

1. Background of the study

The word investment sounds very good and attractive that is why every individual in the world is interested in it. In layman's sense, there is always a return if there is investment. This return may be favorable as well as unfavorable to the investor's stand point. Investment brings forth vision of profit, risk, speculation and wealth. For the uninformed, investing may result in disaster. In general sense, investment means to pay out money to get more. But in the broadest sense, investment means the sacrifice of current money for future money.

A portfolio is collection of investment securities. Portfolio theory deals with the selection of optimal portfolio; that is, portfolio that provides the highest possible return for any specified degree of risk or the lowest possible risk for any specified rate of return. A portfolio is usually defined as a combination of asset.

"A portfolio simply represents the practice among the investor of having their funds in more than one asset. The combination of investment assets is called a portfolio." (Weston and Brigham; 1992)

"Portfolio means a collection or group of assets."(Gitman; 1990)

Investment portfolio refers to an investment that combines several assets. It is a collection of securities. "Portfolio means the lists of holdings in securities owned by an investor or institution." (Oxford Dictionary; 1997) Portfolio is a collection of investment securities for example, if you owned some of Nabil Bank stock, some Alliance Insurance co. ltd. stock, some Soaltee Hotel ltd. stock, some United finance ltd. stock, some Salt trading ltd. stock, some Nepal liver ltd. stock, some Bottlers Nepal ltd. stock you would be holding seven stock portfolios. Portfolio analysis considers the determination of future risk and return in holding various blends of individual securities. Portfolio expected return is a weighted average of the expected return of the individual securities. Investment portfolio is one which the income or profit of the banks depend upon directly. Hence, the banks should never invest its fund in those securities; difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute. The bank should accept that type of securities which are commercial, durable, marketable stable, transferable and high market prices. A commercial bank can maximize its volume of wealth through

maximization of return on their investments and lending. So they must invest their funds where they gain maximum profit. The profit of CB's mainly depends on the interest rate, volume, tenure of loan and nature of investment in different securities. While investing excess funds in different securities or at the lending period, the banks should keep in mind that the people deposit money at the bank in different account with confidence that the bank will repay their money on demand. Similarly a bank should not lay all its eggs on the same basket i.e. to minimize risk; a bank must diversify its investment on different sectors. Diversification of loan or investment helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies.

2. Statement of the Problem

With the arrival of liberalization policy by the Government, the banking sector has been growing dramatically and operating with unhealthy competition. However, due to political instability, government couldn't be able to pay sufficient attention in this sector. Regulation, supervision, and monitoring by government have been weakened in banking sector as like other sectors. Commercial Banks in Nepal have been facing various challenges and problems especially in lending and portfolio management. Clarifying the Investment Policy of Commercial Banks, Diana Mc Naughton says, "Investment Policy should incorporate several elements such as regulatory environment, the availability of the funds, the selection of the risk, loans portfolio balance and term structure of the liabilities."

The directives and guidelines provided by Nepal Rastra Bank (NRB), Central Bank of Nepal, is the major policy statement for Nepalese Commercial Banks. A long term and published policy about their operation is not found in many banks. In case of selected sample banks, Investment Policy announced through Credit Strategy 2061, Credit Policy Guidelines 2061, Credit and Trade Finance Manual 2003, Investment Policy and Assets and Liability Management Guidelines 2008 and many such announced in annual general meetings (AGMs) are the major investment guidelines.

The portfolio performance of many Nepalese banks is not satisfactory. Sample banks are not also exception from that. Thus, this study is mainly concentrated on the following specific problems of selected commercial banks:

- What is the position of investment operation of sampled banks?
- What are the financial ratios related to portfolio management?
- What is the risk and return position of investment?

3. Objectives of the Study

- To analyze the investment operation of sampled banks.
- To analyze the financial ratio related to portfolio management of sampled banks.
- To measure the risk and return of investment of sampled banks.

4. Significance of the Study

This study mainly focused investment policy and portfolio of Nepalese commercial banks. Definitely, the study will provide a useful feedback to the policy makers of the bank and also becomes a useful reference for other Commercial Banks of Nepal and the Central Bank (NRB) for the formulation of appropriate strategies. This study evaluates the Investment Policy of selected commercial banks and finds its loopholes and significantly contributes to make the policy sound.

