

**A STUDY ON FUND ACCUMULATION &
MOBILIZATION OF
BHRIKUTEE DEVELOPMENT BANK LIMITED**

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

By

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In Partial Fulfillment of the Requirements for the Degree of

Master of Business Studies (M.B.S.)

Butwal, Rupandehi

July, 2012

RECOMMENDATION LETTER

This is to certify that the thesis

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Entitled

**A STUDY ON FUND ACCUMULATION & MOBILIZATION OF
BHRIKUTEE DEVELOPMENT BANK LIMITED**

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

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VIVA - VOCE SHEET

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**A STUDY ON FUND ACCUMULATION & MOBILIZATION OF BHRIKUTEE
DEVELOPMENT BANK LIMITED**

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 degree of

Master of Business Studies (M.B. S.)

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DECLARATION

I hereby declare the work reported in the thesis entitled “**A STUDY ON FUND ACCUMULATION & MOBILIZATION OF BHRIKUTEE DEVELOPMENT BANK LIMITED**” submitted to the office of the Dean, Faculty of Management, Tribhuvan University is my original work done for partial fulfillment of the requirement for the Master of Business Studies (MBS) under the supervision and guidance of Mr. Na Krishna Bhattarai Lecturer of Lumbini Banijya Campus, Rupandehi (Butwal), Nepal.

.....

Tajub Bhusal

ACKNOWLEDGEMENT

This thesis entitled “**A STUDY ON FUND ACCUMULATION & MOBILIZATION OF BHRIKUTEE DEVELOPMENT BANK LIMITED**” has been prepared for the partial fulfillment of the requirement of the Master’s Degree in Business studies (MBS) under Tribhuvan University.

I would like to express my gratitude and sincere thanks to the individual who gave their valuable contribution to the successful completion of this thesis.

First of all, I regard as it my deep gratitude to get an opportunity to work under the admirable supervision of Na Krishna Bhattarai, lecturer of Lumbini Banijya Campus and Dr. Ishwor Gautam, campus chief of Lumbini Banijya Campus. He always motivated me and I had his exclusive consideration and guidance all the time. Likewise my thanks goes to Pitambar Pandey and Kulprashad Gautam branch manager of Butwal and Chandrauta respectively and all of the staffs of Bhrikutee Development Bank Ltd. Specially thanks to Mahesh Bhusal my brother and also staff of this bank for providing annual reports and necessary information. My thanks go to my best friend Krishna Pandey who always inspired me for completion of this thesis.

Finally, I would like to express sincere thanks to all my respected teachers, friends, and all those who helped me directly and indirectly in course of this study.

Tajub Bhusal

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July, 2012

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ABBREVIATION

ADB / N	Agricultural Development Bank
BAFIA	Bank and Financial Institution Act
BFIs	Bank and Financial Institution
EBT	Earning Before Tax
F.Y	Fiscal Year
GDP	Gross Domestic Production
Hisef	Himalayan Securities and Finance Ltd
KAFL	Kathmandu Finance Limited
L/C	Letter of Credit
Ltd.	Limited
MBS	Master of Business Studies
NABIL	Nepal Arab Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NIDC	Nepal Industrial and Development Corporation
NPA	None Performing Assets
NPAT	Net Profit After Tax
NPL	Non Performing Loan
NRB	Nepal Rastra Bank
P. E.	Probable Error
PDBL	Paschimanchal Development Bank Limited
SMEs	Small and Medium Size Industries
T. U.	Tribhuvan University
TOE	Total Operating Expenses
P/E	Price Earning Ratio
TEE	Total Employee Expenses
TA	Total Assets
OECD	Organization for Economic Cooperation and Development

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

In general terms, “Bank” is a financial institution that performs various monetary transactions. It collects money from savers and transfers to users. Bank pays certain percent of interest on behalf of deposit. On the other hand bank charges interest for borrowers. The interest for the credit will be higher than the interest for the deposit. The difference between these two kinds of interest is called the spread rate which is the profit of the bank. Bank came into existence mainly with the objectives of collecting the idle fund and mobilizing them to productive sectors causing overall economic development which finally leads to national development of a country. A bank can be defined as a financial department store (Bhandari, 2003).

Fund accumulation means the collection of fund or acquire of fund from various sources such as deposit, short term financing and long term financing. In other hand mobilization of fund means using the acquire of fund in best alternative for achieving financial goals. A bank can use its fund to purchase share, debenture. A bank can use its fund to purchase tangible assets such as land, furniture building etc. A bank can use its fund to give loan for corporate, firm or individual investor. Any objective of the fund mobilizing is to get higher profit, wealth maximization, social welfare etc. Fund mobilization is the most important factor from the shareholder and banks management point of view because it flows the cash in different sectors at profit motive (Thapa, 2004).

Capital accumulation plays an essential role in acceleration of the economic growth of the nations. The capacity of saving in the developing country is quite low with a relatively higher marginal propensity of consumption. As a result developing countries are badly trapped into the vicious circle of poverty. The basic problem of these countries is raising the level of saving and thus investment. In order to collect the enough saving and put them into productive channels, financial institutions like banks are necessary. It will be utilized within the economy and will either be diverted abroad or used for unproductive consumption or speculative activities. After the liberal policy of the NRB, private sector banks, development banks, financial institutions have been establishing till now. There are eighty seven development banks in Nepal. The first development bank of the country is Nepal Industrial

Development Bank. Agricultural Development Bank established in 1967 under the 'Agriculture Development Bank Act 1967'. Now many development banks are established in our country under the development act 1995. Development banks collect deposit from the surplus units and provide to the deficit units (Singh, 2005).

1.2 Statement of the Problem

Nepal is a small underdeveloped Himalayan Country situated between two Asian Power India and China. Nearly twenty five percent of the people are living under the poverty line (Bhattraï and Bhattraï, 2012). Still today agriculture is the main stay of life that provides employment to nearly thirty eight percent to contribute in GDP (Bhattraï and Bhattraï, 2012). In this critical situation, rapid economic development is the basic need of the country. Nepalese people depend on non-institutional money lenders such as local lenders called such as *mahajans*, landlords and merchants at high interest rate because of lack of enough financial institution .Although some financial institutions are operating but still their operating system and loan lending process are complex and rigid. Financial institutions are one of the apex entities of economy in any nation promoting different business activities such as trade, industry and commerce.

Banks and financial institutions are increasing every year but the economic rate of nation is not increased as per the increasing rate of banks and financial institutions. Lack of money market and sufficient capital, internal conflict, no stability in political situation and unfavorable monsoon, low literacy, lack of rural oriented banking facilities, lack of research work, load shedding, trade deficit are the main causes for disturbing in speed of business and economic activities. Many are ignorant about fund accumulation and mobilization. Even the age of privatization people of Nepal do not believe in private sector bank.

A bank can't run properly without sufficient deposit, position of deposit affects both financing and investing activities. It also affects both credit management and liquidity management. Present study seeks to explore the specific problem related to fund accumulation and mobilization of BDBL, causing from increasing deposit at decreasing rate in every fiscal years.

Table No.1.1 Trend of Deposit on BDBL (Rs. in Lakhs)

F/Y	2006/07	2007/08	2008/09	2009/10	2010/11

Deposit	1965	3874	7064	12380	15034
% increase in deposit	221.60%	97.15%	82.34%	75.25%	21.43%

Source: Annual report 2010/11

We have deposit in F\Y 2005/06 is Rs. 611 Lakhs.

"Is deposit responsible for appropriate fund accumulation and mobilization?"

According to above research problem some of the research questions are as below:

- (a) What is the increasing or decreasing trend of deposit mobilization of bank?
- (b) What is the relationship between total deposit and loan and advances?
- (c) What is the current liquidity, profitability position of the bank?
- (d) What is the current capital fund adequacy of the bank with respect to NRB standard?
- (e) What are the reasons for decreasing rate of deposit collection although the total deposit been in increasing trend?

1.3 Objectives of the Study

The general objective of this study is to know the effect of deposit on fund accumulation and mobilization. Beside this some other objectives are:

- (a) To identify the trend of deposit mobilization.
- (b) To identify the relationship between total deposit and total loan and advances.
- (c) To evaluate the performance of BDBL in terms of liquidity and profitability.
- (d) To compare the capital fund adequacy of the bank with respect to NRB standard.
- (e) To examine the reasons of decreasing rate of deposit collection, while the total deposit collection has been increasing.

1.4 Significance of the Study

Fund accumulation and mobilization has become an integral part of almost every banking operation. It is indisputable that the loans and advances are major sources for generating profit in case of financial institution. There is need of additional capital investment to score higher rate of economic growth. Domestic saving and foreign capital (grants and loans) are

two principal sources of capital available for investment. Domestic saving is the most crucial and viable source of capital in our country (Neupane, 2010).

Banks also attract domestic savings under different attractive deposit scheme from saving and grant loan and advances to business sector in long-term, mid-term and short-term to accelerate economic activities. In the context of Nepal, there we can not find sufficient research work in credit management. There should be enough research work on the performance of development banks but this specific function does not seem given importance before (Neupane, 2010).

This study helps to identify the hidden weakness regarding loan management of financial institutions. The study of fund accumulation and mobilization of financial institutions will be beneficial to the following.

I. To the Shareholders

Shareholders are true owner of the company. This study will be useful to them for acquiring the answer regarding to: How the funds are utilized as loans and advance? To what extent they are gaining? And is the productivity of their limited resource satisfactory?

II. To the Management

This study will be helpful to compare and examine own with others regarding performance visa success or failure, effectiveness and so forth.

III. To the Outsiders and Stakeholders

Customers (depositors and debtors), creditors, competitors, investors, financing agencies, stock exchange, personnel can get information about the performance of financial institutions, loans and advances with the help of this analysis.

IV. To the Policy Makers

Government's officers, ministry, central bank and security exchange and tax office can formulate appropriate policy regarding banks with the help of this study.

1.5 Limitation of the Study.

The study relates only with the Bhrikutee Development Bank regarding the loan disbursement, repayment and outstanding in detailed form. No study can be free from limitation. This study has some limitations. This study is assigned for the partial fulfillment of MBS course of T.U. It is better that it would be useful for other aspects for any stakeholders. The major limitations of this study are as follows:

- (a) As per the title specified, this study is mainly concerned with the Bhrikutee Development Bank.
- (b) This study has focused only on fund accumulation and mobilization of Bhrikutee Development Bank.
- (c) Only five years data F.Y. 2006/07 to 2010/011 has been taken for the study.
- (d) Secondary data are used for this study.
- (e) Primary data are used to know the reasons for increasing deposit at decreasing rate.

1.6 Organization of the Study

This research work has been divided into five chapters, i.e. Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis and finally Summary, Conclusion and Recommendation.

The first chapter includes background of the study, statement of the problem, objective of the study, significance of the study, research methodology, and organization of the study and limitation of the study. The second chapter incorporates review of theoretical and related literature regarding the subject matter publication of writers and researchers have been related to the topic. The third chapter explains about the research methodology used to evaluate and analyze. This includes research design, population, and sample, nature and types of data sources of data, data collection techniques data analysis techniques, research variables different statistical and financial tools used in the study. The fourth chapter deals with the major part of the study, this chapter includes presentation and analysis of data using different statistical tool, and major findings. The fifth chapter deals with summary and conclusion of the study and recommendations regarding the subject matter. Besides these bibliography and appendices have also been annex at the end of the thesis. Similarly acknowledgement, table

of contents, list of tables, list of figures, abbreviation have been included in the beginning of this thesis report.

CHAPTER - II

LITERATURE REVIEW

The previous studies can not be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. The continuity in research is ensured by linking the present study.

The purpose of the present chapter is to find out what research studies have been conducted in one's chooser field of study and what remains to be done. It provides the foundation for developing comprehensive theoretical framework. The researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed. It is divided in the following two categories:

- (i) Conceptual Review: Books, Articles published in different Journals and Magazines.
- (ii) Review of related studies: Various masters' degree thesis studies.

2.1 Conceptual Review

Banks and financial institutions are the backbone of the economy. The financial sector bridges between demand and supply of fund and intermediates between surplus unit and deficit unit. The financial sector plays an intermediary functions, such as channeling fund from savers to investors, providing a payment system for transactions, and distributing funds for various alternatives that which are the best for investment. Sound and healthy financial sector makes proper use of available resources and ensures that the resources are geared awards the economic development of the country (Bexley, 1997).

Despite the slowdown in the economy due to decline in agricultural production, political instability, there is a significant growth in the number of financial institutions in the country. In 1994, there were ten (10) commercial banks, two (2) development banks, twenty (20) finance companies and eight (8) co-operative societies authorized to do limited banking activities by Nepal Rastra Bank (NRB). In mid 2009, there were 26 commercial banks, 63 development banks, 78 finance companies, 13 micro credit development banks, 45 non-governmental organizations (Licensed by NRB) and 16 cooperative societies authorized to do

limited banking operations in the country. Besides, these organizations regulated by NRB, there are other players in the financial sector managed by other agencies in the country (Adhikari, 2008).

With this growth in the number of banks and financial institutions, one could argue that the impacts of political instability in the country caused less impact in the financial sector compared to other sectors of the economy like trade, tourism, industrial production and development. On the other hand, it could be argued that the financial sector played an important role in the growth of the economy during this period, by transforming and transferring savings into its investment and helped from further deteriorating the economy (Neupane, 2010).

In addition to the contribution made to GDP, other indicators of achievement could be found in terms of employment generation, fund accumulation and mobilization. As of mid July 2006 total deposits of the financial sectors reached Rs. 327995.18 million from Rs. 284115.2 million. In mid July 2005, this is 15.44 percent growth from the previous year. Loans and advances reached Rs. 230509.042 million in July 2006 from Rs. 209053.7 million in July 2005. A comparison of data for the last five year suggests that there is a significant growth in the mobilization of deposits and loans and advances. Total assets of the banks and financial institutions reached Rs. 516129.3 million in mid July 2006. All these suggest that the BFIs have a milestone in the process of economic development of the country (Monetary policy, 2006/07).

