CHAPTER: ONE
INTRODUCTION

1.1 Background of the study:

The institutions involved in the collection of capital being scattered in various sectors by saving and utilizing it by investing in needy sectors are called financial institutions. They are called financial institutions since they perform numerous financial transactions like accepting deposit form individual, companies and corporations, providing loan for productive works, making investment on various profitable sectors and so on. They play the role of a mediator in between money saver and users. It the modern days, we cannot imagine even a single day without financial institutions.

According to Nepal Rastra Bank Act, 2012. "The financial institutions in Nepal refer to any institutions established under the prevailing laws with the objectives of providing loan for agriculture, co- operative, industry and any other specific purpose or collecting deposits form public. The term also includes an institution prescribed as financial institution by publishing as a notice in the Nepal Gazette."

Among the several modern day organizations or institutions, banks are the most important, widely known and organized institutions Banks are the most important, and widely known and organized institutions. Banks are the legally organized institutions, which are involved in monetary. Banks deal with movement of money by collecting saving of people and corporations in the form of deposit, provide security of saving as well as grant loans to the needy people and institutions against the security of some properties. In the modern business age, banks play a vital role as wheel of the business. Banks are manufacturers, traders and controllers of money and credit for exchange purpose. Banks act as middlemen between depositors and investors and as agent for their clients and customers. Thus, banks promote and develop the various sectors of the society and country's economy.

In fact, a modern bank performs such a variety of functions. So, it is difficult to give precise and general definition of a bank. Because of this reason, the definition of bank given by different scholars also varies. Some renowned scholars have defined bank as follows:

In the words of CR Crowther,"A bank collects money from those who have it to stare or who are saving it out of their incomes and it lends this money to those who require it".

Dr. H.L. Hart had defined, "A banker is one who is the ordinary course of his business, receives money which be repays by honoring coequals of persons from whom or whose account he receives."

The economic plight of Nepal is neither satisfactory nor praise worthy. Rapid economic development is importance for all countries of the world. It is more urgent for the least developed country like our. In this context, it is natural that existing agriculture predominance in our country has to be reduced. Nepal like other developing country has been facing the problem of accelerating the pace of economic development. The other reason behind the lack of economic development is that the majority of Nepalse are illiterate which has restricted the people to primitive and trade oral forms of occupation. Nepal is small agro country. Most of the Nepales people depend on agriculture. The capital market of Nepal is still instability and disorganized. Capital market plags an important role in the economic sector. The Nepalse economic depends on and predominated by agriculture sector but this sector is unable to accelerate the rapid economic growths as desired and targeted. Due to lack of effective agriculture policy of government modern wags of cultivation, management of this sector, the contribution of this agriculture sector.

Banks make is their willingness to accept risky ventures such as loans form borrowers, while issuing low risk securities to their depositors. The various utility functions performed by banks are of great economic significance for the economy. They pool to gather the saving of the community and arrange for their productive use by providing short as well s long term loan in different forms necessary for the trade and commerce. They discharge various functions on behalf of their customers and in turn they are paid for their services. Commercial banks undertake the payment of subscriptions insurance premium, rent etc, and collection of cheques, bills, salaries, pensions, dividends, internet, etc on behalf of their customer and in turn charge a small amount of commission for these services. In addition,

They purchase and discount bills of exchange, promissory notes and exchange foreign currency. Further more, commercial banks also arrange to remit money form a place to another at very low price by means of cheques, draft swift, etc. They buy and sell shares and securities etc belonging to the customers in fact the economic development of a country is not possible without a sound banking system.

1.2 Origin and Historical Growth OF Banking

Banking is of ancient origin, through little is known about it before the middle ages. The origin of commercial banking can be traceable in the ancient era of ancient and Mesopotamians as well as Romans, when the practice of storing precious metals and safe places and loaning out money to the people on internet was prevalent. The traces of rudimentary banking are found in the children Egyptian and Phoenician history. According to Alfred Marshall, "In Greece, the tempts of Delhi and safer placer acted as store houses for the precious metals before the days of coinage, and private purposes at internet, though they paid none themselves. Privet money changers began with the task of value reducing many metallic currencies, more or less exactly, to a common unit of value and went on to accept money on deposit at internet permitting meanwhile drafts to be drawn on them."

Modern banking made its first appearance in medieval Italy, despite strong Christian prohibitions against Usury (the charging of internet) according to the canon Law. Florence Genoa and Lucca become the centers of finance and trade in Twelfth and Thirteen centuries. The first bank called the 'Bank of venice' was established in venice, Italy in 1157 AD to finance the monarch in his wars following its establishment, the banks established were the Bank of Barcelona and the bank of Genoa in 1401 and 1407 respectively. Banking slowly spread to the rest of Europe and by the late. Thirteen century in Barcelona even the clergy was engaged in banking. The Germans and Swiss rose to preeminence in the 1480s. the Bank of Amsterdam was the great bank of the 17th century and it enjoyed a prestigious position, no less important than is held currently by the bank of England, for a long time in the sphere of international commerce.

While banking arose far early and rapidly in some countries than in other it means only in the 19th century that the modern joint stock

commercial banking system developed in the leading countries of the world. When colonies were established in North and South America Old banking services were transferred to the New world.

In England, banking had its origin with the London goldsmiths who in the 17th century, began to accept deposit form merchants and others for safe keeping of money and other valuables crude money lending and money changing were present during the reign of Elizabeth I (1533 AD-1603), and the Tower of London, which served as the British mint. In 1640, Charles I expropriated the sum then on deposit (approximately F 2, 00,000). Having learned from this loss, the munchkins decide to seek a depository free from the danger of royal confiscation. A natural place was the story boxer owned by goldsmiths and these businesses soon commenced the practice of accepting deposits for which they gave a receipt payable to the specific carder of the depositor or the bearer. As these receipts (or goldsmith notes),(i.e. claims against deposits) were negotiable, they passed from hand to hand in exchange for goods and services and be becomes a medium of exchange and a means of payment. From time to time they would be presented for conversion into forerunner of the bank note or banker's currency. Shortly thereafter, as early as 1680, the practise developed whereby the depositor could write a note requesting that a sum of money be paid to a third party or to the bearer. This innovation was the forerunner of the modern check, which is merely an order to a transferred to a third person or bearer. The next state in the development of banking arises when the goldsmith becomes a money – lender. This development was based on discovery or realization of the maintain 100 percent reserve against deposit liabilities held with them as it was unlikely that all depositor would ask for their deposits on the same day. The goldsmiths soon realized that on average, daily deposits and only a contingency reserve was required for the period when withdrawals exceeded deposits. After keeping the contingency reserve, the goldsmiths found it feasible to loan out the remaining deposits by charging interest. Fractional reserve banking must have developed shortly after the goldsmiths entered the banking business, because periodically, they computed balance sheets, or as they called it "casting up ye shop." It this way, the goldsmith – money lender become a banker who

started performing the two major functions of a bank; i.e. receiving deposits and advancing loans.

The concept of modern commercial bank came into existence by the emergence of Bank of England in 1694 with a capital of F 12 million by a group of wealthy London merchants and financiers since, at that time, there was necessary to the crown to pool their money in common venture to grant a royal charter to Bank of England because, in return a capital subscribed of E 1.2 million was lent to him to finance his war against France. The charter
also gave the new bank the right to issue notes, payable on demand, up to the amount of the loan the king.

In spite of the establishment of bank of England in 1694, the development of modern commercial banking institutes had wait for another century and four decades until the passage of Banking Act of 1833 which provided freedom for the establishment of joint stock banks. While banking arose far early and rapidly in some countries than in other, it was only in the 19th century that the modern joint stock c commercial banking system developed in the world. When colonies were established in North and South America to the New world.

1.3 Evolution of Banking in Nepal

The development of modern banks in Nepal des not countries have got. Even through there are mentions of lending and other banking activities in the ancient books "Manusmriti" and "kautilya's Economic" found evidences have proved that in the seventh century king Guna Kamdeva had collected loans from the people to rehabilitate the Kathmandu valley. According to ancient "Vanshavali", during the last decade of Eight century Shankhadhar, a local merchant from Kathmandu started the Nepal Era after freeing the people by paying off their loans and liabilities. By this instance, it can be understood that there might have the transaction of money depositing and lending. In fourteenth century,the ruler of the then Kathmandu- Jaisthiti Malla segregated the local domiciles 64 different classes according to protessians they had undertaken. Tankadhari was one if those classes who used to deal in coins and precious metals such as gold. These Tankadharis were said to have carried out the borrowings and lending on money (coins). Hence, Tankadharis can be regarded as the

traditional bankers of Nepal. During the Rana Regime, the Rana established a state- owned lending institution called 'Tejarath Adda', which would proived financial assistance in the form of loans to the government employeer agunist their personal guarantee (Dhan Jamani) and deduction of a cretain amount of their salary as installment charging 5% interest. Later, this institute stared providing loan to the general people against pledge of precious and valuable materials like gold, sliver etc. in the overall development of the banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution and for a quite long time it tendered a good service to government employees as well as to the general public.

After the establishment of 'Tejarath Adda' its popularity grew up which resulted in several parts of the country in later in later years. In addition to that there were money lender, scattered in different parts of the country who also carried out the transaction of lending of money and usury (i-e practice of lending of money at excessively high rates of interest).

Though Nepal had rudimentary forms of banking as early as seventh century the history of modern banks in Nepal began only after when the first organized and modern bank - Nepal Bank Ltd. established in 1937 as a semi – government organization with an authorized capital, issued capital and paid up capital of Rs.1 core, Rs. 25 lass and Rs. 45 lass respectively. Before hat in – organized money market was the only sources of financing for investors in Nepal. Lack of economic development programs in those days confined the services of Nepal Bank Ltd. in accepting deposits form the public and financing them trade transactions. Later, the Nepal Rastra bank was established in 1955, which has helped to make banking system more systematic and dynamic during that time. As the time passed, the in order to play a major role not only in domestic banking but also in the foreign trade.

To encourage healthy competition in the Nepalese financial sector government introduced financial sector reforms policy in 1980, which allowed the entry of foreign banks in the form of joint venture bank in Nepal. There are several joint venture banks operating in Nepal that aim at contributing to trade and commercial sector of the nation. The commercial banks including joint venture banks operating in Nepal are altogether 30 in

number. Today Nepal can take legitimate pride in the remarkable growth and progress in the banking industry.

1.4 Concept OF Bank

Banks are among the most important financial institutions the economy. Bank are those institutions, which perform the in dispensable task of intermediating between two individuals and institutions in order to raise funds and then loaning those funds to deficit spending individuals and institutions.

There is no unanimity among the economists about the origin word 'banking' some of them insist that the term 'bank' derives from the Latin 'banks' which refers to the bench on which the banker would keep his money and his records some people trace the origin to the French word 'Banque' and the Italian word 'banca' which means a bench for money or coins in the market place by moneylenders and money changers. The bank operates in the modern and competition business environment so it is very difficult to illustrate any absolute definition of bank. Different economics have offered different definitions, such as.

According to Crowether, "the banker's business is to take the desk of other people to offer his own in exchange, and thereby create money."

Kent defines, "A bank is organization whose principal operations and concerned with the accumulations of the temporarily idle money of the general public for the purpose of advancing to other for expenditure."

Prof sayers has described, "Ordinary banking business consists of changing cash bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another bills of exchange, government bonds, the second or unsecured promise of businessmen to repay and so forth."

Therefore a bank is an institution, which accepts dumpsites from the public and in turn advances loans by creating credit. Therefore, it should be differentiated from other financial institutions, as they can not create credit through they accept deposits. According to us law, any institution offering deposits subjects to with drawal on demand and making loans of a commercial or business nature is a bank.

