STOCK MARKET BEHAVIOUR OF SELECTED COMMERCIAL BANKS

Submitted By:

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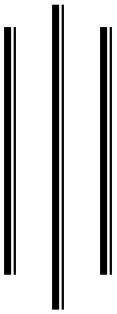

A THESIS

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RECOMMENDATION

This is to certify that the thesis

Submitted by
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Entitled:

STOCK MARKET BEHAVIOUR OF SELECTED COMMERCIAL BANKS

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

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Mr. Joginder Goet	Prof. Bisheshwor Man Shrestha	Prof. Dr Kamal Deep Dhakal
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VIVA-VOCE SHEET

We have conducted the viva –voce examination of the thesis

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

Degree of Master of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department **……**

Member (Thesis Supervisor) **…..……..**

Member (External Expert) **…..……..**

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Stock Market Behaviour Of Selected Commercial Banks"** submitted to Shankar Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of **Mr. Joginder Goet,** Lecturer of Shankar Dev Campus.

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PUJA BHATTA

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LIST OF ABBRIVIATION

%	= Percentage
&	= And
A.D.T.	= Average Daily Turnover
B.S.	= Bikram Sambat
BOK	= Bank of Kathmandu
C.B.	= Commercial Bank
CRO	= Company Registered Office
F.Y.	= Fiscal Year
G.D.P.	= Gross Domestic Product
H.M.L.	= Himalayan Bank Limited
i.e	= That is
MOF	= Ministry of Finance
NABIL	= NABIL Bank Limited
NEPSE	= Nepal Stock Exchange
NIB	= Nepal Investment Bank
No.	= Number
NRB	= Nepal Rastra Bank
P.	= Page
SCBNL	= Standard Chartered Bank
SEBO/N	= Security Board of Nepal

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Stock market has been a global phenomenon in present world regardless of size of economy of any particular nation. It is a place where share of listed company are traded or transferred from one hand to another at the fair price through the organized brokerage system. The parties involved in securities market are investors, intermediaries and company. Investors can be individual, firms, companies and organized institutions who buy the securities. Similarly, intermediaries are those who support the investor to purchase and sell the securities and take commission. Commission for security transaction is the income source of intermediaries. The flow of fund through financial market around the world may be divided into different segment, depending upon the financial claims being traded and the need of financial investors.

Stock market plays a crucial role in the development of any country. Similarly, it is also the indicator of economic condition. The relationship between stock market development and economic growth has received renewed attention of academicians and policy makers in present decade both in the developed and developing countries as a result of the emerge of equity market phenomenon. The growing importance of stock market has opened up many avenues for the research in the relationship between financial development and economic growth, with focus on developmental role of stock market.

An efficient stock market is an essential pre-requisite of economic development and the development of stock market of a country is dependent upon the availability of saving, proper organization of intermediary institution. It brings investors and business ability together for

mutual interest, regulation of investment etc.. Nepalese capital market is in developing phase in comparison to other big and developed capital market. Limited number of brokers, poor reporting and inappropriate information system for the public etc are the constraints for the development of stock market. Now 23 brokers are functioning for enhancing trading For the shake of stock market development, there is a need to minimize these unfavorable aspects and enhance all favorable aspects of stock market and government should provide better investment environment with clear and transparent policy as well.

A market is the means through which buyers and sellers are brought together to transfer goods and services. (Leahigh, 1992: 27).

One of the key functions of financial market is to produce information. Efficient use of information in the financial market is essential for achieving the investment goal. Efficient market can be classified into three levels:

1. Week-form of efficiency: In this form of the efficient market hypothesis the information set that the market is able to use efficiently comprised all of the history of the prices of a security.

2. Semi-strong-form efficiency: In this form the information set comprised all publicly available information about a security (i.e., it is not restricted to price alone). For example, this might include the history of dividend payout rates or bond ratings in a recent Wall Street Journal article about a company.

3. Strong-form efficiency: In this form the hypothesis includes what is called insider information. This includes information that, at least initially, is known only to the managers of the company (Willian, 1993:37).

A financial market (also known as security market) can be defined as a market which brings together the buyer and seller of financial assets in order to facilitate their trading in accordance with the prescribed rules and regulations. Financial assets mean financial investments or securities like common stocks, preferred stocks, mutual fund units, government bonds, corporate debentures, marketable securities, negotiable instruments, promissory notes and so on and so forth. It is in the financial market where the entities demanding funds are bought together with those who have surplus funds to supply in that market. Entities demanding fund i.e. government and business enterprises raise long term capital to finance their capital investment by issuing securities like share and bonds in the financial market. It provides a ready and continuous market for the purchase and sale of existing as well as newly issued securities at the competitive and fair prices, thereby imparting free marketability and liquidity to such securities.

1.2 Commercial Banks in Nepal

A bank is a financial firm which offers loans and deposit products of the market, and caters to the changing liquidity needs of its borrowers and depositors.

The above statement clearly tells us that banks collect the fund from the different sources and providing these funds to the parties who deserve it as a loan. Income or revenue of banks is of two types. One is interest income and another is fee-based income. Interest income refers to the income generated from the interest on loans, securities, and federal funds sold whereas fee-based income refers to fees and service charges. Not only has the return, business involved risk. So as expected, banking sector has to deal with the risk in order to minimize its level. Credit risk, interest rate risk, and liquidity risk are the major risk involve in banking sector.

The history of the banking in Nepal is not old, compared to other countries. The first bank established in the country is Nepal bank limited in 1937 A.D. Later on, the initiation of commercial banks catch the peak and now a days there are **29** commercial banks operating in Nepal. It is said that banking sector is a blue chip for the investors but this does not indicate that investment in such sector is risk less. Risks occur in the investment. So, the investor must focus on minimizing the risk and maximizing the return. In order to do so, it is necessary to know the financial strength and weakness of individual banks. The descriptions of the banks selected in this thesis are as follows:

1.2.1 Standard Chartered Bank Nepal Ltd.

Standard charter bank ltd. was incorporate in 2042 B.S. (1984) in Nepal. It was listed in NEPSE in Ashad, 2045 B.S. (1998 A.D). Paid up capital of the bank is 1398.48 million Market price of the bank in 2010 July, 26 was Rs. 2975. The main objective of the bank is to collect deposits and provide loan to agriculture, commerce and industries and to provide modern banking service to the people.

1.2.2 Nabil Bank Ltd.

Nabil bank is the first joint venture commercial bank incorporate in 2041 B.S. (1984 A.D) in Nepal. Bank limited was the initial foreign joint-venture partner with 50 percent equity investment. It was listed in NEPSE in Mangsir, 2042 B.S. (1986). Paid up capital of the bank is Rs 1449.124 million. Market price per at 2010 July, 26 was Rs 2174.

1.2.3 Everest Bank Ltd.

Everest bank Ltd was established in 1992 under the company Act, 1964 with an objective to carrying out commercial banking activities under the Commercial Bank Act, 1974. It was listed

in NEPSE in Chaitra, 2052 B.S. (1995 A.D). Paid up capital of Everest bank is Rs 830.4663 million. The market price per share of bank at 2010, July is Rs 1490.

1.2.4 Nepal Investment Bank Ltd.

Nepal investment bank limited was incorporated in 2042/11/16 B.S (1986 A.D). It was listed in NEPSE in Shrawan 2043 B.S (1986 A.D). Paid up capital of Nepal investment bank is Rs. 2409.0977 million. Market price of share of the bank in 2010, July 26 is Rs730.

1.2.5 Himalayan Bank Ltd.

Himalayan bank limited was incorporation in 2048 B.S (1992 A.D). In Nepal. It was listed in NEPSE in Ashad, 2050 B.S. (1993 A.D). Paid up capital of Himalayan bank is Rs 1600 millions. Market price per share of the bank at July 26, 2010 was Rs 850.

1.2.6 Bank of Kathandu Ltd.

Bank of Kathmandu Ltd. was incorporation in 2050 B.S (1994 A.D) in Nepal. It was listed in NEPSE in Sharwan, 2054 B.S. (1998 A.D). Paid up capital of bank of Kathmandu is Rs 1182.16 millions. Market price per share of the bank at July 26, 2010 was Rs 841.

1.2.7 Nepal SBI Bank ltd.

The bank started its banking operation in 2050 B.S (1993 A.D). Nepal SBI Bank ltd was registered under the company Act, 1964 in 1993. This is the joint venture of state bank of India and Nepali promoters. The bank share was listed in NEPSE in Magh, 2051 B.S. (1995 A.D). Paid up capital of Nepal state bank of India is Rs 1652.7 millions.

1.2.8 Nepal Industrial and Commercial Bank ltd.

Nepal industrial and commercial bank was established in 2053 B.S (1996 A.D). It's share was listed in Jestha 2057 B.S (2000 A.D). Paid up capital was 1311.55 millions and market price per share of the bank at July26, 2010 was Rs 640.

1.3 Focus of the Study

Stock price fluctuate in the market, but the question arise, what factors affect the price of securities. Is it demand and supply of stock or book value of stock or anything else? The focus of this thesis is to find out the various factors that affect the price.

In Nepalese context, public scared to invest in share. Due to the lack of knowledge of stock market they are investing in especially in land and housing. But in recent days public attraction towards the initial public offering (IPO) is increasing. Secondary market is also the best option to invest and to earn money. But to invest in the secondary market study of the factor affecting the price of stock is more essential to the investors. Along with identifying the various factor that affect the share price, this thesis focus on the comparison of book value and market value of share of selected commercial banks. Beside it, analysis of risk and return is also important matter of concern.

Earning rate, Dividend rate, paid up capital of company is the important factor that determine stock price. Beside it, Seasons, days, political situation of the country, and of course the future potential of any company are the factor to be consider while making any investment.

The problem of Nepalese investors is: they do not know about the factors that affects the price of stock. By following rumors existing in the market they invest. So, this research tries to identify the correct factors so that investors can cope with threaten exist in the market.

1.4 Statement of Problem

Investment means the sacrifices of current rupees for future rupees. This statement clearly tells that the investment (sacrifice) takes place in present but the reward comes later, which is generally uncertain. Though investment involve risk, it is necessary for the economic development of the country. The problem of the developing country is low investment rate.

Fund is the life-blood of any organization without which, establishment and functioning cannot be possible. Large business organization issue equity share in order to raise the required fund. Beside it, issue of preference share, debenture, bond etc are also important source of fund.

Nowadays, share price movement is unpredictable in Nepalese context. Not only the relevant factors but the irrelevant factors also play crucial role in order to bring fluctuation in the market place. The real problem that Nepalese stock market is facing is the unrealistic movement in the price of share. Most of the investors do not have idea about the performance of the companies. They invest on the basis of brokers' consultancy. However, Nepal Rastra bank (NRB) is playing important role in regulating the stock price.

Nepal Rastra Bank is changing the rules and regulation related to commercial banks. There is no certainty exist according to rising paid up capital by the commercial banks. NRB first release the law to force commercial banks to make their paid up capital 800 million from 1000 million. Again NRB force commercial banks to increase their paid up capital to 2000 million. This uncertainty brings lots of fluctuation in the stock market. Those people who want to invest in the share market with their limited fund, faces lots of trouble. The uncertainty of NRB rules and regulation always make problem to those investors who are not export in the

stock market. Lots of investors loose when NRB forces to make paid up capital to 800 million from 1000 million. Nowadays it is seen that security exchange board is playing crucial role to control stock market fluctuation. In recent days market is going down. In Bhadra 2063 NEPSE index was at 1175 point but now it is at around 500 points. Though the NEPSE index decline by around 55 percent, investors do not have loss in same percent because of bonus, right share and cash dividend. Any way most of the small investors loose huge fund.

Though limited brokers are the problem of Nepalese stock market, the stock exchange and Securities board of Nepal (SEBON) are making plan for increasing number of brokers. But it is still uncertain.

Stock market is a place where the securities are traded. There is only one security market (NEPSE) in the country and the limited brokers services creates problem to the investors. There is a monopoly of brokers in the market and also the investors have to purchase stock according to their interest. Stock market measure the whole economic condition of the country. If the investors are interested in investing in the share market then it indicates that the country economic condition is well and the investors are hopeful towards the future of the economic status of the country. Share market is the source of fund. So, governments have to focus on increasing the investment in financial market.

Companies issue stock with the objective to make the participation of small investors but the present problem exist in the Nepalese context is; some investors invest in initial public offering (IPO) by hiring citizenship of other. This creates problem to small investors. They do not get chance to become the owner of the company. Margin lending is also a factor that brings fluctuation in the market place. When any investors apply for the share they take loan from various institution and pay interest on the borrowed amount which increase stock price in the market. Anyway, by realizing the fact government decided to eliminate margin lending. It is a right step so that small investors can be the owner of the company and of course deal with fair price. However, sill the investors are taking margin loan from cooperatives to invest

in primary issues. Beside it, in the secondary market also large investment was through the margin trading. Thus NRB restricted financial institutions to limit their margin lending up to the 50 percent of average of 180 days stock price. But due to the stock investor strike, NRB relaxed margin lending provision to some extent.

In the past only people living in the Katmandu get the opportunity to invest in the stock market but now stock trading facility is available through the other parts of the country. In addition, Ministry of finance, Security board of Nepal and Nepal stock exchange is preparing for the central depository system. It facilitates the trading system and also increases the number of investors.

Most of the investors who purchase the share through the consultancy of brokers suffer from the losses. So, before owning the share, the investors must have to get idea about the company's performance (risk and return). So, the focus of this thesis is to evaluate the strength and weakness of selected commercial banks which play the leading role in Nepal stock exchange (NEPSE) index.

Investors of Nepalese shock market do not know their objective or purpose of their investment. So, first of all, investors must be clear about the return, they are seeking for (capital gain or ordinary gain) and must make a decision to buy the securities.

1.5 Objectives of the Study

- To see the difference between book value and market value of commercial bank.
- To see the risk and return involve in commercial banks.
- To see the market sensitivity.
- To recommend for improvement.

1.6 Significance of the Study

- It is useful to those people who want to make more research to the concerned topic.
- This thesis gives guidelines to the investors who are mislead by brokers'
- It is useful to the Nepal government.
- It is beneficial to the financial analysts.
- This research is important to bring changes in the stock market.
- Since it present the realistic performance of the selected commercial banks, it will be useful for anyone who want to know about the stock price behavior on Nepalese stock market

1.7 Limitations of the Study

- Constraint time and money
- Based on the available date
- Analyze of share price movement of selected commercial banks which may not cover the overall movement of commercial banks.
- Cover the limited time period.
- No effort is made to verify the available date due to the constraint of time and money.

1.8 Organization of the Study

Introduction: This section of the thesis include background of the study, focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Review of literature: This part of the thesis deal with the review of available literature. It includes review of books, reports, journal, previous thesis, and related websites.

Research methodology: This part of the thesis incorporate the population and sample of the research, sources of data, data processing technique and also describe how the study is conducted.

Data presentation and analysis: This is the most important chapter of this research where the collected data are presented and analyzed using various tools and techniques.

Summary, conclusion and recommendation: This part abstracts the whole study and offer suggestion for further improvement.

Bibliography and appendices: This section shows the references for the study. Similarly, data and information not included in the data presentation and analysis section but helpful for the study are presented.

CHAPTER 2

REVIEW OF LITERATURE

2 Conceptual Review

Investment, in broad sense, means the sacrifice of current dollars for future dollars. (Alexander,et al.,1993:5)

A market is the means through which buyers and sellers are brought together to transfer goods and services (Leahigh and David, 1992:9).

Security markets exist in order to bring together buyers and sellers of securities, meaning they are mechanisms created to facilitate the exchange of financial assets. There are many ways to distinguished. One way is primary and secondary markets(Alexander,et al.,1993:5).

The real investment may be financed by the sale of new common stock in the primary market for securities. The common stock itself represents a financial investment to purchaser, who may subsequently trade these shares in the secondary market (Alexander,et al.,1993:5) .

2.1 Money and Capital Market

The money market is designed for the making of short-term loans. Money market refer to that financial market in which securities with short term(one year or less)and highly liquid debt securities are traded. Thus, money market comprises the securities that have short maturity period,easy marketability,liquidity and even lower risk in comparision to other securities.

In contrast to money market, capital market refer to the financial market in which long term securities are traded. Specifically speaking securities having life spans of more than one year

are traded in the capital market. Long term financial instruments such as stocks issued by corporation are basically traded in a capital market.

2.2 Primary and Secondary Market

On the basis of the economic function,capital markets can be categorized into primary and secondary markets. The market through which the funds are transferred from savers to iinvestors is called primary markets. Hence, the transaction of securities issued for the first time takes place in the primary market. The institution that perform the role of an expert in issuing new securities are called investment bankers. These bankers make available advice to the business firms regarding the nature of securities,maturity interest rate and underwrite the issue of securities.

The market where the existing and pre-developed securities are bought and sold is called secondary market. A secondary market provides liquidity to the purchases of the securities. High liquidity of the secondary market encourages the investors to invest in the primary market as well. The secondary market can be regarded as the center to convert stocks,bond, and other securities into cash immediately (Thapa,2062:2).

Another way of distinguishing security markets involves the life span of financial assets. Money markets typically involve financial assets that have a life span of one year or less, while capital markets typically involve financial assets that have a life span of greater than one year (Alexander,et al.,1993:9-10).

2.3 Banks

Bank is a financial firm which offers loan and deposit product of the market, and caters to the changing liquidity needs of its borrowers and depositors (Heiernan, Shelagh, 2005: xiii).

2.3.1 Bank Sources of Funds

Deposit Accounts

1. Transaction deposits.
2. Saving deposits.
3. Time deposits.
4. Money market deposit accounts.

Borrowed Funds

1. Federal funds purchased (borrowed)
2. Borrowing from the Federal Reserve banks.
3. Repurchase agreements
4. Eurodollar borrowings

Long-term sources of Funds

1. Bonds issued by the bank
2. Bank capital.

2.3.2 Use of Funds by Banks

1. Cash
2. Banks loans
3. Investment in securities
4. Federal finds sold (loaned out)

5. Repurchase agreements
6. Eurodollar loans
7. Fixed assets

The provision of deposit and loan product normally distinguishes banks from other types of financial firms. Deposits products pay out money on demand or after some notice. Deposits are liabilities for banks, which must be manage if the bank is to maximize profit. Likewise, they manage the assets created by lending. Thus, the core activity is to act as intermediaries between depositors and borrowers. Other financial institutions, such as stockbrokers, are also intermediaries between buyers and sellers of shares, but it is the staking of deposits and the granting of loans that singles out a bank, through many offers other financial services (Heiernan,et al., 2005:23).

