" A STUDY ON ANALYSIS OF PORTFOLIO INVESTMENT ON JOINT VENTURE BANKS OF NEPAL "

BY: **BABITA DEVI KATUWAL** Post Graduate Campus Biratnagar T.u. Reg. No. 7-1-2-14-98 A Thesis submitted to **Office of the Deen Falculty of Management Tribhuvan Univercity** In Partial Fulfillment of the Requirements fot the degree of Master of Business Stuies (M.B.S) Biratnagar, Nepal December- 2009



TRIBHUVAN UNIVERSITY **POST GRADUATE CAMPUS**

Biratnagar

Morang, Nepal

Ref.No.:-

Tel.No: 021-526327

021-522204

RECOMMENDATION

This is to certify that the thesis:

Submitted by: **BABITA DEVI KATUWAL**

Entitled

" A Study on Analysis of Portfolio Investment on joint venture Banks of Nepal "

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

Supervisor

Signature:_____

Head of Depart	tment
----------------	-------

Signature:_____

(Mr. Ram Prakash Upadhyay) (Dr. Madhav Bahadur Shrestha)

Campus Chief

Signature:_____

(Mr. Harihar Bhandari)

TRIBHUVAN UNIVERSITY POST GRADUATE CAMPUS



Date: -

Biratnagar Morang, Nepal

Ref.No.:-

Tel.No: 021-526327 021-522204

VIVA-VOCE SHEET

We have conducted the Viva-Voce Examination of the thesis presented by

BABITA DEVI KATUWAL

<u>entitled</u>

" A Study on Analysis of Portfolio Investment on joint venture Banks of Nepal "

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's Degree in Business Studies (M.B.S.)

Viva-Voice Committee

Chairperson, Research Committee: (Mr. Ram Prakash Upadhyay)

Member (Thesis Supervisor): (**Dr. Madhav Bahadur Shrestha**) Member (External Expert):

Date:_____

ACKNOWLEDGEMENT

Capital formation and its proper utilization have key role for the development of any nation. A key factor in the development of a country is mobilization of domestic resources and their investment for productive sectors. Investment portfolio is one such tool that helps for proper utilization of domestic resources. In 1980, the government introduced 'financial sector reforms'. From this policy; it allowed the entry of foreign Banks and private investor. Till date, 26 commercial Banks are established in Nepal. Commercial Banks are the mediator of mobilization such fund in a proper way. Development of the country directly related to the volume of investment in productive sectors. Investment portfolio is one which income or profit of any commercial Bank to productive sector. To analysis these scenario, I have conducted research on "A study on Portfolio Analysis investment on Joint venture Banks in Nepal." Hence, this would be useful to those who would like to study and Bank managers to implement portfolio management to any commercial Bank.

This thesis has been completed under intensive & genuine guidance of my respected lecture Mr. Ram Prasad Upadhyay. It is my great pleasure to express my sincere gratitude and thanks to him for his valuable guidance and supervision with continually. Indeed, his patient guidance & constant encouragement has been a great source of inspiration to me. Without his kindly such help & valuable guidance; this thesis wouldn't have complete and come in this form. I also would like to express my Gratitude and sense of deep indebtedness respected teacher, chief of the department of research committee, chair person Dr. Madhav Bahadur Shrestha for his proper suggestion, kind and mutual cooperation with best Guideline for preparing this Thesis.

Similarly, I would like to express my sincere gratitude to Harihar Bhandari (campus chief, P.G. campus,Biratnagar), and Gopal Ghimire(P.G. Campus, Biratnagar) & all my respected lecturers; who have enriched my knowledge & encouraged me, by providing valuable suggestions in all my academic endeavors. I

am also thankful to all the library staffs of the Post Graduate campus, Biratnagar for their constant help and co-operation.

I would like to express in depth gratitude to my all member of family for their encouragement and great help and especially to my best compeer Mr. Narayan Karki who gave me his one hand not only valuable time and proper suggestions in each and every step in course of doing this work.

I appreciate many other Individuals, who provided necessary support to me for this research work.

