

**IMPACT OF CREDIT RISK MANAGEMENT ON PERFORMANCE OF
COMMERCIAL BANKS IN NEPAL**

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

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of the dissertation entitled “**IMPACT OF CREDIT RISK MANAGEMENT ON PERFORMANCE OF COMMERCIAL BANKS IN NEPAL**”. The work of this dissertation has not been submitted previously for conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work have been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

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ACKNOWLEDGEMENTS

I would like to forward my deepest gratitude to Asst. Prof. Bhoj Raj Ojha of Shanker Dev Campus who supports me with their invaluable scholarly supervision, constructive comments and suggestions that allow me to furnish this thesis report in this final format.

I would like to pay my sincere thanks to Asst. Prof. Dr. Sajeeb Kumar Shrestha of Shanker Dev Campus. Besides, I would also like to thank to other respected teachers of Shanker Dev Campus and all the staff of this campus for their help in providing me various kinds of suggestions, information and comments.

Further, my deep regard to known and unknown individual who helped to collect the data at preliminary stage of this dissertation writing.

It is the matter of my immense pleasure to express my deep sense of gratitude and heartfelt respect to my parents for their affection, inspiration and incredible support to precede my academic career.

Ramesh Raj Bhandari

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ABBREVIATIONS

ADB:	Agriculture Development Bank
AQ:	Assets Quality
BAFIA:	Bank and Financial Institutions Act
CAR:	Capital Adequacy Ratio
LQ:	Liquidity
ME:	Management Efficiency
MNBBL:	Muktinath Bikas Bank Limited
NIDC:	Nepal Industrial and Development Corporation
NIM:	Net Interest Margin
NPL:	Non-Performing Loan
NRB:	Nepal Rastra Bank
RBB:	Rastriya Banijya Bank
ROA:	Return On Assets
ROE:	Return On Equity
SDBL:	Shangrila Development Bank Limited
SPSS:	Statistical Package for the Social Sciences

ABSTRACT

This study examines credit risk management practices in Nepalese commercial banks, with a specific focus on Everest Bank Ltd. (EBL), NABIL Bank Ltd. (NABIL), and Standard Chartered Bank Ltd. (SCB). The research investigates the effectiveness of credit risk management frameworks, governance mechanisms, and the role of regulatory bodies in mitigating risks. Using secondary data from annual reports of the selected banks, regulatory authority reports, and other relevant sources, the study analyzes various financial indicators such as credit deposit ratio, capital adequacy, non-performing loans (NPL), loan loss provisions, and lending practices. The findings suggest that while all sample banks maintain adequate capital ratios and core capital levels, EBL demonstrates superior credit risk management, particularly in terms of loan loss coverage. Conversely, NABIL faces higher credit risks due to a relatively weaker credit appraisal and governance system. The research highlights the increasing credit risk challenges faced by these banks, and the lack of diversification in their lending portfolios. The study recommends that banks enhance their loan assessment practices, focus on sustainable growth policies, and ensure regular monitoring of credit portfolios to minimize defaults. Additionally, it suggests that future research could expand the data set and explore different sectors to further validate the findings. Overall, the study contributes valuable insights into the current state of credit risk management in Nepalese banks and provides recommendations for improving banking practices.

Keywords: *Credit Risk Management, Capital Adequacy, Non-Performing Loans (NPL), Loan Loss Provisions, Lending Practices, Governance, Regulatory Authority, Financial Performance*

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Credit risk refers to the possibility of an investor incurring losses when a borrower fails to fulfill payment obligations. This failure, commonly referred to as default, results in adverse outcomes such as loss of principal and interest, diminished cash flow, and elevated collection costs. Consequently, banks and financial institutions dedicate significant effort and resources to managing credit risk (Santomero, 2002:109). A bank's readiness to undertake or sustain credit risks is influenced by the assessment and balance of the positive and negative aspects of a proposal. The primary objective of credit risk assessment is to evaluate a borrower's ability to meet their financial obligations to the bank and other creditors as they fall due.

For many banks, loans represent the most substantial source of credit risk. However, credit risk extends beyond loans and can be found in other banking activities, including transactions in the trading book and banking book, both on and off the balance sheet. Credit risk also arises from financial instruments such as acceptances, interbank transactions, trade financing, foreign exchange dealings, and the issuance of guarantees and commitments (Mayo, 2004).

Nepal Investment Bank Limited (NIBL) has adopted comprehensive methodologies to assess credit risk at both individual borrower and portfolio levels. These assessments include evaluating risk rating systems, portfolio analysis, large exposures, and risk concentrations to ensure adequate capital. Internal risk rating systems play a vital role in identifying and measuring risk across all credit exposures. Such systems provide detailed ratings for all assets, facilitating better monitoring and management of credit risk and supporting capital adequacy analyses (Bhattarai, 2016).

Evaluating credit risk requires an analysis of relevant information and a balance of positive and negative factors to determine appropriate credit limits and terms. Credit officers and approval committees must exercise sound judgment, ensuring they have sufficient information to make informed recommendations and decisions (Mayo, 2004).

Lenders often rely on proprietary credit scoring models to assess the risk profiles of both prospective and existing customers. For unsecured products like personal loans and mortgages, pricing strategies often reflect customer risk levels, with higher-risk customers being charged higher rates. For revolving credit products such as credit cards and overdrafts, the risk is

mitigated by setting credit limits. Additionally, certain products require collateral, typically in the form of property.

Corporate and commercial borrowers undergo rigorous assessments using credit scoring models with qualitative and quantitative criteria. These assessments cover factors such as operational experience, management expertise, asset quality, leverage, and liquidity ratios. Once credit officers and committees thoroughly review this information, funds are disbursed under the agreed terms and conditions outlined in the lending contracts.

Credit risk is particularly significant for large-scale investment projects, commonly known as megaprojects, as these are prone to cost overruns and delays. Such challenges often lead to a "debt trap," where debt servicing costs exceed the revenues available for repayment (Chatterjee, 2004:76). Effective credit risk management is thus critical for financial institutions, as their core business revolves around borrowing and lending funds entrusted to them by shareholders and depositors (Treacy & Carey, 2000).

Everest Bank Limited (EBL), established in 1994, is recognized for delivering professional and efficient banking services and has been serving diverse societal segments.

Nabil Bank Limited, the first private-sector bank in Nepal, commenced operations in July 1984 to provide international-standard banking services across the country. Nabil offers comprehensive commercial banking services through its 118 points of representation and has over 1,500 Nabil Remit agents nationwide.

Standard Chartered Bank Nepal Limited has been operational in Nepal since 1987. Initially established as a joint venture, the bank is now part of the Standard Chartered Group, which holds a 75% stake in the institution, with the remaining 25% owned by the Nepalese public.

Numerous studies, including those by Acharya (2003), Demetriades and Luintel (1996), Ferrari, Jaffrin, and Shrestha (2007), Khanal (2007), Pokhrel (2006), and Shrestha (2005), have explored Nepal's financial and banking sectors, policy frameworks, and liberalization efforts, no comprehensive research has been conducted to examine the impact of credit risk management on the performance of Nepalese banks.

This study aims to bridge this research gap by investigating the effect of credit risk management on the performance of Nepalese commercial banks. The study focuses on three leading banks: Everest Bank Limited, Nabil Bank Limited, and Standard Chartered Bank Nepal Limited, providing an in-depth analysis of their credit risk management practices and their influence on overall performance.

1.2 Problem Statement

Credit risk, also known as default risk, refers to the potential loss an investor faces when a borrower fails to meet their payment obligations. This risk can result in financial losses, such as lost principal and interest, reduced cash flow, and increased recovery costs. To manage this critical issue, banks and financial institutions invest substantial time and resources (Santomero, 2002:108). The growth of the financial services sector is crucial for a nation's economic progress and sustainable development, as it plays a vital role in empowering the financial function.

However, the sector has faced significant challenges due to the pandemic, leaving banks and financial institutions in a critical condition. The Nepali financial system has suffered considerable setbacks due to widespread unemployment and the shutdown of key economic and social sectors. The spread of the coronavirus has created risks across multiple sectors. As businesses face closure, many people struggle to meet basic needs, leading to expectations of losses or reduced profit margins in banking and financial companies.

Credit expansion serves as a key indicator of business performance. This study primarily focuses on identifying major credit threats and the emerging credit risks that current banks and financial institutions face. It also explores various measures to address these emerging threats by adhering strictly to the regulations set by the governing body, the Nepal Rastra Bank (NRB), to ensure standard and prudent performance within the industry. The study is mainly concentrated to:

- i. What is the current position of Performance of commercial banks in Nepal?
- ii. Is there any relationship between Credit risk and the financial performance of commercial banks in Nepal?
- iii. Do size, capital adequacy ratio, non-performing loan ratio, and credit to deposit ratio have any effect on financial Performance of commercial banks in Nepal?

1.3 Objectives of the Study

The primary objective of this study is to analyze the credit risk management practices of commercial banks in Kathmandu, Nepal. In the line with this, the specific objectives are as follows:

- i. To assess the position of Performance of commercial banks in Nepal.
- ii. To analyze the relationship between credit risk management and financial performance of commercial banks in Nepal.
- iii. To examine the impact of Size, Capital adequacy ratio, Non-performing loan ratio and Credit to deposit ratio on financial performance of commercial banks in Nepal.

1.4 Rationale of the Study

The findings of this study will assist regulators and policymakers in establishing a regulatory policy framework to protect the financial system from crises and better understand and quantify credit risk exposures. The study is expected to be immensely beneficial, particularly for individuals in the banking industry, such as bankers, financial analysts, bank managers, internal auditors, top management of commercial banks, and investors. It will not only enhance the researcher's understanding of credit risk management but also provide the public with greater insight into the banking industry. Researchers and academics will benefit from this study by gaining a theoretical and empirical framework to understand how credit risk factors affect the financial performance of commercial banks in Nepal.

