A STUDY ON INVESTMENT PORTFOLIO OF

EVEREST BANK LIMITED

A Thesis

By:

SINDHU BALAMI

Shanker Dev Campus

T.U. Regd. No: 7-1-31-92-2002

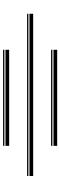
Campus Roll No: 1131/064

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University



In the Partial Fulfillment of the Requirement for the

Master of Business Studies (MBS)

Kathmandu, Nepal

June, 2012

RECOMMENDATION

This is to certify that the Thesis Submitted by

SINDHU BALAMI

Entitled:

A STUDY ON INVESTMENT PORTFOLIO OF

EVEREST 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.

••••••	••••••	••••••

Associate Prof. Prakash Singh Pradhan Prof. Bisheshwor Man Shrestha (Thesis Supervisor)

(Head of Research Department)

Associate Prof. Prakash Singh Pradhan

(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis presented

By

SINDHU BALAMI

Entitled:

A STUDY ON INVESTMENT PORTFOLIO OF

EVEREST 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 the

> Degree of Master's in Business Studies (M.B.S.) <u>Viva-Voce Committee</u>

Head, Research Department	
Member (Thesis Supervisor)	
Member (External Expert)	

DECLARATION

I, hereby, declare that the work reported in this thesis entitled "A Study On Investment Portfolio Of Everest Bank Limited" submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision of Associate Prof. Prakash Singh Pradhan of Shanker Dev Campus, Putalisadak, Kathmandu.

Sindhu Balami Researcher Roll No: 1131/064 Shanker Dev Campus T.U. Regd. No. 7-1-31-92-2002

Date: - June, 2012

ACKNOWLEDGEMENT

This is an attempt to present thesis entitled "A Study On Investment Portfolio Of *Everest Bank Limited*" prepared for partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) is an outcome of continuous and immeasurable cooperation and support of several hands. I would like to express my heartfelt gratitude to all for their support.

I would like to express my deep and sincere gratitude to my respectable guide Associate Prof. Prakash Singh Pradhan for the full initiative support, kind guidance, supervision and inspiration during the preparation of this thesis. It would be impossible to me to give present shape to the thesis without his support.

I owe great intellectual debt for support and immense contribution to Administrative of Everest Bank Limited. I am thankful to library staffs of Shanker Dev Campus, Nepal Commerce Campus and T.U. library for their cooperation.

> Sindhu Balami Roll No: 1131/064 Shankar Dev Campus Kathmandu, Nepal

TABLE OF CONTENTS

Page	No.	
- 450	110	

		I age
Reco	ommendation	i
Viva	a–Voce Sheet	ii
Decl	laration	iii
Ack	nowledgement	iv
Tabl	e of Contents	v
List	of Tables	viii
List	of Figures	ix
Abb	reviations	Х
	CHAPTER-ONE	
	INTRODUCTION	
1.1	Background of the Study	1
	1.1.1 Commercial Banks in Nepal	3
	1.1.2 Profile of Everest Bank Limited	4
1.2	Statement of the problems	6
1.3	Objective of the Study	8
1.6	Need & Significance of the Study	8
1.7	Limitations of the Study	9
1.8	Organization of the Study	10
	CHAPTER-TWO	
	REVIEW OF LITERATURE	
2.1	Conceptual Review	11
	2.1.1 Definition of Investment	11

2.1.1	Definition of Investment	11
2.1.2	Portfolio Management	12
2.1.3	Investment Portfolio	13
2.1.4	Investment Alternatives	14
2.1.5	Investment Uncertainty (Risk)	15
2.1.6	Diversification and Portfolio Analysis	17
	2.1.6.1 Simple Diversification	17

		2.1.6.2 Diversification across Industries	18
		2.1.6.3 Superfluous Diversification	18
		2.1.6.4 Simple Diversification across Quality Rating	
		Categories	18
		2.1.6.5 Markowitz Diversification	19
	2.1.7	Capital Asset Pricing Model (CAPM)	20
		2.1.7.1 Assumptions	21
		2.1.7.2 Total Risk	21
	2.1.8	Portfolio Risk and Return	22
		2.1.8.1 Portfolio Return	22
		2.1.8.2 Portfolio Risk	23
	2.1.9	Diversification of Risk	23
		2.1.9.1 Simple Diversification	23
		2.1.9.2 Superfluous Diversification	24
		2.1.9.3 Diversification across industries	24
		2.1.9.4 Simple Diversification across Quality rating	
		Categories	24
	2.1.10	Ovariance, Correlation Coefficient and Portfolio Risk	25
	2.1.1	Market Portfolio	26
	2.1.12	2 Features of Sound lending and Investment Policy	27
2.2	Revie	ew of Legal Provision	28
	2.2.1	Minimum Capital Requirements	28
	2.2.2	Provisions Relating to Classification of Loans/advances	
		and Loan Losses	28
	2.2.3	Provisions Relating to Investments	30
	2.2.4	Risk Measurement and Risk Weights	32
		2.2.4.1 Claims on government & central bank	32
		2.2.4.2 Claims on other official entities	32
		2.2.4.3 Claims on banks	33
		2.2.4.4 Claims on corporate & securities firms	34

