

**INVESTMENT ON RISK FREE ASSETS BY NEPALESE  
COMMERCIAL BANKS**

**A THESIS**

*Submitted by:*

**Rajendra Bahadur Chand  
Nepal Commerce Campus  
Roll No: 525/2059/060  
T.U. Regd. No: 7-1-327-0589-96  
Exam Roll No.:1152/061**

*Submitted to:*

**Office of the Dean  
Faculty of Management  
Tribhuvan University**

**In partial fulfillment of the requirements for the Degree of  
Master of Business Studies (M.B.S.)**

**New Baneshwor, Kathmandu  
March, 2009**

# **RECOMMENDATION**

This is to certify that the thesis

*Submitted by:*

**Rajendra Bahadur Chand**

*Entitled:*

## **INVESTMENT ON RISK FREE ASSETS BY NEPALESE COMMERCIAL BANKS**

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

\_\_\_\_\_  
(Dr. Bihari Binod Pokharel)

Thesis Supervisor/ Head of Research Department

\_\_\_\_\_  
(Mr. Diwakar Pokhrel)

Campus Chief

\_\_\_\_\_  
(Mr. Umesh Kumar Koirala)

Thesis Supervisor

# VIVA – VOCE SHEET

We have conducted the viva – voce examination of the Thesis

*Submitted by:*

**Rajendra Bahadur Chand**

*Entitled*

## **INVESTMENT ON RISK FREE ASSETS BY NEPALESE COMMERCIAL BANKS**

And found the Thesis to be the original work of the student written in accordance with the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master Degree of Business Studies (M.B.S.)

### **Viva – Voce Committee**

Chairperson, Research Committee: \_\_\_\_\_

Member (Thesis Supervisor): \_\_\_\_\_

Member (Thesis Supervisor): \_\_\_\_\_

Member (External Expert): \_\_\_\_\_

Date: - .....

## DECLARATION

I hereby declare that the work reported in this thesis entitled "**A STUDY ON COMMERCIAL BANKS' INVESTMENT ON RISK FREE ASSETS**" submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the guidance and supervision of **Dr. Bihari Binod Pokharel** Head of Research Department and **Mr. Umesh Kumar Koirala**, Nepal Commerce Campus, Tribhuvan University.

Date:-

.....  
**Rajendra Bahadur Chand**  
(Researcher)

Nepal Commerce Campus  
T.U. Regd. No: 7-1-327-0589-96  
Exam Roll. No.: 1152/061  
Class Roll No. 525/2059/060

## ACKNOWLEDGEMENTS

The present study "A Study on Commercial Banks' Investment on Risk Free Assets" has been prepared for the partial fulfillment of the requirement for Master's Degree of Business Studies.

The successful completion of this dissertation is the result of invaluable guidance of my supervisor **Mr. Umesh Koirala** Lectures of Nepal Commerce Campus, Minbhawan. Without proper guidance and excellent supervision, this research report would not have been presented in this form. So first of all, I would like to express my heartfelt gratitude to Mr. Koirala for valuable supervision and regular inspiration during this study. I would like to express my sincere gratitude to **Dr. Bihari Binod Pokharel**, Head of Research Department of Nepal Commerce Campus, for providing me chance to carryout this research study. I most appreciate the kind cooperation of my respected teachers and all staffs of Nepal Commerce Campus during my study in Nepal Commerce Campus.

I would like to express hearty thanks towards all the members of my family who provided regular inspiration and continuous contribution for my success. I would like to express my heartily thanks towards my friend Mr. Laxman Bhandari for his kind cooperation in various stages of the study. I would like to thank Ramesh Rasik Paudel, Tulsī Mainali, D.B. Thakurathi, Chakra Bohora and Manju Chand for their valuable cooperation during this dissertation preparation. Last but not least, I would like to express my sincere thanks to Global Books Minbhawan who had supported me to complete this thesis work.

