CHAPTER- I

INTRODUCTION

1.1. General Background of the Study

Nepal is one of the least developed countries in the world and has many obstacles for development. More than 80 percent of the people are still in ruler areas and most of them are not getting even minimum physical facilities that are necessary for human beings. The annual per capita income of Nepali is only $473 (WBR 2009). About 24.7 percent people are forced to live under the poverty line (CIA world 2010).The contribution of industrial sector is only about 22 percent in GDP(but in recent year it is slightly increasing),which shows that it is compulsory to establish more and more industries in the country. However, due to the geographical concentration and internal war of the country, it is not easy to establish. Besides this, facility of infrastructure, lack of skilled technicians, lack of capable work forces, limited market and tough competition etc. are responsible factor for low economic growth. On the other hand, it is not only one option to establishment of new industry, rather improvement and expansion of existing industries plays vital role for industrialization and economic development of country.

The factor affecting to a firm's success and failure is its financial performance. In Nepal, the Nepalese industries are not applying the basic principles of finance; they are using financial tools of traditional view. The financial performance, which measures the actual financial position of a firm, is very important indicator of firm's overall performance.

The reason behind Nepal's underdeveloped economy is not due to lack of resources rather not proper utilization of the available resources. Today every managerial decision making bases on financial analysis. It covers the acquisition, utilization, control and administration of fund. Finance is very concerned with the conversion of capital funds to meet the financial needs of business organization. Financial management needs to the decision-making skillfully. Finance has become an important branch of any economy of country among them share market is a leading sector. In a short period, the field of

finance has developed considerably; securities raise funds in capital market that certainly helps to expand the national economy. Stock market is the important part of finance that encourages on the progression for the development of a country's financial sector.
Especially in a capitalist economy, it is assumed that, the expansion of stock market represents the development of a country's financial sector and it speed up the nation's economic growth.

Banks play a vital role in the economic development of a country. If there are insufficient banks and other financial institutions in a country then the economic growth of a country is slowed down. The commercial banks are those banks that pool together the saving of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. Apart from financing, they also render service like collection of bills and Cheques, safe keeping of valuables, financial advising, etc. to their customers. The main objective of commercial banks is to earn profit by proper mobilization of the resources. Therefore, it is safe to say that banks are not the outcome of the economic development but are the causes for it. Commercial banks are one of the vital aspects of nation's economy, which deals in the process of canalizing the available resources in the needed sectors. As per the commercial bank Act 2031 B.S. *"A commercial bank means the bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions"*. Commercial banks are called heart of financial system because all the economic activities are directly or indirectly channeled through the commercial banks. It is the financial intermediary between the deficit and surplus of financial resources in the money market to finance the industrial activities in the form of loans and advances. They seem as a bridge between the depositor and the borrower and puts in efforts to maximize the earnings mainly through interest spread. Commercial banks have importance because they utilize the idle resources towards the economic activities, provide financial services in order to systemize the customer's financial activities and

help in building the efficient financial sector of the country. Mr. Radhaswami and Vasudevan highlights that, *"The secret of successful banking is to distribute resources between the various forms of assets in such a way so as to get sound balance between liquidity and profitability, so that there is sufficient cash to meet every clime and the same enough income to meet its expenses and distribute profit among the shareholders".(Dahal B. and Dahal S)*Commercial banks are profit-making organization. Their motive is to maximization of wealth and giving maximum benefit to their shareholder. They collect the money form the public and play with that money to gain profit, and can distribute more dividends to their shareholder. In general, functions of commercial banks comprises-

- Accepting various types of deposits.
- Lending money in various productive sectors.
- Investments.
- Letter of credit.
- Guarantee& warranty
- Remittance.
- The Brokerage functions.
- Underwriting of securities.
- The insurance function.
- The investment banking.
- Discounting bill of exchange.
- Credit creation.
- Assist in foreign trade.
- Financial advisor.
- Safe keeping of valuable.

A bank receives funds in the following ways:-

- Capital fund.
- Borrowing.
- Deposit made by public.
- Other liabilities.

The collected funds are invested in following assets:-

- Cash and bank balance.
- Investment.
- Fixed assets.
- Current and other assets.

Out of the above assets, credit and investment dominate the assets side of the bank balance sheet; commercial banks have to provide service as well as have to earn profit by investing funds. A bank invests its resources mainly in form of loans, advances and investments for the purpose of income generation. Investment functions of the bank comprise lending loans and advances, purchasing the securities issued by the government and organized institutions. " *The business of banking is one of collecting funds from the community and extending credit (making loans) to people for useful purpose".(Robert O Edmister, 1980,p.73)* According to Robert O.Edmister; there are three benefits of making loans by commercial banks; first incomes form loan contributes substantially to the revenues and profit of the bank. Second, lending money to people in the community strengthens the community -bank relationship. Third; lending money for business development and supports.

A bank always puts in efforts to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major sources of income of a bank are interest form loans, investments and fees from various services provided to public. As loan and advances dominates the asset side of the balance sheet of bank; similarly, earnings forms such loan and advances occupy a major space in income statement of the bank. For this, Commercial banks have to pay due consideration while formulating their investment policy. Good investment policy attracts both borrower and lenders, which helps to increase the quality and of deposits loans and investment .However, it is very important to be reminded that most of the banks failures in the world are due to the shrinkage in the value of loans and advances. Hence, loan is known as risky assets and investment operation of commercial banks is very risky one. Risk of non-repayment of loan is known as credit risk or default risk.

1.2. Origin of Modern Bank

Bank of Venice, set up in 1157, in Venice, Italy is regarded as the first modern bank .Subsequently, Bank of Barcelona (1401) and Bank of Genoa (1407) were established. The Lombard's Migrated to England and other parts of Europe form Italy are regarded for their role in the development and explanation of the modern banking. Bank of Amsterdam set up in 1609 was very popular than, the bank of Hindustan established in 1770 is regarded as the first bank in India. These banks gradually replaced goldsmiths and money Lander. Though bank of England was established in 1694 the growth of banks accelerated only after the introduction of banking act 1833 in United Kingdom and it allowed opening joint company banks.

Origin of Banks in Nepal

Tejarath Adda established during the tenure of the then Prime Minister Ranodio Sing 1933(B.S.) was the first step towards the institutional development in Nepal. But Tejararh Adda did not collect deposits form the public but gave loans to employees and public against the bullion.

Banking in modern sense started with the establishment of Nepal bank limited on 1994-07-30(B.S.).Nepal bank limited has a Herculean responsibility of attracting people towards banking sector form pre-dominant money lender's net, and of expanding banking services. Being a commercial bank it was natural that Nepal bank limited paid more attention to profit generating business and preferred opening branches at urban center. Government however had responsibility of stretching banking service to the nook and corner of the country and managing financial systems in a proper way. Thus Nepal Rastra bank (NRB) was set up on 2013-01-14 as the central bank under Nepal Rastra bank act 2012 B.S. Since then it has been functioning as the government's bank and has contributed to the growth of financial sector. Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corner of the country. Keeping this in mind, government set up Rastriya Banijya bank (RBB) in 2022-10-10 B.S. as a fully government owned commercial bank. Agricultural

development bank (ADB) was established in 2024-10-07 (B.S.) to provide finance for agricultural producers so that agricultural productivity could be enhanced introducing modern agricultural techniques.

The inception of Nepal Arab Bank Limited (Renamed as NABIL Bank Limited since January 01,2002) in 2041-03-29 (12 july 1984) as the first venture bank proved to be a milestone in the history of banking .NABIL bank gave a new ray of hope to the sluggish financial sector. Having observed the success of Nabil based on marketing concept and because of liberal economic policy adopted by the successive governments, other many commercial banks were established and started their operations. Following are the lists of commercial banks operating in the Nepalese financial market:-

1. Nepal Bank Limited.
2. Rastriya Banijaya Bank Limited.
3. Nabil Bank Limited.
4. Standard Charted Bank Nepal Limited.
5. Nepal Investment Bank Limited.
6. Himalayan Bank Limited.
7. Nepal SBI Bank Limited.
8. Nepal Bangladesh Bank Limited.
9. Everest Bank Limited.
10. Nepal Credit &Commerce Bank Limited.
11. Bank of Katmandu Limited.
12. Nepal Industrial and Commercial Bank Limited.
13. Lumbini Bank Limited.
14. Laxmi Bank Limited.
15. Kumari Bank Limited.
16. Siddhartha Bank Limited.
17. Machhapuchhre Bank Limited.
18. NMB Bank Limited.
19. Global Bank Limited.

20. Sunrise Bank Limited.
21. Citizens International Bank Limited.
22. Prime Commercial Bank Limited.
23. Bank of Asia Nepal Limited.
24. Kist Bank Limited.
25. Janta Bank Limited.
26. DCBL Bank Limited.
27. Mega International Bank Limited.
28. Agriculture Development Bank.

Common stock is a security, which represents a commitment on the part of a corporation to pay periodically whatever its board of director deems appropriate a cash dividend. Although the amount of cash dividend to be paid during the next year is subject to some uncertainty, it is relatively predictable. A stock reflects the uncertainty about future return, such that the actual return may be less than excepted return. The main sources of uncertainty are the price at which the stock will be sold. Dividends tend to be much more stable than stock price which contributes to the immediate return received by investor, and the same time reduce the immediate return received by the firm, which limits its potential growth. And stock prices can be affected by economic factor such as interest rates, economic growth inflation and the strength of the dollar. They can also be affected by micro economic factor such as specific policies enacted by a particular firm that will affect future earnings.The risk of a stock can be measured by its price volatility, as measured by its beta (systematic risk).

"A Security market exists in order to bring together buyer and seller of securities meaning their mechanisms are created to facilitate the exchange of financial assets". (*William F.Sharpe*)

"Stock market is a financial market which probably has the greatest glamour and is perhaps the least understood. Some observer considers it as a legalized heaven for

gambling and many investors consider stock market investing as a game in which the sole purpose is picking winner".(James H.Lorie &Peter Dood USA 1985; 659)

"*Listing is primarily by the wish of the economy, the size of the company and the trading activity of the stock". Edwin J.Elton and Martin J.Gruber (1996; 561)*

"Stock exchange means any body of individuals, whether incorporated of not, constituted for the purpose of regulating or controlling the business of buying, selling, or dealing in securities". V.K.Bhalla Fourth Ed., (1997; 259)

In Nepalese context, the institutional setup of securities market begin along with the 'security exchange center'(now Nepal stock exchange limited (NEPSE) in 1976 AD. NEPSE is a not profit making organization and operated under securities exchange act 1983.The basic objective of NEPSE is to import free marketability and liquidity to the government bonds and corporate securities by facilitating transactions in its trading floor through financial intermediaries such as brokers, market makers etc.

NEPSE appointed Eleven sales & issue manager and two dealer manager with twenty three broker to avail the daily transaction of buying and selling of securities under its restructure program in 1993 (2050 B.S.) NEPSE opened its trading floor on January 13, 1994 for its newly appointed broker and market makers. The establishment of the specialized firm as NEPSE proved to be strong step towards the liberalization of the economy and a milestone in the path of the economic development in the nation. Through after consideration developments, there still exists some problem in the development of stock markets in Nepal. Most of the shareholder and investor are least familiar with risk and return. "Most *of Nepalese investors are found to invest in single security". Bhatta P G M.B.A. Thesis, T.U., Kathmandu, (1995).*

1.3. Statement of problem

The major problem in almost all underdeveloped countries and is no exception, is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and act as development banks. Due to the lack of other specialized institutions. Investment of the collected funds is the most important factor forms the shareholder as well as bank's management point of view because this is the source of earning for the bank. Credit extended by commercial banks is directly related to the national interest of the country. So the investment policy of the commercial banks should be very sound and farsighted. In the light of the very fact as commercial banks are the hearts of financial system and financial system is the backbone of economy. Failure of commercial banks means failure of economy. While defining 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, loan portfolio balance, and term structure of liabilities."The directions and guidance provided by Nepal Rastra Bank is the major policy statement for Nepalese commercial banks. A long term and publish policy about their operation is not found even in the joint venture banks. Even if some how they have formulated some procedural guidelines. They are failling in proper implementation due to poor supervision .A large percentage of population is not educated and qualified enough for the proper utilization of bank finincing facilities.

"The securities market in Nepal initially meant for the creation and development of government securities has turned into a full fledged stock market creating good prospect for rising capital through the public to finance equity shortfalls so the industrial ventures". (Sharma P S., 2000)

Lake of information and knowledge is a great problem faced by individual investor who are manipulated exploited by the financial institutions and other market intermediaries to such an extent that investing in common stock is intolerably hazardus.Investor's attitude and perception plays a greater role in rational decision, which is influenced by the

knowledge and access to the data, required for analysis. Most of Nepalese investor invests their fund in single security due to least understanding of risk- return behavior of the securities .So main problem is the lack of information to analyze the risk and return on common stock investment. People feel more risk in stock investment than as its real risk. It makes frustration to invest on common stock and cannot be utilize their funds for consumption and other purpose. Not only general public, but also the university graduates and post-graduates can not analyze risk and return while making stock investment decision.

A corporate firm overcomes the limitation of unlimited liabilities and capital as in the sole proprietorship and partnership firm. A corporate firm is a business entity established under company act consisting of billions of rupees of capital divided into millions of ownership and debt certificates of the small denomination and ownership certificate of common stock are compulsory to begin a corporate firm.

Though we are living in the age of internet today, very few people in Nepal have computer knowledge and access to internet. Communication is not very efficient. So general people are much far from its advantages and moreover, people feel that there is much more risk in stock investment than the real one. In Nepal, major weakness on the implement of stock market efficiency is due to lack of education, knowledge, resources and technology that hinder to analyze risk and return of individual and portfolio stock.

Most investor use linear logic to formulate their investment strategies and investment decisions. Linear logic is based in the assumption that the future resembles the past in a highly predictable fashion. There are no sources to get or perfect information about the future regarding risk and return on investment Nepal, stock market persists highly inconsistency, here. Even intellectual school university graduates and postgraduates in business administration could perfectly analyze the risk and return of stock and stock market. There are organized firm who can give such information so that it can accelerate Stock investment and market efficiency. Therefore, we say none of the effective program has been introduced to develop investor's knowledge in Nepal yet.

In Nepal, major weakness on the increment of stock market efficiency is due to the lack of education, knowledge, resources, and technology that hinder to analyze risk and return of individual stock and portfolio stock. The research seeks to find out commercial banks investment with the analysis of market return and risk. Stakeholders can raise their views as like:-

- Why the commercial banks are needed in Nepal?
- What are the roles and what kind of strategy should be followed by the commercial bank towards the nation?
- Why & how Nepalese commercial banks must reform to sustain in this global market?

1.4. Focus of the Study

In any firm common stock, decision is taken as a major financial decision, which affects the value of firm. Investor does not invest in securities without details analysis of concern firm, so this study is mainly focus on performance analysis of common stock of joint venture commercial banks listed in NEPSE. Financial performance of common stock of different banks are analyzed and evaluated here with the help of statistical and financial tools. The study is focused on comperative evaluation of the common stock's market price, earning per share, dividend per share, price-earning ratio, dividend yield, earning yield, correlation of market price with earning per share of sample banks. Investors who have good knowledge about common stock and can forecast market trends make his/her investment in common stock wisely. The market prices of share, which are undervalued, are preferable to purchase, hopping that it will meet equilibrium in future. However, due to the lack of adequate information and knowledge investor are confused to make investment. Therefore, it is believed that this study will be useful to that investor who is interested to have knowledge about the performance of the banks taken under study.

1.5. Objectives of the Study

This study is taken to focus on the current common stock practice followed by different topper banks listed in NEPSE. This study also gives the directions to investor who is looking for safety and profitable investment opportunities. The main objectives of this study are to highlight on those aspects, which are as follows:-

- To examine the trend of market price of common stocks of individual bank and forecast their trend in the future i.e. whether the share of banks are blue chips in our country or not ?
- To analyze the situation of safety or risky to invest in the stocks of joint venture banks at present.
- To determine whether the shares of commercial banks in Nepal are overpriced or under-priced by analyzing the risk and return characteristics of the individual share.

1.6. Significance of the Study

Commercial banks play vital roles to collect money in the state. Generally, commercial banks are required by the central bank to earmark a portion of their loan portfolio to priority lending for agriculture, cottage industry, services etc., which includes 0.25% to 3% to the deprived sector (poor population). Under this obligation, commercial banks can lend directly to individuals or self-help groups, charging a 6-7% interest rate, or provide wholesale funds or equity to microfinance providers serving the poor in Nepal.

Two thirds of the priority and deprived sector lending and investment are provided by the two public commercial banks, Nepal Bank Limited and Rastriya Banijya Bank. Until recently the priority lending was set at 12% of the loan portfolio. It is now being phased out, ending completely in 2010, while the 3% deprived sector requirement will stay in place, and therefore loan and investment in microfinance with it. As of mid July 2003, Rs.22,605 million were affected to the priority sector, while Rs. 3,563 million allocated to deprived sector lending, from which 132.6 million was in the form of equity.

Nepal is keeping on pursuing the liberal and open market economic policies since 1980. Therefore, it is emphasis on creating a conductive environment for foreign investment. Moreover, recent membership of Nepal in W.T.O. indicates the need for developing the capital market more and more efficient in the country. His Majesty's Government, under a programmed initiated to reform capital markets converted Securities Exchange Centre into Nepal Stock Exchange in 1993.Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983.

This study is directed towards analysis and examination of common stock investment on banking sectors in Nepal. The significance of the study to different stakeholders are listed below -

- This research will be helpful to the investors on where to invest their funds & to identify the correct investment opportunities in front of them.
- This study will be a matter of interest for the academicians, students and investors. They will be able to understand the current practice on common stock in Nepal.
- Investor's feeling towards risk and return regarding to common stock investment is on surface now. They fell more Risk than that exits. Therefore, the study will be more significant for exploring and increasing stock investment. It will provide little contribution to Nepalese stock market development.
- This study will be helpful for other researchers in the area of investment as it provides suggestions to some extent.

1.7. Limitations of the Study

- The research is performed for the partial fulfillment of the requirement for the master's degree in business study (MBS). The study has to conducted and submitted within a time constraint. So the study has been bounded by the following limitations:-
- The study is based on secondary data only.

- It is the case study of only nine commercial banks and findings of the study may or may not be applicable to other commercial banks of Nepal. Therefore, the findings of the study cannot be generalized.
- Among many factors affecting investment decision, only certain factors are studied here, which may not represent the accurate positions of overall commercial banks of Nepal.
- This study deals with limited financial and statistical tools only.
- The whole study is limited only five-year periods, beginning form 2004/2005 to 2008/2009 fiscal year.
- The unwillingness of authority in banks and NEPSE to provide the necessary information is a very serious limitation of this study.

Variation in data published form different sources e.g. figure published by NEPSE and other companies may differ to some degree.

1.8. Organization of the Study

The study has been organized into five chapters, each are denoted to some aspects of clearing and settlement systems of the study. The title and little bit descriptions of each chapter are as follows:-

Chapter 1

It includes the introductory part of the study as already mentioned; this chapter describes the general background of the study, statement of the problem objective of the Study, Significance of the Study, Research Methodology, and Limitations of the Study and the organization of the Study.

Chapter 2

This chapter describes the theoretical analysis and brief review of the related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter 3

This chapter describes the research methodology and technique used to carry out this study, this includes the matter and source of data, Population samples, modal of analysis and meaning and definition of statistical tools used.

Chapter 4

This deals with the presentation and analysis of secondary data by using various tools and techniques and major findings.

Chapter 5

It states the summary, Conclusion of the study. A part from these, it provides recommendation & suggestions to various stakeholders.

The exhibits bibliography and appendix are incorporated at the end of the study.

CHAPTER-II
REVIEW OF LITERATURE

Literature review refer to the selection of available documents (both published and unpublished) on the topic, which contain information, ideas, data and evidence written from a particular standpoint to fulfill certain aims or express certain views on the nature of the topic and how it is to be investigated, and the effective evaluation of these documents in relation to the research being proposed.

So this chapter highlights on the literature that is available regarding to this topic. Specifically, it includes those studies conducted outside the country and some of the available studies inside the country because there are not so much adequate study materials related with this topic published in Nepal. This study has to refer almost all books related with this topic public in other countries than Nepal. Our stock market being an emerging state is unable to provide adequate information concerning to this study. This study focuses on common stock's risk & return and some basic academic course book on finance dealing with these issues also have been reviewed here.

2.1. Conceptual Framework

2.1.1. Conceptual Review:

"*A commercial bank is business organization that receives and deposits of fund from other, makes loans or extends credits and transfer funds by written of deposit". (The Encyclopedia Americana, Vol. 3 (Grolier Incorporated 1984).*

"*Commercial bank is a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services". Principle of operations, (American institute of Banking, USA. 1972).*

"A commercial banker is a dealer in money and substitute for money, such as cheques or bill of exchange. He also provides a variety of financial services". The New Encyclopedia Britannia, Vol. 14. (1985; P. 600).

Bank is a business organization that receives and holds deposits and funds from other, Provides loans, extends credits, and transfer funds by the order of the depositor. In this definition (1), a bank is a business organization. (2) It creates credit by receiving deposits and lending loans and (3) it repays deposits at a certain time when the depositor want and write an order.

Commercial bank exchanges money, accepts deposits, grants loans, performs other commercial bank functions, and is not a bank meant for cooperative, agricultural, industrial as per specific function.

Financial activities are necessary for the economic development of the country and commercial banking is the heart of financial system. Optimal investment decision plays a vital role in each organization. Especially for the commercial banks and other financial institutions the sound knowledge of investment is the must because their subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concern to the commercial banks and other financial institutions, they must mobilize (i.e. investment on different sector) their collections (deposits) and other funds towards the profitable, secured and marketable sector so that they will be in profit. For this purpose these banks and financial institutions should get the sufficient information about the firms (client) to which supposed to be invested. This information includes as financial background, nature of business as well as its ability to repay the loan back. These all information should be gathered form the viewpoint of security.

2.1.2. Common Stock

"Common stock represents ownership position in a corporation. It is a residual claim, in the sense that creditors and preference shareholders must be paid as scheduled before common stockholders can receive any payment. When investor bye common stock they receive certificate states the number of shares purchased and their par value ". Bhatta V .K. (2000), P.196.

"Common stock has one important investment characteristics and one important speculative characteristic. Their investment value and average market price trend increase irregularly but persistently over the decades as their net worth builds through the reinvestment of undistributed earning..... However, most of the time common stocks are subject to irrational and excessive price fluctuation in both directions, as the consequence of the ingrained tendency of most people to gamble, i.e. to give way to hope fear, and greed". Prasanna Chandra; (1995; 231)

Gitman states, "*Common stock holders is sometimes referred to as a residual owner since in essence he or she receives is left the residual after all other claims on the firms income and assets have been satisfied. All the companies issues common stock. Common stock holders are the true owner of business firm. They invest money with the expectation of getting high return. The return form common stock is usually from the capital gain earned if they increase in value after public buy them. That's why prices for common shares can be more volatile. They move up and down due to the factor like economy and company performance".(* Lawrence J. Gitman, Sixth Ed., Harper Collins Publishers, 1991 P.573.)

"*A corporate charter of company specifies the number of authorized shares of common stock". (James C. Vanhorne, (2000; P.546.).* A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. A company should not issue common stock below par value. Generally, par value of most stocks is set at low figure with compare to their market values and the value per share is

the current price at which the stock is traded. Market value per share of common stock is function of current and excepted future dividends of the company and the perceived risk of the stock on the part of investor.

The payment of corporate dividend is at the discretion of the board of director. Dividend may be paid in cash, stock or merchandise. However, cash dividends are most common. The common stock holders are not promised for dividends but they expect certain payment based on the historical dividend pattern of the firm. Before dividends are paid to common stockholder, the claim of all creditors, the government and preferred stockholder must be paid. Common stock does not entail fixed charges and carry no fixed maturity date. Dividends are paid to common shareholder only if the company generates earnings. Thus, risk is highest with common stock and so must be in its excepted return.

2.1.3. The Excepted Rate of Return on Common Stocks

The expected rate of return is the expected after tax increase in the value of the initial investment over the holding period. The overall rate of rerurn can be decomposed into capital appreciation and dividend components. Capital appreciation is the difference between investor end of the period and beginning of the period.

"Reruns are defined as the dividend yield plus the capital gain or loss. The relationship between levels of returns and their relative frequencies is called a probability distribution. We could formulate a probability distribution with a relative frequency of a firm's annual returns by analyzing its historical reruns over the previous years. But we know that history never repeats itself exactly. Hence, we can form a probability distribution based on historical data plus our analysis for the outlook for the economy, the out look for the industry, the outlook for firm in its industry and another factors". Ibid. P.94 Return is the main attraction for investor to invest in a risky security as stock (equity share) accepting a varying degree of risk tolerance. The return form holding an investment over some period, say a year is simply any cash payments received due to

ownership plus the change in market price, derived by the beginning price. Form common stock we can define single period return as:-

$$\text{Single period Rate of return} = \frac{\textit{Ending price} - \textit{Beginning price} + \textit{Year end dividend}}{\textit{Beginning price}}$$

Where as,

Ending Price = p_{t+1}

Beginning Price= p_t

Year end dividend = D_{t+1}

This formula can be used to determine both actual one period return (when based on historical figure) as well as expected one period rate of return (when based on excepted dividend and prices). Also note that the term in parenthesis in the number of above equation represents the capital gain or loss during the period *". (Van Horne, James C. And Wachowicz, Jr. John M (1995; P. 90)*

Annualized rate of return over several periods can be calculated in two ways. The first one is simply to the average of the annual holding period returns (HPR) over a given period and the second one , which also takes into account the compounding effects of cash receipts over different time intervals, is the geometric mean rate of return .

The simple arithmetic mean:

$$HPR = \sum_{t=1}^{n} \frac{HPR}{n}$$

The geometric mean rate of return: $HPR_g = \prod_{t=1}^{n} (1 + HPR)^{\frac{1}{n}} - 1$

Where,

HPR =Holding Period Return,

n=No of Period

HPR_g *=Geometric Mean.*

2.1.4. General Awareness of Risk on Common Stocks

"Risk defined most generally, is the probability of the occurrence of unfavorable outcomes. However, risk has different meanings in different contexts. In out context two measures developed form the probability distribution has been used as initial measures of return and risk. They are mean and standard deviation of the probability distribution ". (Op. Cit., Weston & Brigham)

"Risk is defined in Webster's Dictionary as 'a hazard: a peril: exposure to loss or injury; thus, for most, risk refer to the chance that some unfavorable event will occur .If you invest in speculative stocks (or, really, any stock),you are taking a risk in the hope of making an appreciable return". (op. Cit., Weston, besley & Brigham, p. 182-183.)

