

PORTFOLIO ANALYSIS OF NEPALESE COMMERCIAL BANKS

By

Bhuvan Shrestha

Roll No. : 1489/059

Shanker Dev Campus

T.U. Regd. No. 7-1-039-637-96

A Thesis Submitted to

Office of the Dean

Faculty of Management

Tribhuvan University

Shanker Dev Campus

**In partial fulfillment of the requirements for the degree of
Master of Business Studies (MBS)**

Kathmandu

March, 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Bhuvan Shrestha

Entitled:

PORTFOLIO ANALYSIS OF NEPALESE COMMERCIAL BANKS

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

Achyut Raj Bhattarai

Supervisor

Dr. Kamal Deep Dhakal

Campus Chief

Date:

VIVA – VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

Bhuwan Shrestha

Entitled:

PORTFOLIO ANALYSIS OF NEPALESE COMMERCIAL BANKS

and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Chairperson (Research Committee) _____

Member (Thesis Supervisor) _____

Member (External Expert) _____

Member (Central Department of Management) _____

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled **PORTFOLIO ANALYSIS OF NEPALESE COMMERCIAL BANKS** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work for the partial fulfillment of the requirement for the Master of Business Studies (M.B.S.) under the supervision of Achyut Raj Bhattarai of Shanker Dev Campus.

March, 2009

Bhuvan Shrestha

Researcher

Roll No. :1489/059

T.U. Regd. No. 7-1-039-637-96

Shanker Dev Campus

Ramshahpath Kathamndu

ACKNOWLEDGEMENTS

Many helpful hands are needed to complete a beautiful work. After completion of work, immense joy can be experienced. I'm extremely grateful with all of them we have helped, guided and supervised to complete this work.

I would like to pay my sincere thanks to Mr. Achyut Raj Bhattarai, thesis supervisors & Dr. Kamal Deep Dhakal, Campus Chief, Shanker Dev Campus for incisive and constant guidance.

I would like to express my cordial gratitude to my respected teacher as well as all the staff of Shanker Dev Campus and also I would like to thanks the general managers and staff Investment, Everest, Bank of Kathmandu NBBL Banks.

I extend my deep gratitude to my family Members Father, Mother, Brother, Sisters, to my friends for their support and perpetual kind's cooperation.

I am thankful all the staff members of Central Library for their manifold helps and providing good environment for this study.

Last not least I am responsible for any errors and I apologize for any of them committed that may have remained in this work.

Bhuwan Shrestha

CONTENTS

	Page
Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgements	
Contents	
List of Tables	
List of Figures	
CHAPTER I: INTRODUCTION	1-7
1.1 Background of the Study	1
1.2 Focus of the Study	3
1.3 Statement of the Problem	3
1.4 Objective of the Study	5
1.5 Significance of the Study	6
1.6 Limitations of the Study	6
1.7 Organization of the Study	7
CHAPTER II: REVIEW OF LITERATURE	8-38
2.1 Conceptual Framework	8
2.1.1 Common Stock	9
2.1.2 The Expected Rate of Return Common Stock	11
2.1.3 The risk on Common Stock	13
2.2.4 Capital Assets Pricing Model (CAPM)	19
2.1.5 Arbitrage Pricing Theory (APT)	22
2.2 Portfolio	24
2.2.1 Portfolio Return	25
2.2.2 Portfolio Risk	26
2.2.3 Optimum Portfolio Selection	26

2.2.4	Correlation Coefficient and Portfolio Risk	28
2.2.5	Portfolio Performance Evaluation	29
2.3	Review from Relevant Studies from Articles, Journals and Reports	30
2.4	Review of Master Thesis	32
2.5	Research Gap	38
CHAPTER III: RESEARCH METHODOLOGY		39-52
3.1	Research Design	39
3.2	Source of Data	39
3.3	Population and Sample	40
3.4	Data Gathering Procedure	40
3.5	Data Analysis Tools	40
3.5.1	Financial Tools	40
3.5.2	Statistical Tools	47
CHAPTER IV: DATA PRESENTATION AND ANALYSIS		51-79
4.1	Ratio Analysis	51
4.2	Investment Portfolio Analysis	58
4.3	Loan and Advance Portfolio Analysis	59
4.4	Analysis of Common Stock Risk and Return of Commercial Banks	61
4.4.1	Analysis of Market Risk and Return	63
4.4.2	Analysis of Market Sensitivity	63
4.5	Analysis of Diversifiable and Un-diversifiable Risk	66
4.6	Portfolio Analysis	67
4.6.1	CAPM Equation/SML	67
4.6.2	Portfolio Risk and Return	68
4.7	Portfolio Performance Measure	70
4.8	Trend Analysis	71

