

DEPOSIT MOBILIZATION OF NEPAL BANK LIMITED

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INTRODUCTION

Background of the Study

The word "Bank" is used in the sense of a commercial bank. It is of Germanic origin though some persons trace its origin to the French word "Banqui" and the Italian word "Banca" It referred to a bench for kipping, lending and exchanging money or coins in the market place by money lenders and money changers. There was no such as "Banking" before 1640.

The first bank called the "Bank of Venice" was established in Venice, Italy in 1157 to Finance the monarch in his war. In bankers Lombardy were famous in England. But modern banking began with the English gold smith only after 1640. The first bank in Nepal "Nepal Bank Ltd." started in 1994 B.S. Nepal Rastra Bank (NRB) the central Bank of the Nepal was established in 1956 to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector.

Deposit is one of the most important functions of the commercial bank and the composition of deposit and investment directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available.

Brief Introduction of Nepal Bank Ltd.

The new commercial bank act 1974 has however made provision to permit foreign banks to operate in the country after the approval of the Nepal Rastra Bank. Govt. of Nepal brought about the reform in financial sector. Hence a number of joint venture banks come into existence. Nepal Bank Ltd (NBL) is the first commercial bank, which was establish in

1994 B.S. it is mixed economy bank in its ownership. It was established with an authorized capital of Rs 10 million and paid up capital of Rs 0.842 million. But now it has more than Rs. 1000 million authorized capital. Its issued and paid up capital are 500 million and Rs 380.3 million respectively. In this bank 2976 employees are working now, it has 112 branches including one head office in Kathmandu.

Share subscription and capital structure of NBL

Subscription	% holding
Government of Nepal	41.8%
General public	49%
Employee	9.2
Total	100%

Sources of www.nepalbank.com.np

This study will mainly focus the analysis of deposit mobilization. It will be analysis of five years data. The present study analytically discloses the strength and weakness of right company in relation to deposit and loan disbursed. No company can run or earn smoothly with out well manage portfolio of loan disbursement and recovery.

Statement of the Problem

Capital formation and its proper mobilization are the major problems in almost on under developed countries in such countries; the commercial banks have to shoulder more responsibilities in the economic development of the country.

NBL have succeeded to capture a considerable market share of Nepalese financial service industry. Because NBL has an experience of a long period and professional attitude prompt and computerized services and

professional attitude. But at present time, many financial institutions might adversely affect these banks.

This study will be focusing the problems of deposit mobilization and proper utilization of NBL. In this study mainly consist of the study of deposit and the characteristics of this bank's loan and reflects of on the position of bank's deposits and aggregate allocations of credit on different sectors of the economy. Therefore, this study deals with efficiency of NBL and economic development of the country by its deposit and credit of NBL and how can we utilize it to fulfill the financial needs of the different sectors of the economy.

Objectives of the Study

The main target of this story is to observe the deposit mobilization of Nepal Bank Limited.

The specific purposes of the study are:

1. To analyze the ratio analysis deposit and other variables of NBL.
2. To evaluate the interest structure of deposits as well as loans and advances.
3. To examine the relationship between Total Deposit, Loan & Advance and Interest Income of NBL.
4. To analyze the trend of Deposit, Investment, Loan and Net profit of NBL.

Research Questions

This study deals with the following research questions:

1. How efficiently the collected fund has been utilized under loan and advances?
2. What are the interest structure of deposit and loan of NBL?
3. How efficiently is the credit policy of the NBL is being followed?
4. What are the trends of the Investment, Deposit, Loan & Advance and Net profit of the NBL?

Significance of the Study

The NBL is managed by semi government to provide financial services to the rural and urban population to stimulate income and generate employment in remote and urban areas. This study will find the strength and weakness of the bank by analyzing the opportunities and threats of deposit mobilization in the real ground. This study will also be an important support to the management, owner, clients and other interest groups in analyzing the Bank's economic strength and performance efficiency. As it is a well known fact that the commercial Banks can affect the economic condition of the whole country. It will be helpful to the policy maker while formulating the policy regarding NBL and people can understand how benefit it taking by them from the semi government Banks. This study specially evaluates the deposit mobilization and also provides the ideas in order to control it.

Limitations of Study

The limitations of this study are as follow:

- This study covers only deposit mobilization of NBL.

- This study is mostly based on the published financial statement of NBL and Nepal Rastra Bank (NRB) along with other related journals, newspapers, magazines bulletins, text books etc.
- The data shown in this study is covers 5 years' study from 2006/07 to 2010/11.