Stock price behavior is the matter of great interest to the students as well as to the investors. Centuries have been spending to understand the behavior of the stock price. Different theories have been developed to predict the future price. So, this chapter is focused on review of some of the existing literature concerning the stock price behavior in Nepal and abroad.

2.4 Common Stock

"Common stock is the first security of a corporation to be issued and, in the event of bankruptcy, the last to be retired. It represents an ownership share in the firm; it has the lowest priority claim on earnings and assets of all securities issued" purchaser of common stock generally have the power to vote for a board of directors and to vote on major issues that may be presented before the shareholders. The more shares an investor has, the more votes he or she controls. An investor in common stock receives certificate states the number of shares and a par value per share, if any. The par value often bears little relationship to market prices (Babble, et al., 2001:328).

2.5 Nepal Stock Exchange (NEPSE)

The history of securities market began with the floatation of shares by Biratnagar Jute Mill Ltd. in 1937. Introduction of the Company Act in 2064, the first issuance of Government Bond in 2064 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relation to capital markets. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE, is in operation under Securities Exchange Act, 1983.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitation transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994.

a) Board of Directors

The board of directors of NEPSE consists 9 (nine) directors in accordance with securities exchange act, 1983. Six directors are nominated by government of Nepal and the general manager of NEPSE is the ex-official director of the board.

b) Capital Structure

The authorized and issued capital of the exchange is Rs.50 million. Of these Rs.30.41million is subscribed by government of Nepal, Nepal Rastra Bank, Nepal industrial development corporation and licensed members.

c) Members

At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws.

Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas securities trader (Dealer) works as individual portfolio manager. At present there are 11 sales and issue manager and 2

dealers (secondary Market).

d) Tenure of Membership

The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

e) Listing and listing requirement

Listing means the registration of issued securities with the stock exchanges to make them eligible for trading. Corporate sectors generally raise the required fund through the market ether by issuing the common stocks or preferred stock or debt instruments like bonds or debenture, if the features of marketability and liquidity are not added nobody will be interested to invest the hard earned savings in these instruments. This is simply because the investors are in need of funds are the invested securities are essential. Securities Exchange

Act 1983 also prohibits the trading of unlisted securities. Trading on the floor of the NEPSE is restricting to listed corporate securities and government bonds. At present, 131 companies have listed their securities to make them eligible for trading. Beside this, NCM Mutual Fund enlisted its units to make them eligible to trade in the floor.

The documents required for the listing are as follow:

1. Name and address of the shareholders, directors and their holdings
2. Name and address of the shareholders holding more than 5 percent of the issued shares.
3. Name and address of the Managing Director, Chief executive officers , accountant , auditor , company secretary and their holding, if any;
4. In case of an existing company, the last three years' audited balance sheet and profit and loss accounts and in case of a newly established company, projected balance sheet and profit and loss accounts for the next three years.
5. Shareholders' list
6. Document that reveals the name and address of the company and the date of business commencement.
7. Specimen of a share certificate
8. Tax registration certificate
9. Approval letter from SEBON for public issue (only if the listing is requested after going to the public) and a letter from the NRB, the central bank
10. Investment detail of the company and promoters and directors associated with any other organization.
11. Resolution passed by the board of directors for listing
12. Memorandum and articles of association and prospectus
13. If the organization is established under a special act, a copy of such act.
14. Others

The companies have to submit above documents, the listing and annual fees and the application for listing the securities in the Nepal stock exchange. The listing and annual fees in case of common stocks are as follows:

e) Type of Listing

Securities can be listed in two ways:

1. Temporary Listing: This type of listing is for redeemable preferred stocks or debenture and this type of listing will be valid till 15 days before the maturity.

2. Permanent listing: This type of listing is for common stocks, irredeemable preferred stocks, debenture; closed end fund will be listed permanently.

f) Trading System:

NEPSE has recently changed its trading system and it started to make transaction through Automation system. It is the essential step of Nepal stock Exchange towards the modernization. Through this system now the brokers do not have to cry for the purpose of trading securities. Before that NEPSE had adopted an "Open Out –Cry" system. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market maker quotes their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying brokers or between the brokers and market makers are concluded on the floor. But the development of stock facilitates the brokers to conduct the trading through their office and do not have to cry for the purpose of buying and selling of securities.

g) Trading days and hours:

NEPSE has fixed the trading days and hours during which the members are allowed to enter the floor to make the transactions.

h) Type of Trading Days Trading Time:

Regular Trading Sunday to Thursday12:00 Noon to 3:00 P.M.

Odd lot Trading on Friday 12-13 P.M

i) Board lot:

NEPSE has fixed the board lot of 10 shares if the face value is Rs.100 or 100 shares if the face value is Rs.10. the transactions on regular trading should be done on at least on board lot. The transactions of less than 10 shares are permitted only on odd lot trading. **source;www.nepalstock.com**

k) Settlement:

NEPSE has adopted a T+3 settlement system. Settlement will be carried out on the basis of paper verses payment. The trading is done at "T" and at T+1; the buying brokers have to submit bank vouchers for settlement with covering letter. At T+2, the selling brokers must submit share certificate with covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank.

Once the settlement is done the buying brokers with the consultation of the clients must

decide and present the purchased shares if they want to record it as blank transfer. This must be completed within T+5.

I) Brokerage:

The rate of brokerage on equity transactions range from 0.70 percent to 1 percent depending on the trading amount. Nepal stock exchange made the arrangement for 50 brokers. But due to the political instability number of brokers still remains 23. Due to the strike of stock investor to pressure the government to concentrate on the development of stock market, government now is ready to increase the number of brokers. The new system (Automation) used by Nepal stock exchange will play essential role to the investors because through this system investor can get prompt and smooth services. According to NEPSE, in near future, brokers can operate transaction from their office. The new commissions of Brokers are as follows:

Traded amount	**Rate of commission**
Up to Rs 50,00	1.00%
Rs 50,00 to 5000,0	0.90%
Rs 500,00 to Rs100,0000	0.80%
Rs 1,000,000 and more	0.70%

Source; www.nepalstock.com

Earning Per Share

EPS is a dollar figure determined by dividing the corporation's total after-tax annual earnings (before cash dividends) by the total number of shares of common stock held by investors.

Usually, companies calculate this figure and report it in the business section of many newspapers.

Equity Shares

Common stocks, also known as *equity securities* or equities, represent ownership shares in a corporation. Each share of common stock entitles its owner to one vote on any matters of corporate governance that are put to a vote at the corporation's annual meeting and to a share in the financial benefits of ownership. The corporation is controlled by a board of directors elected by the shareholders. The board, which meets only a few times each year, selects managers who actually run the corporation on a day-to-day basis (Bodie,et al.,2005).

Equity shares are considered as a source of long term financing. They are also marketable financial instruments. The equity shareholders receive the residual income of the corporation after the income is distributed to creditors, bondholders and preference shareholders. Even the equity holder gets last priority at liquidation. Due to these factors, equity shares are considered as risky asset.

Dividend

The Wikipedia encyclopedia describes dividends as - "Dividends are payments made by a company to its shareholders. When a company earns a profit, that money can be put to two uses: it can either be re-invested in the business (called retained earning), or it can be paid to the shareholders of the company as a dividend. Many companies retain a portion of their earnings and pay the remainder to their shareholders. Publicly-traded companies usually pay dividends on a fixed schedule, commonly annually, bi-annually or quarterly; however, they may declare a dividend at any time.

Dividends are usually paid in cash. Sometimes dividends instead take the form of shares in the company (either newly-created shares or existing shares bought in the market). Exceptionally, dividends might take the form of shares in other companies or other assets".

Price earning ratio

P/E ratio is simply a ratio of the current market value (price) of a stock divided by its earning per share (EPS). For example, if the market price of a share of Running Paws stock was currently $30 and its EPS was $ 2, the P/E ratio would be 15 ($30/$2). This could also be called "a 15 to 1 ratio," or "a P/E multiply of 15." The price/earning ratio for many corporations is also widely reported as financial news, for it is a measure of he price level of a stock.

Par Value

Par value meant the dollar amount assigned to a share of stock when it was issued by a corporation. Par value is printed on the front of a share of stock.

Book Value

Book value is the net worth of a company, determined by subtraction the total of a company's liabilities (including preferred stock) from its assets. Book value per share is the book value of the company divided by the number of shares of common stock outstanding. This figure is relevant only in the likelihood of bankruptcy, when the firm would be liquidated. There is virtually no relationship between the book value of the company and its earnings or market value.

Market value

The market value of an investment is the current price that a willing buyer would pay a willing seller for the assets. Sales commissions are not included. In stock transaction, the market value is the current price of a single share of stock. This may be fairly estimated by looking at prices quoted in financial newspapers. True market value is the price that actually receives in selling an investment.

Beta

An important aspect of a common stock is its price stability or volatility, a characteristic called beta. This is a statistically determined measure of the relative risk of a common stock compared to the market for all stocks. The historical performance of each stock has been examined in relation to stock market averages. A beta of zero denotes a risk-free stock; the average of the market is 1.0. Betas can be positive or negative. Most are positive, as most stocks move in the same direction as the general market. Most individual stocks have betas of between 0.50:and 2.0 (Garman,et al.,1985:482-483).

2.6 Capital Assets Pricing Model

The capital assets pricing model, almost always referred to as the CAPM, is a centerpiece of modern financial economics. The model gives us a precise prediction of the relationship that we should observe between the risk of an asset and its expected return. This relationship serves two vital functions. First, it provides a benchmark rate of return for evaluating possible investments. For example, if we are analyzing securities, we might be interested in whether the expected return we forecast for a stock is more or less than its "fair" return given its risk. Second, the model helps us to make an educated guess as to the expected return on assets that have not yet been traded in the marketplace. For example, how do we price an initial public offering of stock? How will a major new investment project affect the return investors required on a company's stock? Although the CAPM does not fully with stand empirical tests,

it is widely used because of he insight it offers and because its accuracy suffices for many important applications.

The capital assets pricing model is a set of predictions concerning equilibrium expected returns on risky assets. Harry Markowitz laid down the foundation of modern portfolio management in 1952. The CAPM was developed 12years later in articles by William Sharpe, John Linter, and Jan Mossin. The time for this gestation indicates that the leap from Markowitz portfolio selection model to the CAPM is not trivial.

We will approach the CAPM by posing the question "what if," where the "if" part refers to a simplified world. Positing an admittedly unrealistic world allows a relatively easy leap to the "then" part. Once we accomplish this, we can add complexity to the hypothesized environment one step at a time and see how the conclusions must be amended. This process allows us to derive a reasonably realistic and comprehendible model.

We summarize the simplifying assumptions that lead to the basic version of the CAP in the following list. The thrust of these assumptions is hat we try at ensure that individuals are as alike as possible, with the notable exceptions of initial wealth and risk aversion. We will see that conformity of investor behavior vastly simplifies our analysis.

- There are many investors, each with an endowment (wealth) that is small compared to the total endowment of all investors. Investors are price-takers, in that they act as though security prices are unaffected by their own trades. This is the usual perfect competition assumption of microeconomics.
- All investors plan for one identical holding period. This behavior is my myopic (short sighted) in that it ignores everything that might happen after the end of the single period horizon. Myopic behavior is, in general, suboptimal.

- Investments are limited to a universe of publicly traded financial assets, such as stocks and bonds, and to risk-free borrowing or lending arrangements. This assumption rules out investment in non-traded assets such as education (human capital), private enterprises, and governmentally funded assets such as town halls and international airports. It is assumed also that investors may borrow or lend any amount at a fixed, risk-free rate.
- Investors pay no taxes on returns and no transaction costs (commissions and service charges) on trades in securities. In reality, of course we know that investors are in different tax brackets and that this may govern the type of assets in which they invest. For example, tax implications may differ depending on whether the income is from interest, dividends, or capital gains. Furthermore, trading is costly, and commissions and fees depend on the size of the trade and the good standing of the individual investor.
- All investors are rational mean-variance optimizers, meaning that they all use the Markowitz portfolio selection model.
- All investors analyze securities in the same way and share the same economic view of the world. The result is identical estimates of the probability distribution of future cash flows from investing in the available securities; that is, for any set of security prices, they all derive the same input list to feed into the Markowitz model (Bodie, et al.,1999:250-251).

2.7 Security Market Line (SML)

For the investor who has well diversified portfolio, the diversifiable risk is of no importance as it has been eliminated. Market will pay premium for non-diversifiable of systematic risk. In the context of CAPM, the risk of an individual security is defined as the volatility of the security's return in relation to the market portfolio. It postulated a linear relationship between risk and return. In SML, the risk is defined by the undiversifiable market related risk (beta). SML is valid for all portfolios and for individual securities as well. In SML, the risk is

defined by the undiversifiable market related risk (beta). SML is valid for all portfolios and for individual.

CAPM provides a framework for measuring the systematic risk of an individual security and relate it to the systematic risk of a well-diversified portfolio. In the context of CAPM, the risk of an individual security is defined as the volatility of the security's return. The risk of individual securities is measured by (beta). Beta is a measure of a security's relative to the market portfolio. Since diversifiable risk does not matter, beta is, thus, a measure of the systematic risk if a security. In capital market line, risk free security has no volatility, and it has a zero beta.

Also notice that at the point of tangency, portfolio beta is 1. thus, market portfolio is the reference for measuring he volatility of individual risky securities. The graphical representation of CAPM is called the security market line (SML). The graphical representation of CAPM is called the security market line (SML). The equation for SML is

$$E(Rj) = RF + \{ E(Rm) - Rf \} * bj \text{----------(a)}$$

Where E(Rj) = expected return on security j

E(Rm) = expected return on market portfolio

Rf = risk free rate of interest

bj = undiversifiable risk of security j

Since beta measures the volatility of a security's returns, in relation to he market, it should be measured in terns of the security's and market's covariance and the market variance.

Risk in fact is an indication chance of losing investment value. Different people interpret risk in different ways like uncertainty is simply a lack of definite outcome. It is anything that could happen, any unknown event, which may be favorable. To other it is a risk many people consider risk as a chance of "happening some unfavorable event or danger of losing some value. The trouble of uncertainty are risk, people often use them interchangeably. On the other hand, risk is the outcome of all potential future outcome presented with probability associated with each of them and it is measured in terms of the degree of variability in the probability distribution of each outcome.

A stock reflects the uncertainly about future returns. Such that the actual return may be less than expected. The risk if a stock can be measured by its price volatility, its standard derivation, coefficient of variation beta etc. a stock volatility seems as a measure of risk because it may indicate the degree of uncertainly surrounding the stock's future return (Madura, 2001: 289). These risks can be discussed as follows:

The prices of some stocks rise when other fall. The television news commentator tells us "why" the market acted the way it did or asks for the analytical commentary of a "wall street expert". "Do these people know why stock prices rise or fall? Not really. They are simply offering their opinions or theories about what is occurring. If they actually knew what made stock prices rise or fall they would be billionaires. There are three general areas of stock theory: fundamental theory, technical theory and efficient market theory (Garman, et al., 1985:305)

2.8 Fundamental Theory

The premise of fundamental theory is that a particular stock has an intrinsic or true value based on its expected future earnings. If the company expects to be extremely profitable in coming years, this should be reflected in a high P/E ratio. If prospects look dismal and earnings are expected to be quite low, the price of a stock and the P/E ratio should be low. Fundamental theory assumes that because knowledge about the futures of companies is not perfect, some stocks are under priced and others are overpriced, he investor's task is to study certain fundamental factors that may enable them to select undervalued stocks for purchase and sell overvalued stocks. These fundamentals are the historical profitability of an industry, the leading companies in the industry, and the economic outlook for the general economy. The potential investor then estimates the value of one company by competing firms. Such comparisons are based on much subjective information.

The P/E ratio is one piece of objective date that can be used in fundamental analysis. However, it too is subjectively based when used to forecast the future. Investors often compare the expected P/E ratio of a firm with its competitors and the industry as a whole. In a growth industry, such as robotics, all such P/E ratios would be high. In a cyclical industry, such as automobiles, all such P/E ratios would be low. The task for the common-stock investor is to analyze the fundamental factors at work and choose he best company (Garman, et al.,198: 395-396).

Fundamental forecast stock prices on the basic of economic, industry and company statistics. The principal decision variables ultimately take the form of earnings and dividends. The fundamentalist makes a judgment of the stock's value with a risk and return framework based upon earning power and the economic environment. In the fundamental approach, the security analyst or prospective investor is primarily interested in analyzing factors such as economic influences, industry factors and pertinent company information such as product demand, earning dividends and management in order to calculate an intrinsic value for the

firm's securities. He reaches an investment decision by comparing this value with the current market price of the security. The fundamentalist tends to look forward. He is concerned with such matters as future earning and dividends. It is sometimes said fundamental analysis is designed to answer to questions "what?"

A fundamental claims that at any point of time an individual stock has an intrinsic value, which is equal to the present value of the future cash flows from the security; discounted appropriate risk adjusted discount rate. "The value of the common stock is simply the present value of all the future income which the owner of the share will receive (Francis, 1986:398). But in the world of uncertainly, it is difficult to know the stock's income in each future period and its appropriate discount rate. So, fundamentalists estimate the intrinsic value of share by studying company's sales, profit factors. Fundamental analyses delve into companies' earnings their management, economic outlook, firm's competition, market conditions and many other factors.

