

CHAPTER-ONE

INTRODUCTION

1.1 Background of the Study

The Nepalese economy has been passing through very difficult times over the last few years. New industries have not come up. Foreign aid which used to take the form of outright grants has mostly turned into loans that have to be repaid. Debt repayment is eating up an increasing position of the budget. The tourism sector has suffered serious blows. In such an adverse economic climate the banking sector has generally not only survived but has also been able to make reasonable operating profit.

Bank is a financial institution, which is established for depositing, withdrawing, borrowing and lending money. It is an intermediary accepting deposits and granting loans. It offers the widest menu of services of any financial institution (Rose, 2002:2). Bank is an institution which deals with money and credit. It accepts deposit from the public and mobilizes the fund to productive sectors. It also provides remittance facility to transfer money from one place to another. Generally a bank accepts deposit from business institutions and individuals, which is mobilized into productive sectors mainly business and consumer lending. Bank is, therefore, known as a dealer of money. As present context bank is not only confined to accepting deposits and disbursing loan. In addition to this, a bank may be engaged in different types of functions such as remittance, discounting bills etc. "Indeed, many financial institutions-including security dealers, brokerage firms, mutual funds, and insurance companies are trying to be as similar as possible to banks in the services they offer" (Rose, 2002:2). A modern bank performs such a variety of functions that it is difficult to give a precise and general definition of a bank.

"The banking sector is largely responsible for collecting household saving in terms of different types of deposit and regulating it in the society by lending in different sectors of economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy" (Sheathe, 1992:32). In Nepalese financial system, financial

institutions are categorized in four classes viz. A, B, C and D according to bank and financial institution act 2063 (BAFIA, 2063). These financial institutions are engaging to collecting deposit and granting loans and advance as well. Lending is a major function of banks. Loan is the sum lent to other for certain time period with the agreement to charge interest on principal. The interest is charged calculating certain percentage on the principal. When money belonging to one is advanced to another to be used for certain time period, it is called loan. The basic objective of loan advancement is to earn interest as the reward for lending the sum for specific period.

Commercial banks are organized institution providing loans for the needed. The loan advancement is the main function of commercial banks. Similarly, interest on loan has become their main source of income. Banks do deposit accepting and lending business. Lending is a risky business. Loans are provided to earn interest. However, sometimes, it may be difficult even for the repayment of principal. In this situation, interest barring becomes fair awaited business to be dealt. To get rid of such situation there should be proper loan management in banks.

In context of Nepal, the history of banking sector has a rather more slow evolution. Even now, the banking system is still an evolutionary phase. Nepal Bank Ltd. is the first modern bank of Nepal. It is taken as the milestone of modern banking of the country. It was established in 1937 A.D (30th Kartik, 1994 B.S.). To issue national currencies and promote financial organizations Nepal Rastra Bank was established in 1956 A.D (14th Baishakh, 2013) under NRB Act 1955 as the central bank of Nepal. Similarly, Rastriya Banijya Bank was established in 1965 A.D. as the second commercial bank of Nepal. The financial shapes of these two commercial banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad positions.

For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, Nepal government encouraged the foreign banks for joint venture in Nepal. As a result, Nepal Arab Bank Ltd. (NABIL) was established in 2041 B.S. This is the first modern bank with latest banking technology. Then a lot of commercial banks have been opened in the country. Now, there are altogether 25 commercial banks are operating including justly opened NMB Bank, Limited.

After the liberal policy of the NRB, private sector banks, Development banks & financial institutions have been establishing till now. There are many development banks in Nepal. Agricultural development bank was first development bank. Now a days many development banks are established in our country under the development bank act 2052. Development banks play vital role in the economy of any country. In our country too, development banks collect deposits from the surplus units and provide to the deficit units.

1.2 Profile of concerned Bank

Pashchimanchal Development Bank Ltd. (PDBL) was established in Butwal municipality of Rupandehi district at Puspatal Park-8, Butwal in 20th Chaitra, 2059. It is one of the ISO 9001:2008 certified development bank. In the beginning, PDBL authorized capital was 40 million and paid-up capital was 20 million. Now its authorized capital has increased to Rs.1300 million, issued capital is 650 million and paid-up capital is Rs.110 million.

According to the regulation of NRB, the working area of PDBL is only in the three district of Lumbini zone. They are Rupandehi, Nawalparasi and Palpa. Within the five years operation period the bank has already established four branches in different districts which are as follows:

-) Pashchimanchal Development Bank Ltd, Manigram Branch.(Operated from 1st Kartik, 2063)
-) Pashchimanchal Development Bank Ltd, Palpa Branch.(Operated from 28st Falgun, 2063)
-) Pashchimanchal Development Bank Ltd, Kawasoti Branch.(Operated from 3rd Bhadra, 2064)
-) Pashchimanchal Development Bank Ltd, Sunawal Branch.(Operated from 11th Ashwin, 2064)

Pashchimanchal Development Bank Limited has been established under the

Development Bank Act 2052 (1995) and company Act 2053 (1996). It was registered with the Company Registrar Office under the company act 2053 in 2059 Magh-12, B.S.

Deposit collection is most essential part for any financial institution to sustainable existence. However it is from public or loan received from any other parties, deposit is ultimate source to smoothly 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.

Share holding pattern of bank:

Local promoters	70%
General public	30%

Bank has the policy of holding up reserve to strengthen the stability position of the bank. The general reserve of the bank stands at Rs. 135 million as on 2064 Ashad end. This policy enables the bank to maintain a better capital adequacy ratio.

PDBL's Share Capital Structure is as follows (Website www.pdbl.com.np).

Authorized Capital	1,300,000,000.00
Issued Capital	650,000,000.00
Paid up Capital	12, 65, 00,000.00

1.3 Statement of the Problem

Nepal is a small underdeveloped Himalayan country situated between two Asian powers India & China. Nearly 31% of the people are living under the poverty line. Still today agricultural is the main stay of life that provides employment to nearly 80% to contributing 38% to GDP. 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 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. Most of the financial institutions are operating only in Kathmandu. Why do not they want to go to remote area? Financial institutions are one of the apex entities of economy in any nation promoting different business activities such as trade, industry and commerce.

The performances of the many government banks are not so satisfactory. Nepal Bank limited and Rastriya Banijya Bank used to have operating loss some years before. One of the major reasons for that is an ineffective credit management. A bank can't run properly without managing its liquidity position. The liquidity position depends on the management of loan and their capacity to borne all expenses. Without effective and proper loan or credit management no banks accomplish its predetermined goals & objectives. Hence it is the life-blood of any financial institution.

Many are ignorant about fund accumulation & mobilization of financial institutions, which plays the dominant role in conducting proper credit management. This is the age of globalization and privatization where by the role of state has been cut down. But, the people of Nepal, still, do not believe in private sector banks. This is the great problem for deposit collection and fund mobilization. Likewise other major problems related to fund accumulation & mobilization of development banks are listed below:

- 1) Lack of developed money and capital markets.
- 2) Internal conflict, unimprovement in political situation and unfavorable monsoon.
- 3) Low literacy.
- 4) Lack of rural oriented banking facilities.
- 5) Cut throat competition of banks and financial institutions.
- 6) Development work need short, medium and short term credit, but commercial banks except priority sector credit, only short term credit is issued.
- 7) Lack of research works, advertisement, social customs and habit for unproductive sector expenses are other problem to the banking development.

1.4 Objectives of the Study

The major objectives of this study are to analyze the process of fund accumulation and mobilization of PDBL. Beside this some other objectives are:

- a) To examine how the deposit is accumulated in as well as PDBL efficiently utilized.
- b) To examine the relationship between total deposit and total lending.
- c) To analyze capital adequacy of PDBL. In relation to the loan issued
- d) To evaluate the performance of PDBL in terms of liquidity, profitability, sector wise loan, non performing loan.
- e) To examine how far the rate of interest influences the credit and deposit of PDBL.

1.5 Significance of the Study

Fund accumulation and mobilization has become an integral part of almost ever 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 & foreign capital (grants & loans) are two principal sources of capital available for investment. Domestic saving is the most crucial and viable source of capital in our country.

Banks also attract domestic savings under different attractive deposit schemes from saving and grant loan & advances to business sector in long-term, mid-term and short-term to accelerate economic activities. In the context of Nepal, there is not sufficient research work in credit management. There is enough research work on the other performance of commercial banks but this specific function does not seem given importance before.

Hence, fund collected by Bank Should be cautiously allocated under loans & advance. This undertaken venture is pivotal factor to know the true affairs and position of financial institutions in regard to management of disbursed loans and advances. This will also be a guideline for improving their performance to achieve their objectives. This study also helps to identify the hidden weaknesses regarding loan management of financial institutions. The study of fund accumulation and mobilization of financial institution will be beneficial to the followings:

i) To the Shareholders

Shareholders are true owner of the company. This study will be useful to them for acquiring the answer regarding to the; how the funds are utilized as loans & 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 viz 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 institution's loans and advances with the help of this analysis. They can make yes or no decision regarding investment.

iv) To the Policy Makers

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

1.6 Limitations of the Study

The study relates only with the Pashchimanchal Development Bank regarding to the loan disbursement, repayment and outstanding in detailed form. Then data have been availed, so the selected sample bank has continued for the study as described in proposal.

No study can be free from limitation. This study has some limitations. This task 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 main limitations of this study are as follows:

- a) As per the title specified, this study is mainly concerned with the PDBL.
- b) This study has focused only on fund accumulation and mobilization of PDBL.
- c) This study is based on annual reports of 6 year data from F.Y. 2059/060 to 2064/065.
- d) At the time of study, mainly primary and secondary data are used. Data available are

collected from the observation and questionnaire, published resources like annual report, books, newspaper, NRB report, and unpublished resources like internet website. Unpublished data collected by banks is assumed to be correct and true.

1.7 Organization of the Study

The study has organized into five chapters such as introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion & recommendation.

- i) It is divided into seven sub topics. They are background, Profile of Pashchimanchal Development Bank Limited (PDBL), statement of the problem, Objective of the study, Significance of the study, limitations of the study and organization of the study.
- ii) It has divided into two sub topics. They are conceptual review and review of related study. Conceptual framework relating to credit/loan as well as Journals, books, legislative provision and unpublished dissertations related to the study have been reviewed under this topic.
- iii) It has been presented research design, nature and source of data, population and sample, data collection procedure, method of data analysis, data processing procedure and techniques of financial analysis.
- iv) Data has obtained from primary and secondary sources. Analysis of primary and secondary data and finding has explained. It is the main concentration area for the study to get outcome of research.
- v) Finally, summary, conclusion and recommendations are presented in the fifth chapter. This chapter is the most core and result pointed part of thesis. Bibliography and necessary annexes are presented after fifth chapter.

CHAPTER-TWO

REVIEW OF LITERATURE

The review of literature is a critical aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under this study and what has not been done in the field of the research study being undertaken for review study. The researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed. Various articles relating to different aspects of development banks and commercial banks will help to conduct this study smoothly. It is divided in the following two categories:-

1. *Conceptual Review/ Theoretical review* - *Books,Articles published in different journals & magazines.*
2. *Review of related studies* -*Various masters degree Thesis*

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 saver to investors, providing a payment system for transactions, and distributing risks across space and time to those best able to bear them. Sound and healthy financial sector makes proper use of available resources and ensures that the resources are geared towards the economic development of the country. (*www.nrb.org.np*)

Despite the slowdown in the economy due to decline in agricultural production, political instability and conflict in the country, 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.

Table No. 2.1 Structure of Financial System in Nepal

(Participant, Number and Regulator) (Based on mid 2009)

Participants	No. of participants	Regulating Body
Commercial Banks "A" Class	26	Nepal Rastra Bank
Financial Institutions "B" Class	63	Nepal Rastra Bank
Financial Institutions "C" Class	78	Nepal Rastra Bank
Financial Institutions "D" Class	13	Nepal Rastra Bank
Co-operatives (Authorized to do limited banking transaction)	16	Nepal Rastra Bank
Non-government Organizations (NGO's)- (Micro finance transaction)	45	Nepal Rastra Bank
Postal Saving Banks	119	Nepal government
Employee Provident Fund	1	Nepal government
Citizen Investment Trust	1	Nepal government
Nepal Stock Exchange Limited	1	Security Exchange Board
Insurance Companies	21	Insurance Board

Source: www.NRB.org.np

With this growth in the number of banks and financial institutions, one could argue that the impacts of domestic conflict and political instability in the country caused less impact in the financial sector compared to other sectors of the economy like 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.

The contribution of financial sector to GDP is 11 percent in 2062/63. Looking at the contribution of the financial sector to GDP, it could be argued that although the number of banks and financial institutions has grown significantly, its contribution to GDP has remained constant. The following table no. 1.2 suggests that the contribution from the finance and real sector to GDP in the last five-year remained 10 to 11 percent.

Table No. 2.2 Contribution of Financial Sector in GDP (at current price)

(Rs. in crore)

Particulars	Fiscal Year				
	058/59	059/60	060/61	061/62	062/63
Gross Domestic Production	42280.7	45667.5	49674.5	53353.8	58294.8
Contribution from Finance and Real Sector	4388.2	4771.9	5194	5833.5	6493.7
Contribution Percentage	10%	10%	10%	11%	11%

Source: Monetary Policy, 2063/64, Nepal Rastra Bank.

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 sector reached Rs. 327995.18 million from 284115.2 million in mid July 2005, which is 15.44 percent growth from the previous year. Loans and advances reached Rs. 230509.042 million in July 2006 from 209053.7 million in July 2005. A comparison of data for the last five year (table no. 1.3) 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 516,129.3 million in mid July 2006. All these suggest that the BFIs have a milestone in the process of economic development of the country.

TableNo.2.3
Indicator of financial sector

(Rs. in Million)

Heads	2002 Mid July	2003 Mid July	2004 Mid July	2005 Mid July	2006 Mid July	Growth % in 2006 above 2005
Capital Fund	15,827.20	20,031.00	(1,474.30)	(9,088.10)	(7,444.57)	(18.08)
Deposits	205,135.30	228,736.40	258,742.30	284,115.00	327,995.20	15.44
Investment	39,279.70	51,457.90	55,903.10	66,499.10	88,959.57	33.78
Loans and Advances	148,290.70	165,119.10	184,389.10	209,054.00	230,509.00	10.26
Total Assets/Liabilities	314,567.10	357,050.90	387,432.20	474,326.00	516,129.30	8.81

Source: Bank and Financial Institutions Regulations Dept., Nepal Rastra Bank

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, uplifting employment opportunities and in developing the society and country as 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 & foreign capital (grants and loans) are two major chunks of capital available for investment and earlier is crux and stable source of capital to gear sustainable development of nation.

