

**AN OVERVIEW OF NON PERFORMING ASSETS OF  
NEPALESE COMMERCIAL BANKS  
(with reference to Nepal Investment Bank Ltd., NABIL Bank Ltd.,  
& Nepal Bangladesh Bank Ltd.)**

**BY**

**AMAR PRASAD AMATYA  
SHANKAR DEV CAMPUS, KATHMANDU  
T. U. REGISTRATION NO. - 7-1-15-633-96  
ROLL NO: 1743/061  
SYMBOL NO: 7881**

**A THESIS SUBMITTED TO:  
SHANKAR DEV CAMPUS  
OFFICE OF THE DEAN  
FACULTY OF MANAGEMENT  
TRIBHUWAN UNIVERSITY**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF THE  
DEGREE OF MASTER'S OF BUSINESS STUDIES (MBS)  
KATHMANDU  
SEPTEMBER 2010**

## **RECOMMENDATION**

This is to certify that the Thesis

Submitted by:  
Amar Prasad Amatya

Entitled:  
**AN OVERVIEW OF NON PERFORMING ASSETS OF NEPALESE  
COMMERCIAL BANKS**

(with reference to Nepal Investment Bank Ltd., NABIL Bank Ltd., &  
Nepal Bangladesh Bank Ltd.)

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

.....  
**Ruchila Pandey**  
(Thesis Supervisor)

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

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

.....  
**Urmila Shrestha**  
(Thesis Supervisor)

## **VIVA -VOCE SHEET**

We have conducted the viva-voce examination of the thesis presented by

**Amar Prasad Amatya**

**Entitled:**

**AN OVERVIEW OF NON PERFORMING ASSETS OF NEPALESE  
COMMERCIAL BANKS**

**(with reference to Nepal Investment Bank Ltd., NABIL Bank Ltd., & Nepal  
Bangladesh Bank Ltd.)**

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 Master's Degree in Business Studies (M.B.S.)

Viva-voce Committee

Head of Research Department .....

Member (Thesis Supervisor) .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

Date:.....

## ACKNOWLEDGEMENTS

This study is possible through the generous contribution of many people. Heartily, I am indebted to my respectable Thesis Supervisor, Mrs. Ruchila Pandey and Miss Urmila Shrestha, Shankar Dev Campus. I am extremely grateful to Mr. Sandeep Nepal, Assistant Relationship Officer, NABIL Bank Ltd., Mr. Siddharth Singh, Relationship Manager, Nepal Investment Bank Ltd. and Mr. Dipendra Rajbhandhari, Branch Manager, Nepal Bangladesh Bank Ltd., Birgunj who despite their heavy schedule provided valuable and insightful suggestions and comments towards the preparation of this report.

I would like to express my gratitude to all selected banks for their kind co-operation. Similarly, all the staff members of Shankar Dev Campus who also helped me in different ways while preparing this report.

Finally, I hope that this thesis report will serve as a stepping-stone to the student of business studies and to those who wish to make further research under this topic.

---

**Amar Prasad Amatya**

Shankar Dev Campus

## DECLARATION

I hereby declare that the works reported in this thesis entitled “An overview of “Non Performing Assets of commercial banks (With reference to Nepal Investment Bank Ltd., NABIL Bank Ltd. & Nepal Bangladesh Bank Ltd.)” submitted to Shankar Dev Campus, Faculty of Management, Tribhuvan University, is my original work done for partial fulfillment of the requirement for the Master’s Degree in Business Studies (MBS) under the supervision of Mrs. Ruchila Pandey and Miss Urmila Shrestha, Shankar Dev Campus, Kathmandu.