Financial system contributes to economic development through an efficient allocation of resources. They occupy the paramount role in development of the country. These institutions not only mobilize savings but also promote investments in the different enterprises of the national economy that spontaneously assist in alleviating poverty, employment opportunities and in developing the society and country as a whole. Thus the development of financial institution (commercial bank, finance Company, insurance company) is regarded as one of the crucial yardstick for measuring the level of economic development of Nepal. One of the poorest countries in the world is in need of additional capital investment to proper the rate of economic growth, domestic and foreign capital (grants and loans) are two major chunks of capital available for investment and stable source of capital to gear sustainable development of nation. In the subsequent years of economic liberalization, financial development has

accelerated. Banks and financial institutions are increasing very soon (Bhattraai and Bhattraai 2012).

Now the no. of banking and financial institutions are as follows.

Table No. 2.1
Structure of Financial Systems in Nepal

Participants	No. of Participants	Regulating Body
Commercial Bank	32	Nepal Rastra Bank
Development Bank	87	Nepal Rastra Bank
Finance Company	80	Nepal Rastra Bank
Micro-Finance Institutions	21	Nepal Rastra Bank
Co-operative (Authorized to do limited banking transaction)	16	Nepal Rastra Bank
Non-Government organization (Micro- Finance transactions)	45	Nepal Rastra Bank
Postal Saving Bank	170	Nepal Government
Insurance Company	25	Insurance Board
Employee Provident Fund	1	Insurance Board
Citizen Investment Trust	1	Nepal Government
Nepal Stock Exchange Limited	1	Security Exchange Board
Total	479	

Source: NRB Annual Report

Along with the expansion of the financial system, a number of challenges have emerged. These challenges in general relate to the sound and prudent management of the financial system. The investment policy of bank is affected by many factors including the sources of bank funds. The major sources of bank funds are public deposits, share capital, retained earning, reserve funds and other liabilities (Hirday, 2005).

Among the above source of funds, the maximum proportion of bank fund is covered by the deposit from account holders. This fund is repayable on demand so, there should be average balance in the vault to meet the cash demand. Interest is also should be paid on deposits. Second major sources are share capital from shareholders, who expects maximum return from their investment. Hence, maintain the normal cash reserve, the remaining bank fund

should be invested in such sectors that generate adequate return to pay interest and dividend as well (Hirday, 2005).

2.1.1 Liquidity

Each and every financial institution should maintain the position of liquidity. Liquidity is the position of the firm to meet current or short term obligations. General public or customers deposit their saving at the banks in different account having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund. Liquidity is defined as banks capacity to pay cash in exchange for of deposits. Liquidity management of bank is the vital aspect of any banks. Liquidity is important for motive cited as under (Dahal and Dahal, 2002).

(1) Transaction Motive

- To meet operational liability.
- With drawl of deposit.
- Loan disbursement
- To meet payment to venders.

(2) Speculative Motive

- Foreign exchange holding
- Unforeseen opportunities
- Potential investment

(3) Precautionary Motive

- To meet contingencies like fines, errors, tax, guarantee invocation etc.

2.1.2 Funds Accumulation Functions

Banks secure funds from these major sources deposits, other borrowed funds and capitals. These sources of funds can be categorized according to their maturity and cost to the bank (Dahal and Dahal, 2002).

(a) Deposits:

The largest and most important funds providing function for bank is deposit. Deposit account for approximately 75% to 85% of banks sources of funds. Deposits are classified as demand, saving and time.

Demand deposits are payable on demand and at least in a legal sense have the shorter maturity. Saving deposits are also payable a demand although legally bank can require a depositor to give 30 days notice prior to withdrawals.

Time deposits have specific maturity dates may extend for several years. Because of the specified maturities, these deposits are the most permanent deposits. In general demand deposits are considered the lowest cost sources of funds and one of the most stable.

(b) Borrowed Funds

Banks also secure funds by borrowing an either a short term or long team basis. Long term debt is more permanent and may be considered banks capital if it meets certain regulatory criteria. The major instruments use by the banks is security short term borrowed funds include treasury bills purchased, securities sold under repurchased agreements, acceptance out standing, borrowing from central bank. All of these instruments are secured loans payable that have short maturities. Rates of interest paid on borrowed funds are quite volatile particularly on those instruments. Those are extensively used in the daily cash management process since rates are determined through the interaction of supply and demand in the market. In recent years, banks have made extensive use of borrowed funds with many banks using them as a permanent ongoing basis.

(c) Capital

The major funds accumulation function is capital. Bank secure additional funds through the issuance of long term debt and through increase in equity securities (like additional shares issue at the subscription price). Funds secure through increase in capital accounts are differentiated from other funds providing functions by the permanence of the funds.

The main sources of bank capital are promoter share and public share. A bank secures funds initially when the owners commit their funds to bank through stock purchase.

2.1.3 Fund Mobilization Function

Bank invests in a variety of assets. The funds secured through deposits, short term borrowing and capital. The majority of these funds are employed in interest bearing assets such as loans and investments. Some funds are also employed in non earning cash asset is necessary to provide liquidity to accumulate outflows and to meet reserve requirements. Bank must also have facilities to support their investment and funds providing functions, fund using functions are classified into four groups' loans, investment, cash assets and facilities (Bhattraai, 2005).

(a) Loans

In banking business credit and loan can be known as same meaning. Webster's dictionary defines loan as something lent a sum of money lent after for a specified period and repayable with interest. Financial institutions lend money out of deposits, they have received. They must increase money by advancing loan since they have to pay interest on deposits. It is said that "Deposits are the children of loans and loans are the children of deposits" The single most important funds using for banks is the lending function. For a typical bank, loan account for approximately seventy percent to seventy five percent of total assets. Banks earn the highest gross yield on loans commercial and industrial loans account for approximately thirty percent of total loans for all banks.

The next two largest categories of loans are real state loan and individual loan. Other type of loan made by development banks include agricultural loans, auto loans, housing loans and lease finance.

(b) Investment.

The second major fund mobilization function of banks are investment in debt securities, banks may also purchase obligation of other financial institution and debt issued by foreign and domestic corporation.

Investment in obligation of the federal state and local government units are differential with respects to risk of default maturity, marketability and task treatment, obligation of the federal government are essentially free or risk of default.

(c) Cash Assets:

The third major funds mobilization function of banks is investment in cash assets. Cash assets include vault cash reserve held at the federal reserve banks, balance due from other banks and cash items in the process of collection. This use of funds can be differentiated from loans and investment in that a bank does not earn an explicit rate of interest on cash assets. Investment in cash assets is necessary to support the deposit function of the bank in some cases to obtain correspondent services related to loans and investment. Vault cash consists of currency and coin that a bank holds in its vault. The bank must accommodate depositors who wish to withdraw funds from their account in the form of cash.

2.1.4 Concept and Types of Deposit

Deposit arises from saving. An individual income equals consumption plus saving. He/she deposits the saved part of income in the bank and gets interest from it. Banks in turn lend this money and earn profit by charging high interest rate.

The borrower from banks, invest this fund in productive sectors yielding more returns than the interest on borrowed fund.

This investment leads to create new employment, the purchasing power of the economy increase and finally GDP and growth of the economy occurs. It means that the deposit has very important role in the economy. Mainly there are three types of deposits (Thapa, 2004).

(a) Current Deposit

A current deposit is a running account with amount being paid into and drawn out of the accounts continuously. These amounts are also called demand deposit or demand liabilities, since the banker is under an obligation to pay money in such deposit on demand. The account never becomes time bound, because the limitation does not run until a demand is made by the customer on the bank for the payment of deposit. These accounts are generally opened by business houses, public institutions, corporate bodies and other organizations.

(b) Saving Deposit

According to the Commercial Bank Act 1974, saving accounts mean "An account of amount deposited in a bank for saving purpose." The saving deposit bears the features of both of the current and fixed period deposits. Saving accounts are mainly meant for non-trading

customers who have some potential for saving and who do not have numerous transactions entering their account.

(c) Fixed Deposit

Fixed deposit constitutes a very important resource for banks. Under the Commercial Bank Act 1971 “Fixed amount means as account of amounts deposited in a bank for certain period of time.” The customers opening such account deposit their money in the account for a fixed period. Usually only the person or institution who wants to gain make interest opens such type of account. High interest rate is period to this deposit as compare to saving deposits. The bank and customer can take benefit from this deposit.

2.1.5 Mobilization of Deposit

Generally bank has mobilized its deposit in the following transactions (Shrestha and Bhandari, 2005).

(a) Liquid Funds.

A bank has kept a volume of amount in liquid funds. The funds have so many responsibilities in banking activities. Liquid funds have covered following transaction.

- Cash in hand
- Balance with NRB
- Balance with domestic bank

(b) Investment

Bank invests its fund in different banking activities and fields. It invests its fund in profitable and safety activities.

- Share and debenture.
- Government securities.
- Joint venture.

(c) Loan and Advance

Banks mobilize its fund or deposit by providing different types of loans and advances to customers by charging fixed interest. Different types of loans and advances are:

- To government enterprises

- To provide enterprises.

(d) Fixed Assets.

Bank funds are used in buying of furniture, vehicle, Computer and other concerned instruments. Bank can not take direct gain from these assets but bank should buy it. A bank has a need of fund to purchase fixed assets for the new branches of the bank.

(e) Administrative and Miscellaneous Expenses.

- Salary of employee.
- Allowance
- Pension
- Advertisement
- Stationary, Provident fund, Rent, Income tax, Donation Insurance, Tour expenses etc.

Miscellaneous expenses are

- To distribute the dividend to shareholders.
- To bear the loss on sale and purchase of banking assets.
- Maintenance expenses.
- To pay interest on borrowed amount.
- Reserve fund.

2.1.6 Features of Sound Lending and Fund Mobilization Policy or Principle of Lending

Regarding the features of sound lending and fund mobilization policy or principle of lending, Bhattra (1978) has stated as:

(a) Safety and Security

Financial institutions should invest their deposit in profitable and secured sectors. They should not invest their fund in securities of these companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable.

(b) Legal Rules

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by NRB, Ministry of Finance, and on which issuing securities and mobilizing their fund. Illegal securities will bring out any problem to the investors. Lastly the reputation and goodwill of the firm may be lost.

(c) Liquidity

Liquidity is the position of the firm to meet current or short term obligation. General public or customers deposit their saving at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

(d) Profitability

To maximize the return on investment and lending position, financial institutions must invest their collateral fund in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan, its time period and nature of investment on different securities and sectors.

(e) Tangibility

A Commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible property does not yield on income of a part from intangible securities, which have lost their value due to price level inflation.

(f) Purpose of Loan

Banks and other financial institutions must examine why loan is required to the customer. If customer does not use their borrowing they can never repay and the financial institution will have heavy bad debts. So, they should collect detailed information about the plan and scheme of the borrowing.

(g) Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, the entire firm must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risk and uncertainty.

2.1.7 Power of Depository Institution

A depository institution is a financial institution empowered to accept and hold money from public. Commercial banks, thrifts institution and credit unions are major depository institutions. Power of depository institutions can be shown as below (Shrestha and Bhandari, 2005).

(a) Deposit collection

(i) Current A/C (ii) Saving A/C (iii) Fixed A/C

(b) Other short term borrowed funds

(i) Repurchase agreement (ii) Central bank loan

(c) Long-term borrowing issue

(i) Issue of share (ii) Issue of debenture

(d) Cash holding securities

(e) Investment in securities.

2.1.8 The Elements to be dealt in Credit Policy

The well set up credit policy normally throws light on the following components (Johnson and Johnson, 2005).

(i) Credit Volume

The policy consist the credit deposit ratio the bank has to maintain volatility of deposits and borrowing affect loan volume. High volatility of deposits and borrowing will result low loan volume and vice versa.

(ii) Credit Mix

Financial institutions do not put their old funds only to one sector even though this sector is doing well. Investment in only one sector may have bankruptcy of the lenders. Even if two individual borrowers of different sectors have the same level of risk, the portfolio risk is minimized due to diversification.

There must be clear specification regarding the mix of short term and loan term loan deposit mix and interest rate movement of bank affects the main of short term and long term.

(iii) Pricing

The bank however not take the risk beyond a certain should level irrespective of how high the lending rate be prime lending rate is fixed as a practice. Based on the risks, percent is added in the prime lending rate. The rate follows the same direction of risk i.e. higher the risk, higher the rate and vice versa. Fixed or mixed or floating rate of interest along with compensating balance is to be kept. In essence, pricing should be fixed in a manner results profit. Profitability in loan is determined as given below.

$$P = I - O - C - D$$

Where,

P = profitability

I = Interest inclusive other charge if any.

O = Operating expenses

C= Cost of fund

D = Expected default loss.

(iv) Lending Authority.

Either centralized or decentralized approach can be adopted by lending authority. A certain limit is given to branch nothing under lateral approach. The proposal should be submitted to head office beyond branch limit. The board of director is the climate lending authority having cap like single borrower prescribed by NRB. Some banks fix limit to the official based on their layer under both the approaches. In some organizations the lending authority is tied up with the knowledge and expertise rather than with the level.

(v) Securities

Liked and disliked securities of bank must be stated in credit policy. Some banks accept personal guarantee as securities (collateral), whereas other go more forward than that and

demand collateral like land, building etc. Likewise, the policy should cover the selection of valuator. Guiding factor for selection collaterals are marketability, liquidity, transferability and convenience.

(vi) Risk Analysis

Criteria to be met by borrower for getting loan should be clearly described power demarcation about liquidity, leverage, efficiency, profitability ratio must be established to case selection of borrowers consistently.

(vii) Loan Administration and Control Mechanism

The administration of loan portfolio may be divided into the general management objectives of planning, organizing and controlling lending activities. Planning should entail consideration of risk and return of loans that meet profit objectives and allocation of loan assets among consumer, commercial, mortgage. Organizing refers to the passing of planned goals and objectives into actions through definition of policies as well as establishment of support function and dissemination of service where as controlling covers making and monitoring loans to keep on performance standard and to attain profit objectives and goals.

In certain countries there is 'Four eyes' concept. A single person cannot do any thing there should be involvement of at least two officials or two departments. Instance of separate department for separate functions like credit approval, documentation and disbursement and so on facilities in finding mistakes of one department by others. The banks need to take various securities of loan such securities can be disposed to recovery of loans.

(viii) Loan Classification and Provision:

Loans show their signal as (good or bad) with the passage of time and they should be classified and provided accordingly. Net loan (i.e. total loan loss provision) should be shown instead of showing gross loan in the financial statement. In credit policy the following things should be dealt.

