

**CREDIT MANAGEMENT OF RASTRIYA BANIJYA
BANK AND NEPAL BANK LIMITED**

A THESIS

Submitted by:

Simran Shrestha
Campus Roll No.: 434/063
T.U. Reg. No: 7-2-426-41-2003
Exam Roll No.: 5245/065
Nepal Commerce Campus

Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University

*In the Partial Fulfillment of the Requirements for the
Master's Degree of Business Studies (M.B.S.)*

**New Baneshwor, Kathmandu
November, 2009**

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Simran Shrestha

Entitled

**CREDIT MANAGEMENT OF RASTRIYA BANIJYA BANK AND
NEPAL BANK LIMITED**

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

(Mr. Suresh Sapkota)
Thesis Supervisor

(Dr. Bihari Binod Pokharel)
Head of Research Department
&
Thesis Supervisor

(Mr. Diwakar Pokhrel)
Campus Chief

Date: 13 November, 2009

To
The Campus Chief
Nepal Commerce Campus
New Baneshwor, Kathmandu

Subject: Submission of Thesis

Respectable Sir,

I am submitting my thesis entitled "**CREDIT MANAGEMENT OF RASTRIYA BANIJYA BANK AND NEPAL BANK LIMITED**" completed under the guidance of Prof. Dr. Bihari Binod Pokharel and Suresh Sapkota, Nepal Commerce Campus, Tribhuvan University.

I have herewith enclosed the photocopy of M.B.S. Mark Sheet and receipt of fee Rs. 2000 as per campus rule. I hereby request you to forward my thesis report to the Office of the Dean, Faculty of Management, and official procedure.

In this regard, I would like to request you to provide me for Viva-Voce.

Yours Obediently,

Simran Shrestha
Campus Roll No.: 434/063
T.U. Reg. No: 7-2-426-41-2003
Exam Roll No.: 5245/065
Nepal Commerce Campus
Contact: 9841441418

VIVA – VOCE SHEET

We have conducted the viva – voce examination of the Thesis

Submitted by:
Simran Shrestha

Entitled

**CREDIT MANAGEMENT OF RASTRIYA BANIJYA BANK AND
NEPAL BANK LIMITED**

And found the Thesis to be the original work of the student written in accordance with the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree of Business Studies (M.B.S.)

Viva – Voce Committee

Chairperson, Research Committee: -----

Member (Thesis Supervisor): -----

Member (Thesis Supervisor): -----

Member (External Expert): -----

Date: -

DECLARATION

I hereby declare that the work reported in this thesis entitled “**CREDIT MANAGEMENT OF RASTRIYA BANIJYA BANK AND NEPAL BANK LIMITED**” submitted to Nepal Commerce Campus, Faculty of Management under Tribhuban University, is my original work done in the form of partial fulfillment of the requirements for the Master’s Degree in Business Studies (M.B.S.) under the supervision of **Mr. Suresh Sapkota** and **Prof. Dr. Bihari Binod Pokharel**, associate professor of Nepal Commerce Campus.

Date:-

.....
Simran Shrestha
(Researcher)
Campus Roll No.: 434/065
T.U. Reg. No: 7-2-426-41-2003
Exam Roll No.: 5245/063

ACKNOWLEDGEMENTS

This research study “**A CREDIT MANAGEMENT OF RASTRIYA BANIJYA BANK AND NEPAL BANK LIMITED** ” which is a partial fulfillment for the Degree of Master of Business Studies (MBS) under the course designed by the Faculty of Management, T.U., is based on the prescribed research format involving the use of qualitative and quantitative model to explain the credit management system in Nepalese commercial bank and their positive and negative consequence. Since, there was lack of such study relating to credit management, it is hoped that this study will add one brick on the wall and will be beneficial to other researchers, students and teachers.

This study has been completed with the help of various people. I am fortunate to acknowledge my respected supervisor **Dr. Bihari Binod Pokharel** Associate Professor, Nepal Commerce Campus and **Mr. Suresh Sapkota** Lecturer, Nepal Commerce Campus, T.U. whose guidance have proved me with an insight in the field on credit management in banking.

