

**IMPACT OF CREDIT RISK MANAGEMENT ON PROFITABILITY OF
NEPALESE COMMERCIAL BANKS**

A Thesis

Submitted By

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Certificate 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.

.....

Kusum Shrestha

Date: February, 2020

RECOMMENDATION LETTER

It is certified that thesis entitled **Impact of Credit Risk Management on Profitability of Commercial Banks in Nepal** submitted by Kusum Shrestha is an original piece of research work 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 judgment. The thesis is forwarded for examination.

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ABBREVIATIONS

ANOVA	Analysis of Variance
BAFIA	Bank and Financial Institution Act
CAR	Capital Adequacy Ratio
CR	Coverage Ratio
CRA	Credit Risk Appraisal
CRC	Credit Risk Control
CRI	Credit Risk Identification
CRR	Cash Reserve Ratio
Er	Error term
FM	Fixed Effect Model
GDP	Gross Domestic Product
GFC	Global Financial Crisis
ISR	Interest Spread Rate
NPL	Non- Performing Loan
NRB	Nepal Rastra Bank
ROA	Return on Assets
ROE	Return on Equity
Sig	Significance
SPSS	Statistical Package for Social Science
TA	Total Assets
TL	Total Loan
LP	Loan Provision

ABSTRACT

Credit is one of the largest risks in any bank, whereas, many enterprises complain of lack of excessive high criteria which set by financial institutions such as commercial banks, resulting in huge losses due to bad loans. The study therefore seeks to assess effect of management of credit risk on performance of the Nepalese commercial banks.

Both primary and secondary data were used in the study. Primary data on credit risk management practices was collected using a questionnaire while secondary data on the banks performance in financial perspective was obtained from various bank's published financial statements for 5 years from 2014-2018. The study is based on descriptive, casual comparative research design. This study used quantitative method for data collection for the purpose of analysis. Mainly structured questionnaire survey was used to generate responses based on which statistical analysis is done. The sampling technique for the study followed non probabilistic sampling technique, i.e. convenience sampling. The census of 28 Nepalese banks was undertaken however; only data from 5 commercial banks was obtained. In the model specification, return on asset (ROA) and return on equity (ROE) were used as bank profitability indicators while capital adequacy ratio (CAR), non-performing loan ratio (NPLR), cash reserve ratio (CRR), coverage ratio (CR), and interest spread rate (ISR) were used as indicators of credit risk management. These indicators relation was tested by using correlation matrix and its impact on profitability were tested using regression analysis. The findings indicate that credit risk management has significant impact on the profitability of Nepalese commercial banks.

Collected data was summarized by descriptive statistics like the standard deviation and mean and then analyzed using regression analysis and correlation. The study found a significant positive relationship between credit risk identification and credit risk monitoring and the perceived performance. The study found a positive insignificant relationship between credit risk appraisal and perceived performance and also found a negative insignificant relationship between credit risk control and perceived performances of commercial banks in Nepal. All the results was generated from SPSS and analyzed accordingly.