Nepalese financial system has witnessed a significant development in the aftermath of the liberalization program initiated in the country in the mid-eighties. In the subsequent years of economic liberalization, financial development has accelerated. The situation has completely changed from the level of 2 commercial banks and 2 development banks; all owned by the government before the economic liberalization in 1984. (A policy research report on optimal number determination or regulatory Reform 2007 July). Currently the financial system consists of more than 2540 banks and financial institutions licensed by NRB. 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.

Nepalese financial system still has to demonstrate its competence in introducing a wider range of financial products, enhancing systematic, efficiency and reducing the intermediation costs. These issues are sure to bolster in the coming days when the country has already committed to allow the foreign banks to open their branches for the wholesale banking purpose from 2010.

The investment policy of banks is affected by many factors including the sources of bank funds. The major sources of bank funds are: (Hirday Bir Singh 20005,page 96)

-) Public deposits
-) Share capital
-) Retained earning
-) Reserve funds
-) Other liabilities

Among the above sources 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 to 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.

2.1.1 Liquidity

Liquidity is an important principle of bank lending. According to the principle of liquidity, banks should invest their funds in such sector, where investment can be converted into cash easily and quickly without remarkable loss on their value. Liquidity is defined as banks capacity to pay cash in exchanger of deposits (Dahal & Dahal: 2002). Liquidity management of bank is the vital aspect of any banks. Inadequate may damage goodwill of those organizations. Liquidity is important for motive cited as under.

1. Transaction motive

-) To meet operational liability
 -) Withdrawal of deposit
 -) Loan disbursement
 -) Expenses
 -) To meet payment to vendors
- 2. Speculative motive
 -) Foreign exchange holding
 -) Unforeseen opportunities
 -) Potential investments
- 3. Precautionary motive
 -) To meet contingencies like fines, errors, tax guarantee, invocation etc.

2.1.2 Regulation of the development bank:

Development banking is a highly regulated industry. While the extent of the regulation and the type of regulation imposed on banks here historically varied significantly the importance of banking to the performance of the economy mandates regulations to protect participants in the economy. The goals of bank regulations include:

2.1.3 Protection of monetary stability:

The stability of the banking system is necessary to allow the monetary authority to control the value of the money in circulation in the economy. Development banking is necessary to promote economic development and to avoid financial panics associated with periods of economic recession.

2.1.4 Protection of depositors

To gain transaction services, customers must maintain deposits, which make them creditors of the bank. If the banks are regulated, depositors aren't required to investigate banks as extensively.

2.1.5 Sources and uses of funds

In a dynamic sense a bank is an institution where new funds flow in and out of the bank receives new deposits of existing depositors include the holding in their A/C, management employs these funds in assets that will contribute earning to the bank. Conversely if the bank depositors reduce their deposits, management must secure funds to cover their withdrawals. If the bank holds surplus cash, it may be able to cover the withdrawals without further adjustment. If no surplus is held, the bank will have to secure the funds by either liquidity some of its earning assets or by borrowing the funds from other sources.

2.1.6 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.

Deposits:

The largest and most important funds providing function for bank is deposit. Deposits 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. (Hariday Bir Singh -15)

Borrowed Funds

Banks also secure funds by borrowing on either a short term or long term 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 in 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 that are extensively used in the daily cash management process. Since rates are determined through the interaction of supply and demand in the market and the maturities are so short it is not uncommon to observe large swings in rates of these instruments in a matter of days. In recent years, banks have made extensive use of borrowed funds with many banks using them as a permanent ongoing basis. When a bank uses short term loans to support long term assets, rate variability can affect interest spread but it affect on margin is not so significant. Large money center and regional banks tend to be net borrowers of these funds, with smaller banks being net suppliers. (Dahal & Dahal: 2002)

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 account are differentiated from other funds providing functions by the permanence of the funds.

The main sources of bank capital are promoter share and public shares. A bank secures funds initially when the owners commit their funds to bank through stock purchase. Following the initial injection of funds additional funds are provided through profit retention or sales of additional shares of stock. A bank may secure additional funds by selling additional shares of stock. This source of fund is more accessible to a large bank whose common stock trades in active secondary markets than to small banks whose stock is closely held. (Dahal & Dahal: 2002)

2.1.7 Funds Mobilization Functions

Bank invest 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 assets is necessary to provide liquidity to accommodate outflows and to

meet reserve requirements. Banks must also have facilities to support their investment and funds providing functions, fund using functions are classified into four group's loans, investment, cash assets and facilities.

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 often for a specified period and repayable with interest". (Agnes, 2000: 821) 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 apt to provoke "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 70% to 75% of total assets. Banks earn the highest gross yield on loans. Commercial and industrial loans account for approximately 30% of total loans for all banks. The next two largest categories of loans are real state loan and individual loan. Other type of loans made by development banks include agricultural loans, auto loans, housing loans and lease financing.

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 differentiated with respect to risk of default maturity marketability and task treatment, obligation of the federal government are essentially free or risk of default. Obligations of state and local government vary with respect to risk default. Risk of default is dependent on whether the security is a general obligation or a revenue bond on which the source of repayment is tied to particular sources of revenue and it is also dependent on the financial strengthen of the issues. (Rabindra Bhattarai 2005 :)

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 and 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. Although a bank will attempt to limit investment in cash on its premises.

Facilities:

The final funds using function is a bank investment in facilities. As with cash assets a bank does not earn explicit return on its investment in facilities but investment in facilities is necessary to support physically the funds using and funds providing functions of the banks. Investment in facilities includes in building constructed on property that is owned or leased by the bank, leasehold improvements that are made in leased building and all owned equipment used by the bank in providing its services. (Agnes, 2000 :)

2.1.8 Types of Loan

Types of loan are also known as disbursement procedures and falls under lending procedures and disbursements procedures.

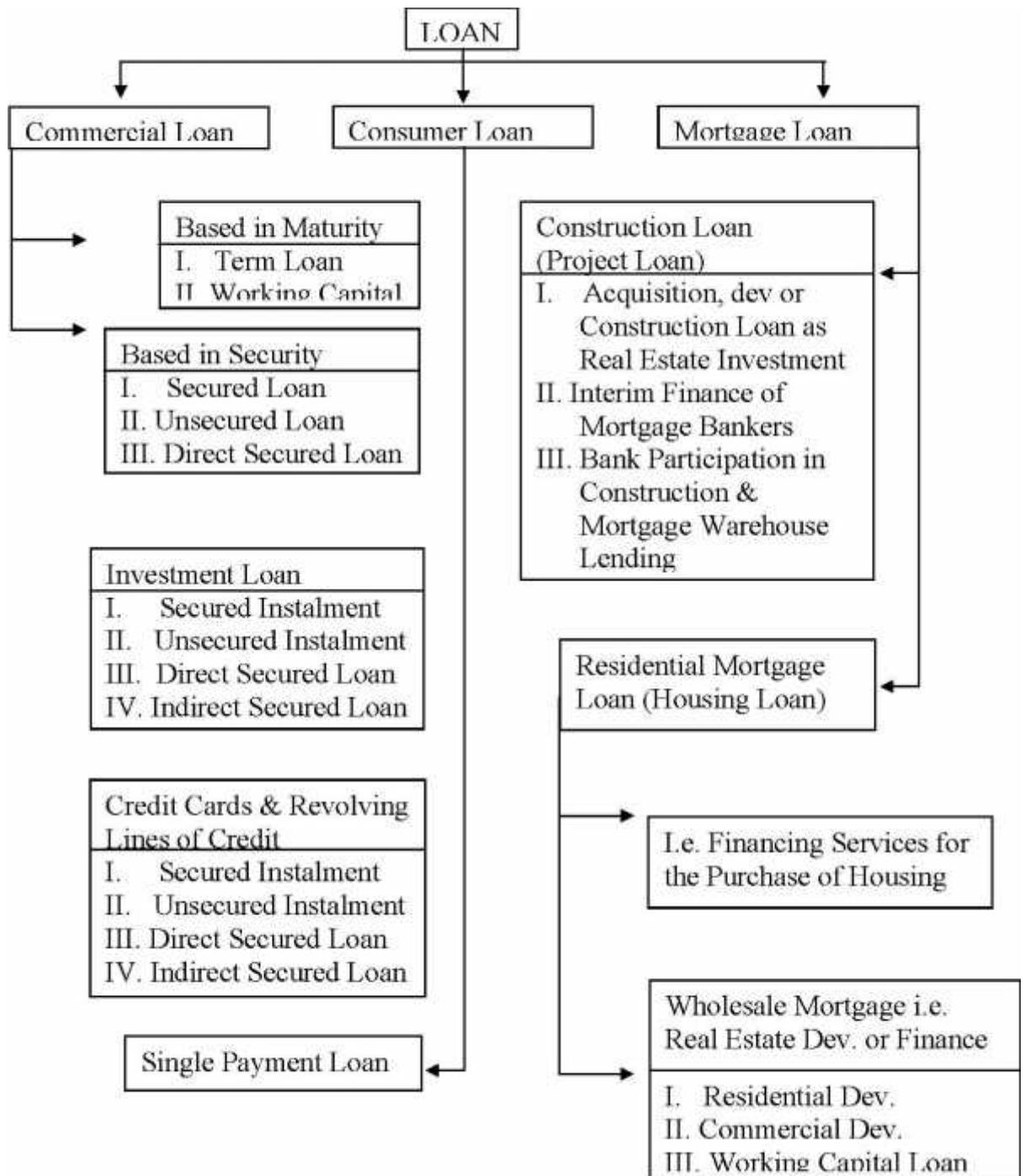
Overdraft ii) Cash credit iii) Bills discounting (Munjal, 1997:76-77)

Likewise, Johnson & Johnson has depicted the types of loan as follows:-

- i) Commercial loan
- ii) Consumer loan
- iii) Mortgage loan (Johnson,1940: 158)

Johnson has classified loan is as follows:

Chart No. 2.1 Loan Classification Chart



Source: Johnson ET. Al "Commercial Bank Management" [New corrle: - the Dryden Press, 1940 ehs: 8, 10, 11]

- i) Term loan ii) Overdraft iii) Cash Credit iv) Working Capital Loan
- v) Fixed Deposit Loan vi) Project Loan vii) Hire Purchase Financing

viii) Off Balance Sheet Transaction:

In fact, bank guarantee & letter of credit refer to 'Off Balance Sheet' transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. Footnotes are kept as reference to them instead of recording in the books of accounts. It is non funded based remunerative facilities but more risky than the funded until adequate collateral are taken. Let's take two varieties to describe separately.

Bank Guarantee

It is definite and irrevocable undertaking by a bank (guarantor) on behalf of its customer (debtor) to make payment up to the specified sum of money to the beneficiary (creditor) on demand in case of default by its customer. It is used for the sake of the customers in form of their party (beneficiary) up to the approved limit. Generally a certain percent amount is taken as margin from the customer and the customer's margin account is credited.

Letter of Credit (L/C)

It is issued on behalf of the customer (buyer/ importer) in favor of the importer for the import of goods & services stating to pay certain sum of money on the submission of certain document complying the stipulated terms and conditions as per the agreement of L/C. It is also known as importers letter of credit since the bank of importer opens it. However, the same import L/C is known as export L/C to importer's bank and exporter him self. This classifies the fact that importer and importer do not open separate L/C for the trade of same commodities.

As an inference, the categorization of loan is exhibited as given below.

- ix) Housing Loan (Real Estate Loan)
- x) Consortium loan
- xi) Bill Purchase & Discount
- xiii) Single payment loan
- xiv) Credit cards and revolving lines of credit

2.1.9 The Elements to be dealt in Credit Policy

The well set up credit policy normally throws light on the following components

i) Credit Volume

The policy consist the credit deposit ratio the bank has to maintain volatility of deposits and borrowings affect loan volume. High volatility of deposits and borrowing will result low loan volume and vice versa. Single borrower limit granted by bank should nor exceed the one set by regularly authorities. Under funded credit and non funded credit banks grants maximum up to 25% and 50% of its core Capital respectively according to directive no. 3 issued by NRB to licensed banks and financial institution.

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 cause bankruptcy of the lenders. Even if two individual borrowers of different sector have the same revel of risk, the portfolio risk is minimized due to diversification. The ceiling (i.e. maximum amount of loan wanted to be granted) is fixed in relation to core capital of the bank keeping within the periphery of NRB directives. There must be clear specification regarding the mix of short term and long 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, percentage 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 bullions & personal guarantee as securities (collateral), whereas others go more forward than that and demand collateral like land, building etc, likewise, the policy should cover the selection of valuator. Guiding factor for selecting collateral are marketability, liquidity, transferability and convenience.

VI) Risk analysis

Criteria to be met by borrower for getting loan should be clearly described proper demarcation about liquidity, leverage; efficiency com profitability ratios 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" (Johnson et.al.1940: 133). 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 services 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 anything. There should be involvement of at least two officials or two departments (Dahal, 2002:119). 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. It assists in keeping non performing assets (NPA) or low level. The banks need to take various securities so that in case of default of loan such securities can be disposed to recovery of loans.

viii) Loan Classification and Provisions

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
- v) Delegation of authority
- vi) Types of credit expansions
- vii)Pricing

2.1.10 Commercial Loan Analysis Process

Commercial loan officers examine numerous financial factors to uncover a company's financial weakness. Their evaluation begins with a general analysis involving an examination of key financial trends and factors. When one of those factors not meeting the industry norm, commercial loan officers must perform a more detailed analysis to uncover the causes.