I found myself indebted to Mr. Ramesh Shrestha (Global Books, Minbhawan) and Mr. Khadag Bahadur Kathayat for their invaluable helps and suggestions in the course of preparation of this thesis.

I would like to pay my gratitude to all the staffs of sample organizations and NRB without whose help this would not have been completed. I also wish to appreciate all those who encouraged me to write this thesis.

Last but not the least; my overriding debt continues to be to my friends and parents who provide me with the time, support and inspiration needed to prepare this thesis.

Simran Shrestha
Nepal Commerce Campus
New Baneswor, Kathmandu

TABLE OF CONTENTS

VIVA VOCE SHEET	
RECOMMENDATION	
DECLARATION	
ACKNOWLEDGEMENTS	
TABLE OF CONTENTS	
LIST OF TABLES	
LIST OF FIGURES	
ABBREVIATIONS	

CHAPTER -1: INTRODUCTION 1-9

1.1 Background of the Study	1
1.1.1 History of Bank	2
1.1.2 Origin of Bank in Nepal	3
1.1.3 Commercial Banks	3
1.2 An Introduction of Banks under Study	7
1.3 Statement of the Problems	6
1.4 Objectives of the Study	6
1.5 Significance of the Study	6
1.6 Research Questions	7
1.7 Limitations of the Study	7
1.8 Organization of the Study	8

CHAPTER-II: REVIEW OF LITERATURE 10-38

2.1 Conceptual Review	10
2.1.1 Meaning of Commercial Bank	10
2.1.2 Functions of Commercial Banks	11
2.1.3 Concept of Credit	12
2.1.4 Types of Credit	14
2.1.5 An Overview of Credit Management	18
2.1.6 Objectives of Credit Policy	18
2.1.7 Principle of Credit Policy	19
2.1.8 Key Characteristics of Credit Policy	20
2.1.9 System and Procedures of Credit Policy	21
2.1.10 Managing Credit Problems	24
2.1.11 Lending Criteria	26
2.1.12 Project Appraisal	27
2.1.13 Steps of Lending Process	29
2.1.14 Need of Credit Policy in Commercial Banks	29
2.1.15 Types of Credit Policy in Selected Banks	30
2.2 Review of Articles and Journals	31
2.2.1 Review of Journals	33

2.2.2 Review of Previous Theses	34
2.3 Research Gap	38

CHAPTER-III: RESEARCH MEHODOLOGY 39-53

3.1 Introduction	39
3.2 Rationale of the Selection of the Study	39
3.3 Research Design	40
3.4 Data Collection Techniques	41
3.5 Data Collection Procedure	42
3.6 Population and Samples	42
3.7 Methods of Data Analysis	42
3.7.1 Financial Tools	43
3.7.2 Statistical Tools	50
3.8 Limitation of the Research Methodology	53

CHAPTER-IV: DATA PRESENTATION AND ANALYSIS 54-92

4.1 Data Presentation and Analysis	54
4.1.1 The Relevancy of the Finan54cial Sectors Reform Program	
4.1.1.1 Current Ratio	54
4.1.1.2 Cash and Bank Balance to Total Deposit Ratio	56
4.1.1.3 Cash and Bank Balance to Current Assets (CA) Ratio	57
4.1.2 Assets Management Ratio	59
4.1.2.1 Loan and Advance to Total Deposit Ratio	59
4.1.2.2 Loan and Advance to Total Assets Ratio	61
4.1.2.3 Total Investment to Total Deposit Ratio	62
4.1.3 Leverage Ratio	64
4.1.3.1 Debt to Equity Ratio	64
4.1.3.2 Total Debt to Total Assets Ratio	66
4.1.4 Profitability Ratios	67
4.1.4.1 Interest Income to Interest Expenses Ratio	68
4.1.4.2 Return on Loan and Advance Ratio	69
4.1.4.3 Net Profit/Loss to Total Assets Ratio	70
4.1.4.4 Interest Income to Total Loan and Advance Ratio	72
4.1.4.5 Earning Per Share (EPS)	73
4.1.5 Lending Efficiency Ratios	74
4.1.5.1 Loan Loss Provision to Total Loan and Advances Ratio	74
4.1.5.2 Non-performing Loan to Total Loan and Advances Ratio	76
4.1.6 Coefficient of Correlation Analysis	78
4.1.6.1 Coefficient Correlation between Total Deposit and Loan and Advances	78
4.1.6.2 Coefficient Correlation between Total Loan and Advances and Net Profit	79
4.1.7 Primary Data Analysis80	
4.1.7.1 Different Procedures Adopted by both Banks while Granting Loan	80