	2.2.4.5 Claims on regulatory retail portfolio	34
2.3	Review of Journal and Articles	40
2.4	Review of Thesis	
2.5	Research Gap	49
	CHAPTER-THREE	
	RESEARCH METHODOLOGY	
3.1	Research Design	51
3.2	Sources of Data	52
3.3	Method of Data Collection	52
3.4	Population & Sample	52
3.5	Data Analysis Tools	53
	3.5.1 Financial Tools	53
	3.5.1.1 Risk and Return on Individual Investment Assets	
	and Investment Portfolio	53
	3.5.1.2 Financial Ratios	57
	3.5.2 Statistical Tools	58
	CHAPTER-FOUR	
	PRESENTATION & ANALYSIS OF DATA	
4.1	Portfolio Investment, Risk and Return Analysis of EBL	60
	4.1.1 Investment Portfolio of EBL	61
	4.1.2 Return on Government Securities	62
	4.1.3 Return on Loan and Advances	64
	4.1.4 Return on Share and Debenture	65
4.2	Risk on Individual Investment	66
	4.2.1 Risk on Government Securities	66
	4.2.2 Risk on Loan and Advances	67
	4.2.3 Risk on Share & Debenture	68
4.3	Return on Investment Portfolio	70
4.4	Risk on Investment Portfolio	70
	4.4.1 Covariance	71

5.6	Major	Findings	79
	4.5.4	Return to Total Assets Ratio	78
		Investment Ratio	76
	4.5.3	Investment on Share and Debenture to Total outside	
		Ratio	75
	4.5.2	Investment on Government Securities to Total Investment	
	4.5.1	Total Investment to Total Deposit Ratio	74
4.5	Ratio	Analysis	74
	4.4.3	Correlation Analysis	72
	4.4.2	Portfolio Risk	72

CHAPTER-FIVE

SUMMARY, CONCLUSION & RECOMMENDATION

BIBLIOGRAPHY APPENDICES		89-95
		86-88
5.3	Recommendation	84
5.2	Conclusion	83
5.1	Summary	81

LIST OF TABLES

		Page No.
Table: 1.1:	Present Share Capital of EBL	6
Table: 1.2:	Detail of Share Ownership of EBL	6
Table: 4.1:	Investment Portfolio of EBL	61
Table: 4.2:	Return on Government Securities of EBL	63
Table: 4.3:	Return on Loan & Advances of EBL	64
Table: 4.4:	Return on Share & debenture of EBL	65
Table: 4.5:	Calculation of Risk on Government Securities of EBL	67
Table: 4.6:	Calculation of Risk on Loan & Advances of EBL	68
Table: 4.7:	Calculation of Risk on Share & Debenture of EBL	69
Table: 4.8:	Portfolio Return on Investment of EBL	70
Table: 4.9:	: Portfolio Risk, Covariance & Correlation between Different	
	Variables	73
Table: 4.10:	Computation of total Investment to Total Deposit Ratio	74
Table: 4.11:	Computation of Investment in Govt. Securities to Total	
	Investment Ratio	75
Table: 4.12:	Computation of Investment on Share & Debenture to Total	
	Investment Ratio	77
Table: 4.13:	Computation of Return to Total Assets Ratio	78

LIST OF FIGURES

Page No.

Figure: 4.1:	Investment Pattern of EBL 62	
Figure: 4.2:	Trend of Return on Government Securities of EBL 6	
Figure: 4.3:	Trend of Return on Loan & Advances of EBL 65	
Figure: 4.4:	Trend of Return on Share & debenture of EBL 6	
Figure: 4.5:	Risk and Return Position of EBL	69
Figure: 4.6:	: Trend of Total Investment to Total Deposit Ratio 7	
Figure: 4.7:	: Trend of Investment in Govt. Securities to Total	
	Investment Ratio	76
Figure: 4.8:	Trend of Investment on Share & Debenture to Total	
	Investment Ratio	77
Figure: 4.9:	Trend of Return to Total Assets Ratio	78

ABBREVIATIONS

%	Percentage
&	And
A.D	Anno Domini
ABBS	Any Branch Banking System
ATM	Automated Teller Machine
CAR	Capital Adequacy Ratio
CRR	Cash Reserve Ratio
EBL	Everest Bank Limited
Ed.	Edition
FY	Fiscal Year
ISD	Investment in Share & Debenture
ISG	Investment in Government Securities
LC	Letter of Credit
LTD	Limited
MBA	Masters' of Business Administration
MBS	Masters' of Business Studies
NEPSE	Nepal Stock Exchange
No.	Number
NPAT	Net Profit after Tax
NRB	Nepal Rastra Bank
ROTA	Return on Total Assets
S.D	Standard Deviation
SDC	Shankar Dev Campus
SEBON	Securities Board of Nepal
T. U.	Tribhuvan University
ТА	Total Assets
TD	Total Deposit
TI	Total Investment