

CHAPTER - I

INTRODUCTION

1.1. Nepalese Economy:

Nepal is overwhelming an agricultural country, which make about 40% of GDP with agriculture. And Nepal has more than 90 % of the population living in the rural areas and makes out their livelihood though the agriculture. It is estimated that more than 40% populations are under absolute poverty (below minimum wages,) and the share of these people are more in the rural areas than in urban areas. Country's land locked location, limited exportable resources, low economic growth, low saving, low income, higher rate of population growth, limited transportation facilities and infrastructure are the major factor that have proved obstacles in the economic development of the country. The Per capital income is very low, which remains about US\$ 230 and recorded as the least developed country of the world. The open border with India and the protectionist trade policy of India serve to restrain Nepal's ability to tariff (lower tariff) barriers and encourage a more export-oriented economy. While tourism, the Agro industry, potential hydro-electricity power resources and a large pool of cheap labor area are of advantage scope at present to solve Nepal's economic problems. As a result, Nepal is heavily dependent on foreign assistance.

In the last few years, after the democracy is established in the country in 1990 the government is continuously trying their best to lift up the economic standard of the people. The liberalization and privatization policies of the government have started showing positive results in the country. The continuing thrust to the private

sector in the process of national development has helped in establishing many banks, financial institutions and industries in foreign collaboration.

The history of modern banking has been started after the establishment of Nepal Bank Ltd. the first-ever bank in the country in 1937 AD. Meanwhile, the economy of the country at that time was highly influenced by the Indian market. Indian currencies were widely in circulation and Nepalese economy was predominantly non-magnetized. Thus, only the Nepal Bank Ltd. Was not able to provide required services all over the country, while the political freedom in 1951, a planned development process has been started in the country that leads to the formulation of first development plan in 1956. At the same time it was felt that there is a need of central bank to regulate the money supply and help banking development in the country. As such, Nepal Rastra Bank, the central bank of the country was established in 1956 under the Nepal Rastra Bank Act 1955.

The role of financial institutions has been very crucial in the overall economic development of the country. Their role of financial intermediation as well as capital formation is to make lending and borrowing cheaper and to increase liquidity in the system. This in turn encourages investment and may also increase the overall level of spending in the economy. In recent years, and particularly since the advent of democracy in 1990, his Majesty's Government of Nepal (HMG) has begun opening up financial markets as part of its program of economic liberalization. After the restoration of democracy in 1990, Nepal has adopted more liberal and open economy activities. Till 1984, there was only two governments owned commercial banks in operation, but after initiation of liberal economic policies, a provision was made for the establishment of commercial banks in foreign collaboration. The recent boom in the establishment of banks and finance companies, the partial privatization of first-ever established government owned commercial banks, the opening of the stock exchange and a relaxation of

government policies on interest rates, foreign exchange, reserve requirements, branch expansion and many others are the outcome of the adoption of new and more market oriented policies by the government.

The financial system of Nepal comprises of the Central Bank, viz. Nepal Rastra Bank, more than 25 Commercial Banks, 4 Specialized Development Bank, 5 Rural Development Banks, more than 50 Finance Companies, 2 Contractual Savings Institutions, viz. Employees Provident Fund and Citizen Investment Trust, Deposit Insurance and Credit Guarantee Corporation, Credit Information Bureau (CIB), Nepal Stock Exchange (NEPSE), Stock Exchange Board, more than 12 Insurance Companies, 30 NGO's and Postal Savings Banks.

1.2. Background of Stock Market in Nepal:

Stock market is the market where the shares of companies are traded. Stock market is essential for public companies which have to raise large amount of fund. And it is also beneficial for investors who can invest in share of companies from stock market and benefit from dividend gain or capital gain. On overall stock market plays vital role for the growth of the economy as a whole.

Any review of the capital market would not be complete unless it focuses on the past trends, the present state in which the capital market is placed and visualized its future pattern of development. The history of capital market was started since the period of Rana Prime Minister Juddha Shamsheer. He set-up a holding company namely Biratnagar Jute Mills under joint financing agreement with an Indian Malwari merchant Mr. Radha Krishna Chamarika with an Indian Jute Processing industry in 1936 (1993 B.S) as the first modern sector industry in the country. After that various mills of rice, cotton, sugar and other were established

to mobilize economy's capital for the industrial development. In 1937 (1994 B.S) Nepal Bank Limited (NRB) as commercial bank was established. In the same year, the first industrial act was promulgated which was a favorable step to promote capital market in Nepal. But Rana family did not like the participation of public in the ownership structure of industries and all the shares of companies were gone to Rana families, the expansion of capital market to the desired level has been estimated. In 1950 (2007 B.S) democracy was established, the interim government were much busy in devising measures to recognize the sick industries and gave little attention to initiate the development of stock market until 1976 (2033 B.S) when a government owned and operated Securities Exchange Center (SEC) was established. It was established to perform the function of a stock exchange (under the Securities Exchange Act 1983) like broker, issue manager and securities market regulator but under this arrangement there were no private brokers, dealers, investment banks and securities firms because of all this trading remain insignificant.

The need of stock market in Nepal has been an accepted reality. In 1990 when democracy was resolved, the interim government in its short period has initiated banking reformation and had established Citizen Investment Fund (CIF). The establishment of NIDC Capital Market Limited is also major step to improve financial system in Nepal. His Majesty's Government, under a program initiator to reform capital market converted Securities Exchange Center (SEC) into Nepal Stock Exchange limited in 1993.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and co-operate securities by facilitating transaction in its leading floor through market intermediaries such as brokers, market makers etc.

The history of Nepalese Stock Market begins with the listings of shares by 16 companies which was first took place in 1986. The total number of listed company's is 119 until 2001. The total turnover transaction is increasing annually. The transaction of stock exchange is taken long process. Transaction will be completed not any particular period but the minimum transaction days are 4 days. The NEPSE commenced operations on 13th January 1994, with ownership of the Exchange dividend between His Majesty's Government (HMG/N) the Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC) and licensed members.

1.3 Market and their Functions

One way in which securities market may be classified is by the types of securities brought and sold there. The broadest classification is based upon whether the securities are new issues or already owned by the investors. New issues are available in the primary market securities and already owned securities by the investors are usually bought and sold through the secondary market. Another classification is by maturity. Securities with maturities of one year or less are normally traded in the money market. Those with maturities of more than one year are bought and sold in the capital market.

The existence of markets for securities is of advantage to both issuers and investors. As to their benefit to issuers, securities markets assist business and government in raising funds. In a society with private ownership of the means of production and distribution of goods and services, saving must be directed towards investment in industries where capital is most productive. Government must also be able to borrow or public investments. Most mechanism makes possible the transfer of funds from surplus to deficit sectors, efficiently and at low cost.

Investors also benefit from market mechanisms. If investors could not resell securities that they own, they would be hesitant to acquire them, and such reluctance would reduce the total quality of funds available to finance industry and government. Those who won securities must be assured of a fast orderly and open system of purchase and sale at known prices.

The classification of market we are most interested in is the one that differentiates between new and old securities, the primary and secondary markets.

) **Primary Market:**

It is the financial market where the shares of the companies are issued for the first time. In other words shares issued in primary market are fresh shares. The issuer may be a brand new company or one that has been in business for many years. The securities offered might be a new type for the issues or additional amounts of securities used frequently in the past. It consists of companies issuing securities to the buyers of new securities; issues house, underwriter, stockbrokers, stock exchange etc are the important constituents of the primary market or new issues market. There are three ways in which a company may raise capital in the primary market: Public Issues, Right Issues, and Private Placement.

) **Secondary Market:**

In secondary market, the existing securities are simply being transferred between parties and the issuers are not receiving new funds. After shares being purchased in the primary market, securities is trade subsequently in the secondary market. There are actually two broad segments of the secondary market the organized exchanges and the Over the Counter (OTC) markets.

The primary middlemen in the secondary markets are brokers and dealers. The distinction between the two is important. The technical difference rests upon whether the persons act as an agent (broker) or as a principal (dealer) in a transaction. Organized exchange is physical market places where the agent of buyers and sellers operates through the auction process. There are a number of organized exchanges. Secondary market is well known by stock market.

1.4. Statement of the Problem:

Nepal's stock market was in temporally inactive during the decades of seventies and eighties. Only few companies accessed in the stock market and investors were not interested in securities, during these periods. Actually, the problems of Nepal Stock Exchange (NEPSE) have not been diagnosed and identified so the policy makers are unable to make the appropriate policy for the development of stock market. Most of the government efforts for the development of the stock market since mid seventies have poorly contributed. Market only started to progress from the early nineties, especially after the introduction of the floor transaction say reformation of Securities Exchange Center (SEC) into NEPSE. The government also took a number of measures to gear up the economy of Nepal such as privatization policy, economic liberalization policy and reform of financial sectors. Although, all these have made some positive impact for the development of stock market but these have not become sustainable because of lack of proper implementation of the policy.

The economical, intuition and regulatory framework provides the underpinnings for stock market development. At the early stage of an emerging market economy,

it is important that the government create the right policy environment to facilitate the creation of a critical mass of financial instruments, issues and investors.

NEPSE is only few years old. The equity market and related institutions are still in their infancy. For many reasons, there is an inadequate demand and supply for securities. Until these structural weaknesses in the capital market are corrected in Nepal, it is unlikely that the NEPSE will become an effective mechanism. For all this reason, the current study is carried to diagnose and identify the growth and prospects of stock market in Nepal. There are numerous problems that need to be corrected in order to achieve a critical mass of issues and market capitalization that will provide sufficient depth and liquidity. In this way, the Nepalese stock market could be expected to evolve into a significant mechanism for capital mobilization and economic growth.

1.5. Objective of the Study:

The general objectives of this study “Growth of Stock Market in perspective of listed commercial banks” are as follows.

-) To examine the growth of stock market in perspective of listed banks. In terms of both price and quantity.
-) Find out the future development prospects of stock market.
-) To analyze the listed commercial banks individually and compare with the market. Return and risk will be analyzed and compared.

-) To suggest measures for the improvement of stock market i.e. primary and secondary market

1.6. Research Methodology:

This part highlights the research methodology adopted and resources used in achieving predetermined objectives as stated earlier. It is the main body of the study that devotes to present the method of investigating followed in the course of study. In order to collect the necessary information and data for the present study, a systematic process has been employed:

-) Primary and secondary sources of data

-) Different statistical and financial tools to be used are:
 - Earning per share.

 - Return on common stock investment.

 - Standard deviation.

 - Coefficient of variation(CV)

 - Capital Assets Pricing Model (CAPM)

1.7. Limitation of the study:

There are certain limitations of the study that are stated below:

-) This study is done for the fulfillment for M.B.S. degree in management, so it is not a comprehensive study.
-) This study deals with the secondary source data and information from the commencement of the NEPSE trading. So the report depends upon the reliability of secondary data.
-) Only certain companies will be selected for the analysis.
-) Up to 5 years period data will be collected from the listed companies for the analysis.
-) Due to the time constraints enough time will not be given for detail analysis.

