

CREDIT MANAGEMENT
OF
COMMERCIAL BANKS IN NEPAL
(Bank of Kathmandu and Nepal Investment Bank Ltd.)

Submitted By:

KUMAR THAPA

Roll No.: 604/061

T.U. Reg. No: 7-1-32-863-96

Shanker Dev Campus

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial fulfillment for the requirement of the Degree of
Master of Business Studies (M.B.S.)

Kathmandu, Nepal

2009

Recommendation

This is to certify that the Thesis

Submitted by

KUMAR THAPA

Roll No.: 604/061

T.U. Reg. No: 7-1-32-863-96

Entitled:

CREDIT MANAGEMENT OF COMMERCIAL BANK OF NEPAL

(Bank of Kathmandu and Nepal Investment Bank Ltd.)

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

.....
Prakash Singh Pradhan
(Thesis Supervisor)

.....
Bishwor Man Shrestha
Head of Department

.....
Prof. Dr. Kamal Deep Dhakal
Campus Chief

Date.....

VIVA VOCE SHEET

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

Kumar Thapa

Entitled:

CREDIT MANAGEMENT OF COMMERCIAL BANK OF NEPAL

(Bank of Kathmandu and Nepal Investment Bank Ltd.)

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master's Degree in Business Studies (M.B.S)

Viva-Voce Committee

Head of Research Department :

Member (Thesis Supervisor) :

Member (External Expert): :

Date:.....

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the worked reported in this thesis entitled **CREDIT MANAGEMENT OF COMMERCIAL BANK OF NEPAL (*Bank of Kathmandu and Nepal Investment Bank Ltd.*)** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment for the requirement of Master's Degree in Business Studies (MBS) under the supervision of **Prakash Singh Pradhan** of Shanker Dev Campus.

.....

Researcher

KUMAR THAPA

Roll No.: 604/061

T.U. Reg. No: 7-1-32-863-96

Date:

ACKNOWLEDGEMENT

This research study on Credit Management of Bank of Kathmandu Limited and Investment Bank Limited has been prepared to fulfill partial requirement of master in business studies program. For this, I am greatly thankful to the management faculty of Trivhuvan University for preparing this writing a compulsory in our course.

This study has been carried out under the supervision of **Prakash Singh Pradhan** of Shanker Dev Campus. I am extremely grateful to his courage and advice by providing valuable time, knowledge and kind help.

I also acknowledge all of my friends for their help in different ways. I am greatly thankful to the staff of both banks for providing required data during the research period. I would like to offer sincere thank to Mr. Jeevan Devkota for computer typing and valuable advice during my work. Lastly, I would like to express my sincere gratitude to all the staff of Shanker Dev Campus for their Co-operation and encouragement through out the preparation of the report.

I hope the possible errors would be covered by the subsequent studies in this field in the future.

TABLE OF CONTENTS

Viva Voce Sheet

Recommendation

Declaration

Acknowledgement

List of Table

List of Figure

CHAPTER –ONE

INTRODUCTION	1
1.1 Background of the Study	1
1.2 Introduction of Sample Organization under study	4
1.3 Focus of the study	5
1.4 Statement of Problem	6
1.5 Objectives of the Study	7
1.6 Significance of the Study	8
1.7 Limitation of the study	8
1.8 Organization of the Study	8

CHAPTER –TWO

LITERATURE REVIEW	10
2.1 Conceptual Review	10
2.1.1 Concept of Commercial Bank	11
2.1.2 Functions of Commercial Banks	12
2.1.3 Concept of Credit	13
2.1.4 Types of Credit	13
2.1.5 Objectives of the Sound Credit Policy	16
2.1.6 Lending Criteria	18

2.1.7	Principles of Sound Lending Policy	18
2.1.8	Some Important Banking Terms	21
2.1.9	Project Appraisal	25
2.1.10	Provision of NRB for Extending Advances & Investment in Productive, Priority and Deprived Sector	25
2.1.11	Pass	28
2.2	Review of Related Studies	33
2.3	Research Gap	40

CHAPTER- THREE

	RESEARCH METHODOLOGY	42
3.1	Introduction	42
3.2	Research Design	42
3.3	Population and Sample	43
3.4	Sources of Data	43
3.5	Method of Data Analysis	43
3.5.1	Financial Tools	43
3.5.2	Statistical Tools	44

CHAPTER-FOUR

	PRESENTATION AND ANALYSIS OF DATA	47
4.1	Financial condition of selected Nepalese commercial Banks	47
4.2	Credit Practices in Bank of Kathmandu and Nepal Investment Bank	48
4.2.1	Total loans to deposit ratio	48
4.2.2	Interest income to loans & advances	49
4.2.3	Non-Performing Loans to Total Loan and Advances Ratio	49
4.2.4	Loans and Advances to Total Assets Ratio	50
4.2.5	Loan and advances to current assets ratio	51
4.2.6	Loans loss provision to total loan and advances ratio	52
4.3	Credit efficiency in Bank of Kathmandu and Nepal Investment Bank Limited.	53

4.3.1	Interest expenses to total deposit Ratio	53
4.3.2	Interest and expenses to total expense ratio	54
4.3.3	Non-interest bearing deposits to total deposit ratio	55
4.3.4	Interest income to total income ratio	56
4.3.5	Interest suspense to interest from loans & advances ratio	56
4.4	Relationship of loans and net profit	57
4.5	Relationship of loans and non-performing loans	59
4.6	Impact of loan and advances on net profit	61
4.7	Trend Analysis Least Square Method	63
4.8	Major Findings	66

CHAPTER –FIVE

	SUMMARY, CONCLUSION AND RECOMMENDATIONS	70
5.1	Summary and Conclusion	70
5.2	Recommendation	72

LIST OF TABLE

Table 4.1	Total loans of deposit ratio	48
Table 4.2	Interest in come to loan & advances	49
Table 4.3	Non-performing loan to total loan and advances (in %)	50
Table 4.4	Loan & advances to current assets ratio	51
Table 4.5	Loans & advances to total assets ratio	51
Table 4.6	Loan loss provision to total loan & advances	52
Table 4.7	Interest expenses to total deposit ratio	53
Table 4.8	Interest expenses to total expenses ratio	54
Table 4.9	Non-interest bearing deposits to total deposit ratio	55
Table 4.10	Interest income to total income ratio	56
Table 4.11	Interest suspense to interest income from loans & advances ratio	57
Table 4.12	Relationship between loan and advance and net profit in BOK: Correlation Matrix	58
Table 4.13	Relationship of loans and net profit in NBIL Correlation Matrix	59
Table 4.14	Relationship between loan and non-performing loans in BOK:-Correlation Matrix	60
Table 4.15	Relationship between loan and non-performing loans in NIBL:-Correlation Matrix	60
Table 4.16	Regression Analysis on loan and advance and net profit in NBIL	61
Table 4.17	Regression Analysis on loan and advance and net profit in BOK	62
Table 4.18	Nepal Investment Bank Limited	64
Table 4.19	Bank of Kathmandu Limited	65

LIST OF FIGURE

Figure 4.1	Loan and advances Trend line of Nepal Investment Bank Limited	64
Figure 4.2	Loan and advance Trend Line of Bank of Kathmandu Limited	66