

**IMPLEMENTATION AND IMPACT  
OF  
NEPAL RASTRA BANK DIRECTIVES  
ON  
COMMERCIAL BANKS**

Submitted By:

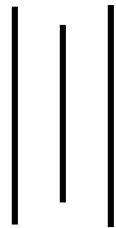
**Nitu Dhungel**

Post Graduate Campus Biratnagar

T.U. Registration No.: **7-2-3-2069-99**

Campus Roll No. **16**

Second Year Symbol No. **40316**



*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.)*

**Biratnagar, Nepal**

September, 2010



**TRIBHUVAN UNIVERSITY  
POST GRADUATE CAMPUS  
BIRATNAGAR  
NEPAL**

Tel : 021-526327, 522204

Ref. No .....

***RECOMMENDATION***

This is to certify that the thesis:

Submitted by

Nitu Dhungel

entitled

**IMPLEMENTATION AND IMPACT  
OF  
NEPAL RASTRA BANK DIRECTIVES  
ON  
COMMERCIAL BANKS**

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

Thesis Supervisor  
(Prof. Dr. Ramesh Dahal)

Head of Research Department  
(Dr. Khagendra Acharya)

.....

.....

Campus Chief  
(Harihar Bhandari)

Date.....

.....

## **DECLARATION**

I hereby declare that the work reported in this thesis entitled “**IMPLEMENTATION AND IMPACT OF NEPAL RASTRA BANK DIRECTIVES ON COMMERCIAL BANKS**” 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’s Degree in Business Study (M.B.S.) under the supervision of **Prof. Dr. Ramesh Dahal** of Post Graduate Campus Biratnagar.

.....

**Nitu Dhungel**

**Researcher**

**Post Graduate Campus, Biratnagar**

**T.U. Regd. No. : 7-2-3-2069-99**

**Campus Roll No. 16**

**Second Year Symbol No. : 40316**

# **ACKNOWLEDGEMENT**

I take this opportunity to thank all the people who has in one way or the other helped me through making of this thesis report. First of all I state my gratitude to my supervisor, Mr. Prof. Dr. R. Dahal, Mr. Anil Pokharel and Mr. Khagendra Acharya of Post Graduate Campus Biratnagar. Without their effort, enthusiasm and inspiration in his guiding for this report, this work would not have been possible.

My gratitude would be incomplete without thanking those people who were there whenever I turned back. I am totally grateful to my best of friends Mr. Sudan Silwal, Punya Prasad Dahal and Binod Kumar Pokharel for helping me get through the difficult times, and of course for all the emotional support, entertainment and that special care they provided.

Again the list of gratitude follows to the librarians of Post Graduate Campus Biratnagar for assessing me in many ways. And lastly, I wish to thank my entire family for providing a loving environment for me, especially my husband Mr. Jharendra Dip Pokharel and my parents who were very supportive throughout my making of this thesis report. To all of them, I dedicate this thesis report.

**Nitu Dhungel**

Researcher

Faculty of Management

# TABLE OF CONTENTS

Recommendation  
Viva Voice Sheet  
Declaration  
Table of Contents  
List of Tables  
List of Figures  
Abbreviations

**Page No.**

## **CHAPTER - I        INTRODUCTION**

1.1. Background of the Study	1
1.1.1 An Introduction of Sample Banks	5
1.2. Focus of the study	11
1.3. Statement of problem	11
1.4. Objectives of the Study	12
1.5. Significance of the Study	13
1.6. Limitations of the Study	14
1.7. Organization of the Study	14

## **CHAPTER - II        REVIEW OF LITERATURE**

2.1. Conceptual Framework	16
2.1.1. Supervision and Regulation of NRB	16
2.1.2. Review of NRB Directives	18
2.2 Review of Related Studies	35
2.2.1 Review of the Article and Journal	35
2.3 Research Gap	46