1.8. Organization of the Study:

The present study would have been divided into following chapters:

-) Introduction
-) Review of Literature
-) Research Methodology

-) Data Presentation and Analysis
-) Summary, Conclusions And Recommendation

The first chapter deals with various aspects like General Economy in Nepalese context, Background of the study, Objective of the study, problem of the study, Research Methodology, Limitation of the study, and Organization of the study.

The second chapter deals with the Review of Literature from different articles, books, journals, past research work and master thesis etc.

The third chapter deals with the Research Methodology that includes Research Design, Nature and Source of Information, Population and Sample, Tools for Analysis and Interpretation.

The fourth chapter deals with presentation of data collected from primary and secondary sources and its analysis by using the tools mentioned in research methodology. And major findings of the analysis is presented.

The fifth chapter deals with Summary, Conclusion and Recommendation of the study.

CHAPTER - II

REVIEW OF LITERATURE

In this chapter an endeavor has been made to review literature related to the study of the topic of this thesis. In this regards some basic academic course books, journals and other international and national publications available from different libraries and institutions are reviewed. While reviewing literature enough care is given to relevancy and accuracy of the literature. Some Master Degree thesis available in Library, related to some extends to these topics is reviewed as well.

2.1. Conceptual Review:

2.1.1. Capital Market:

“The capital market consists of the various suppliers and users of long-term finance. As it is differentiated from the money market which embraces short-term finance. The capital market serves as a link between suppliers and user of finance. It is a mechanism for the mobilization of public saving and canalizing them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of securities and all those agencies and institutions, which assist the sale, and resale of corporate securities.”(Gupta; 1978:325)Therefore, the capital market is the market for long term borrowing and lending. The primary instruments of the capital market are stocks and bonds.

Nepal is one of the least developed countries in the world. The paucity of the capital has been the main causes for underdevelopment. Nepal launched planned economic development more than four decades ago. Recently, she has adopted the path of economic development through liberalization. However, any strategy for development requires a steady supply of medium to long-term capital funds for productive investment. For the mobilization of investible resources, Capital Market is an important intermediary through which effective bridging of the deficits units and surplus units can be ensured. Capital Market institutions are engaged in mobilization of savings from surplus units and deploy funds into the deficit unit for productive investment. “In this respect, Capital Market plays a crucial role in mobilizing a constant flow of savings and channelizing these financial resources for expanding productive capacity in the countries.”(Gupta; 1978: 237)

Capital Market can be decomposed into securities and non-securities market. Stock Market is a major component of the securities market. Stock Market is a medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. Similarly, stock Market provides the best investment opportunity to the investors. Thus, the effective collection of small amounts of savings and transferring funds into competitive and efficient uses requires a well functioning market to facilitate the process. “In the absence of an efficient Capital Market, which attracts the funds from the savers and channels them for the industrial development, the savings which would otherwise have been available through capital markets are prone to remain dormant or leave the country or be deflected to less efficient uses.” (Garbade; 1979: 16)

“The Stock Market also imparts liquidity to the securities holders. This offers an opportunity for the investors to invest in the long-term ventures, which market also enables them to convert their securities into liquid cash before the maturity of

the projects. Furthermore, they can invest their current income against future income thereby achieve their time preference of consumption. The liquid Stock Market also promotes the primary issuance of shares. Because investors participate in the issuance of share market for they can get back the fund easily. The primary market is positively and highly elastic with the stock prices and the liquidity in the secondary market.” (Garbade; 1979: 16)

Further, Stock Market liquidity may influence economic development. Many profitable projects require a long-term venture capital to finance. Most investors tend to avoid the risk and are often reluctant to tie their savings into the long-term commitment. Liquid stock market makes the investment less risky and more attractive. It encourages savers to invest in the long-term projects, because they can sell the security quickly and easily if they want to get back their saving before the projects matures. While at the same time, companies receive easy access to capital through new issuance of shares. Stock Market liquidity is positively and robustly correlated with contemporaneous and future rates of economic growth, capital accumulation and productively growth.

To maintain high liquidity in the stock market, the market has to be efficient in pricing the shares. In an efficient market, prices "fully reflects" available information. In this situation at every moment in time, the actual prices of the security represent best estimate of its intrinsic value i.e. Participants in the market would be dealing with "fair" prices of the security. In this condition, the investment decision problem of the general investors is greatly simplified because random selection of the stocks which matches their portfolio risk class, doesn't differs in its return significantly from others.

2.1.2 Financial Market: *(Baker; 1998:40)*

Corporation produces products and services to consumers. In order to expand production or to often increasing services, corporation spend billions of Rupees each year on the real productive assets, corporations, generally require more amount than they are to retain from external sources.

While business represents one sector in our economy, another sector represents our households. As a group, individuals and families save more than they spend making them a net saving sector. The amount saved may be invested in bank savings accounts or directly in common stocks certificates and bonds (debt claims) issued by corporations. Financial Market exists to aid corporations in raising money for the acquisition of productive assets by tapping into the savings of the household sector.

The financial system is an important element of modern economy. The resources are exchanged through the financial system. It helps in the payment of goods, services and productive inputs. Similarly it makes to manage funds efficiently and use them. Financial system consists of financial institutions, financial market and financial instruments. It denotes commercial banks, savings and loan association, insurance company, central banks etc. Financial Market denotes the place or mechanism where financial instruments are traded.

Financial instrument denotes also paper evidence showing the exchange of instruments between concerned parties. The financial instruments between other than money included in the financial systems are stock, bonds etc. The financial system converts savings into investment. It makes the savings investment process convenient through financial intermediary.

A financial Market is a place where firms and individuals enter into contracts to sell or buy specific products such as stocks, bond on features contracts. Buyers seek to buy at the lowest price and sellers seek to sale at the highest available price. In other words, market provides a meeting place for buyers and sellers where price is determine.

A financial Market is a mechanism by which savings in one sector of the economy flows to another sector. Corporation's issues or sell common stocks and bonds certificates in order to obtain the amount they need to purchase new productive assets. A market allows buyers and sellers to meet in order to conduct a mutually agreeable transaction.

A financial Market is simply one way net spenders (corporation) obtain a new financing by purchasing funds from net savers. Corporation receives funds by issuing bonds, common stocks or borrowing from the commercial banks.

2.1.3 Primary Market:

A primary market is a "new issues" market. Here, funds raised through the sale of new securities flow from the ultimate savers to the ultimate investors in real assets. The primary markets are media through which new financial assets are issued or generated. They are the media through which the demanders and suppliers of funds and the creators and acceptors of financial claims meet. In these primary markets, financial assets are created and exchanged, satisfying in the part of the financial needs of both demanders and suppliers of fund.

Securities available for this first time are offered through the primary securities markets. The issuer may be a brand new company of one that has been in business

for many years. The securities offered might be a new type for the issuer of additional amounts of a security used frequently in the past. The key is that these securities absorb new funds of the coffers of the issuer.

“The primary securities market includes all transactions that result in the accumulation of financial capital by firms, governments or individuals to be used in consumption of real capital investment. The participants in this process are many and varied, but an important segment, includes the money brokers who acts as a middlemen in the process of exchanging securities. These brokers provide invaluable services. Their principal role is to assist in the pooling of the funds by the certain of security forms that will appeal to the ultimate investors.”(Nancy, and Richardson; 1984: 147)

Primary market transactions are normally effected through the issuance of short and long-term bonds and other debt instruments and through the issuance of common and preferred stock. All the securities whether in the money of capital markets, are initially issued in the primary market. This is the only market in which the company is directly involved in the transactions and receives direct benefit from the sale of securities. Once the securities begin to trade among individuals, business, government or financial institutions they become part of the secondary market.

Primary markets are distinguished by the flow of funds between the market participants. Instead of trading between investors as in the secondary markets, participants in the primary market buy their assets directly from the source of the assets. Once the assets or securities are sold in the primary market, they begin trading in the secondary market.

“The contribution of primary market to issuing company is that it provides additional funds to the companies either for starting a new enterprise or for expansion or diversification of the existing one. Before the establishment of primary security market issuing companies themselves undertook the issuing management activities.” (Tonic and West; 1997:36)

2.1.4. Secondary Market:

“Secondary market is the market for existing (used) securities rather than new issues. Transactions in these already existing securities do not provide additional funds to finance capital investment. An analogy can be made to the market for automobiles. The sale of new cars provides cash to the auto manufacturers; the sale of used cars in the used-car market does not. In a real sense, a secondary market is a “used-car lot” for securities.”(Van Horne and Wachowicz; 2001:24)

“If everyone who bought stock simply kept it and waited to collect dividends, there would be no secondary market. The main reason for buying stock, however, is speculation—the hope that the value of the stock will increase so it can be sold at a profit. A secondary market—by far the larger of the two markets—comes into existence because a share of stock, once it has been sold by a corporation, takes on a life of its own. It becomes a piece of property in itself. Like a work of art or a hoard of gold, a share of stock is regarded as something with a potential for increased value.

Owners of stocks (and bonds, as well) are continually in the business of trying to better their fortunes by selling and buying stock in the secondary market. A stock increases or decreases in value for a variety of reasons: the general business climate, the type of industry represented by the stock, the success of the issuing company, and more. Those who trade in the secondary market are basically speculators—they are betting that the stock they buy will increase in value and that the stock they sell will decline or level off. Shortly after the crash of 1987, the economic journalist William R. Neikirk stated: “It is not too strong to call our

financial markets casinos.” When stocks are traded in the secondary market, none of the money goes to the company that originally issued it. It goes to the seller, minus a commission for the broker.” (Britannica Encyclopedia; 2008:107)

When a market crashes, the fall occurs in the values of stocks traded in the secondary market. The values of company assets remain the same. In a secondary market a stock value may react to many factors that are completely unconnected to the company that issued the stock. The company itself may be perfectly healthy even as its stock decreases in worth.

The secondary market provides “liquidity” for financial assets making them more attractive. So secondary market is place where the securities once sold are purchased and repurchased to provide liquidity to the securities and the secondary market is operated by Securities Exchange Center. The trading of government securities in secondary market is very thin because of limited distributors of the securities. Securities Exchange Center in order to promote the market used to support the market even involving itself in buying and selling activities, if necessary.

“Stock market interchangeably known as secondary market is the other side of market segment under capital market. It includes all transferable securities issued previously by the corporate bodies such securities are also traded on the stock exchange. Here Stock Exchange refers to the association, organization or body of individuals whether incorporate or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities. Indian securities contract (Regulation) Act 1956. But the stock market does not include securities of private companies as they are not capable of being dealt in on stock exchange and are not marketable securities due to the restriction on transferability. In order to benefit from the securities markets, the corporate bodies should have listed the securities in the stock exchange. The companies, which have listed their marketable securities on the stock exchange, are known as listed companies. This means only the securities of listed companies are traded on the

trading floor of the stock Exchange. Section 8 of securities exchange Act1983 has laid down the provision of compulsory listed of securities before trading on the stock exchange. Securities not listed in listed or declared void re not traded in this case. For trading purpose of the debentures or bonds of the companies, the maturity period of such instruments should not be less than two years and debentures having face value of Rs.1000 each can only be traded.

