

# CHAPTER I

## INTRODUCTION

### **1. Background of the study**

Investment, in its broad sense, means the sacrifice of current currencies and resources for the sake of future currencies and resources. An investment is one of the decisions of finance function that involves the decision of capital to establish commercial or industrial venture. In other words it involves commitment of funds into long-term assets that would yield benefits in coming future period. "Investment in the actual sense it means the sacrifice of current dollars for future dollars". Investment involves two attributes, time and risk. The sacrifice takes place in the present and is certain the element of time predominates (for example, call option on common stock). In yet others, both time and risk play a dominant role (for example share common stock) (Sharpe, 1998).

The classical deposit-credit strategy is no longer sufficient for commercial banks to survive in the financial market and achieve a sufficient level of profit. In addition to the loan placement strategy, it is necessary to adopt an adequate investment strategy that will contribute to the profitability, liquidity and security of the overall asset portfolio (Jamshid,2020). The investment pattern is long term perspective and investing one's hard earned money is a serious subject that can a major impact on a investor's future well being. The investment patterns of banks is therefore crucial concern of today's financial market, the sound investment policy always guides the investment pattern that ensure the desiring level of profitability and long term sustainability. An investment policy is any government regulation or law that encourages or discourages foreign investment in the local economy. An investment policy is very essential in a nation's economy as well as financial growth of a country. In order to ensure the survival, growth and development of banks in the face of fierce competition, it is necessary to strategically manage the entire business, assets and liabilities, deposit, credit and investment portfolios, manage risks in accordance with the regulations of the central Bank and the Basel Principles and ensure sufficient safety margins and capital adequacy.

Investment decision making have two aspects i.e. (i) the evaluation of the prospective profitability of new investment and (ii) the measurement of cut-off rate against the prospective return of the new investment that could be compared. Future is always uncertain, therefore future benefit of an investment cannot be assessed so easily and the amount of risk is unpredictable as well. Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risks. The sacrifice takes place in present and is certain. The reward comes and predominates (for e.g. government bonds) (Sharpe & Alexander, 1996).

Commercial banks are major financial institutions, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resource sectors by investing collected deposits. Thus, they contribute to economic growth of a nation. Besides this, commercial banks render numerous services to their customers in view of facilitating their economic and social life. All the economic activities of each country are greatly influenced by the commercial banking business in that country. In this way, commercial banks have become the heart of the financial system (Jain, & Khan, 2011).

All Commercial Banks play an important role in the economic development of a nation. Without banking the development of the nations, it is regarded as the heart of the financial system. People invest their earnings with a hope of getting good return on their investment. Nevertheless, due to certain circumstances they lose their hard earnings. Therefore, in order to make the right decision we have to have a sound investment policy. The study focused on evaluating the deposit utilization of the banks in terms of loans and advances and investments and its contribution in the profitability of the bank. The main focus of the study is to make a comparative study of Himalayan Bank Ltd, SBI Bank Ltd, Nepal Investment Bank Ltd and Nabil Bank Ltd regarding financial performance in terms of liquidity, asset management, profitability and risk. It will also focus on fund mobilization and investment policy (Upreti, 2012).

In Nepal, Commercial banks formulated sensible investment policies to make them more effective which eventually contribute to the economic development of the country. The

investment of the CBS include the investment on government securities, like treasury bills, development bonds, national saving bonds, foreign government securities, share of government owned companies and non-government companies and investment on debenture, similar the CBS used their funds as loan and advances.

## **2. Statement of the problems and research questions**

In Nepal majority of commercial banks rely upon instruction and guideline of Nepal Rastra Bank. Most of Nepalese commercial bank do not have proper investment policy in an organized manner, they collect the adequate amount from mass however, they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Few commercial banks are getting regular profits. Most of them are unable to satisfy their shareholders, Managers and customers in earning profit and ensuring their safe deposit. Some banks are incurring clients or adequate deposited but they cannot find profitable sectors or opportunities to invest the deposit collections. They have always feared with high degree of risk and uncertainty (Upreti, 2012).

There are various problems regarding resources and fund mobilizations by financial institution in Nepal. Lack of sound investment policy is main reason for a commercial bank not to properly, utilizing its deposit that is making loan and advances or lending for a profitable project. This condition may lead the commercial bank to the position of liquidation. The formulation of proper investment policy and absence of strong commitment towards the proper implementation has caused many problems to commercial banks. The study have following research questions:

- i. What are the positions of liquidity, assets management, profitability and risk of commercial banks?
- ii. What is the relationship between investment, deposits, loan and advances and total net profit?
- iii. What are the trends of their deposits, loans, and advances, investment and net profit?

### **3. Purposes of the study**

The main Objective of this study is to assess the investment policy of Himalayan Bank Ltd, SBI Bank Ltd, and NABIL Bank Ltd and Nepal Investment Bank Ltd. The specific objectives of this study are as follows.