"Risk is the unlooked for the unwanted event in the future; someone had said that risk was the sugar and salt of the life ". (Risk management)

Some of the sources of uncertainty that contribute to risk of investment are below:

Interest Rate Risk

Interest rate risk is defined as the potential variability of return caused by change in the market interest rate. More succinctly, value of securities moves inversely with change in the market rate of interest. In more general items ,if market interest rates rises, than investment's values and prices will fall, and vice versa. The variability of return that is interest risk. This interest rate risk affects the prices of bonds, stocks, real assets, gold, puts, calls, future contracts and other investment as well.

Default Risk

Default risk is that portion on an investment total risk that results from changes in financial integrity of the investment. For instance, when a company that issues securities moves either further away from bankruptcy or closer to it, these changes in the firms

financial integrity will be reflected in the market price of its securities. The variability of return that investor experience because of change in the creditworthiness of a firm in which they invested is their default risk.

Purchasing Power Risk

Purchasing Power risk is the variability of return of an investor suffers because of inflation. Economists measure the rate of inflation by using a price index. The consumer price index (CPI) or simply price indexes (PI) are popular coinage to the concept. Rate of inflation directly affects rate of return, hence the change in the purchasing power cause the price of securities move that result the risk.

Bull-Bear Market Risk

As its name suggests, bull -bear market arises from the variability in market returns resulting from alternating bull and bear market forces.

When a security index rises fairly, consistently from a low point, called a trough, for a period, this upward trend is called bull market. The bull market ends when the market index reaches to a peak and starts a downward trend. The period ruing which the market declines to the next through is called a bear market. It is inferential to quote that bear market is followed by bull market that usually rises more than enough to compensate for the bear market losses. But, the altering bull and bear market forces create a permanent source of investment risk.

Liquidity Risk

Liquidity disk is that portion of an asset's total variability of return, which results from price discounts given or sales commission paid to sell the assets immediately.

Liquid assets are highly marketable and suffer no liquidation costs. Liquid assets are not readily marketable -price discounts must be given or sales commission must be paid, or the seller must incur both of these costs, in order to find a new investor for a liquid assets.

Industry Risk

Industry Risk is that portion of an investment's total variability of return caused by events that affect the products and firms that make up an industry. The stage of the industry's life cycle, international tariffs and /order quotas on the products produced by an industry product or industry related taxes, industry wide labor union problems, environments restrictions, raw material availability and similar factors interact and affect all the firm in an industry simultaneously. Because of these commonalities, the price of the securities issued by competing firms tens to rise and fall together.

Management Risk

Though many top executives earn princely salaries, occupy luxurious offices, and wield enormous power within their organizations, they are mortal and capable of making a mistake or a poor decision. Further, more; error make by business manager can harm those who invested in their firms. Hence, it also is capable of poring risk to investments.

Political Risk

Political risk arises from the exploitation of a politically weak group for the benefit of a politically strong group, with the efforts of various groups to improve their relative positions increasing the variability of return for the affected assets. Regardless of whether the change that cause political risk are sought by political or by economic interests ,the resulting variability of return is called political risk if it is accompanied through legislative, judicial, or administrative branches of the government.

Total Risk

The uncertainties discussed above are the major sources of investments risk, but by no means do they make up an exhaustive list. If all the uncertainties could be listed, they would add up to total risk, or total variability of return.

2.1.5. Standard Deviation

The standard deviation measures the absolute dispersion. It is said that the value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by small □ (read as sigma).

The formulas to calculate the standard deviation are given below-

$$\exists|X\square \sqrt{\frac{X^2}{n}}$$

Where, $X^2 = (x Z^{z} x)^2$

Thus, the standard deviation is a weighted average deviation from the excepted value, and it gives an idea of how far above or below excepted value and the actual value is likely to be.

The standard deviation measures total risk of a stock and risk comprises of systematic risk and unsystematic risk. Systematic risk has its sources factor that affects all marketable assets and thus cannot be diversified away. The sources of systematic risk are market-pervasive. The measures of systematic risk permit an investor to evaluate an assets required rate of return relative to the systematic of the stock. Unsystematic (or company- specific or unique) can be reduced through diversification. The relationship among total risk, systematic risk and unsystematic risk are shown below:

Total Risk = $\exists_j$ |XSystematic Risk + Unsystematic Risk; with systematic Risk = (∃j|) (∂_{jm} Aand Unsystematic Risk = ($\exists_j$) (1-∂_{jm})

In this equation (∂_{jm} A□ is the correlation coefficient between the return of a given stock (j) and the return on market portfolio.

2.1.6. The Range

The range is one of the traditional methods of measuring risk, which simply communicates the difference between the best possible returns and the worst possible return between the extremes.

The Ranges = Best Possible Rate of Returns -Worst Possible Rate of Returns

The degree of risk of underlying securities is reflected in the magnitude of the difference. The smaller the difference the lower will be the degree of risk.

2.2.3: Capital Asset Pricing Model (CAPM)

"CAPM is a model that describes the relationship between risk and expected return. In this model, a security's excepted return is the risk free rate plus a premium based on the systematic risk of the security. The SML equation as suggested in this model is:

$$K_j = R_f + [E(R_m) - R_f] \wp_j$$

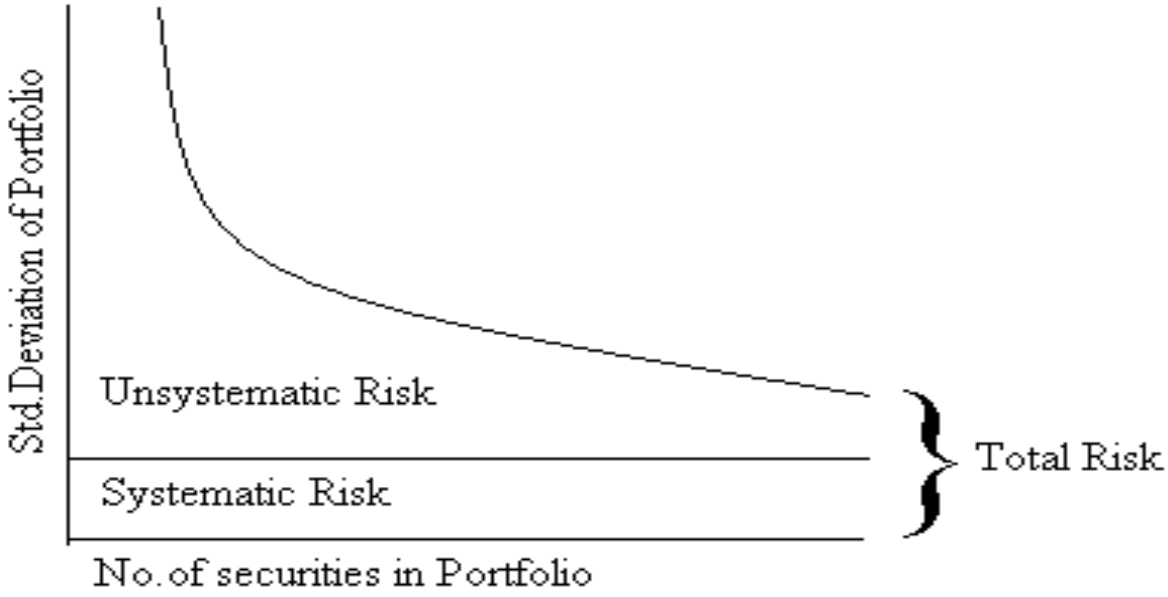
Where, K_j = Required Rate of Return for stock j.

R_f = Risk Free Rate of return.

$E(R_m)$ =Excepted Return for the Market Portfolio.

$\wp_j$ = an index of systematic risk of stock j.

Diagram 2.1: Capital Assets Pricing Model (CAPM)



Where, beta measures the sensitivity of a stock's returns. It changes in returns on the market portfolio. The Beta of portfolio is simply a weighted average of the individual stock beta in the portfolio.

If beta is 1 then the required return is simply the average return for all situations that is the return on market portfolio; otherwise, the higher the risk premium and the total return required. The actual return depends partly on the behavior of the market, which acts as a proxy for general economic factor.

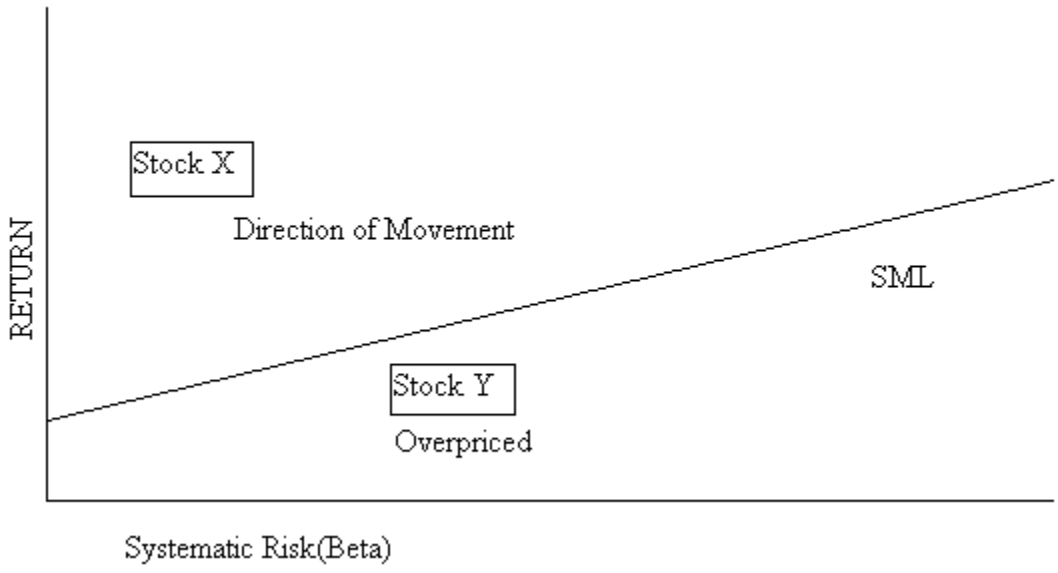
Premium is the amount of return that investor demands for holding a risky security such as stock. Financial economists William Sharp are one of the creators of the "Capital Asset Pricing Model" a theory that began a quest to identify the tendency portfolio. In fact, the CAMP as It Called Is the Predominant Model used for estimating equity risk and return. CAMP is very useful tools. It has been taken as a prescription for the investment portfolio, as well as tools for estimating an excepted rate of return. Comparison between the excepted rate of return and required rate of return can analyzes the stock to be under

priced or overpriced. In addition, when these two returns are equal than it is said to be market equilibrium i.e. ass stocks lie on the security market line (SML).

"The graphical version of CAMP is called the security market line which shows the relation between and the required rate of return". (Prasanna Chandra, (1994)
"The security market line clearly shows that return is the increasing function, in fact a linearly increasing function of risk. Furthermore, it is only market risk that effects return. The investor receives no added return for bearing diversifiable risk ". (Op.Cit. Elton and Gruber)

Stocks that are overpriced lie below the SML and if the stocks are under priced then it lies above the SML

Diagram 2.2: Under priced and Overpriced Stock during Temporary Market Disequilibrium.



Above diagram clarifies that stock x being under priced, its excepted rate of return is greater than required rate of return. Moreover, stock y is expected to provide lower return

than the required rate to compensate the systematic risk .Investor seeks the opportunity to invest in stock x for superior return.

("Investing in stock x should rush to buy it .This action could drive the price up and the excepted return down. How long would this continue? It would continue until the market price was seems that the excepted would now like on the security market line. In the case of stock y, investor holding this stock would sell it, recognizing that they could obtain a higher return for the same amount of systematic risk with other stocks. This selling pressure would drive Y's market price down and its excepted return up until the excepted returns was on the SML". (op.cit,Van Horne & Wachowicz)

2.2. Review of Prior Journals

These days information highway or internet has become one of the most easily accessible mediums to gain information in any subject matter. On this situation researcher has also consulted some articles related with topic from the different websites.

Firstly, the researcher has begun the study with the history of finance; financial economics is defined by Adam smith in 1996 as the application of economic theory to financial markets. It is a large body of theory including such well-known models as "Modern portfolio theory": of Markowitz 1952, the capital assets pricing model (CAPM) of Sharpe (1964), the efficient market hypothesis of Samuel son (1973).although these models are all included in institute of faculty education ltd (1995), their acceptance or use is controversial.

Finance from the investor's perspective is explained as,"investor, whether they are individual or institutions such as pension funds, mutual funds or college endowments hold portfolios, that is they hold a collections of different securities .much of the innovation in investment research over the past 40 years has been the development of a theory of portfolio management and this model is principally an introduction to these methods. It will answer the basic question, what tare of return will investor demand to hold a risky securities in their portfolio ?To answer this question first most consider what investor want how we define return and what we mean risk". (Goetzmann, Silliam.1999; 714)

Investor wants to make more money in the future. The key measure of benefit derived from a security is the rate of return.

*("The investor return is a measure of growth in wealth resulting from that investment. The growth measures are expressed in present forms to make it comparable across large and small investor .stock returns may be riskier or more volatile. However, this concept from statistics, called standard deviation. It is a single measure, allowing quantifying assets returns by risk. And it also provides the basis for investor decisions about portfolio choice". (*Ibid)

When we go back to the history, 1980's were one of the greatest decades for stock market. Where as 1930's was one of the worst decades for US stock investor. In the 1930, stock markets clashed all over the world. US stock investor experienced a zero percent return for the 10-year period from period 12-1929 to 12-1939

"It is important to understand how personal circumstances affect investment decisions. If this factor makes no differences, we could simply publish one suggested portfolio for everyone to follow. How, your tolerance for risk, your returns needs (whether income or growth).the length of time you can remain invested and your tax status all have an important effect on the kinds of investments. Investment profile is the beginning of the asset allocation process. Which consist of dividing your portfolio among he major asset categories of stocks, Bonds and cash? The asset allocation decision that you make here will have a far mere effect on your overall portfolio return. Make allocation decision with the major categories. For instance, divide stock portfolio can among large capitalization stocks. Small capitalization stocks and international stocks. Once these decisions are reached, you will be ready to select among the various investment options. Lastly, once you have set up your investment portfolio you must monitor it making change when appropriate". (American Association Of Individual Investor "Investing Basis".)

"*Every investor wants the highest assured return possible. But as we have seen returns are not certain and different investor have varying degree of uncertainly that they are willing to accept". (Ibid)*

Advanced and research based journals of finance are hardly found in Nepal .very limited number of journals of finance can not cover its full dimensions almost no any articles about the risk and return analysis on common stock investment is found . it is therefore foreign well know recently published journals of finance has been reviewed over here .however, it help build the sound conceptual framework on this topic .

The journal of finance, published bimonthly by American finance association for many decades is taken into account. In its recent volume of august 1999, an article " local return factor and turnover in emerging stock markets " by K. Greet Rouwenhort has been reviewed here.

There is growing empirical evidence that multiple factors are cross section ally correlated with average return in the united state. Measured over long time periods ,small stock earn higher average return then large stock [bank .1981] show that value\stock with high book-to-market [B/M] earning to price [E/P] '; on cash-flow to price [C/P]outperform growth stock with low B/M ,E/P or C/P .Moreover ,stock with high return over the past three months to one year continue to outperform stocks with poor prior performance [Jagadesh and Titman [1993].the evidence that beta is also compensated for in average returns is weaker (Fama and French (1992) Kothari, Shakken and Stoan (1995)

The interpretation of the evidence is strongly debated. Some believe that the premiums are a compensation for pervasive risk factor; other attributes them to firm characteristics or inefficiency in the way market incorporate information into prices. Yet other average that the premiums may be biased by survivorship or data snooping.

This paper examines the sources of return variation in emerging stock markets. From the perspective other for collecting independent samples, emerging market. Countries are particularly interesting because of their relative isolation from the capital markets of other countries. Compared to developed markets, the correlation between most emerging markets and other stock markets ash historically been low (Harvey (1995)); and until recently many emerging countries restricted investment by foreign investor. Interestingly, Bekaert and Harvey 1995 find that despite the recent trend towards abolition of these restrictions and the substantial inflows of foreign capital. Some emerging equity markets have the equity capital of emerging economics is held by local investor who are likely to evaluate their portfolios in light of local economic and market condition Bekert and Harvey (1997))(Rouwenhorsts, K Greet(Vol.No. 3, Aug. 1999, ,P. 1439-40)

Review of prior Journals and Articles in Nepalese Perspective

Pradhan's (1993) study on "Market behavior in a small capital market" has the following objectives:

- To assess the stock market behavior in Nepal.
- To examine the relationship of equity market to book value prices, earning and dividend with liquidity, profitability, leverage, asset turnover and interest coverage.

Following findings were observed in connection with the dividend behavior:

- Higher the earning on stock, larger dividend per share to market price per share.
- Stock with large ratio of dividend per share to market per share have lower leverage ratio.
- Stocks with large ratio of dividend per share wear positively correlated.
- Positive relationship between the dividend per share to market price per share and interest coverage.

Shrestha's (2003) study on shareholder democracy and annual general meetings feedback" deals with the policy and financial performances of some finance companies in

Nepal. Dr. shrestha presented his paper on the fifth annual general Meeting of Nepal Arab bank ltd in that paper he opines that the shareholder have common views on the problems and constraints of them which are as follows :

- The cost -push inflation at exorbitant rate has made the shareholder to except higher returns from their investments.
- Deprecation in the purchasing power of the Nepal currency to the extents that higher returns by way of dividend is just a natural economic consequences.
- Erosion in the purchasing power of salaries and other incomes mean that dividend payment must be directed to enhance shareholder purchasing power by rising dividend payout ratio based on both earning and cost theory.

Paudel carried out a study in a topic of "Investing in share of commercial banks in Nepal" An assessment of return and risk elements in 2001. The study was based on the data collected for eight banks from mid July 1996 to mid July 2001. the main objectives of this study was to determine whether the share of commercial bank in Nepal are overpriced or under priced by analyzing risk and return characteristics of the individual shares.

Mr. Paudel summarized the following findings:

- Most of the individual shares appeared to be defensive as beta coefficient wear less than 1. Low beta share wear less volatile than the market as a whole .only the return on shares of bank of Katmandu had beta coefficient of greater than one, which indicates that the share was more risky than the market.
- Nepal Arab bank ltd Nepal Indosuez bank ltd, Himalayan bank ltd had higher excepted equilibrium return than excepted rate of return, and standard chartered bank ltd ,Nepal SBI bank Ltd ,Nepal Bangladesh bank ltd, bank of Katmandu had lower equilibrium return than excepted rate of return.
- From this study we get Nepal Arab bank ltd, Nepal Indosuez bank ltd and Himalayan bank ltd were overpriced and other were under priced.

2.3. Review of Prior Thesis and Dissertation:

Joshi (2006), the main objective of this study was to identify the investor problems in choice of optimum portfolio of stocks in NEPSE which concluded that portfolio management is a new concept for Nepalese investor. Due to lack of sufficient information, proper investment is not possible. Proper investment needs huge information internal as well as external. The stocks market of Nepal is also growing stage only. The only one stock, exchange locates in Katmandu. Traditional cry system for trading stock. Limited number of security broker. Lack of opportunity of invests and many other reasons are there. Which is acting as barrier of development of NEPSE? Due to lack of financial tools only three stock portfolios were constructed and analyzed .Investor does not know in which stock to invest how to formulate portfolio, even many stockbroker does not give the information to the investor. Investor are purchasing and selling their stock monthly on the pressure of broker. Due to lack of sufficient information, the decision for purchase and sell of stock is difficult. It needs special knowledge as well as adequate skill to analyze portfolio." *(Joshi, Roopak)*

Niraula, (2007), the study conducted by Niraula is closely related to this study .he has performed the study to "investment analysis on common stock (a study of listed joint venture banks in NEPSE". He has analyzed the data of nine joint venture commercial banks for the year 2004/2005 to 2008/2009 .the main objectives of his study are:

To study the trend of market price of common stock of individual banks and forecast their trend in the future.

To determine whether the share of commercial banks in Nepal are overpriced or under priced by analyzing the risk and return characteristic of individual share.

By this study, he found that:
Nepalese stock market is in emerging stage .its development is accelerating since the political change in 1990 in effect of openness' and liberalization in national economy.

Market price trend analysis has resulted negative trend or indication of decrease in market price per share in future for NABIL, NIBL and BOKL .where as other banks has resulted positive i.e. market price per share will be increase in future of those banks.

With the help of capital asset pricing model (CAPM) excepted rate of return and required rate of rerurn (equilibrium rate of return)has compared to identify whether the stock of commercial bank are overpriced or under priced. Six commercial banks have the stock that is under priced. They are: NABIL, NIBL, BOKL, EBL, SCBNL, NBBL and remaining two banks HBL and SBI have stock that are overpriced.

Most of investor invest only keeping the return in the mind but they are found unable to calculate the risk and return factor of the security, they are found having lack of the knowledge of the coefficient of variation of the stock meaning risk per unit of return.

Sapkota, (1999), Study conducted by Mr. Sapkota is some how related to this study. He has performed an analysis of risk and return on common stock investment with special reference to banking industry. The main objective of the study is to analyze risk and return of the common stock in Nepalese security market. The study is focused on the common stock of commercial banks.

In his findings, "banking industry is the biggest one in term of market capitalization and turnover. Excepted return on common stock of Nepal bank ltd is maximum i.e. 66.99 percent and common stock of SBI bank is found minimum. In this regard, common stock of Nepal bank ltd. is risky and common stock of SBI bank ltd is least risky. In the context of industries, excepted return of finance and insurance industry is found highest. Excepted return of banking industry is 60.83 percent.*"(Ibid)*

The portfolio standard deviation is less than each individual stock's standard deviation. Hence, the portfolio approach of investment is better way to win the stock market.

Bhatta (2005), the study performed by Mr. Bhatta is based on 10-listed company's data .using five years' data from 1999 to 2004. Among different objectives, the one is to analyze the performance of listed companies in term of risk and return i.e. excepted rate of return and company specific risk. Required rate of return and internal rate of return systematic risk and diversification of risk through portfolio context

In this aspect, Mr. Bhatta has summarized the findings as "a highly significant positive correlation has been addressed between risk and return character of the company. Investor except higher returns forms those stocks which associates higher risk. Nepalese capital market is not efficient one so the stock price does not contain all the information relating to market and company itself; investor analyze neither the overall relevant information of the stock nor the member of stock exchange try to disseminate the information. So the market return and risk both may not represent reality. However, the analysis based on the available information shows that high prices stock has higher beta than other does.

Investor in Nepal have not yet practice to invest in portfolio of securities .an analysis of two securities portfolio shows that the risk can be totally minimized if the correlation is perfectly negative. In this situation, the risk can be much diversified but when there is perfectly positive correlation between the returns of the two securities the risk is undiversifiable. The analysis shows some correlation has negative and some has positive one. Negative correlation between security returns is preferred for diversification of risk". *(ibid)*

He has concluded that the analysis of risk and returns shows many companies with higher unsystematic or specific risk .he has realized the expert institution to provide consultancy service to service to the investor to maximize their wealth through rational investment decision .Mr. Bhatt's study is mainly focused on companies and stock market rather than investor .however, this study has helped for research of researcher topic.

Pradhan (2004), Pradhan's study on "Market behavior in a small capital market" has the following objectives:

- To assess the stock market behavior in Nepal.
- To examine the relationship of equity market to book value prices, earning and dividend with liquidity, profitability, leverage, asset turnover and interest coverage.

Following findings were observed in connection with the dividend behavior:

- Higher the earning on stock, larger dividend per share to market price per share.
- Stock with large ratio of dividend per share to market per share have lower leverage ratio.
- Stocks with large ratio of dividend per share wear positively correlated.
- Positive relationship between the dividend per share to market price per share and interest coverage.

2.4. Justification of the Study

The research gap identified by the review of literature has justified the need of this study. The researcher has been fully assumed that this research is one of the most demanded and most valuable researches under the financial sector of Nepal.

CHAPTER -III
RESEARCH METHODOLOGY

3.1. Introduction

Research methodology is a systematic way to solve a research problem. In other word, research methodology describes the methods and processes applied to conduct a research study. Research methodology refer to the various sequential steps (along with the rational behind each step) to be adopted by a researcher in studying a problem with certain objectives in view. A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variable, meaning and definition of statistical and financial tools used. This highlights the research methodology used for the study of common stock practice of nine commercial banks listed in NEPSE.

3.2. Research design

Research design is the plan and strategy of investigation conceived to obtained answer of the research questions and control variance. Research design helps in the analysis of data related to research topic. It is a controlling media for the collection of data and it helps to collect accurate information relating to subject. The research design has been descriptive cum exploratory. For analytical purpose, the annual reports and financial statements of the related commercial banks have been collected here.

3.3. Population and Sample

There are many financial institutions whose shares are traded actively in the stock exchange, but it is not possible to study all of them regarding the study topic. Therefore sampling is done from the following list of banks (population) listed in NEPSE.

List of Commercial Bank in Nepal	Sample Bank under study
1. Nepal Bank Limited.	1. Nepal Investment Bank Limited.
2. Rastriya Banijaya Bank Limited.	2. Bank of Katmandu Limited.
3. Nabil Bank Limited.	3. Himalayan Bank Ltd.
4. Standard Charted Bank Nepal Ltd.	4. Nabil Bank Limited.
5. Nepal Investment Bank Limited.	5. Nepal Standard Chartered Bank Ltd.
6. Himalayan Bank Limited.	6. Nepal SBI Bank Limited.
7. Nepal SBI Bank Limited.	7. Nepal Bangladesh Bank Limited.
8. Nepal Bangladesh Bank Limited.	8. Everest Bank Limited.
9. Everest Bank Limited.	9. NIC Bank Limited
10. Nepal Credit &Commerce Bank Limited.	
11. Bank of Katmandu Limited.	
12. Nepal Industrial and Commercial Bank Limited.	
13. Lumbini Bank Limited.	
14. Laxmi Bank Limited.	
15. Kumari Bank Limited.	
16. Siddhartha Bank Limited.	
17. Machhapuchhre Bank Limited.	
18. NMB Bank Limited.	
19. Global Bank Limited.	
20. Sunrise Bank Limited.	
21. Citizens International Bank Limited.	
22. Prime Commercial Bank Limited.	
23. Bank of Asia Nepal Limited.	
24. Kist Bank Limited.	
25. Janta Bank Limited.	
26. DCBL Bank Limited.	
27. Mega International Bank Limited.	
28. Agriculture Development Limited.	