Therefore summarizing the above, bank are those financial institutions that offer the widest range of financial services especially credit,

saving and payment services – and perform the widest range of financial functions of any business firm in the economy. The multiplicity of bank services and functions has led to banks being labeled "financial supermarkets" and to such familiar advertising slogans as your bank – a full service financial institution.

1.5 Concept of Commercial Bank

There are several types of banks like commercial bank, central bank, industrial bank, agricultural bank, rural development bank, saving bank, exchange bank, universal bank, co-operative bank, mutual fund, housing bank, equipment bank etc. commercial banks contribute significantly in the financial system of a country. They pool to gather 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. Their business is confined to financing the short- term needs of trade and industry such as working capital financing. They can not finance in fixed assets. They grant loans in the from of cash credits and overdrafts. Apart from financing, the role of commercial banks, in modern time, is more vital in (a) agency services and (b) general utility services, under agency services, a commercial bank performs a number of activities on behalf of its customers. A commercial bank under takes the payment of subscriptions, insurance premium, rebt etc. and collection of

modernization, mechanization via computerization and prompt customer services.

Joint venture Banks are registered in Nepal under company Act 2021 Bs and operated under the commercial Bank Act 2031. They have joint venture between Nepalese investors and their parent banks. Financial and non - financial institutions as well as privet investors have shared the domestic portion of investment.

At present, there are various JVBS in Nepal and the researcher has attempted following Bank Ltd. for the purpose of the research study.

1.5.1 Nepal SBI Bank Ltd:

Nepal SBI Bank Ltd. (NSBL) is the first Nepal – Indo joint venture bank in the country. Sponsored by three institutional promoters, namely state Bank of India, Karamachari Sanchaya Kosh (Employee Provident Found)

and Agricultural Development Bank through a memorandum of undertaking signed on the 17th July, 1992, NSBL become operational on the 8th July, 1993. the Bank was registered on 2050/1/16 (28.04.1993) by the department of Industry, HMG/N under the company Act 2021 and commercial Bank Act 2031. The Bank, thereafter, received certificate of commencement of business on the 30th June, 1993 and the License from Nepal Rastra Bank on the 6th July, 1993. NSBL, having its formal inauguration on 7th July, 1993, commenced its operations on 20501/3/24 (8th July, 1993).

1.5.2 Everest Bank Ltd:

Everest Bank Ltd. (EBL), a joint venture with Punjab National Bank, is the second Nepal – India tie – up in the banking sector of the country. With a view to encourage efficient banking service, which is a pre- condition for the economic development, industrialization and growth of the country, EBL started its operation in October 1994. it entered into joint venture with Punjab National Bank of India in January 1997 only. Having an authorized capital of Rs. 240,000,000 and issued capital of Rs. 120,000,000 EBL has a paid- up capital of Rs. 118422,000 (before issue of bonus and right shares) and Punjab National Bank holds 20% equity stake in the Bank.

The Bank echoes about the quality of the advances it has. According to the bank, the bank has maintained an international standard in lending the money and as reported, there id not a single account with high risk and all the due interest has been practically realized by the Bank. The Bank is endeavoring for mass banking with class services. It has forgets for each manager to have certain number of additional accounts to its fold every months. The management is very much proactive at ground level.

1.5.3 Nabil Bank Ltd:

Nabil Bank Limited, the first foreign jiont venture bank of Nepal, started operations in July 1984, nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone

in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day- to – operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMS credit cards, state – of – art, world renowned software from Infuses Technologies system, Banglore, India, Internet banking system and Telebanking system.

1.5.4 Bank of Kathmandu Limited:

Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. We would like to express our sincere gratitude to our customers, shareholders, employees and other stakeholders for their support and co – operation for leading the bank to the present height of achievements we wish to reiterate here that whatever activity we undertake; we put unconscious efforts to glorify our corporate slogan,

"We make your life easier."

We would also like to elucidate that Bank of Kathmandu is committed to deliver quality service to customers, generating good return to shareholders, providing attractive incentives to employees and saving the community though stronger corporate social responsibility endeavor.

Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

Bok started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. Bok also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, Bok has been focusing on its set objectives right from the beginning. To highlight its few objectives.

the habit of thrift and saving among the people. These saving of the people later result in capital formation is the economy. Thus, by encouraging savings among the people, the banks promote capital formation, whishes the basis of economic progress.

1.5.5 Joint Venture Banks

By nature, Nepalese commercial banks can be classified into two categories viz domestic commercial banks and commercial banks with foreign collaboration, the commercial bank with foreign collaboration are also called joint venture banks. Joint venture is a general modal fr foreign direct investment. Joint venture means joining of forces between two and more enterprises for the purpose of carrying out a specific operation. Joint venture is the modal of trading through partnership among the nations and is also a form of negotiations between various groups of industries and traders. If one talks about joint venture, there must be at least two parties and concepts of complementary and synergy. The joint venture concept has become mere acceptable and popular than other concepts these days. Hence banks operating in the form of joint venture are known as joint venture banks (JVBS). In common parlance, JYB in Nepal refer to foreign venture banks in which foreign parent banks purchase certain percentage of share (not exceeding to 50%)apply their international management and network.

In Nepal, to encourage joint venture in banking sector three najor reforms were carried out in 1980. The reforms include allowing the foreign banks to operate as joint venture, lifting of control on

1.5.6 Focus of The Study:

Among the various securities, this study has been focused on common are investment of commercial bank. Common are securities that represent the ultimate ownership position in a corporation. Common stock represents a commitment on the part of corporation to play periodically whatever its boards of director deems appropriate as cash divined.

Even these quotations it can be conclude that common stock holders of a company are ultimate owners and collecting. They own the company assuming that ultimate risk is associated with ownership. The investor invests in common stock expecting higher returns but this expectation may or may not change into reality. So it is a major in stock market investment. Due to this reason, the common stock is known as riskily security, from over all study it can be concluded that in Nepal, these is problem of systematic information between management of the Nepalese companies and Nepalese

investor due to which there is restrictions in the development of the stock market.

Banking sector in Nepal are the most dynamic part of the national economy. So if there are insufficiencies of banking and financial facilities, the growth of economic development become very slow. Commercial bank collects unused funds and mobilized it in needed sector. It is the heart of trade and commerce. The main objective of commercial bank is to earn profit proper mobilization of resources. There are many commercial banks in Nepal when the government adopted the policy of globalization and liberalization, several financial institution and commercial bank were established to mobilize scattered funds in the economy. Since then many private commercial bank joint venture financial institution and commercial bank were established to mobilize scattered funds in the economy. Among al bank, commercial bank is listed in Nepal stock exchange, which has highest contribution on the market capitalization as compare to other sector. In Nepal foreign joint venture bank perform batter than Nepalese one because of their higher managerial efficiency and capacity of prepare management of risk. Nepalese bank have a high degree of firm specific of risk.

1.6 Statement of Problem:

Banks are one of the entities of economy in any nation for promoting business activates such as trade, industries and commerce. Hence, necessity Going by recent experiences, Nepali banking sector is at decisive crossroad. Mostly bank appear to be making the same fundamental markets like poor risk management and taking a short term views. When back failure had to be averted by expensive intervention from not just the central banks but also from intervention lenders, he concern is well founded. However there is also a consensus that the bank failure. S far are rooted in the malfeasance of board of directors and managers in collusion n with unscrupulous borrowers. The result is that the banks are burdened with neither huge nor performing loans. Thus management needs to think our of the box, not just in terms of new concept strategies.

Although, there are list of problems facing by Nepalese business sector, the main focus of problem will be towards the overall performance of joint

venture banks on respect of its risk and return pattern which helps to evaluate the efficiency of commercial banks in mobilization of funds.

1.7 Objectives of the Study:

The overall objective of the study is to assess the risk and return on the common stock investment of the listed commercial banks. The other specific objectives of this study are as follows:

- To evaluate the common stock of listed commercial bank in terms of risk and return.
- To identify whether the shares of commercial banks are overpriced, under price or are at the equilibrium.
- To identify, out of the sampled banks taken for the study, which provides more return and which is more risky.
- To make relevant suggestions and recommendations based on findings.

1.8 Significance of the Study:

At present, the commercial banks are gaining a wide populating through their efficient management and professionals service and plying in role in the economy. This study no doubt will have important to various groups but in particular is directed to a certain groups of people.

With liberalization in the financial market over the last two decades and growing integration of domestic and external market, risk associated with banks operations have become complex and large, requiring strategic management.

This study of risk and return of Nepal SBI Bank Ltd, Everest Bank Ltd, Nabil Bank Ltd, and Bank of Kathmandu Ltd. will be beneficial to the following :-

a) To the Management:-

This study will be helpful to go deeply into various matters to why the performance of their banks is better or worse than other commercial bank. The management will be able to find out the loose areas gaps which can be corrected in future.

b) To Shareholders:-

Shareholders are always eager to know these funds are utilizing and to what external they are gaining. The study will thus helpful to identify the productivity of their scarce.

c) To Outsider:-

Outsider refers to all those intense to group except the management and sera holders such as depositors, investors, stockholders, debtors, competitors, merchant, bankers, investment bankers etc.

9. Limitations of the study:-

The study of risk and return of common stock investment of commercial banks is done for partial fulfillment of master's degree of business studies. Though the work should be completed with in creation period of time deposit the great desire the researcher can not every research work it has its own limitations, which are as follows:-

- This study covers the relevant data and information of the shorted period.
- This study focuses only on the analysis of risk and return associated with the stocks leaving all other components. Most of the data are secondary in nature and there may be variation in data published from different sources e.g. figure published by NEPSE and company may differ to some degree.
- The study is based on the data of some commercial banks only.

1.10 Functions of commercial banks

A modern commercial bank performs a variety of functions and services. In this study, functions of commercial bank are grouped under nine sub-headings which is presented below.

i. Acceptance of deposits
ii. Advancing of loans
iii. Agency functions of banks
iv. Purchase and sale of foreign exchange
v. Creation of credit
vi. General utility services
vii. Safekeeping of valuable
viii. Giving information about its customers

ix. Assist in foreign trade.

1.11 Importance of commercial bank

Commercial banks play an importance role to the development of the economy. Their operations stabilize the economic pulse of the economy. The size of their transaction mirrors the economic happenings in the country. For example, the mass failure of commercial banks during the 1930's reflected the phenomenon of severe global depression in the world. They are as indispensable component of accelerated growth in developing economy. In fact banks are the nerve center of economy and the barometer of economic prosperity.

Today, in developing economies, regional balance or redaction in regional disparities with regard to the levels and the rate of development amongst the different regions has all among been one of the principal objectives of planned economic development. In this objective commercial banks can play a very vital role.

Each Chapter Contains

Chapter-1 Introduction

Chapter-2 Review of literature

Chapter-3 Research methodology

Chapter-4 Presentation and analysis of data

Chapter-5 Summary, findings and recommendation

The first chapter includes the introductory part of this study as already mentioned which describe the background, focus of the study, need of the study, limitation of the study and scheme of the study.

The second chapter describes theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on conceptual frame work and review of the major study.

The third chapter describes then research methodology enjoyed in this study. This describes the matter and sources of data, population and sample, made of analysis meaning and definition of satiation tools.

The fourth chapter desk with the presentation and analysis of secondary data by using various analytical tools.

The fifth chapter states summary, conclusion and major findings of this study.

Finally, bibliography and appendixes have also been included in the last part of the study.

