

RISK AND RETURN ANALYSIS ON COMMON STOCK  
INVESTMENT OF COMMERCIAL BANKS

(NEPAL INVESTMENT BANK LIMITED & EVEREST BANK LIMITED)

by:

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**A Project Report**

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**In the partial fulfillment of the requirements for the degree of**

**Master's in Business Studies (MBS)**

**Narayangarh, Chitwan**

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# **RECOMMENDATION**

This is to certify that the Project Report

Submitted by

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**Entitled**

**Risk and Return Analysis on Common Stock Investment of Commercial  
Banks (NIBL& EBL)**

has been prepared as approved by this department in the prescribed format of  
faculty of management. This project report is forwarded for evaluation.

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## DECLARATION

I hereby declare that the work done in project report entitled "**Risk and Return Analysis on Common Stock Investment of Commercial Banks (NIBL& EBL)**" submitted to Balkumari College, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillments of the requirement of the degree of Master of Business studies (M.B.S.) under the supervision and guidance of Mr. Babu Ram Panthi, Lacturer of Balkumari College.

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**Bandana Adhikari**

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## EXECUTIVE SUMMARY

Risk is defined as an uncertainty surrounding the eventual outcome of an event which will occur in the future. Risk refers to the probability that the return and therefore the value of an assets or security may have alternative return. Risk reflects the chance that the actual return on an investment may be different from the expected return. Return is the motivating in the investment process i.e., it is the reward for making the investment. It involves both capital gain and losses by the change in security market price. Common stock investment is a risk investment. There is the uncertainty of future return whose main source is the price fluctuation of the stock. The Stock price may be decreased due to the economic factor such as inflation, interest rate strength of currency, economic growth of the nation. The main topic of this study (Project Work) is **Risk and Return Analysis on Common Stock Investment of Commercial Banks (NIBL&EBL).**

Most of the investor are risk averse, the main problem in investment is to select the security having low risk but having higher return even if the investor cannot increase the return substantially they can surely reduce the risk by diversification of the investment funds in different types of security making a portfolios. Making a portfolio of common stocks an investor can eliminate the unsystematic risk considerably. However, the systematic risk cannot be avoided event investing in a portfolio. Any investor will want their investment to yield favorably return and so invest in those securities, which provide greater expected returns. Investment is defined as the sacrifice of current amount for future amount. Therefore, investors sacrifice their current amount in securities in anticipations of higher benefits with low level of risk. In the investment of common stock on investor agrees to pay the price for stock in the anticipation of future dividend and growth in stocks. The

main objective of this study is, to evaluate/analysis of risk and return on common stock investment of commercial banks & to identify whether the share of commercial banks are overpriced, under priced or at equilibrium. The limitation of this study covers the relevant data and information on only for five years i.e. fiscal year 2002/2003 to 2007/2008. There are 25 commercial banks in Nepal. In this study, the risk & return of NIBL&EBL have been considered and for research purpose, primary and secondary data are use. For the data presentation, Statistical as well as financial tools are used and analysis of the risk and return characteristic of common stock investment of the commercial banks (NIBL&EBL). The common stock investment is the most risky security. Dividends are given to stockholders only if there will earning available to equity shareholders. A Financial market brings together people and organization willing to borrow money with those having surplus fund. The capital market is the part of financial market, which is related to long term debt and corporate stock. In capital market, the financial assets such as stock and bond are purchased or sold. The main objective of the stock market is to credit opportunity for maximum number of people to get the benefits from the return obtained by directing the economy toward the productive sector by mobilizing long term capital.

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## **LIST OF ABBREVIATIONS**

AD	:	Anno Domini
AM	:	Arithmetic Mean
BS	:	Bikram Sambat
C.V.	:	Coefficient of Variation
CML	:	Capital Market Line
Co.	:	Company
EBL	:	Everest Bank Limited
ED	:	Edition
F/Y	:	Fiscal Year
Ltd	:	Limited
NIBL	:	Nepal Investment Bank Limited
NRB	:	Nepal Rastra Bank
PE	:	Probable Error
PE	:	Public Enterprise
Pvt.	:	Private
Rs.	:	Rupees
SD	:	Standard Deviation
SML	:	Security Market Line
TU	:	Tribhuvan University