- i. To analyze the liquidity, assets management efficiency, profitability and risk position of commercial bank.
- ii. To examine the relationship between investment, deposits, loan and advances and total net profit of bank.
- iii. To analyze the trends of investment, deposits, loan and advances and net profit of commercial bank.

### **4. Significance of the Study**

In Nepal, there is less availability of research and articles in investment policy of commercial bank. As investment is the backbone of development of the country and commercial banks have great contribution in the economic growth, this study try to highlight investment policy of commercial banks. The study summarizing, sensible and precious to the people having interest in the investment policy of HBL, SBI, Nepal Investment bank and NABIL bank Ltd. This would be beneficial for bank management, shareholders and customers and furthermore, this would be useful for teacher and students related to the accountancy and finance.

The study will be helpful for commercial banks and financial institutions. It will be provides a useful feedback to the policy maker of banks and also to the government and central bank to formulate the appropriate strategies for improves in the performance of the banks. This study is equally significant to the shareholders, depositors and other creditors to identify the productivity of their fund.

### **5. Limitation of the study**

This study will to examine the effect of investment decision on financial performance of commercial banks in Nepal; still it has its own restrictions which are as below.

- i. This study will be based on secondary data only, reliability of result will be based on their reliability of data available from the annual report, articles, books, journal, unpublished as well as published thesis works.
- ii. The whole study will be based on the data of five years period (i.e., comparative study).
- iii. The study will be focused on investment aspects of banking performance only.
- iv. The scope of the study will be limited within the frame work of investment policy only.

## **6. Literature review**

Review of literature provides the foundation for developing a comprehensive the recital framework and knowledge of the status relevant to the study in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter, the focus is made on the review of literature relevant to the investment pattern and policy of commercial banks. For this study different book, journals, articles, annual this chapter is arranged in the following order.

### **Review of research journal article**

Jha & Hul (2012), conducted a study entitled "financial performance of commercial banks in Nepal". The study finds that through financial ratios analysis compares the financial performance among commercial banks; the same bank had different ranks under the different financial ratios. The ratio of public sector banks were higher than those of joint venture and domestic public sector banks was not observed sound because other financial ratio including ROE, CDR, and CAR of most of the joint venture and domestic public banks were found superior. This study shows, high overhead costs, political intervention, poor management and low quality of collateral created continued deterioration in the financial health of the public sector banks. The values determined for the financial ratios reveal that joint venture and domestic. Public banks are also not so strong in Nepal to manage the possible large scale shock to their balance sheet. Furthermore, it can be conclude from the multiple regression analysis that the capital adequacy ratio, interest expenses to total loan and net interest margin were significant but

had a negative effective on ROA while non- performing loan and credit to total deposit did not have any considerable effect on ROA. The capital adequacy ratio positively influenced the return on equity but the non-performing loan, credit to deposit ratio, interest expense to total loan and net interest margin had no significant effect on ROE.

Rimal (2013), "Nepal's Overall Banking Sector is not good". This article examines Nepal's banking sector has been passing through ups and down in the last few year. Nepalese bank face the liquidity crunch a few years ago and now the banking sector has problems of excessive liquidity. Nepal's overall banking sector is not good owing to the problems related to liquidity despite certain progress. For instance, 31 commercial banks have excessive liquidity and there is also less than 8% interest rate in inter banking transaction.

Uthayachandar (2014), In the study Financial institutions, the investment and investment problems are revolve around the concept of managing the surplus financial assets in such a way, that leads to the wealth maximization and providing a significant further of income. Thus the investment is the management of the surplus resources in such a way that it works for providing benefits to the supplier to the funds that is the banks. However investment needs to be a procedural task. It must follow a definite process, to ensure the formulation of proper investment policy. Banks are disbursing their money as investment in business and industry. Therefore, banks should be following the principle of investment for profit. An investment policy should ensure maximum profit and minimum risk. A huge collection and investment policy plays vital role for the economic development of whole economy. The main focus of this study is towards the investment practices of the banks. The study suggests the way to be the policy makers to improve the management of investment policy and recommends suggestions to raise the profit.

Somewhwar (2015) has studied entitled " An investment pattern of scheduled commercial banks in India". The study focused on investment portfolio of scheduled commercial banks. The investment and investment problems are revolve around the concept of managing the surplus financial assets in such a way, that leads to the wealth maximization and providing significant further source of income to the banks. Thus the

investment is the management of the surplus resources in such a way that it provides benefits to the supplier of the funds that is the banks. However, the investment is a procedural task. It must follow a defined process, to ensure the formulation of proper investment policy. Banks are disbursing their money as investment in trade business and industry. Therefore, banks should be following the principle of investment for profit. An investment policy should ensure maximum profit and minimum risk. A huge collection and investment policy plays vital role for the economic development of whole economy. The main focus of this study is towards the investment portfolio of the scheduled commercial banks.