In the world of uncertainly, it is impossible to anticipate the values exactly so there will be disagreement on the opinion about the estimation among the market participants. The actual price of the security is considered to be a function of set of anticipation. Price changes as anticipation change which return, change as result of new information (Bhalla, 1983:347). After extensive analysis, the investor derives an estimate of the "intrinsic" value of he security, which is then compared to us market price. If the 'value' exceeds the market price, the security should be acquired and vice-versa (Reilly, 1986:347).

Fundamental analysis use different models like top down versus bottom up forecasting, probabilistic forecasting econometric models, financial statement analysis etc to estimate the value of security. Although many investors use technical analysis, fundamental analysis is far more prevalent. Technical analysis is frequently use as a supplement to fundamental analysis rather than as a substitute for it. Thus technical analysis can and frequently does, confirm findings based on fundamental analysis. The widespread availability of personal computers

and "dial-up" services with data on stock prices and volumes has made it possible for individual investors to engage in technical analysis in the privacy of their own homes. Producers of software have been quick to provide programs to perform such analysis, complete with multicolored graphs. Nevertheless, the number of investors using fundamental analysis is much larger than the number using technical analysis.

Although many investors use technical analysis, Fundamental analysis is for more prevalent. Furthermore, unlike technical analysis, it is an essential activity, if capital markets are to be efficient. Some of fundamental analyst' tools are explained as follows:

1. Top- down versus Bottom-up Forecasting

Fundamental analysis forecast, among things, future levels of the economy's gross domestic product, future sales and earnings for a number of industries, and future sales and earnings for an even larger number of firms. Some investment organizations that employ financial analysts follow a sequential top-down forecasting approach. With this approach the financial analysts are first evolved in making forecasts for the economy then for the industries, and finally for companies. The industry forecasts' are based on the forecasts for the economy and, then a company's forecasts are based on the forecasts for both its industry and the economy. Other investment organization begins with estimates of the prospectus for companies and then builds to estimates of the prospects for the industries and ultimately the economy; such bottom-up forecasting may unknowingly involve inconsistent assumptions. For instance, one analyst may use one forecast of foreign exchange rates in projecting the foreign sales of company A, while another analyst may use a different forecast in projecting the foreign sales of company. In practice, a combination of the two approaches is often employed. For example, forecasts are made for the economy in a top-down manner. These forecasts then provide a setting within which financial analysts make bottom-up forecasts for individual companies. The sum of the individual forecasts should be consistent with the original economy-wide forecasts. If not the process is repeated (perhaps with additional control) to ensure consistency.

2. Probabilistic forecasting

Explicit probabilistic forecasting often focuses on economy- wide forecasts, as uncertainty at this level is of the higher importance in determining the risk and expected return of a well-diversified portfolio. A few alternative economic scenarios may be forecast, along with their respective probability of occurrence. Then accompanying projections are made of the prospects for industries, companies and stock prices. Such as exercise provides an idea of the likely sensitivities of different stocks to surprises concerning the economy and hence is sometimes referred to as "what if" analysis. By assigning probabilities to the different scenarios, risk may also be estimated.

3. Econometric Model

An econometric model is a statistical model that provides a mean of forecasting the levels of certain variables, known as endogenous variables. In order to make these forecasting the model relies on assumption that have been made in regard to the levels of certain other variables supplied by the model user known as exogenous variables.

An econometric model may be extremely complex or it may be a simple formula that can be implemented with a calculator. In either case, it should involve a blend of economics and statistics, where the first economics is used to suggest the forms relevant relationships and then statistical procedures are applied to historical data to estimate the exact nature of the relationship involved.

4. Financial statement analysis

A company's financial statements can be regarded as the output of a model of the firm. It is the analysis of different financial report that can affect the price of share in the market. These reports are balance sheet, profit and loss account and cash flow. Analyses of different financial indicator are also useful for determining the market price of share. These are earning per share, price earning ratio, non performing assets and so on (Sharpe,et al., 1999: 850-853).

2.9 Technical Analysis

The philosophy behind technical analysis is in sharp contrast to the efficient market hypothesis, which contends that past performance has no influence on future performance or market values. It also differs from what we learned about fundamental analysis, which involves making investment decisions based on the examination of the economy, an industry, and company variables that lead to an estimate of intrinsic value for an investment, which is then compared to its prevailing market price. In contrast to the efficient market hypothesis or fundamental analysis, technical analysis involves the examination of past market data such as prices and the volume of trading, which leads to an estimate of future price trends and, therefore, an investment decision. Whereas fundamental analysis use economic data that are usually separate from the stock or bond market, the technical analyst uses data from the market itself because the market is its own best predictor. Therefore, technical analysis is an alternative method of making the investment decision and answering the question: what securities should and investor buy or sell? When should these investments be made?

Technical analysts see no need to study he multitude of economic, industry, and company variables to arrive at an estimate of future value because they believe that past price movements will signal future price movements. Technicians also believe that a change in the

price trend may predict a forthcoming change in the fundamental variable such as earnings and risk before the change is perceived by most fundamental analysis. Are technicians correct? Many investors using these techniques claim to have experienced superior rates of return on many investments. In addition, many newsletter writers base their recommendations on technical analysis. Finally, even the major investment firms that employ many fundamental analysts also employ technical analysts to provide investment advice. Numerous investment professionals and individual investors believe in and use technical trading rules to make their investment decisions. Therefore, whether a fan of technical analysis or an advocate of the efficient market hypothesis, investors should still have an understanding of the basic philosophy and reasoning behind technical approaches

The main assumptions of the technical analysis theory are:

1. Price is determined by the interaction of demand and supply.
2. Demand and supply are governed by various factors, both rational and irrational.
3. Series of prices contain trends that persist for appreciable length of time.
4. The changes in trends caused by shifts in demand and supply are detectable in the analysis of past price and volume data and
5. The pattern tend to repeat itself (Levy, 1966:348)

In essence, technical analysts believe that past patterns of market action will recur in the future and can therefore be used for predictive purchase.

Early studies found little evidence showing technical analysis to be useful in enabling investors to "beat the market". Many "proofs" of the ability of technical analysis to "beat the market" were offered, but most committed at least one of the errors described earlier. However, several recent studies have indicated that technical analysis may be useful to investors (Fama, 1991, 1575).

The evidence presented in these studies can be divided into two groups based on the strategies involved. The first group, consisting of momentum and contrarians strategies,

simply examines the returns on stocks over a time period that just ended in order to identify candidates for purchase and sale. The second group, consisting of moving average and trading range breakout strategies, makes such an identification based on the relationship of a security's price over a relatively short time period that just ended to its price over a relatively longer time period:

1. Momentum and Contrarian Strategies

Momentum strategies seek out for purchase those stocks that have recently risen significantly in price on the belief that they will continue to rise due to an upward shift in their demand curves. Conversely, those stocks that have recently fallen significantly in price are sold on the belief that their demand curves have shifted downward. Investors who call themselves contrarian strategists do just the opposite of what most other investors are doing in the market. They buy stocks that others have shunned and think of as losers. And they sell stocks that others have feverishly pursued and think of as winners. They do so in the belief that investors tend to overreact to news. That is stocks that have plunged in price because of some recent piece of bad news (such as recently announced weak earnings) are thought to have fallen too far in price. Hence such stocks are viewed as being ready for a price rebound as investors realize that they have overreacted to the bad news associated with the stock and subsequently drive the price upward toward the stock's fundamental value.

Similarly, stocks that have risen rapidly in price due to some recent piece of good news (such as recently announced strong carvings) are thought to have risen too far in price. Hence such stocks are viewed as being ready for a price drop as investors realize that they have overreacted to the good news associated with the stock and subsequently drive the price downward toward the stock's fundamental value.

2. Moving Average and Trading Range Breakout Strategies

This strategies classifies everyday as either a buy day or sell day, thereby allowing a given stock to be bought on consecutive days, it is referred to as a variable-length moving average strategy. If the market is efficient, the average return during the buy days should be approximately the same as the average return during the sell days. That is, the difference in their returns should be approximately zero. However technical analysis might have merit if they are significantly different. It can result in many trades over the course of a year, as an investor using it could be "whipsawed" into buying and selling repeatedly. In order to reduce the frequency of changing positions from buying to selling or selling to buying, the strategy can be modified as follows to become a fixed-length moving average strategy. Moving-average technicians or simply technicians, as they are also called, like to watch a moving average is used to provide a smoothed, stable reference point against which the daily fluctuations can be gauged. Moving average strategy is used for individual securities or market indexes. (Aackstabber, 1985:851-853)

The trading range breakout strategy is similar to the fixed –length moving average strategy. A buy signal is generated on a given day only when that day's closing price is greater then the high, provided that the previous day's closing price was less than the high. Conversely, a sell signal arises when the closing price moves from being above the low on one day to being below the low on the next day. When a buy signal is generated, the stock is bought the next day and then held for ten days. Similarly, when a sell signal it generated, the stock is sold and not bought for ten days. In either case, when the ten days are over, the investor starts looking again for a buy or sell signal. The four strategies reported above have been rigorously tested, avoiding the pitfalls associated. Furthermore, although not reported, slight variations among the strategies had only a minor effect on their results. However, usefulness of such technical strategies remains an open question subject to many debates. Furthermore, it has been speculated that the commonplace usage of computerized trading programs designed to implement technical strategies will ultimately eliminate any potential such strategies have for generating abnormal profits.

2.2 Efficient- Market Theory

Many researchers have concluded that short-term stock price movements are purely random. This idea has been called the "random walk hypothesis" and has evolved into the efficient – market theory, which holds that knowledge of all investors, is considered to be perfect and the price of each stock accurately reflects all available and anticipated information. Thus the market reacts swiftly to all unexpected information and properly prices each stock. The conclusion is that no one can consistently do better than average. Efficient-market theorist believes that some do better than average because of luck. In fact, they suggest that the "traders"- those who buy and sell their stocks frequently –do less well than the stock market averages by an amount equal to the commissions they pay.

The data for this theory come from the large institutional investors, such as mutual funds, pension plans, and bank trusts, which have investment activities that are publicly available. Because of their immense size, these institutions are restricted to investing in only the largest several hundred companies. Otherwise, their individual actions could affect the price of a stock. If, for example, an institutional investor determined to sell off all holdings of a relatively small company, the sale of such a large block of stock would then further reduce the price because quite likely there would not be enough buyers available. Conversely, if several investment companies all wanted to buy the stock of he same corporation, the price would skyrocket as thy bid against each other.

Most investors reject the efficient-market theory. They believe in using the fundamental and technical theories to improve the likelihood of investment success and claim that such knowledge improves their investment expertise (Garman,et al., 1985:265).

2.2.1National Journals Review

Capital market proved to be one of he important segments of the economy since it facilitates and provides better institutional arrangements for the borrowing and lending of long term funds. Capital market is the general barometer that measures the proper collection and canalization of saving for investments in productive and income generating assets. The allocative-efficiency in the use of funds is the basis for measuring the performance of capital market. But what matters crucial is the effective regulation of securities market. However, experience in the number of advanced and developing countries shows that regulation of securities market became a felt necessity as a result of the manipulative practices and dishonest security dealings. In England, public abuses climbed to a greater height and activity of stock exchange is considered to be a robbery within jobbery (Melville, 1921). The Bubble mania swept away and then followed by Mississippi Bubble and South Sea Bubble of 1700 (Graham, et al., 1962), with a classic example of mass speculation. Daily newspaper covered pertinent remarks in pinpointing out that stock exchange continued to be dangerous and mischievous activity under false image of public good. In the absence of regulation, stock market proved a breeding ground for exploitation of investors leading to the concentration of economic power in few hands. The emergence of "Dummy Directors" in USA and "Guinea- Pig Director" in UK have less to protect investors' interest and stock market began to be looked nothing but simply a chamber of corporate horror.

The share mania became a leading phenomenon in developing countries too to the extent that there had been intensive speculative orgy in securities market. The frequent crash of the stock market from time to time recorded the establishment of private empire from sharp practices. The sad record of financial exploitation is just the universal madness making all good investment principles failed and undermining the twin bases of historical optimism and growth selectivity in securities market. The recent events following corporate frauds in America through accounting manipulation taking cases of Enron, World, cum and other inside trading scandals have created graduals loss of faith of investors in stock market. In the wake of Enron and Workd.Com, companies are facing shareholders' suits and gone are the days of

general board membership when directors collect fat checks by squeezing in a few board meetings between tea times and lounging in corporate villas flying on corporate jet all courtesy of the companies they are charged with scrutinizing (Newsweek, 2002:6).

Even in our own country, the Get-Quick-Rich traders in securities market turned logical idea into a noxious growth. And there is playing on public money by public limited companies by issuing with rosy prospectus to mislead investors in the absence of appropriate control and supervision through strong enforcement of the regulation. In the last few years, there has been a remarkable experience of stock market boon and bust cycles in Nepal's growing small stock market transactions (Five Year Strategic Plan, 1998- 2002), SEBO/Nepal 1998). Five Years performance Review from 1993-98 shows the initial phase of development of SEBON as securities market regulator and developer with the restructuring of NEPSE as a sole market operator. At the same time, the irrational behavior of he investors in stock market together with the operation of non professionally oriented brokers are responsible for having the birth of small Harsh Mehta in Nepal's stock market in the absence of effective regulation, monitoring and supervision of the stock market activities. The impact character of the market with the poor performance of the most of manufacturing companies that consists of more than 50 percent of the listed companies and also some trading companies have undermined the confidence of investors in stock market. The influence of Mass Psychology (Keynes, 1936) despite having universal madness of crowds laid down by Theory of Speculation also operates in Nepal.

Despite these issues, SEBON is trying to insist through regulation to help investors behave rationally at least among those who actively participate in capital market. Efforts are going to make the information freely and widely available to market participants at the right time without delays and enable investors to be both price markers and price takers as well as avoid emotions on the part of investors to response to the new information that may come in the market. At the same time, investors have to think that any price change today is independent of the price that has been maintained yesterday on the assumption that prices move at random fashion. This is in consonance to the random walk hypothetical developed through

empirical study and findings by eminent finance professor (Fama, 1965). Events following capital market are different from that of the conclusions drawn from rational behaviors assumption.

Regulation of stock market by historical experience became a felt necessity in number of countries having securities market to overcome the problem of market disorders and misuse of inside information, avoid unfair trading practices, eliminate price manipulation and discourage fraudulent trading activities. By what degree and to what extent these can control. There are lapses going unchecked due to weak enforcement and non compliance of specified legal provision. Issue managers, market players and intermediaries that have taken responsible tasks with due care and intelligence to protect the interest of investors. Investor's complaints are not strongly and seriously responded in actual reality although in acts and provisions safeguarding investors' interest is mentioned in every report taking from policy statement of HMG to other important reports of the regulatory bodies (Shrestha, 2005:13-14).

A long time bearish securities market turned bullish in the fiscal year 2004/05. All the statistics showed an increased over the previous fiscal year 2003/04. One of the major reasons for the upturn may be the cause of changed political environment that boosted the investors' confidence and security in the investment but there is a doubt in the continuity of the confidence.

Since long, the banking sector has dominated the stock market occupying 89% of total turnover during the fiscal year 2004/05 as well. The turnover has also increased by more than 365 percent during the period. In the same time the turnover of Commercial banks, Insurance companies, Finance companies, Hotels and Others increased over previous fiscal year but the performance of Development banks, Manufacturing and Processing, and Trading sectors remained unsatisfactory. The trading volume decreased by 31.92, 88.86 and 32.46 percent respectively of three sectors. Out of the eight sectors in which the listed companies are

classified, the turnover of commercial banks remained the highest, but the rate of change was the highest in 'other' sectors.

The fiscal year is significant in case of number of listed companies. The number increased by 11 to 125 during the period. Out of the newly listed 11 companies, three each were from commercial bank, development bank and finance company sector, while one each was from insurance company group and 'other' group sector. The mushrooming of banking and finance companies is the main reason of increment.

During the year, 18,433 thousands shares were traded, 185% increase over the previous fiscal year 2003/04. Out of the seven sectors, the manufacturing and processing sector remained dominant due to the trading of large quantity of shares of Harisiddhi Bricks and Tiles Factory Ltd. Total 6,653 thousand shares where traded of the factory during the year and the company also ranked in the first position on the basis of number of shares traded.

Total number of securities in the fiscal year 2003/04 was 161.141 thousand. This quantity increased to 194,673 thousand in the fiscal year 2004/05 indicating 20.79 percent growth. The main reasons of growth are increase in listed companies and increased in right share issue, bonus share issue and debenture issue.

The market capitalization during he year increased by 48.14% reaching Rs.61365 million due to the increase in listed companies, increase in market price of shares, etc. mainly during the 4^{th} quarter of the fiscal year.

Number of transaction also remained healthy during the fiscal year 2004/05. Total transactions increased by 24.22 percent year to year, from 85,533 in 2003/04 to 106,246 in 2004/05. The transaction mainly increased during 4^{th} quarter of the fiscal year because of the

changed business environment. During the year, Kumari Bank Ltd. ranked the first on the basis number of transactions.

Many companies gained the market price significantly during the fiscal 2004/05. Out of these the market price of 'standard Chartered Bank Nepal Ltd, (SCBNL) increased by the highest amount Rs 600 per share. Bishal Bazaar Company Ltd. remained in the second position with an increased by Rs.530. However, there are some losers too (Bhattarai, 2005:23-24).

The whopping jump in the stock index late April after the King's April 24 announcement was not sustained in the later days. In this course the market changed by 18.30 points in a single day (April 30) registering a record in the history of the Nepali share market. Though various other reasons can be cited to explain this, the most important one was the increasing level of confidence of the investors rather than improved performance of the companies and the economy.

But soon the share market showed increasing volatility and the change in the market index followed the change in the political language of Maoist leaders.

The market continuously increased till May 1. Within a short period, April 25 to May 1, the market index went up by 42.99 points. The share price of the Standard Chartered Bank Nepal Ltd. recorded a high of Rs 3111 in the fiscal year 2000/01. The upward trend in the price of this scrip continued even after that and reached Rs 3700. This is the highest ever for any scrip listed in the Nepal Stock Exchange.