This study provides empirical evidence supporting the validity of theories that can help bank management determine the best credit risk strategies to enhance bank performance. Given that the banking industry in Nepal is still growing, it is crucial to implement effective strategies to minimize risk and maximize loan performance. Given Nepal's developing banking sector, the implementation of effective credit risk strategies is essential for minimizing risks and maximizing loan performance. This study will provide guidance for bank executives on managing credit risks and adopting strategies to improve operational efficiency and profitability.

1.5 Limitations of the Study

Many Nepalese commercial banks are found to approve loans without thorough examination, which can lead to an increase in loan defaults and non-performing loans. Therefore, it is essential to investigate whether investments in credit risk management are viable for these banks. This study aims to explore the impact of credit risk indicators on a bank's financial performance in Nepal.

It will examine how credit risk affects banks' financial performance using a robust sample, and the findings will provide a basis for policy measures that various authorities can use to mitigate the effects of credit risk. These measures will help enhance the quality of banks' risky assets.

For the completion of this study, the following facts are the basic limitations.

- i. This study is based on secondary data only. Accuracy depends upon the data collected and provided by the bank.
- ii. Limited time and resource are major constraint.
- iii. Through there has been in operation of 20 Commercial Banks in Nepal, but Only 3 banks EBL, NABIL and SCB are taken as sample.
- iv. Last-day data has been considered as representative of a whole year.
- v. The study is based on only secondary sources of data.
- vi. The sources of data are published annual reports and internet websites which is assumed to be correct.

CHAPTER II

REVIEW OF LITERATURE

The literature review is a summary of previous studies on a specific topic, surveying scholarly books, articles, and other sources relevant to the area of study or interest. This process helps the new researcher understand the scope of the existing body of knowledge and identify research gaps, guiding the study to address these gaps. In this chapter, the focus is on reviewing literature relevant to the credit risk management of commercial banks. Various books, journals, articles, annual reports, and research papers related to this topic have been reviewed. This chapter is organized as follows:

2.1 Theoretical Review

This section reviews general theories of credit risk management, providing insights into how banks manage credit risk, even though specific approaches may vary among institutions. The theories of credit risk management discussed include:

2.1.1 Commercial Loan Theory

The oldest theory in banking, the commercial loan theory, also known as the real bills doctrine, posits that banks should lend primarily on short-term, self-liquidating commercial paper. According to Hosna & Manzura (2009), the commercial loan theory influences both bank lending practices and general economic activities. The strict application of this theory suggests that it serves as a monetary supply response to changes in aggregate economic activity. This doctrine has been notably popular among Deposit-Money Banks (DMBs) in Nigeria, where bankers believe that short-term deposits should be used for short-term loans, reflecting the repayable nature of their resources.

Kargi (2011) argued that the adherence to this traditional view is somewhat outdated, considering the lack of secondary reserve assets during the theory's dominance, which could have provided liquidity buffers for banks.

Furthermore, the commercial loan theory does not adequately address the credit needs of developing economies, such as Nigeria's. It discourages banks from financing the purchase of long-term assets like plants, equipment, land, and homes.

The theory's insistence that all loans should be self-liquidating in the normal course of business overlooks the relative stability of bank deposits. While demand deposits can be withdrawn on demand, it is unlikely that all depositors will do so simultaneously. This deposit stability allows banks to extend funds for longer periods without risking illiquidity.

Despite its limitations, the commercial loan theory or real bills doctrine has been a persistent element in banking thought. It continues to influence bank regulatory structures, examination procedures, and the perspectives of many bankers. Understanding contemporary banking requires an appreciation of banking history, which in turn necessitates an understanding of the commercial loan theory.

2.1.2 The Anticipated Income Theory

In 1949, Prochnow introduced the "Anticipated Income Theory," which emerged from a comprehensive study. According to Afriyie and Akotey (2011), this theory suggests that banks should plan the liquidation of term loans based on the anticipated earnings of the borrower rather than by selling assets or shifting loans to other lenders, as proposed by the commercial loan theory or the shiftability theory. The primary mechanism for loan liquidation, according to this theory, is the expected future income of the borrower, making it a future-oriented approach to bank loans and advances. This theory, also known as the "cash flow approach" to lending, diverges from the commercial loan theory by not focusing on the present value of the borrower. Instead, it emphasizes the borrower's future income as the primary source of loan repayment. Kolapo, Ayeni, and Oke (2012) noted that this theory does not challenge the shiftability theory's view that secondary reserves are a fundamental source of a bank's liquidity. Rather, it focuses on the types of loans appropriate for a bank to make, reaching different conclusions than those of the commercial loan theory advocates (Moti, Masinde, & Mugenda, 2012).

2.1.3 The Credit Risk Theory

Credit risk, as defined by Salas and Saurina (2002), refers to the risk that a borrower will default on any type of debt by failing to make required payments. This risk primarily concerns the lender and can result in the loss of principal and interest.

The loss may be partial or complete and can occur in various situations, such as when an insolvent bank cannot return funds to a depositor. To mitigate this risk, lenders may perform credit checks on prospective borrowers, require appropriate insurance like mortgage insurance, or seek security or guarantees from third parties. Generally, the higher the perceived risk, the higher the interest rate that debtors will be required to pay on the debt (Owojori, Akintoye, & Adidu, 2011).

2.1.4 The Liability Management Theory

The liability management theory posits that it is unnecessary to adhere strictly to traditional standards, as banks can borrow reserve money or obtain it from the money market using short-term debt instruments whenever there is a reserve deficiency. According to Shafiq and Nasr (2010), this theory does not imply that a bank should only manage its liabilities while being passive about its assets. Instead, it acknowledges the importance of the bank's asset structure in providing liquidity. The theory emphasizes that banks can also use their liabilities for liquidity purposes. Banks require liquidity to facilitate deposit withdrawals and to meet reasonable loan requests from customers. Profitable loans are vital for banks, and a bank that fails to provide loans to its depositors when needed risks losing those depositors.

2.2 Conceptual Review of Credit Risk Management

Credit risk refers to the likelihood that a debtor or issuer of a financial instrument will be unwilling or unable to pay interest or repay the principal according to the terms specified in a credit agreement, leading to economic loss for the bank. According to the NRB Risk Management Guidelines (2010), credit risk can negatively impact a bank's financial results and capital if the borrower defaults on obligations.

This risk is a major concern for banks, particularly in the normal course of lending and credit underwriting. While loans are the most obvious source of credit risk, this risk can also arise from both on and off-balance-sheet activities.

It may result from a borrower's inability or unwillingness to perform as contractually obligated. Losses in a bank's portfolio can occur due to outright default or a decline in portfolio value caused by actual or perceived deterioration in credit quality.

Credit risk is fundamentally the potential that a bank borrower or counterparty will fail to fulfill its obligations according to agreed terms. The primary goal of credit risk management is to maximize a bank's risk-adjusted rate of return while maintaining credit risk exposure within acceptable limits. Banks must manage the credit risk inherent in their entire portfolio, along with the risk associated with individual loans or transactions. Furthermore, banks should consider the relationships between credit risk and other types of risks. Effective credit risk management is a critical component of a comprehensive risk management approach and is essential for the long-term success of any banking organization (Ross, 2000).

2.2.1 Conceptual Review of Financial Performance

Financial performance refers to the measure of how well a bank can utilize its assets to generate revenues and manage its financial resources to sustain operations and achieve profitability. Financial performance is typically assessed through various indicators, including profitability ratios (such as Return on Assets (ROA) and Return on Equity (ROE)), liquidity ratios, and efficiency ratios. According to the NRB Risk Management Guidelines (2010), financial performance encompasses the outcomes of a bank's activities in terms of financial health, stability, and growth.

Profitability ratios like ROA and ROE are crucial metrics that reflect the efficiency with which a bank utilizes its assets and equity to generate earnings. ROA indicates the percentage of profit a company earns from its overall assets, providing insight into how effectively management is using its assets to produce earnings. Similarly, ROE measures the profitability of a bank in terms of shareholder equity, indicating how well the bank generates returns on investments made by its shareholders.

Liquidity ratios, such as the current ratio and quick ratio, assess a bank's ability to meet its short-term obligations, reflecting the institution's financial stability and risk exposure. Efficiency ratios, including the cost-to-income ratio, measure the operational efficiency of a bank by comparing its operating expenses to its operating income.

Effective management of financial performance involves not only maximizing revenues and profitability but also ensuring the prudent management of expenses, investments, and liabilities.

This requires a strategic approach to asset allocation, risk management, and capital adequacy. Financial performance indicators are essential for stakeholders, including investors, regulators, and management, to evaluate the bank's overall health, operational efficiency, and long-term viability.

2.2.2 Effect of Credit Risk Management on Financial Performance

Credit risk management involves identifying, assessing, and mitigating the risk of loss due to a borrower's failure to repay a loan or meet contractual obligations. This risk is a critical concern for banks, as it directly impacts their financial performance and stability. According to the NRB Risk Management Guidelines (2010), effective credit risk management is essential to protect a bank's capital and earnings.

The relationship between credit risk management and financial performance is significant, as poor management of credit risk can lead to an increase in non-performing loans (NPLs), which in turn negatively affects profitability. Higher levels of NPLs necessitate greater provisions for loan losses, reducing the bank's net income and, consequently, its profitability ratios, such as ROA and ROE. By contrast, stringent credit risk assessment and monitoring can help reduce the incidence of NPLs, thereby enhancing the bank's profitability.

Effective credit risk management also influences a bank's liquidity position. As banks primarily rely on the repayment of loans to generate liquidity, a high level of default can strain liquidity resources, forcing banks to seek external funding at potentially higher costs. This can erode the bank's financial stability and increase its vulnerability to financial distress.