Stock market, hence, covers activities pertaining to the dealing in securities, whether good or bad, for the liquidity and marketability. Only the securities of existing companies are tradable on the stock exchange irrespective of issuers: corporate bodies or government. The trading process of existing securities is carried out with the help of market intermediaries or involving buyers and sellers themselves. The government has also initiated the drive of placing bonds of its own in the second market.

A huge numbers of securities of existing financial, manufacturing banking service and production entities are traded daily via Nepal Stock Exchange in Nepal. The securities market involved in both primary and secondary of securities till 1993, later converted into stock exchange (NEPSE) according to Securities Exchange Act1983, is providing a wide spectrum of secondary market services to the varieties of organization so as to pare the way for the economic development in the country. Beside this, to safeguard the interest of shareholders the stock exchange board as designated by the act is performing the roles. The companies or concerned individuals who do not comply with the prevailing rules and regulations are incriminated by the board. The NEPSE has recently release a report of 21 companies in this connection.” (Dangol; 2002:14)

An exchange is defined as anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities. Capital market apart from the primary market also includes markers where securities, which have been issued in the past,

are traded. These secondary markets are called stock market or stock exchanges. The stock market dominantly deals in stock or equity shares. They enable owners of shares to sell their holdings readily ensuring liquidity. The secondary market enables investors to continuously rearrange their assets while others can use their surplus funds to be acquiring them. Any trade of shares subsequent to its primary offering is called a secondary transaction. The initial buyer in the primary market may re-offer the securities to any interested buyers at whatever price is mutually satisfactory. The Stock Exchange provides a market where such mutually satisfactory prices may be determined. They offer opportunities primarily for trading risk and boost liquidity. (Tonic and West; 1977: 26)

2.1.5. Stock Valuation (*Bhattari; 2006:312*)

Stock means the common stock. It is a legal representation of an equity or ownership position in a corporation. It lies under variable income security between two types of security income, fixed income and variable income. It is a negotiable instrument. It can be bought and sold in the secondary market.

The theory surrounding the valuation of common stock has undergone profound change during the last few decades. It is a subject of considerable controversy, and no one method for valuation is universally accepted. Still in recent years there has emerged growing acceptance of the idea that individual common stocks should be analyzed as part of a total portfolio of common stocks that the investor might hold. In other words, investors are not as concerned with whether a particular stock goes up or down as they are with what happens to the overall value of their portfolios. This concept has important implications for determining the required rate of return on a security. Unlike bonds and preferred stock cash flows, which are contractually stated, much more uncertainty surrounds the future stream of returns connected with common stock.

Some of the stock valuation models are as follows.

) Dividend Discount Model

This method of calculating the value of stock based on the cash flows (dividend) that the investor expects to receive in the future from owning an asset. The future cash flows are discounted at a risk-adjusted rate of return to find the real value of the stock. The discount rate is called capitalization rate and the value obtained through the discount of dividends is called capitalized value or intrinsic value of present value or real value of stock. The basic objective of valuation is to identify the mis-priced stock to create an efficient portfolio. A general model to identify the value of stock is as follows.

$$P_0 = \frac{d_1}{(1+k)^1} + \frac{d_2}{(1+k)^2} + \dots + \frac{d_u}{(1+k)^u}$$

Where,

P_0 = value of stock at time 0

d = expected dividend per share

k = discount rate, required rate of return

Merrill Lynch, CS First Boston, and a number of other investment banks routinely make such calculations based on their own particular models and estimates

) Zero Growth Model

Under zero growth valuation, it is assumed that the dividend paid per share in the past will continue forever in the future also. The dividend paid last year will also be paid over the next year, and the year after and so on. The basic meaning that the

dividend that will be paid in the future will not grow over the past years. Under this condition the share will be valued as,

$$P_o = \frac{D_o}{k_e}$$

Where,

P_o = Intrinsic or real value

D_o = expected dividend per share i.e. $D_o = D_1$

K_e = required rate of return

This is applicable only when the condition is fulfilled but seems unreasonable because a given stock rarely pays such fixed dividends forever. However, this is valid in only one situation, that is, to value the preferred stock where fixed dividend is paid if the stock is non-participating and irredeemable.

) Constant Growth Model

The next type of valuation model under dividend discount is the constant growth model. It assumes that the dividend will grow at a constant rate forever in the future. If the past year dividend was D_o and the coming dividend will grow at a constant rate g then the dividend would be D_1 i.e. $D_o(1+g)$. This model also assumes that the required rate of return (K_e) is greater than the dividend growth rate. The equation is:

$$P_o = \frac{D_1}{K_e - g} = \frac{D_o(1+g)}{K_e - g}$$

2.1.6 **Bank Efficiency:** (*Berger and Timme; 1993: 87*)

Bank efficiency has been discussed for years. Recently, because of the rapid growth of financial markets and financial innovations, it has become more important to measure the efficiency of financial institutions. If those financial institutions operate more efficiently, they might expect improved profitability and a greater amount of intermediated funds. Consequently, the consumer might expect better prices and service quality and greater security and soundness of financial systems. The academic research on the performance of financial institutions has increasingly concentrated on X-efficiency (or Frontier efficiency), that measures deviations in performance from that of best-practice firms on the efficient frontier, holding constant a number of exogenous market factors like the prices faced in local market. The efficient frontier measures how well the financial institution performs relative to the predicted performance of the best firms facing the same market conditions in the industry. X-efficiency often measures cost efficiency of institutions more accurately than does standard financial ratios. Comparing the financial ratios of different banks is not appropriate unless the banks are nearly identical in term of product mix, bank size, market conditions, and other characteristics that can affect the costs of the banks. Thus, statistical based “efficient cost frontier” approaches would measure efficiency more accurately.

There are several factors that might affect the efficiency of the bank. First, geographic deregulation has an impact on the bank operation. The banking industry is highly regulated. Theoretically, those regulations increase banks’ operating costs and decrease competition and efficiency within the industry. Experts tested whether regulations affect the operating efficiency of banks by using a bank efficiency index. (The efficiency index is an estimate of the excessive

cost of the bank per unit of output over the average cost the bank would incur if operated at maximum efficiency.)

They assumed that bank operational efficiency has a positive relationship with the degrees of current competition and a negative relationship with the degrees of potential competition in the banking industry. The statistical results show no significant effect on the banking industry for current and potential competition. This means that regulations, causing banks to produce services and products at excessive costs, have no significant influence on bank operational efficiency. Empirical studies showed, deregulation in financial markets resulted in dramatic changes in the banking industry. Because of deregulation, the barriers to geographic expansion and interest rate ceilings were eliminated. Thus, in the financial market, commercial banks experienced substantial competition from in-state banks, out-of-state banks, and non bank rivals. Experts suggest the existing regulatory framework is costly and imposes inefficiency. This means that the regulation causes banks to make less profit and be at a greater disadvantage to their non- or less-regulated competitors. Intuitively, the removal of the regulation would increase the efficiency level of the banking industry. However, some finds that deregulation leading to bank mergers might have expensive “one-time” expenditures to integrate back office operations and standardize banking products instead of reducing costs in the short run. Moreover, acquiring banks, rather than removing excess branch office capacity, have tended to perpetuate the overcapacity conditions that might lead to higher costs. Thus, deregulation might result in more costs to the banking industry and make the whole industry less efficient.

2.2 Review Of Legal Provisions: (<http://www.nrb.org.np>; 5/6/2008)

Basically, the commercial banks have to take in mind the provisions that are existed in Nepal Rastra Bank Act 2058, Banks and Financial Institution Ordinance 2060 and company Act 2053. These legal documents affect the operation of commercial banks. Some main provisions that are existed in these legal documents are as follows:

2.2.1 Nepal Rastra Bank Act 2058

License to be obtained from NRB

(1) Commercial Banks and financial institutions shall, in order to conduct banking and financial transaction, obtain license from the NRB as prescribed.

(2) NRB may fix necessary terms and conditions and it shall be the duty of the licensed bank and financial institution to abide by such terms and conditions.

NRB's approval required for accepting deposits or giving credits:

(1) Any person, firm, company or institution shall, in order to accept any type of deposit or to provide loan, obtain approval from the NRB as may be prescribed.

(2) The Bank, while giving approval referred to in sub-section (1), may subject the approval to the terms and conditions prescribed by the NRB and it shall be the duty of the concerned person, firm, company or institution to abide by such terms and conditions.

Restriction on rate of interest:

An individual, firm, company or organization authorized to accept deposit or to provide loan pursuant to prevailing laws, shall fix the rate of interest payable on deposit and to be charged on loan subject to arrangement prescribed by the NRB in the matter of rate of interest from time to time.

Regulating power of NRB:

(1) The NRB shall have full powers to regulate the functions and activities of commercial banks and financial institutions.

(2) For the purpose of the regulation under sub-section (1), the NRB may frame rules and bye-laws on the matters which the NRB deems appropriate and issue necessary order, directives and circular and it shall be the duty of the concerned commercial bank and financial institution to abide by such rules, bye-laws, order, directives and circular.

(3) NRB shall issue appropriate directives to commercial banks and require them to submit the following particulars:

-) Its balance sheet accounts, off balance sheet commitments, statement of income and expenditures and their ratio among accounts of items.
-) Prohibitions, restrictions or conditions concerning specific types of forms of credit or investments, of credit or investments, forms of commitments of a risk-bearing nature which are not matching as to maturity of assets and liabilities and off-balance sheet items, foreign currency, spot or advance rate of interest, swap, option or similar instruments or access to the payments system through electronic or other means.
-) Other particulars and documents prescribed by the NRB.

(4) NRB may issue necessary directives to commercial banks on the following subjects and require to submit particulars on the following subjects:

-) Books and accounts, profit and loss account, balance sheet and off-balance-sheet, transaction and commitment, statement of income and expenses and their ratio among accounts or items.
-) Prohibitions, restrictions or conditions concerning specific types of forms of credit or investments, loan and investment in excess of the ceiling prescribed by the bank, risk bearing commitment, position of foreign exchange, payment and electronic and other means of payment.
-) Other particulars and documents prescribed by the NRB.

(5) The NRB shall have the following powers with regard to commercial banks and financial institutions:

-) To enforce authority and responsibility granted under this Act any other Act enacted for licensing, supervising and regulation commercial banks and financial institutions and to revoke the license of commercial banks and financial institutions and to take over or to give in trusteeship the commercial banks or financial institutions which have been declared insolvent or are on the verge of insolvency.
-) To investigate or inspect, or supervise or to cause to investigate, inspect or supervise by any official of the NRB or the person designated by the NRB the books and accounts, records, documents or register of commercial banks or financial institutions in order to find whether or not any commercial bank or financial institution has conducted business and transaction in accordance with the provision made under this Act or the Rules, bye-laws framed there under and an order or directive issued there under.
-) To give order to the member of the Board of Directors, official or employee of a commercial bank or financial institution to provide necessary information about the bank or institution in cases where it is necessary to inspect and supervise the transaction of such bank or financial institution.

Credit to prescribed sectors:

(1) Commercial banks and financial institutions shall advance credit to the sectors prescribed by the NRB from time to time for a prescribed period and in the manner prescribed by the NRB.

