CREDIT RISK MANAGEMENT & ITS IMPACT ON PROFITABILITY OF COMMERCIAL BANKS IN NEPAL

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

By

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Report of Research Committee

Miss Reena Maharjan has defended research proposal entitled "**Credit Risk Management & its impact on Profitability of Commercial Banks in Nepal**" successfully. The dissertation has been registered for further progress by the research committee. It is recommended that the work be completed in accordance with the suggestions and guidance of the supervisor, Reader Dr. Dhruba Lal Pandey, and that the thesis be submitted for evaluation and viva voice examination.

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Dissertation Proposal Defended date: 22/03/2021

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Dissertation Viva Voice date: 10/09/2023

Approval Sheet

We examined Miss Reena Maharjan's dissertation titled **"Credit Risk Management & its impact on Profitability of Commercial Banks in Nepal"** for the Master of Business Studies degree. We hereby certify that the dissertation is suitable for degree awarding.

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Credit Risk Management & its impact on 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.

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Reena Maharjan

September, 2023

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Abstract

This study explores the relationship between credit risk management and the profitability of Nepalese commercial banks. The dependent variable is decided to be the profitability of return on assets (ROA). We take the Capital Adequacy Ratio (CAR), Non-Performing Loan Ratio (NPLR), Credit to Deposit Ratio (CDR), and Management Quality Ratio (MQR) into account as independent variables. The data was taken from b Bank's annual reports from a few particular commercial banks. The survey's foundation is made up of 35 samples drawn from five Nepalese commercial banks. Some diagnostic tests utilizing descriptive statistics and correlation analysis were offered if the linear regression model assumption was made. Regression models are anticipated to be used to examine the significance and impact of credit risk management on profitability in Nepalese commercial banks.

The outcome demonstrates that return on assets and return on assets are favorably correlated with capital adequacy ratio and management quality ratio. It suggests that the return on assets would be higher the higher the capital adequacy ratio. In a same vein, higher management quality ratios result in higher return on assets.

The findings also showed a negative correlation between the non-performing loan ratio and return on assets, indicating that a rise in the non-performing loan ratio is associated with a fall in both return on equity and return on assets. The analysis revealed that the R-square value was 0.60, indicating that the influence of the independent variables was responsible for 60% of the overall variation in the value of ROA. The corrected R-square value was 0.590, indicating a 59 percent overall correlation between the independent variables and the dependent variable ROA.

The beta coefficient is positive for the Capital Adequacy Ratio (CAR), Credit to Deposit Ratio (CDR), Management Quality Ratio (MQR), and Bank Profitability, but the beta coefficient is negative for the Non-Performing Loan Ratio (NPLR) and Bank Performance. At the 1% level of significance, the beta coefficient is significant for the Capital Adequacy Ratio (CAR), Non-Performing Loan Ratio (NPLR), and Management Quality Ratio (MQR). However, it has no bearing on the Credit to Deposit Ratio (CDR).

Key words: *Capital Adequacy ratio, Non-performing Loan Ratio, Credit to Deposit Ratio, Management Quality Ratio, Return on assets*

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Acronyms

CAR	:	Capital Adequacy ratio
CB	:	Commercial Banks
CDR	:	Credit to Deposit Ratio
CEO	:	Chief Executive Officer
HBL	:	Himalayan Bank Limited
Ltd.	:	Limited
MQR	:	Management Quality Ratio
N	:	Number of Respondents
NABIL	:	Nabil Bank Limited
NISA	:	NIC ASIA Bank Limited
NPLR	:	Non-performing Loan Ratio
RBB	:	Rastriya Banijya Bank
ROA	:	Return on Assets
SBL	:	Siddhartha Bank Limited
Sig.	:	Significance
SPSS	:	Statistical Package for Social Scientists
Std.	:	Standard