- (i) Statement of policy objectives.
- (ii) Organization of the lending function.
- (iii) Credit standard.
- (iv) Handling of problem loan

(v) Credit review and raising process legal consideration

(vi) Delegation of authority

(vii) Types of credit expansions.

(viii) Pricing.

2.1.9 Loan Approval Process

Disbursement procedure works offer the operation of loans approval process under lending conditions and disbursement procedure. Loan approving authority approves loan only offer being convinced that the loan will be recovered along with interest. There may not be the same procedure for all kinds of loan. The process of accepting loan to industry or merchant differs from each other. Similarly, the approving process of loan concerning to primary sectors and bigger project is also not similar. It entails the following sequences (Ojha, 2002)

(i) Application

Every loan process gets momentum after submission of loan request. It encompasses project proposal, historical financial statement and document about incorporation cum legal experience.

(ii) Conducting the Interview

Loan officer may conduct oral interview with the application to gauge authenticity at the bank premise. It should be done in a friendly and positive manner. Here is the threat that interviewer may be extremely negative due to the risk of undesirable loan. It clarifies loan uniformity between the need of borrower and lender amount of loan. The loan amount will be more accurate if applicant has well defined. History of business denotes pass and present of firm in regard to management, principal and their age, experience, as well as product and service position along with heightened competition. Accounts kept in different banks and loan taken from them and reason to change financial institution is to be mentioned. Lastly, separate credit file is to be allowed for each applicant.

(iii) Credit Analysis

Analyzing a credit request includes analysis of the character, capacity and capital position of the potential borrower and evaluation of those features in terms of the current economy and

the economic conditions predicted over the loan period. He further says that the basic question the loan officer attempts to answer in the credit analysis includes:

- (a) What is the character and managerial ability of the borrower?
- (b) What is the borrowers' capacity to repay the loan as required?
- (c) What is the capital position of the borrower in case of the borrowing?
- (d) How will current and predicted economic conditions affect the ability of the borrower to repay the loan?

Johnson and Johnson (1940) have presented credit analysis under the following eight steps:

- (a) Acquiring basic information about the borrowers.
- (b) Acquiring basic information about loans.
- (c) Making preliminary review of risk.
- (d) Acquiring more complete information.
- (e) Varying the critical information.
- (f) Making a refined analysis of the risk.
- (g) Making an overall decision.
- (h) Structuring the loan

(iv) Forecast and Risk Rating System

The analysis has to forecast impending major risk based in the finding of historical analysis on the present considering the present and foreseeable future environment. The analysis has to disclose the extent to which inherent risks will be mitigated and how unmitigated risk can be covered.

2.1.10 Management of Providing Loan: Disbursement Management

Regarding the management of providing loan, Subedi (2003) has mentioned the ways of loan disbursement as:

(a) Proposal of Loan

Printed loan proposal starting essential things should be kept ready and any coming old or new customer should be given it. It includes name, Occupation, address, kind of loan, amount

of loan and securities. After filling aforesaid it should given to loan department where it is to be reviewed carefully to know the correctness.

(b) Deed of the Loan

Loan department prepares it and includes name address of the loan taker and year of loan taken, quality of loan, interest rate, loan recovery date and date of loan agreement (dead) etc. such deed has to be registered form related Office.

(c) Granting Loan Based on Guarantee

Bank grants loan taking movable or immovable properties of third person if the debtors security is less than needed or unacceptable or do not meet bank's limit. But all legal process related to it should be helpful.

(d) Commitment Deed

After approval of proponent's proposal, loan department prepares separate commitment deed to be signed by the debtors. It portrays loan condition and the rules of bank abiding the borrowers.

(e) Contract of Indemnity

Contract deed of indemnity needs to be prepared the same department.

(f) Invoice

The debtor must submit all bills, vouchers and documents relating to business on time as per demand of the bank.

2.1.11 Management for Loan Recovery: Recovery Management.

Recovery of loan denotes sequences lay down to get back amount with all due interest including remedial and punitive action to be taken if necessary (Sharma, 2004).

(a) Audit of Credit

Credit audit refers to keeping eyes on the granted loan decide how properly this utilized. It is done until the loan is recovered. It is done from time to time know right of debtors, proper use of the loan and profit less position. It comprises verification of loan documents, field visit, forms of credit to be prepared. It may be difficult forms such as internal credit audit, external credit audit and credit audit by control bank.

(b) Recovery of Interest on Loan

The borrower should pay interest and principal on time as per the deed of the loan and time assigned by the bank. Otherwise, bank add interest according to rule of bank it charges the interest on interest if borrower does not pay loan in fixed time.

(c) Loan Recovery Process

Bank recovers the granted loan as per the terms and conditions stated in the deed of loan. Loan should be repaid either on installment basis or lump-sum basis as per the deed of loan. Loan recovery period can be extended making new agreement if borrowers' situation goes beyond his control.

(d) Handover of Securities

Bank needs to return movable or immovable properties taken as securities from borrower or security received from third person as guarantee.

(e) Process of Recovering Date Expired Loan

The bank recovers principal and interest of not recover loan as per Bank and Financial Institution Act 2006. After recovering the loan according the remaining cash from sale of property (security) should be returned to the borrower. Good, acceptance, low qualities, doubtful and bad are the classified of loan by NRB.

(f) Maintenance of Data

A report must be prepared containing clear cut information about loan from release data to recovery data. This works as guideline to current and future management.

2.2.1 Review of Legislative Provision

NRB Act 2001 and bank and financial institution act 2006 have reviewed in this segment. The NRB issued directives annually to guideline the banking activities. Every bank should follow NRB rules and regulations, otherwise it should pay fine. The main provisions established by NRB in the form of prudential in above relevant area are briefly discussed here under (Singh, 2005).

(a) Provision for Minimum Capital Fund

Financial institution should keep minimum capital fund for total risk weighted assets after 2005 is as follow:

Table No. 2.2 Provision for Minimum Capital Fund

Institution	Minimum capital fund to total risk weight assets	
	Core capital	Capital fund
For "A", "B" and "C", "D"	6.00%	12.00%
	4.00%	8.00%

Note: It is 5.5 %of core capital and 11% of capital fund for A, B and C class financial institution.

(b) Provision for Credit in the Deprived Sector

Bank should lend certain percent of total loan and advances to deprived sector as per directives. This provisions was imposed to commercial banks only in past but extended it to development banks, “B” class financial institution. Percent lend in deprived sector is determined from monetary policy published by Nepal Rastra Bank.

(c) Provision for the Investment in Productive Sector

Nepal being a developing country needs to develop in fracture and other primary sectors like agriculture, industry etc. For this NRB has directed commercial banks to extend at least 40% of their total credit to the productive sector , agriculture sector and industrial sector have to be included in productive sector investment .

(d) Cash Reserve Requirement

Banks are required to keep adequate liquidity to meet the depositors demand for cash at any time and to inject the confidence of the depositors. To serve for the public welfare NRB has directed to licensed banks and financial institutions to maintain 5% minimum cash reserve upon their total deposit.

(e) Loan Classification and Loan Loss Provision

To improve the quality of assets of banks, NRB has directed the banks to classify their outstanding loan and advances investment and other assets into four categories on the basis of time.

(a) Pass (b) substandard (c) Doubtful (d) Bad debt. Loans and advances falling in the category of pass classified as performing loan. Loans and advances falling in the category of substandard, doubtful and Loss are classified as non performing loan. The loan loss provision on the basis of the outstanding loans and advances and bills purchase classified as per this directive should as follows:

Table No 2.3 Classification of Loans and Required Provisioning

Classification of loan	Criteria	Loan loss provision
Pass	Due up to 3 months	1.00%
Substandard	Due up to 3-6 months	25.00%
Doubtful	Due up to 6 - 12 months	50.00%
Bad	Due up to 12 months	100.00%

The researcher reviewed the conceptual framework, related studies and legal as well as regulatory guidelines. In this chapter the researcher has organized the literature as related with the credit management. The term ‘credit’ in banking sector also known as loan too. So the researcher suppose these two terms in the same sense. Hence, the review of literature has been trying to stopping and ahead the research methodology will have presented under the research framework.

2.2.2 Nepalese Legal Compliance to OECD Principles

This study has focused towards the corporate governance status in Nepal with a view to making a generalized concept for the utmost need of developing a unique code of corporate governance in asymmetrically enacted and distributed acts during different period for smooth running of concern enterprises. The major base taken is the OECD principles and is tested with the acts concerned for corporate governance in Nepal. A bird’s eye view has drawn into the corporate governance status of South Asian nations Bangladesh, India, Pakistan and Sri Lanka (Kareriya and Adhikari, 2011).

Nepal stands far behind of its South Asian neighbors’ (India, Pakistan, Sri Lanka, and Bangladesh) with regard to corporate governance standards and practices. Growing capital market of Nepal has some well-defined features like a small equity market that commands

less than 20 percent of GDP and features a low degree of liquidity. Listed companies comprising 90 percent from the financial sector stands at 159 at the Nepal Stock Exchange, the only stock exchange in Nepal. This figure is less than one percent of all companies and 10 percent of public limited companies. Corporate debt instruments are almost absent, and holding in the equality market are heavily concerned within family groups. Monitoring of non-financial enterprises faces information asymmetry, and agency costs rise with the growth of firms, making monitoring more expensive (Kareriya and Adhikari, 2011).

The Company Act in Nepal provides the basis corporate framework. When the companies go public and trade publicly, the Securities Exchanges Act covers their governance. Quite a few elements of corporate governance have been in the form of mandatory codes. Just to recapitulate, in April 2005, a corporate governance country assessment was conducted with the help of the World Bank. A Corporate Financial Governance Project, funded by the Asian Development Bank, also provided the impetus for the development of the Nepalese capital market. In addition, subsequent discussion and actions are taken to develop good corporate governance in Nepal. Since the restoration of multi-party democracy, there is a paradigm shift from bureaucracy possessing the state's essence to opening itself to market and civil society, universal spirit of hierarchy and control to equality, flexibility and competition, and faith in authority and confidentiality to democracy, transparency, ownership, participation and subsidiary (Kareriya and Adhikari, 2011).

Ethical governance requires a new equilibrium beyond legislative, executive and judiciary where the state is imperative of public order is matched with the market and civil society's aspiration for freedom, autonomy and internationalization owing to growing political conflicts in the country and globalization, the governance actors in Nepal face institutional deficiency in providing public good and adapting to technological, sociological, and political change. Political crisis in Nepal has produced a political culture of confrontation and deadlock, weakened the power of public to live in civil coexistence and nurture their well-being. A proper balance in governance actors and norm –governed action alone can prevent the extraction of social surplus by their leaders. What is the nature of governance actors in Nepal? Why the policies and institutions they adopt do not support economic development? The state of Nepal has lost legitimate monopoly on power and struggling to maintain security, impose law and order, regain the periphery and restore its capacity to pursue common good so that it is seen as a civil association. Only visionary leaders can minimize the

political differences, build consensus among the key actors for national action and strengthen the constitutionalization of society, economy and polity. The major authentic bodies are Company Act 2003, Company Registrar Office, Unified Directives of Nepal Rastra Bank-2010, Banks and Financial Institution Act, 2006, Banking Offence and Punishment Act, 2008 , Contract Act 2000, Security Act 2006, Securities Exchange Board of Nepal Regulation 2007, Nepal Stock Exchange Ltd.(NEPSE) Securities Exchange Act, 1983, Nepal Chartered Accountants Act, 1997, Nepal Accounting Standards , Nepal Standards on Auditing, Insurance Board of Nepal , Nepal Rastra Bank, Institute of Chartered Accounts of Nepal, Nepal Rastra Bank Act, 2002, Income Tax Act 2000, Labor Act 1992 (Kareriya and Adhikari, 2011).

2.3 Review of Related Studies

In book the concerned matters are presented as loan administration involve the earning and management of risk assets. The process of lending takes into consideration of the people and system required for the evaluation and appeal of loan request negotiation of terms , documentation disbursement administration of considering loans and workout, knowledge of the process and awareness of its strength and weakness are important in setting objectives and goals for lending activities and for allowing available funds to various lending function such as environmental, installment and mortgage portfolio (Johnson,et al. 1940) .

In book entitled “Management Techniques of Bank Lending” has explained about credit management has two main objectives one is credit planning and control at the macro level. And another is allocation, follow up and control of credit to individual customers at the micro level (Cleman, 1963).

The book named “Banking management” examined that in banking sector or transactions an unavailable of loan management and its methodology is regarded very important under this management many subject matters are considered and thought for example there are subject matters like the policy of loan flow , loan administration audit of loan, renewal of loan , the condition of loan flow the provision of security, the provision of security, the provision of security , the provision of the payment of capital and its interest and other such procedures . This management plays a great role in healthy competitive activities (Bhandari, 2003).

Klisse, (1978) gives his view in his book “Money and Banking” that in an economy that depends more and more on credit, banks find themselves lending for a variety of purposes,

sometimes directly, sometimes through other agencies . This wider use of loan is not due merely to a change in attitude of the banks. It reflects also more fundamental changes such as shifts in the public's consumption patterns and in financial investment policies.

Gitman and Jochnk (1972) in their book "Fundamentals of Investing" compare the bank investment with a vehicle. He says that it is such vehicle into which funds can be placed with the expectation that will preserve or increase in a value and generates positive results. A banker seeks optimum combinations of earning, liquidity and safety while formulating investment policy. As inference from all these above stated authors it can be said that loan management refers to systematic identification of needs one or required party (loan taker) verifying their documents , pre and post visit.

Venkat and Yong (1988) have explained an expert credit granting system prototype in designing expert financial systems: A Case Study of Corporate Credit Management. Credit granting process in the participating corporation considered of two distinct phases (1) a customer evaluation phase, where the customer's credit worthiness is evaluated based on a variety of criteria, and (2) a credit limit determination phase, where the conclusions of the analysis are transformed into a credit limit for the customer. System design was therefore, split into two phases, (1) development of an appropriate data base and knowledge base to support the customer evaluation process and (2) development of an appropriate model to support the credit limit determination phase.

