

**AN INVESTMENT ANALYSIS OF COMMERCIAL BANKS
IN NEPAL**

**(A Case Study of Nepal Investment Bank, Himalayan Bank,
Nepal SBI Bank, Everest Bank and Bank of Kathmandu)**

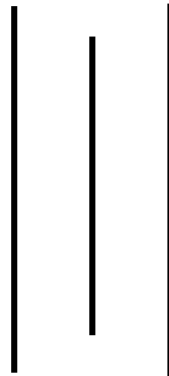
Submitted by:

**ASHOK KHATIWADA
Shanker Dev Campus
Campus Roll No.:1912/063
T.U. Regd.No.:7-1-1-4-99**

A THESIS

Submitted to:

**Office of the Dean
Faculty of Management
TRIBHUVAN UNIVERSITY**



**In partial fulfillment of the requirement for the Degree of Masters
Of Business Studies (MBS)**

**Kathmandu, Nepal
December 2010**

DECLARATION

I hereby declare that the work reported in this thesis entitled “**An Investment Analysis of Commercial Bank in Nepal: A Case Study of Nepal Investment Bank, Himalayan Bank, Nepal SBI Bank, Everest Bank and Bank of Kathmandu**” submitted to office of the Dean Faculty of the Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements of Master’s Degree in Business Studies (M.B.S.) under the supervision and guidance of Prof. Dr. K.D Manandhar and **Kiran Thapa**, Lecturer of Shanker Dev Campus.

.....

Ashok Khatiwada

Researcher

Roll No. : 1912/063

Shanker Dev Campus

Putalisadak, Kathmandu

Date:

ACKNOWLEDGEMENT

My intentness and gratitude goes to the many individuals, who have assisted to shape this thesis in the present form, cannot be adequately conveyed in a few sentences. First, my gratitude goes to all the teachers and staffs of Shanker Dev Campus, Putalisadak Kathmandu, whose sound theoretical knowledge provided me the basis for the preparation of the thesis.

I would like to express my great sense of gratitude to my respected research supervisor. Prof. Dr. K.D. Manandhar, Assistant Dean of Tribhuvan University for granting me an opportunity of carry out this research.

In the same way, I would like to extend my profound gratitude to Lecturer **Kiran Thapa** of Shanker Dev Campus, Putalisadak, Kathmandu, for his valuable supervision, constructive comments and suggestions, which gave the final shape of this thesis.

Similarly, I would like to thank all the bank staffs for helping me to conduct necessary survey and complete the study, it would have not been possible to complete the study without their support.

Lastly, I am highly thankful to my friends Mr. Suraj Subedi, Mr. Ramesh Thapa, my colleague Ujeela Manandhar, Pranita Pradhan who had encouraged me genuinely. Colleagues, my family, well wishers and various organization and institute that extended their generous support to complete this thesis work.

Ashok Khatiwada

TABLE OF CONTENTS

Recommendation
Viva-Voce Sheet
Declaration
Acknowledgement
Table of Content
List of Table
List of Figure
Abbreviation

Chapter I: Introduction	Page No
1.1 Background of Study	1
1.1.1 Features of a sound lending and Investment Policy	2
1.1.2 Concept of Commercial Banks	5
1.1.3 History of Banking in Nepal	5
1.2 Focus of the Study	7
1.3 Statement of Problem	10
1.4 Objectives of Study	12
1.5 Significance of study	12
1.6 Limitation of Study	12
1.7 Organization of Study	13
Chapter II: Review of Literature	
2.1 Concept	14
2.1.1 Principle of Sound Investment Policy	14
2.1.2 Investment Criteria for Bank and Financial Institutions	16
2.1.3 Some Important Terms	17
2.2 Review of Books and Articles	19
2.3 Review of Legislative Provision	26
2.4 Review of Thesis	30
2.5 Research Gap	35

Chapter III: Research Methodology

3.1 Introduction	36
3.1.1 Research Design	36
3.1.2 Sources of Data	36
3.1.3 Population and Sample	37
3.2 Methods of Data Analysis	38
3.2.1 Ratio of Commercial Banks Investment to Sample Bank Investment	38
3.2.2 Segregation of Total Investment of Sample Banks	39
3.3 Financial Tools	39
3.3.1 Ratio Analysis	39
3.3.2 Assets Management Ratio	39
3.4 Statistical Tools	42
3.4.1 Multiple Regression Analysis	42
3.4.2 Coefficient of Correlation Analysis	42
3.4.3 Coefficient of Determination (R^2)	43
3.4.4 Probable Error of Coefficient of Correlation	43
3.4.5 Trend Analysis (The Least Square Method)	44
3.4.6 Arithmetic Mean	45
3.4.7 Standard Deviation	45
3.4.8 Co-variation (C.V.)	45

Chapter IV: Data Presentation and Analysis

4.1 Presentation and Analysis of Secondary Data	46
4.1.1 Ratio of Commercial Banks Investment to Sample Banks Investment	46
4.1.2 Segregation of Investment	51
4.1.3 Assets Management Ratio	54
4.1.3.1 Ratio of Total Investment to Total Deposit	54
4.1.3.2 Ratio of Total Investment plus loan and Advance with Deposit	58
4.1.3.3 Ratio of Investment and Total Assets Ratio	62
4.1.3.4 Investment on Government Securities to Total Assets Ratio	66
4.1.3.5 Investment on Shares and Debentures to Total Assets Ratio	70
4.1.4 Growth Ratio	74