3.4. Nature and Sources of Data:

This study is mainly based on secondary data; Secondary data is used to analyze the common stock practice in context of Nepal. Besides this, the study also examine the earning par share, dividend per share, market price per share, price earning ratio, dividend yield, earning yield and trend of market price for two year. The supplementary data and information's were obtained from website. Financial statement and Annual reports of these listed banks have been acquired from various other sources such as:

- Newspaper and magazines.
- Annual reports.
- National planning commission.
- Publications of concerned companies.
- http:www.nepalstock.com
- Security Board of Nepal.
- Central Bureau of statistics.

3.5. Data Collection Procedure

The relevant data have been collected from the website of Nepal stock exchange, concerned banks, various articles and journals available in Central library of Nepal, library of Shanker Dev campus.

3.6. Data Processing Techniques

Collected data, relevant fact and figure were systematically tabulated under different headings for the purpose of analysis. As far as computation of the data is concerned this is done with the help of computer software.

3.7. Tools and Techniques of Data Analysis

Statistical tools:-

Some important statistical tools are used to achieve the objective of this study .in this study statistical tools such as mean ,standard deviation, coefficient of variation and coefficient of correlation have been used. A brief explanation of the statistical tools used in the study is as follows:-

3.7.1. Simple arithmetic mean

Simple arithmetic mean is the sum of the values of all the elements in the sample divided by the number of elements in the sample.

The simple mean:

$$HPR = \frac{HPR}{n}$$

Where,

HPR = mean value.

n = number of element in the sample.

t = time.

X| sum of total value.

3.7.2. Standard deviation (S.D.)

The standard deviation measures the absolute dispersion. It is said that the value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by small Greek Letter □ (read as sigma).

The formulas to calculate the standard deviation are given below: -

$$\sqrt{\frac{X^2}{n}}$$

Where,

$$X^2 = (x - x)^2$$

Thus, the standard deviation is a weighted average deviation from the excepted value, and it gives an idea of how far above or below excepted value and the actual value is likely to be.

The standard deviation measures total risk of a stock and risk comprises of systematic risk and unsystematic risk. Systematic risk has its sources factor that affect all marketable assets and thus cannot be diversified away. The sources of systematic risk are market-pervasive. The measures of systematic risk permit an investor to evaluate an assets required rate of return relative to the systematic of the stock. Unsystematic (or company-specific or unique) can be reduced through diversification. The relationship among total risk, systematic risk and unsystematic risk are shown below:

Total Risk = ∃|X| Systematic Risk + Unsystematic Risk; with systematic Risk = (∃j|) (∂jmA and Unsystematic Risk = (∃j) (1-∂jm)

In this equation is the correlation coefficient between the return of a given stock (j) and the return on market portfolio.

3.7.3. Coefficient of variation (C.V.)

The coefficient of variation is the relative measures of dispersion, comparable across distribution, which is defined as the ratio of standard deviation to mean express in percentage.

Symbolically (C.V.) = $\frac{\pm}{X}$

Where, $\overline{X}$ = mean value.

C.V. = coefficient of variation.

3.7.4. Coefficient of correlation (r)

Correlation analysis is the statistical tools used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the direction of relationship between two set of figures. It is the square root of the coefficient of determination. Correlation can either be positive or negative .If both variables are changing in the same direction then correlation is said to be positive but when the

variation in the two variables is in the opposite direction, the correlation is said to be negative.

Probable error [PE]:

$$PE(r) = 0.6745 \mid \frac{1 Z r^2}{\sqrt{n}}$$

Where,

r = correlation coefficient between X and Y.

n= no. of periods.

There could be three different scenarios in the degree of correlation between X and Y:

1. If the value of r is less than probable error then there is significant relationship between X and Y.

2. If the value of r is more than 6 times the probable error there is a very significant correlation between X and Y .

3.7.5. Coefficient of determination (r^2)

The Coefficient of determination is the measure of the degree of linear association or correlation between two variables. One of which happens to be independent and the other being a dependent variable. In other words, coefficient of determination measures the percentage of total variance in dependent variable as explained by independent variables. The coefficient of determination may have a value from 0 to 1. If it is equal to .85 it indicates that the independent variable used in regression model explains 85 percent of the total variation in the dependent variable.

3.7.6. F-test

F-test is used to examine the significance of the differences between more than two samples mean at one and same time. The F-test enables us to test the significance of the difference between more than two samples means. This technique can be used to conclude whether the regression equation provides significant result or not.

3.7.7. Test of hypothesis

The hypothesis is one of the important and useful statistical tools, which helps to test the relationship between/among variables. In other word, a hypothesis is a conjectural statement of the relationship between two or more variables. The test of hypothesis discloses the fact whether the difference between the computed statistics and hypothetical parameter is significant or not .It also prefer clear implications for testing the stated relations. The research on this thesis topic strongly holds the hypothesis criteria. The hypothesis tests of this research work as follows.

1. First hypothesis:

Null hypothesis (H0) = $\mu_1=\mu_2=\mu_3=\mu_4=\mu_5=\mu_6=\mu_7=\mu_8=\mu_9$.

(i.e. There is no significant difference on average return among banks.)

Alternative hypothesis (H1) = $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5 \neq \mu_6 \neq \mu_7 \neq \mu_8 \neq \mu_9$.

(i.e. There is significant difference on average return among banks.)

2. Second hypothesis:

Null hypothesis (Ho): = $\mu_1=\mu_2=\mu_3=\mu_4=\mu_5=\mu_6=\mu_7=\mu_8=\mu_9$.

(i.e. There is no significant difference on fluctuation of return among different commercial banks.)

Alternative hypothesis (H1): = $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5 \neq \mu_6 \neq \mu_7 \neq \mu_8 \neq \mu_9$.

(i.e. There is significant difference on fluctuation of return among different commercial banks.)

3.8. Financial Tools

Beta Coefficient ,portfolio risk and return ,required rate of return on each security using CAPM ,total risk (systematic and unsystematic risk),comparative earning per share ,dividend per share ,p-E ratio, dividend yield and earning yield of each security have been analyzed here with the help of financial tools and technique.

Definitions of variables for financial analysis.

3.8.1. Earning Per Share (EPS)

Earning per share is one of the factors that affects in the price of stock and value of firm .If earning per share is greater, than dividend may be larger and the market price goes up. So EPS is assumed as an independent variable to determine the dividend and market price of stock. It is calculated by dividing the earning available to the common shareholder by total number of common stock outstanding.

$$\text{EPS} = \frac{Earning\ available\ to\ common\ shareholders}{No.\ of\ \ common\ stocks\ outstnding}$$

3.8.2. Dividend per Share

Dividend per share also affects the market price of stock however; it does not affect the earning per share. So it is assumed as independent variables to the EPS. Generally, if the EPS is greater, the dividend per share also is greater and vice versa, .It is calculated by dividing the total dividend by no .of common share outstanding.

Symbolically,

$$\text{DPS} = \frac{\text{Total dividend paid - Preferred stock dividend}}{\text{No. of common stock outstanding.}}$$

3.8.3. Market Price per Share (MPS)

MPS is the value of stock, which can be obtained by a firm from the market. Market value share is one of the variable ,which is affected by the dividend per share and earning per share of the firm .If the earning per share and dividend per share is high ,the market value of share also be high .Market value of share may be lower or higher than the book value . If the firm is growing its earning power would be greater than cost of capital, for such firm market value of share would be higher than the cost of capital and the MPS will be lower than the book value.

3.8.4. Dividend Pay Out Ratio (DPR)

DPR reflects the percentage of the profit is distributed as dividend and the percentage retained as reserve & surplus for the growth of a firm. It is calculated by dividing the DPS by the earning per share.

$$\text{Dividend pay out ratio} = \frac{DPS}{EPS}$$

3.8.5. P/E Ratio

P-E Ratio describes the relationship between earning per share and market price per share.

Symbolically,

$$\text{P/E Ratio} = \frac{MPS}{EPS}$$

3.8.6. Earning Yield and Dividend Yield.

Earning yield depicts the relationship between EPS to MPS and dividend yield depicts the relationship between DPS to MPS .The main reason behind such kind of tabulation is to point out the percentage of relationship between EPS -MPS, DPS - MPS to illustrate the earning yield and dividend yield of concerned companies. This kind of analysis may be reliable to calculate the real value of dividend and earning as compared with the current market value of each share.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

The overall background basic objectives and significance of the study has been already mentioned in first chapter 'Introduction'. In second chapter various related books journals, other independent studies as well as unpublished master level dissertation have been review. In third chapter research design, population and sample & sources of data analysis & tools have been discussed. This chapter constitutes the main part of the study. Here effort has been made to analysis risk and return on common stock investment of individual commercial banks and Nepal stock market (NEPSE). Hypothesis test has been made for comparative risk and return analysis among commercial banks listed in Nepal. The analysis of data consists of organizing tabulating and assessing financial and statistical result of individual banks. The trends of MPS are also analyzed for individual banks.

4.1. Analysis of Individual Commercial Banks.

Common stocks of each listed commercial banks are individually analyzed here. Closing market price per share is taken as average market price per share. The trend analysis is done for forecasting the market price for 2009/10 and 2010/11 by using least square method of analysis. There are 28 commercial banks in operation up to F/Y 2009/2010. Among them 14 banks are listed in Nepal stock exchange (NEPSE) until 15 July 2010.

4.1.1. Nepal Arab Bank Ltd. (NABIL)

4.1.1.1. Introduction

Nepal Arab bank ltd.(Nabil) commenced it operation on 12 July 1984 as the first joint venture bank in Nepal and listed in NEPSE in the year 1986 AD (08/09/042 BS). Dubai bank limited, Dubai (later acquired by Emirates bank international limited, Dubai) was the first joint venture partner of Nabil. Currently N.B. (International) limited, Ireland is the foreign partner of Nabil.

Nabil is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal, with 15 branches and more than 2 counters in all major cities. It is the only one bank having its presence at Tribhuvan international airport, which is only one international airport of the Nepal. In addition, the no. of outlets in the country is the highest among all the joint venture and private banks operating in country. Success of Nabil is a milestone in the banking history of Nepal as it proved the way for the establishment of many commercial banks and financial institutions.

Initially Dubai bank ltd. (DBL) invested 50 percent equity share on Nabil. Later on, the shares owned by DBL were transferred to Emirates banks international ltd. (EBIL) Dubai. But, EBIL sold its entire 50 percent equity holding to National bank limited, Bangladesh (NBBL). At present, N.B. (international) limited, Ireland has invested 50 percent of equity share of Nabil. Other investors are Nepalese public 30 percent, Nepal industrial development corporation 10 percent, Rastriya Beema Sansthan 9.67 percent, Nepal stock exchange limited 0.33 percent. Par value per share of Nabil is Rs. 100 and market capitalization is Rs. 7,389,474,750 at 15 July 2005.

4.1.1.2. Annual Market Price and Dividend Distribution of Nabil.

Market price and dividend records of common stock of Nabil are shown in table no 4.1. The table shows that in 2004/05 closing MPS of Rs. 700 being double Rs.1400 in 2005/06. Closing MPS has just increased slightly to Rs. 1500 in 2006/07 and has fallen to Rs. 735 being less than half and remain at same level in 2007/08 also. Similarly it's price has increased to Rs. 1000 thereafter. The price movement of Nepal Arab Bank Ltd. (Nabil) is shown in the table below.

Table 4.1

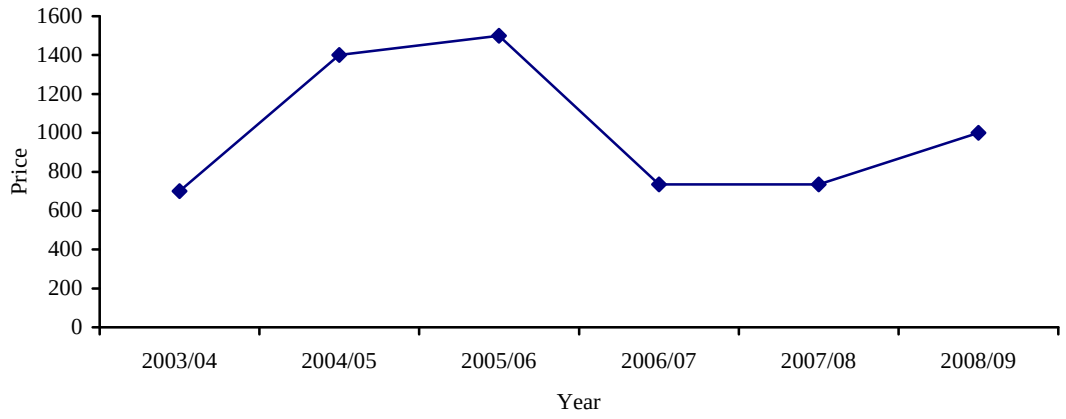
Market price per share (MPS) and dividend data of Nabil.

F/Y	High MPS	Low MPS	Closing MPS	Cash DPS	Stock dividend	Total dividend
2003/04	762	404	700	50	-	50

2004/05	1495	700	1400	55	-	55
2005/06	2301	1310	1500	40	-	40
2006/07	1500	465	735	30	-	30
2007/08	875	700	735	50	-	50
2008/09	1005	705	1000	65	-	65

Source:-www.nepalstock.com

Diagram 4.1: Annual Market Price Movement of C/S of Nabil



As the figure shows, price has increased double from year 2003/04 to 2004/05. It has decreased to its minimum price to Rs. 735 in year 2006/07 and 2007/08. The highest closing MPS is Rs. 1500 and lowest closing MPS is Rs. 700 in year 2005/06 & 2004/05 respectively during the sample period. Increasing trends of MPS of Nabil seems satisfactory.

The market price for financial year 2009/10 and 2010/11 is forecasted by using least square method as shown below. The trends values are presented in table 4.2 below

Table 4.2:

Trend values for the Market price of Nabil

Year (N)	Market price (P)	Time (T)	T^2	PT	Trend values
2003/04	700	1	1	700	1101.67
2004/05	1400	2	4	2800	1065.67
2005/06	1500	3	9	4500	1029.67
2006/07	735	4	16	2940	993.67
2007/08	735	5	25	3675	957.67
2008/09	1000	6	36	6000	921.67
N=6	*P* X6070	*T* X21	T^2 X91	*PT* X20615	

The regression equation for the price forecast is taken as P = a + bT

Where;

P = Market Price per Share

T = Number of Years

$P = Na + b \quad T$ (I)

$PT = a \quad T + b \quad T^2$ (ii)

Putting the values in the equation, we get,

$6070 = 6a + 21b$ (iii)

$20615 = 21a + 91b$ (IV)

Solving the equation we get b = -36 and a = 1137.67

Now, the trend equation becomes,

$P = 1137.67 - 36\ T$

So,

MPS for 2009/10, P = 1137.67 - 36 | 7 = 885.67

MPS for 2010/11, P = 1137.67 - 36 | 8 = 849.67

Decision: - If same trends continue, the market price of Nabil will be decreases in future.

4.1.1.3. Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of Nabil is Calculated Below:

Year-end price and dividend amounts are used to calculate realized rate of return. Table 4.3 shows the calculation of annual realized return, expected return and standard deviation of returns. Expected return on common stock of Nabil is in 4th highest position in comparison with other commercial banks i.e. 24.12 %, standard deviation is in 5th highest position i.e. 0.5762 and coefficient of variation is also in 5th highest position i.e. 2.389 as comparison with each other.

Table 4.3

Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of Nabil

Year	**Market Price**	Dividend	HPR = $\frac{P_{t\Gamma1} \, Z P_t \, \Gamma D_{t\Gamma1}}{P_t}$	(R- $\overset{z}{R}$)	(R- $\overset{z}{R}$)^2
2003/04	700	50	-	-	-
2004/05	1400	55	1.078	0.8368	0.7000
2005/06	1500	40	0.1	- 0.1412	0.0199
2006/07	735	30	- 0.49	- 0.7312	0.5346
2007/08	735	50	0.068	- 0.1732	0.0300
2008/09	1000	65	0.45	0.2088	0.0436
			R X1.206	$\int R \, Z \, \overline{R}^{\prime} = 0$	$\int R \, Z \, \overline{R}^{\prime 2} = 1.3281$

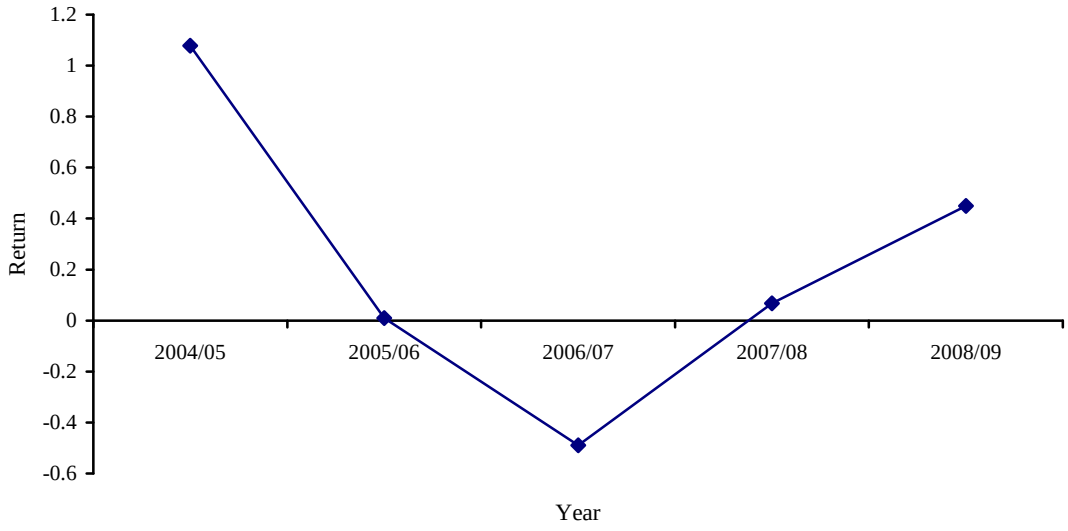
We have,

$$\text{Excepted Return } (\bar{R}) = \frac{R}{N} = \frac{1.206}{5} = 0.2412$$

$$\text{Standard deviation } (\pm) = \sqrt{\frac{(R - \bar{R})^2}{N - 1}} = \sqrt{\frac{1.3281}{4}} = 0.5762$$

$$\text{Coefficient of variation (C.V.)} = \frac{\pm}{\bar{R}} = \frac{0.5762}{0.2412} = 2.389$$

Diagram 4.2: Annual Rerurn on common stock of Nabil



According to the diagram 4.2, investor have the highest return in the financial year 2004/05 i.e. 1.078. The annual return is negative in year 2006/07 i.e. - 0.49. Similarly, second highest return is in year 2008/09 i.e. 0.45, third highest return is in fiscal year 2007/08 i.e. 0.1 and fourth highest return is 0.068 in financial year 2005/06.

4.1.2. Standard Chartered Bank Nepal Ltd. (SCBNL)

4.1.2.1: Introduction.

Standard chartered Bank Nepal limited has been in operation in Nepal since 1987. It is a joint venture operation, registered in Nepal with 50% of the shares held by Standard Chartered Grind lays Bank, 33% by Nepal Bank limited and 17% by the Nepalese public.

Standard Chartered is the world's leading emerging market's bank with more than 500 offices over 50 countries primarily in Asia, the subcontinent, the Middle East Africa and Latin America. Standard Chartered Bank has a firm commitment to the emerging markets, where potential for future growth has been visualized.

Standard Chartered Bank completed 157 years of operation in 2010. This was considered a unique opportunity to refresh the brand. The refreshed brand is not only a change in the logo, colors & etc. However, it has a brand essence "The right partner" and the brand campaign "I believe" attached to it. The aim is to be the right partner of choice, as a provider of excellent products and services and be an active member in the communities where the bank operates and as an employer to its people. With the refreshed brand, five values have been launched for the bank. Courageous, responsive, international, creative and trustworthy. These values are the heart and soul of the brand.

Standard Chartered plays an active role in supporting those communities in which its customers and staff live. The focus of the standard chartered group is on projects that assist needy children, particularly in the area of education and environment. In line which this Standard Chartered Bank Nepal ltd. has taken initiatives in sponsoring education for children and restoration of heritage cities in the country.

With 12 points of representation 10 branches and ATMs across the kingdom, the bank is in position to service our customer through a large domestic network. In addition to it, the global network of Standard Chartered Bank gives the bank the unique opportunity to provide truly international banking in Nepal.

Standard Chartered Bank Nepal limited (SCBNL), focuses mainly on cooperating to a wide range of customers from individuals to multinationals and large public sector companies as well as embassies, aid agencies, airlines, hotels and government corporations. The bank has been the pioneer in introducing 'customer focused' products and services in the country.

4.1.2.1. Annual Market Price and Dividend Distribution of SCBNL.

Market price and dividend records of common stock of SCBNL are shown in table no. 4.4. MPS of SCBNL is found very high at 2005/06. Year-end price movement is shown in diagram 4.3. Annual dividend paid to shareholders of SCBNL are calculated and shown in same table 4.4.

Closing market price is Rs. 1162 in year 2003/04 and being nearly double in next year to Rs.1985. The lowest closing price is Rs. 1162 in year 2003/04. The price has increased to its highest to Rs. 2144 in the year 2005/06. After than the price has decreased to Rs.1550 in year 2006/07.The price was Rs. 1640 in year 2007/2008 and it is Rs. 1745 now with annual increment of Rs. 105 from last year. The following table shows detail about dividend and market price of SCBNL.

Table 4.4

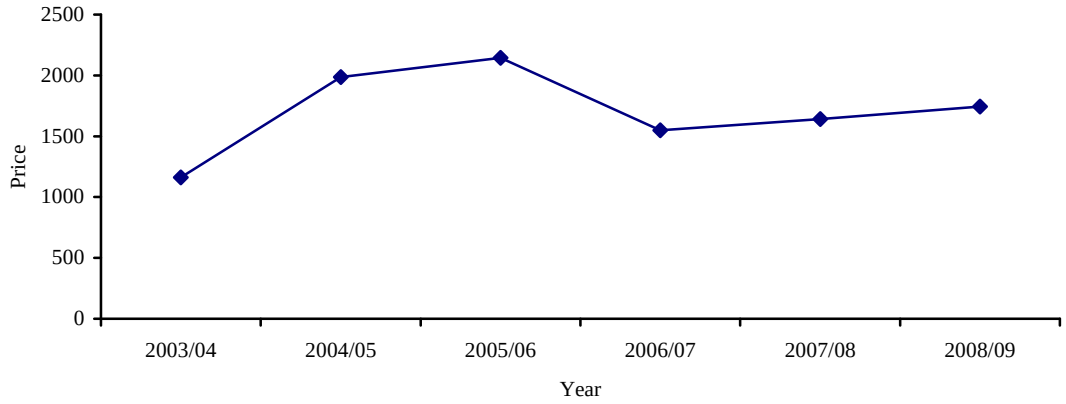
Market Price per Share (MPS) and Dividend Data of SCBNL

F/Y	High MPS	Low MPS	Closing MPS	Cash DPS	Stock dividend	Total dividend
2003/04	1338	775	1162	80	100%	2065
2004/05	2050	1181	1985	100	-	100
2005/06	3111	1860	2144	100	-	100
2006/07	2100	1000	1550	100	-	100
2007/08	1760	1380	1640	110	10%	284.50
2008/09	1800	1520	1745	110	-	110

Source:-www.nepalstock.com

Diagram 4.3:

Annual Market Price Movement of C/S of SCBNL



Annual MPS movement of SCBNL from the table above shows, prices is maximum in year 2005/06 and minimum in year 2003/04. Bank has distributed 1:1 stock dividend in year 2003/04, similarly 0.1:1 stock dividend in year 2007/08 but price of share has not decreased. Therefore, a price line seems very good in comparison with other commercial bank. Price fluctuations of stock have not occurred significant during these samples six-year period.

4.1.2.3. Analysis of Price Trends of SCBNL.

The market price for financial year 2009/10 and 2010/11 is forested by using least square method as shown below. The trends values are presented in the table 4.5 below:-

Table 4.5: Trend values for the Market price of SCBNL

S	Market price (P)	Time (T)	T^2	PT	Trend values
2003/04	1162	1	1	1162	1612.48
2004/05	1985	2	4	3970	1649.22
2005/06	2144	3	9	6432	1685.96

2006/07	1550	4	16	6200	1722.7
2007/08	1640	5	25	8200	1759.45
2008/09	1745	6	36	10470	1796.19
N=6	P X10226	T X21	T^2 X91	PT X36434	

The regression equation for the price forecast is taken as P = a + bT

Where;

P = Market Price per Share

T = Number of Year

$P = Na + b \quad T$ (I)

$PT = a \quad T + b \quad T^2$ (ii)

Putting the values in the equation, we get,

$10226 = 6a + 21b$ (iii)

$36434 = 21a + 91b$ (IV)

Solving the equation we get b = 36.7429 and a = 1575.73

Now the trend equation becomes,

P = 1575.73 + 36.7429 T

So,

MPS for 2009/10, P = 1575.73 + 36.7429 | 7 = 1832.93

MPS for 2010/11, P = 1575.73 + 36.7429 | 8 = 1869.67

Decision: - The trend value indicates that the market price of SCBNL will be increased in the future.

4.1.2.4: Realized Rate of Return, Excepted Rate of Return, and Standard Deviation of Return & Coefficient of Variation of Common Stock of SCBNL is calculated below:

Table no. 4.6 below has the calculated data of annual realized rate of return, expected rate of return and standard deviation of returns. Expected return of the common stock of SCBNL is 5th highest among all commercial banks under study i.e. 21.34%, standard deviation is in 8th highest position i.e. 0.3704 and coefficient of variation is in 6th position i.e. 1.7366 as comparison with other banks.