Rajendra Bahadur Chand  
Nepal Commerce Campus  
Minbhawan, New Baneshwor  
Kathmandu

## TABLE OF CONTENTS

Viva- Voce Sheet
Recommendation
Declaration
Acknowledgements
Table of Contents
List of Tables
List of Figures
Abbreviations

### *Page No.*

### **CHAPTER – 1: INTRODUCTION**

**1-14**

1.1	Background of the Study	1
1.1.1	Overview of Present Economy	2
1.1.2	Historical Development of Banking	2
1.1.3	Introduction of Commercial Banks in Nepal	5
1.1.4	Investment on Risk Free Assets	7
1.1.5	Introduction of Commercial Banks under Study	8
1.2	Statement of the Problem	10
1.3	Objectives of the Study	11
1.4	Significance of the Study	12
1.5	Limitations of the Study	12
1.6	Organization of the Study	13

### **CHAPTER –2: REVIEW OF LITERATURE**

**15-29**

2.1	Introduction	15
2.2	Conceptual Review	15
2.2.1	Concept of Investment	15
2.2.2	Investment Alternatives	17
2.2.3	Government Budget and Deficit Finance	19
2.2.4	Risk Free Assets market	19
2.2.5	Risk Free Assets for Short-term Investment	21
2.2.5.1	Treasury bills	21
2.2.5.2	Short-tem Treasury Notes and Bonds	23

2.2.5.3	Short-term Municipal Obligation	23
2.2.6	Risk Free Assets for Long-Term Investment	24
2.2.6.1	Treasury Notes and Bonds	24
2.2.6.2	Municipal Bond	25
2.3	Review of Related Studies	26

### **CHAPTER –3: RESEARCH METHODOLOGY** **30-37**

3.1	Introduction	30
3.2	Research Design	30
3.3	Variables	30
3.4	Population and Sample	31
3.5	Sources and Nature of Data	31
3.6	Data Collection Techniques	31
3.7	Data Analysis Tools	32
3.7.1	Statistical Tools	32
3.7.2	Financial Tools	34

### **CHAPTER –4: DATA PRESENTATION AND ANALYSIS** **38-**

4.1	Introduction	38
4.2	Financial Ratio Analysis	38
4.2.1	Investment on Risk Free Assets	38
4.2.2	Investment on Treasury Bills to Total Investment Ratio	40
4.2.3	Investment on Government Bond to Total Investment Ratio	42
4.2.4	Total Investment to Total Deposit Ratio	43
4.2.5	Investment on Risk Free Assets to Total Deposit Ratio	45
4.2.6	Investment on Treasury Bills to Total Deposit Ratio	46
4.2.7	Investment on Government Bond to Total Deposit Ratio	48
4.2.8	Investment on Treasury Bill to Total Inv. on Risk Free Assets	50
4.2.9	Investment on Treasury Bill to Total Inv. on Risk Free Assets	52
4.3	Least Square Linear Trend Analysis	54
4.3.1	Trend Analysis of Inv. on Risk Free Asset to Total Inv. Ratio	55
4.3.2	Trend Analysis of Investment on Treasury Bill to Total Inv. Ratio	56
4.3.3	Trend Analysis of Inv. on Government Bond to Total Inv. Ratio	58
4.3.4	Trend analysis of total inv. to Total Deposit Ratio	59
4.3.5	Trend Analysis of Inv. on Risk Free Assets to Total Deposit Ratio	61

4.3.6	Trend Analysis of Investment on Treasury Bill to Total Deposit Ratio	63
4.3.7	Trend Analysis of Inv. on Government Bond to Total Deposit Ratio	64
4.3.8	Trend Analysis of Inv. on Treasury Bill to Total Inv. on Risk Free Assts Ratio	66
4.3.9	Trend Analysis of Inv. on Gov. Bond to Total Investment on Risk Free Asset	68
4.4.	Analysis of Yield Rate of Risk Free Assets	70
4.4.1	Trend Analysis of Interest Rate of 364-days Treasury Bills	70
4.4.2	Trend Analysis of Interest Rate of 91-days Treasury Bills	72
4.4.3	Trend Analysis of Interest Rate of National Saving Certificate	73
4.4.4	Trend Analysis of Interest Rate of Development Bond	74
4.5	Major Findings of the Study	76

