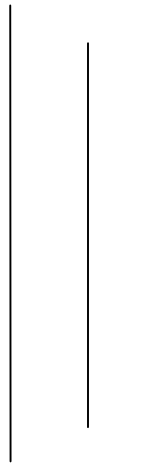


**CREDIT MANAGEMENT OF NEPAL CREDIT AND  
COMMERCE BANK LTD.**

**By  
PRAMESH DAHAL  
Shanker Dev Campus  
T.U. Regd. No. : 7-2-364-21-2001  
Campus Roll No. : 605/061**

**A Thesis Submitted to:  
Office of The Dean  
Faculty of Management  
Tribhuvan University**



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

**Kathmandu, Nepal  
July, 2009**

## **RECOMMENDATION**

This is to certify that the thesis:

Entitled

**Credit Management of Nepal Credit and Commerce Bank Ltd.**

Submitted by:

**Pramesh Dahal**

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

.....  
Dr. Shilu Bajracharya  
(Manandhar)  
(Thesis Supervisor)

.....  
Prof. Bisheswor Man  
Shrestha  
( Head of Research Department)

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

## **VIVA – VOCE SHEET**

We have conducted the viva – voce examination of the thesis:

Entitled

**Credit Management of Nepal Credit and Commerce Bank Ltd.**

Presented by:

**Pramesh Dahal**

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 requirement for Master's Degree of Business Studies (MBS)

VIVA – VOCE COMMITTEE

Chairperson, Research Committee :

Member (Thesis Supervisor) :

Member (Eternal Expert) :

# **TRIBHUVAN UNIVERSITY**

**Faculty of Management**

**Shanker Dev Campus**

## **DECLARATION**

I hereby declare that the work reported in this thesis entitled " Credit Management of Nepal Credit and Commerce Bank Ltd." submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Study (M.B.S.) under the supervision of Dr. Shilu Bajracharya (Manandhar), Reader of Shanker Dev Campus.

.....  
**PRAMESH DAHAL**

Researcher

T.U. Regd. No. : 7-2-364-21-2001

Campus Roll No. : 605/061

## **ACKNOWLEDGEMENT**

Banking sector is the strength of character for economic development of the country. It is the source for economic development. Banking sectors maintains economic assurance of various slices and extend credit to people. Banking industry is one of the fastest growing businesses in Nepal. After the liberalization policy adopted by government, this sector has been growing dramatically. With the afloat of commercial banks and due to economic condition of the country, variation in government policies and due to default borrowers, the problem in lending is rising.

Lending is the principal business activity for most commercial banks. Credit Management is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, credit management problems have historically been the major cause of bank losses and failures.

Effective management of the credit management and the credit function is fundamental to a bank's safety and soundness. Credit management is the process by which risks that are inherent in the credit process are managed and controlled. Because review of the credit system is so important that it is a primary supervisory activity. Credit management involves evaluating the steps bank management takes to identify and control risk throughout the credit process. The assessment focuses on what management does to identify issues before they become problems. This booklet, written for the benefit of both examiners and bankers, discusses the elements of an effective credit management process. It emphasizes that the identification and management of risk among groups of loans may be at least as important as the risk inherent in individual loans.

The studied has been divided into five chapters namely Introductory, Review of Literature, Research Methodology, Presentation and Analytical Part and Conclusive and Recommendation Parts. Books relating to finance and commercial banks, journals, policy documents, related thesis have been reviewed and taken as basis to determine research gaps and various sequential steps have been followed while conducting this thesis and to fulfill the objectives and to provide the solution for the problems stated in the study.

It has been a matter of grand pleasure for me to complete this critique under the guidance of valued and honorable Dr. Shilu Bajracharya (Manandhar) She has been helpful and has been feel free for always providing to sorts of guidelines, whenever I had seek them. I must be indebted to Mr. Ramesh Raj Aryal and Mrs. Nirmala (Sharma Aryal) for their favorable and logical support. I am also grateful to Mr. Suresh Dhakal for his analytical and decisive support for completion of this study.

My paradise will be always with my family members and my wife Mrs. Samina Sinkhada for their moral support to complete this thesis.

# CONTENTS

S.N	TOPICS	PAGE NO.
<b>CHAPTER - 1</b>		
<b>INTRODUCTION</b>		
1.1	Background of the study	1
1.2	Profile of NCC bank	5
1.3	Credit policy	6
1.4	Statement of the problem	7
1.5	Objectives of the study	8
1.6	Need of the study	8
1.7	Focus of the study	9
1.8	Significance of the study	9
1.9	Limitation of the study	9
1.10	Organisation of the study	10
<b>CHAPTER – 2</b>		
<b>REVIEW OF LITERATURE</b>		
2.1	Conceptual review	12
2.1.1	Various types of credit	14
2.1.2	Important of credit management	19
2.1.3	Objectives of credit management	21
2.1.4	Principle of good lending	23
2.1.5	General Procedure in granting loan & advances	24
2.2	Review of NRB Directives	26
2.3	Review of NRB Act	31
2.4	Review of related studies	33
2.5	Review of dissertation	39
2.6	Research gap	42
<b>CHAPTER – 3</b>		
<b>RESEARCH METHODOLOGY</b>		
3.1	Research design	44
3.2	Sources of data	46
3.3	Sample	47
3.4	Presentation of data	47
3.5	Method of analysis	47
3.5.1	Theoretical analysis	47
3.5.2	Financial analysis	47
3.5.3	Risk Weighted Assets	50
3.5.4	Capital Adequacy Ratio	50
3.5.5	Single Obligor Limit (Single Borrower Limit)	51
3.6	Statistical Tools	51

