A STUDY ON LOAN MANAGEMENT OF COMMERCIALBANKS

(With Reference to Siddharatha Bank Limited and Everest Bank Limited)

A Thesis

Submitted by:

Sharmila Ghimire

Shanker Dev Campus

Campus Roll No: 2489/072

T.U. Reg. No.: 7-2-406-226-2011

Second Year Symbol No: 390566

Submitted to:

The Office of the Dean

Faculty of management

Tribhuvan University

In Partial Fulfillment of the Requirement for the

Master of Business Studies (MBS)

Kathmandu, Nepal

Kathmandu, Nepal

July, 2024

RECOMMENDATION

This is to certify that the thesis

Submitted by:

SHARMILA GHIMIRE

Entitled:

A STUDY ON LOAN MANAGEMENT OF COMMERCIAL BANKS

(With Reference to Siddhartha Bank Limited and Everest Bank Limited)

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

……..……..……..……..	.....……..……..……	…..…..……..…..……..
Kamal Prakash Adhikari	Asso. Prof. Dr. Sajeeb Kumar Shrestha	Asso. Prof. Dr. Krishna Prasad Acharya
(Thesis Supervisor)	(Head, Research Department)	(Campus Chief)

VIVA - VOCE SHEET

We have conducted the viva- voce of the thesis presented

By:

SHARMILA GHIMIRE

Entitled:

A STUDY ON LOAN MANAGEMENT OF COMMERCIAL BANKS

(With Reference to Siddhartha Bank Limited and Everest Bank Limited)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Viva- Voce Committee

Head, Research Department ……

Member (Thesis Supervisor) ……

Member (External Expert) ……

DECLARATION

I hereby declare that this thesis work entitled **" A STUDY ON LOAN MANAGEMENT OF COMMERCIAL BANKS (With Reference to Siddhartha Bank Limited and Everest Bank Limited)"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Masters of Business Studies which is prepared under the supervision of respected supervisor Kamal Prakash Adhikari of Shankar Dev Campus, T.U.

.....

Sharmila Ghimire
Shanker Dev Campus
Campus Roll No: 2489/072
T.U. Reg. No.: 7-2-406-226-2011
Second Year Symbol No: 390566

ACKNOWLEDGEMENTS

This entitled thesis **"A STUDY ON LOAN MANAGEMENT OF COMMERCIAL BANKS (With Reference to Siddhartha Bank Limited and Everest Bank Limited)"** has been prepared in partial fulfillment for the Degree of Master of Business Studies (M.B.S) under the Faculty of Management, Tribhuvan University is based on research models involving the use of qualitative aspect of loan management

I have great satisfaction and pleasure to express my appreciation and sincerity to my thesis supervisor Kamal Prakash Adhikari of Shankar Dev Campus, TU for his excellent and effective guidance and supervision. I will remain thankful for his valuable direction useful suggestion and comments during the course of preparing this thesis without his help this work would not have come in this form. I also would like to extend my debt of gratitude to Asso. Prof. Dr. Sajeeb Kumar Shrestha, Head of Research Department and I owe deep debt of gratitude to Asso. Prof. Dr. Krishna Prasad Acharya, Campus Chief of Shankar Dev Campus who provided me an opportunity to understand this research work.

I highly appreciate to all the staffs of Siddhartha Bank Limited and Everest Bank Limited, NRB Library, Shankar Dev Campus Library and TU Central Library for their valuable advices and support in collecting and presenting the necessary data. I would also like to express my thankfulness to my friends, my family members as well as all known people who supported as well as inspired me directly or indirectly to complete this thesis.

Researcher

Sharmila Ghimire

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

AD	:	Anno Domini
adv.	:	Advance
ATM	:	Automated Tailor Machine
BS	:	Bikram Sambat
CA	:	Current Assets
CB	:	Commercial Banks
CD	:	Credit to Deposit
CL	:	Current Liabilities
CRR	:	Compulsory Reserve Ratio
e.g.	:	Example
EPS	:	Earning Per Share
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Products
i.e.	:	That is
JVBs	:	Joint Venture Banks
L & A	:	Loan and Advance
LATDR	:	Loan and Advance to Total Deposit Ratio
LLP	:	Loan Loss Provision
Ltd	:	Limited
NPL	:	Non – Performing Loan
NRB	:	Nepal Rastra Bank
EBL	:	Everest Bank Limited
SD	:	Standard Deviation
S	:	Siddhartha Bank Limited
TA	:	Total Assets
TU	:	Tribhuvan University

CHAPTER - I
INDRODUCTION

1.1 Background of the study

Most commercial banks' primary line of business is lending. Usually, the biggest asset and main source of income is the loan portfolio. It poses one of the biggest risks to the safety and soundness of banks as a result. The board and management must comprehend and be in charge of the bank's credit culture and risk profile in order to effectively manage the credit risk of the loan portfolio. They need to be fully aware of the risks that are inherent in the portfolio as well as its makeup in order to achieve this. The product mix, industry and geographic concentrations, average risk ratings, and other aggregate features of the portfolio must be understood by them. It is imperative to ensure that lending personnel follow appropriate policies, procedures, and practices that control the risks associated with individual loans and portfolio segments. For many years, the managers of well-performing loan portfolios have focused most of their efforts on closely examining loan performance and granting loans with caution (Imeokparaia, 2013)

It is highly recommended that loan risks be analyzed and managed. The danger that a borrower won't fulfill its responsibilities in line with the terms and circumstances agreed upon is known as loan risk. Loan risk encompasses risks to off-balance sheet and inters bank transactions as well as lending activity. By keeping the loan risk exposure within reasonable bounds, loan risk management seeks to optimize a bank's risk-adjusted rate of return. Although loans are the main and most visible source of loan risk for the majority of banks, there are other forms of loan risk that can arise from any of the bank's operations, including the trading and banking books, as well as activities that take place both on and off the balance sheet. In addition to land, banks are progressively taking on loan risk in other financial instruments such as acceptances, interbank transactions, trade finance, foreign currency transactions, guarantees, and transaction settlement. The asset that generates the most income is thought to be a loan, particularly in commercial banks. Loans are thought of as the lifeblood of commercial banks because they account for a significant portion of transaction volume, form the basis of most investment activities, and are the primary source of profitability as well

as the factor that ultimately determines it. It has an impact on the nation's entire economy (Bhattarai, 2023).

The basis for deciding whether and how much credit to provide is provided by the company's loan policy. There are two main components to a bank's loan policy decision: loan standard and loan analysis. A company must develop acceptable sources of loan information, techniques for loan analysis, and standards for making loan decisions (Abayomi et al. 2017).

Loan management analysis refers to the process of evaluating and overseeing loans to ensure they are effectively managed throughout their lifecycle. This involves various activities such as assessing the creditworthiness of borrowers, determining appropriate loan terms. The loan management process of a bank encompasses a range of activities and procedures designed to effectively handle the lending operations while mitigating risks monitoring repayment schedules, and mitigating risks associated with loan defaults. Efficient loan management is crucial for banks to maintain a healthy loan portfolio, minimize credit losses, and uphold their reputation in the financial industry. Advance technology, such as loan management software systems, is often employed to streamline and automate the loan processing workflow, improving efficiency and reducing operational risks (Khadka, 2021).

A nation's financial sector plays a crucial role in its development and needs to be robust. Banks, finance firms, cooperatives, insurance companies, stock exchanges, foreign currency markets, mutual funds, employee provident funds, and other entities are all part of the significant and expansive financial industry. These organizations gather unused and dispersed funds from individuals and groups, which they then invest in various underprivileged businesses. As a result, they contribute to the creation of jobs, the decrease of poverty, and the advancement of society and the country at large. A bank's ability to manage loans and credit effectively is essential (Bagale, 2023).

1.1.1 A Brief Profile of Selected Banks

Everest Bank Limited (EBL)

Nepal's Commercial Bank is called Everest Bank Limited. serving a clientele of over 14 lac. You can rely on Everest Bank Limited (EBL) to provide professional and

effective banking services. Since its founding in 1994, the bank has grown to become one of the nation's top institutions, serving a wide range of social groups with its services. With a network of 10,098 domestic branches, 2 international branches, 13,350 ATMs, and 15,719 business correspondents, the bank currently has 39,167 delivery channels in total. With 128 branches, 164 ATMs, 32 revenue collection counters, and 4 extension counters spread out over the nation, the bank is incredibly effective and easily available for its clients at all times and locations (www.everestbankltd.com).

Siddhartha Bank Limited (SBL)

One of the biggest private commercial banks in Nepal, Siddhartha Bank Limited (SBL) holds the 18th commercial bank license granted by Nepal Rastra Bank. It began operating in December 2022. With its headquarters located in Hattisar, Kathmandu, the bank currently offers complete commercial banking services as well as remittance services through 197 branches and 226 ATMs across the country. The bank has been facilitating commerce, remittances, and other cross-border services by establishing correspondent ties with international banks from different nations. The bank can offer services in any of the world's major currencies thanks to their correspondents. The bank, which has its headquarters in Kathmandu with 196 branches and 226 ATMs around the country, offers full commercial banking and remittance services (www.siddharthabank .com).

1.2 Statement of the problem

Commercial banks and financial institutions in Nepal have faced a number of challenges, including the seamless operation of their daily operations following the adoption of Nepal Rastra Bank norms. The trend of commercial banking is the trend of commercial banking is changing rapidly. Competition is getting stiffer and, therefore, banks need to enhance their competitiveness and efficiency by improving performance (Odejide, 2024). Normally, the financial performance of commercial banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Han, 2018).

As of right now, one of the sectors in Nepal that is expanding the fastest is the banking sector. The banking industry has experienced tremendous growth since the government

implemented its liberalization agenda. Unfortunately, political unrest prevented the government from giving this area enough attention (Singh, 2014).

Similar to other sectors, the banking industry has been subject to government reputation, oversight, and surveillance. It is also possible that other non-business actions have taken place in this area. Such non- business actions will negatively impact this industry (Hamza, 2018). The following research problems have been determined for the study:

- What is the comparative position of liquidity and activity and net profit of Nepalese commercial banks?
- What is the relationship between total deposit, loan and advances and non-performing loans and net profit of Nepalese commercial banks?
- What are the trends in loan and advances, non-performing loans and net profit of Nepalese commercial banks?

1.3 Objectives of the study

The study's main objective is to evaluate the loan management of Nepalese commercial banks. Besides this, the following targets are specified to complete this study:

- To assess the comparative position of liquidity and activity and net profit of sample banks.
- To examine the relationship between total deposit, loan and advances and non-performing loans and net profit of sample banks.
- To analyze the trend of loan and advances, non-performing loans and net profit of sample banks.

1.4 Significance of Study

In order to determine the productivity of their funds in the EBL and SBI, shareholders, depositors, and other creditors will primarily benefit from the study. Similarly, the performance of the bank is also of interest to other financial authorities, such as financial specialists. In addition to these, the study aids the bank's management in evaluating the efficiency of the bank's loan administration and policies in relation to those of its rivals. Due to a few flaws, non-performing assets are currently thought to

be the primary issue facing commercial banks, hence the study may potentially be as important for the central bank when developing new lending guidelines.

1.5 Focus of the Study

The study focused on a comparison of loan management at Everest Bank Ltd. and Siddhartha Bank. The lending business is also dependent on the banking business. As a result, it has been described as a risky business. These banks are currently playing a significant role in the growth of Nepal's economy. As a result, banks take various precautions to protect their continued existence. Lending are a core area of commercial banking, consequently they have significant effects on commercial banks' liquidity management.

However, the most serious issue for the banking sector is loan management in overall. Joint venture commercial banks play a vital role in the development of developing nations while contributing tremendously to the country's economic sector. The primary goal of commercial banks in Nepal is to provide quality services to its customers.

1.6 Limitations of the study

The research study has some limitations. The main limitations of the study are as follows:

- Although there are twenty commercial banks operating in Nepal as of mid-January 2024 (BS 2079/2080), only EBL and SBL are included in the planned study, which means that they might not accurately reflect the entire population.
- This study focuses just on credit management and ignores other financial aspects.
- Secondary data has been used for its presentation and interpretation. Only five years of data are examined, from 2018/19 to 2022/23. The reliability of the data depends completely on the banks' annual reports (EBL and SBL).
- All the data are secondary in data. Mostly published financial documents, other related journals, magazine and books, booklet. Therefore, outcome may rely on reliability secondary data.
- Only certain statistical and financial techniques and tools are used in this study such as liquidity ratios and activity/ efficiency ratios and the statistical analysis

tools as descriptive statistics, correlational analysis and trend analysis is done in this study.

1.7 Organization of the study

The whole study is divided into five different chapters. They are:

Chapter-I Introduction

This chapter includes the study's background, a brief summary of EBL and SBL, the study's focus, a statement of the problem, objectives, significance, and limitations of study etc.

Chapter-II Review of Literature

The review of the main areas of literature is the topic of this chapter. Reviewing books, reports, thesis journals, official websites, and other resources is part of it.

Chapter-III Research Methodology

The research design, data sources, population and sample, data analysis methods and additional aspects of the study's methodology are discussed in this chapter.

Chapter-IV Presentation and analysis of data

The fourth chapter consists of data presentation and analysis, which explains the study's empirical analysis. This chapter analyzes and interprets all acquired pertinent data, explaining the study's main conclusions. This chapter is concern with the data presentation and analysis of the study etc.

Chapter-V Summary, Conclusion and Recommendations

This chapter five covers the study's major findings, the conclusions drawn from the findings, the study's recommendations, and soon.

Similarly, at the beginning of the study, a table of contents, recommendation sheet, viva voce sheet acknowledgment, list of tables, list of figures, and abbreviation are presented, then comes a bibliography, appendices, and proposal at the end.

CHAPTER II
REVIEW OF LITERATURE

This chapter basically seeks to review various books, articles, journal, theories and principles, as well as various studies related to the concept of capital structure and more basically loan management of commercial banks in order to fulfill the objective of this thesis. The purpose of a review of literature is to provide a comprehensive overview of existing research on a particular topic, identify gaps in the current knowledge, and establish a framework for further research. The purpose of a literature review is to summarize the current state of knowledge on a topic, provide a comprehensive overview of previous research, and identify gaps in the literature that your study aims to address (Creswell 2023).

2.1 Conceptual Review

2.1.1 Concept of loan

A loan is a financial transaction where a lender provides funds to a borrower, who agrees to repay the principal amount along with interest over a specified period, typically according to predetermined terms and conditions. loan is a contractual agreement where a lender, typically a financial institution like a bank, disburses a specific amount of money to a borrower who agrees to repay the principal amount along with interest according to predetermined terms and conditions. Loans serve as a vital financial tool for individuals and businesses to acquire assets, meet financial obligations, or invest in opportunities (Srivastava & Nigam, 2010).

