

**CREDIT RISK MANAGEMENT
OF
JOINT VENTURE BANKS**

A THESIS

Submitted By:

Manita Shrestha.

Nepal Commerce Campus

T.U. Registration No: 7-1-14-1209-97

Campus Roll No: 614/059

MBS Symbol No.: 1115/062

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirements for the
Degree of Master of Business Studies (M.B.S.)

Minbhawan, Kathmandu

April, 2009

VIVA- VOCE SHEET

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

Manita Shrestha

Entitled

“CREDIT RISK MANAGEMENT OF JOINT VENTURE BANKS”

And we found that the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as a partial fulfillment for Master of Business Studies (M.B.S)

Viva- voce Committee

Chairperson (Viva-voce Committee)

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Manita Shrestha

Entitled

“CREDIT RISK MANAGEMENT OF JOINT VENTURE BANKS”

Has been prepared as approved by this department in the prescribe format of Faculty of Management. This thesis is forwarded for examination.

.....
Dr. Fatta Bahadur K.C.
(Thesis Supervisor)

.....
Dr. Bihari Binod Pokharel
(Head of Research Department)

.....
(Campus Chief)

DECLARATION

I hereby declare that the work reported in this thesis entitled “Credit Risk Management of Joint Venture Banks” submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my original research work done in the form of partial fulfillment of requirement for the Master’s Degree in Business Studies under the supervision and guidance of associate teachers Dr. Fatta Bahadur K.C. and Dr. Bihari Binod Pokharel of Nepal Commerce Campus.

April, 2009

.....
Manita Shrestha

Researcher

Nepal Commerce Campus

T.U. Regd. No.:7-1-14-1209-97

Campus Roll No. 614/059

MBS Symbol No.: 1115/062

ACKNOWLEDGEMENT

This study has been prepared for partial fulfillment of the requirement for the Master degree in business studies. It is my privilege to complete this thesis entitled “Credit Risk Management of Joint Venture Banks”, which tried to analyze the credit risk management of Nepalese commercial banks.

I would like to express my heartiest gratitude and sincere thanks to my honorable thesis supervisors Dr. Fatta Bahadur K.C. Nepal Commerce Campus for their scholar guidance with intellectual direction, supervision and inspiration during the preparation of this thesis. And further more I would like to thank chairperson of research committee, Dr. Bihari Binod Pokharel for his superb guidance and inspiration.

I would like to extend my heartiest gratitude to the management committee of all joint venture banks together with the staffs of the banks. I would also like to thanks the staff of Security Board of Nepal .It would not have been possible for me to complete my thesis without their co-operation and guidance. Similarly, I would like to thank Miss. Aniva Khawaunju Of SCBNL, Mrs. Shanti Sharma of NABIL , Mr. Bisnu kumar Yadav of NSBIBL, Mr. Yogesh Shrestha of NBBL, Bijay Kumar Singh of EBL, Mr. Prabeen Shamsher Rana of HBL for availing me a chance to study on Primary as well as part of Secondary data.

I would like to express my sincere thanks to professors and lecturers of Nepal Commerce Campus, the staff of Library and Administration of Nepal Commerce Campus and Central Library of T.U. who helped me directly and indirectly in the completion of this thesis. Finally, I would like to thank my husband and all my family and friends who inspired me to complete this dissertation.

April, 2009

Manita Shrestha

TABLE OF CONTENTS

Page No.