CHAPTER-TWO
Review of Literature

Introduction:-

Financial Institutions are the essential part of the economy for every country. They are the life blood of economic and serve as the barometer of economic prosperity. However in order to serve as a barometer of economic prosperity, the financial condition of these institutions needs to be in proper condition. The risk and return aspect of institution needs to be evaluated property. In this context, the study attempts to review the literature. The review of literature is most important part of all study. Review of literature is the chapter where a researcher reviews the books, journals, magazines or any other types of studies which are related to his/her field of study. Researcher is continuous process in never ends. The producer and researcher may change but researcher may continue. The review of literature is a way to discover what other research in the area of our problem has uncovered. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing. "The purpose of review of literature is thus to find out what research studies have been conducted in ones chosen field of study and what remains to be deserve." (Wolff & Panth, 2003:35). Thus, the previous study can not be ignored because they provide the foundation to the present study.

The review of literature for our study is classified into three sections. The selection begins with a definition. The second section follows with the theoretical review of risk return and finally review the previous related study in the field. In this chapter, relevant and recent literature which are related to the topic risk and return is reviewed. Topics from basic academic courses of books, different studies published in magazines, these of seniors and journals related to study are reviewed below.

2.1 Theoretical Framework

The theoretical frame work is the basis of foundation upon with the study is established. It is within the frame work of this study that the entire study precedes. Since the general purpose of research is the developed theories about problems and questions it is important that the theoretical framework be carefully developed and presented.

The theoretical framework is the foundation of which the entire thesis is based. It is the logically developed described and elaborated network of associations among variables that have been identified through such processes as interviews, observation and literature survey. These variables are deemed relevant to the problem situation. This study focus on the determination of risk return and investment position of Nepalese commercial banks. Basically commercial banks are concerned with financial transaction. All the financial decision often involves alternative course of action. The alternative actions typically have different risk return implication.

While section of investment alternative the first priority of the investor returns.

2.1.1 Common stock

"Common stock represents equity or an ownership position in a corporation. It is a residual claim, in the sense that creditors and preferred stockholders must be paid as scheduled before common stockholders can received any payments."[6]

In the word of I.M. Pandey, "Common stock represents the ownership position in a company. The holders of company". [6] Sharpe, Heyander, Bailey, 1999, P. 457

Stock called shareholders are the legal owners of the common. Common stock are the sources of permanent capital since, they do not have a maturity data. The capital contribute by stockholders by purchasing ordinary share are entitled for the dividend. The amount of rate of dividend is not fixed. The company's board of directors decides it. A common stock is therefore known as variable income securing

being the owner of the company. Shareholders bear the risk of ownership. They are entitled to dividend after the income claims of others have been satisfied. Similarly, when the company winds up they can exercise their claims or assets after the claim of their suppliers of capital have been taken care off.

"Stockholders return on investment is less than the return on leader or preferred stockholders. On the other hand, the share of a common stock can be authorized with or without par value. [Van Horne, 1997P. 560]

2.1.2 Risk on Common Stock

Risk can be defined as the variability of possible returns around the expected returns of an investment. For some investment this variability can be quite small. Each investor has higher own attitude about risk and how muck he/she can tolerate since , investment alternative have different types of risk associated with them. The investor must determine which combination of alternatives matches his/her particular risk tolerances. Investment on common stock is a risky investment so the uncertainties of returns on common stock are the fact of life to common stock holders. Many investors consider risk as a change of accruing some unfavourable event of danger of losing some value. In financial market the uncertainty of cash flow is transferred into a mathematical value. The uncertainty is transferred into mathematical value by calculating the expected value so all possible uncertain outcomes. The risk is measured by using standard deviation on the expected value of uncertain outcomes. Most expected know that there is no free lunch. That is the return you can expect is a function of the risk you take. That investor who can tolerance higher level of risk should be rewarded with higher value of returns. Intelligent investigating involves combining investment alternatives in a par polio that offers a fair return for the risk you are willing to assume.

Uncertainty and risk are treated separately in financial analysis. Risk is the unlocked and unwanted event in the future. Some one has said that risk was sugar and salt of life. "Instead of measuring risk the probability of a number of different possible outcomes, the measures of should some how estimated the extent to which the actual outcomes likely to diverge from the expected outcomes standard deviation is a measures that does this because it is an estimate of likely divergence of actual return from an expected return."[8]

What creates risk is an often asked question, some external factors that cannot be controlled and some internal factor which can be controlled creates the risk. External factors that can not be controlled called systematic risk. It includes mainly market risk interest rate risk, purchasing power risk etc. Internal factors that can be controlled is called unsystematic risk. It includes business risk financial risk etc.

Investment risk is relaxed to the probability of earning a return less than the expected return the greater the chance of low or negative return the riskier the investment. However, we can define risk more precisely and it is useful to do so.

Alexander, Gorden J, Sharpe, William F and Bailey Jeffey, Fundamentals of investment third edition P. 15

2.1.3 Types of Risk

Broadly speaking, there are two types of risk; systematic and unsystematic risk.

- **Systematic Risk :-**

Systematic risk influences a large number of assets. A significant political event, for example, could affect several of the assets in your portfolio. It is virtually impossible to protect yourself against this type of risk.

❖ Unsystematic Risk :-

Unsystematic risk is sometimes referred to as "Specific risk". This kind of risk affects a very small number of assets. An example is news that affects a specific stock such as a sudden strike by employees. Diversification is the only way to minimize the unsystematic risk.

Relationship between systematic and unsystematic risk

Total risk = Systematic + Unsystematic risk

= Non- diversifiable + Diversifiable

= Unavoidable + Avoidable risk

Difference between systematic and unsystematic risk

Systematic Risk	Unsystematic Risk
Systematic risk is market related risk. It is also called un-diversifiable risk. For example; inflation, intonate, war etc.	Unsystematic risk is non market related risk. It is also called company specific risk or diversifiable risk. For example; winning a new contact an industrial dispute and the discovery of new technology, labor, strike etc.
This risk affects all firms in the market.	It is inherent individual companies or projects.
This portion of total risk is non diversifiable and cannot be reduced by diversification.	This portion of total risk is diversifiable and it is possible to reduce or eliminate through

	diversification of investment.
The systematic risk are warded in the form of risk premium.	The unsystematic risk is not rewarded because it can be reduced to zero.

However, risk can be of many types, depending upon its nature. Some of the other types of risks that affect the risk and return of stocks are discussed below.

a) Business Risk :-

The risk that a company will not have adequate cash flow to meet it's operating expenses. A company's risk is composed of financial risk, which is linked to debt and risk which is often linked to economic climate. If a company is entirely financed by equity, it would pose almost no financial risk, but it would be susceptible to business risk or change in the overall economic climate.

b) Financial Risk :-

The risk that company will not have adequate cash flow to meet financial obligations. Financial risk is the additional risk a shareholders bears when a company uses debt in addition to equity financing. Companies that issue more debt instruments would have higher financial risk than companies financed mostly or entirely by equity.

c) Liquidity Risk :-

It is associated with uncertainty created of the inability to sell the investment quickly for cash. The return variability will increase of price discounts and sales commissions are to be given in order to liquidate assets in time. The less the liquidity, the greater will be the risk. So, two factors price and time are associated with liquidity. Investment in government bonds is more liquid than investment in securities of other companies because of the higher credibility of the government.

d) Management Risk :-

A company's management and Board of Directors are involved in the decision ranging from product innovation and production methods to financing and acquisitions. All these decisions made by the management materially affect the risk faced by the investors. Sometimes, the management may make a decision, which turns out to be wrong later on. For example, the poor management of Nepal Bank Limited arouses the investment Risk to the shareholders. The share price continuously fell and had to de-list from the Nepal Stock Exchange. Since management errors are difficult to analyze. Investors can reduce their risk by buying shares in those corporations in which the executive have the significant equity investment instead of buying shares in the corporation in which executives have no equity investment.

e) Bull and Bear Risk :-

The various market forces make securities prices upward and downward. The upward trend of market (Bull Market) and downward trend of market price (Bear market) created a long lasting source of investment risk.

f) Political Risk :-

Political risk is the portion of asset's total variability of return caused by changes in the political environment (domestic and international as well as the internal; changes of the company). The current Nepalese political environment has made a significant impact on the investment to increase losses.

g) Purchasing Power Risk :-

It is the variability of return an investor suffers because of inflation. Inflation erodes the purchasing power of the rupees and increases investment risk. In other words, risk of loss in the value of investment and its return due to the decrease in the value of money (Inflation).

h) Industry Risk :-

It is a portion of an investment's total variability of returns caused by events that affect the products and firms that make ups and downs to the industry. Some factors which affects all the firms in an industry may be the industry's life cycle, international tariffs or quotas, industry related taxes and availability of industry related raw materials etc.

i) Country Risk :-

The risk that a country won't be able to honor its financial commitments is the country risk. When a country defaults on its obligations, this can harm the performance of all other financial instruments in that country as well as other countries it has relations with. Country risk applies to stocks, bonds, mutual funds, options and further that are issued within a particular country. This type of risk is most often seen in emerging markets or countries that have a severe deficit.

j) Foreign Exchange Risk :-

When investing in foreign countries you must consider the fact that currency exchange rates can change the price of the asset as well as foreign exchange risk applies to all financial instruments that are in a currency other than your domestic currency. As an example, if you are a resident of America and invest in some Canadian stock in Canadian dollars, even if the share value appreciates, you may lose money if the Canadian dollar depreciates in relation to the American dollar.

k) Market Risk :-

It is also referred to as volatility market risk is the day to day fluctuation in a stock's price. Market risk applies mainly to stocks and options. Volatility is not so much a cause but an effect of certain market forces. Volatility is a measure of risk because it refers to the behavior or "temperament" of your investment rather than reason for this behavior. Because market movement is the

reason why people can make money from stocks, volatility is essential for return and the more unstable the investment the more chances that it will experience a dramatic change in their direction.

Types of Investors on the Basis of Their Attitude towards Risk

Similarly, on the basis of their sensitivity towards risk, investors can be categorized as risk averter, risk neutral and risk seekers.

❖ Risk Seeker

An investor who is willing to take an additional risk for an investment that has a low expected return is categorized as risk seekers. Investment is always characterized by risk return tradeoff. Lower returns are usually associated with lower risk investment. Higher potential returns are associated with investments of higher risk. Higher return is the compensation to the investor for taking additional risk. Risk seekers are however ready to acquire investment

❖ Risk Averter

An investor who, when faced with two investment with a similar expected return but different level of risks will prefer the one with the lower risk is characterozed as risk averter risk. These types of investors are always focused on minimizing risk.

❖ Risk Neutral

An investor who cares only about the expected return of an investment and not the risk (variance of outcomes or the potential gains or losses) is a risk neutral investor. A risk -neutral person will neither pay to avoid risk nor actively take risks. A risk neutral investor is only concerned with an investments expected return.

2.1.4 Return on Stock

❖ Return :-

Return can be said as an increase or decrease in the value of investment for a given period of time. When the wealth received after some time of investment is greater than the wealth invested. There is a positive return from the investment. If the wealth received is less than the invested wealth, the investor has negative return. As investment offer higher potential for total return generally carry a higher potential for risk, informed investors don't simply seek to maximize returns. Instead, they focus on risk- an adjusted return that is the potential returns that correspond to the level of risk with which they are comfortable.

Financial management is concerned with the activities of corporation that affect the well being of stockholders. That well being can be measured by the dividend received and capital gain. Thus, return from stocks comprises of two elements- dividend received and capital gain.