BABITA DEVI KATUWAL Post Graduate Campus Biratnagar T.u. Reg. No. 7-1-2-14-98

Table of contents

Recommendation Viva-Voce Sheet Acknowledgement Table of Contents List of Tables List of Figures Abbreviation

CHAPT	CHAPTER – I	
1.	Introduction	1
1.1	Background of the Study	1
1.1.1	Development of Commercial Banks in Nepal	2 3
1.1.2	Concept and Role of Joint Venture Banks in Nepal	3
1.1.3	Functions of Commercial Banks	4
1.1.4	Objectives of joint Venture Banks	6
1.1.5	Profiles of the Banks under Study	7
1.2	Force of the Study	8
1.3	Statement of Problem	9
1.4	Objective of the Study	10
1.5	Need, Scope and Significant of the Study	10
1.6	Limitation of the Study	11
1.7	Organization of the Study	12
CHAPT	ER – II	13-42
2.	Review of Literature	13
2.1	Review of Supportive Text	13
	Concept of investment	13
2.1.2	Investment Process	15
2.1.3	Investment Alternative	15
2.1.4	Source of investment uncertainty	17
2.1.5	Introduction to investment portfolio	19
2.1.6	Introduction Portfolio Management	20
2.1.7	Portfolio Return	21
2.1.8	Portfolio Risk	21
2.1.9	Basic Assumption of Portfolio Analysis	22
2.1.10	Object of Portfolio Management	22

2.1.11	Portfolio Management Policy	23
2.1.12	Factor Affecting investment portfolio decision	24
2.1.13	Expression used on portfolio	24
2.1.14	Covariance and Correlation coefficient in Portfolio Risk	26
2.1.15	Portfolio performance Measure	30
2.2	Review of Popular models of portfolio	30
2.2.1	Markowitz's Portfolio Selection Model	30
2.2.2	Capital Assets pricing Model	33
2.2.3	Arbitrage pricing Theory Model	34
2.3	Review of Reports and Articles	35
2.4	Review of Journal	38
2.5	Review of Previous Thesis	40
CHAPTE	R – III	43-53
3.	Research Methodology	43
Introduct	•••	43
	h Design	44
	lection Procedure	44
	on and Sample	44
-	and Types of Data	44
	· Analysis	44
3.4.1	Statistical Tools	44
3.4.1	Financial Tools	43
3.4.2.1	Risk & Return on individual investment assets and	40
3.4.2.1		48
2122	investment portfolio. Financial Ratio	40 51
3.4.2.2		
CHAPTE		54–113
4.	Data Presentation and Analysis	54
4.1	Risk and Return on individual investment	54
	Asset and investment portfolio	54
4.1.1	Risk and Return on Government Securities	54
4.1.2	Risk and Return on Loan and Advances	61
4.1.3	Portfolio Return on investment	65
4.2	Analysis of Ratio	70
4.2.1	Total investment on total Deposit Ratio	70
4.2.2	Government Securities on total Deposit Ratio	71
4.2.3	Share and Debenture to total Deposit Ratio	73
4.2.4	Net profit to total Deposit Ratio	75
4.2.5	Return on total Assets Ratio	77
4.2.6	Cash & Bank Balance to total Deposit Ratio	79
4.2.7	Investment on Government Securities to	
	total outside investment Ratio	81
4.2.8	Loan and Advances to total outside investment Ratio	83
4.2.9	Investment on Share and Debenture to total	
	outside investment Ratio	85
4.2.10	Total outside investment of JVBs	86

88
89
90
92
97
99
101
102
103
105
let Profit 106
108
110
114–118
114
114
115
117
1