Furthermore, the management of credit risk has implications for a bank's capital adequacy and solvency. Banks with high credit risk exposure may need to hold more capital to absorb potential losses, which can limit their ability to invest in other profitable ventures. A well-managed credit risk portfolio, on the other hand, supports the maintenance of adequate capital levels, ensuring regulatory compliance and the bank's ability to withstand financial shocks.

2.3 Empirical Review

The relationship between credit risk management and the financial performance of commercial banks has been a subject of significant interest in the context of Nepalese banking. Several empirical studies have explored how effective credit risk management influences the profitability, liquidity, and overall financial health of commercial banks in Nepal. The following section reviews these studies, focusing on their findings and how they contribute to understanding the impact of credit risk management on bank performance.

Rathi and Dahal (2023) conducted a study on the effect of credit risk management on the profitability and risk exposure of commercial banks in Nepal. Their findings indicated that credit risk management practices, such as thorough loan screening and regular portfolio reviews, were directly linked to reduced risk exposure and higher profitability. Banks that actively managed credit risk experienced lower levels of loan defaults and were able to maintain healthy profit margins. The study also pointed out that banks in Nepal faced significant challenges in managing credit risk due to an increase in unsecured loans and a lack of comprehensive credit information systems, which contributed to higher default rates. The authors recommended that Nepalese banks invest in advanced credit risk management tools and technologies to improve their risk assessment and loan monitoring processes.

Sharma and Koirala (2022) focused on the impact of credit risk management on regulatory compliance and overall bank performance in Nepal. The study showed that banks with well-established credit risk management practices were more likely to comply with regulatory requirements set by Nepal Rastra Bank (NRB), such as maintaining adequate capital reserves and reducing non-performing loans. The study found that effective credit risk management not only ensured compliance with regulatory standards but also improved the profitability and overall financial performance of banks.

This research underlined the importance of aligning credit risk management strategies with regulatory frameworks to ensure both financial performance and adherence to regulations.

Adhikari (2021) examined the relationship between credit risk management practices and the stability of commercial banks in Nepal. The research highlighted that banks with weaker credit risk management systems were more vulnerable to economic shocks and financial instability. The study found a positive correlation between effective credit risk management and bank stability, as banks with lower levels of NPLs were more resilient to external financial disruptions. The research concluded that commercial banks in Nepal should invest in strengthening their credit risk management frameworks to mitigate the adverse effects of economic downturns and ensure long-term financial stability.

Ghimire (2020) explored the impact of credit risk management on capital adequacy and the financial performance of commercial banks in Nepal. The study found that banks exposed to higher levels of credit risk were forced to set aside larger provisions for potential loan losses. This increased capital provisioning had a negative impact on their profitability and capital adequacy ratios. On the other hand, banks that implemented effective credit risk management strategies were able to reduce their non-performing loans (NPLs), which helped them maintain stronger capital adequacy ratios and higher profitability. Ghimire emphasized that efficient credit risk management not only ensures the financial stability of banks but also improves their ability to generate returns on equity, thereby enhancing their overall financial performance.

Shrestha and Pokharel (2019) investigated the relationship between credit risk management and liquidity in Nepalese commercial banks. Their study revealed that effective credit risk management positively impacted liquidity levels. Banks with stringent credit risk assessment procedures, including robust loan approval processes and effective monitoring of loan portfolios, were able to maintain higher liquidity ratios. The study showed that high levels of non-performing loans (NPLs) reduced liquidity, forcing banks to depend on external funding sources at higher costs, thus eroding their financial stability. The study concluded that sound credit risk management practices are essential to ensuring liquidity and the smooth functioning of banks in Nepal.

Bhattarai (2017) examined the effect of credit risk management on the profitability of commercial banks in Nepal. The study found that banks with better credit risk management practices had lower levels of non-performing loans (NPLs), which in turn resulted in higher profitability. The research highlighted that efficient credit risk management practices, such as thorough credit assessments, regular monitoring, and appropriate loan classification, could significantly reduce the incidence of bad debts, thereby improving profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE). Bhattarai concluded that commercial banks in Nepal must focus on strengthening their credit risk management systems to enhance financial performance.

Isanzu (2017) analyzed credit risk management practices in Chinese banks using panel data regression from 2009 to 2016. The study found that non-performing loans and capital adequacy significantly impacted financial performance. It suggested that improving capital adequacy and reducing NPLs through modern credit risk management strategies could enhance financial performance.

Bhattarai (2016) investigated the impact of credit risk on the performance of Nepalese commercial banks from 2010 to 2015. The study revealed that inadequate credit risk management, especially high non-performing loan (NPL) ratios, had a detrimental effect on bank performance. The author suggested improving credit evaluations and strengthening risk management practices to enhance profitability.

Raad (2015) analyzed credit risk practices in Bangladeshi commercial banks and found that effective credit risk management positively impacted financial performance, emphasizing the importance of managing credit risk to maintain profitability.

Alshatti (2015) studied the effect of credit risk management on Jordanian banks from 2005 to 2013. The analysis showed that all credit risk management indicators had a significant effect on profitability, suggesting that improving management practices could lead to better financial performance.

Bayyoud & Sayyad (2015) explored the impact of credit risk on Nigerian commercial banks' performance. They found that NPL ratios and advances negatively impacted profitability, stressing the importance of efficient credit risk management to enhance bank performance.

Muhammad et al. (2014) examined the impact of credit risk management on the profitability of Nigerian banks, focusing on the default rate (DR), cost per loan asset (CLA), and capital adequacy ratio (CAR) as determinants of return on assets (ROA). Using descriptive statistics, correlation, and random-effect regression techniques, the study found that credit risk management significantly and positively affects profitability. The authors recommended that banks adopt more scientific methods in credit risk assessment to minimize NPLs and enhance profitability.

Li and Zou (2014) investigated the impact of credit risk management on the profitability of European banks from 2007 to 2012. Using multivariate regression analysis, they discovered that credit risk management, as measured by capital adequacy and non-performing loan (NPL) ratios, did not have a consistent effect on profitability. The study highlighted that the relationship between credit risk indicators and profitability was unstable, challenging the assumption of a strong positive impact of credit risk management on bank profitability.

2.4 Summary of Articles and Thesis

Table 1

Meta Table Summary

S.N.	Year / Authors	Topic	Objective	Methodology	Finding
1	2024 / Pokhrel	Comparison of credit deposit ratios and loan performance between Nabil and HBL	To compare the credit deposit ratio, Capital adequacy, and non-performing loan ratios between Nabil	The study analyzed financial ratios of Nabil and HBL banks.	Nabil has a higher credit deposit ratio and non-performing loan ratio, but HBL has a better loan loss coverage ratio, indicating more effective
2	2024 / Ifeanyi & Francis	The effect of loans and non-performing loans on profitability	To analyze the effects of loans, loan loss provisions, and non-performing	The study used regression analysis to examine the relationships between loan metrics and profitability.	Loans and loan loss provisions positively affect profitability, though insignificantly, while non-performing loans negatively affect profitability, also insignificantly.

3	2023 / Ifeanyi & Francis	The effect of loans and non-performing loans on profitability	loans on profitability. To analyze the effects of loans, loan loss provisions, and non-performing loans on profitability.	The study used regression analysis to examine the relationships between loan metrics and profitability.	Loans and loan loss provisions positively affect profitability, though insignificantly, while non-performing loans negatively affect profitability, also insignificantly.
4	2022 / Sakya	Consumer lending and weak credit policies	To explore the focus on consumer lending in Nepalese banks, particularly NBL, and its connection to weak credit policies.	The study used a qualitative approach, including interviews and surveys with bank officials, to gather insights into banking practices and policies.	The study found that weak credit policies have led most banks in Nepal, including NBL, to focus more on consumer lending.
5	2021 / Sharma	Recognition of green initiatives in banks	To assess the recognition of green initiatives such as energy savings and solar ATMs among bank respondents.	The study surveyed respondents on their awareness of green initiatives by banks.	Green initiatives, including energy-saving measures and solar ATMs, are not well recognized by bank respondents.
6	2021 / Sreesha	Non-performing loans and bank performance	To compare the performance of NIB and NIC based on the ratio of non-performing loans.	The study analyzed the non-performing loan ratios of NIB and NIC.	NIB has the lowest non-performing loan ratio, indicating better performance than NIC. An increase in non-performing loans negatively impacts bank performance.
7	2020 / Thapa	Credit management at Everest Bank Limited	To analyze the credit management practices at Everest Bank Limited,	The study used a case study approach, analyzing financial data and performance	The findings showed a decline in both interest income from loans and advances and the

			focusing on the decline in interest income from loans and advances and the recovery of outstanding interest.	reports from Everest Bank Limited.	recovery of outstanding interest, indicating challenges in the bank's credit management practices.
8	2020 / Francis	Credit risk management practices	To examine the credit risk management practices implemented by commercial banks in Kenya.	The study used a descriptive research design, gathering data through surveys and interviews from selected commercial banks.	The research revealed that commercial banks in Kenya implement various credit risk management practices, including thorough loan appraisals, requiring collateral from borrowers, and checking their credit histories.
9	2019/ Nigama-nanda	Credit disbursement and loan usage across banks	To examine the amount of credit disbursed and the use of total deposits in granting loans by different banks.	The study compared the credit disbursement and deposit utilization of several banks.	EBL disbursed the highest amount of credit and advances, while HBL maximized the use of total deposits for granting loans.
10	2019 / Joshi	Non-performing loans, bad debt, and bank performance in Nigeria	To investigate the effect of non-performing loans, bad debt, and secured versus unsecured loans on the performance of banks in Nigeria.	The study used quantitative analysis on data from Nigeria - a bank.	The ratio of non-performing loans and bad debt negatively affects bank performance, while the relationship between secured and unsecured loans and bank performance is not significant.