Thapa and Rana (2011) explained risk and utility values that investment theories are based on the assumption of risk aversion in the part of investment. Put simply, we assume that all investors are risk averse and prefer higher expected return and lower variance of expected return. In this sense we assume that mean and variance of return as the object of the choice. What we need first is a theory of choice, which tells us how investors go on deciding in consideration to different risk-return combinations associated with given investment alternatives. Theoretically, there are three levels of risk perceived by investors: risk averse, risk neutral, and risk seeker. First we need to recognize that the risk averse investors reject investment portfolios that are fair games or worse. They prefer only risk-free or speculative alternatives that offer positive risk premium. In other words, the risk averse investors prefer that risky investments that offer additional return (risk premium) above risk-free rate to commensurate the additional risk involved.

There may be some individuals, who are risk seeker and risk neutral. However, logics and observations show that most investors are risk-averse. Several theories explain the risk aversion nature of investors. Among them, the utility theory provides the best explanation. It is well known fact that every marginal sum of money has diminishing marginal utility. The assumption of diminishing marginal utility provides the basic logic to explain utility theory. If a person having no money receives a sum of rupee 100, he can utilize this sum to satisfy his immediate need. It provides him greater satisfaction. Similarly, if he receives another sum of rupee 100, he can use it to satisfy his next important needs, but this does not provide equally utility as compared to the first sum of rupee 100. Therefore every sum of money received later has diminishing marginal utility than every sum of money received former. This holds true for most investors that they have diminishing marginal utility of their wealth, which has direct influence on their attitude towards risk. Therefore , a risk averse investor with diminishing marginal utility of wealth receive more ‘pain’ from lost rupee than pleasure from extra equal returns (Thapa and Rana, 2011).

2.4 Review of Past Thesis

Prior to this study , some thesis researchers have already conducted studies about many aspects of development banks and commercial banks such as lending policy , investment policy , financial performance analysis , research mobilization , capital structure and profitability of banks .

Bhattarai (1978) in her thesis “Lending Policy of Banks in Nepal” examined the lending policy of the banks and she has conducted that efficient utilization of resources in most important that collection of the same lower investment means lower capital formulation that hampers economic development that banks should emphasis on efficient utilization of resources .

Singh (1980) in his thesis paper entitled “A Brief Study on Resource Utilization by Nepalese Commercial Banks” had conducted to evaluate resource utilization with a view to examine how far the banks have been able to mobilize its resource efficiently. To find out the impact of interest rate on deposit and interest rate of loan on the credit extension of banks. To know the relationship between branch expansion and deposit collection. To investigate the type of relationship between credit extension and the expansion of banks branches. To find out the causes for the efficient operation of commercial banks with regard to mobilization of funds.

The study concluded that banks were found inefficient in deposit utilization during seven years under study. Banks branches expansion in rural sector was unsatisfactory. There was higher degree of positive correlation between branch expansion and collection of scattered savings and extension of credit by banks as well. Like this there was higher degree of positive correlation between deposits collection and extension of credit by banks and there was positive correlation between interest rates and deposit collection.

Aryal (2002) examined the Loan Management of Agricultural Development Bank, with a view to analysis the target and achievement of loan disbursement and collection. To find the relation between the loan disbursement and collection of the bank. To analyze loan disbursement and collection in different purposes. To evaluate the role of interest rate, disbursement procedure and collection of the bank. The study concluded that actual loan disbursement, collections are increasing at decreasing rate. There is positive relation between loan disbursement and collection. Targeted loan collection and disbursement fixed by planning and project department is nor significantly different than the actual.

Sharma (2005) examined the Loan Disbursement and Collection of Nepal Bangladesh Bank Limited, with a view to analyze the standard of every years deposit collection. To measure total amount of loan disbursement of total deposit. To analysis the different types of loan disbursed. To measures the status of loan recovery out of total loan disbursed. The study concluded that the deposit collected by the bank shows that deposit collection is increasing but in a fluctuating trend. Loan disbursed by the bank is in significant amount of the deposit collected. In average about 77% of the deposit collected is disbursed in highest amount. About 15 % of the total loan is given net as overdraft loan. The overdraft analysis of the study proves that NBBL has been performing its function of loan disbursement and collection very well.

Bhattarai (2005) examined the Loan Management of Kathmandu Finance Ltd, with a view to analyze the loan and advances as well as deposit, interest rate, repayment of loan of KAFL. The study concluded that the interest income from loan and advances and loan and advances holds high degree of positive correlation. Change in loan and advances bring in interest income from it. Average deposit and loan and advances of KAFL during research period is similar to finance company industry. Term loan, housing loan, hire purchase and for loan occupy major position in due loan. Term loan, housing loan and hire purchase loan should be

given more emphasis to recover. Interest income from loan and advances and EBI goes in same direction. Increase in interest income cause increase in EBT and vice –versa.

Adhikari (2008) examined the Credit Management of Siddhartha Vikash Bank Ltd with a view to analyze the trends of deposit collection and credit lending that is loan and advances. To evaluate the performance of SVBL in terms of liquidity, profitability, sector wise loan, non performing loan. To analyze capital adequacy of SVBL. To know the view of employee in regard to credit management. The study concluded that the deposit collection of SVBL has significantly increasing trend. We find that there is continuous increasing trend from 10 % to 100%. In all year total fixed deposit has more contribution than other deposit. Loan and advances have continuous increasing trend although the banking sector have cut throat competition. More than deposited amount is utilized in loan and advances. The percent of deposits to loan and advances are 98 percent to 195 percent. Correlation between deposit collection and loan disbursement is 0.99. This indicates that these two variables relation is highly positive. Hence, the analysis found $r > 6$ PE; it reveals that the relation is significant. The current ratio of SVBL is satisfactory. It has maintained around 2:1 current ratio. The cash and bank balance is sufficient for deposit holders. The SVBL has percent to 39 percent cash and bank balance to total deposit which is greater than NRB standard. There is 11 percent to 19 percent of the cash and bank balance to total current assets. All portions of the current assets are used in loans and advances, which shows continuous increasing trend. The first, second and third greater amount of loan is disbursed in business, agriculture and building and construction respectively. Similarly first, second and third lowest amount of loan is disbursed in service, other and industrial sector. Capital adequacy of the SVBL has sufficient against NRB standard. It indicates that the lending capacity of SVBL is high.

Neupane (2010) examined A Study on Fund Accumulation and Mobilization of Paschimanchal Development bank limited, with a view to examine how the deposit is accumulated in as well as PDBL efficiently utilized. To examine the relationship between total deposit and total lending. To analyze capital adequacy of PDBL in relation to the loan issued. To evaluate the performance of PDBL in terms of liquidity, profitability, sector wise loan and non performing loan. To examine how far the rate of interest influence the credit and deposit of PDBL. The study concluded that the deposit collection of PDBL has significantly increasing trend. We find that there is continuous trend from 30 percent to above 100 percent. In all year (except 2065) total deposit has more contribution than other deposit.

Loan and advances have contribution increasing trend although the banking sector have cut throat competition. More than deposited amount is utilized in loan and advances. The percent of deposit to loan and advances are 94 percent to 119 percent. Correlation between deposit collection and loan disbursement is 0.99. This indicates that these two variables relation is highly positive. Hence, the analysis found $r > 0.6$, it reveals that the relation is significant.

2.5 Research Gap

The research relating to the topic fund accumulation and mobilization is not a new thing in the financial as well research work. Various researches can be found relating to credit management, credit analyses and credit appraisal etc as well. The related research works have been reviewed in the above section of the current chapter of this research work. Though it's not a new and different topic but it is the first study regarding the data based on the sample bank like Bhrikutee Development Bank Limited. There is no study conducted in past regarding the fund accumulation and mobilization selecting the sample bank. To meet this gap, the present study has been conducted.

Most thesis are related with 'A' grade bank but I have studied on 'B' grade bank. Because the nature of lending sector, lending amount and the lending rate are not same for 'B' grade bank while comparing it with 'A' grade bank. I have studied all statistical tools for data analysis. Hence, this thesis is different from others. Another way it shows deposit collection of Bhrikutee Development Bank Limited is increasing in decreasing trend every year. To find out causes for this decreasing trend of increasing deposit thesis work has been done.

CHAPTER: III

RESEARCH METHODOLOGY

3.1 Introduction

In order to accomplish the targeted objectives of the study, a definite course of research methodology has been followed. A systematic methodology is considered as inevitable for true, fair better and superior consequences. In fact, research is a scientific inquiry about certain phenomenon or object. Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with a certain objectives in view. It is a way to solve the research problem systematically. It may be understood as a science of studying how research is done scientifically. It includes the various steps that are generating adopted by a research in studying his research problem along with logic behind them (Kothari, 2001).

The basis objective of this study is to examine and to analyze the fund accumulation and mobilization of BDBL dividing study period (from 2006/07 to 2010/011) and to provide recommendation for their financial improvement. Research design, nature and sources of data, sample and method of data analysis are incorporated under this chapter. The main objective of this chapter is to see trend relationship between the figure of fund accumulation and mobilization and to explain the causes of delayed payment from borrowers followed by recommendations.

3.2 Research Design

The study has adopted descriptive and core prescriptive research design. Historical secondary data have been mainly used for analysis. In this research design the researcher has conducted the research, searching for new data, analyzing the data and getting new knowledge from research. For the purpose of the research work secondary data are compiled, processed and tabulated in time series. And to judge the reliability of data provided by the banks and other sources, they were compiled with the annual reports of auditors.

3.3 Nature and Source of Data

After determination of the objective secondary sources of data have been collected. But primary sources of data are collected to find out the reasons for increasing deposit at decreasing rate. For this purpose questionnaire and interview method are used. Secondary sources of data are the information received from books, journals, newspaper, reports and dissertations etc, the major source of secondary data are as follows:

- Economic survey of HMG, Ministry of finance
- NRB directives
- Annual general reports of BDBL
- National newspaper, journals, magazines
- Websites
- Previous thesis
- Books

3.4 Population and Sample

At present there are altogether 87 development banks operating in the political boundary of nation so eighty seven development banks are population for the study. Sampling technique is very essential when whole study of the research is not possible. It allows the researcher to make and intensive study of the research problem within limited timeframe. If the size of the sample is large it is much difficult to study any problem in a limited cost, time frame etc. Another way if the size of sample is very small it is much difficult to get accuracy about the concerned result. Bhrikutee Development Bank Limited is taken as a sample to represent the whole development bank operated in Nepal.

For the purpose of the study judgmental sampling method has been used. This is also known as purposive sampling that the researcher can select the sample from his own knowledge.

3.5 Data Collection Method

For the collection of data Meta Analysis, Historical Method and Content Analysis are used.

3.6 Data Presentation and Analysis

For the purpose of data presentation and analysis chart, graph, tabular diagram will be used.

3.7 Method of Data Analysis

Various tools are used for data analysis. Any analytical tools can be used in solving the problem of this study. For the purpose of the study secondary data are arranged, scanned tabulated under various head and then after descriptive statistical analysis have been carried out to enlighten the study mean, standard deviation ,correlation coefficient of variation are being calculated under statistical analysis. Financial tools and statistical tools are used for data analysis. Financial analysis is the starting point of making plans before using any sophisticated forecasting and building procedure. Here ratio analysis is used under financial analysis to attain the result of the data.

3.7.1 Ratio Analysis

A ratio is a quotient of two mathematical expressions. Establishment of quantitative relation of data by the financial statement is called ratio analysis. The analysis of finance of ratios involves two types of comparison. First, the analysis can compare the ratio between two different times. The second method of composition involved comparing the ratio of one firm with two of similar firms or with industry average at the same point in time. Such a comparison gives insight into the relative financial condition and performance over time (Van, 2004).

(a) Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short term obligations. From them much insight can be obtained into the present cash solvency of company. We wish to compare short term obligation with the short term resources avoidable to meet these obligations. The following ratios have been calculated in order to exhibit the liquidity position of the Bhrikutee Development Bank Limited.

- (i) Current Ratio: It provides about the short-term solvency of the firm. It establish the relationship between current assets and current liabilities of which is expressed as:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Current assets are those assets which can be converted into cash within a year and so. It includes cash and bank balance, investment in treasury bills, inventory, bills purchase and discounted, customer acceptance liabilities, prepayment expenses, bills for collection. Likewise current liabilities denote account payable, bills payable, bank overdraft, saving account deposit, bank overdraft, and customer acceptance and so on.

(ii) Cash and Bank Balance to Total Deposit Ratio

This ratio points the banks capacity to cover their deposit like current, call saving and margin. A higher ratio is preferred since bank is able to cover deposits. It can be expressed as:

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposits}}$$

$$\text{(iii) Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

(iv) Loans and Advances to Current Assets Ratio

This ratio highlights the percent of loan and advance in current assets. A higher ratio means greater loans advances are in current assets and lower ratio means lower loans and advances are in current assets. It is calculated as:

$$\text{Loans and Advances to Current Assets Ratio} = \frac{\text{Loan and advance}}{\text{Current Assets}}$$

B. Profitability Ratios

Some of the important profitable ratios are used as follows:

(i) Net Interest to Total Assets Ratio

Net interest means receive interest minus interest paid. It also known as interest spread. The high ratio indicates the profitability of the bank. Similarly, the low ratio indicates that low profitability of the bank. It can be expressed as:

$$\text{Net interest to total assets ratio} = \frac{\text{Net interest}}{\text{Total assets}}$$

(ii) Net Profit to Total Assets Ratio

It measures the profitability of fund invested in the bank assets. It is computed by dividing the net profit by total assets including profit and loan account (Debt side). Higher ratio is profitable since it has more operating efficiency of the firm and vice versa. It is expressed as Net profit to total assets ratio.

$$\text{Net profit to total assets ratio} = \frac{\text{Net profit}}{\text{Total Assets}}$$

(iii) Return on Net Worth (ROE)

Net worth denotes the owners claim in the assets of the company remain often subtracting total external liabilities from total assets. Here, total assets represent all the total assets beside accumulated loss and intangible assets. The ratio exhibits the ratio of return earned on net worth (or shareholders fund or equity). Its compensation is to be done as:

$$\text{Return on net worth} = \frac{\text{Net worth}}{\text{Shareholders equity}}$$

Or

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Equity}}$$

3.7.2 Statistical Tools

(i) Arithmetic Mean (Average)

Arithmetic Mean is a common factor or a single common factor for representing various factors concerned in the study. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$x = \frac{\sum x}{N}$$

Where

X = Mean value of Arithmetic Mean

N = Number of Observations

$\sum x$ = Sum of observation

(ii) Standard Deviation (S.D)

Standard deviation measures the risk in return. It determines or quantifies the variables in returns. Higher the standard deviation higher will be return and lower the standard deviation lower will be return. It is used as absolute measure of dispersion of variability. It is calculated as:

$$\sigma = \sqrt{\left[\frac{\sum x^2}{N} - \left(\frac{\sum x}{N} \right)^2 \right]}$$

Where,

σ = Deviation Standard

$\sum x^2$ = number of Observation of square of sum

N = Number of periods

(iii) Co – efficient of Variation (C.V)

“Co-efficient of variation is the percent variation in mean, standard deviation, being considered as the total variation in the mean (Gupta 1998). It measures per unit of risk. The C.V. is the relative measure based on S.D. and defined as the ratio of the S.D. to the mean expressed in percent. It is calculated as:

$$C.V. = \frac{\dagger}{X}$$

Where,

X = Mean,

† = Deviation Standard

C.V. = Variation of Coefficient

It is in dependable of the unit. Here, two distributions can be compared with the help of C.V. for knowing their variability. A series with smaller C.V. is said to be less variable or more consistent or more homogenous or more uniform or more stable than the other and vice versa.