## **CHAPTER – III        RESEARCH METHODOLOGY**

3.1. Research Design	48
3.2. Population and Sample	48
3.3. Sources of Data	49
3.4. Data Collection Techniques	49
3.5. Data Analysis Tools	50

a. Financial Tools	50
b. Statistical Tools	52
c. Analysis of Primary Data	54

#### **CHAPTER – IV DATA PRESENTATION AND ANALYSIS**

4.1. Capital Fund Analysis	55
4.2. Loan and Loan Loss Provision Analysis	65
4.3. Single Borrower Limits	74
4.4. Primary Data Analysis	79
4.5. Major Findings of the Study	84

#### **CHAPTER- V SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.1 Summary	88
5.2 Conclusion	89
5.3 Recommendations	92

<b>Bibliography</b>	<b>96</b>
---------------------	-----------

# List of Tables

<b><u>Table No.</u></b>	<b><u>Title of Table</u></b>	<b><u>Page No</u></b>
2.1	Capital Fund to be maintained	24
2.2	Risk weighted on balance sheet assets	25
2.3	Risk weighted off balance sheet items	26
2.4	Provision for loan loss	29
4.1	Capital fund of Rastriya Banijya Bank Limited	55
4.2	Capital fund of Nepal Bank Limited	58
4.3	Capital fund of Nepal Bangladesh Bank Limited	61
4.4	Loan and loan loss provision of RBB	65
4.5	Loan and loan loss provision of NBL	68
4.6	Loan and loan loss provision of NBBL	71
4.7	Comparative data of the single borrower limit of RBB	75
4.8	Comparative data of the single borrower limit of NBL	75
4.9	Comparative data of the single borrower limit of NBBL	79
4.10	Number of respondents	79
4.11	View on effectiveness and necessary of NRB directives in regulating and supervising the commercial banks.	80
4.12	View on implementation and need of NRB directives and capital adequacy norms	81
4.13	View on capital adequacy and new directives for regulation and supervision of commercial banks	83

# List of Figures

<b><u>Figure No.</u></b>	<b><u>Title of Figure</u></b>	<b><u>Page No</u></b>
4.1	Capital fund of RBB	56
4.2	Core capital to RWA of RBB	56
4.3	CAR to RWA of RBB	57
4.4	Capital fund of NBL	59
4.5	Core capital to RWA of NBL	59
4.6	CAR to RWA of NBL	60
4.7	Capital fund of NBBL	62
4.8	Core capital to RWA of NBBL	62
4.9	CAR to RWA of NBBL	63
4.10	Portfolio of loan and advance of RBB	66
4.11	Loan loss provision and total loan advance	66
4.12	NPL and provision for NPL of RBB	67
4.13	Portfolio of loan and advance of NBL	69
4.14	Loan loss provision of NBL	70
4.15	Portfolio of loan and advance of NBBL	72
4.16	Loan loss provision of NBBL	73
4.17	Comparative figure of single borrower limit of RBB	76
4.18	Comparative figure of single borrower limit of NBL	77
4.19	Comparative figure of single borrower limit of NBBL	77

## Abbreviations

ADB/M	Asian Development Bank Manila
ADB/N	Agricultural Development Bank of Nepal
BAFIO	Bank and Financial Institution Ordinance
BFIRD	Bank and Financial Institutions Regulation Department
BIS	Bank for International Settlement
BIS	Basel Agreement for International Settlement
CAR	Capital Adequacy Ratio
CIB	Credit Information Bureau
FY	Fiscal Year
HBL	Himalayan Bank Limited
IASB	International Accounting Standard Board
JVB	Joint Venture Bank
LC	Letter of Credit
LLP	Loan Loss Provision
NABIL	Nepal Arab Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NGO	Non-Government Organization
NIBL	Nepal Investment Bank Limited
NPL	Non-Performing Loan
NRB	Nepal Rastra Bank
PE	Probable Error
RBB	Rastriya Banijya Bank
RWA	Risk Weighted Assets
SBI	State Bank of India
SCBNL	Standard Chartered Bank Limited
SE	Standard Error
SRP	Supervisory Review Process
TRWA	Total Risk Weighted Assets
WB	World Bank
WTO	World Trade Organization