### **Review of previous studies**

Dhungana (2009), has done study entitled "Investment pattern analysis of commercial banks of Nepal". The study focuses on the comparative study on investment pattern of commercial bank. Dhungana suggested that, banks should increase their efficiency on collecting deposit by using several techniques, without enough deposit banks cannot run smoothly and have more investment opportunity. Investment on government securities is considered as safety option than other means of investment. Banks are not following properly the NRB directives regarding investment on priority sector, banks are suggested to invest stipulated investment on priority sector. The author further states, by allocating funds in different components of banking assets having different degree of risks and varying rate of return, banks can achieve the goal of maximum yield and minimum risk.

Regmi (2016), conducted a study on "A comparatively study on Investment policy of Everest Bank and Himalayan Bank Limited". The liquidity position of EBL was comparatively better than HBL, EBL had the highest cash and bank balance to total deposit ratio, cash and bank balance to current assets ratio than that of HBL. Both EBL and HBL had almost same pattern of investment on government securities, but fluctuating ratios showed the unstable policy of investment. EBL has higher loan and advances to current assets ratio and successful in deposit collection as well. In profitability analysis, HBL had maintained high profit margin regarding profitability position, HBL was more successful to generate income through loan and advances and operating income and it has earned more total outside assets and total working funds.

Karki (2017), conducted a study entitled "An analysis of investment policy of commercial banks in Nepal" .The liquidity position of NIBL was highly fluctuating which showed that NIBL are higher risk than other two banks. From the analysis of assets management ratio of NIBL in comparison to Nabil and HBL was more successful regarding assets management and deposit mobilization. NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor

## **7. Research gap**

After review the past articles and thesis, investment policy of commercial banks in Nepal. The research study is mainly differ than the previous research study due to this research study is mainly focus on both measuring financial performance and investment policy of banks. The ratios used liquidity ratios, Assets management ratios, Profitability ratios and Risk ratios to measures the financial performances learnable are different than the past researcher. The sample used in research study are HBL, NIBL, NABIL and SBI Bank Ltd, which are different than the past research articles and thesis.

## **8. Research methodology**

This part reveals the way and methods will be used to conduct this study. Any empirical work requires sound methodology. Natural sciences have their own method based on objectivity and practical research. Since present study is also an empirical research on Investment Policy Of Commercial Banks In Nepal (A Comparative Study of Himalayan Bank ltd, SBI Bank ltd, Nepal Investment Bank ltd & NABIL Bank ltd). It requires a scientific method for the study. Therefore for conducting the present research principles and methods of science will be adopted.

### **8.1 Research design**

Panta(2016) Quantitative research concentrates on what can be measured. It involves collecting and analyzing objective (often numerical) data that can be organized into statistics. This study will be depend on the secondary data. Descriptive research design

will be use in this study in order to examine investment pattern analysis of commercial banks in Nepal. It includes all process of collecting verifying and evaluating of past evidence systematically and objectively to reach conclusion. Some statistical and financial tools will have adopt to examine facts in this study.

## **8.2 Population and sample**

Population: The population for the research is all commercial banks in Nepal i.e.27 commercial banks. According to the monetary policy 2076/77, in line with the investment decision policy of this banks .At present, there are 27 commercial banks are in operation, these commercial bank will be taken as the population for the study.

Sample: Out of commercial banks, four commercial banks, Himalayan Bank, SBI Bank, Nepal Investment Bank, and Nabil Bank Ltd. which have been considered as the selected sample frame. This study cover the data five years form fiscal year 2014/15 to 2018/19. Convenience sampling, the most commonly will be used, incredibly prompt, uncomplicated and economical sampling technique will be applied for this study.

## **8.3 Data collection and processing procedure**

This research will be examined the investment pattern analysis of commercial banks. For this purpose secondary data will be used, data will be collected from the financial statement of the selected banks 5 year period.

## **8.4 Data analysis tools and techniques**

In order to achieve the objectives of the study various financial and statistical tools will be use to analyze the of investment pattern of commercial banks. Statistical tools will be Mean, standard deviation, correlation analysis, covariance analysis and regression analysis. Similarly financial tools will be liquidity, assets management, profitability and risk ratio analysis.

## **9. Chapter plan**

Considering the objectives, the study will be organized into five chapters.

**Chapter 1: Introduction**

This chapter will include background of the study, focus of the study, statement of the problems, purpose of the study, significance of the study, limitation of the study and organization of the study.

**Chapter 2: Review of literature**

This chapter will include the relevant previous writing and studies to find the existing gap; review of books, dissertation will be included in this chapter.

**Chapter 3 Research Methodology**

This chapter will contain research design, population and sample size, data collection procedure and tools used for analysis.

**Chapter 4 Results**

This chapter will be related presentation and analysis of financial statement employing financial and statistical tools. It also includes major finding and discussion.

**Chapter 5 Conclusion**

This Chapter will include the summary, conclusion and implication of the study.

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**INVESTMENT PATTERN ANALYSIS OF COMMERCIAL BANKS OF NEPAL**  
( A Comparative Study of Himalayan Bank Ltd, Nabil Bank Ltd, Nepal Investment Bank  
Ltd & Nepal SBI Bank Ltd)

**A Thesis Proposal**

**Submitted**

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