

**NON - PERFORMING ASSETS OF COMMERCIAL BANKS OF
NEPAL**

(With Special Reference to Kumari Bank Limited, Machhapuchhre
Bank Limited and NIC Bank Limited)

A Thesis

Submitted by:

Nhuchhe Ram Prajapati

Roll No: 4249 / 065

TU Regd. No. 7-1-247-120-2000

Khwopa College

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.)

Bhaktapur, Nepal

July, 2012

DECLARATION

I hereby declare that the work done in thesis entitled "**Non-Performing Assets of Commercial Banks of Nepal (With Special Reference to Kumari Bank Limited, Machhapuchchhre Bank Limited and NIC Bank Limited)**" has been submitted to Khwopa College, 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 M. Phill. Mr. Roopak Joshi, HOD , Khwopa College.

Nhuchhe Ram Prajapati

Researcher

Khwopa College

Exam Roll NO.4249/065

T.U. Regd. No.7-1-247-120-2000

ACKNOWLEDGEMENTS

This present study entitled "**Non-Performing Assets of Commercial Banks of Nepal(With Special Reference to Kumari Bank Limited, Machhapuchchhre Bank Limited and NIC Bank Limited)**" has been prepared for the partial fulfillment of the requirement of Master's Degree of Business Studies (M.B.S) under the Faculty of Management, Khwopa College, is based on research models involving the use of quantitative as well as qualitative aspect.

I extend my deep sense of indebtedness to my respected supervisor M. Phil Mr. Roopak Joshi of Khwopa College for his precious guidelines, inspiration and suggestion during the period of this research. Without his valuable insight, I can hardly think of accomplishment of this thesis. I also acknowledge my profound gratitude to Sample Banks for their cooperation for providing necessary data.

To accomplish this study, I have done the optimum effort from my level to offer precise information in the related topics and hope it will act as a reliable reference to upcoming students, respective institutions as well as seekers of related studies

Finally, I would like to express my sincere thanks to all my friends for their regular inspiration assistance, timely encouragement in every step of my career.

Nhuchhe Ram Prajapati

Khwopa College

TABLE OF CONTENTS

RECOMMENDATION

VIVA- VOCE SHEET

DECLARATION

ACKNOWLEDGEMENTS

TABLE OF CONTENTS

LIST OF FIGURES

ABBREVIATIONS

Page No.

CHAPTER I

INTRODUCTION **1 -11**

1.1	Background of the study	1
1.1.1.	Introduction of Kumari Bank Limited (KBL)	4
1.1.2.	Introduction of Machhapuchchhre Bank Limited (MBL)	5
1.1.3.	Introduction of Nepal Industrial & Commercial Bank Limited (NIC)	5
1.2.	Focus of the Study	7
1.3.	Statement of Problem	8
1.4.	Objectives of the Study	9
1.5.	Significance of the Study	10
1.6.	Limitations of the Study	10
1.7.	Organization of the Study	11

CHAPTER - II

REVIEW OF LITERATURE **12-46**

2.1	Conceptual Framework	12
2.1.1	Loan and Advances	12
2.1.2	Performing loan	13

2.1.3 Non-Performing Assets/Loan (NPAs /NPL)	13
2.1.4 Causes of occurring NPA	15
2.2 Effect of NPAs	15
2.2.1.1 Internal Effect	15
2.2.2 External Effect	16
2.3 Impacts of NPA	16
2.3.1 Impact on Profitability	16
2.3.2 Impact on the Outlook of Banker towards Credit Delivery	16
2.3.3 Excessive Focus on Credit Risk Management	17
2.3.4 High Cost of Fund Due to NPAs	17
2.3.5 Impact on Banks Scrip on Stock Exchange	18
2.4 Loan Loss Provision	20
2.4.1 Principles of Lending loan and advances	21
2.5 Highlight On Performance of Nepalese Commercial Bank.	21
2.5.1 Non-Performing Assets in Nepalese Banking Sector	22
2.5.2 Non-Performing Assets/Loans (NPAs/Ls) In East Asia	23
2.6 Reviews from Books	24
2.7 Review of Related Studies	27
2.7.1 Review of Related Articles and Journals	27
2.7.2 Problem in Nepalese Financial Sector and NPLs	32
2.8 Review of Related Thesis	38
2.9 Research Gap	45

CHAPTER III

RESEARCH METHODOLOGY	47-54
3.1 Research Design	47
3.2 Sources of Data	48
3.3 Population and Sample	48
3.4 Data Processing Procedures & Analysis	48

