

**IMPACT OF NON-PERFORMING ASSETS ON THE
PERFORMANCE OF NEPAL BANK LIMITED**

**By:
Gopal Karmacharya
T.U. Regd. No.: 035-014412
Campus Roll No. 19/2060**

**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**

**In partial fulfillment of the requirements for the
Master's Degree in Business Studies (MBS)
Saraswati M.Campus
Kathmandu,
November 2008**

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Gopal Karmacharya

Entitled

**"IMPACT OF NON-PERFORMING ASSETS ON THE
PERFORMANCE OF NEPAL BANK LIMITED"**

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

.....
Bijaya Prakash Shrestha
Thesis Supervisor

VIVA-VOCE SHEET

.....
Dr. Hemraj Subedi
Campus Chief

We have conducted the viva-voce examination of the thesis

Submitted by

Gopal Karmacharya

Entitled:

**"IMPACT OF NON-PERFORMING ASSETS ON THE
PERFORMANCE OF NEPAL BANK LIMITED"**

And found the thesis to be the original work of the student written according to the prescribed format. We recommended this thesis to be accepted as partial fulfillment of the requirements for Master Degree of Business Studies (M.B.S.)

Viva-Voce Committee

- | | |
|------------------------------------|-------|
| 1. Chairperson, Research Committee | _____ |
| 2. Thesis Supervisor | _____ |
| 3. External Expert | _____ |
| 4. Member | _____ |
| 5. Member | _____ |

Date:.....

TRIBHUVAN UNIVERSITY
FACULTY OF MANAGEMENT
SARASWATI MULTIPLE CAMPUS

**Lekhnath Marg, Thamel,
Kathmandu**

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Impact of Non-performing Assets on the performance of Nepal Bank Limited**” submitted to **Saraswati Multiple Campus**; Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements for the Master Degree of Business Studies (M.B.S.) under the supervision and guidance of **Bijaya Prakash Shrestha Associate Professor of Saraswati Multiple Campus**, Tirbhuvan University.

.....
Gopal Karmacharya

Researcher

Roll No. 19/060

Saraswati Multiple Campus

Date:.....

ACKNOWLEDGEMENT

This thesis entitled “**Impact of Non-performing Assets on the performance of Nepal Bank Limited**” has been prepared for the partial fulfillment of the requirement of Masters Degree of Business Studies (M.B.S.) under Tribhuvan University.

I would like to express my gratitude to my thesis advisor Mr. Bijaya Prakash shrestha, Associate Professor of Saraswati M. campus and Mr. Keshav Raj Pantha, Associate Professor and Head of Research Committee of Saraswati M. Campus for their continuous inspirations and valuable suggestions during the course of preparing the thesis

I would like to thank the officials of Central Library T.U. and staffs of Saraswati Multiple Campus for their kind help and cooperation.

At last but not the least I would like to thank my friend Mr. Ramchandra Basnet, Mr. Arjun Khaniya, Mr. Hari Gyawali and Mrs. Prabha Bajracharya for their co-operation.

Gopal Karmacharya
Roll no.19/060

LIST OF TABLE

Table: 4.1	Loan & Advances to Total Deposit Ratio of NBL	41
Table: 4.2	Non-performing Assets to Total Loan & Advances Ratio of NBL	43
Table: 4.3	Non-performing Assets to Total Assets Ratio of NBL	44
Table: 4.4	Loan Loss Provision to Non-performing Assets Ratio of NBL	46
Table: 4.5	Return on Total Assets Ratio of NBL	47
Table: 4.6	Return on Shareholder's Equity Ratio of NBL	49
Table: 4.7	Non-performing Assets to Net Profit Ratio of NBL	50
Table: 4.8	Computation of correlation coefficient between total loan & advances (X) and non-performing assets (Y) of NBL	52
Table: 4.9	Deposit trend of NBL	54
Table: 4.10	Loan & Advances trend of NBL	55
Table: 4.11	Non-performing assets trend of NBL	56
Table: 4.12	Loan loss provision trend of NBL	57

Table of Contents

Recommendation	i
Viva-Voce Sheet	ii
Acknowledgement	iii
Declaration	iv
List of Table	v
Abbreviations	vi

Page No.

CHAPTER - ONE INTRODUCTION

1.1. Background of the Study	1
1.2. Bank Overview	4
1.3. Statement of the Problem	4
1.4. Objective of the Study	5
1.5. Significant of the Study	5
1.6. Limitation of the Study	7
1.7. Chapter Scheme of the Study	7

CHAPTER - TWO REVIEW OF LITERATURE

2.1. Conceptual Review	9
2.1.1. Origin of Bank	10
2.1.2. Concept of Bank	11
2.1.3. History of Banking in Nepal	11
2.1.4. Concept and Development of Commercial Bank in Nepal	12
2.1.5. Functions of Commercial Bank	14
2.1.6. Definition of Loan and Advance	16
2.1.7. Definition of Non-Performing Assets	16
2.1.8. Classification of Non-Performing Assets	17
2.1.9. Effect of Non-Performing Assets on Profitability of Bank	18
2.2. Review of Related Studies	19
2.2.1. Review of Journals and Articles	19
2.2.2. Review of Unpublished Thesis	22
2.2.3. Research Gap	25

CHAPTER - THREE RESEARCH METHODOLOGY

3.1. Introduction	27
3.2. Research Design	28

3.3. Data Collection Technique	29
3.4. Method of Data Analysis	30
3.5. Tools Used for Analysis of Data	30
3.5.1. Financial Tools	30
3.5.2. Statistical Tools	37
3.5.3. Trend Analysis	40

CHAPTER - FOUR

DATA PRESENTATION AND ANALYSIS

3.6. Introduction	41
3.7. Ratio Analysis	41
3.7.1. Loan and Advances to Total Deposit Ratio	41
3.7.2. Non- Performing Asset to Total Loan and Advance Ratio	43
3.7.3. Non- Performing Asset to Total Assets Ratio	44
3.7.4. Loan Loss Provision to Non- Performing Asset Ratio	46
3.7.5. Return to Total Assets Ratio	47
3.7.6. Return on Shareholder's Equity Ratio	49
3.7.7. Non- Performing Asset to Net Profit Ratio	50
3.8. Correlation Analysis	52
3.9. Trend Analysis	53

CHAPTER - FIVE

SUMMARY, CONCLUSION & RECOMMENDATION

4.1. Summary	58
4.2. Conclusion	59
4.3. Recommendation	61

BIBLIOGRAPHY

APPENDICES

APPENDICE – I Balance sheet of Nepal Bank Limited (2060-3-32)

APPENDICE – II Profit and Loss Account of Nepal Bank Limited (2059-4-1 to 2060-3-32)

APPENDICE – III Balance sheet of Nepal Bank Limited (2062-3-31)

APPENDICE – IV Profit and Loss Account of Nepal Bank Limited (2061-4-1 to 2062-3-31)

ABBREVIATIONS

AOA	Article of Association
ATM	Automatic Teller Machine
CV	Coefficient of Variation
FOM	Faculty of Management
i.e.	That is
MBS	Master Degree of Business Studies
MOA	Memorandum of Association
NBA	Non-Banking Assets
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange Limited
NPA	Non-Performing Assets
NRB	Nepal Rastra Bank
ROA	Return on Total Assets
ROE	Return on Shareholder's Equity
SD	Standard Deviation
SEBO	Security Board
TU	Tribhuvan University
FSRP	Financial Sector Reform Program
RBB	Rastriya Bnija Bank
FI	Financial Institution
CB	Commercial Bank