(iv) Correlation

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in the value of another variable. Correlation may be:

- Simple or partial or multiple correlations
- Positive or negative or zero correlation
- Linear or non linear correlation
- Perfect or non perfect or zero correlation

If one variable increases then another variable also increases then it is called positive correlation. If there is inverse relationship between two variables then there is negative correlation. For example if the price of a commodity increases then demand of a commodity decreases. If the two variables are not related each other then the variables are called uncorrelated. Animals and people are uncorrelated variable.

$$C.V. = \frac{\dagger}{X}$$

Where,

X = Mean,

† = Deviation Standard

C.V. = Variation of Coefficient

(v) Coefficient of Determination

It explains the variation deprived in dependent variable due to the any one specific variable it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient. For example if the coefficient of determination is 0.80 then we say that eighty percent effect is related to concerned variable and twenty percent effect is related out of that concerned variable.

(vi) Probable Error

Probable error of the correlation denoted by P.E. is the measure of testing the reliability of the calculated value of if r be the calculated value r from a sample of N pair of observations then, P.E. is denoted by:

The Karl Pearson coefficient of correlation (r) always falls between -1 to +1. The value of correlation is minus signifies the negative correlation and plus signifies the positive correlation reaches near to the value of zero. It is said that there is no significant relationship between the variables. The coefficient of correlation shall be interpreted based on probable

error (P.E.). If the value of correlation coefficient is greater than 6 times the value of P.E., the correlation coefficient is deemed as significant and reliable. If the value of correlation coefficient is less than six times of probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation.

(vii) Time Series

Time series analyses a series of data keeping in mind the various short term and long term fluctuations. The least square method to trend analysis has been used to measure the trend behaviors of the bank. The method is widely used in practices. The straight line trend of series of data is represented by the following formula.

$$Y = a + bx$$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

In this chapter the relevant information available has been used by analyzing the loan management of BDBL for the fulfillment of the research objectives. Sources of secondary data are the annual reports of the bank, journals, published or unpublished report of the bank, NRB Publications, books, journals, published or unpublished reports etc. Data presentation and analysis is done to fulfill the objectives of the study. The objectives of the study are to analyze the trend of every year's deposit collection and loan investment to measure total amount disbursed, out of total deposit collected to measure performance of bank in terms of profitability, liquidity.

4.1 Deposit of BDBL

Bank collection the scattered funds from the public in the form of deposits and mobilization in the productive sector. The volume of credit extension depends upon the deposit of a bank beside other factors. The deposits collected by BDBL, can be divided as current, saving, fixed, call and other deposit. The deposit collection by the bank in 5 years (2006/07 to 2010/011) is presented in the table below.

Table No. 4.1 Deposits Collection by BDBL

(Rs. in Lakhs)

Years	Deposit collection	Inc/Dec. in deposit collection	% inc/dec
2006/07	1965	-	-
2007/08	3874	1909	97.15
2008/09	7064	3190	82.34
2009/010	12380	5316	75.25
2010/011	15034	2654	21.43

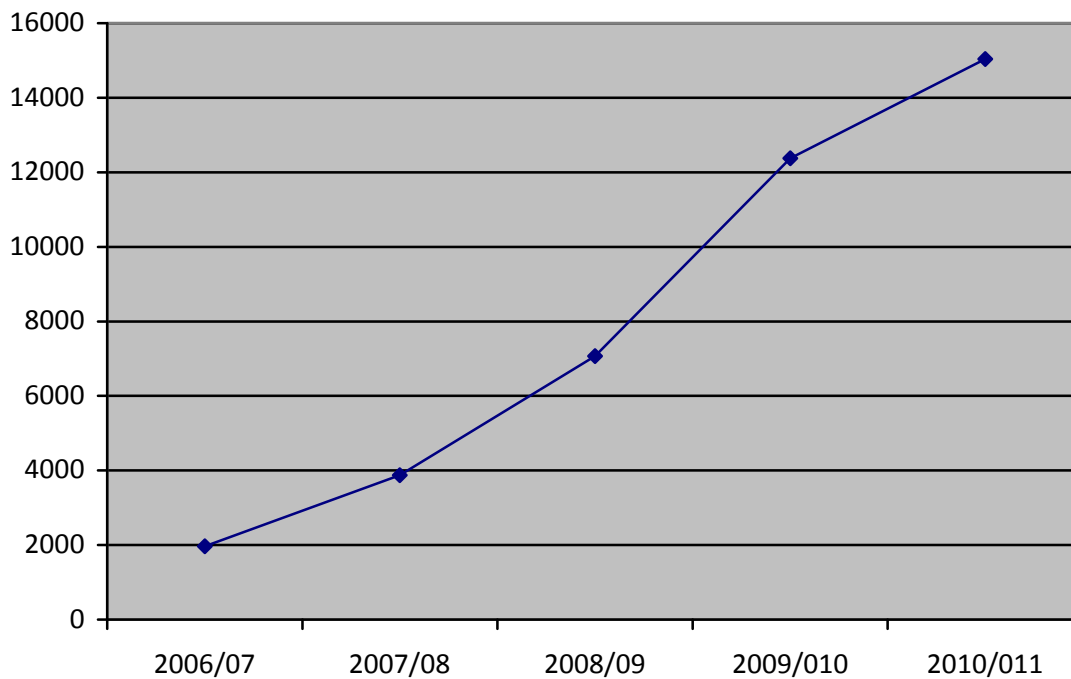
Source: Annual report of respective years.

The above table shows the deposit collected by BDBL from the year 2006/07 to 2010/011. There is increasing trend of deposit in decreasing rate in every fiscal year. In 2006/07 the

deposit collected amount is Rs. 1965 lakhs. Similarly, in 2007/08 collected deposit amount is Rs. 3874 lakhs which is Rs. 1909 lakhs greater than previous year and in percentage it has increased by 97.15 percent. Total deposit collection in 2008/09 is Rs. 7064 lakhs which is 82.34 percent greater in comparison to 2007/08.

In 2009/010 the collected deposit amount in Rs. 12380 lakhs which is by 75.25 percent greater then the year 2008/09. In 2010/011 deposit amount is Rs. 15034 lakhs which is Rs. 2654 lakhs greater than the year 2009/010 or in percentage 21.43 percent greater than the year 2009/010.

Chart No. 4.1 Deposit Collection of BDBL (Rs in Lakhs)



Sour

ce: Table No. 4

4.2 Deposit Composition of BDBL

The deposit composition of BDBL also has significance. The following table shows the composition of deposits of BDBL.

Table No. 4.2 Deposit Composition of BDBL (Rs. in Lakhs)

Years	Deposit						
	Saving	%	Fixed	%	Other	%	Total
2006/07	917.85	46.71	878.16	44.69	168.99	8.60	1965
2007/08	2340.28	60.41	1465.53	37.83	68.19	1.76	3874
2008/09	5027.44	71.17	1688.29	23.90	348.27	4.93	7064
2009/010	9411.28	76.02	27.52	22.23	216.72	1.75	12380
2010/011	10104.35	67.21	2443.02	16.25	2486.63	16.54	15034

Source: Annual reports and financial statement of corresponding year.

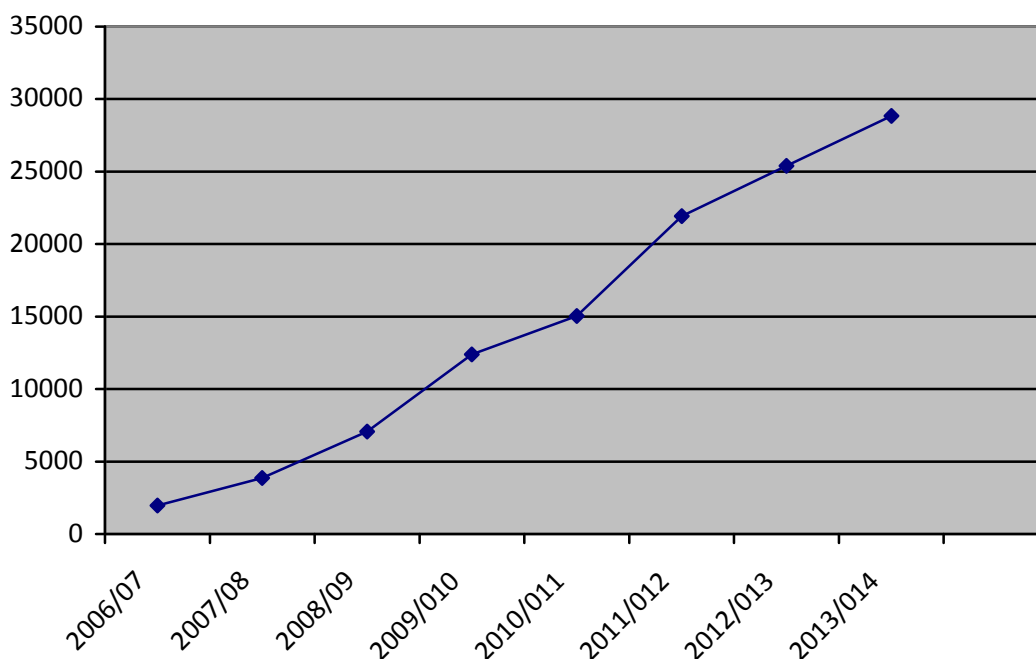
The above table shows the composition of deposit of BDBL wise saving, fixed and other deposit. Here it can be seen that more amounts have been collected in saving deposit and less in other deposit except year 2009/010. Other deposit has collected more amounts in year 2010/011 while comparing previous years of this deposit.

In the year 2006/07, saving deposit is 46.71 percent of total deposit. In the year 2007/08 saving deposit is 60.41 percent, in the year 2008/09 saving deposit is 71.17 percent, in the year 2009/010 saving deposit is 76.02 percent, and in the year 2010/011 saving deposit is 67.21 percent. In the year 2007/08 fixed deposit is 37.83 percent, in the year 2008/09 fixed deposit is 23.90 percent, in the year 2009/010 fixed deposit is 22.23 percent, and in the year 2010/011 fixed deposit is 16.25 percent. Hence the trend of fixed deposit is decreasing rate of total deposit in every annual year. In the year 2006/07 other deposit is 8.60 percent, in the year 2007/08 other deposit is 1.76 percent of total deposit, in the year 2008/09 other deposit is 4.93 percent of total deposit, in the year 2009/010 other deposit is 1.75 percent of total deposit, in the year 2010/011 other deposit is 16.54 percent of total deposit. Hence the trend of other deposit is fluctuating in every year.

4.3 Trend of Deposit Collection

The trend of total deposit is coming year is analyzing using the trend analysis. The following trend line shows the projection of total deposit of BDBL up to 2006/07 to 2010/011. The calculation of trend for cost has been presented in appendix - 2

Chart No. 4.2 Trend of Deposit Collection (Rs. In Lakhs)



Source: Table No. 4.2 and appendix - 2

The above figures shows that the deposit collection by this bank is in increasing trend if other things remaining constant. According to the trend forecast the deposit collection in the years 2006/07 is Rs. 1965 lakhs, in 2007/08 is Rs. 3874 lakhs, in 2008/09 is Rs. 7064 lakhs, in 2009/010 is Rs. 12380 lakhs, in 2010/011 is Rs 15034 lakhs, and in year 2011/012 is Rs. 18456.6 lakhs, and in year 2012/013 is Rs. 21921lakhs, and in year 2013/014 is Rs 28849.8 lakhs.

4.4 Loans and Advances of BDBL

A bank takes deposit and lends loan and advances. Giving loans and advances are the major task of any bank. Loan and advance is a major chunk of assets in assets side. Because of cut

throat competition in banking sectors and limited area of investment giving loan and advances is difficult and critical job.

