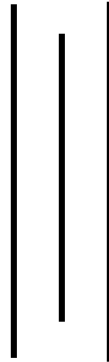


**IMPACT & IMPLEMENTATION OF NEPAL RASTRA BANK  
DIRECTIVES ON NON-PERFORMING LOAN  
(A Comparative Study of the Selected Nepalese Commercial Banks viz.  
NBL, SCBNL, NBL, LBL, NICB and NBB)**

**By  
SUVARAJ KAFLE  
Shanker Dev Campus  
T.U. Regd. No.: 9-1-240-762-98  
Campus Roll No. : 391/061**

**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  
September, 2009**

# **RECOMMENDATION**

This is to certify that the Thesis

Submitted by:

**SUVARAJ KAFLE**

**Entitled:**

**IMPACT & IMPLEMENTATION OF NEPAL RASTRA BANK  
DIRECTIVES ON NON-PERFORMING LOAN  
(A Comparative Study of the Selected Nepalese Commercial Banks viz. NBL,  
SCBNL, NBL, LBL, NICB and NBB)**

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

.....  
**Prof. Dr. Kamal Das Manandhar**  
(Thesis Supervisor)

.....  
**Prof. Bisheshwor Man Shrestha**  
(Head of Research Department)

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

.....  
**Dhurba Subedi**  
(Thesis Supervisor)

# VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

**SUVARAJ KAFLE**

**Entitled:**

**IMPACT & IMPLEMENTATION OF NEPAL RASTRA BANK  
DIRECTIVES ON NON-PERFORMING LOAN**

**(A Comparative Study of the Selected Nepalese Commercial Banks viz.  
NBL, SCBNL, NBL, LBL, NICB and NBB)**

*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 (M.B.S.)

Viva-Voce Committee

**Head, Research Department** .....

Member (Thesis Supervisor) .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

# **TRIBHUVAN UNIVERSITY**

**Faculty of Management**

**Shanker Dev Campus**

## **DECLARATION**

I hereby declare that the work reported in this thesis entitled **“IMPACT & IMPLEMENTATION OF NEPAL RASTRA BANK DIRECTIVES ON NON-PERFORMING LOAN (A Comparative Study of the Selected Nepalese Commercial Banks viz. NBL, SCBNL, NBL, LBL, NICB and NBB)”** 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. Kamal Das Manandhar** and **Dhurba Subedi**, Lecturer of Shanker Dev Campus.

.....

**SUVARAJ KAFLE**

**Researcher**

**T.U. Regd. No. : 9-1-240-762-98**

**Campus Roll No. : 391/061**

## **ACKNOWLEDGEMENTS**

It has been a great pleasure me to complete this research work under the supervision and guidance of Dr. Kamal Das Manandhar and Dhurba Subedi of Shanker Dev Campus. I acknowledge my profound gratification to them for their inestimable and continual guidance and support. Moreover, I am heartily indebted to the Library department of Shankar Dev Campus, Nepal Commerce Campus and TU Central Library for providing me the research materials during my study.

Throughout my research, I have received tremendous support from the personals of Nepal Rastra Bank, Various corporate bodies and the commercial bank officials. I am spiritually thankful to all the concerned officials for their valuable assistance.

Before I finish, I devote my appreciation to all my companions and my family members for their precious support in preparing this research.

Suvaraj Kafle

Researcher

# TABLE OF CONTENTS

Acknowledgement

Table of Contents

List of Tables

List of Figures

Abbreviations

**Page No.**

## **CHAPTER – I INTRODUCTION**

1.1 General Background of the Study	1
1.1.1 Banking in Nepal	5
1.1.2 Nepal Rastra Bank as a Central Bank	7
1.1.3 Profile of the Sample Banks	8
1.2 Statement of the Problem	16
1.3 Focus of the Study	17
1.4 Objectives of the Study	18
1.5 Limitations of the Study	18
1.6 Organization of the Study	19

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

2.1 Introduction	21
2.1.1 Role of NRB in Financial System	21
2.1.2 Vision, Mission, Core Values, Strategic Objectives and Strategic	22
2.2 Non-Performing Loan: An Introduction	23
2.3 Loan Loss Provision	25
2.4 Review of the Articles	27
2.4.1 NPL in the Nepalese Financial System and the Role of NRB and Judiciary System in Resolving the Problem	27
2.4.2 Problems of Debt Recovery in the Governmental Banks	31
2.4.3 NRB Supervision Process & Method	32

