

Position of Funds and Its Mobilization in Prime Commercial Bank Ltd (PCBL)

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Abstract

The number of commercial banks and financial institutions are being established rapidly. These institutions have been established to assist economic development of the country. The major problem in almost all under developed countries and Nepal is formation and proper utilization of capital. Banking institutions are inevitable for resource mobilization. Bank collects fund as a saving from public and invests in highly return yielding firm. This study is concerned with whether Position of funds and its mobilization in Prime Commercial Bank Ltd (PCBL) is adopting efficient fund mobilizing policy or not. It is seen from the study that Prime bank is in better position about the sources of fund and is also mobilizing funds effectively. By effectively mobilizing the funds it is succeeding to earn high rate of return. But because of lack of sufficient knowledge towards saving among people banks are unable to raise adequate fund which is hampering country's economic growth.

Key words: *Position of Fund, Prime Commercial Banks, Ratio, Mobilization, Growth*

Background of the Study

Banks can create new money when they make a loan. New loans throughout the banking system generate new funds elsewhere in the system. The money supply is usually increased by the act of lending, and reduced when loans are repaid faster than new ones are generated. Bank plays an important role in the economic development of a country. Banks are the most important financial institution for collecting and utilizing resources for economic development of the country. The economic conditions are based on financial institutions. Development of the country depends on the active participation of the banks in different developmental activities in the country. If all the banks increase their lending together, then they can expect new funds to return to them and the amount of money in the economy will increase. Excessive or risky lending can cause borrowers to default. The banks should become more cautious while making investments so it can maximize its profit by minimizing risks (Basnet, 2007).

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Banks are intermediary between lender and receiver of fund and they mobilize the funder's fund. After the liberalization of the financial sector, financial sector has made a hall mark progress both in terms of the number of financial institutions and beneficiaries of financial services. Development by its means is not possible within a short period and it takes a long time for the proper development of a country. It has to build up infrastructure. In Nepal, the process of development started only after 1956 AD when the first five-year plan came into practice. Capital in fact, plays the leading role for the economic development of a country. But in Nepal, there is shortage of capital. There are internal and external sources of accumulating capital. Under external sources: aid, grants and loans are the main sources. In internal sources: accumulating capital, taxes, public enterprises, public debt are popular in our country. But due to underdevelopment, poverty, lack of banking knowledge the desired capital for the development of the country cannot be accumulated from those internal sources. So, it can be said that in Nepal's present situation, bank fund is dependable and permanent sources of capital accumulation. The need of fund mobilization for economic development of a country is no more to question. But we are facing an acute problem of resources mobilization (Sapkota, 2013).

A balanced and inclusive financial resource mobilization is essential for financial stability as well. The mobilization of deposits plays a pivotal role in bank financing as it is a dominant part of BFIs' liabilities, collected mainly from public. If such deposits are mobilized from the differentiated region, BFIs rarely face problems of short term solvency. Similarly, the balanced distribution of loans and advances in various sector and region automatically minimize the risk of default of large portions of loans. If loan portfolio is properly diversified, then problem faced in one sector has the lesser probability to impact other sectors so that the BFIs will bear minimum loss and can avoid the potential systemic risk. Therefore, the balanced distribution of financial resources from different perspective is important for the sustainable development of both the financial sector and the economy as a whole (UNCTAD, 2020).

When people fund money in a saving account in bank for example; the bank must invest the money in new factories and equipment to increase their production. In addition, borrowing from the banks most issues stocks and bonds will be sold to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in such projects such as the construction of dams, roads and schools. All such investments by individuals business and government involve a sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living

Financial resource mobilization has crucial role in inclusive and sustainable economic development. There are predominantly two types of system to mobilize the financial resources viz. Bank-based and Market-based financial system. On the one hand, Bank

based financial system promotes the debt financing and prevails mostly in developing countries. On the other hand, the market-based financial system encourages equity and debt financing both and found mostly in the advanced economies. (Jacob et. al., 2019). As in many developing countries, compared to the market-based financial system, the bank based financial system is more developed in Nepal.

Timilsina, (2014) has studied the fund mobilization of NABIL, HBL, NIBL, and SCBNL. The study is based on secondary data and has analyzed the data from period of 2005-2006 to 2010-2012. The finding from the study was the liquidity position of all four banks is satisfactory. The liquidity position of NIBL is better than NABIL, HBL and SCBNL. The analysis also depicts that the total investment to total fund is highest in SCBNL. But NIBL's capacity to mobilize its loan and advances to total fund is better than SCBNL. The study also added profitability position of SCBNL is slightly better than NABIL, HBL, and NIBL. SCBNL has highest return on loan and advances. Similarly, the study also concluded positive relation between fund and advances of NABIL, HBL, NIBL, and SCBNL. By considering the trend values, SCBNL is more successful to utilize its total collected fund in investment than NABIL, HBL, and NIBL.