In the fiscal year 2000/01, Nepal Bangladesh Bank Ltd. (NBBL) Script had created record by reaching Rs 3431, but the company went on losing investor faith with its continuous deterioration in financial performance. Now this scrip is trading at Rs 158 (June1). Despite the volatility, the market however gained 10.16 points in May, but this is lower growth as compared to the previous month when it was 24.06 points. Among the individual scrip, the market price of the Siddhartha Bank Ltd. remained more volatile during May, while that of NCC Bank and NBBL bank continuously declined and that of Taragaon Regency Hotel showed a bullish trend after a long period of constancy.

Meanwhile, the transaction of NCM mutual fund units increased with the investors trying to take advantage of the guaranteed 5 percent returns on the units (Bhattarai, 2006:21). The NEPSE index for November showed a recovery trend mainly due to the forthcoming annual general meeting effect.

A negative effect was observed in the previous month due to the festival effect. The coming AGMs of the companies have hiked investors' expectations and also increased the share prices of almost all companies. It is reflected in the index.

Over the month of November 2004, the index gained by 6.04 points riding on the continuous increased in share prices of banking companies.

The bullish trend of index turned unexpectedly bearish by the end of the month and fell by 2.68 points during the last two days. It lost 2.12 points in a single day (Nov 30), but the bearish trend is not going to continue (Bhattarai, 2004: 16).

"In Nepal, the major constituent of the securities market is the share of commercial banks and behavior of price of commercial banks influences the Nepal Stock Exchange index.

Daily price movement of the fiscal year 2005/06 of seven commercial banks sampled randomly are used. Descriptive statistical tools mean, standard deviation and coefficient of variation are used to analyze the volatility of the daily stock prices and indices of commercial banks and NEPSE and inferential statistical tools serial correlation and run test are employed to measure the independence and the randomness in daily successive stock prices.

Observations of daily stock prices of sampled banks indicate that there is a large variation in their stock prices in the fiscal year 2005/06. They are not doing well in Nepalese stock market. Most of the serial coefficient is significantly deviated from zero and statistically insignificant. It signifies that the successive price changes are dependent. Therefore, the Nepalese stock market is inefficient in pricing the shares. Run test results also show that the percentage of deviation between the observed and actual number of runs in the series of price changes in significant. It is obvious that the successive price changes are not random. Thus, Random Walk Hypothesis does not hold true in the context of Nepalese stock market. This conclusion

corroborates with the conclusions of the past studies carried out in Nepalese context. (The Journal of Nepalese Business Studies Vol. 3: Dec 2006 :37)

History tends to repeat itself. The securities analysts, who analyze securities presenting the past data on the c harts, graphs, figures etc and forecast whether the price will fall or rise, agree to this theory and say the share prices once turned bearish definitely turn to be bullish sometime in the future.

These analysts assume that the market price is a function of demand and supply of stocks and the commanding forces behind the demand might be various factors like political, economic, financial, national, international events as well as the information disclosed by the companies. The various factors make the people either invest in the securities or disinvest. These decisions eventually result in the demand and supply of the stocks to go up or down.

The NEPSE index reached the peak of 545.82 points on 23rd November 1999 before turning bearish. The pessimism of investors towards the investment through secondary market rose unexpectedly but the last few months' bullish trend has aroused a hope in the investors that the history definitely will repeat itself in the stock market

Price of almost all companies' stocks continued to rise. The share price of Machhapuchchhre Bank Limited hovering long time around the face value has crossed Rs 140. Similarly, the share price of Bank of Kathmandu Ltd. which was hovering around Rs 200, has now crossed Rs 300. That is not all. Even the share price of virtually insolvent Necon Air Ltd., which was stagnant around Rs 20 for long time, has now crossed Rs.30.

There are many other such examples to confirm the repetition of history taking place in Nepali stock market. Stock market is very much unpredictable but the movement can somehow be forecasted on the basis of past pattern of price movements through the trend analysis and behavior analysis.

NEPSE index during the month of August also reflected a continuous bullish trend of the past few months and repeated its political sensitiveness. The index sky rocketed in the first half of the month reaching (Bhattarai, 2006:14).

2.3 Review of Related Studies

2.3.1Review of Previous Research

Raju Phyual (2006) on his study "***Stock Price Behavior of commercial banks***" having the objective of identify the risk and opportunity involved in the observed price of commercial bank concluded that there is a huge difference between the market price of share and book value of share. Market price of share is higher than its book value. It shows that the investment of the share is risky. The price earning ratio of the observed banks is also high. Anyway banks are offering each dividend every year, which may not be applicable to other types of non- banking firms. Having good track record of the financial position, market penetration and continuous declaration of dividends encourage the potential investors to buy the share of joint venture commercial banks emerge as the blue chips in the Nepalese stock market. The average realized rate of return of all these banks are not the same over the sample period. Therefore, the coefficient of variation can be preferred over the standard deviation as measure of risk. On the basis of coefficient of variation

Gopal Prasad Bhatta (1997) in his study " ***Assessment of the performance of listed companies***" is based on 10 listed companies data from 1990 to 1995 concluded that investors expect higher returns from those stock which associates higher risk. Nepalese capital market is not efficient one. Neither investors analyze the overall relevant information of the stocks nor do the members of stock exchange try to disseminate the information. so the market return and risk both may not represent reality, However, the analysis based in the available information shows high priced stocks such as NIB , NIC has higher beta risk than others. These companies this requites higher returns to satisfy the investors for their risk premium. Investors in Nepal have not yet practiced to invest in portfolio of securities. An analysis of the two securities portfolio shows that the risk can be totally minimized if the correlation is perfectly positive correlation between then of the two securities, the risk is undiversifiable.

The analysis shows since correlation has negative correlation and some has positive one. Negative correlation between securities returns is preferred for diversification of risk.

Mukti Aryal (2004) in his study on " ***The general behavior of the stock market prices***", he studied the random walk model of stock price behavior in Nepalese context taking the daily prices of 21 stocks find out listed company's share for about 8 months period. He applied serial correlation and runs analysis. The correlation coefficient is mostly positive and departed from zero and runs tests too supported the correlation and analysis. Aryal concluded that the implications of his studies could be understood in two natures i.e. statistical and economic.

He statically opined that the characteristic feature of stock market price movement with respect to distribution of price changes implies that the general shape is platikurtic, due to higher values of standard deviation for individual price changes. Higher standard deviation is results of frequent large price fluctuation. According to this device of measuring risk, as he inferred, individual stock and aggregate market can be interpreted as highly risky game for investment.

He further found that the economic reason for higher value of standard deviation implies the inherent instability of market, and changes in the economic environment. Finally, he concluded, "today's price changes of an individual common is not an unbiased and independent out-comes of yesterday's price changes of Bernoulli process". In his study he had recommended the implications of his findings in the points as below:

1. Because of he persistence in the stock price movement, professional traders either individual or institutional can beat the market. That mean a certain systematic schemes, based solely on the past "trend" and pattern" can build which gives the higher return than the buy and hok model of market for securities.

2. Most of the stocks in the sample are overvalued, thus, the stock market investors are recommended to sell those securities.
3. Due to excessive price fluctuation, a positive correlation exists. To control such erratic price fluctuations, the control body such as margin requirement to the exchange member of National Security Exchange.

Mohan Khatiwada (2006) conducted the study on "***A study on securities investment in Nepal***" by using four-year data of 1993 to 1996 from the information of the trading reports of NEPSE. Among different objectives, the one" to analyze the stock market performance" has little relation with thesis study. In this aspect, he summarized the findings as "Interest rate so ascertain by financial institution for the year 1995 ranges from 12% to 12.75% per annum. As it is reviewed on background of commercial banks deposits accepted on fixed term carry 8% to 9.5% per annum interest rate in 1995. Although interest rate on fixed deposits in an immediate return generated through savings, the return on securities cannot be exactly predicted. Some of the companies have not even declared dividend for two/three years. Whatever the shareholders have yielded on their securities investment is very low (Avoiding exceptional cases of some financial and banking institution) as compared to the immediate return earned through fixed deposit."

Prabhat Kumar Shrestha (2004) had concluded in his research "***Share price behavior of joint venture banks in Nepal***" that the market shares and the growth rates of different banking indicators used are not completely captured by the market value of these banks. He further added that the risk and return analysis of the banks shared showed mixed results. In a nutshell, newly established banks shares did not represent the actual image of the risk and return scenario, the possible cause for this is listed in the limitation of he study.

The established banks have good track record of their financial position and the newly established banks are penetrating the market. All the banks are operation in profit, although some of them suffered from losses during their initial stages. The investor attitude towards the shares of these banks seemed to be positive.

Most of the banks are offering cash dividends every year, which may not be applicable to other types of non- banking firms. Having good track record of he financial position, market penetration and continuous declaration of dividends encourage the potential investors to buy the shares of joint venture commercial banks. Therefore, the shares of joint venture commercial banks emerge as the blue chips in the Nepalese stock market. The average realized rates of return of all these banks are not the same over the sample period. Therefore, the coefficient of variation can be preferred over the standard deviation as measure of risk. On the basis of coefficient of variation, Nabil Bank limited shares can be considered as more risky, whereas Bank of Kathmandu limited shares can be considered as less risky.

The beta coefficient in the section of market sensitivity analysis, which measures the riskiness of individual security in relative term, suggests that most of he shares of these eight banks are not highly risky. Therefore, even a risk averter can go for making an investment in shares of these banks. The shares of publicity quoted joint-venture commercial banks share less risky as compared to other average stocks traded in the stock exchange. In the security market line analysis he found that all the banks under study are still under priced hence the potentiality of each bank in beating the market still remains alive.

Mahesh Bhattarai (2004) try in his study on "***An examination of the effects of dividend policy on market price of shares***" shows how the stock price movement after announcing the dividend decisions by the selected banks. He had used various financial tools to find the financial position of the firm.

His conclusion tells us that: EPS of the commercial banks is fluctuating. Dividend per share of the commercial bank has also fluctuating trends. As a result market prices of the banks are also fluctuating. There is a moderate positive correlation between EPS and DPS of the sample firms in average. There is a moderate positive correlation between EPS and MPS of the sample firms in average, but in exception, state bank of India limited has negative correlation between earning per share and market price. Nepal investment bank has highly positive correlated.

7. Lomas Joshi

Lomas Joshi on his study "*stock price behavior of selected commercial banks*" tries to present the factors affect the stock market. According to his thesis the major factors that should be consider while making the investment is the fundamental and technical analysis of individual and comparative stocks. Besides it, political condition in the country fluctuates the market price of stock.

Nepal Rastra bank regulations should be considers for the investment decision. NEPSE fluctuate mainly with the fluctuation of banking index. In his thesis it is concluded that the market price of share is overpriced and definitely it will decline in coming days if the country do not achieve the satisfactory economic growth rate.

2.3.2 **Research gap:**

There are several avenues for future research in the area of stock market behaviour of banking sectors.One extension of the present study is to examine the effect of book value,market value,price earning ratio on the stock market behaviour. I want to prove that this research is an original one and should be the foundation for the future researcher.

All the other thesis concluded that the financial indicators are the major factors that affect the market price of share. But the financial performance is not factor that determine the price. Other factors such as political situation, demand and supply and flow of fund are the concern factors.

I have kept it quite different due to following reasons:

- I have researched the eight commercial banks,shows current stock market behaviour.
- This study particularly shows how these Commercial Banks are going despite of critical market situation
- This study includes very recent information of stock market.

CHAPTER-3

RESEARCH METHODOLOGY

3.1 Research Design

This research tries to show the overall framework of share price movement in the stock market during the limited period of time. Beside it, the study focused to compare the market price of share with the book value of share, net worth, earning per share and dividend payout ratio. This thesis also focused on the risk and return of the selected banks. It guides the investors and the researchers because this research uses various tools to analyzed the behavior of share price. It focuses on the factors that affect the price movement.

3.2 Population and Sample of the research

All the commercial banks listed in stock market (leader in the share market) are the total population. Similarly, selected commercial banks are used as a sample. Among the various commercial bank listed in NEPSE, banks are selected through categorizing. In this research, three categories are chosen. It is based on the market price of the share. The selected banks based on categories are follows:

Group A

Standard Chartered Bank Nepal Limited

Nabil Bank Limited

Everest Bank Limited

Group B

Nepal Investment Bank Limited

Himalayan Bank Limited

Bank of Kathmandu Limited

Group C

Nepal SBI Bank Limited

Nepal Credit and Commercial Bank Limited

3.3 Sources of data

Research depends on the availability of data. In this research data are collected from the secondary sources. The main sources of date are:

- Concerned banks
- Reports of Nepal Rastra bank
- Reports of Nepal stock exchange and securities exchange board
- Various journals
- Television (especially business news)

- Various site related to business
- Concerned teacher
- Previous research

3.4 Analysis of data

The target of this research is to analyze the data both in technical and in fundamental way. On the technical analysis the actual market price will presented where as in fundamental analysis the formulas are used in order to find out its net worth.

3.5 Data Analysis Tools

In this study, statistical tools are used to analyze the data. Descriptive statistical tools such as Mean (X), Standard Deviation (S.D.) and Coefficient of Variation (C.V.) are used to analyze the Volatility of the daily stock prices and indices of commercial banks and NEPSE. Whereas, inferential statistical tools-series correlation and runs test are employed to measure the independence and randomness in daily successive stock prices.

Researcher has used SPSS to work out Average, Standard Deviation and Coefficient of Variation and for serial correlation test and Minitab for runs test. At the same time, Microsoft Excel application has been used for computation of data and drawing of the graphs.

1. Mean

In mathematics, an average or central tendency of a set of data refers to a measure of the "middle" of the data set. The most common method generally referred to the average of a set of values, or distribution. However, for skewed distribution, the mean is not necessarily the same as the median or mode. It is distinguished from the geometric mean or harmonic mean. As well as statistics, mean is often used in geometry and analysis. For a data set, the mean is just the sum fo all the observations divided by the number of observations.

Symbolically,

$$\overline{X} = \Sigma X/N$$

Where,

$\overline{X}$ = the population mean of the variable X

ΣX = the expected value of X or sum of value of all observations

N = the total number of observations

2. Standard Deviation

The standard deviation (S.D.) of a probability distribution, random variable or population or multi set of values is defined as the square root of the variance. The SD is measured in the same units as the values of the population. Karl Pearson introduced the term SD to statistics on the dissection of asymmetrical frequency curves.

The standard deviation is the root mean square deviation of the4 value from their arithmetic mean. It is the most common measure of statistical dispersion, measurement how spread out the value in a data set is. If the data points are all close to the mean, them the standard deviation is close to zero. If many data points are far from mean, then the SD is far from zero. If all data value is equal, then the SD is zero. The practical value of understanding the SD of a set of value is in appreciating how much variation there is away from the mean.

Symbolically,

$$\sigma = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

Where,

σ = standard deviation of population

X = Observation

$\overline{X}$ = Population Mean

N = Total number of observations

3. Coefficient of Variation

An advantage of the standard deviation as a measure of risk is that it can be related to the expected return. The investment community would agree that expected return should increase as risk increased. If risk is measured by the standard deviation, then risk per unit of

expected return can be measured by the coefficient of variation (C.V). The coefficient of variation is defined by:

$$C.V = \sigma / \overline{X}$$

Where,

C.V = Coefficient of Variation

σ = Standard Deviation

$\overline{X}$ = Mean

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

This chapter is the most important part of the study because it deals with the presentation, analysis and interpretation of data using different tools and techniques. In this, different types of analysis have been attempted to give a wide exposure of available tools for the analysis of stock price behavior which has a huge practicality as it has academic importance.

4.1 Market Share Analysis

For the purpose of analysis the market shares of each individual banks, the following indicators have been used.

1. Market share of deposit : Individual bank deposit/ Total deposit.

2. Market share of loan : Individual bank loan/ Total loan.

3. Market share of investment : Individual bank loan/ Total loan

4. Market share of total assets : Individual total assets / Total assets

4.1.1 Market share of deposits

Table: 4.1

Market Share of Deposit in Amount (in millions)

Banks	2004/05	2005/06	2006/2007	2007/2008	2008/2009	Average
Group A						
SCBNL	19335.1	23061.03	24647.02	29743.99	35871.72	26531.77
NBL	14586.6	19347.39	23342.29	31915.05	37,348.26	25307.918
EBL	10097.7	13802.44	18186.25	23976.29	33322.95	19877.124
Group B						
NIBL	14254.6	18927.3	24488.86	34451.73	46698.1	27764.112
HBL	24814	26490.85	30048.42	31842.79	34681.35	29575.484
BOK	8942.74	10485.35	12388.93	15833.74	18083.98	13146.948
Group C						
SBI	8654.77	11002.04	11445.29	13715.39	27957.21	14554.94
NIC	6241.37	8765.95	10068.23	13084.69	15579.93	10748.034
Total	106927	131882.35	154615.29	194563.67	249543.5	167506.33

Source:SEBON Annual Report

The market share of deposit of individual banks gives the insight into the competence of the bank in penetrating the market of individual savers. The share of deposit determines the performance of the banks i.e. higher the deposits higher the performance and vice versa. It is said because higher rate of deposits provide higher opportunity for the investment and flow of loan to the selected parties. The market shares of deposit of banks are presented in the following table:

Table: 4.2

Market Share of Deposit in Percentage

Banks	2004/05	2005/06	2006/07	2007/08	2008/09
Group A					
SCBNL	18.08	17.48	15.94	15.29	14.37
NBL	13.64	14.67	15.10	16.40	14.97
EBL	9.44	10.46	11.76	12.32	13.35
Group B					
NIBL	13.33	14.35	15.84	17.71	18.75
HBL	23.2	20.08	19.43	16.37	13.19
BOK	8.36	7.95	8.01	8.14	7.25
Group C				-	
SBI	8.09	8.34	7.40	7.25	11.20
NIC	5.83	6.64	6.51	6.73	6.24
Total	100	100	100.00	100%	100%

Source:SEBON Annual Report

Nepal investment bank play the leading role in collecting deposits in the year 2007/08 and 2008/09. Through NIBL is in forth position in the beginning year of study period but now it is at the top. The bank collected deposit of 18.75 percent of total market deposits in year 2008/09 and also this year is remarkable year for the bank because the bank collected highest percent of the total collection of the selected banks collection.

