. According to these findings, although the majority of variables have little impact on ROE, CAR is necessary for increasing ROE. As a result, banks should concentrate on maintaining a solid capital adequacy ratio in order to boost their return on equity. The constant term, NPLR, CDR, and CRR regression coefficients have no significant impact on ROE with p-values greater than 0.05. Then again, CAR altogether affects ROE, as

demonstrated by its p-worth of 0.038, which is not exactly the importance standard of 0.05.

5.2 Conclusion

The information got from this study feature the patterns and examples of credit risk the board methodologies and its connection with the benefit for example ROA and ROE. Additionally, it seeks to determine how credit risk factors affect the profitability of the selected Nepali finance company. The study came to the conclusion that banks that have given loans based on nepotism and favoritism have a lot of nonperforming loans (NPL), which puts the bank at risk for credit, especially government-owned banks like Manjushree Finance Limited, which has a lot of NPL.

The review uncovers that the BFIs follow the loaning standards as referenced in NRB round areas 55 of BAFIA 2073, rules given by money related arrangement and mandates gave by Nepal Rastra Bank, 5C and other winning regulations prior to dispensing credits and advances to people or association to forestall credit risk. A researcher discovers that the government-owned bank's weak corporate governance, which may be brought on by political interference or a lack of ethics among bank employees, is another factor in the rise in non-performing loans.

The review finish up a few critical connections between monetary execution pointers and monetary proportions. ROA and ROE are interdependent, as evidenced by a strong positive correlation. In contrast, a low negative correlation between NPLR and ROA suggests that higher non-performing loan ratios are associated with lower returns on assets. The connection among's CDR and ROA is positive yet low, showing some effect on resource returns, however it fundamentally affects ROE. CAR exhibits areas of strength for a relationship with ROA and a moderate positive relationship with ROE, stressing its significance in monetary execution. The CRR shows a low bad connection with both ROA and ROE, however these connections are not measurably critical, proposing that money save proportions limitedly affect monetary execution. Moreover, NPLR has a low regrettable connection with ROE, however this relationship is critical, demonstrating that non-performing credits unfavorably influence value returns. Generally, these discoveries feature the mind boggling transaction between different

monetary proportions and execution markers, offering important bits of knowledge for partners and making ready for additional exploration in the field.

The relapse examination shows that the consistent term, NPLR, CDR, and CRR don't altogether influence ROA, as their p-values are more noteworthy than the normal edge for importance. CAR, on the other hand, has a significant impact on ROA with a p-value that is well below the threshold. Specific relationships are revealed by the beta values of significant coefficients: increases in ROA are correlated with decreases in CRR, NPLR, and CDR, whereas increases in ROA are significantly boosted by increases in CAR. Thus, among the factors inspected, just CAR shows a measurably huge positive effect on ROA, underlining its significance for monetary execution. This suggests that improving their return on assets should be a top priority for financial institutions that want to keep a high capital adequacy ratio. Besides, the review infers that NPLR, CDR, and CRR don't fundamentally affect ROE, as demonstrated by their higher p-values. On the other hand, ROE is significantly affected by CAR, but the p-value is below the threshold. The negative beta coefficient for CRR proposes that an expansion in CRR prompts a diminishing in ROE, like the impacts of expansions in NPLR and CDR. Notwithstanding, an expansion in CAR essentially upgrades ROE. These outcomes highlight the basic job of CAR in impacting ROE, while different factors don't show a genuinely massive impact.

5.3 Implications

This study is supposed to offer important experiences, especially for understudies of business the executives. By understanding the mind boggling elements of monetary factors and their effect on the exhibition of money organizations, understudies can apply hypothetical information to certifiable situations, improving their scholar and viable abilities. Additionally, the research provides investors and stakeholders with trustworthy data, enabling them to make sound financial decisions based on empirical data.