4.1.4.1 Growth Ratio of Total Investment	74
4.1.4.2 Growth Ratio of Deposit	75
4.1.4.3 Growth Ratio of Loan and Advances	76
4.1.5 Statistical Analysis	77
4.1.5.1 Testing of Hypothesis	78
4.1.5.2 Multiple Regression Analysis	82
4.1.5.3 Coefficient of Correlation Analysis between Investment & Deposit	87
4.1.5.4 Trend Analysis and Projection for next 5 years	89
4.3 Major Findings of the Study	91

Chapter IV: Summary, Conclusion and Recommendation

5.1 Summary	93
5.2 Conclusion	94
5.3 Recommendation	95

Bibliography

Appendixes

LIST OF TABLES

Table No.	Name of the Table	Page No.
1.	List of Commercial Banks and their Date of Operation in B.S.	7
2. a.	Total Commercial Bank Investment to NIBL Investment Ratio	46
2. b.	Total Commercial Bank Investment to HBL Investment Ratio	47
2. c.	Total Commercial Bank Investment to NSBIL Investment Ratio	48
2. d.	Total Commercial Bank Investment to EBL Investment Ratio	49
2. e.	Total Commercial Bank Investment to BOK Investment Ratio	49
3. a.	Segregation of Investment of NIBL	51
3. b.	Segregation of Investment of HBL	52
3. c.	Segregation of Investment of NSBIL	52
3. d.	Segregation of Investment of EBL	53
3. e.	Segregation of Investment of BOK	54
4. a.	Total Investment to Total Deposit Ratio of NIBL	55
4. b.	Total Investment to Total Deposit Ratio of HBL	56
4. c.	Total Investment to Total Deposit Ratio of NSBIL	56
4. d.	Total Investment to Total Deposit Ratio of EBL	57
4. e.	Total Investment to Total Deposit Ratio of BOK	57
5. a.	Total Investment Plus Loan and Advance to Total Deposit Ratio of NIBL	59
5. b.	Total Investment Plus Loan and Advance to Total Deposit Ratio of HBL	60
5. c.	Total Investment Plus Loan and Advance to Total Deposit Ratio of NSBIL	60
5. d.	Total Investment Plus Loan and Advance to Total Deposit Ratio of EBL	61
5. e.	Total Investment Plus Loan and Advance to Total Deposit Ratio of BOK	61
6. a.	Total Investment to Total Assets Ratio of NIBL	63
6. b.	Total Investment to Total Assets Ratio of HBL	63
6. c.	Total Investment to Total Assets Ratio of NSBIL	64
6. d.	Total Investment to Total Assets Ratio of EBL	64
6. e.	Total Investment to Total Assets Ratio of BOK	65
7. a.	Investment on Government Securities to Total Assets of NIBL	67
7. b.	Investment on Government Securities to Total Assets of HBL	67
7. c.	Investment on Government Securities to Total Assets of NSBIL	68
7. d.	Investment on Government Securities to Total Assets of EBL	68

7. e.	Investment on Government Securities to Total Assets of BOK	69
8. a.	Investment on Share and Debenture to Total Assets Ratio of NIBL	71
8. b.	Investment on Share and Debenture to Total Assets Ratio of HBL	71
8. c.	Investment on Share and Debenture to Total Assets Ratio of NSBIL	72
8. d.	Investment on Share and Debenture to Total Assets Ratio of EBL	72
8. e.	Investment on Share and Debenture to Total Assets Ratio of BOK	72
9.	Growth Ratio of Investment	75
10.	Growth Ratio of Deposit	76
11.	Growth Ratio of Loan and Advance	77
12.	Correlation between Investment and Deposit	87
13.	Trend Value of Investment	90

LIST OF FIGURES

Figure	Name of Figure	Page No.
1.	Total Commercial Banks Investment to Total Investment Ratio	50
2.	Total Investment to Total Deposit Ratio	58
3.	Total Investment Plus Loan and Advancement to Total Deposits Ratio	62
4.	Total Investment to Total Assets Ratio	66
5.	Investment on Government Securities to Total Assets Ratio	70
6.	Investment on Share and Debentures to Total Assets Ratio	74
7.	Growth Ratio of Investment	75
8.	Growth Ratio of Deposit	76
9.	Growth Ratio of Loan and Advance	77
10.	Trend Value of Investment	90

ABBREVIATION

B.S.	=	Bikram Sambat
BOK	=	Bank of Kathmandu Limited
C. V.	=	Co- efficient of Variation
CRR	=	Cash Reserve Ratio
EBL	=	Everest Bank Limited
EIR	=	Expected Inflation Return
ENR	=	Expected Nominal Return
EPS	=	Earning Per Share
ERR	=	Expected Real Return
GDP	=	Gross Domestic Product
GNP	=	Gross National Product
HBL	=	Himalayan Bank Limited
IRR	=	Internal Rate of Return
LTD	=	Limited
MPS	=	Market Price per Share
NIBL	=	Nepal Investment Bank Limited
NPV	=	Net Present Value
NRB	=	Nepal Rastra Bank
NSBIL	=	Nepal SBI Bank Limited
ROA	=	Return on Assets
ROE	=	Return on Equity
S.D.	=	Standard Deviation
SCBN	=	Standard Chartered Bank Nepal