

# **PORTFOLIO ANALYSIS OF COMMERCIAL BANKS IN NEPAL**

**(A Case Study of Himalayan Bank Limited and Nabil Bank Limited)**

**Submitted by:**

**GYAN KRISHNA DANGOL**

Shankar Dev Campus

Roll No.:1332/063

T.U. Regd. No.:7-1-263-198-2000

**A Thesis Submitted to:**

Office of the Dean

Faculty of Management

Tribhuvan University

*In Partial Fulfillment of the Requirements for the Degree of  
Masters of Business Studies (M.B.S)*

Kathmandu, Nepal

March, 2013

# **RECOMMENDATION**

This is to certify that the Thesis

**Submitted By:**  
**GYAN KRISHNA DANGOL**

Entitled:  
**PORTFOLIO ANALYSIS OF COMMERCIAL BANKS IN NEPAL**  
**(A Case Study of Himalayan Bank Limited and Nabil 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.*

.....  
Achuyta Prasad Bhattraï  
(Thesis Supervisor)

.....  
Prof. Bisheshwor Man Shrestha  
(Head of Research Department)

.....  
Asso. Prof. Prakash Singh Pradhan  
(Campus Chief)

# VIVA-VOCE SHEET

We have conducted the viva voce of the thesis presented

By  
**GYAN KRISHNA DANGOL**

Entitled:  
**PORTFOLIO ANALYSIS OF COMMERCIAL BANKS IN NEPAL  
(A Case Study of Himalayan Bank Limited and Nabil 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 “**PORTFOLIO ANALYSIS OF COMMERCIAL BANKS IN NEPAL (A Case Study of Himalayan Bank Limited and Nabil 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 Achuyat Prasad Bhattraai of Shanker Dev Campus.

.....  
**GYAN KRISHNA DANGOL**

**Researcher**

**T.U. Regd. No.:7-1-263-198-2000**

**Campus Roll No.:1332/063**

## **ACKNOWLEDGEMENT**

This research study on “*Portfolio Analysis of Commercial Banks in Nepal (A Case Study of Himalayan Bank Limited and Nabil Bank Limited)*” has been prepared for the partial fulfillment of the requirements for the Degree of Masters in Business Studies. I am provided by grateful guidelines and suggestions from my respected teachers, friends and companies officials. Without their help, encouragement and comments, the present study would not have been materialized.

First and foremost I would like to express my profound gratitude and sincere thanks to my thesis advisor Achuyat Prasad Bhattraai for his continuous encouragement, patient guidance, valuable supervision, support, valuable advice, inspiration and strong support to complete this study.

I thank immensely all the teachers of Shanker Dev Campue for their valuable suggestion to complete the study.

At last but no means the least, my overriding debts go to my family who have been the continuous source of support to me while undergoing the ordeal of this project work.

**GYAN KRISHNA DANGOL**

# TABLE OF CONTENTS

*Recommendations*

*Viva- voce Sheet*

*Decelerations*

*Acknowledgement*

*Table of contents*

*List of tables*

*List of figures*

## CHAPTER –I

	<b>Page No.</b>
<b>INTRODUCTION</b>	
1.1 Background of the Study	1
1.1.1 Investment Portfolio on Commercial Banks	2
1.1.2 Investment Pattern of Nepalese Commercial Banks	5
1.2 Statement of the Problem	9
1.3 Objective of the Study	10
1.4 Significance of the Study	10
1.5 Limitation of the Study	11
1.6 Organization of the Study	11

## CHAPTER-II

<b>REVIEW OF LITERATURE</b>	
2.1 Concept of Portfolio	13
2.1.1 Modern Portfolio Theory	13
2.1.2 Basis Element of Portfolio Theory	14
2.1.3 Introduction to Portfolio Management	15
2.1.4 Portfolio Selection	17
2.1.5 Common Stock	18
2.1.6 The Expected Rate of Return on Common stock	19
2.1.7 The Risk on Common Stock	22
2.1.8 The Range	22
2.1.9 Standard Deviation	23

2.1.10	Capital Assets pricing Model (CAPM)	25
2.1.11	Arbitrage Pricing Theory (APT)	29
2.1.12	Portfolio Expected Return	30
2.1.13	Portfolio Risk	31
2.1.14	Portfolio Performance Evaluation	32
2.2	Review from Articles	33
2.2.1	Review of Thesis	35
2.3	Research Gap	44

