

IMPACT OF NRB DIRECTIVES ON NEPALESE COMMERCIAL BANKS

**(With References to Nabil Bank Limited , Himalayan Bank Limited, Lumbini Bank Limited
and Nepal Bank Limited)**

A THESIS

Submitted By:

SABINA SHRESTHA

Shanker Dev Campus

T.U. Registration No.: 7-2-422-109-2004

Campus Roll No.: 271/064

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.)

August 2012

Kathmandu, Nepal

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

SABINA SHRESTHA

Entitled:

IMPACT OF NRB DIRECTIVES ON NEPALESE COMMERCIAL BANKS

(With References to Nabil Bank Limited, Himalayan Bank Limited, Lumbini Bank Limited 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. Kailash P. Amatya

(Thesis Supervisor)

.....
Asso. Prof. Bishweshwor Man Shrestha Asso.Prof. Prakash Singh Pradhan

(Head of Research Department)

.....
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By:

SABINA SHRESTHA

Entitled:

IMPACT OF NRB DIRECTIVES ON NEPALESE COMMERCIAL BANKS

**(With References to Nabil Bank Limited, Himalayan Bank Limited, Lumbini Bank Limited
and
Nepal Bank Limited)**

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 the **Degree of Master’s in Business Studies (M.B.S.)**

Viva-Voce Committee

Head- Research Department :

Member (Thesis Supervisor) :

Member (External Expert) :

DECLARATION

I hereby declare that the work reported in this thesis entitled **“Impact of NRB Directives on Nepalese Commercial Banks”** submitted to Shaker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement of the degree of Master of Business Studies (MBS) under the supervision of Mr. Kailash P. Amatya of Shanker Dev Campus.

.....

SABINA SHRESTHA

Researcher

MBS, Shaker Dev Campus

AUGUST 2012

ACKNOWLEDGEMENT

The thesis entitled “**Impact of NRB Directives in Nepalese Commercial Bank**” has been taken in partial fulfillment of the requirement for the course on Research Methodology for the degree of Master of Business Studies (MBS) of Tribhuvan University. This research report is an honest effort to record my outcome of efforts and commitment, which would not have been possible without the contribution of many individuals which helped me in many aspects during its preparation. Therefore, I would like to take this opportunity to sincerely express my gratitude to all of them.

My heartfelt thanks goes to respected faculty Kailash P. Amatya of Shanker Dev Campus for providing me with such research and also for his guidance, constructive criticism, unstinted inspiration and continuous support rendered to me throughout the course of this research.

I also feel highly obliged to all the people from different organization for providing me the necessary data and information related with the study. Their friendly behavior and warm co-operation helped me a lot to prepare this report.

I owe sincere thanks to my colleague of Shanker Dev Campus for providing their help and moral support to prepare this report. And last but not the least, special thanks goes to my family for their continuous inspiration and encouragement without which this report would never have been possible.

SABINA SHRESTHA

MBS, Shaker Dev Campus

LIST OF ABBREVIATION

A.D.	:	Anno Domini
ADB	:	Agricultural Development Bank
Adv	:	Advances
AM	:	Arithmetic Mean
BP	:	Bills Purchase
B.S.	:	Bikram Sambat
BFIRD	:	Bank and Financial Institutions Regulation Department
CA	:	Capital Adequacy
CAR	:	Capital Adequacy Ratio
CB	:	Commercial Bank
CEO	:	Chief Executive Officer
Chap.	:	Chapter
CIB	:	Credit Information Bureau
CRR	:	Cash Reserve Ratio
C.v	:	Co-variance
Dev.	:	Development
EBL	:	Everest Bank Limited
Ed.	:	Edition
Etc	:	Etcetera
Fig.	:	Figure
FY	:	Fiscal Year
HBL	:	Himalayan Bank Limited
INGO	:	International Non Government Organization
Jan.	:	January
JVB	:	Joint Venture Bank
KP.	:	Kathmandu Post
LBL	:	Lumbini Bank Limited
Ltd.	:	Limited

NBBL	:	Nepal Bangladesh Bank Limited
NBL	:	Nepal Bank Limited
NGO	:	Non Government Organization
No.	:	Number
NPA	:	Non-Performing Asset
NPL	:	Non- Performing Loan
NRB	:	Nepal Rastra Bank
P.	:	Page
Pc	:	Percentage
PL/Ac	:	Profit Loss Account
PL	:	Performing Loan
PNB	:	Punjab National Bank
RRDB	:	Regional Rural Development Banks
Rs.	:	Rupees
RWA	:	Risk Weighted Assets
S.D	:	Standard Deviation
SAARC	:	South Asian Association of Regional Cooperation
Sep.	:	September
TRWA	:	Total Risk Weighted Assets
TU	:	Tribhuvan University
UAE	:	United Arab Emirates
UK	:	United Kingdom
Vol.	:	Volume
W.r.t.	:	With Respect To
Wt.	:	Weight
www	:	World Wide Web

