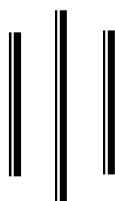
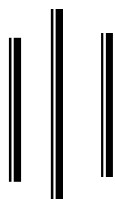


ANALYSIS OF RISK AND RETURN
IN
NEPALESE FINANCIAL INSTITUTIONS



By:
Ram Banjade
Bhairahawa Multiple Campus
T.U. Registration No. 7-1-052-104-97



A THESIS

Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirements for the
Master's Degree in Business Studies (MBS)

Bhairahawa, Rupandehi
March 2009

DECLARATION

I hereby declare that the work reported in this thesis entitled "ANALYSIS OF RISK AND RETURN IN NEPALESE FINANCIAL INSTITUTIONS" Submitted to Bhairahawa Multiple campus, faculty of management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Masters Degree in Business Studies under the supervision of Keshave Raj Joshi of Bhairahawa Multiple Campus.

Date: March 2009

Ram Banjade

Regd.No.7-1-052-104-97

TABLE OF CONTENTS

	<i>Page</i>
<i>Recommendation</i>	<i>I</i>
<i>Viva -Voce Sheet</i>	<i>II</i>
<i>Declaration</i>	<i>III</i>
<i>Acknowledgement</i>	<i>IV</i>
<i>List of Tables</i>	<i>V</i>
<i>List of Figures</i>	<i>VI</i>
<i>List of Abbreviations</i>	<i>IX</i>
CHAPTER -1: INTRODUCTION	1-6
1.1 Background	1
1.2 Statement of the Problem	3
1.3 Objective of the Study	5
1.4 Organization of the Study	6
CHAPTER- 2: REVIEW OF LITERATURE	8-45
2.1 Conceptual Framework	8
2.2 Review of Empirical Studies	17
2.3 Concluding Remarks	43
CHAPTER.3 : RESEARCH METHODOLOGY	48-54
3.1 Research Design	48
3.2 Nature and Sources of Data	49
3.3 Population and Sample	49
3.4 Methods of Analysis	50
3.5 Limitations of the Study	53
CHAPTER .4: PRESENTATION AND ANALYSIS OF DATA	55-86
4.1 Financial Performance of Nepalese Financial Institution	55
4.2 Portfolio Analysis	70
4.3 Diversification of Risk	77
4.4 Major Findings of the Study	84
CHAPTER .5: SUMMAARY, CONCLUSIONS AND RECOMMENDATIONS	87-90
5.1 Summary and conclusions	87
5.3 Recommendations	91
5.4 Future Guidelines	93
BIBLIOGRAPHY	94-97
ANNEXES	98-108

LIST OF TABLES

<i>Table No.</i>	<i>Title</i>	<i>page</i>
2.1	Reduction of Risk through Diversification	23
3.1	Number of observation on financial institutions selected for the study	50
4.1	Risk and Return on the basis of Return on Assets under commercial banks	56
4.2	Risk and Return on the basis of Return on Assets under finance companies	58
4.3	Risk and Return on the basis of Return on Assets under Insurance companies	60
4.4	Risk and Return under financial institutions on the basis of Return on Assets	62
4.5	Risk and Return on the basis of Return on Equity under Commercial banks	63
4.6	Risk and Return on the basis of Return on Equity under financial companies	65
4.7	Risk and Return on the basis of Return on Equity under insurance companies	67
4.8	Risk and Return under financial institution on the basis of Return on Equity	69
4.9	Portfolio Risk and Return on the basis of Return on Assets under commercial Banks	70
4.10	Portfolio Risk and Return on the basis of Return on Assets under finance Companies	71
4.11	Portfolio Risk and Return on the basis of Return on Assets under insurance Companies	72
4.12	Portfolio Risk and Return under each financial institution on the basis of Return on Assets	73
4.13	Portfolio Risk and Return on the basis of Return on Equity under commercial Banks.	74
4.14	Portfolio Risk and Return on the basis of Return on Equity under finance companies	7
4.15	Portfolio Risk and Return on the basis of Return on Equity under insurance Companies.	76

4.16 Portfolio risk and Return under each financial institution on the basis of Return on Equity	76
4.17 Diversification of Risk on the basis of Return on Assets of the commercial banks	78
4.18 Diversification of Risk on the basis of Return on Assets of the finance companies	79
4.19 Diversification of Risk on the basis of Return on Assets of the insurance companies	79
4.20 Reduction in Portfolio Risk through diversification on the basis of Return on Assets	80
4.21 Diversification of Risk on the basis of Return on Equity of the commercial banks	81
4.22 Diversification of Risk on the basis of Return on Equity of the finance companies	82
4.23 Diversification of Risk on the basis of Return on Equity of the insurance companies	82
4.24 Reduction in Portfolio Risk through Diversification on the basis of Return on Equity	83

LIST OF FIGURES

<i>Figure No.</i>	<i>Title</i>	<i>Page</i>
2.1	The CAMP or Security Market Line (SML)	16
2.2	Reduction of Risk through Diversification	23
4.1	Risk and Return on the basis of Return on Assets of Commercial Banks	57
4.2	Risk and Return on the basis of Return on Assets of Finance Companies	59
4.3	Risk and Return on the basis of Return on Assets of Insurance Companies	61
4.4	Risk and Return on the basis of Return on Equity of Commercial Banks	64
4.5	Risk and Return on the basis of Return on Equity of Finance Companies	66
4.6	Risk and Return on the basis of Return on Equity of Insurance Companies	68
4.7	Portfolio risk and Return of each Financial Institutions on the basis of Return on Assets	73
4.8	Portfolio risk and Return of each Financial Institutions on the basis of Return on Equity	77
4.9	Reduction in Portfolio Risk through Diversification on the basis of Return on Assets	80
4.10	Reduction in portfolio Risk through Diversification on the basis of Return on Equity	84

LIST OF ABBREVIATIONS

ACFC	Ace Finance Company
AFC	Annapurna Finance Company
CAPM	Capital Assets Pricing Model
Com.	Company
C.V	Coefficient of Variation
etc.	etcetera
Es	Enterprises
F/Y	Fiscal Year
HBL	Himalayan Bank Limited
HGIC	Himalayan General Insurance Company
i.e.	that is
KFC	Kathmandu Finance Company
NBL	Nabil Bank Limited
NEPSE	Nepal Stock Exchange Ltd.
NFC	National Finance Company
NIB	Nepal Investment Bank Limited
NRB	Nepal Rastra Bank
No	Number
PFC	Paschimanchal Finance Company
PIC	Premier Insurance Company
ROA	Return on assets
ROE	Return on Equity
SBI	SBI Bank Limited
SCBL	Standard Chartered Bank Limited
SEBON	Security Board of Nepal
S.N	Serial Number
T.U.	Tribhuwan University
UIC	United Insurance Company