Table No. 4.3

Total Loans and Advances of BDBL (Rs. in Lakhs)

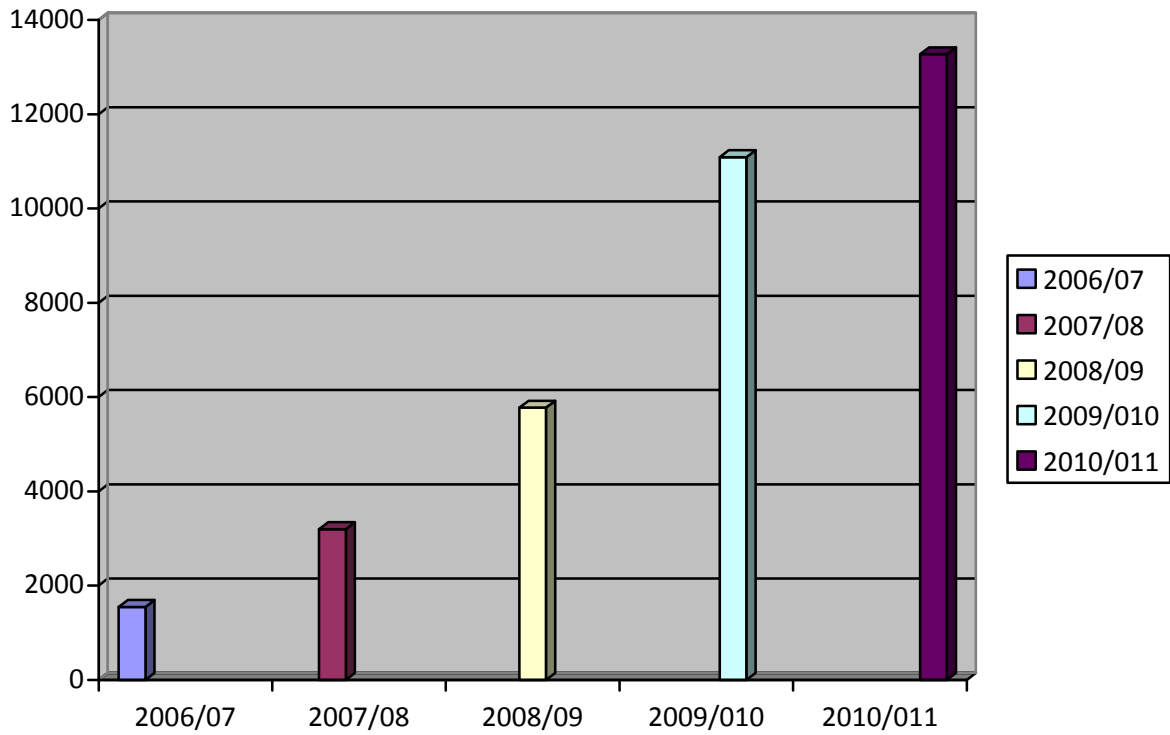
Years	Total Loan and advance	Inc/Dec in Loan and advances	% inc/dec
2006/07	1547	-	-
2007/08	3197	1650	106.65%
2008/09	5775	2578	80.63
2009/010	11088	5313	92
2010/011	13271	2188	19.68

Source: Annual reports of respective years.

The above table shows loan and advance. The table shows that loan and advances are more fluctuating in the fiscal year 2009/010 and 2010/011. In 2006/07 loan and advance amounted to Rs. 1547 lakhs, in 2007/08 it is increased by 106.65 percent and reached to Rs. 3197 lakhs. Similarly loan and advance in 2008/09 amounted to Rs. 5775 lakhs. It is 80.63 percent greater than former year. In 2009/010 it is reached up to Rs. 11088 lakhs but there is an increasing trend but the rate of growth is decreasing. Loan and advance in 2010/011 is Rs. 13271 lakhs which is 19.68 percent greater than previous year. This percent is more fluctuating in study period.

The loan and advances of BDBL can be presented in a form of Bar Chart.

Chart No. 4.3 Loan and Advances of BDBL

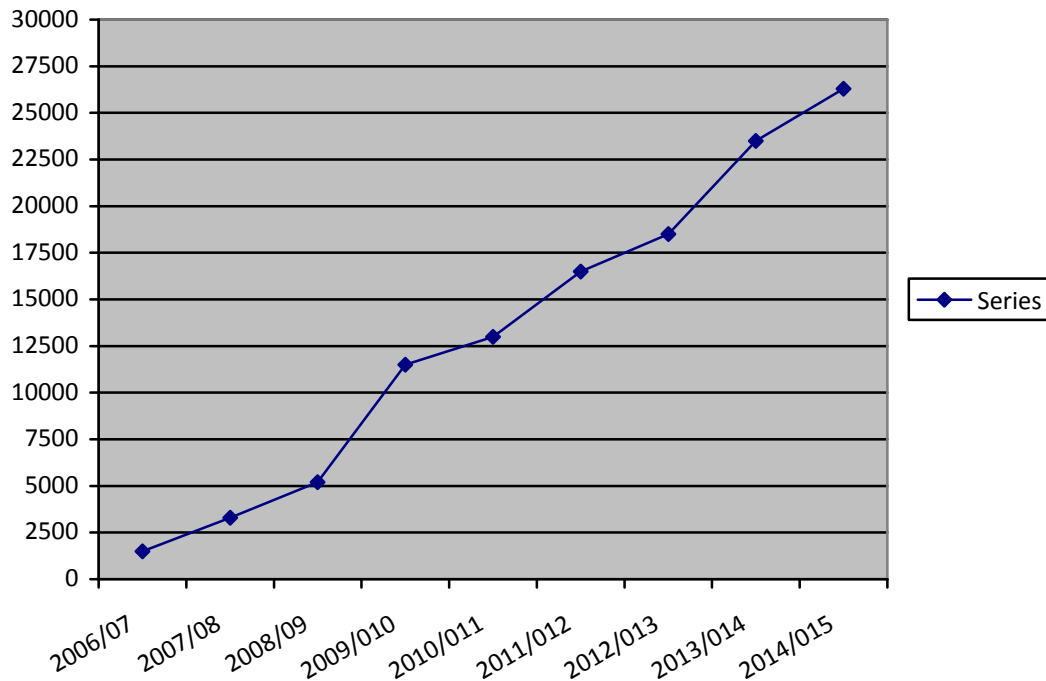


Source: Table No. 4.3

4.5 Trend of Loan and Advances.

The trend of loan and advances in the coming years is analyzed using the trend analysis. The following trend line shows the projection of total loan and advances of BDBL up to 2014/015. The calculation of trend forecast has been presented in appendix - 2

Chart No. 4.4 Trend of Loan and Advances.



4.6 Loan and Advances to Deposit Collection

To evaluate the lending performance of banks, it is important to know, how much the amount is disburse out of total deposit collection. Loan has been presented in the table below.

Table No.4.4 Loan Disbursed to Deposit Collection (Rs. in Lakhs)

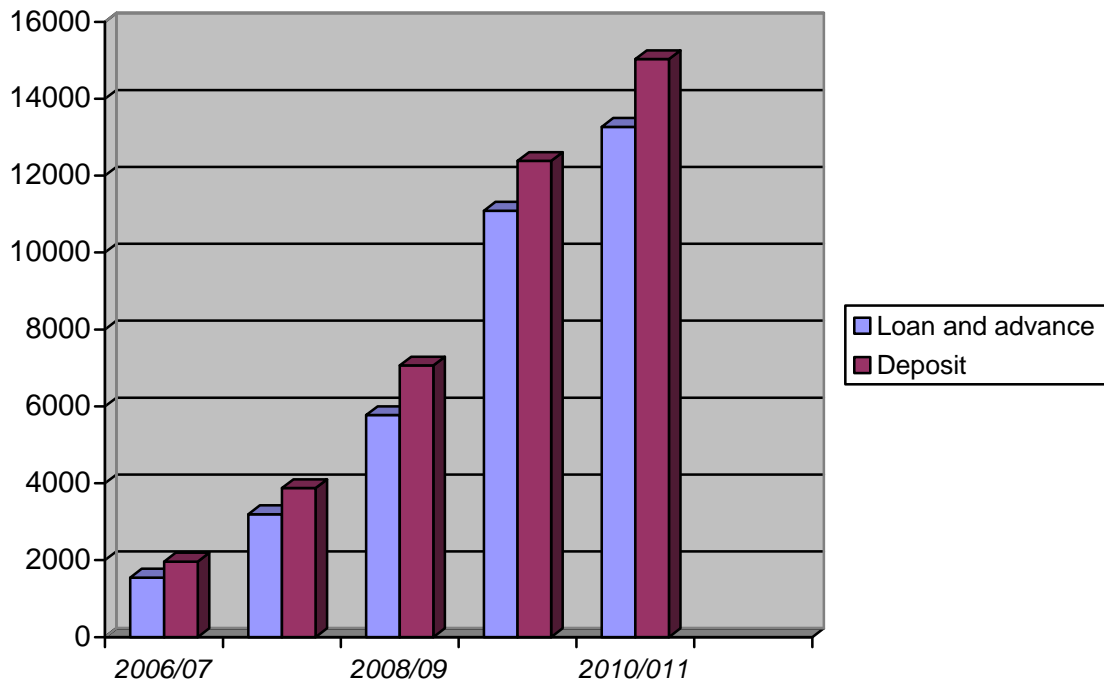
Years	Loan and advance	Deposit	% of loan and advance out of total deposit
2006/07	1547	1965	78.72
2007/08	3197	3874	82.52
2008/09	5775	7064	81.75
2009/010	11088	12380	89.56

2010/011	13271	15034	88.27
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Source: Annual reports of respective years.

The above table shows the amount of loan disburse in comparison to the amount of deposit collection. In fiscal year 2006/07 the amount of deposit collected was Rs. 1965 lakhs out of which Rs. 1547 lakhs was given as loan. It turns out to be 78.72 percent of the deposit collection. In the year 2007/08 Rs. 3197 lakhs was disbursed out of Rs. 3874 lakhs of deposit collection which is 82.52 percent of the total deposit. Similarly, in 2008/09 Rs. 5775 lakhs was disbursed out of Rs. 7064 lakhs of total deposit. In the year 2009/010 Rs. 11088 lakhs was disbursed out of total deposit of Rs. 12380 lakhs which is 89.56 percent of the total deposit. In the year 2010/011 Rs. 13271 lakhs was disbursed out of total deposit of Rs. 15034 lakhs. It comes to 88.27 percent of total deposit. It shows that hundred percent of deposit or all deposit was not utilized in any fiscal year. The highest percent of loan and advances to total deposit was in the fiscal years 2009/010, which is 89.56 percent. We can say that percent of loan and advances out of total deposit is between 78 percent to 90 percent. Loans disbursed to deposit can be presented in the following chart.

Chart No. 4.5 Loan Disburse to Deposit Collection



4.7 Percentage Change in Deposit Collection and Loan and Advance

Loan disbursement is made out of the deposit collection. So, usually the amount disburse is proportionate to the deposit collection. In order to find out whether loan disburse has been affected by the change in deposit collection or not. This has been presented in the table below.

Table No. 4.5 Percentage Change in Deposit Collection and Loan Disbursement

Year	% change in deposit collection	% change in loan and advance
2006/07		-
2007/08	97.15%	106.65%
2008/09	82.34%	80.63%
2009/010	75.25%	92%
2010/011	21.43 %	19.68%

Source: Table 4.1 and 4.3

In 2007/08 percentage change in deposit is 97.15 % but percentage change in loan is 106.65 %. Similarly in 2008/09 82.34 % change was recorded in deposit but in loan there was 80.63 % change. In 2009/010 percentage change in deposit was 75.25 % but percentage change in loan and advances was 92 %. In 2010/011 percentage change in deposit was 21.43% but percentage change in loan and advances was 19.68%. In every year percentage change in deposit was decreasing rate. But percentage change in loan and advances was more fluctuate than percentage change in deposit.

4.8 Coefficient of Correction between Deposit Collection and Loan Disbursement.

The relationship between deposit and loan must be optimum to gain profit. This tool measures the degree of relationship between these variables. In this analysis, deposit is

independent variable (X) and loan is dependent variable (Y). The main reason of finding out the coefficient of correlation between these two variables is to justify whether collected deposit is significantly used as loan disbursed or not. The table below shows the value of 'r' and 'r²' and probable error (P.E.) between deposit and loan and advance of BDBL for the study period.

Table No. 4.6

Coefficient of Correlation between Deposit Collection and Loan Disbursed of BDBL

Coefficient of Correlation (r)	r ²	Probable Error
0.8185	0.6699	0.0995

Source: Appendix - 4

The above table shows that the coefficient of correlation between deposit collection and loan disburse is 0.8185, which shows that there is positive correlation between these two variables. It also shows that there is optimum utilization of collected deposit by the bank. The coefficient of determination is 0.6699. This shows that 66 percent of the total variation is dependent variable. Remaining 34 percent of the total variation is determined by out of that dependent variable i.e. loan. Loan disburses and deposit collection is positively correlated which shows that an increase in total deposit leads to increase in loan disburse. It indicates that the efficient management of the bank. BDBL is successful in mobilizing its collected deposit. Probable Error (P.E.) is calculated to be 0.0995 the value of correlation coefficient is greater than 6 times the value of probable error i.e. $6 \times 0.0995 = 0.597$, the correlation coefficient is deemed as significant and reliable. The correlation coefficient 'r' is 0.8185 indicates that there is significant relationship between total fund accumulation and total fund disbursement.

4.9 Analysis of Capital Fund Adequacy.

Table No. 4.7 C.F. Adequacy based on Collected Fund.

Year	Capital fund adequacy (in percentage }
2006/07	0.15 = 15%
2007/08	0.0777 = 7.77%
2008/09	0.1194 = 11.94%
2009/010	0.1149 = 11.94%
2010/011	0.2079 = 20.79%

In the above table, the capital fund adequacy are 15%, 7.77%, 11.94%, 11.94%, and 20.79% for the year 2006/07, 2007/08, 2008/09, 2009/010 and 2010/011.

Although the capital fund adequacy is decreased in 2007/08 than 2006/07 but after that year the bank has increased in its capital fund adequacy for the year 2010/011. It indicates that BDBL has strong financial condition. Because if the disburse loan is default, it does not affect the bank's lending capacity. It is clear that the increase in capital fund adequacy directly hit on the risk assets size of the bank.

4.10 Profitability Ratio

Maximization of profitability is the core objective of any business organization. Bank profitability is the net after tax income or net earnings of a bank. It is usually measured in equity capital.

Table No. 4.8 Analysis of Net Interest to Total Assets. (Rs. in Lakhs)

Years	BDBL		Ratio
	Net interest	Total Assets	
2006/07	80.8741	2306.8127	3.50
2007/08	161.6739	4249.5598	3.80
2008/09	305.2548	8482.2288	3.59
2009/010	581.0265	15505.4034	3.74
2010/011	1189.0981	19263.1712	6.17

Source: Annual Report

The above table shows net interest and total assets from F/Y 2006/07 to F/Y 2010/011. There is both an increasing trend. In 2006/07, the net interest is Rs. 80.8741 lakhs, which is 3.50 percent of total assets. In the year 2007/08 net interest is Rs. 161.6739 lakhs which is 3.80 percent of total assets. In the year 2008/09 net interest is Rs. 305.2548 lakhs which is 3.59 percent of total assets. In the year 2009/010 net interest is Rs. 581.0265 lakhs which is 3.74 percent of total assets. In the year 2010/011 net interest is Rs. 1189.098 lakhs which is 6.17 percent of total assets. Ratio of net interest to total assets can be seen increasing trend except fiscal year 2008/09. Hence we can say that the performance of bank is good to earn interest as compared to total assets.

