

**INCOME DIVERSIFICATION AND BANK RISK-RETURN
TRADE-OFF IN THE NEPALESE COMMERCIAL BANKS**

A Thesis

By

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

.....

Tara Kumari Sijali Magar

December, 2019

RECOMMENDATION LETTER

It is certified that thesis entitled **Income Diversification and Bank Risk-return Trade-off in the Nepalese Commercial Banks** submitted by Tara Kumari Sijali Magar is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory, and the thesis is in a form suitable for publication. Work demonstrates the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **INCOME DIVERSIFICATION AND BANK RISK-RETURN TRADE-OFF IN THE NEPALESE COMMERCIAL BANKS** presented by **Tara Kumari Sijali Magar**, a candidate for the degree of **Master of Business Studies (MBS)** and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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LIST OF ABBREVIATIONS

ADBNL	=	Agricultural development Bank Limited
BOK	=	Bank of Kathmandu
CITIZEN	=	Citizen International Bank Limited
d. f.	=	Degree of Freedom
EBL	=	Everest bank limited
EQUITY	=	Equity to total assets ratio
GLOBAL	=	Global IME Bank Limited
HBL	=	Himalayan Bank Nepal Limited
HHI	=	Herfindahl-Hirschman Index
KUMARI	=	Kumari Bank Limited
LAXMI	=	Laxmi Bank Limited
LOAN	=	Loan to total assets ratio
MBL	=	Machhapuchchhre Bank Limited
NABIL	=	Nabil Bank Limited
NBBL	=	Nepal Bangladesh Bank Limited
NCC	=	Nepal Credit and Commerce Bank Limited
Netii	=	Net interest income
NICA	=	NIC Asia Bank Limited
NIBL	=	Nepal Investment Bank Limited
NMB	=	Nepal Merchant Bank
NONII	=	Non-interest Income
NRB	=	Nepal Rastra Bank
NSBI	=	Nepal State Bank of India
PRIME	=	Prime Commercial Bank Limited
r	=	Correlation Coefficient
RAROA	=	Return Adjusted return on Assets
RAROE	=	Return Adjusted return on Equity
SBL	=	Siddhartha Bank Limited
SCBNL	=	Standard Chartered Bank Nepal Limited
S.D.	=	Standard Deviation
SIZE	=	Total Assets of Banks
SUNRISE	=	Sunrise Bank Limited

ABSTRACT

This research seeks at investigating the impact of income diversification on the risk return trade-off in the Nepalese Commercial Banks during the time period (2069/70-2075/76). The secondary data are collected from Banking and Financial Statistics and annual reports of the selected commercial banks.

Risk adjusted performance variables indicators: risk adjusted return on assets and risk adjusted return on equity are the dependent variables, while non-interest income, Herfindahl-Hirschman Index–HHI, equity to total assets ratio, loan to total assets ratio, foreign ownership and size are independent variables. The study has employed descriptive research design. The multiple regression models are used to test the impact and relationship between income diversification variables and the risk adjusted performance of Nepalese commercial banks.

The results show that non-interest income, foreign ownership and bank size are positively correlated to risk adjusted return on assets and negatively correlated with HHI, equity and Loan. It indicates that higher the non-interest income, foreign ownership and bigger the bank size, higher would be the risk adjusted returns on assets. Similarly, non-interest income, HHI, foreign ownership and size have positive correlation with risk adjusted return on equity and have negative correlation with equity and loan. The regression model1 results conclude that the beta coefficients are positive for non-interest income, HHI, foreign ownership and size on risk adjusted return on assets and have negative beta coefficient are for equity and loan. The regression model2 results shows that the beta coefficient is positive for non-interest income, HHI and size on risk adjusted return on equity and have negative beta coefficient for equity, loan and foreign ownership. The study concludes that equity followed by non-interest income are dominant factor in the risk adjusted on assets. Similarly, loan, equity and income diversification index HHI are the dominant factor in risk adjusted return on equity in the context of Nepalese commercial banks