2.5 Review of the Journal	35
2.6 Review of the Unpublished Thesis	36
2.7 Research Gap	41

### **CHAPTER-III RESEARCH METHODOLOGY**

3.1 Research Design	43
3.2 Population & Sample	43
3.3 Nature & Sources of Data	44
3.4 Period of the Research Study	44
3.5 Method of Data Analysis	45
3.5.1 Financial Tools	45
3.5.1.1 Credit Deposit Ratio	45
3.5.1.2 NPL to Total Loan & Advances	46
3.5.1.3 Provision Held to NPL	46
3.5.1.4 Loan Loss Provision to Total Loan & Advances	46
3.5.2 Statistical Tools	47
3.5.2.1 Correlation Coefficient	47
3.5.2.2 Probable Error	48
3.5.3 Diagrammatic and Graphical Presentation	48

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

4.1 Financial Analysis	49
4.1.1 Credit Deposit Ratio	49
4.1.2 Non-Performing Loan to Total Loan & Advances	49
4.1.3 Loan Loss Provision to Loan & Advances	50
4.1.4 Provision Held to Non-Performing Loan	50
4.2 Statistical Tools	67
4.2.1 Correlation Coefficient	67

4.2.1.1 Correlation Coefficient between the Total Loan & Advances and Non-Performing Loan	68
4.2.1.2 Correlation Coefficient between the Loan Loss Provision and Total Loan & Advances	69
4.2.1.3 Correlation coefficient between Loan Loss Provision and Total NPL	71
4.3 Theoretical Analysis of the Implementation of NRB Directives	72
4.3.1 Implementation Part of the NRB Directives	72
4.3.2 Analysis of the Collected Primary Information	75
4.4 Findings of the Study	77

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

5.1 Summary	81
5.2 Conclusion	83
5.3 Recommendations	84

## **Bibliography**

## **Appendix**



## LIST OF TABLES

<b>Table No.</b>	<b>Title</b>	<b>Page No.</b>
4.1	Status of Total Deposit, Loans & Advances, NPL & LLP of Nepal Bank Ltd.	51
4.2	Total Deposit, Loans & Advances, NPL & LLP of Nabil Bank Ltd.	54
4.3	Total Deposit, Loans & Advances, NPL & LLP of Standard Chartered Bank Nepal Ltd.	57
4.4	Total Deposit, Loans & Advances, NPL & LLP of NICB	60
4.5	Total Deposit, Loans & Advances, NPL & LLP of Nepal Bangladesh Bank Ltd.	62
4.6	Total Deposit, Loans & Advances, NPL & LLP of Lumbini Bank Ltd.	65
4.7	Correlation Coefficient & Probable Error of NPL and Loans & Advances	68
4.8	Correlation Coefficient & Probable Error of LLP and Total Loan and Advances	70
4.9	Correlation Coefficient & Probable Error of LLP and NPL	71
4.10	Status of The New Directive in respect to Loans & Advances	73

## LIST OF FIGURES

<b>Figure No.</b>	<b>Title</b>	<b>Page No.</b>
4.1	Total Loans & Advances, NPL & LLP of Nepal Bank Ltd.	52
4.2	Total Deposit and Total Loan& Advances of Nepal Bank Ltd.	53
4.3	Total Loans & Advances, NPL & LLP of Nabil Bank Ltd.	55
4.4	Total Deposit and Loans & Advances of Nabil Bank Ltd.	56
4.5	Total Loans & Advances, NPL & LLP of Standard Chartered Bank Nepal Ltd.	58
4.6	Total Deposit and Loans & Advances of Standard Chartered Bank Nepal Ltd.	59
4.7	Total Loans & Advances, NPL & LLP of NICB	61
4.8	Total Deposit and Loans & Advances of NICB	61
4.9	Total Deposit Loans & Advances of Nepal Bangladesh Bank Ltd.	63
4.10	Total Deposit Loans & Advances of Nepal Bangladesh Bank Ltd.	64
4.11	Total Deposit and Loans & Advances of Lumbini Bank Ltd.	66
4.12	Total Loans & Advances, NPL & LLP of Lumbini Bank Ltd.	67