(2) in case where any commercial bank or financial institution does not advance the credit pursuant to sub-section (1) or advance credit less than prescribed amount, the NRB may recover as fine an amount equal to the

interest which a commercial bank or financial institution would have charged for the amount of credit not advanced or advanced less than the prescribed amount from the concerned commercial bank or financial institution.

Control over commercial banks and financial institutions:

(1)The NRB may take such commercial bank or financial institution under its control after suspending the Board of Directors of such commercial bank or financial institution where the bank is convicted that any commercial bank or financial institution has violated this Act or Rules and bye-laws framed there under or orders or directives issued there under or from the Bank's inspection and supervision report, any commercial bank or financial institution has failed to honor its liability or there are probability of such failure or it has not been properly operated of has acted prejudicial to the interests of shareholders or depositors.

(2)The NRB may upon taking any commercial bank or financial institution under its control pursuant to sub-section (1), take the management of a such commercial bank or financial institution under its control and operate its business by itself of appoint a person, firm, company or institution to operate or manage the business of such commercial bank or financial institution.

(3) The NRB shall, within one year of operating the business on its own or through any other person, firm, company or institution pursuant to sub-section (1), audit or cause to audit the accounts of the concerned commercial bank or institution and publish the report thereof.

(4) The NRB may file an application at the Appellate Court for liquidation of the commercial bank or financial institution where the Bank is convinced from the auditing report referred to in sub-section(3), that the concerned commercial bank or financial institution is unable to honor its liability or it cannot be operated properly.

(5) The NRB may take following actions if the NRB is convinced from the auditing report referred to in sub-section (3), that the concerned commercial bank or financial institution is unable to honor its commitment or such commercial bank or financial institution is not in position to be operated properly.

-) To dismiss the Board of Directors of the commercial bank or financial institution suspended pursuant to sub-section (1) and to have the business conducted by a new Board of Directors formed from amongst the shareholders of the commercial bank or financial institution.
-) To get the new Board of Directors elected after convening the general meeting of the shareholder of commercial bank or financial institution and to have the business conducted by it or
-) To take any other appropriate action as the NRB may deem fit.

(6) The NRB shall, before taking the commercial bank or financial institution under its control pursuant to sub-section (1), provide an opportunity to defend within fifteen days to such commercial bank or financial institution as per the situation.

(7) The concerned commercial bank or financial institution shall bear all expenses incurred while operating the commercial bank or financial institution after the NRB has taken over pursuant to this section.

(8) The NRB shall provide information to Government after a commercial bank or financial institution has been taken over under sub-section (1).

Fine for violation of NRB's Regulation:

(1) In case any commercial bank or financial institution licensed under this Act, violates an order or directives issued by the NRB under this Act or under the regulation or bye-laws framed there under, the NRB may give such commercial bank or financial institution an amount up to the amount related to such violation.

(2) In cases where the NRB's regulation referred to in sub-section (1) has been violated by a Director, official or employee of the commercial bank or financial institution, such fine shall be imposed on the concerned Director, official or employee.

Punishment for violation or NRB's Regulation:

(1) in case any commercial bank or financial institution licensed from the NRB violates an order of directive issued by the NRB under this Act or under the regulation or bye-laws framed there under, the NRB may impose one or more of the following punishment to such commercial bank or financial institution:

-) Giving reprimand or written admonition;
-) Suspending;
-) Imposing a cash fine not exceeding five hundred thousand rupees;
-) Giving order to the Board of Directors of concerned commercial bank or financial institution to stop payment of all benefits including remuneration and allowances;
-) Giving order to the Board of Directors of the concerned commercial bank or financial institution to remove Directors from his office of Director or to terminate the services of officer or employee.

2.2.2 NRB Directives Relating to the Banking Sector:

Followings are the requirements for establishing a new commercial bank in Nepal

Regarding Paid up capital Requirements

- J To establish a new commercial bank of national level, the paid up capital of such bank must be at Rs. 1000 million.
- J To have an office in Kathmandu, the bank is required to have either joint venture with foreign banks and financial institutions or a technical service agreement (TSA) at least for three years with such institutions.
- J In general, the share capital of commercial banks will be available for the Promoters up to 70 percent and 30 percent to general public. The foreign banks and financial institutions could have a maximum of 75 percent share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to Nepali promoters in National level banks, only 20 percent of total share capital will be made available to general public on the condition that the foreign bank and financial institution are going to acquire 50 percent of total share.
- J Banks that are already in operation and those who have already obtained letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e., by 16 July 2009 as per this recently declared provision. In order to increase in the capital such increase should be at a rate of 10 percent per annum at the minimum.
- J Banks to be established with foreign promoters' participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.

- J To establish the commercial banks in all the places in the kingdom other than in the Kathmandu valley, the paid up capital must be Rs. 250 million. In this case, the commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70 percent and 30 percent respectively.

- J Banks to be established outside Kathmandu Valley could be allowed to operate throughout the kingdom including Kathmandu Valley only on the condition that they have operated satisfactorily at least for a period of three years and they have brought their paid up capital level up to Rs. 1000 million and also fulfilled other prescribed conditions. Unless and until such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu Valley.

- J Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20 percent along with the application and another 30 percent at the time of receiving the letter of intent on the interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the banks comes into operation. Normally, within 4 months from the date of filing of the application, NRB should give its decision on the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concern body.

Regarding Promoters Qualification

-)] Action on the promoters' application will not be initiated by the Nepal Rasta Bank if it is proved that their collateral has been put on auction by the bank and financial institution as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and five years have not elapsed from the date of removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process of license issuance if the above events are proved.
-)] Of the total promoters, one-third should be its Chartered accountants or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, at least 25 percent of promoters group should have the work experience of the bank or financial institution or similar professional experience.
-)] An individual, who is already serving as a director in one of the bank and financial institutions licensed by Nepal Rastra Bank, cannot be considered eligible to become the director in other banks or financial institutions.
-)] Stockbrokers, market makers, or any individual/institution - involved as an auditor of the bank and institution carrying on financial transactions - cannot be a director.

Regarding the Sale of Promoters' Share

-)] Promoter group's share can be disposed or transferred only on the condition that the bank has been brought in operation, the share allotted to the general

public has been floated in the market and after completion of three year from the date it has been registered in the Stock Exchange. Prior to the disposal of such shares, it is mandatory to get approval from the Nepal Rastra Bank.

-) The share allotted to the general public has to be issued and sold within three years from the date the bank has come into operation. Failing to fulfill such provisions, the bank cannot issue bonus share or declare and distribute dividends.
-) Shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution. For this purpose, the meaning of the family members will comprise of husband, wife, son, daughter, adopted-son, adopted-daughter, father, mother, step-mother and depended brother and sister.

Regarding Branch Expansion Policy

The Commercial banks established with a head office in Kathmandu will initially be authorized to open a main branch office in the Valley and thereafter, they will be authorized to open one more branch in Kathmandu Valley only after they have opened two branches outside Kathmandu Valley.

Procedural Aspects for Establishing a Commercial Bank:

The following documents should be submitted sequentially while applying for the establishment of a Commercial Bank.

1. Following documents are required to be submitted along with the application to

establish a commercial bank: -

- 1.1. Application
 - 1.2. Bio-data of promoters
 - 1.3. Feasibility Study Report on the proposed commercial bank in the format prescribed by the Nepal Rasta Bank.
 - 1.4. Attested photocopies of the minutes within the promoters to organize the bank.
 - 1.5. Promoters agreement relating to operation of the bank
 - 1.6. Copies of Articles of Association and Memorandum in the prescribed format in the Company Act, 1996. The memorandum should compulsorily include, inter alia, the provision that no person, firm, company and related group of company will be allowed to hold beyond the 10 percent stake on the issued capital in one bank and altogether 15 percent stake in all the commercial banks.
2. Requirements in the case of participation of the firm established in Nepal:
- 2.1. Photocopy of firm registration certificate
 - 2.2. Broad resolution stating the amount to be invested in the proposed bank.
 - 2.3. Certified photocopies of Articles of Association and Memorandum of the investing firm.
 - 2.4. List of Directors and proportion of their share ownership
 - 2.5. Tax clearance Certificate of the firm and its directors
3. Certified documents on prescribed amount deposited in the Nepal Rastra Bank
4. Commitment document of the collaborating foreign bank and financial institutions providing Technical Service Agreement in the case of proposed national level commercial bank to be established in the Kathmandu valley.

5. Additional requirements in the case of joint venture of foreign banks:

- 5.1 Certified minute of the board of directors of the foreign bank with a commitment of the amount to invest on the proposed bank establishing in Nepal.
- 5.2 Clearance letter from the regulatory authority or the central bank of the collaborating foreign bank.
- 5.3 Last three year's audited balance sheet, profit and loss statement and cash flow statements.
- 5.4 Certified copies of joint venture agreement with Nepalese promoters to invest in the proposed bank
- 5.5 A statement, in the case of the joint venture foreign bank has a holding bank and financial institution or a branch office or a representative office or liaison office in Nepal.
- 5.6 A justification, in the case of the joint venture foreign bank already has a joint venture in any bank or financial institution in Nepal.

Nepal Rasta bank will provide the letter of intent to the applicants to establish a bank within the four months of period the promoters of the proposed commercial banks have had submitted all the necessary documents and after the study and analysis of such documents only if it would be appropriate to incorporate the bank.

For this, to obtain a the Letter of Intent form the Nepal Rasta Bank, the certified document stating that the prescribed amount has been deposited, should be produced. If the bank is not appropriate to establish, the applicant will be notified by such information. The Nepal Rastra Bank will also provide the required period to make the bank operation while granting the letter of Intent. If the bank will not come into the operation within such time period, it can cancel the letter of intent provided to such bank.

Providing of letter of intent shall not be regarded as the approval to conduct the banking transactions.

After obtaining the letter of intent, following additional documents should be produced to the Nepal Rastra Bank seeking the approval to conduct banking transactions:

1. An Application
2. Technical service agreement in case of foreign joint venture
3. Certified documents stating that the committed amount by promoters has been deposited fully in the Nepal Rastra Bank.
4. The agreement document, if the bank premises are in rent, and the site plan of the bank building along with necessary layout required for bank operation.
5. Information on recruitments of Staffs
6. Statements on Software Application
7. Credit Policy Guidelines (CPG) of the Bank
8. Employees by-laws
9. Information on all the physical infrastructure that are required to operate a bank The operating license will be provided only after the conformation that all the statements and documents are complete and on the basis of physical infrastructure inspection report submitted by physical inspection team comprising of members from Bank Operations Department, Inspection and supervision Department and Information Technology Department of this Bank.