According to Ibrahim, (2012) bank accepts funds to lend the same at a higher rate of interest. Funds and credits are just like inflow and outflow of funds of the banks. Banks deploy funds by way of providing credits to needy people. Credits (loans and advances) are the largest income earning asset of the bank and the most profitable and high risk associated item on the asset side of the bank balance sheet. Banks utilize its funds in suitable area and right sector. Bank cannot achieve its goals until and unless it mobilizes its funds in right sectors and by performing different activities. Bank should separate the useful and profitable sector for mobilization of its funds. Banker being only a financial intermediary, will not be able to make any profit unless it has to pay interest on funds, meet establishment expenses, meet liquidity of cash balance, and yet allow some balance from out of which it can build reserve and pay dividend to the shareholder.

Research Department of NRB, (2021) studied on "Financial Sector's Resources Mobilization under Federal Structure of Nepal" researchers stated that Nepal has entered into the federal governing system after the promulgation of new constitution in 2072 BS. With the implementation of fiscal federalism, allocation of financial resources across the province and local levels has been a key concern among policy makers and practitioners. The recent policy efforts from government and the Nepal Rastra Bank (NRB) are directed to channelize financial resources across the sub-national levels. For equitable mobilization of financial resources, many efforts have been introduced subsequently by the government of Nepal and NRB. Financial inclusion has been focused widely during the last couple of years. As a result, for instance, 750 out of 753 local levels are equipped

with the access of commercial bank in their front yard. In the context of increasing access to financial services, now, the uses side of financial resources provided by the banking sector under the federal structure has to be analyzed. Researchers analyzed the data related to financial access, uses of financial services such as deposit mobilization and credit expansion, concessional financing, deprived and directed sector credit and other important types of credit in provincial level. The study found that the financial resource mobilization is still imbalanced in provinces. However, the indicators are in positive direction towards balanced financial resource mobilization.

Shrestha, (2011) in her studies concluded the following points:

- ❖ The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on government securities and shares.
- ❖ The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve.
- ❖ Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks, etc...

Pradhan, (2010) in his article, “Deposit mobilization, its problem and prospects” has presented the following problems in Nepal's context:

- ❖ People do not have knowledge and proper education on saving in institutional manner. They do not know financial organizational process, withdrawal system, depositing system etc.
- ❖ Financial institutions do not want to operate and provide their services in rural areas.

Establishment of commercial banks contributes significant role in the formation and mobilization of internal capital and development efforts. They furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institution.

Sources of Fund

A. Owned Funds/ Equity Capital of Bank

- | | | |
|---------------------|---------------------|---------------------------|
| a) Ordinary Share | b) Preference Share | c) Bonus Share |
| d) Retained Earning | e) Reserve Fund | f) Undistributed Dividend |

B. Borrowed Fund of Bank

- a) Selling of Debenture
- b) Deposits
- c) Loans from the Central Bank
- d) Loan from Financial Institutions

Mobilization of Funds

- a) Liquid Funds
- b) Investment
- c) Loan and Advances
- d) Fixed Assets
- e) Administrative and Miscellaneous Expenses

Profile of the Prime Commercial Bank Ltd. (PCBL)

Prime Commercial Bank Ltd. was incorporated in September 2007 as the 21st commercial bank in Nepal. It is a Category 'A' Financial Institution registered under the "Banks and Financial Institutions Act" of Nepal. It has been established by prominent business personnel and professionals from diversified areas with a prime objective of providing 'Banking Services to Everyone' in the country where still large number of populations are deprived of Banking Services.

The bank has established itself as an emerging player in financial sector with focus in customer service excellence, maintaining excellent relationship with valued customers. It is counted among the top 10 commercial banks in Nepal by independent raters and publications in the country.

Statement of the Problem

The number of financial institutions including Commercial Banks has increased rapidly with the introduction of liberalized economic policy after 1990s but the coverage of Commercial Banks has not spread throughout the nation uniformly. Most of them centered in limited and facilitated urban areas like Kathmandu Valley and other major cities. The increase in the number of Commercial Banks causes the increase of its share in the whole financial system and consequently the contribution in the economic development of the country through mobilization of funds and utilization of its funds to increase the aggregate demand in the economy.

