

**CREDIT MANAGEMENT AND ITS IMPACT ON
PROFITABILITY OF JOINT VENTURE BANKS IN
NEPAL**

By:

Hem Kumari Sabenhang

T.U. Reg. No. 7-2-517-13-2006

Roll No: 96/066

Central Department of Management

Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

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

Kathmandu, Nepal

June, 2015

RECOMMENDATION

This is to certify that the thesis:

Submitted by

Hem Kumari Sabehang

Entitled

**Credit Management and its Impact on Profitability of Joint Venture
Banks in Nepal**

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

.....
Prof. Dr. Sunity Shrestha
Chairperson
Research Committee

.....
Prof. Dr. Bal Krishna Shrestha
Supervisor and Head
Central Department of
Management

Date: June 23, 2015

VIVA-VOCE SHEET

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

Entitled
**Credit Management and its Impact on Profitability of Joint Venture
Banks in Nepal**

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

Viva-Voce Committee

Chairman, Research Committee:

Member (Thesis Supervisor):

Member (External Expert):

Member (Head of Department):

Date:

TRIBHUVAN UNIVERSITY
Central Department of Management

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Credit Management and its Impact on Profitability of Joint Venture Banks in Nepal**” 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 Master of Business Studies (MBS) under the supervision of Prof. Dr. Bal Krishna Shrestha of Central Department of Management, Kirtipur, Nepal.

.....
Hem Kumari Sabehang
Researcher
Campus Roll No: 96/066
T.U. Regd. No: 7-2-517-13-2006

ACKNOWLEDGEMENT

I am extremely grateful to my thesis supervisor **Prof. Dr. Bal Krishna Shrestha**, Professor of Central Department of Management, Tribhuvan University, for his valuable suggestions, environment and guidance while supervising my thesis work. He has provided me much of their precious time till the completed of this work. His wise counsel and guidance provided me the inspiration to go ahead with the work.

I am also grateful to all the professors, lectures, as well as assistance administrator of the Central Department of Management whose suggestion made me able to finalize this thesis.

I express debt of gratitude to my friends for their continuous support in my efforts to complete this thesis work. I owe a special thanks to my friends Mr. Deepak who provided valuable support in my efforts to complete this thesis work.

Last but not least, I would like to thank my family members for their constant encouragement and co-operation in my academic pursuit.

There may be some errors in my study, I apologize for the errors.

Hem Kumari Sabenhang

June 23, 2015

Table of Contents

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgement

Table of Contents

List of Tables

List of Figures

Abbreviation

	Page No.
CHAPTER I: INTRODUCTION	1-10
1.1 General Background	1
1.2 Focus of the Study	5
1.3 Statement of the Problem	6
1.4 Objective of the Study	7
1.5 Significance of the Study	8
1.6 Limitation of the Study	9
1.7 Organization of the Study	9
CHAPTER II: LITERATURE REVIEW	11-46
2.1 Conceptual Review	11
2.2 Review of Related Studies	36
2.3 Research Gap	45
CHAPTER III: RESEARCH METHODOLOGY	47-53
3.1 Research Design	47
3.2 Population and Sample	47
3.3 Nature and Sources of Data	47
3.4 Data Collection Techniques	48
3.5 Data Analysis Tools	48

CHAPTER IV: DATA PRESENTATION AND ANALYSIS	54-88
4.1 Analysis of Loans and Advances	54
4.2 Financial Analysis	67
4.3 Regression Analysis	81
4.4 Major Findings of the Study	83
CHAPTER V: SUMMARY, CONCLUSION AND RECOMMENDATIONS	89-93
5.1 Summary	89
5.2 Conclusions	90
5.3 Recommendations	92
Bibliography	
Appendices	

List of Tables

Table No.	Table Title	Page No.
4.1.1	Performing Loans	55
4.1.2	Performing Loans Index	55
4.1.2(a)	Non-Performing Loans of Everest Bank Limited	
4.1.2(b)	Non-Performing Loans of Nepal SBI Bank Ltd	
4.1.2(c)	Non-Performing Loans of Standard Chartered Bank Nepal	
4.2.1	Loan and Advance to Total Deposit	
4.2.2	Loan and Advances to Fixed Deposit	
4.2.3	Loan and Advance to Total Assets	
4.2.4	Performing Assets to Total Assets	
4.2.5	Return on Total Assets (ROA)	
4.2.6	Return on Equity (ROE)	