Existing Supervision relating to the Banking Sector:

Promotion of financial stability, development of safe and efficient payment systems, regulation and supervision of banking and financial system and the

promotion of healthy and competitive financial system are some of the objectives of functioning of Nepal Rastra Bank. To attain the above objectives Section 84 of the Nepal Rastra Bank Act 2002 has entrusted Nepal Rastra Bank with the necessary powers to perform inspection and examination of any commercial banks or obtain necessary information for the purpose of supervision of the commercial banks. Currently the Bank Supervision Department in Nepal Rastra Bank carries out the function of supervision of all commercial banks in Nepal. Since foreign banks have their presence only in the form of Joint Venture establishments – that is in collaboration with the local entrepreneurs – Nepal Rastra Bank supervises foreign establishes in the same manner as it supervises other local banks. For the purpose of supervision, the department is required to prepare annual supervision plan for onsite examinations as well off site surveillance of the commercial banks. The same is to be approved by the Governor of the Bank.

The Bank Supervision Department carries out both onsite examinations as well as off site surveillance of the commercial banks as per its annual supervision plan.

On site Examination

The Bank Supervision Department can carry out onsite examination of commercial banks in Nepal by sending examination team to the commercial banks. Onsite examination can be corporate level inspection covering all aspects of functioning of commercial banks or can be targeted branch level inspection.

The Department also performs follow up of the earlier examination reports by visiting the branches to ensure necessary compliance of the NRB instructions. If information as to functioning of commercial banks against the interest of depositors' or some serious irregularity is received, the Department can perform special on site examination in such cases. The Bank Supervision Department is required to carry out corporate level examination of all commercial banks at least once in a year as per its annual plan but the gap between two inspections at any

time should not exceed two years. As per current policy of the Department, corporate examination of all commercial banks is carried out once in a year. For the guidance of the onsite examination, an "On site inspection manual" is in force. On completion of the onsite examination examiners perform CAMELS rating of the bank which is exclusively used for the supervisory purpose and is not revealed to general public.

Off site supervision

Off site supervision is a supplement to the onsite examination and is designed to act as an early warning system to identify banks with potential problems so that appropriate policies and action can be determined. Off site division of the Bank Supervision Department is carried out in a quarterly frequency as well as annual off site review based on the reports and returns submitted by the commercial banks

Quarterly offsite review

Off site division reviews performance of all commercial banks on quarterly basis which is submitted to the Governor of Nepal Rastra Bank. Such review involves assessment of the financial information as well as compliance of applicable rules regulations and legal provisions including NRB directives. Based on the review internal rating which is called CAELS Offsite Rating (COR) is also assigned to the banks.

Annual Balance sheet review

The Department's off site division reviews the balance sheet of the commercial banks at the end of each financial year and issues necessary instructions based on such review; this is then published in their annual report. In the course of such

review the auditor's report, audited financial statements, long form audit report preliminary, audit report and banks reply thereon are studied. Based on the review of above report consisting of the review of financial performance, compliance with Nepal Rastra Banks directives and applicable legal provisions, adverse observations of the auditors and other significant findings is prepared and necessary instructions are issued to the bank thereon.

For the guidance of the offsite surveillance off site supervision manual is in force. Till now there is no difference in the supervision methods used for the banks with foreign investment and other commercial banks.

2.3 Review of Articles and Journals:

Articles and journals are not full research framework for giving complete direction to the researcher; however it gives certain glimpse to the researcher. So it is taken into the account for the literature review that how many persons have written so many articles about the stock market and its growth.

Santosh Basnet, (2004), in "*Capital Formation*" suggests that Capital market is a crucial element in the national economy. Its role in reinvigorating and boosting the economy activities in the country holds significant. The strategic plan released by security board can, to a great extent, energize the investor's dealer by increasing investor interest in it. Security market experienced both boom and boast soon after the beginning of securities trading through brokers' members in the stock exchange floor. Though the market started to function quickly boosting the prices of shares to an unexpected level, it could not sustained.

There is an urgent need for proficient development of the market standard and information dissemination system focused mainly on corporate financial disclosure practices and transparency, corporate accounting and auditing securities markets regulation and corporate governance. To implement the above, Security Board has a great responsibility as to reviewing and developing regulatory

standers to make them a relevant with the need of issuers, investors along with promoting efficient capital formation”

Bhusan Aryal, (2005), in “*Obstacle of stock market*” has suggested following points.

-) Lack of Sufficient education of most of the brokers and the unreliability of a few brokers in financial matters would lead in other countries to immediate disqualification. The importance of transparency is not yet understood at all, partly due to an erratic tax system and an even more erratic tax collection.
-) An extremely time consuming and extremely expansive procedure in issuing share will hinder the growth of stock market.
-) To handle the bigger volumes, the trading floor will need to be also bigger and floor itself inclusive the back office will be fully computerized. Computerized networks will replace open outcry system these networks will make it possible, to extend the trading hours significantly. The transfer of shares will undergo a sea change. The transfer will be mostly paperless, like in Bombay and at the National Stock Exchange in India. The need for approval of boards of directors for transfer of shares will be minimized and will be more or less a thing of the past.
-) The board of the stock exchange up to now dominated by government officials with little power, will be submitted by a board dominated by broker houses, banks and finance institutions added by government represented and will have full enforcement powers.

) The actual broker community has in its majority little educational background, little know-how and nearly no international experience. In addition the financial standing is in most of the cases rather weak. The brokers of today will have been transformed in the next 10 years to financially much stronger brokerage houses with longstanding experience. Others, who are not changing, will be gone by then. In depth research of companies and sectors by brokers has not yet started. In ten years leading brokers will have their own in house research; smaller ones will rely on outside research. Rumors today are bread and butter for brokers will still be influential, but much less then today. Up to now brokers have nearly no asset management activities. In future the Assets Management activity will play an important role for successful brokerage houses.

) The role of shareholders value should be improved while the idea of share holder value is seen up to now only in the banking sector, the shareholders value idea will be spread in 10 years from now to other sectors as well. But now day's institutional investors are rare at the stock exchange. If the development in other countries like India is any indication, this should change in the next 10 yrs dramatically. In 10 years from now we believe, that institutional investors like Mutual Funds and Pension Schemes will dominate, while the role of the individual investors will be much lower than it is today's. As far as foreign investors are concerned, we are as yet not too much hopeful. Still we do not exclude it, if the rules and regulations are getting more investor friend yard the share liquidity topic can be solved.

Krishna Bahadur Manandar, (2007), in "*Financial Sector Reform Program*" suggests that the bank has taken the policy of adopting capital adequacy structure as per the international standard, based on the new standard of BASEL II. Keeping

both the existing and new provisions on parallel run basis for 2007/08, the latter will be implemented compulsorily from the next fiscal year. Such arrangements will help further strengthen the financial condition of overall banks and financial institutions, and enhance public confidence over the banks and financial institutions. In addition, capital adequacy ratio (CAR) to be maintained by banks and financial institutions of class 'A', 'B' and 'C' has been kept unchanged at 11 percent of risk weighted assets and the primary capital ratio at 5.5 percent until the new CAR is entirely implemented based on BASEL II.

The bank is of the view that even in the context of internal conflict and political instability, the steps undertaken in monetary and financial sector through annual monetary policy have been helpful in maintaining the overall macroeconomic stability in the last five years. Based on the experiences of the reform programs on monetary, fiscal and external sectors in the past years and by continuing the reform programs to address the emerging financial and economic problems, the bank has formulated its sixth annual Monetary Policy for 2007/08. Along with this background, the present Monetary Policy has been divided into six sections as current economic and financial situation; monetary and liquidity situation; monetary policy stance for 2007/08, and financial and external sector reform.

The bank has taken the initiative of the private sector for opening the bank and the financial institutions positively. However, the bank is cautious on the potential risk to financial sector stability emanating from the increased number of financial institutions. To make the financial institutions capable of taking possible risks and competitive, NRB has recently doubled the required paid up capital for establishing the commercial banks, development banks (excluding micro finance) and finance companies. The bank views that the provision of increased paid up capital without barring the entry will help maintain financial sector stability. It is believed that this provision will encourage the merger of banks and financial

institutions, and ensure the consolidation of the financial sector through the market process.

2.4 Review of Thesis:

Rekha Sharma, (2000), conducted a study on “*Current Status and Problems of Stock Market in Nepal*” with main objective to analysis the problems and trends of present state of Nepal Stock Market and suggest measures for the improvement of stock market.

The researcher mostly used secondary data collected from books, Company Act, Official records of the NEPSE, Securities listings By-Laws, Act, Government publication etc.

The major findings of the present study are:

-) The development of stock market primarily depends on the government policies and program and their proper implementation. So government should develop an appropriate policy framework to increase the demand for supply of securities.
-) There is a lack of investor’s confidence in the stock market since many listed companies do not trade on a regular basis or hold AGM and provide disclosure information to the investors on a timely basis. Beside this, there is a general lack of investor’s awareness about the listed companies.

Jyoti joshi, (2003), in her master's thesis "*Role of NEPSE in the Security Market*" had the main and other objectives as to assess the past and present behavior of business operation in the Nepal Stock Exchange Market, to forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume, to prescribe ways and means by which secondary market would be more effective and meaningful, and to study on legal provision relating to protection of investors' interest. In her analysis part she used percentage analysis, standard deviation, variance of stock, covariance as her statistical method and market price of share, return, return of common stock investment, and risk return as her financial tools. She calculated the companies that are undervalued or overvalued by means of required rate of return and expected rate of return, and showed the efficiency of NEPSE and role of NEPSE in transaction of these non-equilibrium stocks. She also showed inter sector comparisons i.e. comparisons between commercial banks, finance and insurance company, hotels, manufacturing and processing companies, trading and other. She had collected the data of market capitalization of each sector and calculated the percentage contribution of each sector with total NEPSE share as a base value. Her findings were that liquidity position of the country is high and this could have led to high public response to share applications. Therefore NEPSE is making progress through steady, as compared to the performance of previous years

Gurudatta Paudel, (2003), conducted a study on "*A Study on the Movement of Stock Price (Analysis of Joint Venture Commercial Banks)*" He conducted this study with perspective of joint venture commercial banks only. His major objective was to examine the movement of stock market price of joint ventures commercial banks that are either dependent or independent to historical prices of stock, to evaluate risk and return on stock of joint ventures commercial banks and to recommend for the improvement of stock market in Nepal. He used NEPSE

index as a tool to show price movement on the stock price and market price. The formula he used for NEPSE index was

$$P_{o1} = \frac{\sum P_1 \times Q_1}{\sum P_0 \times Q_0} \times 100$$

where P_{o1} is NEPSE price index, P_0 is base price Q_0 is

base listed shares, P_1 is today's' stock index and Q_1 is listed shares outstanding. The result of this formula was further proved by doing risk return analysis. This movement of stock was presented in chart with market price of share (mps). In this way this thesis clearly showed the movement of stock price and thus fulfilled its objectives. His findings were that the price movement was quite random and he suggested the use of list square method and probability to forecast the price movement of shares.

Gopal Prasad Bhatta, (2004), conducted thesis paper, “*Assessment of the Performance of Listed Companies in Nepal*” with objectives to analysis risk-return assessment of investors in Nepal, to define investing environment in stock market. He found that: “A highly significant positive correlation has been addressed between risk and return of the company. Investors expect higher return form that stock, which associates higher risk. Nepalese capital market is not efficient one. So the stock price does not contain all the information relating to market and company itself. Neither investors analyze the overall relevant information of the stocks nor does the member of stock exchange try to disseminate the information. So the market return and risk both may not show high priced stocks.”