A) General Analysis

The general analysis consists of general trend analysis, and separate analysis of credit, collateral, capital, and capacity. General trend analysis provides loan officers with a quick indication of a company's performance in several key areas: sales, operating income, net income, selling\administrative, working capital, and cash flow. Five year trends of these data permit loan officers to determine quickly whether a company's performance has improved, declined, or remained stable. Credit, capital and capacity analyze involve a comparison of a company's financial ratios against industry standards

Credit, Collateral, Capital, Capacity

B) Detailed Analyses

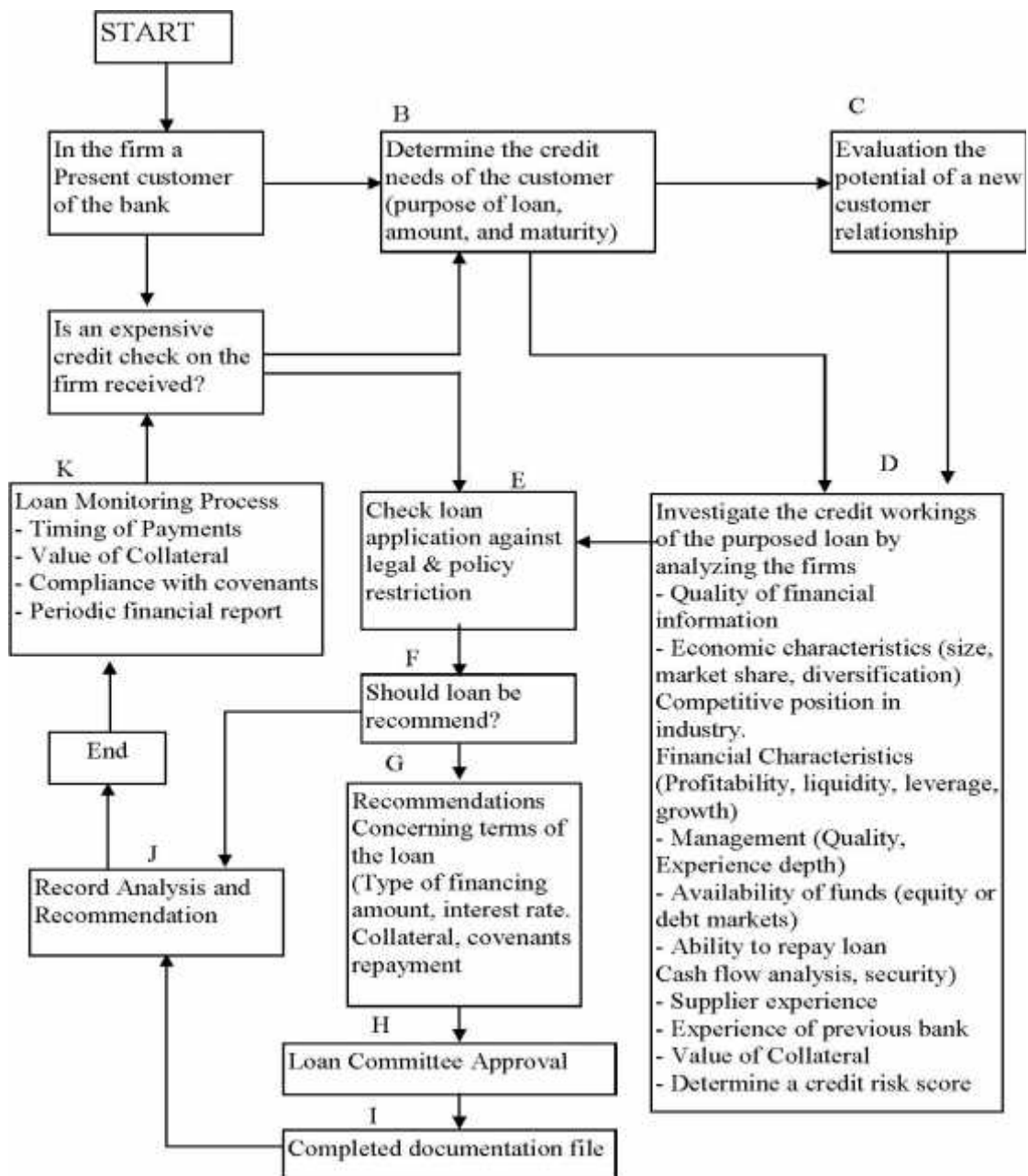
To thoroughly evaluate a company, a loan officer must know which financial factors require consideration and their interrelationships, how to interpret and integrate the results of multiple analyses, and when to proceed with additional analyses. The voluminous data and complexity of the problem make the loan decision difficult for even the most seasoned loan officers.

2.1.11 Business Loan Decision Making Process

When loan officers, credit analyzers, and loan review committees evaluate a commercial loan application, they combine financial projections with qualitative information. The loan granting decision is based on the analysis of a firm's historical and pro-forma financial information and on the interpretation of qualitative information concerning its product markets and industry characteristics, plus the overall performance of management.

In practice, the evaluation of a loan application is based on the information presented in financial statements plus any qualitative information, such as the quality of management, the ability to repay the loan, and the availability and value of collateral. Frequently the qualitative information is of greater value in the lending decision than the financial statement analysis. Generally, business loan decision making process is as follows:

Chart No. 2.2 Business Loan Decision Making Process



Source: Using an expert system with inductive learning to evaluate business loans (show and Gentry), vol. 17, number 3, Autumn 1988 (Page 47).

2.1.12 Principle of Lending

Cautions credit policy is essential to carry out the business of lending consistently. Inevitable policies to be considered and analyzed for granting loan are as follows: (singh,1999)

- i) Principle of safety fund
- ii. Principle of liquidity
- iii. Principle of security
- iv. Principle of purpose of loan
- v. Principle of profitability
- vi. Principle of spread
- vii. Principle of national interest

2.1.13 Loan Approval Process

Disbursement procedure works offer the operation of loan approval process under lending conditions & disbursement procedures. 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 sector and bigger project is also not similar. Approval of wrong loan proposal on haunch the marks lending institution death-knell. It entails the following sequences.

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 applicant 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 about:

Loan purpose: - uniformity between the need of borrower and lender.

Amount of loan: - The loan amount will be more accurate if applicant has well defined thought

Repayment source:- Every loan posses primary as well as secondary

Repayment source. Hence, repayment plan should be realistic.

History of Business: - 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.

Banking relationship: - 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 though loan is not allowed. This facilities the possibility of future business with the 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" (Johnson,1940:174). He further says that the basic question the loan officer attempts to answer in the credit analysis includes:

- What is the character and managerial ability of the borrower?
- What is the borrowers' capacity to repay the loan as requested?
- What is the capital position of the borrower in case of the borrower? experiences difficulties?
- How will current and predicted economic conditions affect the ability of the borrower to repay the loan?

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

- Acquiring basic information about the borrowers.
- Acquiring basic information about loans.
- Making preliminary review of risk.
- Acquiring more complete information.
- Varying the critical information.
- Making a refined analysis of the risk.

- Making an overall decision.
- Structuring the loan.

iv) Forecast and Risk Rating System

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

2.1.14 Management of Providing Loan: Disbursement Management

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 be 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 processes 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.

2.1.15. Management for Loan Recovery (Recovery Management)

Bank desires the proper utilization of loan by the debtors. Indeed, 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.

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 to know plight of debtors, proper use of the loan and profit loss position. It comprises

- Verification of loan documents.
- Field visit
- Forms of credit to be prepared
- It may be different forms such as:
 -) Internal credit audit
 -) External credit audit
 -) 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 borrower's 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 persons 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 2063. After recovering the loan accordingly the remaining cash from sale of property (security) should be returned to the borrower. Good, acceptable, low qualities, doubtful and bad are the classification of loan by NRB.

f) Maintenance of Data

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

2.3 Review of Legislative Provision

NRB Act 2058 and bank and financial institution act, 2063 have reviewed in this segment. After February 4, 2004 the ordinance relating bank and financial institutions has been promulgated. The ordinance is popularly called an umbrella act as it reveals and replaces all exiting Acts relating to commercial banks, NIDC, other Development banks and finance companies and brings all such institutions under the purview of a single act. Same ordinance was made act by the parliament in 2063 as BAFIA, 2063. It was supposed to be complied since 2063-4-13. The act is divided into 12 chapters and contains altogether 94 sections. Provision regarding Credit disbursement and its recovery procedures are mentioned in chapter 8 that re-establishes the NRB's authority to regulate lending and minimize the chances of loan going to an unscrupulous or diversion of funds.

The NRB issued Directives annually to guideline the banking activities. Every bank should follow NRB rules and regulations, otherwise he should pay fine. NRB Directives stated about loans and advances in Directives no. 2. The main provisions established by NRB in the form of prudential norms in above relevant area are briefly discussed here under.

1) Provision for Minimum Capital Fund

License financial institution should keep minimum capital fund for total risk weighted assets after 2005 is as follows:

Table No. 2.4

Provision for Minimum Capital Fund

Institution	Minimum capital fund to total risk weighted assets.	
	Core Capital	Capital Fund
For "A", "B" and "C"	6.00%	12.00%
For "D"	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 up to full comply of Basel II guideline.

2) Provision for credit in the Deprived Sector

Banks should lend 3 percent of total loan and advances to deprived sector as per directives. This provision was imposed to commercial banks only in past but extended it to development banks, "B" class financial institution, also since fiscal year 2064/65 according to monetary policy 2064-65 published by regulatory body, Nepal Rastra Bank.

3). Provision of Credit to the Priority Sector

NRB requires commercial banks to extend loan and advances, amounting at least 12% of their total outstanding credit to the priority sector. Commercial banks credit to the deprived sector is also a part of priority sector credit. Under priority sector credit to agriculture, credit to the cottage and small industries and credit to service are counted. Commercial bank's loan to the co-operatives licensed by the NRB is also to be computed as the priority sector credit from the fiscal year 1995/96 onwards. Recently Nepal Rasta bank had complied integrated directives since 2062-04-01 (17 July, 2005) and changed its policy of phasing out this programme as follows.

2002/03	7% of Total Loan and advances
2003/04	6% of Total Loan and advances
2004/05	5% of Total Loan and advances
2005/06	2% of Total Loan and advances
2006/07	2% of Total Loan and advances
2007/08 onward	Optional

4). Provision for the Investment in Productive Sector

Nepal being a developing country needs to develop infrastructure 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. Loan to the priority sector, agriculture sector and industrial sector have to be included in productive sector investment.

5). Provision for the Single Borrower Credit Limit

i) For "A" "B" "C" Class Licensed Institution

Licensed institution may extend to a single borrower or group or related borrowers the amount of fund based loans and advances up to 25 percent of the core capital fund and non-fund based (off balance sheet facilities like letter of credit, guarantees, acceptances, commitments) up to 50% of its core capital fund. Fixation of limit on credit and facilities to single borrower shall be made on the basis of core capital fund as per the latest quarterly balance sheet certified by the internal auditor of concerned institution. The fund based loan and non fund based facilities are separate and accordingly the single borrower limit shall not be calculated by aggregating the both. According to monetary policy 2064-65, the amount and percentage limit can be addition for hydropower projects.

ii) For "D" Class Licensed Institution

Credit to the deprived and low income people may be extended a maximum of up to Rs.40,000 per group member/individual for operation of micro business and not more than Rs.100,000 per each micro enterprise to be provided on a gradual basis to the group member for operation of micro enterprise against acceptable collateral. It will have increased up to Rs. 60,000 and Rs. 150,000 respectively (Monetary Policy, 2064-65, Nepal Rastra Bank, p. 12, section 84). However, the institution shall extend such-

enterprise credit up to 25 percent of the total loans and advances.

6). 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' thoughts regarding the safety of deposited fund. 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.

7). 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) Loss 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. 2.5

Classification of Loan 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.

2.4 Review of Related Studies

In book the concerned matters are being 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 requests negotiation of terms, documentation, disbursement, administration of considering loans and workout, knowledge of the process and awareness of it's strength and weakness are important in setting objectives and goals for lending activities and for allowing available funds to various lending functions such as environmental, installment and mortgage portfolio (Johnson, et. al 1940: 132).

H.D.Crosse has mentioned in his book "**Management Policies for commercial Banks**", that lending is essence of commercial banking, consequently the formulation and implementation of sound lending policies are among the most important responsibilities of bank directors and management .Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit. Before formulating a lending policy, many factors have to be taken into consideration because banks are not the real owners of deposits but rather the custodians of money (Crosse, 1963: 214).

Singh and Singh put forth their view in the book written by them entitled "**Financial Analysis for Credit Management in Banks**" that the investment (credit) policies of banks are conditioned to great extent by the national policy framework; every banker has to apply his own judgment for arriving at a credit decision, keeping his banker's credit policy also in mind (Singh and Singh, 1963).

Reed, Cotter, Gill and Smith in their book entitled '**Commercial banking**' focus on the importance of loan in banking sector. As per their view, loans are the most important asset held by banks and bank lending provides the bulk of band income. Lending is not only important to the banks only, it is equally important to the community the banks serve. That's why loan policies must be worked out carefully after considering many factors (Reed, Cotter, Gill and Smith, 1980).

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 (Chatterjee, 1999: 1).

The book named "**Banking management**" says that in banking sector or transaction an unavailability 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, the documents of loan flow, loan administration audit of loan, renewal of loan, the condition of loan flow, 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. 21 (Bhandari, 2003: 170) yet another dubbed as: loan and advances dominate the asset side of the 'Balance sheet' at any bank. Similarly earnings from such loans and advance occupy a major space in income statement of the bank. Lending can be said to be the visor of bank. However, it is very important to be denuded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non payment of loan is known as credit risk or default risk (Dahal, 2002: 114).

Klisse.S.Eugene 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 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 inverse in a value and generates positive results. A banker seeks optimum combination of earning, liquidity and safety while formulating investment policy (Gitman and Jochnk, page-1).

As inference from all these above stated authors it can be said that loan management refers to systematic identification of needy one or required party (loan taker), verifying their documents, pre and post site visit, disbursement of loan keeping collateral as cushion for giver and post disbursement inspection cum sound recovery of granted loan as far as practicable.

Venkar Svinivasau and Yang H. Kim has 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 ii) a credit limit determination phase, where the conclusions of the analysis are transformed into a credit limit or the customer. System design was therefore, split into two phase, (i) development of an appropriate data base and knowledge base to support the customer evaluation process and (ii) development of an appropriate model to support the credit limit determination phase.

This paper has assumed to describe an expert credit granting prototype designed for a fortune 500 corporation. The focus has been on the conceptual process undertaken for designing the prototype. The model base and rules that comprise the prototype are combination of normative prescriptions and managerial preferences presented in a user-friendly environment issues that need conscious recognition in implementing such

Michael J. Shaw and James A. Gentry are show **Managing and Recommending Business Loan Evaluation (Marble)** system. MARBLE is a generalized expert system that minimize the lending expertise of several banking and finance professionals. The objectives of MARBLE are to help lending officer, credit analysis, and loan review committees to improve the evaluation of loan applicants and to learn how expert system operate. Based on the knowledge base and the information provided on the loan applicant, MARBLE synthesizes the information and estimates the likelihood that the loan will be repaid. Knowing that the conclusion recommended by MARBLE reflects the judgements of lending experts, management can use it to assist in the lending decision. The MARBLE system has the capability of learning from decision examples. Examples were used to show the value of inductive inference in the knowledge acquisition process. This learning capability makes it possible to build an intelligent decision support system. An empirical study shows encouraging result for incorporating inductive learning in MARBLE for loan evaluation.