A loan is a financial transaction wherein a lender, typically a banking institution, provides a borrower with a specific amount of money, which the borrower agrees to repay over time with interest, according to predetermined terms and conditions. Loans serve as a primary mechanism for individuals, businesses, and governments to access capital for various purposes, including investment, consumption, and liquidity management (Pandey, 2000).

A loan is a financial arrangement where a lender, typically a bank or financial institution, provides funds to a borrower, who agrees to repay the borrowed amount along with interest over a specified period. Loans are crucial in facilitating economic

activities by enabling individuals, businesses, and governments to access capital for various purposes such as investment, consumption, and debt management (Weston & Bringham, 2003).

The commercial banks' good financial standing and steady economic growth are largely attributed to their loan activities, which also enable them to make investments in profitable industries. The principal assets of banks and other financial organizations are the loans they provide to various industries. These loans are provided by a variety of financial institutions. Interest that banks and other financial institutions collect serves as the primary funding source for loans. Thus, the availability of cash in banks and other financial institutions, which is based on the interest the banks collect, governs the credit lending process (Shrestha, 2024).

Lending is really reliant on a number of variables, including the availability of funds, their cost, the borrowers' ability to repay the credit they have received, and several others. When these variables are thoroughly examined, it becomes useful to understand how banks and other financial organizations are mobilizing their resources and making their cash available (Rahman, 2018).

Loans play a pivotal role in the modern financial system, facilitating economic activities by providing individuals, businesses, and governments with access to capital. Through loans, borrowers can acquire necessary funds to achieve their goals and fulfill their financial needs, while lenders earn returns on their capital through interest payments. However, it's essential for both parties to carefully consider the terms of the loan agreement to ensure responsible borrowing and lending practices, minimizing risks and maximizing benefits for all stakeholders involved (Myers & Brealey, 2003).

2.1.2 Types of Lending:

The basic types of lending that the bank flows are in the form of;

a. Overdraft:

An overdraft is a financial service provided by banks that allows account holders to withdraw more money than is currently in their account. It effectively enables individuals or corporations to spend or withdraw funds up to a sure limit, no matter whether their account balance is zero or negative (Johnson, 1994).

b. Cash credit:

Cash credit as a type of lending arrangement where a borrower is granted a revolving credit line that can be drawn upon up to a specified limit. They detail its usage in the context of commercial banking and the management principles associated with such credit facilities (Chhabra & Taneja, 1991).

c. Direct credit:

Direct credit refers to a financial arrangement where funds are directly deposited into the recipient's account without the need for physical checks or intermediaries. It's often used for recurring payments such as salaries, pensions, or government benefits. Direct credit can also refer to the direct transfer of funds from one account to another electronically (Desai, 2011).

d. Term Credit

Term credit refers to a type of loan where funds are provided to the borrower for a specific period, known as the loan term, and are typically repaid in regular installments over that period. This type of credit is often used for financing specific projects, investments, or purchases with a predetermined repayment schedule (Crosse, 1963).

e. Working Capital Credit

Working capital credit refers to short-term financing provided by banks to businesses to manage their day-to-day operational expenses and short-term liquidity needs. It is designed to support ongoing business operations, such as purchasing inventory, covering payroll, and managing accounts payable (Bhalla, 1998).

f. Priority or deprived sector credit

It is mandatory for commercial banks to provide advances to the underprivileged and priority sectors. The priority sector, which includes the underprivileged sector, must receive 12% of the total credit. The maximum amount sanctioned to priority sectors is Rs. 2.5 million for single borrowers and Rs. 2 million for the agriculture and service sectors combined. This category also includes institutional support for the "Rural Development Bank" and the "Agriculture Development Bank." Loans to the deprived sector comprise:

a) a) Up to Rs. 30,000 in advances to those who are weak, impoverished, disadvantaged, or deprived in order to help them find work or income.

b) b) An institutional loan to the bank for rural development.

c) c) Credits to non-profit organizations that are authorized to conduct banking transactions and lend up to Rs. 30,000 (Nepal Rastra Bank, 2023).

g. Housing Loan (Real Estate Loan)

Housing Loan (Real Estate Loan) " refers to a financial arrangement wherein a borrower obtains funds from a lender, typically a bank or a mortgage company, to finance the purchase, construction, or renovation of residential property. The loan is secured by the property itself, which serves as collateral for the lender. The borrower agrees to repay the loan amount, along with interest, over a specified period through regular installments (Desai, 2011).

h. Hire Purchase Financing (Installment Loan):

Hire Purchase Financing (Installment Loan) of Bank" is a type of financing provided by banks to facilitate the acquisition of assets, such as vehicles, equipment, or appliances, by individuals or businesses. In this arrangement, the bank purchases the asset on behalf of the customer and leases it to them for a predetermined period. The customer makes regular installment payments to the bank, covering both the principal amount borrowed and the interest charges, until the total cost of the asset is repaid. Once all payments are completed, ownership of the asset is transferred to the customer (Varshney & Swaroop, 1994).

i. Project of loan:

Project loan from a bank typically refers to a type of financing provided to businesses or individuals specifically for funding large-scale projects. These projects could include construction of infrastructure, development of real estate, acquisition of equipment, or any other substantial business endeavor requiring significant capital investment (Bhalla, 1998).

j. Consortium Loan:

A "Consortium Loan" involves a group of banks or financial institutions collectively providing financing to a single borrower. Each lender contributes a portion of the total loan amount, and the borrower interacts with a lead bank that coordinates the loan syndication process. Consortium loans are typically used for large-scale projects or corporate financing needs where the required capital exceeds the capacity of any individual lender. This arrangement allows lenders to diversify risk and share the exposure associated with the loan while providing borrowers with access to larger loan amounts and favorable terms (Varshney & Swaroop, 1994).

k. Revolving lines of credit:

Revolving lines of credit are flexible credit arrangements provided by banks or financial institutions that allow borrowers to access funds up to a predetermined credit limit. Unlike traditional loans with fixed repayment terms, revolving lines of credit allow borrowers to borrow, repay, and borrow again within the credit limit without needing to reapply for the credit each time. Interest is charged only on the outstanding balance, and borrowers have the flexibility to repay the borrowed amount at their convenience (Chhabra & Taneja, 1991).

l. Off-balance sheet transactions:

Off-balance sheet transactions refer to financial activities undertaken by a bank that do not directly appear on its balance sheet but still have an impact on its financial position and risk profile. These transactions involve commitments or contingent liabilities that may result in future financial obligations for the bank. Examples of off-balance sheet transactions include guarantees, letters of credit, derivatives contracts, and securitization arrangements. While these transactions do not affect a bank's assets and liabilities in the short term, they can expose the bank to credit, market, and operational risks (Desai, 2011).

m. A bank guarantee:

A bank guarantee is a financial instrument issued by a bank on behalf of a customer, guaranteeing that the customer will fulfill its contractual or financial obligations to a third party. It serves as a promise from the bank to pay a specified amount to the beneficiary if the customer fails to meet its obligations. Bank guarantees are often used

in international trade, construction projects, and other business transactions to provide assurance to the parties involved. There are various types of bank guarantees, including performance guarantees, payment guarantees, and bid bonds, each tailored to specific contractual requirements (Crosse, 1973).

n. A Letter of Credit (L/C):

A Letter of Credit (L/C) is a financial instrument issued by a bank on behalf of a buyer (importer) to ensure payment to a seller (exporter) for goods or services provided. It serves as a guarantee of payment, assuring the seller that they will receive the agreed-upon amount as long as they fulfill the terms and conditions specified in the letter of credit. Letters of credit are widely used in international trade to facilitate transactions between parties in different countries, providing security and mitigating risks for both buyers and sellers (Chhabra & Taneja, 1991).

o. Discounting of Bills:

It is what commercial banks do for a living. Discounting a bill is paying bills that are issued by central banks, the NRB, and commercial banks ahead of time, either before they mature or expire. Due to their unpredictability, payment should therefore be less than the entire amount.

2.1.3 Objectives of Lending Policy

The objective of a lending policy of a bank is to establish guidelines and principles that govern the bank's lending activities in order to achieve strategic objectives while managing risks effective. These standards frequently establish the framework for the bank's assessment, approval, and management of borrowers' loans. A lending policy may have the following primary objectives: Loan objectives provide the bank with precise, quantifiable targets. The following three fundamental goals must be kept in mind by the board of directors while making loans (Crosse, 1973).

- To invest bank money profitably for the benefit of shareholders and depositor protection;
- To provide loans on a sound and recoverable basis.
- To meet their communities' justifiable credit demands.

2.1.4 Principle of Lending Policy or Sound lending

1. Principle of Stability - Commercial banks are only allowed to invest in stocks and securities that have adequate stability. This is among the crucial guidelines that the bank needs to adhere to in order to prevent losses on the value of its securities.

2. Principal of Liquidity - Advance loans are given by banks on securities that can be quickly and readily sold for cash. Liquidity is defined as follows, and it is a crucial aspect of bank lending. Only securities that can provide the bank with a suitable level of liquidity are added to the investment portfolio by banks. This is one of the key ideas since bank customers benefit from cash in times of need. The bank should be able to quickly sell securities without having to alter market prices.

3. Principal of Profitability - One of the fundamental concepts of lending is profitability, which is defined as the amount spent having to yield sufficient returns. The earning potential of shares and securities is determined by the loan's interest rate. It also relies on the dividend rate and the tax advantage. Therefore, the bank needs to make investments with stable return-generating assets while keeping profitability in mind.

4. Principal of Safety - Safety, or the need that the borrower be able to repay the loan, is another crucial lending premise. The borrower's capacity, character, and the type of security attached to the loan all play a role in how much is repaid. Therefore, the bank's lender is required to uphold the principle of safety and investigate the borrower's financial stability.

5. Principal of Diversity - When making loans, any commercial bank must adhere to the diversity principles. The bank needs to exercise caution to ensure that the excess funds are invested in a diverse and unrestricted manner. The bank also makes an effort to increase variety in order to reduce portfolio risk.

6. **Principal of Purpose**: A banker ought to provide advances for worthwhile endeavors like funding business, trade, and commerce. He shouldn't give advances for pointless reasons.

7. **Principal of Income generating potentiality of the project**: The banker must determine if the project for which funding is provided will result in the revenue required to pay back the loan.

8. **Principal of Term of loan:** Since extending loans for an extended length of time would require locking up funds, bankers often prefer to issue short-term loans.

9. **Principal of Public interest**: The banker ought to provide advancements to the sectors of the nation's planning program that need development.

2.1.5 Criteria for Providing Loan

To put in simple words when a loan is made the following 5 Cs of Credit needs to be evaluated by (Myers & Brealey, 2003).

- **Character:** The qualities that a loan officer looks for in a candidate are accountability, truthfulness, seriousness, purpose, and a sincere desire to pay back all debts. The consumer must first persuade the loan officer that they have a legitimate plan to repay the loan and a clear reason for seeking bank credit. The loan officer has to make sure the borrower is telling the truth while answering the bank's queries and that they are using the money responsibly. The applicant shouldn't get a loan if the loan officer believes the borrower is being dishonest about how they intend to utilize the money they borrowed and how they will repay it (Myers & Brealey, 2003).
- **Capacity:** The ability of the borrower to produce enough cash flow from regular operations to cover future obligations is referred to as capacity. It is necessary to determine whether the company has the assets (money, revenue, and income) necessary to pay back the debt. The company should be stable enough to make a profit that covers bank loan repayment as well as a respectable rate of return for the promoters (Pandey, 2000).
- **Capital:** It stands for the money kept in the borrowing company as a safety net against unforeseen losses. A company with a strong equity position will be financially resilient during times of operational hardship. A common definition of capital is the total amount of money you have put in your own company. Why you are utilizing your own assets to seek financial aid may pique the interest of a financial lender or investor. When it comes to lending or investing, a lot of people want to know if you intend to utilize your personal funds to support the success of your company (Yadav, 2018).
- **Collateral:** The security that the borrower offers is called collateral. Is the borrower's net worth or quality of assets sufficient to back the loan? is a question that the loan officer must respond to. The loan officer is especially perceptive to details like the age, state, and level of expertise of the borrower's possessions (Van Horne & Achowiez, 1998).

- **Condition:** Trends in the business or field in which the borrower works must be known to the credit analyzer. It must be evident how the loan could be offset by shifting economic conditions. Even though a loan appears excellent on paper, it may lose value due to falling revenue or sales during a recession or a high interest rate brought on by inflation (Weston & Bringham, 2003).

2.1.6 Credit Risk Monitoring and Control

Credit risk monitoring is the ongoing examination of each individual credit, including exposures to obligors' off-balance sheet, as well as the bank's entire credit portfolio. To keep an eye on the state of individual credits and single borrowers throughout the bank's diverse portfolios, banks must create and put into place extensive policies and information systems. Banks must implement a system that allows them to continuously assess the credit portfolio's quality and act to correct any declines as soon as they happen. To guarantee that certain transactions and credits are subject to more regular monitoring, as well as potential remedial action, classification, and/or provisioning, these procedures must provide criteria for recognizing and reporting probable problem credits and other transactions. Senior management would be able to keep an eye on the trends and general quality of the entire credit portfolio with the establishment of an efficient and effective credit monitoring system. Because of this, the management could review its credit strategy and policy before suffering any significant setbacks. Procedures for credit risk monitoring should be clearly outlined in the bank's credit policy. It should, at the absolute least, establish protocol regarding credit risk monitoring (Weston & Bringham, 2003):

- The frequency of monitoring;
- The periodic review of collateral and loan covenants;
- The roles and responsibilities of those in charge of credit risk monitoring;
- The assessment processes and analysis techniques (for individual loans & overall portfolio);
- Guidelines for Risk Management
- Determining whether any debt is deteriorating

Some important metrics that show a loan's credit quality are listed below:

a) Financial Position and Business Conditions:

An obligor's financial standing is crucial since it dictates how well-equipped they are to repay debts. It is important to take into account business/industry risk, the borrower's position within the industry, and external factors including the state of the economy, governmental rules, and policies. Regular analysis of the key financial performance metrics for profitability, equity, leverage, and liquidity is recommended.

b) Conduct of Accounts

If the debtor is already in existence, their account's activity would provide a good indication of the credit facility's caliber. Banks must to keep an eye on the account activity, credit limit excesses, and payback history of the debtor. Banks should keep an eye out for instances of repeated late payments for trust receipts and bills related to trade finance.

c) Loan Covenants

The ability of the obligor to abide by the financial covenants outlined in the loan agreement should be routinely reviewed by the bank, and any breaches found should be swiftly remedied.

d) Collateral valuation

Banks must periodically reevaluate the value of their collateral. The type of collaterals determines how frequently they are valued. A suitable inspection should be carried out to confirm the collateral's existence and value.