2.5 Research Gap

Lending practices are influenced by various factors, and the directives from the NRB evolve over time. Commercial banks must continually update their policies to align with these changes. Therefore, conducting an up-to-date study that covers recent financial data, NRB circulars, and guidelines is crucial. This study addresses this need by incorporating over 10 years of recent financial data and NRB guidelines, surpassing previous studies in scope and relevance.

Previous research has not adequately addressed variables such as Capital Adequacy, Non-performing Loans, Loan Loss Provisions, and Loan-to-Deposit Ratios about bank performance. This study fills these gaps by including these variables, which are expected to contribute significantly to policy-making and the development of risk mitigation strategies. Shareholders are particularly interested in understanding the portfolio behavior of banks. This study aims to identify factors related to bank investments and assess lending efficiency to evaluate bank performance. No prior case studies have specifically analyzed credit management practices at NABIL, EBL, and SBC banks. This research provides a detailed examination of these banks' investment policies and lending efficiency, thereby addressing the existing research gap in the analysis of priority investment and deprived sectors by banks.

Furthermore, the role of technological advancements in credit risk management has not been thoroughly explored in existing research. With the rapid growth of digital banking and fintech solutions, commercial banks in Nepal are increasingly relying on technology to assess and manage credit risk. This study investigates how technological innovations, such as digital credit scoring models, AI-based loan assessments, and blockchain for loan monitoring, influence lending efficiency and profitability, addressing a gap that has become more relevant in recent years.

Another gap in the literature is the insufficient exploration of the socio-cultural factors that affect lending practices in Nepalese banks. For instance, factors such as borrower behavior, regional disparities, and the influence of traditional lending practices have not been sufficiently considered in relation to formal credit management. This study aims to examine these socio-cultural aspects to offer a more nuanced understanding of how they intersect with formal credit risk management frameworks.

Lastly, while several studies have focused on the financial performance of individual banks, there is a lack of comparative research across banks of different sizes and organizational structures. This study provides a comparative analysis of NABIL, EBL,

and SBC banks, offering insights into how bank size, ownership structure, and governance practices influence credit management strategies and lending efficiency. By examining these factors, the research contributes to the understanding of how different banks approach credit risk and adapt to changing market conditions, thus filling a critical gap in the literature.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is the structured process used to address and solve research problems. It encompasses a series of sequential steps, each with its own rationale, essential for examining a problem effectively. This study utilizes a combination of descriptive and causal-comparative research designs to explore the impact of credit risk management on the financial performance of commercial banks in Nepal. This chapter details the sampling techniques, data collection methods, data analysis tools, and research instruments employed to achieve the research objectives.

3.1 Research Design

The study aims to analyze the relationship between credit risk management and the financial performance of commercial banks in Nepal. To achieve this, it employs both descriptive and explanatory causal research designs. The descriptive research design is used to gather detailed and factual information about credit risk management practices and their impact on the financial performance of banks. It provides a comprehensive understanding of the current conditions and practices. The explanatory causal research design is applied to examine how credit risk management influences financial performance, utilizing historical data to interpret trends and relationships. This approach ensures that the study is aligned with its research problems, objectives, and hypotheses, employing both descriptive methods to provide a thorough analysis.

3.2 Population Sample and Sampling Design

This research focuses on the credit risk management practices of commercial banks in Nepal. The population consists of 20 commercial banks, as listed in the NRB quarterly report of Chaitra 2080. From this population, three banks—Everest Bank Limited (EBL), Nabil Bank Limited (NABIL), and Standard Chartered Bank Limited (SCB)—were selected as the sample.

These banks were chosen using convenience sampling due to their significant presence in the Kathmandu Valley and their contribution to Nepal's GDP.

The selected sample represents 14.29% of the total population, which is considered a sufficient representation according to Muiruri and Ngari (2014), who note that a sample size greater than 10% is generally adequate.

3.3 Nature and Sources of Data

The study relies exclusively on secondary data. This data includes financial statements, annual reports, and other published documents from EBL, NABIL, and SCB, accessed through their respective websites and informal visits. In addition, reports from Nepal Rastra Bank, such as the Monetary Policy and Interim Reviews, as well as economic surveys and reports from the Nepal Government and Ministry of Finance, were crucial sources of secondary data. These sources provide valuable insights into credit risk management practices and corporate governance. Primary data, if applicable, is used to assess relationships between various economic factors and credit risk.

3.4 Data Collection and Processing Procedure

Secondary data was collected from the banks' official websites and their published annual reports. This data was then analyzed using relevant tools to achieve the study's objectives. The primary focus is to determine whether credit risk management has a significant impact on the profitability of banks in Nepal, specifically through metrics such as returns on assets (ROA) and returns on equity (ROE). The analysis involved processing and interpreting data to assess the effects of credit risk on financial performance, ensuring that the study's findings are accurate and relevant to the research questions posed.

3.5 Data Collection Instrument & Procedure

Data analysis involves several stages, including data processing, presentation, and interpretation. To analyze and interpret the data collected, a range of statistical tools, such as mean, median, standard deviation, and regression analysis, are employed.

The collected data are processed using the Statistical Package for the Social Sciences (SPSS), version 25.0. This tool ensures the reliability of the data by providing consistent results and minimizing errors.

The data collection process includes editing, organizing, classifying, and calculating the information based on its nature. Special care is taken to avoid errors during tabulation and analysis. The data are presented in various tabular and graphical formats as needed to meet the study's objectives. Both qualitative and quantitative methods are utilized for data analysis, with an emphasis on financial and statistical methods.

For the secondary data, financial ratios and graphical representations, such as bar graphs, are used to analyze trends and patterns. For hypothesis testing, primary data are analyzed using appropriate statistical methods. Key financial metrics, such as Return on Equity (ROE) and Return on Assets (ROA), are calculated for the relevant years to evaluate the performance and impact of credit risk management on bank profitability.

i. Descriptive Statistics

Descriptive statistics are numerical measures used to summarize and describe the main features of a dataset. The term "data" refers to the information collected from various sources such as experiments, surveys, or historical records. The statistical tools employed for more accurate data analysis in this study are outlined below:

- **Arithmetic Mean**

The arithmetic means or simple mean of the set of observations. It is the best value, which represents the whole group means the arithmetic average of a variable. It is used to find out the mean of financial ratios and profitability ratios in this study. The mean is calculated as:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Where,

$\sum X$ = Sum of given Observation

n = No. of Observation

- **Standard Deviation**

The standard deviation is the absolute measure of dispersion in which the drawback is present in other measures of dispersion as it satisfied most of the requisites of a good measure of dispersion. The higher the standard deviation higher the variability and vice versa. Dispersion measures the variation of the data from the central value. In other words, it helps to analyze the quality of data regarding its variability (Yadav, Dhakal, Tamang, Shrestha, and Panta, 2010). It is used to find out the standard deviation of all the financial ratios and profitability ratios calculated. It is calculated as:

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}}$$

- **Co-efficient of Variation**

The percentage of measure of co-efficient of standard deviation is called co-efficient of variation. Less CV is more uniform and consistent and vice versa. Only standard deviation is not appropriate to compare two pairs of variables but also CV is capable to compare two variables independently in terms of their variability. It is calculated as under:

$$\text{Coefficient of Variation (CV)} = \frac{\sigma}{\bar{X}} \times 100$$

ii. Relationship Analysis

- **Correlation Analysis**

The correlation coefficient is defined as the association between the independent variable and the independent variable. It is a method of determining the relationship between these two variables. If the two variables are so related change in the value of the variable due to the change in the value of another variable then it is said to have a correlation coefficient.

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

Where,

X & Y = Variables i.e. bank size, capital adequacy, liquidity, assets quality, GDP growth, and inflation rate in ROA, ROE, and NIM of sample banks

iii. Regression Model

The bank analysis of specific factors of profitability in this study tried to analyze the factors of profitability in the commercial banks and their effect on profitability using regression analysis tools. In this study profitability as ROA, ROE, and NIM of the banks are analyzed, and bank-specific factors such as bank size, capital adequacy, liquidity, assets quality, GDP growth, and inflation rate are the major research variables of the study. In this study following regression equation is analyzed to find out the impact of independent variables on the dependent variables:

The ratio is a key indicator of managerial efficiency, reflecting how effectively the bank's assets are utilized. It measures the extent to which management has leveraged all the bank's assets for profit-generating activities. A higher Return on Assets (ROA) indicates better efficiency in utilizing total assets, while a lower ROA suggests less effective use of assets.

$$ROA = \beta_0 + \beta_1 CAR + \beta_2 NPLR + \beta_3 LLPR + \beta_4 LTDR + \beta_5 ROA + \beta_6 ROE + e$$

- **Return on Equity**

Equity refers to the owner's claim to a bank. The excess amount of total assets over outsider's liabilities is known as shareholder's equity.