Peter Duchassi, Hany Shawk, and John P. Seagle has showed Commercial Loan Analysis Support System (CLASS) in their article "**A knowledge-Engineered system for commercial loan decisions**". This article describe an expert system, commercial loan analysis support system (CLASS) is an expert system designed to evaluate a company's financial posture, recommend commercial loan decision and pertinent components, and document the loan analysis. Like a loan officer, CLASS constitutently synthetics a large number of detailed facts into a loan recommendation. CLASS has been designed to seek

our any potential weakness in the prospective borrower and conduct an extensive detailed analysis of each weakness. Weaknesses may be over analyzed but none will be overlooked. This approach is consistent with the general notion in commercial lending that one is primarily concerned with weaknesses instead of strong points which are taken for granted. In addition to the limited validation conducted by the expert a more comprehensive validation can be implemented in two ways. First, the system can be empirically tested with a large sample of historical loan decisions. Second field tested can be conducted in which loan officer use CLASS while making actual loan decisions. Their judgments can be compared to those of CLASS at each step in the analysis. By building CLASS, it was demonstrated that financial knowledge can be represented and applied to a complex financial problem. It is hoped that the approached described have will page the way for building expert systems that address other important financial problems.

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, resource mobilization, capital structure and profitability of banks.

Ramala Bhattarai, (1978) thesis entitled "Lending Policy of Banks in Nepal" has tried to examine 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 formation that hampers economic development that banks should emphasis on efficient utilization of resources.

Om Krishna Singh-(1980) in his thesis paper entitled 'A brief study on resource utilization by Nepalese commercial banks' had conducted to evaluate resource utilization with the objectives as:

- i) To examine how for the banks have been able to mobilize its resources efficiently.
- ii) To find out the impact of interest rate on deposit and interest rates of loan on the credit extension of banks,
- iii) To know the relationship between branch expansion and deposit collection,
- iv) To investigate the type of relationship between credit extension and the expansion of bank branches and,
- v) To find out the causes for the efficient operations of commercial banks with regard to mobilization of funds.

The main findings of the study were:-

A) Banks were found inefficient in deposits utilization during seven years under study. B) Banks branch expansion in rural sector was unsatisfactory. C) There wa/s higher degree of positive correlation between branch expansion and collection of scattered savings and extension of credit by banks as well. D) Like this there was higher degree of positive correlation between deposits collection and extension of credit by banks and E) There was positive correlation between interest rates and deposit collection.

The topic of **Khimananda Aryal (2000)** thesis is “Loan Management of Agricultural Development Bank”. The stated objectives are as follows:

To analyze 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 purpose. To analyze the view or borrowers about ADB/N and its loan collection and disbursement effects. To evaluate the role of interest raise, disbursement procedure and collection other in actual loan collection of the bank

His **findings** are as follows:

Actual loan disbursement, collection and over standing are increasing in decreasing rate. Decreasing rate of growth rate and higher growth rate of loan disbursement than loan so the production is the major problems of the bank. 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.

Ritcha Sharma(2005) has studied on "loan disbursement and collection of Nepal Bangladesh Bank Limited". Her research objectives are as follows:

- To analyze the strand of every year's deposit collection.
- To measure total amount of loan disbursement of total deposit.
- To analyze the different types of loan disbursed.
- To measure the status of loan recovery out of total loan disbursed.

Major **findings** her researches are as follows:

- The study of 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 as loan.

Overdraft loan is disbursed in highest amount. About 15% of the total loan is given net as overdraft loan. The overall analysis of the study proves that NBBL has been performing its function of loan disbursement and collection very well.

Kamal Bhattarai (2005) has studied on 'Loan management of Kathmandu finance Ltd.' Major research objectives are as follows:

- To analyze the loans and advances as well as deposits, interest rate structure, repayment of loan of KAFL.

. Major **findings** in his study are as follows:

Interest income from loan and advances and loan and advances holds high degree of positive correlation. Change in loan and advances bring change in interest income from it. Average deposit and loan and advances of KAFL during research period is similar to finance companies industry. Term loan, housing loan, hire purchase and for loan occupy major position in due loan. FDR loan has decreasing trend. Hence, term loan, housing loan and hire purchase loan should be given more emphasis to recover. Interest income from loan and advances and EBT goes in same direction. Increase in interest income causes increase in EBT and vice-versa.

Nirmal Subedi (2004) has conducted a thesis named "Loan Management of Himalayan Securities and Finance limited". His research objectives are as follows.

-) To analyze the loans and advances provided by Hisef limited from FY 2054/55 to 2058/59. To analyze the interest rate structure and recovery or payment on loans to be issued.
-) To study the appropriateness of Hisef Limited loan policy as per "directives or finance companies issued by NRB on 2058.
-) To study the effectiveness of Hisef Limited in relation to release and recovery of loan.
-) To study the attitudes of employees and clients of Hisef limited in regard to the performance of the right institution.
-) To suggest and recommend the future strategies to be taken to improve organization preset status.

His research's major **findings** are as follows:

Current ratio of Hisef is relatively greater than standard (2:1). Its average is 2.89 it has 77% consistency in this rank over study period. There is problem of cash being idle in the several years. Loan and advances to total deposit ratio ranges in between 78.49% to 95.41%. There is 93.96% consistency over the study periods. Average of the ratio is 85.93% this shows that deposit collected mainly goes to lending loan and advances. Hence, Hisef's main source of income comes from interest earned form loan and advances. There is high degree of positive correlation between total deposits and loan and advances.

Capital adequacy ratio is more than 10%, there the study period. This is to be 8% according to NRB directives. It has increased in last year. There is 86% consistency in this ratio through the study period. This shows capital fund (net worth) is sufficient to meet total deposit as per NRB directives for this (8%). Average deposit of Hisef's during research period is greater than finance companies industry. Average loan and advances of Hisef during research period is greater than finance companies industry. Average ration of loan and advances to total deposit of Hisef's during research period is similar to its industry. Net profit ratio is decreasing and is negative in 5th year. This shows weakness of loan lending practice. Invest income from loan and advances and loan and advances holds high degree of position correlation. Change in loan and advances bring change in interest income it. Net profit and paid up capital holds high degree of negative relation. Change in paid up capital brings change in the net profit but in adverse direction. Term loan, housing loan, loan purchase and fixed deposit receipts loan occupy major position in due loan. Fixed deposit receipt loan is decreasing trend. Hence, terms loan housing loan and live purchase loan should be given more emphasis to recover.

Miss **Rita Adhikari (2008)**, the Thesis entitled "Credit Management of Siddhartha Vikash Bank Ltd" has the following objectives:

- a) To analyze the trends of deposit collection and credit lending i.e. loan and advances. b) To assess total amount of loan. c) To evaluate the performance of SVBL in terms of liquidity, profitability, sector wise loan, non performing loan. d) To analyze capital adequacy of SVBL. e) To know the view of employees in regard to credit management.

The major **findings** of the study were:-

Deposit collection of SVBL has significantly increasing trend. We find that there is continuous increasing trend from 10 percent to 100 percent. In all year total fixed deposit

has more contribution than other deposit. Then more contribution of saving deposit. Then other, current and call respectively. 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 $r > 6PE$, it reveals that the relation is significant. The current ratio of SVBL is satisfactory. It has maintained around 2:1 current ratio. This is standard current ratio. The cash and bank balance is sufficient for deposit holders. The SVBL has 13 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 greatest amount of loan is disbursed in business, agriculture and building & 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.

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, lending management, loan management, credit analysis 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 Pashchimanchal 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 of the thesis studies are on secondary data but I have included primary data as well. Most thesis are related with 'A' grade banks but I have studied on 'B' grade bank. Other thesis covers only 5 year data, but I have taken 6 years data for study. Similarly, I have used all statistical tools for data analysis. Hence, this thesis is different from others.

CHAPTER-THREE

RESEARCH METHODOLOGY

3.1 Introduction

In order to accomplish the targeted objective 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 objective 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 generally adopted by a researcher in studying his research problem along with logic behind them. (Kothari, 2001:9). The basic objective of this study is to examine and to analyze the fund accumulation & mobilization of PDBL dividing study period (from 2059/60 to 2063/64) 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 study is to see trend relationship between the figure of fund accumulation & mobilization and to explain the causes of delayed payment from borrowers followed by recommendations.

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance (Kerlinger, 1986:275). The crux of this research is to analyze the soundness of PDBL in relation to loan disbursement, capital adequacy, deposits, profitability and liquidity. Research design is the task of defining the research problem.

Descriptive Analysis design will be adopted in fulfilling the objectives of this study. It is tough to study the principle causes arising from borrower's side and quantify them in relation to the weak repayment performance of PDBL.

Statistical tools analysis throws light on the trend situation of fund accumulation & mobilization from FY 2059/60 to FY 2064/65 as far as possible. Karl Pearson's coefficient

of correlation is used to analyze the relationship between total deposits and loan and advances. Average, percentage, graph, chart and diagram will used here in.

3.3 Nature and Sources of Data

Both primary and secondary sources data have been collected in order to achieve the real and actual results.

I) Primary Sources of Data

Primary data relevant to right study have been gathered through questionnaire and observation of institution itself. Fifteen personnel, of PDBL head office and branch had selected for the sources of primary data. Questionnaire is distributed to concern and their responses have been collected for study.

II) Secondary Sources of Data

Secondary sources of data are the information received form books, journals, news paper, reports and dissertations etc. the major sources of secondary data are as follows:

- Economic survey of HMG, Ministry of Finance.
- NRB directives
- Annual general reports of PDBL
- National newspaper, journals and magazines.
- Websites.
- Books.

3.4 Population and Sample

At present, there are altogether 63 development banks operating in the political boundary of the nation so sixty three development banks are population for the study. A sample is that part of the universe which we select for the purpose of investigation (Gupta, 1995). Sampling technique is very much essential for conducting any research. It alloweds the researcher to make an intensive study of the research problem within limited timeframe. When the study of whole population is not possible, the sampling technique is adopted. The ideal sampling represents the whole universe accurately. For the study

purpose too, sampling is done while extracting data required. Thus, PDBL is taken as sample to represent the whole development bank operated in Nepal. Six years financial data are taken to conduct the study from FY 059/60 to FY 2064/65.

3.5 Data Collection Procedure

The study will also be based on primary data information will be collected developing a scheduled questionnaire and distributing these to employee of PDBL (Managers, director and finance chief). Beside this, junior employees are also observed and response has been drawing from them about relevant questionnaires.

3.6 Method of Data Analysis

Any analytical tools can be used in solving the problem of this study. For the purpose of the study, all collected primary as well as secondary data are arranged, scanned, tabulated under various heads and then after descriptive cum statistical analysis have been carried out to enlighten the study.

Mean, standard deviation, correlation, coefficient of variation are being calculated under statistical analysis. "Financial analysis is the starting point of making plans before using any sophisticated forecasting and budgeting procedures" (Pandey,1999: 108). Here ratio analysis is used under financial analysis to attain the result of the data.

3.6.1 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. "To evaluate the financial condition and performance of company the financial analysis need ascertain statistical. The yardstick frequently used is a ration on index relating two pieces of financial data to each other" (Van Horne, 2004: 349). "A single ratio in itself does not indicate favorable or unfavorable conditions. It should be compared with some standard (Pandey, 1999: 110). The analysis of finance of ratios involves two types of comparison. First, the analysis can compare a present ratio with peer and expected future ratios for the company. The second method of composition involved comparing the ratios 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 Horne, 2004: 350).

A. Liquidity Ratios

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 and its ability to remain solvent in the event of adherent. Essentially, we wish to compare short term obligations with the short term resources avoidable to meet these obligations. The following lodging ratios have been calculated in order to exhibit the liquidity position of the Pashchimanchal Development Bank Limited.

i) Current Ratio

It provides about the short-term solvency of the firms. It establishes 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, bills purchases and discounted, customer acceptance liabilities, prepayment expenses, bills for collection. Likewise, current liabilities denote current account deposits, saving account deposits, margin deposits, bills payable; call deposits, bank overdraft, intra-bank reconciliation account, provision, customer's acceptance liabilities 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:-

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

iii) Cash and Bank Balance to Current Asset Ratio

This ratio highlights the percentage of readily available funds with the bank. A higher ratio is preferable like the earlier stated ratio in its case too. It can be calculated:

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

iv) Loans and advances to current assets

This ratio highlights the percentage 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 profitability ratios are used here 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 that 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 Asset Ratio

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

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

iii) Return on Net worth (ROE)

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

$$\text{Return on Net Worth} = \frac{\text{Net worth after tax}}{\text{Shareholders squity}}$$

3.6.2 Statistical Tools

i) Arithmetic Mean (Average)

Averages are statistical constants which enable us to comprehend in a single effort the significant of the whole (Gupta, 2000: 357). 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:-

$$\bar{X} = \frac{\sum X}{N}$$

Where,

\bar{X} = Mean value or Arithmetic Mean

N = Number of observations

$\sum X$ = Sum of observations

ii) Standard Deviation (S.D.)

It is defined as the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. It is used as absolute measure of dispersion of variability. It is calculated as:

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

Where,

σ = Deviation Standard

$\sum x^2$ = number of Observation of Squares of Sum

N = Number of periods

A small S.D. pin points a high degree of uniformity or homogeneity of the data while a large S.D. provokes just adverse.

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

"Co-efficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean"(Gupta, 1998:416). 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:

$$C.V. = \frac{s}{\bar{x}}$$

Where, \bar{x} = Mean,

s = Deviation Standard

C.V. = Variation of Coefficient

It is independent of the unit. Hence, 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 (r)

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 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

In the words of L.H.C. Tippett, "The effect of correlation is to reduce the range of uncertainty of our prediction" (Tippett, Ibid: 416). It is calculated as:

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{(n \sum x^2 - (\sum x)^2) (n \sum y^2 - (\sum y)^2)}}$$

v) Coefficient of Determination (r^2)

It explains the variation derived in depended variable due to the any one specific variable it denotes the fact that the independent variable is good predictor of the behaviour of the dependent variable. It is square of correlation coefficient.

vi) Probable Error

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

$$\text{P.E.} = 0.6745 * \frac{1-r^2}{n}$$

The Karl Pearson Coefficient of Correlation (r) always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and plus signifies the positives correlation. As the value of coefficient 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

When a series of data pertaining to series of containing periods should be studied if characteristics and its future direction is best estimated by the 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 behaviours of the bank. The method is widely used in practices. The straight line trend of series of data is represented by the following formula:

$$Y = a + b.x$$

Here, y is used to disunite the trend values to distinguish them from the actual y values, a is the y intercept or the computed trend figure of the y variable when x = 0, b represents the slope of the trend line of the amount of change in y variable that is associated with a change of one unit in x variable, the x variable in times series analyses represents times.

