

**AN OVERVIEW OF NON-PERFORMING ASSET OF
NEPALESE COMMERCIAL BANKS
(With reference to NIBL, NABIL & NBBL)**

By:

Seema Bashyal

Nepal Commerce Campus

Group: Finance

Level: MBS 2nd year

Campus Roll no: 903/064

Roll No.: 250635/066

T.U. Regd. No.: 7-2-470-97-2004

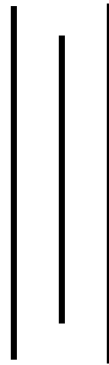
A Thesis Submitted to:

Research Department

Nepal Commerce Campus

Tribhuvan University

Kathmandu, Nepal



*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal

May 2010

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

SEEMA BASHYAL

Entitled:

**AN OVERVIEW OF NON-PERFORMING ASSET OF
NEPALESE COMMERCIAL BANKS
(With reference to NIBL, NABIL & NBBL)**

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

.....
Dr. Sushil Bhakta Mathema
(Thesis Supervisor)
(Head of Research Department)

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

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

SEEMA BASHYAL

Entitled:

**AN OVERVIEW OF NON-PERFORMING ASSET OF
NEPALESE COMMERCIAL BANKS
(With reference to NIBL, NABIL & NBBL)**

*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*

Master Degree of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

(Thesis Supervisor)

.....

TRIBHUVAN UNIVERSITY

Faculty of Management

Nepal Commerce Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled “**An Overview of Non-Performing Asset of Nepalese Commercial Banks (With reference to NIBL, NABIL & NBBL)**” 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 Studies (M.B.S.) under the supervision of **Dr. Sushil Bhakta Mathema** of Nepal Commerce Campus.

.....

Seema Bashyal

Researcher

Nepal Commerce Campus

T.U. Regd. No: 7-2-470-97-2004

Campus Roll No: 250635/064

ACKNOWLEDGEMENT

The purpose of preparing this thesis is to fulfill the requirements for the degree of Master of Business Studies (MBS). The main objective of this study is to conduct research on the “An Overview of Non-Performing Asset of Nepalese Commercial Banks (With reference to NIBL, NABIL & NBBL)”. All efforts have been made to make this project work authentic and have tried to show this thesis easy and systematic as far as possible.

I wish to extend my deep sense of indebtedness to my supervisors Prof. Dr Sushil Bhakta Mathema who provided me valuable guidelines , insightful, comments, encouragement and generous treatment to complete this thesis. This work never has been come out in the present form without their valuable guidelines and suggestions. I could never forget the help of the respondents who provided with valuable information needed for the study. I would, therefore like to express my deep gratitude for their co-operation.

Appreciable thanks goes to staffs of NIBL, NABIL & NBBL for their cooperation while providing data that are crucial for the study. I am very much indebted to my friends who directly and indirectly helped me with their valuable suggestions for completion of this work.

Finally, I would like to disclose my sincere gratitude to my dearest parentsand my husband for their co-operation, support and encouragement for the completion of this work.

Seema Bashyal

TABLE OF CONTENTS

Recommendation
Viva Voce Sheet
Declaration
Acknowledgment
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 BRIEF HISTORY OF EVOLUTION OF BANKING	3
1.1.2 Banking System in Nepal	4
1.1.3 Brief Introduction of Commercial Bank	6
1.1.4 BRIEF PROFILE OF THE SELECTED BANKS	7
1.2 Focus of the Study	10
1.3 Statement of the Problems	11
1.4 Importance of the Study	12
1.5 Objectives of the Study	12
1.6 Limitation of the Study	12
1.7 Organization of the Study	13

CHAPTER – II REVIEW OF LITERATURE

2.1 CONCEPTUAL/THEORETICAL REVIEW	15
2.1.1 LOANS, DISCOUNTS AND OVERDRAFTS (LDO)	15
2.1.2 LOAN CLASSIFICATION	16
2.1.3 PAST DUE/OVERDUE	16
2.1.4 PERFORMING ASSETS (LOANS)	16
2.1.5 NON-PERFORMING ASSETS/LOANS (NPA / NPL)	16
2.1.6 WHY LOANS GO BAD?	17