Amar Prasad Amatya  
Researcher  
T.U. Registration No. 7-1-15-633-96  
**Faculty of Management**  
**Shankar Dev Campus, Kathmandu.**

## TABLE OF CONTENTS

	<b>Page No.</b>
Recommendation	
Viva Voce Sheet	
Acknowledgement	
Declaration	
List of Tables	
List of Figures	
Abbreviations	
<b>CHAPTER- I          INTRODUCTION</b>	<b>1-18</b>
1.1 Background of the study	1
1.1.2 Brief Profile of the Selected Banks	5
1.2 Focus of the study	10
1.2.1 NPA (Non Performing assets) in present context	12
1.3 Statement of the problem	13
1.4 Importance of the Study	17
1.5 Objective of the study	17
1.6 Limitation of the study	18
1.7 Organization of the study	18

<b>CHAPTER- II</b>	<b>REVIEW OF LITERATURE</b>	<b>22-70</b>
2.1	Theoretical Review (Books)	22
2.1.1	Introduction of Commercial bank	22
2.1.2	Brief History of Evolution of Banking	23
2.1.3	Banking System in Nepal	24
2.1.4	Loans, Discounts and Overdrafts (LDO)	26
2.1.2	Loan Classification	27
2.1.3	Past Due/Overdue	29
2.1.4	Performing Assets (Loans)	29
2.1.5	Non-performing Assets/Loans (NPA / NPL)	29
2.1.5. a	Reason behind high level of NPA	32
2.1.5. b	Loan Loss Provision	32
2.1.6	Why Loans go bad?	33
2.1.7	Challenges	37
2.1.8	Problems due to NPA	39
2.1.9	Impact of NPA	40
2.1.9.1	Bank Growth Vs NPA	41
2.1.9.2	NPAs impact on Economy	43
2.1.9.3	Early symptoms of NPA	43
2.2	Review of Books	45
2.3	Review of Relevant NRB Directives	49
2.4	Review of Relevant Articles	55
2.5	Review of Related Thesis	62
2.6	Research Gap	70

<b>CHAPTER- III</b>	<b>RESEARCH METHODOLOGY</b>	<b>72-82</b>
3.1	Research Design	72
3.2	Size of Populations and Sampling	72
3.3	Sources of Data	73
3.4	Data Collection Techniques	73
3.5	Data Analysis Tool	74
3.5.1	Financial Tools	74
3.5.1.1	Ratio Analysis	75
3.5.2	Statistical Tools	78
3.5.2.1	Percentages	78
3.5.2.2	Measures of Central Tendency	79
3.5.2.3	Measures of Dispersion	79
3.5.2.4	Standard Deviation	80
3.5.2.5	Coefficient of Variation	80
3.5.2.6	Correlation Coefficient (r)	80
3.5.3	Diagrammatic and Graphical Representation	82



**CHAPTER- IV      PRESENTATION AND ANALYSIS OF DATA      83-101**

4.1	Ratio Analysis	83
4.1.1	Loans and Advances to Total Asset Ratio	83
4.1.2	Loans and Advances to Total Deposit Ratio (CD ratio)	85
4.1.3	Non-Performing Assets (Loans) to Total Loans and Advances Ratio	87
4.1.4	Loan Loss Provision to Total Loans and Advances Ratio	89
4.1.5	Provision Held to Non-Performing Loan Ratio	91
4.1.5	Return on loans and advances	93
4.2	Correlation Analysis	96
4.2.1	Correlation between Loan Loss Provision and Loans and Advances	96
4.2.2	Correlation between Loan Loss Provision and Non Performing Loan	98
4.2.3	Correlation between Loans and Advances and Deposit	99
4.5	Major Findings of the Study	101

**CHAPTER – V SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 106-112**

5.1	Summary	106
5.2	Conclusions	110
5.3	Recommendations	112

Bibliography

Appendix

**List of Tables**

Loan and Advance to Total Assets Ratio	84
Loans & Advance to Total Deposit Ratio	86
Non-Performing Assets to Total Loans and Advance Ratio	88
Loan Loss Provision to Total Loans and Advance Ratio	90
Provision Held to Non Performing Loan Ratio	92
Return on Loans and Advance	93
Correlation between LLP and Loans and Advance	97
Correlation between Loan Loss Provision and Non-Performing Loan	98
Correlation between Loans and Advance & Deposit	100

**List of Figures**

Figure No. 1	95
Figure No. 2	95
Figure No. 3	96

## **ABBREVIATIONS**

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