2.1.7 Managing Problem Credits

Bank should establish a system that helps identify problem loan ahead of time when there may be more options available for remedial measures. Banks should clearly set out how they will manage their problem credits. Once the loan is identified as problem, it should be managed under a dedicated remedial process. Responsibility for such credits may be assigned to the originating business function, a specialized workout section, or a combination of both, depending upon the size and nature of the credit and the reason for its problems. When a bank has significant credit-related problems, it is important to segregate the workout function from the credit origination function. The

additional resources, expertise and more concentrated focus of a specialized workout section normally improve collection results. In such case, the Recovery Unit (RU), as a separate unit, shall manage accounts with sustained deterioration (a risk rating of sub Standard or worse). The RU's primary functions can be to (Desai, 2011):

- Determine Account Action Plan/Recovery Strategy
- Pursue all options to maximize recovery, including placing customers into legal proceedings or liquidation as appropriate.
- Ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- Regular review of substandard or worse accounts.

A problem loan management process encompasses the following basic elements.

i) Negotiation and follow-up:

Remedial strategies should be implemented with counter parties in a proactive manner by keeping internal records of follow-up actions and regular communication. Rigid early attempts frequently shield banks from lawsuits and loan losses.

ii) **Remedial strategies:**

Appropriate corrective measures, such refinancing the loan, raising credit limits, or lowering interest rates, might occasionally assist in improving the ability of the debtor to repay the loan. It does, however, rely on the state of the company, the kind of issues being dealt with, and—above all—the borrower's dedication and willingness to repay the loan. If problem loans are not addressed in a timely manner, losses could mount up to the point where they endanger a bank's viability and chances to improve or collect on these subpar assets could be lost. An evaluation of the workout procedures should also take into account how this function is organized, including the departments and responsible staff. It's important to assess the senior management's engagement and the work out techniques that were used.

iii) Collateral and security document

Banks must update the values of available collateral with formal appraisal in order to determine the loan recoverable amount. Reviewing security documents is also necessary to make sure that contracts, collateral, and guarantees are comprehensive and enforceable.

iv) Reporting and Reviewing:

Problem credits must to be examined and tracked more frequently. The progress of the corrective plans as well as the state and evolution of the loan accounts should be updated during the review. Senior management should be informed of any progress made on the problematic debt.

2.1.8 Lending and Recovery Management of Commercial Bank

A. Loan Disbursement Process of Commercial Bank

Commercial banks typically offer three different loan types: corporate loans, business loans, and consumer loans. To release loans to borrowers, commercial banks go through a number of stages. It's possible that the banks' lending practices are comparable to those of other banks. Generally speaking, the actions might be classified as authors by (Shrestha, 1993).

a) Application

Banks offer application forms that include all information relevant to the specific loan. The needy must submit the form and any necessary documentation. The documentation needed by banks to conduct a loan application further is often listed beneath the loan application. For the bank to approve the loan, certain documents are required, including the loan application, the applicant's citizenship certificate, a salary certificate, renewed firm registration, the company registration certificate, the income tax registration certificate, the most recent audited financial statement, and a feasibility report. The legally binding "Partnership Deed" in the event of a partnership business, the memorandum and articles of incorporation in the case of a corporation, and the citizenship certificates of the owner, the partners, the promoters, and the guarantors together with the percentage of shares. Problem credits must to be examined and tracked more frequently. The progress of the corrective plans as well as the state and evolution of the loan accounts should be updated during the review. Senior management should be informed of any progress made on the problematic debt.

b) Loan Appraisal and Processing

The challenging process for banks begins as soon as the application form and the required documents are submitted. Analysis is done on the proposal's and the papers' viability. It is done to thoroughly investigate the person. A commercial bank evaluates

loans based on historical performance, future projections, and information obtained via inquiries. During loan processing, the bank determines the following:

- The proposal must adhere to NRB guidelines.
- The proposal must comply with the credit procedural manual, the bank and financial institution ordinance 2060 (Act 2061), and the bank credit policy.
- The cost estimate is reviewed in order to approve the correct estimate.
- The working capital projection must make sense when compared to historical performance and the goal of future growth.
- There should be a sufficient internal rate of return (IRR) and return on investment (ROI).
- A fair guarantee must be provided by the proposed project's SWOT (strength, weakness, opportunity, and threat) study.
- The borrower needs to be deserving of credit.
- Security must always be unquestionable. When needed, it should be simple for the bank to take control of it both legally and physically.

In addition to the aforementioned, the bank examines the project's actual existence. Additionally, the bank looks to see if the borrower will be able to make interest payments on schedule and repay the full loan amount when it matures.

c) Loan Approval

Following submission of a proposal by an individual, organization, or project, the bank thoroughly examines and evaluates the proposal from all angles. The bank assesses required documentation as well. The bank may authorize the loan in accordance with its assessment of the loan proposal's suitability.

d) Loan Documentation

A letter outlining all the terms and restrictions the borrower must abide by is sent once the bank approves the loan. The paperwork procedure is carried out following the borrower's approval of the terms and conditions. The loan deed is signed as loan documentation. A loan deed is an agreement that specifies the length of the loan, the repayment terms and costs, collateral used to secure the loan, and the procedures to be followed in the event of default.

The documents that must be obtained in addition to the loan deed for the loan documentation process are the demand promising note, continuing security letter, letter of lien and set-off, letter of pledge, letter of guarantee, mortgage deed, letter of installments, partnership letter, letter of acknowledgment of debt, general/special power of attorney, and blue book/ownership certificate in case of hire purchase.

Documents needed for a mortgage of collateral security include a letter of agreement from the property owner, a letter of approval from the office where the company registers to mortgage the company's property, and, in the case of a company, the landowner certificate "Laal Purja," the property transfer deed "Ownership Deed," a "Malpot" receipt, a boundary certificate from the town/village development committee, a survey map of the land (blue print), an original copy of the mortgage deed, a letter of authorization from the property owner, and a property valuation report.

e) Loan Disbursement

The loan is issued following a thorough evaluation and inspection of the proposal and supporting materials.

f) Loan Audit

Once a loan is provided, a bank will, to the greatest extent feasible, conduct an audit of the loan with the goal of ensuring that it is used appropriately by the debtor. As a result, the bank periodically performs the audit in addition to other tasks to obtain information regarding loan utilization. The tools used for audit of loan are:

- Performance statements.
- Cash flow statements.
- Stock turnover statements.
- Profitability statements.
- Audited balance sheet.
- Site inspection.

B. Loan Recovery Process of Commercial Bank

The success of credit management is contingent upon loan recovery. Thus, we may conclude that debt recovery is one of the credit department's most crucial tasks. To

recover loans, there are no hard and fast rules followed. The time frame, or the circumstance in which the debt is to be recovered, determines how the recovery process proceeds.

In actuality, the loan document explains the recovery procedure as well as distribution. The loan deed has all required terms and conditions. There will be a breach of the deed if the terms and conditions stated in it are not met. In such a case, a few adjustments are made to the deed so that the terms and conditions can be modified in response to the request. In most cases, the bank and the consumer have reached an agreement, however there may be circumstances where selling the mortgage is necessary to recoup the loan balance.

In a generic loan agreement, the loan is adjusted in response to the customer's request. After certain changes are made to the loan deed, the length of the loan payment is extended. Additionally, mortgage assets may be used to repay the loan. The entire process of rehabilitation is lawful and methodical. In keeping with prudence, the banks also provide vision to determine whether or not the loans are used in the appropriate area.

2.1.9 Non-performing loan (NPL)

The quantity of loans that banks have given to their clients who are unable to make regular payments (principal and interest) for a minimum of ninety days is known as non-performing loans, or NPLs. According to the length of time that a loan has been past due, the Nepal Rastra Bank (Central Bank of Nepal) has divided loans into five categories: standard, watch-list, sub-standard, dubious, loss, or bad loan (NRB Unified Directives, 2023). Loans with interest and principal payments that are either not past due or past due within three months are considered conventional loans. On the other hand, loans classified as sub-standard have interest and principal payments that are due after up to six months. On the other hand, loans that have not had their principle and interest repaid within the allotted time are included as watch list debts. Loans with repayment terms ranging from six months to a year are classified as questionable loans. Loans with past-due principal and interest are referred to as loss loans. NPLs are bank or financial institution loans or advances where the borrower has not repaid the loan within a certain amount of time, usually 90 days or more. Depending on internal bank

regulations and regulatory norms, the overdue period may change (Nepal Rastra Bank, 2023).

2.1.10 Review of NRB Directives Relating to Loan

The Nepal Rastra Bank publishes directives and circulars pertaining to banking and financial institution oversight and regulation. The Unified Directive No. 2 of 2077 pertains to the classification of loans, advances, and loan loss provisions (Nepal Rastra Bank, 2023).

Directive No. 2 Classification of Loan and Advance and Loan Loss ProvisionPass Loan

Pass loans are those advances and loans whose installments (repayments) are either not due at all or are due within a month. We refer to these loans as performing loans.

Watch List

The loans and advances that fall under the pass loan category and have the aforementioned characteristics need to be added to a watch list.

- Payments for principal and interest are past due by longer than three months.
- Working capital loan and short term maturity period were temporarily extended, but not renewed on time.
- A loan from another bank or financial institution has been labeled as non-performing. (For the same Debtor)
- Regular loans (such as working capital or short-term loans) given to businesses and corporate entities that have had a consistent net worth decline over the previous two years.
- Projects that benefit from multibank financing but are not converted to consortium financing in accordance with Directive No. 2's Section 33.
- Loans and advances that show inadequate cash flow upon bank scrutiny and are placed on a watch list.

Sub-Standard Loan

Sub-standard loans are defined as loans and advances with installment (repayment) terms longer than three months but shorter than six months.

Doubtful Loan

Doubtful loans are those advances and loans whose installments (repayment) are due in less than a year but more than six months.

Bad Loan (Loss)

If the installment (repayment) on a loan or advance is not due for over a year, the loan or advance must be deemed a poor loan (loss).

Directive No. 2 (2): Additional Conditions for "Pass Loan"

Following loan & advances are classified as pass loan.

- Loan made available with a fixed deposit receipt as collateral.
- Loan made available subject to the collateral of Nepal Rastra Bank bonds or Government of Nepal Securities. Nonetheless, NRB Bonds, Government of Nepal Securities, and loans made as extra security for fixed deposit receipts have to be categorized under Section (1) of Directive No. 2.

Directive No. 2 (3): Additional Conditions for "Bad Loan (Loss)"

Bad loans are those advances and loans that have the following disparities and whose installments (repayments) are either past due or not at all.

- The borrower has filed for or was declared bankrupt.
- The borrower is now unreachable.
- Financial mismanagement.
- The project is not yet operational or is not practical for operation.
- The Letter of Credit, Guarantee, and other potential liabilities have not been settled ninety days following the loan's conversion to a forceful arrangement.
- Loan supplied to blacklisted person, firm.
- The loan is given in exchange for subpar collateral, which is collateral whose market value is less than the total amount owed.
- Purchased and discounted bills are not paid off within ninety days of the due date.
- The borrower filed two separate financial reports for the same fiscal year.

Directive No. 2 (4): Additional Agreement in Respect of "Term" Loan

Regarding term loans, the categorization will be based on the past due time of past due installments and will be applied to the total amount owed.

Loan Loss Provision

Based on the outstanding loans, advances, and bill purchases classified in accordance

with these guidelines, the loan loss provisions will be given as follows:

Table 1
Loan Loss Provision

S.N.	Classification of loan	Loan loss provision
1.	Pass	1%
2.	Watch List	5%
3.	Sub-standard	25%
4.	Doubtful	50%
5.	Loss	100%

Source: Nepal Rastra Bank, 2023

"General Loan Loss Provision" refers to the loan loss provision put aside for performing loans, while "Specific Loan Loss Provision" refers to the loan loss provision made aside for non-performing loans. The entire amount of such additional provisioning may be included in General Loan Provision under the supplemental capital if the banks provide for loan loss provisioning above the proportionate level required by the NRB regulations.

Directive No. 2-9 (5): Additional Provisioning in the case of Personal & Corporate Guarantee Loan

Assets equal to the personal guarantee and not claimable by anyone else must be produced if the loan is only provided as security for a corporate guarantee or personal guarantee. These loans will be categorized as mentioned above, and if they fall into the pass, sub-standard, or dubious categories, an additional 20%-point provision will be made in addition to the ordinary loan loss provision that applies to that group. Suchloan advances must be classified and prepared individually. Therefore, for the personal/corporate guarantee loan, the required loan loss provision will be 21%, 45, and 70% for the pass, substandard, and questionable categories, respectively.

Directive No. 2 (8): Rescheduling and Restructuring of Loan

Banks may only reschedule or restructure loans and advances that fall into the substandard, doubtful, or loss categories after receiving a formal plan of faction from the borrower with the following justification:

The factors both internal and external to the decline in loan quality.

- The lower level of risk inherent in the borrower/enterprise ascertained by

examining its profit and loss statement and balance sheet to project future cash flows, estimate recent cash lows, and forecast future ones, as well as evaluate market conditions.

- Proof that there is sufficient loan documentation in place
- An assessment of the management of the borrower/enterprise, with a focus on effectiveness, dedication, and adherence to strict business principles.

Directive No. 2- 9(2): Loan Loss Provisioning in Respect of Rescheduled, Restructured

- Loan loss provisioning must be provided at least 12.5% for all types of rescheduled or restructured credit, with the exception of the priority sector, if the credit comes within the pass category per NRB regulations.
- In terms of switched loans, the bank that accepts the loans must offer a loan loss provision that places the loans in the same category as previously in place.
- If insured or guaranteed priority sector credit is rescheduled, reorganized, or switched, loan loss provisioning will be made at a rate equal to one-fourth of the percentage specified in clause (a). The bank receiving the loan in order to switch banks must get verification from the bank or financial institution in question of the existing classification.