Organization of the Study

The study of deposit mobilization of NBL is presented in organized form. The whole research report has been divided into five chapters. They are as given below:

1. Introduction:

The first chapter consists of introduction, statement of problem, objectives of the study, research questions, significance of the study and limitation of this study.

2. Review of Literature

The second chapter is deals conceptual framework, mainly concept of banks, role and functions of banks and review of related past thesis.

3. Research Methodology

The third chapter to research methodology which consists of research design, population and sample, sources and types of data, data collection and processing procedure and financial & statistical ratio analysis.

4. Presentation and Analysis of Data:

The fourth chapter focuses the presentation and analysis of data. This consists of analysis of ratio relating to deposits credit and investment. Similarly statistical tools such as correlation coefficient, average,

standard deviation and trend analysis are used whenever to twinkle the research work.

5. Summary, Recommendation and Conclusion

Lastly, this chapter summarized the whole study and status main finding and after recommendation for the improvement in future to the banks and interested group.

Bibliography and appendix will also be shown at the end of the study.

Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published on field of investment policy. Loans and advances of commercial banks there are various researches available on deposit mobilization, liquidity management and policy of commercial banks, impact and implementation of NRB guideline commercial banks but there are not sufficient researches available on lending aspect of banks. In addition to this, no one has done a study on “deposit mobilization” with reference to Nepal Bank Limited. Therefore the research attempts to study in this area. To know the deposit mobilization of the banks will probably be the first study in this subject matter. So, this study will be fruitful to those interested person parties scholars, professor, students, businessman and government for academically as well as policy perspective.

Major Finding

- The current ratio of NBL is range 0.54 minimum to 0.77 maximum over the study period. In 2006/07 it is decrease but has an

increasing trend there on ward which shows that bank is trying to increase its liquidity position to meet its current obligations.

- There was no high fluctuation of cash and bank balance to total deposit ratio. It has range 0.13 minimum to 0.21 maximum over the study period. This shows that the investment of funds is high incasing of NBL.
- The Cash & bank balance to current asset ratio range is 17% minimum to 25% maximum. The average ratio is 20% & SD is 0.03 and CV is 15%.
- The liquid asset ratio range is 39% minimum to 61% maximum and average it is 47% over the research period. The liquid asset ratio seems to be gradually reduced year by year from the 2nd year and last year it was increased.
- The loan and advances to total deposits ratio of NBL various from maximum 27.34% to minimum 21.76% with as average of 25.21% during the study period the analysis shows that bank is not able to provide loan and advances from its fixed deposit.
- Loan and advances to fixed deposit ratio varied from maximum of 205% to minimum 95% with an average of 147%. This analysis shows that bank is able to provide loan and advances from its fixed deposit.
- Loan and advances to saving deposit ratio of NBL varies from maximum 42% to minimum 35% with an average 39% during the five year research period. The analysis shows that the bank is not able to provide loan and advances from its saving deposit.
- The loan and advances to total asset ratio of NBL various from maximum 28% to minimum 17% with an average of 23%. It shows

that NBL is not capable in utilizing total assets in the form of loan and advances.

- The net profit to total assets ratio of NBL varies from maximum 0.03 to minimum -0.01 with an average 2.02 during the study period. The analysis indicates that the bank has not been able to generate surplus by utilizing assets efficiently.
- The net profit to total deposit ratio of NBL varies from maximum 4.81% to minimum -0.72% with an average 2.01%, so, bank is not able to generate profit by using its deposits.
- The interest earned to total assets ratio varied from maximum of 5.70% to minimum 4.13% with an average of 4.86% so there is more fluctuation.
- The analysis shows that the coefficient of correlation loan & advance and total deposit is 0.89 which means there is a positive correlation between them. Since the value of 'r' lies between 0.79 to 0.89 so there is a high degree of correlation.
- The analysis shows that the coefficient of correlation between loan & advances and interest income is -0.56 which means there is a negative correlation between them.
- The analysis shows that the coefficient of correlation between loan and advances and is a negative correlation between them.
- The analysis shows that the trend analysis of total deposits is increasing per year. The trend net profit also seems to be positive.
- The analysis shows that the trend analysis of loan investment is found that the lending position of NBL is better because the calculated trend values of investment are tilted trend lines gives upward sloping.

- The analysis shows that the trend analysis of loan & advances is found that the loan & advances of NBL is better because the calculated trend values of loan & advances are tilted in trend lines gives upward sloping.