List of Tables

		Page No
4.1	Risk and Return on Government Securities of SBI Bank Ltd.	56
4.2	Risk and Return on Government Securities of Everest Bank Ltd	57
4.3	Risk and Return on Gov. Securities of Joint Venture Banks	59
4.4	Risk and Return on Loan and Advances of SBIB Ltd	62
4.5	Risk and Return on Loan and Advance of Everest Bank Ltd.	63
4.6	Risk & Return on Loan & Advances of Joint Venture Banks	64
4.7	Calculation of weight of the investment on various Assets	66
4.8	Calculation of portfolio Return of Joint venture Banks	67
4.9	Calculation of Correlation coefficient between investment securitie	S
	of JVBs	67
4.10	Calculation of the portfolio Standard deviation between investmen	t
	Securities	68
4.11	Total investment to total Deposit Ratio	70
4.12	Government Securities to total Deposit Ratio.	72
4.13	Share and Debenture to total Deposit Ratio (%)	74
4.14	Net profit to total Deposit Ratio	76
4.15	Return on total Assets Ratio	78
4.16	Cash and Bank balance to Total Deposit Ratio.	80
4.17	Investment on Government Securities to total outside investment	
	Ratio.	82
4.18	Investment on Loan and Advances to total outside invest.	84
4.19	Share and Debenture to total outside investment Ratio (in %)	85
4.20	Total outside investment of JVBs.	87
4.21	Least square linear trend analysis of total deposit.	89
4.22	Least Square Linear Trend analysis of total investment.	91
4.23	Least Square Linear trend analysis of investment on Governmen	t
	securities of JVBs in Nepal.	93
4.24	Least Square Linear Trend Analysis investment on share and	
	Debentures.	94
4.25	Least Square Linear analysis of investment on Loan and	
	Advances of JVBs in Nepal.	95
4.26	Least Square Linear Trend analysis of net profit.	98
4.27		101
4.28	Correlation Analysis between total Deposit and total loan and	
	advances.	102
4.29	Correlation Analysis between total deposit and total	
	investment on Government Securities.	104
4.30	Correlation Analysis between total Deposit and	
	Total Investment on Share and Debenture.	105
4.31	Correlation Analysis between total Deposit and Net Profit.	107
4.32	6 1 · = •	109
4.33	Major findings from Risk and Return Analysis	110
4.34	Major findings from Analysis of Ratio	111
4.35	Major findings from Least Square Linear Trend Analysis.	112

