

INVESTMENT POLICY OF NEPALESE COMMERCIAL BANKS

By

SANDIP NEPAL

Thakur Ram Multiple Campus

T.U Regd. No: 7-2-237-126-99

Campus Roll No.:- 07/060

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)*

**Birgunj, Nepal
September, 2010**

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

SANDIP NEPAL

Entitled:

INVESTMENT POLICY OF NEPALESE COMMERCIAL BANKS

(A Study of Selected Nepalese Listed Commercial Banks)

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

.....

Mr. Lalan Dwibedi

(Thesis Supervisor)

.....

Mr. Rajeshwar Pd. Acharya

(Head of Research Department)

.....

(Campus Chief)

Date: September, 2010

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

SANDIP NEPAL

Entitled:

INVESTMENT POLICY OF NEPALESE COMMERCIAL BANKS

(A Study of Selected Nepalese Listed Commercial Banks)

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's in Business Studies (MBS)

Viva-Voce Committee

Head of Research Committee

Member (Thesis Supervisor)

Member (External Expert)

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Investment Policy of Nepalese Commercial Banks (A Study of Selected Nepalese Listed Commercial Banks)**" 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 Master's Degree in Business Study (M.B.S.) under the supervision of **Mr. Lalan Dwibedi**, of Thakur Ram Multiple Campus.

Date: September, 2010

.....

Sandip Nepal

Researcher

Roll No. 07/060

Batch : 2060-61

T.U. Registration No: 7-2-237-126-99

ACKNOWLEDGEMENT

I gratefully appreciate my thesis supervisors Mr. Lalan Dwibedi for profound advice, consistent support, proper direction, patient guidance, valuable suggestions and persistent encouragement that helped me to transform this thesis in the presentable form.

This thesis has been prepared at the insistence of Mr. Rajeshwar Prasad Acharya, Head of Research Committee, Mr. Avinash Prasad Singh, & Dr. Deepak Sakya, as a partial requirement to the fulfillment of Master Degree in Business Studies (MBS) under Tribhuvan University. I wish to extend him my cordial gratitude for the intellectual suggestions.

Any accomplishment entails the effort of many people and this is no different. In this regards, I express sincere thanks to all staff members of Thakur Ram Multiple Campus and Nepal Rastra Bank, Birgunj (Central Bank) Members who helped me directly and indirectly in the course of review of literature. I am grateful to the management of SCBL, NIBL, NABIL, EBL & HBL for providing necessary data for the study. Additionally, I would like to express my sincere thanks to my respected teacher Mr. Vivek Niraula, Mr. Sushil Kumar Nepal for their assistance.

At this moment, I acknowledge my considered debt to my colleagues & my family members, who directly encouraged and helped me in many aspects.

At last, regardless of the source I wish to express my gratitude to those who may have contributed to this work, even though anonymously.

Date: September, 2010

SANDIP NEPAL
Researcher
Thakur Ram Multiple Campus
September, 2010
Birgunj

TABLE OF CONTENTS

Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
Abbreviations	

CHAPTER – I INTRODUCTION

1.1	Background	1
1.1.1	Commercial Banks	2
1.1.2	Investment Policy	4
1.1.3	Growth of Nepalese Commercial Banks	6
1.2	Focus of the Study	10
1.3	Statement of Problems	10
1.4	Objectives of the Study	12
1.5	Significance of the Study	12
1.6	Limitations of the Study	13
1.7	Organization of the Study	14

CHAPTER – II REVIEW OF LITERATURE

2.1	Conceptual Framework	16
2.1.1	Concept of Investment	17
2.1.2	Objective of Investment	19
2.1.3	Importance of Investment	19
2.1.4	Source of Investment Uncertainty	20
2.1.5	Investment Alternatives	22

2.1.6	Feature of Sound Lending and Investment Policy	24
2.1.7	Portfolio Analysis	26
2.1.8	Portfolio Analysis and Diversification	27
2.1.9	Portfolio Risk and Return	30
2.1.10	Correlation Coefficient and Portfolio Risk	32
2.1.11	Systematic Risk and Unsystematic Risk	33
2.1.12	Market Portfolio	34
2.1.13	Loan Procedure	35
2.1.14	Factor Affecting Investment Portfolio Decision	36
2.2	Review of Legislative Provision	37
2.2.1	Provision for Credit to Priority Sector	38
2.2.2	Provision for Investment in Deprived Sector	38
2.2.3	Provision for Investment in Productive Sector	38
2.2.4	Loan Classification and Loss Provision	38
2.2.5	Provision for the Single Borrower Credit Limit	39
2.2.6	Interest Rate Spread	41
2.2.7	Guidelines for Investment in Stocks and Securities	42
2.2.8	Investment Management Regulation	42
2.2.9	Provision for Minimizing Liquidity Risk	43
2.2.10	Cash Reserve Requirements	43
2.3	Review of Previous Studies	43
2.3.1	Review from International Context	43
2.3.2	Review of Previous Studies	43
2.4	Review of unpublished thesis	52
2.5	Review of Thesis	54
2.6	Research Gap	64