## **CHAPTER –5: SUMMARY, CONCLUSION & RECOMMENDATIONS**

5.1	Summary	79
5.2	Conclusion	80
5.3	Recommendations	81

## **BIBLIOGRAPHY**

## **APPENDICES**

## LIST OF TABLES

<i>Table No.</i>	<i>Title</i>	<i>Page No.</i>
1.1	Lists of Licensed Commercial Banks in Nepal	14
4.1	Investments on Risk Free Assets to Total Investment Ratio	39
4.2	Investment on Treasury Bills to Total Investment Ratio	40
4.3	Investment on Government Bond to Total Investment Ratio	42
4.4	Total Investment to Total Deposit Ratio	44
4.5	Investment on Risk Free Assets to Total Deposit Ratio	46
4.6	Investment on Treasury Bills to total Deposit Ratio	47
4.7	Investment on Government Bond to Total Deposit Ratio	49
4.8	Investment on Treasury Bill to Total Investment on Risk Free Assets Ratio	51
4.9	Investment on Government Bond to Total Investment on Risk Free Assets Ratio	53
4.10	Trend of Investment on Risk Free Assets to Total Investment Ratio	55
4.11	Trend of Investment on Treasury Bills to Total Investment Ratio	57
4.12	Trend of Investment on Government Bond to Total Investment Ratio	58
4.13	Trend of total Investment to Total Deposit Ratio	60
4.14	Trend of Investment on Risk Free Assets to Total Deposit Ratio	62
4.15	Trend of Investment on Treasury Bills to Total Deposit Ratio	63
4.16	Trend of Investment on Government bond to Total Deposit Ratio	65
4.17	Trend of Investment on Treasury Bills to Investment on Risk Free Assets Ratio	67
4.18	Trend of Investment on Government Bond to Investment on Risk Free Assets Ratio	69
4.19	Trend of Interest Rate of 364-days Treasury Bills	71
4.20	Trend of Interest Rate of 91-days Treasury Bills	72
4.21	Trend of Interest Rate of National Saving Certificate	73
4.22	Trend of Interest Rate of Development Bond	75

## LIST OF FIGURE

<i>Figure No.</i>	<i>Title</i>	<i>Page No.</i>
4.1	Investment on Risk Free Assets to Total Investment Ratio	40
4.2	Investment on Treasury Bills to Total Investment Ratio	41
4.3	Investment on Government Bond to Total Investment Ratio	43
4.4	Total Investment to Total Deposit Ratio	45
4.5	Investment on Risk Free Assets to Total Deposit Ratio	48
4.6	Investment on Treasury Bills to Total Deposit Ratio	48
4.7	Investment on Government Bond to Total Deposit Ratio	50
4.8	Investment on Treasury Bills to Total Investment on Risk Free Assets Ratio	52
4.9	Investments on Government Bond to Total Investment on Risk Free Assets Ratio	54
4.10	Trend of Investment on Risk Free Assets to Total Investment Ratio	56
4.11	Trend of Investment on Treasury Bills to Total Investment Ratio	58
4.12	Trend of Investment on Government Bond to Total Investment Ratio	59
4.13	Trend of Investment to Total Deposit Ratio	61
4.14	Trend of Investment on Risk Free Asset to Total Deposit Ratio	63
4.15	Trend of Investment on Treasury Bills to Total Deposit Ratio	64
4.16	Trend of Investment on Government bond to Total Deposit Ratio	66
4.17	Trend of Investment on Treasury Bills to Investment on Risk Free Assets Ratio	68
4.18	Trend of Investment on Government Bond to Investment on Risk Free Assets Ratio	70
4.19	Trend of Interest Rate of 364-days Treasury Bills	71
4.20	Trend of Interest Rate of 91-days Treasury Bills	73
4.21	Trend of Interest Rate of National Saving Certificate	74
4.22	Trend of Interest Rate of Development Bond	76

## ABBREVIATIONS

A.M.	Arithmetic Mean
AGM	Annual General Meeting
B.S.	Bikam Sambat
BOK	Bank of Kathmandu Limited
C.V.	Coefficient of Variation
DBL	Dubai Bank Limited
EBIL	Emirates Bank International Limited
EBL	Everest Bank Limited
Etc	Etcetera
FDI	Financial Intermediary Non Governmental Office
GDP	Gross Domestic Product
i.e.	That is
IMF	International Monetary Fund
Ltd.	Limited
MBS	Masters of Business Studies
Nabil	Nabil Bank Limited
NBLB	National Bank Limited Bangladesh
NEPSE	Nepal Stock Exchange
NIC	Nepal Industrial and Commercial Bank Limited
NRB	Nepal Rastra Bank
PNB	Panjab Bank Limited
RANs	Revenue Anticipation Notes
RBB	Rastriya Banijya Bank
RFA	Risk Free Assets
Rs.	Rupes
S.D.	Standard Deviation
SEBO/N	Security Board of Nepal
TANs	Tax Anticipation Notes
Vol.	Volume