

**A STUDY OF INVESTMENT PATTERN OF BANK OF  
KATHMANDU LIMITED AND KUMARI BANK LIMITED**

**A THESIS PROPOSAL**

**SUBMITTED BY:**

**DEEPA DHAKHAL**

Campus Roll. No. 1633/064

M.B.S. Roll. No. 251907/066

T.U. Registration No. 7-1-38-1607-2001

**SUBMITTED TO:**

Research Department

Nepal Commerce Campus

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

Kathmandu, Nepal

September, 2012

# **CHAPTER – I**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Nepal is one of the least developed countries with poorest economic condition of the world. It is placed among the lowest per capita income countries. The economic development of the country, which is reflected by the annual GDP growth rate in recent year, is around 5 % and it has also a fluctuating trend. It's population growth rate as high as 2% has affected its economy to a large extent.

The economic growth of under-developed country widely depends upon the utilization of available economic and financial resources. The rapid pace of economic development and self-economic reliance are the most in today's world, these can only be achieved through the accelerated rate of investment and capital formation in the country.

The role of commercial banks in the economy is obviously prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment in various productive sectors. To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The banking sector has to play developmental role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development.

Investment policy is an important ingredient of overall national economic development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regards, joint venture bank's investment policy drives to achieve priority of commercial sector in the context of Nepal's economic development. The general principle is that the investment can be retired when cash is needed. Investment decision now is the most crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. The term investment covers a wide range of activities. It is commonly known fact that an investment is only

possible where there is adequate saving. Therefore, both saving and investment are interrelated.

It is better to know the history of origin and development of commercial bank in the world and development of financial sector, especially commercial banking in Nepal.

## **1.2 ORIGIN AND DEVELOPMENT OF BANK**

The earliest evidence of banking is found in Mesopotamia between 3000 & 2000 B.C. when temples were used to store grain and other valuables used in trade. Babylon is credited with the birth of banking and finance at the level of sophistication that rivals our own, with the expectation of the timing advantages that modern communication has allowed.

The word 'bank' is derived from the Italian word 'banco' meaning the portable benches or counters over which the moneychanger comes from. A bank is an institution, which deals with money and credit. Broadly speaking, banks draw surplus money from the people who are not using it at the time, and lend to those who are in a position to use it for productive purposes. Thus the bank accepts deposits from the public, makes the funds available to those who need them and helps in the remittance of money from one place to another. In general, a bank is an institution with the following features.

- ) It deals with money, it accepts deposits and advances loan.
- ) It also deals with credit; it has the ability to create.
- ) It is a commercial institution, it aims at earning profit.

The origin of commercial banking can be traced back to the early times of human history. In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out money for public and private purposes on interest was prevalent. In England, banking had its origin with the London goldsmiths who in the 17<sup>th</sup> century began to accept deposits from merchant and others for safekeeping of the money and other valuables. As public enterprise, banking made its first appearance in Italy in 1157 AD when the Bank of Venice was founded. The modern banking has three ancestors who are the merchant, the goldsmith, and the moneylender. The merchant banker forms the earliest stage in the evolution of modern banking. Merchants in those days required remittances of money from one place to another while trading which is an important function of a bank. This gave rise

to the institution of 'hundi' or the letter of transfer, which these days are done through drafts, cheques, traveler's cheque etc. to remit money to different places.

American Institute of Banking has laid down the four major functions of the commercial banks as receiving and handling deposits, handling payments for its clients. Making loans and investments and creating money by extension of credit.

Nepal Commercial Bank Act 2031 B.S. has defined commercial bank as stated earlier and it has also emphasized on their functions. Major of them are as follows:

- ) They accept custody of funds with or without interest and open fixed accounts, current accounts and saving accounts in the name of depositors.
- ) They supply loan; short term as well as long term debts whatever necessary for trade and commerce or make investment.
- ) They help to issue shares and debentures of any company or any other corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.
- ) Conduct transaction in bonds, provisionary notes or bills of exchange, foreign exchange relating to commerce or corporation as are redeemable within the Kingdom.
- ) They grant overdraft.
- ) They issue letter of credit, drafts, and traveler's checks.
- ) They remit or transmit fund to different place within or outside the Kingdom.
- ) They purchase, sell, or accept the securities of Government.