On the other hand, portfolio of a bank is the result of investment policy. In this thesis, portfolio behavior of the bank has been analyzed and its portfolio performance has been evaluated. This will be beneficial to all the bankers and policy makers to evaluate their own portfolio.

5. Limitation of the Study

This study will be based on the fundamental analysis of Investment Portfolio pattern of commercial bank of the Nepal. The limitation of the study is as follows:

- Simple techniques have been used in analysis.
- Limited variables have been selected.
- Only secondary data have been used to analysis of portfolio.
- The study focused on Standard Chartered Bank Limited, Nepal Investment Bank Limited, and Everest Bank Limited only.

- Due to lacking of the regarding portfolio management may limit the scope of the study.

6. Literature Review

Mahat (2015) has published an article on The Kathmandu Post daily of 28th April 2015 entitled “*Efficient Banking*”, in his article he has accomplished the efficiency of banks can be measured using different parameters. The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quantity of inputs employed and the quantity of outputs produced. An increase in productivity means that more output can be produced from the same inputs or the same outputs can be produced from fewer inputs. Interest expense to interest income ratio shows the efficiency of banks in mobilizing resource at lower cost and investing in high yielding asset. In other words, it reflects the efficiency in use of funds.

The analysis of operational efficiency of banks will help one in understanding the extant of vulnerability of banks under the changed scenario and deciding whom to bank upon. This may also help the inefficient banks to upgrade their efficiency and be winner in the situations developing due to slowdown in the economy. The regulators should also be concerned on the fact that the banks with unfavorable ratio may bring catastrophe in the banking industry.

Shah (2012) in her thesis “*Impact of Interest Rate Structure on Investment Portfolio of Commercial Banks in Nepal*” has been done in 2012. The main objective of the study is to analyze the interest rates structure and its impact on various activities of commercial banks.

Shrestha (2014) in his thesis entitled “*A Study on Investment Portfolio of Commercial Banks in Nepal*” has been done in 2014. The general objective of this research is to identify the current situation of investment portfolio of CBs in Nepal.

Timilsina (2013) has published an article on “*Managing Investment Portfolio.*” He is however, confronted with problems of managing investment portfolio

particularly in times of economic slowdown like ours. A rational investor would like to diversify his investments in different classes of assets so as to minimize risks and earn a reasonable rate of return.

An investment in equity share can earn dividend income as well as capital gain, in the form of bonus share and right share until an investor holds it and capital profit when he sells it in the stock market. As returns from equity investments have fluctuated within a very wide range, investors feel it much difficulty to balance risk and reward in their equity portfolio. As a matter of fact, investors in equity shares should invest for a reasonable long time frame in order to manage the risk.

Making investment in fixed deposits with commercial banks is a normal practice among the common people. Normally fixed deposits with banks are considered risk-less, but they also are not 100% free of risk. You should select a bank to put your deposit therein, which has sound financial health and high credibility in banking business. In times of crisis if you select a sick bank deposit your money there is high probability that your money could be returned back.

An investor may have option of making investment in government bonds or debentures. In history we have examples that a government can nationalize the private property of its citizens, cancel out old currency notes, and can convert the new investment into some conditional instrument. But in democracy there is no probability that the government would default to repay money back. This is comparatively risk free investment, but yields low return.

Paudyal (2015) conduct a study on “*A study on Portfolio Analysis of Commercial Banks in Nepal*” with the objective of

- To evaluate financial performance of commercial banks of Nepal.
- To examine the existing situation of portfolio management of Nepalese commercial bank.
- To analyze risk and return of commercial banks.
- To analyze the investment and loans and advance portfolio of commercial banks.

Shrestha (2016) has conducted a study on “*Investment Policy and Portfolio Management of NCC Bank Limited.*” The main objective of the study was to

appraise the Investment Policy of NCC Bank and to evaluate its portfolio as well. The major objectives of the study were given below:

- To evaluate the Investment Policy of the bank for loans and advances and that for investment on securities.
- To analyze the investment portfolio of bank in ground of portfolio's liquidity, portfolio management, portfolio performance and portfolio's profitability.
- To analyze how efficiently the resources have been utilized.