TABLE OF CONTENTS

	PAGE NO.
CHAPTER ONE INTRODUCTION	
1.1. General Background:	1
1.2. Brief Introduction of Selected Commercial Banks:	6
1.2.1. Nabil Bank:	6
1.2.2. Himalayan Bank Limited:	7
1.2.3. Nepal Bank Limited:	8
1.2.4. Lumbini Bank Limited:	9
1.3. Focus of the Study:	10
1.4. Statement of the Problem:	10
1.5. Objectives of the study:	11
1.6. Limitations of the study:	11
1.7. Organization of the study:	11
CHAPTER TWO REVIEW OF LITERATURE	
2.1. History & Need of a Central Bank:	13
2.1.2 Meaning of Central Bank:	14
2.1.3 Introduction to Nepal Rastra Bank:	15
2.1.4 Organizational Structure of Nepal Rastra Bank:	15
2.2 Regulatory Measures followed by NRB for CBs:	17
2.2.1 Legal Framework of Establishing Commercial Bank:	17
2.2.2. Bank Capital Structure Requirements:	18
2.2.3 Capital Requirement Criteria for Establishing New Bank:	19
2.2.4. CRR for CB:	21
2.2.5. Credit Classification & Loan Loss Provision for CB:	22
2.2.6. Black listing Provision:	22
2.2.7. Protective Provision for CB:	23

2.2.8. Protective Provision for CB:	23
2.2.9. Imposition of Restriction:	23
2.2.10. Promoters' Qualification:	23
2.3. Bank Supervision in Nepal:	23
2.3.1. Introduction to Financial Analysis:	24
2.3.2. Review of Articles & Journals:	25
2.3.3. Review of the Previous Research	27
2.4 Research Gap	30

CHAPTER THREE RESEARCH METHIODOLOGY

3.1 Research Design	31
3.2 Population and Sample	31
3.2.1 Population	31
3.2.2 Sample	31
3.3 Sources of Data	31
3.4 Methods of Data Analysis	32
3.5 Tools Used	32
3.5.1. Credit Deposit Ratio (C.D Ratio)	32
3.5.2. Capital Deposit Ratio	32
3.5.3. Cash Reserve Ratio (CRR)	32
3.5.4. Arithmetic Mean (A.M)	32
3.5.5. Standard deviation (S.D)	33
3.5.6. Coefficient of Variation (CV)	33
3.5.7 Test of Hypothesis	33
3.5.8. Line Graphs	34

CHAPTER FOUR DATA PRESENTATION AND ANALYSIS

4.1 Introduction	35
4.2 Capital Deposit Ratio of the CBs:	35
4.3 Credit Deposit Ratio of the CBs:	36

4.4	Cash Reserve Ratio of the CBs:	37
4.5	Capital Fund to Risk Weighted Assets of the CBs:	38
4.6	Classification of Credits of CBs in percentage	40
4.7	Test of Hypothesis	42
	4.7.1. Test of Hypothesis on CRR of Nabil, NBL, LUBL & HBL:	42
4.8	Major findings of the study	43

CHAPTER FIVE SUMMARY, CONCLUSION AND RECOMENDATION

5.1	Summary	45
5.2	Conclusion	46
5.3	Recommendation	47

BIBLOGRAPHY

APPENDIX

LIST OF TABLE

		PAGE NO.
Table No.1.1	Capital Structure Requirements	19
Table No.1.2	Actions on Non-compliance of Minimum Capital Requirement	20
Table No.1.3.	CRR at Different Time Period	21
Table No.1.4.	Credit Classification & Loan Loss Provision for CB	22
Table No.4.2.	Capital Deposit Ratio of CBs	35
Table No.4.3.	CD Ratio of CBs	36
Table No.4.4	CRR of the CBs	37
Table No. 4.5	Capital Fund to RWA of the CBs	38
Table No.4.6	NPL of CBs	40
Table No.4.7	PL of CBs	41
Table No.4.7.1	One-way AVOVA Table for CRR	43

LIST OF FIGURES

		PAGE NO.
Table No.4.2	Capital Deposit Ratio of CBs	36
Table No.4.3	CD Ratio of CBs	37
Table No.4.4	CRR of the CBs	38
Table No. 4.5	Capital Fund to RWA of the CBs	39
Table No.4.6	NPL of CBs	40
Table No.4.7.	PL of CBs	41