While analyzing the time series, the propensity of growth and growth rate have been examined based the value of trend value of least square method. The growth rate has been measured from 2007 to 2011 to reveal the real status of the study period.

CHAPTER-FOUR

DATA PRESENTATION AND ANALYSIS

In this chapter the relevant information available has been used by analyzing the loan management of PDBL for the fulfillment of the research objectives. The data of six years (2059/60-2064/65) has been presented for the purpose of study. This study is based on both primary and secondary data. Sources of secondary data are the annual reports of the bank, NRB publications, books, journals, published or unpublished reports etc. Primary data has been collected through direct interview with the staffs of the bank. For the purpose of analysis, data has been presented in the form of tables and charts. 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 two measure performance of bank in terms of profitability, liquidity, NPL, to study the attitudes of employees of PDBL in regard to the performance of the bank.

4.1 Analysis of Secondary Data

4.1.1 Deposits of PDBL

Bank collects 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 base of a bank besides other factors. The deposits collected by PDBL can be divided as current, saving, fixed, call and other deposits. The deposits collection by the bank in 5 years (2059/60-2064/65) is presented in the table below:

Table No. 4.1 Deposits Collection by PDBL

Source: Annual reports of respective years.

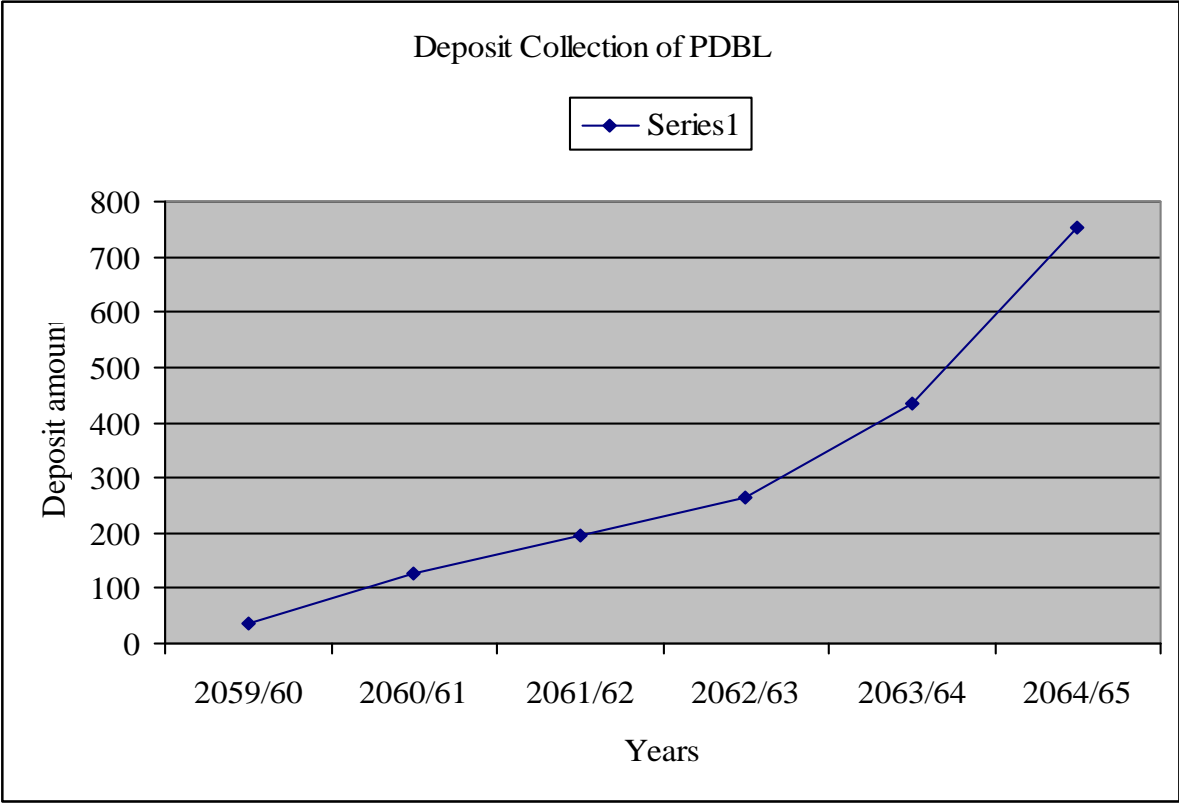
(Rs. in million)

Year	Deposit collection	Inc/Dec. in deposit collection	% inc./dec.
2059/60	34.90	-	-
2060/61	127.85	67.15	192.41
2061/62	195.00	63.84	49.93
2062/63	263.02	68.02	34.88
2063/64	435.55	172.53	65.60
2064/65	753.61	318.06	73.02

The above table shows the deposit collected by PDBL from the year 2059/60-

2063/64. There is increasing trend in deposit collection form 2059/60-2063/64. In 2060 the deposit collected amount is Rs. 34.90 million. Similarly, in 2061 collected deposit amount is Rs. 127.85 million which is 67.15 million greater than previous year and in percent it has increased by 192.41 percentages. Total deposit collection in 2062 is Rs. 195 million which is 49.93 percent greater in comparison to 2061. In 2063 the collected deposit amount is 263.02 million which is by 34.88 percent greater than the year 2062. In 2064, deposits are 435.55 (65.60%) greater. In 2065, deposit amount is Rs.753.61 million which is 73.02% greater than the year 2064. The deposit collected by PDBL annually for 6 years (2060-2065) can be presented in following graph.

Chart No. 4.1 Deposit Collection of PDBL



Source: Table No. 4.1

4.1.2 Deposit Composition of PDBL

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

Table No. 4.2
Deposit composition

(Rs. in million)

Year	Deposit						
	Saving	%	Fixed	% Current %	Other	%	Total
2060	3.6	10.32	31.3	89.68	0	0	34.90
2061	27.3	21.35	100.4	78.53	0	0	127.85
2062	34.4	17.64	160.24	82.17	0.42	0.21	195.00
2063	60.39	22.96	201.89	76.76	0.62	0.23	263.02
2064	158.78	36.45	275.63	63.28	1.01	0.24	435.55
2065	402.23	53.37	349.67	46.4	1.71	0.23	753.61

Source: Annual reports and Financial Statement of Corresponding Year

The above table shows the composition of deposit of PDBL viz., saving, fixed and other deposits. Here, it can be seen that more amounts have been collected in fixed deposits except year 2065 and less in saving deposit in the year 2060. In this year current and other deposits are nil. But in later years till 2065 saving, fixed deposits and other have continuously increased.

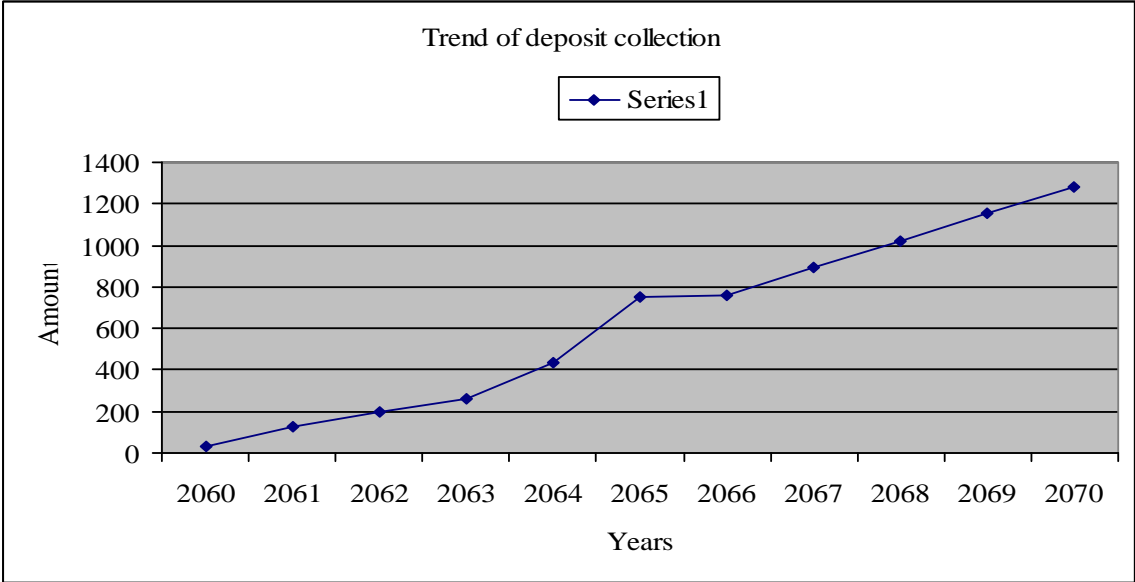
In the year 2060, current deposits collection show nil. In 2065, saving deposit is 53.37 percent of total deposit. The percentage of the saving deposit shows an increasing trend. It indicates that cost of source is decreasing. Fixed deposits in 2060 are Rs.31.3 million. The percentage of fixed deposit in 2060 is highest (89.68%). It shows the trend of fixed deposit is in an increasing trend. It indicates that the cost of source of fund is increasing trend. It virtually affects in profitability. It can be said that there is negative relation between profitability and cost of source of fund. In other words, lower portion of fixed deposits indicate low lending capacity of long term loan of the bank. Current deposit is nil in all years Maximum amount of other deposits collected in 2065 amounted to 1.71% of total deposit. It is the maximum portion of other deposit in the study period. The bank heavily depends on fixed deposit in the total composition. Similarly, the saving deposit is in 2061 is 21.35% of total deposit. In the research period current deposit is nil. The amount collected in fixed deposit is more appropriate to lend because of its fixed nature

but its cost of fund is high. Similarly, the saving deposits are also useful for lending because of low cost of saving deposit in comparison to fixed deposit. How deposit is optimum in saving, fixed and other deposit it determines the nature of loan. If there is high demand of long term loan the bank should increase fixed deposit. Otherwise, the bank should increase other deposit such as saving, call and short deposit. The following chart shows the above information.

4.1.3 Trend of Deposit Collection

The trend of total deposit in coming year is analyzed using the trend analysis. The following trend line shows the projection of total deposit of PDBL up to 2070. The calculation of trend for cost has been presented in appendix-1.

Chart No. 4.2 Trend of Deposit Collection



Source: Table No. 4.2 and appendix-1.

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 year 2060 is Rs.34.9m, in 2061 is Rs.127.85m, and in year 2062, 2063, 2064 and 2065 is Rs.195m, Rs.263.02m, Rs.435.55m and 753.61m respectively.

4.1.4 Loans and Advance of PDBL

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

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

Table No. 4.3 Total Loans and advance of PDBL

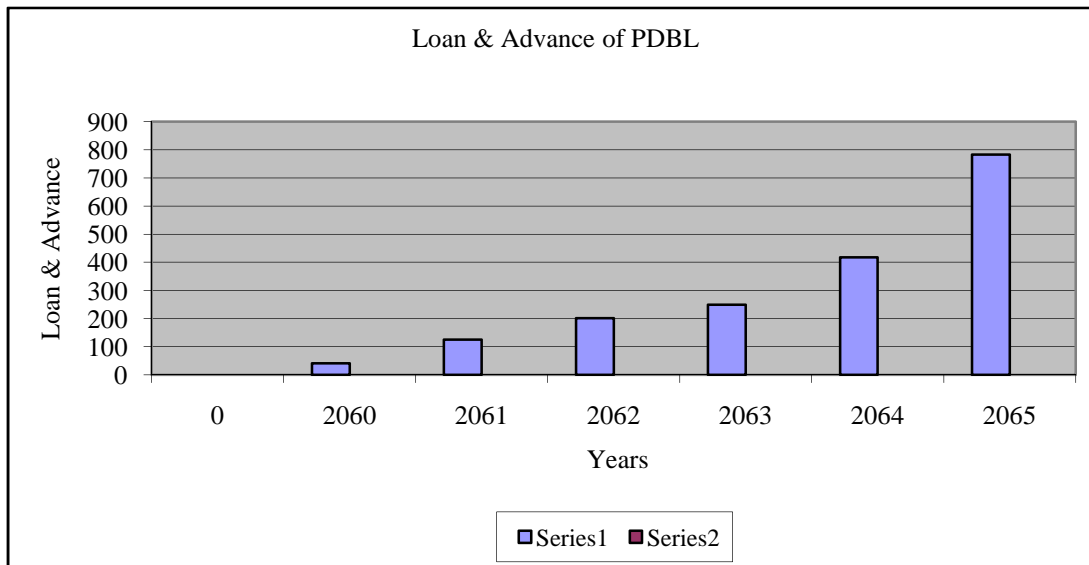
Rs. in million

Year	Total Loan & Advance	Inc/dec. in loan and advances	% in inc./dec
2060	41.2	-	-
2061	125.57	84.37	204.78
2062	201.55	75.98	60.51
2063	248.64	47.09	23.36
2064	417.40	168.76	67.87
2065	783.02	365.62	87.59

Source: Annual reports of respective years

The above table shows loan and advance. The table shows that loan and advance are more fluctuating in the year 2061 and 2062. In 2060 loan and advance amounted to 41.2 million. In 2061 it is increased by 204.78% and reached to 125.57million. This percentage is the highest percentage increase in study period Similarly Loan and advance in 2062 amounted to Rs. 201.55 million. It is 60.51% greater than former year. In 2063 it reached up to Rs.248.64million but there is an increasing trend but the rate of growth is decreasing. Loan and bill purchase in 2064 is Rs.417.4 million, which is 67.87% greater than previous year. The loan and bill purchase in 2065 is Rs.783.02 million, which is 87.59% greater than previous year. The loan and advances of PDBL can be presented in a form of Bar Chart.

