SECTOR WISE AND PRODUCT WISE CREDIT CONCENTRATION OF NEPALESE COMMERCIAL BANKS AND ITS RELATION WITH PROFITIBILITY

A Thesis

Submitted By

PRAJWAL THAPALIYA

Central Department OF Management

Roll. No: 520/15

Registration No: 7-3-28-60-2014

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **SECTOR WISE AND PRODUCT WISE CREDIT CONCENTRATION OF NEPALESE COMMERCIAL BANKS AND ITS RELATION WITH PROFITIBILITY** presented by Prajwal Thapaliya, a candidate for the degree of **Master of Business Studies (MBS)** and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

…….
Lecturer, Dr. Bal Ram Duwal
Thesis Supervisor

…….
Internal Examiner

…….
External Examiner

…….
Prof. Bhawani shanker Acharaya
Chairperson, Research Committee

……..
Prof. Dr. Bhoj Raj Aryal
Head of the Department

Date:

RECOMMENDATION LETTER

It is certified that this thesis entitled **SECTOR WISE AND PRODUCT WISE CREDIT CONCENTRATION OF NEPALESE COMMERCIAL BANKS AND ITS RELATION WITH PROFITIBILITY** submitted by Prajwal Thapaliya is an original place of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the 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.

.....

Lecturer Dr. Bal Ram Duwal

Central Department of Management

Tribhuvan University, Kirtipur, Kathmandu, Nepal

6th July, 2018

CERTIFICATE OF AUTHORSHIP

I certify that the work in this thesis entitle "**SECTOR WISE AND PRODUCT WISE CREDIT CONCENTRATION OF NEPALESE COMMERCIAL BANKS AND ITS RELATION WITH PROFITIBILITY"** has not previously been submitted for a degree nor has it been a part of requirement for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me under the supervision of Associate Lect. Balaram Duwale. In addition, I certify that all information sources and literature used are initiated in the reference section of this thesis.

…….

Prajwal Thapaliya

July, 2018

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ABSTRACT

In the context of Nepal, commercial banks play the major role as it holds the major portion of the financial system. Lending is the most important source of revenue for any commercial bank and credit being the crucial part of bank is exposed to various type of risk. One of the major dimensions of credit risk is over exposure in particular sector. In management more risk mean more return. Thus it is very important to analyze the credit concentration and its relation with profitability.

This research seeks to examine sector wise and product wise credit concentration during 2070/71 to 2074/75. Secondary data published by the commercial banks, NRB and Central Bureau of Statistics of Nepal are the major sources of data. This is a census study. Statistical techniques such as mean, standard deviation and variation and HHI index are used. Both analytical and descriptive research design are used.

From the entire study, it was found that commercial banks are concentrated on lending in wholesaler and retailer, manufacturing and construction sector out of 15 sectors. In product, loan is concentrated on demand and working capital loan, overdraft loan and term loan out of 11 products. Only those three sectors and products cover more than 50 percent of loans. NRB has directed banks to lend in productive sector however the banks have excessive lending to the unproductive sector. Lending to productive sector such as agriculture and hydropower is low due to collateral based lending, low credit demand from this sector and monitoring problem in this sector.

Thus, the governing body should strictly implement the rule as the negligence of few banks can have adverse effect on the credit concentration of entire banking system. The board of director need to play a vital role in granting as well as managing the credit risk by formulating overall strategies whereas senior management if responsible for implementing the bank's credit risk management strategies. Every bank need to develop credit policies guidelines, product papers and internal rating system that outline bank's view of business development. The existing methods to control credit concentration are not sufficient and need to implement new tools in measurement.

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LIST OF ABBREVIATION

ADBL: Agriculture Development Bank Limited

AQ: Assets Quality

ATM: Automated Teller Machine

BIBM: Bangladesh Institute of Bank Management

BKL: Bank of Kathmandu Limited

CAD: Credit Administration Department

CBIL: Citizens Bank International Limited

CBL: Century Bank Limited

CBL: Civil Bank Limited

CD: Credit to Deposit

CV: Coefficient of variance

EBL: Everest Bank Limited

GIMEBL: Global IME Bank Limited

HBL: Himalayan Bank Limited

HHI: Herfindahl-Hirschman Index

JBNL: Janata Bank Nepal Limited

KBL: Kumari Bank Limited

LBL:Laxmi Bank Limited

LUBL: Lumbini Bank Limited

MBL: Machhapuchchhre Bank Limited

MBNL: Mega Bank Nepal Limited

NABL: NIC Asia Bank Limited

NBBL: Nepal Bangladesh Bank Limited

NBL: Nabil Bank Limited

NBL: Nepal Bank Limited

NBNL: NMB Bank Nepal Limited

NCCBL: Nepal Credit and Commerce Bank Limited

NIBL: Nepal Investment Bank Limited

NSBIL: Nepal SBI Bank Limited

PBL: Prabhu Bank Limited

PCBL: Prime Commercial Bank Limited

RBBL: Rastriya Banijya Bank Limited

ROA: Return on Assets

ROE: Return on Assets

SBL: Sanima Bank Limited

SBL: Siddhartha Bank Limited

SBL: Sunrise Bank Limited

SCBNL: Standard Chartered Bank Nepal Limited

SD: Standard Deviation

SME: Small and Medium Enterprise

UA: Unutilized Assets