In developing countries, the rate of saving is quite low and existing institutions are half successful in mobilizing such savings as most people have lower income that vertically all current income must be spent in maintaining a subsistence level of consumption. Investment is an essence of the national economy. Banking system is the integral part of investment system in productive sector. It involves the sacrifice of current rupees for future. It is concerned with the allocation of present fund for later reward, which is uncertain. Due to the high competition between the financial institutions, the collected

amount from public is comparatively lower than fund mobilization and investment practice of collected funds. Therefore, it has raised the problems of investment and proper mobilization of collected funds.

Based on this statement, this study is focused on the following research questions:

- ❖ What is the trend of deposit collection and its mobilization?
- ❖ What is the relationship between different factors of fund mobilization?
- ❖ What is the position of fund and its mobilization in PCBL?

Objectives of the Study

The objective of the study is to evaluate the fund position and mobilization of Prime Bank Ltd. The following specific objectives are to support the evaluation and comparison of the efficiency and progress of this bank:

- ❖ To evaluate the trend of fund, loan and advances and investment of commercial bank.
- ❖ To measure the association among fund mobilization factors.
- ❖ To know the fund position and mobilization of selected commercial bank.

Limitations of the study

The study has following limitations:

- ❖ This study has only focused on fund mobilization aspects of the bank.
- ❖ This study is based on only secondary data and accuracy depends upon the data provided by the organization.
- ❖ This study has focused on only one commercial bank as sample i.e., PCBL.
- ❖ Because of limited time, research cannot be extended fully with all aspects of fund mobilization procedure.

Research Methodology

Basically, the proposed study is based on two types of research design namely descriptive and analytical. Descriptive research design describes the general attitude of the Nepalese funders, business environment, problems regarding the fund's mobilization aspects etc. Similarly, the analytical research design makes a thorough analysis of gathered facts and information and critically evaluates it as well.

Secondary data has been used for this study in order to analyze the relationship between fund and its explanatory variables. Among the twenty-one commercial banks.

Prime Bank is selected for the study purpose by using purposive sampling. Financial statement and annual financial report of Prime Bank, Banking & Financial statistics of Nepal Rastra Bank are used for secondary data collection purpose. The report will be analyzed using Ratio Analysis tools.

Results and analysis

The financial analysis is done to ascertain liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. Combinations of ratios are analyzed to drive a true picture.

Net Profit to Gross Income Ratio:

The ratio measures the volume of gross income. The higher ratio measures the higher efficiency of the bank and lower ratio indicates lower efficiency of the bank.

Table 1

Net Profit to Gross Income Ratio

Years	Net Profit	Gross Income	Ratio (times)
2016/17	477566263	31423860	15.20
2017/18	553447114	29443386	18.80
2018/19	745589121	92005697	8.10
2019/20	115759677	20917773	5.53
2020/21	1467942925	211970958	6.93

Source: Annual report of Prime bank

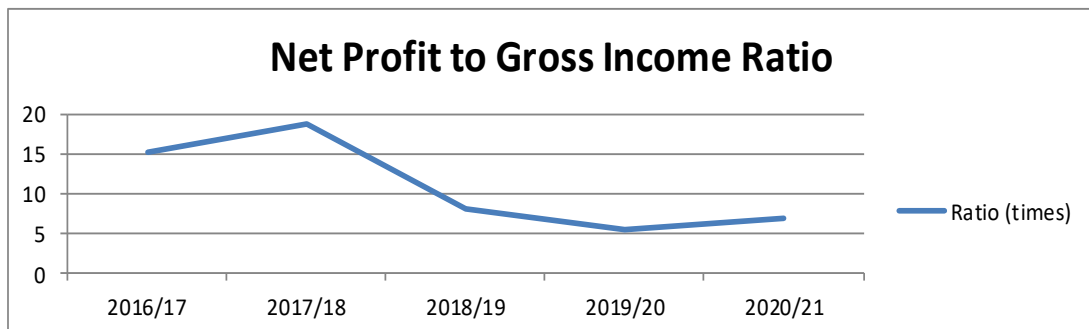


Fig 1: Net Profit to Gross Income Ratio

Note: Net Profit to Gross income ratio = $\frac{\text{Net Profit}}{\text{Gross income}} \times 100\%$

Table no 1 and Figure 1 show that the total net profit to gross income ratio of Prime Bank is in fluctuating trend. The highest ratio is 18.80 times in the year 2017/18 and lowest ratio is 5.53 times in the year 2019/20. The bank is able to obtain higher efficiency. Therefore, credit management is in good position of the bank.

