CREDIT MANAGEMENT AND PROFITABILITY OF COMMERCIAL BANKS IN NEPAL

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

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Credit Management and Profitability of Commercial Banks in Nepal**''. The work of this dissertation has not been submitted previously for the purpose of 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 has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

Anju Karki

June, 2024

REPORT OF RESEARCH COMMITTEE

Ms. Anju Karki has defended research proposal entitled **"Credit Management and Profitability of Commercial Banks in Nepal"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Rishi Raj Gautam submit the thesis for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"Credit Management and Profitability of Commercial Banks in Nepal "** presented Anju Karki Candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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Researcher

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURE

ABBREVIATIONS

AM:	Arithmetic Mean
BS:	Bank Size
C.V:	Coefficient of Variation
CAR:	Capital Adequacy Ratio
GDP:	Gross Domestic Product
NP:	Net Profit
NPA:	Non-Performing Assets
NRB:	Nepal Rastra Bank
NSBL:	Nepal SBI Bank Ltd
RBI:	Reserve Bank Of India
ROA:	Return on Assets
ROE:	Return on Equity
SOI:	State Bank of India
TLTD:	Total Loan to Total Deposit

ABSTRACT

Credit risk is one of the several hazards that bank's must deal with and it has a significant impact on their profitability because a sizable portion of their revenues come from loans where interest is charge. So a good credit management practice is vital for long term sustainability of banking and financial institutions. This research was aim to analysis the most influencing factors that affect credit trend in commercial banks. The study was an attempt to examine the impact of credit management on bank performance measured by profitability in terms of ROA and ROE. Moreover, it also analyzed the relationship between credit risk factors and financial performance in terms of ROE and ROA for the period covering fiscal year 2012-2022. To assess the impact of credit management and profitability of the banks, various statistical models including descriptive research approach was applied to diagnose the specific objectives of the research. The key findings stated that there was significant relationship between non- performing loans interms of ROA and ROE. There was also significant relation between capital adequacy ratio in terms of ROA and ROE. Also, there was statistically significant, albeit statistically positive, correlation was seen between the loan-to-advance ratio and return on assets (ROA). It was determined that profitability will increase in response to favorable changes in the credit risk variables capital adequacy ratio and non-performing loan ratio.

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Keywords: Profitability, credit management, capital adequacy ratio, Return on Assets, Return on Equity, Banking and financial institutions, credit risk factors etc.

CHAPTER-I
INTRODUCTION

1.1 Background of the Study

Through the money related administrations they offer, banks are critical for financial advancement. The managing an account sector's long-term proficiency and viability serve as a gage of a country's in general money related steadiness. A country's financial development and long-term reasonability are quickened to a more noteworthy or lesser degree by the level to which a bank offers credit to the common individuals for profitable exercises. The capacity of speculators to require advantage of wanted fruitful ventures is made strides by the credit work of banks. The essential source of income for banks is the era of credit (Funso, et al. 2012).Either way, it creates a credit risk for the banks. Internal factors that affect bank performance include credit chance, which tends to decrease business performance the more likely banks are to become involved in financial emergencies and vice versa. Pastory and Kaaya (2013)

Credit hazard is one of a few dangers that banks must deal with, and it contains a noteworthy affect on their benefit since a sizable parcel of their income comes from credits where intrigued is charged. The Basel II Agreement set accentuation on credit chance administration methods since to the rising tide of non-performing advances. The Accord's compliance signals a judicious approach to overseeing credit hazard, which eventually upgrades bank execution. Banks advance the reasonability and benefit of their claim company as well as systemic steadiness and an successful dissemination of capital within the economy through the fitting administration of credit chance introduction (Psillaki, et al. 2010). The administration of credit in budgetary educate is basic to their proceeded presence and development. The victory of commercial banks is decided by a few indicators of credit administration. The execution of the bank is altogether affected by the capital ampleness proportion, credit store proportion, non-performing advance to add up to advance progresses, net intrigued wage to add up to salary, and add up to advance misfortune arrangement to add up to non-performing advance.

In Nepalese setting too, the credit administration has become a more prominent concern within the managing an account and budgetary division. The financial institution's balance sheet makes it clear that net interest payments are included in the commitment of the total compensation. So, a great credit administration hone is crucial for long term supportability of keeping money and monetary teach. The credit administration system's plan is contingent upon various factors, including its approximation, capital configuration, intricacy of capabilities, specialized expertise, and standard of Administration Data Framework. The majority of venture capital in commercial banks comes from credit exposures, and the return on such capital is considered to be a primary source of income.

The taking after can be utilized to supply the hypothetical avocation for doing the ponder on the affect of credit administration on the performance of commercial banks in Nepal. The borrowing and loaning of money may well be perfect way">the most perfect way to whole up the essential obligations of commercial banks. Hence, the essential source of pay for banks is net intrigued pay. And the as it were way to optimize net intrigued income is through keen credit management. Effective credit management and bank execution are correlated since administration aptitudes in credit chance discovery, estimation, and evaluation are spoken to quantitatively within the predictors of credit management. Appropriate recognition of credit unfortunate arrangement on convenient, managing resources and obligations, as evidenced by credit store ratio, maintaining sufficient capital as a buffer for retaining credit risks. A key component of optimizing bank execution is minimizing non-performing credits through adequate scrutiny and observation. As a result, the effect of credit administration on a bank's operations has long been a theoretical and feasible concern.

1.2 Problem Statement

The show keeping money setup is the result of financial liberalization, financial prerequisites, and globalization. Regardless, the ensuing enhancement in the caliber of commercial banks has not been agreeable. The number of commercial banks and other budgetary teach has been expanding in later times. None of the commercial banks can survive within the long run without executing successful loaning approaches and hones. Numerous inquire about considers on the causes of bank disappointments have found that asset quality may be a measurably noteworthy

indicator of bankruptcy (Kunt, 1989). Barr and Siems (1994) moreover shown that falling flat managing an account educate continuously have a tall level of non-performing credits earlier to disappointment.

Commercial banks in Nepal have been confronting different challenges and issues. A few of these issues emerge due to the financial conditions of the nation, a few due to government approaches, and numerous due to defaults by borrowers. Since the liberalization of the economy and financial segment changes within the 1980s, various openings have risen within the banking division. The volume of stores and credits within the managing an account division has expanded. Due to expanding competition within the advertise, banks are beneath tall weight to decrease intrigued edges. Non-performing resources have gotten to be a critical issue for commercial banks. NRB rules require commercial banks to set aside a certain rate of benefits for provisioning awful advances and non-performing resources. In any case, due to tall provisioning necessities and the financial circumstance of the nation, banks are not able to create tall benefits. Contributing in businesses and the beneficial division is seen as a hazardous venture. Banks are progressively contributing in zones such as house advances, hire-purchase credits, and instruction credits for security purposes. The need of good lending openings has driven to a issue of over-liquidity. The expanding volume of stores in settled and reserve funds accounts and a diminishing slant in loaning are among the challenges confronted by commercial banks.

Credit administration includes a noteworthy affect on a company's benefit and liquidity, making it a significant choice for commercial banks. It is empowering to investigate unused segments for credit. In Nepal, it has been observed that advance endorsement and credit choices are sometimes made in a adaptable way to favor individual networks. New clients frequently discover the credit application handle complicated, and sometimes the archives submitted for credit endorsement are false and serve as it were formal purposes.

The money related segment, especially the managing an account framework, might play a significant part in Nepal's effective move and financial recuperation. Banks and other monetary teach are one of a kind firms with resources and liabilities, administrative limitations, financial capacities, and operations that make them critical

subjects for consider. Execution checking, investigation, and supervision of banks require a uncommon center on their operations and exercises from the perspectives of different partners, counting proprietors, clients, controllers, and administration itself. Distinctive adaptations of budgetary proportion investigation are utilized for analyzing a bank's execution utilizing financial statement items as starting information sources. In any case, such examination isn't commonly found within the setting of Nepal with the most recent data accessible. This consider will fundamentally center on the credit management hones embraced by Nepalese commercial banks (Gadzo, Kportorgbi, & Gatsi, 2021).

This credit creation plan revealed the banks' high default risk, which could result in financial difficulties and liquidation. However, in order for their clients to generate income, grow, and endure fierce competition in the marketplace, banks must extend credit to them in close proximity to other administrations. By examining the most recent data from various commercial banks, the main goal of this study is to determine how much control banks have over their credit risks, what tools or tactics are available to them, and how much their execution can be enhanced by proper credit risk management (Oduro et al., 2020). NRB issues orders to commercial banks to extend their paid-up capital to Rs. 9.8 billion by mid July 2019 A.D. It got to be the foremost challenging task for commercial banks; hazard related with credit is clearly pointed out by the following issues which is confronted commercial banks.

The most inquire about questions that this ponder tries to address are recorded as below:

i) What are the position of credit management and profitability factors that affect credit trend in Nepalese Commercial bank?
ii) What is the impact of credit management and profitability?
iii) Is there any relationship between the credit risk factors and financial performance in terms of ROE and ROA?

1.3 Objectives of the Study

Assessing the correlation between credit management predictors, specifically capital adequacy ratio, credit deposit ratio, bad debt to total outstanding loans and net profit

from loans and advances on commercial bank performance is the primary goal of this study.

The research target of this study is: The research objectives in this study are as follows:

i. To examine current position of credit management, NPA, and profitability.
ii. To analyze the relationship between credit management and profitability.
iii. To analyze the impact between the credit management and financial performance in terms of ROE and ROA.

1.4 Hypothesis

The following hypothesis is tested in this study:

H11: The non-performing loan ratio and ROE have a substantial correlation.

H12: The ratio of non-performing loans to total assets and ROA are significantly correlated.

H13: The advance ratio and ROE have a substantial link.

H14: The loan-to-advance ratio and ROA have a substantial link.

H15: The capital adequacy ratio and ROE have a substantial relationship.

H16 The capital adequacy ratio and ROA have a substantial relationship.

H17 The credit deposit ratio and ROE have a substantial link.

