

# **CREDIT MANAGEMENT OF COMMERCIAL BANKS IN NEPAL**

**(With Special Reference to HBL, EBL, NABIL Commercial Banks)**

## **A THESIS**

### **Submitted by**

**Prakash Chalise**

Shanker Dev Campus

Campus Roll No:-659/064

Exam Roll No:-391290/066

T.U. Registration No:- 7-2-379-5-2003

### **Submitted to**

**Research Department**

**Faculty of Management**

**Tribhuvan University**

**In partial fulfillment of the requirement for the degree of  
Master of Business Studies (M.B.S.)**

**Putalisadak, Kathmandu**

**November, 2012**

# RECOMMENDATION

This is to certify that the thesis

Submitted by

**Prakash Chalise**

Entitled

**“CREDIT MANAGEMENT OF COMMERCIAL BANKS IN NEPAL”**

**(With Special Reference to HBL, EBL, NABIL)**

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

.....  
Asso. Prof.kishor Maharjan      (Prof. Dr. Kamal Deep Dhakal)      (Asso. Prof. Prakash Singh Pradhan)  
(Thesis Supervisor)                      (Head of Department)                      (Campus Chief)

**Date: - .....**

## **VIVA-VOCE SHEET**

We have conducted the Viva-Voce examination of thesis

**Submitted by:**  
**Prakash Chalise**

Entitled

**“CREDIT MANAGEMENT OF COMMERCIAL BANKS IN  
NEPAL”**

**(With Special Reference To HBL, EBL, NABIL Three Commercial Banks)**

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

The partial fulfillment of the requirement for  
Master’s Degree in Business Studies (M.B.S.)

### **Viva-voce Committee**

Head of the Research Department : .....

Member (Thesis Supervisor) : .....

Member (External Expert) : .....

Date: - .....

## **DECLARATION**

I hereby declare that the thesis "**CREDIT MANAGEMENT OF COMMERCIAL BANKS IN NEPAL**" submitted to, Shanker Dev Campus the faculty of Management, Tribhuvan University is my original work done for the partial fulfillment of requirements for the Master of Business Studies (M. B. S.) under the supervision of Associate Prof. Kishor Maharjan of Shanker Dev Campus.

Date:-.....

**Prakash Chalise**

Shanker Dev Campus

Campus Roll No: - 659/064

T.U. Registration No:-7-2-379-5-200

## **ACKNOWLEDGEMENTS**

I would like to thank many people who have helped me and encouraged me to bring out this research work.

Firstly, I owe a debt of gratitude to my respected thesis supervisors Kishor Maharjan associate prof. of **Shanker Dev Campus** who has supported me by giving guidelines, advice and valuable suggestions and unending sympathy throughout my research work.

I would like to express my profound sense of gratitude to separated lecturer and chairperson of research department prof. Dr.Kamal Deep Dhakal and campus chief Asso.Prof. Prakash Singh Pradhan of **Shanker Dev Campus** for their valuable guideness for the preparation of this thesis.

It is my pleasure to thank my colleagues' friends Mr. Shubham paudel and Dipesh Neupane who have supported me in different ways.

Lastly,my heartiest thank goes to my family members and college staffs along with classmates who have supported me by providing consistent help and encouragement.

**Prakash Chalise**

## **TABLE OF CONTENTS**

Recommendation  
Viva-Voce Sheet  
Declaration  
Acknowledgements  
Table of Contents  
List of Tables  
List of Figures  
Abbreviations

### **CHAPTER I**

#### **INTRODUCTION**

1.1 Background of the Study	1
1.2 Credit Management	2
1.3 Introduction of Organization Under Study	3
1.4 Statement of the Problem	4
1.5 Objectives of the Study	5
1.6 Significance of the Study	6
1.7 Limitations of the Study	7
1.8 Organizational Structure of the Study	7

### **CHAPTER II**

#### **REVIEW OF LITERATURE**

2.1 Theoretical Review of Credit Management	9
2.1.1 Financial Analysis	11
2.1.2 Statistical Tools	16
2.2 Factors Affecting Credit Policy	16
2.3 Review of Related Studies	17
2.3.1 Review of Articles	17
2.3.2 Review of Journals	22
2.4 Review of Previous Thesis	31
2.5 Research Gap	36

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

3.1 Research Design	37
3.2 Sources of Data	38
3.3 Population and Sample of Survey Design	38
3.4 Primary Data Collection Techniques	39
3.5 Primary Data Collection Procedure	39
3.6 Tools and Techniques Employed	39
3.6.1 Credit Practices Ratios	40
3.6.2 Credit Efficiency Ratios	40
3.7 Nature of Respondents	40