List of Figure

2.1 Perfectly positive correlated return22.2 Perfectly Negative correlated return23.3 Un correlated return24.1 Risk and Return on Government Securities of SBI Bank Ltd.44.2 Risk and Return on Government Securities of Lverest Bank Ltd.44.3 Risk & Return on Government Securities of Joint Venture Banks.64.4 Risk and Return on Loan & Advances of SBI Bank Ltd.64.5 Risk and Return on Loan and Advance of EBL.64.6 Risk & Return on Loan & Advances of Joint Venture Banks64.7 Mean & S.D. of Total investment to total Deposit Ratio74.8 Mean & S.D. of Government Securities to total Deposit74.9 Mean and S.D. of Total Investment to Total Deposit Ratio74.11 Mean & SD of Return on Total Assets Ratio74.12 Mean & SD of Cash and Bank balance to Total Deposit84.13 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Investment84.19 Trend and actual value of investment on Gov.securities of JVBs in8	e No
2.3 Un correlated return34.1 Risk and Return on Government Securities of SBI Bank Ltd.44.2 Risk and Return on Government Securities of Everest Bank Ltd.44.3 Risk & Return on Government Securities of Joint Venture Banks.44.4 Risk and Return on Loan & Advances of SBI Bank Ltd.44.5 Risk and Return on Loan and Advance of EBL.44.6 Risk & Return on Loan & Advances of Joint Venture Banks44.7 Mean & S.D. of Total investment to total Deposit Ratio74.8 Mean & S.D. of Government Securities to total Deposit74.9 Mean and S.D. of Total Investment to Total Deposit Ratio74.10 Mean & S.D. of Net Profit to Deposit Ratio74.11 Mean & SD of Return on Total Assets Ratio74.13 Mean & SD of Cash and Bank balance to Total Deposit84.14 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Investment84.19 Trend and actual value of investment on Gov.securities of JVBs in8	28
4.1 Risk and Return on Government Securities of SBI Bank Ltd.4.2 Risk and Return on Government Securities of Everest Bank Ltd.4.3 Risk & Return on Government Securities of Joint Venture Banks.4.4 Risk and Return on Loan & Advances of SBI Bank Ltd.4.5 Risk and Return on Loan and Advance of EBL.4.6 Risk & Return on Loan & Advances of Joint Venture Banks4.7 Mean & S.D. of Total investment to total Deposit Ratio4.8 Mean & S.D. of Government Securities to total Deposit4.9 Mean and S.D. of Total Investment to Total Deposit Ratio4.10 Mean & S.D. of Net Profit to Deposit Ratio4.11 Mean & SD of Return on Total Assets Ratio4.13 Mean & SD of Cash and Bank balance to Total Deposit4.14 Mean & SD of Loan & Advance to total Outside investment Ratio4.15 Mean & SD of Share & Debenture to Total Deposit Ratio4.16 Total outside investment4.17 Trend and Actual Value of Total Investment4.19 Trend and actual value of investment on Gov.securities of JVBs in	29
4.2 Risk and Return on Government Securities of Everest Bank Ltd.4.3 Risk & Return on Government Securities of Joint Venture Banks.4.4 Risk and Return on Loan & Advances of SBI Bank Ltd.4.5 Risk and Return on Loan and Advance of EBL.4.6 Risk & Return on Loan & Advances of Joint Venture Banks4.7 Mean & S.D. of Total investment to total Deposit Ratio4.8 Mean & S.D. of Government Securities to total Deposit4.9 Mean and S.D. of Total Investment to Total Deposit Ratio4.10 Mean & S.D. of Net Profit to Deposit Ratio4.11 Mean & SD of Return on Total Assets Ratio4.12 Mean & SD of Cash and Bank balance to Total Deposit4.13 Mean & SD of Loan & Advance to total Outside investment Ratio4.15 Mean & SD of Share & Debenture to Total Deposit Ratio4.16 Total outside investment4.17 Trend and Actual Value of Total Deposits of JVBs in Nepal4.19 Trend and actual value of investment on Gov.securities of JVBs in	30
4.3 Risk & Return on Government Securities of Joint Venture Banks.4.4 Risk and Return on Loan & Advances of SBI Bank Ltd.4.5 Risk and Return on Loan and Advance of EBL.4.6 Risk & Return on Loan & Advances of Joint Venture Banks4.7 Mean & S.D. of Total investment to total Deposit Ratio4.8 Mean & S.D. of Government Securities to total Deposit4.9 Mean and S.D. of Total Investment to Total Deposit Ratio4.10 Mean & S.D. of Net Profit to Deposit Ratio4.11 Mean & SD of Return on Total Assets Ratio4.12 Mean & SD of Cash and Bank balance to Total Deposit4.13 Mean & SD of Loan & Advance to total Outside investment Ratio4.15 Mean & SD of Share & Debenture to Total Deposit Ratio4.16 Total outside investment4.17 Trend and Actual Value of Total Deposits of JVBs in Nepal4.19 Trend and actual value of investment on Gov.securities of JVBs in	57
4.4 Risk and Return on Loan & Advances of SBI Bank Ltd.4.5 Risk and Return on Loan and Advance of EBL.4.5 Risk and Return on Loan & Advances of Joint Venture Banks4.6 Risk & Return on Loan & Advances of Joint Venture Banks4.7 Mean & S.D. of Total investment to total Deposit Ratio74.8 Mean & S.D. of Government Securities to total Deposit74.9 Mean and S.D. of Total Investment to Total Deposit Ratio74.10 Mean & S.D. of Net Profit to Deposit Ratio74.11 Mean & SD of Return on Total Assets Ratio74.12 Mean & SD of Cash and Bank balance to Total Deposit84.13 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal84.19 Trend and actual value of investment on Gov.securities of JVBs in8	58
