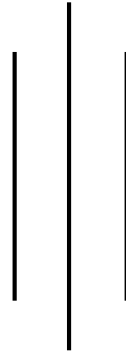


Analysis of Risk & Return of Selected Commercial Banks in Nepal



By

Dhruva Jha

Shanker Dev Campus

Campus Roll No. 1820/2061

T.U. Regd. No. 7-1-327-560-2001

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfilment of the requirements of the degree of
Master of Business Studies (MBS)

Kathmandu

April, 2011

RECOMMENDATION

This is to certify that the thesis:

Submitted by

Dhruva Jha

Entitled

Analysis of Risk & Return of Selected Commercial Banks in Nepal

has been prepared as appeared by this department in the prescribed format of faculty of Management. This thesis is forwarded for examination

.....
Achyut Raj Bhattarai
(Thesis Supervisor)
(Associate Professor)

.....
Prof. Bisheshwor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

.....
Shree Bhadra Neupane
(Thesis Supervisor)

VIVA VOCE SHEET

We have conducted the viva-voce of the thesis presented by

Dhruva Jha

Entitled

Analysis of Risk & Return of Selected Commercial banks in Nepal

and found the thesis to be 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
Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Chairperson, Research Committee:

Member (Thesis Supervisor):.....

Member (Thesis Supervisor):.....

Member (External Expert):.....

DECLARATION

I hereby declare that the work reported in this thesis entitled **Analysis of Risk & Return of Selected Commercial banks in Nepal** submitted to Shanker Dev campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfilment of the requirements of the Master's Degree in Business Studies (MBS) under the supervisions of my thesis supervisors Associate Professor Achyut Raj Bhattarai and Mr. Shree Bhadra Neupane of Shanker Dev Campus, Tribhuvan University.

Date:

.....
Dhruva Jha
Researcher
Shanker Dev Campus

ACKNOWLEDGEMENTS

As the partial fulfillment of the MBS degree, I have prepared this report. During the course, I worked with sincerity, honesty and diligently, as far as possible. But beside my continual efforts, I also got unforgettable support from different people and completing my work.

Firstly, I would like to pay homage to my father and mother as well as my sister who headed me towards the light of education and path of truth. Due to their non-stopping effort for guidance, today I come in thesis position. So I would like to share the credit of my success with them. I'm really indebted by them.

After this, I would like to express my cordial gratitude to my all teachers, who taught me up to now. For this dissertation, I would like to pay my sincere thanks to my thesis supervisors **Achyut Raj Bhattarai** and **Shree Badra Neupane**, Lecturer of Shanker Dev Campus. His incessant suggestion and guidance from the beginning to the end is really an appreciable effort. His valuable support for the preparation of proposal to thesis is really praise worthy things. I am extremely indebted by his efforts despite of busy schedule.

I would also like to express my gratitude to all other members of Shanker Dev Campus, especially, staffs from MBS department, libraries staffs as well as all known and unknown people who supported as well as inspired me to complete this thesis.

Last but not least, my sincere thanks goes to my all friends for their help in my thesis and valuable suggestion.

Dhruva Jha
Researcher

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figure	
Abbreviations	
CHAPTER 1: INTRODUCTION	1-10
1.1 Background of the Study	1
1.2 Focus of the Study	6
1.3 Statement of Problem	7
1.4 Objectives of the Study	9
1.5 Limitation of the Study	9
1.6 Organization of the Study	10
CHAPTER 2: REVIEW OF LITERATURE	11-35
2.1 Conceptual Frame Work	11
2.1.1 Investment	11
2.1.2 Return	12
2.1.2.1 Single Period Rate of Return	13
2.1.2.2 Expected Rate of Return $E(r)$	14
2.1.3 Risk	15
2.1.3.1 Standard Deviation	16
2.1.3.2 Coefficient of Variation	18
2.1.4 Portfolio Management	18
2.1.4.1 Portfolio Return (R_p)	20
2.1.4.2 Portfolio Risk (Standard Deviation)	20
2.1.4.3 Systematic Risk and unsystematic Risk	21
2.1.5 Capital Assets Pricing Model (CAPM)	23
2.1.6 Over, Under and Fairly pricing of securities	26

2.1.7	Investment Performance Evaluation	26
2.1.7.1	Sharpe's Performance Measure	26
2.1.7.2	Treynor's Performance Measure	27
2.1.7.3	Jensen's Performance Measure	28
2.2	Review of Thesis	29

