INVESTMENT POLICY ANALYSIS OF NEPALESE COMMERCIAL BANKS

(A Comparative Study of NABIL Bank and NIBL)

A Thesis Proposal

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Background of the study

An investment policy is any government regulation or law that encourages or discourages foreign investment in the local economy. A sound investment policy is very essential in a nation's economy for economical as well as financial growth of a country. Investment in its broadest sense, means the sacrifice of current currencies and resources for the sake of future currencies and resources.

The well-organized financial system of a country plays a great role in the economic development of that country, as it transfers financial resources from savers to those who need them. As part of the financial system, financial institutions such as commercial banks, finance companies and financial cooperative societies are important vehicles for the development of economy, trade and business and other productive sectors that contribute to the economic growth of the nation. The mobilization of financial resources, capital formation, and their proper utilization play key role in the economic development of the country. Among them, the role of commercial banks is perhaps the most important in the economic development in the country. Commercial banks provide capital for the development of industry, trade and business by investing the saving collected as deposits from the public. They render various other services to their customers facilitating to improve their economic and social life. They are the most important instruments for the country's development. Therefore, a competitive and reliable banking system is essential to every country to develop

The proper mobilization and utilization of domestic resources is one of the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is only possible when competitive and reliable banking services are reached and operated to every corner of the country. It has been well established that the economic activities of any country can hardly be carried without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development. The investment policy of financial institutions, especially banks has long term impact not only on their growth and sustainability but also on the economic development of the country. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Good investment policy has a positive impact on economic development of the country and vice- versa.

An investment policy statement (IPS) is a document drafted between a portfolio manager and a client that outlines general rules for the manager. This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are included in an investment policy statement.

In addition to specifying the investor's goals, priorities and investment preferences, a well-conceived IPS establishes a systematic review process that enables the investor to stay focused on the long-term objectives, even as the market gyrates wildly in the short term. It should contain all current account information, current allocation, how much has been accumulated and how much is currently being invested in various accounts.

Commercial banks are major financial institutions, which occupy quite important place in the frame work of every economy because they provide capital for the development of industry, trade and business and other resources sectors by investing collected deposits. Thus, they contribute to economic growth of 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 heart of financial system.

“Commercial banks bring into being the most important ingredient of the money supply demand deposit, through the creation of credit in the form of loan and investment” (Crosse,1980:110).

Commercial bank also provides the flexibility and mobility to the customers because the payment can be mostly speedily and efficiently carried out. “The commercial bank permitted to accept demands deposit” (Hanks and Suki1980:159).

Statement of problem

The economic development of the country thus depends on the volume of investments made by the commercial banks. The main economic goal of developing countries is to accelerate the present growth rate. Although most of the developing countries are predominantly agricultural, industrial development is need of these country for their economic development and investment. But rate of investment in Nepal is very low. The main cause political instability, low investor confidences, lack of knowledge, lack of efficient capital market, lack of improved prospectus to investors and slow privatization process.

There are various problems in resources mobilization by financial institution in Nepal. The most important problems are is poor investment climate prevailing in Nepal due to heavy regulatory procedure, uncertain government policy, NRB's stringent directives, unsecured social environment etc. Lack of sound investment policy is another reason for a commercial bank not to properly utilizing its deposits that is making loan and advances or lending for a profitable project. This condition may lead the commercial bank to the position of liquidation.

Based on the study above statement of problems this research their to answer the following research questions.

i. what are the trends of their deposits, loans, advances investment and net profits?
ii. What is the relationship between investment and loan with total deposits and total net profit?
iii. which investment policy is more effectives and efficient between the two selected banks?

Purposes of the study

Investment decision is one of the major decision functions of financial management. The main objective of the study is to evaluate and assess the investment policy and strategies follow ed by the bank. The specific objectives of the is study are as follow:

(i)To analyze the trends of investment, deposit, loans investment and net profit of sample commercial bank.

(ii)To study of relationship between investments, deposits, loans, advances and net profit of the sample commercial banks.

(iii) To examine the investment policy of the sample banks.

Significance of the study

The investment policy of commercial banks shall be accordance with the spirit of the economic advancement of the people and also called it as the life blood of financial institution. A sound investment policy of a bank is such that its fund are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to depositors.

The study will certainly help to the management of the concerned bank to improve their performance and help them to take corrective action. Thus, this study lies mainly in filling a research gap on the study of investment policy of commercial banks.

Similarly, depositors can take decision to deposit on their money. Also useful to more people and organization such as trade creditors, investors, academicians, general public, stock brokers etc. This research helps to gain and share some practical knowledge of banding and management of the commercial banks in the perspective of improving financial performance. The study helps financial institution, feedback for other researcher as well as me.