### **1.3 INTRODUCTION OF SAMPLE ORGANIZATIONS**

#### **Introduction of Bank of Kathmandu Limited**

Bank of Kathmandu limited is one of the reputed commercial bank which is a culmination of a comprehensive vision of the promoters to take the Nepalese economy to a newer realm in the global market. Each promoter of Bank of Kathmandu has successfully demonstrated leadership skills, business acumen and entrepreneurial talents in his/her respective field. Incorporated in 1993, Bank of Kathmandu came into operation in March 1995 with the following predominant objectives.

) Identify business prospects not yet catered by the existing commercial banks and offer new banking products and services.

) Introduce modern banking technology, facilitating bank and business operations and transactions.

Bank of Kathmandu's activities globe around deposit mobilization, advancement of various credits, international banking including trade financing, inwards and outwards remittances, funds and portfolio management. Bank of Kathmandu is committed to providing products and services of the higher standards. Bank of Kathmandu has state of art technology for appropriate and efficient management information system (M.I.S.) and rendering quality services, VSAT radio modem for networking, SWIFT for international trade and transfer of funds around the world correspondent banking relationships with over 200 banks worldwide for effective and proficient execution of international trade and remittance activities, gamut of corporate and retail banking products and services and centralized banking operations for better risk management, consistent service deliveries lowering operating cost.

In spite of a number of programmed undertaken by Nepal Government for financial reforms in the country, BOKL has entered into a paperless environment and has implemented various software which help in processing documents without the movement of paper and accelerates the decision making process.

### **Introduction of Kumari Bank Limited**

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1078.272 million, of which 70 % is contributed from promoters and remaining from public. Kumari Bank Ltd. has been providing wide range of modern banking services through 16 points of representations located in various urban and semi urban part of the country, 11 outside and 5 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software for the arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of

having account with particular branch. Similarly, the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, utility bill payment services, inward and outward remittance services, and various other banking services. Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 18 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customer.

The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

#### **1.4 STATEMENT OF THE PROBLEM**

The economic development of the country is mainly based on the different financial sectors established in the country. The success of these institutions will lead to the development of the economy of the country. Nepal being listed among least developed countries, commercial banks has played a catalytic role in the economic growth. Its investments range from small scale cottage industries to large-scale industries. In making investment in loans and government securities may always wonder which investment is better.

It can be therefore hypothesized that bank portfolio like loans, investment, cash reserve, deposit and borrowing affects the national income. And also how the government policy affects these variables, such as the effects of interest on the bank portfolio variables is of great concern. Therefore, monitoring money and credit conditions, the central bank has to keep an eye on the bank portfolio behavior.

The term loan plays a crucial role in the development of the any commercial bank. The problem of lending has become very serious in the country like Nepal. This is due to lack of sound investment policy of commercial banks. Commercial banks are nowadays investing only in less risky business. They are not investing in proportion to that of their deposit amount is much higher than that of investment opportunities.

They are being safety minded rather considering the profit margin. Nowadays, commercial banks mainly focus on non performing assets that mean they invest the fund as giving loan for non performing activities like house loan, land loan, educational loan, traveling loan etc. So they don't seem to be capable to invest their funds in more productive sectors. They dip high liquid assets and flow lower funds to the productive sectors, which results into lower profitability to commercial banks and ignorance to the national economic growth process. This is due to the effect of the economical, political, demographical & geographical condition of the nation, so this is the main reason for crisis in the commercial banks and in the whole national economy as well.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They don't have clear view towards their own investment policy. Furthermore, the implementation of policy is not practiced in an effective way. Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to commercial banks.

Thus the present study will make a modest attempt to analyze investment policy of BOKL and KBL. Some of the research questions relating to investment function of the commercial bank of Nepal have been presented briefly as under.