H18: The credit deposit ratio and ROA have a substantial link.

1.5 Rationale of the Study

Loans and advances are the most profitable assets for banks, as they generate a significant portion of a bank's income through interest earnings. Banks aim to make substantial profits, and loans and advances are more lucrative than other assets. Lending, however, requires vigilance because depreciation of loans and advances is a major factor in bank failures globally, making loans a dangerous asset. Credit risk, often known as default risk, is the possibility that loans won't be repaid.

Maintaining a strong capital adequacy ratio and lowering the amount of non-performing assets require effective credit management techniques. Bank performance improves with enhanced credit management. Credit risk is closely linked to interest rate risk, meaning that an increase in interest rates can raise the chances of loan

defaults.Non-performing loans (NPLs) are loans not serviced for three months or more, and a high NPL level indicates a higher likelihood of defaults, affecting bank profitability and eroding asset value. Banks with high credit risk also have a greater risk of bankruptcy, which endangers depositors.

In today's competitive environment, banks sometimes take excessive risks to stay profitable. Credit risk is a critical factor in bank failures, with impaired loans often present before bankruptcy. Bad loans in the banking system can lead to economic stagnation.

For a number of stakeholders, this study on the effect of credit management on bank performance is important. Banks can identify areas for improvement, shareholders, creditors, and depositors can assess bank performance, clients can make informed decisions about borrowing, and the government can benefit from increased tax revenue with stronger bank performance. Banking regulators can use this study to develop frameworks and policies, while future researchers can build on this work to explore additional areas in this field.

1.6 Limitations of the Study

Since this is an academic report, time constraints may be the main obstacle to the investigation. Aside from time, the following restrictions could also apply:

i) Only three of the ten active commercial banks that have not merged are included in the sample.

ii) The study only focuses on certain commercial banks' credit risk management.

iii) Ten fiscal years' worth of data, from 2012–13 to 2021–22, were included in the analysis.

iv) Because of financial and temporal limitations, only a small number of variables are employed in the data analysis.

v) Because this study is limited to a case study, its conclusions may not have broad applicability to other types of enterprises operating in various circumstances.

vi) All of the data used in this research is secondary.

CHAPTER-II
LITERATURE REVIEW

This chapter presents the review of the literature for the relevant topic area of the current investigation. It addresses the definition of variable, research gap, research framework, theoretical review, empirical review, and research gap in sections three and four. The primary goals of research are knowledge review and acquisition. The researcher can get closer to his goal with the aid of the literature on linked papers. The current literature is highlighted in this chapter.

2.1 Conceptual Review

Reviews and concepts pertaining to banking institutions' credit management are included in the conceptual review. The following section discusses various credit management strategies and concepts created by earlier researchers.

2.1.1 Review of Credit Risk Management

Credit refers to the confidence of a lender (creditor) in a borrower (debtor) by extending a loan, usually in the form of money, goods, or securities to the debtor. Basically, when a loan is granted, the lender is considered to have extended credit to the borrower and it automatically accepts credit from the borrower (Onyeagocha, 2001).

Credit management is a process that begins when a sale is made and ends when final payment is received (Aduda & Gitonga, 2011).

These are platforms that provide a solid foundation for value management and risk planning, which is only concerned with the competitiveness and operations in the financial services sector. The latest strategic approach clearly includes a risk management framework and strategy that is complemented by the modern idea of a bank's core business of quantifying, arranging and accepting risk.

The goal of a bank is to manage value and risk by maximizing value destroyers or eliminating value destroyers (Owolabi & Obida, 2012).

The main task of commercial banks is to mobilize capital in the form of deposits from many sources and lend to different fields such as production, transportation, business, construction, communications as well as services, other public, etc.

Every bank that engages in these activities runs a great deal of danger.
There are several types of risks in the banking industry, but the main risk areas are widely recognized, which are credit risk, market risk and operational risk etc. Credit risk is the potential financial loss due to customers not meeting their obligations, full conditions of either loan or contract.Conversely, market risk encompasses commercial risk and balance sheet risk, including possible threats to capital and earnings from shifting interest rates, liquidity constraints, currency rate volatility, and other factors.

At the same time, operational risks arise from natural disasters. errors in transaction processing and settlement, asset protection, system errors, fraud and counterfeiting (Oyetan, 2013). According to (Shafiq and Nasr, 2014), anticipating risk and managing it well is preferable to waiting for it to happen. The goal of good risk management is to identify and treat risks. Its goal is to add maximum sustainable value to all organizational activities. Commercial banks are the main financial intermediaries of any economy and the main providers of credit to households and businesses (Magnifique, 2015). They deal with both retail and business customers, have diverse deposit and loan portfolios and often offer a full range of financial services. The monetization policy of commercial banks leads to a flexible credit system, necessary for economic development with a relatively stable growth rate.Specifically, banks make profits by selling debt that has a set of characteristics (a specific combination of liquidity risk and return) and using the proceeds from the sale to buy assets has a different set of characteristics, i.e. asset conversion.

(Mishkin, 2016), credit policy must determine the bank's lending philosophy as well as specific procedures and means to monitor lending activities. The guiding principle of credit assessment is to ensure that only borrowers who have a need for credit and are able to meet their repayment obligations can access credit.

Lenders can refuse to lend even if the borrower is willing to pay a higher interest rate, or make the loan but limit the growth rate of loan assets to a level lower than the borrower is willing to borrow.

Financial institutions engage in a second form of credit allocation to minimize risk. Credit is the sum of money, with or without collateral, that a creditor lends to a borrower.

2.2 Empirical Review

The section of study consists of mainly review of journal and articles as well as review of previous thesis. Both national and international context articles and journals have been discussed underneath.

2.2.1 Review of Journals and Articles

(Bhattarai, 2016) examined the effect of credit chance management on the performance of Nepalese commercial banks using aggregated data from fourteen Nepalese institutions from 2010 to 2015, comprising 77 perspectives. Return on resources is a subordinate variable, and the 77 views include capital ampleness percentage, non-performing credit proportion, taken a toll per credit resource, cash saving proportion, and bank estimate as free variables. Relapse investigation was utilized to evaluate the information. The discoveries of the consider appeared that the commercial banks beneath the thought have been practicing destitute credit chance administration. This was advance prove by the negative impact of non-performing credit proportion on bank execution and the positive impact of fetched per credit resources on bank execution. In differentiate to other thinks about, the creator found that capital ampleness proportion and cash save have no impact on bank execution. Since there's a noteworthy relationship between credit hazard and bank execution, the creator proposes that the banks set up legitimate credit hazard administration techniques by conducting sound credit assessment strategy some time recently allowing credits to clients.

(Poudel, 2012) endeavored to distinguish the different parameters germane to credit risk administration because it influences money related execution by utilizing information of 31 commercial banks in Nepal from 2001 to 2011 and by applying

numerous relapse examination. The parameters indicated within the ponder were default rate, fetched per credit resources and capital ampleness proportion. The discoveries uncovered that all these variables have an converse affect on banks budgetary execution, which default rate is the foremost critical indicator of banks budgetary performance. From the discoveries the creator suggests for Nepalese commercial banks more on hazard administration as the hazard administration, in common encompasses a noteworthy contribution to bank execution. Encourage, the creator suggests that in arrange to reduce chance on credits and accomplish most extreme exhibitions, the banks ought to distribute more reserves to default rate administration and attempt to preserve an ideal level of capital ampleness.

(Poudel, 2018) examined how credit hazard management affected Nepal's commercial banks' bottom line. Data were gathered from the examination of fifteen commercial banks operating in the Nepali economy during 2002–2003 and 2014–2015. The primary tool of the board information inquiry is the one-way settled impact show (FEM). The advantage of commercial banks is quantified as return on value, which is dependent on both macroeconomic and bank-specific factors. The results confirmed that credit risk has a significant detrimental impact on Nepal's commercial banks' productivity. In expansion, dissolvability proportion, intrigued spread rate, and expansion have the critical negative affect on productivity. In differentiate, capital ampleness proportion, add up to resources and GDP growth have the critical positive impact on benefit of commercial banks in Nepal. At long last, inter-bank intrigued rate has noteworthy positive affect on profitability.

(Shrestha, 2017) looks at the affect of credit hazard administration on productivity of Nepalese commercial banks. The productivity in terms of return on resources and return on value are chosen as subordinate factors.

The following are considered free factors: cash saving percentage, capital ampleness proportion, non-performing loan ratio, toll per credit resource, resources growth ratio, and usage proportion. The data was gathered from the annual reports of a few chosen commercial banks as well as bank supervision reports that NepalRastra bank distributed. The overview is based on 126 perceptions from 18 commercial banks in

Nepal. In case, graphic measurements, relationship examination a few symptomatic test for the straight relapse demonstrate suspicion was displayed. The relapse models are evaluated to test the noteworthiness and significance of credit hazard management on productivity of commercial banks in Nepal. The comes about appear that capital ampleness proportion, fetched per advance resources development proportion are emphatically related with return on resources and return on value. It demonstrates that higher the capital ampleness proportion, higher would be return on resources and return on value. Essentially, increment in taken a toll per advance resources leads to an increment in return on resources and return on value. Moreover, higher the resources development proportion, superior would be return on assets and return on value. The comes about too appear that non-performing credit ratio, cash save proportion and use proportion are adversely related with return on resources and return on value which uncovers that increment in non-performing credit ratio leads to diminish in return on resources and return on equity which uncovers that increment in non-performing credit proportion leads to diminish in return on resources and return on value. So also, higher money reserve proportion, lower would be return on resources and return on value. Moreover, increment in use proportion leads to a diminish in return on resources and return on value. Moreover, increment in use proportion leads to a diminish in return on resources and return on value. The beta coefficient is positive for capital ampleness proportion, taken a toll per advance resources and resources development proportion and bank execution though For the percentage of non-performing credit, the percentage of cash reserves, the percentage of use, and bank execution, the beta coefficient is negative. The beta coefficient is critical for capital ampleness proportion, on-performing credit proportion, resources development proportion and use proportion at 5 percent level of importance.

