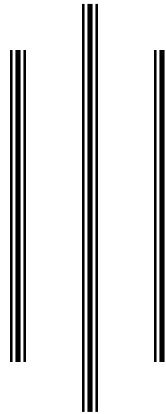


PORTFOLIO MANAGEMENT IN COMMERCIAL BANK OF NEPAL



By:
Uma Kumari Pun
Bhairahawa Multiple Campus
T.U. Registration No.7-2-52-329-2003



A Thesis Submitted to:
Office of the Dean
Faulty of Management
Tribhuvan University

**In partial fulfillment of the requirements of the degree of
Master of Business Studies (M.B.S.)**

Bhairahawa , Rupandehi
November 2010

DECLARATION

I hereby declare that the work reported in this thesis entitled “PORTFOLIO MANAGEMENT IN COMMERCIAL BANK OF NEPAL” submitted to Bhairahawa Multiple Campus, faculty of management, Tribhuvan University, is the original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies under the supervision on Mr. Sahadev Bhatta of Bhairahawa Multiple Campus.

Date:

Uma Kumari Pun

Regd. No.7-2-52-329-2003

RECOMMENDATION

This is to certify that the thesis
Submitted by

Uma Kumari Pun

Entitled

**PORTFOLIO MANAGEMENT IN COMMERCIAL 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.

.....
Mr. Shahdev Bhatta
(Thesis Supervisor)

.....
Mr. Prem Bahadur Gurung
(Head of Department)

.....
Dr. Kapil Dev Lamichhane
(Campus Chief)

VIVA VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Uma Kumari Pun

Entitled

PORTFOLIO MANAGEMENT IN COMMERCIAL BANKS OF NEPAL

and found the thesis to be the original work of the student and
written according to the prescribed format. We recommended the thesis
to be accepted as partial fulfillment of the requirements for
Master's Degree in Business Studies (M.B.S.)

Viva – Voce committee

Chairperson, Research Committee:

Member (Thesis Supervisor):

Member (External Expert):

Date:

Acknowledgement

I consider it my duty to express sincere gratitude to my thesis supervisor **Mr. Sahadev Bhatta**. It would not have been possible for me to complete this research work without his unflagging supervision, advice and inspiration. So, I owe great debt of gratitude to him. I also like to express my deep gratitude towards respected MBS coordinator **Mr. Narendra Raj Pandey**.

I am greatly obliged to all the staff of Himalayan Bank Limited, Laxmi Bank Limited, Nepal Investment Bank Limited, Agriculture Development Bank Limited, Standard Chartered Bank Limited and Siddhartha Development Bank Limited for providing the information and necessary data sincerely and timely. I would also thanks to all the staff of the library and administration of Bhairahawa Multiple Campus.

I would like to extend special thanks to my respected campus chief Dr. Kapil Dev Lamichhane, Bhairahawa Multiple Campus.

Similarly, I would like to express special thanks to the teachers of Bhairahawa Multiple Campus for their valuable suggestions and continuous help in all the aspect throughout the study period. I would also like to thanks the cooperative staff member of Bhairahawa Multiple Campus.

I am thankful to Mr. Jeevan Shrestha and National Institute of Software Technology (NIST) Devkota Chowk, Bhairahawa for skillfull typing and computer printing.

Thankyou

Uma Kumari Pun.
Siddharthanagar,
Bhairahawa.