Himalayan bank limited is the leading bank in the year 2004/05 but the bank is in 3rd position in year 2007/08 and in fifth position in year 2008/09. The bank collection is 23.2 percent of the total market share but in year 2008/09 the market share is limited to 13.19 percent. Nabil

Bank Ltd. deposit collection percentage is remarkable in year 2007/08. The deposit collection is 16.4 of the total deposit of selected banks

Everest bank is in increasing trends in collecting deposits. In the year 2004/05 the market share of deposits of the bank is only 9.44 percent but and the bank has increased its market share continuously. In the year 2008/09 the bank market share increased to 13.35 percent.

Standard charted bank Nepal limited is in third position in collecting deposits. In the year 2004/05 the bank is in 2nd position. It shows that the investment bank is performing well in collection of deposits. Banks deposit collection is 14.37 percent of the total market share in the year 2008/09.

Bank of Katmandu market share of deposits is fluctuating over the period. In the year 2004/05 bank market share is 8.36 but it decline in following year. But it increased in the next two year. In the year 2008/09 again the market share limited to 7.25 percent as compared to 8.36 percent in year 2004/05.

State Bank of India market share is 8.09 in year 2004/05. Its deposit collection is increased in following year but decline in year next two year. However bank market share of deposit is increased to 11.2 percent in year 2008/09.

Nepal investment and commercial bank performance in collecting market deposit is lowest compared to selected other banks. The market share of deposit in year 2004/05 is only 5.83 percent. Bank market share of deposit is fluctuating over the period. Bank market share of deposit in the year 2008/09 is 6.24 percent.

4.1.2 Market share of loan

Table:4.3

Market share of loan in amount (in millions)

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Average
Group A						
SCBNL	9143.20	9206.28	10502.64	13718.60	13679.76	11250.10
NBL	10586.17	12922.54	15545.78	21365.05	27589.93	17601.89
EBL	7618.67	10136.25	13664.08	18339.09	23884.67	14728.55
Group B						
NIBL	9933.08	12776.20	17286.43	26996.65	36241.20	20646.71
HBL	12424.52	14642.55	16997.99	19497.52	24793.16	17671.15
BOK	5912.57	7259.08	9399.33	12462.64	14647.29	9936.18
Group C						
SBI	6213.87	7626.73	9460.45	12113.70	15131.75	10109.30
NIC	4711.71	6655.96	8941.00	11264.68	14593.35	9233.34
Total	66543.79	81225.59	101797.70	135757.93	170561.11	111177.22

Source:SEBON Annual Report

The banks flow of fund in the area of loans or advances determine the market share of loan. The major income source of commercial banks is the interest from loan. So, higher the market share of loan, higher is the performance of the banks. Flow of available resources to the portfolio of loan is an important operational activity of commercial bank. The life of bank depends on the efficiency of market share of loan.

The following table shows market shares of loan of selected commercial banks.

Table: 4.4

Market Share of Loan in Percentage

Banks	2004/05	2005/06	2006/07	2007/08	2008/09
Group A					
SCBNL	13.74	11.33	10.32	10.11	8.02
NBL	15.90	15.90	15.27	15.74	16.18
EBL	11.44	12.47	13.42	13.51	14.00
Group B					
NIBL	14.92	15.72	16.98	19.89	21.25
HBL	18.67	18.02	16.70	14.36	14.54
BOK	8.88	8.93	9.23	9.18	8.59
Group C					0.00
SBI	9.33	9.38	9.29	8.92	8.87
NIC	7.08	8.19	8.78	8.30	8.56
Total	100.00	100.00	100	100	100

Source:SEBON Annual Report

Though the Himalayan bank plays the leading role in lending loans in year 2004/05, Nepal investment bank is the leader in the market in year 2008/09. HBL has the market share of 18.67 in the beginning of the study period but its contribution to the overall deposit is limited to 14.54 percent where as market share of investment bank is 14.92 in the year 2004/05 but now it increased to 21.25 percent. Its shows that investment bank in doing well in lending loans to the public

Nabil bank Ltd. is in 2nd position in lending loan to the public. Bank lending percent is almost consistent over the study period. Bank percent of lending from year 2004/05 to 2008/09 is

almost 15 percent. But in the year 2008/09 bank lending percentage is increased to more than 16 percent.

Standard chartered bank Nepal limited market share of lending is not satisfactory. In the year 2004/05 the bank market share is 13.74 percent but it decline continuously over the period and limited to 8.02 in the year 2008/09.

Everest bank limited market share of loan is satisfactory over the period. Everest bank is the bank which has increased its market share of loan over study frame. Bank market share of loan is 11.44 percent in the year 2004/05 but the market share of the bank is 14 percent in the year 2008/09.

Bank of Kathmandu market share of lending increased from year 2004/05 to year 2006/07 but afterward bank market share started to decline and in the year the bank market share of lending is limited to 8.59 percent. The bank high market share is in the year 2006/07 and it is 9.23 percent.

Nepal SBI bank ltd. market share of loan is almost constant till the year 2006/07 but the market share is declined in the following year. The market share of lending of Nepal SBI bank is 9.33 in the year 2004/05 and it decline to 8.87 in the year 2008/09

4.1.3 Market share of investment

Table:4.5

Market Share of Investment (In Million)

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Average
Group A						
SCBNL	21893.57	25776.33	28596.67	33335.79	40587.47	30037.97
NBL	17186.33	22329.97	27253.39	37132.76	43867.39	29553.97
EBL	11792.12	15959.28	21432.57	27149.34	36916.85	22650.03
Group B						
NIBL	16274.06	21330.13	27590.31	38873.31	53010.8	31415.72
HBL	28871.43	30579.08	33519.14	36175.53	39320.32	33693.10
BOK	9857.13	12278.32	14581.39	17721.93	20496	14986.95
Group C						
SBI	10345.37	13035.83	13901.2	17187.45	30916.68	17077.31
NIC	7508.06	10383.6	11679.34	15238.74	18750.63	12712.07
Total	123728.07	151672.54	178554.01	222814.85	283866.14	192127.12

Source:SEBON Annual Report

Commercial bank's investment in government securities provide a cushion against unanticipated deposits withdrawal from deposits previously they are required to place a certain percentage of their deposits into government securities, however, under existing regulatory provisions. It is not mandatory to place certain percentage of their total deposits in specified securities such as government securities and the NRB bonds. A major part of commercial banks investment comprises of investments made in government securities the remaining part of investment is made against share and debentures of public limited companies most of the banks have made priority sector program targets set by Nepal Rastra

bank. The market shares of investment of each of these banks are presented in the following table.

Table:4.6

Market Share of Investment in Percentage

Banks	2004/05	2005/06	2006/07	2007/08	2008/09
Group A					
SCBNL	25.19	26.12	20.09	24.10	28.02
NBL	11.1	12.56	13.26	17.22	14.99
EBL	5.52	8.54	7.39	8.76	8.24
Group B					
NIBL	10.21	11.39	9.64	11.91	10.25
HBL	30.36	22.13	17.53	23.11	12.06
BOK	6.74	6.86	4.44	5.55	3.85
Group C					
SBI	6.77	7.34	3.94	5.35	18.40
NIC	4.08	5.04	6.77	4.00	4.19
Total	100	100	100	100	100

Source:SEBON Annual Report

Standard charter bank Nepal limited investment is highest over the period. The bank investment is 25.19 percent of market investment in the year 2004/05 and is 28.02 in year 2005/06. Its shows that the bank is the leader in investment.

Himalayan bank limited is in the second position in investment in the beginning year but till the year 2008/09 Nabil bank ltd. and Nepal SBI bank ltd. is ahead. Himalayan bank market

share is continuously declining over the period. It reveals that the bank in not focusing in investment

Nabil bank market share of investment is increasingly continuously except in the year 2008/09. The bank market share is decline to 14.99 in the year 2008/09 as compared to year 2008/09 of 17.22 percent.

Everest bank limited market share of investment is 5.52 percent of market investment. Following year it increased to 8.54 percent and decline next year. Again the bank market share increased and then decreased in year 2008/09. This shows that the bank market share of investment is highly fluctuating.

Though Nepal investment bank market share of deposit and lending is at the top but in term of investment bank is in 5^{th} position in the year 2008.09. Bank market share in the year 2004/05 is 10.21 and its market share is almost same in year 2008/09 i.e. 10.21 percent.

Bank of Kathmandu market share of investment is in increasing trends. However, the bank investment percent is slightly low in the year 2004/05.

Nepal SBI bank ltd. investment increment in the year 2008/09 is remarkable. The bank increased its investment proportion to 18.40. The bank investment in the year 2007/08 is only 5.35 percent.

Nepal industrial commercial bank limited market share of investment is increasing continuously from the beginning to year 2006/07 but afterward the bank investment is declining. In the year 2008/09 the bank investment is 4.19.

4.1.3 Market shares of total assets

Table:4.7

Market Share of Total Assets (In Millions)

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	AVERAGE
Group A						
SCBNL	21893.57	25776.33	28596.67	33335.79	40587.47	30037.97
NBL	17186.33	22329.97	27253.39	37132.76	43867.39	29553.97
EBL	11792.12	15959.28	21432.57	27149.34	36916.85	22650.03
Group B						
NIBL	16274.06	21330.13	27590.31	38873.31	53010.8	31415.72
HBL	28871.43	30579.08	33519.14	36175.53	39320.32	33693.10
BOK	9857.13	12278.32	14581.39	17721.93	20496	14986.95
Group C						
SBI	10345.37	13035.83	13901.2	17187.45	30916.68	17077.31
NIC	7508.06	10383.6	11679.34	15238.74	18750.63	12712.07
Total	123728.07	151672.54	178554.01	222814.85	283866.14	192127.12

Source:SEBON Annual Report

The total of year-end balance sheet figure is used to analyze the market shares to total assets. It is presented in the following table.

Table:4.8

Market share of Total Assets in Percentage

Banks	2004/05	2005/06	2006/07	2007/08	2008/09
Group A					
SCBNL	17.69	16.99	16.02	14.96	14.30
NBL	13.89	14.72	15.26	16.67	15.45
EBL	9.53	10.52	12.00	12.18	13.01
Group B					0.00
NIBL	13.15	14.06	15.45	17.45	18.67
HBL	23.33	20.16	18.77	16.24	13.85
BOK	7.96	8.09	8.17	7.95	7.22
Group C					
SBI	8.36	8.59	7.79	7.71	10.89
NIC	6.06	6.84	6.54	6.84	6.61
Total	100	100			

Source:SEBON Annual Report

Standard Chartered bank Nepal limited market share of total asset is 17.69 percent in year 2004/05 but the bank market share of total assets reduce to 16.99 percent in year 2005/06 and in the year 2008/09 the market share is 14.30 percent. It is seen that market share of total assets of standard charter bank is in declining trend.

Nabil bank limited total assets position is in 2nd position. Bank assets in increasing continuously over the period but in the year 2008/09 it decline. Similarly, Everest bank limited market share of deposits is in increasing trend. The bank market share of deposit is only 9.53 percent in year 2004/05 but 13.01 percent in year 2008/09.

Nepal investment bank has shown good performance in increasing its total assets. In the year 2004/05, the bank market share of deposit is only 13.15 percent but it is 18.67 percent in year 2008/09 which is the highest percentage among other banks.

It is seen that Himalayan bank limited market share of deposit is highest in the year 2004/05 but it decline and in the year 2008/09 the bank is in 4^{th} position. The bank market share is 13.85 percent.

Bank of Kathmandu market share of total assets is continuously increasing till the year 2006/07 and decline afterward. The bank market share of total assets is 7.22 in the year 2008/09.

State bank of India market share of total assets is 8.36 percent in year 2004/05. The bank market share increased till year 2005/06 and decline in next two year. The bank market share is 10.89 percent in the year 2008/09.

Nepal Industrial commercial bank market share of total asserts is increasing in the year 2004/05 to 2007/08. In year 2004/05 market share of total assets of Nepal Industrial and commercial bank is 6.06 percent and it declined in the year 2008/09 to 6.61 percent.

4.2 Trend Analysis of Various Financial Indicaors

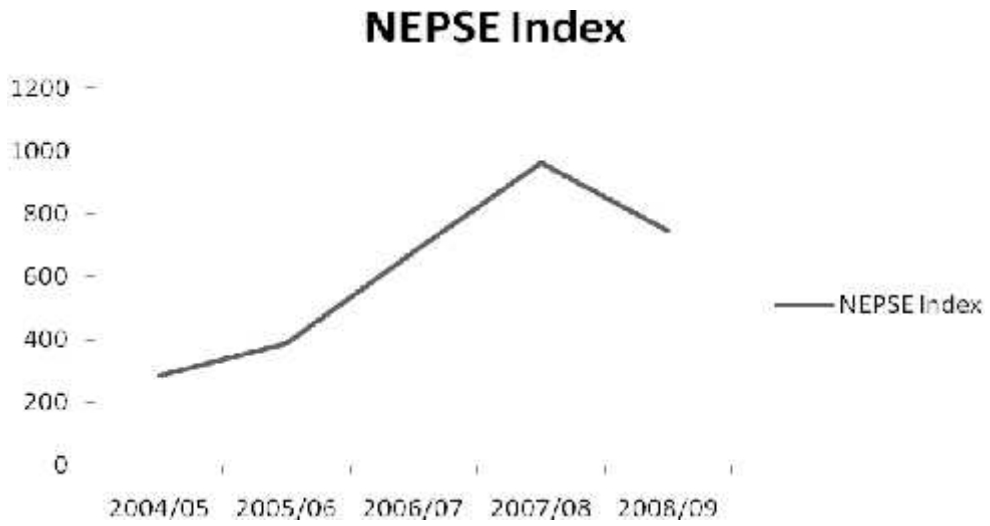
The various financial indicators that determine the price of the share in the stock market are presented in this topic. This analysis supports any person who wants to predict the future price of the share. The major trends that are present below are as follow:

1. Trends of NEPSE Index
2. Trends of P/E ratio
3. Trends of Earning per share
4. Trends of market price
5. Trends of cash dividend
6. Trends of Stock dividend
7. Trends of Non- performing loan
8. Trends of net income

4.2.1 NEPSE index

Year	2004/05	2005/06	2006/07	2007/08	2008/09
NEPSE Index	286.67	386.83	683.95	963.36	749.10

Source: SEBON annual report



NEPSE index in year 2004/05 is 286.67. It increased continuously to year 2007/08. From the year 2008/09 NEPSE Index started to decreased. NEPSE Index is 749.10 in the year 2008/09. Highest index is in the year 2007/08, where the index is 963.36 points.

Earning Per share

Table:4.9

Earning per share

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Average
Group 'A'						
SCBNL	143.14	175.84	167.37	131.92	109.99	145.30
NABIL	105.49	129.21	137.08	108.31	106.76	113.23
EBL	54.22	62.78	78.4	91.82	99.99	72.13
Group 'B'						
NIBL	39.5	59.35	62.57	57.87	37.42	51.40
HBL	47.91	59.24	60.66	62.74	61.90	56.91
BOK	30.1	43.67	43.5	59.94	54.68	43.23
Group 'C'						
SBI	13.29	18.27	39.35	28.33	36.18	24.94
NIC	22.75	16.1	24.01	25.75	27.83	21.68

Source:SEBON Annual Report

SCBNL EPS is 143.55 in the year 2004/05 and it is almost same in the following year. In the year 2004/05 the bank earning per share is below the average. It indicates that the bank in increasing its earning if following year. In the year 2008/09 earning per share of the bank decline, it is due to the increase in the number of share outstanding.

NBL has increased it's earning per share till year 2006/07 but after that date the figure decline. If we compare the banks earning per share in 2004/5 with its average earning figure

then the bank performance is below average. The bank highest earning per share is in the year 2006/07.

Everest bank limited continuously increases its earning per share except in the year 2007/08. First two year the bank earning per share is below average but in the other years bank EPS is more than average.

Investment bank limited earning per share increases but with the fluctuation. There is a continuous increase in EPS up to the year 2006/07 and then decline.

Earning per share of Himalayan Bank Limited is increasing continuously except in the year 2008/09. Bank earning per share in the year 2004/05 is 47.91 and it increased to 61.90 in the year 2008/09.

Bank of Kathmandu Limited Earning per share is also satisfactory but there is a fluctuation in its earning. In the year 2004/05 the bank earning per share is 30.10 but it is 54.68 in the year 2008/09. .

State Bank of India earning per share is remarkable in the year 2006/07. Its earning per share at that year is 39.35 which is highest in the study period. Similarly Nepal industrial and commercial bank increases it earning per share continuously after the year 2005/06. It is the bank which has increased its earning regularly after the year 2005/06 The bank earning per share in the year 2004/05 is 22.75 and the bank earning per share is 27.83 in the year 2008/09.

4.2.3 Trends of market price

Table:4.10

Trend of market price

Banks	2004/05	2005/06	2006/07	2007/08	2008/09
Group 'A'					
SCBNL	2345	3775	5900.00	6830.00	6010.00
NABIL	1505	2240	5,050.00	5,275.00	4,899.00
EBL	870	1379	2430	3132	2455
Group 'B'					
NIBL	800	1260	1,729.00	2,450.00	1,388.00
HBL	920	1100	1740.00	1980.00	1,760.00
BOK	430	850	1375	2350	1825
Group 'C'					
SBI	335	612	1176.00	1511.00	1900.00
NIC	366	496	950.00	1,284.00	1,126.00

Source:SEBON Annual Report

andard charter bank Nepal limited market price of share is in increasing order. In the year 2004/05 the bank market price is only Rs. 2345. Market price of the bank is more than double in the year 2006/07. The bank highest share price is in the year 2008/09 i.e. Rs.6010.

Nabil bank limited market price of share is increased remarkably. In the year 2004/05 the bank market price of share is only Rs. 1505 but after the year market share is increased to Rs.5275 in the year 2007/08. The bank market price of share increased more than three times over the period. The bank highest market price is in the year 2007/08.

