

CREDIT MANAGEMENT OF COMMERCIAL BANKS WITH REFERENCE TO NIB AND NIC BANK

A THESIS

Submitted By:

Ujjwal Uprety

Roll No.: 368/059

T.U. Registration No: 7-1-260-032-97

Submitted To:

Office of The Dean

Faculty of Management

Tribhuvan University

In Partial fulfillment for the requirement for the

Master's Degree of Business Studies (M.B.S.)

Kathmandu

March, 2010

RECOMMENDATION

This is to certify that this thesis:

Submitted by:

Ujjwal Uprety

Entitled

CREDIT MANAGEMENT OF COMMERCIAL BANKS WITH REFERENCE TO NIB AND NIC BANK has been prepared as approved by this department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

Thesis Supervisor:

.....

(Mrs. Ruchila Pandey)

Assistant Campus Chief

.....

(Dr. Kamal Deep Dhakal)

Campus Chief

Date:

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Ujjwal Uprety

Entitled:

**CREDIT MANAGEMENT OF COMMERCIAL BANKS WITH REFERENCE TO NIB
AND NIC BANK**

and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfilment of the requirements for the

Master's Degree of Business Studies (M. B. S.)

Viva-Voce Committee

Chairperson (Research Department)

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

Date:.....

DECLARATION

I hereby declare that this thesis work entitled “**CREDIT MANAGEMENT OF COMMERCIAL BANKS WITH REFERENCE TO NIB AND NIC BANK**” submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master's Degree of Business Studies (MBS) which is prepared under the supervision of respected supervisors **Mrs. Ruchila Pandey** of Shanker Dev Campus.

.....

Ujjwal Uprety

(Researcher)

Roll No: 368/059

T. U. Reg.: 7-1-260-032-97

ACKNOWLEDGEMENT

It is my pleasure to experience own creation that adds value to others. Actually this project work is the partial fulfillment of requirements for Master's Degree of Business Studies (MBS) and I gain a lot of knowledge while doing it. This project work is of course the result of my endeavor and hard working but this would not have been completed with our helpful hand of intellectuals.

First of all, I wish to express a deep sense of gratitude to head of Research Department of Shanker Dev Campus for their guidance and creative suggestions to complete this study. In addition to this, I am thankful to Mr. Chuman Singh G.C., and my thesis supervisors Mrs. Ruchila Pandey of Shanker Dev Campus as well as other administrative staffs of Shanker Dev Campus for their kind support.

Last but not least I would like to thank all who have helped and guided me directly or indirectly to complete this study.

.....

Ujjwal Uprety

(Researcher)

Roll No: 368/059

T. U. Reg.: 7-1-260-032-97

TABLE OF CONTENTS

Contents	Page No.
Viva Voce Sheet	
Recommendation	
Declaration	
Acknowledgement	
Abbreviations	
Table of Contents	
List of Tables	
List of Figures	

	Page No.
CHAPTER I: INTRODUCTION	1-15
1.1 Background of the Study	1
1.2 Introduction of Sample Organization under Study	5
1.3 Statement of the Problem	12
1.4 Objectives of the Study	13
1.5 Importance of the Study	13
1.6 Focus of the Study	14
1.7 Limitations of the Study	14
1.8 Organization of the Study	15
CHAPTER II: LITERATURE REVIEW	16-35
2.1 Conceptual Review	16
2.2 Concept of Commercial Banking	17
2.2.1 Functions of Commercial Banks	18
2.3 Concept of Credit	19
2.4 Types of Credit	20
2.5 Objectives of the Sound Credit Policy	25
2.6 Lending Criteria	25
2.7 Principals of Credit Policy	27

2.8	Project Appraisal	28
2.9	Provision of NRB for Extending Advances & Investment in Productive, Priority and Deprived Sector	30
2.10	Review of Relevant Articles and Journals	33
2.11	Review of Dissertations	35

CHAPTER III: RESEARCH METHODOLOGY 41-53

3.1	Introduction	41
3.2	Research Design	41
3.3	Population and Sample Techniques	42
3.4	Data Collection	42
3.5	Data Collection Procedure	43
3.6	Methods of Data Analysis	43
3.6.1	Financial Tools	43
3.6.1.1	Ratio Analysis	43
3.6.1.2	Statistical Tools Used	51
3.7	Limitations of the Research Methodology	53

CHAPTER-IV PRESENTATION AND ANALYSIS OF DATA 54-82

4.1	Financial Condition of selected Nepalese Commercial Banks	54
4.2	Credit Practices in NIB and NIC	55
4.2.1	Total Loans to Deposit ratio	55
4.2.2	Interest Income to Loans & Advances	56
4.2.3	Non-performing Loans to Total Loan and Advances Ratio	57
4.2.4	Loans and Advances to Total Assets Ratio	59
4.2.5	Loan and Advances to Current Assets Ratio	60
4.2.6	Loans Loss Provision to Total Loan and Advances Ratio	61
4.3	Credit Efficiency in NIB and NIC Bank	62
4.3.1	Interest Expenses to Total Deposit Ratio	63
4.3.2	Interest Expenses to Total Expenses Ratio	64

