## ANALYSIS OF RISK & RETURN OF SELECTED COMMERCIAL BANKS IN NEPAL

By:

MAMATA JOSHI Shanker Dev Campus Campus Roll No: 304/060 T.U. Regd. No: 7-2-271-482-2000 Second Year Symbol No.: 3332

> A Thesis Submitted to: Office of the Dean Faculty of Management Tribhuvan University

In partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S)

Kathmandu, Nepal March, 2010

## RECOMMENDATION

This is to certify that the Thesis

#### Submitted by:

## MAMATA JOSHI

#### Entitled:

## ANALYSIS OF RISK & RETURN OF SELECTED COMMERCIAL BANKS IN NEPAL

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

••••••		
Rita Maskey	Prof. Bisheshwor Man Shrestha	Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor)	(Head of Research Department)	(Campus Chief)

## **VIVA-VOCE SHEET**

We have conducted the viva -voce of the thesis presented

by

#### MAMATA JOSHI

#### **Entitled:**

# ANALYSIS OF RISK & RETURN OF SELECTED COMMERCIAL BANKS IN NEPAL

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 (MBS)

#### **<u>Viva-Voce Committee</u>**

Head, Research Department	
Member (Thesis Supervisor)	
Member (External Expert)	

# TRIBHUVAN UNIVERSITY Faculty of Management Shanker Dev Campus

## DECLARATION

I hereby declare that the work reported in this thesis entitled "ANALYSIS OF RISK & **RETURN OF SELECTED COMMERCIAL BANKS IN NEPAL**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) under the supervision of **Rita Maskey, Lecturer** of Shanker Dev Campus.

MAMATA JOSHI Researcher Campus Roll No. : 304/060 T.U. Regd. No. : 7-2-271-482-2000 Second Year Symbol No.: 3332

#### ACKNOWLEDGEMENT

This thesis entitled "Analysis of Risk & Return of Selected Commercial Banks in Nepal" has been a matter of great pleasure for me to complete this thesis under the supervision and constructive guidance of respected adviser Rita Maskey Lecturer of Shanker Dev Campus. She has been highly helpful in providing all sorts of guidelines, constructive, critical and analytical support in order to complete this thesis in the form as required by the faculty of management, Shanker Dev Campus and Tribhuvan University for the partial fulfillment- Degree of Master in Business Studies (MBS).

I would like to extend my profound gratitude to all honorable teachers of Shanker Dev Campus, staffs of library and administration of the Campus and all my colleagues who helped me directly and indirectly for the completion of this thesis.

I would like to extend my appreciation to the staffs of selected banks who provided me the necessary data and information.

I must also acknowledge to Central Department of Management- TU, Central Library of TU, for providing encouragement and necessary books, journals and articles.

Finally, I would like to extend my heartily thanks to all the members of my family and relatives who inspired me in many ways to cope during the entire period of the study.

Mamata Joshi Researcher

# **TABLE OF CONTENTS**

Recommendation Viva-Voce Sheet Declaration Acknowledgement Table of Contents List of Tables List of Diagrams Abbreviations

## **CHAPTER I – INTRODUCTION**

1.1 Background of the Study	1
1.1.1 Commercial Banks	3
1.2 Focus of Study	6
1.3 Statement of the Problems	7
1.4 Objectives of the Study	8
1.5 Significance of the Study	9
1.6 Limitations of the Study	10
1.7 Organization of the Study	10

#### **CHAPTER II – REVIEW OF LITERATURE**

2.1 Conceptual Framework	12
2.2 Investment on Securities	14
2.3 Capital Market	15
2.3.1 Primary Market	16
2.3.2 Secondary Market	16
2.4 Efficient Financial Market	17
2.5 The Risk on Common Stock	17
2.6 Sources of Investment Risks	18

2.7 Return on Common Stock	
2.7.1 Holding Period Return	21
2.7.2 Required rate of return on Common Stocks	22
2.7.3 Expected rate of return on Common Stocks	23
2.8 Portfolio Theory	24
2.9 Markowitz Efficient Frontier	25
2.10 Capital Asset Pricing Model (CAPM)	26
2.11 Review of Journals and Articles	28
2.12 Review of Thesis	33
2.13 Justification	39

#### **CHAPTER III – RESEARCH METHODOLOGY**

3.1 Research Design	40
3.2 Sources of Data	40
3.3 Population and Samples	41
3.4 Data Analysis Tools	41
3.4.1 Market Price of the stock (MPS)	41
3.4.2 Dividend Per Share (DPS)	42
3.4.3 Holding Period Return (HPR)	42
3.4.4 Expected Rate of Return	43
3.4.5 Measure of Risk	43
3.4.6 Coefficient of Variation (C.V)	44
3.4.7 Beta Coefficient	45
3.4.8 Correlation Coefficient	45
3.4.9 Return on Market	46
3.4.10 Expected Return on Market	46
3.4.11 Portfolio Risk and Return	47
3.4.12 Risk Minimizing Portfolio	48
3.4.13 Partitioning of Total Risk	49
3.5 Methods of Analysis and Presentation	49
	<ul> <li>3.2 Sources of Data</li> <li>3.3 Population and Samples</li> <li>3.4 Data Analysis Tools</li> <li>3.4.1 Market Price of the stock (MPS)</li> <li>3.4.2 Dividend Per Share (DPS)</li> <li>3.4.3 Holding Period Return (HPR)</li> <li>3.4.4 Expected Rate of Return</li> <li>3.4.5 Measure of Risk</li> <li>3.4.6 Coefficient of Variation (C.V)</li> <li>3.4.7 Beta Coefficient</li> <li>3.4.8 Correlation Coefficient</li> <li>3.4.9 Return on Market</li> <li>3.4.11 Portfolio Risk and Return</li> <li>3.4.12 Risk Minimizing Portfolio</li> <li>3.4.13 Partitioning of Total Risk</li> </ul>