Everest bank market price of share is Rs.870 in the year 2004/05 and bank share price continuously increased to the year 2007/08, the bank market price of share is Rs3132, which is the highest share price till the date. The bank market price increased more than three times over the study period. And in the year 2008/09 it decreased to Rs. 2455.

NIBL market share is Rs. 800 in the year 2004/05. It continuously increased and in the year 2007/08, the share price of investment bank is Rs. 2450. The bank highest share price is also in the year 2007/08. And in the year 2008/09 it decreased to Rs. 1388

HBL market price of share is Rs 920 in the year 2004/05.The bank market share continuously increased over the period. The market price of share in the year 2007/08 is Rs. 1980 which is highest share price from year 2004/05 to 2007/08.After that it declined to Rs. 1760.

BOK share price is Rs 430 in the year 2004/05. It increased in the period 2004/05 to 2007/08, however, it decline to Rs 1825 in the year 2008/09.

State bank of India market price of share is Rs 335 in year 2004/05.Its market price of share is in increasing order. In the year 2008/09 share price of the bank increased to Rs 1900.

NIC market price of share is Rs 336 in the year 2004/05 it increased continuously till the year 2007/08 to Rs 1284. But in the year 2008/09 it declined to Rs1126.

It is to be noted that the entire bank share price is increased till the year2007/08. After ward it declined.

4.2.4 Price earning ratio

Price earning ratio is also known as P/E ratio. P/E ratio is simply a ratio of the current market value (price) of a stock divided by its earning per share (EPS). It is said that very high P/E ratio is more risky to the investors. There is a chance of market crash if the P/E ratio is very high.

Table:4.11

Price earning ratio

Banks	2004/05	2005/06	2006/07	2007/08	2008/09
Group 'A'					
SCBNL	16.38	21.47	35.25	51.77	54.64
NABIL	14.27	17.34	36.84	48.70	52.52
EBL	16.04	21.97	31	34.1	24.55
Group 'B'					
NIBL	20.25	21.23	27.63	42.33	37.10
HBL	19.2	18.57	28.69	31.56	28.43
BOK	11.18	19.46	31.61	39.21	33.37
Group 'C'					
SBI	25.21	33.49	29.89	53.34	52.52
NIC	16.09	30.81	39.56	49.86	40.46

Source:SEBON Annual Report

The P/E ratio of Standard Chartered Bank Nepal Limited is increasing continuously over the period. P/E ratio in year 2004/05 is 16.68, 21.68 in year 2005/06 and increased to 35.25 in

year 2006/07. Similarly the P.E ratio increased to 54.64 in the year 2008/09. More P.E ratio indicates the high risk.

Similarly, Nabil bank ltd. P/E ratio is 14.27 in year 2004/05 and increased continuously to 52.52 in the year 2008/09. Market price of share is increased more than it's earning.

Everest bank limited P/E ratio is gradually increased over the period but in the year 2008/09 Price earning ratio decline. The bank highest PE ratio is in the year 2007/08.

Nepal investment bank ltd. PE ratio is highest in year 2007/08. In this year the bank's PE ratio is 42.33 which is highly risky. But in the year 2008.09 it decline to 37.10. It is also the risky PE ratio to the investors.

Himalayan bank limited P/E ratio continuously increased from year 2004/05 to year 2007/08. In the year 2004/05 the bank PE ratio is 19.2 but it was 31.56 in the year 2007/08. Afterwards it decline to 28.43.

Bank of Katmandu P/E ratio is only 11.18 which is safe for investment but the bank ratio increased continuously till the year 2007/08 and then decline to 33.37 in the year 2008/09 which is riskier.

Nepal investment and commercial bank limited P/E ratio is acceptable in year 2004/05 but it increased continuously till the year 2007/08 and decline to 40.46. In simple term high PE ratio indicates that the company is risky to invest in secondary market.

It can be concluded that all selected bank PE ratio increased continuously till the year 2007/08 but after that it decline.

4.2.5 Trends of Book Net worth

Table:4.12

Trends of Book Net worth

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Average (BNW)	Average market price
Group 'A'							
SCBNL	422.38	468.21	512.12	401.52	327.53	426.35	4434.17
NABIL	337	381	418	345	324	361	3328.17
EBL	92.89	217.67	292.75	321.77	313.64	247.74	1824.33
Group 'B'							
NIBL	200.79	239.66	418.00	345.00	162.72	273.3	1427.83
HBL	239.59	228.72	264.74	247.95	256.52	247.5	1390
BOK	213.6	230.6	164.68	222.51	206.25	207.53	1187.5
Group 'C'							
SBI	159.54	151.77	131.88	160.57	194.68	159.74	973.5
NIC	136.83	127.74	140	140	145.58	138.03	740

Source:SEBON Annual Report

Book net worth of commercial banks is too less than their market price. During the study period market price of every selected banks is too high than their book net worth. In average also, all the banks market price is very high. Standard charter bank Nepal limited average book net worth is per share Rs 426.35 whereas the average market price per share is Rs

4434.17. It is more than ten times compare to its book net worth per share. Similarly, Nabil bank ltd. average market price per share is also ten times than its average book net worth per share. The bank book net worth per share is Rs 361 but its market price is Rs 3328. Everest bank ltd average MPS is 247.74 and average market price is 1824.33.

Nepal investment bank limited book net worth per share is only Rs 273.30 but its market price is more than three times high to Rs 1427.83. Similarly Himalayan bank limited average book net worth Rs247.53 and average market price is Rs 1390.

As compare to other banks Bank of Kathmandu's average book net worth per share and average market price per share did not look too different. The bank average net worth is Rs 207.53 and average market price per share is Rs 1187.5.

Nepal SBI ltd. average book net worth per share is Rs 159.74 whereas its market price per share is Rs 973.5. Similarly, Nepal industrial and commercial bank book net worth per share is Rs 138.03 and its average market price per share is Rs 309.

4.2.6 Trend of Cash Dividend

Table: 4.13

Trend of Cash Dividend

Banks	2004/05	2005/06	2006/07	2007/08	2008/09
Group 'A'					
SCBNL	120	130	80	80	50
NABIL	70	85	100	60	35
EBL	0	25	10	20	30

Group 'B'					
NIBL	12.50	20	5	7.50	20
HBL	11.58	30	15	25.00	12
BOK	15	18	20	2.11	7.37
Group 'C'					
SBI	-	5	12.59	-	2.11
NIC	10	0.53	1.05	1.05	0.79

Source:SEBON Annual Report

Standard Chartered Bank Nepal limited shareholder get more cash dividend than other bank shareholders. The bank paid 120 percent cash dividend in year 2004/05. The bank able to pay 130 percent cash dividend to its shareholder in year 2005/06 and afterward it declined to 80 percent and then 50 percent over the year i.e. 2006/07 to 2008/09.

As same as Standard Chartered Bank Nepal Ltd., Nabil Bank Ltd. continuously paid dividend to its shareholders over the period of time. Nabil Bank Ltd. paid 70 percent cash dividend in year 2004/05 and percent increased to 85 percent in year 2005/06. The bank paid 100 percent cash dividend in the year 2006/07. But, bank paid 60 and 35 percent in year 2007/08 and 2008/09 respectively.

Everest bank limited did not paid cash dividend in year 2004/05 but the bank paid 25 and 10 percent in year 2005/06 and 2006/07. Everest bank paid 20 percent and 30 percent dividend in year 2007/08 and 2008/09

Investment bank paid 12.5 percent cash dividend in year 2004/05 but the investors in the bank receive 20 and 5 percent in year 2005/06 and year 2006/07. The bank paid 7.5 percent cash dividend in year 2007/08. It is to be noted that the bank paid 55.46 percent cash dividend in year 2005/06.

Though Himalayan bank limited paid 11.58 percent cash dividend to its share holders in year 2004/05. In the year 2005/06 it paid highest cash dividend i.e. 30 percent. But it paid only 15 percent dividends in year 2006/07.Again it increase cash dividend in year 2007/08 to 25 percent. The bank paid 12 percent dividend in year 2008/09.

Bank of Kathmandu paid 15 percent cash dividend in year 2004/05.It paid 18 and 20 percent cash dividend to its shareholder in the year 2005/06 and 2006/07. But in the year 2007/08 Bank paid only 2.11 percent. Similarly the bank paid 7.37 percent cash dividend to its shareholders in year 2008/09.

State bank of India didn't paid cash dividend to its shareholders in year 2004/05 and 2007/08 But the bank paid 5 and 12.59 percent dividend in year 2005/06 and 2006/07 respectively.

Nepal Industrial and commercial bank paid cash dividend 11.58 percent in 2004/05. But it decrease to 0.53 in year 2005/06. In the year 2006/07 and 2007/08 the bank paid equal cash dividend to its share holder i.e. 1.05 percent. But in the year end 2008/09 it paid only 0.79 percent cash dividend.

4.2.7 Trend of Stock Dividend

Table:4.14

Trend of Stock Dividend

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Average
Group 'A'						
SCBNL	-	10	50	50	50	40
NABIL	-	-	40	40	50	43.33

EBL	20	0	20	10	-	12.50
Group 'B'						
NIBL	-	-	25	15	8	16.00
HBL	20	5	25	20	31	20.20
BOK	-	30	-	40	40	36.67
Group 'C'						
SBI	-	-	35	-	40	37.50
NIC	20	10	20	20	15	17

Source:SEBON Annual Report

Standard chartered Bank Nepal ltd didn't paid stock dividend in the year 2004/05. After the year Bank paid 10 percent in year 2005/06. It is increased in year 2006/07 to 50 percent and remains constant till the year 2008/09.

Nabil bank also didn't pay stock dividend in the two year 2004/05 and 2005/06. But it paid continuously equal dividend in the year 2006/07 to 2007/08 that is 40 percent. Again it increased to 50 percent in the year 2008/09.

Stock dividend of Everest bank ltd in year 2004/05 is 20 percent and Bank didn't paid dividend in year 2005/06 and 2008/09. But Bank paid 20 and 10 percent stock dividend in the period 2006/07 to 2007/08.

Nepal Investment Bank didn't paid stock dividend in the year 2004/05 and 2005/06.Bank paid 25 percent stock dividend in year 2006/07. And there after Bank paid 15 and 8 percent stock dividend in year 2007/08 and 2008/09.

Stock Dividend of Himalayan Bank Ltd in year 2004/05 was 20 percent. Stock Dividend decreased in the year 2005/06 but again it increased to 25 percent in year 2006/07.

Fluctuation rate is very high in the whole period. In the year 2007/08 it decreased to 20 percent but again in the year 2008/09 it increased to 31 percent.

Stock dividend of Bank of Kathmandu is 30 percent in the year 2005/06 but it didn't paid stock dividend in the year 2004/05 and 2006/07. It increased in year 2007/08 to 40 percent in year 2006/07 and remains constant in the year 2008/09.

Stock dividend of State Bank of India Nepal Ltd. Didn't paid dividend in the year 2004/05, 2005/06 and 2007/08. Bank paid 35 percent dividend in year 2006/07, after that the bank paid 40 percent in the year 2008/09.

Nepal Industrial and Commercial Bank paid 20 percent stock dividend in year 2004/05.But it decreased to 10 percent in year 2005/06.In the year 2006/07 and 2007/08 it remain constant to 20 percent. Bank paid 15 percent in the year 2008/09.

4.2.8 Non- Performing Loan / Total Loan

Table:4.15

Non Performing Loan/Total Loan

Banks	2004	2005	2006	2007	2008	2009
SCBNL	3.77	2.69	2.13	1.83	0.92	0.66
NBL	3.35	1.31	1.38	1.12	0.74	0.80
EBL	1.7	1.6	1.27	0.8	68	0.48
NIBL	2.47	2.69	2.07	2.37	1.12	0.58
HBL	8.88	7.44	6.6	3.61	2.36	2.16
BOK	6.66	4.99	2.72	2.51	1.86	1.27
SBI	6.25	6.54	6.13	4.56	3.83	2.02

Source:SEBON Annual Report

Non performing asset of standard charter bank limited is in decreasing order which shows the better performance of the bank. From the year 2004 the bank NPA is not high. In the year 2004 the bank NPA is 3.77 which decline to .66 in the year 2009.

Nabil Bank Ltd. NPA is decreasing year by year from year 2004 to year 2009. The bank NPA is 3.35 in year 2004 and started to decrease. As a result the bank NPA is .80 in the year 2009.

Nepal Investment Bank Ltd. NPA is 2.47 in 2004 afterwards it increased to 2.69 in 2005 which is very highest as compared to other years. In the year 2006 it decreased to 2.37 percent But the NPA is increased to 2.37 in 2007. After that the bank NPA decline to 1.12 and 0.58 in 2008 and 2009.

Same as the Standard Chartered Bank Nepal Ltd., Himalayan bank limited decreased its NPA over the period of time. The bank NPA is 8.88 in 2004 and its remarkable decreased its non performing asset to 2.16 in 2009.

Bank of Kathmandu Ltd. NPA is 6.66 in 2004. There is decreasing in its non performing assets over the period. As a result the bank NPA is only 1.27 in 2009.

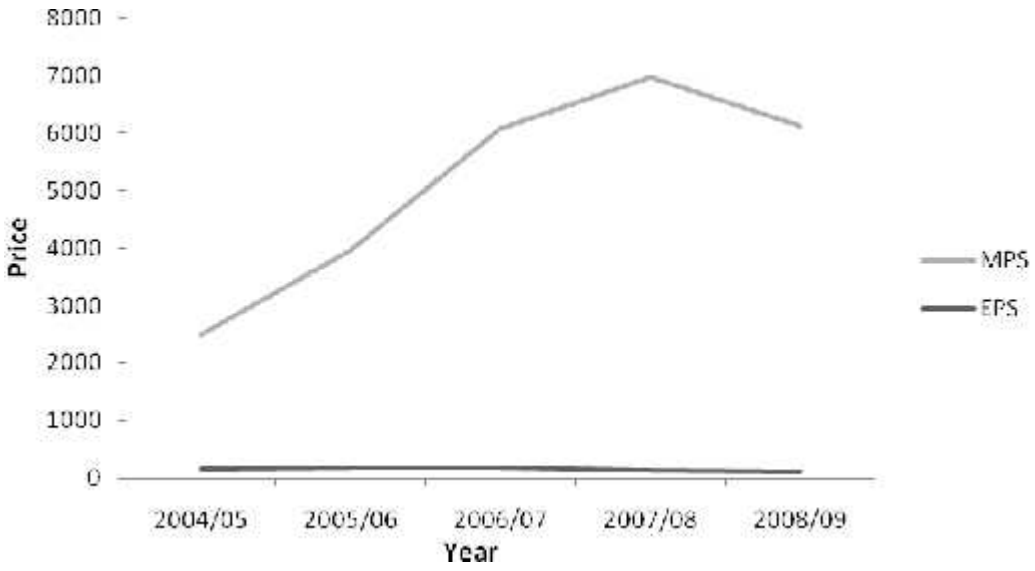
Nepal SBI Bank ltd. NPA is 6.25 in 2004 but the bank loan collection seemed poor in 2005 because the bank NPA increased to 6.54 but after the period its showed efficiency and reduce NPA level to 6.13 and 4.56 in 2006 and 2007 respectively and further it decreased to 2.07 in 2009.

4.3 Comparison of Earning Per Share with Market Price

Standard Chartered Bank Nepal Limited

Figure:4.2

Comparison of EPS and MPS of Standard Chartered Bank

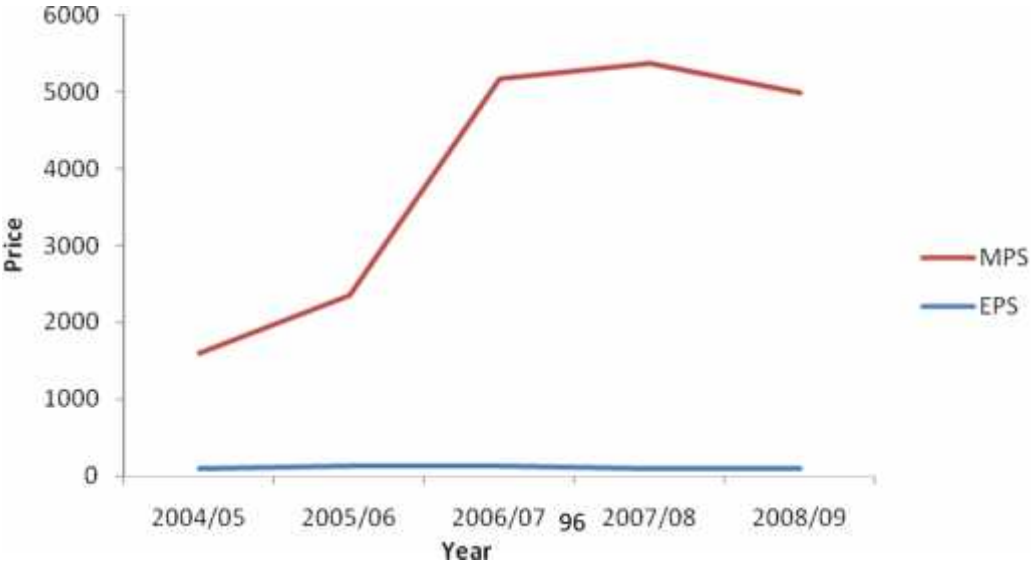


Standard Chartered Bank Nepal Limited market price of share is Rs.2345 when the bank earning per share is Rs 143.14 in year 2004/05. The bank market price is correlated with its earning in the year 2005/06 because market price of share increased with the increased in earning per share. Earning per share in the year 2006/07 to 2008/09 declined but the market price of share increased. In the year 2007/08 market price of share is at top i.e. Rs 6830, as expected market price of share is also decreased in year 2008/09

Nabil Bank Limited

Figure:4.3

Comparison of EPS and MPS of Nabil Bank Limited

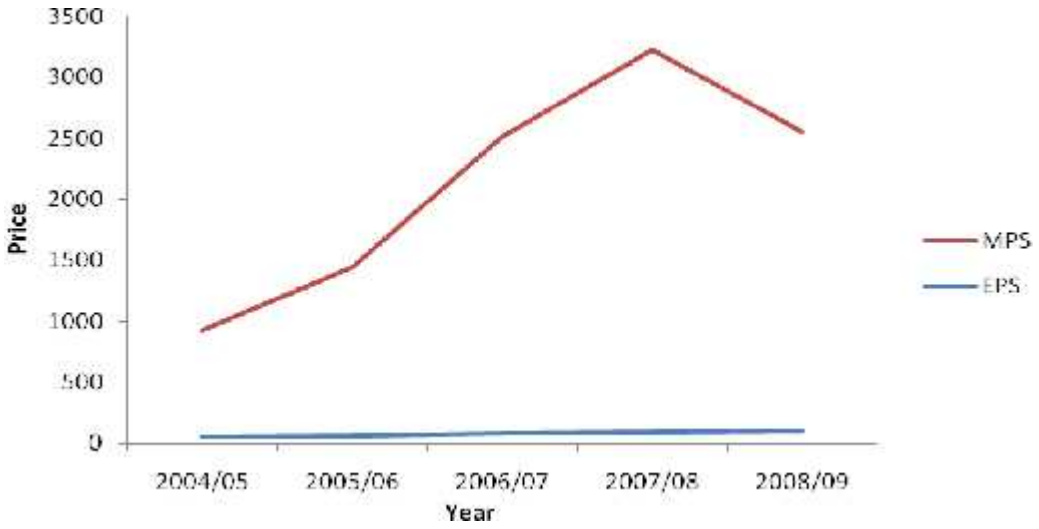


Nabil bank ltd. market price of share is Rs 1505 when bank's earning per share is Rs 105.49. Over the period market price of share increased with the increased in its EPS. It is to be noted that in the year 2005/06, although EPS increased by Rs 23.72, market price of share increased only with Rs 735. Nabil bank limited highest market price is in year 2007/08 and highest earning per share is in 2006/07.