Directive No. 2 -9 (3): Provisioning Against Priority Sector Credit

Complete provisioning in accordance with standard loan loss provisions will be applied to the uninsured priority and deprived sector loans. Nonetheless, the necessary provisioning for insured loans must account for 25% of the typical loan loss provisioning percentage. In the event of insured priority/deprived sector credit, the following provisions is necessary.

Table 2

Provisioning Against Priority Sector Credit

Pass	0.25%
Watch List	1%
Sub standard	5%
Doubtful	12.5%
Loss	25%

Source: Nepal Rastra Bank, 2023

Should insured or guaranteed priority sector credit be rescheduled, reorganized, or switched, the percentage of loan loss provision would be 3.125% (i.e., 25% of 12.5%). An asset or borrower's account that has been designated by a bank or other financial organization as sub-standard, questionable, or loss asset in compliance with the asset classification rules or instructions provided by NRB is referred to as a non-performing asset. If a payment is not made within 30 days of the due date, it is considered "past due" under any credit facility. As a result of advancements in the payment and settlement systems, the state of the economy, technological advancements in the banking sector, and other factors, the decision was made to eliminate the notion of "past due," effective March 31, 2023. Thus, as of that date, an advance would be considered a non-performing asset (NPA) if:

- In the case of a term loan, interest and/or principal payments are past due for a longer than 180-day period.
- In regards to an overdraft cash credit (OD/CC), the account stays "out of order" for a duration exceeding 180 days.
- For bills that have been purchased and discounted, the bill is still past due for more than 180 days.
- Any amount due for other accounts is past due for more than 180 days.
- Interest and/or principal installments are past due for two harvest seasons.
- But not for longer than two and a half years in the case of an advance granted for agricultural purposes.

2.2 Review on Related Studies

2.2.1 Review of Related Journals/Article

Singh (2014) analyzed performance of credit risk management in Indian commercial banks. There are currently a large number of banks operating in India. From these, a few public sector banks were chosen to investigate how much credit risk management affects Indian commercial banks' profitability. The researcher took 11 years' worth of return on asset (ROA), non-performing asset (NPA), and capital adequacy ratio (CAR) data from each bank and used multiple regression models to assess the impact level. For regression analysis, the researcher had gathered data from RBI annual reports from 2003 to 2013. According to this study, credit risk was a crucial component that required careful management. Credit risk was the chance that a counterparty borrower would not

fulfill its commitments within the prearranged time frame. Hence, credit risk results from banks' transactions with or lending to corporations, which is the oldest and largest risk that is prohibited by the very nature of business.

Rahman (2018) examined the impact and efficacy of credit risk management on financial health of banks in Bangladesh: an empirical investigation. The objective of the study was to gain a deeper comprehension of credit risk management and how it affects a bank's performance, or return on equity. The clear understanding of banks' credit risk management practices and how these practices' efficacy is mirrored in the banks' financial performance serves as the study's pivot. We also used five years of data, from 2011 to 2015, to compare the NPL with the total amount of loans outstanding. Twelve banks were surveyed in order to gain more depth (6 state-owned and 6 randomly selected private commercial banks). Ten responders from each bank assisted us in gathering data. A variety of statistical procedures, including the mean, standard deviation, regression analysis, and one-way ANOVA, have been employed. The recent situation has also been demonstrated to be revealed by the trend between the NPL to loans ratio and ROE. Primary data analysis has been done using principal component analysis. The research's objective is to give stakeholders accurate information on commercial banks' credit risk management and how it affects profitability (ROE). Due to the increased uncertainty in the financial services sector, credit risk management has become essential for financial organizations, particularly banks. Compared to NBFIs, banks are the financial institution most susceptible to credit risk.

Han (2018) studied credit risk management of commercial banks in china. Credit risk management is one of the core contents of commercial bank management. The primary differentiate of commercial banks was their ability to handle risks. Credit risk is the most significant risk that commercial banks in China must deal with. China's commercial banks now have more non-performing assets than ever before, and credit risk management has become a major focus. This essay examines the causes of the credit risk that Chinese commercial banks are currently facing. Next, it calculates a commercial bank's credit risk using the KMV model. Lastly, recommendations and countermeasures for China's commercial banks' credit risk management are made.

Hamza (2018) analyzed the impact of credit risk management on performance of commercial banks in Pakistan. This study's acceptance of a fundamental research idea was made possible by the utilization of secondary data that came from KSE, government websites, and SBP publications on the banking industry survey. The effect of credit risk management on two performance metrics has been ascertained through the use of pooled regression. The results showed that bank performance and credit risk management are negatively correlated. The capital adequacy ratio (CAR), loan loss provision ratio (LLPR), liquidity ratio (LR), and non-performing loan ratio (NPLR) factors have a substantial impact on return on assets (ROA), according to an examination of ROA. The return on assets is positively impacted by the loan and advances (LAR), SIZE, and capital adequacy ratio (CAR) but negatively impacted by the loan loss provision ratio (LLPR), liquidity ratio (LR), and non-performing loan ratio (NPLR). The CAR, LAR, and LLPR factors significantly affect return on equity (ROE). The dependent variable in this model is impacted positively by the CAR, LAR, and SIZE variables and negatively by the LLPR, NPLR, and LR variables.

Bagale (2023) investigated credit risk management and profitability of commercial bank in Nepal. Effective credit risk management helps banks perform financially better by averting major problems. Profitable operations provide incentives for owners and employees to invest and work in the company. One key indicator of the bank's profitability is its handling of credit risk. Thus, the bank's profitability is significantly impacted by credit risk management. Using mean, standard deviation, correlation, and regression analysis, data were gathered from a sample of 15 commercial banks that were active in the Nepali economy between 2011 and 2020. One of the main analytical tools for panel data analysis is the pooled regression analysis model (OLS). The model design employed return on equity (ROE) as a measure of bank profitability, and credit risk management was assessed using capital adequacy ratio, cash reserve ratio, loan loss provision ratio, non-performing loan ratio, and bank size. The results show that credit risk significantly affects the profitability of Nepal's commercial banks. According to the study, the ratios of cash reserve, loan loss provision, and non-performing loans have a negligible detrimental effect on the return on equity of Nepali commercial banks. The study showed that return on equity is positively impacted by bank size and liquidity ratio. The study also shows that in Nepali commercial banks, the liquidity ratio significantly improves return on equity. Additionally, it is evident

that the capital adequacy ratio significantly reduces return on equity. Thus, this study comes to the conclusion that a key indicator of a bank's profitability is its credit risk management. As a result, the bank's capacity to control credit risk determines its profitability.

Odejide (2024) explored the theoretical frameworks in AI for credit risk assessment: Towards banking efficiency and accuracy. This study explored how theoretical frameworks in AI for credit risk assessment improve the accuracy and efficiency of banking. It talks about the use of different AI methods in credit risk assessment, including natural language processing, neural networks, and machine learning algorithms. It also looks at the opportunities and problems these frameworks bring, emphasizing how revolutionary they may be for the banking industry. transforming banking's use of credit risk assessment, Artificial Intelligence's Place in the Changing Financial Landscape: Credit risk assessment is a cornerstone for financial organizations. This procedure has historically placed a great deal of reliance on statistical models and historical data. However, the emergence of Artificial Intelligence (AI) has catalyzed a transformative shift in this domain. The theoretical foundations of AI frameworks used in credit risk assessment are explained in this study, along with their significant implications for improving the accuracy and efficiency of banking operations. The investigation starts out by outlining many AI theoretical frameworks relevant to credit risk evaluation. These novel frameworks for evaluating creditworthiness make use of machine learning algorithms, neural networks, and natural language processing techniques. AI-driven models, in contrast to traditional approaches, have the ability to absorb large datasets, recognize complex patterns, and adjust dynamically to changing market conditions. These kinds of skills enable banks to decide on lending activities in a more timely and informed manner. This study also looks at the applicability of AI techniques in assessing credit risk. It clarifies how these cutting-edge approaches help banks to minimize risks while maximizing revenue through case studies and real data. Financial organizations may better assess credit, more accurately predict who could default, and tailor loan conditions to each borrower's risk profile by utilizing AI. Furthermore, artificial intelligence (AI) makes it easier to monitor credit portfolios in real-time, enabling proactive risk management and prompt interventions to avert negative consequences.

2.2.2 Review of Thesis

Sharma (2017) studied comparative study of credit management of Nepalese commercial banks (with reference of Nabil Bank Ltd., Nepal Credit and Commercial Bank Ltd. and Nepal Investment Bank Ltd.). The researcher attempts to examine commercial banks' credit. The study's primary goals are to assess the credit offer and the percentage of non-performing assets (NPAs) in total loans, total deposits, and total assets in a chosen bank. This study reveals that banks NPL is in increasing over the study period and the most responsible factor for NPA growth are weak monitoring, less focus of lending policy while making loans and mismanagement are. The component that has the least impact on the supervision and monitoring system has been identified as the average factor, and legal provision for recovery has been shown to be the reason for an increase in non-performing assets (NPA) in Nepalese banks. Simultaneously, it has been determined that commercial banks prioritize lending their resources to the commerce sector. It is then discovered that the service industry is not given much attention.

Yadav (2018) examined the credit risk management and its impact on profitability of Nepalese commercial banks has assessed credit risk management and its impact on profitability of Nepalese commercial banks. Regression analysis, correlation, mean, and coefficient of variation were used in this investigation. Return on assets (ROA) and return on equity (ROE) have been used as indications of profitability, while the non-performing loan ratio (NPLR), capital adequacy ratio (CAR), and loan and advance to deposit ratio (LTDR) have been employed as indicators of credit risk management. The results showed that the profitability of Nepalese commercial banks is significantly impacted by credit risk management. The outcome demonstrated that the capital adequacy ratio increased banks' profits. On the other side, it was discovered that the profitability was severely impacted by the nonperforming loan ratio and the loan to advance to deposit ratio. Thus, this study came to the conclusion that a key indicator of a bank's profitability is its credit risk management. As a result, the bank's capacity to control credit risk determines its profitability.

Rai (2019) studied Credit practices of commercial banks in Nepal has analyzed the credit position of sample commercial banks. Secondary data were employed in this investigation. This study discovered that Nabil's total obligation to total assets has the

highest ratio when measuring lending strength in relative terms. The other two banks' performances, however, have not strayed too far from the combined average and the mean ratio of Nabil. Nabil has the lowest ratio of loans and advances to total assets due to its propensity to invest in government securities. The bank has offered loans and advances at a steady and substantial rate all year long. The percentage of total deposits utilized to boost bank revenue, regardless of the application portfolios, is assessed by the ratios of loans and advances and investments to deposits. The largest percentage of Nabil's total deposits have been used for earning operations; this ratio is far higher than that of the other two banks. The mean ratio of Nabil and Himalayan is significantly different from the combined ratio. This demonstrates that Nabil performs noticeably better than Himalayan in fund-raising operations. Because of its low share capital, reserves, and surplus in its capital composition, HBL has the lowest volume of net assets. However, in terms of loans and advances, HBL's contribution is far greater than its net assets. Throughout the study period, Nabil has contributed the most loans and advances overall. Nabil has 32 made the greatest contribution to the industrial and productive sectors of the economy. This analysis has also shown that Nabil has the best overall liquidity strength of all the banks. The greatest likely danger, though, is the liquidity risk brought on by the interest rate in Nabil.

Khadka (2021) investigated the impact of credit risk on profitability of commercial banks in Nepal has examined the impact of credit risk on profitability of commercial banks in Nepal. Twenty-eight commercial banks that are now in operation in Nepal made up the study's population; five of these institutions were selected as a sample. The secondary data were gathered during 2007–2008 and 2016– 17. The data were analyzed using multiple regression analysis, correlation, and descriptive statistics. The dependent variables chosen are profitability as measured by return on equity and return on assets. The following ratios are considered independent variables: capital adequacy ratio, non-performing loan ratio, loan and advance to deposit ratio, and loan loss provision ratio. The study showed that the non-performing loan ratio, which gauges credit risk, had a little detrimental effect on banks' bottom lines. The profitability of banks is also impacted by the loan to deposit and advance to deposit ratios. Additionally, the profitability of banks is significantly enhanced by the capital adequacy ratio and loan loss provision ratio.

Sharma (2022) explored the impact of credit risk on profitability of commercial banks in Nepal has examined the impact of credit risk on profitability of 33 twenty-six public sector banks. Secondary data were gathered during a six-year period, from 2011 to 2016, including journals, websites, Reserve Bank of India reports, and Indian Banks Association reports. Multiple Regression is the data analysis method employed in this study. The findings indicated that while ROA and NPLR had a negative association, there was a strong and positive link between ROA and CAR, LPNPL. ROA was significantly impacted by CAR, NPLR, and LPNPL. The credit risk indicator that predicted the bank's profitability the best was NPLR; CAR and LPNPL were not very good at doing so. Because of this, banks should concentrate on credit risk management to lower non-performing loan levels and increase profitability.

Rana (2022) examined the impact of credit risk management on the profitability of selected commercial banks in Nepal has tried to find out how the credit risk management affects the profitability in the seven sample selected commercial banks using a balanced panel data from 2013-2018 and 35 observations have been used for the analysis. The main objective of the research was to characterize how credit risk management affected the profitability of Nepal's seven commercial banks. The study solely employed a quantitative methodology, concentrating on describing the SPSS results and doing empirical analysis using a regression model. The researcher classified loan loss provision, liquidity, operating inefficiency, loan growth, and capital adequacy ratio as credit risk management indicators in the model, and ROE as a profitability indicator. The findings of the regression analysis showed that the profitability of banks (Return on Equity) is positively and statistically significantly impacted by loan growth, operating inefficiencies, and loan loss provision. Ultimately, the findings show that the banks' return on equity was negatively yet statistically significantly correlated with liquidity and capital adequacy.

Bhattarai (2023) analyzed impact of credit risk management on profitability of Nepalese commercial banks has investigated how credit risk management impact on the profitability of commercial banks of Nepal. Therefore, the primary objective of this research is to evaluate how risk management affects Nepal's commercial banks' profitability. This study specifically aimed to determine the financial performance indicators of Nepalese commercial banks and the correlation between risk management

variables and financial performance indicators. Multiple 34 regression analysis and correlation were used in this investigation. The results showed that the profitability of Nepalese commercial banks is significantly impacted by credit risk management. The findings indicated that bank size, capital adequacy ratio, and coverage ratio all positively affect profitability. Conversely, it has been discovered that the non-performing loan ratio, the leverage ratio, and the presence of female board members adversely affect bank performance. Nevertheless, it was found that the cash reserve ratio, asset quality, and liquidity ratio had no discernible effects on the profitability of the bank.