❒ Dividend :-

Dividend is the return received as a distribution of certain percentage of the firm's earnings. The shareholders expect, at some point, a distribution of the firm's earning in the form of a dividend. From nature and stable corporations, most investors expect regular dividend to be declared and paid on the common stock. This type of return helps the investors to maximize their wealths by reinvesting the return so obtained. Similarly, from organizations point of view, the funds that could not be used due to lack of investment opportunities should be better paid as dividend, since shareholders have investment opportunities to employ elsewhere.

❒ Capital gain :-

Capital gain refers to the return realized by the investors in the form of price appreciation of price of stocks. The increase in

the price of stocks from the price paid during the purchase of the stock is termed as capital gain.

Return on common stocks can also be calculated in the following ways.

- **Holding Period Return**

The holding period return refers to the return from an investment over the some period as cash payment received due to ownership and the change in market price i.e. difference between beginning price and ending price. If an investor purchases a stock of any company and holds it for certain period, he/she can get return in two ways on is the increase in the value of that stock as compared to the initial one and the other is the direct cash payment. Common stock is given by:-

$$R = \frac{D_t + (P_t - P_{t-1})}{P_{t-1}}$$

Where, R = actual or expected return.

t= particular time period at past or future.

P_t= Price at the end of period t.

P_{t-1}= Price of the beginning of period t.

D_t= dividend at the end of period t.

- **Required Rate of Return :-**

Required rate of return to the minimum return that an investor expects at least not to suffer from loss. It means of he/she (investor) gets the return below the required rate of return he/she suffer from loss. The required rate of return is the function of real rate of return and risk. Security market line (SML) gives the required rate of return as follows:-

$$Rj = Rf + (Rm - Rf) Bj$$

Where, Rj = required rate of return on stock j

Rf = risk free rate of return

Rm = expected rate of return

Bj = Beta coefficient of stock j

This formula can be used to calculate both the return on individual investment and profit investment.

While setting the required rate of return on an investment, an investor must consider the real rate of return, expected rate of return, expected inflation and risk. Since, the investor is entitled to a rate of return that compensates the present consumption.

Since the investor expects to receive an increase in the real goods purchased later and assuming for the moment for expected inflation and risk, the required rate could equal the real rate of return, in which care it would represent the pure time value of money. The capital market determines this rate based upon the supply of money to be invested relative to the demand for borrowed money.

For example, if an investor plans to lend Rs. 500 today in exchange for consumption at some later (assuming no inflation and risk), then the lender may expect to receive Rs. 15 at the expected time of consumption. The Rs. 15 return on the investment of Rs. 500 or 3% represents the pure time value of money and the real return paid to the investor to compensate for the deferred consumption.

- Expected Rate of Return :-

The return that an investor expects from his investment in the forth coming future is called expected rate of return. "The weighted average of the possible return with the weight being the probabilities of occurrence is called expected return." (Van Horne & wachowicz, 1995:95)

The expected rate of return can be estimated by analyzing the trend of return of previous period and by using probability distribution of returns.

The ex-post returns can be averaged for calculating the future expected return and a probability distribution could be used to forecast the future returns.

Using ex- post return

$$\text{Expected return } (\bar{R}) = \sum_{t\,X1}^{n} \frac{HPRt}{n}$$

Using probability distribution,

$$\text{Expected return } (\bar{R}) = \sum_{t\ X\,1}^{n} RiPi$$

Where, Ri= return for its possibility

P= Probability of the occurrence of that return

N= No. of possibilities

The expected rate of return is based on the expected cash receipts over the holding period and expected ending selling price of stock.

2.1.5 The range

Range is defined as the maximum value less the minimum value. The risk on return of common stock can be measured by range.

Range = Best possible rate of return- worse possible rate of return

" The range (maximum return -minimum return) is known as one of the traditional way of measuring risk. It is simply shows the difference between the best possible return and the worse possible return best does not provide information about the different of the rate of return between the extremes"9

2.1.6 Standard Deviation

Standard deviation is a statistical measure of the variability of a distribution around its mean value. It provides more information about the risk of an asset. Its advantage is that the uncertainties of the returns can be summarized into a single, easily calculated number. The main disadvantage is that the standard deviation considers the possible return above the expected value to be as risky as returns

below the expected value. The greater the standard deviation, the greater the risk of the investment. Standard deviation measures the dispersion or deviation or variation. In other words, the conventional measure of the dispersion is standard deviation.

Standard deviation measures the magnitude of difference between best possible return and the worst possible return. Hence, it measures the degree of risk of common stock. As risk is defined as the variability in the returns, it can be measured by examining the dispersion of the probability distribution, associated with the possible outcome.

Normally, the width of the probability distribution indicates the amount of scatterness or variability of the probable outcomes.

Hence, lesser the dispersion of probability distribution, lesser its variability and thus lesser the risk associated with it. Standard deviation is denoted by the symbol " ∃ " (Sigma). It can be expressed mathematically as:

$$\pm \quad X \sqrt{\sum_{t\,X1}^{n} (Ri \quad Z \quad \overline{Ri})^2 \; Pi}$$

Where,

$\overline{Ri}$ = expected rate of return

Pi = probability of occurrence of expected return

∃ = Standard deviation of return

Ri = return for i^{th} possibility

For the historical return the standard deviation is calculated by simply taking the deviation from the mean return of the expost return as,

$$\pm \quad X \sqrt{\frac{\sum_{t\,X1}^{n} (Ri \quad Z \quad \overline{Ri})^2 . Pi}{n \quad Z \; 1}}$$

Where,

n= no. of historical return.

In summary, standard deviation is the weighted average deviation from the expected value and it gives an idea of how far above or below the expected value is from the mean value. It is the statistical

tool for measuring risk which contains both systematic and unsystematic risk. Standard deviations with lower value are desired by the investors.

2.1.7 Coefficient of Variation

The coefficient of variation gives the relative measurement of risk while standard deviation is the absolute measurement of risk. Coefficient of variation is defined as the risk per unit of return. It is the ratio of the standard deviation of a distribution to the mean of that distribution.

"A standard deviation can sometimes be misleading in comparing the risk or uncertainty surrounding alternatives as they differ in size. Ro adjust for the size or scale, problem, the standard deviation can be divided by the expected return to compute the coefficient of variation (C.V.)

$$\text{C.V.} = \frac{\pm}{R} \mid 100\%$$

Thus, the coefficient of variation is a measure of the relative dispersion (risk) a measure of risk per unit of return. " The larger the C.V., the larger the relative risk of the investment" (Van Horne and Wachowicz , 1995:94)

2.1.8 Capital Asset Pricing Model (CAPM)

Capital asset pricing model provides us to estimate the required rate of return on a security. And on the basis of price and dividend, expected return can be calculated, with the comparison of these two returns investors can analyze whether the stock is under priced or over priced. "CAPM is the model describing the relationship between risk and expected (required) return at which a security is expected (required) return is the risk free rate plus a premium based on the systematic risk of the security." (Van Horne and Wachowicz, 1995:103). It is very simple model and extremely important analytical tool in both managerial finance and investment analysis. "In fact the Nobel Prize was awarded to the developers of the CAPM, professor

harry Markowitz and William F. Sharpe, in part because of their work in this area." (weston and Brigham, 1996:193) , CAPM describes that the return of any security is the total of risk, which is systematic. The equation of CAPM is,

E(Rj) . Rf + [E(Rm)-Rf] x Bj

Where,

E(Rj) = required rate of return on stock j.

Rf = risk free rate

E(Rm) = expected rate of return on market portfolio.

Bj = Beta coefficient of stock j (an index of systematic risk of stock)

"Beta measures the sensitivity of a stock's return to change in the returns on the market portfolio. The beta of a portfolio is simply a weighted average of the individual stock betas in the portfolio." (Van Horne, 1996:100) It means beta is the measure of percentage change in excess market return.

The beta of assets is its systematic risk, i.e. covjm/$\exists_m$ expected in units of market risk ($\exists$m). Thus, beta is not a measure of the systematic risk of a security or a portfolio; it is more like an index of systematic risk. The only difference in beta measurement and systematic risk measurement is the divisor.

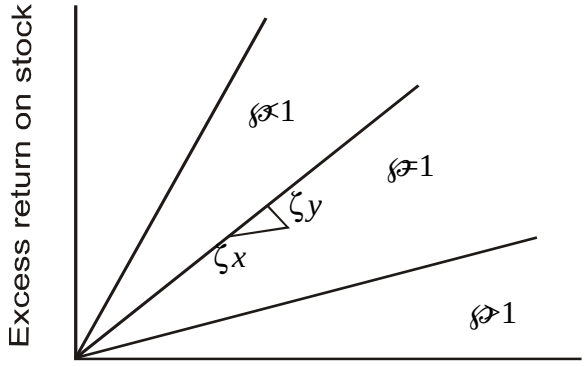


Figure : 2.1 Beta

In the above figure, there are different lines with three different characteristics which represent three types of beta. The risk return characteristics line can be drawn with help of historical returns of

assets, risk free return and market rate of return over various periods. Beta is simply the slope i.e. $\zeta y / \zeta x$ of the characteristic line.

If beta is one i.e. B= 1, then the excess return for the stock (ζy) vary proportionately with excess returns for the market portion (ζx). If B>1 then stock's excess return varies proportionately more than excess return of market. If B<l, then stock's excess return varies proportionately less than the excess return of market.

"The major implication of CAPM is that the expected return of an asset will be related to a measure of risk of that asset known as beta. (β). The exact manner in which expected return and beta are related is specified by the CAPM. This model provides the intellectual basis for a number of the current practices in the investment industry." (Sharpe William, 1995:261-262)

The capital asset pricing model states that the expected risk premium on each investment is proportional to its beta. This means that each investment should lie on the slopping security market line connecting Treason bill and market portfolio. in the mid 1960's , three economists William Sharpe, John Linter and Jack Trenor created the CAPM, a theory that began a quest to identify the tendency portfolio. CAPM is the predominant model used for estimating equality risk and return. It is useful tool for the investment, portfolio and for estimating expected rate of return. Comparison between the expected rate of return and required rate of return indicates whether the stock is under priced or overpriced. And when these two returns condition of market equilibrium i.e. all stocks lie on the security market line. (SML)

SML is the graphical representation of the CAPM, which shows the relationship between risks and required of return. The SML clearly shows that returns are the increasing functions, in fact a linearly increasing function of risk. Further, it is only market risk that affects return. The investor receives no added return for bearing the diversifiable risk. If stocks are under period it lie above the SML and if

they are over period it lies below the SML. The following diagram shows the SML with over period and under period stocks.

