

**CREDIT MANAGEMENT PRACTICES AND ITS IMPACT ON
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN
NEPAL**

A Thesis

Submitted

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In partial Fulfillment of the Requirements for Degree of

Master of Business Studies (MBS)

In the

Faculty of Management

Tribhuvan University

Kathmandu, Nepal

December, 2019

Certification of Authorship

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirement for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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RECOMMENDATION LETTER

It is certified that thesis entitled **Credit Management Practices and its Impact on Financial Performance of Commercial Banks in Nepal** submitted by Mr. **Jayadev Bhatt** is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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APPROVIAL SHEET

We, the undersigned have examined the thesis entitled Credit Management Practices and Its Impacts on Financial Performance of Commercial Banks in Nepal presented by Jayadev Bhatt a candidate for the degree of Master of Business Studies (MBS) semester and conducted the viva voice examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ACKNOWLEDGEMENTS

This thesis entitled Credit Management Practices and its Impact on Financial Performance of Commercial Banks in Nepal for the partial fulfillment of the requirements for the degree of Master of Business studies (MBS) is submitted to Central Department of Management Tribhuvan University Nepal. This study has focused on credit management practices in commercial banks.

It took more than one year for this thesis to take its current format during which I received generous support and encouragement for the people. I am very much grateful to many academicians and senior for their excellent commands and thoughtful suggestions. This endeavor would have not been possible without the support and the support and contribution of them.

First I would like to convey sincere thanks to prof. Bhawani Shankar Acharya for regular inspiring guidance as a supervisor of the thesis. I am grateful to the Central Department of Management including whole department family for their kind help for providing required materials. I am grateful to my parents and elders for their loving.

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ABBREVIATIONS

ATM:	Automated Teller Machine
BLB:	Branchless Banking
CAMELS:	Capital Assets Management Earnings Liquidity Sensitivity
CPG:	Credit Policies Guidelines
CV:	Coefficient of Variation
FY:	Fiscal Year
MBL:	Mega Bank
NBL:	Nepal Bank Limited
NPA:	Non Performing Assets
NPL:	Non Performing Loan
NRB:	Nepal Rastra Bank
ROA:	Return on Assets
ROE:	Return on Equity
r:	Correlation
SCBNL:	Standard Chartered Bank Nepal Limited
SD:	Standard Deviation
SMART:	Self-Monitoring Analysis and Reporting Technology
SME:	Small and Medium Enterprise

ABSTRACTS

This study try to explore various parameters pertinent to credit management as it affect banks' financial performance. Such parameters covered in the study were; default rate, cost per loan assets and capital adequacy ratio. Financial report of banks were used to analyze for five years (2013-2018) comparing the profitability ratio to default rate, cost of per loan assets and capital adequacy ratio which was presented in descriptive, correlation and regression was used to analyze the data. The study revealed that all these data have an inverse impact on banks' financial performance; however, the default rate is the most predictor of bank financial performance. The recommendation is to advice banks to design and formulate strategies that will not only minimize the exposure of the banks to risk but will enhance profitability.

The current ratio of SCBNL is computed as 0.98 times which is slightly higher than that of NBL 0.91 times and MBL 0.88 times. On average of 5 years of review period, cash and bank balance to total deposit ratio of NBL, MBL and SCBNL are 5.85%, 10.44% and 6.82% respectively. The mean ratio of cash and bank balance to current asset ratio of NBL is 6.03% which is the lowest among the three banks. The mean ratio of loan and advances to current asset of MBL is 72.5% followed by NBL with 62.25% and then by SCBL with 34.46% which is the lowest among the three banks.

The mean ratio of loan and advances to total deposit of NBL, MBL and SCBNL are 60.06%, 66.94% and 35.07% respectively. The mean ratio of Total Investment to total deposit of NBL, MBL and SCBNL are 40.05%, 31.18% and 54.66% respectively. The mean ratio of return on Total Working Fund of NBL, MBL and SCBNL are computed as 2.52%, 1.33% and 2.46% respectively. NBL seems to have highest return from total working fund among the three banks, followed by SCBNL and then MBL. On average only SCBNL has been able to meet the standard set by the NRB, even it has maintained the standard as set by NRB in each of the review year.

There is a positive correlation between the net income and loan and advances of NBL, MBL and SCBNL. The relationship between the interest earned and loan and advances is significant in case of NBL and MBL but insignificant in case of SCBNL.