Limitations of the study

The limitations of the study are as follows.

i. This study covers only the period of five years trend of commercial banks from the financial year 2015 to 2019.
ii. The study include only those factors related with investment policy to financial aspect will be considered
iii. Since, the study is fully based on the secondary data collected from various sources. Their relevancy will depend upon the authenticity of the publishers.
iv. Only two commercial banks are selected for the study.
v. The study deals with limited financial and statistical tools.

Organization of the Study

The study will be presents in the following order;

Chapter - I: Introduction

This is the first chapter of the study. This chapter consists of general background of the study, statement of the problem, objectives of the study, significance of the study, limitations/scope of the study and organization of the study.

Chapter - II: Review of Literature

The second chapter, Review of Literature, reviews of available relevant studies. It includes the conceptual review and review of the related books, journals and the published and unpublished research to show what types of studies were made in this field and what conclusions were drawn by the previous researchers.

Chapter - III: Research Methodology

The chapter contains research design, sources of data, population and sample, method of data collection and analysis. Various financial and statistical tools are defined which have been used in the analysis of data.

Chapter - IV: Results

This chapter consists of presentation and analysis of data and major findings findings and discussion of the study. Analysis will describe based on chapter 3 and the calculate results will presents in a tabulated form and graphical presentation will make along with the interpretation of the calculated figures.

Chapter - V: Conclusions

The fifth and last chapter lists the summary and conclusions, and offers recommendations, discussion suggestions based on the analysis and interpretation of the data. Bibliography and appendices are also included at the end.

Literature Review

The purpose of this chapter is to review the relevant literature regarding the investment policy of commercial banks in Nepal so as to formulate the appropriate research problem, and the research gap between the previous research studies and the present study. Such a review will make from various sources of literature available in different libraries, documentation center, Nepal Stock Exchange Ltd., other information concern with commercial banks' websites. This chapter first presents the conceptual review, review of articles, research papers and previous research studies relevant to this study, and the research gap.

This chapter deals with the theoretical aspect of the topic on investment policy in more detail and descriptive manner. It provides the foundation for developing a comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter focus on the review of literature relevant to the investment policy of commercial banks. For this study, different books, journals, articles, annual reports and some research paper related with this topic review. Therefore, this chapter will be is arrange d in the following order:

(i) Review of Supportive Text

(ii) Review of Previous Study

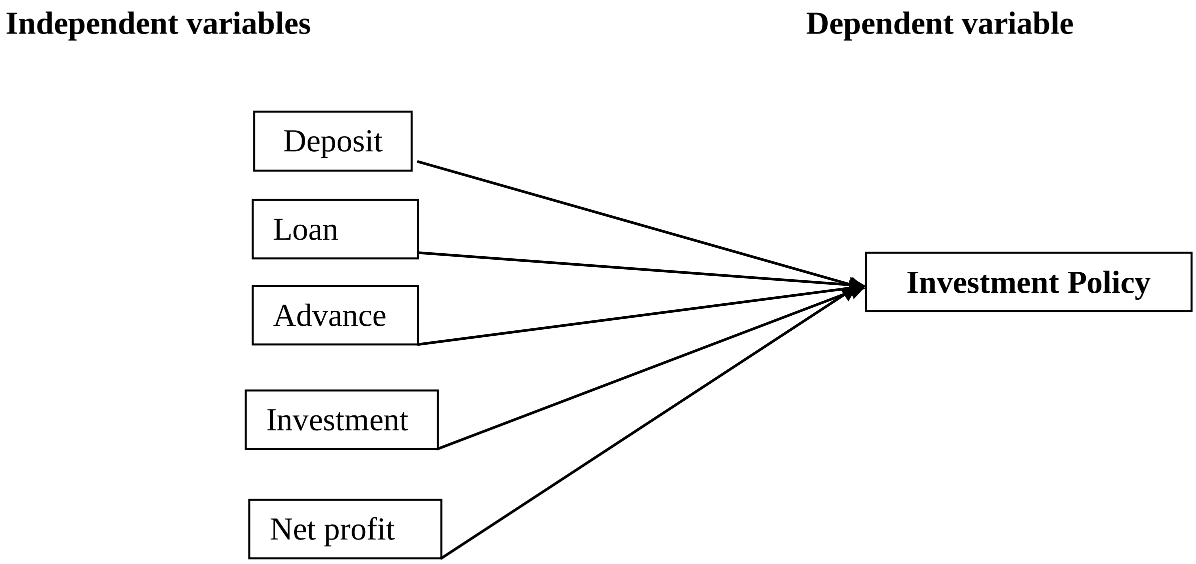
(iii) Review of Articles

(iv) Review of Research Papers Review of Thesis

(v) Review of Legislative Provisions

Conceptual Framework

A conceptual framework is a model that shows the relationships among the several factors that have been identified as important to the problem. It is prepared after the literature review, defining the problems. This study of conceptual framework is given below.



Research gap

This research work will be identify causes to analyze them and recommend improvement measures of the betterment of the banks under study and to analyze the investment position of sample banks .