(Adhikari, 2018) has conducted entitled Credit chance and Productivity of Joint Wander Banks in Nepal. The most inquire about objective of this inquire about must, ponder the liquidity and productivity of joint wander banks, assess the patterns of store utilization towards add up to venture and advance & propels and to analyze the different dangers in speculation of joint wander banks in Nepal. The consider has utilized the expository inquire about plan and based on auxiliary information. The inquire about concludes that the liquidity position of NBBL has not better than that of

HBL and NSBL. The NBBL is in way better position with respect to its on-balance sheet exercises. The proportions of NBBL are exceedingly variable which uncovers NBBL has not taken after steady approach. The productivity position of NBBL has comparatively not superior than that of HBL but better than that of NSBL. The credit chance proportions and intrigued rate hazard proportions of NBBL is higher than that of HBL and NSBL. At the conclusion, Store collection position, loaning position, speculation position and net profit position of NBBL has not way better in comparison to HBL but than NSBL. (Gadzo, Kportorgbi, and Gatsi, 2022) used a fractional slightest squared auxiliary condition show (PLS SEM) technique to evaluate credit and operational hazard on budgetary execution of universal banks in Ghana.

Financial institutions, especially commercial and universal banks throughout Africa, have faced a significant increase in mergers and acquisitions in the past few years. These events hinder the degree of financial integration and reduce transparency in the overall budgetary structure. This consider surveyed the effect of credit and operational hazard on the money related execution of universal banks in the setting of the auxiliary condition demonstrate (SEM). Information were collected from all the 24 all-inclusive banks in Ghana without lost factors and using the PLS-SEM, the comes about appeared that credit hazard impacts monetary execution contrarily opposite to the observational consider. however consistent with the lemon hypothesis's premise of data asymmetry. It was also discovered that operational chance has a negative effect on the financial execution of Ghana's widely-operated banks. Additionally, studies have shown that a few bank attributes, measured by resource quality, bank utilization, toll to pay ratio, and liquidity, affect credit risk, operational risk, and the universal banks' overall budgetary execution cumulatively. Our proposal is to incentivize banks to decrease lending rates with the aim of mitigating credit risk and boosting profitability. Banks should focus more of their portfolio on fluid speculation pay and reduce operational risk in order to boost profitability.

According to (Singh, 2013), credit risk is a basic calculation that needs to be properly managed. Credit chance was the likelihood that a counterparty borrower would fail to fulfill its obligations in accordance with the agreed-upon terms. Credit risk, hence

emerge from the banks dealings with or loaning to corporate, most seasoned and greatest chance that boycott, by ethicalness of its exceptionally nature of commerce, acquired. India currently had a large number of banks operating there. To examine the impact of credit chance administration on Indian commercial banks, a selection of open segment banks was made, including State Bank of India, Punjab National Bank, Oriental Bank of Commerce, Bank of India, Indian Bank, Indian Abroad Bank, Syndicate Bank, Bank of Baroda, Canara Bank, Allahabad Bank, UCO Bank, Vijaya Bank, and Pivot Bank, ICICI Bank, IndusInd Bank, ING Vysya Bank, Dhanlaxmi Bank, HDFC Bank, YES Bank, Kotak Mahindra Bank, Karnataka Bank, ABN Amro Bank, Government Bank, and Laxmi Vilas Bank. The analyst took an 11-year return on asset (ROA) and used various relapse models to examine its impact level.

(Kahuthu, 2016) stated that investment funds and credit agreeable social orders (SACCOS) have allowed advances over the a long time without concentrating on the quality of credits in their portfolios and subsequently kept up key resources in their books that would not be accounted for. So also, they have provided cash to clients without any purposive assurance of cash levels. The ponder in this manner sought to find out on the off chance that liquidity and credit administration played critical parts in determination of and return on value which uncovers that increment in non-performing advance proportion leads to diminish in return on resources and return on value. In a similar vein, lesser returns on resources and value would result from higher money save proportions. Additionally, a decrease in return on resources and return on value is caused by an increase in the fraction of usage. On the other hand, non-performing credit, cash saving and use ratios, and bank execution have negative beta coefficients.The beta coefficient is positive for capital ampleness percentage, taken a toll per loan resources, and resources development proportion.

(Gnawali, 2018) examined the effect of non-performing advance on productivity of Nepalese commercial banks. The level of Non-performing resource (NPA) in Nepalese managing an account framework is exceptionally disturbing. It is commonly known that banks and other financial institutions in Nepal are struggling with the problem of growing non-performing assets and the issue of getting harder and harder to handle on a daily basis. This study examines how Nepalese commercial banks'

output is affected by non-performing advances. Regression models were assessed in order to determine the impact and significance of non-performing advances on the profitability of commercial banks in Nepal.

(Panta, 2019) examined the bank-specific and macroeconomic determinants of non-performing credits as well as its affect on productivity. The analysis identifies the non-performing loan's determinants as the net fascinated edge and the bank measure. It suggests that while the bank estimate has a negative and important link, the net intrigued edge has a positive and significant impact. The macroeconomic issues are unrelated, in any case. Furthermore, a notable impact on productivity is observed when the bank estimate, non-performing credit, and net intrigued edge are used as free variables. There is a negligible correlation between the return on value and the "bank measure." Three inferences that can be drawn from this are:

firstly, as the net intrigued edge rises for the banks so does the bankability to gain from the intrigued wage which increments the profitability. Besides, the increment in the non-performing credit disintegrates the intrigued salary decreasing the productivity and at long last, as the asset estimate increments so do the bad management hones as there are colossal operations to be handled by the bank, hence preventing the productivity.

(Dhungana and Upadhaya, 2020) examined that bank's loaning arrangement, productivity and ideal portfolio administration are altogether reduced of non-performing credit. The slant of non-performing advances is diminishing each year. The current scenarios of non-performing credit and effectiveness of Nepalese budgetary instincts can be taken as palatable. The level of nonperforming loan in current scenarios is around at 5 percent and it is able to keep up the worldwide standard.

(Patwary and Tasneem, 2019) pointed to find the affect of non-performing credit proportion, capital ampleness proportion and arrangement support proportion on the return on resource (ROA) of all banks based on the final twenty-one a long time information. This think about too examines the root causes and antagonistic impacts

of the non-performing credit. The comes about of the think about uncover that there's diverse directional short-run causality exist between factors and the OLS relapse investigation affirms that two free factors; non-performing advance proportion and arrangement upkeep proportion are factually critical to the subordinate variable; return on resource (ROA).

(Oduro, Asiedu, and Gadzo, 2021) looked studied how credit risk affected how businesses handled their money: Verify from banks that have records on the Ghana stock market. A greater exposure to credit risk may jeopardize a bank's ability to manage its finances and continue to exist. On this premise, this ponder looks for to recognize the variables that decide the level of bank credit hazard and encourage gauges the impacts of bank credit chance on corporate budgetary execution utilizing budgetary information from banks on the Ghana Stock Trade over a 15-year period from 2003 to 2017. Utilizing the strategy of 2SLS, it was watched factors such as capital ampleness, working productivity, benefit, and net intrigued edge are conversely related to credit hazard. Alternately, bank estimate and financing crevice tend to relate emphatically with credit chance. In expansion, annualized changes in swelling tend to emphatically influence credit chance. Once more, it was watched that, increment in bank credit chance adversely influences corporate monetary execution which is steady with Basel agreement. Hence, for banks to outlive in their industry, basic consideration has to be paid to administration of its credit hazard presentation.

Gadzo, Kportorgbi, and Gatsi (2022) examined on credit chance and operational hazard on budgetary execution of all-inclusive banks in Ghana:
The method of the halfway slightest squared auxiliary condition (PLS SEM) is demonstrated. Later on, major mergers and acquisitions have faced financial institutions throughout Africa, especially universal and commercial banks. These occurrences undermine the degree of financial deliberation and reduce open certainty in the overall budgetary system. In the context of the auxiliary condition show (SEM), this study assessed the impact of credit and operational risk on the financial execution of large banks.

Credit risk has an impact on budgetary execution that is different from that of the observational researcher but compatible with the data asymmetry occupant of the lemon hypothesis, according to data collected from all 24 of Ghana's largest banks without any being left out. This was discovered using the PLS-SEM. It was also shown that operational chance negatively impacts the inclusive banks' ability to carry out their budgets in Ghana. Further, the study showed that some bank attributes—resource quality, bank use, fetched to income ratio, and liquidity—had a compounding impact on operational risk, credit risk, and the overall financial performance of the universal banks. Our recommendation is that banks should have the authority to lower lending rates to reduce credit risk and in the boost of productivity. With respect to operational chance, banks ought to decrease use and have their portfolio more concentrated on fluid venture wage to boost productivity.

2.2.2 Review of Thesis

Basnet (2019) appears that NIBL appears to be solid to mobilize its add up to store as advance and advance.Non- performing advance truly influences keeping money division. In case non-performing advance increment, the by and large keeping money trade has influenced. NIBL has most reduced non-performing advance to add up to advance and progress, hence NIBL is best entertainer than the BOK.Interest costs to add up to intrigued pay proportion is expanding drift all through the consider period. The higher proportion appears unfavorable benefit circumstance of the bank.The non-performing credit and Credit and development are expanding drift. The bank proportion appears solid; in any case, appears to be great on by and large advance of the bank.

Karki (2019) found NIC has most reduced non-performing credit to add up to advance and progress, In this way NIC is best entertainer than the NMB. On the off chance that non-performing advance increments, the by and large managing an account trade will be affected.Average credit and progresses to add up to resources of NIC is more prominent which demonstrates the great loaning execution. NMB ought to center to extend credit and development to total resources proportion to extend loaning execution. Increment proportion shows the expanded volume of non-performing credits and bad habit versa. Credit misfortune arrangement of NMB is diminishing

slant. The diminishing credit misfortune proportion demonstrates productive credit approach and progressive increase on the execution of the company. Normal intrigued costs to add up to costs proportion of NMB is higher. NIC has moo intrigued costs to add up to costs proportion, it appears the diminish in taken a toll on store as diminish in intrigued costs to add up to costs proportion decrease. Non-performing credit and credits were adversely related with each other. Viable credits administration makes a difference to diminish the non-performing credits.