## **CHAPTER IV**

### **DATA PRESENTATION AND ANALYSIS**

4.1 Comparative Financial Condition of selected Nepalese Commercial Banks	41
4.1.1 Comparative Credit Practices In NABIL, HBL and EBL	41
4.1.2 Comparative Credit Efficiency in NABIL, HBL and EB	50
4.2 Relationship of Loan and Net Profit	58
4.3 Relationship of Loan and Non-Performing Loan	61
4.4 Impact of Loan and Advances on Net Profit	63
4.5 Cash Flow Analysis	66
4.6 Impact of Non-Performing Loan and Performing Loan on net profit	73
4.7 General Status of Industry Environment in the Selected Banks	77
4.8 Analysis of Variance between the Selected Commercial Banks	81

## **CHAPTER V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.1 Summary	86
5.2 Conclusion	90
5.3 Recommendations	90

### **BOBLOGRAPHY**

### **ANNEX**

## LIST OF TABLES

<b>Table No</b>	<b>Title</b>	<b>Pages</b>
4.1	Loan and Advances to Total Deposit Ratio	41
4.2	Interest Income to Loan and Advances Ratio	42
4.3	Non-Performing Loan to Total Loan and Advances Ratio	44
4.4	Loan and Advances to Total Assets Ratio	45
4.5	Loan and Advances to Current Assets Ratio	48
4.6	Loan Loss Provision to Total Loan and Advances Ratio	49
4.7	Total Assets to Liability Ratio	51
4.8	Interest Expenses to Total Deposit Ratio	51
4.9	Interest Expenses to Total Deposit Ratio	53
4.10	Non-Interest Bearing Deposits to Total Deposit Ratio	54
4.11	Interest Income to Total Income Ratio	55
4.12	Interest from Loan, Advances and Overdraft to Total Interest Income Ratio	56
4.13	Interest Suspense to Interest Income from Loans & Advances Ratio	58
4.14	Relationship between Loan and Advances and Net Profit in HBL: Correlation	59
4.15	Relationship between Loan and Advances and Net Profit in NABIL Correlation Matrix	59
4.16	Relationship between Loan and Advances and Net Profit in EBL: Correlation Matrix	60
4.17	Relationship between Loan and Non-performing Loan in HBL: Correlation Matrix	61
4.18	Relationship between Loan and Non-performing Loan in NABIL: Correlation Matrix	62
4.19	Relationship between Loan and Non-performing Loan in EBL: Correlation Matrix	63
4.20	Impact of Loan and Advances on Net Profit in NABIL: Regression Analysis	64
4.21	Impact of Loan and Advances on Net Profit in HBL: Regression Analysis	64
4.22	Impact of Loan and Advances on Net Profit in EBL: Regression Analysis	65
4.23	Cash Flow from Different Activities of HBL	67
4.24	Cash Flow from Different Activities of EBL	69
4.25	Cash Flow from Different Activities of NABIL	70

4.26	Comparative Cash Flow from Different Activities of HBL, NABIL and EBL	71
4.27	Comparative CFFA of HBL, NABIL and EBL	72
4.28	Comparative CFFA Different Activities of HBL, NABIL and EBL	73
4.29	Impact of Non-performing Loan and Performing Loan on Net Profit in NABIL Regression Analysis	74
4.30	Impact of Non-performing Loan and Performing Loan on Net Profit in HBL Regression Analysis	75
4.31	Impact of Non-performing Loan and Performing Loan on Net Profit in EBL: Regression Analysis	76
4.32	Descriptive Result of Industry Environment in Selected Commercial Banks	78
4.33	Descriptive Statistics of Management Quality in Selected Commercial Banks	80
4.34	Analysis of Variance of the Variance between the Selected banks	82

## LIST OF TABLES

<b>Figure No</b>	<b>Title</b>	<b>Pages</b>
4.1	Loan and Advances to total Deposit Ratio	42
4.2	Interest Income to Loan and Advances Ratio	43
4.3	Non-Performing Loan to Total Loan and Advances Ratio	45
4.4	Loan and Advances to total Assets Ratio of NABIL	46
4.5	Loan and Advances to Current Assets Ratio of HBL	46
4.6	Loan and Advances to Current Assets Ratio of EBL	47
4.7	Loan and Advances to Current Assets Ratio	48
4.8	Loan Loss Provision to Total Loan and Advance	50
4.9	Interest Expenses to Total Deposit Ratio	52
4.10	Interest Expenses to Total Expenses Ratio	53
4.11	Non Interest Bearing Deposit to Total Deposit Ratio	54
4.12	Interest Income to Total Income Ratio	56
4.13	Interest from Loan and Advances and Overdraft to Total Interest Income	57