4.5 Risk and Return on Loan and Advance of EBL.4.6 Risk & Return on Loan & Advances of Joint Venture Banks4.6 Risk & Return on Loan & Advances of Joint Venture Banks4.7 Mean & S.D. of Total investment to total Deposit Ratio4.8 Mean & S.D. of Government Securities to total Deposit74.9 Mean and S.D. of Total Investment to Total Deposit Ratio74.10 Mean & S.D. of Net Profit to Deposit Ratio74.11 Mean & SD of Return on Total Assets Ratio74.12 Mean & SD of Cash and Bank balance to Total Deposit84.13 Mean & SD of Loan & Advance to total Outside investment Ratio84.14 Mean & SD of Share & Debenture to Total Deposit Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal84.19 Trend and actual value of investment on Gov.securities of JVBs in8	60
4.6 Risk & Return on Loan & Advances of Joint Venture Banks44.7 Mean & S.D. of Total investment to total Deposit Ratio74.8 Mean & S.D. of Government Securities to total Deposit74.9 Mean and S.D. of Total Investment to Total Deposit Ratio74.10 Mean & S.D. of Net Profit to Deposit Ratio74.11 Mean & SD of Return on Total Assets Ratio74.12 Mean & SD of Cash and Bank balance to Total Deposit84.13 Mean & SD of Cash and Bank balance to Total Deposit84.14 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal84.19 Trend and actual value of investment on Gov.securities of JVBs in8	63
4 .7 Mean & S.D. of Total investment to total Deposit Ratio74.8 Mean & S.D. of Government Securities to total Deposit74.9 Mean and S.D. of Total Investment to Total Deposit Ratio74.10 Mean & S.D. of Net Profit to Deposit Ratio74.11 Mean & SD of Return on Total Assets Ratio74.12 Mean & SD of Cash and Bank balance to Total Deposit84.13 Mean & SD on Gov. Securities to total outside investment Ratio84.14 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal94.19 Trend and actual value of investment on Gov.securities of JVBs in9	64
4.8 Mean & S.D. of Government Securities to total Deposit74.9 Mean and S.D. of Total Investment to Total Deposit Ratio74.10 Mean & S.D. of Net Profit to Deposit Ratio74.11 Mean & SD of Return on Total Assets Ratio74.12 Mean & SD of Cash and Bank balance to Total Deposit84.13 Mean & SD on Gov. Securities to total outside investment Ratio84.14 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal84.19 Trend and actual value of investment on Gov.securities of JVBs in8	65
4.9 Mean and S.D. of Total Investment to Total Deposit Ratio74.10 Mean & S.D. of Net Profit to Deposit Ratio74.11 Mean & SD of Return on Total Assets Ratio74.12 Mean & SD of Cash and Bank balance to Total Deposit84.13 Mean & SD on Gov. Securities to total outside investment Ratio84.14 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal84.19 Trend and actual value of investment on Gov.securities of JVBs in8	71
4.10 Mean & S.D. of Net Profit to Deposit Ratio74.11 Mean & SD of Return on Total Assets Ratio74.12 Mean & SD of Cash and Bank balance to Total Deposit84.13 Mean & SD on Gov. Securities to total outside investment Ratio84.14 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal84.18 Trend and Actual value of Total Investment84.19 Trend and actual value of investment on Gov.securities of JVBs in8	73
4.11 Mean & SD of Return on Total Assets Ratio74.12 Mean & SD of Cash and Bank balance to Total Deposit84.13 Mean & SD on Gov. Securities to total outside investment Ratio84.14 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal94.18 Trend and Actual value of Total Investment94.19 Trend and actual value of investment on Gov.securities of JVBs in9	74
4.12 Mean & SD of Cash and Bank balance to Total Deposit44.13 Mean & SD on Gov. Securities to total outside investment Ratio44.14 Mean & SD of Loan & Advance to total Outside investment Ratio44.15 Mean & SD of Share & Debenture to Total Deposit Ratio44.16 Total outside investment44.17 Trend and Actual Value of Total Deposits of JVBs in Nepal44.18 Trend and Actual value of Total Investment44.19 Trend and actual value of investment on Gov.securities of JVBs in4	76
 4.13 Mean & SD on Gov. Securities to total outside investment Ratio 4.14 Mean & SD of Loan & Advance to total Outside investment Ratio 4.15 Mean & SD of Share & Debenture to Total Deposit Ratio 4.16 Total outside investment 4.17 Trend and Actual Value of Total Deposits of JVBs in Nepal 4.18 Trend and Actual value of Total Investment 4.19 Trend and actual value of investment on Gov.securities of JVBs in 	79
4.14 Mean & SD of Loan & Advance to total Outside investment Ratio84.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal84.18 Trend and Actual value of Total Investment84.19 Trend and actual value of investment on Gov.securities of JVBs in8	30
4.15 Mean & SD of Share & Debenture to Total Deposit Ratio84.16 Total outside investment84.17 Trend and Actual Value of Total Deposits of JVBs in Nepal94.18 Trend and Actual value of Total Investment94.19 Trend and actual value of investment on Gov.securities of JVBs in9	33
4.16 Total outside investment4.16 Total outside investment4.17 Trend and Actual Value of Total Deposits of JVBs in Nepal4.18 Trend and Actual value of Total Investment4.19 Trend and actual value of investment on Gov.securities of JVBs in	34
 4.17 Trend and Actual Value of Total Deposits of JVBs in Nepal 4.18 Trend and Actual value of Total Investment 4.19 Trend and actual value of investment on Gov.securities of JVBs in 	36
4.18 Trend and Actual value of Total Investment4.19 Trend and actual value of investment on Gov.securities of JVBs in	37
4.19 Trend and actual value of investment on Gov.securities of JVBs in	90
	92
Nepal	
	94
4.20 Trend and actual value of investment on share & Debenture	95
4.21 Trend and Actual Value of Loan and Advances of JVBs in Nepal	96
4.22 Trend and Actual Value of Net Profit of JVBs in Nepal	99