Interest Income to Loan and Advances

There is a positive correlation between the consumer loan ratio and bank performance, suggesting that it is beneficial for banks to exploit the consumer loans market. Loan growth leads to an increase in loan loss provisions during the subsequent three years, to a decrease in relative interest income, and to lower capital ratios.

$$\text{Note: Interest Income to Loan and Advance} = \frac{\text{Interest Income}}{\text{Loan and Advances}} \times 100\%$$

Table No.: 2

Interest Income to Loan and Advances

Year	Loan and Advance	Interest Income	Ratio
2016/17	57711391949	2786218393	4.83
2017/18	40272093722	2871169081	7.13
2018/19	32616506541	3242635081	9.94
2019/20	27104417443	3556635240	13.12
2020/21	21226687733	520727381	2.45

Source: Annual report of Prime Bank

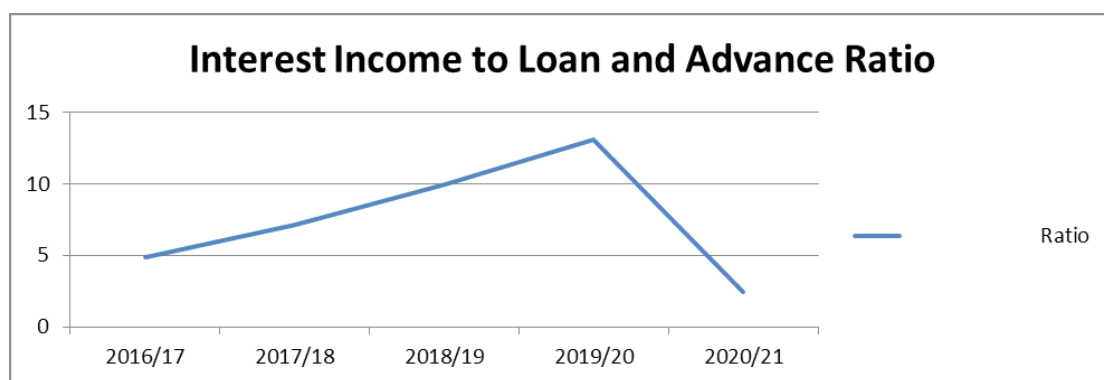


Fig 2: Interest Income to Loan and Advances Ratio

Table 2 and figure 2 represent the Interest Income to loan and advance ratio. During the year 2019/20 the return on loan and advance ratio is 13.12%. In the year 2020/21 the return on loan and advance ratio is 2.45%. From the table it can also be analyzed that loan and advances are in decreasing trend for the entire study period.

Investment to total fund Ratio

It is the total investment to total fund ratio. The ratio helps to analyze the position of an organization by letting know about the fund mobilization as an investment.

$$\text{Investment to total fund} = \frac{\text{Investment}}{\text{Total Fund}} \times 100\%$$

Table No.: 3

Investment to total fund ratio

Year	Investment	Total Fund	Ratio
2016/17	6145430804	65855880385	9.33%
2017/18	5070194361	48342121058	10.49%
2018/19	5743071578	41005754566	14.01%
2019/20	9595131013	34045262660	28.18%
2020/21	4894964319	28798028030	17.00%
Average			15.80%
SD			6.17%
CV			39.02