In addition, Bhatta further addressed that “investors of Nepal have not yet practiced to invest in portfolio of securities. An analysis of the two securities portfolio shows that the risk can be totally minimizes if the correlation is perfectly negative. In this situation, the risk can totally be diversified, but when there is perfectly positive correlation-ship between the returns of the two securities the risk is not diversified.

To some extent Mr. Bhatta focused in the analysis of risk and return in investment. But due to many other aspects to analysis investor cannot easily assess the results. Indeed, study did not focus the viewpoint of investors rather it concentrates the companies and stock market. However, this study also explores some dimension for further research in his topic.

Apparna Giri, (2005), conducted the study on “*A Study on Share Price Behavior of Listed Commercial Banks*” with an objective to obtain an insight of stock market efficiency with special reference to commercial banks in Nepal by estimating market and total risk for all quoted banks, by conducting efficiency test for the Nepalese Stock Market (NEPSE).

This study was conducted through primary and secondary sources. Different statistical and mathematical tools were used towards the construction of a banking sector index for Nepal by using standard methodology prevailing in U.K stock market. Market and Total Risk, Runs Test was used to find out the market efficiency.

From the analysis, the researcher made the following major findings:

-) Nepal Stock Exchange is still operating in its nascent stage. This is also revealed from the low stock turnover, low participating companies, lower level of transactions, lower level of market capitalization and volatile stock price situation.
-) The study reveals the decelerated trend of NEPSE (market) Index and Banking Sector Index, which indicates the overall price of the market as well as banking stock has been decreasing over the year.

- J) NEPSE Index has indicated increasing and decreasing trend throughout the research period mainly due to the frequent listing of new shares, decreasing profitability of the listed companies, poor state of economy, frequent changes in the government lower level of savings, lack of awareness among the investors, holding strategy of the investors.

- J) It has been observed the price return on the most of the banking stocks have positive auto correlation, which indicates these banking stocks are efficient in its weak form hypothesis. The Run Test also reveals the calculated R value for banking sector index and NEPSE index also lies between the limit, which shows the positive auto correlation in the price return.

Suman Prakash Sharma, (2005), in his Master's thesis "*A Study on Financial Performance of commercial Banks (Nepal SBI Bank Ltd, Nepal Bangladesh Bank ltd and Everest Bank Ltd*" had the major objectives to evaluate the financial performance of NSBL, NBB and EBL in terms of their liquidity, efficiency of assets management and profitability position of the banks under study. To find the liquidity position of these banks the researcher as used current ratio, and shown that the liquidity position for all these banks is just above the industry standard of 2.1, means that these banks are capable to fulfill its short term obligations. This study also conducts debts assets ratio to find the ratio between debts and the bank's total holding assets. For bank to be efficient this ratio must be greater than one at least. The result shows that NBB has .94 debt assets ratio which makes it bit unviable. Next the researcher also has touched the stock market by analyzing the earning per share, dividend per share and return on common stock of these three banks and showed the result that these banks are not doing well in the stock market.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction:

Research means to investigate or search repeatedly and methodology refers to the various steps that are generally adopted by the researcher in studying his research problems along with the logic behind it. It is the way of doing things. This chapter presents research methodology adopted in achieving the objectives stated in the chapter one. Research methodology has to be systematical, logical, and reliable.

Research Methodology is vital in research work and has to be determined before conducting the proposed research. The study covers the growth stock market in perspective of listed commercial banks. Therefore how to accomplish it has to be

predetermined ahead and the statistical tools and financial tools etc has to be kept ready at the disposal.

This chapter contains introduction, research design, nature and source of information, population and sample, data gathering procedure and finally tools used for analysis and interpretation.

3.2 Research Design:

Research design refers to the plan or strategy conceived by the researcher that will answer the research questions. In other words research design is the conceptual framework created by the researcher within which the research will be conducted and will obtain the answer to the research questions.

This study is conducted with a view of seeing the whole picture about the growth of stock market in perspective of listed commercial banks. This study investigates the topic by the use of financial and statistical tools to explain the whole phenomenon and have predetermined aims of measurement, analysis and evaluation of all the relevant details and information collected in an efficient manner as possible from NEPESE's website, banks annual report and other sources.

Research design also includes nature of data, specification of the method of the proposed study and detail plan for carrying out the study with various empirical data for the analysis of problems. First the data are presented in table or diagram, second presented data are analyzed by using various financial and statistical tools and at last analyzed data are compared and interpreted for the conclusion.

3.3 Nature and Source of Information:

The research uses mainly secondary data for analysis. The secondary sources of data are obtained from the records of NEPSE, NRB, and, various books, journals, magazines and publications. Apart from this Internet websites is also used to collect data. This research also uses primary data but at very minimal level, since the concern officials were unwilling to devote time to give the required data. The primary data have been gathered through personal interviews and discussion with the officials of banks and other concerned authorities. Regarding primary data we have used following techniques to collect them.

-) Direct Personal Interview
-) Indirect Oral interview
-) Telephonic interviews

3.4. Population and Sample:

Only listed and register commercial banks in Nepal Stock Exchange are selected to attain the objectives. Therefore, following banks have been included in the study:

1. Nabil Bank Ltd.
2. Nepal Investment Bank Ltd
3. Standard Chartered Bank Ltd.
4. Himalayan Bank Ltd.
5. Everest Bank Ltd.

3.5. Tools for Analysis and Interpretation:

) **Market Price of Stock (MPS):**

There are mainly three types of MPS available in NEPSE annual report. They are high MPS, low MPS and closing MPS. Closing price is not an average price of high and low MPS but rather it is calculated by considering the whole years MPS. Closing MPS is considered in this study.

) **Earning Per Share (EPS):**

Earning refers to the net income after tax of the company. Earning per share is the result of net income after tax divided by the outstanding number of common stock. Symbolically, EPS can be expressed as follows:

$$\text{EPS} = \frac{\text{Net Income after tax}}{\text{No. Of common stock outstanding}}$$

) **Dividend (D):**

Dividend can be given in the form of cash or shares. If the company declares dividend in cash then there is no difficulty in calculation. But if the company declares stock dividend or bonus shares then the shareholders get shares as dividend instead of cash. So, there is little difficult to calculate the exact amount in

cash. In case of stock dividend the formula for total dividend amount is considered as follows:

Total Dividend Amount = Cash Dividend + Stock Dividend

) **Return on Common Stock Investment (R):**

This is the annual realized return received on an investment. It includes dividend gain and capital gain (increase in market price), usually expressed in a percent of the beginning price of the investment.

$$R = \frac{D_t + (P_t - p_{t-1})}{P_{t-1}}$$

Where,

R = Actual Realized Return on Common Stock.

D_t = Cash Dividend Received at Time t.

P_t = Price of a Stock at Time t or ending period.

P_{t-1} = Price of Stock at Time (t-1) or beginning period.

) **Expected Return on Common Stock (\bar{R}):**

Expected return is simply arithmetic mean of the past year return. This is an average return on common stock.

$$E(R_j) = \frac{\sum R_j}{n}$$

Where,

$E(R_j)$ = Expected rate of return on stock j.

R_j = Rate of return on stock j

n = Number of years that the return is taken.

) **Standard Deviation():**

Standard deviation is a statistical measure and is widely used to measure risk for holding single assets. Standard deviation measure the variability of a distribution around its mean. It is the square root of the variance. The standard deviation that represents a large dispersion of return is considered as high risk and vice versa.

$$\sigma_j = \sqrt{\frac{\sum(R_j - \bar{R}_j)^2}{n}}$$

Where,

σ_j = Standard Deviation or return on stock j

R_j = Rate of return on stock j

\bar{R}_j = Expected rate of return on stock j

) **Coefficient of Variation (CV):**

It is defined as the standard deviation divided by the mean of expected return. It is used to standardize the risk per unit of return i.e. measure the risk per rupee. The

coefficient of variation should be used to compare investments when both the standard deviations and the expected values differ.

$$\text{Coefficient of Variance (C.V)} = \frac{\sigma}{\bar{R}_j}$$

Where,

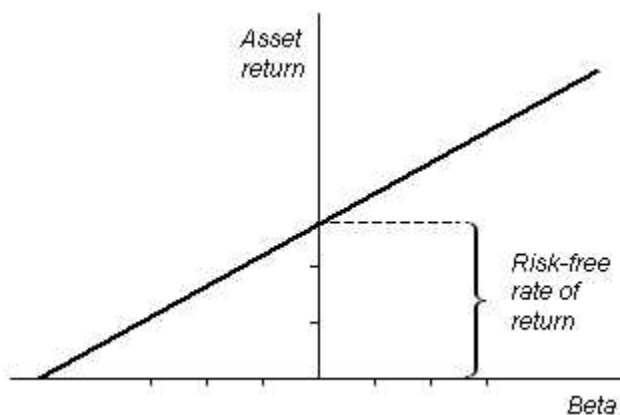
$$\sigma_j = \text{Standard Deviation or return on stock } j$$

$$\bar{R}_j = \text{Expected rate of return on stock } j$$

) **Capital Assets Pricing Model (CAPM):**

The Capital Asset Pricing Model (CAPM) is used in finance to determine a theoretically appropriate required rate of return of an asset, if that asset is to be added to an already well-diversified portfolio, given that asset's non-diversifiable risk. The model takes into account the asset's sensitivity to non-diversifiable risk (also known as systemic risk or market risk), often represented by the quantity beta () in the financial industry, as well as the expected return of the market and the expected return of a theoretical risk-free asset.

The model was introduced by Jack Treynor, William Sharpe, John Lintner and Jan Mossin independently, building on the earlier work of Harry Markowitz on diversification and modern portfolio theory.



The Security Market Line, seen here in a graph, describes a relation between the beta and the asset's expected rate of return.

The relationship is as follows:

$$E(R_j) = R_f + [E(R_m) - R_f] \beta_j$$

Where,

$E(R_j)$ = the expected return on the j^{th} risky assets.

R_f = the rate of return on a risk less assets

$E(R_m)$ = the expected return on the market portfolio

$\beta_j = \frac{\text{Cov}(R_j, R_m)}{\text{Var } R_m}$ = a measure of the undiversifiable risk of the j^{th} security.

$\text{Var } R_m$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter includes analysis of collected data and their presentation. Detail data of market price of stock, earning per share, dividend of each bank and relevant data of NEPSE index is presented and their interpretation and analysis is done. With reference to preceding chapters, efforts are made to analyze the trend of Nepalese Stock Market of listed commercial banks. To make the analysis and interpretation easier tables and diagrams are drawn.

4.1. Analysis of Individual Commercial Banks:

Among many commercial banks in Nepal only sixteen are listed in NEPSE and from those sixteen commercial banks only five are included in this research. Data collection is done of five years from 2059 to 2064 B.S. Brief introduction of individual banks are given with its analysis.

