

**EFFECTS OF CREDIT RISK ON THE PERFORMANCE
OF NEPALESE COMMERCIAL BANKS**

A Thesis

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RECOMMENDATION LETTER

It is certified that thesis entitled “**Effects of Credit Risk on the Performance of Nepalese Commercial Banks**” submitted by **Suraj Godar** is an original piece of research work carried out by the carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgement. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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Suraj Godar

August, 2018

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This thesis entitled “Effects of Credit Risk on the Performance of Nepalese Commercial Banks” has been prepared in partial fulfilment for the degree of Master of business studies (MBS) under the course designed by the faculty of Management, T.U. This study is based on the prescribed research format involving the use of financial ratios in banking sector. At the time of preparing this study, I have consulted with various personalities. So I would like to extend my sincere thanks to all whose works and ideas helped me and conducting the study. Sincerely, I would like to pay my sincere gratitude to my thesis advisor Prof. Dr. Mahananda Chalise of CDM who guided through research work with providing valuable suggestions, supports and supervision.

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ABSTRACT

The study has examined the effects of credit risk on the performance of Nepalese commercial banks. The main objective is to analyze and examine credit risk performance of commercial banks in Nepal with reference with EBL and NIBL. Mainly the study will be conducted on the designed basis of secondary data. This study will be based on the recent historical data of 5 year periods, from fiscal year 2012/13 to 2016/17 A.D. Required facts and figures have been obtained from the annual report collected from official website of EBL and NIBL. Data have also been obtained browsing the official website of NRB. Only descriptive and analytical methods is used to obtain the meaningful result of the collected data and to meet the research objective. Firstly, collected data are tabulated under various heading and then tabulated data are analyzed using various financial and statistical tools and compared these values with the help of different figure.

The major findings of the study are two referenced commercial banks have meet the NRB standard of capital adequacy ratio. Non-performing loan both bank was satisfactory but NIBL need to improve in that ratio. Cost per loan assets average of EBL was higher than NIBL higher the ratio indicate the capacity in credit analysis of the bank. Cost per loan assets has positive effect on the banks performance. ROA of NIBL range from 1.9 percent to 2.6 percent with average 2.18 percent but it is 1.62 percent to 2.39 percent. It means NIBL was better productivity of assets than EBL. The liquidity position of both bank was satisfactory but EBL was lower the money supply in financial market. Lower level of CRR indicate liquidity crunch and very high level of CRR indicate idle money which do not generate any income. Leverage ratio of both bank was maintained it shows the degree of related and protection of total debt/total equity.

Key Words: Bank, Credit Risk, Neplease, Performance

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Abbreviation

B.S	Bikram Sambat
BAFIA	Bank and Financial Institutions Act
BFI	Bank and Financial Institutions
C.V	Coefficient of Variation
CAR	Capital Adequacy Ratio
CLA	Cost per loan Assets
CRR	Cash Reserve Ratio
EBL	Everest Bank Limited
FI	Financial Institutions
FY	Fiscal Year
i.e.	id est
LR	Leverage Ratio
Ltd.	Limited
MBS	Master of Business Studies
NEPSE	Nepal Stock Exchange
NIBL	Nepal Investment Bank Limited
NPLR	Non-performing Loan Ratio
NRB	Nepal Rastra Bank
ROA	Return on Assets
ROE	Return on Equity
S.D.	Standard Deviation
T.U.	Tribhuvan University