Viva-Voce Sheet	
Recommendation	
Declaration	
Acknowledgement	
List of Table	
List of Figures	
List of Abbreviations	
CHAPTER-I: INTRODUCTION	1-10
1.1 Background of the Study	1
1.2 Commercial Banks and Economy	3
1.3 Information about Banks under Study	4
1.4 Focus of the Study	6
1.5 Statement of the Problem	7
1.6 Objectives of Study	8
1.7 Significance of the Study	8
1.8 Limitations of the Study	9
1.9 Organization of the Study	9
CHAPTER-II: REVIEW OF LITERATURE	11-28
2.1 Introduction	11
2.2 Concept of Banking	11
2.3 Concept of Commercial Banking	13
2.4 Concept of Joint Venture Banking	14
2.5 Review of Journals Related to JVBs	15
2.6 Conceptual Review on Credit Risk	17
2.6.1 Credit Risk Management	18
2.6.2 Credit Risk Framework	21
2.6.3 Credit Risk Management Techniques	22
2.6.4 Directives Issued by NRB for the Commercial Banks (related to credit aspects only)	24

2.7	Review of Earlier Studies	25
2.7.1	Study of Mr. Pawan Regmi	25
2.7.2	Study of Mr. Ganesh Chanda	26
2.7.3	Study of Mr. Kimanda Aryal	27
2.8	Research Gap	28
CHAPTER-III: RESEARCH METHODOLOGY		29-40
3.1	Introduction	29
3.2	Research Design	29
3.3.1	Population and Sample	30
3.3.2	Sample from Population	31
3.4	Type and Sources of Data	31
3.5	Data Collection Techniques	32
3.6	Data Analysis Tools	32
3.6.1	Financial Tools	33
3.6.2	Statistical Tools	36
CHAPTER-IV: PRESENTATION AND ANALYSIS OF DATA		41-82
4.1	Presentation and Analysis of Primary Data	41
4.2	Presentation and Analysis of Secondary Data	46
4.2.1	Company wise Analysis	47
4.2.2	Financial Statement Analysis	59
4.2.3	Statistical Analysis	67
4.3	Major Findings	76
4.3.1	Major Findings based on Analysis of Primary Data	76
4.3.2	Major findings based on Analysis of Secondary Data	78
CHAPTE-V: SUMMARY, CONCLUSION AND RECOMMENDATION		82-88
5.1	Summary	82
5.2	Conclusion	85
5.3	Recommendation	86

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

		Page No.
1.3	List of licensed Joint Venture banks in Nepal	4
2.6.1	Guidelines of Assessing Risks	20
2.6.4	Classification of Loan and Loss Provision	25
3.3 .1	Population & Sample	30
3.3.2	Sample from Population	31
4.1.1	Bank Rules, Regulations & Policies	Annex-1
4.1.2	Bank Interest Rate	Annex-1
4.1.3	Visit Site and Study	Annex-1
4.1.4	Service Charge	Annex-1
4.1.5	Cooperation by Bank Officers	Annex-1
4.1.6	Credit Expiration Date	Annex-1
4.1.7	Utilization of Loan	Annex-1
4.1.8	Satisfaction with the Bank	Annex-1
4.1.9	Further Credit	Annex-1
4.1.10	Future Plan with the Bank	Annex-1
4.2.1(A ₁)	Loan and Loan Loss Provision of SCBNL	47
4.2.1(A ₂)	Return Analysis of SCBL	47
4.2.1(B ₁)	Loan and Loan Loss Provision of HBL	49
4.2.1(B ₂)	Return Analysis of HBL	50
4.2.1(C ₁)	Loan and Loan Loss Provision of NSBIBL	51
4.2.1(C ₂)	Return Analysis of NSBIBL	52
4.2.1(D ₁)	Loan and Loan Loss Provision NABIL	53
4.2.1(D ₂)	Return Analysis of NABIL	54
4.2.1(E ₁)	Loan and Loan Loss Provision EBL	55
4.2.1(E ₂)	Return Analysis of EBL	56
4.2.1(F ₁)	Loan and Loan Loss Provision NBBL	57
4.2.1(F ₂)	Return Analysis of NBBL	58

