

**COMPARATIVE STUDY ON INVESTMENT POLICY
OF NABIL BANK LIMITED AND BANK
OF KATHMANDU LIMITED**

By
DIBYASHWARI SHRESTHA
Shanker Dev Campus
Campus Roll No.: 358/061
T.U. Regd. No.: 7-2-20-559-2001
2nd Year Exam Symbol No.: 4020

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

*In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal
February 2011

RECOMMENDATION

This is to certify that the thesis

Submitted by:

DIBYASHWARI SHRESTHA

Entitled:

**COMPARATIVE STUDY ON INVESTMENT POLICY
OF NABIL BANK LIMITED AND BANK
OF KATHMANDU LIMITED**

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

.....
Asso. Prof. Kishor Maharjan
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

DIBYASHWARI SHRESTHA

Entitled:

**COMPARATIVE STUDY ON INVESTMENT POLICY
OF NABIL BANK LIMITED AND BANK
OF KATHMANDU LIMITED**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Comparative Study on Investment Policy of Nabil Bank Limited and Bank of Kathmandu Limited**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Kishor Maharjan** of Shanker Dev Campus, T.U.

.....

Dibyashwari Shrestha

Shanker Dev Campus

Campus Roll No.: 358/061

T.U. Regd. No.: 7-2-20-559-2001

2nd Year Exam Symbol No.: 4020

ACKNOWLEDGEMENT

As the partial fulfillment of the MBS degree, I have prepared this report. During the course, I worked with sincerity, honesty and diligence, as far as possible. However, beside my continual efforts, I also got unforgettable support from different people and parties. I am extremely grateful and overwhelmed by their support while completing my work.

Firstly, I owe a debt of gratitude to my respected thesis supervisor Associate Professor Kishor Maharjan of Shanker Dev Campus for his help and clear guidance right from the time of selection of the topic and throughout the course of the research. I am equally thankful to all my respected teachers at Shankar Dev Campus for their kind support and valuable suggestions.

I owe great intellectual debt to College Library and librarian, Shankar Dev Campus and Central Library of Tribhuvan University for providing several books and articles while preparing this thesis.

I would like to convey my sincere thanks to my family members especially to my parents who supported and encouraged me throughout the course of the study. My sincere thanks also go to all friends and well wishers who helped me directly and indirectly during this study.

Dibyashwari Shrestha

ABBREVIATIONS

ATM	:	Automated Teller Machine
BOKL	:	Bank of Kathmandu Limited
C.V.	:	Co-efficient of Variance
CAR	:	Capital Adequacy Ratio
CD Ratio	:	Credit to Deposit Ratio
CIC	:	Credit Information Centre
DBL	:	Dubai Bank Limited
EBL	:	Everest Bank Limited
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Limited
IPO	:	Initial Public Offering
JVBs	:	Joint Venture Banks
Nabil	:	Nepal Arab Bank Limited
NBBL	:	Nepal Bangladesh Bank Limited
NBL	:	Nepal Bank Limited
NIBL	:	Nepal Investment Bank Limited
NPAs	:	Non-performing Assets
NRB	:	Nepal Rastra Bank
P.Er.	:	Probable Error of Correlation Co-efficient
PM	:	Prime Minister
r	:	Co-efficient of Correlation
r^2	:	Co-efficient of Determination
RBB	:	Rastriya Banijya Bank
ROE	:	Return on Equity
RRDB	:	Regional Rural Development Bank
S.D.	:	Standard Deviation
SCBNL	:	Standard Chartered Bank Nepal Ltd.

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	Page No.
CHAPTER – I INTRODUCTION	
1.1 Background	1
1.2 Background of the Nepalese Banking System	5
1.3 Focus of the Study	13
1.4 Statement of the Problem	13
1.5 Objectives of the Study	15
1.6 Significance of the Study	16
1.7 Limitations of the Study	16
1.8 Organization of the Study	
CHAPTER – II REVIEW OF LITERATURE	
2.1 Conceptual Review	19
2.1.1 Investment	19
2.1.2 Investment Policy of a Bank	23
2.1.3 Feature of Sound Lending Policy	24
2.1.4 Meaning of Some Important Terms	26
2.2 Review of Books	29
2.3 Review of Related Studies	31
2.3.1 Review of NRB Act	31
2.3.2 Review of Articles/Journals	37
2.3.3 Review of Research Paper	39
2.3.4 Review of Thesis	43

2.4 Research Gap	49
------------------	----

CHAPTER – III RESEARCH METHODOLOGY

3.1 Introduction	50
3.2 Research Design	50
3.3 Population and Sample	50
3.4 Nature and Sources of Data	51
3.5 Data Collection Procedure	51
3.6 Data Analysis Tool	51
3.6.1 Financial Tools	52
3.6.2 Statistical Tools	60
3.7 Limitations of the Research Methodology	64
1.1.1.1	