Table 4.6: Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of SCBNL

Year	Market Price	Dividend	HPR= $\frac{P_{t\Gamma1} \, Z P_t \, \Gamma D_{t\Gamma1}}{P_t}$	(R- $\overset{z}{R}$)	(R- $\overset{z}{R}$)^2
2003/04	1162	2065	-	-	-
2004/05	1985	100	0.7943	0.5809	0.3370
2005/06	2144	100	0.1305	-0.0829	0.0068
2006/07	1550	100	-0.2304	-0.4438	0.1966
2007/08	1640	284.5	0.2416	0.0282	0.0007
2008/09	1745	110	0.1310	-0.0824	0.0068
			R = 1.067	$\int R \, Z \, \overline{R} \int = 0$	$\int R \, Z \, \overline{R} \int^2$ =0.5479

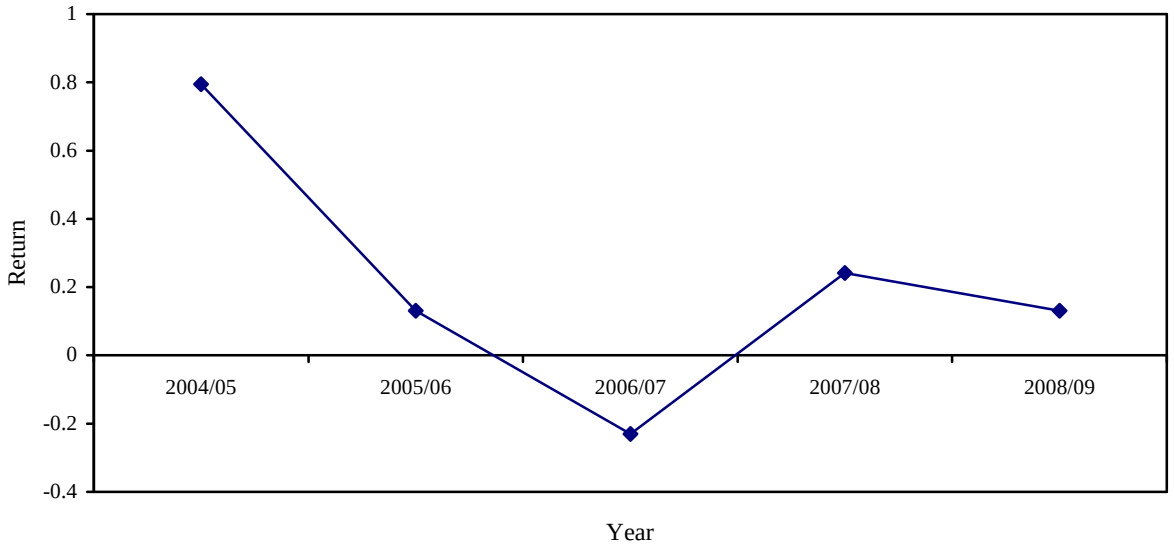
We have,

$$\text{Excepted Return } (\overline{R}) = \frac{R}{N} = \frac{1.067}{5} = 0.2134$$

$$\text{Standard deviation } (\pm) = \sqrt{\frac{(R \, Z \, \overline{R})^2}{N \, Z 1}} = \sqrt{\frac{0.54788}{4}} = 0.3704$$

$$\text{Coefficient of variation (C.V.)} = \frac{\pm}{\overline{R}} = \frac{0.3704}{0.2134} = 1.736$$

Diagram 4.4: Annual Rerurn on common stock of SCBNL



According to diagram 4.4 investors has got highest return in financial year 2004/05. They had the second highest return in the year 2007/08. Similarly, financial year 2008/09, 2005/06 and 2006/07 falls third, fourth and fifth position respectively. In year, 2006/07 return for investor seems negative.

4.1.3. Himalayan Bank Ltd. (HBL)

4.1.3.1. Introduction.

Himalayan Bank ltd. was established in 1992 as a joint venture bank under the company Act, 1964. Joint venture partner of HBL is Habib Bank ltd. of Pakistan. HBL is the first joint venture bank managed by Nepalese chief executive. The operation of the bank started from February 1993 as mentioned in the NEPSE annual report. Main objectives of this bank is to provide modern banking facilities like Tale- banking to the business industries and other professionals and to provide loan on agriculture, commerce and industrial sector.

4.1.3.2. Annual Market Price and Dividend Distribution of HBL.

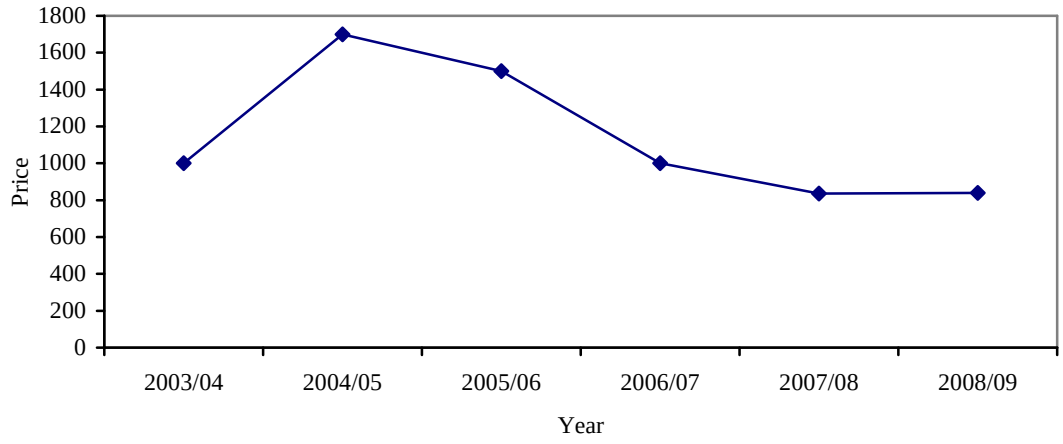
Market price and dividend records of common stocks of HBL are shown in table no. 4.7. The banks MPS seems slightly low starting year. (i.e.Rs.1000) in 2003/04. The share price has increased and reached to its highest level Rs. 1700 in following year 2004/05. After than price gradually decreased and has reached to Rs. 836 in year 2007/08 .But at the end of sample period closing market price has increased by Rs. 4 and becomes Rs. 840. So it can be concluded that price movement trends is not similar to all year .The annual price movement is shown in table 4.7 below:-

Table 4.7: Market price per share (MPS) and dividend data of HBL

F/Y	High MPS	Low MPS	Closing MPS	Cash DPS	Stock dividend	Total dividend
2003/04	1200	700	1000	50	-	50
2004/05	1780	1000	1700	50	25%	425
2005/06	2726	1325	1500	27.5	25%	277.5
2006/07	1530	610	1000	25	30%	275.8
2007/08	950	750	836	1.31	10%	85.31
2008/09	1010	600	840	20	-	20

Source:-www.nepalstock.com

Diagram 4.5: Annual Market Price Movement of C S of HBL



The above diagram no 4.7 shows that price of Himalayan bank ltd is maximum in year 2004/05 and lowest in year 2007/08 to Rs. 1700 and Rs. 836 respectively. The price was in decreasing trend after 2005/06 up to 2008/09 and slightly increasing trends from fiscal year 2008/09.

4.1.3.3. Analysis of Price Trends of HBL.

The market price for financial year 2009/10 and 2010/11 is forested by using least square method as shown below. The trends values are presented in the table 4.8 below:-

Table 4.8: Trend values for the Market price of HBL

Year (N)	Market price (P)	Time (T)	T^2	PT	Trend values
2003/04	1000	1	1	1000	1424
2004/05	1700	2	4	3400	1312.8
2005/06	1500	3	9	4500	1201.6
2006/07	1000	4	16	4000	1090.4
2007/08	836	5	25	4180	979.2
2008/09	840	6	36	5040	868
N=6	*P* X6876	*T* X21	T^2 X91	*PT* X22120	

The regression equation for the price forecast is taken as P = a + bT

Where;

P = Market Price per Share

T = Number of Year

$P = Na + b \quad T$ (I)

$PT = a \quad T + b \quad T^2$ (ii)

Putting the values in the equation, we get,

6876 = 6a + 21b (iii)

22120 = 21a + 91b (IV)

Solving the equation we get b = -111.2 and a = 1535.2

Now the trend equation becomes,

P = 1535.2 - 111.2 T

So,

MPS for 2009/10, P = 1535.2 - 111.2 | 7 = 756.8

MPS for 2010/11, P = 1535.2 - 111.2 | 8 = 645.6

Decision:-The trends value indicates that the market price of HBL will be decreases, if these trends will continue in future.

4.1.3.4. Realized Rate of Return, Excepted Rate of Return, and Standard Deviation of Return & Coefficient of Variation of Common Stock of HBL is calculated below:

Year-end price and dividend amount are used to calculated dividend yield and capital gain yield is added to find out annual return of each year. Table 4.9 shows the calculation of yearly-realized rate of return and standard deviations of returns. Excepted return of the common stock of HBL is 7th highest position as compression with other commercial banks i.e. 19.43% standard deviation is 6th highest position i.e. 0.5263 and coefficient of variation is 4th highest position i.e. 2.708 as compression with other commercial bank. The annual rate of return of Himalayan bank ltd (HBL) is highest positive in the fiscal

year 2004/05. Apart from this common stock investors of HBL have got the negative return other two more year i.e. 2006/07 and 2007/08. Investors have got highest negative return -0.149 in fiscal year 2006/07.

Table 4.9: Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of HBL

Year	Market Price	Dividend	R = $\frac{P_{t\Gamma1} \, Z P_t \, \Gamma D_{t\Gamma1}}{P_t}$	(R- $\overset{z}{R}$)	(R- $\overset{z}{R}$) ^{2}
2003/04	1000	50	-	-	-
2004/05	1700	425	1.125	0.9307	0.8662
2005/06	1500	277.5	0.0456	-0.1487	0.0221
2006/07	1000	275.8	-0.149	-0.3433	0.1178
2007/08	836	85.31	-0.0787	-0.2729	0.0745
2008/09	840	20	0.0287	0.1656	0.0274
			R = 0.97161	$\int R \, Z \overline{R} = 0$	$\int R \, Z \overline{R}^2$ = 1.1081

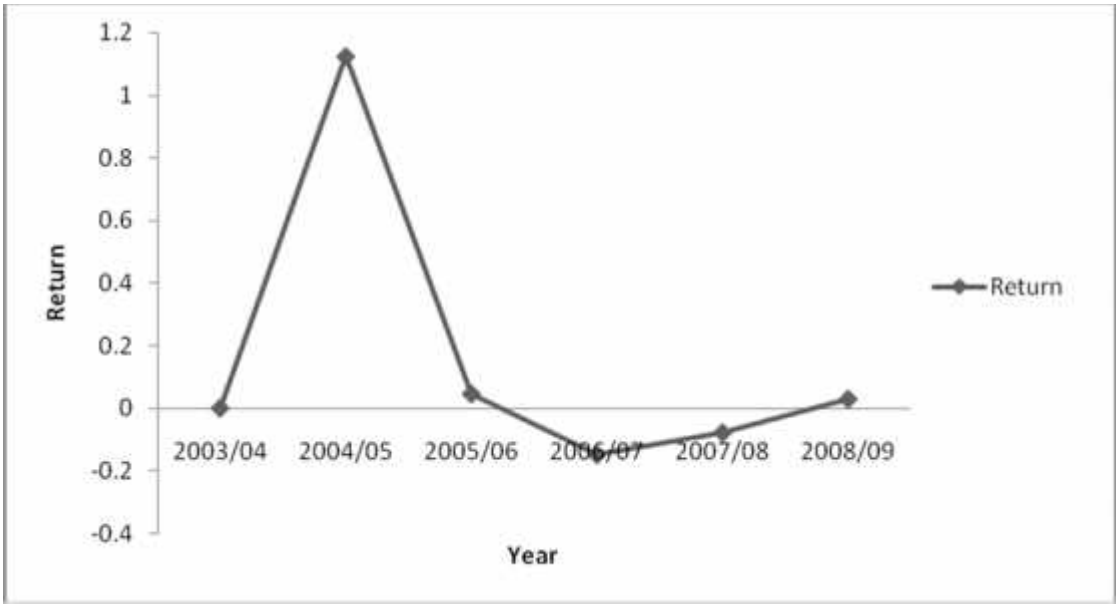
We have,

Excepted Return ($\overline{R}$) = $\frac{R}{N} = \frac{0.9716}{5}$ = 0.1943

Standard deviation ($\pm$) = $\sqrt{\frac{(R \, Z \overline{R})^2}{N \, Z1}} = \sqrt{\frac{1.108}{4}}$ = 0.5263

Coefficient of variation (C.V.) = $\frac{\pm}{\overline{R}} = \frac{0.5263}{0.1943}$ = 2.708

Diagram 4.6: Annual Return on common stock of HBL.



The above diagram indicates the negative returns in the year 2006/07 and 2007/08. Investor has got highest positive returns in the year 2004/05. Highest negative return is in year 2006/07. The price of stock may be decreased due to stock dividend so investors are not satisfactory by annual rate of return.

4.1.4. Nepal investment bank Ltd. (NIBL)

4.1.4.1. Introduction.

Nepal Investment Bank ltd. (NIBL), previously Nepal Indosuez Bank ltd., was established in 1986 as a joint venture between Nepalese and French partner. The French partner (holding 50% of the share capital of NIBL) was credit Agricole Indosuez, a subsidiary of one the largest banking group in the world with the decision of credit Agricole Indosuez to divest, a group of companies comprising a bankers, a group of companies comprising a banker professionals, industrialists and businessman has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez bank ltd.

The name of bank has been changed to Nepal investment bank ltd upon approval of bank's annual general meeting. Now the share structure of this bank is hold by following shareholders.

Groups of companies holding 50% of the capital.

Rastriya Banijaya bank holding 15% of capital.

Rastriya Beema Sansthan holding the same percentage 15%.

The remaining 20% being held by the public

4.1.4.2. Annual market price and dividend distribution of NIBL.

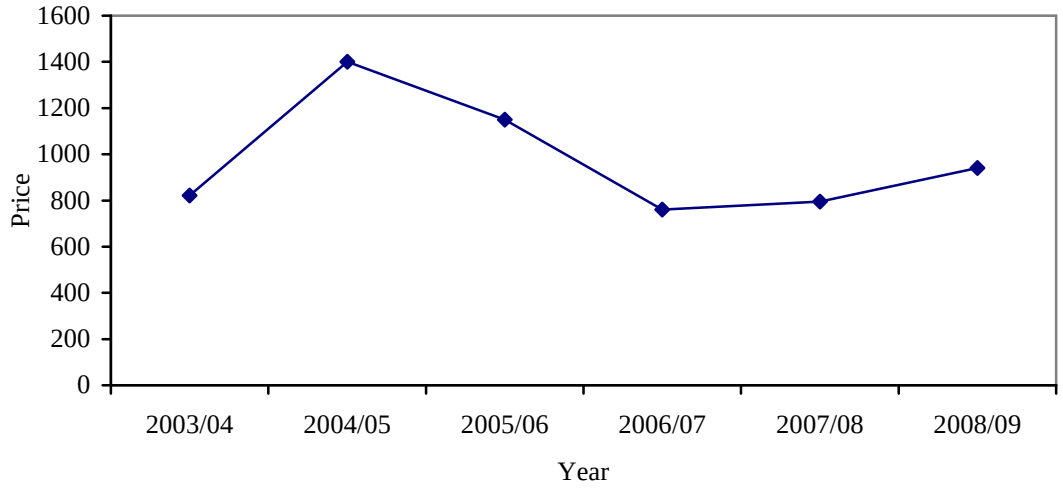
Market price and dividend records of common stock of NABIL are shown in table no. 4.10. Market price nearly double in year 2004/05 and then it begin to reduce. It reduced to its lowest in the year 2006/07 (Rs.760). The price of share has slightly increased and has reached to Rs.940 in year 2008/09. Market price movement of this bank is shown in Table below.

Table 4.10: Market price per share (MPS) and dividend data of NIBL.

F/Y	High MPS	Low MPS	Closing MPS	Cash DPS	Stock dividend	Total dividend
2003/04	980	551	822	30	-	30
2004/05	1415	822	1401	25	-	25
2005/06	2730	1080	1150	0	100%	760
2006/07	1150	575	760	0	-	0
2007/08	890	635	795	20	40%	396
2008/09	942	745	940	15	-	15

Source:-www.nepalstock.com

Diagram 4.7: Annual Market Price Movement of C S of NIBL



As per the diagram above, price is maximum in year 2004/05. It seems to reached at its lowest point in year 2006/07. Issue of bonus share 1:1 in year 2005/06 is may cause of decrease in share price. The price has increased after 2006/07 till 2007/08.

4.1.4.3. Analysis of price trends of NIBL.

The market price for financial year 2009/10 and 2010/11 is forested by using least square method as shown below. The trend values are presented in table 4.11 below.

Table 4.11: Trend values for the Market price of NIBL

Year (N)	Market price (P)	Time (T)	T^2	PT	Trend values
2003/04	822	1	1	822	1093.58
2004/05	1401	2	4	2802	1047.36
2005/06	1150	3	9	3450	1001.14
2006/07	760	4	16	3040	954.92
2007/08	795	5	25	3975	908.7
2008/09	940	6	36	5640	862.48
N=6	*P* X5868	*T* X21	T^2 X91	*PT* X19729	

The regression equation for the price forecast is taken as P = a + bT

Where;

P = Market Price per Share

T = Number of Year

$P = Na + b \quad T$ (I)

$PT = a \quad T + b \quad T^2$ (ii)

Putting the values in the equation, we get,

5868 = 6a + 21b (iii)

19729 = 21a + 91b (IV)

Solving the equation we get b = -46.22 and a = 1139.8

Now the trend equation becomes,

P = 1139.8 - 46.22 T

So,

MPS for 2009/10, P = 1139.8 - 46.22 | 7 = 816.26

MPS for 2010/11, P = 1139.8 - 46.22 | 8 = 770.04

Decision: - If same trends continues market price of NIBL will be decreases in the future.

4.1.4.4. Realized Rate of Return, Excepted Rate of Return, and Standard Deviation of Return & Coefficient of Variation of Common Stock of NIBL is calculated below:

Annual closing price and dividend amounts are used to calculate realized rate for each year. Table 4.12 shows the calculated data of annual realized rate of return, excepted rate of return and standard deviation of returns. Excepted return of the common stock of

NIBL is in 3rd highest return as comparison with other commercial banks i.e. 30.54%,standard deviation is in 7th highest position i.e. 0.413 and coefficient of variation is in 8th highest position i.e. 1.3522 in comparison with other banks.

Table 4.12: Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of NIBL

Year	Market Price	Dividend	R = $\frac{P_{t\Gamma1} \text{ Z} P_t \ \Gamma \ D_{t\Gamma1}}{P_t}$	(R- $\overset{\text{Z}}{R}$)	(R- $\overset{\text{Z}}{R}$) ^{2}
2003/04	822	30	-	-	-
2004/05	1401	25	0.7348	0.4293	0.1843
2005/06	1150	760	0.3633	0.0578	0.0033
2006/07	760	0	-0.3391	-0.6445	0.4154
2007/08	795	396	0.5671	0.2616	0.0684
2008/09	940	15	0.2012	-0.1040	0.0187
			R = 1.5273	$\int R \text{ Z} \overline{R} = 0$	$\int R \text{ Z} \overline{R}^2 = 0.6822$

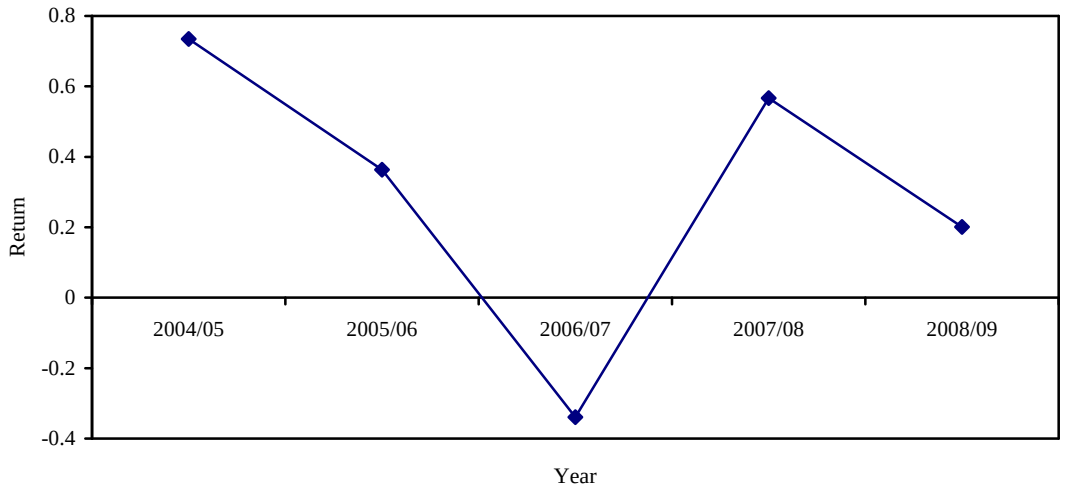
We have,

Excepted Return ($\overline{R}$) = $\frac{R}{N} = \frac{1.5273}{5} = 0.3055$

Standard deviation ($\pm$) = $\sqrt{\frac{(R \text{ Z} \overline{R})^2}{N \text{ Z} 1}} = \sqrt{\frac{0.6822}{4}} = 0.4130$

Coefficient of variation (C.V.) = $\frac{\pm}{\overline{R}} = \frac{0.4130}{0.3055} = 1.3522$

Diagram 4.8: Annual Rerurn on common stock of NIBL



Annual return of this bank in year 2004/05 is higher among all Years. The return is negative in year 2006/07 i.e. - 0.3391. Similarly 2nd highest return is in year 2007/08 i.e. 0.54671, 3rd highest is 0.3633 and 4th highest is 0.2012 in year 2005/06 and 2008/09 respectively.

4.1.5. Nepal Bangladesh Bank Ltd. (NBBL)

4.1.5.1. Introduction.

Nepal Bangladesh bank ltd. is a joint venture bank with IFIC bank ltd. of Bangladesh, was established in 1992 under the company act 1964. The main objective of the bank is to carry out commercial activities under the act 1974. The bank is managed by IFIC bank ltd Bangladesh in accordance with the joint venture and technical services agreement between it and Nepali promoter. Par value of share is Rs. 100 and number of share holders are 24598. Listing date of NBBL on stock exchange (NEPSE) is Poush 9, 2052 B.S. (1995 AD).

4.1.5.2. Annual market price and dividend distribution of NBBL.

Market price per share with high MPS low MPS and closing MPS, cash dividend, stock dividend and total dividend are presented in table 4.13 below. Market price movement is shown in the diagram no. 4.9 as below.

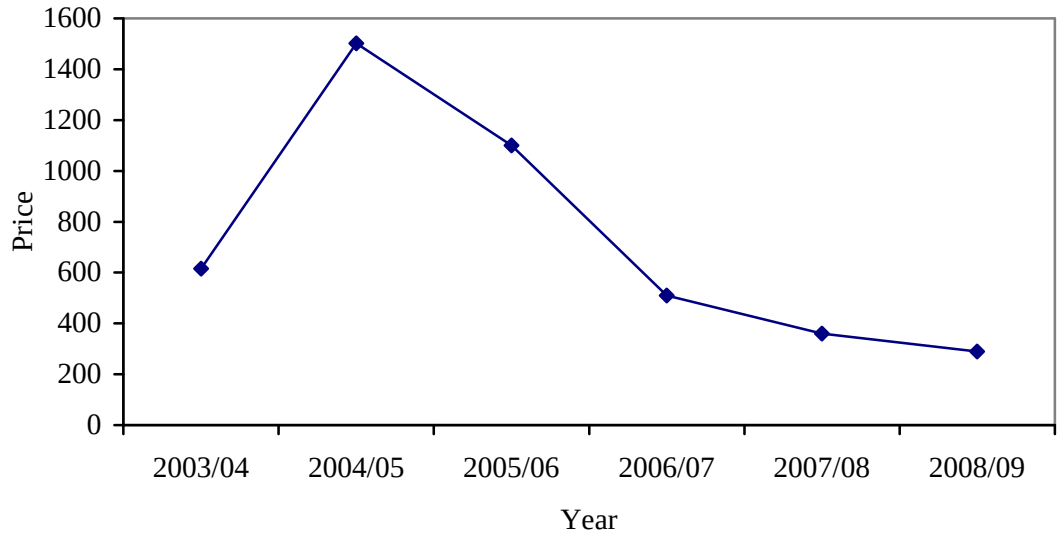
Table 4.13: Market price per share (MPS) and dividend data of NBBL

F/Y	High MPS	Low MPS	Closing MPS	Cash DPS	Stock dividend	Total dividend
2003/04	682	251	616	15.47	-	15.47
2004/05	1505	800	1502	0	-	0
2005/06	3430	950	1100	5.04	100%	515.04
2006/07	1200	340	510	0	50%	180
2007/08	535	341	360	0	-	0
2008/09	477	290	290	0	-	0

Source:-www.nepalstock.com

Closing market price has approximately tripled in 2004/05 from 2003/04 to Rs. 1502 from Rs. 616. Similarly, it has decreased to Rs. 1100 in fiscal year 2005/06 and has decreased by about 50% to Rs. 510 in year 2006/07. Decreasing trends also continue to Rs. 360 and Rs. 290 in year 2007/08 and 2008/09 respectively.

Diagram 4.9: Annual Market Price Movement of C/S of NBBL



Price is increasing from 2003/04 to 2004/05 highly. The diagram no 4.9 indicates the price is continuously decreased after 2004/05. The market price is lowest in 2008/09 and highest in year 2004/05.

4.1.5.3. Analysis of price trends of NBBL.

The market price for financial year 2009/10 and 2010/11 is forested by using least square method as shown below. The trends values are presented in table 4.14 below:-

Table 4.14: Trend values for the Market price of NBBL

Year (N)	Market price (P)	Time (T)	T^2	PT	Trend values
2003/04	616	1	1	616	1132.96
2004/05	1502	2	4	3004	971.65
2005/06	1100	3	9	3300	810.34
2006/07	510	4	16	2040	649.03
2007/08	360	5	25	1800	487.72
2008/09	290	6	36	1740	326.41
N=6	*P* X4378	*T* X21	T^2 X91	*PT* X12500	

The regression equation for the price forecast is taken as P = a + bT

Where;

P = Market Price per Share

T = Number of Year

$P = Na + b \quad T$ (i)

$PT = a \quad T + b \quad T^2$ (ii)

Putting the values in the equation, we get,

4378 = 6a + 21b (iii)

12500 = 21a + 91b (IV)

Solving the equation we get b = -161.31 and a = 1294.27

Now the trend equation becomes,

P = 1294.27 - 161.31 T

So,

MPS for 2009/10, P = 1294.27 - 161.31 | 7 = 165.1

MPS for 2010/11, P = 1294.27 - 161.31 | 8 = 3.79

Decision: - The trends values indicate that the market price of NBBL is going to decreases in the future if same trend continue.