ABBREVIATIONS

ADB/N	Agricultural Development Bank, Nepal
ATM	Automatic Trailer Machine
CAR	Capital Adequacy Ratio
CD	Credit Deposit
CRR	Cash Reserve Ratio
EPS	Earning Per Share
EBL	Everest Bank Limited
FS	Financial Sector
FY	Fiscal Year
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited.
i.e.	That is
Ltd	Limited
NBL	Nepal Bank Limited
NPA	Non Performing Assets
NPLR	Non Performing Loans to Total Loans
NRB	Nepal Rastra Bank
RBB	Rastriya Bnija Bank
ROA	Return on Assets
ROE	Return on Equity
SBI	Nepal SBI Limited
SCBNL	Standard Chartered Bank Nepal Limited
S.D.	Standard Deviation
SPSS	Statistical Package for Social Science
Rs.	Rupees
&	And
\bar{X}	Mean or Average
δ	Standard Deviation
Σ	Summation

Bibliography

Books

- Acharya, Krishna P., Katuwal, B. & Yadav, Arun K. (2010). *Statistical Methods* (3rd ed.). Kathmandu: Dhaulagiri Books & Stationery.
- Bajracharya, B.S. (1991). *Monetary Policy & Deposit Mobilization in Nepal*. Kathmandu, Rajatjayanti Smarika, RBB.
- Besis, J. (1998). *Risk Management in banking*. Chichester, John Wiley & Sons Ltd.
- Bhattacharya, Hrishikes (1998). *Banking Strategy, credit Appraisal and Lending Policy Decision* (1st ed.). Delhi: Oxford University Press.
- Boot, A.W.A. and Milbourn, T.T. (2001). *Credit Ratings as Coordination Mechanisms*. Amsterdam: Bookman International B.V.
- Dahal, B. and Dahal, S. (2002). *A Hand book to Banking*. Kathmandu: Ashmita Books and Stationery.
- Duffee, G.R. (1999). *Estimating the Price of Default Risk*. Copenhagen: Copenhagen Publishing House.
- Elton, C.J.; Gruber, M.J. (2001). *Modern Portfolio Theory & Investment Analysis*. Sigapore: John Willy.
- Gupta, S.C. (1998). *Fundamentals of Statistics*. New Delhi: Sultan Chand and Sons.
- Gupton, G.M. (2000). *Bank Loan Loss Given Default*. London: Banipal Publishing.
- John B. Countre, Edward I. Altman & Paul Narayan (1998). *Managing Credit Risk*. New York: John Wiley & Sons Ltd.
- Joshi, P.R. (2001). *Research Methodology*. Kathmandu: Buddha Academic Publishers and Distributions.
- Michel Crouhy, Dan Galai & Robert Mark, (2001). *Risk Management*. New York: McGraw-Hill.
- Pandey, I.M. (1994), *Financial Management*, New Delhi, Vikas Publishers.
- Thomas, L.B. (2002). *Money, Banking & financial Market*. New York: Irwin/McGraw-hill.
- Tony Van Gestel & Bart Baesens (2009). *Credit Risk Management*; Oxford University Press.
- Vaidya, S. (2001). *Banking and Insurance Management*. Kathmandu: Taleju Prakashan.

Verma, H.L. & Malhotra, A.K. (1993). *Funds management in commercial banks*.
New Delhi: Deep & Deep Publications.

Journals, Reports and Articles

Everest Bank Limited. (2014). *Annual Reports (2009/10-2013/14)*. Retrieved from
<http://www.everestbankltd.com/annual>

Joshi, S. (2008). *Healthy Banking Sector Fuels Economic Growth*. The Himalayan Times.

Mhonde, C., Mapetere, D. & Mavhiki S. (2012). An Analysis of the Challenges Faced by Banks in Managing Credit in Zimbabwe. *European Journal of Business and Management*, 4 (1), 38-46.

Nepal SBI Bank Limited. (2014). *Annual Reports (2009/10-2013/14)*. Retrieved from
<http://nepalsbi.com.np/content/annual-reports.cfm>

Rana, S. B. (2013, June). Risk Management in Banks: Tough and Challenging. *The Himalayan Times*, volume(168), 7-8.

Shrestha, S. (1998). *Lending operations of commercial bank of Nepal and its impact on GDP*. The business voice of Nepal.

Standard Chartered Bank Nepal. (2014). *Annual Reports (2009/10-2013/14)*. Retrieved from https://www.sc.com/np/investor_relations/annual-reports/en/

Taiwo, A. M. & Abayomi, S.T. (2010). An Empirical Evidence on Impact of Credit Management and Liquidity Position on Profitability of Nigerian Banking Sector. *Management and Administrative Sciences Review*, 2 (3), 233-242.

Taiwo, A. M. & Abayomi, S.T. (2013). Credit Management Spur Higher Profitability? Evidence from Nigerian Banking Sector. *Journal of Applied Economics and Business*, 1 (2), 46-53.

Acts, Laws and Regulations

Bank and Financial Intuition Act (2006/2063).

NRB Unified Directives (2071).