This examination is additionally valuable for the administration of money organizations, as it can educate the turn of events and execution regarding brilliant courses of action and approaches, as well as help in hierarchical rebuilding endeavors. Moreover, the discoveries of this study are important to academicians, who can distinguish helpful

exploration holes and be propelled to investigate further examination in related points. This adds to the group of information in the field and encourages scholastic talk.

Last but not least, the study aims to increase readers' financial literacy, particularly with regard to credit risk management and its ramifications. By explaining these ideas, the examination assists perusers with understanding the meaning of credit risk the executives in accomplishing different monetary goals and energizes informed navigation.

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APPENDICES

Appendix I

Information of Sample Finance Companies

Goodwill Finance Limited

Variables	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
NPLR	1.71	3.3	2.39	2.63	2.67	1.65	1.51	3.49	2.64	6.43
CDR	79	69.65	74.92	71.08	83.51	86.28	86.93	73.73	79.38	76.98
CAR	14.27	14.9	15.78	16.39	19.35	15.05	15.74	18.37	13.7	13.85
CRR	26.23	31.85	48.18	33.39	33.29	30.03	37.88	34.34	24.66	25.46
ROA	1.67	1.13	2.85	1.67	0.88	1.69	1.05	1.46	0.97	0.62
ROE	14.74	9.98	2.54	10.69	5.68	12.35	9.32	10.89	7.6	-5.71
Net profit	56	42	14	97	62	148	114	193	146	-92
Equity	380	421	552	907	1092	1198	1223	1772	1922	1610

Source: Annual Report of Goodwill

Manjushree Finance Limited

Variables	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
NPLR	4.11	4.98	3.57	3.1	2.18	3.49	3.36	2.01	2.11	3.26
CDR	84.81	85.84	87.04	103.25	85.43	89.65	91.64	84.43	87.92	87.23
CAR	19.64	14.5	13.41	20.11	15.15	16.51	16.83	29.44	18.06	15.01
CRR	36.47	34.02	34.64	12.22	27.81	28.91	21.84	39.1	28.77	29.96
ROA	1.09	0.8	0.79	1.04	1.29	0.74	2.85	3.63	0.72	0.74
ROE	5.26	7.07	10.51	6.00	9.42	7.12	20.17	28.29	6.64	11.97
Net profit	13	20	33	51	92	73	263	497	120	247
Equity	247	283	314	850	976	1026	1304	1757	1808	2064

Source: Annual Report of Manjushree

Pokhara Finance Limited

Variables	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
NPLR	2.25	2.22	1.67	1.41	1.11	0.79	0.99	1.48	1.37	5.38
CDR	87.11	84.83	86.82	91.94	92.6	91.9	85.07	78.31	87.63	80
CAR	17.19	20.78	22.66	20.7	23.78	22.14	20.11	18.65	13.91	13.22
CRR	6.14	1.68	2.65	4.05	4.4	25.95	26.33	32.01	21.1	25.38
ROA	2.22	4.6	2.31	1.92	1.57	1.32	0.82	1.08	0.68	0.17
ROE	14.35	26	12.85	11.24	8.48	8.38	6	8.63	6.42	1.66
Net profit	65	156	88	88	101	102	74	117	91	24
Equity	453	600	685	783	1191	1217	1234	1356	1419	1441

Source: Annual Report of Pokhara

Appendix II

Correlation Analysis

Variables		ROA	ROE	NPLR	CDR	CAR	CRR
ROA	Pearson Correlation	1	.801**	-.308	.004	.514**	-.276
	Sig. (2-tailed)		.000	.098	.981	.004	.140
	N	30	30	30	30	30	30
ROE	Pearson Correlation	.801**	1	-.243	.074	.456*	-.257
	Sig. (2-tailed)	.000		.197	.699	.011	.170
	N	30	30	30	30	30	30
NPLR	Pearson Correlation	-.308	-.243	1	-.254	-.445*	.242
	Sig. (2-tailed)	.098	.197		.175	.014	.197
	N	30	30	30	30	30	30
CDR	Pearson Correlation	.004	.074	-.254	1	.335	-.482**
	Sig. (2-tailed)	.981	.699	.175		.070	.007
	N	30	30	30	30	30	30
CAR	Pearson Correlation	.514**	.456*	-.445*	.335	1	-.285
	Sig. (2-tailed)	.004	.011	.014	.070		.126
	N	30	30	30	30	30	30
CRR	Pearson Correlation	-.276	-.257	.242	-.482**	-.285	1
	Sig. (2-tailed)	.140	.170	.197	.007	.126	
	N	30	30	30	30	30	30