4.1.7.2 Steps of Lending Procedures	80
4.1.7.3 Interpretation of Questionnaire's Responses Given by Employees of the Nepal Bank Limited and Rastriya Banijya Bank Limited in Terms of Lending Policy and Procedures	82
4.1.7.4 Interpretation of Questionnaire's Response Given by the Credit Customers of Nepal Bank Limited and Rastriya Banijya Bank Limited in Terms of Lending Policy and Procedures	84
4.2 Major Findings of the Study	85

CHAPTER-V: SUMMARY, CONCLUSION & RECOMMENDATIONS

93-100

5.1 Summary	93
5.2 Conclusion	97
5.3 Recommendations	99

BIBLIOGRAPHY

APPENDIX

LIST OF TABLES

Table No.	Title	Page No.
4.1	Current Ratio of Nepal Bank Limited and Rastriya Banijya Bank	55
4.2	Cash and Bank Balance to Total Deposit Ratios of NBL and RBB	56
4.3	Cash and Bank Balance to Current Assets Ratio	58
4.4	Loan and Advance to Total Deposit Ratio	60
4.5	Loan and Advances to Total Assets Ratio of NBL and RBB	61
4.6	Total Investment to Total Deposit Ratio	63
4.7	Debt to Equity Ratio of NBL and RBB	65
4.8	Total Debt to Total Assets Ratios of NBL and RBB	66
4.9	Interest Income to Interest Expenses Ratio of NBL and RBB	68
4.10	Return on Loan and Advance Ratios	69
4.11	Net Profit/Loss to Total Assets Ratio of NBL and RBB	70
4.12	Interest Income to Total Loan and Advance Ratio	72
4.13	Earning per Share of NBL and RBB	73
4.14	Loan Loss Provision to Total Loan and Advances Ratio	75
4.15	Non-performing Loan to Total Loan and Advances Ratio	76
4.16	Analysis of Response Given by Employees of NBL and RBB	82
4.36	Analysis of Responses Given by the Credit Customers of NBL and RBB	84

LIST OF FIGURES

Figure No	Title	Page No.
4.1	Current Ratio of Nepal Bank Limited and Rastriya Banijya Bank	55
4.2	Cash and Bank Balance to Total Deposit Ratios of NBL and RBB	56
4.3	Cash and Bank Balance to Current Assets Ratio	60
4.4	Cash and Bank Balance to Current Assets Ratio	60
4.5	Loan and Advances to Total Assets Ratio of NBL and RBB	62
4.6	Total Investment to Total Deposit Ratio	63
4.7	Debt to Equity Ratio of NBL and RBB	65
4.8	Total Debt to Total Assets Ratios of NBL and RBB	67
4.9	Interest Income to Interest Expenses Ratio of NBL and RBB	68
4.10	Return on Loan and Advance Ratios	70
4.11	Net Profit/Loss to Total Assets Ratio of NBL and RBB	71
4.12	Interest Income to Total Loan and Advance Ratio	72
4.13	Earning per Share of NBL and RBB	74
4.14	Loan Loss Provision to Total Loan and Advances Ratio	75
4.15	Non-performing Loan to Total Loan and Advances Ratio	77

ABBREVIATIONS

B.S.	Bikram Sambat
d.f.	Degree of Freedom
F/Y	Fiscal Year
GDP	Gross Domestic Product
HMG	His Majesty Government
Ltd.	Limited
NA	Not Available
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NPL	Non-performing Loan
NRB	Nepal Rastra Bank
RBB	Rastriya Banijya Bank
Rs.	Rupees
\$	Dollar