#### **CHAPTER IV – DATA ANALYSIS AND MAJOR FINDINGS**

1.1 Data Presentation and Analysis 50		
4.1.1 Analysis of Individual Commercial Banks		
4.1.1.1 Standard Chartered Bank Nepal Limited	51	
4.1.1.2 Nepal Arab Bank Ltd.	53	
4.1.1.3 Bank of Kathmandu Limited	55	
4.1.1.4 Himalayan Bank Limited	58	
4.1.1.5 Nepal SBI Bank Limited	60	
4.1.1.6 Nepal Investment Bank Limited	62	
4.2 Comparative Analysis of Obtained Results	64	
4.2.1 Inter bank Comparison	64	
4.2.2 Comparison of selected commercial banks on the		
basis of Market Capitalization	66	
4.2.2 Analysis of Market Risk and Return		
4.3 Comparison of Sample Banks with Market 69		
4.3.1 Standard Chartered Bank Nepal Limited	69	
4.3.2 Nabil Bank Limited	71	
4.3.3 Bank of Kathmandu Limited	73	
4.3.4 Himalayan Bank Limited	75	
4.3.5 Nepal SBI Bank Limited	77	
4.3.6 Nepal Investment Bank Limited	79	
4.4 Price Evaluation of Selected Banks	81	
4.5 Portfolio Analysis	82	
4.6 Analysis of Average /Pooled six sample commercial banks	84	
4.7 Portfolio Analysis among six selected Commercial Banks	85	
4.8 Portfolio Analysis in each two assets among selected banks	86	
9 Major Findings 88		

## CHAPTER V – SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary	90
5.2 Conclusions	91
5.3 Recommendations	93
Bibliography	
Appendices	

# LIST OF TABLES

Table	No. Title	Page No.
4.1	MPS and DPS of common stocks of SCBNL	52
4.2	Statistical analysis of common stock of SCBNL	53
4.3	MPS and DPS of common stocks of NABIL	54
4.4	Statistical analysis of common stock of NABIL	55
4.5	MPS and DPS of common stocks of BOKL	56
4.6	Statistical analysis of common stock of BOKL	57
4.7	MPS and DPS of common stocks of HBL	58
4.8	Statistical analysis of common stock of HBL	59
4.9	MPS and DPS of common stocks of Nepal SBI Bank	60
4.10	Statistical analysis of common stock of Nepal SBI Bank	62
4.11	MPS and DPS of common stocks of NIBL	63
4.12	Statistical analysis of common stock of NIBL	64
4.13	Expected return, S.D. and Coefficient of Variation of each Bank	65
4.14	Market Capitalization of Selected Banks	67
4.15	Realized return, Expected return, standard Deviation and	
	coefficient of the variation of Market Index	68
4.16	Summary of Risk and Return for SCBNL and Market	69
4.17	Summary of Risk and Return for NABIL and Market	71
4.18	Summary of Risk and Return for BOKL and Market	73
4.19	Summary of Risk and Return for HBL and Market	75
4.20	Summary of Risk and Return for Nepal SBI Bank Ltd. and Market	77
4.21	Summary of Risk and Return for NIBL and Market	79
4.22	Summary of Risk and Return for Sample	81
4.23	Calculation of Required Rate of Return (RRR), Expected Rate of	
	Return (ERR) & Price Evaluation of each stock by CAPM Model	82
4.24	Average Return of six Commercial Banks	84
4.25	Statistical Analysis of Common Stock of Six Commercial Banks	85
4.26	Calculation of Covariance of Six Assets	85

4.27	Return and Risk of Investments	86
4.28Po	rtfolio Return & Risk in each two assets	87

# LIST OF DIAGRAMS

Diagram No. Title		Page No.
2.1	Total Risk, Systematic and Unsystematic Risk	20
2.2	Markowitz Efficient Frontier	26
4.1	Year End Market Price movement of common stock of SCBNL	52
4.2	Year End Market Price movement of common stock of NABIL	54
4.3	Year End Market Price movement of common stock of BOKL	56
4.4	Year End Market Price movement of common stock of HBL	59
4.5	Year End Market Price movement of common stock of	
	Nepal SBI Bank	61
4.6	Year End Market price movement of common stock of NIBL	63
4.7	Risk and Return of selected commercial banks	66
4.8	Market Capitalization of Selected Banks	67

# **ABBREVIATIONS**

BOKL	-	Bank of Kathmandu Limited
C.V.	-	Coefficient of Variation
CAPM	-	Capital Asset Pricing Model
CS	-	Common Stocks
DPS	-	Dividend per Share
EBL	-	Everest Bank Limited
ERR	-	Expected Rate of Return
HBL	-	Himalayan Bank Limited
MPS	-	Market Price per Share
NABIL	-	Nepal Arab Bank Limited
NBBL	-	Nepal Bangladesh Bank Limited
NEPSE	-	Nepal Stock Exchange Limited
NIBL	-	Nepal Investment Bank Limited
NRB	-	Nepal Rastra Bank
RRR	-	Required Rate of Return
S.D.	-	Standard Deviation
SCBNL	-	Standard Chartered Bank Nepal Limited
SEBON	-	Security Board of Nepal