

Analysis of Risk and Return

(A case study of selected Commercial Banks)

Submitted By:

Shanti Chand

SHANKER DEV CAMPUS

TU Regd. No: 18605-92

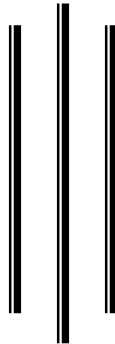
Roll No. 25/058

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)

Putalisadak, Kathmandu

March, 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Shanti Chand

Entitled:

Analysis of Risk and Return

(A case study of selected Commercial Banks)

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

(Thesis Supervisor)

.....
Mrs. Snehalata Kafle

(Reader)

.....
Dr. Kamaldeep Dhakal

Campus Chief

.....
Mr. Pitri Raj Adhikari

(Lecturer)

VIVA-VOCE SHEET

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

by

Shanti Chand

Entitled:

Analysis of Risk and Return

(A case study of selected Commercial Banks)

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

Master Degree of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Analysis of Risk and Return**” (*A case study of selected Commercial Banks*) submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (M.B.S) under the supervision of **Mrs. Snahalata Kafle** and **Mr. Pitri Raj Adhikari**, Reader & Lecturer, respectively of Shanker Dev Campus.

.....

Shanti Chand

Researcher

TU Regd. No: 18605-92

Roll No. 25/058

Date:

ACKNOWLEDGEMENT

The credit for the preparation of this thesis goes to my respected research supervisors **Mrs. Snahalata Kafle** and **Mr. Pitri Raj Adhikari**, for their invaluable scholarly supervision, constructive comments and suggestions that helped me to give the shape of thesis in its present form.

Similarly, I would also like to express my sincere gratitude to **Mr. Kiran Pant** lecturer of Shanker Dev Campus and **Mr. Arpan Paudel** lecturer of Everest College of Multiple Studies for providing me additional support during the data analysis period. With due respect, I would like to express my appreciation towards my family members.

Lastly, I express my thanks to my friends for their co-operation. Thanks also go to all of the respective associates of compute setting, typing, formatting and printing out the materials.

Shanti Chand

March, 2009

Table of Content

Heading	Page No
CHAPTER I	
INTRODUCTION	
1.1 Background of the study	1
1.2 Focus of the study	5
1.3 Statement of the Problem	6
1.4 Theoretical Framework	7
1.5 Objectives of the study	7
1.6 Limitations of the study	8
1.7 Organization of the report	8
CHAPTER - II	
REVIEW OF LITERATURE	
2.1 Conceptual Framework	10
2.1.1 Investment	10
2.1.2 Return	11
2.1.2.1 Single Period Rate of Return	12
2.1.2.2 Expected Rate of Return $E(r)$	13
2.1.3 Risk	13
2.1.4 Portfolio Management	15
2.1.4.1 Portfolio Return (R_p)	16
2.1.4.2 Portfolio Risk (SD)	17
2.1.4.3 Systematic Risk and Unsystematic Risk	18
2.1.5 Capital Assets Pricing Model (CAPM)	19
2.1.6 Over, under and fairly pricing of securities	21
2.1.7 Investment Performance Evaluation	22
2.1.7.1 Sharpe's Performance Measure	22

2.1.7.2 Treynor’s Performance Measure	23
2.1.7.3 Jensen’s Performance Measure	24
2.2 Review form previous study	25
2.3. Reviews from Thesis	32
2.4. Research Gap	38

Chapter III

RESEARCH METHODOLOGY

3.1 Research Design	40
3.2 Population and Sample	41
3.3 Data Collection techniques	41
3.4 Data Analysis Tools	42
3.4.1 Market Price Stock (MPS)	42
3.4.2 Dividend per Share (DPS)	42
3.4.3 NEPSE Index (Lt)	42
3.4.4 Return on Market (R_m)	43
3.4.5 Return on Common Stock Investment (R_j)	43
3.4.6 Expected Return (E(R_m))on Common Stock	43
3.4.7 Standard Deviation (SD)	44
3.4.8 Coefficient of variation (CV): Unitary risk measure	44
3.4.9 Beta Co-efficient ()	45
3.4.10 Correlation Co-efficient	46
3.4.11 Portfolio Risk and Return	46
3.4.12 Capital assets Pricing Model (CAPM)	48

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Analysis of selected CBs	50
4.1.1 Nepal SBI Bank Limited (SBI)	50
4.1.2 Nepal Arab Bank Limited (NABIL)	52
4.1.3 Bank of Kathmandu Limited (BOK)	53
4.1.4 Standard Chartered Bank Nepal Limited (SCBNL)	55

4.2 Inter Bank comparisons	56
4.3 Comparison with Market	58
4.3.1 Market Risk and Return	58
4.4 Analysis of Market Sensitivity	59
4.5 Portfolio Analysis	61
1. Covariance and Correlation	61
2. Required weight of investment to diversify the Risk (Minimum Weight of Portfolio)	63
3. Portfolio Risk and Return	64
4.6 Major Findings	66

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary	67
5.2 Conclusion	68
5.3 Recommendations	70

ABBREVIATIONS

B.S	Bikram Sambat
BOK	Bank of Kathmandu
BVPS	Book Value Per Share
C.R.	Current Ratio
CBs	Commercial Banks
CV	Coefficient of Variation
DFL	Degree of Financial Leverage
DPR	Dividend Pay Out Ratio
DPS	Dividend Per Share
	Earning Before Interest and
EBIT	Tax
EBT	Earning Before Tax
EPS	Earning Per Share
F/Y	Fiscal Year
i.e	That is
N	No. of Year
NABIL	Nepal Arab Bank Limited
NBA	Non Banking Assets
	Nepal Investment Bank
NIBL	Limited
NPA	Non Performing Assets
NPAT	Net Profit After Tax
NRB	Nepal Rastra Bank
P.Er	Probable Error
P/E	Price Earning
P/L	Profit & Loss
r	Correlation Coefficient
r ²	Coefficient of Determination
ROA	Return on Total Assets
ROE	Return on Earning
S.D	Standard Deviation
SBI	State Bank of India, Nepal
	Standard Chartered Bank
SCBNL	Nepal
WTO	World Trade Organization