Shrestha (2024) studied the impact of credit risk on profitability of commercial banks in Nepal has tried to find out credit risk management affect in the selected bank. Secondary data was gathered from commercial banks of Nepal for ten year periods (2012/13-2021/22). This study used correlation and multiple regression analysis to analyze the data. This study shows that the credit risk position in terms of non-performing loan ratio of SBI performing best or maintaining their NPLs perfectly among them which shows SBI has lowest credit risk among them. Profitability position in terms of ROA, NABIL could manage their overall operations due to highest ratio among them. However, NABIL the best or most effective management in earning profit among them. Moreover, it can be said that NABIL is generating more income and making progressive performance among them due to the highest ROE. The correlation analysis reveals that cash reserve ratio (CRR) has insignificant negative relation with ROA and insignificant positive relation with ROE. Likewise, there is insignificant positive correlation between credit to deposit ratio (CDR) and ROA and significant positive relationship with ROE. However, non-performing loan ratio has insignificant negative relationship with ROA and ROE. Then, leverage ratio has insignificant negative relationship with ROA but significant positive relationship with ROE. Finally, bank size has insignificant negative relationship with ROA and significant negative relationship with ROE of the banks. The multiple regression analysis shows that cash reserve ratio has insignificant negative effect on profitability (ROA and ROE) of the banks. However, credit to deposit ratio has significant positive impact on profitability. At the same time, non-performing loan ratio and bank size have insignificant negative impact on profitability of the sample banks. Finally, leverage has significant negative impact on profitability (ROA and ROE) of the banks.

2.3 Research Gap

The term "research gap" refers to the gap between present research and previous research. Several experts, researchers, and students have done numerous studies on debt management. More extensive research and modifying of important variables are required to be more definitive regarding loan management, as the study (i.e., the studies discussed above) provides only limited results. The study project's purpose is very different from the inquiries conducted by those mentioned earlier. There is a research gap between the current and previous research in terms of fiscal years, time periods, and sample banks. This study includes a number of methods, including ratio analysis, correlation analysis, coefficients of variation, t-statistics, and trend analysis, which were not utilized in previous studies. However, this research focuses on loan management at two Nepalese commercial banks, Siddhartha Bank Ltd. and Everest Bank Ltd. Previous research had a clear-cut loan computation and were unable to include total credit standards and credit procedures in Nepalese perspective when creating those studies. It will clear present principles, ideas, and current information on SBL and EBL loan management.

2.4 Theoretical Framework

The theoretical framework is intended to update and improve on the current concepts in order to account for the changes. The theoretical framework of this study illustrates the relationship between the independent and dependent variables. The conceptual framework indicates a direct relationship between the independent variables (Loan Loss Provision, Non-Performing Loan, and Deposit) and the dependent variable (Profitability: Net Profit).

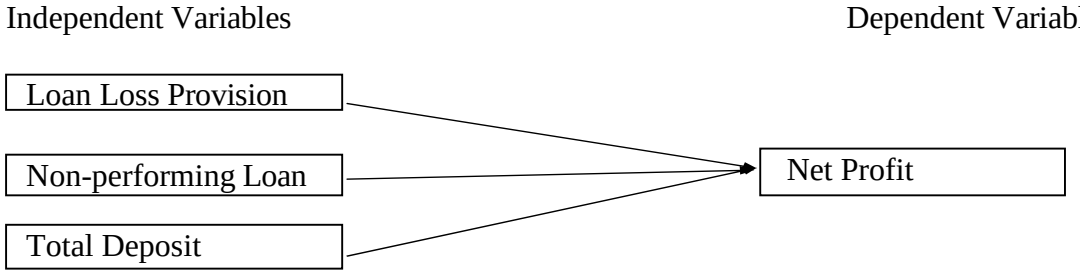

Figure 1: Theoretical Framework

Source: Singh, (2014)

CHAPTER - III
RESEARCH METHODOLOGY

A methodical approach to tackling the research topic is known as research technique. In other terms, research methodology specifies the procedures and techniques used during the entire study. So, research methodology includes some steps or process which helps to make complete and essential analysis. It contains sequential steps which a researcher applied during the research study for fulfilling its objectives with the help of logical evidences and various statistical tools, the predetermined objectives of the research study can be analyzed and related problem can be solved.

3.1 Research Design

A strategy for the collecting and analysis of data is known as a research design. Being an academic research, the purpose of this research is to answer the queries raised and control the variances. Descriptive and causal research design, a fact finding approach, is followed for accessing the loan management of EBL and SBL. And to analyze the causal relationship between the variables correlation analysis techniques is applied for determining the relationship of net profit with loan and advance, total deposit and non-performing loan.

3.2 Population and sample

The term "population" refers to institutions of the same kind that offer universal products and services. A sample is a collection of items or elements from the population. As this research aims at studying the loan aspect of the commercial bank taking the reference of EBL and SBL and data have been analyzing for several years of its operation. Here, all together 20 commercial bank are population of the study EBL and SBL have been selected as sample for the present study.

3.3 Nature and Sources of Data

In order to achieve the objectives of the study, secondary data collection procedure has been adapted. The secondary sources of data are the information received from reports, books, newspaper, journals etc. The major sources of secondary data are annual report of EBL and SBL, bulletin and reports of concerned bank, materials published in

newspaper and magazines, other related journals, periodicals, books and booklets and website of concerned banks.

3.4 Method of Data Analysis

To make the study more specific and reliable, the researcher uses two types of tool for analysis.

a) Financial Tools
b) Statistical Tools

3.4.1 Financial Tools

Finding a correlation between the items in the profit and loss account and balance sheet and the firm's financial strength and weakness is known as financial analysis. Numerous ratios that reflect the term "loan" are evaluated in order to show the outcome of managing or controlling loans. There are two categories for the ratios used to evaluate loans.

i) Liquidity Ratios
ii) Activity / Efficiency Ratios

A. Liquidity Ratio

The firm's capacity to meet its current obligations is gauged by liquidity ratios. It displays the company's immediate financial health. It is a gauge of how quickly a bank can turn its assets into cash in order to pay for withdrawals from deposits and other immediate needs. A bank has to make sure that it does not have too much liquidity or too little liquidity. The two liquidity conditions do not support the bank's position. Liquidity ratios assesses the following ratios:

- **Balance with NRB to Total Deposit Ratio**

The central bank of Nepal, known as Nepal Rastra Bank (NRB), oversees all commercial banks. The NRB has mandated that the commercial bank hold a specific portion of their total deposit as reserves in order to facilitate the smooth operation of the bank. This is specifically done to keep commercial banks strong in terms of their liquidity position. The ratio is calculated by using the following formula.

$$\text{Balance with NRB to Total Deposit Ratio} = \frac{\text{Banalce with NRB}}{\text{Total Deposits}}$$

Liquid Funds to Total Deposit Ratio

This ratio is designed to see what portion of total deposits accepted by commercial bank is kept as liquid funds. This ratio is calculated by dividing total liquid fund by total deposit and formula is:

$$\text{Liquid Fund to Total Deposit Ratio} = \frac{\text{Liquid Fund}}{\text{Total Deposits}}$$

Cash and Bank Balance to Total Deposit Ratio or Cash Reserve Ratio

Cash and Bank Balance are the most liquid current assets. The ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. Mathematically it is expressed as;

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

Hence, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic and abroad banks whereas the total deposit include current deposit, saving deposits, fixed deposit, money at call and short term notice and other deposits.

B. Activity / Efficiency Ratios

This ratio has been applied to assess the effectiveness of managers and the appropriate use of resources in loan management. Every bank must manage risk and lower the risk associated with deposits. The credit activity efficiency of Everest Bank Limited and Siddhartha Bank Limited has been analyzed using the following ratios.

Loan and Advance to Total Deposit Ratio

The ratio is computed to determine which banks can use their whole deposit base for advances and loans in order to turn a profit. By dividing loan and advances by total deposits, one can determine this ratio, which is expressed as;

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposits}}$$

Loan and Advance to Total Assets Ratio

Loans and advances make up the majority of a bank's overall assets. The amount of loans and advances relative to total assets is shown by this ratio. A high degree of the ratio suggests that the bank has been successful in allocating its capital through lending. But there is always a chance of default when lending money. Consequently, a low ratio indicates low production with a high degree of liquidity safety, and a high ratio indicates inadequate liquidity.

$$\text{Loan and Advance to Total Assets Ratio} = \frac{\text{Loan and Advance}}{\text{Total Assets}}$$

Loan loss Provision to Total Loan and Advances Ratio

The growing likelihood of a non-performing loan is reflected in the provision for loan loss. A higher loan loss provision reduces earnings and, as a result, dividend payments. However, by lowering the risk associated with deposits and managing credit risk, it improves the banks' financial standing. The low ratio suggests that the assets in the overall volume of loans and advances are of high quality. A high ratio in the overall number of loans and advances denotes riskier assets.

$$\text{Loan Loss Provision to Total Loan and Advance Ratio} = \frac{\text{Loan Loss Provision}}{\text{Loan and Advance}}$$

Non-performing Loan to Loan and Advance Ratio

All commercial banks have been instructed by the NRB to set up loan loss provisions for questionable and bad debts. This ratio aids in credit control and reduces the amount of non-performing loans.

$$\text{Non-performing Loan to Loan and Advance Ratio} = \frac{\text{Non-performing Loan}}{\text{Loan and Advance}}$$

Loan loss Provision to Non-performing Loan

The forcing factor in lending practices is loan loss provision, and the bad factor in banks is non-performing loans. Should they be high, they will reduce the profit margin that the bank is hoping to make. The percentage of provisional loans that are non-performing loans is measured by this ratio. Since loans are required to make provisions, this is the part that is required. Rather, the differential isn't good enough to produce a healthy return when compared to non-performing loans.

$$\text{Loan Loss Provision to Non-performing Loan} = \frac{\text{Loan Loss Provision}}{\text{Non-perfroming Loan}}$$

3.4.2 Statistical Tools

In order to measure the association between two or more variables, a statistical instrument is necessary. The study and interpretation of the performances of the organizations are made easier by the application of mathematical tools. Presenting the data and illustrating the relationship, deviation, or variations among the organizational factors is also helpful. Several statistical tools are employed in this research study to provide more accurate data analysis. These are listed below.

Arithmetic Mean

The simple mean, or arithmetic mean, of a set of data is calculated by dividing the total number of observations by the sum of all the observations. The arithmetic average of a variable is the best value that represents the group as a whole. The series' arithmetic mean is determined by:

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

Where,

$\bar{X}$ =Sum of the variables ‘x’

N = No. of Observation

Standard Deviation

Since the standard deviation met the most of the requirements for a good measure of dispersion, it is the absolute measure of dispersion in which the drawback appears in other measures of dispersion. The positive square root of the mean, or the square of the variation taken from the arithmetic mean, is the definition of the standard deviation. The ranges and magnitudes of deviations from the mean or center are included. It gauges the dispersion in absolute terms. The variability will increase with a higher standard deviation and vice versa. Dispersion quantifies how much the data deviate from the central value. Put differently, it is beneficial to examine the data's quality in terms of its variability. It is calculated as;

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

Where,

n= the size of the population

X= each value from the population

$\bar{X}$= the population mean

Coefficient of Variation (CV)

The standard deviation represents the dispersion in absolute terms. The measurement of the coefficient of standard deviation is the relative measure of dispersing depending on the standard deviation. Coefficient of variation is the percentage measure of co-efficient of so. More homogeneity and consistency with fewer CVs, and vice versa. Not only is the standard deviation inappropriate for comparing two sets of variables, but the CV can also compare two sets of variables separately according on how variable they are. It is computed as follows:

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

Correlation Coefficient

The relationship between the independent and dependent variables is known as the correlation coefficient. It is a technique for ascertaining how these two variables are related to one another. It is considered to have a correlation coefficient if the two variables are so related that changes in the independent variable's value also affect changes in the dependent variable's value.

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

Where,

r = coefficient of correlation

ΣXY = Sum of product of two series.

ΣX^2 = Sum of squared in X series

ΣY^2 = Sum of squared in Y series

n = number of years

This coefficient's value can never be less than -1 or greater than + 1. Therefore, the limits of this coefficient are + 1 and -1. A correlation between variables that is perfectly positive is shown by a r value of +1, and vice versa. Zero also indicated no association.

Coefficient of Determination

The degree of linear association or correlation between two variables, one of which happens to be independent and the other to be dependent, is measured by the coefficient of determination (s). It quantifies the degree of association between the two variables, or the percentage of total variance in dependent variables that can be accounted for by an independent variable or variables. The definition of the coefficient of determination is;

$$r^2 = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

The value of coefficient of (multiple) determination ranges from zero to one.

t-Statistics

For this study, t-test for significance of an observed and sample correlation.

Coefficient is use. Set up Hypothesis.

Null hypothesis (H_0); ρ =0 i.e. There is no correlation between the considered variables.

Alternative Hypothesis ($H_{1)}$; $\rho \neq 0$ i.e. There is significant correlation between the considered variables.

Test statistic under H_0;

$$T=\frac{r}{\sqrt{1-r2}} \times n\text{-}2$$

Where, r = Sample correlation between two variables

r^2 = Coefficient Determination

n = No of pair of observations

Level of significance: Level of significance a = 5%

Critical Value: Tabulated or critical value of t at a % level of significance for (n-2) degree of freedom obtain from 't' tables.

Decision: If calculated 't' is less than or equal to tabulated value of 't' it falls in the accepted region and the null hypothesis is accepted and if calculated 't' is greater than tabulated 't' null hypothesis is rejected.

Trend Analysis

A time series is a collection of statistical data that has been organized according to the time at which each event occurred. It is one of the statistical methods that shows how

the financial condition has improved or deteriorated. It aids in estimating the variables' future values. The process of extracting as much information as possible from a gathered figure is called time series analysis.

$Y= a+ bx$

Where,

Y = trend value or dependent variables

a = Y intercept

b = Slope of trend line of the amount of change in Y variables that is an associate with change in 1 unit in X variable

x = Time variable

Graphical Representation

Diagrams and graphs are visual aids that give a bird eye view of the given set of numerical data. They represent the data in simple and readily comprehensive form. Here various bar diagrams, pie charts and graphs have been used for presentation and analysis of data.

CHAPTER - IV
PRESENTATION AND ANALYSIS OF DATA

This chapter presents and evaluates data in a systematic way. The data used for the analysis comes from secondary sources. To derive actual outcomes from the analysis of data, appropriate statistical and financial instruments such as those provided in the study methodology chapter were applied. The chapter comprises two main parts. The first section of the chapter contains the presentation and evaluation of data, while the second section includes the primary results of the investigation.