2.1.7 CHALLENGES	20
2.2 REVIEW OF RELEVANT NRB DIRECTIVES	21
2.3 REVIEW OF RELEVANT ARTICLES/JOURNALS	26
2.4 REVIEW OF RELATED THESIS	32
2.5 RESEARCH GAP	37
CHAPTER – III RESEARCH METHODOLOGY	
3.1 RESEARCH DESIGN	38
3.2 SIZE OF POPULATIONS AND SAMPLING	39
3.3 SOURCES OF DATA	39
3.4 DATA COLLECTION TECHNIQUES	40
3.5 DATA ANALYSIS TOOL	40
3.5.1 FINANCIAL TOOLS	40
3.5.1.1 RATIO ANALYSIS	41
3.5.2 STATISTICAL TOOLS	43
3.5.2.1 PERCENTAGES	43
3.5.2.2 MEASURES OF CENTRAL TENDENCY	44
3.5.2.3 MEASURES OF DISPERSION	44
3.5.2.4 STANDARD DEVIATION	44
3.5.2.5 COEFFICIENT OF VARIATION	45
3.5.2.6 CORRELATION COEFFICIENT	45
3.5.3 TREND ANALYSIS	46
3.5.4 Diagrammatic and Graphical Representation	48
CHAPTER – IV DATA PRESENTATION AND ANALYSIS	
4.1 Ratio Analysis	49
4.1.1 Loans and Advances to Total Asset Ratio	49
4.1.2 LOANS AND ADVANCES TO TOTAL DEPOSIT RATIO (CD RATIO)	51
4.1.3 NON-PERFORMING ASSETS (LOANS) TO TOTAL LOANS AND ADVANCES RATIO	
	53
LOAN LOSS PROVISION TO TOTAL LOANS AND ADVANCES RATIO	55

4.1.5 PROVISION HELD TO NON-PERFORMING LOAN RATIO	57
4.1.6 RETURN ON LOANS AND ADVANCES	59
4.2 Correlation Analysis	61
4.2.1 Correlation between Loan Loss Provision and Loans and Advances	61
4.2.2 Correlation between Loan Loss Provision and Non-Performing Loans	61
4.2.3 Correlation between Loans and advances and Deposit	62
4.3 Correlation between Average Interest rate and Average Loan Amount	63
4.4 Trend Analysis	63
4.4.1 Trend Analysis of Loans and Advances	64
4.4.2 Trend Analysis of Non-Performing Assets (Loan)	65
4.4.3 Trend Analysis of Loan Loss Provision	67
4.4.4 Trend Analysis of Net Profit	69
4.5 Analysis of Loan Classification and Loan Loss Provisioning Directives	70
4.6 Analysis of Classification of Loans and Provisioning as per new Directive	73
4.7 Major Findings of the Study	74

CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	78
5.2 Conclusion	80
5.3 Recommendations	82

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

TABLE NO.	TITLE	PAGE NO.
4.1	LOANS & ADVANCES TO TOTAL ASSET RATIO	49
4.2	LOANS & ADVANCES TO TOTAL DEPOSIT RATIO	51
4.3	NON-PERFORMING ASSETS (LOANS) TO LOANS & ADVANCES RATIO	53
4.4	LOAN LOSS PROVISION TO LOANS & ADVANCES RATIO	55
4.5	PROVISION HELD TO NON-PERFORMING LOAN RATIO	57
4.6	RETURN ON LOANS & ADVANCES	59
4.7	Correlation between LLP and Loans and Advances	61
4.8	Correlation between Loan Loss Provision and Non-Performing Loan	62
4.9	Correlation between Deposit & Loans and Advances and Deposit	63
4.10	Trend Values of Loans & Advances	64
4.11	Trend Values of Non-Performing Loan	66
4.12	Trend Values of Loan Loss Provision	68
4.13	Trend Values of Net Profit	69
4.14	Comparative Table of Loan Classification and Provisioning	72

LIST OF FIGURES

FIGURE NO.	TITLE	PAGE NO.
4.1	LOANS & ADVANCES TO TOTAL ASSET RATIO	50
4.2	LOANS & ADVANCES TO TOTAL DEPOSIT RATIO	52
4.3	NON-PERFORMING ASSETS (LOANS) TO LOANS & ADVANCES RATIO	54
4.4	LOAN LOSS PROVISION TO LOANS & ADVANCES RATIO	56
4.5	PROVISION HELD TO NON-PERFORMING LOAN RATIO	58
4.6	RETURN ON LOANS & ADVANCES	60
4.7	Trend Values of Loans & Advances	65
4.8	Trend Values of Non-Performing Loan	66
4.9	Trend Values of Loan Loss Provision	68
4.10	Trend Values of Net Profit	70

ABBREVIATIONS

%	:	Percentage
AIR	:	Accrued Interest Receivable
AMC	:	Asset Management Company
C.V.	:	Coefficient of Variation
CIB	:	Credit Information Bureau
EVC	:	Everest College
F/Y	:	Fiscal Year
L & A	:	Loan and Advances
Ltd.	:	Limited
MIS	:	Management Information System
NABIL	:	Nabil Bank Ltd.
NBBL	:	Nepal Bangladesh Bank Ltd.
NIBL	:	Nepal Investment Bank Ltd.
NO.(N)	:	Number
NP	:	Net Profit
NPA	:	Non Performing Asset
NRB	:	Nepal Rastra Bank
NSBs	:	National Saving Bonds
P.E.	:	Probable Error
r	:	Correlation Coefficient
RBB	:	Rastriya Banijya Bank
Rs.	:	Rupees
S.D.	:	Standard Deviation
T.U.	:	Tribhuwan University
TA	:	Total Asset
TD	:	Total Deposit