Poudel (2019) uncovered that Garima Bank is mobilizing its add up to store in credit and progresses enough and it has effectively utilized its add up to stores for advance and advances.If credit misfortune arrangement is breaks even with to non-performing credit, at that point there's no more other non-performing resources in Advancement banks. The non-performing credit holds as it were the parcel of credit misfortune provision. There is positive impact of the credit administration markers of non-performing credits and store. From the examination of Garima Bank, it appears to preserve liquidity position by one means or another in great condition through the study. The issues in credit handling incorporate lack of through credit evaluation, nonappearance of testing and approval of unused loaning procedures, need of viable credit administration process. Overall execution of Garima Bank appears their tall credit standard position among the other Improvement banks. Development banks grant the primary need to fabricating segment and enlist buy though the horticulture division has been kept on the slightest need by Advancement bank and same Garima Bank.

Saud (2018) found that BOK has kept up higher advance and propels to add up to store which appears that BOK appears to best rang to mobilize its total deposit as loan and advances. NIB has least non-performing credit to add up to credit and progresses, this NIB is the finest execution than BOK. In case non-performing credit increments, the in general keeping money trade will be influenced. So, arrangement sum will increment and benefit will diminish. There is a direct and negative association between advances from NIB and non-performing credit. It indicates that there was a moderately negative relationship between non-performing credits and advances. This

suggests that reducing credit administration execution has an impact on reducing non-performing credits.

Pathak (2019) appeared NABIL has kept up higher credit and advances to add up to deposit. Fixed store is the most source of giving credit for both NABIL and NIBL banks. Credit misfortune provisioning is in decreasing drift so, it shows proficient credit approach. Intrigued rate impacts sum of store which is turn influence credit.
Silwal (2016) found that the current proportion of GIBL is slightly higher than NIBL. This in dicates the GIBL capacity to meet it so commit on due in one year is superior than NIBL. NIBL has continuously kept up a somewhat higher CRR than the NRB prerequisites. This has come about NIBL higher levels of CRR than compared to GIBL. This shows that liquidity kept up by NIBL is sounder than GIBL. The higher SD of NIBL demonstrates that more CRR continuously come with more risk which diminishes the productivity of banks. The higher cash and bank adjust to current resources proportion and cash & adjust to current liabilities proportion too implies the same things that NIBL has more prominent capability of assembly its dem and strengths has and when required and too encompasses a more prominent capacity of assembly its commitment. The too tall claims and progresses to add up to settled resources of GIBL are high her than of NIBL.

Table 2.1

Summary of review

Authors	Title	Design	Data analysis tools	• Major findings
Bhattrai (2016)	Effect of credit risk management on the performance of Nepalese commercial banks.	Descrip tive	Regression analysis	The findings of the study showed that the commercial banks under the consideration have been practicing poor credit risk management. This was further evidence by the negative effect of non-performing loan ratio on bank performance and the positive effect of cost per loan

				assets on bank performance.
Poudel (2012)	introducing the different components pertinent to credit risk management as it affects financial performance of commercial bank in Nepal.	Analytical and Descriptive	Applying multiple regression analysis	The results showed that the default rate is the most important predictor of a bank's financial success, and that all other indicators have an inverse effect on that performance.
Poudel (2018)	the impact of credit risk management on profitability of the commercial banks in Nepal.	Descriptive	One way fixed effect model (FEM) of panel data analysis is used as major tool of analysis	The findings demonstrated that credit risk significantly lowers the profitability of Nepal's commercial banks. Furthermore, inflation, interest spread rates, and solvency ratios all significantly harm profitability. Ultimately, the profitability of an interbank interest rate is significantly positively impacted.
Shrestha (2017)	Impact of credit risk management on profitability of Nepalese commercial banks	In case, descriptive	Correlation analysis	The findings indicate a positive relationship between return on equity, return on assets, and the capital adequacy ratio and growth ratio of cost per loan asset. It implies that if the capital adequacy ratio rises, so would the return on assets and return on equity.
Gnawali	The effect of	Analyti	Pooled	The findings indicate that credit risk

(2018)	credit risk management on profitability	cal and descript ive	regression analysis and panel data analysis	management has significant impact on the profitability of Nepalese commercial banks. Results show that coverage ratio, non-performing loan ratio and female board. The cash reserve ratio and quality did not prove to be important factors in predicting a bank's performance.
Adhikari (2018)	Credit risk and Profitability of Joint Venture Banks in Nepal	Analyti cal research design	Correlation and Regression	The study has used the analytical research design and based on secondary data. The research concludes that the liquidity position of NBBL has not better than that of HBL and NSBL. The NBBL is in better position regarding its on-balance sheet activities.
Gadzo, Kportorg bi, and Gatsi (2022)	research on the impact of operational and credit risk on Ghana's universal banks' financial performance.	Analyti cal and Descrip tive	A partial least squared structural equation model (PLS SEM) .	The findings supported the information asymmetry tenet of the lemon theory but contradicted the empirical investigation by demonstrating a negative relationship between credit risk and financial performance. Additionally, it was discovered that operational risk had a detrimental impact on the universal banks' financial performance in Ghana.
Kahuthu (2016)	Effect of financial management practices on	The study adopted descript	coefficients of unstandardize d regression	The performance of SACCOs (the dependent variable) was significantly predicted by the independent variables capital

	financial performance of savings and credit cooperative societies in kisumu county, kenya	ive survey	with standard errors enclosed in parenthesis	adequacy, capitalization, leverage, and liquidity management. The research comes to the following conclusions: (1) liquidity management is a significant predictor of SACCO financial performance; hence, a SACCO's liquidity position in terms of cash position, capacity ratio, and total deposits really influences SACCO financial performance; and (2) capital adequacy significantly influences SACCO financial performance; hence, strengthening SACCOs' effective capital adequacy requirements can positively affect SACCO performance.

Oduro, Asiedu, & Gadzo(2021)	Factors Impacting Liquidity of Banks: An Empirical Study From The Banking Sector In The UAE.	Descriptive	Regression and multiple correlation analysis	The test of significance and provide concrete evidence that the identified idiosyncratic and market related factors have significant impact on the liquidity risk for the banks in the UAE. The relation of the dependent and independent variables and once the test of significance is proved, the factors have been ranked using MURAME approach as part of ultimate thesis research objectives.
Panta (2019)	liquidity risk and its determinants in banking sector of Bosnia and Herzegovina	Descriptive	Multiple regression analysis such as correlation, R-squared, ANOVA and F-test	Revealed that capital and economic growth had a positive impact on liquidity risk.

2.3 Research Gap

Investigate hole alludes to the crevice between past inquire about and this inquire about. A number of investigate thinks about have been conducted by the distinctive understudies, specialists and analyst around credit management. They carried on the monetary companies and public undertakings with respect to credit hazard administration. There's inquire about hole between the display ponder and previous studies at to begin with, monetary a long time i.e. time period and within the test banks. This consider incorporates progress apparatuses like proportion investigation, relationship examination and coefficient of variety, as particular apparatuses which distinctive instruments were not utilized in past inquire about. However, the focus of our investigation is nearly the credit management of three Nepali commercial banks. They ceased to consider the ultimate credit management of Nepalese commercial

banks in previous discussions. This paper attempts to address this deficiency. Furthermore, not enough research has been done on this topic, particularly in the area of saving money.

This think about provides empirical prove in affirming the legitimacy of the speculations to help the bank's administration in deciding the finest credit chance management that enhance bank execution. Additionally, the reality that the managing an account industry in Nepal is still developing and it ought to guarantee that successful methodologies are put in put to play down chance and maximize credit execution at any specific point whereas in operation. In this way, this consider points to analyze the effect of non-performing resources on productivity of commercial banks in Nepal. (Bhattarai, 2015) has attempted to look at, in Nepalese setting, non-performing advances of the most issues of financial instincts. This paper's fundamental objective is to discover out the affect of macroeconomics factors (GDP, Swelling, and Real effective Trade rate) and bank particular variable (measure, alter in advance, genuine of loaning rate of intrigued and share of advance to add up to resources.) on the Non-performing advance of commercial bank in Nepal. Be that as it may, in this consider the macroeconomics factors have not been taken into consideration which may be a major hole.

CHAPTER-III
RESEARCH METHODOLOGY

As the name suggests, research is the search or study of a phenomenon. Finding anything or doing research in a scientific way is a repetitive process. By describing and redefining problems, gathering, organizing, and analyzing data, and drawing deductions and conclusions to evaluate if they support the hypothesis, it aims to learn the truth about underperforming assets and relationships (Adhikari, 2018).

3.1 Research Design

A descriptive research approach has been used to achieve this goal. It makes an effort to characterize and evaluate every fact that has been gathered for the investigation. In addition, the cooperative study methodology has been used to clarify the connection between and effects of profitability and credit management.

3.2 Population, Sample and Sampling Design

Ten Nepalese commercial banks that have not merged make up the study's population. Three commercial banks make up the sample, ranked from maximum paid-up capital to minimum. Sanima Bank Limited, NSBI Bank Limited, and Prime Commercial Bank Limited are these. Thus, banks with varying paid-up capital and performance capacities make up the sample banks.

Ten banks were divided into three categories by the researcher: 1 to 3, 4 to 6, and 7 to 10. One bank from each of the three groups—the first group, the second bank from the second group, and the third bank from the third group—was chosen at random from this group.

