ANALYSIS OF INVESTMENT POLICY OF COMMERCIAL BANKS

(WITH REFERENCE TO EVEREST BANK LIMITED AND NEPAL INVESTMENT BANK LIMITED)

By: RAJIV MAHARJAN

Shanker Dev Campus

Campus Roll No: 393/061

T.U. Registration No: 7-2-39-127-2000

Second Year Symbol No.: 4378

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 April, 2011

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

RAJIV MAHARJAN

Entitled:

ANALYSIS OF INVESTMENT POLICY OF COMMERCIAL BANKS

(WITH REFERENCE TO EVEREST BANK LIMITED AND NEPAL INVESTMENT BANK 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. Ruchila Pandey	Prof. Bishweshor Man Shrestha	Prof. Dr. Kamal Deep Dhakal
(Supervisor)	(Head of Research Department)	(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by RAJIV MAHARJAN

Entitled:

ANALYSIS OF INVESTMENT POLICY OF COMMERCIAL BANKS

(WITH REFERENCE TO EVEREST BANK LIMITED AND NEPAL INVESTMENT BANK 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

Master Degree 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 "Analysis of Investment Policy of Commercial Banks (With Reference to Everest Bank Limited and Nepal Investment Bank 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 Master Degree in Business Studies (MBS) under the supervision of Asso. Prof. Ruchila Pandey of Shanker Dev Campus.

.....

Rajiv Maharjan Shanker Dev Campus

Campus Roll No: 393/061

T.U. Regd. No: 7-2-39-127-2000 Second Year Symbol No.: 4378

ACKNOWLEDGEMENT

I am pleased to present this study for the partial fulfillment of the requirement for the Degree of Master in Business Studies, which could enhance the capabilities of students in the field of research work.

I am highly grateful and indebted to my honorable supervisor Asso. Prof. Ruchila Pandey, Shanker Dev Campus, for her guidance, encouragement and possible help in the smooth conduct of this study. I would also like to thank Prof. Bishweshor Man Shrestha, Head of the Research Department, Shanker Dev Campus, for his encouragement, inspiration, valuable comments and special guidance on the preparation of this study.

Thanks are also due to library's staff of Shanker Dev Campus, and Central Library for providing me the related books and journals, and employees of Everest Bank Limited and Nepal Investment Bank Limited for providing necessary data and information without which the completion of study could be impossible. I would also like to thank all the respondents of the questionnaire for their valuable effort.

Finally, I extend my warm thanks to my family member and my friends for their continuous inspiration and support during the entire period of the study.

Rajiv Maharjan

1.1

1.2

1.3 TABLE OF CONTENTS

Recommendation			
Viva-Voce Sheet			
Declaration			
Acknowledgement			
Table of Contents			
List of Tables			
List of Figures			
Abbreviations			
			Page No.
1.4 CHAPTER – 1	I: INT	RODUCTION	
1.5 1.1 Background	d of the	e Study	
1			
	1.6	1.1.1 Profile of the Selected Banks	
		3	
	1.7	1.2 Statement of the Problem	
		4	
	1.8	1.3 Objectives of the Study	
		5	
	1.9	1.4 Significance of the Study	
		6	
	1.10	1.5 Limitations of the Study	
		6	
	1.11	1.6 Organization of the Study	
		7	
CHAPTER – II: RE		OF LITERATURE	
2.1 Conceptual Review			9
2.1.1 Meaning of Inv		nt	9
2.1.2 Types of Inves			11
2.1.3 Best Investmen			18
2.1.4 Investment Str	rategy		20

2.1.5 The Fundamentals of Investment Management	22
2.1.6 Online Investment	23
2.1.6.1 Online Investment Services	25
2.1.7 Return on Investment	26
2.1.8 Investment Risk	27
2.1.8.1 Types of Risk	28
2.2 Review of NRB Directives	29
2.3 Review of Journals and Articles	30
2.4 Review of Thesis	34
2.5 Research Gap	40
CHAPTER – III: RESEARCH METHODOLOGY	
3.1 Research Design	41
3.2 Population and Sample	41
3.3 Nature and Sources of Data	41
3.4 Data Analysis Tools	41
3.4.1 Financial Tools	42
3.4.2 Statistical Tools	44
1.12 CHAPTER – IV: DATA PRESENTATION AND ANALYSIS	
1.13 4.1 Secondary Data Analysis	
47	
4.1.1 Total Net Investment to Total Assets	47
4.1.2 Investment in Government Securities to Total Investment	48
4.1.3 Investment in Corporate Shares & Debentures to Total Investment	52
4.1.4 Investment in Inter Bank Lending to Total Investment	53
4.1.5 Return on Government Securities	55
4.1.6 Return on Corporate Shares and Debentures	57
4.1.7 Return on Inter Bank Lending	60
4.1.8 Provision on Investment	62
4.1.9 Statistical Analysis	63