<b>CHAPTER – 4</b>		
<b>PRESENTATION AND ANYLISIS OF DATA</b>		
4.1	Background	54
4.1.1	Model applied by NCC Bank for Credit Procedure	54
4.1.2	Steps applied by NCC Bank for Credit Procedure	55
4.1.3	Safety & reliability principles applied by NCC Bank	58
4.2	Presentation and Analysis of data	59
4.2.1	Credit Practices Ratio	60
4.2.2	Credit Efficiency Ratio	70
4.2.3	Risk Weighted Assets	75
4.2.4	Capital Adequacy Ratio	78
4.2.5	Single Obligor Limit (Single Borrower Limit)	79
4.2.6	Correlation coefficient	80
4.2.7	Time series	84
4.2.8	Feedback of credit oriented customers	87
<b>CHAPTER – 5</b>		
<b>SUMMARY, CONCLUSION AND RECOMMENDATION</b>		
5.1	Summary	89
5.4	Conclusion	92
5.5	Recommendation	94

**Annexes -1, Bibliography**

**Annexes -2, Questionnaire**

**Annexes-3, Audit Report; Nepal Credit and Commerce Bank Ltd.**

## LIST OF TABLES

S.N	TOPICS FOR TABLE	PAGE NO.
1	Financial Report of NCC Bank Ltd.	59
2	Total loans to total deposit	61
3	Interest Income to Loan and advances	62
4	Loan and advances to Total assets	64
5	Loan and advances to Current assets	65
6	Interest income to Total income	66
7	Total loan and advances to Total capital and liabilities	68
8	Net interest income to Net profit	69
9	Non performing loan to Total Loan and advances	71
10	Loan loss provision to Total loan and advances	72
11	Total loan loss provision to Non performing loan	74
12	Risk Weighted Assets of NCC Bank Ltd	75
13	Calculation of Capital Adequacy Ratio of NCC Bank	78
14	Single Obligor Limit of NCC Bank	79
15	Correlation Coefficient between Non performing loan & Total Loan & advances	81
16	Correlation Coefficient between Loan Loss Provision & Total Loan & advances	82
17	Correlation Coefficient between Loan Loss Provision & Non performing loan	83
18	Analysis of Net profit	84
19	Actual trend of Net profit	86



## LIST OF FIGURES

S.N	TOPICS FOR FIGURE	PAGE NO.
1	Research and design applied	44
2	Bar Diagram & Trend showing Total loans to total deposit	61
3	Bar Diagram & Trend showing Interest Income to Loan and advances	63
4	Bar Diagram & Trend showing Loan and advances to Total assets	64
5	Bar Diagram & Trend showing Loan and advances to Current assets	66
6	Bar Diagram & Trend showing Interest income to Total income	67
7	Bar Diagram & Trend showing Total loan and advances to Total capital and liabilities	68
8	Bar Diagram & Trend showing Net interest income to Net profit	70
9	Bar Diagram & Trend showing Non performing loan to Total Loan and advances	71
10	Bar Diagram & Trend showing Loan loss provision to Total loan and advances	73
11	Bar Diagram & Trend showing Total loan loss provision to Non performing loan	74
12	Trend showing Risk Weighted Assets of NCC Bank Ltd	77
13	Trend showing Capital Adequacy Ratio of NCC Bank	79
14	Trend of Net profit / Net loss	86
15	Trend for Recovery of loss	87

## LIST OF ABBREVIATIONS

&	=	And
ABBS	=	Any Branch Banking Service
AD	=	Anno Domini
ADB	=	Agriculture Development Bank
APEC	=	Asia Pacific Economic Co-operation
ATM	=	Automatic Teller Machine
BFI	=	Banking & Finance Institution
BOD	=	Board of Director
BS	=	Bikram Samwat
CEO	=	Chief Executive Officer
CIB	=	Credit Information Beuro
e.g.	=	For Example
F/Y	=	Fiscal Year
GFC	=	Goodwill Finance Company
HBL	=	Himalaya Bank Ltd.
JVB	=	Joint Venture Bank
L/C	=	Letter of Credit
LPM	=	Loan Portfolio Management
MIS	=	Management Information System
NBOC	=	Nepal Bank of Ceylon
NCC Bank	=	Nepal Credit & Commerce Bank
NIBL	=	Nepal Investment Bank Ltd
NPA	=	Non Performing Assets
NRB	=	Nepal Rastra Bank
RBB	=	Rastriya Banijya Bank
SCBL	=	Standard Chartered Bank Ltd
SCT	=	Smart Choice Technology
SOL	=	Single Obligor Limit
SWIFT	=	Society for Worldwide International Fund Transfer