CREDIT RISK MANAGEMENT OF NABIL BANK LIMITED AND NEPAL INVESTMENT BANK LIMITED

By:

SUMNIMA SHRESTHA

Roll No: 55 / 061

T. U. Reg. No: 7-2-364-40-2001

Shanker Dev Campus

Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University

In Partial Fulfillment of the Requirements for the Degree of
Masters of Business Studies (M. B. S)

Kathmandu, Nepal

November, 2009

DECLARATION

I hereby declare that the work done in thesis entitled COMPARATIVE STUDY ON CREDIT RISK MANAGEMENT OF NABIL BANK LIMITED AND NEPAL INVESTMENT BANK LIMITED has been submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my own created work reported in the form of partial fulfillment of the requirement of Master's of Business studies (M.B.S.) course under the guidance of respected supervisor Dr Silu Manandhar Bajracharya Lecture of Shanker Dev Campus.

Sumnima Shrestha Researcher

VIVA -VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

SUMNIMA SHRESTHA

Entitled:

COMPARATIVE STUDY ON CREDIT RISK MANAGEMENT OF NABIL BANK LIMITED AND NEPAL INVESTMENT BANK LIMITED

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

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

Viva-Voce Committee

Head, Research Department	······
Member (Thesis Supervisor)	:
Member (External Expert)	t
Date:	

RECOMMENDATION

This is to certify that the thesis:

Submitted by:

SUMNIMA SHRESTHA

Entitled:

COMPARATIVE STUDY ON CREDIT RISK MANAGEMENT OF NABIL BANK LIMITED AND NEPAL INVESTMENT BANK LIMITED

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

Dr. Shilu Manandhar Bajracharya	Prof. Bisheshwor Man	Shrestha	Prof. Dr. Kamal Deep
Dhakal	(Thesis Supervisor)	(Head of Re	search Department)
(Campus Chief)			

ACKNOWLEDGEMENT

This entitled thesis "Comparative Study on Credit Risk Management of Nabil Bank and Nepal Investment Bank" has been prepared for the partial fulfillment of the requirement of Master's Degree of Business Studies (M.B.S) under the Faculty of Management, Tribhuvan University, is based on research models involving the use of quantitative as well as qualitative aspect.

I express my sincere gratitude to all the authors and learned personalities, whose writings have been cited in this study. I extend my deep sense of indebtedness to my respected supervisor Dr Silu Manandhar Bajracharya of Lecture of Shanker Dev Campus for their precious guidelines, inspiration and suggestion thoroughly during the period of this research. Without their valuable insight, I would not think of accomplishment of this thesis paper

I want to give thanks for the staff members of T.U. Central Library, Shanker Dev Campus Library and staffs of Concern Bank, who provided the reference and reading materials during the period of research. I also thank full to all my peers, friends and colleagues.

I express my heart full gratitude to my parents and all my family members who always inspired and encourage me to complete this journey from the benchmark of my academic qualification. Their valuable encouragement and inspiration has attained me to this height.

Finally, I would like to express my sincere gratitude to all my family members for their assistance, timely encouragement in every steps and financial support. In addition, the special thanks to my all friends and specially thanks goes to Ram Limbu, who provided me crucial support, is also part of my sincere thanks.

Sumnima Shrestha Researcher

TABLE OF CONTENT

	Page No
Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgement	
Abbreviation	
List of Table	
List of Figure	
CHAPTER - I	
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1. Meaning of Commercial Bank:	3
1.1.2. Origin of Bank in Nepal:	5
1.1.3. Profile of sample Bank	7
1.2. Focus of the Study	10
1.3. Statement of the Problem	10
1.4. Objectives of the Study	11
1.5. Significant of the Study	11
1.6. Limitations of the Study	12
1.7. Organization of the Study	12
CHAPTER - II	
REVIEW OF LITERATURE	14
2.1 Conceptual Review	14
2.1.1 Meaning of Risk	14
2.1.2 Types of Risk Faced by Commercial banks	14
2.2 Review of NRB Directives	18
2.2.1. Classification of Loans and Advances:	18

