# A STUDY ON "NON PERFORMING LOAN IN COMMERCIAL BANKS OF NEPAL"

# Submitted By Arjun Dhoj Khadka

St. Xavier's College

T.U Registration No.7-2-355-216-2001

Campus Roll No. 27

Exam Roll No.: 6540

#### Submitted To:

Office of the Dean
Faculty of Management
Tribhuvan University

In Partial Fulfillment for the Requirement of the Degree Of
Master of Business Studies (M.B.S.)
Maitighar, Kathmandu
December, 2008

Ref	Date:
RECOMMENDATION	
This is to certify that the thesis	
Submitted by:	
ARJUN DHOJ KHADKA	
Entitled:	
"Non Performing Loan In	
Commercial Banks of Nepal"	
(With Reference To Bank Of Kathmandu Limited, Kumari Bank Limited, Nepal Investment Bank, Everest  And Commercial Bank Limited)	Bank Limited & Nepal Industrial
Has been prepared as approved by this Department in the pres Faculty of Management. This thesis is forwarded for e	
Mr. Shankar Thapa Antonysamy, S.J. (Thesis Supervisor)	Rev. Dr. A. Campus Chief
Mr. Shankar Thapa Head of Department	

Ref		Date:
	VIVA - VOCE	SHEET
We ha	ve conducted the viva-voce exami	nation of the thesis presented by
	ARJUN DHOJ K	HADKA
	Entitled:	
	"Non Performing	Loan In
	Commercial Banks	s of Nepal"
(With Reference To Bank	k Of Kathmandu Limited, Kumari Bank Limited, No And Commercial Bank	pal Investment Bank, Everest Bank Limited & Nepal Industrial Limited)
	the	ck of the student and written according to be accepted as partial fulfillment for tess Studies (M.B.S.)
	<u>Viva – Voce Co</u>	<u>mmittee</u>
	ead, Research Department [Mr.	Shankar Thapa]
M	lember (External Expert)	

Date: .....

## Tribhuvan University FACULTY OF MANAGEMENT

St. Xavier's College

#### **Declaration**

I hereby declare that the worked reported in this thesis entitled **A Study On** "Non **Performing Loan In Commercial Banks Of Nepal"** submitted to St. Xavier's College, faculty of management, Tribhuvan University is my original work done in the form of partial fulfillment for the requirement of master's degree in business studies (MBS) under the supervision of Respected Mr Shankar Thapa.

Researcher

#### ARJUN DHOJ KHADKA

St. Xavier's College

T.U Registration No.7-2-355-216-2001

Campus Roll No. 27

Exam Roll No.: 6540

Date:	 												

Acknowledgement

This research study on "Non Performing Loan In Commercial Banks Of Nepal" has been

prepared to fulfill partial requirement of master in business studies program. For this, I am

greatly thankful to the management faculty of Trivhuwan University for preparing this writing

a compulsory in our course.

This study has been carried out under the supervision of respected Mr Shankar Thapa.

I am extremely grateful to his courage and advice by providing valuable time, knowledge and

kind help.

I also acknowledge all of my friends for their help in different ways. I am greatly thankful to

the staff of all the banks for providing required data during the research period. I would like to

offer sincere thank to Amar Rajbhandari, Amit Legal and Garima Tiwari for computer

typing and valuable advice during my work. Lastly, I would like to express my sincere

gratitude to all the staff of St. Xavier's College for their co-operation and encouragement

through out the preparation of the report.

I hope the possible errors would be covered by the subsequent studies in this field in the

future.

Researcher

Arjun Dhoj Khadka

St. Xavier's College

T.U Registration No.7-2-355-216-2001

Campus Roll No. 27

Exam Roll No.: 6540

## **Table of Contents**

**Viva-Voce Sheet** 

Recommendation

Decla	ration	
Ackno	owledgement	
Table	of Contents	
List o	f Tables	
List o	f Abbreviation	
List o	f Diagrams	
Chap	ter –One	Page No.
	Introduction	1-8
1.1.	General Background of the Study	1
1.2.	Focus of the study	2
1.3.	Statement of the Problems	3
1.4.	Objective of the Study	5
1.5.	Significance of the Study	6
1.6.	Limitation of Study	6
1.7.	Organization of the Study	7
Chap	ter –Two	
	Review of Literature	9-42
2.1	Background of the chapter	9
2.2.	Conceptual / Theoretical Review	10
2	2.2.1.2 Commercial Bank at a Glance	15

