

**A COMPARATIVE STUDY ON INVESTMENT POLICY OF  
HIMALAYAN BANK LIMITED AND NEPAL  
INVESTMENT BANK LIMITED**

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## **Summary**

The research problem has identified and objectives are set to solve research problems about investment policy of Himalayan Bank Limited and Nepal Investment Bank Limited in chapter one. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to undertake this research more precisely.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc. and authorize web site of HBL and NIBL.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which, consists current ratio, liquidity ratio, assets management ratio, profitability ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through secondary data. The major findings of the study are also included in the final section of the presentation and analysis chapter.

Investment practice of commercial banks is a very risky one. For this, Investment practice of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any

commercial bank depends on investment policy. A healthy development of any commercial bank depends on borrowers and the lenders, which helps to increase the volume of quality deposits and investment. Investment positions are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from the expected rate of return. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return.

### **Objectives of the Study**

- ) To evaluate at the liquidity, asset management efficiency and profitability position of HBL and NIBL.
- ) To analyze the investment policy and fund mobilization of Himalayan Bank Limited (HBL) and Nepal Investment Bank Limited (NIBL).
- ) To analysis the relationship of total investment with the other financial variables of HBL and NIBL.
- ) To provides the suggestion for improving the investment policy HBL and NIBL on the basis of the finding of the analysis.

### **Research Methodology**

Research methodology is the way to solve systematically about the research problem, which includes many techniques and tools, as it is necessary for every study. Having stated about introduction & reviewing of literature in chapter I & II, now the task has come to make decisive choice of research methods to support the in realistic term with sound empirical analysis of investment policy of HBL and NIBL. Then these chapters will deals the research methodology used in the study for analysis of the two sampled Commercial Bank.

## **Research Design**

Research design means an overall framework for the activities to be taken during the course of a research study. It enables the way of research providing the tools & techniques for the data collection & analysis & sampling plan to be followed. Generally research design describes the general plan for collecting analyzing & evaluating data after identifying. It is an integrated system that guides the researcher in formulating, implementing & controlling the study conceived so as to obtain answers to research questions & to control variance. Both analytical & descriptive methods have been used to attain the overall objectives. Firstly, it specifies the sources & type of information relevant to research question, secondly it specifies; the data. Thus, a research design specifies various methods & procedures for acquiring the information including from which sources & by what procedure it is obtained.

## **Population and Sample**

Population or universe refers to the industries of the same-nature of its service & product. It is the collection or the aggregate of objects or the set of results of an operation. On the other hand sample means the representative parts of population selected from it with the objectives of investigating its properties. Thus, a sample is just a portion of the population selected with a view to draw conclusions about the population under study.

In context of Nepal, there are all together 32 commercial banks licensed by NRB. These twenty five banks are regarded as population. But, it is not possible to study all data related with these 32 banks .Among them only two commercial banks, HBL and NIBL have been taken into account for research. These two banks are taken in account for comparative study. Their investment policy may be different, depend upon the basis of establishment period.

## **Data Collection Techniques**

The study is mainly based on secondary data. The secondary sources of data collections are those that have been used from published and used by someone previously. The

secondary sources of data are balance-sheet, profit and loss account of concerned banks, annual reports and literature publication of the concerned bank has furnished some important data to this project study. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra Bank, Central Library T.U., Shankar Dev Campus Library, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, different journals, Magazines and other published and unpublished reports documented by the authorities.

The data for the study are collected from record available, security board and annual reports of concerned banks. The various stock exchange publications formed an important supplementary source of the data for this project study, particularly on investment policy. The data is collection of raw information taken in stateside manner. The data are prerequisites of any project study. The data collection details the labors and time and it is the most necessary step in project study without the study cannot be done.

### **Data Analysis Procedure**

To achieve the objectives of the study, the collected data are categorized, tabulated, processed & analyzed using different financial tools like liquidity, assets management, risk ratio, profitability along with statistical tools like mean, standard deviation, coefficient of variation, Karl Pearson's coefficient of correlation are adopted in the study. Calculated results are tabulated under different headings the objectives to compare with each other & their significance carried out to interpret the result.

### **Data Analysis Tools**

Data analysis refers to the analyzing the data in order to determine the inherent facts or meanings from the tabulated data, presentation & analysis of data is the care of the research work. Data that has been collected are first presented in systematic manner in tabular forms & then analyzed by applying different financial & statistical tools to achieve the objectives of the study.