4.1.1. Nabil Bank Ltd. (NABIL):

Nabil Bank, the first foreign joint venture Bank set up in the nation with an objective to introduce modern banking services, commenced its operations on 12th of July 1984 with Rs. 28 million capital and around 50 staff. Dubai Bank Limited, was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period. The Bank, through its quality customer service and innovative products, has today attained a distinguished recognition in the banking industry of Nepal. Nabil is now 24 years old. Nabil was listed in NEPSE in the year 1986 A.D. in Nepal. Currently Nabil bank is joint venture with National Bank

Ltd. of Bangladesh. Authorized capital, issued capital and paid up capital of Nabil Bank are Rs.500,000,000, Rs.491,654,400 and Rs.491,654,400 respectively.

Table 4.1.1.

Realized Return (R), Expected Return (\bar{R}), Standard Deviation (), Coefficient of Variance (C.V.), & Earning Per Share (EPS) Of Nabil Bank:

Fiscal Year	Closing MPS (Rs)	Dividend per share (Rs)	$R = \frac{D_t + (P_t - P_{t-1})}{P_{t-1}}$	$(R - \bar{R})$	$(R - \bar{R})^2$	EPS
2059/60	740	50	-	-	-	85
2060/61	1000	65	0.43	-0.617	0.381	93
2061/62	1505	70	0.57	-0.477	0.227	105
2062/63	2250	85	1.89*	0.842	0.709	129
2063/64	5050	137	1.30	0.252	0.063	140
Total			4.19		1.38	

Data Source: NEPSE And annual Report of Nabil Bank Ltd.

*Nabil bank Declared 4 bonus shares (BS) for 10 shares (i.e. 40%) on year 2062/63. Therefore return that year is,

$$\begin{aligned} \text{Total dividend} &= \text{Cash dividend} + \text{Stock dividend} \\ &= 85 + 0.40 \times 5050 \\ &= 2105 \end{aligned}$$

$$R = \frac{2105 + (2250 - 1505)}{1505} = 1.89$$

We have,

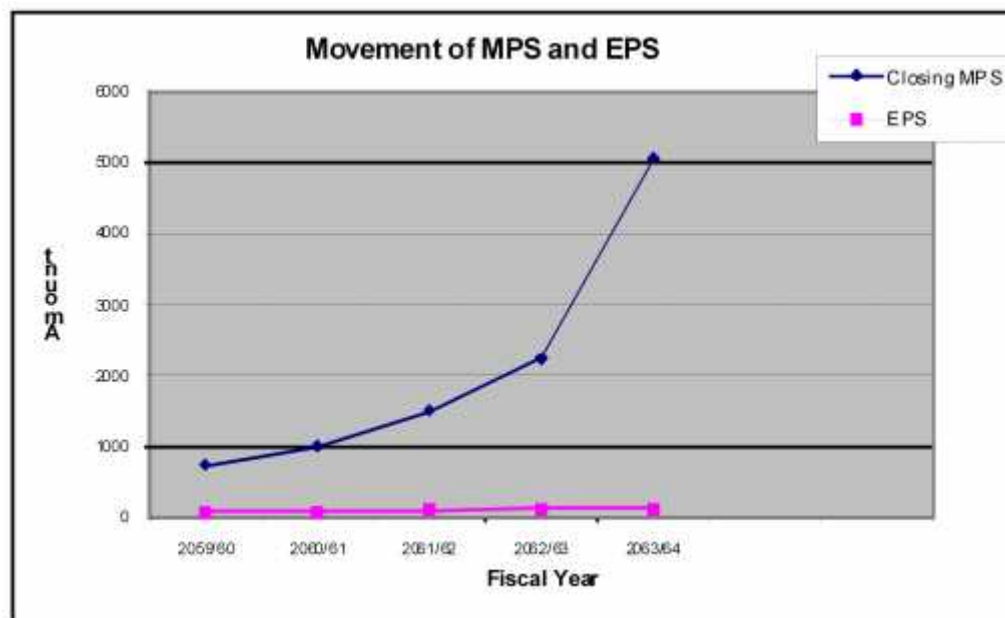
$$\text{Expected Return, } R = \frac{\sum R}{n} = \frac{4.19}{4} = 1.047$$

$$\text{Standard Deviation, } = \sqrt{\frac{\sum (R - \bar{R})^2}{n}} = \sqrt{\frac{1.38}{4}} = 0.5874$$

$$\text{Coefficient of Variance, C.V} = \frac{\sigma}{R} = \frac{0.5874}{1.047} = 0.5610$$

Maximum annual realized return of Nabil Bank is in the year 2062/63 that is 189%, this is because this year closing MPS has increased significantly and Nabil also distributed 40% bonus shares. Distribution of cash dividend is also high for the same year, which is Rs. 85. Expected return of Nabil Bank is 104.7%. And standard deviation is 0.5874, which measures the variability (dispersion or spread) from the expected return. Its coefficient of variance is 0.5610 which shows the risk per unit of return. Investing in Nabil's common stock seems profitable since it has significant return of 104.7%. But it also has high risk as given by standard deviation of 58.74%, which means that the expected return may deviate by 58.74% both upwards and downwards. Thus the popular phrase of finance "high risk high profit" seems to be true in case of Nabil. Therefore investing in Nabil's common stock is appropriate for risk seeker investors. Continuous growth in price of common stock of Nabil indicates that share market of Nabil is growing.

Diagram 4.1.1.



Movement of MPS and EPS of Nabil Bank

4.1.2. Standard Chartered Bank Ltd:

Standard Chartered Bank Ltd, formally known as Nepal Grindlays Bank Ltd, was established as second joint venture bank in 1985 A.D. Initially Standard Chartered Bank (SCB) was joint venture with Gridlays Bank and later SCB joint ventured with Standard Chartered Bank, England. According to the latest annual report Authorized, issued and paid up capital of SCB are Rs. 1,000,000,000, Rs. 500,000,000, and Rs. 413,254,800 respectively. SCB was listed in NEPSE in 1988 A.D. and has fifteen branches working around the country.

Table 4.1.2.

Realized Return (R), Expected Return (\bar{R}), Standard Deviation (), Coefficient of Variance (C.V.), & Earning Per Share (EPS) Of Standard Chartered Bank Ltd.

Fiscal Year	Closing MPS (Rs)	Dividend per share (Rs)	$R = \frac{D_t + (P_t - P_{t-1})}{P_{t-1}}$	$(R - \bar{R})$	$(R - \bar{R})^2$	EPS
2059/60	1640	110	-	-	-	149
2060/61	1745	100	0.125	-0.385	0.148	144
2061/62	2345	120	0.413	-0.097	0.009	143
2062/63	3740	130	0.902*	0.392	0.154	176
2063/64	5900	80	0.599	0.089	0.008	167
Total			2.039		0.319	

Data Source: NEPSE And annual Report of SCB

*In year 2062/63 Standard chartered Bank declared 10% bonus share (BS). Thus return for this year is calculated as follows,

$$\begin{aligned} \text{Total dividend} &= \text{Cash dividend} + \text{Stock dividend} \\ &= 130 + 0.10 \times 5900 \end{aligned}$$

$$= \text{Rs.720}$$

$$R = \frac{720 + (3740 - 2345)}{2345} = 0.902$$

We have;

$$\text{Expected Return, } R = \frac{\sum R}{n} = \frac{2.039}{4} = 0.510$$

$$\text{Standard Deviation, } = \sqrt{\frac{\sum (R - \bar{R})^2}{n}} = \sqrt{\frac{0.319}{4}} = 0.2824$$

$$\text{Coefficient of Variance, C.V.} = \frac{\sigma}{R} = \frac{0.2824}{0.510} = 0.5537$$

Since SCB is an established bank it is doing well in the stock market. The highest return is in the year 2062/63 with 90.2%. This year it declares 10% stock dividend and also highest amount of cash dividend (in past years) Rs.130 cash dividend per share. Trend of EPS is slightly decreased in the year 2063/64 because of distribution of stock dividend. SCB's Expected return is 51%, standard deviation is 0.2824 and coefficient of variance is 0.5537. Investing in SCB's common stock seems quite profitable since it has moderate return of 51%. And risk associated with this return is not too much to bear which is only 28.24%. Therefore investing in SCB's stock is appropriate for average investors and risk adverse investors. Past five years data show that MPS of SCB is continuously increasing, indicating growth of share market of SCB. Also increase in returns and EPS add to this fact.

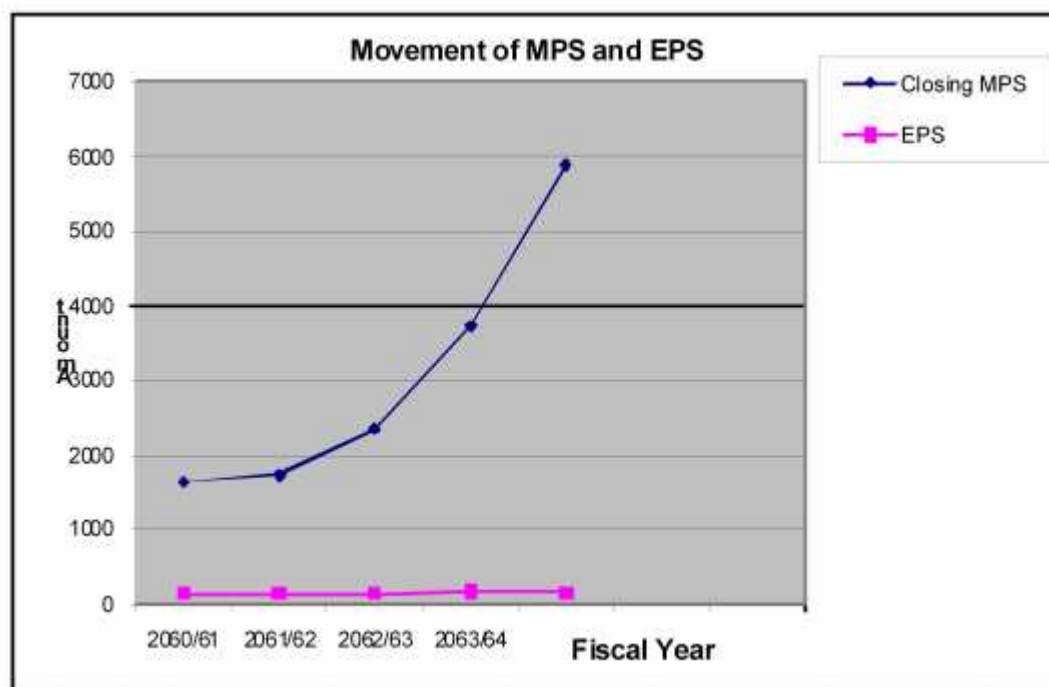


Diagram 4.1.2.
Movement of MPS and EPS of SCB:

4.1.3. Himalayan Bank Ltd. (HBL):

Himalayan Bank was established in 1992 A.D. joint venture with Habib Bank Ltd. of Pakistan. This is the first joint venture bank managed by Nepal Chief Executive. HBL was listed in NEPSE in the year 1993 A.D. According to the 2007 annual report HBL's authorized, issued and paid up capital is Rs.1,000,000,000, Rs.810,810,000, and Rs. 810,810,000 respectively. HBL has ten branches working around the country.