Summary

Bank provides certain services for its costumers and in return receives payment in one form or other. It tries to earn a profit for its stock owners. The development of modern banking in Nepal dates back to 1937 in which year NBL was set up under the Nepal Bank act, 1937. Bank provides opportunity to people for participation in the development process of the nation helps national economy to secure proper growth. At present 32 commercial banks are operating their transition in Nepal. Joint venture are mode of trading through partnership among nations and also a form of negotiation between various group of industries are orders to achieve mutual exchange of goods and services for sharing comparative advantages. No foreign bank was operated in the country before 1984 the new commercial bank act 1974 had a provision to permit foreign bank operate in the country. In 1980's government introduce financial sector reform program which facilities the establishment of joint venture banks.

The basic objectives of this study are to analyze the deposits, loan and advances, to analyze the recovery or repayment of the loan disbursed and to analyze the interest rate structure of loans and advances as well as deposit of NBL.

To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely. This section also includes concept of banking, types of deposit. Under this chapter the researcher

has reviewed research paper, annual reports of NBL, related unpublished thesis and various published and unpublished articles from the internet in order to study and analysis the correlation of the research.

Research methodology has been to solve the research problems with the help of various tools and techniques. This study includes the various financial as well as statistical tools to analyze the data in order to come the decisions. The different tools, which are studied under financial analysis are current ratio, activity ratio, profitability ratio and other ratios. On the other hand the different statistical tools that have been applied in the research are mean, standard deviation, CV, correlation and trend analysis. This study is mainly conducted on the basis of secondary data collected from annual reports, financial statement of NBL etc. The five years financial statement has been examined for the purpose of this study.

The presentation and analysis of data has been made through comparative analytical and their interpretation, which is done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools.

Conclusion:

- Banking plays an indispensable role in the process of development. They not only influence the structure of the economy but also its development process. Commercial banks collect scattered saving from the people and provide resources as loan and advances to the people who need then. This captivity build industrial environment in the country create employment and investment opportunity for the people and consequently economy of the country secures proper growth.
- The present state has been undertaken to examine and evaluate the deposit mobilization of the NBL. The researcher has used

necessary financial and statistical tools to the study effective and informative. This study has covered five years data of NBL from the fiscal year 2006/07 to 2010/11.

- NBL has been able to maintain good position in the banking industry of the country there has been an ongoing effort and commitment in enhancing its financial position. The bank is contributing to the development of the banking sector of the country by its active banking service.
- It has been a good partner to the industrial businessman and general public by providing banking services and facilities. Now it has 33 ABBS (any branch banking system) and it has plan ABBS to all computer facilities branches.
- Analyzing the deposit & lending of bank is trying to avoid unnecessary risk. By mobilizing its fund more in loan and advances, the bank would have increase its profit, but from the tabulated figures it is evident that NBL had also preformed to invert in secure sector like government securities.
- Profitability ratio indicates degree of failure in achieving desired profit level the result indicates that is not able to generate profit by utilizing deposits. So additional efficiency is required to increase its earnings. Overall it can be concluded that NBL is not able to earn a positive profit.
- Finally it can be concluded that the deposit mobilization of NBL during the study period of five year is not satisfactory. The bank has tried to maintain a good position among the commercial banks in Nepal and is still pursuing to accommodate as many clients as far as possible.

Recommendation:

On the basis of findings of this study, the following suggestions are recommendable to NBL to improve their deposit & lending activities in future.

➤ **Decrease operational expenses**

For the growth and survival of any firm, profit is the essential factor. But NBL is seems to be unable to earn satisfactory level of profit over the study period. In this context, the bank is recommended to earn more operational profit either by increasing their operational efficiency or decreasing their operational expenses as far as possible.

➤ **Maintain the improve an optimum mix of debt and owners:**

As the capital structure ratio of the bank is highly leveraged, NBL is required the maintain the improve on optimum mix of debt and owners equity by increasing equity base in order to avoid financial risk. It is the job of management to maintain a proper balance between these two aspects.

➤ **Apply current and fixed assets properly:**

Since NBL is not maintaining adequate liquidity position, the bank is suggested to manage its current assets properly.

➤ **Concentrate on Agriculture Side:**

Since Nepal is an agricultural country, bank should give more emphasis on the sector of agriculture product (like financing tractors, seeds, fertilizers, and irrigational project), poultry farming, cattle farming etc.

➤ **Attract people by low interest rate:**

NBL should attract more low interest bearing savings and current deposit to minimize its cost of fund and increase profit margin by investing the same as loan and advances.