I. Analysis of Net Profit to Total Assets Ratio

Table No. 4.9 NP to TA (Rs. in Lakhs)

Years	NPAT	Total Assets	Ratio
2006/07	30.1208	2306.8127	1.30
2007/08	62.3720	4249.5598	1.46
2008/09	157.2723	8482.2288	1.85
2009/010	291.6981	15505.4034	1.88
2010/011	604.6451	19263.1712	3.13

Source: Annual report

The above table shows the relation between net profit and total assets. In the study period NPAT and total assets are in increasing trend. In 2006/07 net profit is Rs. 30.1208 lakhs which is 1.30 percent of total assets. In the year 2007/08 net profit is Rs. 62.3720 lakhs which is 1.46 percent of total assets. In the year 2008/09 net profit is Rs. 157.2723 lakhs which is 1.85 percent of total assets. In the year 2009/010 net profit is Rs 291.698 lakhs which is 1.88 percent of total assets. In the year 2010/011 net profit is Rs. 604.6451 lakhs which is 3.13 percent of total assets. So we can say that the bank can be able to utilize of the assets because the profit of bank is increasing every year.

II. Analysis of Return on Equity Capital

Table No. 4.10 Return on Equity Capital

(Rs. in Lakhs)

Years	NPAT	Equity	Ratio
2006/07	30.1208	227.8477	13.21
2007/08	62.3720	265.3555	23.50
2008/09	157.2723	647.4879	24.28
2009/10	291.6981	1386.7120	21.00
2010/11	604.6451	3095.6160	19.53

Source: Annual Report

In fiscal year 2006/07 to 2010/11 NPAT and Equity are increasing. In 2006/07 NPAT is Rs. 30.1208 lakhs which is 13.21 percent of equity. In 2007/08 NPAT is Rs. 62.3720 lakhs which is 23.50 percent of equity. In 2008/09 NPAT is Rs. 157.2723 lakhs which is 24.28 percent of equity. In 2009/10 net profit is Rs. 291.6981 which is 21 percent of equity. In 2010/11 net profit is 604.6451 lakhs which is 19.53 percent of equity. In fiscal year 2006/07 to 2008/09 Return on equity capital is increased but after that fiscal years return on equity capital is decreased. So the bank should perform well but we can say that financial performance of bank is not so very bad.

4.11 Analysis of Liquidity Ratio

Table No. 4.11 Analysis of Current Ratio (Rs. in Lakhs)

Years	Bhrikutee Development Bank Limitd		
	CA	CL	Ratio
2006/07	2295.30	2053.28	1.11
2007/08	4146.53	3936.28	1.05
2008/09	83682.21	7711.35	1.08
2009/010	15337.97	14129.82	1.08
2010/011	18990.68	16167.61	1.17

Source: Annual Report

From the above table in 2010/011 the BDBL has 1.17 times current assets and current liabilities. But in 2009/010, current ratio declined to 1.08 times. In every year current assets are greater than current liabilities. Similarly in 2008/09 current ratio is 1.08. In the fiscal year 2007/08 the ratio between current assets and current liabilities are 1.05 times. In 2006/07 the ratio between current assets and current liabilities are 1.11 times.

Hence if we evaluate every fiscal year the ratio between current assets and current liabilities can't meet the standard ratio i.e. 2:1. Hence the ratio shows that the current assets are not sufficient to pay current liabilities.

I. Analysis of Cash and Bank Balance to Total Deposit.

Table No. 4.12 Cash and Bank Balance to Total Deposit (Rs. in Lakhs)

Years	Bhrikutee Development Bank Limited		
	Cash and Bank Balance	Total Deposit	Ratio
2006/07	656.39	1965.10	0.33
2007/08	751.07	3873.79	0.19
2008/09	1886.87	7064.39	0.26
2009/010	2994.98	12379.64	0.24
2010/011	4643.29	15033.53	0.30

Source: Annual Report

Cash and bank balance and total deposit in 2006/07 are Rs. 656.39 lakhs and Rs. 1965.10 lakhs respectively. Cash and bank balance come 33 percent of the total deposit. But in 2007/08, the percent of the cash and Bank balance to total deposit is 19 percent. Similarly in 2008/09 the cash and bank balance is Rs 1886.87 lakhs which is twenty six percent of the total deposit. In 2009/010, cash and bank balance is Rs. 2994.98 lakhs which is 24 percent of the total deposit. In 2010/011 cash and bank balance is Rs. 4643.29 lakhs. This is 30 percent of the total deposit.

In above table, it is found that every year's cash and bank balance ratio lies between 18% to 34%. The highest percent of the cash and bank balance of the study period is in 2006/07. It indicates that the bank is able to pay cash to deposit holders. In other words, it can be said that the large amount is in idle with cash and bank balance indicates lack of proper utilization of assets. Similarly, the lowest percent of the cash and bank balance is 19%, which indicates that more fund utilized in loan and advances.

(ii) Analysis of Cash and Bank Balance to Current Assets

Table No 4.13 Cash and Bank Balance to Current Assets (Rs. in Lakhs)

Year	Bhrikutee Development Bank Limited		
	Cash and Bank Balance	Current Assets	Ratio
2006/07	656.39	2295.30	0.28
2007/08	751.07	4146.53	0.18
2008/09	1886.87	8368.21	0.22
2009/010	2994.98	15337.97	0.19
2010/011	4643.29	18990.68	0.24

Source: Annual Report

In the above table in 2006/07 cash and bank balance and current assets are Rs. 656.39 lakhs and Rs. 2295.30 lakhs respectively. Similarly in 2007/08, cash and bank balance is Rs. 751.07 lakhs which is 18 percent of the current assets. It can be seen that the percent of the cash and bank balance to current assets is fluctuating in all year. Similarly in 2008/09, there was Rs. 1886.87 lakhs in cash and bank. This is 22 percent of the total current assets. In the year 2009/010, the cash and bank balance is Rs. 2994.98 lakhs. It comes 19 percent of total current assets. In F/Y 2010/011 cash and bank balance is Rs. 4643.29 lakhs. This is 24 percent of total current assets.

It can be seen that there is the cash and bank balance to current assets is fluctuating in all years. The highest percent of the cash and bank balance to current assets is shown in 2006/07. It indicates that the bank is able to pay contingent liabilities and grab market opportunities. In other words, the large amount in cash and bank balance indicate lack of inefficient of the management. The lowest percent of the cash and bank balance to current assets is 18 percent in 2007/08, which indicates that more fund utilized in other investment like government securities, loan and advance. In other words, it means less chance to grab market opportunity.

(iii) Analysis of Loans and Advances to Current Assets.

Table No. 4.14 Loan and Advance to Current Assets. (Rs. in Lakhs)

Years	Bhrikutee Development Bank Limited		
	Loan and Advance	Current Assets	Ratio
2006/07	1547	2295.30	0.67
2007/08	3197	4146.53	0.77
2008/09	5775	8368.21	0.69
2009/010	11088	15337.97	0.72
2010/011	13271	18990.68	0.69

Source: Annual Report

In above table in 2006/07, the loan and advances and current assets are Rs. 1547 lakhs and Rs.2295.30 lakhs respectively. In this year loan and advance appear 67 percent of the current assets. In also 2007/08 the percent of loan and advance is 77 percent. Again in 2008/09 the percent of loan and advance is 69 percent of current assets. The percent of loan and advances to current assets in 2009/010 is 72 percent but in 2010/011 it decreased to 69 percent. Hence, we can see that the loan and advance to current assets are fluctuating in every year. The lowest percent of loan and advance to current asset is (2006/07) 67 percent. It means that there is less outlook of loan. In 2007/08 there is highest percent of loan and advances to current assets which is 77 percent. It indicates that more funds are utilized in loan and advances.

4.12 Analysis of Capital Fund Adequacy (with respect to NRB standard)

Table No. 4.15 Analysis of Capital Fund Adequacy (In percent)

Years	Minimum Capital Adequacy Ratio according to NRB	Capital Adequacy of BDBL
2006/07	10	15
2007/08	11	7.77
2008/09	11	11.94
2009/010	11	11.94
2010/011	11	20.79

Source: Annual Report

In the above table the capital adequacy prescribed by NRB for bank and financial institutions and comply of BDBL regarding the same has been presented. The capital adequacy ratios are 10, 11, 11, 11, 11 percent for the year 2006/07, 2007/08, 2008/09, 2009/010, 2010/010. In 2006/07, the capital adequacy of the BDBL is 15 percent which is 5 percent greater than NRB standard. In 2007/08, the capital adequacy rate of BDBL is 7.77 percent, which is less than 3.23 percent. Similarly in 2008/09 the rate is 11.49 percent it is 0.94 percent greater than NRB standard. In 2009/010, the rate is 11.94 percent; it is 0.94 percent greater than NRB standard. The bank maintain 20.79 percent capital adequacy in 2010/011, it is 7.79 percent greater than NRB standard. Hence we can say that BDBL has greater adequacy ratio than NRB prescribed in all year except in year 2007/08. It indicates that BDBL has strong financial condition.

4.13 Arrangement for Minimization of Liquidity Risk (with respect to NRB standard).

With the objectives of minimizing the liquidity risk of banks and financial institution, a limit has been fixed so that proportion of the total loans and advances may not exceed in resource mobilization of the bank and financial institution.

Table No. 4.16 Cash Reserve Ratio between NRB and BDBL**(In percent)**

Years	Minimum Cash Reserve Ratio According to NRB	Cash Reserve Ratio of BDBL
2006/2007	5	1.30
2007/2008	5	0.55
2008/2009	5	1.23
2009/2010	15	26.71
2010/2011	20	24.25

Source: Annual Reports

In the above table the cash reserve ratio prescribed by NRB for bank and financial institutions and comply of BDBL regarding the same has been presented. The cash reserve ratios are 1.30, 0.55, 1.23, 26.71 and 24.25 percent for the year 2006/07, 2007/08, 2008/09, 2009/010 and 2010/11 respectively. In beginning first three year the bank can not maintain its cash reserve ratio as prescribed by NRB standard. But in year 2009/10 and year 2010/11 the bank can maintain its cash reserve ratio as NRB standard. `

4.14 Provision Relating to Deprived Sector (with respect to NRB standard).

Table No. 4.17 Provision Relating to Deprived sector

(In percent)

Years	Minimum Lending to Deprived Sector According to NRB	Lending in Deprived Sector of BDBL
2006/2007	5	8
2007/2008	5	7
2008/2009	2	5
2009/2010	2	5
2010/2011	2	4

Source: Annual Reports

For the purpose of these directives deprived means low income and especially socially backward, women, tribal people, *Dalit*, blind, hearing impaired, and physically incapacitated person and other disable persons. In the above table we can see that minimum lending to deprived sector according to NRB and comply of BDBL regarding the same has been presented. In 2006/07 the loan for lending in deprived sector is 8 percent which is sufficient to meet NRB standard as 5 percent. Similarly the loan lending for deprived sector of BDBL are 7 percent, 5 percent, 5 percent and 4 percent for year 2007/08, 2008/09, 2009/10, 2010/11 respectively. And the NRB standard for lending in deprived sectors are 5 percent, 2 percent, 2 percent and 2 percent respectively in year 2007/08, 2008/09, 2009/10, 2010/11 respectively. Hence we can say that the bank can meet the NRB standard in every year for lending in deprived sectors.

4.15 Factors for affecting Deposit Collection

Table No 4.18 Factors for affecting Deposit Collection

Factors	No. of respondent	Percent
Interest rate	6	40%
Competition	4	27%
Services and facilities	3	20%
Goodwill	2	13%
Total	15	100%

To know the reasons for increasing deposit at decreasing rate the researcher used interview and questionnaire method to fifteen personnel of the bank. Forty percent respondents said interest rate is responsible for increasing deposit at decreasing rate. Similarly twenty seven percent respondents said competition is responsible; twenty percent said services and facilities are responsible. Thirteen percent respondents said goodwill is responsible for increasing deposit at decreasing rate. Hence the majority of the people said that interest rate is responsible for increasing deposit at decreasing rate.

4.15 Major Findings from Analysis

1. Deposit collection of BDBL has significantly increasing trend. But the trend of increasing is decreasing rate i.e. increasing 97 percent to 21 percent.
2. In all year total saving deposit has more contribution than other deposit. Secondary, more contribution of fixed deposit in all year (except 2010/011) than other deposit.
3. Loan and advances have continuous increasing trend although the banking sector have cut throat competition.
4. At least 78 percent of deposited amount is utilized in loan and advances. The percent of loan and advances out of total deposit is 78.72 percent to 89.56 percent.
5. Correlation between deposit collection and loan disbursement is 0.81. This indicates that these two variable relations is positive correlation. It shows that an increase in total deposit leads to increase in loan disburses. BDBL is successful in mobilizing its collected deposit. Hence the analysis found $r > 6PE$, it reveals that the relation is significant.

Findings from Profitability Ratio:

- a) Net interest to total assets ratio is fluctuating. Last two year it is increasing.
- b) Net profit to total assets ratio is increasing trend. The ratio is increasing 1.30 to 3.13 from year 2006/07 to 2010/011.
- c) Return on equity capital is not so very bad. It is increasing trend in first three year of the research period but in fourth and fifth year it is decreasing rate because of the increasing in equity capital.

