

# **RISK MANAGEMENT OF LUMBINI BANK LIMITED IN NEPAL**

## **A THESIS**

***Submitted By:***

BALARAM LAMSAL

T.U. Regd. No.: 7-1-297-244-2001

Campus Roll No.: 734/064

Exam Roll No of 2nd year: 391049

Shanker Dev Campus

***Submitted To:***

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the requirements for the Degree of  
**Master of Business Studies (M.B.S.)**

Kathmandu, Nepal

Nov 2011

## **RECOMMENDATION**

This is to certify that the thesis

*Submitted By:*

BALARAM LAMSAL

Entitled:

### **RISK MANAGEMENT OF LUMBINI BANK LIMITED IN NEPAL**

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

.....  
Asso .Prof Ruchila Pandey

**(Thesis Supervisor)**

.....  
Prof. Bishweshor Man Shrestha

**(Head, Research Department)**

.....  
Prof. Dr. Kamal Deep Dhakal

**(Campus Chief)**

## **VIVA-VOCE SHEET**

We have conducted the viva-voce of the thesis presented

*Submitted By:*

BALARAM LAMSAL

*Entitled:*

### **RISK MANAGEMENT OF LUMBINI BANK LIMITED IN NEPAL**

And found the thesis to be 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 of Business Studies**

#### **Viva-Voce Committee**

Head, Research Department	:	.....
Member (Thesis Supervisor)	:	.....
Member (External Expert)	:	.....

## DECLARATION

I hereby declare that the work done in thesis entitled "*Risk Management of Lumbini Bank Limited in Nepal*" 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 teacher supervisor **Asso.Prof Ruchila pandey** of Shanker Dev Campus.

.....  
BALARAM LAMSAL

**Researcher**

T.U. Regd. No: 7-1-297-244-2001

Campus Roll No.:734/064

## **ACKNOWLEDGEMENT**

I would like to express my gratitude and appreciation to all those who provided me the genuine support to complete the thesis. I am greatly be debited with all personalities for their respective helps and suggestions.

I take this opportunity to acknowledge my deep sense of Gratitude to my supervisors, **Asso.Prof Ruchila Pandey, Shanker Dev Campus, Tribhuvan University**, for his generous encouragement and undertakings of the supervision of my entire research work. This form of the report is the outcome of his continuous encouragement, helpful suggestions and comments. I wish to extend thanks to **Prof. Dr. Kamal Deep Dhakal**, Chief of Shanker Dev Campus and my all respected teachers for providing me the invaluable information, suggestions and comments.

I would like to express heartily thanks to the staff of Library Shanker Dev Campus, staff of Central Library of T.U. My special thanks go to Lumbini Bank Limited for providing their valuable data, suggestions generously for the completion of this thesis. And I would also like to say thanks to my colleagues who provided their help directly or indirectly in my study.

Last but not least, I would to express my deep gratefulness to all my friend and my family member for the encouragement and moral support from inception to completion of this thesis research work.

Thank You,

**BALARAM LAMSAL**

# TABLE OF CONTENTS

Recommendation  
Viva-Voce Sheet  
Declaration  
Acknowledgement  
Table of Contents  
List of Table  
Abbreviation

**PAGE NO.**

## **CHAPTER I-INTRODUCTION**

**1-11**

1.1	Background of the Study	1
	1.1.1 Meaning of Commercial Bank:	3
	1.1.2 Profile of sample Bank	6
1.2	Focus of the study	8
1.3	Statement of the problems.	9
1.4	Objective of the study	9
1.5	Limitation of the study	10
1.6	Significance of the study	10
1.7	Organization of the study	11

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

**12-40**

2.1	Conceptual Framework	12
	2.1.1 Sources of Risk	14
	2.1.2 Types of Risk Faced by Commercial banks	18
	2.1.3 Fundamental Elements of Sound Risk Management	22
2.2	Review of NRB Directives	22
2.3	Review of Journals and Articles	33

2.4	Review of Thesis	35
<b>CHAPTER-III RESEARCH METHODOLOGY</b>		<b>43-45</b>
3.1	Introduction	43
3.2	Research Design	43
3.3	Population and Sampling	44
3.4	Sources of Data and Collection Procedure	45
3.5	Data Processing and Presentation	45
3.6	Data Analysis Tools	45
<b>CHAPTER-IV DATA PRESENTATION AND ANALYSIS</b>		<b>48-70</b>
4.1	Introduction	48
4.1	For the First objective credit risk management	48
4.2	for the second objective Credit risk	
	Management is to maximize a banker's risk	49
4.2.1	Ratio Analysis	
	4.2.1.1 Total Loans, Advances & Bills Purchased to Risk Weighted Assets (RWA) Ratio	49
	4.2.1.2 Non-Performing Loan to Total Loans and Advances Ratio	53
	4.2.1.3 Loan Loss Provision to Non Performing Loan (NPL) Ratio	54
	4.2.1.4 Loan Loss Provision to Total Loans and Advances	55
	4.2.2 Collateral/Security-wise Lending	56
	4.2.3 Risk Weighted Lending Analysis	56
	4.2.4 Sector-wise Loan of Lumbini Bank	58
	4.2.5 Common Sources of Major Credit Problems	58
	4.2.5.1 Concentration	58
	4.2.5.2 Credit Process Issues	59
	4.2.6 Banking Risk and Capital Adequacy Measures	61
4.3	Major Findings of the Study	61
	4.3.1 The Key Performance Indicators	62

4.3.2	Credit Risk Management Procedure	64
-------	----------------------------------	----

**CHAPTER-V SUMMARY, CONCLUSION AND RECOMMENDATION**

		<b>66-70</b>
5.2	Summary	66
5.2	Conclusion	69
5.3	Recommendations	70

**BIBLOGRAPHY**

**ANNEX**



## LIST OF TABLE

<b>TABLE NO.</b>	<b>TITLE</b>	<b>PAGE NO.</b>
Table 4.1	Loans, Advances and Bills Purchased to Total Risk Weighted Asset Ratio (%)	53
Table 4.2	Non-Performing Loan to Total Loans and Advances	54
Table 4.3	Loan Loss Provision to Non-Performing loan (%)	55
Table 4.4	Loan Loss Provision to Total Loan and Advances (%)	56
Table 4.5	Proportion of different category of risk weighted lending of LBL	57

## ABBREVIATIONS

&	:	And
A.D	:	Anno Domini
ADBN	:	Agriculture Development Bank Nepal
AIC	:	Agriculture Input Corporation
ALCO	:	Asset Liabilities Management Committee
B.S	:	Bikram Sambat
CAMELS	:	Capital, Assets, Quality, Management, Earning, Liquidity and Sensitivity
CAR	:	Capital Adequacy Ratio
CPG	:	Credit Policies Guidelines
ESC	:	Executive Sub Committee
F.Y	:	Fiscal Year
i.e	:	That is
IRR	:	Interest Rate Risk
LBL	:	Lumbini Bank Limited
Ltd.	:	Limited
M.B.S	:	Master of Business Studies
Mgmt.	:	Management
NBL	:	Nepal Bank Limited
NG	:	Nepal Government
No.	:	Number
NPAs	:	Non-Performing Assets
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
%	:	Percentage

Pvt.	:	Private
Qty.	:	Quantity
RAROC	:	Risk Adjusted Return on Economic Capital
RBB	:	Rastriya Banijya Bank
Rs.	:	Rupees
RWA	:	Risk Weighted Assets
SCBNL	:	Standard Chartered Bank Nepal Limited
S.N	:	Serial Number
T.U	:	Tribhuvan University

