

**A STUDY OF INVESTMENT POLICY OF COMMERCIAL
BANKS**

A Thesis

By

NITU THAKUR

Global College of Management

Exam Roll No. 4226/065

T.U. Registration No. 7-1-7-378-99

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial fulfillment of the requirement of the degree of Master of Business
Studies (M.B.S.)

Kathmandu

March, 2011

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

NITU THAKUR

Entitled

“A Study of Investment Policy of Commercial Banks” has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

.....

Prof. Dr. Pushkar Bajracharya

(Chairman, Research Department)

.....

Prof.Dr.Madhav Raj Koirala

(Thesis Supervisor)

.....

Mr. Nar Bahadur Bista

(Principal)

Date :

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by
NITU THAKUR

entitled

“A Study of Investment Policy of Commercial Banks” And found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for

Viva-Voce Committee

Head of Research Department : _____

Member (Thesis Supervisor) : _____

Member (External Expert) : _____

Date: March , 2011

DECLARATION

I hereby, declare that the work reported in the thesis entitled "***A Study of Investment Policy of Commercial Banks with reference to (Nepal Investment Bank Ltd. and Bank of Kathmandu Ltd.)***" submitted to Global College of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements of Master Degree of Business Studies (M.B.S.) under the supervision of Prof. Dr Madhav Raj Koirala of Global college of management, Kathmandu

Nitu Thakur

Global College Of Management

ACKNOWLEDGEMENT

I extend my sincere gratitude to supervisor Prof. Dr. Madhav Raj Koirala for their valuable guidance, suggestions, timely supervision and cooperation in completing this thesis work, without his efforts this thesis would not have come out in this manner.

This thesis has also been influenced by a number of standard and popular textbooks, journals, articles etc. As far as possible, they have been duly acknowledged at the appropriate places. I am thankful to all of them. I am very grateful to teacher Ashok Kumar jha, for his continuous encouragement, and cooperation even in the period of hard times and also I am especially indebted to my friends Mr Dipen Khawas Bhujel, Mr.Ranjit Shah and Mukta Shrestha for their kind co-operation and support during the research period. I shall be remiss in my duty if I do not thank the courteous staff of NIBL and BOKL for their help in providing the necessary secondary data.

At last, guarantee of perfection of the research work cannot be given. Errors if any come under my role responsibility. I would very much appreciate and sincerely acknowledge suggestions for further improvement of the research work.

Nitu Thakur
Researcher

ABBREVIATIONS

B.S. : Bikram Sambat

BOKL : Bank of Kathmandu Limited

C.V : Coefficient of Variation

EBL : Everest Bank Limited

EPS : Earning Per Share

F/Y : Fiscal Year

HBL : Himalayan Bank Limited

JVB : Joint Venture Bank

NABIL : Nabil Bank Limited

NBBL : Nepal Bangladesh Bank Limited

NBL : Nepal Bank Limited

NIBL : Nepal Investment Bank Limited

NIDC : Nepal Industrial Development Corporation

NRB : Nepal Rastra Bank

NSBL : Nepal State Bank of India Limited

PEr. : Probable Error

r : Coefficient of Correlation

RBB : Rastriya Banijya Bank

Rs. : Rupees

S.D : Standard Deviation

SCBNL : Standard Chartered Bank Nepal Limited

CONTENTS	Page No.
Acknowledgement	
Table of Contents	
List of Tables	
Abbreviations	
Chapter – I	1- 6
1. Introduction	1
1.1. Background of the study	1
1.2 Statement of the Problem	3
1.4 Objective of the Study	4
1.5 Significance of the Study	4
1.6 Limitation of the Study	5
1.7 Organization of the Study	6
Chapter – II	7 - 38
2. Review of Literature	7
2.1. Conceptual Framework	7
2.1.1. Historical development of bank	7
2.1.2 Meaning of bank	8
2.1.3 The origin and uses of bank	9
2.1.4 Evolution of banking industries in Nepal	10
2.1.5 Commercial Bank	12
2.1.6. Features of a Sound Lending and Investment Policy	13
2.1.7 Meaning of Some Important Terminology	16
2.2. Review of Journal/Article	20
2.3. Review of Related Studies	24
2.4. Review of Thesis	26
Chapter – III	39 - 53
3. Research Methodology	39