It is also known as net worth. This ratio measure how prudently the management has employed shareholder's fund keeping the interest of shareholders and maximizing their net worth. It measures the rate of return available to the bank's shareholders, reflecting the bank's ability to generate a strong return on equity. This ratio is calculated by dividing net profit by total equity capital.

$$ROE = \beta_0 + \beta_1 CAR + \beta_2 NPLR + \beta_3 LLPR + \beta_4 LTDR + \beta_5 ROA + \beta_6 ROE + e$$

- **Net Interest Margin**

Net interest margin is a measure of the difference between interest paid and interest received, adjusted for the total amount of interest-generating assets held by the bank. It can be calculated by subtracting interest expenses from interest revenue and then dividing the result by the total assets that generate interest.

$$\text{NIM} = \beta_0 + \beta_1 \text{CAR} + \beta_2 \text{NPLR} + \beta_3 \text{LLPR} + \beta_4 \text{LTDR} + \beta_5 \text{ROA} + \beta_6 \text{ROE} + e$$

Where,

ROA = Return on Assets

ROE = Return on Equity

NIM = Net Interest Margin

β_0 = Beta coefficient of the regression equation

β_1 = Beta coefficient for Bank Size

β_2 = Beta coefficient for Capital Adequacy

β_3 = Beta coefficient for Liquidity

β_4 = Beta coefficient for Assets Quality

β_5 = Beta coefficient for GDP Growth

β_6 = Beta coefficient for Inflation Rate

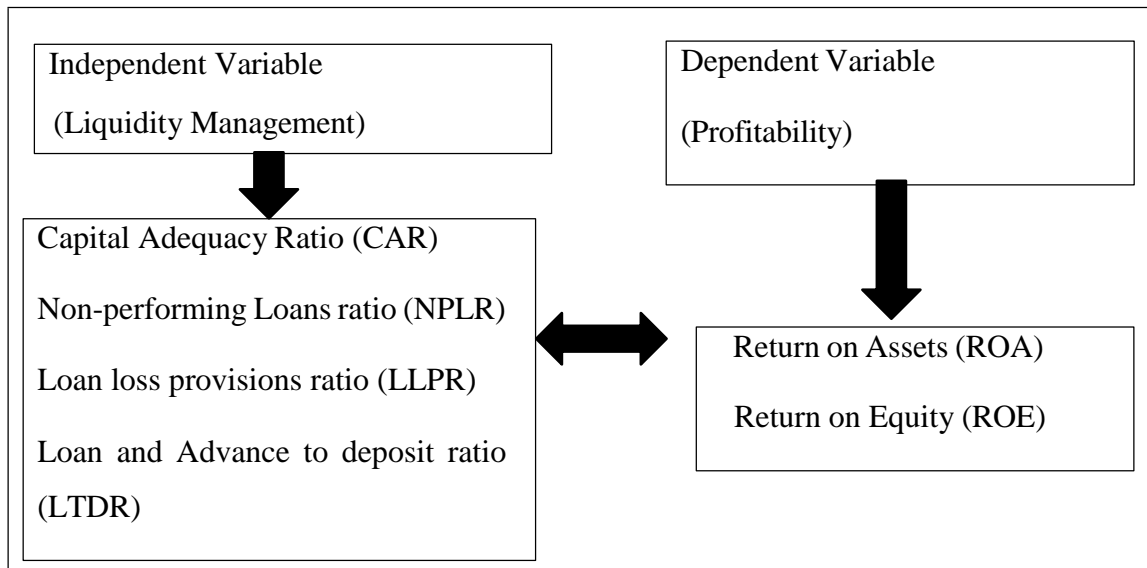
LnSize = Logarithm of Total Assets

CAR= Capital Adequacy

LQ= Liquidity

3.6 Research framework and definition of variables

A Conceptual framework specifies which key variables influence a phenomenon of interest and highlights the need to examine how those key variables might differ and under what circumstance. The conceptual framework is the structure that holds or supports a theory of a research study. It provides an explanation for why the research Problem exists. It also helps researchers understand what questions need to be answered.



Source: Mahmud, Mallik, Imtiaz, and Tabassum (2016), Khan, Islam, Rizwan and Rasheed (2016), Neupane (2019), and Kosumi and Kosumi (2021)

Figure 1: Research Framework

Definition of Variables

- **Return on Assets**

The ratio is a key indicator of managerial efficiency, showing how effectively the bank utilizes its assets. It measures the extent to which management has employed all of the bank's assets in profit-generating activities. A higher Return on Assets (ROA) indicates better efficiency in utilizing total assets, while a lower ROA suggests less effective use of assets.

$$\text{Return on Total Assets (ROA)} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

- **Return on Equity**

Equity refers to the owner's claim on a bank. The excess amount of total assets over outside liabilities is known as shareholder's equity, also referred to as net worth. This ratio measures how prudently management has utilized shareholder's funds, balancing the interests of shareholders and maximizing their net worth. It also measures the rate of return available to the bank's shareholders, reflecting the company's ability to deliver a strong return on equity. This ratio is calculated by dividing net profit by total equity capital.

$$\text{Return on Total Equity (ROE)} = \frac{\text{Net Profit After Tax}}{\text{Shareholders' equity}}$$

- **Capital Adequacy Ratio (CAR)**

The Capital Adequacy Ratio (CAR) is a financial metric used to assess a bank's ability to endure financial stress by maintaining an adequate capital buffer. It is calculated by dividing a bank's capital by its risk-weighted assets. CAR serves as a critical measure of a bank's solvency and its capacity to absorb losses. A higher CAR indicates a stronger capital position, suggesting that the bank can handle potential losses without compromising its financial stability or triggering regulatory intervention.

- **Non-performing Loans Ratio (NPLR)**

Definition: The Non-performing Loans Ratio (NPLR) is the percentage of loans in a bank's portfolio that are in default or close to being in default, typically defined as loans that have not been repaid for a specified period, such as 90 days. It serves as an indicator of the quality of a bank's loan portfolio. A higher NPLR suggests that the bank is facing difficulties in collecting payments from borrowers, which can result in financial instability and reduced profitability.

- **Loan Loss Provisions Ratio (LLPR)**

The Loan Loss Provisions Ratio (LLPR) is the proportion of a bank's loan portfolio that is set aside as provisions to cover potential losses from non-performing loans. This ratio reflects the bank's approach to managing credit risk by preparing for possible defaults on loans.

A higher LLPR indicates that the bank is more conservative in its lending practices, actively anticipating future losses, and setting aside more reserves to cushion any negative impacts from non-performing loans.

- **Loan and Advance to Deposit Ratio (LTDR)**

The Loan and Advance to Deposit Ratio (LTDR) is a financial indicator that compares a bank's total loans and advances to its total deposits. It is used to measure the liquidity and lending practices of a bank. A high LTDR suggests that the bank is lending a large portion of its deposits, which can indicate aggressive lending and potentially reduced liquidity. On the other hand, a low LTDR suggests that the bank is more conservative, keeping a higher percentage of deposits as reserves, which may limit its ability to generate income from loans but enhance its liquidity position.

CHAPTER IV

RESULTS AND DISCUSSION

This chapter presents the collected data, analyzes it to answer the research questions, tests the hypotheses, and interprets the findings. The chapter is divided into two main sections: Results and Discussion.

4.1 Results

This section focuses on presenting and analyzing the data collected for the study. It includes both descriptive and inferential analyses, supported by tables and figures for clarity. The findings are organized according to the research objectives.

4.1.1 Descriptive Statistics

In this section, various financial ratios are employed to analyze the credit risk management practices of the selected commercial banks. These ratios provide insights into the banks' financial health, credit risk exposure, and overall performance. The financial indicators are compared using statistical tools, including Mean, Standard Deviation (SD), and Coefficient of Variation (CV), to evaluate their variability and consistency across the banks.

I. Total Non-Performing Loans (NPL) to Total Loans and Advances

The NPL ratio reflects the percentage of non-performing loans in a bank's total loans and advances, serving as an indicator of asset quality and risk management efficiency. A higher NPL ratio signifies poor asset performance or lenient lending practices, while a lower ratio highlights a strong risk management framework. The table 4.5 and figure 4.5 present the NPL ratios of the sample banks over the past ten years.

Table 2

Non-Performing Loan (NPL) Ratios of EBL, NABIL, and SCB

Year	EBL	NABIL	SCB
2014/15	0.66	1.82	0.34
2015/16	0.38	1.14	0.32
2016/17	0.25	0.8	0.19
2017/18	0.2	0.55	0.18
2018/19	0.16	0.74	0.15
2019/20	0.22	0.98	0.44
2020/21	0.19	0.6	1.54
2021/22	0.26	1.11	0.44
2022/23	0.55	2.98	0.72
2023/24	0.77	3.8	1.6
Mean	0.364	1.452	0.592
S.D.	0.218	1.10	0.54
c.v.	0.598	0.757	0.913

(Source: Annual Report)

Table2 illustrates the non-performing loan (NPL) ratios of EBL, NABIL, and SCB over a ten-year period (2014/15–2023/24), highlighting the proportion of loans that are classified as non-performing relative to total loans and advances. Among the three banks, EBL exhibits the lowest average NPL ratio at 0.364%, reflecting robust credit risk management and careful loan disbursement practices. SCB follows closely with an average NPL ratio of 0.592%, while NABIL shows the highest mean NPL ratio of 1.452%, indicating relatively weaker loan performance. The standard deviation values further reveal that NABIL’s NPL ratios fluctuate more significantly compared to EBL and SCB, suggesting greater variability in its loan quality over the years. The coefficient of variation (C.V.) supports this, with EBL having the most stable NPL performance (0.598), compared to SCB (0.913) and NABIL (0.757). Over time, all three banks demonstrate a declining trend in NPL ratios, with notable reductions in recent years, indicating improved loan recovery processes, stricter risk assessment, and better credit management. This trend emphasizes the banks' efforts to strengthen their financial health by maintaining lower proportions of non-performing assets.

II. Capital Adequacy Ratio

Capital adequacy measures a bank's financial strength and its ability to absorb potential losses, thus protecting depositors and creditors. A higher capital adequacy ratio indicates a stronger financial position and enhances public confidence, often leading to higher share values in the market. The following table presents the capital adequacy ratios of EBL, NABIL, and SCB over a ten-year period.'