Everest Bank Limited Ltd.

Figure:4.4

Comparison of EPS and MPS of Everest Bank Ltd.

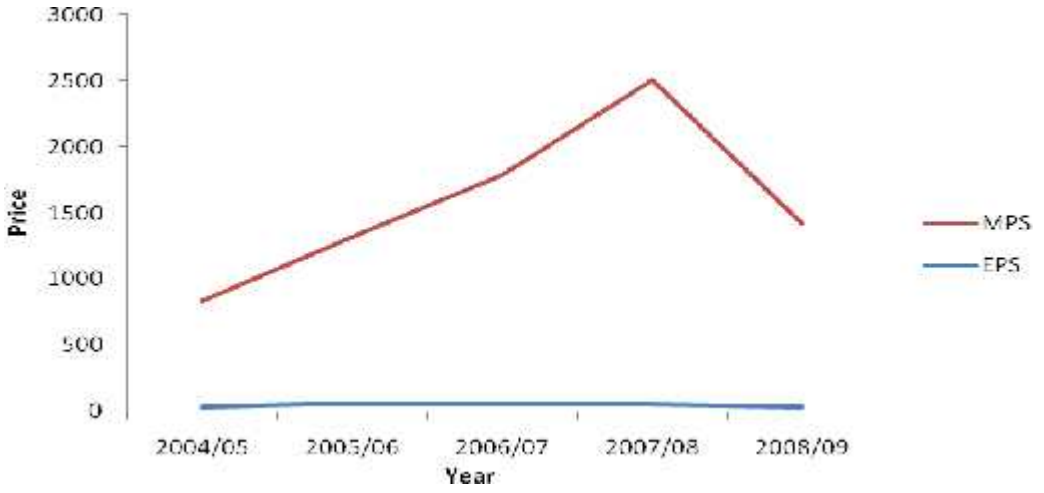


Everest bank limited earning per share and market price of share increased year by year. In the year 2004/05 the bank EPS is Rs 54.22 with the market price of Rs 870. It continuously increased over the period. The bank earning per share is Rs 99.99 in the year 2008/09 which is the highest earning per share and market price over the study period. It is seen that till year 2004/05 earning per share and market price of share increased in almost same proportion but in the year 2008/09 market price of share decreased by to Rs 2455 from market price in year 2007/08 i.e. Rs 3132.

Nepal Investment Bank Ltd

Figure:4.5

Comparison of EPS and MPS of Nepal Investment Bank Ltd

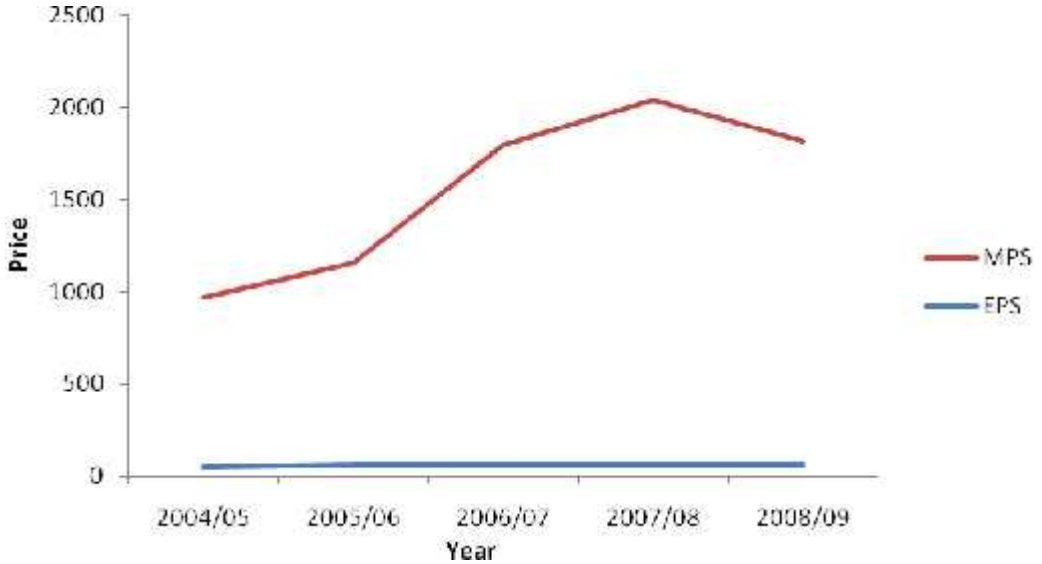


Nepal investment bank market price of share is Rs 800 in year 2004/05 with earning per share of Rs 39.5. The bank market price increased till year 2007/08 but earning per share increased to the year 2006/07. In the year 2008/09, the bank earning per share decreased to Rs 37.42 and the market price decreased to Rs 1388.

Himalayan Bank Limited

Figure:4.6

Comparison of EPS and MPS of Hamalayan Bank Ltd.

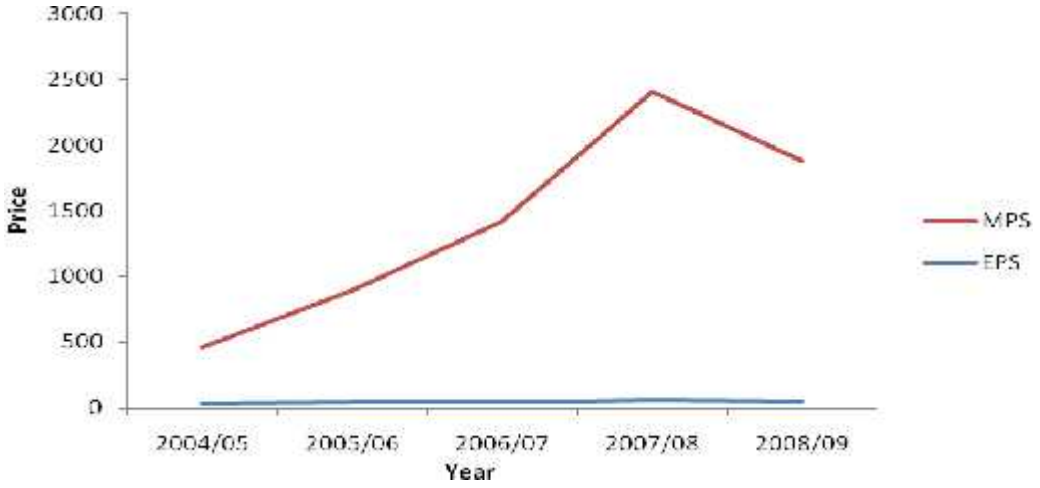


Himalayan bank limited market price of share is Rs 920 in the year 2004/05 with earning per share of Rs 47.91. The bank market price and earning price of share increased till the year 2007/08 but after the date bank market price of share decreased with the decreased in earning per share. In year 2008/09 the market price and earning price of share is Rs1760 and Rs 61.9 respectively.

Bank of Kathmandu Limited

Figure:4.7

Comparison of EPS and MPS of BOK

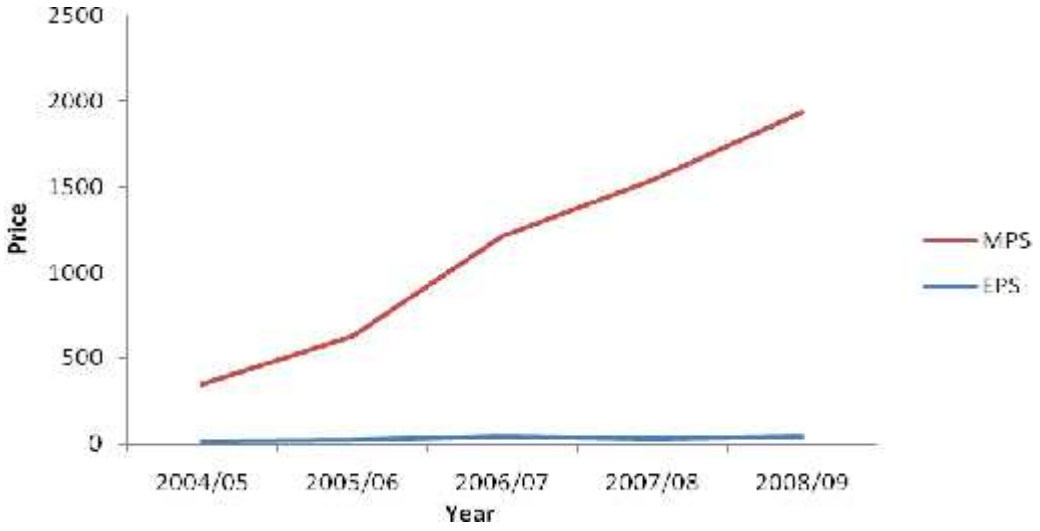


Bank of Kathmandu earning per share is Rs 30.1 in year 2004/05 whereas its market price of share is Rs 430. In the following year bank's both market price and earning per share increased to Rs 850 and Rs 43.67 respectively. Bank of Kathmandu highest market price and EPS is in year 2007/08 where the bank market price is Rs 1980 and earning per share is Rs 59.94. In the year 2008/09 its market price and earning price decreased to Rs 1835 and 54.68.

Nepal SBI Bank Ltd.

Figure:4.8

Comparison of EPS and MPS of Nepal SBI bank Ltd.

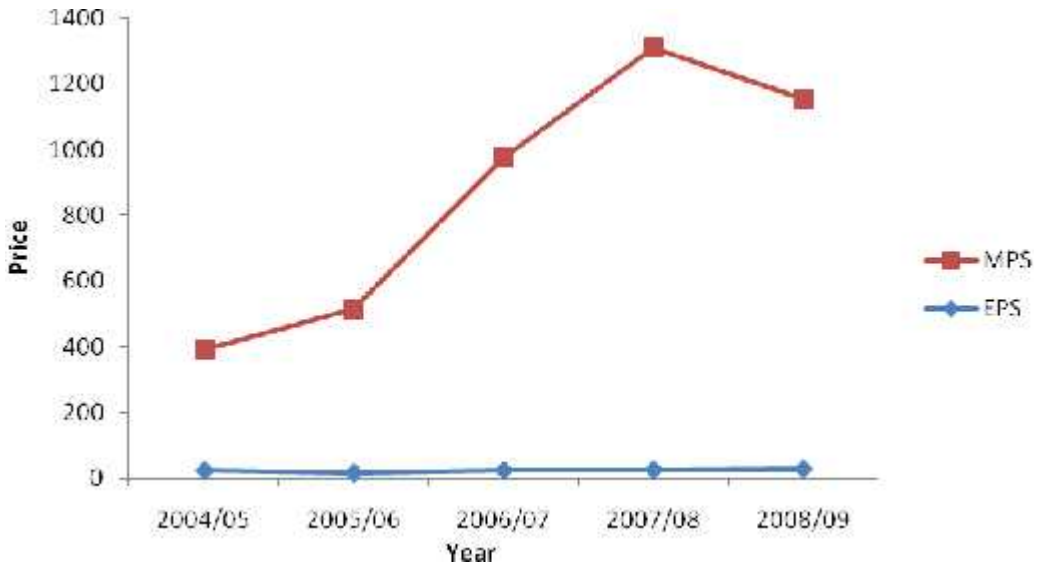


Nepal SBI Bank Ltd. earning per share increased continuously over the studied period. However, market price looked fluctuating. In year 2004/05 EPS of the bank is only Rs 1.29 and market price is Rs 335. In the year 2005/06 earning per share is Rs 18.27 and market price is only Rs 612. The bank highest market price of share and earning per share is in year 2008/09.

Nepal Industrial and Commercial Bank Ltd.

Figure:4.8

Comparison of EPS and MPS of NIC Bank Ltd.



In the year 2004/05, Nepal industrial and commercial bank earning per share is only Rs 22.75 and the market price of share is Rs 366. Earning per share of the bank decreased in year 2005/06 to Rs 16.1 but market price increased to Rs 496. In year 2007/03 earning per share increased to Rs 24.01 but market price increased to 950. NIC bank highest earning per share is in year 2008/09 i.e. Rs 27.83 and market price is in year 2007/08 i.e. 1284.

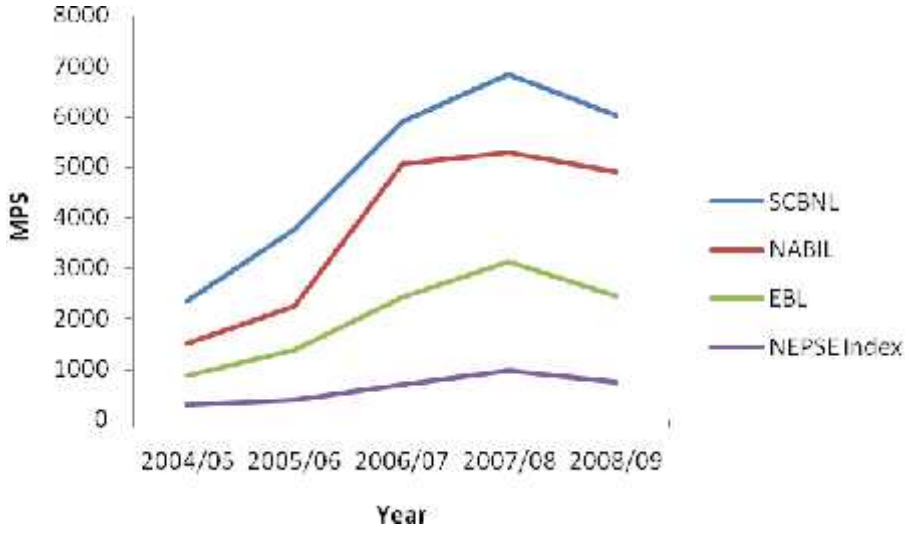
4.4 Comparison of NEPSE Index with Market Price

The comparisons between the various classes of commercial banks with the NEPSE Index have been done in this section.

4.4.1 Comparison Of Group "A" Commercial Bank Market Price with NEPSE Index

Figure:4.10

Comparision of Group A commercial Bank MPS with NEPSE Index

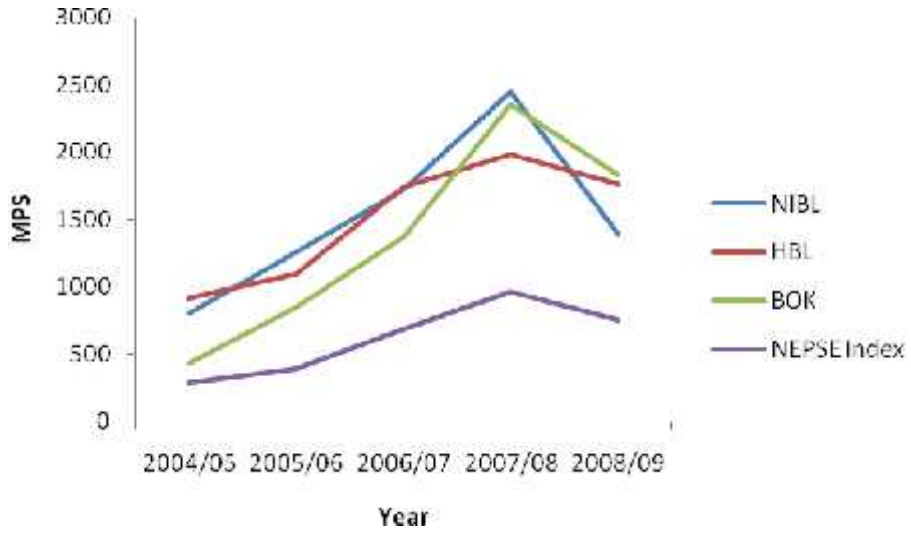


Standard chartered bank Nepal market price increased with the increment in NEPSE index except in the year 2008/09 where market price of share and the index is declined. In year 2004/05 market price of share of SCBNL is Rs2345. In the same time market index is 286.67 whereas in year 2008/09, index is 749.1 and the market price of share of the bank is 6010. Though the index decreased in year 2005/06, market price of share of Nabil bank ltd. has been increased. In year 2004/05 Everest bank market price of share is Rs 870 where the market index is 286.67 and the bank market price is Rs 2455 when the market index is 99.99. Although market price of banks share increased with increased in index but the increased in index and banks share price is not same because Group 'A' banks market price increased more than market index.