Table 3.1

Population of the study area

Group	S.N	Bank Name	Paid Up Capital
	1	Prime Commercial Bank Limited (PCBL)	19.40
A	2	NMB Bank	18.36
	3	Siddhartha Bank	14.08
	4	Citizen Bank	14.20
B	5	Sanima Bank	12.46
	6	Nic Asia Bank	11.56
	7	Everest Bank	10.69
C	8	Machhapuchchhre Bank	10.25
	9	Nepal SBI Bank	10.12
	10	Standard Bank	9.42

3.3 Nature and Sources of Data

The primary source of data for the study is secondary data, both internal and external, that was gathered from various published sources. The secondary data is gathered from numerous publications issued by the NRB, the annual reports of the relevant banks, and other reports. In addition to this, more crucial data and information were gathered from both public and unpublished sources. Throughout the research process, the study has also contacted the library to obtain the data and information required.

3.4 Data Collection tools and Procedure

Since the study mostly relies on secondary data, the necessary information was gathered from the bank's corporate office's annual reports. Information has been gathered from NSBI, PCNL, and Sanima Bank's official websites. Additional sources of reference are gathered from the central library.

3.5 Data Analysis Tools

For the analysis of the data the financial and statistical tools relevant to the topic are used.

Financial Tools

i) Return on Assets (ROA)

A company's ability to create value for its shareholders is gauged by its financial success. Numerous financial metrics, including profit after tax, return on equity, return on assets, profits per share, and any widely recognized market value ratio, may be used to quantify it (Pandey, 2010). It speaks about the relationship between assets and net profit. The increase in the ratio indicates how well the business is using its assets (Robinson et al., 2015).

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

ii) Return on Equity (ROE)

Return on equity is defined as net income after taxes divided by total equity capital. A financial ratio called return on equity (ROE) measures a company's profit margin in relation to the total amount of invested or balance sheet shareholder equity. The return on equity (ROE) is what investors seek for after making an investment. It shows the rate of return that shareholders of the bank have received on their investments. It is represented as a percentage of the average amount of assets on which the financial institution generated revenue divided by the amount of money it made on loans over a certain time period and other assets less the interest paid on borrowed funds (Pandey, 2010).

$$\text{Return on Equity Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Shareholders'Equity}}$$

iii) Non-performing Loan/Assets Ratio (NPLR)

The bank's credit quality is reflected in the non-performing loans/assets ratio (NPLR), which is regarded as a measure of credit risk management. Because it specifies the ratio of loan losses to total loans, NPLR in particular shows how banks manage their credit risk (Hosna et al., 2009).

$$\text{Non- Performing Loans to Loan and advance Ratio} = \frac{\text{Non-performing Loans}}{\text{Loan and advances}}$$

iv) Credit to Deposit Ratio (CDR)

The ratio of total credit flows to total bank deposits is known as the credit deposit ratio. The whole deposit brings in the money, which is then allocated over several titles. The banks and other financial institutions are expected to benefit from the reduced credit deposit ratio (Miccolis, 2002).

Non- Credit Deposit Ratio = $\frac{\text{Total Credit}}{\text{Total Deposit}}$

v) Capital Adequacy Ratio (CAR)

A banking law known as the capital requirement establishes guidelines for how banks and depository institutions are required to manage their capital. Basel I, the first global minimum capital adequacy standard for the banking sector, was decided upon and implemented in 1988. It mandated that banks have a minimum capital to asset ratio, with the assets being weighted according to broad risk categories. The calculation of the minimal capital needed to meet a certain economic capital limitation is known as capital adequacy (Miccolis, 2002).

$$\text{Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital+Tier 2 Capital}}{\text{Risk Weighted Assets}}$$

vi) Loan and Advance Ratio (LAR)

Net income to total loan and advance ratio has been considered in this study. to determine the amount of money that has been allocated to loans and advances relative to the overall amount of income earned. By contrasting a bank's total loans with its total deposits for the same time period, the loan and advance ratio is used to evaluate a bank's liquidity. A percentage is used to represent the loan to advance ratio. A ratio that is very high suggests that the bank might not have adequate liquidity to meet any unanticipated funding needs. According to Robinson et al. (2015), on the other hand, if the ratio is too low, the bank could not be making as much as it might.

$$LAR = \frac{Loan\ and\ Advances}{Total\ Deposits}$$

B Statistical Tools

The statistical tools consist of descriptive and inferential statistical tools.

i) Mean

A collection of observations' arithmetic mean is calculated by dividing their total by the total number of observations. Broadly speaking, given N observations (X1, X2,... Xn), their arithmetic mean, represented by $\overline{X}$, is obtained by,

$$\overline{X} = \frac{x_1 + x_2 + ... + x_n}{N} = \frac{\sum x}{N}$$

Where,

$\sum X$ = Sum of the observations, and

N = Number of Years

ii) Standard Deviation

Standard deviation is the square root of the sum of the squares of the deviations measured from the mean. As a result, in order to compute the standard deviation, the arithmetic average must first be determined, and then the deviations of each item from the average must be squared. After adding up all of the squared deviations, divide the total by the total number of elements. The standard deviation of the series may be found by taking the square root of the resultant value (Elhance & Agarwal, 2000). The standard deviation is commonly represented by the Greek symbol sigma. The standard deviation of a set of N observations, denoted by X_1, X_2 ,..., Xn, may be found using

$$\sigma = \sqrt{\frac{\sum (X - \overline{X})^2}{N}}$$

$\sum (X - \overline{X})$ = Sum of the squares of the deviations measured from mean N = Number of Observations.

iii) Coefficient of Variation (C.V.)

To compare the variability of two distributions, the coefficient of variation is calculated. A distribution with a lower coefficient of variation (C.V.) is considered more homogenous, uniform, or less variable than the other, whereas a higher C.V. series is considered more heterogeneous or variable than the other. It is calculated as follows.

$$C.V. = \frac{\sigma}{\overline{X}} \times 100\%$$

iv) Coefficient of Correlation

The correlation coefficient is a statistical measure of the degree of association between two variables. Correlation analysis is the process of analyzing and interpreting correlations between variables. The degree and direction of the link between the two variables under examination can be inferred using correlation analysis. But it doesn't consider how the variables' cause and effect relationships

relate to one another. The correlation coefficient, represented by r, is calculated as follows:

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

v) Regression Analysis

Regression can be literally understood as traveling backward, returning to the average value, or going back in time. The method of examining the relationship between variations in one series and variations in another is called regression analysis. It ascertains the kind and intensity of the correlation between two variables. The estimation of unknown values or the prediction of one variable from the known values of other variables is, thus, known as regression.

The Regression Model,

$$ROA_{it} = \alpha_0 + \alpha_1 LAR_{it} + \alpha_2 CAR_{it} + \alpha_3 NPLR_{it} + \alpha_4 CDR_{it} + \varepsilon_{it}$$

$$ROE_{it} = {}_0 + \alpha_1 LAR_{it} + \alpha_2 CAR_{it} + \alpha_3 NPLR_{it} + \alpha_4 CDR_{it} + \varepsilon_{it}$$

Where,

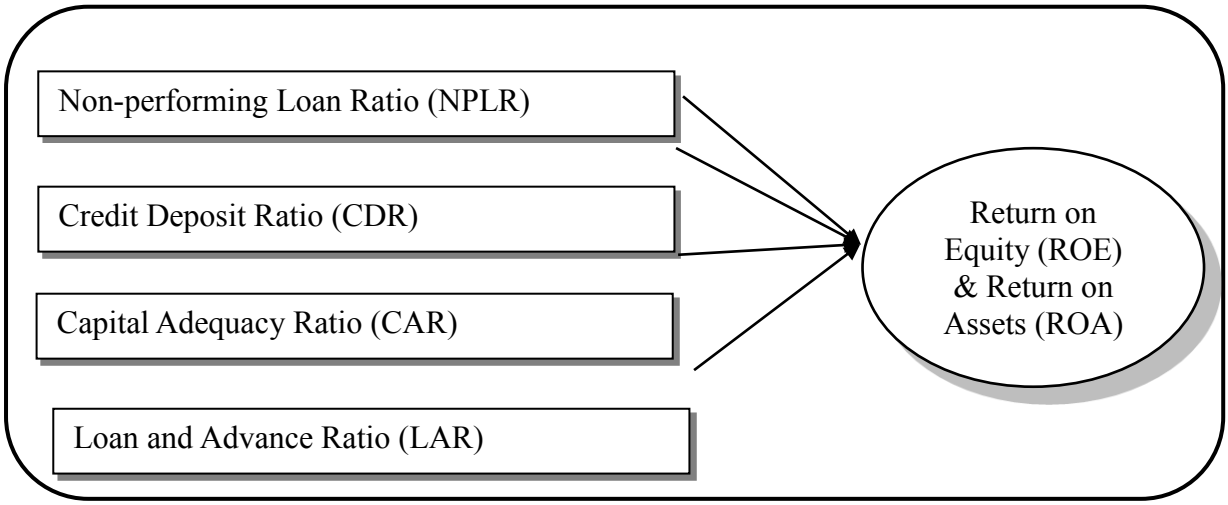
α_0	=	Constant Value
$\alpha_1, \alpha_2, \alpha_3, \alpha_4, \alpha_5$	=	Coefficient of Independent Variables
ROA_{it}	=	Return on Assets Ratio during the period t,
ROE_{it}	=	Return on Equity during the period t,
LAR_{it}	=	Loan and Advance Ratio during the period t,
CAR_{it}	=	Capital Adequacy Ratio during the period t,
$NPLR_{it}$	=	Non-performing loan ratio during the period t,
CDR_{it}	=	Credit Deposit Ratio during the period t,
ε_{it}	=	Error Terms during the period t

3.6 Research Framework

The theoretical viewpoint of credit analysis and its impact on the profitability of Nepalese commercial banks are reviewed in the section on the conceptual framework. Based on a review of the literature, the study framework was created (Pandey, 2010 and Hosna et al., 2009).

Figure 3.1

Research Framework



3.7 Definition of Variables

Return on Assets (ROA)

A company's ability to create value for its shareholders is gauged by its financial success. Numerous financial metrics, including profit after tax, return on equity, return on assets, profits per share, and any widely recognized market value ratio, may be used to quantify it (Pandey, 2010). It speaks about the relationship between assets and net profit.