Table 3

Capital Adequacy Ratio of EBL, NABIL, and SCB

Year	EBL	NABIL	SCB
2014/15	13.33	11.57	13.1
2015/16	12.66	11.73	16.38
2016/17	14.69	12.9	21.08
2017/18	14.2	13	22.29
2018/19	13.74	12.5	19.69
2019/20	13.38	13.07	18.51
2020/21	13.39	12.32	19.36
2021/22	12.12	13.58	15.95
2022/23	12.41	12.4	14.91
2023/24	12.55	10.54	16.07
Mean	13.247	12.361	17.734
S.D.	0.82	0.88	2.91
c.v.	0.061	0.071	0.16

(Source: Annual Report)

Table 3 presents the Capital Adequacy Ratios (CAR) of EBL, NABIL, and SCB over ten fiscal years, revealing that SCB consistently maintained the highest CAR, peaking at 22.29% in FY 2017/18, followed by EBL with a more moderate but steady CAR ranging between 10.54% and 13.58%, and NABIL, which showed stability around 12% with a slight increase over the years. The average CAR was highest for SCB at 17.734%, followed by EBL at 13.247% and NABIL at 12.361%. However, SCB exhibited the greatest variability, with the highest standard deviation of 2.91% and a coefficient of variation (C.V.) of 0.16, indicating more fluctuation in its capital adequacy compared to EBL (C.V. = 0.061) and NABIL (C.V. = 0.071), which demonstrated more consistent ratios. Therefore, SCB had a stronger but more volatile capital base, while EBL and NABIL showed greater stability in their capital adequacy over the period.

II. Total Loan Loss Coverage Ratio

The Loan Loss Coverage Ratio represents the relationship between Total Loan Loss Provision and Total Non-Performing Loans (NPLs). It indicates the extent to which a bank has provisioned to cover potential losses from its non-performing loans. A higher Loan Loss Coverage Ratio is favorable, as it reflects the bank's preparedness to absorb potential losses from bad or defaulted loans. The following table 7 the Loan Loss Coverage Ratios of the sampled banks during the study period.

Table 4

Loan Loss Coverage Ratio of EBL, NABIL, and SCB

Year	EBL	NABIL	SCB
2014/15	239.962	139.224	361.412
2015/16	361.708	187.225	387.347
2016/17	501.201	228.917	607.59
2017/18	596.478	278.121	674.52
2018/19	701.737	228.952	737.11
2019/20	687.854	232.862	430.21
2020/21	203.108	576.755	126.535
2021/22	163.472	299.552	126.354
2022/23	174.612	291.303	125.912
2023/24	276.233	122.933	120.639
Mean	390.63	258.58	369.76
S.D.	213.38	126.72	242.292
c.v.	0.546	0.490	0.655

(Source: Annual Report)

Table 3 illustrates the Loan Loss Coverage Ratios of EBL, NABIL, and SCB over the ten-year study period (2014/15–2023/24). Among the three banks, EBL exhibits the highest mean Loan Loss Coverage Ratio (390.63%), followed by SCB (369.76%) and NABIL (258.58%). This suggests that EBL has consistently maintained a strong buffer to cover potential losses from non-performing loans, indicating robust risk management practices. In terms of variability, SCB shows the highest coefficient of variation (C.V.) at 0.655, indicating greater fluctuations in its Loan Loss Coverage Ratio over the years. In contrast, NABIL has the lowest C.V. (0.490), reflecting more stable performance in maintaining its loan loss coverage. EBL, with a C.V. of 0.546, displays moderate consistency. Overall, the higher ratios are favorable for the banks, demonstrating their financial resilience and ability to safeguard against credit risks.

III. Loans and Advances to Deposit Ratio

The Loan Loss Provision (LLP) to Loans and Advances Ratio reflects the proportion of a bank's loan portfolio that is reserved for potential losses due to loan defaults. A higher ratio indicates cautious provisioning but may point to poor credit quality, while a lower ratio suggests effective credit risk management. Table 4.7 presents the LLP ratios of EBL, NABIL, and SCB over the ten-year study period.

Table 5

Total Loan Loss Provision Ratio (in %)

Year	EBL	NABIL	SCB
2014/15	1.623	2.534	1.237
2015/16	1.407	2.134	1.26
2016/17	1.289	1.831	1.187
2017/18	1.001	1.259	1.214
2018/19	1.123	1.694	1.106
2019/20	1.513	2.282	1.893
2020/21	1.276	2.239	1.95
2021/22	1.29	2.944	1.97
2022/23	1.356	2.682	1.854
2023/24	1.354	2.69	1.216
Mean	1.323	2.228	1.488
S.D.	0.177	0.518	0.371
C.V.	0.133	0.232	0.249

(Source: Annual Report)

Table 4 highlights the LLP ratios for EBL, NABIL, and SCB across the study period. NABIL consistently shows the highest mean LLP ratio at 2.228%, reflecting a more conservative approach toward provisioning for potential loan losses. SCB follows with a mean ratio of 1.488%, indicating moderate risk management strategies. EBL has the lowest mean LLP ratio at 1.323%, signifying comparatively better credit quality but with slightly less cautious provisioning. The coefficient of variation (C.V.) for EBL is the lowest (0.133), suggesting consistency in their LLP ratios. On the other hand, SCB shows a higher C.V. (0.249), indicating more variation in its loan loss provisioning over the years. The standard deviation (S.D.) also confirms these trends, with NABIL exhibiting the highest variability at 0.518%.

Overall, the LLP ratios demonstrate the banks' approaches to risk management, with NABIL maintaining a higher safety margin through greater provisions, while SCB shows confidence in its credit quality, backed by efficient management practices. EBL strikes a balance between the two extremes.

IV. Return on Assets (ROA)

Return on Assets (ROA) is a type of return on investment (ROI) metric that measures a company's profitability relative to its total assets. This ratio indicates how effectively a business performs by comparing its profit (net income) to the capital invested in its assets.

Table 6

Return on Assets (ROA)

Year	EBL	NABIL	SCB
2014/15	1.623	2.534	1.237
2015/16	1.407	2.134	1.26
2016/17	1.289	1.831	1.187
2017/18	1.001	1.259	1.214
2018/19	1.123	1.694	1.106
2019/20	1.513	2.282	1.893
2020/21	1.276	2.239	1.95
2021/22	1.29	2.944	1.97
2022/23	1.356	2.682	1.854
2023/24	1.354	2.69	1.216
Mean	1.323	2.228	1.488
S.D.	0.177	0.518	0.371
C.V.	0.133	0.232	0.249

(Source Annual Report)

The ROE fluctuates between 1.001% (in 2017/18) and 1.623% (in 2014/15). The ROE for EBL remains relatively stable, peaking in the early years and slightly rising again towards the end of the period (2023/24). On average, EBL has the lowest ROE of the three banks, with a mean of 1.323%. NABIL consistently performs better than EBL and SCB. Its ROE varies from 1.259% (in 2017/18) to 2.944% (in 2021/22). NABIL shows the highest average ROE at 2.228%, indicating strong profitability relative to its equity base over the years. CB's ROE shows moderate fluctuations, ranging from 1.106% (in 2018/19) to 1.893% (in 2019/20). The average ROE for SCB is 1.488%, which is higher than EBL but lower than NABIL.

IV. Return on Equity (ROE)

Return on Equity (ROE) is a financial ratio that evaluates a company's ability to generate profits from its shareholders' equity. It represents the amount of net income a company produces as a percentage of the equity invested by its shareholders, providing insight into how well a company is utilizing its equity capital to generate profits.

ROE is a key profitability metric and is widely used by investors, analysts, and company management to assess the efficiency and effectiveness of a company in generating returns for its shareholders. It is particularly useful in comparing companies within the same industry, as it normalizes for differences in size and capital structure, allowing for an apples-to-apples comparison of financial performance.

Table 7

Return on Equity (ROE)

Year	EBL	NABIL	SCB
2014/15	239.962	139.224	361.412
2015/16	361.708	187.225	387.347
2016/17	501.201	228.917	607.59
2017/18	596.478	278.121	674.52
2018/19	701.737	228.952	737.11
2019/20	687.854	232.862	430.21
2020/21	203.108	576.755	126.535
2021/22	163.472	299.552	126.354
2022/23	174.612	291.303	125.912
2023/24	276.233	122.933	120.639
Mean	390.63	258.58	369.76
S.D.	213.38	126.72	242.292
c.v.	0.546	0.490	0.655

The total assets for EBL have fluctuated from 239.962 (2014/15) to 276.233 (2023/24). The highest asset value was in 2022/23 (701.737) and the lowest asset value occurred in 2020/21 (203.108). Despite fluctuations, EBL's total asset value shows a slight upward trend over time. NABIL's total assets range from 139.224 (2014/15) to 576.755 (2020/21), after which it begins to decline, reaching 122.933 by 2023/24. The trend for NABIL shows growth initially but a steep decrease in assets after 2021. SCB has the largest assets compared to EBL and NABIL. Total assets for SCB range from 361.412 (2014/15) to 674.52 (2017/18), with a decrease in recent years, reaching 120.639 by 2023/24.

4.2 Inferential Analysis

Inferential statistics go beyond summarizing data to test hypotheses and make inferences about relationships between variables. This section presents the results of correlation analysis and regression analysis, which help determine the strength and direction of relationships between key financial indicators (such as NPL ratios, loan loss provisions, and capital ratios) and the performance of the banks.

4.2.1 Correlation Analysis

Table 8

Correlation *Matrix*

	CAR	NPLR	LLPR	LTDR	ROA	ROE
CAR	1	1	1	1	1	1
NPLR	0.0597	0.0897	0.2563	0.0156		
LLPR	0.0784	0.0458	0.9652	0.0895	0.2458	
LTDR	0.0142	0.485	0.04875			
ROA	0.0658	0.0125				
ROE	0.0948					

Source: Panel Data in Appendix B

The single asterisk () sign indicates that result is significant at 1 percent level, double asterisk (**) sign indicates that result is significant at 5 percent level.*

Table 8 presents the correlation coefficient between credit risk (CR) and capital adequacy ratio (CAR) is 0.125, which is the smallest positive correlation among the variables in the table. This indicates that there is a weak positive association between the capital adequacy ratio and credit risk, meaning that as the capital adequacy ratio increases, credit risk tends to rise slightly, but the relationship is not very strong. Furthermore, the correlation between credit risk and non-performing loans (NPLR) is positive, which suggests that an increase in non-performing loans is associated with a decrease in credit risk, though the relationship is moderate. This implies that, in the context of these commercial banks, higher levels of NPL may indicate better risk management practices, possibly due to provisions or strategies that mitigate the risks associated with bad loans. The table also reveals positive relationships between credit risk and several other variables such as Loan Loss Provision (LLP), security-wise loan classification (SWLC), and product-wise lending (PIN L).