4.9	Testing of Hypothesis	76
4.10	Major Findings	77

CHAPTER IV: SUMMARY, CONCLUSION AND

RECOMMENDATION **80-84**

5.1	Summary	80
-----	---------	----

5.2	Conclusion	81
-----	------------	----

5.3	Recommendation	82
-----	----------------	----

BIBLIOGRAPHY **85-88**

APPENDIX

LIST OF TABLES

Table 4.1:	Mean and S.D. of Investment to Total Deposit Ratio Banks	51
Table 4.2:	Man and S.D. of Loan and Advance to Total Deposit ratio of Bank.	53
Table 4.3:	Mean and S.D. of Liquids Funds to Total Deposits Ratio of Banks	55
Table 4.4:	Mean and S.D. of Return on Total Assets of Banks	57
Table 4.5:	Investment Portfolio of Banks	58
Table. 4.6:	Loan and Advance Portfolio Analysis	60
Table 4.7:	Expected Risk and Return of Commercial Banks	62
Table 4.8:	Analysis of Market Risk and Return	63
Table 4.9:	Calculation of diversifiable and un-diversifiable risk	66
Table 4.10:	Calculation of Required Rate of Return and Comparing with Expected Rate of Return	67
Table 4.11:	Portfolio Risk and Return of Banks	69
Table 4.12:	Portfolio Performance measure by using sharp's measure	71
Table 4.13:	Position of Total Loan and Investment and Total Deposit of NIBL	71
Table 4.14:	Position of Total Loan and Investment and Total Deposit of NBBL	72
Table 4.16:	Position of Total Loan and Total Deposit of BOKL	72
Table 4.17:	Trend Value ($y= a+bx$) of Loan and Investment to Total Deposit Ratio of NIBL	73
Table 4.18:	Trend Value ($y=a+bx$) of Loan and Investment to Total Deposit Ratio of EBL.	74
Table 4.19:	Trend Value ($y= a+bx$) of Loan and Investment to Total Deposit Ratio of NBBL	74
Table 4.20:	Trend Value ($y=a+bx$) of Loans and Investment to Total Deposit Ratio of BOKL	75

LIST OF FIGURES

	Page
Figure 4.1: Mean and S.D. of Investment to Total Deposit Ratio Banks	52
Figure 4.2: Man and S.D. of Loan and Advance to Total Deposit ratio of Bank.	54
Figure 4.3: Mean and S.D. of Liquids Funds to Total Deposits Ratio of Banks	56
Figure 4.4: Mean and S.D. of Return on Total Assets of Banks	58
Figure 4.5: Investment Portfolio of Banks	59
Figure 4.6: Loan and Advance Portfolio Analysis	60
Figure 4.7: Expected Risk and Return of Commercial Banks	62
Figure 4.8: Portfolio Risk and Return of Banks	69

LIST OF ABBREVIATIONS

BOKL	:	Bank of Kathmandu Limited
C.V.	:	Coefficient of Variation
CB	:	Commercial Bank
EBL	:	Everest Bank Limited
FY	:	Fiscal Year
JVBs	:	Joint Venture Banks
NBBL	:	Nepal Bangladesh Bank Limited
NIBL	:	Nepal Investment Bank Limited
No.	:	Number
NRB	:	Nepal Rasta Bank
P.Er.	:	Probable Error
RBB	:	Rastrya Banijya Bank
ROA	:	Return on Assets
Rs.	:	Rupees
S.D	:	Standard Deviation
T.Bs	:	Treasury Bills
T.U.	:	Tribhuvan University