Theses

- Adhikari, I.P. (2008). *Credit Management of Everest Bank Limited*. Unpublished MBS dissertation, Lumbini Banijya Campus, Tribhuvan University.
- Karki, A. (2008). *A Study on Credit Management and Analysis of Commercial Bank*. Unpublished MBS dissertation, Shanker Dev Campus, Tribhuvan University.
- Sing, (2008). *Credit Management of Bank of Kathmandu and Nepal Investment Bank Limited*. Unpublished MBS dissertation, Prithvi Narayan Campus, Tribhuvan University.
- Dumre, K. (2009). *Credit Management of Everest Bank Limited*. Unpublished MBS dissertation, Shanker Dev Campus, Tribhuvan University.
- Kasaju, N.(2010). *Credit Management in Joint Venture Banks In Nepal*. Unpublished MBS dissertation, Global College of Management, Tribhuvan University.
- Hosna, A., Manzura, B. & Juanjuan, S. (2009). *Credit Risk Management and Profitability in Commercial Banks in Sweden*. Unpublished MSA dissertation, School of Business, Economics and Law, Goteborg University.
- Chamling(2011). *Credit Risk Management of Joint Venture Banks*. Unpublished MBS dissertation, Shanker Dev Campus, Tribhuvan University.
- Neupane, N. (2011). *Credit Management of Commercial Banks of Nepal*. Unpublished MBS dissertation, Shanker Dev Campus, Tribhuvan University.

Websites

- Credit management.(n.d.).*investorwords.com*. Retrieved Mar 15, 2015 from http://www.investorwords.com/19044/credit_management.html
- Everest Bank Limited (n.d.).Retrieved from 2013, July 1 from <http://www.everestbankltd.com>
- Nepal SBI Bank Limited (n.d.). Retrieved from 2013, July 1 from <https://www.nepalsbi.com.np>
- Standard Chartered Bank Nepal Limited (n.d.). Retrieved from 2013, July 1 from <https://www.sc.com/np/>
- Nepal Rastra Bank (n.d.). Retrieved from 2013, July 1 from <http://www.nrb.org.np>

Appendix I

Calculation of Mean, Standard Deviation and Coefficient of Variation (CV)

$$\text{Mean: } \bar{x} = \frac{x_1+x_2+x_3+\dots+x_n}{n} = \frac{\sum x}{n}$$

Where

$\sum x$ = sum of observations

n = number of observations

$$\text{Standard Deviation } \sigma = \sqrt{\frac{\sum(x-\bar{x})^2}{n-1}}$$

$$\text{Coefficient of Variance: } CV = \frac{\sigma}{\bar{x}}$$

Here, σ = standard deviation, \bar{x} = Mean, CV = Coefficient of Variation

For eg., Loan and Advances to Total Deposit for Everest Bank Limited

Company	2009/010	2010/011	2011/012	2012/013	2013/014
EBL	74.61	75.51	71.81	75.18	76.60

Loan and Advances to Total Deposit Ratio (x)	(x- \bar{x})	(x- \bar{x}) ²
74.61	-0.13	0.02
75.51	0.77	0.59
71.81	-2.93	8.60
75.18	0.44	0.19
76.6	1.86	3.45
$\sum x = 373.71$		$\sum(x-\bar{x})^2 = 12.85$

$$\bar{x} = \frac{373.71}{5} = 74.74$$

$$\sigma = \sqrt{\frac{\sum(x-\bar{x})^2}{n-1}} = \sqrt{\frac{12.85}{5-1}} = 1.81$$

$$CV = \frac{\sigma}{\bar{x}} \times 100 = \frac{1.81}{74.74} \times 100 = 2.42$$

Appendix III

Linear Trend Line

$$y = mx + c$$

Where,

y = Dependent variables

c = Constant

$$= \frac{n \sum y - m \sum x}{n}$$

m = slope of the trend line

$$= \frac{n \sum(xy) - \sum x \sum y}{n \sum x^2 - (\sum x)^2}$$

n = time period

For eg., Liquidity ratio for Himalayan General Insurance Company Limited.

Calculation Table

Time (x)	Liquidity (y)	x^2	xy	$y = mx+c$
1	98.6	1	98.6	405.15
2	63.7	4	127.4	407.31
3	68.04	9	204.12	409.47
4	75.57	16	302.28	411.63
5	103.56	25	517.8	413.79
$\sum x = 15$	$\sum y = 409.47$	$\sum x^2 = 55$	$\sum xy = 1250.2$	

$$m = \frac{5 \times 1250.02 - 15 \times 409.47}{5 \times 55 - 15^2} = 2.161$$

$$c = \frac{5 \times 409.47 - 2.161 \times 15}{5} = 402.987$$

Therefore,

$$y = 2.161 \times x + 402.987$$