4.1 Financial Analysis

Ratio analysis is the process of figuring out and comprehending financial ratios to assess the health and performance of a business. The company's income and expense statement and balance sheet for the relevant periods serve as the fundamental inputs for ratio analysis. In order to assess Siddhartha Bank Ltd. and Everest Bank Ltd.'s loan management, the study looks at the following ratios.

4.1.1 Liquidity Ratio

The ability of the company to pay its current debts is gauged by the liquidity ratio. In order to meet the credit needs of the community, pay maturity obligations on time, meet demands for deposits and withdrawals, and meet short-term needs without endangering long-term profitability, a commercial bank must maintain a sufficient liquidity position. In actuality, it evaluates liquidity needs, which is helpful for creating cash flow statements and budgets.

4.1.1.1 Balance with NRB to Total Deposit Ratio

Nepal Rastra Bank (NRB), the central bank, regulates all commercial banks. In order to ensure the effective functioning of commercial banks, the NRB has compelled them to keep certain percentages of their total deposits as reserves. This is done mainly for maintaining commercial banks' liquidity positions.

Table 3
Balance with NRB to Total Deposit Ratio (Rs in million)

Fiscal Year	SBL			EBL		
	Balance with NRB	Total Deposit	Ratio (%)	Balance with NRB	Total Deposit	Ratio (%)
2018/19	6037	122530	4.92	23305	130177	17.9
2019/20	9507	145950	6.51	19973	144728	13.8
2020/21	7740	185200	4.17	28838	160899	17.92
2021/22	5730	196483	2.91	11105	173472	6.4
2022/23	9000	228568	3.93	13933	199227	6.99
Mean			4.49			12.60
S.D.			1.19			5.05
C.V.			26.50			40.07

Source: Appendix- I and II

The balance with NRB to total deposit ratio of the EBL and SBL is displayed in table 3. The ratio of SBL ranges the highest of 6.51 percent in the fiscal year 2019/20 and the lowest of 2.91 percent in the fiscal year 2021/22. Similarly, the ratio of EBL ranges the highest of 17.92 percent in the fiscal year 2020/21 and the lowest of 6.40 percent in the fiscal year 2021/22. Compared to EBL, which has a mean ratio of 12.60 percent, SBL has a mean ratio of 4.49 percent. It shows that EBL has outperformed. It indicated that EBL maintain stronger liquidity position & Smooth Functioning for operating risk than SBL. The standard deviation, which measures variance in ratios, is 5.05 for EBL and 1.19 for SBL. The concept is that EBL has ratio variation is greater than SBL Similarly, CV evaluates the consistency of the ratios; SBL has a lower CV of 26.50 percent than EBL, or 40.07 percent, showing that it is more uniform in the ratio.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Total deposits include current deposits, savings deposits, fixed deposit money at call at short notice, and other deposits. This ratio indicates the proportion of total deposits held compared the most liquid assets. A high ratio denotes a strong liquidity position of the bank, but a very high ratio is unfavorable because it does not generate enough profit to pay for the high interest. This ratio can be calculated by dividing the cash bank balance by total deposits.

Table 4
Cash and Bank Balance to Total Deposit Ratio (Rs.in million)

Fiscal Year	SBL			EBL		
	C&BB	Total Deposit	Ratio (%)	C&BB	Total Deposit	Ratio (%)
2018/19	11848	122530	9.66	30274	130177	23.25
2019/20	14528	145950	9.95	26310	144728	18.17
2020/21	13716	185200	7.4	36291	160899	22.55
2021/22	13568	196480	6.9	21482	173472	12.38
2022/23	13158	228568	5.75	27733	199227	13.92
Mean			7.93			18.05
SD			1.62			4.39
CV			20.42			24.34

Source: Appendix- I and II

The sample bank's cash and bank balance to total deposit ratio changed over the course of the study period, as shown by table 4. The fiscal year 2019/20 had the greatest SBL ratio of 9.95 percent, while the fiscal year 2022/23 had the lowest ratio of 5.57 percent. At the same time, the EBL ratio reaches its maximum of 23.25 percent during the 2018/19 fiscal year and its minimum of 12.38percent during the 2021/22 fiscal year. Compared to EBL, which has a mean ratio of 18.05 percent, SBL has a mean ratio of 7.93 percent. Although the ratio is quite high, it means that higher ratio, higher the liquidity position of bank. Here above analysis EBL has higher liquidity position than SBL.EBL has a strong position than SBL. EBL strong liquidity position is not balanced by the bank, as it fails to produce enough profit to cover the high interest rate. According to the analysis, both banks must maintain a variable cash reserve ratio in order to comply with NRB regulations. The variance of the ratios is measured by the standard deviation, which is 4.39%for EBL and 1.62 %for SBL. The idea is that EBL ratio variation is greater than SBL. Similar to how CV measures consistency between ratios, it is discovered that SBL has a more uniform ratio due to its lower CV of 20.42 percent than EBL i.e. 24.34 percent

4.1.1.3 Total Liquid Funds to Total Deposit Ratio

Liquid funds include cash and bank balances, balances with banks and other financial institutions, and money at call and short notice. This ratio is used to determine how much of the total deposits accepted by commercial banks is kept as liquid funds. This ratio is calculated by dividing total liquid funds by total deposits.

Table 5
Liquid Funds to Total Deposit Ratio (Rs.in million)

Fiscal Year	SBL			EBL		
	Liquid Funds	Total Deposit	Ratio (%)	Liquid Funds	Total Deposit	Ratio (%)
2018/19	5743	122530	4.68	6968	130177	5.35
2019/20	5022	145950	3.44	5616	144728	3.88
2020/21	5876	185200	3.17	6153	160899	3.82
2021/22	7428	196480	3.78	7076	173472	4.07
2022/23	11553	228568	5.05	8246	199227	4.13
Mean			4.02			4.25
S.D.			0.72			0.56
C.V.			17.92			13.17

Source: Appendix- I and II

Table 5 shows the liquid fund to total deposit ratios for the EBL and SBL. The SBL has highest ratio passes from 5.05 percent in 2022/23 to3.17 percent in the fiscal year 2020/21. Similarly, the EBL ratio varied from 5.35 percent in fiscal year 2018/19 to 3.82 percent in fiscal year 2020/21. SBL had a lower mean ratio 4.02 percent in compared to EBL indicate 4.25 percentage. It indicates that EBL has much more liquid money per total deposit than SBL. SBL and EBL have standard deviations of 0.72 and 0.56, respectively, which measure ratio fluctuation. It means that EBL has higher variation ratios than SBL. SBL has a higher CV 17.92 percentage in compared to EBL that is 13.17, indicating greater consistency in ratios.

4.1.2 Activity/Efficiency Ratios

The activity ratio was used to assess asset usage and managerial effectiveness. All of the factors are included in the loan and advance to total deposit ratio, loans and advances to total assets ratio, loan loss provision to loans and advances ratio, non-performing loan to loan and advance ratio and loan loss provision to non-performing loan ratio etc.

4.1.2.1 Loans and Advances to Total Deposit Ratio

This ratio analyses whether or not a bank is successful in handling its total deposit on loans and advances for the purpose of generating income. A high ratio shows improved mobilization of collected deposits, and vice versa. However, it should be focused that a high ratio may not be optimal in terms of liquidity. Loan and advance include loans, advances, bill purchases, and bill discounts. These are the primary areas of fund

mobilization. Loans and Advances to Total deposit ratio indicate the firm's fund mobilizing power in gross.

Table 6
Loan and Advance to Total Deposit Ratio (Rs.in million)

Fiscal Year	SBL			EBL		
	Loans & advances	Total Deposit	Ratio (%)	Loans & advances	Total Deposit	Ratio (%)
2018/19	108610	122530	83.23	112006	130177	77.11
2019/20	127500	145950	84.63	119068	144728	78.44
2020/21	165650	185200	87.65	135174	160899	78.76
2021/22	186090	196480	88.31	155053	173472	77.87
2022/23	190872	228568	83.50	167555	199227	76.93
Mean			88.73			85.16
SD			3.61			2.42
CV			4.06			2.84

Source: Appendix- I and II

Both the bank's loan and advances to total deposit ratio exhibit a variable tendency, as seen by Table 4.4 and Figure 4.4. At 88.31 percent in the Fiscal year 2021/22, SBL has the highest ratio, while the lowest ratio is 83.23 percent in the fiscal year 2018/19. Comparably, the EBL has greatest ratio, recorded in the fiscal year 2019/20 is 78.76 percent in fiscal year 2019/20, while its lowest ratio recorded in the Fiscal year 2022/23 is 76.93 percent. The mean ratio of SBL is 88.73 percent, higher than the mean ratio of EBL, which is 85.16 percent. It can be argued that SBL is more successful than EBL in mobilizing all of its deposit as loans and advances while generating a high profit. The standard deviations for SBL and EBL are 3.61 and 2.42 respectively. It indicates that EBL is low-risk. It means that SBL has higher variation ratios than EBL. Similarly, CV evaluates the consistency of the ratios, and it is discovered that SBL is more uniform in the ratio than EBL because EBL has a lower C.V of 2.84 percent than SBL, whereas 4.06 respectably.

4.1.2.2 Loans and advances to Total Assets Ratio

Loans and advances represent a large portion of the bank's overall assets. This ratio indicates the volume of loans and advances out of the total assets. A high ratio indicates that the bank had the ability to raise funds through the lending function. However, lending always involves a possibility of default. As a result, a high ratio shows poor liquidity, whereas a low ratio denotes low production with a high level of liquidity safety. The table below highlights SBL and EBL's total loans and advances, as well as their total assets.

Table 7

Loan and Advance to Total Assets Ratio (Rs. in million)

Fiscal year	SBL			EBL		
	Loan and Advance	Total Assets	Ratio (%)	Loan and Advance	Total Assets	Ratio (%)
2018/19	108610	154031	70.51	112006	170078	65.86
2019/20	127500	170585	74.74	119068	185024	64.35
2020/21	165650	229068	72.31	135174	212336	63.84
2021/22	186090	264327	70.4	155053	225211	68.84
2022/23	190872	285977	66.74	167555	250090	66.99
Mean			70.94			65.94
S.D.			2.63			1.85
C.V			3.70			2.80

Source: Appendix- I and II

Table 7 shows the ratio of total loans and advances to total assets in five years for the sample commercial banks. SBL loan and advance to total assets ratio has ranged from 74.74 percent in fiscal year 2019/20 to 66.74 percent in fiscal year 2022/23. Similarly, the EBL ratio is highest at 68.84 percent in fiscal year 2021/22 and lowest at 63.84 percent in fiscal year 2020/21. SBL mean ratio is 70.94 percent, which is lower than EBL 65.97 percent. It may be stated that SBL mobilizes funds better as loans and advances, and it appears to be more successful at achieving greater ratios than EBL. SBL and EBL had standard deviations of 2.63% and 1.85% respectively, indicating fluctuation in the ratios. It indicates that EBL has higher variation ratios than SBL. Similarly, CV evaluates the consistency of the ratios, and it is discovered that SBL is more uniform in the ratio because it has a lower CV of 3.70 percent than that of EBL, which is 2.80 percent.

4.1.2.3 Loan Loss Provision to Loan and advances Ratio

The provision for loan loss shows a rising probability of non-performing loans. An increase in loan loss provision reduces its earnings, resulting in a decline in dividends. But one of the benefits is that it improves bank financial circumstances by reducing credit risk and deposit risk. A low ratio indicates that the assets in total loans and advances are of outstanding quality. Higher ratios depend higher-risk assets in the overall value of loans and advances.

Table 8

Loan Loss Provision to Loan and Advance Ratio (Rs. in million)

Fiscal year	SBL			EBL		
	LLP	Loan & Advance	Ratio %	LLP	Loan & Advance	Ratio %
2018/19	533	108610	0.49	1265	112006	1.12
2019/20	1046	127500	0.82	1814	119068	1.52
2020/21	794	165650	0.47	2076	135174	1.53
2021/22	1111	186090	0.59	2402	155053	1.54
2022/23	1997	190871	1.04	3173	167555	1.89
Mean			0.68			1.52
SD			0.21			0.24
CV			30.88			15.78

Source: Appendix- I and II

The loan loss provision to total loan & advance ratio for specific commercial banks on the five-year study period is highlighted in Table 8. The fiscal year 2022/23 had a highest SBL ratio of 1.04%, and the fiscal year 2020/21 had the lowest ratio of 0.47 %. SBL had a mean ratio of 0.68%. In the same way, EBL strongest percentage is 1.89% in 2022/23 and its lowest percentage is 1.12 % in 2018/19. The EBL mean ratio is 1.52%. The average loan loss provision to total loan ratio for SBL is lower than that of EBL. EBL has a large sum amount to made for provision for loan losses. As a result, EBL has been unable to generate a profit on an average basis. However, both banks may be managed and brought down to below 5% by carefully handling loans in the final year. By measuring coefficient of variation, EBL is more uniform because it has a lower CV of 15.78% than SBL, which is 33.88.%.

4.1.2.4 Non-Performing Loans to Loan and Advance Ratio

Non-performing assets (sometimes known as non-performing loans). It can be defined as the bank's nonproductive assets. In other words, it refers to loans, bad debts, and doubtful commitments that are not paid on time. The NPL to total loan advance ratio shows how much of the loan and advances are non-performing assets. The NRB has ordered all commercial banks to establish loan loss provisions against doubtful and bad debts. This ratio helps minimize non-performing loans and control credit.

Table 9

Non-performing Loans to Loan and Advance Ratio (Rs. in million)

Fiscal year	SBL			EBL		
	NPL	Loan & Advance	Ratio %	NPL	Loan & Advance	Ratio %
2018/19	819	108610	0.75	178	112007	0.15
2019/20	1754	127500	1.37	265	119069	0.22
2020/21	1649	165650	0.99	158	135175	0.11
2021/22	1996	186090	1.07	183	155054	0.11
2022/23	3831	190871	2.007	1331	167556	0.79
Mean			1.24			0.28
SD			0.43			0.25
CV			34.67			89.28

Source: Appendix- I and II

Table 9 depicts that the non-performing loan to loan and advance ratio over the five-year study period. The ratio of SBL ranges the highest of 2.007% and the lowest is 0.75% in FY 2022/23 and FY in 2018/19 respectively. Likewise, the ratio of EBL is the highest of 0.79% and the lowest of 0.11% respectively in FY 2022/23and 2021/22. The mean ratio of SBL and EBL are 1.24% and 0.28% respectively. EBL has the lower ratio than SBL. That’s why, SBL performing good or maintaining their NPLs perfectly than EBL. By measuring coefficient of variation, SBL is more uniformity since it has less CV 34.64% than EBL with CV of 89.28%.