2.2.2. Loan and Advances	19
2.2.3. Loan classification	20
2.2.3.1 Performing Loan	20
2.2.3.2 Non- Performing Loan	20
2.2.4. Non-Performing Assets	21
2.2.5. Loan Loss provision	21
2.3. Review of Relevant NRB Directives	22
2.4. Review from Relevant Articles/ Journals	34
2.5. Review from Relevant Thesis	36
2.6 Research Gap	43
Chapter- Three	
Research Methodology	44-52
3.1. Research Design	44
3.2. Population and Sample	44
3.3. Data Analysis tools	45
3.3.1 Financial Tools	45
3.3.1.1 Ratio Analysis	45
3.3.2 Statistical Tools	48
3.3.2.1 Percentage	49
3.3.2.2 Average/ Mean	49
3.3.2.3 Measurement of Dispersion	49
3.3.3 Trend Analysis	51
3.3.4 Diagrammatic and graphical Presentation	52
Chapter -Four	
<b>Data Presentation and Analysis</b>	52-74
4.1. Ratio analysis	53
4.1.1 Loan and Advances to total Assets	53

4.1.2	Loan and Advances to total Deposits	55
4.1.3	Loan Loss Provision to Loan and advances	57
4.1.4	Non-Performing Loan to Total Loan and Advances	59
4.1.5	Total provision to Non Performing loan	61
4.1.6	Return to Loan and Advances	62
4.2. Corre	elation Analysis	65
4.2.1	Correlation between LLP and Loan and Advances	65
4.2.2	Correlation Between LLP and non-performing Loan	67
4.2.3	Correlation between Loan and Advances to Deposits	69
4.3. Trend	71	
4.3.1	Trend analysis of Loan and Advances	72
4.3.2	Trend Analysis of Loan Loss Provision	73
4.3.3	Trend analysis of Non Performing Loan	74
Chapter -	-Five	
Su	immary, Conclusion and Recommendation	77-80
5.1. Sur	74	
5.2. Re	ecommendation	80
Bi	bliography	
$\mathbf{A}_{\mathbf{J}}$	ppendix	

### **List of Tables**

Table	4.1	Loan and Advances to total Assets	53
Table	4.2	Loan and Advances to total Deposits	55
Table	4.3	Loan Loss Provision to Loan and advances	57
Table	4.4	Non-Performing Loan to Total Loan and Advances	59
Table	4.5	Total provision to Non Performing loan	61
Table	4.6	Return to Loan and Advances	63
Table	4.7	Correlation between LLP and loan and advances	66
Table	4.8	Correlation between LLP and non performing loan	67
Table	4.9	Correlation between loan and advances to deposit	69
Table	4.10	Trend analysis of Loan and Advances	71
Table	4.11	Trend analysis of Loan Loss Provision	72
Table	4.12	Trend analysis of Non Performing Loan	74
List of	Figure		
Figure	4.1	Percentage of Loan and Advances to total Assets	54
Figure	4.2	Loan and Advances to total Deposits	56
Figure	4.3	Percentage Loan Loss Provision to Loan and advances	58
Figure	4.4	Percentage Non-Performing Loan to Total Loan and Advances	60
Figure	4.5	Ratio of Total provision to Non Performing loan	62
Figure	4.6	Return to Loan and Advances	63
Figure	4.7	Correlation between LLP and loan and advances	66
Figure	4.8	Correlation between LLP and non performing loan	68
Figure	4.9	Correlation between loan and advances to deposit	69
Figure	4.10	Trend analysis of Loan and Advances	72
Figure	4.11	Trend analysis of Loan Loss Provision	73
Figure	4.12	Trend analysis of Non Performing Loan	75

#### **Abbreviation Used**

BOK : Bank of Kathmandu

C.V : Coefficient of Variation

EBL : Everest Bank Limited

FNCCI : Federation of Nepalese Chamber of Commerce and Industries

FY : Fiscal Year

KBL : Kumari Bank Limited

L&A : Loan and advances

LLP : Loan Loss Provision

Ltd. : Limited

NBL: : Nepal Bank limited

NIBL : Nepal Investment bank Limited

NICB : Nepal Industrial and Commercial bank

No. : Number

NP : Net Profit

NPA: : Non Performing Assets

NPL: : Non Performing Loan

PE : Probable Error

r : Coefficient of Correlation

RBB : rastriya Banijya Bank

Rs. : Rupees

S.D. : Standard Deviation

TA : Total Assets

TD : Total Deposits

FSC : Financial Supervisory Commission