Chart No. 4.3 Loan and Advance of PDBL

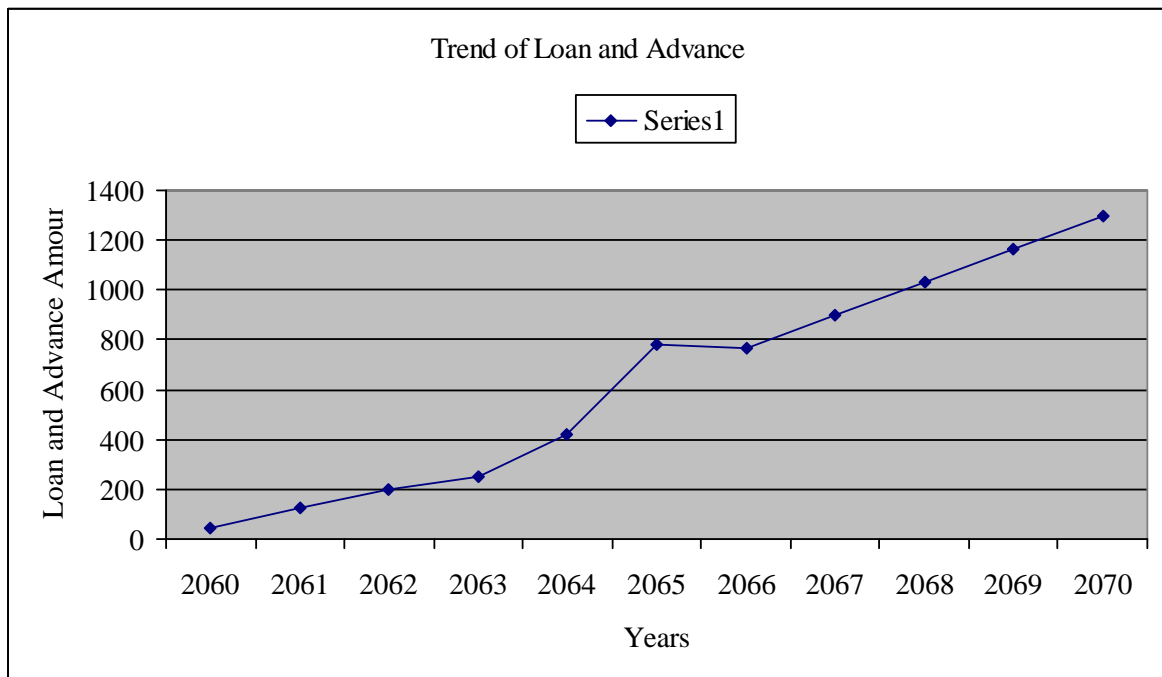


Source: Table no. 4.3

4.1.5 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 PDBL up to 2070. The calculation of trend forecast has been presented in appendix-2.

Chart No. 4.4 Trend of Loan and Advances



Source: appendix-3

4.1.6 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 and advances to deposit collection of PDBL has been presented in the table below:

Table No. 4.4 Loan Disbursed to Deposit Collection

Rs. in million

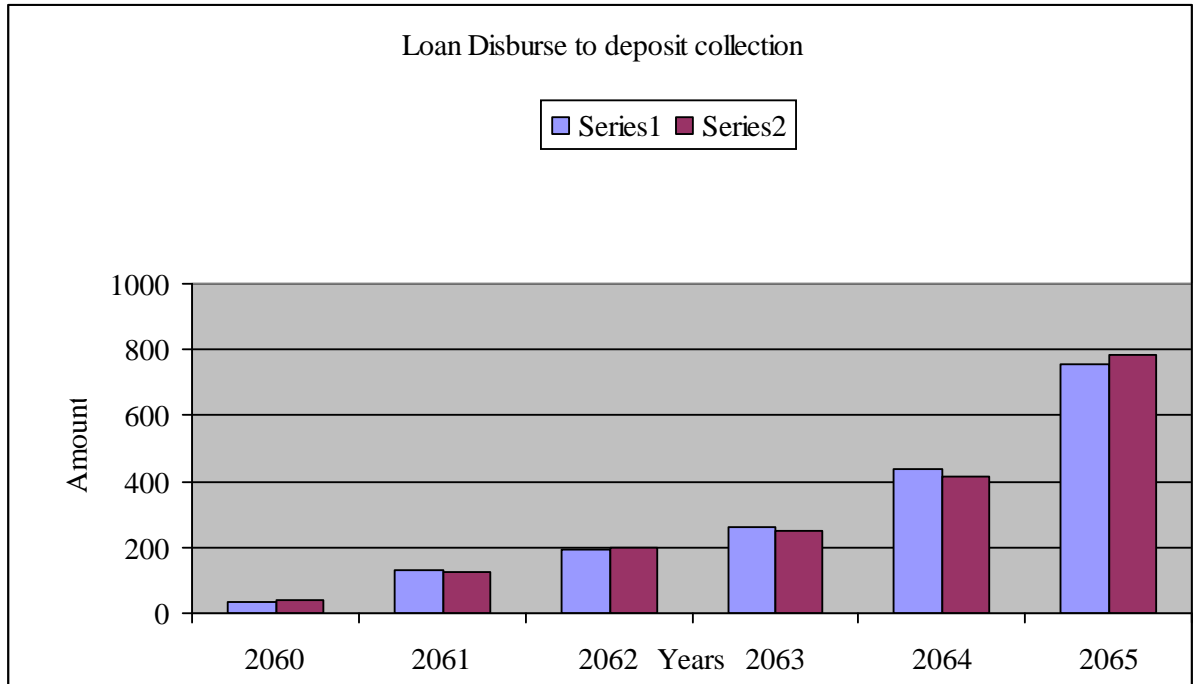
Year	Loan and advance	Deposit	% of loan and advance out of total deposit
2060	41.2	34.90	118.05
2061	125.57	127.85	98.22
2062	201.55	195.00	103.36
2063	248.64	263.02	94.53
2064	417.40	435.55	95.83
2065	783.02	753.61	103.90

Source: Annual reports of respective years

The above table shows the amount of loan disburse in comparison to the amount of deposit collected. In fiscal year 2060 the amount of deposit collected was Rs.34.90 million out of which Rs.41.2m was given as loan. It turns out to be 118.05 percent of the deposit collection. In the year 2061 Rs.125.57 million was disbursed out of Rs.127.85 million of deposit collection which is 98.22 percent of the total deposit. Similarly, in 2062 Rs.201.55 million was disbursed out of Rs.195 million of total deposit. It comes to 103.36 percent of total deposit. In the year 2063 Rs.248.67 million was disbursed out of total deposit of Rs.263.02 million which is 94.53 percent of the total deposit. In 2064 Rs.417.40 million was utilized in loan out of total deposit of Rs.435.55 million. It comes 95.83 percent of total deposit. In 2065 Rs.783.02 million was utilized in loan out of total deposit of Rs.753.61 million. It comes 103.90 percent of total deposit. The highest percentage of loan and advances to total deposit was in the fiscal year 2060 which is 118.05%. It shows that all deposit was utilized in loan and advances in fiscal year 2060, 2062 & 2065. Similarly, a

little amount is saving in year 2061, 2063 & 2064. Loans disbursed to deposits can be presented in the following chart:

Chart No. 4.5 Loan Disburse to Deposit Collection



Source: Table No. 4.6

4.1.7 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

Rs. in million

Year	% change in deposit collection	% change in loan and advance
2060	-	-
2061	192.41	204.78
2062	49.93	60.51
2063	34.88	23.36
2064	65.60	67.87
2065	73.02	87.59

Source: Table 4.1 and 4.3

In 2060 percent change in deposit is 192.41 percent but percent change in loan is 204.78 percent. Similarly, in 2062, 49.93 percent change was recorded in deposit but in loan there is 60.51 percent change. In 2063, percent change in deposit is 34.88 % and percent change in loan is only 23.36%. In the year 2064, percent change in deposit is 65.60% and in loan is 67.87%. In 2065, percent change in deposit is 73.02 % and percent change in loan is 87.59%. In every year change in loan and deposit has decreasing till 2063 and after that increasing slightly. Comparing to all other years deposits and loans have fluctuated most in 2061.

4.1.8 Coefficient of Correlation 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 'r'² and probable error (P.E.) between deposit and loan and advance of PDBL for the study period.

Table No. 4.6

Coefficient of Correlation between Deposit Collection and Loan Disbursed of PDBL

Coefficient of correlation (r)	r ²	Probable error
0.99	0.98	0.0055

Source: Appendix-4.

The above table shows that the coefficient of correlation between deposit collection and loan disburse is 0.99 which shows that there is highly positive relationship between these two variables. It also shows that there is optimum utilization of collected deposit by the bank. The coefficient of determination is 0.98. This shows that 98 percent of the total variation in dependent variable deposit is explained by independent variable that is loan, loan disburse and deposit collection is positively correlated which shows that an increase in total deposit leads to increase in loan disburse. Normally, a higher coefficient of correlation between deposit and loan is a good sign. It indicates that the efficient management of the bank. PDBL is successful in mobilizing its collected deposit. Probable Error (P.E.) is calculated to be 0.0055. The value of 'r' is nearly +1, which indicates that there is significant relationship between total fund accumulation & total fund disbursement.

4.1.9 Analysis of Capital Adequacy

Table No. 4.7: Capital Adequacy Ratio

Year	Minimum capital adequacy ratio according to NRB	Capital adequacy of PDBL
2060	9	31.57
2061	10	12.09
2062	11	11.57
2063	11	11.36
2064	11	12.24
2065	11	14.45

Source: Annual Report.

In the above table, the capital adequacy prescribed by NRB for bank and financial institutions and comply of PDBL regarding the same has been presented. The capital adequacy ratios are 9, 10, 11, 11, 11 and 11 percent for the year 2060, 2061, 2062 2063,

2064 and 2065 respectively. In 2060, the capital adequacy of the PDBL is 31.57 percent which is 22.57 percent greater than NRB standard. In 2061, the capital adequacy rate of the PDBL is 12.09 percent which is also greater by 2.09 percent. Similarly, in 2062, the rate is 11.57 percent; it is 0.57 percent greater than NRB standard. In 2063, the rate is 11.36 percent; it is 0.36 percent greater than NRB standard. The bank maintain 12.24 percent capital adequacy in 2064, though the prescribed capital adequacy was same as the last year. Finally, in 2065, the capital adequacy of the PDBL is increasing at 14.45 percent. This is also higher than previous year.

Capital adequacy of the PDBL from 2060-2063 is decreasing trend then slightly increasing in 2064 & 2065. However, it has maintained NRB rules and regulation. PDBL has greater adequacy ratio than NRB prescribed. It indicates that PDBL 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 adequacy ratio directly hit on the risk assets size of the bank. Higher the capital adequacy means curtailing the capacity of doing business of the bank. The other aspect of capital adequacy increase is to increase the strength as well as solvency of the bank.

4.1.10 Profitability Ratios

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 million)

Years	PDBL		Ratio
	Net interest	Total assets	
2060	0.542	50.57	1.07
2061	4.313	148.81	2.9
2062	9.194	228.56	4.02
2063	14.594	303.50	4.81
2064	18.743	525.18	3.57
2065	36.142	931.07	3.88
Mean	9.477	251.32	3.375

Source: Annual Report.

The above table shows net interest and total assets form FY 2060 to FY 2065. There is both are increasing trend. In 2060, the net interest is Rs. 0.542 million which is 1.07 percent of total assets. In the year 2061, net interest is Rs.4.313 million which comes to 2.9 percent of total assets. Net interest ratio is increasing rate till 2063. In 2062 net interest is Rs.9.194 million which is 4.02 percent of total assets. In 2063, net interest is Rs.14.594 million which 4.81 percent of total assets. Net interest of Rs.18.743 million is collected in 2064 which is 3.57 percent of total assets with Rs.525.18 million. Net interest of Rs.36.142 million is collected in 2065 which is 3.88 percent of total assets with Rs.931.07 million. Net interest is increasing trend from 2060 to 2065. It indicates that interest earn is greater than interest paid. In other word, we can say that there is moderate utilization of collected fund.

I. Analysis of Net Profit to Total Assets

Table No. 4.9: Net Profit to total Assets Ratio

(Rs. in million)

Years	PDBL		Ratio
	NPAT	Total assets	
2060	0.07	50.57	0.14
2061	1.14	148.81	0.77
2062	2.73	228.56	1.19
2063	5.84	303.50	1.92
2064	8.28	525.18	1.58
2065	15.94	931.07	1.71

Source: Annual Reports.

The above table shows the relation between net profit and total assets. In the study period net profit is increasing trend. In 2060, net profit is Rs. 0.07 million which is 0.14 percent of the total assets. Similarly, in 2061, net profit of the bank is 1.14 million, which is 0.77 percent of total assets. In 2062 the bank has earned profit of Rs.2.73 million and 1.19 percent of the total assets. The bank earned 1.92 percent of profit of the total assets in 2063, which is Rs.5.84 million. It has the highest percentage of profit shown in

the study period. In FY 2064, the bank earned Rs.8.28 million which is 1.58 percent of the total assets. The bank earned 1.71 percent of profit of the total assets in 2065, which is Rs.15.94 million. So, we can say that the bank can be able proper 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 million)

Years	NPAT	Equity	Ratio
2060	0.07	14	0.5
2061	1.14	14	8.14
2062	2.73	20	13.65
2063	5.84	22	26.55
2064	8.28	52.50	15.77
2065	15.94	100	15.94

Source: Annual Report.

In fiscal year 2060, net profit of the bank is 0.07 million. In the same year equity capital is 14 million. The ratio of NPAT and equity is 0.5 percent. The ratio of NPAT and equity is increasing trend. In 2061, net profit is Rs.1.14 million which is 8.14 percent of equity. In 2062 it increased by Rs.1.59 million which came to 13.65 percent of total assets. In FY 2063 net profit is 5.84 million. So, net profit to equity ratio also increased to 26.55 percent. The bank earned profit of Rs.8.28 million in 2064 which is only 15.77 percent of the total equity. Similarly, the bank earned profit of Rs.15.94 million in 2065 which is 15.94 percent of the total equity. In every year the bank can earn more profit. It indicates that the financial performance of bank is good. In coming year, the bank will can earn more profit.

4.1.11 Analysis of Liquidity Ratio

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

Year	Pashchimanchal Development Bank Limited		
	CA	CL	Ratio
2060	47.53	5.2	9.14
2061	144.96	33.96	4.27
2062	212.99	45.41	4.69
2063	295.27	74.09	3.98
2064	474.63	192.57	2.46
2065	863.59	461.5	1.87

Source: Annual Report.