Thesis related to this topic done earlier by the researcher past fiscal year, but this research data of current fiscal year will include so that it shows the proper investment decisions of the selected banks.

This study covers the more recent financial data, NRB guideline and institutions than those previously conducted .and it is concern of stake holders to know the portfolio behavior of the bank.

Research Methodology

Introduction

Methodology is the research method used to test the hypothesis to achieve objectives and every research study, specified methods and techniques should be followed which is known as research methodology. Researcher has to collect the information which is required, evaluated and verify them to reach some conclusion.

Research design

Research design is the systematic planning structure and strategy for conducting a particular research work. It provides the frame work of the study. To achieve the objectives, the study will collect, verify financial information systematically and objectively to reach some conclusions. The procedure for assessing the investment policy of sample bank will base on descriptive and comparative research design. The data will adopt as a research design for the study.

Population sample and sampling procedure

Population and Sample Since new commercial banks are being incorporated every year, the number of commercial banks in Nepal increasing rapidly. However, there are 27 commercial banks functioning all over the country at present and most of their stocks are traded actively in the stocks market. Although there are 27 commercial banks operating in Nepal at present, only two banks, will select for the study and their data related to investments performance will be comparatively study.

Sources of Data

The report will be mainly base on secondary data. The data required for the analysis directly obtain from the balance sheet and P/L account of concerned bank’s annual reports. Supplementary data and information will collect from number of institutions and regulating authorities like NRB, SEBON, NEPSE, Ministry of Finance, budget speech of different fiscal years. And economic survey.

All the secondary data will comply process and tabulated in the time series as per the need and objectives. Likewise various data and information will collects from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources. Formal and informal talks with concerned authorities of the bank will also helpful to obtain the additional information of the related problem.

.Data Collection Procedure and Instruments.

The procedures will adopt for collection of data are:

i. The available literature on the subject matter will collect.
ii. The information on deposit, loans and advances will present.
iii. On the basis of the objectives of the study, the data relating to this study will identify and collect from different sources.
iv. The data will use classify and tabulated in suitable manner. All the secondary data will comply, process and tabulate in time series as per the need and objectives.

Data processing procedure and data analysis method

To achieve the objective of the study, various financial and statistical tools will use in this study; financial ratios, growth ratios and coefficient of correlation as an analysis tool will use in this study. The various calculate results obtained through financial and statistical tools will tabulate under different headings and then compare with each other to interpret the results.

Financial tools

Ratio analysis

Liquidity ratio

It measures the liquid position of company, firms and commercial banks' ability to meet current obligations.

(I) Current ratio

CR = CA/CL

Where,

CR=Current Ratio

CA= Current Assets

CL= Current Liabilities

(II) Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)

This ratio is computed by dividing cash and bank balance by total deposits. This can be stated as,

Cash Reserve Ratio = Cash and Bank Balance /total deposits

iii. Cash and Bank Balance to Current Assets Ratio

This ratio is computed by dividing cash and bank balance by currents assets we can state it as:

Cash and Bank Balance to Current Assets Ratio = Cash and Bank Balance/current assets

iv. Investments on Governments Securities to Currents Assets

Investments on Governments Securities to Currents Assets=

Investments on Government s Securities/total current assets

B. Assets Managements Ratios

Assets managements or activity or turnover ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets..

i. Loan and Advances to Total Deposit Ratio

This ratio can be calculated by dividing loan and advances by total deposits.

ii.Total Investments to Total Deposit Ratio

This ratio can be calculated by dividing loans and advance by total deposits.

Profitability Ratios

i. Return on Loan and Advance Ratio

When net profit is divided by loan and advances the ratio is called return on loan and advances.

ii. Return on Total Assets Ratio

This ratio is calculated by dividing net profit by total assets

iv.Total Interest Earned to Total Operating Income Ratio

This ratio is calculated by dividing total interest earned by total

Operating income.

Risk Ratio

Risk taking is the prime business of bank's investment managements. It increases effectiveness and profitability of the bank. The followings ratios are evaluated under this topic:

I. Credit Risk Ratio

Credit risk ratios measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank by definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances.

Growth Ratios

Growth ratios are directly related to the fund mobilization on investments managements of a commercial bank. Growth ratio represents how well the commercial bank is maintaining its economic position.

Statistical Tools

Statistical tools help to find out the trends of financial position of the bank and to analyze the relationship between variables that helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies. In this study, statistical tools such as coefficient of correlation between different variables, trend analysis of important variables have been used for analyzing and interpreting the financial data. The basis of statistical analysis related to this study is discussed below:

i.Arithmetic Mean

ii.Standard deviation

iv.Coefficient of variation

v.coefficient of Correlation Analysis

vi. Coefficient of Determination (R^2)

Trend Analysis (The Least-Square Method)

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