Return on Equity (ROE)

The ratio of net income after taxes to total equity capital is known as return on equity. A financial ratio called return on equity (ROE) measures a company's profit margin in relation to the total amount of invested or balance sheet shareholder equity. The return on equity (ROE) is what investors seek for after making an investment. It shows the rate of return that shareholders of the bank have received on their investments. It is represented as a percentage of the average amount of assets on which the financial institution generated revenue divided by the amount of money it made on loans over a certain time period and other assets less the interest paid on borrowed funds (Pandey, 2010).

Non-performing Loan/Assets Ratio (NPLR)

The bank's credit quality is reflected in the non-performing loans/assets ratio (NPLR), which is regarded as a measure of credit risk management. Because it specifies the

ratio of loan losses to total loans, NPLR in particular shows how banks manage their credit risk (Hosna et al., 2009).

Capital Adequacy Ratio (CAR)

A bank rule known as the capital requirement establishes guidelines for how banks and depository institutions are required to manage their capital. Basel I, the first global minimum capital adequacy regulation for the banking sector, was decided upon and put into effect in 1988. It required banks to keep a minimum capital to asset ratio and to weight their assets based on commonly accepted risk categories.

Credit to Deposit Ratio (CDR)

The ratio of total credit flows to total bank deposits is known as the credit deposit ratio. The whole deposit brings in the money, which is then allocated over several titles. The banks and other financial institutions are expected to benefit from the reduced credit deposit ratio (Miccolis, 2002).

Loan and Advance Ratio (LAR)

This study has taken into account the net revenue to total loan and advance ratio. to determine the amount of money that has been transferred from total revenue to advances and loans. By comparing the total loans made by a bank to the total deposits made over the same time, the loan and advance ratio is used to evaluate a bank's liquidity. The percentage representation of the loan to advance ratio is used. The bank could not have adequate liquidity to meet any unanticipated funding requests if the ratio is very high.

CHAPTER-IV
RESULTS AND DISCUSSION

4.1 Results

This chapter's main goal is to evaluate and make sense of the information gathered for the research. A range of statistical instruments expounded upon in the third chapter have been employed to accomplish the goals of the research.

4.1.1 Return on Assets

A company's ability to create value for its shareholders is gauged by its financial success. It may be quantified using a range of financial metrics, including earnings per share, net profit margin (NPM), profit after tax, return on assets (ROA), and any widely recognized market value ratio (Pandey, 2010). It speaks about the relationship between assets and net profit. The increase in the ratio indicates how well the business is using its assets (Robinson et al., 2015).

Table 4.1

Return on Assets (ROA)

Year	Return on Assets (ROA)		
	NSBI	PCBL	SANIMA BANK
2012/13	1.01	1.63	0.84
2013/14	0.82	0.99	1.23
2014/15	1.19	1.47	1.18
2015/16	1.51	1.46	1.12
2016/17	1.64	1.63	1.70
2017/18	1.57	2.05	1.42
2018/19	1.97	1.89	1.45
2019/20	1.94	1.82	1.41
2020/21	1.17	2.15	1.28
2021/22	0.70	1.48	1.02
Mean	1.35	1.66	1.62
SD	0.44	0.34	0.31
CV	0.33	0.20	0.64

Source: Annual report of sample banks

Table 4.1 shows that NSBI bank has the lowest net ROA among the chosen banks, while PCBL bank has the greatest. The NSBI Bank's ROA is 1.94%, with the lowest values occurring in 2018/19 and 2020/21, respectively. Although there is a slight

downward trend, it performs nearly well. In the fiscal years 2020–2021 and 2013–2014, respectively, PCBL had the greatest ROA of 2.15% and the lowest ROA of 0.99%. Sanima Bank's ROA ranges from 0.84% in the fiscal years 2012/2013 to 1.70% in the highest. It performs well with usual fluctuations.

4.1.2 Return on Equity

The ratio of net income after taxes to total equity capital is known as return on equity. A financial ratio called return on equity (ROE) measures a company's profit margin in relation to the total amount of invested or balance sheet shareholder equity. The return on equity (ROE) is what investors seek for after making an investment. It shows the rate of return that shareholders of the bank have received on their investments. The return on equity (ROE) measures how well a bank's management uses shareholder cash (Khrawish, 2011).

Table 4.2

Return on Equity (ROE)

Year	Return on Equity (ROE)		
	NSBI	PCBL	SANIMA BANK
2012/13	16.19	16.04	15.26
2013/14	15.02	11.54	14.79
2014/15	20.31	18.55	8.89
2015/16	22.85	17.63	9.85
2016/17	17.08	20.12	17.37
2017/18	14.85	24.48	18.09
2018/19	15.81	15.46	20.36
2019/20	16.20	15.4	11.52
2020/21	10.44	16.4	11.2
2021/22	6.26	10.97	12.00
Mean	15.50	16.66	13.33
SD	4.62	3.94	4.06
CV	0.30	0.24	0.30

Source: Source: Annual report of sample banks

Based on table 4.2, the average value of ROE for NSBI, PCBL and SANIMA BANK were 15.50, 16.66, and 13.33 percent respectively which depicted that PCBL return on equity in average was higher among the banks. Commercial banks maximized the shareholders wealth. The standard deviation for ROE was 4.62, 3.94, and 4.06 percent for NSBI, PCBL, and SANIMA BANK respectively which depicted the fluctuation

and inconsistency in return on equity during the ten-year period. Thus, it was found that there was absolute inconsistency over the return on equity in Nepalese commercial banks. The coefficient of variation for NSBI, NABIL, PCBL, BOK, GBIME, KBL and SANIMA BANK were 0.30, 0.28, 0.24, 0.28, 0.37, 0.25 and 0.30 percent respectively reflected per year changes in terms of fluctuation and inconsistency over return on equity for ten years period. Thus, in Nepalese commercial banks there was absolute inconsistency over return on equity for the period.

4.1.3 Non-performing Loan Ratio

The bank's credit quality is reflected in the non-performing loans ratio (NPLR), which is regarded as a measure of credit risk management. NPLR has been employed as the overall loan and advance default rate. All commercial banks have been instructed by the NRB to set up loan loss provisions for questionable and bad loans. This ratio aids in credit control and reduces the amount of non-performing loans.

Table 4.3

Non-performing Loan Ratio

Year	Non-Performing Loan Ratio (NPLR)		
	NSBI	PCBL	SANIMA BANK
2012/13	1.1	0.57	1.81
2013/14	0.54	0.76	1.75
2014/15	0.37	2.23	1.55
2015/16	0.26	2.43	1.85
2016/17	0.19	1.83	2.19
2017/18	0.10	0.99	0.99
2018/19	0.20	1.48	1.49
2019/20	0.20	1.00	1.71
2020/21	0.23	0.85	1.34
2021/22	0.23	0.88	0.85
Mean	0.34	1.30	1.35
SD	0.29	0.65	0.43
CV	0.85	0.50	0.32

Source: Source: Annual report of sample banks

BANK were 0.34, 1.30, and 1.35 percent respectively which depicted that Sanima bank non-performing loan ratio in average was higher among the banks which

indicated debtors had not made scheduled payments for specified period (usually within 90 or 180 days). The credit risk seemed higher in Sanima bank In other words, the debtors had not made scheduled payments timely in commercial banks.

4.1.4 Credit to Deposit Ratio

The ratio of a bank's total deposits to total loans is called the credit-deposit ratio. In general, the ratio is stated as a percentage; if the ratio is less than one, the bank did not borrow money from outside sources in order to provide loans to its clients. Nepal Rastra Bank gave the banks instructions in June 2022 to raise their credit to deposit ratios (or CD Ratios) to 90%.

Table 4.4

Credit Deposit Ratio

Year	Credit Deposit Ratio (CDR)		
	NSBI	PCBL	SANIMA BANK
2012/13	117.38	30.00	87.28
2013/14	104.06	60.00	81.42
2014/15	100.81	65.00	84.39
2015/16	94.8	65.00	85.11
2016/17	93.77	34.84	81.13
2017/18	95.46	45.00	86.23
2018/19	92.9	48.00	91.79
2019/20	95.64	34.00	92.30
2020/21	93.62	34.00	91.53
2021/22	85.84	35.26	95.66
Mean	97.43	45.11	86.68
SD	8.50	13.74	7.01
CV	0.09	0.30	0.08

Source: Annual report of sample banks

The credit deposit ratio during a ten-year period is displayed in Figure 4.4. It is discovered that commercial banks with average credit deposit ratios are NSBI, PCBL, and Sanima Bank, with respective percentages of 97.43, 45.11, and 86.68. Commercial banks are able to provide loans to customers in the market using their own deposits rather than obtaining money from outside sources because of the greater credit deposit ratio. However, due to an aggressive standard deviation, the credit

deposit ratio has fluctuated and remained inconsistent throughout the course of ten years in all commercial banks. Furthermore, fluctuations and inconsistencies over CDR have been noted annually.

4.1.5 Capital Adequacy Ratio

A bank rule known as the capital requirement establishes guidelines for how banks and depository institutions are required to manage their capital. In 1988, Basel I, the first worldwide minimum capital adequacy regulation for the banking industry, was agreed upon and enacted. It mandated that banks maintain a minimum capital to asset ratio, with the assets being weighted according to widely recognized risk categories. The calculation of the minimal capital needed to meet a certain economic capital limitation is known as capital adequacy (Miccolis, 2002). According to Nepal Rastra Bank's (NRB) new capital adequacy framework, the minimum Capital Adequacy Requirement (CAR) is 10%, of which 6% must be core capital.