4.1.2.5 Loss Provision to Non-Performing Loan Ratio

Loan loss provision is the compulsion component of lending methods, and non-performing. The loan is the bad component in banks. If they are high, could they reduce the amount of profit the bank expects to receive? This ratio represents the proportion of provided loans that are non-performing. Loan loss provisions have to be made on all loans which do not influence the bank's performance, but non-performing loans do not result in a sound profit.

Table 10

Loan Loss Provision to Non-performing Loan Ratio (Rs. in million)

Fiscal year	SBL			EBL		
	LLP	NPL	Ratio %	LLP	NPL	Ratio %
2018/19	533	819	65.07	1265	178	710.67
2019/20	1046	1754	59.63	1814	265	684.95
2020/21	794	1649	48.15	2076	158	1313.92
2021/22	1111	1996	55.66	2402	183	1313.56
2022/23	1997	3831	52.12	3173	1331	238.39
Mean			56.13			852.01
SD			5.86			412.31
CV			10.44			48.39

Source: Appendix- I and II

The loss provision to non-performing loans across the five-year study period is shown in Table 10. SBL ratios range from 65.07% at the highest point to 48.15% at the lowest point in FY 2018/19 and FY 2020/21, respectively. Similarly, the EBL ratio varies, reaching a maximum of 1313.92% in 2020/21 and a minimum of 238.39% in 2022/23. For SBL and EBL, the corresponding mean loan loss provisions to non-performing loans are 56.13% and 852.01%. EBL has the higher ratio signifies that the bank is safeguarded against future contingencies but it reduces profit. But it can be said that HBL and EBL are really doing well in NPL management. By measuring coefficient of variation, SBL is more uniformity since it has less or there is no risk i.e. CV 10.44% than EBL with CV of 48.39%

4.2 Statistical Analysis

Statistical techniques including trend analysis of various variables and coefficient of correlation analysis between variables were applied in this phase of the data analysis. They are listed below.

4.2.1 Measurement of Relationship

A statistical tool for determining the link between two or more variables from a sample or population is correlation. Stated differently, it indicates the extent to which two variables are linearly reliant on each other. The degree of resemblance between two sets of figures is measured by the coefficient of correlation. Karl Pearson's method, one of several approaches to calculating coefficients of correlation, was employed in the study. The range of the correlation coefficient is always from +1 to -1. A perfect relationship between two variables is indicated when r = +1, and vice versa. r = 0 denotes the absence of a relationship between the two.

4.2.1.1 Correlation between Total Deposit and Loan and Advances

The relationship between total loan and total deposit is extremely important because it reveals the direction that the total loan will take in response to changes in the volume of total deposit. A bank will be unable to make substantial loans unless it receives adequate and sufficient deposits on a timely basis. The following table shows the correlation coefficient between total credit and total deposits, denoted by r. " r^2" is the coefficient of determination, while tcal and t tab denote the calculated and tabular values of the t-statistic at a 5% level of significance and 3 degrees of freedom, respectively. The following results are significant.

Table 11

Correlation between Total Deposit and Loan & Advance

Name of Bank	r	$_r2$	tcal.	ttab.	Result
SBL	0.9737	0.9954	17.95	3.182	Significant
EBL	0.9817	0.9637	6.22	3.182	Significant

Source: Appendix-III and IV

Table 11 shows that the coefficients of correlation between deposits and loan advances for SBL and EBL are 0.9954 and 0.9817, respectively. It shows a strong relationship between these two variables for both banks. The beneficial relationship indicated by

their correlation coefficient shows that changes in each variable take place in the same direction, i.e., an increase in total loan is supported by an increase in total deposit. The coefficients of determination (r^2) for SBL and EBL are 0.9954 and 0.9637, respectively, indicating that loan and advance account for 99.54 percent and 96.37 percent of total deposit, respectively. By testing t- statistic, the calculated value t_{cal} of SBL and EBL are17.95 and 6.22 respectively which are higher than tabulated "t" at 5 percent significance level at 3 degree of freedom for two tailed test (3.182). It indicates that correlation coefficient between loan and advances and total deposit of SBL and EBL are significant.

4.2.1.2 Correlation between Loan & Advances and Non-Performing Loan

The percentage of non-performing loans raised from the total credit provided is shown by the relationship between the total loan and total non-performing loans. This suggests the volume and chances of loans being default or not paid by the clients and they significant value or not. The correlation coefficient, indicated by r, between the total loan and the total non-performing loan is displayed in the following table. The values " r^2" denote the coefficient of determination, whereas "tcal" and "ttab" denote the computed value of t-statistic's tabulated value at the 3 degree of freedom and the 5 percent significant level, respectively. The results listed below are notable.

Table 12

Correlation between Loan & Advance and Non-Performing Loan

Name of Bank	r	r^2	tcal.	ttab.	Result
SBL	0.7649	0.5850	2.05	3.182	Insignificant
EBL	0.6864	0.4711	1.63	3.182	Insignificant

Source: Appendix-V and VI

The relationship between loan and advance can be seen in table 12, where non-performing loans for SBL and EBL are, respectively, 0.7649 and 0.6864. The correlation coefficient between SBL and EBL indicates a positive association. The non-performing loan accounts for 58.50 percent and 47.11 percent, respectively, of the loan and advance, according to the coefficient of determination (r2) of SBL and EBL, which are 0.5850 and 0.4711, respectively. The calculated values of tcal for SBL and EBL, obtained from testing the t-statistic, are 2.03 and 1.63, respectively, which are less than the tabulated "t" at the 5 percent significant level at the 3 degree of freedom for the two-

tailed test (3.182). It indicates that correlation coefficient between loan and advance and non-performing loan of SBL and EBL are insignificant.

4.2.1.3 Correlation between Non-performing Loan and Net profit

The connection between non-performing loans and the net profit of the sample bank tries to determine whether the non-performing loans and the bank's net profit are moving in the same direction or not. The following table shows the correlation coefficient between loan and advance and net profit, denoted by r. "r2" is the coefficient of determination, tcal and ttab denote the calculated and tabulated values of the t-statistic at the 5% level of significance at the 3 degree of freedom two tailed test for respectively. The following results are worth highlighting.

Table 13

Correlation between Non-performing Loan and Net profit

Name of Bank	r	r^2	tcal.	ttab.	Result
SBL	-0.7434	0.5526	-1.93	3.182	Insignificant
EBL	-0.1066	0.1136	-0.18	3.182	Insignificant

Source: Appendix-VII and VIII

Table 13 clearly highlights the relationship between the non-performing loanand net profit by the SBL and EBL are -0.7434and -0.1066 respectively. There is negative relationship of both banks. The coefficient of determination r^2 of SBLand EBL are 0.5526 and 0.1136 respectively, which indicates that 29.76 percent and 62.69 percent of non-performing loan is explained by net profit. The calculated values t_{cal} of SBL and EBL are -1.93 and -1.80 respectively which are lower than tabulated "t" at 5 percent significance level at 3 degree of freedom for two tailed test (3.182). Thus, it can be concluded that there is insignificant relation between non-performing loan and net profit of both banks.

4.2.2 Trend Analysis

Trend analysis is used to forecast future events. This analysis is really significant for business. The business world is more complex and dynamic than ever before, therefore organizations want to know what will happen. This scenario aids in the development of plans and the ability to adapt to unexpected economic shifts. As a result, this statistical tool assists corporate leaders in forecasting the future. The estimate is supported by

information or historical facts. The estimate is predicated on historical facts or knowledge. The least squares approach is one of the several techniques for trend estimation employed in this study.

4.2.2.1 Trend Analysis of Loan and Advance

Loans are the primary source of income for a bank. If it defaults, the loan portfolio may force the bank into insolvency. Here, an effort has been made to estimate the trend values of the Bank's loans and advances for the next five years from 2022/23 to 2027/28 on the basis of previous information from 2018/19 to 2022/23.

Table 14

Trend Analysis of Loan and Advance (Rs. in million)

Fiscal Year	Forecasted Loan and Advance of SBL (Y=a+bX)	Forecasted Loan and Advance of EBL (Y=a+bX)
2018/19	111121.8	108355
2019/20	133433	123063.2
2020/21	155744.2	137771.4
2021/22	178055.4	152479.6
2022/23	200366.6	167187.8
2023/24	222677.8	181896
2024/25	244989	196604.2
2025/26	267300.2	211312.4
2026/27	289611.4	226020.6
2027/28	311922.6	240728.8
Average (a)	155744.20	137771.4
Range (b)	22311.20	14708.20

Table 14 deals with the trend of total loan maintained bythe respective banks for the next five years. The table presents the forecast of the bank's total loan from till FY 2027/28. As already given by their regression equation, the average total loan maintained by the banks, SBL and EBL are 155744.20 Rs. million and Rs. 114708.2 0 million respectively, with other things remaining unchanged. However, the slope of the equation, that usually shows the rate of change in the value, reveals two same directions of the banks. Both banks i.e. SBL and EBL has a positive rate of 22311.20 Rs. million and 14708.20 Rs. million which denotes that with every unit change in the year, the value of total loan will increase by additional 22311.20 Rs. million and Rs. 14708.20 million respectively.

4.2.2.2 Trend Analysis of Net Profit

Any business's primary goal is to maximize net profit. It encourages increased investment in the sector. I advise entrepreneurs to launch innovative products and technologies. Additionally, it demonstrates management's ability to function in the specific corporate context. It also demonstrates the state of the business. Future net profit is predicted using trend analysis. Under this topic, the trend values of net profit for 5 years from 2018/19 to 2022/23 is calculated and forecasted for next 5 years 2022/2318 to 2027/28.

Table 15

Trend Analysis of Net profit (Rs. in million)

Year	Forecasted Net Profit of SBL (Y=a+bX)	Forecasted Net Profit of EBL (Y=a+bX)
2018/19	2148.8	2557.8
2019/20	2406.2	2615.9
2020/21	2663.6	2674
2021/22	2921	2732.1
2022/23	3178.4	2790.2
2023/24	3435.8	2848.3
2024/25	3693.2	2906.4
2025/26	3950.6	2964.5
2026/27	4208	3022.6
2027/28	4465.4	3080.7
Average (a)	2663.6	2674
Range (b)	257.40	58.1

Table 15 deals with the trend of net profit maintained by the respective banks for the next five years. The table presents the forecast of the bank's net profit till FY 2027/28. As already given by their regression equation, the average net profit maintained by the banks; SBL and EBL are Rs.2663.60million and Rs.2674million respectively, with other things remaining unchanged. However, the slope of the equation, that usually shows the rate of change in the value, reveals two same directions of the banks. Both banks i.e.SBL and EBL has a positive rate of Rs.257.40million and Rs.58.10 million which denotes that with every unit change in the year, the value of net profit will increase by additional Rs.257.40 million and Rs.58.10 million respectively.

4.2.2.3 Trend Analysis of Non-Performing Loan

Here, the trend values of non-performing loans have been calculated for 5 years FY 2018/19to FY 2022/23 and forecasting for the next five years till FY 2027/28. NPL

reduces and hinders the performance of bank. It also reduces the credibilityof bank. So banks have to reduce NPL to increase productivity and profitability. Trend of NPL of banks is estimated below:

Table 16
Trend Analysis of Non-Performing Loan (Rs. in million)

Year	Forecasted Non-performing Loan of SBL (Y=a+bX)	Forecasted Non performing Loan of EBL (Y=a+bX)
2018/19	756.6	212.1
2019/20	1383.2	201
2020/21	2009.8	189.9
2021/22	2636.4	178.8
2022/23	3263	167.7
2023/24	3889.6	156.6
2024/25	4516.2	145.5
2025/26	5142.8	134.4
2026/27	5769.4	123.3
2027/28	6396	112.2
Average(a)	2009.80	189.80
Range (B)	626.60	.-11.10

Table 16 deals with the trend of non-performing loan maintained by the respective banks for the next five years. As already given by their regression equation, the average non-performing loan maintained by thebanks, SBL and EBL are Rs.2009.80million and Rs.189.80 million respectively, with other things remaining unchanged. However, the slope of the equation, that usually shows the rate of change in the value. Both banks i.e. SBL and EBLhas a negative rate of Rs.626 million and Rs.11.10 million which denotes that with every unit change in the year, the value of non-performing loan will decreaseby additional Rs626 million and Rs.11.10million respectively.

4.3 Major Findings of the Study

- SBL average balance with NRB to total deposit ratio is 4.49 % lower than EBL 12.60%. It suggests that EBL has maintained a stronger liquidity position and a more efficient operating risk management than SBL. CV evaluates the constancy of the ratios. is found that SBL is more uniform in the ratio since it has lower CV of 26.50 percent than EBL i.e. 40.07 percent.
- SBL has a lower mean cash and bank balance to total deposit ratio (7.93%) compared to EBL (18.05%). It suggests that EBL has a good liquidity position,

but the very high ratio is unfavorable to the bank because it does not generate enough profit to cover the high interest. According to the report, both banks are too volatile to maintain the required cash reserve ratio under NRB directives. CV assesses the consistency of the ratios, and it is discovered that SBL is more uniform in the ratio since it has a lower CV of 20.42 percent than EBL (24.34 percent).

- SBL has a lower liquid fund to total deposit ratio (4.02%) compared to EBL (4.25%). This indicates that EBL has a larger liquid fund than SBL in terms of total deposits. The standard deviation measures the variation in ratios, and the SD of SBL and EBL are 0.72 and 0.56, respectively. It implies that SBL has higher variation ratios than EBL. Similarly, CV evaluates the consistency of the ratios, and it is discovered that EBL is more uniform in the ratio because it has a lower CV of 13.17percent than SBL, which is 17.92 percent
- The both bank's loan and advances to total deposit ratio are in fluctuating trend. The mean ratio of SBL is the higher with 88.73 percent than EBL with the mean ratio of 85.16 percent. It can be concluded that SBL is the most successful than EBL to mobilize its total deposit as loan & advances and acquiring high profit. CV measures the consistency of the ratios and it is found that EBL is more uniform in the ratio than SBL since EBL has lower C.V of 4.0 percent than EBL i.e. 2.84 percent.
- EBL has a lower mean loan and advance to total assets ratio (65.94%) compared to SBL (70.94%). It can be inferred that SBL is stronger at mobilizing funds as loans and advances, and it appears quite Successful in producing a higher ratio than EBL. The standard deviation measures the range in ratios, and the SD for SBL and EBL are 2.63 and 1.85 respectively. It means that SBL has higher variation ratios than EBL. Similarly, CV evaluates the consistency of the ratios, and it is discovered that EBL is more uniform in the ratio since SBL has a lower CV of 2.80 percent than SBL, which is 3.70 percent.
- The average loan loss provision to total loan ratio for EBL is lower than that of SBL. SBL has a large sum to set aside for loan losses. As a result, SBL has been unable to generate a profit on an average basis. However, both banks may be managed and brought down to below 5% by carefully managing loans in the final year. EBL has a lower coefficient of variation (15.78%) than SBL (30.88%), indicating greater uniformity.