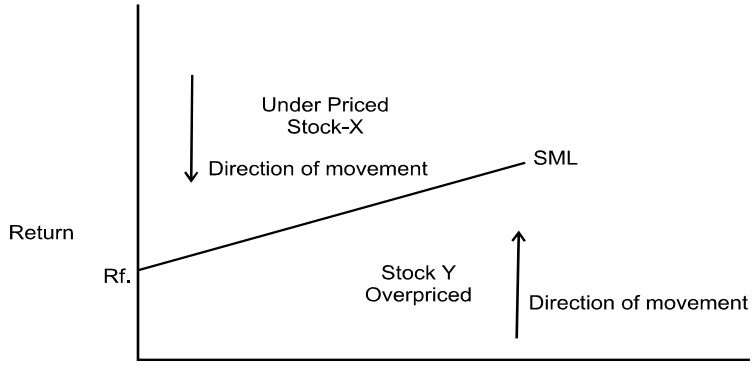


Figure: 2.2 SML

Above figure clarifies that stock X is under priced relative to the security market line, while stock X is over priced. As a result stock X is expected to provide a rate of return greater than required based on its systematic risk. In contrast, stock Y is expected to provide a lower return than that required to compensate for its systematic risk. Investors seeing the opportunity for the superior return by investing in stock X will reach to buy. This action will drive the price up and down the expected return comes, down. How long would this continue?" It would continue until the market price was seen that the expected return would how lie on the SML in the case of stock Y, investors holding this stock will start to sell it, recognizing that they could obtain a higher return for same amount of systematic risk with other stocks. This selling pressure would drive Y's market price down and its expected return goes up until the expected return for these two stocks returns to SML, market equilibrium will again prevail". (Van Horne & wachowicz, 1995:107)

"The CAPM is sometimes used to estimate the required rate of return for any firm with publicly traded stock. The CAPM is based on the promise that the only important risk of a firm is systematic risk, or the risk that return from exposure to general stock market movements. The CAPM is not concerned with so called unsystematic risk, which is specific to an individual firm, because investors can

avoid that type of risk by holding diversified portfolio. (Jeff Mudora, 2001)

Investors appear to be concerned principally with risk that they cannot eliminate by diversification. If this is not so, we can find that stock prices increases whenever two companies merge to spread their risk and we should find that investment companies which invest in the share of other firm are more highly valued than the shares they hold. But we do not observe either phenomenon. Mergers under taken just to spread risk don't increase the stock prices and investment companies are no more highly valued than the stocks held. The CAPM model captures these ideas in simple way. That's why many financial managers find it as the most convenient way for coming to the decision with the slippery motion of risk. And this is why economists of ten use the CAPM to demonstrate important ideas in finance even when there are other ways to prove the idea.

2.1.9 Review from Related Studies

This section presents the review of the relevant studies done so far. Bhatt'a has conducted a study on the assessment of the performance of the listed companies in Nepal. The basic objective of the study has to assess the performance of the capital market in Nepal. In this study, he has focused on the performance of 10 listed companies in terms of company's performance in the market. He basically used ratio analysis, beta coefficient and portfolio analysis in this study using eight years secondary data. He analyzed the company's performance in the market in the market in relation to the market price of the share. The study concluded that capital market to run efficiently requires continuous flow of information in the market, investors and discouraged due to the tedious rules and regulations and bureaucratic set up.

"A highly significant positive correlation has addressed between risk and return character of the company. Investors generally accept higher return from those stocks, which associated higher risk. Nepalese capital market is not efficient one so the stock price does not

contain all the information related to the market and company. Neither investors analyze the overall relevant information relating to the market and the company itself, nor does the member of the stock exchange try to discriminate the information. So, market return and risk may not represent reality.

Investors in Nepal have not yet securities. An analysis of the two securities portfolio shows that the risk can be totally minimized if the correlation is perfectly negative. In this situation risk can be totally diversified, but when these are perfectly positive correlation between the return of the two securities, the risk is unverifiable." (Bhatta, 1995:163-163)

CHAPTER-THREE

Research Methodology

Introduction:-

The research methodology is the systematic way of solving the research problems. Research methodology refers to the overall research processes, which a research process, which a research conducts during his/her study. It includes all the procedures from theoretical foundation to the collection and analysis of data. "Research methodology refer to the various sequential step (along with a rational for each step) to be adopted by a researcher in studying a problem with certain objects in view." (Kothari, C.R., 1994:39). As most of the data are quantitative the data the research is based on the scientific models. It is compose of both parts of technical aspect and logical aspect, on the basis of historical data.

A general definition of research be given as " A systematic, careful, inquiry or examination done to discover new information or relationships and to expand verify existing knowledge for some specific purpose.

3.1 Research Design

A research design is the conceptual structure within which the research process is performed. Design sets up the framework for adequate tests of the relations among variables. It tells us about, what observation to make, how to make them, and how to analyze the quantitative representations of the observation. Design does not tell us precisely what to do, but rather suggests the directions of observation - making and analysis. It is a plan that focused the researcher in formulating, implementing and controlling the study. An adequate design outlines possible conclusions to be drawn from the research work.

3.2 Population and Sample

The population of the study is all the listed companies in NEPSE index. Total number of listed companies is 146 as on December 2008. This study is concentrated in listed commercial banks only. The total no. of licensed commercial banks is 25 and the no. of listed commercial banks is 17. Hence total population is 17 and total no. of samples taken is seven i.e. common stocks of seven listed commercial banks. The banks selected for study are Nabil Bank, SBI Bank, Everest Bank and Bank of Kathmandu.

3.3 Data Collection Procedure

The necessary data for the research is collected from the secondary sources. However, during the study, the informal opinion survey has also been taken with the individual investors, bank officials, security ward of Nepal, Nepal stock exchange Ltd. staffs and other related personalities.

Data related to the market prices of stocks, movement of NEPSE index etc is taken from the trading report published by NEPSE. Financial statements of commercial banks and their annual reports are also collected.

- Annual report of commercial banks.
- Trading report published by Nepal Stock exchange Ltd.
- Related websites.
- Materials published in papers and magazines.
- Other related books and booklets.

The relevant data have been collected from NEPSE and commercial banks chosen as sample for this study.

3.4 Data Analysis Tools

For the analysis of data all the tools taken are as appropriate as possible. The brief explanation of the tools and terms used in analysis are given.

3.4.1 Market Price of Stock

Market price of stock is one of the major data of this study. It is also the major part of the return. We can get three types of prices – high, closing and low. Among them, each year closing price has been taken as the market price of the stock, which has specific time span of one year. So, the study has focused on year end closing price.

3.4.2 Dividend

Dividend is the reward to the shareholders for their common stock investment. It is the main part from common stock investment. Dividends are of two types cash dividend and stock dividend If a company declares only cash dividend, then the calculation is easier but when the company also declares or only declares bonus shares or stock dividends, it is difficult to obtain the amount that shareholders have really gained. In this case, they get extra number of shares as dividend and simultaneously price of the stock declines as a result of increased number of shares. To get the real amount of dividend, there is no any model. So the model has been developed considering the practical as well as theoretical aspect after several discussions with SEBON, officials, teachers and investors.

The model is:

Total dividend amount = cash dividend + stock dividend %× next year's MPS

Where,

MPS= Market price per share (in cash of stock dividend)

3.4.3 Return on Common Stock Investment

Return is any receipt from an investment. Return is the combination of dividend, income and change in market price of stock, usually expressed as a percentage of the beginning market price of the stock.

Symbolically,

$$R = \frac{D_1 \Gamma (P_1 \, Z P_{tZ1})}{P_{tZ1}}$$

Where,

R= actual rate of return on common stock at time t.

D_t= Cash dividend received at time t.

P_t = Price of stock at time t.

P_{t-1} = Price of stock at time (t-1)

3.4.4 Expected Rate of Return on Common Stock

Expected rate of return is the average rate of return on common stock. It is calculated by the arithmetic mean of past years returns (historical returns) or from the probability distributions.

Symbolically,

$$\overline{Rj} \, X E(Rj) \, X \frac{Rj}{n}$$

If probability distribution is taken,

$$Rj \, X E(Rj) \, X \quad Rj.Pj$$

Where,

$\overline{Rj}$ = E(Rj) = Expected rate of return on stock j.

n = no. of years for which the return is taken.

Rj = return on stock j.

Pj = Probability of returns.

3.4.5Standard Deviation

Standard deviation is the measurement of dispersion of the variables in the given distribution. It is a statistical measure of the variability of a distribution of returns around its mean. It is the square root of the deviation of returns. S.D. is the standard average scatterness of the returns from the mean return S.D. is the standard average measurement of total risk in financial management. Total risk refers to the deviation of return from the expected return of investment. S.D. can be calculated using following formula.

$$\pm j \; \mathrm{X} \sqrt{\frac{(Rj \; \mathrm{Z} \overline{Rj})^2}{n \, \mathrm{Z} 1}}$$

Where,

|∃j = S.D. of returns on stock during period n.

When probability distribution is used.

$$\pm j \; \mathrm{X} \sqrt{\sum_{j \mathrm{X} 1}^{n} Pj \int Rj \; \mathrm{Z} \overline{Rj} \text{Å}}$$

Where,

Pj = Probability distribution of the returns.

Rj = returns on stocks

$\overline{Rj}$ = expected returns on stock.

3.4.6Coefficient of Variation (C.V.)

The coefficient of variation is the ratio of standard deviation of returns to the mean of that distribution. It is applicable to calculate the risk per unit of expected return. It gives the result regarding the unit if risk to be borne for earning one unit of return. It is the measure of relative risk. (The Horne & Wachowicz , 1995:94) The formula to calculate C.V. is as follows.

$$\mathrm{C.Vj} = \frac{\pm j}{Rj} \mid 100\%$$

Where,

C.Vj = Coefficient of variation of stock j.

3.4.7Beta Coefficient ( )

Beta coefficient explains the market sensitivity of stock. Beta is a index of systematic risk which measures the sensitivity of a stock's returns to change in returns on the market portfolio. It is the ratio of systematic risk of an individual securing to be risk of market portfolio. It cannot be eliminated through the mean of diversification. Since it is an index of systematic risk. The formula for the calculation of beta is given by

$$Bj = \frac{Cov\ (Rj.Rm)}{\pm^{2}m}$$

Where,

Bj = beta coefficient of stock j.

Cov (Rj.Rm) = Covariance between returns of stock j (Rj) and returns.

∃²m = Variance of market returns.

Market beta serves as a benchmark or a measuring scale for the evaluation of risk of individual stocks. Beta of stock j is the systematic risk (i.e. $\frac{Cov\ (Rj.Rm)}{\pm^{2}m}$) expressed in units of market risk (∃m) . Thus beta is not a measure of the systematic risk of a security or portfolio; it is more like an index of systematic risk. The only difference in beta measurement and systematic risk measurement is the divisor (∃m). beta coefficient may be used for relating the systematic risk of different assets. If the volatile than the market and it is called an aggressive asset. If the beta is less than one, the asset is less volatile than the market and called a defensive asset. Beta coefficient of market is always equal to 1.

3.4.8Market Return (Rm)

Market return is the average return of overall market portfolio. The market return can be obtained by taking difference between the market indices (in NEPSE index), where market dividend is ignored.

$$Rm = \frac{NEPSE_{t\Gamma 1}\ Z\ NEPSE_t}{NEPSE_t}$$

Where,

Rm= Return on market

$NEPSE_{t+1}$= NEPSE index at time t+1

$NEPSE_t$ = NEPSE index at time t.

CHAPTER-FOUR

Presentation and Analysis of Data

This chapter includes presentation and analysis of data. The collected data likes MPS, EPS, NEPSE index of each bank and NEPSE index of each industry have been analyzed and interpreted with reference to various literature reviews in the preceding chapter effort is made to analyze and diagnose the recent changes of Nepalese stock market movement regarding to commercial bank. Efforts have been done to make different tables and draw diagrams to make the result simple and understandable.

4.1 Analysis

❖ Commercial Banks

As the study has taken a special reference to listed commercial banks, common stock of listed 16 commercial banks in Nepal are analyzed separately. Only 10 of them are taken four commercial banks. Although, the data coverage of each commercial bank listed in five years have been introduced and risk and return of their common stocks are analyzed.

4.1.1 Nepal SBI Bank Ltd. (SBI)

In table no. 4.1 market price, dividend record and EPS of common stock of Nepal SBI bank Ltd. (SBI) are shown and the diagram 4.1 refers ye and EPS movement has been shown. The SBI bank has not distributed stock dividend during the observed period.