The research was conducted mainly on the basis of secondary data. The research findings of the study are as under:

- It was found that bank has formulated a satisfactory loans and advances policy. Most of the credit related matters were found well incorporated in the policy documents.
- There was not investment policy for investment on shares, bonds and debentures till the FY 2070/71. All the investments were used to make with the decision of the Treasury Manager and the Chief of the Bank. So, this category of investment operation was not well managed in the bank. As a result of this, there was significant proportion of unmarketable, illiquid and unyielding assets in securities portfolio of bank. Such assets were hampering the liquidity and profitability of banks.
- Though there was not investment policy for investment on shares, bonds and debentures till FY 2068/69, the existence of clear-cut policy for credit operation has kept the overall investment operation as guided by acceptable policies
- Thus, to sum up, the study on investment policy suggested that the bank is following a "Sound" investment policy to conduct its investment function as suggested by policy scores.

7. Research Methodology

Research methodology is the process of arriving at the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. Research is a systematic method of finding

right solution for the problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view.

7.1 Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. The present study will be mainly based on two type of research design i.e. descriptive and analytical. Descriptive research design describes the general pattern of the Nepalese investors, business structure, problem of portfolio management etc. The analytical research design makes analysis of the gathered facts and information and makes a critical evaluation of it.

7.2 Population and Sample

Under the study of investment portfolio analysis of Nepalese commercial banks, the total number of commercial banks including domestic and joint venture banks operating in the Nepal is the population. At present there are twenty nine licensed commercial banks are running in Nepal. All 27 licensed Nepalese CBs will consider as the total population out of them this study will be concern with five CBs as a sample. In the sample, banks are taken according to their rapid growth rate and gradually growth rate which head office is in Kathmandu by which we can compare about the investment portfolio of this bank.

The selected sample banks for the analysis are as follows;

Standard Chartered Bank Ltd.

Nepal Investment Bank Ltd.

Everest Bank Ltd.

Population size = 27

Sample size = 3

Sample Percentage = 11.11%

7.3 Data Collection Techniques

Although, the study will mainly use secondary data, high level of efforts and more time was paid to get data. Official publications like Economic Survey, Annual Reports, Banking and Non-Banking Financial Statistics, Economic Bulletin etc. will be obtained from respective offices. Mainly most of the data will be taken from the library of SEBO. To some extent, informal interview was scheduled and conducted to obtain more information and reality about the various published data, investment policies of the banks, portfolio concept in the field of investment etc.

Due to poor data base, the data obtained from the various sources will be directly used in their original form. Further they need to be verified and simplified for the purpose of analysis. Hence, in this study the available data, information, figures and facts will be checked, rechecked, edited and tabulated for computation. Similarly, according to the need and objectives, the secondary data will be compiled, processed tabulated and graphed if necessary for the better presentation.

7.4 Data Analysis Tools

Various financial and statistical tools will be used to analyze the data ratio analysis, correlation coefficient, regression, trend analysis, risk and return, standard deviation, hypothesis test, etc were used in the study. A brief explanation of statistical and financial tools will be employed in this study.

8. Chapter Plan

The study will be organized into five chapters, as per the standard rule of thesis writing of Tribhuvan University, which is as follow:

Chapter I: Introduction

This chapter will include the background of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study, and organization of the study.

Chapter II: Review of literature

The chapter includes the review of the previous relevant writing and the studies to find the existing gaps. So, the past studies in relation to the concerned topic will be reviewed to examine what new can be contributed to make the study more

relevant. Reviews of the journals, books, newspaper, annual reports are also going to be included.

Chapter III: Research Methodology

This chapter deals with the methodology used in the study. It briefly explains about the statistical tools which will be used to evaluate the risk and returns analysis for the concerned topic. It will consist of the research design, population and sample, sources of data, data collection procedures, data analysis tool and methods of data analysis.

Chapter IV: Results

This chapter will comprise the main part of the study. It deals with the presentation and analysis of the data and information collected from primary as well as secondary sources and scoring the empirical findings of the study through definite course of the research methodology.

Chapter V: Summary, Conclusion and Implications

This chapter will state the summary of the whole study. After the summary it will be followed by the basic conclusion of the study based on the fourth chapter and lastly, the recommendation will also be presented for considerations on the basic of the conclusions.

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**PORTFOLIO MANAGEMENT OF NEPALESE
COMMERCIAL BANKS**

A Thesis Proposal

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