

**NON PERFORMING ASSETS OF
COMMERCIAL BANKS**

By

YOJANA ADHIKARI

Shanker Dev Campus

Campus Roll No.: 177/062

T.U. Regd. No.: 3-1-26-45-97

2nd Year Exam Symbol No.: 3912

**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 (MBS)***

Kathmandu, Nepal

February 2011

RECOMMENDATION

This is to certify that the thesis

Submitted by:

YOJANA ADHIKARI

Entitled:

NON PERFORMING ASSETS OF COMMERCIAL BANKS

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

.....
Prof. Snehalata Kafle
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

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

.....
Govinda Bahadur Thapa
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

YOJANA ADHIKARI

Entitled:

**NON PERFORMING ASSETS OF
COMMERCIAL BANKS**

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 the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Non Performing Assets of Commercial Banks**” 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 degree of Master of Business Studies (MBS) under the supervision of **Professor Snehalata Kafle** and **Govinda Bahadur Thapa** of Shanker Dev Campus, T.U.

.....
Yojana Adhikari

Shanker Dev Campus

Campus Roll No.: 177/062

T.U. Regd. No.: 3-1-26-45-97

ACKNOWLEDGEMENT

I am thankful to everybody who one way or the other, encouraged me and helped me in the process of preparing this thesis. My sincere thanks and gratitude goes to those without whom the work would ever have reached its final stage. They include Thesis supervisors Prof. Shnehalata Kafle and Govinda Bahadur Thapa for their necessary guidance, support and cooperation to complete this thesis. With great regard, I would like to thank Prof. Bishweshor Man Shrestha Head of Research Department and Prof. Dr. Kamal Deep Dhakal, Campus Chief for the necessary suggestion to undertake this work. At each point in the passage of research, I am enthused by their expertise and ability to find tunes a raw student like me.

My deep appreciation also goes to T.U central library and the librarian of Shanker Dev Campus for allowing me the untimely entrance to the library as and when I need while I was drafting the thesis.

At last but not the least, I am highly indebted to my friend Mr. Subash Koirala for his guidance in the preparation of this thesis. Then, I would like to thank my entire family members, for valuable suggestions and supports. Besides, I am grateful to my friends Ms. Ananta Shrestha and Mr. Harish Chandra Bhandari for their regular and kind cooperation in my work.

Yojana Adhikari

ABBREVIATIONS

ARM	:	Adjustable Rate Mortgage
CPG	:	Credit Policy Guidelines
DRT	:	Debt Recovery Tribunal
e.g.	:	Example
EBL	:	Everest Bank Limited
Fig.	:	Figure
FSR	:	Financial Sector Reform
HBL	:	Himalayan Bank Limited
i.e	:	That is
LBL	:	Lumbini Bank Limited
Ltd	:	Limited
NBA	:	Non Banking Assets
NBL	:	Nepal Bank Limited
NIBL	:	Nepal Investment Bank Limited
NPA	:	Non-Performing Assets
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastriya Bank
NSBIBL	:	Nepal SBI Bank Limited
P.E.	:	Probable Error
PA	:	Performing Assets
RBB	:	Rastriya Banijay Bank Limited
ROA	:	Returns on Assets
TA	:	Total Assets
TD	:	Total Deposits
TL	:	Total Liabilities

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	Page No.
 CHAPTER – I INTRODUCTION	
1.1 Background of the Study	
1	
1.2 Profile of the Sample Banks	4
1.3 Statement of the Problem	7
1.4 Objectives of the Study	9
1.5 Significances of the Study	9
1.6 Limitation of the Study	10
1.7 Organization of the Study	10
 CHAPTER – II REVIEW OF THE LITERATURE	
2.1 Conceptual Framework	12
2.2 Commercial Banking at a Glance	16
2.3 Functions of Commercial Bank	19
2.4 Loan and Advances	20
2.5 Non Performing Assets	21
2.6 Effects of NPA on Banks	27
2.7 Review of the Previous Studies	28
2.7.1 Review of Books and Articles	29
2.7.2 Review of Thesis	37
2.3 Research Gap	44

CHAPTER – III RESEARCH METHODOLOGY

3.1 Research Design	45
3.2 Populations and Sample	46
3.3 Nature and Sources of Data	46
3.4 Analysis of Data	47
3.4.1 Financial Tools	48
3.4.2 Statistical Tools	49
3.4.3 Diagrammatic and Graphical Presentation	51

CHAPTER – IV DATA PRESENTATION AND ANALYSIS

4.1 Descriptive Analysis	53
4.1.1 Analysis of Total Lending	53
4.1.2 Analysis of Ratio of Total Lending to Total Deposit	55
4.1.3 Analysis of Non Performing Assets [NPA]	58
4.1.4 Analysis of Ratio of NPA to Total Lending	60
4.1.5 Analysis of Net Profit	63
4.2 Correlation Analysis	64
4.2.1 Correlation between Total Deposits to Total Lending	65
4.2.2 Correlation between NPA to Total Lending	66
4.2.3 Correlation between NPA and ROA	67
4.2.4 Correlation between NPA and ROE of the Bank	69
4.2.5 Correlation between NPA and Net Profit	70
4.3 Trend Analysis	72
4.3.1 Trend Analysis of NPA	72
4.3.2 Trend Analysis of CD Ratio	74
4.3.3 Trend Analysis of Total Net Profit	76
4.3.4 Trend Analysis of Return on Assets [ROA]	78
4.3.5 Trend Analysis of NPA Ratio	80
4.4 Analysis of Primary Data	82
4.5 Major Findings of the Study	87

CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	93
5.2 Conclusion	94
5.3 Recommendations	98

Bibliography

Appendices

LIST OF TABLES

Table No.	Title	Page No.
2.1	Classification of Loan and Advances	25
4.1	Total Lending	54
4.2	Ratio of Total Lending to Total Deposit	56
4.3	Non Performing Assets [NPA]	58
4.4	Ratio of NPA to Total Lending	61
4.5	Net Profit	63
4.6	Correlation between Total Deposit and Total Lending	65
4.7	Correlation between NPA and Total Lending	66
4.8	Correlation between NPA and ROA of the Bank	67
4.9	Correlation between NPA and ROE	69
4.10	Correlation between NPA and Net Profit	71
4.11	Trend Analysis of NPA	73
4.12	Trend Analysis of CD Ratio	75
4.13	Trend Analysis of Total Net Profit	77
4.14	Trend Analysis of ROA	79
4.15	Trend Analysis of NPA Ratio	80

LIST OF FIGURES

Figure No.	Title	Page No.
4.1	Total Lending	55
4.2	Total Lending to Total Deposit Ratio	57
4.3	Non Performing Assets [NPA]	60
4.4	Ratio of NPA to Total Lending	62
4.5	Net Profit	64
4.6	Trend Analysis of NPA	74
4.7	Trend Analysis of CD Ratio	76
4.8	Trend lines of Total Net Profit	78
4.9	Trend Chart of Return of Assets	80
4.10	Trend Lines of NPA Ratio	81