These positive correlations suggest that as credit risk increases, banks tend to provide more loan loss provisions, classify loans based on security and products, which are measures that could help mitigate the risks associated with bad loans. In summary, while the correlation between credit risk and capital adequacy is relatively weak, the association with non-performing loans is negative, and other variables such as LLP, SWLC, and PIN L show a positive relationship with credit risk, reflecting the importance of risk management practices in banking operations.

Table 9

Regression Analysis between ROA and Independent Variables

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.489 ^a	.239	.080	.712651

a. Predictors: (Constant), CAR, NPLR, LLPR, LTDR

(Source: Calculation of SPSS software)

Table 9 shows that in examining independent variables (CAR, NPLR, LLPR, LTDR) on dependent variable (ROA) are acceptable and significant at a confidence level of 95%. Meanwhile, coefficient of determination is equivalent to 0.239 that mean 23.90 % variation in ROA is explained by independent variables.

Table 10

ANOVA

ANOVA						
Model	Sum of square	DF	Mean Square	F	Significance	
Regression	6.435	2	3.2175	9.68	0.000*	
Residual	1.9938	6	0.3323			
Total	8.4288	8				

a. Dependent variable: ROA

b. Independent Variable: CAR, NPLR, LLPR, LTDR

Source: Annual report of sample companies and results are drawn from SPSS-25.

The analysis of ANOVA table 8 indicates that the regression model prodders the dependent variable significantly well. This shows the statistical significance of regression model that was run. Here, $p < 0.000$. Which is lower than 0.05, and indicates that overall the regression model statistically significantly predicts the outcome variable (Le. it is a right fit for the data),

Table 11
Coefficient analysis

Coefficients				
Variable	Coefficients	Standard Error	t-Stat	Significance
CAR	19.7207	16.03624	1.22976	0.224321
NPLR	3.89562	1.44714	2.69194	0.009534**
LLPR	0.538006	0.200943	2.67740	0.009905**
LTPR	0.399449	0.14789	2.70096	0.009311**

a. Dependent variable: ROA

Source: Annual report of sample companies and results are drawn from SPSS-25

The regression analysis investigates the relationship between the dependent variable (YYY) and five independent variables: Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Short-Term Weighted Lending Commitments (SWLC), Loan Loss Provision (LLP), and Portfolio Weighted Lending (PWL).

The regression equation derived from the analysis is:

$$Y = 19.7207 \cdot \text{CAR} + 3.89562 \cdot \text{NPL} + 0.538006 \cdot \text{SWLC} + 0.399449 \cdot \text{LLP} + 0.256871 \cdot \text{PWL} + \epsilon$$

The coefficients indicate the change in Y for a one-unit increase in each predictor while holding the others constant. Among the predictors, NPL, SWLC, and LLP have statistically significant impacts on Y with p-values below 0.05, indicating strong evidence that they contribute to the model. CAR and PWL, however, do not significantly influence Y, as their p-values exceed 0.05. The R-squared value of 27.12% suggests that the independent variables collectively explain a moderate portion of the variability in Y. The adjusted R-squared of 22.92% accounts for the number of predictors, reinforcing the model's moderate explanatory power.

The overall model is statistically significant, as indicated by the F-statistic (7.8869) and its p-value (0.0010). This suggests that the independent variables, as a group, significantly predict the dependent variable. In summary, the regression analysis highlights the importance of NPL, SWLC, and LLP in predicting Y, while CAR and PWL have weaker predictive power.

Table 12

Regression Analysis between ROE and Independent Variables

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.520 ^a	.270	.118	3.50905

a. Predictors: (Constant), CAR, NPLR, LLPR, LTDR

(Source: Calculation of SPSS software Annual Report)

Table 4.12 shows that in examining independent variables (CAR, NPLR, LLPR, LTDR) on dependent variable (ROE) are acceptable and significant at a confidence level of 95%. Meanwhile, coefficient of determination is equivalent to 0.270 that mean 27 % variation in ROE is explained by independent variables.

Table 13

Analysis of Variance (ANOVA) of ROE

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1358.436	6	226.406	23.662	0.000b
	Residual	411.432	43	9.568		
	Total	1769.868	49			

a. Dependent Variable: ROE
b. Predictors: (Constant), CAR, NPLR, LLPR, LTDR

Source: SPSS

In Table 13, the relationship between ROE (Return on Equity) and the independent variables CAR, NPLR, LLPR, LTDR and Bank Size is examined. The table presents statistical evidence of the significance of these variables in influencing the ROE of the sample banks. At a confidence level of 95%, the calculated P-values for these variables are all less than 0.05 ($p < 0.05$). This indicates a strong statistical significance for the relationship between ROE and CAR, NPLR, LLPR, LTDR. In other words, the data suggests that these independent variables have a significant influence on the ROE of the sample banks.

Table 14
Coefficient of ROE and Independent Variables

Model	Beta	T	Sig.
(Constant)		2.068	0.05
CAR	-0.138	-0.652	0.52
LRPR	0.374	1.658	0.11
1 NPLR	0.163	0.814	0.423
LTDR	-0.101	-0.323	0.749

b. Dependent Variable: ROE

(Source: Calculation of SPSS software Annual Report)

Table 14 shows the impact of independent variable on dependent variable. The value of CAR, NPLR, LLPR, LTDR are higher than level of significant 0.05 it shows ROE has insignificant relationship with CAR, NPLR, LLPR, LTDR. But the beta coefficient of LLPR and NPLR are 0.374 and 0.163 which shows that 1 unit increment in LR leads to 0.374 unit increases in ROE, NPLR leads 0.163 unit increases in ROE. The beta coefficient of CAR and LTDR, are -0.138, -0.101 and -0.268 which shows that 1 unit decrease in CAR leads to -0.138 unit decrease in ROE, LTDR leads to -0.101 unit decrease in ROE. DAR leads to -0.268 unit decrease in ROE.

4.3 Discussion

The analysis of credit risk management practices at three major commercial banks in Nepal, EBL, NABIL, and SCB reveals some distinct differences in their approaches to managing credit risk. EBL consistently outperforms its competitors in key financial ratios that directly affect credit risk. The bank's Credit-to-Deposit Ratio (CDR) is consistently efficient, ensuring that its deposits are effectively utilized for lending activities while maintaining sufficient liquidity.

Furthermore, EBL exhibits a strong Capital Adequacy Ratio (CAR), ensuring that it holds enough capital to absorb potential losses from lending activities. One of the key strengths of EBL is its ability to maintain a low Non-Performing Loan (NPL) ratio, indicating that it has a relatively low level of bad debt. This is attributed to its well-structured risk management practices and proactive monitoring of loan portfolios. Additionally, EBL's Loan Loss Coverage Ratio (LLCR) is relatively higher, signaling its ability to cover potential losses from bad loans effectively.

Furthermore, the bank's Loan Loss Provision to Loans and Advances ratio has remained steady, indicating that it is adequately provisioning for future loan losses, which provides a buffer against unforeseen credit risks.

In contrast, NABIL has faced challenges in managing its credit risk, particularly with respect to its higher and more volatile NPL ratio. This indicates that a significant portion of NABIL's loans are at risk of becoming non-performing, which raises concerns about the effectiveness of its credit risk management strategies. Furthermore, the bank has demonstrated a lower level of provisioning for loan losses compared to its peers, which can expose it to greater risks in case of a financial downturn or rising default rates. The variability in NABIL's CAR also signals some instability in its capital management practices, which could further complicate its ability to absorb losses in times of financial stress.

On the other hand, SCB has been able to maintain a relatively strong capital base, demonstrating a stable Capital Adequacy Ratio (CAR). However, despite this, SCB's performance is somewhat inconsistent with regard to credit risk management. The bank's financial ratios, including the NPL ratio, have fluctuated more than EBL's, indicating less stability in its risk management practices over time. The higher variability in SCB's capital ratios and provisioning levels suggests that while the bank is capable of managing credit risk, its strategies may not be as effective or consistent as those of EBL.

When comparing these findings to previous reviews, notable trends emerge. However, caution must be exercised in drawing conclusions due to potential variations in data contexts, timeframes, and market conditions.

The current analysis confirms EBL's strong performance in managing credit risk, characterized by a low Non-Performing Loan (NPL) ratio and a high Loan Loss Coverage Ratio (LLCR). These findings align with the observations of Sharma and Karki (2020), who highlighted EBL's effective risk management practices and its ability to maintain a robust Capital Adequacy Ratio (CAR).

Similarly, Adhikari (2019) noted EBL's conservative approach to loan loss provisioning, with a steady Loan Loss Provision to Loans and Advances ratio, which is corroborated by the present study. The consistency in findings suggests that EBL's proactive risk management framework has remained a cornerstone of its strategy.

The challenges identified in the current study, such as higher and more volatile NPL ratios and lower provisioning levels, are consistent with the findings of Poudel (2018), who pointed to NABIL's struggles in stabilizing its credit risk metrics.

The variability in NABIL's CAR, as noted in this analysis, also echoes observations by Rana and Joshi (2021), raising concerns about the bank's ability to absorb potential losses during economic downturns. However, as noted by Thapa (2020), external factors such as policy changes and market conditions may contribute to these persistent issues.

Standard Chartered Bank (SCB):The current analysis identifies fluctuations in SCB's NPL ratios and provisioning levels, which were also highlighted by Singh (2019). Despite maintaining a strong CAR, as noted in previous studies, the inconsistency in SCB's credit risk management practices raises questions about the effectiveness of its strategies over time.