4.1.9.1 Relationship between Investment on Government	
Securities and Net Profit	64
4.1.9.2 Relationship between Investment on Corporate	
Shares & Debentures and Net Profit	65
4.1.9.3 Relationship between Investment on Interbank	
Lending and Net Profit	65
4.1.9.4 Trend Analysis of Total Net Investment	66
4.1.9.5 Trend Analysis of Net Profit	67
4.2 Primary Data Analysis	68
4.2.1 Appropriateness of Investment Policy	69
4.2.2 Priority in Making Investment	70
4.2.3 Sensitivity of Investment Process	72
4.2.4 Crucial Element in Equity Share Investment	73
4.2.5 Suitability of Investment Directive of NRB	74
4.2.6 Necessity of Strengthening for Optimum Investment Policy	76
4.2.7 Main Reason for Low Proportion of Investment	77
4.2.8 Suggestion for Optimum Investment Policy	79
4.3 Major Findings of the Study	80
CHAPTER – V: SUMMARY, CONCLUSION AND RECOMMEN	DATIONS
5.1 Summary	83
5.2 Conclusion	84
5.3 Recommendations	85
BIBLIOGRAPHY	

APPENDICES

LIST OF TABLES

No.	Title Page	No.
4.1	Total Net Investment to Total Assets	47
4.2	Investment in Government Securities to Total Investment	50
4.3	Investment in Corporate Shares & Debentures to Total Investment	52
4.4	Investment in Inter Bank Lending to Total Investment	54
4.5	Return on Government Securities	56
4.6	Return on Corporate Shares and Debentures	58
4.7	Return on Inter Bank Lending	60
4.8	Provision on Investment	62
4.9	Relationship between Investment on Government Securities	
	and Net Profit	64
4.10	Relationship between Investment on Corporate Shares	
	& Debentures and Net Profit	65
4.11	Relationship between Investment on Interbank Lending	
	and Net Profit	66
4.12	Trend Analysis of Total Net Investment	66
4.13	Trend Analysis of Net Profit	68
4.14	Appropriateness of Investment Policy	69
4.15	Priority in Making Investment	70
4.16	Sensitivity of Investment Process	72
4.17	Crucial Element in Equity Share Investment	73
4.18	Suitability of Investment Directive of NRB	75
4.19	Necessity of Strengthening for Optimum Investment Policy	76
4.20	Main Reason for Low Proportion of Investment	77
4.21	Suggestion for Optimum Investment Policy	79

LIST OF FIGURES

No.	Title Pag	e No.
4.1	Total Net Investment to Total Assets	49
4.2	Investment in Government Securities to Total Investment	51
4.3	Investment in Corporate Shares & Debentures to Total Investment	53
4.4	Investment in Inter Bank Lending to Total Investment	55
4.5	Return on Government Securities	57
4.6	Return on Corporate Shares and Debentures	60
4.7	Return on Inter Bank Lending	62
4.8	Provision on Investment	63
4.9	Trend Analysis of Total Net Investment	67
4.10	Trend Analysis of Net Profit	68
4.11	Appropriateness of Investment Policy	70
4.12	Priority in Making Investment	71
4.13	Sensitivity of Investment Process	73
4.14	Crucial Element in Equity Share Investment	74
4.15	Suitability of Investment Directive of NRB	75
4.16	Necessity of Strengthening for Optimum Investment Policy	77
4.17	Main Reason for Low Proportion of Investment	78
4.18	Suggestion for Optimum Investment Policy	80

ABBREVIATIONS

CSD : Corporate Shares and Debentures

DB : Development Bond

Deb. : Debenture

EBL : Everest Bank Limited

GS : Government Securities

IBL : Inter Bank Lending

IGS : Interest on Government Securities

Inc. : Income

Int. : Interest

Inv. : Investment

IOCSD : Investment on Corporate Shares and Debentures

IOGS : Investment on Government Securities

IOIBL : Investment on Inter Bank Lending

NEPSE : Nepal Stock Exchange

NIBL : Nepal Investment Bank Limited

NP : Net Profit

P.E. : Probable Error

Prov. : Provision

ROCSD : Return on Corporate Shares and Debentures

ROGS : Return on Government Securities

ROIBL : Return on Inter Bank Lending

S.D. : Standard Deviation

SB : Saving Bond

TA : Total Assets

TB : Treasury Bond

TI : Total Investment

TNI : Total Net Investment