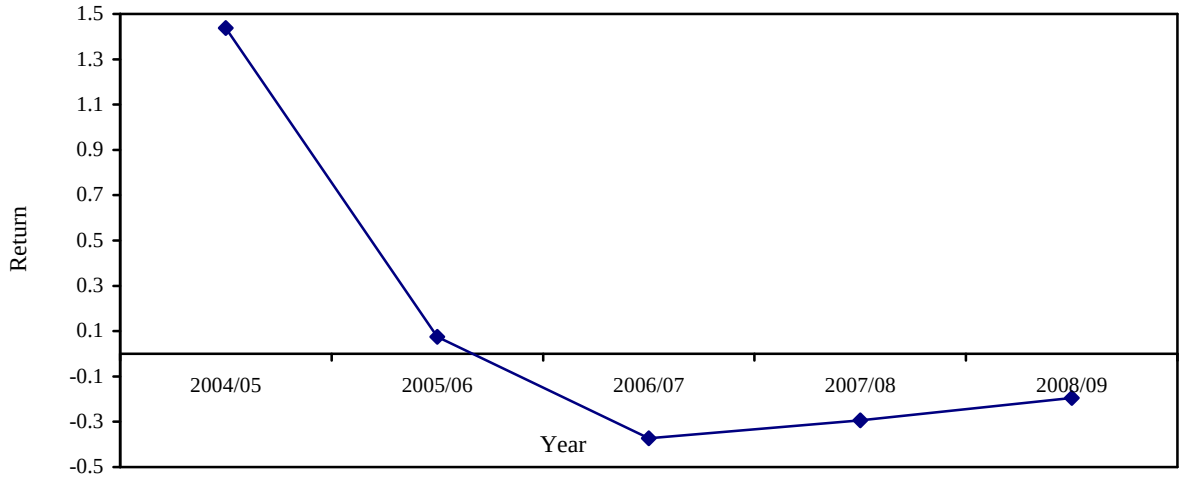
4.1.5.4. Realized Rate of Return, Excepted Rate of Return, and Standard Deviation of Return & Coefficient of Variation of Common Stock of NBBL is calculated below:

Year-end price and dividend amount are used to calculate dividend yield and capital gain yield is added to find annual rate of return. Table 4.15 shows the calculation of yearly-realized return, excepted rate of return and standard deviation of returns. Excepted return of the common stock of NBBL is 13.04% i.e. 8th highest position, standard deviation is 0.7502 i.e. 3rd highest positions and coefficient of variation is 5.7536 i.e.2nd highest positions as comparison with other commercial banks.

Table 4.15: Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of NBBL

Year	Market Price	Dividend	R = $\frac{P_{t\Gamma1} \, Z P_t \, \Gamma D_{t\Gamma1}}{P_t}$	(R- $\overset{z}{R}$)	(R- $\overset{z}{R}$)^2
2003/04	616	15.47	-	-	-
2004/05	1502	0	1.4380	1.3076	1.7090
2005/06	1100	515.04	0.0752	-0.0552	0.0030
2006/07	510	180	-0.3727	-0.5031	0.2531
2007/08	360	0	-0.2941	-0.4245	0.1802
2008/09	290	0	-0.1944	-0.3248	0.1054
			R = 0.6520	$\int R \, Z \overline{R} \! \! \!

Diagram 4.10: Annual Rerurn on common stock of NBBL



The diagram shows that investor had had negative return in last three years. They had had highest positive return in 2004/05. They have highest negative return in year 2006/07 i.e. -0.3727.

4.1.6. Everest bank Ltd. (EBL)

4.1.6.1. Introduction.

Everest bank ltd has been established with the objective of extending professionalized banking services to various sectors of societies in the kingdom of Nepal and thereby contribute in the economic development of the country. The bank had come into operation from 18th oct.1994 (1st Kartik 2051 B.S.) EBL is a joint -venture with Punjab national bank (PNB), one of the largest commercial banks in India having more than 200 foreign correspondents around the globe. PNB has a century old tradition of successful banking and is well laid down modern banking systems and procedures. PNB is providing the top management service to EBL under and technical services agreement signed between the two institutions. EBL, thus has the advantage of the banking expertise and financial strength of its partner.

Punjab bank ltd India holds 20% equity on the bank share capital. Nepali promoter holds 50% and general public holds 30%.

4.1.6.2. Annual market prices and dividend distribution of EBL

Market price & dividend distribution records of common stock of EBL are shown in table 4.16. The bank's closing market price has increased more than doubles from 2003/04 to 2004/05. After that, it has reduced slightly to Rs. 750 in year 2005/06 & has reduced by 50% to Rs. 430 in financial year 2006/07. After than it has increased slightly to Rs. 445 & it becomes Rs. 680 in financial year 2008/09.

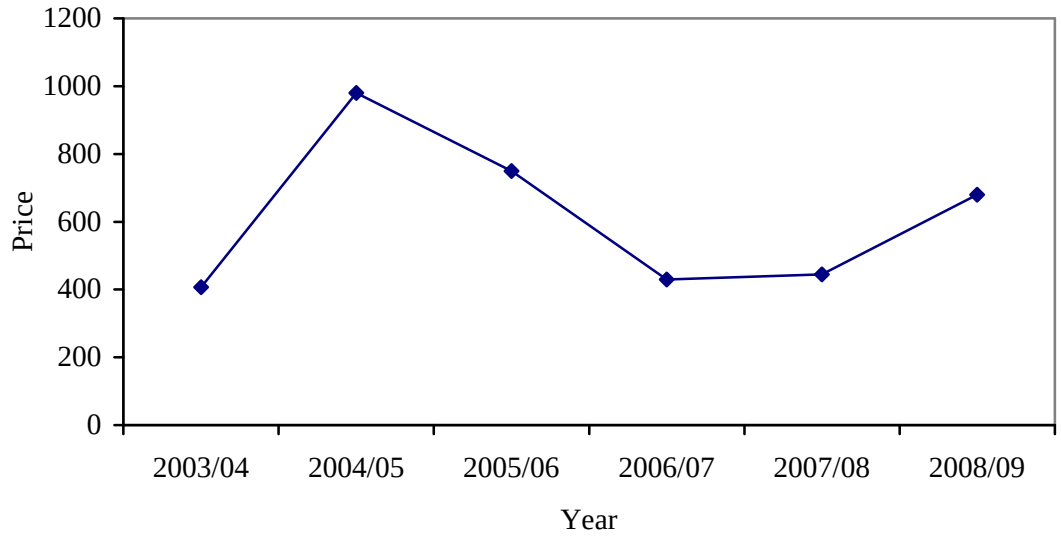
Table 4.16: market price per share (MPS) and dividend data of EBL

F/Y	High MPS	Low MPS	Closing MPS	Cash DPS	Stock dividend	Total dividend
2003/04	440	184	407	15	-	15
2004/05	980	400	980	0	-	0
2005/06	1850	670	750	0	100%	430
2006/07	740	325	430	0	-	0
2007/08	490	349	445	20	22%	169.6
2008/09	723	400	680	20	-	20

Source:-www.nepalstock.com

The table shoes that highly growth of MPS in beginning year i.e. more then 100%. After than little bit reduction has occurred in following year i.e. Rs. 750 from Rs.980 & has reduced by half of to Rs. 430 in following year 2006/07. Due to the stock dividend the price has decreased highly & other financial year are not so notable price fluctuations. The MPS of bank has reduced to Rs. 680 in end of year 2008/09. High MPS has occurred in year 2004/05 i.e. Rs. 980 & low MPS has occurred in year 2006/07 i.e. Rs. 430.

Diagram 4.11 Annual Market Price Movement of C S of EBL



The above diagram clearly shows that banks price movement is average i.e. increasing and decreasing during 6-year periods. Its maximum price is Rs. 980 that occurs in year 2004/05 & minimum price occurs in year 2006/07 i.e. Rs. 430.

4.1.6.3. Analysis of price trend of EBL

The market price for financial year 2009/10 and 2010/11 is forecasted by using least square method as shown below. The trend values are presented in the table 4.17 below.

Table 4.17: Trend values for the Market price of EBL

Year (N)	Market price (P)	Time (T)	T^2	PT	Trend values
2003/04	407	1	1	407	655.33
2004/05	980	2	4	1960	639.33
2005/06	750	3	9	2250	623.33

2006/07	430	4	16	1720	607.33
2007/08	445	5	25	2225	591.33
2008/09	680	6	36	4080	575.33
N=6	P X3692	T X21	T^2 X91	PT X12642	

The regression equation for the price forecast is taken as P = a + bT

Where;

P = Market Price per Share

T = Number of Year

P = Na + b T (I)

PT = a T + b T^2 (ii)

Putting the values in the equation, we get,

3692 = 6a + 21b (iii)

12642 = 21a + 91b (IV)

Solving the equation we get b = -16 and a = 671.33

Now the trend equation becomes,

P = 671.33 - 16 T

So,

MPS for 2009/10, P = 671.33 - 16 | 7 = 559.33

MPS for 2010/11, P = 671.33 - 16 | 8 = 543.33

Decision: - The trend value indicates that the market price of EBL is going to decrease in future.

4.1.6.4. Realized Rate of Return, Excepted Rate of Return, and Standard Deviation of Return & Coefficient of Variation of Common Stock of EBL is calculated below:

Year-end price and dividend amounts are used to calculate dividend yield and capital gain yield is added to find yearly-realized rate of return expected rate of return and

standard deviation of returns. Table 4.18 shows the calculation of yearly-realized rate of return expected rate of return and standard deviation of returns.

Expected return of the common stock of EBL is first highest return with compression to other commercial banks i.e. 43.75% standard deviation is 4th highest position i.e. 0.6635 and coefficient of variation is 1.5166 which is 7th highest position as compared with other commercial banks.

Table 4.18: Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of EBL

Year	Market Price	Dividend	R = $\frac{P_{t\Gamma1} \mathrm{Z} P_t \Gamma D_{t\Gamma1}}{P_t}$	(R- $\overset{\mathrm{Z}}{R}$)	(R- $\overset{\mathrm{Z}}{R}$)^2
2003/04	407	15	-	-	-
2004/05	980	0	1.4078	0.9703	0.9414
2005/06	750	430	0.2040	-0.2335	0.0545
2006/07	430	0	-0.4267	-0.8642	0.7470
2007/08	445	169.6	0.4293	-0.0080	0.0006
2008/09	680	20	0.5730	0.1355	0.0184
			R = 2.1874	$\int R \mathrm{Z} \overline{R}$ = 0	$\int R \mathrm{Z} \overline{R}^2$ = 1.7613

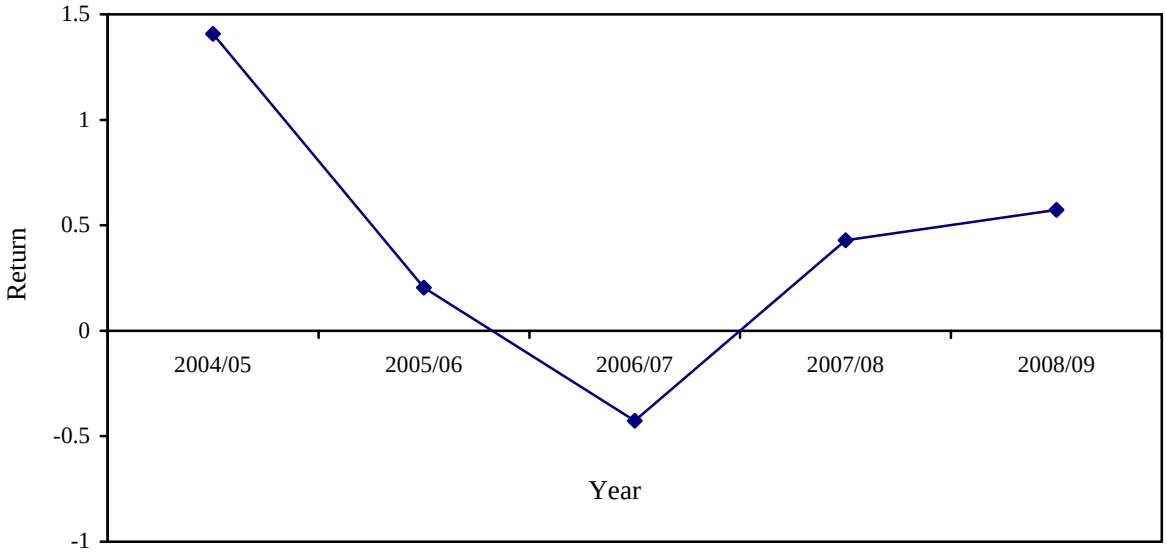
We have,

Excepted Return ($\overline{R}$) = $\frac{R}{N} = \frac{2.1874}{5} = 0.4378$

Standard deviation ($\pm$) = $\sqrt{\frac{(R \mathrm{Z} \overline{R})^2}{N \mathrm{Z} 1}} = \sqrt{\frac{1.7613}{4}} = 0.6635$

Coefficient of variation (C.V.) = $\frac{\pm}{\overline{R}} = \frac{0.6635}{0.4375} = 1.5166$

Diagram 4.12: Annual Rerurn on common stock of EBL



The diagram shows that investor had higher positive return in year 2004/05, one negative return and smaller positive return in other remaining year.

4.1.7. Nepal SBI bank Ltd.

4.1.7.1. Introduction.

SBI bank ltd was established in 1993, under the company act 1964. It is also a foreign joint venture bank and the foreign partner, state bank of India (holding the 50% of equity share of SBI) is managed the bank under joint venture and technical services agreement signed between it and Nepalese promoter. The bank provides loan to agriculture sector commerce and industrial sectors. As mentioned in the NEPSE annual report the main objectives of the bank is to carry out the modern banking business in the country under commercial bank act 1974. The bank is one of the largest shareholder based company.

4.1.7.2. Annual market price and dividend distribution of SBI.

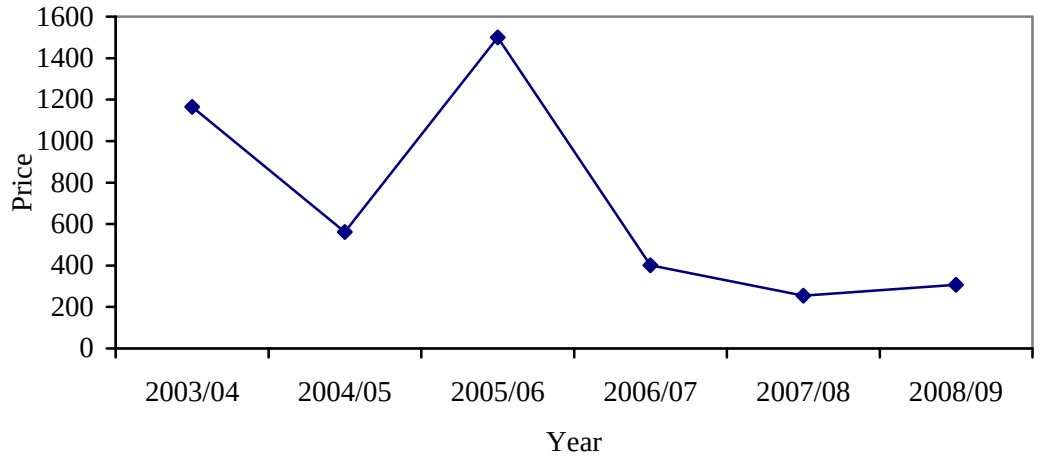
Market price and dividend record of common stock of SBI are shown in table 4.19. Market price of SBI was Rs.1165 in fiscal year 2003/04. The price has decreases by more than half and becomes Rs. 562 from Rs. 1165. Again the MPS has increased tipple in 3rd sample year from 2nd sample year and becomes Rs. 1500 after it has reduced to Rs. 401 directly about 4th double. Again, it has reduced by half to Rs. 255 and slightly increased at last to Rs. 307 in fiscal year 2008/09.

Table 4.19: market price per share (MPS) and dividend data of SBI

F/Y	High MPS	Low MPS	Closing MPS	Cash DPS	Stock dividend	Total dividend
2003/04	1221	525	1165	10	-	10
2004/05	670	435	562	15.01	-	15.01
2005/06	2699	1150	1500	0	100%	401
2006/07	1600	300	401	0	-	0
2007/08	410	255	255	8	-	8
2008/09	307	231	307	0	-	0

Source:-www.nepalstock.com

Diagram 4.13: Annual Market Price Movement of C/S of SBI



The diagram shows that price is maximum in year 2005/06 and minimum in the year 2007/08. The increasing and decreasing trends of market price of stock of this bank are equal (i.e. average).But it has highly decreased from 2005/06 to 200/08. Even so, the price of stock has highly increased from 2004/05 to 2005/06.

4.1.7.3. Analysis of price trends of SBI.

The market price for financial year 2009/10 and 2010/11 is forested by using least square method as shown below. The trends values are presented in the table 4.20 below.

Table 4.20: Trend values for the Market price of SBI

Year (N)	Market price (P)	Time (T)	T^2	PT	Trend values
2003/04	1165	1	1	1165	1149.044
2004/05	562	2	4	1124	968.76
2005/06	1500	3	9	4500	788.472
2006/07	401	4	16	1604	608.186
2007/08	255	5	25	1275	427.9
2008/09	307	6	36	1842	247.614
N=6	*P* X4190	*T* X21	T^2 X91	*PT* X11510	

The regression equation for the price forecast is taken as P = a + bT

Where;

P = Market Price per Share

T = Number of Year

$P = Na + b \quad T$ (I)

$PT = a \quad T + b \quad T^2$ (ii)

Putting the values in the equation, we get,

4190 = 6a + 21b (iii)

11510 = 21a + 91b (IV)

Solving the equation we get b = -180.286 and a = 1329.33

Now the trend equation becomes,

P = 1329.33 - 180.286 T

So,

MPS for 2009/10, P = 1329.33 - 180.286 | 7 = 67.328

MPS for 2010/11, P = 1329.33 - 180.286 | 8 = -112.96

Decision: The trend values indicate that the market price of SBI will be decreased in future.

4.1.7.4. Realized Rate of Return, Excepted Rate of Return, and Standard Deviation of Return & Coefficient of Variation of Common Stock of SBI is calculated below:

Year-end price and dividend amount are used to calculate dividend yield and capital gain yield and is added to find out each year rate of return. Table 4.21 shows the calculation of yearly-realized rate of return, excepted rate of return and standard deviation of returns. Excepted rate of return of common stocks of SBI is 6th highest position as compression with other commercial banks i.e. 20%, standard deviation is in 2nd highest position i.e. 1.2675 and coefficient of variation is 6.3373 which is highest as compared with all other commercial banks.

Table 4.21: Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of SBI

Year	Market Price	Dividend	R = $\frac{P_{t\Gamma1} \, Z P_t \, \Gamma D_{t\Gamma1}}{P_t}$	(R- $\overset{z}{R}$)	(R- $\overset{z}{R}$) ^{2}
2003/04	1165	10	-	-	-
2004/05	562	15.01	-0.5047	-0.7040	0.4967
2005/06	1500	401	2.3825	2.1825	4.7630
2006/07	401	0	-0.7327	-0.9327	0.8699
2007/08	255	8	-0.3441	-0.5441	0.2960
2008/09	307	0	0.2039	0.0030	0.0000
			R = 1.0000	$\int R \, Z \overline{R}$ = 0	$\int R \, Z \overline{R}^2$ = 6.4256

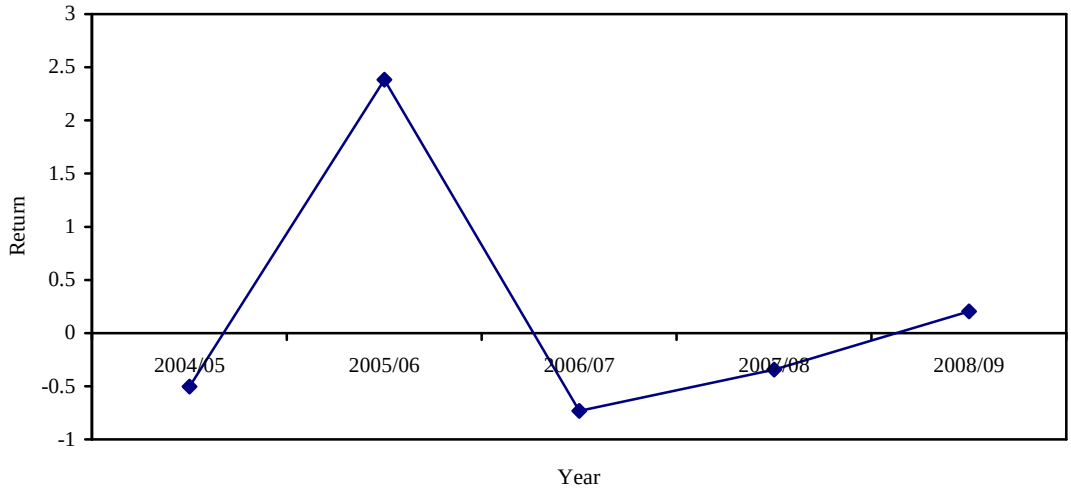
We have,

Excepted Return ($\overline{R}$) = $\frac{R}{N}$ = $\frac{1.0000}{5}$ = 0.2000

Standard deviation ($\pm$) = $\sqrt{\frac{(R \, Z \overline{R})^2}{N \, Z1}}$ = $\sqrt{\frac{6.4256}{4}}$ = 1.2675

Coefficient of variation (C.V.) = $\frac{\pm}{\overline{R}}$ = $\frac{1.2675}{0.2}$ = 6.3373

Diagram 4.14: Annual Rerurn on common stock of SBI



Above diagram, no. 4.14 shows negative return for investor in the beginning year. And return has increased highly to 2.3825 in the following year after then it has started to decreased and in last sample year it has positive return but minimum i.e. 0.2039 only. So it can be concluded that the returns positions and risk position of investor in SBI is not satisfactory.

4.1.8. Bank of Katmandu Ltd. (BOKL)

4.1.8.1. Introduction

Bank of Katmandu is one of the latest joint venture bank listed in NEPSE. It was established in 2050 B.S. Par value per share is Rs. 100 and number of shareholder are 23316. Listing date in NEPSE is shrawan 2, 2054 B.S (1998 AD). This date is very recent for analysis, so it is very difficult to conclude the bank's share performance.

4.1.8.2. Annual market prices and dividend distribution of BOKL

Market price and dividend data is given in table 4.22 and year-end price movement seems so fluctuate during the sample period. The bank had not announced any type of stock dividend till now.

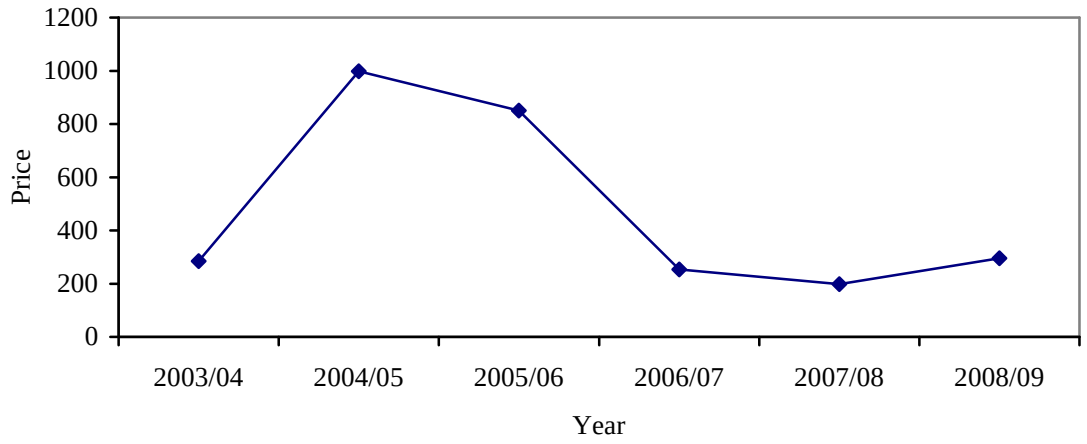
Table 4.22: Market price per share (MPS) and dividend data of BOKL

F/Y	High MPS	Low MPS	Closing MPS	Cash DPS	Stock dividend	Total dividend
2003/04	330	122	285	7.49	-	7.49
2004/05	1000	261	998	32.74	-	32.74
2005/06	1800	740	850	0	-	0
2006/07	850	225	254	10	-	10
2007/08	300	195	198	5	-	5
2008/09	310	175	295	10	-	10

Source:-www.nepalstock.com

In the starting year market price of common stock is only Rs. 285 but in following year it has increased to Rs. 998 which is very high, after than it has slightly decreased to Rs. 850 & highly decreased to Rs. 254 which is more than triple times in year 2006/07. Similarly, again it has decrease to Rs. 198 in following year & has increased slightly to Rs. 295 at the end of fiscal year 2008/09. So it can be seems that price of BOKL has fluctuated during the sample period.

Diagram 4.15: Annual Market Price Movement of C S of BOKL



The diagram shows that the price has fluctuated during the sample six-year period. It has its highest MPS i.e. Rs. 998 and its lowest MPS i.e. R.s.198 in year 2004/05 and 2007/08 respectively.