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

3.1	Research Design	45
3.2	Source of Data	45
3.3	Population and Sample	45
3.4	Data Gathering Procedure	45
3.5	Data Analysis Tools	46
3.5.1	Financial Tools	46
3.5.2	Statistical Tools	48

## **CHAPTER-IV**

### **DATA PRESENTATION AND ANALYSIS**

4.1	Analysis of Market Risk and Return	54
4.2	Analysis of Himalayan Bank Ltd	56
4.3	Analysis of Nepal Arab Bank Ltd (NABIL)	58
4.4	Analysis of Various Stocks	60
4.5	Inter-Bank Beta Coefficient	61
4.6	The Security Market Line	63
4.7	Analysis of Portfolio Risk and Return	65
4.8	Analysis of Portfolio Performance	66
4.9	Combined / Pooled Selected Commercial Banks	67
4.10	Testing of Hypothesis	72
4.11	Major Findings of Study	75

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

5.1	Summary	77
5.2	Conclusion	78
5.3	Recommendation	79

### **BIBLIOGRAPHY**

### **ANNEX**

## LIST OF TABLES

<b>Tables</b>	<b>Page No.</b>
4.1 Closing Price of Equity	54
4.2 Calculation of ERR, S.D. and C.V. of overall Markets	55
4.3 MPS and DPS of Himalayan Bank Ltd.	56
4.4 Expected Return, Standard Deviation & Coefficient of variation of Himalayan Bank Ltd.	57
4.5 Calculation of Covariance, Beta, Coefficient of Himalayan Bank Ltd.	57
4.6 MPS and DPS of NABIL Bank Ltd.	58
4.7 Expected Return, Standard Deviation and Coefficient of Variation of NABIL Bank Ltd.	59
4.8 Calculation of Covariance, Beta, Coefficient of NABIL Bank Ltd	60
4.9 Inter-Bank Expected Return, Standard Deviation and Coefficient of Variation	60
4.10 Analysis of Correlation between Market Return and Return on common Stock	61
4.11 Beta Co-efficient of each Bank	62
4.12 Analysis of Systematic and Unsystematic Risk	62
4.13 Required Rate of Return, Expected Return and Stock Price Situation of both Bank	64
4.14 Calculation of Portfolio Risk and Return	65
4.15 Ranking according to Sharpe's Performance Measure, Treynor's Performance Measure and Jensen's Performance Measure	67
4.16 Average Return of Combined / Pooled Two Commercial Banks	67
4.17 Statistical Analysis of the Common Stock of Combined Commercial Banks	68
4.18 $Cov(R_A, R_B)$ , $Correlation(r_{AB})$ , and weight of Stock A(HBL) and Stock B	68
4.19 $Cov(R_A, R_B)$ , $Correlation(r_{AB})$ , and weight of Stock A(NABIL) and Stock B	70
4.20 Analysis of optimal Portfolio	72

## LIST OF FIGURES

<b>Figure</b>		<b>Page No.</b>
4.1	Closing Price Movement	55
4.2	Market Price Movement of Himalayan Bank	56
4.3	Market Price Movement of NABIL Bank	58
4.4	Security Market Line	64
4.5	Portfolio Risk and Return	66

## ABBPEVIATIONS

CB	= Commercial Bank
NABIL	= Nepal Arab Bank Limited
HBL	= Himalayan Bank Limited
NRB	= Nepal Rastra Bank
NBBL	= Nepal Bangladesh Bank Limited
SCBL	= Standard Chartered Bank Limited
NEPSE	= Nepal Stock Exchange
BOKL	= Bank of Kathmandu Limited
NIBL	= Nepal Investment Bank Limited
EBL	= Everest Bank Ltd.
JVBS	= Joint Venture Banks
CAPM	= Capital Assets Pricing Model
SML	= Security Market line
CML	= Capital Market line
APT	= Arbitrage Pricing Theory
OTC	= Over the Counter Market
CDS	= Cumulative Deposit Scheme
ATM	= Automatic Teller Machine
i.e.	= That is
F/Y	= Fiscal Year
ERR	= Expected Rate of Return
RRR	= Required Rate of Return
S.D.	= Standard Deviation
CV	= Coefficient of Variation
MPS	= Market per share
DPS	= Dividend per Share
EPS	= Earnings per share
Rs.	= Rupees
SEBON	= Security Exchange Board of Nepal
T.U.	= Tribhuvan University