From the above table, in 2060 the PDBL has 9.14 times current ratio between current assets and current liabilities. But in 2061, the current ratio declined to 4.27 times. In every year current assets are greater than current liabilities. Similarly in 2062, the current ratio is 4.69. In the fiscal year 2063 the ratio between current assets and current liabilities are 3.98 times. In 2064 this ratio is decreased to 2.46 times. But in 2065, the current ratio is 1.87 times. This ratio shows that the current assets are not sufficient to pay current liabilities in comparison to former years.

The standard ratio current assets and current liabilities are 2:1. There is standard ratio between current assets and current liabilities (except year 2065). It indicates that the bank able to pay current liabilities on time.

i. Analysis of Cash and Bank Balance to Total Deposit

Table No. 4.12 Cash and Bank Balances to total deposit

(Rs. in million)

Year	Pashchimanchal Development Bank Limited		
	Cash and Bank balance	Total Deposit	Ratio
2060	6.7	34.90	0.19
2061	20.9	127.85	0.16
2062	16.5	195.00	0.08
2063	55.4	263.02	0.21
2064	67.3	435.55	0.15
2065	94.3	753.61	0.13

Source: Annual Report.

Cash and bank balance and total deposits in 2060 are Rs.6.7 million and Rs.34.90 million respectively. Cash and bank balances come 19 percent of the total deposit. But in 2061, the percent of the cash and bank balance to the total deposit is 16 percent. Similarly, in 2062 the cash and bank balance is Rs.16.5 million which is 8 percent of the total deposit. We can see that in 2062 the percent of cash and bank balance is decreasing trend. In 2063, cash and bank balance is Rs.55.4 million which is 21 percent of the total deposit. In 2064, cash and bank balance is Rs.67.3 million. It comes 15 percent of the total deposit. Similarly, in 2065, cash and bank balance is Rs.94.3 million which is 13 percent of the total deposit.

In above table, it is found that every year's cash and bank balance ratio lies between 5% to 25%. The highest percentage of the cash and bank balance of the study period is in 2063. 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 8 percent 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 million)

Year	Pashchimanchal Development Bank Limited		
	Cash and Bank balance	Current assets	Ratio
2060	6.74	47.53	0.14
2061	20.9	144.96	0.14
2062	16.5	212.99	0.08
2063	55.4	295.27	0.19
2064	67.3	474.63	0.14
2065	94.3	863.59	0.11

Source: Annual Report.

In the above table in 2060 cash and bank balance and current assets are Rs.6.74 million and Rs.47.53 million respectively. Similarly in 2061, cash and bank balance is Rs.20.9 million which is 14 percent of the current assets. It can be seen that the percentage of the cash and bank balance to current assets is fluctuating in all year. Similarly, in 2062, there was Rs.16.5 million balances in cash and bank. This is 8 percent of the total current assets. In the year 2063, the cash and bank balance is 55.4 million. It comes 19 percent of total current assets. In FY 2064 cash and bank balance is 67.3 million. This is 14 percent of total current assets. In the year 2065, the cash and bank balance is 94.3 million. It comes 11% of total 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 2063. 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 asset in 2062, which indicates that more fund utilized in other investment like government securities, loan and advances. 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 million)

Year	Pashchimanchal Development Bank Limited		
	Loan and Advance	Current assets	Ratio
2060	41.2	47.53	0.87
2061	125.57	144.96	0.87
2062	201.55	212.99	0.95
2063	248.64	295.27	0.84
2064	417.40	474.63	0.88
2065	783.02	863.59	0.91

Source: Annual Report

In the above table in 2060, the loans and advances and current assets are Rs.41.2 million and Rs.47.53 million respectively. In this year, loans and advances appear 87 percent of the current assets. In also 2061, the percentage of loans and advances is 87 percent. Again in 2062, the percentage of the loan and advances to current assets is 95 percent. It is increasing by 8 percent. In 2063, the exposure of loan and advances has been seen of Rs.248.64 million among the total current assets, which comes to 84 percent. The percentage of the loans and advances to current assets in 2064 is 88%. In this year loans and advances is 417.4 million and current assets is 474.63 million. . The percentage of the loans and advances to current assets in 2065 is 91%. In this year loans and advances is 783.02 million and current assets is 863.59 million. The lowest percentage of the loans and advances to current assets is 84 percent in 2063. It means that there is less outflow of loan. In 2062 there is highest percentage of loans and advances to current assets which is 95 percent. It indicates that more funds are utilized in loan and advances.

4.1.12. Analysis of Non-Performing Loan

Table no. 4.15: Non performing loan to total loan

(Rs. in million)

Year	PDBL		
	Loans and advances	Non-performing loan	Ratio
2060	41.2	0	0
2061	125.57	1.11	0.88
2062	201.55	4.3	2.13
2063	248.64	13.57	5.46
2064	417.40	8.9	2.13
2065	783.02	10.78	1.38

Source: Annual Report

In above table shows that, in 2060, the total loans and advances are Rs.41.2 million in which Rs.0 million is non-performing loan. But in 2061, NPL is Rs.1.11 million. It comes to 0.88 percent of the total loan. It is very small ratio in comparison to remaining year. In 2062, the ratio of NPL to loan is 2.13 percent. In 2063 loan and advances are Rs.248.64 million and non performing loan is Rs.13.57 million which comes to 5.46 percent of total loan. Similarly, in 2064, total loan is Rs.417.4 million and NPL is Rs.8.9 million. It is 2.13 percent of total loan.

The rate of NPL is very low on the study period except the fiscal year 2063. The lowest percent of NPL is in 2060 which is 0 percent. The highest percent of NPL is in 2063 which is 5.46 percent. NPL and profit have negative relation. If NPL increases the profit automatically decreases and vice-versa. Except the year 2063 the ratio of NPL to total loan is less than 5. It can be assumed as international standard.

4.1.13 Sector-wise Loan

Table No. 4.16: Analysis of Sector-Wise loan

Sector	2060	2061	2062	2063	2064	2065
1. Agriculture	2.86	12.37	38.47	51.68	87.99	152.82
2. Industry	10.73	26.6	40.07	35.69	54.53	55.24
3. Service	12.89	28.17	3614	41.39	82.67	178.97
4. Land, Building & Construction	14.75	40.67	64.20	90.72	154.36	265.22
5. Business	0	17.66	22.49	27.96	33.91	83.58
6. Other loan and advances	0	0.11	0.19	1.18	3.93	46.59
Total	41.23	125.58	201.56	248.63	417.4	783.02

Source: Annual Report.

The table 4.15 shows sector wise loan disbursement of the PDBL for 6 years. Disbursing loan all sectors has increasing trend in every year. The largest portion of the amount is disbursed in land, building & construction sector.

4.2 Analysis of Primary Data

Group A

Table No. 4.17: Key Risk in PDBL

S.N.	Risk	1	2	3	4	Total	Weight Value	Mean	Rank
1	Credit risk	12	2	1	0	15	19	1.27	1
2	Liquidity risk	2	3	4	6	15	44	2.93	3
3	Interest rate risk	1	8	6	0	15	35	2.33	2
4	Exchange risk	0	2	4	9	15	52	3.47	4
Total		15	15	15	15	60	-	-	-

Source: Structured questionnaire.

In above table there is ranking the risk of PDBL. The key risk of PDBL is credit risk. The researcher visits the bank and asks the fifteen staffs of the bank which is the key

risk of your bank? The respondent answered this question. Out of total respondent twelve respondents assigned first rank to the credit risk. Similarly two respondents gave first rank to the liquidity risk, one gave interest rate risk and nobody gave exchange risk. However, using statistical tools of ranking Out of fifteen respondents they give first rank to the credit risk, second rank in interest rate risk, third in liquidity risk and fourth in exchange risk.

Table No. 4.18 Basis of loan in PDBL

S.N.	Steam	1	2	3	4	Total	Weight Value	Mean	Rank
1	Collateral	8	7	0	0	15	22	1.46	1
2	Profitability of business	7	8	0	0	15	23	1.53	2
3	Projected financial statement	0	0	7	8	15	65	4.33	4
4	Image of the business & person	0	0	8	7	15	59	3.93	3
Total		15	15	15	15	60	-	-	-

Source: Structured questionnaire.

In the above table the respondents were asked to rank the basis of loan to the applicants. Fifteen respondents answered this question. The respondent gave first rank to the collateral; second profitability of the business, third image of the business and person & fourth projected financial statement.

Table No. 4.19: Remedies of Recovering Loan

S.N.	Steam	1	2	3	4	Total	Weight Value	Mean	Rank
1	Collateral	6	4	3	2	15	31	2.07	2
2	Guarantor	0	4	5	6	15	59	3.93	4
3	Counseling	1	2	5	7	15	52	3.47	3
4	Follow up	8	5	2	0	15	24	1.60	1
Total		15	15	15	15	60	-	-	-

Source: Structured questionnaire.

In above table the majority of staff willing to use follow up action as the

instrument for the recovery of loan provided to the business. So out of fifteen respondents eight respondents said the bank should adopt follow up method. By analyzing these data using statistical tools respondents gave first rank in follow up method, second in collateral, third in counseling. Respondents assigned guarantor as fourth rank.

Table No. 4.20 Verification of Collateral before Granting Loan

S.N.	Alternative	Respondents	
		Number	Percent
1	Office staff	7	58.33
2	Related specialist	8	66.67
3	Independent person	0	0.00
Total		15	100.00

Source: Structured questionnaire.

Out of fifteen respondents, 66.67 percent respondents said that related specialist should involve verification of properties being kept as collateral before granting loan, 58.33 percent respondents said that office staff should do that work and nobody said independent person should take involve in verification of collateral.

Table No. 4.21: Source of credit risk

S.N.	Alternative	Respondents	
		Number	Percent
1	Increase in interest arrears	6	40.00
2	Not paying attitude of loan taker	5	33.33
3	No profitability of loan taker	4	26.67
Total		15	100.00

Source: Structured questionnaire.

Out of fifteen respondents, 40 percent respondent said that a source of credit risk is increase in interest arrears. Similarly 33.33 percent respondents said not paying attitude of loan taker and 26.67 percent said no profitability of loan taker.

Table No. 4.22: Percentage of Loan to Total Requirement

S.N.	Alternative	Number	Percent
1	above 50%	1	6.67
2	above 60%	12	80.0
3	above 70%	2	13.33
Total		15	100.00%

Source: Structured questionnaire.

The respondents agree granting loan is generally above 60 percent of total requirement of the business. In this regard, 13.33 percent respondents have willing to provide above 70 percent and 6.67 percent respondents have willing to provide above 50 percent of requirement of fund as loan to the applicants. Though the above percentages have been assigned by respondent, they were verbally agreed with the researcher that the most of the loan and advances has been granted under the guidelines of credit policy of the bank.

Group B

Table No. 4.23: Any Problem Related to NRB

S.N.	Alternative	Respondents	
		Number	Percent
1	Yes	0	0
2	No	15	100

Source: Structured questionnaire.

Cent percent of the respondents said that they did not have faced any problem related to NRB. It shows that they are fully satisfied towards the regulatory body.

Table No. 4.24 Need of Assets Management Company

S.N.	Alternative	Respondents	
		Number	Percent
1	Yes	9	60.00
2	No	6	40
Total		15	100

Source: Structured questionnaire.

Majority of the respondents said that they have needed of assets management company for recovery form the non-performing assets land, building etc. 60 percent of respondents agreed the need of assets management company for NPA management of the bank and financial institutions. Rest of the respondents did not felt need of the same company for the purpose.

Table No. 4.25 Support of Judiciary Help

S.N.	Alternative	Respondents	
		Number	Percent
1	Yes	13	86.67
2	No	2	13.33
Total		15	100.00

Source: Structured questionnaire.

Out of fifteen respondents, 86.67 percent said that judiciary should help bank and 13.33 percent said not need of judiciary help. So, majority of the staff felt support of judiciary help.

Table No. 4.27: Default Loan is Reschedule

S.N.	Alternative	Number	Percent
1	Yes	3	20
2	No	12	80
Total		15	100.00

Source: Structured questionnaire.

The majority of staff said that default loan should not reschedule. But, three respondents have said that default loan should reschedule.

Table No. 4.26: Information about customer

S.N.	Alternative	Respondents	
		Number	Percent
1	Yes	15	100.00
2	No	0	0.00

Source: Structured questionnaire.

All of the respondents said that the bank should receive regular information about their customer's business.

4.3 Major Findings from Analysis

1. Deposit collection of PDBL has significantly increasing trend. We find that there is continuous increasing trend from 30 percent to above 100 percent.
2. In all year (except 2065) total fixed deposit has more contribution than other deposit. Then, more contribution of current deposit. Then others.
3. Loan and advances have continuous increasing trend although the banking sector have cut throat competition.
4. More than deposited amount is utilized in loan and advances. The percent of deposits to loan and advances are 94 percent to 119 percent.
5. Correlation between deposit collection and loan disbursement is 0.99. This indicates that these two variables relation is highly positive. Hence, the analysis found $r > 6PE$, it reveals that the relation is significant.
6. Findings from profitability ratio:
7. Findings from Liquidity Ratio:
 - i. Net interest to total assets ratio is fluctuating. First four year it is increasing, in fifth year it is decreasing then in fifth year it is Slightly increasing.
 - ii. Net profit to total assets ratio is also fluctuates. In former year it is increasing trend then in later year it is decreasing rate & at last it is also increasing.
 - iii. Return on equity capital is satisfactory. It is increasing trend in first four year of the research period but in fifth and sixth year it is decreasing rate because of the increasing in equity capital.
- i. The current ratio of PDBL is satisfactory. It has maintained around 2:1 current ratio (except yr 2065). This is standard current ratio.
- ii. The cash and bank balance is sufficient for deposit holders. The PDBL has 8 percent to 19 percent cash and bank balance to total deposit which is greater than NRB standard.
- iii. There is 8 percent to 19 percent of the cash and bank balance to total current assets.

- iv. All portions of the current assets are used in loans and advances, which shows Continuous increasing trend.
- v. Capital adequacy of the PDBL has sufficient against NRB standard. It indicates that the lending capacity of PDBL is high.

8. Findings from Primary Data:

- i. The highest risk of the PDBL is in credit risk.
- ii. Collateral is the main factor of disbursing the loan.
- iii. Follow up is the main instrument of remedies of the recovery of loan.
- iv. Related specialist is more useful to verification of collateral before granting loan.
- v. The main source of credit risk is increase in interest arrears.
- vi. Generally, the loan and advance should be given above 60% of the total requirement of the business.
- vii. All staffs reported no problem related to NRB.
- viii. Most of the staff has realized the importance of asset Management Company.
- ix. Most of the staff has felt support of judiciary help.
- x. The bank should receive regular information about consumers business.
- xi. Most of the staff has said that default loan is not rescheduled.