Table 4.5

Capital Adequacy Ratio

Year	Capital Adequacy Ratio (CAR)		
	NSBI	PCBL	SANIMA BANK
2012/13	19.49	17.67	13.12
2013/14	19	13.23	10.28
2014/15	16.34	15.14	14.81
2015/16	15.09	13.68	12.63
2016/17	13.99	17.24	11.12
2017/18	15.71	14.82	9.28
2018/19	15.15	13.84	13.43
2019/20	14.12	12.76	11.83
2020/21	15.55	12.24	14.02
2021/22	13.89	13.28	13.15
Mean	15.83	15.69	12.20
SD	1.97	35.40	2.84
CV	0.12	0.77	0.25

Source: Annual report of sample bamk

Figure 4.5 shows the capital adequacy ratio for commercial banks, in average, such as NSBI, PCBL, and SANIMA BANK has 15.83, 15.69 and 12.20 percentage respectively. The minimum capital adequacy requirement (CAR) prescribed

by Nepal Rastra Bank (NRB) as per its new capital adequacy framework is 10 percent, out of which 6 percent must be the core capital. Thus, all commercial banks have accessibly sustained capital adequacy ratio. However, there is moderately inconsistency and fluctuation of capital adequacy ratio over ten year in all commercial banks because of aggressive standard deviation. In addition, per year inconsistency and fluctuation over CAR has been observed.

4.2 Correlation Analysis

the study of the relationships between independent and dependent variables, including return on equity (ROE), return on assets (ROA), non-performing loan ratio (NPLR), credit deposit ratio (CDR), capital adequacy ratio (CAR), supplementary capital ratio (SC), and so on.

Table 4.6
Correlations on Analysis with ROE as dependent variable

		NPLR	CDR	CAR	LAR	ROE
NPLR	Pearson Correlation	1	-.105	.056	.078	.077
	Sig. (2-tailed)		.385	.647	.522	.527
	N	30	30	30	30	30
CDR	Pearson Correlation	-.105	1	-.283*	-.143	-.323**
	Sig. (2-tailed)	.385		.018	.239	.006
	N	30	30	30	30	30
CAR	Pearson Correlation	.056	-.283*	1	.279*	.028
	Sig. (2-tailed)	.647	.018		.019	.821
	N	30	30	30	30	30
LAR	Pearson Correlation	.078	-.143	.279*	1	.436**
	Sig. (2-tailed)	.522	.239	.019		.000
	N	30	30	30	30	30
ROE	Pearson Correlation	.077	-.323**	.028	.436**	1
	Sig. (2-tailed)	.527	.006	.821	.000	
	N	30	30	30	30	30

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

The correlation study with ROE is displayed in the table. According to research, the capital adequacy ratio and return on equity are positively correlated. Given that they

guide each other in the same path, a positive correlation between return on equity and capital adequacy ratio suggests that when the former rises, the latter does as well. On the other hand, return on equity and loan and advance ratios have a negative connection, indicating that they lead one another in the opposite way. Positive direction suggests that when one variable changes in a positive way, another variable changes in a positive way as well, and vice versa. The concept of negative direction indicates that a positive change in one variable may have a negative impact on another.

Similarly, the percentage of non-performing loans to equity has a positive link with return on equity. The non-performing loan ratio and return on equity are positively correlated, which suggests that when one grows, the other will follow suit and the return on equity will rise as well. In a similar vein, it is discovered that there is no substantial correlation between return on equity and credit deposit ratio, suggesting that they are inversely related.

Table 4.7

Correlations on Analysis with ROA as dependent variable

		ROA	NPLR	CDR	CAR	LAR
ROA	Pearson Correlation	1	-.085	-.450**	-.092	.158
	Sig. (2-tailed)		.483	.000	.447	.192
	N	30	30	30	30	30
NPLR	Pearson Correlation	-.085	1	-.105	.056	.078
	Sig. (2-tailed)	.483		.385	.647	.522
	N	30	30	30	30	30
CDR	Pearson Correlation	-.450**	-.105	1	-.283*	-.143
	Sig. (2-tailed)	.000	.385		.018	.239
	N	30	30	30	30	30
CAR	Pearson Correlation	-.092	.056	-.283*	1	.279*
	Sig. (2-tailed)	.447	.647	.018		.019
	N	30	30	30	30	30
LAR	Pearson Correlation	.158	.078	-.143	.279*	1
	Sig. (2-tailed)	.192	.522	.239	.019	
	N	30	30	30	30	30

** Correlation is significant at the 0.001 level (2- tailed)

*Correlation is Significant at the 0.005 level (2-tailed)

The correlation analysis using ROA is shown in the table. The study also shows that the loan and advance ratio, return on assets, capital adequacy ratio, non-performing loan ratio, and credit deposit ratio all positively correlate with one another and drive one another in the same way. Therefore, there would likewise be an increase in return on assets when there was an increase in the capital adequacy ratio, loan and advance ratio, non-performing loan ratio, and credit deposit ratio.

4.3 Regression Analysis of Variables

Regression analysis is used to evaluate whether or not the independent variables have an impact on the dependent variable. The dependent variables in this study are ROA and ROE, whereas the independent variables are CDR, NPLR, LAR, and CAR. To get accurate results, 10 years' worth of yearly data were collected.

Table 4.8

Variation in ROA explained by CDR, NPLR, LAR and CAR (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.546[a]	.298	.255	.538

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

The entire variation in ROA described by CDR, NPLR, and CAR is displayed in table 4.8. The multiple determinations coefficient, or R Square, has a value of 0.298. It suggests that, at a 95% confidence interval, the independent variables (CDR, NPLR, LAR, and CAR) contributed 7.30 percent to the variation in ROA. The estimate's margin of error is 0.538. The coefficient of multiple determinations R Square result indicates that other quantitative and qualitative factors contribute 92.7% of the changes in ROA of Nepalese Commercial Bank CDR, NPLR, LAR, and CAR, accounting for 7.30% of the changes. The correlation coefficient, or R, indicates how the independent and dependent variables are related to one another.

Table 4.9

Goodness of fit of regression (ANOVA) dependent variable ROA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.987	4	1.997	6.899	.000[b]
	Residual	18.813	65	.289		
	Total	26.800	69			

a. Dependent Variable: ROA

b. Predictors: (Constant), LAR, NPLR, CDR, CAR

Table 4.9 shows that the regression model does a considerably poor job of predicting the dependent variables. Since the significant value is higher than 0.05, the regression model as a whole is not a good match for the data and does not statistically predict the outcome variables. Table 4.11 below displays the regression result for the independent effects of CDR, NPLR, LAR, and CAR.

Table 4.10

Regression analysis for independent effect of CDR, NPLR,LAR and CAR on ROA

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.863	.294		9.729	.000
	NPLR	-.098	.075	-.138	-1.315	.193
	CDR	-.014	.003	-.519	-4.756	.000
	CAR	-.010	.004	-.280	-2.497	.015
	LAR	.019	.012	.173	1.590	.117

Dependent Variable: ROA

Table 4.10 demonstrates that the Nepalese Commercial Bank's credit to deposit ratio (CDR), capital adequacy ratio (CAR), and non-performing loan ratio (NPLR) all have a constant of -2.863. The Nepalese commercial bank's return on assets (ROA) constant is 1.220. The CDR, NPLR, LAR, and CAR regression coefficients on ROA

are, respectively, -0.138, -0.519, -0.280, and 0.173, indicating that a unit increase in CDR corresponds to a 0.008 rise in ROA. Similar to this, a unit increase in CAR results in 0.005 decreases in Commercial Bank ROA while a unit increase in NPLR results in 0.088 increases in ROA.

According to the aforementioned findings, there is a negative association between ROA and CAR and a positive relationship between the dependent variable (ROA) and the independent variables (CDR and NPLR).

Table 4.11

Variation in ROE explained by CDR, NPLR, LAR and CAR

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.538[a]	.289	.246	5.517

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

The model summary, which accounts for the whole variance in ROE described by CDR, NPLR, LAR, and CAR, is displayed in table 4.11. The multiple determinations coefficient, or R Square, has a value of 0.289. It suggests that, at the 95% confidence interval, the independent variables (CDR, NPLR, LAR, and CAR) contributed by 0.538 to the variation in ROE. The estimate's margin of error is 5.517. The results of the coefficient of multiple determinations (R Square) indicate that the independent variables CDR, NPLR, LAR, and CAR account for 9.9% of the variations in the ROE of the Nepalese Development Bank, with other quantitative and qualitative factors accounting for the remaining 90.1%. The correlation coefficient, or R, indicates how the independent and dependent variables are related to one another.

Table 4.12

Goodness of fit of regression (ANOVA) dependent variable ROE

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	806.033	4	201.508	6.620	.000[b]
	Residual	1978.553	65	30.439		
	Total	2784.586	69			

a. Dependent Variable: ROE

b. Predictors: (Constant), LAR, NPLR, CDR, CAR

Table 4.13 shows that the regression model does not provide a statistically significant prediction of the dependent variables. Since the significant value is higher than 0.05, the regression model as a whole does not statistically predict the outcome variables (i.e., it is not well-fitting to the data). Regression analysis showing the separate effects of NPLR, CDR, and CAR.

Table 4.13

calculated regression result for independent effect of CDR, NPLR, LAR and CAR on ROE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	22.017	3.018		7.295	.000
	NPLR	.146	.767	.020	.191	.849
	CDR	-.085	.030	-.310	-2.830	.006
	CAR	-.068	.041	-.185	-1.640	.106
	LAR	.501	.124	.442	4.041	.000

a. Dependent Variable: ROE

Table 4.13 displays the Nepalese Commercial Bank's constant 22.017 credit to deposit ratio (CDR), non-performing loan ratio (NPLR), and capital adequacy ratio (CAR). According to the regression coefficient of ROE on CDR, NPLR, LAR, and CAR, which are, respectively, -0.020, -0.310, -0.185, and 0.442, a unit increase in CDR corresponds to a 041 decrease in ROE. Similar to this, a one-unit rise in CAR will result in a 0.106 increase in ROE, as would a one-unit increment in NPLR.

According to the findings above, ROE and CDR have a negative link, whereas ROE and NPLR and CAR have a positive relationship. The investigation also showed that all independent variables (CDR, NPLR, LAR, and CAR) had a statistically not significant 95% confidence interval for this study, with P-values more than 5% in CDR, NPLR, LAR, and CAR. It indicates that ROE is not greatly impacted by CDR, NPLR, LAR, or CAR.