- ) Is it maintaining sufficient liquidity position?
- ) Is fund mobilization & investment policy of the bank effective & efficient?
- ) What is the relationship of investments & loans & advances with total deposits and total net profits?
- ) Does the degree of success in investment strategy be successful to utilize its available fund of BOKL and KBL?

### **1.5 OBJECTIVES OF THE STUDY**

Based on the problem identified, the following objectives have been set for the objective. Investment decision is one of the major decision functions of financial management. The main objective of the study is to assess the investment policy and strategies followed by the bank. The specific objectives are as follows:

- ) To study and examine the fund mobilization and investment practice of the concerned banks.
- ) To analyze the liquidity, asset managing, profitability, growth and risk of concerned banks.
- ) To evaluate the relationship between deposits and loans and advances, deposit and total investments, outside assets and net profit and trend analysis of the above variables.

## **1.6 RATIONALE OF THE STUDY**

The financial sector plays an important role for every country. The economic development of the country depends upon the performance of the financial institutions. The success and prosperity of the bank relies heavily on the successful investment of collected resources to the important sector of economy. Successful formation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has a positive impact on economic development of the country and vice versa. Therefore the effort is made to highlight the investment policy of commercial banks expecting that the study can be bridge gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. Similarly, from the study, the shareholders would get information to make decisions while making investment on shares of various banks.

The study of existing investment policy of the BOKL and KBL will help to analyze the position of the Bank among the commercial banks to invest and provide package of suggestions for its improvement. Customers saving should be invested in proper way to get return like in business, industries, development infrastructures etc. which directly or indirectly influences the economy of the country. So it is very important to study the investment policy of the Banks.



## **1.7 LIMITATIONS OF THE STUDY**

The research has some limitations which will weaken the heart of study. Basically, the study is done for the partial fulfillment for Masters of Business Studies. Inadequate coverage, time constraints, lack of research experience, asymmetry, reliability of financial and statistical tools used and financial problems are the main limitations.

Other limitations are:

- ) There are many factors that affect investment decision and valuation of the firm. However, this study will concentrate only on the factors that are related with investment.
- ) Mostly secondary data analyzed and only a period of 5-years trend is considered i.e. from 2006/07 to 2010/011 hence the conclusion drawn confines only to the above period.
- ) The truth of research result is based upon the available data from the bank.
- ) Two banks are taken to study of the investment policy.

## **1.8 ORGANIZATION OF THE STUDY**

The study will be organized into five chapters:

### **Chapter I: Introduction**

This chapter deals with subject matters of the study consisting background of the study, origin and development of bank, introduction of sample organizations, statement of the problem, objectives of the study, rationale of the study and limitations of the study.

### **Chapter II: Review of Literature**

This chapter deals with review of the different literature of the study field. Therefore it includes conceptual framework along with the review of major books, journal, research works and thesis etc.

### **Chapter III: Research Methodology**

This chapter deals with research methodology and it includes research design, population and sample, source and technique of data collection, data analysis tools and limitation of the methodology.

#### **Chapter IV: Data Presentation and Analysis**

The main part of research is Data Presentation & Analysis. This chapter deals with analysis and interpretation of the data using financial and statistical tools described in chapter three. This chapter also includes the major findings of the study.

#### **Chapter V: Summary, Conclusion and Recommendations**

This chapter deals with summary of the study held, the conclusion made and the possible suggestions. Thus it reveals the success or failure of the research. Thereafter bibliography and appendices are also included.

## **CHAPTER – II**

### **RESEARCH METHODOLOGY**

#### **2.1 INTRODUCTION**

Research Methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying a problem with certain objectives. It includes construction of research design, nature of data, data gathering procedure, population and sample and data processing procedure. The main purpose of this chapter is to focus on different research methods and conditions used to conduct the study. Each and every study needs a systematic methodology to show the better results of the research. Here also, investment policy of BOKL and KBL needs to appropriate research methodology.

#### **2.2 RESEARCH DESIGN**

*"A plan of study or blue print for study that presents a series of guide posts to enable the researchers to progress in the right direction in order to achieve the goal is called a research design or strategy", (Joshi, 2001:12).* A well settled research design is necessary to fulfill the objectives of the study. It means definite procedures and technique that guides to study and propound way for research variability. The study aims to evaluate to managerial efficiency and performance regarding investment policy of BOKL and KBL.