CHAPTER-FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Most of the developing countries are involved in the development of economic activities to uplift the standard of living of their people. To promote economic development many business organization should be established. Objectives of commercial banks are to support and facilitate development, expansion and increase in the productivity of business sector. Pashchimanchal Development Bank Limited was established in 18th Chaitra 2059 B.S. to do such activities. Development banks collect scattered money from various persons 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 institution. Without effective and efficient loan management no financial institution 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. PDBL have invested large portion of the deposited amount as loan and advances. Due to the lack of investment opportunities pressure in interest rates, increase of non-performing assets, stagnant economy and changing business environment, the banking sector is becoming more and more competitive and challenging. These factors have impacted on the profitability of the banks as well. In such circumstance, to maintain sustainable growth and profit has become challenging job for every bank. The main objective of this study is to identify the fund accumulation & disbursement system of PDBL. 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 non-performing loan and sector wise loan and to analyze the capital adequacy of the PDBL. This study was one of the new studies which only try to know the fund accumulation & mobilization of PDBL. The required information is secondary as well as primary. The researcher had submitted question to PDBL to find out actual result and the collection the secondary data were taken from website, NRB and the annual report of PDBL. To collect primary data the structured question was given to employee of the PDBL. 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 & mobilization of PDBL is not only necessary but also compulsory for better performance of the organization. This study is just a small part to fulfill the partial requirement of MBS. Therefore, it helps to improve and require attention to bring some improvement in management of PDBL. The following conclusions are derived from major findings of this study.

- i) Deposit collection of the PDBL shown satisfactory.
- ii) In total deposit composition, the portion of the fixed deposit has in first rank (except yr 2065), saving deposit is in second rank, current deposit is in third rank and other deposit has very low contribution in total deposit.
- iii) Although the narrow area of investment, and cut throat competition in banking sector, loans and advances of the PDBL shows continuous increasing trend.
- iv) Loans and advances are about equal to total deposit i.e. all deposits are utilized in loan and advances.
- v) Correlation between deposit collection and loan disbursement is 0.99. It indicates that the relations of two variables are highly positive. The relation is significant because $r > 6P.E.$

vi) Conclusion from profitability ratio:

- i. Net interest to total assets ratio shows increasing trend in former years. The net interest to total assets ratio is slightly decreasing in last two years.
- ii. Net profit to total assets ratio of PDBL is increasing in former year and a little decrease in 2064 & later it is increase.
- iii. Return on equity capital is shown in increasing trend in first four year, and then it has been decreased in fifth year & again it has increased. That is why; increment in capital is higher than the increment in return on equity respecting in fifth year & sixth year.

Vii) Conclusion from liquidity ratio:

- i. The current ratio (4.4:1) of the PDBL is greater than the standard (2:1). It indicates that the liquidity position of the PDBL is very good.
- ii. Cash and bank balance to current assets can be seen in satisfactory level. It has maintained NRB directives.
- iii. There is 8 percent to 19 percent of the cash and bank in total current assets.
- iv. NPL of the PDBL is fluctuating. In the study period low and high NPL of the bank is Rs.0million and Rs.13.57 million respectively. It can be assumed as international practice. It shows high quality of lending of the PDBL.
- v. Capital adequacy of the PDBL is sufficient against NRB standard. It indicates that the lending capacity of PDBL is high.

viii) Conclusion from primary data:

- i. The highest risk of the PDBL is in credit risk.
- ii. Collateral is the main factor of disbursing the loan.
- iii. Follow up is the main instrument of remedies of the recovery of loan.
- iv. Related specialist is more useful to verification of collateral before granting loan.
- v. The main source of credit risk is increase in interest arrears.
- vi. Generally, the loan and advance should be given above 60% of the total requirement of the business.
- vii. All staffs reported no problem related to NRB.
- viii. Most of the staff has realized the importance of asset Management Company.
- ix. Most of the staff has felt support of judiciary help.
- x. The bank should receive regular information about consumers business.
- xi. Most of the staff has said that default loan is not rescheduled.

5.3 Recommendations

In order to better improvement of the "fund accumulation & mobilization of the PDBL" the following suggestions and recommendation have portrayed on the basis of analysis and conclusion of the entire research study.

- i. Excess concentration of loan lending on some certain area depicts the fact that people lack in identifying new innovation. Most of the people do similar types of business thinking to have more return. This germinates excess competition for the business and risk for bankers. Hence it should provide technical support to prospects for identifying new opportunities and to capitalize those opportunities.
- ii. It is truly realized that gradual shift of focus from traditional lending to retail banking such as auto loan, housing loan, education loan and personal loan.
- iii. The bank should increase loan disbursement in industrial sector.
- iii. The bank should reduce operational cost.
- iv. Capital adequacy of the bank is in NRB standard. So, the bank should keep it this standard.
- v. The bank should spend some profit in social activities. It affects the public positive attitude towards the bank.
- vi. 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
- vii. PDBL should reduce high cost bearing deposits to get relief from burden of excess payment of interest and to ensure profitability.
- viii. It is necessary to increase amount on non-fund based investment to maximize return through diversification of lending and decreasing excess dependency on loan. It works properly to get relief from low profit situation.

APPENDIX-1

Dear sir/ madam,

With due respect, we want to request you that will help us to fill up the questionnaire which prepared for our research purpose. Your response will not be disclosed and kept secret. It is purely used for the statistical purpose in our study.

So, we would like to request you to fill the true answer of the questions which will help for our study.

Thank you for your cooperation.

With regards

.....
(Hari Prasad Neupane)

Researcher

.....
(Tara Prasad Upadhaya)

Supervisor

**Questionnaire to Pashchimanchal Development Bank Limited for the purpose of the
study on Fund Accumulation & Mobilization.**

Please tick () in the blank.

Group A

Q.N.1. Which is the key risk in your bank?

- i) Credit risk
- ii) Liquidity risk
- iii) Interest risk
- iv) Exchange risk

Q.N.2. which factor play important role at disbursing/ mobilizing loan?

- i) Collateral
- ii) Profitability of business
- iii) Projected financial statement
- iv) Image of the business & person

Q.N.3. Which method should practice in remedies for recovering loan?

- i) Collateral
- ii) Guarantor
- iii) Counseling
- iv) Follow up

Q.N.4. Who should take involve in verifications of properties being kept as collateral before granting loan?

- i) Related Specialist
- ii) Office Staff
- iii) Independent person

Q.N.5. Which is the source of credit risk in your bank?

- i) Increase in interest arrears
- ii) Not paying attitude of borrower
- iii) No profitability of loan taker

Q.N.6. Which percentage should give loan to total business requirement?

- i) above 50%
- ii) above 60%
- iii) above 70%

Group B

Please tick ()

Q.N.1 Does your organization has any problem related NRB?

- i) Yes
- ii) No

If Yes Please writes in Points:

»

Q.N.2. Did you feel about the need of Asset Management Company?

- i) Yes
- ii) No

Q.N.3 Have you feel any support Judiciary Office support?

- i) Yes
- ii) No

Q.N.4. Does the bank should receive regular information about costumer?

- i) Yes
- ii) No

Q.N.5. Is default loan is should reschedule?

- i) Yes
- ii) No

APPENDIX-2

TREND OF TOTAL COLLECTION OF DEPOSIT OF PDBL

Fiscal year	Year (x)	Deposit collection (y)	xy	X ²
2060	1	34.90	34.90	1
2061	2	127.85	255.70	4
2062	3	195.00	585	9
2063	4	263.02	1052.08	16
2064	5	435.55	2177.75	25
2065	6	753.61	4521.66	36
Sum	21	1809.93	8627.09	91

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

Two normal equations are: $y = na + b x$ (i)

and $xy = a x + bx^2$ (ii)

Putting the value of normal equations form the above table:

$$1809.93 = 6a + b21 \text{ (i)}$$

$$8627.09 = 21a + b91 \text{ (ii)}$$

Multiplying equation (i) by 3.5 then subtract equation (ii) from (i).

$$6334.75 = 21a + b73.5 \text{ (i)}$$

$$8627.09 = 21a + b91 \text{ (ii)}$$

$$-2292.34 = -17.5b$$

$$\therefore b = 131$$

Substituting the value of b in equation (i)

$$1809.93 = 6a + 131 \times 21$$

$$\therefore a = -156.84$$

Thus, in 2066 the required trend of $y = a + bx = -156.84 + 131 \times 7 = 760.16$. In 2067 $y = -156.85 + 131 \times 8 = 891.16$ In 2068 $y = -156.85 + 131 \times 9 = 1022.16$, in 2069, $y = -156.84 + 131 \times 10 = 1153.16$. In 2070, $y = -156.84 + 131 \times 11 = 1284.16$ and so on.

APPENDIX-3

TREND OF LOAN AND ADVANCES OF PDBL

Fiscal year	Year (x)	Loan and advances (y)	xy	x ²
2060	1	41.2	41.2	1
2061	2	125.57	251.14	4
2062	3	201.55	604.65	9
2063	4	248.64	994.56	16
2064	5	417.40	2087.0	25
2065	6	783.02	4698.12	36
Sum	x = 21	y = 1817.38	xy = 8676.67	x ² = 91

Here, actual trend equation of the linear trend is:

$$y = a + bx$$

Two normal equations are:

$$y = na + b \ x$$

$$xy = a \ x + bx^2$$

Putting the value in normal equations form the above table:

$$1817.38 = 6a + 21b \dots\dots\dots(i)$$

$$8676.67 = 21a + 91b \dots\dots\dots(ii)$$

Multiplying equation (i) by 3.5 and subtract equation (2) from 1.

$$6360.83 = 21a + 73.5$$

$$8676.67 = 21a + 91b$$

$$-2315.84 = - 17.5b$$

$$b = 132.33$$

Putting the value of b in equation (i)

$$1817.38 = 6a + 21*132.33$$

$$a = -160.27$$

Substituting the value of a and b in linear equation (1)

$$y = a + bx$$

$$y = -160.27 + 132.33x$$

$$\text{In year 2066} = y = -160.27 + 132.33 * 7 = 766.04$$

$$\text{In year 2067} = y = -160.27 + 132.33 * 8 = 898.37$$

$$\text{In year 2068} = y = -160.27 + 132.33 * 9 = 1030.7$$

$$\text{In year 2069} = y = -160.27 + 132.33 * 10 = 1163.03$$

$$\text{In year 2070} = y = -160.27 + 132.33 * 11 = 1295.36$$

APPENDIX-4

CALCULATION OF COEFFICIENT OF CORRELATION

Fiscal Year	Deposit collection (x)	Loan and advances (y)	x ²	y ²	xy
2060	34.90	41.2	1218.01	1697.44	1437.88
2061	127.85	125.57	16345.62	15767.82	16051.57
2062	195.00	201.55	38025	40622.40	39302.25
2063	263.02	248.64	69179.52	61821.85	65397.29
2064	435.55	417.40	189703.8	174222.76	181798.57
2065	753.61	783.02	567928.03	613120.32	590091.7
Sum	1809.93	1817.38	882400.00	907252.60	894079.26

We know,

$$\text{Coefficient of correlation (r)} = \frac{n \sum xy - \sum x \sum y}{\sqrt{(n \sum x^2 - (\sum x)^2) (n \sum y^2 - (\sum y)^2)}}$$

$$r = 0.99$$

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) = 0.99

r > 0 i.e. 0.99 > 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of probable error

$$\begin{aligned} \text{P.E.} &= 0.6745 \times \frac{1-r^2}{n} \\ &= 0.0055 \end{aligned}$$

APPENDIX-5
NET INTEREST MARGIN

Year	Interest earned	Interest paid	Net interest
2060	0.88	0.34	0.542
2061	11.698	7.385	4.313
2062	22.965	13.770	9.194
2063	34.518	19.925	14.594
2064	44.199	25.456	18.743
2065	80.804	44.662	36.142

APPENDIX-6

SCHEDULE OF CURRENT ASSETS AND CURRENT LIABILITIES

Rs. in million

Year	2060	2061	2062	2063	2064	2065
Current Assets						
Cash balance	0.52	1.55	1.13	2.25	4.11	12.40
Bank balance	6.2	19.36	15.4	53.16	63.18	81.88
Money at call & short notice	0	0	0	0	0	0
Loans, advances & bills purchases	40.81	124.05	196.46	239.86	407.34	769.3 1
Total Current Assets	47.53	144.96	212.99	295.27	474.63	863.5 9
Borrowing	0	0.1	0	0	7.0	22
Deposits (Except fixed deposit)	3.6	27.47	34.76	61.13	159.92	403.9 4
Bills payable	0	0	0	0	0	0
Proposed dividend	0	0.74	1.0	1.32	7.6	2.06
Income tax liabilities	0	0	1.35	2.09	4.0	7.35
Other liabilities	1.60	5.65	8.3	9.55	14.05	26.15
Total Current Liabilities	5.2	33.96	45.41	74.09	192.57	461.5

BIO-DATA

- 1. Name** : **Hari Prasad Neupane**
- 2. Sex** : Male
- 3. Date of Birth** : 2023/08/08
- 4. Permanent Address** : Anandavan V.D.C Ward No 4, Shantipath Nayamil,
Rupandehi
- 5. Contact Address** : Pashchimanchal Development bank LTD, Butwal
Telephone No: 071-551511 (Office)
071-561775 (Res.)
Mobile No : 9857028703

6. Educational Qualification:

Level	Institutions	Passed Year
M.B.S (Thesis to be Submitted)	Tribhuvan University Lumbini Banijya Campus	2063
B.Com.	Tribhuvan University Bhairahawa M. Campus	2052
I. Com	Tribhuvan University Bhairahawa M. Campus	2047
S.L.C.	S.L.C Board , Nepal	2042

7. Training :

1. “Credit Management & Related Directives of NRB”
Banking Training Institute Baneshwor, Kathmandu.
2. “Credit Management in Financial Institution” Banking
Training Institute Baneshwor, Kathmandu.
3. Account Training & Income Tax Act-2058
4. Computer Training

8. Work Experience : **Employee of Pashchimanchal Development Bank LTD,
Butwal Since 2059.**

9. Language Known : **Nepali, English & Hindi**

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