CHAPTER – III RESEARCH METHODOLOGY

3.1	Research Design	66
3.2	Population and Sample	66
3.3	Sources of Data	67
3.4	Data collection and processing techniques	68
3.5	Data analysis tools	68

CHAPTER – IV DATA PRESENTATION AND ANALYSIS

4.1	Investment portfolio risk and return analysis of commercial bank	76
4.1.1	Return on Individual Investment	77
4.1.1.1	Return on Government Securities	76
4.1.1.2	Return on Loan and Advances	81
4.1.1.3	Return on Share and Debenture	86
4.1.2	Risk on Individual Investment	88
4.1.2.1	Risk on Government Securities	88
4.1.2.2	Risk on Loan and Advances	92
4.1.2.3	Risk on Share and Debenture	97
4.1.3	Return on Investment Portfolio	97
4.1.4	Risk on Investment Portfolio	102
4.1.5	Investment on Government Treasury Bills to Total Investment	107
4.1.6	Investment on other government securities to Total Investment	108
4.1.7	Investment on Corporate Share to Total Investment	108
4.1.8	Investment on Foreign Banks to Total Investment	109
4.1.9	Investment on Corporate Bonds and Debenture to Total Investment	109
4.2	Analysis of Ratio and Interpretation	109
4.2.1	Total Investment to Total Deposit Ratio	110
4.2.2	Investment on Government Securities to Total Outside Investment Ratio	111

4.2.3 Investment on Loan and Advances to Total Outside Investment Ratio	112
4.2.4 Calculation of Non-performing Assets to Total Assets	115
4.2.5 Investment on Share and Debenture to Total Outside Investment Ratio	115
4.2.6 Return on Total Assets Ratio	117
4.2.7 Proportion of Investment on Government Securities including corporate Securities to paid up capital	118
4.2.8 Proportion of Loan and Advances to Total Deposit Ratio	119
4.3 Least Square Linear Trend Analysis	119
4.3.1 Trend Analysis of Investment on Government Securities	119
4.4 Major Findings of the study	121
4.4.1 Findings from Risk and Return Analysis	121
4.4.2 Findings from analysis of Ratios	122

CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary	123
5.2 Conclusion	125
5.2.1 Risk and return analysis	125
5.2.2 Ratio analysis	125
5.2.3 Trend analysis	126
5.3 Recommendation	127

BIBLIOGRAPHY

ABBREVIATIONS

A.D	:	Anno Domini
A/C	:	Account
AGM	:	Annual General Meeting
ATM	:	Automatic Teller Machine
B.S.	:	Bikram Sambat
CAPM	:	Capital Assets Pricing Model
CBs	:	Commercial Banks
CDs	:	Certificate of Deposits
Co.	:	Company
CRR	:	Cash Reserve Ratio
CV	:	Coefficient of Variation
EBL	:	Everest Bank Limited
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
Govt.	:	Government
HBL	:	Himalayan Bank Limited
HMG	:	His Majesty's Government
i.e.	:	That is
IFIC	:	International Finance Investment & Commercial Bank
IMF	:	International Monetary Fund
JVBs	:	Joint Venture Banks
LC	:	Letter of Credit

ABBREVIATIONS

Ltd.	:	Limited
Mkt.	:	Market
MSCI	:	Morgan Stanley Capital International
NEPSE	:	Nepal Stock Exchange
NIBL	:	Nepal Investment Bank Limited
NPAT	:	Net Profit After Tax
NRB	:	Nepal Rastra Bank
NYSE	:	New York Stock Exchange
OLS	:	Ordinary Least Squares
P	:	Page
P & D	:	Purchase & Discount
PV	:	Present Value
PVt	:	Private
R & R	:	Risk & Return
RBB	:	Rastriya Banijya Bank
RWA	:	Risk Weighted Assets
SCBL	:	Standard Chartered Bank Limited
SEBO	:	Securities Board
TBs	:	Treasury Bills
TOI	:	Total outside Investment
TU	:	Tribhuvan University
US	:	United States