#### **2.3 POPULATION AND SAMPLE**

When some of the elements are selected with the intension of finding out something about the population from which they are taken that group of elements is referred as a sample and the process of selection is called sampling. For instance, with a single grain of rice a village housewife tests if all the rice in the pot has boiled or not. Similarly, from a cup of tea a tea taster determines the quality of the brand of tea.

At present, Nepalese financial system comprises of 32 commercial banks, 79 finance companies and 16 other nongovernmental organization performing limited banking activities. It is not possible to study all of them regarding the research topic. Therefore BOKL and KBL are the reputed and well-established commercial banks having similar capital; taken as a sample bank for research study from population (commercial banks).

## **2.4 NATURE AND SOURCES OF DATA**

This research is based on the secondary data. The secondary data have been collected from financial statement, annual report, unpublished official records of concerned companies, journals and from the official web site of NRB and individual sampled companies.

## **2.5 DATA COLLECTION PROCEDURES**

Data collection procedures depend upon one's study. It can be collected from different sources among the various sources. Secondary sources are used for data collection.

### **Secondary Sources:**

The study is mainly based on secondary data. The data collected by someone else, used already and is made available to other in form of published statistics are secondary data.

The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance sheet, Profit and Loss Account of Concerned Banks, Annual report and Literature Publication of the Concerned Banks. Some supplementary data and information are collected from the authoritative sources like Nepal Rastra Bank, Central Library T.U., Nepal Commerce Campus Library, Shankar Dev Campus library, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, Different Journals and Articles, other published and unpublished reports documented by the authorities.

The data for the study are collected from record available of Security Board and Annual Reports of concerned Banks. The various stock exchange publications formed an important supplementary source of the data for this study, particularly on investment policy. The data is collection of raw information taken in stateside manner and prerequisites of any project study.

## **2.6 DATA ANALYSIS TOOLS**

Analysis of data involves a number of closely interrelated operations that are performed to get answers to the research questions. Analysis and presentation of data is the core of the study. This study needs some financial and statistical tools to accomplish the objectives. The financial and statistical tools are most reliable. To achieve the objective of the study, various financial, statistical and accounting tools have been used in this study.

Collected data are to be processed and analyzed for a scientific conclusion and for ensuring that all relevant data are used for making contemplated comparisons and

analysis. Processing of data implies editing, coding, classification and tabulation of collected data.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different heading. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the purpose.

) Financial Tools

) Statistical Tools

## BIBLIOGRAPHY

- Anthoni, S. (2007), *Financial Management*, New Delhi: Pearson Education Private Limited.
- Benerjee, S.K., (2004), *Financial Management*, New Delhi: S. Chand & Company Ltd.
- Bhalla, V. K., (2006), *Investment Management*, New Delhi: S. Chand and Company Ltd.
- Bhattarai, R., (2009), *Financial Management*, Kathmandu: Buddha Publication Private Limited.
- Brigham E.F., (2004), *Financial Management*, New Delhi: Harcourt Publishers International Company.
- Charles, J. P., (1999), *Investment Analysis and Management*, Bombay: Himalayan Publishing House, Bombay.
- Cheney, J. M. and Moses, E. A., (1999), *Fundamental of Investment*, St. Paul: West Publishing Company.
- Herbert, K., (2004), *Banking and Insurance*, New York: Mc Graw Hill International Edition.
- Joshi, S., (2007), *Banking and Insurance*, Kathmandu: Taleju Pustak Prakashan.
- Khadka, S.J., (2007), *Banking and Insurance*, Kathmandu: Neema Pustak Prakashan.
- Kothari C.R., (2007), *Research Methodology, Methods and Techniques*, New Delhi: Willey Eastery Limited.
- Pandey, I.M., (2004), *Financial Management*, New Delhi: Vikash Publishing House Pvt. Ltd.
- Van Horne, (2007), *Fundamentalas of Financial Management*, New Dellhi: Tata Publication Pvt. Limited.