2.2.2. Loan Loss Provisioning	22
2.2.3. Directive No 3 (Single obligor limit)	23
2.2.4. Directive No. 1-Capital Adequacy Ratio	24
2.3 Review of Related Studies	27
2.3.1 Review of Articles and Journals	27
2.3.2 Review of Theses	30
2.4 Research Gap	38
CHAPTER - III	
RESEARCH METHODOLOGY	39
3.1 Research Design	39
3.2 Population and Sample	40
3.3 Sources of Data	40
3.4 Data Collecting Procedures	40
3.5 Tools and Techniques used	41
3.6 Financial Tools	41
3.6.1 Analysis of Financial Ratio	41
3.6.1.1 Ratio Analysis	41
3.7 Statistical Tools	47
CHAPTER - IV	
PRESENTATION AND ANALYSIS OF DATA	50
4.1 Financial Analysis	50
4.1.1 Ratio Analysis	50
4.1.1.1 Liquidity Ratio	51
4.1.1.2 Assets Management Ratio	55
4.1.1.3 Profitability Ratio	58
4.1.1.4 Risk Ratio	64
4.2 Statistical Analysis	67
4.2.1 Coefficient of Correlation Analysis	67
4.2.2 Trend Analysis	74

4.3 Major Findings	82
4.3.1 Financial Analysis	82
4.3.2 Statistical Analysis	86
CHAPTER – V	
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	88
5.1 Summary	88
5.2 Conclusion	90
5.3 Recommendations	93
Bibliography	
Appendix	

LIST OF TABLE

Table No. 2.1 Primary Capital	25
Table No. 2.2 Supplementary Capital	25
Table No. 4.1 Current assets to current liability (in times)	51
Table No. 4.2 Cash & Bank Balance to Total Deposit Ratio	52
Table No. 4.3 Cash & Bank Balance to Current Asset Ratio	53
Table No. 4.4 Investment on Government Securities to Current Assets Ratio	54
Table No. 4.5 Loan and Advance to Total Deposit Ratio	55
Table No. 4.6 Total Investment to Total Deposit Ratio	56
Table No. 4.7 Loan & Advances to Total Assets Ratio	57
Table No. 4.8 Investment on Government Securities to Total Assets ratio	58
Table No. 4.9 Return on Loan & advances	59
Table No. 4.10 Return on Total Assets Ratio	60
Table No. 4.11 Return on Equity Ratio	61
Table No. 4.12 Total Interest Earned to Total Assets Ratio	62
Table No. 4.14 Interest Earned to Operating Income Ratio	63
Table No. 4.15 Interest Paid to Total Assets Ratio	64
Table No. 4.16 Credit Risk Ratio	65
Table No: 4.17 Liquidity Risk Ratio	66
Table No. 4.18 Credit Risk Ratio	67
Table No. 4.23 Correlation between Deposit and Loan & Advances	68
Table No. 4.24 Correlation between Deposit and Total Investment	69

Table No. 4.25 Correlation between Loan and advance and Net profit	70
Table No. 4.26 Correlation between Total Investment and Net Profit	71
Table No. 4.27 Correlation between Total Deposit of NABIL and NIB	72
Table No. 4.28 Correlation between Total Investment of NABIL and NIB	72
Table No. 4.29 Correlation between Loan & Advances of NABIL and NIB	73
Table No. 4.30 Correlation between Net Profit of NABIL and NIB	73
Table No. 4.31 Trend analysis of Total Deposit of NABIL and NIB	75
Table No. 4.32 Trend line of Total Loan and Advance of NABIL and NIB	77
Table No. 4.33 Trend Line of Total Investment Between NABIL and NIB	79
Table No. 4.34 Trend Analysis of Net Profit Between NABIL and NIB	81
List of Figure	
Figure No 4.1 Trend analysis of Total Deposit of NABIL and NIB	76
Figure No 4.2 Trend line of Total Loan and Advance of NABIL and NIB	78
Figure No 4.3 Trend Line of Total Investment Between NABIL and NIB	80
Figure No 4.4 Trend Analysis of Net Profit Between NABIL and NIB	82