4.1.8.3. Analysis of price trend of BOKL

The market price for financial year 2009/10 and 2010/11 is forecasted by using least square method as shown below. The trend values are presented in the table 4.23 below

Table 4.23: Trend values for the Market price of BOKL

Year (N)	Market price (P)	Time (T)	T^2	PT	Trend values
2003/04	285	1	1	285	690.429
2004/05	998	2	4	1996	606.258
2005/06	850	3	9	2550	522.087
2006/07	254	4	16	1016	437.916
2007/08	198	5	25	990	353.75
2008/09	295	6	36	1770	269.56
N=6	*P* X2880	*T* X21	T^2 X91	*PT* X8607	

The regression equation for the price forecast is taken as P = a + bT

Where;

P = Market Price per Share

T = Number of Year

$P = Na + b \quad T$ (I)

$PT = a \quad T + b \quad T^2$ (ii)

Putting the values in the equation, we get,

2880 = 6a + 21b (iii)

8607 = 21a + 91b (IV)

Solving the equation we get b = -84.171 and a = 774.6

Now the trend equation becomes,

P = 774.6 - 84.171 T

So,

MPS for 2009/10, P = 774.6 - 84.171 | 7 = 185.4

MPS for 2010/11, P = 774.6 - 84.171 | 8 = 101.23

Decision: - The trend value indicates that the market price of BOKL will decreased in future

4.1.8.4. Realized Rate of Return, Excepted Rate of Return, and Standard Deviation of Return & Coefficient of Variation of Common Stock of BOKL is calculated below:

Year-end price and dividend amount are used to calculate dividend yield and capital gain yield is added to find out realized rate of return. Table 4.24 shows the calculation of yearly-realized rate of return, expected rate of return, standard deviation of return and coefficient of variation. Expected rate of return of common stock of BOKL is 2nd highest return in comparison with other banks i.e. 42.37%, standard deviation of return is top highest i.e. 1.301 and coefficient of variation is in 3rd highest position i.e. 3.070

Table 4.24: Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of BOKL

Year	Market Price	Dividend	R = $\frac{P_{t\Gamma1} \mathrm{Z} P_t \Gamma D_{t\Gamma1}}{P_t}$	(R- $\overset{\mathrm{z}}{R}$)	(R- $\overset{\mathrm{z}}{R}$)^2
2003/04	285	7.49	-	-	-
2004/05	998	32.74	2.6160	2.1920	4.8060
2005/06	850	0	-0.1483	-0.5720	0.3270
2006/07	254	10	-0.6894	-1.113	1.2380
2007/08	198	5	-0.2000	-0.6237	0.3890
2008/09	295	10	0.5404	0.1167	0.0136
			R = 2.1187	$\int R \mathrm{Z} \bar{R}! = 0$	$\int R \mathrm{Z} \bar{R}!^2 = 6.7730$

We have,

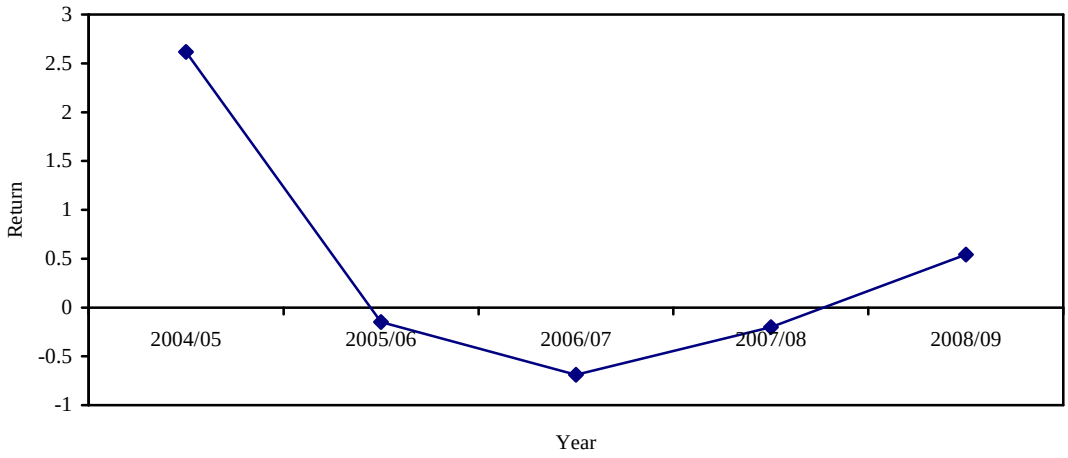
Excepted Return ($\bar{R}$) = $\frac{R}{N} = \frac{2.1187}{5} = 0.4237$

Standard deviation ($\pm$) = $\sqrt{\frac{(R \mathrm{Z} \bar{R})^2}{N \mathrm{Z} 1}} = \sqrt{\frac{6.7730}{4}} = 1.3010$

Coefficient of variation (C.V.) = $\frac{\pm}{\bar{R}} = \frac{1.3010}{0.4237} = 3.0700$

As per diagram no. 4.16 below, the BOKL's return for its investor is positive in starting year and comparatively lower in ending year. There are three negative rate of return in year 2005/06, 2006/07 & 2007/08 respectively. Among them highest negative return is in year 2006/07.

Diagram 4.16: Annual Rerurn on common stock of BOKL



4.1.9. Nepal Industrial & Commercial Bank Ltd. (NIC)

4.1.9.1. Introduction

Nepal industrial & commercial bank ltd .has been established with the objective of extending professionalized banking services to various section of society in the kingdom of Nepal and there by contribute in the economic development of the country. The bank had come into operation from 1997. The head office of NIC is located beyond the valley i.e. located in Biratnagar. This bank is not joint venture with foreign investor. This bank had covered 8th annual programmed up to 2061/2062Par value of share is Rs.100 & no. of shareholder are 42098. Listing date in NEPSE is 02/03/2057.

4.1.9.2. Annual market price & Dividend distribution of NIC.

Market price& dividend data are given in table 4.25 & year-end price i.e. closing price is assumed as average market price. It has not distributed stock dividend till now.

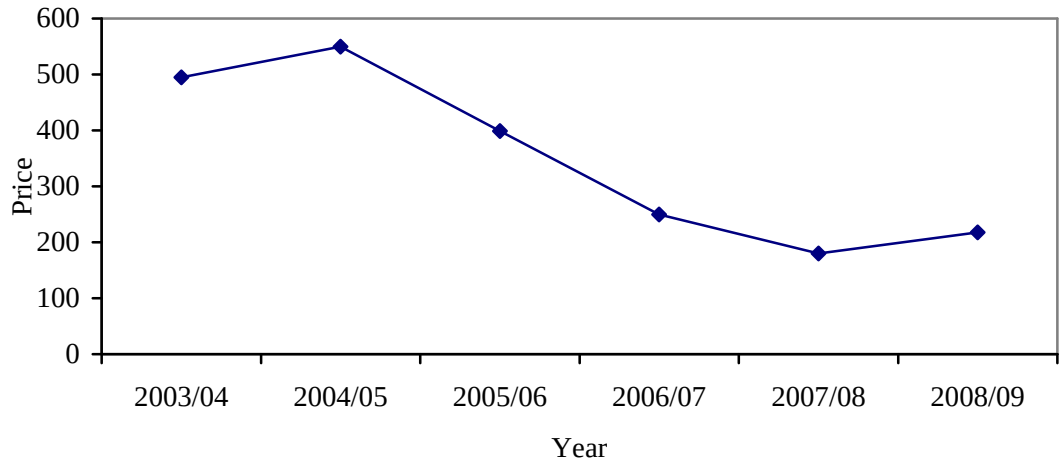
Table 4.25: Market price per share (MPS) & dividend distribution of NIC

F/Y	High MPS	Low MPS	Closing MPS	Cash DPS	Stock dividend	Total dividend
2003/04	714	526	495	0	-	0
2004/05	610	420	550	0	-	0
2005/06	815	378	399	10	-	10
2006/07	409	205	250	0	-	0
2007/08	280	175	180	0	-	0
2008/09	232	146	218	0	-	0

Source:-www.nepalstock.com

From the above table it can be said that in the starting two -year closing price of stock is comparatively high but after second year it has decreased to Rs. 399. Similarly, in 3rd year it has also decreased to Rs. 250 in 4th year also it h as decreased to Rs. 180, after then it has slightly increased to Rs.218 .From this trends it seems that closing market price of stock has fluctuate during the sample period. The maximum market price of stock of this bank occurred in financial year 2004/05 and minimum is Rs. 180 that occurred in financial year 2007/08. The diagram below shows the movement of market price of stock.

Diagram 4.17: Annual Market Price Movement of C S of NIC



44.1.9.3. Analysis of price trend of NIC

The market price for financial year 2003/04 & 2006/07 is forecasted by using least square method as shown below. The trends values are presented in the table 4.26 below:-

Table 4.26: Trend values for the Market price of NIC

Year (N)	Market price (P)	Time (T)	T^2	PT	Trend values
2003/04	495	1	1	495	537.51
2004/05	550	2	4	1100	461.97
2005/06	399	3	9	1197	386.42
2006/07	250	4	16	1000	310.86
2007/08	180	5	25	900	253.31
2008/09	218	6	36	1308	159.767
N=6	*P* X2092	*T* X21	T^2 X91	*PT* X6000	

The regression equation for the price forecast is taken as P = a + bT

Where;

P = Market Price per Share

T = Number of Year

$P = Na + b \quad T$ (I)

$PT = a \quad T + b \quad T^2$ (ii)

Putting the values in the equation,

We get,

$2092 = 6a + 21b$ (iii)

$6000 = 21a + 91b$ (IV)

Solving the equation,

We get b = -75.55 and a = 613.067

Now the trend equation becomes,

P = 613.067 - 75.55 T

So,

MPS for 2009/10, P = 613.067 - 75.55 | 7 = 84.217

MPS for 2010/11, P = 613.067 - 75.55 | 8 = 8.667

Decision: - The trend value indicates that the market price of NIC will decreases in future if the same trends continue.

4.1.9.4. Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of NIC is Calculated Below:

Table 4.27 below, has shown the calculated data of annual realized return, expected return, standard deviation of return and coefficient of variation. Excepted return of the common stock of NIC is lowest among all commercial banks under study i.e. -0.1175, standard deviation of returns and coefficient of variation i.e. 0.2606, -2.2149 respectively which are also lowest as compared with other commercial banks.

Table 4.27: Realized Rate of Return, Excepted Rate of Return, Standard Deviation of Return & Coefficient of Variation of Common Stock of NIC

Year	Market Price	Dividend	R = $\frac{P_{t\Gamma1} \, Z P_t \, \Gamma D_{t\Gamma1}}{P_t}$	(R- $\overset{z}{R}$)	(R- $\overset{z}{R}$) ^{2}
2003/04	495	0	-	-	-
2004/05	550	0	0.1110	0.2287	0.0523
2005/06	399	10	-0.2563	-0.1386	0.0192
2006/07	250	0	-0.3743	-0.2566	0.0650
2007/08	180	0	-0.2800	-0.1623	0.0263
2008/09	218	0	0.2110	0.3287	0.1080
			R = -0.5886	$\int R \, Z \overline{R} \int = 0$	$\int R \, Z \overline{R} \int^2 = 0.2716$

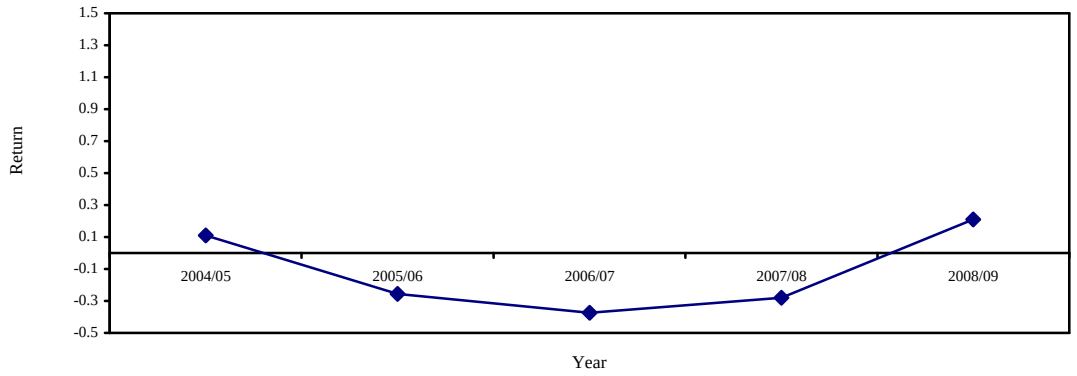
We have,

Excepted Return ($\overline{R}$) = $\frac{R}{N} = \frac{Z0.5886}{5}$ = -0.1177

Standard deviation ($\pm$) = $\sqrt{\frac{(R \, Z \overline{R})^2}{N \, Z1}} = \sqrt{\frac{0.2716}{4}}$ = 0.2606

Coefficient of variation (C.V.) = $\frac{\pm}{\overline{R}} = \frac{0.2606}{Z0.1177}$ = - 2.214

Diagram 4.18: Annual Rerurn on common stock of NIC



The above diagram indicates that NIC bank has negative return in three year. But return occur positive in 1st of sample year and continuously negative returns in 2nd , 3rd , 4th and again positive in last year of the sample period.

4.2. Inter Bank Comparison

According to the Return from the section 4.1 a comparative Return and unsystematic risk is performed here. Excepted Return, Standard deviation of Return and coefficient of variation of each bank as calculated in our above study are given in table no. 4.28

Table 4.28: Excepted return, standard deviation and coefficient of variation of each bank.

Banks	Expected Return (%)	Standard deviation	Coefficient of variation	Remarks
EBL	43.750	0.6635	1.5166	1st highest return
				4th highest risk
				7th highest c. v
BOKL	42.370	1.3010	3.0700	2nd highest return
				1st highest risk
				3rd highest c. v.

NIBL	30.546	0.4130	1.3522	3rd highest return
				7th highest risk
				8th highest c. v.
NABIL	24.120	0.5762	2.3890	4th highest return
				5th highest risk
				5th highest c. v.
SCBNL	21.340	0.3704	1.7366	5th highest return
				8th highest risk
				6th highest c. v.
SBI	20.000	1.2675	6.3373	6th highest return
				2nd highest risk
				1st highest c. v.
HBL	19.430	0.5263	2.7084	7th highest return
				6th highest risk
				4th highest c. v.
NBBL	13.040	0.7502	5.7536	8th highest return
				3rd highest risk
				2nd highest c. v.
NIC	-11.770	0.2606	-2.2149	9th lowest return
				9th lowest risk
				9th lowest c. v.

As per the table, EBL has the higher return, 4th highest standard deviation i.e. risk and 7th highest coefficient of variation. BOKL has the 2nd highest return, 1st highest risk & 3rd highest coefficient of variation. NIBL has 3rd highest return, 7th highest risk and 8th highest coefficient of variation. NABIL has 4th highest return, 5th highest risk & 5th highest coefficient of variation. SCBNL has 5th highest return 8th highest risk & 6th highest coefficient of variation. Similarly, SBI has 6th highest return, 2nd highest risk & 1st highest coefficient of variation. HBL has 7th highest return, 6th highest risk & 4th

highest coefficient of variation. NBBL has 8th highest return, 3rd highest risk & 2nd highest coefficient of variation and NIC has 9th lowest return, risk & coefficient of variation.

According to risk & return comparison with market, SBI has most risky because coefficient of variation of SBI is greatest among all. Coefficient of variation gives the best result of investment because it means the risk per unit of return ($\frac{\pm}{\bar{R}}$).

Coefficient of variation (C.V) is the more appropriate basis of taking decision on the investment in single security. It measures risk per unit of a stock. Expected return and standard deviation are included in it. However, it is relative measurement tools. Standard deviation also measures the risk but it is absolute measurement tools. Generally, standard deviation is use to measure risk but best measuring & superior tool is coefficient of variation. That's why stock having higher coefficient of variation is riskiest stock all.

4.3. Market Capitalization of Each Bank

The market capitalization of each bank is presented in table no. 4.29. Market capitalization is the total market value of company at specific time. In our study, Standard chartered bank Nepal ltd. has market capitalization Rs. 8785317380 which is highest among all at July 15, 2008, similarly Nepal state bank of India having market capitalization Rs. 1446042240 falls in the last position (i.e. 9th position).

Table 4.29: Market capitalization of sample banks at 15 July, 2008.

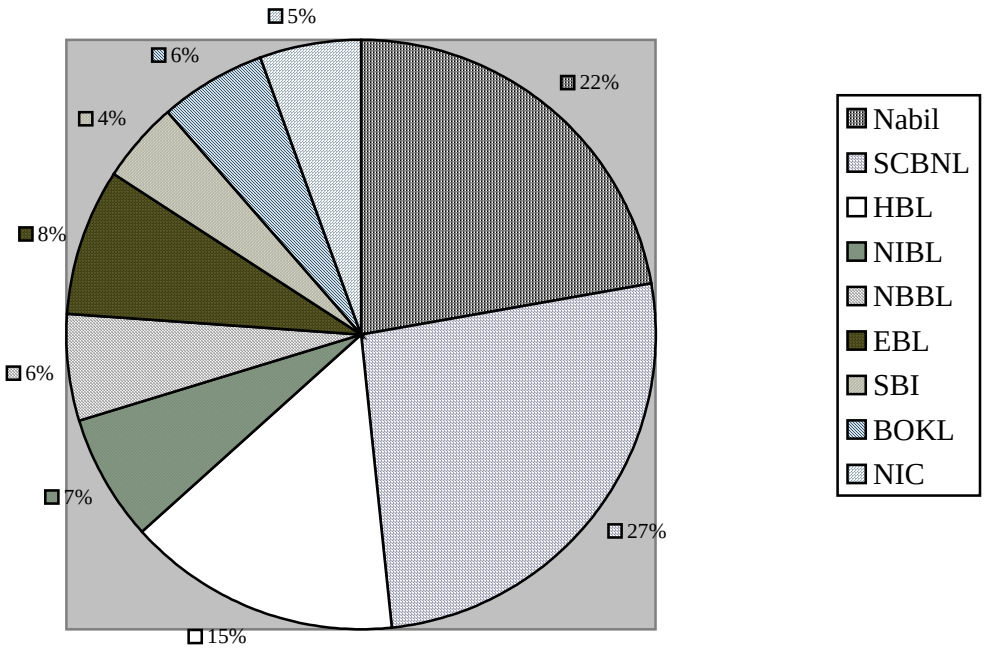
Banks	Market capitalization (Rs.)
Nepal Arab Bank Ltd.	7,389,474,750
Standard Chartered Bank Nepal Ltd.	8,785,317,380
Himalayan Bank Ltd	4,933,500,000
Nepal Investment Bank Ltd.	2,362,344,000
Nepal Bangladesh Bank Ltd.	1,907,803,900

Everest Bank Ltd.	2,740,500,000
Nepal State Bank Of India Ltd.	1,446,042,240
Bank Of Katmandu Ltd.	1,993,397,870
Nepal Industrial & Commercial Bank Ltd.	1,830,000,000
Total	33,388,380,140

Source:-www.nepalstock.com

The above table no.4.29 shows that SCBNL, NABIL, HBL, EBL, NIBL, BOKL, NBBL, NIC & SBI banks falls in the 1st, 2nd to 9th position respectively according to market capitalization at 15 July, 2008

Diagram 4.19: marketlization of each bank at july 15, 2008



The above diagram no. 4.19 shows share of market capitalization of each bank in percentage in the pie chart. SCBNL Covers largest area in the diagram having 27% market capitalization. NABIL is in 2nd position having 22% market capitalization.

Similarly, HBL,EBL, NIBL,BOKL, NBBL, NIC AND SBI covers 15%, 8%, 7%, 6%, 6%, 5% & 4% respectively. Pie chart clearly shows the SCBNL has largest market capitalization where as SBI has the lowest market capitalization.

4.3.1. Movement of market capitalization

A comparison is made on the movement of market capitalization of each bank. The table no. 4.30 shows the comparative movement of market capitalization of each bank.

The table no. 4.30 below shows that the Standard Chartered Bank is in the front of all banks for all year in comparison to market capitalization. Its market capitalization has started from Rs. 3945.57 million in the end of financial year 2008/09 and has increased its peak level to Rs. 8785.32 in 15 July, 2010. NABIL Bank is in 2nd position. It has started from Rs. 2749.60 million in 2004/05 and reached to its highest level to Rs. 7389.47 million in the year 15, July 2008.

Table 4.30: year wise comparative movement of market capitalization (in million)

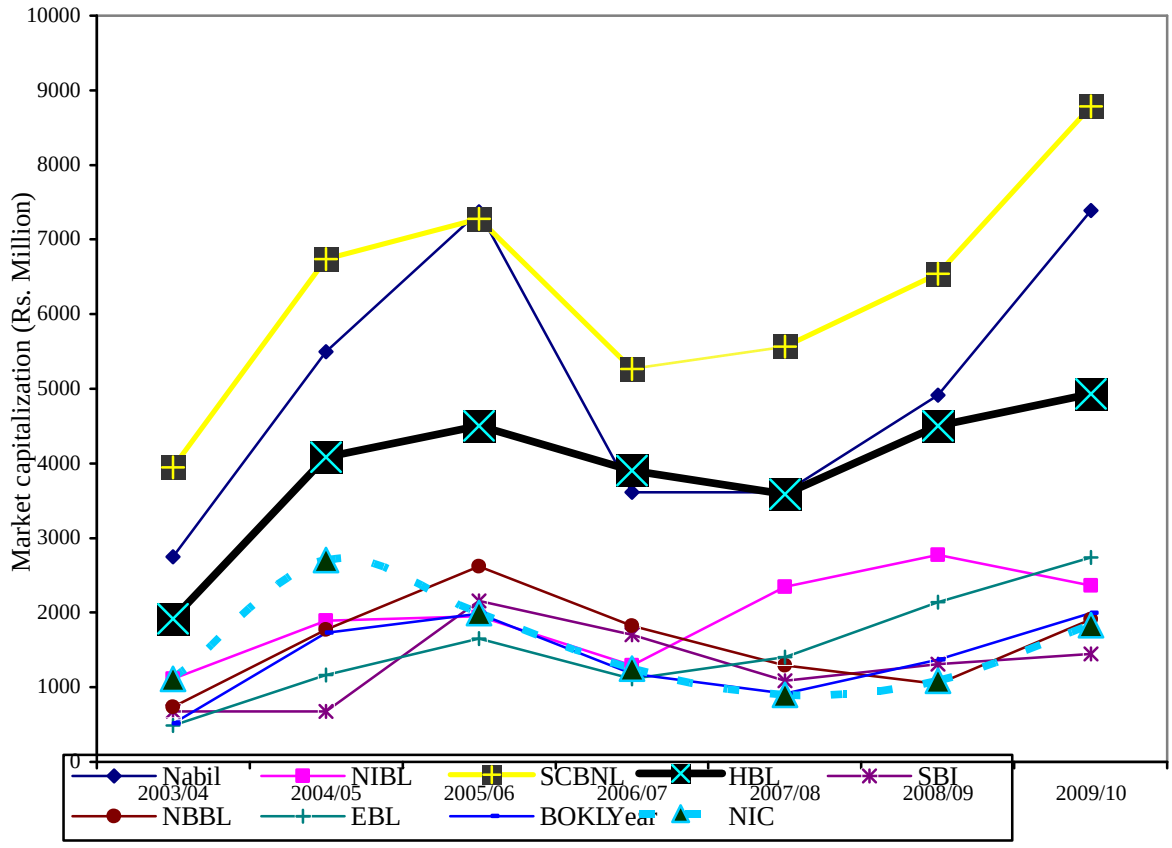
Banks							
	15 July, 03	15 July, 04	15 July, 05	15 July, 06	15 July, 07	15 July, 08	15 July, 09
NABIL	2749.60	5499.20	7374.75	3613.63	3613.63	4916.50	7389.47
NIBL	1112.58	1896.26	1954.77	1291.85	2347.56	2775.73	2362.35
SCBNL	3945.57	6740.04	7279.95	5263.03	5568.62	6537.67	8758.32
HBL	1920.00	4080.00	4500.00	3900.00	3586.44	4504.50	4933.50
SBI	674.12	674.12	2159.10	1703.81	1084.16	1310.52	1446.04
NBBL	739.20	1768.91	2619.76	1821.96	1295.71	1043.77	1907.80
EBL	488.4	1160.52	1656.45	1115.08	1401.75	2142.00	2740.50
BOKL	513.00	1732.73	1986.03	1177.49	917.49	1367.56	1993.40
NIC	1108.74	2703.09	1993.92	1249.73	899.91	1089.91	1830.00

Source:-www.nepalstock.com

The table shows that BOKL has lowest market capitalization of Rs. 513.00 million in fiscal year 2008/09 and SCBNL has greatest market capitalization is Rs. 3945.57 million in same date. Similarly, lowest market capitalization in 15 July 2009 is Rs. 1446.042 million of SBI and highest market capitalization Rs. 8785.32 million of SCBNL in comparison with all banks under studied.

Diagram no. 4.20 below has presented for showing movement of market capitalization for all banks for the year 2003/04 to 2009/10.

Diagram 4.20: Market Capitalization in Different year



The diagram indicates the position of each banks market capitalization and it clearly shows the SCBNL, NABIL and HBL's position in the 1st, 2nd & 3rd respectively.

4.4. Analysis of EPS of sample Banks

Normally, the performance and the achievement of business organizations are measured in term of its capacity to get earning. Higher earning shows higher strength while lower earning shows weaker strength of business organization because earning of any organization helps in its growth expansion and diversification. EPS is the amount of earning per share of the company. Higher EPS of the company shows better the position in stock market. The following table no. 4.31 shows the details relating to EPS.

Table no.4.31: Comparative EPS of sample banks

Year / Banks	2004/05	2005/06	2006/07	2007/08	2008/09	average	S.D.	C.V.
NABIL	83.79	59.26	55.25	84.66	92.61	75.114	16.72	0.2222
NIBL	53.68	33.17	33.59	39.56	51.70	42.340	9.8	0.2314
SCBNL	115.62	126.88	141.13	149.30	143.55	135.296	13.75	0.1016
HBL	83.08	93.56	60.26	49.45	49.05	67.080	20.25	0.3018
SBL	41.74	8.69	9.61	11.47	14.26	17.154	13.90	0.8103
NBBL	118.48	83.45	18.41	19.87	0.74	48.190	50.30	1.0430
EBL	34.85	31.56	32.91	29.90	45.58	34.96	6.20	0.1773
BOKL	40.73	27.97	2.00	17.72	27.5	23.184	14.39	0.6206
NIC	4.94	9.66	1.36	5.19	13.66	6.962	4.763	0.6841

Source: www.nepalstock.com

EPS of sample banks for 5 years periods are presented in the above table 4.31. In the year 2004/05 NBBL has the highest EPS while NIC has lowest EPS. Similarly, in year 2005/06 SCBNL has highest EPS i.e. Rs. 126.86 where SBI has lowest EPS i.e. Rs 8.69, in year 2006/07 SCBNL has higher EPS i.e. Rs. 141.13 while NIC bank has lowest EPS i.e. Rs. 1.36, in year 2007/08 again SCBNL has highest EPS i.e. 5.19 and in year 2008/09 SCBNL has highest EPS while NBBL has lowest EPS that are Rs. 143.55 & 0.74

respectively. The data shows that on average EPS of SCBNL is highest i.e. Rs.135.296 while NIC has lowest average EPS i.e. Rs. 6.962. Besides considering the average, if it preferable to state the rate of fluctuation with the help of coefficient of variation while analyzing EPS. It can be observed that the coefficient of variation of EPS of SCBNl is the lowest among all. The C.V. of NABBL is the highest & remaining other banks have moderate. Thus, it can be concluded that NBBL has the largest fluctuation in EPS among all nine commercial banks and SCBNL has the lowest fluctuation in EPS among all sample banks. This indicates that NBBL common stock is more risky as compared to other banks. There is least variability in the EPS of SCBNL thus, it is less risky among all and remaining other is moderate.