Table no. 4.1

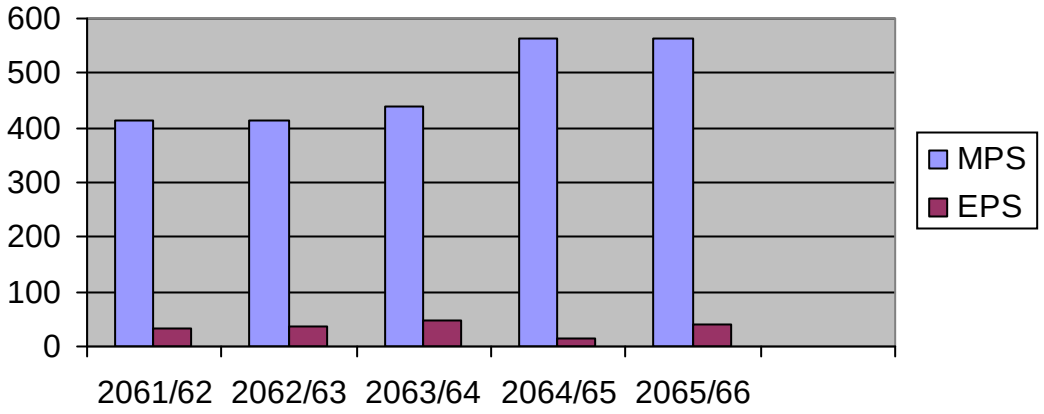
MPS dividend and EPS data of SBI

Fiscal year	Closing MPS	DPS	Stock Dividend	Total Dividend	EPS
2061/62	412	20	-	20	31.56
2062/63	412	20.01	-	20.01	37.46
2063/64	440	20.01	-	20.01	49.17
2064/65	562	10	-	10	13.98
2065/66	562	15.02	-	15.02	41.74

Source: www. nepse.com

Diagram no. 4.1

Closing MPS and EPS movement of SBI



The diagram 4.1 shows the relationship between closing MPS and EPS of SBI. The correlation coefficient (i.e. rxy =0.4045) (see appendix in table-1) which shows the MPS and EPS is positive which represents the MPS and EPS are moved in same direction. When EPS increased by100% then closing MPS are increased by 404.5%.

Table no. 4.2

Expected Return S.D. and C.V. of common stock of SBI

Fiscal year	Closing MPS	Total Dividend	R= $\frac{fP_t \; Z P_{tZ1} A\Gamma D}{P_{tZ1}}$	(R- $\bar{R}$)	(R- $\bar{R}$) ^{2}
2061/62	412	20	-	-	-
2062/63	412	20.01	0.0456	-0.05220	0.0027
2063/64	440	20.01	0.1165	0.0187	0.0003
2064/65	562	10	0.30	0.2022	0.0408
2065/66	562	15.02	0.0267	-0.0711	0.6050
Total			0.4889		0.0488

Expected Return ($\bar{R}$) = $\frac{R}{N}$ X$\frac{0.4889}{5}$ X0.09781 *or* 9.78%

Standard Deviation (∃) = $\sqrt{\frac{(R \, Z \bar{R})^2}{N \, Z1}}$

= $\sqrt{\frac{0.0488}{5 \, Z1}}$

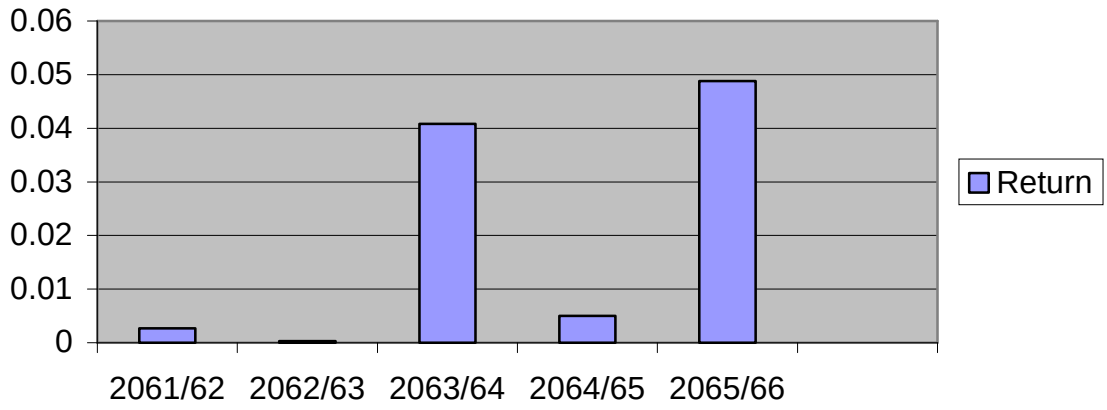
= $\sqrt{0.0122}$

= 0.1104 or 11.04%

Coefficient of variation (C.V.) = $\frac{\pm}{R} | 100 \text{ X} \frac{0.0978}{0.1104} | 100 \text{ X} 88.59\%$

Diagram no. 4.2

Annual return of common stock of SBI



4.1.2 NABIL Bank Limited (NABIL)

Market price DPS and EPS of common stock of NABIL Bank have been shown in table 4.3 closing price and EPS movement have been shown in the diagram 4.3 market price and EPS of NABIL Bank have been shown below.

Table no. 4.3

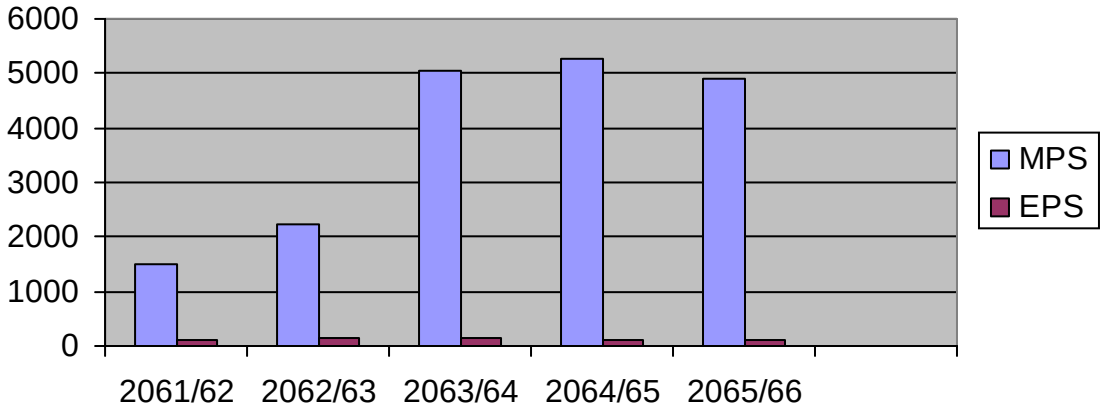
MPS, EPS and Dividend of NABIL Bank Ltd.

Fiscal year	Closing MPS	DPS	Stock Dividend	Total Dividend	EPS
2061/62	1505	70	-	70	105.79
2062/63	2240	85	-	85	129.21
2063/64	5050	140	-	140	137.08
2064/65	5275	100	-	100	108.31
2065/66	4899	85	-	85	106.76

Source: www. nepse.com

Diagram no. 4.3

Closing MPS and EPS Movement of NABIL Bank Ltd



The diagram 4.3 shows that closing MPS and EPS movement correlation coefficient i.e. (0.074) appendix -2 are negative. The relationship between closing MPS and EPS is negative which represents that when MPS increases EPS is decreased and if MPS decreases EPS will increase.

Table no. 4.4

Expected return, S.D. and C.V. of NABIL Bank Ltd

Fiscal year	Closing MPS	Total Dividend	R= $\frac{P_t - P_{t-1} + D}{P_{t-1}}$	$(R-\bar{R})$	$(R-\bar{R})^2$
2061/62	1505	70	-	-	-
2062/63	2240	85	0.5349	0.1627	0.0265
2063/64	5050	140	1.3169	0.9447	0.8925
2064/65	5275	100	0.0644	-0.3078	0.0947
2065/66	4899	85	-0.0552	-0.4274	0.1827
Total					1.1964

Expected Return ($\bar{R}$) = $\frac{R}{N} = \frac{1.861}{5} = 0.3722$ *or* 37.22%

Standard Deviation (σ) = $\sqrt{\frac{\sum (R-\bar{R})^2}{N-1}}$

= $\sqrt{\frac{1.1964}{4}}$

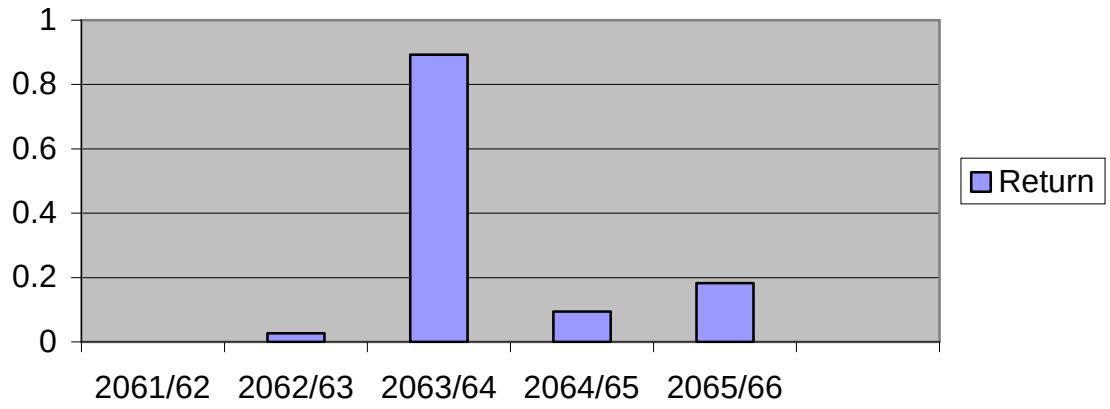
= $\sqrt{0.2991}$

= 0.5469 or 54.69%

Coefficient of variance (C.V.) = $\frac{\sigma}{R} \times 100\% = \frac{0.5069}{0.3722} \times 100\% = 146.93\%$

Diagram no. 4.4

Annual Return of Common stock of NABIL Bank



4.1.3 Everest Bank Ltd (EBL)

In table 4.5 market price, dividend records and EPS of common stock of EBL have been shown and in the diagram 4.5 year end price and EPS movement have been shown.