TABLE OF CONTENTS

	Pages
Recommendation	i
Viva – voce Sheet	ii
Declaration	iii
Acknowledgement	iv
Table of contents	v
List of Tables	vi
List of Figures	vii
List of Abbreviation	viii
CHAPTER – 1: INTRODUCTION	1-8
1.1 Background	1
1.2 Focus of the study	4
1.3 Statement of the problem	5
1.4 Objectives of the study	6
1.5 Significance of the study	6
1.6 Limitation of the study	7
1.7 Organization of the study	8
CHAPTER – 2: REVIEW OF LITERATURE	9-48
2.1 Conceptual framework	9
2.2 Review of Empirical Studies	22
2.3 Concluding Remarks	46
CHAPTER – 3: RESEARCH METHODOLOGY	49-57
3.1 Research Design	49
3.2 Population and Sample	50
3.3 Sources of data	51
3.4 Method of Analysis	51
3.5 Limitation of the study	57
CHAPTER – 4: PRESENTATION AND ANALYSIS OF DATA	58-83
4.1 Financial Performance of Nepalese Financial Institution	58
4.2 Portfolio Analysis	69
4.3 Diversification of Risk	75
4.4 Major findings of the study	81
CHAPTER-5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	84-92
5.1 Summary and Conclusions	84
5.2 Recommendations	90
5.3 Future Guidelines	91
ANNEXES	93-104
BIBLIOGRAPHY	105-109

LIST OF TABLES

Table No.	Title	Page
2.1	Reduction of Risk through diversification	28
4.1	Risk and Return on the basis of Current ratio under commercial Banks	59
4.2	Risk and Return on the basis of Quick ratio under commercial Banks	62
4.3	Risk and Return on the basis of Return on asset under commercial Banks	64
4.4	Risk and Return on the basis of Return on equity under commercial Banks	67
4.5	Portfolio Risk and Return on the basis of Current ratio under commercial banks	69
4.6	Portfolio Risk and Return on the basis of Quick ratio under commercial banks	71
4.7	Portfolio Risk and Return on the basis of Return on asset under commercial banks	72
4.8	Portfolio Risk and Return on the basis of Return on equity under commercial banks	74
4.9	Diversification of Risk on the basis of Current ratio of commercial Banks	76
4.10	Diversification of Risk on the basis of Quick ratio of commercial banks	77
4.11	Diversification of Risk on the basis of Return on asset of commercial Banks	78
4.12	Diversification of Risk on the basis of Return on equity of commercial banks	80

LIST OF ABBREVIATIONS

CAPM	Capital Assets Pricing Model
C.V.	Coefficient of Variation
S.D.	Standard Deviation
etc.	Etcetera
F/Y	Fiscal Year
i.e.	that is
NRB	Nepal Rastra Bank
No.	Number
CA	Current Assets
CL	Current Liabilities
QA	Quick Assets
ROA	Return On Assets
ROE	Return On Equity
S.N.	Serial number
T.U.	Tribhuvan University
HBL	Himalayan Bank Limited
LBL	Laxmi Bank Limited
NIBL	Nepal Investment Bank Limited
ADBL	Agriculture Development Bank Limited
SCBL	Standard Chartered Bank Limited
SBL	Siddhartha Bank Limited

LIST OF FIGURES

Figure No.	Title	Page
2.1	The CAPM or Security Market Line (SML)	21
2.2	Security Market Line	23
2.3	Reduction of Risk through diversification	29
4.1	Risk and Return on the basis of Current ratio under commercial banks	60
4.2	Risk and Return on the basis of Quick ratio under commercial banks	63
4.3	Risk and Return on the basis of Return on asset under commercial banks	65
4.4	Risk and Return on the basis of Return on equity under commercial banks	

LIST OF ABBREVIATIONS

CAPM	Capital Assets Pricing Model
C.V.	Coefficient of Variation
S.D.	Standard Deviation
etc.	Etcetera
F/Y	Fiscal Year
i.e.	that is
NRB	Nepal Rastra Bank
No.	Number
CA	Current Assets
CL	Current Liabilities
QA	Quick Assets
ROA	Return On Assets
ROE	Return On Equity
S.N.	Serial number
T.U.	Tribhuvan University
HBL	Himalayan Bank Limited
LBL	Laxmi Bank Limited
NIBL	Nepal Investment Bank Limited
ADBL	Agriculture Development Bank Limited
SCBL	Standard Chartered Bank Limited
SBL	Siddhartha Bank Limited