4.4.2 Comparison of Group "B" Commercial Bank Market Price with NEPSE Index

Figure:4.11

Comparision of Group B commercial Bank MPS with NEPSE Index



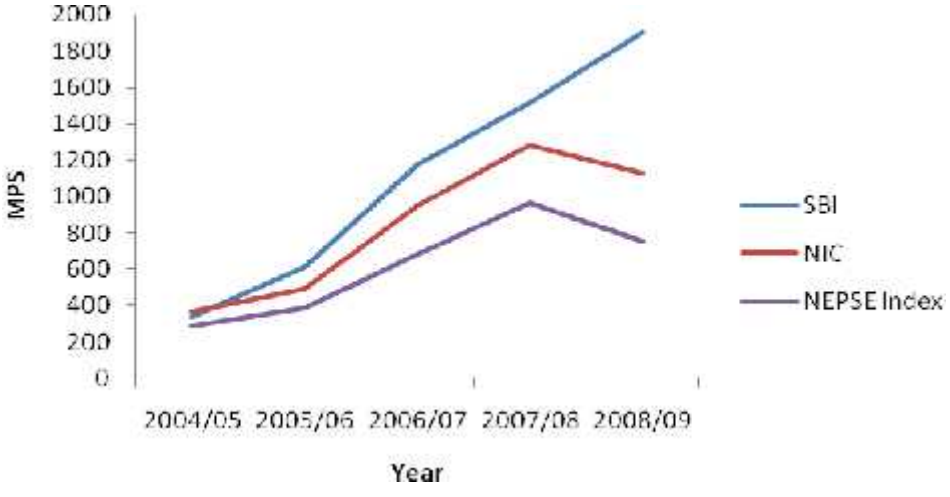
In year 2004/05 market price of share of Nepal investment bank is Rs 800 but the index is only 286.67 whereas market price of share of bank is increased to Rs1388 while the market index is 749.1 in year 2008/09. Himalayan bank limited market price of share is increased with the increased in market index and decreased with decreased in market index. In year 2004/05 market price of share of the bank is Rs. 920 when market index is 286.67. Market index is decreased in corresponding year same as market price of share is decreased. In year 2008/09 market price of share of the bank is 1760 when index is 749.1. Bank of Kathmandu ltd. market price of share is increased as per market index increased; when index is decreased it decreased. In year 2004/05, the bank market price of share is Rs 430 when market index is 286.67 and in the year 2008/09 market price of banks share is Rs 1825 when market index is 749.1.

4.4.3 Comparison of Group "C " Commercial Bank Market Price with NEPSE Index

Market price of share of Group 'C' commercial bank increased with increased in market index. In year 2004/05 market price of share of State bank of India is Rs 335 when market index is 286.67. In the corresponding year market price increased with increased in index.

Figure:4.12

Comparision of Group C commercial Bank MPS with NEPSE Index



In the year 2008/09 market price of share of bank decreased to Rs 1900 when market index also decreased to 749.1. Similarly, Nepal industrial and commercial bank perform as per market index. In year 2004/05 market price of share of NIC bank is Rs366 when market index is 286.67 and in year 2008/09 market price of share of bank is Rs 1126 and the index is 749.1.

4.5 Return and Standard Deviation of Banks Including Cash and Stock Dividend

Table:4.16

Standard Chartered Bank Nepal Limited

Year	Market price	Cash dividend	No of Stock dividend	Return (r)	r-r	(r-r)2
2003/04	2144	100	-	-	-	-
2004/05	1575	100	-	-0.2188	-0.456	0.2087
2005/06	1640	110	10	0.1048	-0.133	0.0178

2006/07	1745	110	-	0.1311	0	0
2007/08	2345	120	-	0.4069	0.1686	0.0284
2008/09	3775	130	10	0.6610	0.4227	0.1786
Total				**1.101**		**0.4477**

Where,

Expected Return,

$\overline{X}$ = ΣX/N

= 1.101 / 5

= 0.2203

= 22.03 %

Standard Deviation,

$$\sigma = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

= 0.4477/5

= 0.090 or 8.95%

Coefficient of variation,

C.V= σ / $\overline{X}$ = 0.090 / 0. 2203

= 0.41

Standard Chartered Bank Nepal limited return is 22.03%. Similarly, standard deviation and coefficient of variation is 8.95% and 0.41 respectively.

Table:4.17

Nabil Bank Limited

Year	Market price	Cash dividend	Stock dividend	Return (r)	r-r	(r-r)2
2003/04	1500	40	-			
2004/05	700	30	-	-0.5067	-0.723	0.5235
2005/06	740	50	-	0.1	-0.123	0.0152
2006/07	1000	65	-	0.4189	0.1944	0.0377
2007/08	1505	70	-	0.57	0.3464	0.1199
2008/09	2240	85	-	0.5349	0.3064	0.0938
Total				**1.1743**		**0.8246**

Where,

Expected Return,

$\overline{X}$ = ΣX/N

= 1.1743/5

= 0.2349

= 23.49 %

Standard Deviation,

$$\sigma = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

= 0.8246/5

= 0.1649 or 16.49%

Coefficient of variation,

C.V = σ/ $\overline{X}$

= 0.1649/0.2349

= 0.70

Nabil bank limited return is 22.34 %. Similarly, standard deviation and coefficient of variation is 16.49% and 0.70 respectively.

Table:4.18

Everest Bank Ltd.

Year	Market price	Cash dividend	Stock dividend	Return (r)	r-r	(r-r)2
2003/04	650	-	-	-	-	-
2004/05	405	-	20	-0.376	-0.735	0.541
2005/06	445	20	-	0.3185	0	0
2006/07	680	20	-	0.573	0.2134	0.0455
2007/08	870	-	20	0.3088	-0.050	0.0025
2008/09	1379	25	-	0.9698	0.6102	0.3723
Total				**1.2375**		**0.6409**

Where,

Expected Return,

$\overline{X}$ = ΣX/N

= 1.2375/5

= 0.2475

= 24.75 %

Standard Deviation,

$$\sigma = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

= 0.6409/5

= 0.1282 or 12.82%

Coefficient of variation,

C.V= $\sigma / \overline{X}$

= 0.1282/0.2475

= 0.52

Everest bank limited return is 24.75%. Similarly, standard deviation and coefficient of variation is 12.82% and 0.52 respectively.

Table:4.19

Nepal Investment Bank Ltd.

Year	Market price	Cash dividend	Stock dividend	Return (r)	r-r	(r-r)2
2003/04	1401	-	-	-		
2004/05	760	-	30	-0.4575	-0.753	0.5673
2005/06	795	20	-	0.3598	0.0628	0.0039

2006/07	940	15	-	0.207	-0.088	0.0078
2007/08	800	12.5	-	-0.132	-0.429	0.1841
2008/09	1260	20	35.46	0.5906	0.2944	0.0866
Total				**.2805**		**0.6177**

Where,

Expected Return,

$\overline{X}$ = ΣX/N

= 0.2805/5

= 0.0561

= 5.61%

Standard Deviation,

$$\sigma = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

= 0.6177/5

= 0.1235 or 12.35%

Coefficient of variation,

C.V= $\sigma / \overline{X}$

= 0.4122/0.2962

= 1.391

Nepal investment bank limited return is 5.61%. Similarly, standard deviation and coefficient of variation is 12.35% and 2.20 respectively.

Himalayan Bank limited

Table:4.20

Himalayan Bank limited

Year	Market price	Cash dividend	Stock dividend	Return (r)	r-r	(r-r)2
2003/04	1100	30	5	-	-	-
2004/05	1000	25	10	-0.0181	-0.1719	0.0295
2005/06	836	1.32	23.68	-0.055	-0.208	0.0435
2006/07	840	-	20	0.244	0.0902	0.0081
2007/08	920	11.58	20	0.3142	0.1602	0.0256
2008/09	1100	30	5	0.374	0.293	0.086
Total				**0.1112**		**0.0927**

Where,

Expected Return,

$\overline{X}$ = ΣX / N

= 0.1112/5

= 0.0222

= 2.22%

Standard Deviation,

$$\sigma = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

= 0.0927/5

= 0.0185 or 1.85%

Coefficient of variation,

C.V= $\sigma / \overline{X}$

= 0.0185/ 0.0222

= 0.83

Himalayan bank limited return is 2.22%. Similarly, standard deviation and coefficient of variation is 1.85% and 0.83 respectively.

Bank of Kathmandu Ltd.

Table:4.21

Bank of Kathmandu Ltd.

Year	Market price	Cash dividend	Stock dividend	Return (r)	r-r	(r-r)2
2003/04	850	-	-	-	-	-
2004/05	254	10	-	-0.701	-0.919	0.8452
2005/06	198	5	-	-0.1811	-0.439	0.1930
2006/07	295	10	-	0.515	0.2956	0.0873
2007/08	430	15	-	0.491	0.2716	0.0737
2008/09	850	18	12	1.011	0.7916	0.6266
Total				**1.1773**		**1.8265**

Where,

Expected Return,

$\overline{X}$ = ΣX / N

= 1.1773/5

= 0.2345

= 23.45%

Standard Deviation,

$$\sigma = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

= 1.8265/5

= 0.3653 or 36.53%

Coefficient of variation,

C.V= $\sigma / \overline{X}$

= 0.3653/0.2345

= 1.55

Bank of Katmandu limited return is 23.45%. Similarly, standard deviation and coefficient of variation is 36.53% and 1.55 respectively.

Nepal SBI Bank Ltd.

Table:4.22

Nepal SBI Bank Ltd.

Year	Market price	Cash dividend	Stock dividend	Return (r)	r-r	(r-r)2
2003/04	1500	-	20	-	-	-

2004/05	401	-	-	-0.679	-1.125	1.265
2005/06	255	8	-	-0.663	-217	0.047
2006/07	307	-	-	1.333	0.884	0.7814
2007/08	335	-	-	0.091	-0.355	0.1260
2008/09	612	5	-	0.826	0.38	0.1444
Total				**0.0601**		**1.4130**

Where,

Expected Return,

$\overline{X}$ = ΣX/N

= 0.601/5

= 0.0120

= 1.20%

Standard Deviation,

$$\sigma = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

= 1.4130/5

= 0.2826 or 28.26%

Coefficient of variation,

C.V.= $\sigma / \overline{X}$

= 1.4130/0.0120

= 23.51

Nepal State bank of India limited return is 1.20%. Similarly, standard deviation and coefficient of variation is 0.6875 and 23.51 respectively.

Nepal Industrial and Commercial Bank Ltd.

Table:4.23

Nepal Industrial and Commercial Bank Ltd.

Year	Market price	Cash Dividend	Stock Dividend	Return (r)	r-r	(r-r)2
2003/04	399	10	-	-	-	-
2004/05	245	-	-	-0.360	-0.535	0.287
2005/06	220	-	-	-0.1020	-0.277	0.077
2006/07	218	-	-	0.0091	-0.166	0.027
2007/08	366	10	20	0.6788	0.503	0.253
2008/09	496	0.53	10	0.6535	0.477	0.227
Total				**0.5843**		**0.7437**

Where,

Expected Return,

$\overline{X}$ = ΣX/N

= 0.5843/5

= 0.1169

= 11.69%

Standard Deviation,

$$\sigma = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

= 0.7437/5

= 0.1487 or 14.87%

Coefficient of variation,

C.V= σ / $\overline{X}$

= 0.1487/0.0.1169

= 1.27

Nepal industrial and commercial bank limited return is 11.69%. Similarly, standard deviation and coefficient of variation is 14.87 and 1.27 respectively.e

4.5 Major Findings

- Deposit of Himalayan bank is higher as compared to the other studied commercial banks deposit. Similarly, Nepal industrial and commercial bank deposit is lower.
- Deposit of Himalayan bank is higher over the period but the market share of deposit is declining year by year.
- Loan of Nepal investment bank is higher over the period. Similarly as deposit lending of nepl industrial and commercial bank is lower.
- Himalayan bank investment is higher than the other observed commercial banks. Similarly, Nepal industrial and commercial bank investment is lower.
- Earning per share (EPS) of standard chartered bank Nepal limited is higher followed by Nabil bank and Everest bank. In the study earning of state bank of india and Nepal industrial and commercial bank has low earning per share.
- Though the deposit and lending of standard chartered bank Nepal limited is high but the earning per share of standard chartered bank Nepal is high. As the earning is high the market price of the bank is also high.
- In the studies period NEPSE Index rise continuously from 286.67 to 749.10
- Price earning ratio of the banks are also increasing over the period.
- . Nepse Index and the price of these banks have positive correlation.
- .In the study period the deposits of Himalayan bank is high but the lending is dominated by the investment bank
- Though the price seems to be high, the market price of the shares is mostly determined by the earning per share and net worth of the company. For instance, higher the earning per share and net worth higher the market price.

- The market price of share increase continuously till year 2007/08 despite of political instability. It is because of lack of other investment opportunities.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

A market is the means through which buyers and sellers are brought together to transfer goods and services. Securities market can be classified on the basis of Securities traded and life span of securities. On the basis of securities traded securities market can be further classified into primary market and secondary market.

On the basis of life span of securities, security market can be further classified into Money market and Capital market.

Money market: The money market is designed for the making of short-term loans. It is the institution through which individual and institutions with temporary surpluses of funds meet the need of borrowers who have temporary fund shortage.

Capital market: The capital market is designed to finance long-term investment by businesses, government, and households. Trading of fund in capital market makes possible the construction of factories, highways, homes and schools etc. the maturity period of financial instrument in capital market is more then one year and range in size from small loan to multibillion rupees.

Nepal stock exchange (NEPSE) has recently changed its trading system and it started to make transaction through Automation. It is the essential step of Nepal stock Exchange towards the modernization. Through this system now the brokers do not have to cry for the purpose of trading securities. Before that NEPSE had adopted an "Open Out –Cry" system. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the3 selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market maker quotes their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying brokers or between the brokers and market makers are concluded on the floor.

Nepal's financial institutions play the crucial role in Nepal stock market. Commercial banks are more sensitive in towards market index. Most of the commercial banks are operating in profit.

The entire bank which has been studied in this thesis was successful to increase their deposit, loan lending capacity and total assets. Banks had also increased its investment in other sector during the period. It shows that banks are doing good performance.

Earning per share and market price of share of banks has been increased during the study period. It shows the correlation between market price of share and earning per share. But market price increased more rapidly than it's earning. Thus the entire bank price earning ratio is high.

Banks are able to give cash dividend to their shareholders but state bank of India and Nepal industrial and commercial bank had not good record to pay dividend. But all other bank had good record of paying divided. Non performing assets of banks are decreasing ratio. All the

banks had reduced their non performing assets ration. It shows those banks are investment in safe area.

From the thesis it is seen that banks Price earning ration is too high and it show that there is risk in investment. Price earning ratio of banks is increasing during study period. However, Nepal investment bank and Nepal industrial and commercial bank price earning ratio was decreased during the period.

Analysis of standard deviation also presents that there is risk in investment. Most of the banks standard deviation is high as compared to its return. It is seen that the market has been crashed in year 2001/02. In this year all the banks price was fall. After the date there is no similar fluctuation among the market price of share. However, in the year 2005/06 all the banks market price of share was increased.

5.2 Conclusion

The capital market of Nepal is in developing phrase. Mostly the NEPSE index fluctuate with the fluctuation of banking share price. It is seen from this study that price of the share continuously goes up till the year 2007/08. But after the year the banking index as well as the nepse index decline. Nepalese stock market price is mostly dependent on the demand and supply of the shares rather than the other financial indicators. Despite of the week economy condition of the country, the market price of the share increases till 2007/08.

Nepal rastra bank had tried to influence banks for the merger. So NRB forced financial institution to increased their capital. But financial institutions do not try to merge and increase their capital with right and bonus shares. To get the bonus and right share investors buy the shares and price goes up. Margin lending s the another major factor that affect the market price of share. The price earning ratio of the studies commercial banks are high. In addition there is a huge gap between the net worth and market price of the share. It indicates

that the market price of these banks is also high. Any way market price of the studied banks and the NEPSE index have the positive correlation. Its means if the index goes up the price of the banks also goes up.Though the price seems to be high, the market price of the shares is mostly determined by the earning per share and net worth of the company. For instance, higher the earning per share and net worth higher the market price.

5.2 Recommendations

From the study it has seen that, Nepal stock exchange has move from cry out system to computerized system for its trading of share. Recent information from Nepal stock exchange tells that now 9 brokers started transaction of share through wide area network. From this system brokers do not have to go to stock exchange to buy or sell share. Through this system brokers can do share transaction from their office. By adopting automation system Nepal stock exchange is in modern phrase of transaction of share.

- It is seen that number of transaction and trading amount of share is increasing. So, it is necessary to increase brokers in stock exchange. Though Nepal stock exchange and Nepal security board tells that that there increment in brokers numbers.

- It is seen that market is in boom. Investors are interested in investing in share market. But the problem in share market is lack of investors' analysis. Some of the companies whose net worth is negative that company share price was also increased so, it is necessary to analysis the performance of company before investing.

- It is recommended that Nepal stock exchange and security board should improve its performance in regulating stock market otherwise some person can play in market. As a result, small investors face problem if market will crash. Brokers are interested in buying and selling large numbers of share. As a result small investors cannot buy and sell share when they want.

- It is recommended that brokers' number should be increased and recently it is necessary to do share transaction with wide area network. Stock exchange and security board have to conduct training for investors and should have to act as strong regulator of stock market.

- Nepal stock exchange index is in increasing trend. It is seen that most of the banks profit are also increasing. But the problem is that the market price of share is increasing more than its profit. To control this unrealistic rise in stock market government have to issue debenture and bond with high interest rate. So that general public can invest their fund in those debenture and bond. As a result, stock market can rise in realistic way.

- It is recommended to new researchers to make research in impact of automation system in Nepal stock exchange and the role of stock players in stock markets in fluctuating market price.

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