Table no. 4.5

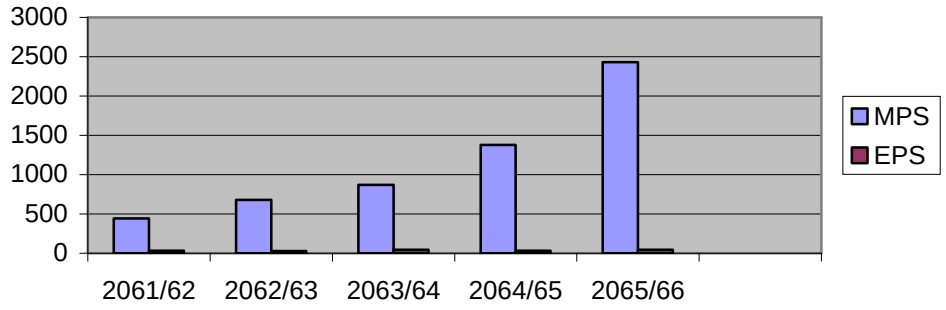
MPS, Dividend and EPS data of EBL

Fiscal year	Closing MPS	DPS	Stock Dividend	Total Dividend	EPS
2061/62	445	-	-	0	32.91
2062/63	680	20	-	20	29.90
2063/64	870	20	-	20	45.58
2064/65	1379	25	-	25	32.47
2065/66	2430	10	-	10	45.22

Source: www. nepse.com

Diagram 4.5

Closing MPS and EPS movement of EBL



The closing MPS and EPS movement of Everest Bank Limited have been shown in the diagram 4.5. The correlation coefficient between MPS and EPS of EBL is equal to74% (see appendix table no.3) which represents the negative relationship between MPS and EPS. Table no. 4.6

Expected Return, S.D. and C.V. of Common Stock of Everest Bank Limited

Fiscal year	Closing MPS	Total Dividend	R= $\frac{fP_t \text{ Z} P_{t\text{Z}1} \text{A} \Gamma D}{P_{t\text{Z}1}}$	(R- $\overline{R}$)	(R- $\overline{R}$) ^{2}
2061/62	445	0	-	-	-
2062/63	680	20	0.5730	0.1151	0.0132
2063/64	870	20	0.3088	-0.1491	0.0222
2064/65	1379	25	0.6138	0.1559	0.0243
2065/66	2430	10	0.7940	0.3361	0.1130
Total			2.2896		0.1727

Expected Return ($\overline{R}$) $= \frac{R}{N} \text{X} \frac{2.2896}{5} \text{X} 0.4579$ *or* 45.79%

Standard Deviation (∃) $= \sqrt{\frac{(R \text{ Z} \overline{R})^2}{N \text{ Z} 1}}$

$= \sqrt{\frac{0.1727}{5 \text{ Z} 1}}$

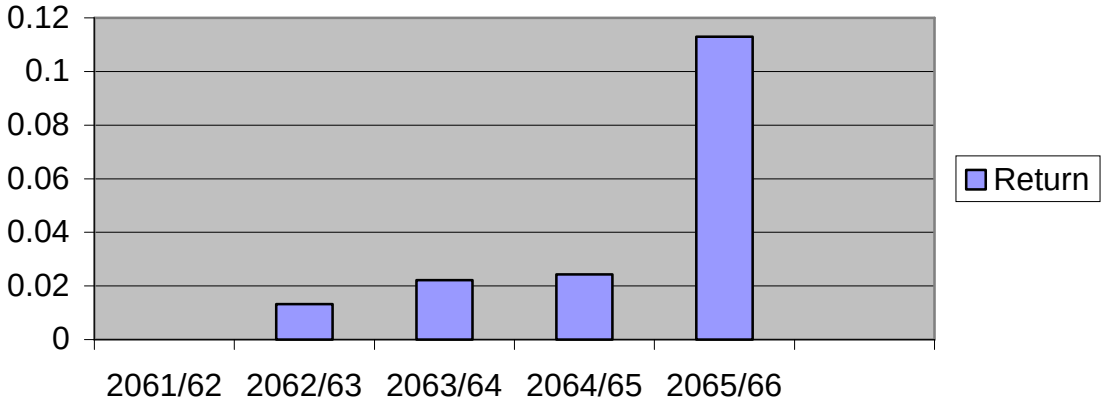
$= \sqrt{0.043175}$

= 0.2077 or 20.77%

Coefficient of variance (C.V.) $= \frac{\pm}{R} |100\% \text{ X} \frac{0.2077}{0.4579} |100 \text{ X} 45.36\%$

Diagram no. 4.6

Annual return of common stock of EBL



4.1.4 Bank of Kathmandu Ltd. (BOKL)

In table no. 4.7 market price, dividend and EPS of common stock of Bank of Kathmandu Limited (BOKL) are shown and the diagram 4.7 refers year end EPS movement has been shown. The BOKL has not distributed stock dividend during the observed period.

Table no. 4.7

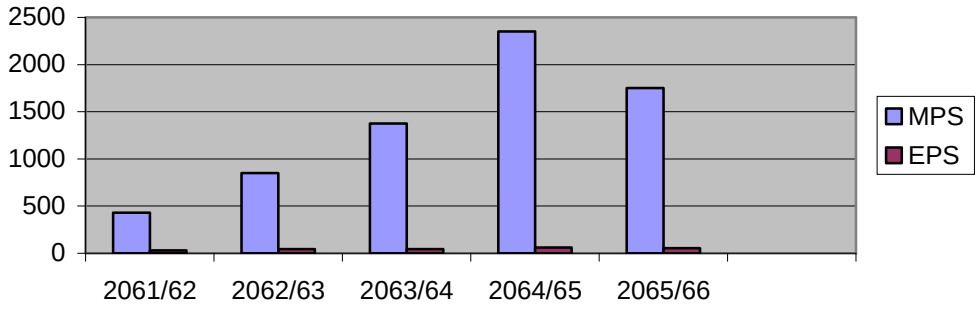
MPS dividend and EPS data of BOKL

Fiscal year	Closing MPS	DPS	Stock Dividend	Total Dividend	EPS
2061/62	430	15	-	15	30.10
2062/63	850	18	1.0186	18	43.67
2063/64	1375	20	0.6412	20	43.50
2064/65	2350	40	0.7382	40	59.94
2065/66	1750	47.37	-0.2352	47.37	54.68
Total			2.1628		

Source: www. nepse.com

Diagram no. 4.7

Closing MPS and EPS movement of BOKL



The diagram 4.7 shows the relationship between closing MPS and EPS of BOKL. The correlation coefficient (i.e. rxy = 0.9549) (see appendix in table 1.1) which shows the MPS and EPS is positive which represents the MPS and EPS are moved in same direction when EPS increased by 100% then closing MPS are increased by 954.9%.

Table no. 4.8

Expected return S.D. and C.V. of common stock of BOKL

Fiscal year	Closing MPS	Total Dividend	R= $\frac{fP_t \text{ Z} P_{t\text{Z}1} \text{A} \Gamma D}{P_{t\text{Z}1}}$	(R- $\bar{R}$)	(R- $\bar{R}$) ^{2}
2061/62	430	15	-	-	-
2062/63	850	18	1.0186	0.586	0.3434
2063/64	1375	20	0.6412	0.2086	0.435
2064/65	2350	40	0.7382	0.3056	0.0934
2065/66	1750	47.37	-0.2352	-0.6678	0.4459
			2.1628		0.9262

Expected Return ($\bar{R}$) =

$$\frac{R}{N} \text{X} \frac{2.1628}{5} \text{X} 0.4326 \; or \; 43.26\%$$

Standard Deviation (∃) = $\sqrt{\frac{(R \text{ Z} \bar{R})^2}{N \text{ Z} 1}}$

= $\sqrt{\frac{0.9262}{5 \text{ Z} 1}}$

= 0.4812

$$= 48.12\%$$

$$\text{Coefficient of variance (C.V.)} = \frac{\pm}{R} \mid 100$$

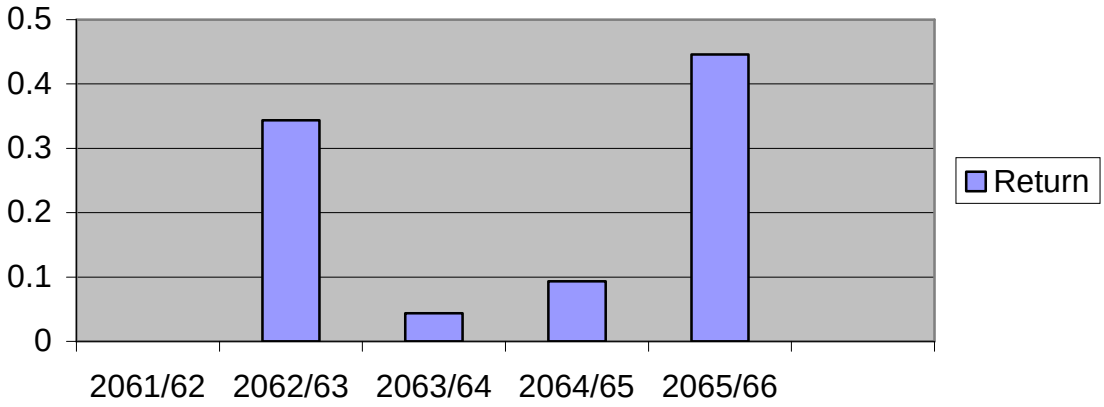
$$= \frac{0.4812}{0.4326} \mid 100$$

$$= 1.1123$$

$$= 111.23\%$$

Diagram no. 4.8

Annual return of common stock of BOKL



4.2 Inter- Form Comparison

According to the result from section 4.1 a comparative analysis of return total risk and risk unit are performed here. Expected return standard deviation of return and coefficient variation of each bank from the year 2061/62 to 2065/66 are shown in table 4.9

Table no. 4.9

Expected Return, S.D. and C.V. of each sample

S.N.	Bank	Expected Return (R)	S.D.	C.V.	Remarks		
					Return	S.D.	C.V.
1.	SBI	0.0978	0.1104	0.8859	Lower	Lower	-
2.	NABIL	0.3722	0.5469	1.4693	-	Higher	Higher
3.	EBL	0.4579	0.2077	0.4536	Higher	-	Lower
4.	BOKL	0.4326	0.4812	1.1123	-	-	-

Investor can get the highest return in common stock of EBL and lowest return from the investment in common stock of SBI bank. In same way S.D. of NABIL is highest and SBI is lower. Coefficient variance comparison NABIL is highest and EBL is lowest.

4.3 Comparison with Market

There is only one stock exchange in Nepal on market risk and return. The programmed has been started by his majesty government o reform capital converted securities. Stock exchange centre Nepal 1993 has been working as a non profit organization opening under the securities exchange at 1983. Overall market movement of the country is represented by market index or NEPSE index market return, its standard deviation and C.V. are shown in table no. 4.10

Table no. 4.10

Market Return, Standard Deviation and C.V.

Fiscal year	NEPSE Index	$Rm \text{ X} \frac{NEPSE_t \text{ Z} NEPSE_{t\text{Z}1}}{NEPSE_{t\text{Z}1}}$	(Rm- $\overline{Rm}$)	(Rm- $\overline{Rm}$) ^{2}
2061/62	286.67	-	-	-
2062/63	386.83	0.3494	0.0887	0.00787
2063/64	683.95	0.7681	0.5074	0.2575
2064/65	963.36	0.4085	0.1478	0.0218
2065/66	749.11	-0.2224	-0.4831	0.2334
Total		1.3036		0.5206

Expected return ($\overline{Rm}$) =

$$\frac{Rm}{N} \text{X} \frac{1.3036}{5} \text{X} 0.2607 \text{ X} 26.07\%$$

Standard Deviation ($\exists_m$) = $\sqrt{\frac{(R \text{ Z} \overline{R})^2}{N \text{ Z} 1}}$