The tools applied are as follows:

1. Financial Tools
2. Statistical Tools

### **Major Findings of the Study**

- ) During the study period the current ratio of NIBL is in very fluctuating trend whereas HBL has tried to maintain equal trend of current ratio during the period.
- ) The analysis helps to conclude that the cash and bank balance position of HBL with respect to deposit is better against the readiness to serve its customer deposit than NIBL. It implies the better liquidity position of HBL.
- ) The mean ratio of HBL and NIBL is 16.96 and 9.66% respectively. The HBL & NIBL investment on government securities to current ratio has a luctuating trend.
- ) From the above analysis, it can be concluded that NIBL is aggressive then HBL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NIBL than in HBL.
- ) Comparing two banks, it can be concluded that the mobilization of total deposit in investment is greater in HBL (30.05%) than in NIBL (18.88%) so on, the ratio is more consistent in NIBL (C.V. = 24.91%) than in HBL (C.V. = 32.57%).
- ) On the basis of the investment to total assets ratios, it can be considered that HBL (26.57%) has mobilized the total funds in investment in greater extent than NIBL (16.60%) has done and the ratio is more consistent in NIBL (25.95%) then HBL (33.06%).
- ) On the basis of average investment in government ratio to total assets ratio, it can be confirmed that HBL (14.96%) has focused more on government securities than NIBL (7.89%).
- ) Comparing two banks, it can be inferred that HBL (0.22%) has given more preference to corporate share and debenture investment than NIBL (0.13%) total assets.

- J Comparing the mean ratio of investment on deprived sector of total deposit NIBL has mobilized higher ratio of deposits in deprived sector than that of HBL. Higher mean ratio of NIBL shows that it has accepted the risk and ignored the profit and also given priority to social welfare.
- J It can be stated that the investment on financial institution to total deposit of both of the sample banks decreased gradually. Comparing the ratio HBL (12.88) has invested more on financial institution than NIBL (9.76).
- J The return on loan and advance ratios of the NIBL is higher than that of HBL and there is more consistency in the ratio of NIBL than of HBL.
- J The above analysis has indicated that there exists positive correlation coefficient between investment and total deposit in NIBL but negative in HBL. The correlation coefficient between investment and total assets of HBL is -0.8360 and NIBL is 0.8063. Also, the coefficient of determination indicates that 69.89% and 65.01% variation in investment of HBL and NIBL is explained by change in total assets.
- J Comparing two banks, it can be concluded that the rate of increase in investment with the same amount of increase in deposit is greater in NIBL than in HBL.

## **Conclusion**

From this study, it has been found that both banks have non-satisfactory current ratio in the study period both banks have lower current ratio than 2:1. During the study period the current ratio of NIBL is in very fluctuating trend whereas HBL has tried to maintain equal trend of current ratio during the period. The analysis helps to conclude that the cash and bank balance position of HBL with respect to deposit is better against the readiness to serve its customer deposit than NIBL. It implies the better liquidity position of HBL. The HBL & NIBL investment on government securities to current ratio has a fluctuating trend. NIBL is aggressive then HBL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NIBL than in HBL.

On the basis of deposit mobilization in investment it can be concluded that the mobilization of total deposit in investment is greater in HBL than in NIBL so on, the ratio is more consistent in NIBL than in HBL. On the basis of the investment to total assets ratios, it can be considered that HBL has mobilized the total funds in investment in greater extent than NIBL has done and the ratio is more consistent in NIBL than HBL. The investment in government ratio to total assets ratio of HBL has focused more on government securities than NIBL.

Comparing two banks, it can be inferred that HBL has given more preference to corporate share and debenture investment than NIBL total assets. The mean ratio of investment on deprived sector of total deposit NIBL has mobilized higher ratio of deposits in deprived sector than that of HBL. Higher mean ratio of NIBL shows that it has accepted the risk and ignored the profit and also given priority to social welfare. It can be stated that the investment on financial institution to total deposit of both of the sample banks decreased gradually. Comparing the ratio HBL has invested more on financial institution than NIBL. The return on loan and advance ratios of the NIBL is higher than that of HBL and there is more consistency in the ratio of NIBL than of HBL. The correlation coefficient between investment and total deposit in NIBL is positive but negative in HBL. The rate of increase in investment with the same amount of increase in deposit is greater in NIBL than in HBL.

### **Recommendations**

On the basis of above analysis and findings of the study, following suggestions can be advanced to overcome weakness, inefficiency and satisfactory improvement of the present fund mobilization and investment policy of HBL as well as NIBL.

- ) The liquid asset maintained by HBL and NIBL was lower than normal standard 2:1. Thus, it would be better if HBL and NIBL increase the liquid assets considering the short-term liabilities requirement.
- ) Both the banks have given high priority to the government securities while making



investments, however, the return on corporate securities and debentures is greater than that of government securities. It would be worthwhile if both the banks divert more investment amount to corporate shares and debentures.

- ) The mobilization of total deposit in investment is greater in HBL than in NIBL so it would be better if NIBL mobilized more in investment.
- ) HBL has mobilized the total funds in investment in greater extent than NIBL so it would be better to mobilized more in NIBL.
- ) The term investment is very important for commercial bank and main function also. Investment means use of their resource in different income sector. The study shows that the trend of investment of HBL is decreasing level. So it is recommended to HBL to keep wide vision in investment while they utilizing their recourse and invest in different areas.
- ) To get success in competitive market and to raise financial and economic development of the country a commercial bank must mobilize its funds in different sectors such as purchase share and debenture of other financial and non financial companies and other government and non-government companies. It is also genuine means of utilization of resource. Thus those companies may get chances to rise and that help to develop of the country. The mean ratio of Investment on share and debenture of HBL and NIBL is less than one which is very low, so it is recommended that both of the banks should increase the ratio, with investing its funds in shares and debentures of different types of other companies in different areas.