3.4.1 Financial Tools	49
-----------------------	----

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS 55 - 71

4.1 Ratio Analysis	55
4.1.1 Loan and Advances to Total Assets Ratio	55
4.1.2 Loan and Advance to Total Deposit Ratio	57
4.1.3 Non- Performing Assets to Total Loan and Advance	59
4.1.4 Total Provision to Non-Performing Assets Ratio	61
4.1.5 Non-Performing Assets to Total Assets Ratio	62
4.2 Correlation and Trend Analysis	64
4.2.1 Correlation between LLP and loan & advances of KBL	65
4.2.2 Correlation between LLP and Loan & Advances of MBL	66
4.2.3 Correlation between LLP and loan & advances of NIC	66
4.2.4 Trend Analysis	67
4.3 Regression Analysis of ROE with ratio of NPA by Total Loan & advances and Total provision by NPA	71
4.4 Major Findings of the Study	76

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS 80 - 86

5.1 Summary	80
5.2 Conclusion	84
5.3 Recommendation	85

BIBLIOGRAPHY

ANNEX

List of Tables

Table No	Title of Table	Page No.
4.1	Loan and advances to Total Assets of KBL, MBL and NIC	55
4.2	Loan and Advance to Total Deposit Ratio of KBL, MBL and NIC	57
4.3	Non- Performing Assets to Total Loan and Advance of KBL, MBL and NIC	59
4.4	Provision Held to Non-Performing Assets Ratio of KBL, MBL and NIC	61
4.5	Non-Performing Assets to Total Assets Ratio of KBL, MBL and NIC	63
4.6	Correlation between LLP and Loan & Advances of KBL	65
4.7	Correlation between LLP and Loan & Advances of MBL	66
4.8	Correlation between LLP and loan & advances of NIC	67
4.9	Trend Analysis of N P A of KBL	68
4.10	Trend analysis of NPA of MBL	69
4.11	Trend Analysis of Non Performing Assets of NIC	70
4.12	Regression Equation of KBL	71
4.13	Regression Equation of KBL	73
4.14	Regression Equation of KBL	74

Lists of Figures

Figure No.	Title of Figure	Page No.
4.1	Loan and advances to Total Assets of KBL, MBL and NIC	56
4.2	Loan and Advance to Total Deposit Ratio of KBL, MBL and NIC	58
4.3	Non- Performing Assets to Total Loan and Advance of KBL, MBL and NIC	60
4.4	Provision Held to Non-Performing Assets Ratio of KBL, MBL and NIC	62
4.5	Non-Performing Assets to Total Assets Ratio of KBL, MBL and NIC	64
4.6	Trend analysis of NPA of KBL	68
4.7	Trend analysis of NPA of MBL	69
4.8	Trend Analysis of NPA of NIC	70

ABBREVIATIONS

KBL	: Kumari Bank Limited
MBL	: Machhapuchchhre Bank Limited
NIC	: Nepal Industrial and Commercial Bank Limited
NPA	: Non Performing Assets
NPI	: Non Performing Loan
NRB	: Nepal Rastra Bank
RBB	: Rastriya Banijya Bank
NBL	: Nepal Bank Limited
CRR	: Cash Reserve Ratio
ABBS	: Anywhere Branch Banking System
NBA	: Non Banking Assets
AD	: Anno Domini
B.S.	: Bikram Sambat
IFC	: International Finance Corporation
CBs	: Commercial Banks
CFR	: Credit Facility Request
CRM	: Credit Risk Management
NPL	: Non-performing loan
F/Y	: Fiscal Year
CIC	: Credit Information Center
IRDP	: Integrated Rural Development Programme
RREP	: Radio Reconnaissance Equipment Program

SUME	: Single Use Military Equipment
ROI	: Return On Investment
SCBNL	: Standard Chartered Bank Nepal Limited
BOK	: Bank Of Kathmandu
NBL	: Nepal Bank Limited
NIDC	: Nepal Industrial Development Corporation
TL	: Total Lending
TD	: Total Deposit,
TA	: Total Assets
ROE	: Return on Equity
ROA	: Return on Assets
NP	: Net Profit
P.E.	: Probable Error
EPS	: Earning Per Share
RT	: Row Total
CT	: Column Total
C.F	: Correction factors
TSS	: Total sum of squares
SSC	: Sum of square between Banks
MSC	: Mean sum of squares of variations between columns
MSR	: Mean sum of squares of variations between rows
MSE	: Mean sum of squares of variations due to error (residual)