- The average non-performing loan to loan and advance ratios for SBL and EBL are 1.24% and 0.28%, respectively. EBL has a lower ratio than SBL. As a result, EBL outperforms SBL in terms of NPL performance and maintenance. SBL has a lower coefficient of variation (34.67%) than EBL (89.28%), indicating greater uniformity.
- The average loan loss provision to non-performing loans for SBL and EBL is 56.13% and 852%, respectively. EBL has a greater ratio, which indicates that the bank is protected against future contingencies, but also lowers earnings. However, SBL and EBL appear to be performing admirably in terms of NPL management. By assessing coefficient of variation, SBL has greater uniformity since it has little or no risk, i.e. CV 10.44%, compared to EBL, which has CV 48.39%.
- The correlation between deposits and loan & advances of SBL and EBL are 0.9737 and 0.9817 respectively. It shows the positive relationship between these two variables of both banks. It is found that correlation coefficient between loan and advances and total deposit of SBL and EBL are significant.
- The relationship between loan and advance and non-performing loans for HBL and EBL is 0.7649 and 0.6864, respectively. The correlation coefficients for SBL and EBL suggest a negative relationship. It was found that the correlation coefficient between loan and advance and non-performing loans of SBL and EBL is insignificant.
- The association between loan and advance and net profit for the SBL and EBL is -0.7434 and -0.1066, respectively. There is a negative relationship between both banks. It can be concluded that there is no significant relationship between loan and advance and net profit for both banks.
- The average total loan maintained by the banks, SBL, and EBL is Rs.155744.20 million and Rs.137771.40 million, respectively, with other variables having been constant. Both banks, SBL and EBL, had a positive rate of Rs.22311.20 million and Rs.14708.20 million, respectively, indicating that with every change in units in the year, the value of the total loan increases by an additional Rs.22311.20 million and Rs.14708.20 million.
- The average net profit maintained by the banks; SBL and EBL are Rs.2663.60 million and Rs.267S million respectively, with other things remaining unchanged. Both banks i.e. SBL and EBL has a positive rate of Rs.257.40

million and Rs.58.10million which denotes that with every unit change in the year, the value of net profit will increase by additional Rs.257.4 million and Rs.58.10 million respectively.

- The average non-performing loan maintained by the banks, SBL and EBL are Rs.2009.80 million and Rs.189.80 million respectively, with other things remaining unchanged. However, the slope of the equation, that usually shows the rate of change in the value. Both banks i.e. SBL and EBL has a negative rate of Rs. 626.60 million and Rs. -11.10 million which denotes that with every unit change in the year, the value of non-performing loan will decrease by additional Rs.626.60 million and Rs.-11.11 million respectively

CHAPTER-V
SUMMARY CONCLUSION AND RECOMMENDATIONS

This concludes the study's chapter. This chapter provides a brief overview of the study, outlining how the loan management of SBL and EBL aims to draw conclusions and make suggestions to improve the sample banks' financial standing.

5.1 Summary

The introduction, research and methodology, conceptual framework and literature review, data presentation and analysis, summary, conclusion, and recommendations are the five chapters that make up the study. The study's first chapter's main objective is to investigate and evaluate Everest Bank Ltd.'s and Siddhartha Bank Limited's present loan management conditions. In addition, the study looks at the sample institutions' lending efficiency and liquidity. Analyzing the connections between non-performing loans, advances, deposits, and loans is the other goal in selecting banks. Furthermore, examining the trend values of different loan management indicators and profitability at Siddhartha Bank Limited and Everest Bank Limited are part of the study.

In the second chapter, relevant thesis, journals, papers connected websites, and so on are used in this investigation. Similarly, in the third chapter, research methodology refers to the study design, data sources, collecting data strategy, data collection techniques, and the tools and techniques used, etc. For this goal, a descriptive and analytical method of study was used. Out of total population of twenty commercial banks, two banks are taken as sample using random sampling method. Here two private banks EBL and SBL are selected from two private banks. There is use of annual reports and other publications derived from secondary data. Out of the whole population of 20 commercial banks, just these two have been chosen as a sample in order to accomplish the aforementioned goals. To accomplish the goals, only secondary data has been gathered and examined. The loan department and the banks' annual reports have been the primary sources of the secondary data, which was gathered during a five-year period (from the 2018–19 fiscal year to the 2022–23 fiscal year).

In the fourth chapter, data obtained from various sources is recorded systematically and presented in the appropriate forms of tables and charts, with appropriate mathematical,

statistical, financial, and graphical tools utilized for evaluating the data. Based on the before analysis, both banks have It may be defined that both Siddhartha Bank Limited and Everest Bank Limited tried to control their loans and nonperforming loans. The fifth chapter contains a summary, conclusion, and recommendation.

5.2 Conclusion

According to the study's major findings, certain conclusions can be drawn during the study period of the relevant sample banks after analyzing the financial and statistical tools on behalf of various aspects of the deposit mobilization of the SBL and EBL under consideration. It may be concluded that the sample banks' saving deposits are increasing, but their current and fixed deposits are fluctuating. From the perspective of the liquidity ratio, EBL seems to have greater capacity than SBL to satisfy its short-term commitments and select short-term financial solvency. In view of assets management side of two banks, it can be concluded that SBL is more successful in mobilizing its collected deposits as loan and advances than EBL and loan and advance to total assets is same thing. Regarding NPL and LLP, EBL has the least NPL and accordingly the least LLP than the SBL. The less orientation towards lending has made this bank successful in to have low ratio of provisioning and lower ratio of non-performing loans. SBL has higher proportion of NPL. However, the ratio of provision held to NPL of EBL is also higher than SBL

As regards statistical analysis, it can be concluded that EBL and SBL have strong synchronization between total deposit and loan & advances. Then, non-performingloan and loan & advances, non-performing loan and net profit of both banks are not significant. The trend analysis forecast the increasing rate of loan and advances and net profit of both banks in future but decreasing trend of NPL. However, a good loan management of both banks can be expected in future asthey were able to maintain continuous profit in past years.

5.3 Recommendations

Based on the major findings in the fourth chapter and the conclusions in this chapter, the following recommendations have been developed for enhancing EBL and the SBL loan management.

- EBL holds a higher cash balance with NRB than SBL. It denotes a strong liquidity position or the smooth functioning of the EBL. However, this deal cannot be profitable. But this situation cannot be favorable to earn profit. So, the bank should try to reduce cash balance with NRB.
- EBL has a stronger liquid fund to total deposit ratio than SBL. EBL has low liquidity risk, however investing in liquid funds produces relatively low returns. That is why EBL should evaluate bank management, liquidity, and capital strategies in terms of profitability.
- The ratio of cash SBL. It indicates that EBL has idle cash and bank balance. This may diminish the bank's overall profit. As a result, it is advised that EBL take part its idle cash and bank balance in the productive sector.
- Successful banks use depositors' money for loans and advances. Loans and advances are the bank's greatest asset on the balance sheet, and while risky, they boost profitability. In comparison to SBL, EBL has a low loan and advance ratio. It is advised that EBL expand its lending proportion with the objective of generating profits.
- Commercial banks have to keep a loan loss provision depending on the nature of loan. A bigger loan loss provision may have a negative impact on the bank's performance. EBL has a greater ratio of loan loss provision to non-performing loans than SBL. That is why EBL is recommended to reduce this ratio in any way possible.
- EBL has a lower non-performing loan to loan and advance ratio than SBL. As a result, EBL is doing well or maintaining its NPLs more effectively than SBL, showing that EBL has a lower credit risk. As a result, it is recommended that SBL use more caution and realistic when making loans and advances. After providing loans, there should be regular supervision and follow-up to guarantee that the loans are properly utilized.
- There is highly positive correlation between the Total deposit and loan and advances of EBL and SBL. So it is recommended for the banks under study especially for EBL to increase their total deposit to make more loan and advances, since correlation between the Total deposit and loan and advances of SBL is much higher compare to EBL.
- Trend analysis shows that loan & advance and net profit amount of SBL and EBL

will increase in future. Thus, both banks should train its employee to make them efficient and professional in credit appraisal, monitoring and proper risk management.

BIBLIOGRAPHY

Abayomi, A. A. Joseph, N. T. & Tolulope, I. G. (2017). The evaluation of credit management on the performance of small-scale enterprises in Nigeria. *International E-Journal of Advances in Social Sciences, 4*(10), 130-138.

Bagale, S. (2023). Credit risk management and profitability of commercial banks in Nepal: *International Journal of Finance and Commerce, 5*(1), 60-67.

Bhalla, V. K. (1998). *Indian financial system.* New Delhi: Anmol Publishers, India.

Bhattarai, S. (2023). *Impact of credit risk management on profitability of Nepalese commercial banks.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, TU.

Chhabra, T. N. & Taneja, P. L. (1991). *Law and practice of banking.* New Delhi: J.C. Kaur to Dhanpati Rai and Sons.

Creswell, J. W. (2023) *Research design: qualitative, quantitative and mixed method approaches.* Sage Publications.

Crosse, H. K. (1963). *Management policies for commercial banks.* New Jersey: Prentice Hall Inc.

Desai, V. (2011). *Bank management*. Mumbai: Himalaya Publishing House.

Hamza, S. M. (2018). Impact of credit risk management on banks performance: a case study in Pakistan banks. *European Journal of Business and Management, 9*(1), 2222-1905.

Han, J. (2018). Credit Risk Management of Commercial Bank in China. *Journal and Business Research Management, 4*(1), 45-54.

Imeokpararia, L. (2013). Loan management and the performance of Nigerian bank: an empercial study. *International Journal of Management, 2*(1), 2277-5846

Johnson, E. (1994). *Commercial bank's management.* New York: The Dryden Press.

Khadka, R. S. (2021). *Impact of credit risk on profitability of commercial banks in Nepal.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, TU.

Myers, C. & Brealey, R. (2003). *Principles of corporate finance*. New Delhi: McGraw-Hill.

Nepal Rastra Bank. (2023). Retrieved from https://nrb.org.np/bfr/directives/ Directives--Unified_Directives_2079-new.pdf

Odejide, O. A. (2024). Theoretical frameworks in Al for credit risk assessment: towards banking efficiency and accuracy. *International Journal of Scientific Research ,7*(01), 092-102.

Pandey, I. M. (2000). *Financial management.* New Delhi: Vikash Publishing House Pvt. Ltd.

Rahman, B. (2018). Impact and efficacy of credit risk management on financial health of banks in Bangladesh: An empirical investigation. *Scholars, Journal of economic business and management, 13*(17), 2348-8875.

Rai, J. (2019). *Credit practices of commercial banks in Nepal*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, TU.

Rana, M. (2022). *The impact of credit risk management on the profitability of selected commercial banks in Nepal*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, TU.

Sharma, D. K. (2022). *Impact of credit risk on profitability of commercial banks in Nepal.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, TU.

Sharma, P. (2017). *Comparative study of credit management of Nepalese commercial banks (with reference of Nabil Bank Ltd., Nepal Credit and Commercial Bank Ltd*. and Nepal Investment Bank Ltd.). Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, TU.

Shrestha, S. (2024). *Impact of credit risk on profitability of commercial banks in Nepal.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, TU, Kathmandu, Nepal

Singh, A. (2014). Performance of credit risk management in Indian commercial banks. *International Journal of Management of Business Research, 5*(3), 169-188.

Srivastava, R. M. & Nigam, D. (2010). *Management of Indian financial institutions*. Mumbai: Himalaya Publishing House.

Van Horne, J. C. & Achowiez, J. M. W. (1998). *Fundamentals of financial management.* New Delhi: Prentice hall of India P. Ltd.

Varshney, N. P. & Swaroop, G. (1994). *Banking law and practice*. New Delhi: Sultan Chand and Sons.

Weston, J. F. & Bringham, E. F. (2003). *Managerial finance*. USA: Holt Sunders International Editions.

Yadav, U. (2018). *Credit risk management and its impact on profitability of Nepalese commercial banks.* Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, TU.

A STUDY ON LOAN MANAGEMENT OF COMMERCIAL BANKS

By: Sharmila Ghimire

As of: Jul 3, 2024 2:36:47 PM
20,417 words - 139 matches - 9 sources

Similarity Index
15%

Mode: Summary Report

sources:

925 words / 4% - from 17-Jan-2024 12:00AM
elibrary.tucl.edu.np

893 words / 4% - from 18-Feb-2024 12:00AM
elibrary.tucl.edu.np

293 words / 1% - from 17-Jan-2024 12:00AM
elibrary.tucl.edu.np

292 words / 1% - from 16-Feb-2024 12:00AM
elibrary.tucl.edu.np

259 words / 1% - from 17-Feb-2024 12:00AM
elibrary.tucl.edu.np

177 words / 1% - from 17-Jan-2024 12:00AM
elibrary.tucl.edu.np

136 words / 1% - Internet from 11-Dec-2022 12:00AM
elibrary.tucl.edu.np

225 words / 1% - Internet from 06-Jul-2020 12:00AM
docplayer.net

119 words / 1% - from 02-Jun-2023 12:00AM
elibrary.tucl.edu.np

paper text:

i CHAPTER - I INDRODUCTION 1.1 Background of the study Most commercial banks' primary line of business is lending. Usually, the biggest asset and main source of income is the loan portfolio. It poses one of the biggest risks to the safety and soundness of banks as a result. The board and management must comprehend and be in charge of the bank's credit culture and risk profile in order to effectively manage the credit risk of the loan portfolio. They need to be fully aware of the risks that are inherent in the portfolio as well as its makeup in order to achieve this. The product mix, industry and geographic concentrations, average risk ratings, and other aggregate features of the portfolio must be understood by them. It is imperative to ensure that lending personnel follow appropriate policies, procedures, and practices that control the risks associated with individual loans and portfolio segments. For many years, the