= $\sqrt{\frac{0.5206}{4}} \text{X} 0.3607 \text{ or } 36.07\%$

Coefficient of Variance (C.V.) = $\frac{\pm}{R_m} | 100\%$

= 1.3837

Findings

Market return is (R_m) = 26.07%

Standard deviation is ($\exists_m$) = 36.07%

Coefficient of variance (C.V.) = 1.3837

Diagram 4.9

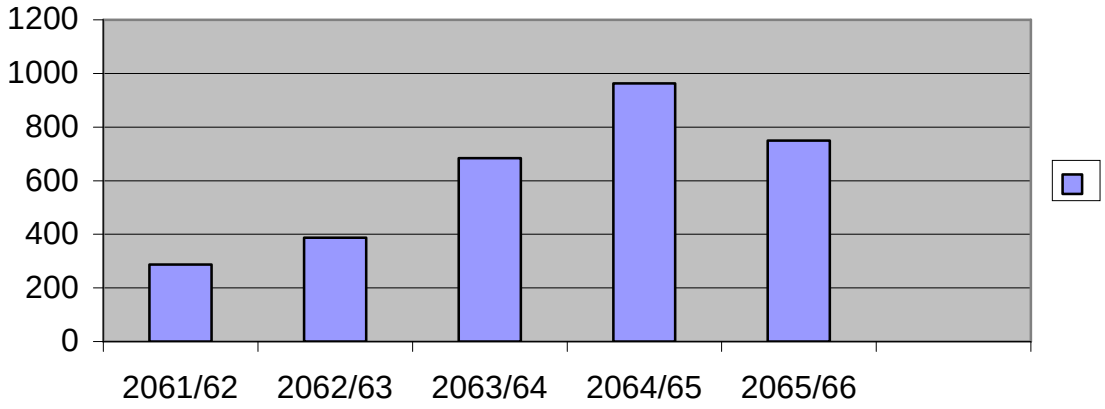


Table no. 4.10

Beta coefficient of each bank

S.N.	Commercial banks	Beta coefficient	Remarks
1.	Nepal SBI Bank Ltd	0.0478	
2.	NABIL Bank Ltd	0.4538	Most aggressive
3.	Everest Bank Ltd	-0.1419	Less aggressive
4.	Bank of Kathmandu Ltd.	0.3643	

(i.e. Summary from Appendix no. 5, 6, 7, 8)

Table no. 4.12

Required rate of return, expected rate of return and price situation

S.N.	Commercial Banks	Risk free rate (Rf)	Beta Coefficient (j)	RRR= Rf+[$\bar{Rm}$ - Rf] j	ERR	Price situation

1.	SBI	0.043	0.0478	0.0534	0.0978	under price
2.	NABIL	0.043	0.4538	0.1418	0.3722	under price
3.	EBL	0.043	-0.1419	0.0121	0.4579	under price
4.	BKOL	0.043	0.3643	0.1223	0.4326	under price

Source: NRB

Where,

Rf = Risk free rate of return =4.3%

Rm= Market rate of return =26.07%

Above table 4.13 describes the price situation of common stock of different commercial banks whether they are under priced or overpriced. Model used for calculating in capital assets pricing model (CAPM) which is an important classical model. However, CAPM model, which required rate of return (RRR) of common stock comparison of RRR and ERR which determines stocks to be under priced or overpriced. If RRR is less than ERR such stocks is said to be under priced and investor buying strategy for this type of stock and vice-versa.

Hypothesis

Hypothesis Formulation:-

Null hypothesis ($H_o : H_1 = H_2 = H_3 = H_4$) i.e. there is no significant difference in average return of common stock of listed commercial banks.

Alternative hypothesis ($H_1 : H_1 \mid H_2 \mid H_3 \mid H_4$) i.e. there is significant difference in average return of common stock of listed commercial banks.

Computation of test static

Holding Period Return					Sum of Squares			
Year	SBI (x_1)	NABIL (x_2)	EBL (x_3)	BOKL (x_4)	x_1^2	x_2^2	x_3^2	x_4^2
2061/62	-	-	-	-	-	-	-	-
2062/63	0.0456	0.5349	0.5730	1.0186	0.0021	0.2861	0.3283	1.0375
2063/64	0.1165	1.3169	0.3088	0.6412	0.0135	1.7342	0.0954	0.4111
2064/65	0.30	0.0644	0.6138	0.7482	0.09	0.0041	0.3768	0.5449
2065/66	0.0267	-0.552	0.7940	-0.2352	0.0007	0.3047	0.6304	0.0553
Total	0.4889	1.3642	2.2896	2.1628	0.1063	2.3291	1.431	2.0488

Grand Total (T) = $X_1 \Gamma X_2 \Gamma X_3 \Gamma X_4$

= 0.4889 + 1.3642 + 2.2896 + 2.1628

= 6.3055

Correction Factor (C.F.) = $\frac{T^2}{n} \text{X} \frac{\text{f}6.3055\text{Å}^2}{20}$ = 1.9880

Total sum of square (T.S.S.) =

$X_1^2 \Gamma X_2^2 \Gamma X_3^2 \Gamma X_4^2 \text{Z} C.F.$

= 0.1063 + 2.3291 + 1.431 + 2.0488 -1.9880

= 3.9272

Sum of square between return (S.S.C)

= $\frac{\text{f} X_1\text{Å}^2}{n_1} \Gamma \frac{\text{f} X_2\text{Å}^2}{n_2} \Gamma \frac{\text{f} X_3\text{Å}^2}{n_3} \Gamma \frac{\text{f} X_4\text{Å}^2}{n_4} \text{Z} C.F.$

= $\frac{(0.4889)^2}{5} \Gamma \frac{(1.3642)^2}{5} \Gamma \frac{(2.2896)^2}{5} \Gamma \frac{(2.1628)^2}{5} \text{Z}1.9880$

= 0.0478 + 0.3722 + 1.0485 + 0.9355 - 1.9880

=0.416

Sum of square within the return (S.S.W) = TSS- SSC

= 3.9272 - 0.416

= 3.5112

One way ANOVA table

Source of variation	Sum of squares	d.f.	Mean sum of squares	F- ratio
Between samples	0.416	4-1= 3	$\frac{0.416}{3}$ X0.139	$\frac{0.139}{0.219}$ X0.635
Within samples	3.5112	20-9= 16	$\frac{3.5112}{16}$ X0.219	
Total	3.9272	N-1 = 20-1= 19		

Critical value: The tabulated value of F at 5% level of significance for 3 and 16 degree of freedom is 3.24

Decision: Since computed value of F is less than that of its tabulated value. Therefore, Null hypothesis (Ho) is accepted i.e. there is no significant difference in average return of common stock of four sampled commercial banks.

CHAPTER-FIVE

Summary, Conclusion and Recommendation

The present study has been out with objectives of analyzing the risk and return of the selected banks.

Accordingly, relevant literature was reviewed and the study was carried out following a suitable methodology. A brief explanation of all procedures and effort has been summed up in this chapter along with conclusions draw and suggestions recommended.

5.1 Summary

Risk and return are the major parts of the business word. Return is always guided by a common saying "no risk no return" so risk and return are considered as two parts of the same coin. Risk and return measure the performance of any investment and it is the key factor in making decision regarding investment. No investor would like to invest in risky asset unless he/she has been assured of adequate compensation for the assumption of the level of risk borne.

Banking sector is the most dynamic part of the economy, which collects unused funds and mobilizes it in required sectors. In Nepal joint venture banks and private sector banks have performed betters than the Nepalese government banks because of the skilled of proper risk management. Capital market plays vital role to develop the economic condition of the country. NEPSE is the one and only one capital market of Nepal. Capital market is composed of two parts one is primary market and other is secondary market. Primary market is the market where securities are traded for the first time while secondary market is the market where already issued

securities are traded. NEWPSE is the secondary market of Nepal.

Most of the investors in Nepal are least familiar to risk and return and take investment decision based on the return in the market. Their decision is hardly based on the performance of the organization and it mainly focused on the prices of stock. The present has been conducted to analyze the risk and return of common stocks. Common stocks is the highly perferred security for investment for any investor in Nepal and is also the most risky security. The main focus of the study is to analyze the risk and return of listed commercial banks chosen for study.

Whole analyzing the risk and return, review of literature has been done. Similarly, the description of the research methodology has been included to describe the mode of the analysis. To analyze, the data, standard deviation, expected return, beta coefficient, required rate of return, coefficient of variation have been calculated. Five years data of four commercial banks has been taken for the study. The study is completely based on the secondary sources. The secondary data for the study has been taken from the annual report collected from NEPSE, SEBON, NRB and the related commercial banks reports and websites.

5.2Conclusions

On the basis of the major findings of study, following conclusion is drawn.

1) The risk is the variability of return which is measured in terms of standard deviation on the basis of standard deviation. The stock of NABIL is the most risky one and

the stock of SBI is least risky stock based on the standard deviation.

2) Standard deviation measures only systematic risk, which is not defined by the market risk. Another major aspect of the risk is systematic risk, which is defined by the market and measured by the beta coefficient. Beta coefficient explains the sensitivity of the stock with the market. Higher the beta, greater the volatility. The stock having beta more than1 is aggressive and less than 1 is defensive. In this context, the stock of NABIL is most volatile.
3) The stock of Everest bank Ltd is the safe investment for risk average investor as if has higher rate of return and comparatively lower risk among the sampled banks.
4) Coefficient of variation is more rational basis of investment decision which measures the risk per unit of return. Thus, in terms of risk per unit of return (C.V.), the stock of NABIL bank is the most risky while that EBL is the lowest.
5) Beta of NEBIL is the highest and that of EBL bank is the lowest.
6) CAPM is the model that describes the relationship between risk and required rate of return, where, risk free rate plus a premium based on the systematic risk of the security is the required rate of return of that stock. Comparison between the expected return and required return gives the idea whether the stock is overpriced or under priced. All are under priced.
7) From the study, it can be concluded that none of the share price of the banks are in equilibrium because all

the sampled banks average rate of return is more than the required rate of return.

5.3 Recommendations and Suggestions

Basically, this study has focused on individual investor as well as other components of stock market. It is also considered to some extent based on the analysis of data and suggestions are presented.

a. Investment is done for making money, not for losses. It is the best for the stock market. Generally investment is done with clear objective and aims.
b. One of the most important things to consider when choosing investment decision related to the balance between risk and return.
c. Stock market investment is a risky job. To win the stock market investment can be clear on his own strengths. Weakness needs desires, risk taking capabilities and how to react of different and changing market conditions. This is one of the games where self knowledge is superior abilities; sound understanding on the information of stock market can give a winning edge to the investors.
d. Investment is common stock is a very risky job as there is no guarantee of the return of initial investment. Although there are changes of return than which is expected. On the other hands, there is also chance a heavy loss. The stock market is undoubtfull risky in the starting term and investor needs try and weak out their attitude towards the riskness of various investment strategies.
e. Investors need to diversify their fund to reduce risk. Proper construction of portfolio will reduce risk. But portfolio construction is a dynamic job because efficient

portfolio depends on market movement for the portfolio construction, selected the stocks that are higher return with negative correlated stocks. Similarly, stocks can not diversify the risk. For example, investment in two securities of banking sector and trading sector does not diversify the risk.

f. Administration should be made further efficient to check the performance of individual company's flow of information and it should be more regular.
g. Lack of information with regard to trading procedure in NEPSE is also cause for volume of trading.
h. NEPSE needs to initiate to develop different programmer for private investor such as investors meeting and seminars in different subject matter like trading rules regulations etc.
i. There are institutions to analyze the information provided by the companies and to process and make them understandable by general investors. The concern banks should contact such institutions and take the help.
j. Organizational efforts can be continued for the expansions of stocks market. The problems of missing or inconsistent information make analysis difficult. In order to eliminate these kinds of problems a series of consistency check and imputation procedure can be developed.
k. Investment clubs are a good way to exchange investment ideas in Nepalese context. There are not such types of club for collective investment i.e. mutual of worth for those people with little investment. In addition, it allows investors with limited resources to obtain reasonable

diversification do sharing experience, ideas and taking up expert can be greater help.

l. Risk and return analysis is completely untouched area in Nepalese context. It is strategy suggested that further study can conducted on this topic and resource can include maximum number of samples.

m. There is complete absence of sensitive index of stock price and government is not able to concern on survey of investor's in Nepal. The drawback of stock market investment os important to improve the economy of country. So we along with government regulating authority, the stock exchange listed companies should understand their respective rules and pay attention to play their role with sincerely.