4.5. Analysis of DPS of sample banks

Dividend is the amount of earning per share distributed to shareholders by the firm as a return per share. It is certain portion of earning per share (EPS). Higher dividend makes more profitable to shareholders in current phase but price of share would be decreased. It is only assumption but there is great controversy against dividend so it is not easy to say about the effect of dividend on common stock price. The following table shows the details relating to the DPS.

Table no. 4.32: Comparative DPS of sample banks

Year / Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Average	S.D.	C.V.
NABIL	55	40	30	50	65	48	13.5	0.2812
NIBL	25	0	0	20	15	12	11.51	0.9590
SCBNL	100	100	100	110	110	102	4.47	0.0438
HBL	50	27.2	25	1.31	0	20.762	20.782	1
SBL	15.01	0	0	8	0	4.602	6.771	1.471
NBBL	0	5.04	0	0	0	1.008	2.254	2.236

EBL	0	0	0	20	20	8	10.954	1.3693
BOKL	32.74	0	10	5	10	11.548	12.55	10.86
NIC	0	10	0	0	0	2	4.472	2.236

Source:-www.nepalstock.com

Table 4.32 presents DPS for sample banks for the period of five years. (2004/05 to 2008/09). In the year 2004/05, SCBNL has highest DPS while other three banks NBBL, EBL and NIC have not distributed any dividend. In the year 2004/05 SCBNL has highest DPS while NIBL, SBI, EBL and BOKL have not distributed dividend. Similarly, in year 2005/06 SCBNL has highest DPS and other banks (NIBL, SBI, NBBL, EBL and NIC) have not distributed dividend. In year 2008/09, again SCBNL has highest DPS while NBBL and NIC have not distributed any dividend. Other banks, which are not described above, falls in the moderate category (range between lowest dividends to highest dividend). The data shows that on average, DPS of SCBNL is highest i.e. Rs. 102 while NBBL has lowest DPS i.e. Rs. 1.008 only. From above table it can be easily say that DPS of SCBNL is the highest among all sample banks and also its DPS has not fluctuated as compared with other banks. Besides considering the average DPS it is preferable to state the range of fluctuations with the help of coefficient of variation, it is observed that the coefficient of variation of DPS of SCBNL is the least i.e. 0.0438 and NBBL & NIC have the highest coefficient of variation i.e. 2.236, other remaining banks have moderate coefficient of variation. Thus, it can be concluded that NBBL & NIC have the highest fluctuation in dividend among all banks, which indicates that the common stock these banks are the riskiest among all.

4.6. Analysis of dividend payout ratio (DPR)

The ratio of dividend per share and earning per share is known as dividend payout ratio. The dividend payout ratio reflects the management attitude towards the treatment of profit in respect to the distribution of dividend and retention of earnings. There fore comparative dividend payout ratios are presented in table 4.33 below;

Table No: 4.33 Comparative DPR of sample banks

Year / Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Average	S.D.	C.V.
NABIL	65.64	67.49	54.3	59.06	70.19	63.336	6.59	0.102
NIBL	46.57	0	0	50.56	29.01	25.228	24.42	0.968
SCBNL	86.49	78.81	70.86	73.68	76.63	77.294	5.953	0.077
HBL	60.19	29.39	41.49	2.66	0	26.746	25.682	0.9602
SBI	35.95	0	0	69.76	0	21.142	31.32	1.4814
NBBL	0	6.040	0	0	0	1.208	2.701	2.236
EBL	0	0	0	66.9	43.88	22.156	31.41	1.4177
BOKL	80.37	0	499.57	28.22	36.37	128.906	209.20	1.6229
NIC	0	103.48	0	0	0	20.696	46.27	2.236

Source:-www.nepalstock.com

Table 4.33 presents DPR of sample banks for the period of five year. The above table shows the percentage of dividend pay out to total earning made by each banks for the studied period. From the table it can be observed that average DPR of BOKL is highest among all i.e. 128.906% while NBBL has lowers DPR among all sample commercial bank, it is because NBBL has distributed only one time dividend during five-year period but BOKL has distributed regular dividend. Coefficient of variation of DPR of NIC and NBBL are highest and that of SCBNL is lowest. There fore it can be said that SCBNL is comparatively able to maintain stable dividend pay out ratio where as other falls in category of moderate i.e. range between lowest to highest. In conclusion, it can be said that SCBNL has best dividend policy while NIC and NBBL have worse dividend policy among all sample banks and remaining other has moderate.

4.7. Analysis of price earning ratio (P/E ratio)

P/E Ratio describes the relationship between EPS and market price per share. Table below indicate the summary of it.

Table no 4.34: comparative P/E- ratio of sample banks

Year / Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Average	S.D.	C.V.
NABIL	16.71	25.31	13.3	8.68	10.8	14.96	6.51	0.435
NIBL	26.10	34.67	22.63	20.1	18.18	24.336	6.493	0.267
SCBNL	17.17	16.9	10.98	10.98	12.16	13.638	3.139	0.230
HBL	20.46	10.03	16.59	16.91	17.12	16.222	3.8	0.234
SBL	13.46	172.59	41.71	22.24	21.53	54.306	66.94	1.232
NBBL	12.68	13.18	27.7	18.12	393.87	93.11	168.24	1.806
EBL	28.12	23.77	13.07	14.89	14.92	18.954	6.607	0.348
BOKL	24.5	30.39	126.89	11.18	10.73	40.738	48.9	1.2
NIC	111.24	41.29	183.24	34.69	15.96	77.284	69.37	0.8976

Source:-www.nepalstock.com

Table 4.34 presents P/E- ratio of sample banks for the five-year period (2004/05 to 2008/09). Considering the average P/E-ratio NBBL has highest while, SCBNL has lowest among all sample banks. Other banks fall in moderate category when compared with each other. However the coefficient of variation analysis shows that SCBNL has the most consistent (i.e. 0.23) P/E- ratio and that of other banks are more fluctuating as compared with SCBNL.

4.8. Analysis of earning yield and dividend yield

Table No. 4.35: comparative earning yield and dividend yield of sample banks

Banks	NABIL		NIBL		SCBNL		HBL		SBI		NBBL		EBL		BOKL		NIC	
Year	E.Y.	D.Y.	E.Y.	D.Y	E.Y.	D.Y	E.Y.	D.Y	E.Y.	D.Y	E.Y.	D.Y	E.Y.	D.Y	E.Y.	D.Y	E.Y.	D.Y.
2004/05	5.98	3.93	3.83	1.78	5.82	5.04	4.89	2.94	7.43	2.67	7.89	0	3.56	0	4.08	3.28	0.9	0
2005/06	3.95	2.67	2.88	0	5.92	4.66	4.24	1.83	0.58	0	7.59	0.46	4.21	0	3.29	0	2.42	2.51
2006/07	7.52	4.08	4.42	0	9.11	6.45	6.03	2.5	2.4	0	3.61	0	7.65	0	0.79	3.94	0.55	0
2007/08	11.52	6.6	4.38	2.52	9.10	6.71	5.91	0.16	4.5	3.14	5.52	0	6.72	4.49	8.95	2.53	2.88	0
2008/09	9.26	6.5	5.5	1.6	8.23	6.3	5.84	0	4.64	0	0.25	0	6.7	2.94	9.32	3.39	6.26	0
Avg.	7.65	4.8	4.32	1.18	7.65	5.83	5.78	1.49	3.91	1.16	4.97	0.09	5.71	1.49	5.29	2.63	2.60	0.5
S.D.	2.92	1.78	1.02	1.13	1.65	0.92	0.52	1.34	2.58	1.6	3.16	0.21	1.78	2.11	3.72	1.55	2.27	1.12
C.V.	0.38	0.37	0.24	0.96	0.22	0.16	0.09	0.09	0.66	1.38	0.63	2.24	0.31	1.42	0.30	0.59	0.87	2.24

Source:-www.nepalstock.com

Earning yield depicts the relationship between EPS & MPS and dividend yield depicts the relationship between DPS & MPS. The main reason behind such kind of tabulation is to point out the percentage of relationship between EPS/MPS and DPS/MPS. To illustrate the earning yield and dividend yield of the concern commercial banks, this kind of analysis may be reliable to calculate the real value of dividend as compared with the current market value of each share.

The above table presents the earning yield and dividend yield of nine sample banks for the period of five years (2004/05 to 2008/09). The average earning yield of SCBNL rank the highest i.e. 7.65, where as NIC has lowest i.e. 2.6 earning yield. Dividend yield also rank the SCBNL has highest where as NBBL has lowest and remaining other falls in the moderate category. Coefficient of variation of the above data shows that earning yield of HBL is relatively most consistent i.e. 0.09. On the other hand, dividend yield of SCBNL is the most consistent while other banks have moderate fluctuation as compared with each other.

4.9. Correlation analysis

Correlation analysis is a statistical tool, which is used to determine covariance between two or more variables and to measure how a change in one variable affects the other variable. Two variables are said to be correlated if change in the value of one variable appears to be linked with the change in the value of other variable. The study uses Karl Pearson's coefficient of correlation because it is the most widely used coefficient of correlation.

The coefficient of correlation is generally denoted by the letter 'r' and is always lies between ⟆ 1 The value of +1 or -1 denotes perfect positive or negative correlation where as the value of 0 means no correlation at all. The value of 0.7 to 0.999 or -0.7 to -0.999 indicates a high degree of positive or negative correlation. The value of 'r' is between 0.5 to 0.699 indicates a moderate degree of correlation where as value of less then 0.5 indicates a low degree of correlation.

An indicator in ascertaining the reliability of Pearson's coefficient of correlation is the probable error. For this study, a simple method has been adopted to determine whether calculated coefficient of correlation is significant or not. If 'r' is less than the value probable error then the value of 'r' is considered insignificant. If 'r' is grater then 6 times the probable error then 'r' is considered significant. The tables for correlation between various factors have been studied on theses basis.

Table No. 4.36: correlation between ESP and MPS

Banks	Coefficient of Correlation (r)	Relationship	r^2	Probable Error	Significance/ insignificance
NABIL	-0.0712	Negative	0.005	0.3000	insignificance
NIBL	0.5033	Positive	0.2533	0.2252	insignificance
SCBNL	-0.7886	Negative	0.6218	0.1140	Insignificance
SBI	-0.148	Negative	0.0219	0.2950	Insignificance
NBBL	0.9929	Positive	0.9859	0.0042	Significance
EBL	0.2514	Positive	0.0632	0.2826	insignificance
BOKL	0.7595	Positive	0.5768	0.1277	Insignificance
NIC	-0.10	Negative	0.01	0.2986	insignificance
HBL	0.933	Positive	0.8704	0.0390	Significance

The above table shows the relationship between earning per share (EPS) and market price per share (MPS) of each bank. In the table above it can clearly seen that NIBL, NBBL, EBL, BOKL and HBL have positive coefficient of correlation while other have the negative. And coefficient of correlation for banks NBBL and HBL seems significant and remaining other insignificant.

Another indicator shown in the table is the 'r^2', which is called coefficient of determination. This coefficient indicates how much of the variation in on variable attribution to the other variable is. By looking at the above table it can be say that NABIL, NIBL, SCBNL, SBI, NBBL, EBL, BOKL, NIC and HBL have only 5%, 25.33%, 62.18%, 2.19%, 98.59%, 6.32%, 57.68%, 1% & 87.04% of the variation in MPS can be attributed due to variation in EPS other variation may cause by other factor, which leads stock price increase or decrease. From the above table it can be concluded that MPS of NBBL is highly affected by EPS while MPS of NIC is least affected by EPS. Moreover, by the application of 6 probable error (i.e. 6P.E) the significance & insignificance has shown in above table. In above table it can clearly seen that only two bank NBBL and HBL have significant relationship with EPS and MPS remaining other have insignificant relationship with each other.

4.10. NEPSE index and excepted return, standard deviation of return & coefficient of variation of industries

Below in the table no. 4.37 NEPSE index for various years is presented. Each industry's excepted return, standard deviation and coefficient of variation are calculated based on that NEPSE index.

Table 4.37: Industry wise NEPSE index at closing date of different fiscal year

Industry Year	Banking	Manufacturing &processing	Hotel	Trading	Finance &insurance	Other	Total
2002/03	219.44	229.83	`242.52	123.99	195.68	376.10	216.92
2003/04	397.17	340.59	346.15	123.74	305.98	308.46	360.70
2004/05	379.38	349.31	291.34	115.55	318.67	190.9	348.43
2005/06	496.14	283.44	219.96	103.83	567.35	101.91	225.29
2006/07	446.62	250.13	196.68	94.56	448.78	48.56	204.86
2007/08	231.97	255.58	184.41	95.01	433.61	142.65	222.04
2008/09	304.64	276.5	178	123.2	548.63	347.65	286.67

Source:-www.nepalstock.com

Table No. 4.38: Expected return, standard deviation of return and coefficient of variation of industries

Industry	Expected return	S.D.	C.V.
Banking	0.0985	0.4862	4.94
Manuf. & processing	0.04556	0.2141	4.6988
Hotel	-0.0267	0.21564	-8.0745

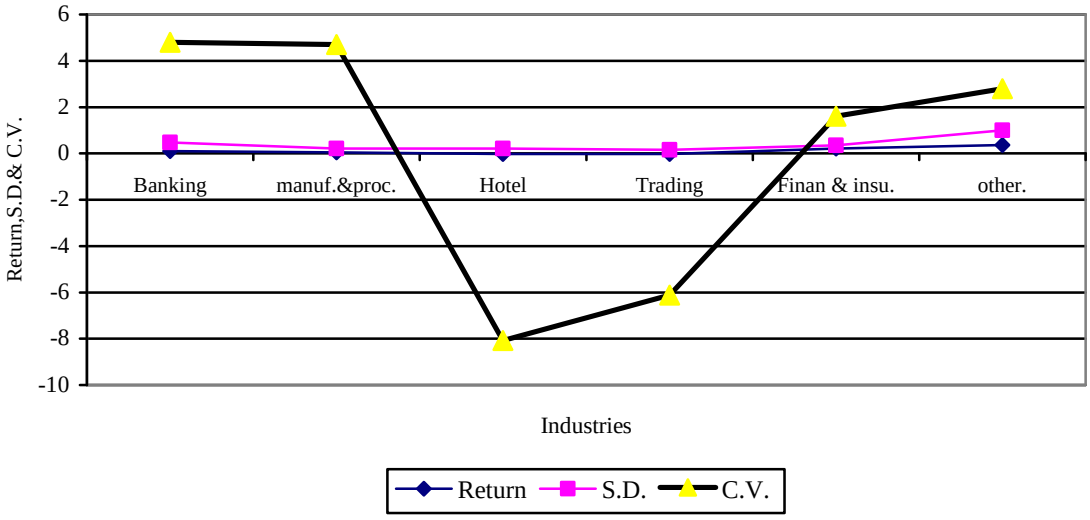
Trading	-0.02648	0.1621	-6.1215
Finance & insurance	0.2168	0.3479	1.6049
Other	0.3601	1	2.7916

Expected rate of return, standard deviation and coefficient of variation are taken as a main concern to compare between industries. Return of each industry is calculated based on industry wise NEPSE index. Year-end industry wise index is given in table no 4.37. Similarly, table no. 4.38 shows the calculated values of each industry. Details of return of each of the calculation are shown in appendix no. 2.

As per the calculation result, the banking industry has 3rd highest return and 1st highest coefficient of variation but it carries 2nd highest standard deviation. Manufacturing and processing industry has 4th highest return, 5th highest S.D. and 2nd highest C.V. Hotel industry carries negative return and C.V. but 2nd highest S.D. similarly, trading industry has also negative return & C.V. but standard deviation is lowest among all. Finance & insurance industry has 2nd highest return, 3rd highest S.D. and 4th highest C.V. like wise, other industries have 1st highest return, S.D. and 3rd highest C.V.

In below diagram is presented to show the industry wise excepted return, standard deviation and coefficient of variation. As per the diagram, banking sector has moderate return, moderate risk and moderate coefficient of variation as compared with other. Finance company and Insurance Company falls in the category of 2nd higher return 3rd higher risk and moderate coefficient of variation. The detail description of all can be seen in the above table as well as graph (diagram) below:

Diagram 4.21: Expected Return, S.D.& c. V. of industries.



4.11. Comparison with Market

In Nepal there is only one stock market i.e. NEPSE. Overall market movement is represented by market index i.e. NEPSE index. Market portfolio return, its S.D. and coefficient of variation are shown in table no. 4.39

Table no. 4.39: Realized Rate of Return, Excepted Rate of Return, and Standard Deviation of Return & Coefficient of Variation of banking industry

Year	NEPSE index	R = $\frac{NI_t - NI_{t-1}}{NI_{t-1}}$	(R- $\bar{R}$)	(R- $\bar{R}$)^2
2003/04	219.44	-	-	-
2004/05	397.17	0.81	0.7115	0.5062
2005/06	379.38	-0.0448	-0.1433	0.0205
2006/07	496.14	0.3077	0.2092	0.0437
2007/08	446.62	-0.0998	-0.1983	0.0393
2008/09	231.97	-0.4806	-0.5791	0.3354
N = 5		$\bar{R}$ = 0.4925	$\sum(R - \bar{R}) = 0$	$\sum(R - \bar{R})^2 = 0.9451$

We have,

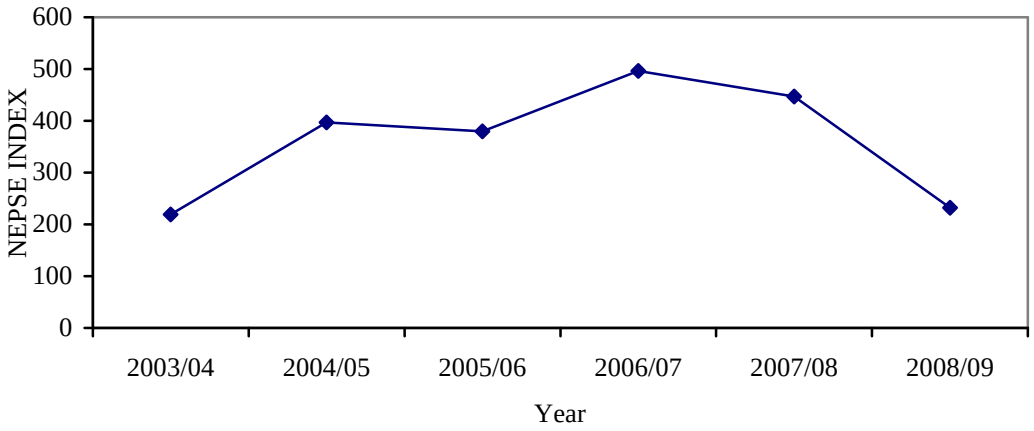
$$\text{Excepted Return } (\bar{R}_m) = \frac{R}{N} = \frac{0.4925}{5} = 0.0985$$

$$\text{Standard deviation } (\pm) = \sqrt{\frac{(R \; Z \bar{R})^2}{N \; Z1}} = \sqrt{\frac{0.9451}{4}} = 0.4862$$

$$\text{Coefficient of variation (C.V.)} = \frac{\pm}{\bar{R}} = \frac{0.4862}{0.0985} = 4.936$$

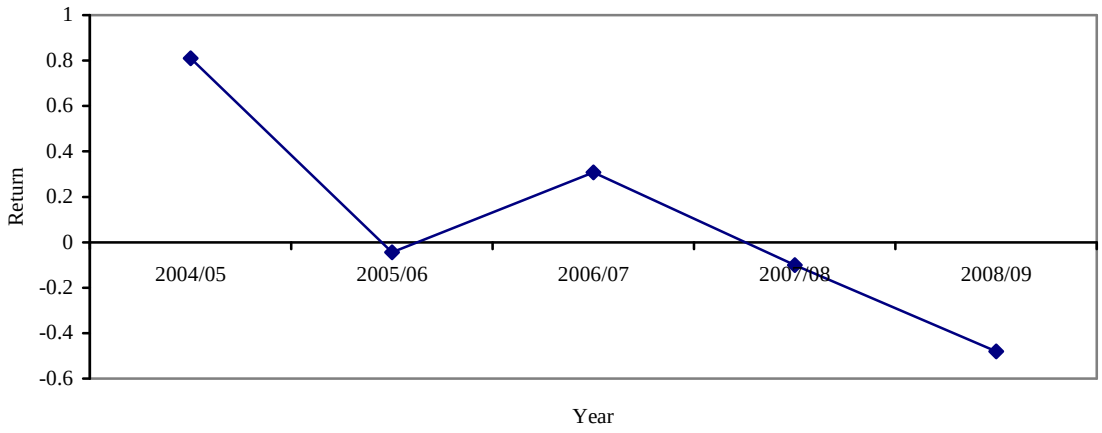
NEPSE index is very high in year 2006/2007 and it has decreased little but in year 2003/04. NEPSE index is in increasing trend in the starting and it is in fluctuating trend from 2003/04 to till now. This is shown in the diagram 4.22 below:

Diagram 4.22: NEPSE Index movement of the market



Below in the diagram market return movement is shown. As per the diagram, market return of banking industry is highest positive in year 2003/04 but it has amazing decreased from that peak year and again it has started to increase from 2006/07. 2nd highest index occurs in year 2007/08 but it is also in decreasing trend and continuously seems negative return in market for three years, after than slightly it has started to increase.

Diagram 4.23: Market Retutn Movement



Market return seems fluctuating during the study period. It is highly positive in year 2004/05 then after directly it has dropped to negative. In year 2006/07 again it become positive and after that point continuously it has negative which can be seems clearly in above diagram also.

4.12. Analysis of Market Sensitivity

Market sensitivity is explained by its beta coefficient. Higher the beta greater is the market sensitivity and higher will be the reaction to the market movement. Beta measures the systematic risk, which cannot be eliminating through the means of diversification. Beta coefficient of market is always 1. This statement can be proved as follows:

$$\beta_i = \frac{\mathrm{cov}(R_i\, R_m)}{\sigma_m^2} = \frac{\sigma_i \sigma_m \rho_{im}}{\sigma_m^2} = \frac{\sigma_i \rho_{im}}{\sigma_m}$$

Where,

ρ_{im} = correlation between market return and stock return.

Hence,

$$\beta_i = \frac{\mathrm{cov}(R_m\, R_m)}{\sigma_m^2} = \frac{\sigma_m \sigma_m \rho_{mm}}{\sigma_m^2} = \rho_{mm} = 1$$

Hence, beta coefficient of market is always equal to 1.

Table no. 4.40: Equilibrium return, expected return and price evaluation

Banks	Beta ($_i$*)	$E(R_I)$ = $R_F \Gamma(\overline{R_M} Z R_F)$ $_i$	Expected return ($\overline{R_i}$)	Price situation
NABIL	0.3977	0.0681	0.2412	Under-priced
SCBNL	0.3962	0.0680	0.2134	Under-priced
HBL	1.255	0.1113	0.1943	Under-priced
NIBL	0.1808	0.0572	0.3054	Under-priced
NBBL	1.12	0.1046	0.1304	Under-priced
EBL	0.4930	0.0729	0.4375	Under-priced
SBL	-0.9544	0	0.2000	Under-priced
BOKL	1.55	0.1263	0.4237	Under-priced
NIC	-0.0310	0.0465	-0.1177	Over-priced

Note: $_i$* calculation is shown in appendix no. 1.

Where,

R_f = risk free rate of return = 0.048 or (4.8%) [Risk free rate is based on the weighted average Treasury Bills rate of 364 days. (Source: NRB)]

$\overline{R_m}$ = market rate of return = 0.0985 or (9.85%) [Risk free rate is based on the weighted average Treasury Bills rate of 364 days. (Source: NRB)]

$E(R_I)$ = Equilibrium rate of return of capital assets pricing model (CAPM)

From above table no. 4.40 it can be observed that banks HBL, NBBL & BOKL have higher beta coefficient than beta coefficient of market (i.e. 1). The stocks of these three banks are aggressive. Among them most of the aggressive stock is BOKL's. The beta of four banks (NABIL, SCBNL, EBL & NIBL) have lower beta coefficient then market so, these stocks are defensive. Similarly, two banks (SBI & NIC) have negative beta coefficient. Therefore, stocks of these banks are most defensive. According to the beta, calculation aggressive stocks are highly sensitive with market movement. If market movement rises / falls by one percentage stock's movement will rises /falls by more than one percentage. In case of defensive stocks reaction of market is less than one percentage if market movement rise / falls by one percentage.

All the commercial bank's stocks except NIC are under-priced. Therefore, these with under-priced stock provide a good investment opportunity. Their stocks value will be increased in the near future providing the investor higher return. However, other dimensions of analysis as like political situation, economic condition, socio-cultural situation, technological environment, global environment, various legal provisions etc. are also essential for efficient decision-making.

4.13. Test of hypothesis

The hypothesis is one of the important and useful statistical tools, which helps to test the relationship between/among variables. In other word, a hypothesis is a conjectural statement of the relationship between two or more variables. The test of hypothesis discloses the fact whether the difference between the computed statistics and hypothetical parameter is significant or not .It also prefer clear implications for testing the stated relations. The research on this thesis topic strongly holds the hypothesis criteria. The hypothesis tests of this research work as follows.

1. First hypothesis:

1. Null hypothesis (H0) = $\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 = \mu_6 = \mu_7 = \mu_8 = \mu_9$.

   (I.e. There is no significant difference on average return among commercial banks.)

2. Alternative hypothesis (H1) = $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5 \neq \mu_6 \neq \mu_7 \neq \mu_8 \neq \mu_9$.

   (i.e. There is significant difference on average return among commercial banks.)