CHAPTER 3: RESEARCH METHODOLOGY **36-45**

3.1	Research Design	36
3.2	Population and Sample	37
3.3	Data Collection Techniques	37
3.4	Data Analysis Tools	38
3.4.1	Market Price Stock (MPS)	38
3.4.2	Dividend Per Share (DPS)	38
3.4.3	NEPSE Index (Lt)	38
3.4.4	Return on Market (Rm)	38
3.4.5	Return on Common Stock Investment (Rj)	39
3.4.6	Expected Return on Common Stock	39
3.4.7	Standard Deviation	40
3.4.8	Coefficient of Variation (CV): Unitary Risk Measure	40
3.4.9	Beta Co-efficient (β)	41
3.4.10	Correlation Co-efficient	42
3.4.11	Portfolio Risk and Return	42
3.4.12	Capital Assets Pricing Model (CAMP)	44

CHAPTER 4: DATA PRESENTATION AND ANALYSIS **46-67**

4.1	Analysis of Individual Commercial Banks	46
4.1.1	Nepal SBI Bank Limited (SBI)	46
4.1.2	Nepal Arab Bank Limited (NABIL)	48
4.1.3	Bank of Kathmandu Limited (BOKL)	49
4.1.4	Standard Chartered Bank Nepal Limited (SCBNL)	51
4.2	Inter Bank Comparisons	52
4.3	Comparison with Market	54
4.3.1	Market Risk and Return	54

4.4	Analysis of Market Sensitivity	56
4.5	Portfolio Analysis	58
4.5.1	Analysis of Risk Diversification	59
4.5.2	Composition of Risk and Return on the basis of Isolation and Portfolio	64
4.6	Major Findings of the Study	67
CHAPTER -V: SUMMARY, CONCLUSION AND RECOMMENDATIONS		68-72
5.1	Summary	68
5.2	Conclusions	69
5.3	Recommendations	71

Bibliography

Appendices

LIST OF TABLES

Table No.	Title	Page No.
4.1 :	Realized rate of Returns, expected returns and S.D of C.S of SBI	47
4.2 :	Realized Rate of Return, expected returns and S.D of C.S of NABIL	48
4.3 :	Realized Rate of Return, expected returns and S.D of C.S of BOKL	50
4.4 :	Realized Rate of Return, expected returns and S.D of C.S of SCBNL	51
4.5 :	Expected Return, S.D. and Coefficient of Variation of each Bank	53
4.6 :	Market Return, Standard Deviation and C.V.	54
4.8 :	Calculation of Beta Coefficient of the Common Stock of SBI	56
4.9 :	Beta Coefficient of each Bank (As per ANNEX No. (VII-IX))	57
4.10 :	Required Rate of Return, Expected Rate of Return and Price Valuation	58
4.11 :	Calculation of Covariance and Correlation, Portfolio Return, Portfolio Risk between the stocks of NABIL & SBI	59
4.12 :	Calculation of Covariance and Correlation, Portfolio Return, Portfolio Risk between the stocks of NABIL & BOKL	61
4.13 :	Calculation of Covariance and Correlation, Portfolio Return, Portfolio Risk between the stocks of NABIL & SCBNL	63
4.14 :	Portfolio Risk and Return of NABIL and SBI	64
4.15 :	Portfolio risk and Return of NABIL and BOKL	65
4.16 :	Portfolio Risk and Return of NABIL and SCBNL	65
4.17 :	Comparative Analysis of Portfolio Risk and Return	66

LIST OF FIGURES

Figure No.	Title	Page No.
2.1 :	Systematic and Unsystematic Risk	22
2.2 :	The CAPM or Security Market Line (SML)	25
4.1 :	Annual rate of Returns of the C.S of SBI, year wise return	48
4.2 :	Annual rate of Returns of the C.S of NABIL, year wise return	49
4.3 :	Annual rate of Returns of the C.S of BOKL, year wise return	51
4.4 :	Annual rate of Returns of the C.S of SCBNL, year wise return	52
4.5 :	Expected Return, S.D. and Coefficient of Variation of each Bank	53
4.6 :	NEPSE Index Movement	55
4.7 :	Market Return Movement	55
4.8 :	Portfolio Risk and Return	66

ABBREVIATIONS

AD -	Anno – Domini
AGM -	Annual General Meeting
BI -	Banking Index
BOK -	Bank of Kathmandu Limited
CAPM-	Capital Assets Pricing Mdel
CB -	Commercial Bank
Co. -	Company
CS -	Common Stock
CV -	Coefficient of Variance
DPS -	Dividend per Share
EBL -	Everest Bank Limited
EPS -	Earning Per Share
FY -	Fiscal Year
Jr. -	Junior
Ltd -	Limited
MPS-	Market Price per Share
Mr. -	Mister
NABIL -	Nabil Bank Limited
NEPSE -	Nepal Stock Exchange.
NI -	Nepse Index
OI -	Others Sector Index
P/pp –	Page
R -	Expected Return
R -	Realized Rate of Return
RFR -	Real-Risk Free Rate
Rs –	Rupees
SBI-	Nepal SBI Bank Limited
SCBNL -	Standard Chartered Bank Nepal Limited
SD -	Standard Deviation
TU -	Tribhuvan University
USA -	United States of America
% -	Percent
& -	And