Findings from Liquidity Ratio

- a) The current ratio of BDBL is not so satisfactory. Because it has not maintained around 2:1 current ratio i.e. standard ratio.
 - b) The cash and bank balance is sufficient for deposit holders. The BDBL has 19 percent to 33 percent cash and bank balance to total deposit.
 - c) There is 18 percent to 28 percent of the cash and bank balance to total current assets.
 - d) 67 percent to 77 percent of the current assets are used in loan and advances, which shows fluctuating in every year.
6. Lending in deprived sector is satisfaction of the bank as prescribed by NRB.
 7. BDBL has greater adequacy ratio than NRB prescribed in all year except in year 2007/08.
 8. Cash reserve ratio of BDBL is not satisfactory in beginning first 3 years but it is satisfactory in last two years as prescribed by NRB.
 9. The reasons for increasing deposit at decreasing rate are interest rate, competition, services and facilities and goodwill of the bank.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Most of the developing countries are involved in the developing of economic activities to uplift the standard of living of their people. To promote economic development many business organization should be established. Objectives of development banks are to support and facilitate development, expansion and increase in the productivity of business sector. Bhrikutee Development Bank was established in 2003 A.D. to do such activities. Development banks collect scattered money from various person and organizations have idle money provide fund as a loan to needy persons and organizations. So, the financial institutions have done a bridge between depositors and loan takers. Loan management is one of the most important functions in any financial institutions. Without effective and efficient loan management no financial institutions can achieve its goal. Success of any bank basically depends on the effective and systematic loan management. Loan management is the most important part for development banks. BDBL has invested at least 78 percent of the deposited amount as loan and advances. Due to the lack of proper investment opportunities, pressure in interest rates, political instability, changing business environment, increase in bank and financial institutions the banking sector is becoming more and more competitive and challenging. These factors have impacted on the profitability of the banks as well. The main objective of this study is to identify the fund accumulation and disbursement system of BDBL. In this study, an attempt has been made to identify deposit collection and loan disbursement, relation between deposit collection and loan disbursement with identifying their trends. To evaluation performance of the banks the researcher conducted profitability ratio, liquidity ratio and to analyze the capital adequacy of the BDBL. This study was one of the new studies which only try to know the fund accumulation and mobilization of BDBL. The required information is secondary data, and the collection the secondary data were taken from websites, NRB and the annual report of BDBL. Collected data were analyzed by calculating mean and presented in table and figure.

All the collected data were analyzed on the basis of loan management with the help of trend analysis, correlation coefficient, profitability ratio, liquidity ratio, capital adequacy by presenting table and figure in required places. The analysis has been done year wise as well

as the average of total study period. To evaluate loan management many statistical tools evaluate and financial tools are used.

5.2 Conclusion

The fund accumulation and mobilization of BDBL is not only necessary but also compulsory for better performance of the organization. This study is just a small part to fulfill partial requirement of MBS. Therefore, it helps to improve and require attention to bring some improvement in management of BDBL.

Deposit collection of the BDBL shown satisfactory. In total deposit composition, the portion of the saving deposit has in first rank, fixed deposit is in second rank (except fiscal year 2010/011) and other deposit is in third rank. Although the narrow area of investment, and cut throat competition in banking sector, loans and advances of BDBL shows continuous increasing trend. At least 78 percent of deposited amount is utilized in loan and advances. The percent of loan and advances out of total deposit is 78.72 percent to 89.56 percent. Correlation between deposit collection and loan disbursement is 0.81. This indicates that these two variables relation is positive correlation. It shows that an increase in total deposit leads to increase in loan disburses. BDBL is successful in mobilizing its collected deposit. Hence the analysis found $r > 6 PE$; it reveals that the relation is significant.

Net interest to total asset ratio is fluctuating. Last two year it is increasing. Net profit to total assets ratio is increasing trend. The ratio is increasing 1.30 to 3.13 from year 2006/07 to 2010/011. Return on equity capital is not so very bad. It is increasing trend in first three year of the research period but in fourth and fifth year it is decreasing rate because of the increasing in equity capital. The current ratio of BDBL is not so satisfactory because it has not maintained around 2:1 current ratio i.e. standard ratio. The cash and bank balance is sufficient for deposit holders. The BDBL has 19 percent to 33 percent cash and bank balance to total deposit. There is 18 percent to 28 percent of the cash and bank balance to total current assets. 67 percent to 77 percent of the current assets are used in loan and advance, which shows fluctuating in every year. In other words loan and advances to current assets are fluctuating in every year.

Lending in deprived sector is satisfaction of the bank as prescribed by NRB. BDBL has greater adequacy ratio then NRB prescribed in all year except in year 2007/08. Cash reserve ratio of BDBL is not satisfaction in beginning first 3 years but it is satisfaction in last two

years as prescribed by NRB. The reasons for increasing deposit at decreasing rate are interest rate, competition, services and facilities and goodwill of the bank.

Neupane (2010) examined the Fund Accumulation And Mobilization of Paschimanchal Development Bank Limited and he concluded that the trend of deposit collection is increasing but in a fluctuating trend. The percent of deposit to loan and advances are 94 percent to 119 percent. Correlation between deposit collection and loan disbursed is 0.99. This is highly positive correlation. But in this study the researcher has found that the trend of deposit collection of BDBL is increasing at decreasing rate. The percent of deposit to loan and advances are 78.72 percent to 89.56 percent. This indicates that low volume of deposit is utilized in loan and advances while comparing to PDBL. And correlation between deposit collection and loan disbursement is 0.81. This is not highly positive correlation while comparing to PDBL. But analysis found $r > 6PE$, it reveals the same result as PDBL.

This study has conducted for the purpose of the requirement for the degree of M. B. S. The study will be beneficial to all parties of this bank. The conclusion from this study is a sample of a bank and it may help to study the nature of other developments bank of Nepal. Specially, the results will be beneficial that person who likes to research about this bank in future.

5.3 Recommendations

In order to better improvement of the fund accumulation and mobilization of the BDBL, the following suggestion and recommendation have portrayed on the basis of analysis and conclusion of the entire research study.

- 1) Bank should provide technical training, skill as well as technical instrument to all staffs for performing better work because this is the time for competition.
- 2) Bank should establish a public relation office that should provide regular information to concerned party such as customer, researcher, government etc.
- 3) Bank should establish its branch office mostly in rural area because most of the people can't get banking facilities now. The bank should invest its money mainly in productive and industrial sector.
- 4) The bank should spend some profit in social activities. It affects the public positive attitude towards the bank.
- 5) Loan should flow on profitable and viable sectors. This will result increase in interest income of loan and advances of which will uplift profit of the organization.

- 6) BDBL should reduce high cost bearing deposit to get relief from burden of excess payment of interest and to ensure profitability.
- 7) The bank should reduce operational cost.
- 8) The bank should motivate its employees and staffs to get more return from them. For this purpose bank should provide attractive salary, allowance, bonus etc.
- 9) Bank should adopt portfolio management and diversification while doing investing and financing activities.
- 10) Bank should provide technical support to prospects for identifying new opportunities and to capitalize those opportunities.

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Appendix - 1

Trend of Total Collection of Deposit of BDBL

(Rs. in Lakhs)

Fiscal year	Years (X)	Deposit Collection (Y)	XY	X ²
2006/07	1	1965	1965	1
2007/08	2	3874	7748	4
2008/09	3	7064	21192	9
2009/010	4	12380	49520	16
2010/011	5	15034	75170	25
Sum	$(\sum x) = 15$	$(\sum Y) = 40317$	155595	$(\sum X^2) = 55$

Here actual trend equation of the linear trend is $y = a+bx$

Two normal equations are

$$\sum Y = na + b\sum x \dots\dots\dots(1)$$

and $\sum XY = a\sum x + b\sum x^2 \dots\dots\dots(2)$

Putting the value of normal equations from the above table:

$$40317 = 5a + b15 = \dots\dots\dots (i)$$

$$155595 = 15a + 55b \dots\dots\dots(ii)$$

Multiplying equation (i) by 3, then subtract equation (i) from (ii)

$$\begin{array}{r} 120951 = 15a + 45b \\ 155595 = 15a + 55b \\ \hline - 34644 = -10b \end{array}$$

$$10b = 34644$$

$$\therefore b = \frac{34644}{10} = 3464.4$$

Putting the value of b in equation (i)

$$40317 = 5a + 15 \times 3464.4$$

$$\text{or } 40317 = 5a + 51966$$

$$\text{or } -5a = 51966 - 40317$$

$$\therefore a = -\frac{11649}{5} = -2329.8$$

Thus, in 2067/68 the required trend of $Y = a + bx$

$$= -2329.8 + 3464.4 \times 6$$

$$= -2329.8 + 20786.4$$

$$= 18456.6$$

In 2068/069 $Y = -2329.8 + 3464.4 \times 7$

$$= -2329.8 + 24250.8$$

$$= 21921$$

In 2069/070 $Y = -2329.8 + 3464.4 \times 8$

$$= -2329.8 + 27715.12$$

$$= 25385.4$$

On 2070/071 $Y = -2329.8 + 3464.4 \times 9$

$$= -2329.8 + 31179.6$$

$$= 28849.8$$

Appendix - 2

Trend of Loan and Advances of BDBL

(Rs. in Lakhs)

Fiscal year	Years (X)	Loan and advances (Y)	XY	X ²
2006/07	1	1547	1547	1
2007/08	2	3197	6394	4
2008/09	3	5775	17325	9
2009/010	4	11088	44352	16
2010/011	5	13271	66355	25
Sum	$\sum X = 15$	$\sum Y = 34878$	$\sum XY = 135973$	$\sum X^2 = 55$

Here, actual trend equation of the linear trend is

$$Y = a + bx \dots\dots\dots(i)$$

Two normal equation are

$$\sum Y = na + b\sum X$$

$$\sum XY = a\sum x + b\sum x^2$$

Putting the value in normal equation from the above table.

$$34878 = 5a + 15b = \dots\dots\dots (i)$$

$$135973 = 15a + 55b \dots\dots\dots(ii)$$

Multiply equation (i) by 3 and subtract (i) from (ii)

$$104634 = 15a + 45b$$

$$135973 = 15a + 55b$$

$$\hline -31339 = -10b$$

$$b = \frac{31339}{10}$$

$$\therefore b = 3133.9$$

Putting the value of b in(i)

$$104634 = 15a + 45b$$

$$\text{Or, } 104634 = 15a + 45 \times 3133.9$$

$$\text{Or, } 104634 = 15a + 141025.5$$

$$\text{Or } -15a = 141025.5 - 104634$$

$$\text{Or } -15a = 36391.5$$

$$a = -2426.1$$

Substituting the value of a and b in linear equation (i)

$$y = a + bx$$

$$\text{or } y = -2426.1 + 3133.9x$$

$$\text{In year } 2067/068 = y = -2426.1 + 3133.9 \times 6$$

$$= -2426.1 + 18803.4$$

$$= 16377.3$$

$$\text{In year } 2068 / 069 = Y = -2426.1 + 3133.9 \times 7 = 19511.2$$

$$\text{In year } 2069/070 = Y = -2426.1 + 3133.9 \times 8 = 22645.1$$

$$\text{In year } 2070/071 = Y = -2426.1 + 3133.9 \times 9 = 25779$$

Appendix - 3

Calculation of Coefficient of Correlation

We have ,

Calculation of coefficient of correlation

(Rs. in Lakhs)

Fiscal Year	Deposit collection	Loan and advance	X ²	Y ²	XY
2006/07	1965	1547	3861225	2393209	3039855
2007/08	3874	3197	15007876	10220809	12385178
2008/09	7064	5775	49900096	33350625	40794600
2009/010	12380	11088	153264400	122943744	137269440
2010/011	15034	13271	226021156	226021156	199516214
SUM	40317	34878	448054753	394929543	393005287

Coefficient of correlation

$$\begin{aligned}
 r &= \frac{n \sum xy - \sum x \times \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}} \\
 &= \frac{5 \times 393005287 - 40317 \times 34878}{\sqrt{5 \times 448054753 - (40317)^2} \times \sqrt{5 \times 394929543 - (34878)^2}} \\
 &= \frac{1965026435 - 1406176326}{\sqrt{2240273765 - 1325460489} \sqrt{1974647715 - 1216474884}} \\
 &= \frac{558850109}{\sqrt{614813276} \sqrt{758172831}} \\
 &= \frac{558850109}{24795.42 \times 24534.93} \\
 &= \frac{558850109}{682740154.02} = 0.8185
 \end{aligned}$$

Where x = total deposit collection of the year, y = Total loan disbursement of the year.

n = number of year

P.E = probable error.

The correlation coefficient of total deposit and total loan disburse(r) = 0.8185 $r > 0$ i.e. 0.8185 > 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of probable error.

$$\begin{aligned} \text{P.E.} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-(0.8185)^2}{\sqrt{5}} \\ &= 0.6745 \times \frac{1-0.6899}{\sqrt{5}} \\ &= 0.6745 \times \frac{0.3305}{2.23606} \\ &= 0.0995 \end{aligned}$$

Appendix - 4

Calculation of Interest Earned, Interest Paid and Net Interest

(Rs. in Lakhs)

Year	Interest earned	Interest Paid	Net interest
2006/07	157.5711	76.6970	80.8741
2007/08	333.7939	172.12	161.6739
2008/09	596.6471	291.3923	305.2548
2009/010	1193.2234	612.1969	581.0265
2010/011	2113.5576	924.4525	1189.0981

Appendix - 5

Profile of Concerned Bank

For the purpose of the study the researcher has selected Bhrikutee Development Bank Limited. The bank was established under "Banking and Financial Act 2006" as a 'Kha' class development bank. It was established in 2003 A.D. It was established in Shankarnagar VDC in Rupandehi district at Drivertol Ward No 5. It is the First development bank in Nepal that established in rural area from rural community as well as head office in that rural area. Bhrikutee Development Bank authorized capital is Rs 400 million and paid up capital is Rs.270 million. Total no. of Shareholders are 915. It is one of the ISO 9001: 2008 certified Bank. According to the regulation of NRB, the working area of BDBL is only on the four districts of Lumbini. They are Arghakhanchi, Kapilvastu, Rupandehi and Nawal Parasi district. Within seven years' operation period the bank has already established fourteen branches in different districts. Capital structure is seventy percent in local promoters' group and thirty percent in general public. The various branches of this bank are as follows.

Bhrikutee Development Bank Ltd, Rupandehi District - Butwal Branch, Manigram Branch, Frashatikar Branch, Thutipipal Branch, Murgiya Branch, Karahiya Branch, Ramnagar Branch, Drivertol Shankarnagr Branch, Bhalwari Branch.

Bhrikutee Development Bank Ltd Kapilvastu District - Jitpur Four Number Branch, Chandrauta Branch.

Bhrikutee Development Bank Limited, Nawalparasi Districts - Sunawal Branch. Bhrikutee Development Bank Limited, Arghakhanchi Districts - Chutrabeshi Branch, Sandhikharka Branch.

Now the head office of BDBL is in Butwal -8, Traffic-Chowk. The bank has been established under the Development Bank Act 1995 and Company Act 1996. It was registered with the company registrar office under the Company Act 1996.

Deposit collection is most essential part of any financial institution for sustainable existence. However it is from public or loan received from any other parties, deposit is ultimate source to smooth flow the lending. As being the financial intermediaries they absorb the deposit from surplus sector of economy and invest it to the deficit or demand sector (Dahal and Dahal, 2000).