1.1.1.2 CHAPTER – IV DATA PRESENTATION AND ANALYSIS

4.1 Analysis of Liquidity Position	65
4.1.1 Cash and Bank Balance to Total Deposit Ratio	65
4.1.2 Investment on Government Securities to Current Assets Ratio	66
4.1.3 Loan and Advances to Current Asset Ratio	67
4.2 Analysis of the Assets Management Position of the Banks	68
4.2.1 Loan and Advances to Total Deposit Ratio	68
4.2.2 Total Investment to Total Deposit Ratio	70
4.2.3 Loan and Advances to Total Working Fund Ratio	72
4.2.4 Investment on Government Securities to Total Working Fund Ratio	73
4.3 Analysis of the Profitability Position	74
4.3.1 Return on Loan and Advances Ratio	75
4.3.2 Return on Equity (ROE)	76
4.3.3 Total Interest Earned to Total outside Assets Ratio	78
4.4 Analysis of Risk Position	79
4.4.1 Credit Risk Ratio	79
4.5 Analysis of Growth Position	80

4.5.1 Growth Ratio of Total Deposits	81
4.5.2 Growth Ratio of Loan and Advances	82
4.5.3 Growth Ratio of Total Investment	83
4.5.4 Growth Ratio of Net Profit	84
4.6 Analysis of Relationship	85
4.6.1 Relationship between Deposit and Loan and Advances	85
4.6.2 Relationship between Deposit and Total Investment	86
4.6.3 Relationship between Outside Assets and Net Profit	88
4.7 Trend Analysis	89
4.7.1 Trend Analysis of Total Deposits of NABIL and BOKL	89
4.7.2 Trend Analysis of Loan and Advances	90
4.7.3 Trend Analysis of Total Investment	92
4.7.4 Trend Analysis of Net Profit	93
4.8 Chi-square (χ^2) Test	94
4.9 Major Findings of the Study	95
CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS	
5.1 Summary	98
5.2 Conclusion	99
5.3 Recommendations	101
1.1.2	
1.1.3 Bibliography	

Appendices

1.1.4 LIST OF TABLES

Table No.	Title	Page No.
1.1.5 1.1	List of Licensed Commercial Banks	10
2.1	Provision for Maintaining Minimum Capital Fund	32
2.3	Provision for Capital Adequacy Funds	34
4.1	Cash and Bank Balance to Total Deposit Ratio	65
4.2	Investment on Government Securities to Current Assets Ratio	66
4.3	Loan and Advances to current Assets Ratio	68
4.4	Loan and Advances to Total Deposit Ratio	69
4.5	Total Investment to Total Deposit Ratio	70
4.6	Loan and Advances to Total Working Fund Ratio	72
4.7	Investment on Government Securities to Total Working Fund Ratio	73
4.8	Return on Loan and Advances Ratio	75
4.9	Return on Equity	76
4.10	Total Interest Earned to Total Outside Assets Ratio	78
4.11	Credit Risk Ratio	80
4.12	Growth Ratio of Total Deposits	81
4.13	Growth Ratio of Loan and Advances	82
4.14	Growth Ratio of Total Investment	83
4.15	Growth Ratio of Net Profit	84
1.1.5.1.1 4.16	<i>Correlation between Deposit and Loan and Advances</i>	85
1.1.5.1.2 4.17	<i>Correlation between Deposit and Total Investment</i>	87
1.1.5.1.3 4.18	<i>Correlation between Total Outside Assets and Net Profit</i>	88
1.1.5.1.4 4.19	<i>Trend Values of Total Deposits of NABIL and BOKL</i>	89
1.1.5.1.5 4.20	<i>Trend Values of Loan and Advances of NABIL and BOKL</i>	91
1.1.5.1.6 4.21	<i>Trend Values of Total Investment of NABIL and BOKL</i>	92

1.1.5.1.6.1.1	4.22	Trend values of Net Profit of Nabil and BOKL	93
4.23		Loan and Advances to Total Deposit Ratio	94
4.24		Total Investment to Total Deposit Ratio	95

LIST OF FIGURES

Figure No.	Title	Page No.
1.1.6 4.1	Loan and Advances to Total Deposit Ratio	69
1.1.7 4.2	Total Investment to Total Deposit Ratio	71
1.1.8 4.3	Loan and Advances to Total Working Fund Ratio	72
4.4	Investment on Government Securities to Total Working Fund	74
1.1.9 4.5	Return on Loan and Advances Ratio	75
1.1.10 4.6	Return on Equity	77
1.1.11 4.7	Total Interest Earned to Total outside Assets Ratio	78
1.1.12 4.8	Growth of Total Deposit	81
1.1.13 4.9	Growth of Loan and Advances	82
1.1.14 4.10	Growth of Total Investment	83
4.11	Growth Ratio of Net Profit	84
1.1.14.1.1.1.14.12	Trend Lines of Total Deposit of NABIL and BOKL	90
<i>1.1.14.1.2 4.13</i>	<i>Trend Lines of Loan and Advances of NABIL and BOKL</i>	<i>91</i>
<i>1.1.14.1.3 4.14</i>	<i>Trend Lines of Total Investment of NABIL and BOKL</i>	<i>92</i>
<i>1.1.14.1.4 4.15</i>	<i>Trend Lines of Net Profit of NABIL and BOKL</i>	<i>94</i>