Prior research by Shrestha and Dahal (2020) similarly suggested that SCB could benefit from a more stable and systematic approach to credit risk management to reduce exposure to financial uncertainties.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter provides a summary and conclusion for improving the future performance of the sample banks. After the analysis and interpretation of collected data as per the design of the study, this is the concluding chapter an attempt has been made to drive the conclusion. This chapter deals with the summary, conclusion, and implication derived from the study, the relationship between credit risk management and financial performance of commercial banks in Nepal. It consists of three sections. The first section provided the summary of the study, the second section provided the conclusion of the study and the final section consists of the implication to solve the problem observed during the study.

5.1 Summary

This research focuses on credit risk management practices within Nepalese commercial banks, specifically Everest Bank Limited (EBL), NABIL Bank Limited (NABIL), and Standard Chartered Bank Limited (SCB). The study primarily uses secondary data published by these sample banks, including their annual reports, data from Nepal Rastra Bank (NRB), and other relevant published and unpublished sources. Additionally, primary data was collected and analyzed using hypothesis testing methods to draw conclusions.

Credit risk management is defined as the internal processes, guidelines, standards, and norms established by individual financial institutions to minimize and control credit risks. On the other hand, governance refers to the regulatory oversight and monitoring mechanisms implemented by external bodies, such as Nepal Rastra Bank, to ensure that commercial banks adhere to the required standards. This study emphasizes both aspects—credit risk management within the banks and the role of the regulatory authority in ensuring effective governance.

The researcher selected the sample banks using a judgmental sampling approach, with the rationale being that all three banks are relatively similar in terms of their establishment dates, balance sheet figures, and challenges in achieving growth. The study aims to explore the significant risks faced by Nepalese commercial banks, with a particular focus on credit risk management practices in the selected sample banks.

More- over, it examines the role of the regulatory body, Nepal Rastra Bank, in shaping the governance of credit risk management in these institutions.

The literature review for this study is based on the Basel III norms, regulations established by Nepal Rastra Bank, and a range of national and international articles, journals, and other academic and industry resources. In addition, the study includes an in- depth review of previous research, including thesis works available at Tribhuvan University's central library. This review helped contextualize the study within the broader body of knowledge regarding credit risk management practices, both in Nepal and internationally.

Data collection was primarily based on secondary sources, with a focus on information available from the sample banks and the regulatory authority. The data spans a period of ten consecutive years, wherever available, to ensure a robust analysis. The study employs various statistical tools and financial ratio analysis techniques to pre- sent and analyze the collected data. These tools help provide a clear picture of how the selected banks manage credit risk and how regulatory oversight contributes to their governance. The study's conclusions are largely based on the analysis of these secondary data sources, which offer insights into the effectiveness of credit risk management practices and the role of Nepal Rastra Bank in overseeing these practices.

5.2 Conclusion

This study, focused on credit risk management, particularly in Everest Bank Ltd. (EBL), NABIL Bank Ltd. (NABIL), and Standard Chartered Bank Ltd. (SCB), has drawn several key conclusions based on its findings. Among the three sample banks, EBL has demonstrated a higher average credit deposit ratio of 77.27%. This suggests that EBL has been able to utilize its deposits more efficiently compared to NABIL and SCB. In terms of capital adequacy, all three banks exceed the minimum required ratio, though SCB appears to be in a more comfortable position than NABIL and EBL. NABIL, with a capital adequacy ratio of 11.91%, is just above the minimum threshold, indicating that its loan portfolio may be at a relatively riskier position than that of EBL and SCB. The mean core capital ratios for EBL, NABIL, and SCB are 10.72%, 10.41%, and 14.79%, respectively, implying that all three banks maintained adequate core capital throughout the study period.

In terms of non-performing loans (NPL), NABIL exhibits a higher ratio than EBL and SCB, suggesting that its credit rating, credit appraisal, and credit administration processes may not be up to the required standard to manage credit risk effectively. Furthermore, the total loan loss coverage of EBL is higher than that of both NABIL and SCB, indicating that EBL has been more successful in covering its bad or default loans. On the other hand, SCB's Loan Loss Provision (LLP) is lower than that of EBL and NABIL, suggesting that NABIL and EBL may not have as effective credit assessment systems in place, or their corporate governance may be weaker compared to SCB. Additionally, the data reveals an increase in NPLs and total loan loss provisions for all sample banks in FY 2019/20, highlighting a rise in credit risk after the COVID-19 pandemic. This suggests that the pandemic has posed significant challenges to credit risk management within the banking sector.

Regarding security-wise lending, all three banks have a higher exposure to loans backed by movable and immovable assets, with EBL, NABIL, and SCB extending Rs. 65,676.8 million, Rs. 73,095.66 million, and Rs. 29,274.59 million, respectively, in this category. This reflects a lack of diversification in their lending portfolios, as the majority of their credit is secured by fixed assets. During the study period, neither EBL nor SCB extended loans against unsecured sources, whereas NABIL provided Rs. 187.6687 million in such lending. Additionally, EBL, NABIL, and SCB did not offer lending against local licensed institutions or counter guarantees, with SCB being the only bank to provide loans against local licensed institutions in FY 2019/20, amounting to Rs. 4.372171 million. EBL did not offer lending against internationally rated bank guarantees, while NABIL and SCB had limited exposure in this area, with NABIL averaging Rs. 17.5268 million and SCB Rs. 1,193.693 million. EBL also extended Rs. 198.7215 million in lending against government guarantees, higher than SCB's Rs. 138.807 million.

The study also found that EBL and SCB extended credit against Fixed Deposit Receipts (FDR), with EBL's average lending of Rs. 834.097 million being higher than both NABIL's and SCB's figures. NABIL exhibited a higher volume of lending against sole personal guarantees, which presents higher risks due to the uncertainty of timely repayments. On average, NABIL's lending against personal guarantees amounted to Rs. 812.1552 million, which is considered risky and may require additional provisioning.

Concentration risk, which is a critical risk for banks, was also addressed in the study. All three banks managed to maintain a lending portfolio that adhered to the ceiling of 20% for exposure to any single sector, which is considered optimal. This suggests that, in general, if one sector faces difficulties, the banks are less likely to face significant financial instability. EBL and NABIL maintained a more diversified portfolio compared to SCB, which had a notable concentration of lending in the 'others' sector.

Regarding lending to the real estate sector, all three banks reduced their portfolios to below 20%, though there is a possibility that some of the real estate loans may have been reclassified under other categories to obscure the true extent of exposure. The study also revealed that EBL, NABIL, and SCB had significant amounts of financing directed toward working capital loans, with EBL, NABIL, and SCB averaging 44.21%, 46.96%, and 33.97% in working capital loans, respectively. In terms of real estate lending, EBL had the smallest exposure at 4.435%, followed by NABIL at 5.97% and SCB at 6.76%. EBL had a higher share of term loans at 19.63% on average compared to SCB and NABIL. Additionally, SCB had a greater share of financing in the category of other loans, which include small loans, mortgages, and overdrafts, compared to EBL and NABIL. Specifically, EBL and NABIL had 16.8076% and 21.84% of their lending in this category, respectively, while SCB showed a significant difference in the type of loans it provided.

In conclusion, the study provides an in-depth analysis of the credit risk management practices of EBL, NABIL, and SCB. While the three banks exhibit varying levels of effectiveness in managing credit risk, they all face similar challenges, particularly following the COVID-19 pandemic. Their portfolios are primarily secured by fixed assets, and there is a tendency toward concentration risk in certain sectors. However, each bank has taken steps to diversify its lending and ensure capital adequacy. The findings suggest that NABIL, in particular, may need to improve its credit risk management practices, particularly in areas such as personal guarantee lending and non-performing loans, while EBL and SCB seem to have relatively more robust credit risk frameworks in place.

5.3 Implications

The findings of this study highlight several areas for improvement in the credit risk management practices of Nepalese commercial banks, specifically Everest Bank Limited (EBL), NABIL Bank Limited (NABIL), and Standard Chartered Bank Limited (SCB). First, strengthening credit appraisal processes is critical for reducing non-performing loans (NPLs), especially for banks like NABIL, which exhibit higher NPL ratios. Rigorous due diligence, adherence to credit guidelines, and adopting advanced credit risk assessment tools can enhance credit quality. Similarly, the high concentration of loans in specific sectors, genuine estate and those backed by fixed assets, necessitates diversification of lending portfolios. Banks should explore opportunities in underrepresented sectors such as agriculture, technology, and small and medium enterprises (SMEs) to mitigate concentration risk.

Nepal Rastra Bank's regulatory oversight must be enhanced to ensure optimal governance standards. Introducing more stringent guidelines on capital adequacy, stress testing, and risk exposure ceilings can help maintain financial stability. Additionally, banks with near-minimum capital adequacy ratios, such as NABIL, should focus on building capital buffers to safeguard against potential risks during economic downturns like the COVID-19 pandemic. Investment in advanced credit risk management technologies, including artificial intelligence and predictive analytics, is also crucial to address complex risks and enhance decision-making.

Reducing NPL ratios through stronger loan recovery mechanisms and the introduction of early warning systems is imperative for sustainable financial performance. Transparent lending practices are equally important; instances of potential reclassification of real estate loans into other categories to obscure exposure must be addressed with accurate reporting and regular audits. Liquidity management can be improved by maintaining a balanced liquidity position and optimizing cash flow practices.

To address the challenges posed by the COVID-19 pandemic, banks should develop responsive credit policies such as loan restructuring and repayment deferrals while balancing risk management and customer support. Furthermore, building the capacity of risk management teams through regular training and certifications is vital for equipping personnel with modern risk assessment techniques. By implementing these measures, Nepalese commercial banks can enhance their credit risk management practices, improve financial performance, and contribute to the stability of the banking sector.

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ii ii ABSTRACT This study examines

credit risk management practices in Nepalese **commercial banks** , with **a** specific focus **on** Everest **Bank**
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