3.1 Research Design	39
3.2 Population and Sample	39
3.3 Source of Data	40
3.4 Data Analysis Tools	40
3.4.1 Financial Tools	40
3.4.2 Statistical Tools	50
Chapter – IV	54 - 110
4. Data presentation, Analysis & Major Findings	54
4.1 Data Presentation and Analysis	54
4.1.1 Financial Analysis	54
a) Liquidity Ratio	55
b) Asset Management Ratio	57
c) Profitability Ratio	65
d) Risk Ratio	73
e) Growth Ratio	77
4.1.2 Statistical Analysis	81
a) Coefficient of Correlation Analysis	81
b) Trend Analysis & Projection for next five years	90
c) Test of Hypothesis	95
4.2 Major Findings of the Study	103
Chapter – V	111 – 116
5. Summary, Conclusion & Recommendation	111
5.1 Summary and Conclusion	111
5.2 Recommendation	117
Bibliography	
Appendices	

LIST OF TABLES

<u>Table</u>	<u>Page</u>
4.1 Current ratio of NIBL and BOKL	55
4.2 Cash & Bank balance to Deposit ratio of NIBL & BOKL	56
4.3 Cash & Bank balance to Current Assets ratio of NIBL & BOKL	58
4.4 Investment on Government securities to C.A of NIBL & BOKL	59
4.5 Loan & Advances to Current Assets ratio of NIBL & BOKL	61
4.6 Loan & Advances to Total Deposit ratio of NIBL & BOKL	62
4.7 Total Investment to Total Deposit ratio of NIBL & BOKL	64
4.8 Loan & advances to Total Working Fund ratio of NIBL & BOKL	65
4.9 Investment on Government securities to Total Working Fund ratio	67
4.10 Investment on Share and Debentures & Total Working Fund ratio	68
4.11 Return to Loan and Advances ratio of NIBL & BOKL	70
4.12 Return to Total Working fund ratio of NIBL & BOKL	71
4.13 Total Interest Earned to Total Working fund ratio of NIBL & BOKL	73
4.14 Total Interest Earned to Total Operating Income ratio	74
4.15 Total Interest Earned to Total Outside Assets ratio of NIBL & BOKL	76
4.16 Total Interest Paid to Total Working fund ratio of NIBL & BOKL	77
4.17 Liquidity Risk ratio of NIBL & BOKL	79
4.18 Credit Risk ratio of NIBL & BOKL	80
4.19 Growth ratio of NIBL & BOKL	82
4.20 Growth ratio of Loan and Advances	83
4.21 Growth ratio of Total Investment	83
4.22 Growth ratio of Net Profit	84
4.23 Correlation between Total Deposit and Loan & Advances	86
4.24 Correlation between Total Deposit and Total Investment	88
4.25 Correlation between Outside Assets and Net Profit	89

4.26 Correlation between Total Deposit and Net Profit	90
4.27 Correlation between Total Deposit and Interest Earned	92
4.28 Correlation between Loan & Advances and Interest Paid	93
4.29 Correlation between Total Assets and Net Profit	94
4.30 Trend Values of Total Deposit of NIBL and BOKL	96
4.31 Trend Values of Loan & Advances of NIBL & BOKL	97
4.32 Trend Values of Total Investment of NIBL & BOKL	98
4.33 Trend Values of Net Profit of NIBL & BOKL	99

LIST OF FIGURE

<u>FIGURE</u>	<u>Page</u>
4.1 Current ratio of NIBL and BOKL	55
4.2 Cash & Bank balance to Deposit ratio of NIBL & BOKL	57
4.3 Cash & Bank balance to Current Assets ratio of NIBL & BOKL	58
4.4 Investment on Government securities to C.A of NIBL & BOKL	60
4.5 Loan & Advances to Current Assets ratio of NIBL & BOKL	61
4.6 Loan & Advances to Total Deposit ratio of NIBL & BOKL	63
4.7 Total Investment to Total Deposit ratio of NIBL & BOKL	64
4.8 Loan & advances to Total Working Fund ratio of NIBL & BOKL	66
4.9 Investment on Government securities to Total Working Fund ratio	67
4.10 Investment on Share and Debentures & Total Working Fund ratio	69
4.11 Return to Loan and Advances ratio of NIBL & BOKL	70
4.12 Return to Total Working fund ratio of NIBL & BOKL	72
4.13 Total Interest Earned to Total Working fund ratio of NIBL & BOKL	73
4.14 Total Interest Earned to Total Operating Income ratio	75
4.15 Total Interest Earned to Total Outside Assets ratio of NIBL & BOKL	76
4.16 Total Interest Paid to Total Working fund ratio of NIBL & BOKL	78
4.17 Liquidity Risk ratio of NIBL & BOKL	79
4.18 Credit Risk ratio of NIBL & BOKL	81