Table no. 4.41: Average yearly return of banks

Year	NABIL		SCBNL		HBL		NIBL		NBBL	
	x_1	x_1^2	X_2	x_2^2	X_3	x_3^2	x_4	x_4^2	x_5	x_5^2
2004/05	1.078	1.162	0.7943	0.6309	1.125	1.2656	0.7348	0.5399	1.438	2.0678
2005/06	0.1	0.01	0.1305	0.01703	0.0456	0.0020	0.3633	0.1398	0.0752	0.0056
2006/07	-0.49	0.2401	-0.2304	0.053	-0.149	0.0222	-0.3391	0.1149	-0.3727	0.1389
2007/08	0.068	0.0046	0.2416	0.0584	-0.079	0.0062	0.5671	0.3216	-0.2941	0.0865
2008/09	0.45	0.2025	0.1310	0.0172	0.287	0.008	0.2012	0.0405	0.1944	0.0376
Total	1.206	1.6193	1.067	0.7765	0.9761	1.2969	1.5273	1.1489	0.652	2.3366

EBL		SBI		BOKL		NIC	
x_6	x_6^2	X_7	x_7^2	x_8	x_8^2	x_9	x_9^2
1.4078	1.9819	-0.5047	0.2547	2.616	6.8434	0.111	0.0123
0.2040	0.0416	2.3825	5.6763	-0.1483	0.0294	-0.2563	0.0656
-0.4267	0.1820	-0.7327	0.5368	-0.6894	0.4752	-0.3743	0.1401
0.4293	0.1842	-0.3441	0.1184	-0.2	0.04	-.028	0.0784
0.5730	0.3283	0.2039	0.0416	0.5404	0.2920	0.211	0.0445
2.1874	2.7181	1.0049	6.6278	2.1187	7.672	-0.5886	0.3410

Grand total (T) = x_1 + x_2 + ...+ x_6

= {1.206+1.067+0.9716+1.5273+0.652+2.1874+1.005+2.1187+ (0.5886)}

= 5.3744

Correction factor (c.f.) = $\frac{T^2}{N} = \frac{(5.3744)^2}{45}$ = 0.64187

Total sum of square (TSS) = x_1^2 + x_2^2 +..... + x_9^2 - C.F.

$$= \{(1.6193 + 0.7765 + 1.2969 + 1.1489 + 2.3366 + \ldots\ldots\ldots\ldots\ldots..+2.7181 + 6.6278 + 7.672 + 0.3410) - 0.64187\}$$

$$= 23.8952$$

Sum of Square between Samples (SSB)

$$= \{\frac{(x_1)^2}{n_1} + \frac{(x_2)^2}{n_2} + \ldots\ldots\ldots\ldots + \frac{(x_9)^2}{n_9} - \text{c.f.}\}$$

$$= \frac{(1.206)^2}{5} + \frac{(1.067)^2}{5} + \frac{(0.9716)^2}{5} + \frac{(1.5273)^2}{5} + \frac{(0.652)^2}{5} + \frac{(2.1874)^2}{5} +$$

$$\ldots..+\frac{(1.0049)^2}{5} + \frac{(2.1187)^2}{5} + \frac{(Z0.5886)^2}{5} - 0.64187$$

$$= 3.38492 - 0.64187$$

$$= 2.74305$$

Sum of square with in samples (SSW)

$$= \text{TSS} - \text{SSB}$$

$$= 23.89529\text{-}2.74305$$

$$= 21.15224$$

Table no. 4.42: First ANOVA

Sources of variation	Sum of square	d. f.	Mean sum of squares	F- ratio
Between samples	2.74305	9-1 = 8	0.34288	$\frac{0.34288}{0.58756}$
With in samples	21.15224	45-9=36	0.58756	
Total	23.89529	45-1=44		= 0.58356

Critical value: the tabulated value of F at ~ X5 % level of significance for 8&36 d.f. in one way ANOVA table is 2.21.

Decision: Since calculated F-ratio is lower then tabulated F-ratio, the null hypothesis (Ho) is accepted i.e. there is no significance difference on average return among banks.

Table no. 4.43: Average yearly fluctuation of return

Year	NABIL		SCBNL		HBL		NIBL		NBBL	
	x_1	x_1^2	X_2	x_2^2	x_3	x_3^2	x_4	x_4^2	x_5	x_5^2
2004/05	0.8368	0.7	0.5809	0.3374	0.9307	0.8662	0.4293	0.1961	1.3076	1.7098
2005/06	0.1412	0.0199	0.0829	0.0068	0.1487	0.0221	0.0578	0.0033	0.0552	0.003
2006/07	0.7312	0.5346	0.4438	0.1969	0.3433	0.1178	0.6445	0.4153	0.5031	0.2531
2007/08	0.1732	0.0299	0.0282	0.0008	0.2729	0.07447	0.2616	0.06843	0.4245	0.1802
2008/09	0.2088	0.04359	0.0824	0.007	0.1656	0.027423	0.104	0.0108	0.3248	0.01055
Total	2.0912	1.3280	1.2182	0.5479	1.8612	1.1080	1.4972	0.6822	2.6152	2.2516

EBL		SBI		BOKL		NIC	
x_6	x_6^2	X_7	x_7^2	X_8	x_8^2	x_9	x_9^2
0.9703	0.9414	0.704	0.4956	2.192	4.8048	0.2287	0.0523
0.2335	0.05452	2.1528	4.7233	0.572	0.3272	0.1386	0.0192
0.8642	0.7468	0.9327	0.8699	1.113	1.2388	0.2566	0.06584
0.008	0.00006	0.5441	0.2960	0.6237	0.3890	0.1623	0.02634
0.1355	0.0183	0.003	0	0.1167	0.0136	0.3287	0.1080
2.2115	1.7612	4.3663	6.4249	4.6174	6.773	1.1149	0.2717

Grand total (T) = x_1 + x_2 + ...+ x_9

= {2.0912 +1.2182 + 1.8612 + 1.4972 + 2.6152 + 2.2115 + 4.3663 + 4.6474+ + 1.1149}

= 21.5931

Correction factor (c.f.) = $\frac{T^2}{N}$ = $\frac{(21.5931)^2}{45}$ = 10.3613

Total sum of square (TSS) = x_1^2 + x_2^2 +..... + x_9^2 - c.f.

= {(1.328 + 0.5479 + 1.1080 + 0.6822 + 2.2516 + +1.7612 + 6.4249 + 6.773 + 0.2717) - 10.3613}

= 10.7872

Sum of square between samples (SSB)

$$= \{\frac{(\quad x_1)^2}{n_1} + \frac{(\quad x_2)^2}{n_2} + \text{.....} + \frac{(\quad x_9)^2}{n_9} - \text{c.f}\}$$

$$= \frac{(2.0912)^2}{5} + \frac{(1.2182)^2}{5} + \frac{(1.8612)^2}{5} + \frac{(1.4972)^2}{5} + \frac{(2.6152)^2}{5} + \frac{(2.2115)^2}{5} +$$

$$\text{……..} + \frac{(4.3663)^2}{5} + \frac{(4.6174)^2}{5} + \frac{(1.1149)^2}{5} - 10.3613$$

= 12.9841 - 10.3613

= 2.6229

Sum of square with in samples (SSW)

= TSS - SSB

= 10.7872 - 2.6229

= 8.1643

Table no. 4.44: Second ANOVA

Sources of variation	Sum of square	d. f.	Mean sum of squares	F- ratio
Between samples	2.6229	9-1 = 8	0.3278	$\frac{0.3278}{0.2267}$ = 1.445
With in samples	8.1643	45-9=36	0.2267	
Total	10.7872	45-1=44		

Critical value: The tabulated value of F at ~ X5 % level of significance for 8&36 d.f. in one way ANOVA table is 2.21.

Decision: Since calculated F-ratio is lower then tabulated F-ratio, the null hypothesis (Ho) is accepted i.e. there is no significance difference on fluctuation of return among different commercial banks.

4.14. Analysis of investor's opinions

The result of public opinion i.e. investors of common stocks from different fields (businesspersons, public &others) were taken. The results are presented in table no. 4.45 below:

According to results, most of the investors buy the securities for the purpose of capital gain (35), for purpose of participation in management (7), for social status (4) and 20 were unknown about common stock investment. This implies that most of investors, who are well known about common stock investment and economically able make investment, make investment in security for the purpose of capital gain. Similarly, people of rural area mostly are unknown about investment in common stocks so they did not reply any thing. They only know to deposit and borrowing of money from banks. General public investors seem fair from their investments in securities due to the unstable political situation of country. Financial executive are dissatisfied with the present return. Therefore, it can be said that global environment has not affect the banking sector positively.

Table 4.45: opinion from respondents

Questionnaire numbers	Number of correspondents/banks								
1	NABIL	SCBNL	HBL	NIBL	NBBL	EBL	SBI	BOKL	NIC
2	30	15	32	18	15	25	0	7	12
3	15	11	4	15	4	18	0	6	6
4	14	4	4	18	6	10	0	1	7
5	6	9	0	4	7	6	0	0	9
6	8	0	0	7	2	4	0	0	5
7	0	0	0	0	0	3	0	0	7
8	0	0	0	5	0	0	0	0	0
9	3	7	3	4	0	0	0	0	2

From the questioners 1-8, we get most of the investors preferred the NABIL, SCBNL & EBL's common stocks. Their stock price is not so flexible in comparison to other commercial banks. The external environment has not affected these banks very much. So, most of the investors choose these bank's stocks for long-term purpose.

According to most of the investors, the stocks of BOKL, SBI, and NIC & NBBL are found riskier due to the open border policy with India. Most of the investors invest in stocks only based on only risk and return but they are found unable to calculate the risk factor of the security. They are found lack of knowledge of the coefficient of variation of the stocks. 50 people are found choosing the higher market price of security is appropriate for the investment, 20 are found to choose the market price as well as popularity and remaining is found to consider other factors i.e. C.V., Beta coefficient & correlation between return and CAPM etc.

4.15. Major Findings of the Study

Ever since the government of Nepal went for liberal and open market policy in 1984, public companies have been mushroomed. In the last twenty-two years. There have always been not 2i'1y successes but failures too regarding public companies. The enthusiasm of investors have waxed and waned with the economic cycles in common with the general trend of stock markets worldwide. The stockholders have a high desire for their shares to have a high market price and their share to earn a high earning. So the earning is one of the main important factors to encourage shareholders happy and keep them investing in capital markets. However, in Nepal investment in stock is considered as black art that they know little about it. Many people have unrealistically optimistic expectations about stock market investment or perhaps just a fear of the unknown. This study enables investors to put the returns they can expect and the risk they may take into better perspective. Nepalese stock market is in emerging state. Its development is accelerating since political change in 1990 because of the effect of openness and liberalization in national economy. However, due to the-lack of knowledge and required

information, Nepalese private investors seem to be unable to analyze the securities as well as market properly.

Market price trend analysis has resulted negative trend or indication of decrease in market price per share in the future for NABIL, HBL SCBNL, NIBL., NBBL, EBL, SBI, BOKL & NIC whereas SCBNL bank has resulted positive i.e. the market price per share will be increased in future of this bank if the same trends continue.

Return is the income received on a stock investment, which is usually expressed in percentage. Expected return on the common stock of Everest bank ltd is the highest one among all banks that have been listed during the study. The investor's expected rate of return from the stock of this bank is 43.75%. Similarly, BOKL (42.37%), NIBL (30.546%), NABIL (24.12% SCBNL (21.34%), SBI (20%), BBL (13.04%) and NIC (-11.77%) have 2^{nd} 3rd 4th 5th 6th, 7th 8th & 9th highest return respectively. Expected rate of return of NIC bank is found negative. Market rate of return is 9.85%, which is lower than all the banks except NIC; this indicates that returns of all banks are satisfactory except NIC.

Standard deviation measures the scatter of the mass of figure in a series (i.e. dispersion) which is an absolute measurement. The greater the amount of dispersion, the greater will be the standard deviation and vice versa. Standard deviation on common stock's return of BOKL is the highest (i.e. 1.301) one comparing with other banks taken as sample. Similarly, SBI (1.2675), NBBL (0.7502), EBL (0.6635), NABIL (0.5762), HBL (0.5263), NIBL (0.4 130), SCBNL (0.3704) & NIC (0.2606) have 2d, 3rd, 4th 5^{th}, 6^{th} 7^{th} 8^{th} & 9^{th} highest risk (standard deviation) respectively. Similarly, market standard deviation of returns is 0.4862, which is lower than six banks and higher than three banks under the study. NIBL, SCBNL and NIC have lower standard deviation than market and remaining other have higher standard deviation.

We know that coefficient of variation is the best statistical tools which measures the risk per unit of return. So according to C.V. MC has the best common stock. It has negative coefficient of variation, which means zero risk per unit for negative return. Similarly SBI

(6.3373), NBBL (5.7536), BOKL (3.070), HBL (2.7084), SCBNL (1.7366) EBL (1.5166). NABIL (1.389) & NIBL (1.3522) have 1st 2nd 3rd 4th 5th 6th 7th & 8th highest coefficient of variation respectively. Market coefficient of variation is 4.936 that are lower than that of SBI &NBBL and higher than remaining other banks under the study.
According to inter bank market capitalization comparison SCBNL is in highest position (27%) and SBI bank is in lowest position (4%). According to Year- wise comparative movement of market capitalization, the SCBNL, NABIL and HBL's position is in the 1st, 2nd & 3rd respectively and SBI is in the last position.

The result of the study regarding earning per share (EPS) shows that the SCBNL has the highest EPS (135.296) while NIC has the lowest EPS(6.962).similarly NABIL (75.114), HBL (67.08), NBBL (48.19), NIBL (42.34), EBL (34.96), BOKL (23.184) & SBI (17.154) have 2nd 3rd 4th 5th 6th, 7th & 8th highest EPS respectively.

While analyzing fluctuation I variation of EPS with the help of coefficient of variation there is least variability in the EPS of SCBNL, thus it is less risky among all banks. Similarly, NBBL has the highest fluctuation among all banks; thus it is more risky and remaining other falls in moderate category.

The average dividend per share of the banks under the study also shows the SCBNL has highest average DPS and, NBBL has lowest average DPS among all sample banks as compared with each other. Coefficient of variation of DPS of SCBNL is the least, NBBL & NIC have highest, and remaining other have moderate. Thus, it can be concluded that NBBL and NIC have the highest fluctuation in DPS among all commercial banks.
Average dividend pay out ratio of BOKL is the highest while NBBL has the lowest dividend pay out ratio among all sample commercial banks. It is because NBBL has distributed only one time dividend during five-year periods however, BOKL has distributed dividend regularly during five-year period. Coefficients of variation of DPR of NIC & NBBL are highest and that of SCBNL is lowest. Therefore it can be said that SCBNL is comparatively able to maintain stable dividend pay out ratio where as other

banks are not as compared with each other. Therefore, it can be concluded that SCBNL has the best dividend policy; while NIC & NBBL have the worst dividend policy.

The price-earning ratio describes the relationship between market price per share and earning per share. In comparison of P-E ratio among all the banks that are studied, NBBL has the highest (i.e. 168.24 times) while SCBNL has the lowest (i.e. 3.139 times) P-E ratio. The coefficient of variation is fairly even for the banks as SCBNL has the lowest i.e. 0.230 and NBBL has the highest with 1.806, which indicates that volatility of P-E ratio of SCBNL is the lowest, while NBBL is the highest while comparing with each other.

Regarding the analysis of average earning yield, SCBNL (7.65) and NABIL (7.65) have the highest while NIC has the lowest (2.6) one. Similarly, dividend yield also shows SCBNL has the highest yield (6.3) while NBBL has zero dividend yields. Coefficient of variation of these data shows that earning yield of HBL has the most consistent (i.e. 0.09) while NBBL & NIC have not.

According to the industry-wise return and risk comparison result, the banking industry has 3rd highest return and l highest coefficient of variation but it carries 2nd highest standard deviation. Manufacturing and processing industry has 4th highest return, 5th highest S.D. and 2nd highest C.V. Hotel industry carries negative return and C.V. but 2nd highest S.D. similarly, trading industry has also negative return & C.V. but standard deviation is lowest among all. Finance & insurance industry has 2nd highest return, 3rd highest S.D and 4th highest C.V. like wise, other industries have 1st highest return & S.D and 3' highest C.V.

The correlation between EPS and MPS for all the nine commercial banks that have been studied shows that only two out of the nine banks has significant correlation. This suggests that MPS and EPS are not closely related to each other except of NBBL and HBL.

Standard deviation is only measures of unsystematic risk, which is not defined by market. Another major aspects of the risk is systematic risk, which is defined by market and measured by beta (β) coefficient. Beta coefficient explains the sensitivity or volatility of the stock with market. Higher the beta greater the stock is volatile. In this context, BOKL's common stock is most volatile (i.e. β=1.55) and SBI & NIC have negative beta coefficient that means these banks are least volatile with market movement. All banks common stock moves positively with market as their beta is positive expect SBI & NIC. The Stocks having the beta more than 1 is aggressive type of common stock and less than 1 is defensive. As comparison of beta of each bank with market's beta, we found the stocks of BOKL, HBL & NBBL are aggressive while other remaining banks have defensive stock.

One of the main significance of beta is in capital asset pricing model (CAPM). CAPM is a model that describes the relationship between risk and equilibrium return. In this model risk free rate plus a premiums based on the systematic risk of the securities is equilibrium rate of return of the stock. Comparing between expected rate of return and equilibrium rate of return, it helps to identify whether the stock is overpriced or under priced. If equilibrium rate of return is greater than expected rate of return, stock is overpriced and if equilibrium rate of return is lower than expected rate of return, stock is under priced. Eight commercial banks have the stock that are under priced out of total nine sample commercial banks under studied and one is overpriced. NIC bank has over priced stock and remaining other have under priced. Under priced means value of stocks of those banks will be increased in near future. Over priced stocks value can be decreased in very short period in the future. Therefore, investor can purchase the common stock of any other banks except the stock of NIC, which is overpriced.

The test of hypothesis carried out (ANOVA test) shows that there is no significance difference on average return and fluctuations of return (risk) among different commercial banks under studied.

According to the opinion of investors, most of the investors buy the securities for the purpose of capital gain (35), for purpose of participation in management (7), for social status (4) and 20 were unknown about common stock investment. This implies that most of investors, who are well known about common stock investment and economically able to make investment, make investment in security for the purpose of capital gain. Similarly, people of rural area mostly are unknown about investment in common stocks, so they did not reply any answer of our questions. They only know to deposit and borrow money from banks. General public investors seem fair from their investments in securities due to the unstable political situation of country. Financial executive are dissatisfied with the present return. Therefore, it can be said that global environment has not affect the banking sector positively.

Most of the investors invest in stocks based on only risk and return but they are found unable to calculate the risk factor of the security. They are found lack of knowledge of the coefficient of variation of the stocks. 50 people are found choosing the higher market price of security is appropriate for the investment, 20 are found to choose the market price as well as popularity and remaining is found to consider other factors i.e. C.V., Beta coefficient & correlation between return and CAPM etc.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. SUMMARY

Common stock is a source of capital, which is considered to be riskier, and lifeblood of stock market. Therefore investment in common stock is very sensitive regarding risk. Dividends to common stock holders are only paid if the firm makes an operating profit after tax and preference shareholders dividend. The company can return the principal in case of its liquidation only to the extent of the residual assets after satisfying to all of its preference shareholders. Beside this the investors have to sacrifice the return on their investment in common stock, which would be earned investing elsewhere. The main objectives of the study are to analyze of common stocks in Nepalese context that's why is focused on the common stock of listed commercial banks of Nepal and gives an idea about how to create an optimal portfolio. The study has taken a sample of listed nine commercial banks as reference to analyze the common stock investment, while analyzing the, common stock brief reviews of related studies has been performed. Tables, graphs and diagrams are used to present the results of the analysis.

Secondary data are collected from NEPSE, previous studies, NRB publications and publications of selected commercial banks journals, books and Internet. Other types of information are collected through personal visit to the executives and officers of the companies and official of security board of Nepal (SEBON) and NEPSE. The study has adopted historical and analytical research design. The data utilized are mostly secondary in nature. Various financial tools are applied to used for analyze and present for the data. Among the 28 commercial banks listed in the NEPSE, nine banks are taken as sample for the study. Data of the last five years are used for the study. Market price per share and dividend per share of the banks are used to analyze common stock of the banks together with the commercial banking index. This study divided into five chapters. First chapter is introduction chapter, introduction chapter include background of the study, history of banking development, statement of the problem, objectives of the study, focus of the study, significance of the study, limitation of the study, and organization of the study.

Second chapter is review of literature. This chapter includes conceptual review, concept of capital market, primary market and secondary market, review of journal and article, review of related articles and related unpublished thesis. Third chapter is research design. This chapter include population and sample, sources of data, data collection technique and analysis tools. Fourth chapter is presentation and analysis of data, this chapter shows related table, figure and describes of the study. Fifth and last chapter is summary, conclusion and recommendation and bibliography, annexed presented at the end of the study.

The facts and related data required for the different parts of the study have been discussed and explored in the preceding chapters. An analytical part, the heart of the whole study, where comparative analysis of various aspects of the commercial bank's common stocks have been concluded by using some important financial as well as statistical tools, is the most important and basic analysis that is required for the study.

This chapter includes two aspects of the study: First aspect summarizes the facts-findings of the study and makes remarks open them; while the second aspect of the study focuses on making some useful suggestions and recommendations based on the findings of the study, of the companies, shareholders, stock brokers, and government as well as future researchers.

The final and the most important task for the researcher are to enlist findings of the study and recommend for further improvement. This would be meaningful to the top management of the bank to initiate action and achieve the desired result. The objectives of the researcher are not only to point out errors and mistakes but also to correct them and direct for further growth and improvement;

5.2. CONCLUSION

The main gist of this study is to analyze and explore the prevailing practices of listed banks regarding their common stocks. For the purpose of this study, nine commercial banks were selected and their various financial indicators were studied with regard to their influence on common stock practice. Available information of these banks was

gathered during the period of five years from 2004 to 2008. Various statistical tools such as average, standard deviation, coefficient of variation, correlation and hypothesis test were performed to come to some conclusions on the common stocks practice of these sample commercial banks under the study.

The study uses market price per share (MPS), earning per share (EPS) dividend per share (DPS), price earning ratio (P-E ratio) as well as earning yield & dividend yield. These tools are used as the major financial indicators for the purpose of the study. Trends analysis on market price of common stock & simple correlation between EPS and MPS has also been performed based on previous year's data. Listed banks have been taken as reference to analyze the risk and return in common stock investment. While analyzing the risk and return, a brief review of literature has been conducted. Scientific methods have been used in purpose of data analysis. Moreover, tables, graphs and diagrams have also been used to present the data and the results of the study. Using statistical tools as well as personal judgment, intuition has been made for both quantitative and qualitative analysis. Secondary data are collected from the NEPSE, NRB and other related banks. Other subjective types of information have been gathered through personal interviews with 150 different people from private investors, financial executives of the companies and officials of NRB and NEPSE. Findings of the whole analysis are summarized and conclusions are drawn as follows:

5.3. RECOMMENDATIONS AND SUGGESTIONS

The primary concern of this study is to look into common stock practices existing in the relatively immature capital markets economy of Nepal and draw attention to both the opportunities and threats regarding the current practices. Based on the results of this study, it has been recommended to all of the major players in the playground of the share markets. The recommendations have been separated under different headings to be specific to the group of people who are involved in the proper functioning of the share markets: the shareholders, the bank's management committee, the stockbrokers, and the government of Nepal and lastly for future researcher.

5.3.1. For the Shareholders

- Before making an investment decision in the stock market, it would be better to analyze your risk attitude, needs and requirements. Making several discussions with stockbrokers and making choice on the basis of reliable information would be more preferable rather than rumor and imagination.
- The shareholders should be aware of their rights as the shareholder.
- They should have proper knowledge about the financial state of the banks that they have invested in.
- They should invest in such company, which has regular earning per share (EPS), and dividend per share (DPS).
- Investors need to diversify their funds to reduce risk and properly construct the portfolio to eliminate the loss; however, portfolio construction is a dynamic job. For the portfolio construction, select the stocks that have higher return with not correlated or negatively correlated stocks. Similar stocks cannot diversify risk properly.
- Shareholders should attuned the annual general meeting regularly and scrutinize the annual financial reports to be aware of what is happening in the banks where they have invested their money.
- They should know the book net worth of the share.
- They should keep track of their investment and be aware of when to sell their share and when to keep holding on to them.
- They should analyze the financial indicators of the bank through various ratio analysis techniques.

5.3.2. For the Management

- The concerned management should always keep the shareholders interest at the top priority.
- The management should distribute higher percentage of profit as a dividend if there are no investment opportunities and retain more if investment opportunities arise.

- The management should not blame outside influence for bad performance and should be honest to the interest of the shareholder.
- Management should not take unfair advantage of their positions in the banks.
- The bank should manage the risk properly rather than repeal from it. Especially Nepalese companies seem poor in risk management. The concern management should have positive attitude toward risk.

5.3.3. For the Stockbrokers

- Stockbrokers should be aware of the performances of the companies whose share they trade.
- They should be aware of the prospects of the capital markets.
- They should not artificially prop up the price of the share and lulled gullible investors into buying them at inflated prices.
- They should work for the proper growth of the capital market of the country.

5.3.4. For the Government

- In this stage of digital technology, NEPSE is following "open cry system" of trading. It should be modernized. It needs to develop efficient and effective information channel and to provide up to date data. In addition, they must be co-operative to tell all who are in need of information from them.
- NEPSE needs to initiate to develop different programs for private investors such as investor's meeting and seminars in different subject matters as "trading rules and regulation" key factors that should be considered in stock investment etc.
- HMG need to manage the trading Of government securities in NEPSE in spite of NRB. Government securities are assumed as risk free security and trading of these securities in NEPSE provide opportunity of verities of securities at the some place to investors so that they can diversify their funds properly to construct optimal portfolio. This will increase the strength of market and more specifically, NEPSE as well.

- Government needs to amend rules and regulations regarding stock market in time to time. In addition, the government has to perform to practice the rules and regulation strictly other wise it will be meaningless.
- The main weakness of Nepalese government is the instability of the government. The Maoist problem is another burning issue to stop the industry to grow. This might be the reason for present situation that the industry and share market is in declining trend and it may completely finish if the present political problem will not be solved soon.
- It is also advisable to the concerning authorities to try the best to solve political problem of Nepal. Nepalese industrial sectors might be destroyed after few years if the political situation will not improved soon. If there is no industry, there will no work for finance industry too. Industry and finance are linked with each other.

5.3.5. For Future Researchers

- Future researchers can expand their research to service sectors and manufacturing sectors and analyze common stock practice of these sectors.
- Future researchers may also look into common stock practice not only from financial performance indices as done in this study but actually talk to the board members and ask them what is the process by which the particular common stock decision is arrived at.
- Some other variables also affect the market price of common stock; such as interest rates, political situation, global situations, technological situations, and general economic conditions etc of the country. Future researchers should also research on the affect of this parameter.

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