Source: Annual report of Prime Bank

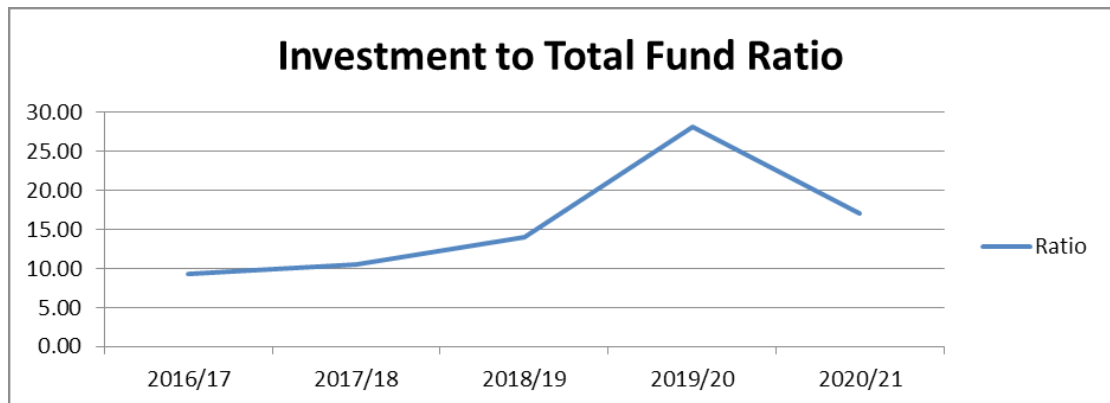


Fig. 3: Total investment to total fund

In the table and bar diagram shown above, the highest ratio is in the year 2019/20 with the ratio of 28.18% while the lowest is during the year 2016/17 with the ratio of 9.33%. The average ratio is 15.80% with standard deviation of 6.17%. Coefficient of Variation is 39.02%. From the table it can be analyzed that investment has fluctuating trend during the study period whereas total fund has showed decreasing trend.

2.2.2 Loan and Advances to current Assets Ratio

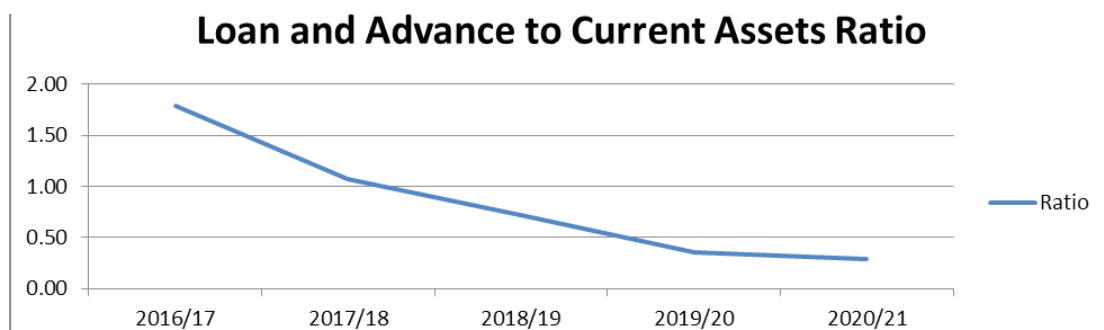
Loans and advances are the bills purchased and discounted, local and foreign currencies, loan and advances and overdrafts. Bank loans and advances are the main assets used as a source of income in the commercial banks. This ratio is used as a source of income in the commercial banks. This ratio is calculated to determine proportional of current assets which are interested as loans and advances to generate the income for the bank. It is expressed as:

$$\text{Loan and advances to current Assets Ratio} = \frac{\text{Loan \& Advance}}{\text{Current Assets}}$$

Table: 4

Loan and Advance to Current Assets

Year	Loan and Advance	Current Assets	Ratio
2016/17	57711391949	32226480934	1.79
2017/18	40272093722	37659817915	1.07
2018/19	32616506541	45424248635	0.72
2019/20	27104417443	77545264241	0.35
2020/21	21226687733	73429583416	0.29

Source: *Annual report of Prime Bank***Figure 4: Loan and Advance ratio**

In the above table and bar graph, there is decreasing trend in loan and advance to current assets ratio. The highest is during the year 2016/17 i.e. 1.79 and lowest in the year 2020/21 i.e. 0.29. From the table it can be analyzed that during the study period current assets of the Prime Bank showed increasing trend.

Cash and Bank Balance to Current Asset:

Cash and bank balance are the most liquid form of the current assets. The cash and bank balance ratio indicate the percentage of readily available fund within the bank.

The cash and bank balance to current asset ratio is calculated by using the following formula:

$$\text{Cash and Bank Balance to current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}} \times 100$$

Table 5

Cash and Bank Balance Ratio

Year	Cash And Bank Balance	Current Assets	Ratio
2016/17	12392418305	32226480934	38.45
2017/18	7824890933	37659817915	20.78
2018/19	6622873369	45424248635	14.58
2019/20	7268359201	77545264241	9.37
2020/21	5441973928	73429583416	7.41