4.3.3	Non-interest Bearing Deposits to Total Deposit Ratio	65
4.4	Interest Income to Total Income Ratio	66
4.5	Relationship of Loans and Net profit	67
4.6	Relationship of Loans and Non-Performing Loans	69
4.7	Trend Analysis Least Square Method	71
4.8	Major Findings of the Study	73
4.9	Test of Hypothesis	76
4.10	Analysis of Responses by Credit Customer of Banks	77
4.11	Analysis of Responses to Questionnaire by Employees of NIB Bank & NIC	80
4.12	Major Findings of the Study	82

CHAPTER V: SUMMARY, CONCLUSION AND RECOMMENDATIONS **86-89**

5.1	Summary	86
5.2	Conclusion	86
5.3	Recommendation	89

Bibliography

Appendix

LIST OF TABLES

Table No.	Title	Page No.
Table 4.1	Total Loans to Total Deposit Ratio	55
Table 4.2	Interest Income to Loan & Advances	56
Table 4.3	Gross Non-performing Loan to Total Loan and Advances	57
Table 4.4	Loans & Advances to Total Assets Ratio	59
Table 4.5	Loan & Advances to Current Assets Ratio	60
Table 4.6	Loan Loss Provision to Total Loan & Advances	61
Table 4.7	Interest Expenses to Total Deposit Ratio	63
Table 4.8	Interest Expenses to Total Expenses Ratio	64
Table 4.9	Non-interest Bearing Deposits to Total Deposit Ratio	65
Table 4.10	Interest Income to Total Income Ratio	66
Table 4.11	Relationship between Loan and Advance and Net Profit in NIB	68
Table 4.12	Relationship of Loan and Advance and Net Profit in NIC	68
Table 4.13	Relationship between Loan and Non-Performing Loans in NIB	69
Table 4.14	Relationship between loan and non-performing loans in NIC	70
Table 4.15	Regression Analysis on Loan and Advance and Net Profit in NIB	71
Table 4.16	Regression Analysis on Loan and Advance and Net Profit in NIC	72
Table 4.17	Nepal Investment Bank Limited	73
Table 4.18	NIC Bank Limited	75

Table 4.19	Calculated Values of 't' under different Assumptions	76
Table 4.20	Frequencies of Responses of Credit Customers of NIB Bank	77
Table 4.21	Frequencies of Responses of Credit Customers of NIC	79
Table 4.22	Frequencies of Responses from Employees of Banks	80

LIST OF FIGURES

Table No.	Title	Page No.
Diagram 4.1	Total Loans to Total Deposit Ratio	55
Diagram 4.1	Interest Income to Loan & Advances	56
Diagram 4.1	Gross Non-performing Loan to Total Loan and Advances	58
Diagram 4.1	Loans & Advances to Total Assets Ratio	59
Diagram 4.1	Loan & Advances to Current Assets Ratio	60
Diagram 4.1	Loan Loss Provision to Total Loan & Advances	62
Diagram 4.1	Interest Expenses to Total Deposit Ratio	63
Diagram 4.1	Interest Expenses to Total Expenses Ratio	64
Diagram 4.1	Non-interest Bearing Deposits to Total Deposit Ratio	65
Diagram 4.1	Interest Income to Total Income Ratio	67
Diagram 4.1	Loan and Advances Trend Line of Nepal Investment Bank Limited	74
Diagram 4.1	Loan and Advance Trend Line of NIC Bank Limited	75

ABBREVEATIONS

ATM	:	Automated Teller Machine
C. V.	:	Coefficient of Variation.
CD	:	Credit Deposit
COV	:	Covariance.
DPS	:	Dividend per Share.
DY	:	Dividend Yield.
EPS	:	Earning per Share.
ERR	:	Expected Rate of Return.
F/Y	:	Fiscal Year.
GDP	:	Gross Domestic Product
HPR	:	Holding Period Return.
JV	:	Joint Venture
Ltd.	:	Limited.
MPS	:	Market Price per Share.
MV/BV Ratio	:	Market Value to Book Value Ratio.
NBA	:	Non Banking Assets
NIB	:	Nepal Investment Bank Limited.
NIC	:	Nepal Industrial and Commercial Bank Ltd.

NPA	:	Non Performing Assets
NPL	:	Non Performing Loan
NRB	:	Nepal Rastra Bank
NRB	:	Nepal Rastra Bank.
P/E Ratio	:	Price Earning Ratio.
RRR	:	Required Rate of Return.
S.D.	:	Standard Deviation.
SMS	:	Short Message System
T-Bill	:	Treasury Bills.
TR	:	Trust Reciept
TU	:	Tribhuvan University.