4.2.2(A)	Analysis of Credit and Advances to Total Deposit Ratio	60
4.2.2(B)	Analysis of Credit and Advances to Total Assets Ratio	62
4.2.2(C)	Analysis of Performing Assets to Total Assets Ratio	64
4.2.2(D)	Trend Analysis of Combined Ratios	66
4.2.3(A ₁)	Risk Index and Book Value Insolvency of SCBNL	67
4.2.3(A ₂)	Correlation Coefficient of SCBNL	68
4.2.3(A ₃)	Regression Coefficient of SCBNL	68
4.2.3(B ₁)	Risk Index and Book Value Insolvency of HBL	69
4.2.3(B ₂)	Correlation Coefficient of HBL	69
4.2.3(B ₃)	Regression Coefficient of HBL	70
4.2.3(C ₁)	Risk Index and Book Value Insolvency of NSBIBL	70
4.2.3(C ₂)	Correlation Coefficient of NSBIBL	71
4.2.3(C ₃)	Regression Coefficient of NSBIBL	71
4.2.3(D ₁)	Risk Index and Book Value Insolvency of NABIL	72
4.2.3(D ₂)	Correlation Coefficient of NABIL	72
4.2.3(D ₃)	Regression Coefficient of NABIL	73
4.2.3(E ₁)	Risk Index and Book Value Insolvency of EBL	73
4.2.3(E ₂)	Correlation Coefficient of EBL	74
4.2.3(E ₃)	Regression Coefficient of EBL	74
4.2.3(F ₁)	Risk Index and Book Value Insolvency of NBBL	75
4.2.3(F ₂)	Correlation Coefficient of NBBL	75
4.2.3(F ₃)	Regression Coefficient of NBBL	76

LIST OF FIGURES

		Page No.
4.2.1(A ₁)	Loan and Loan Loss Provision of SCBNL	48
4.2.1(A ₂)	Return Analysis of SCBL	49
4.2.1(B ₁)	Loan and Loan Loss Provision of HBL	50
4.2.1(B ₂)	Return Analysis of HBL	51
4.2.1(C ₁)	Loan and Loan Loss Provision of NSBIBL	52
4.2.1(C ₂)	Return Analysis of NSBIBL	53
4.2.1(D ₁)	Loan and Loan Loss Provision of NABIL	54
4.2.1(D ₂)	Return Analysis of NABIL	55
4.2.1(E ₁)	Loan and Loan Loss Provision of EBL	56
4.2.1(E ₂)	Return Analysis of EBL	57
4.2.1(F ₁)	Loan and Loan Loss Provision of NBBL	58
4.2.1(F ₂)	Return Analysis of NBBL	59
4.2.2(D)	Trends of Combined Ratios	67

LIST OF ABBREVIATION

ADB/N	: Agriculture Development Bank/Nepal
ATM	: Any Time Money; Automatic Teller Machine
B.S	: Bikram Sambat
BOK	: Bank of Kathmandu
DBL	: Dubai Bank Limited
EBIL	: Emirates Bank International Limited
Govt.	: Government
HBL	: Himalayan Bank Limited
HMG	: His Majesty's Government
IFIC	: International Finance Investment and Commerce
JVBs	: Joint Venture Banks
Ltd	: Limited
M.B.S	: Master of Business Studies
NBBL	: Nepal Bangladesh Bank Ltd.
NBL	: Nabil Bank Limited
NRB	: Nepal Rastra Bank
SCBNL	: Standard Chartered Bank Nepal Limited
NSBIBL	: Nepal SBI Bank Limited
EBL	: Everest Bank Limited
P.E	: Probable Error
PLL	: Loan Loss Provision
RI	: Risk Index
ROA	: Return on Assets
E (ROA)	: Expected return of assets
ROE	: Return on Equity
CAP	: The inverse of equity multiplier
S.D.	: Standard Deviation
S.D ROA	: Standard deviation of ROA
C.V	: Coefficient of Variation

Rs. : Rupees
S.D : Standard Deviation
T.U : Tribhuvan University
+ve : Positive
-ve : Negative