Source: SPSS Output

Appendix III

Regression Analysis

Impact of CRR, NPLR, CAR and CDR on ROE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.673a	.453	.339	4.69424

a. Predictors: (Constant), TITD, NPLR, CDR, CAR, LLPR

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	438.156	5	87.631	3.977	.009b
	Residual	528.862	24	22.036		
	Total	967.018	29			

a. Dependent Variable: ROE

b. Predictors: (Constant), TITD, NPLR, CDR, CAR, LLPR

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	55.932	12.673		4.414	.000
	TITD	.040	.109	.074	.362	.721
	NPLR	-2.538	1.020	-.544	-2.488	.020
	CDR	-.325	.178	-.472	-1.833	.079
	CAR	-.884	.420	-.541	-2.105	.046
	LLPR	.008	.013	.096	.578	.569

a. Dependent Variable: ROE

Source: SPSS Output

Impact of CRR, NPLR, CAR and CDR on ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.568a	.323	.182	.44933

a. Predictors: (Constant), LLPR, CAR, TITD, NPLR, CDR

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.311	5	.462	2.289	.078b
	Residual	4.846	24	.202		
	Total	7.157	29			

a. Dependent Variable: ROA

b. Predictors: (Constant), LLPR, CAR, TITD, NPLR, CDR

Regression Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	4.615	1.213		3.805	.001
	TITD	.002	.010	.049	.216	.831
	NPLR	-.297	.098	-.740	-3.044	.006
	CDR	-.031	.017	-.515	-1.798	.085
	CAR	.006	.040	.045	.156	.878
	LLPR	.000	.001	-.071	-.388	.701

a. Dependent Variable: ROA

Source: SPSS Output

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Abstract The main purpose of this study is to examine the impact of non-performing loan ratio, credit deposit ratio, capital adequacy ratio and liquidity ratio on profitability of development banks performance. It also aims to analyze the relationship between return on assets, return on equity, non-performing loan ratio, capital adequacy ratio, credit deposit ratio and liquidity ratio with Nepalese C-class financial institutions' performance. The secondary data was collected from sample banks and examined by applying standard financial analysis and statistical tools. It used the multiple regression analysis to examine the effect of credit risk management on profitability of finance company in Nepal. From the regression outcomes the result found that the result shows that these independent variables have significant relationship with profitability and credit risk management significantly impact the profitability of the selected three finance companies.

It is therefore suggested that to enhance financial performance and minimize the risk of non-performing loans in the future, banks must watch very carefully the loans' performance and analyze thoroughly the clients' credit history and ability to pay back their debts prior to any approval of loan applications. Furthermore, banks should continuously improve their assets utilization, liquidity, and techniques of managing operating costs, improve the impact of capital adequacy, and the use of deposits for lending activities from a weak positive impact to a significant positive impact on their profitability. The researchers recommend that future studies on credit risk management influence on banks' financial performance should consider more independent variables and longer periods of study such as fifteen to **twenty years to have more accuracy and generalized results** . Key Words: Credit **Risk**

, Non-performing loan, Profitability and Credit Risk Ratio (CRR). vi CHAPTER-I INTRODUCTION 1.1 Background of the Study Credit is the gamble that the guaranteed incomes from advances and protections held by monetary organizations may not be settled completely. Both the principal amount loaned and the anticipated interest payments are at risk if the borrower defaults. The potential misfortune a monetary foundation can encounter proposes that monetary establishments need to gather data about borrowers whose resources are in their portfolios and to screen those borrowers extra time. Credit risk is the vulnerability related with borrower's