Source: *Annual report of Prime Bank*

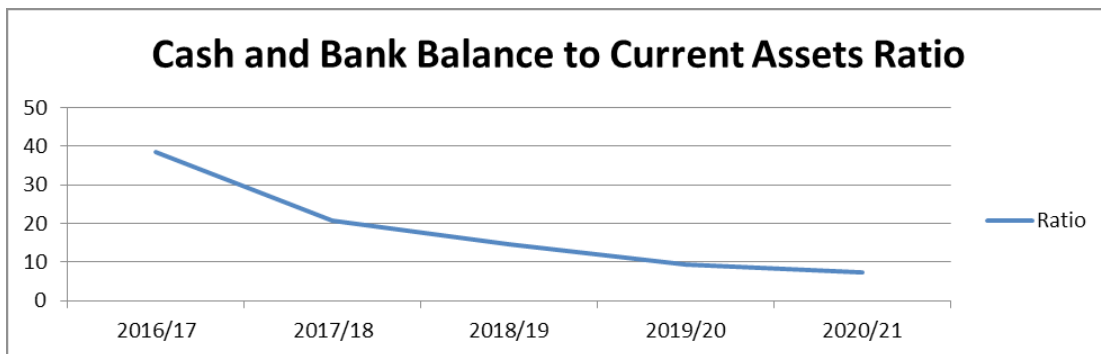


Figure -5: Cash and Bank Balance Ratio

As per table 5 and bar diagram, there is decreasing trend of cash and bank balance but increasing trend in total current assets. During the year 2016/17 Cash and Bank to total current assets is highest which is 38.45% and the lowest is during the year 2020/21 with the value of 7.41%. The overall trend of ratio is decreasing.

Major Findings

- ❖ The total net profit to gross income ratio of Prime Bank is in fluctuating trend. The highest ratio is 18.07 in the year 2019/20 and lowest ratio is 5.53 in the year 2019/20. The bank is able to obtain higher efficiency. Therefore, credit management is in good position of the bank.
- ❖ Return on loan and advances ratio is increased up to the year 2019/20. During the year 2019/20 the return on loan and advance ratio is 13.12, but in the year 2020/21 the return on loan and advance ratio is 2.45. This ratio is quite satisfactory except for the year 2020/21.
- ❖ Investment to total fund ratio is also in increasing trend except 2020/21 which shows the better fund mobilization status as an investment. This ratio is decreased in the year 2020/21 that may be because of coronavirus pandemic. In an average 15.80% of fund was utilized as investment whose standard deviation is 6.17% and coefficient of variation was 39.02%.
- ❖ During the year 2016/17 ratio of loan and advance to current assets is 1.79 times which is decreased over the years and in the year 2020/21 it reached to 0.29 times. This indicates that loan and advance of Prime Bank was not able to generate sufficient income.

- ❖ Cash and Bank to total current assets is 38.45% as the highest during the year 2016/17 but after that it decreased to 7.41% during the year 2020/21. Overall, it was in the decreasing trend from 2016/17 to 2020/21. The cash and balance and current assets were in increasing trend which shows the readily available fund was also in increasing trend in spite of having low ratio.

Conclusion

The major conclusion of this study is that the investment, loans and advances and asset purchased shows the positive correlation with funds. Among the explanatory variables under the study loans and advances is the most dominant variable which shows the fund has a high impact on the loans and advances sector in the context of Nepal.

Short term investment to total fund ratio analysis of Prime Bank has enough short-term investment in an average. This shows Prime Bank has effectively mobilized its fund in garnishing benefits from short term investments which can be easily converted into cash to meet the obligations of customers. Likewise, total Investment to Total Fund ratio analysis of Prime Bank shows that the bank has invested significant portion of fund to total investment. Cash and bank to Current Fund Ratio of Prime Bank suggests that Prime have maintained higher ratio in an average during the study period. Return on Loans and Advances of the sampled bank during the review period shows that the bank has generated moderate return from the investment in loans and advances.

As per the standard regulation of NRB, the CRR at present should be 6%. During the study, it was found that Prime Bank has maintained the CRR above six percent on an average.

Implication

On the basis of analysis and finding following implications can be mentioned.

- ❖ The liquidity position of a bank may be affected by internal as well as external factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situations. The ratio of cash and bank balance to total deposit of the bank is in good position. It means the bank has high idle cash and bank balance. It may decrease profit of the bank. Prime Bank is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances for its further breakthrough progress.

- ❖ The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, if this bank collects more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme price bonds scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others that is better for further progress of this bank.
- ❖ Observing the findings of growth analysis it has noticed that bank has been adopting an aggressive policy in all the parameters including loan and advances. As the economy has not been able to show the survival growth, the aggressive policy may prove to be harmful in future. The bank should rather prefer an aggressive defensive policy in mobilizing the resources in loans.

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