Table 4.14

Hypothesis Summary

Hypothesis	Result
H11: The non-performing loan ratio and ROE are significantly correlated.	Accept $H_1$1
H12: The ratio of non-performing loans to total assets and ROA are significantly correlated.	Accept $H_1$2
H13: The advance ratio and ROE have a significant a connection.	Accept $H_1$3
H14: The loan-to-advance ratio and ROA have a significant a connection.	Reject$H_1$4
H15: The capital adequacy ratio and ROE are significantly correlated.	Accept $H_1$1
H16: The capital adequacy ratio and ROA are significantly correlated.	Accept $H_1$4
H17: The credit deposit ratio and ROE have a substantial link.	Reject$H_1$4
$H_1$8: The credit deposit ratio and ROA have a strong correlation.	Reject$H_1$4

4.4 Discussion

The relapse coefficient of capital ampleness proportion within the relapse coefficient examination is positive which shows that in the event that capital ampleness proportion is expanded the normal impact on return on equity moreover increments. There's measurably positive and critical relationship between capital ampleness proportion and return on value. In this way, the elective theory; there's critical relationship between capital ampleness proportion and return on value is acknowledged. This finding is reliable with the discoveries of Eva and Jaroslav (2014), and Kahuthu (2016) as they moreover uncovered that credit chance administration and capital ampleness proportion affected emphatically on benefit. Regardless, this result contradicts the findings of Singh (2013), Kahuthu (2016),

Shrestha (2017), Adhikary (2018), Gnawali (2018), and Panta (2018), who all found a negative correlation between credit chance and financial performance.

The non-performing advance proportion's relapse coefficient is positive in the relapse coefficient investigation, indicating that the typical influence on return on value will increase in the unlikely event that the non-performing loan proportion expands. The percentage of non-performing credit has a noteworthy and statistically favorable association with return on value. In this way, the elective hypothesis; there's noteworthy relationship between non-performing advance proportion and return on value is acknowledged. This finding isn't in-line with the discoveries of Dhungana and Upadhaya (2019) as he found beta coefficient is not positive for non-performing credit proportion, cash save proportion and use proportion and bank execution.

The relapse coefficient of credit and progress proportion within the relapse coefficient investigation is positive which demonstrates that if credit and progress proportion is expanded, the normal impact on return on assets will increment. There's factually positive but immaterial relationship between advance and development proportion and return on resources. In this way, the elective speculation; there's critical relationship between advance and progress proportion and return on resources isn't acknowledged. This finding is reliable with the finding of Patwary and Tasneem (2019).

CHAPTER-V
SUMMARY AND CONCLUSION

5.1 Summary

The consider is concerned with credit chance administration and benefit of Nepalese commercial banks having three tests such as Nepal SBI Bank Ltd., Prime Commercial Bank Ltd. and Sanima Bank Restricted out of add up to 10 not merger commercial banks. The major objective of this consider is to look at the impact and relationship of credit hazard administration on productivity of Nepalese commercial banks. The tests have been selected with judgment in mind. There are fifty views in total, with yearly budgetary insights spanning ten years. Clear and informal comparative investigation strategy has been used in accordance with the plan of investigation. The inferential measurement consists primarily of relationship, relapse investigation, and theory testing for superior assessment of embraced factors like credit hazard intermediaries (capital ampleness proportion, non-performing credit proportion, credit store proportion, and credit and development proportion), also known as autonomous factors (indicators), and benefit intermediaries like return on value and return on resources. The factual apparatuses include cruel, standard deviation, and coefficient of variety.

Ponder finds that the capital ampleness percentage and return on value have a favorable relationship. The return on value and capital ampleness proportion have a positive relationship, which suggests that when one increases the other will follow suit, increasing the return on value as well. However, the proportion of development and advancement has a negative association with return on value, indicating that they follow each other in the opposite direction. Positive course implies that as one variable changes for the better, another variable changes for the better and vice versa for bad habits. A negative heading suggests that while one variable changes positively, another variable may experience a negative outcome.

Furthermore, there is a positive correlation between the percentage of non-performing credit and return on value. The non-performing credit proportion and return on value have a positive relationship, indicating that when the non-performing credit fraction

rises, the return on value rises along the same path. Additionally, it is discovered that return on value and credit store proportion have a negative relationship, indicating that they lead one another in the opposite direction. Furthermore, there appears to be a negative correlation between return on value and cash saving proportion, indicating that they lead each other in the opposite direction. The return on value decreases when the cash saving ratio rises and vice versa.

Besides, capital ampleness proportion has negative relationship with credit store proportion, supplementary capital proportion, center capital proportion and cash reserve proportion which demonstrates that they lead each other within the inverse course. Be that as it may, there's positive relationship between non-performing credit proportion and capital adequacy ratio.

Additionally, the proportion of non-performing credit has a negative association with the proportion of supplemental capital, advancement, and progress, suggesting that they lead one another in the opposite direction. In contrast, the capital adequacy ratio, the percentage of non-performing credit, and the percentage of credit stores have a negative link; as a result, they lead one another in the opposite direction. Regardless, there is a positive correlation between the credit deposit proportion and the advance and advance ratio, indicating that they both move in the same manner.

Consider too uncovers that there's positive correlation between return on resources, capital ampleness ratio, loan and development proportion, non-performing loan proportion and credit store proportion hence they lead each other within the same direction. Thus, as a result, when there is increase over capital ampleness proportion, credit and development proportion, non-performing advance proportion and credit store proportion there would too be increase over return on resources.

5.2 Conclusion

The productivity intermediaries' return on value is found to be capital ampleness percentage and non-performing advance proportion, indicating that they follow one another in the same direction. Productivity can change positively when there is a positive shift in the credit chance variables capital ampleness proportion and non-

performing credit proportion. Nevertheless, the credit store proportion suggests that they are ahead of one another in the inverse heading. Positive changes in credit probability variables, including credit shop proportion, have a detrimental effect on commercial banks' profitability. Additionally, the think about moreover uncovers that there's positive relationship between return on assets, capital ampleness proportion, non-performing credit proportion and credit store proportion thus they lead each other within the same heading.

The relapse coefficient of capital ampleness proportion within the regression coefficient investigation positive in this way, capital ampleness proportion has positive impact on productivity of commercial banks. Be that as it may, the relapse coefficient of non-performing advance proportion within the relapse coefficient examination is positive which shows that non-performing credit has positive impact on productivity. Assist, the relapse coefficient of credit store proportion within the relapse coefficient is negative, hence, credit store proportion has inconsequential connection with productivity. Advance, the relapse coefficient of advance and development proportion within the relapse coefficient investigation is negative; as a result, advance and advance proportion has negative impact on benefit of banks.

5.3 Implications

Based primarily on the study's findings, financial managers can make better investment decisions and provide superior management and policy implications to shareholders and academic academics.

Managerial Implications

Accelerating the growth of commercial banks in Nepal requires the establishment of high-quality institutions including law and order, effective bureaucracy, and democratic accountability. Numerous additional factors, such the money supply and exchange rate, might be employed. Microeconomic factors such as inflation and interest rates should be lowered in order to fully benefit from the stock market. Every year there are more listed banks, but the growth is not distributed evenly throughout the different industries.

Policy Implications

Nepalese commercial banks have suffered from a market driven by rumors, investors not having enough information, and information being unavailable. Programs must thus be introduced to raise awareness. Compared to other industries, the commercial bank does better. Therefore, it is advised that they make investments in this field. The stock exchange should have robust operations and efficient management, with a focus on investors and the market.

Financial Managers

The results of this study aid in the formulation of plans and policies pertaining to financial decision-making. The study's conclusions help the financial management by assisting in the maintenance of the fast ratio, which ultimately boosts life insurance firms' profitability. Based on the main conclusions of this study, several plans and strategies for increasing the profitability of the life insurance industry may be developed. The results of this study can help financial managers by producing cash and cash equivalent instruments and facilitating the efficient execution of operating tasks.

Stakeholders including Shareholders and Investors

The results also benefit stockholders who are prepared to put money and financial instruments into the life insurance business. Investing is the act of sacrificing money now for money later. The results of this study contribute to the inference of better ideas for efficient and profitable investing. Typically, investors invest their money through bonds, shares, debentures, marketable securities, commercial papers, treasury bills, trade credit, letters of credit, repurchase agreements, and so on.

Future Scope

The study's findings have revealed fresh information from a Nepalese viewpoint that is valued by industry players. Since fund managers and stock investors may utilize the aforementioned characteristics to estimate appropriate ratios, the study's findings appear to be very helpful to them.

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i Abstract Credit risk is one of the several hazards that bank's must deal with and it has a significant impact on their profitability because a sizable portion of their revenues come from loans where interest is charge.

So a good credit management practice is vital for long term sustainability of banking and financial institutions

. This research was aim to analysis the most influencing factors that affect credit trend in commercial banks. The study was an attempt to examine the impact of credit management on bank performance measured by profitability in terms of ROA and ROE. Moreover, it also analyzed the relationship between credit risk factors and financial performance in terms of ROE and ROA for the period covering fiscal year 2012-2022. To assess the impact of credit management and profitability of the banks, various statistical models including descriptive research approach was applied to diagnose the specific objectives of the research. The key findings stated that there was significant relationship between non- performing loans interms of ROA and ROE. There was also significant relation between capital adequacy ratio in terms of ROA and ROE. Also, there was statistically significant, albeit statistically positive, correlation was seen between the loan-to-advance ratio and return on assets (ROA). It was determined that profitability will increase in response to favorable changes in the credit risk variables capital adequacy ratio and non-performing loan ratio. . Keywords: Profitability, credit management, capital adequacy ratio, Return on Assets, Return on Equity, Banking and financial institutions, credit risk factors etc. CHAPTER-I INTRODUCTION 1.1 Background of the Study Through the money related administrations they offer, banks are critical for financial advancement. The managing an account sector's long-term proficiency and viability serve as a gage of a country's in general money related steadiness. A country's financial development and long-term reasonability are quickened to a more noteworthy or lesser