Table 4.1.3.
Realized Return (R), Expected Return (R), Standard Deviation (), Coefficient of Variance (C.V.), & Earning Per Share (EPS) Of Himalayan Bank Ltd.

Fiscal Year	Closing MPS (Rs)	Dividend per share (Rs)	$R = \frac{D_t + (P_t - P_{t-1})}{P_{t-1}}$	$(R - \bar{R})$	$(R - \bar{R})^2$	EPS
2059/60	836	10	-	-		49
2060/61	840	-	0.0048	-0.255	0.065	49
2061/62	980	11	0.1798	-0.080	0.006	48
2062/63	1100	30	0.2428*	-0.017	0.0003	59
2063/64	1760	15	0.6136	0.353	0.125	61
Total			1.041		0.1963	266

Data Source: NEPSE And annual Report of HBL

*Himalayan Bank distributed 5% bonus share in the year 2062/63. Therefore return for that year is,

$$\begin{aligned} \text{Total dividend} &= \text{Cash dividend} + \text{Stock dividend} \\ &= 30 + 0.05 \times 1760 \\ &= \text{Rs.118} \end{aligned}$$

$$R = \frac{118 + (1100 - 980)}{980} = 0.2428$$

We have;

$$\text{Expected Return, } R = \frac{\sum R}{n} = \frac{1.041}{4} = 0.2602$$

$$\text{Standard Deviation, } = \sqrt{\frac{\sum (R - \bar{R})^2}{n}} = \sqrt{\frac{0.1963}{4}} = 0.2215$$

$$\text{Coefficient of Variance, C.V.} = \frac{\sigma}{R} = \frac{0.2215}{0.2602} = 0.8513$$

HBL has maximum annual return in the year 2063/64 which is 61.36%, this is due to significant increase in the closing MPS. Despite of stock dividend on previous

year, EPS on this year is increased, because stock dividend on the previous year was minimal of only 5% and also MPS has increased significantly. However, HBL expected return is 26.02%, Standard deviation is 0.8513 and C.V. is 0.8513. While analyzing past five year's data investing in HBL's stock does not seem wise, because it has low return of 26.02 and risk associated with it is 22.15% which gives high C.V. of 0.8513. Though HBL's share seems unprofitable its continuous increasing in MPS indicates optimistic future.

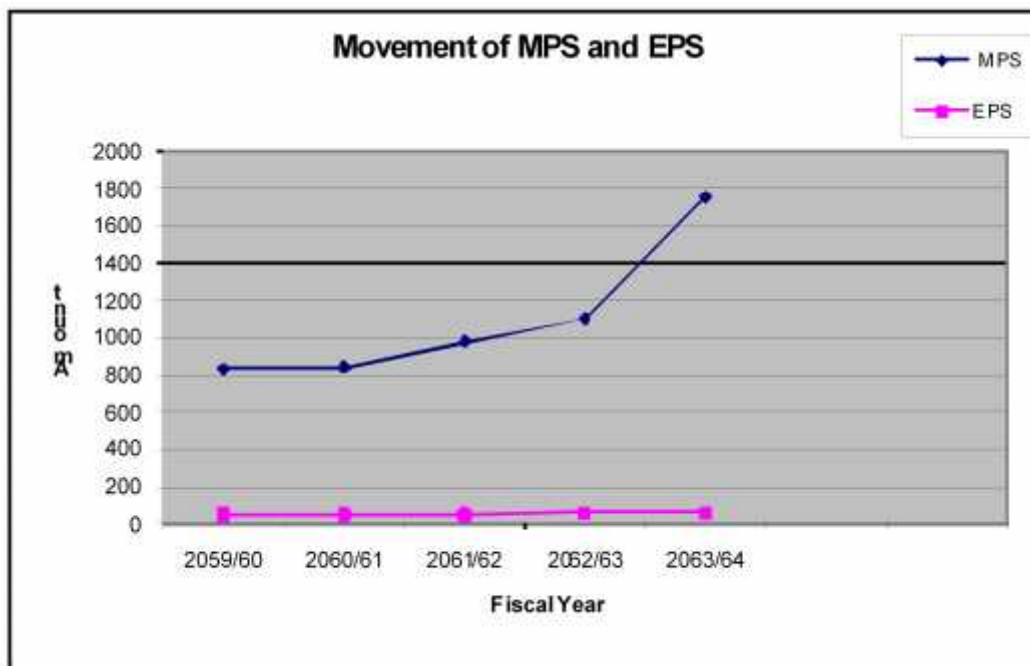


Diagram: 4.1.3.

Movement of MPS and EPS of HBL:

4.1.4. Nepal Investment Bank Ltd. (NIB):

Nepal investment Bank Ltd (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Neplease and French partners.

French partner holding 50% of the share was Credit Agricole Indosuez, a subsidiary of one of the largest group of banking in the world. On April 2002 the name of the bank was changed to Nepal Investment Bank Ltd. upon the approval of the Bank's Annual General Meetings, NRB and Company registrar's office. NIB was listed in NEPSE in the year 1987 A.D. NIB's authorized, issued, paid up capital is Rs. 1,000,000,000, Rs.801,352,600 and Rs. 801,352,600 respectively as given by the latest annual report. There are eighteen branches working around the country.

Table 4.1.4.

Realized Return (R), Expected Return (\bar{R}), Standard Deviation (), Coefficient of Variance (C.V.), & Earning Per Share (EPS) Of Nepal Investment Bank:

Fiscal Year	Closing MPS (Rs)	Dividend per share(Rs)	$R = \frac{D_t + (P_t - P_{t-1})}{P_{t-1}}$	$(R - \bar{R})$	$(R - \bar{R})^2$	EPS
2059/60	795	6	-	-		40
2060/61	940	8	0.1924	-0.0673	0.0045	22
2061/62	800	10	-0.1383	-0.398	0.1584	40
2062/63	1260	20	0.6	0.3403	0.1158	59
2063/64	1729	16	0.3849	0.1252	0.0156	63
Total			1.039		0.2943	

Data Source: NEPSE And annual Report of NIB.

We have,

$$\text{Expected Return, } R = \frac{\sum R}{n} = \frac{1.039}{4} = 0.2597$$

$$\text{Standard Deviation, } = \sqrt{\frac{\sum (R - \bar{R})^2}{n}} = \sqrt{\frac{0.2943}{4}} = 0.2712$$

$$\text{Coefficient of Variance, C.V} = \frac{\sigma}{\bar{R}} = \frac{0.2712}{0.2597} = 1.0443$$

The highest realized return is 60% in the year 2062/63 B.S. This is because there is highest dividend paid in this year and market price per share has increased significantly in this year. In this same year company has also paid 35% stock dividend that's why next year's EPS has not increased in increasing rate. Expected return is 25.97%, standard deviation is 0.2712 and C.V. is 1.0443.

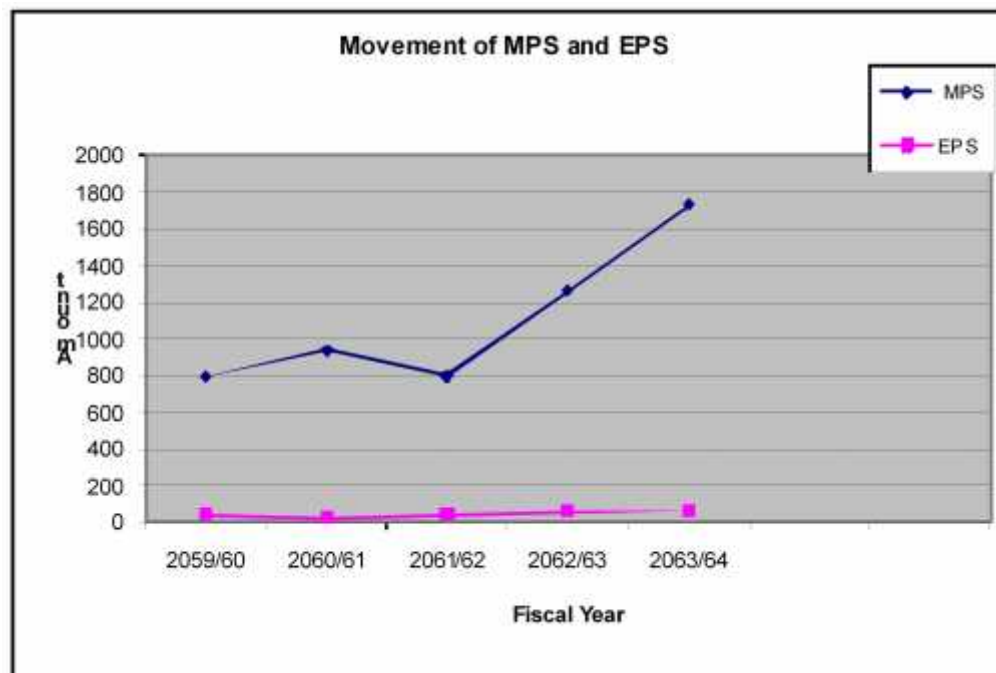


Diagram: 4.1.4.

Movement of MPS and EPS of Nepal Investment Bank:

4.1.5 Everest Bank Limited

Everest Bank Limited is joint venture with Punjab National Bank, India. Everest Bank's authorized, issued, and paid up capital is Rs. 1,000,000,000, Rs. 729,800,000 and Rs.518,000,000 respectively as given by the latest annual report.

Table 4.1.5.

Realized Return (R), Expected Return (\bar{R}), Standard Deviation (σ), Coefficient of Variance (C.V.), & Earning Per Share (EPS) Of Everest Bank:

Fiscal Year	Closing MPS (Rs)	Dividend per share(Rs)	R = $\frac{D_t + (P_t - P_{t-1})}{P_{t-1}}$	(R- \bar{R})	(R- \bar{R}) ²	EPS
2059/60	445	6	-	-	-	30
2060/61	670	9	0.5258	-0.171	0.029	46
2061/62	870	-	0.2985	-0.398	0.158	57
2062/63	1325	25	1.1103*	0.414	0.171	63
2063/64	2430	24	0.8521	0.155	0.024	78
Total			2.7867		0.382	

Data Source: NEPSE And annual Report of Everest

*Everest Bank distributed 20% Bonus share on the year 2062/63. Therefore return on that year is calculated as follows.

$$\begin{aligned} \text{Total dividend} &= \text{Cash dividend} + \text{Stock dividend} \\ &= 25 + 0.20 \times 2430 \\ &= \text{Rs.511} \end{aligned}$$

$$R = \frac{511 + (1325 - 870)}{870} = 1.1103$$

$$\text{Expected Return, } \bar{R} = \frac{\sum R}{n} = \frac{2.7867}{4} = 0.6967$$

$$\text{Standard Deviation, } \sigma = \sqrt{\frac{\sum (R - \bar{R})^2}{n}} = \sqrt{\frac{0.382}{4}} = 0.3090$$

$$\text{Coefficient of Variance, C.V} = \frac{\sigma}{R} = \frac{0.3090}{0.6967} = 0.4435$$

Everest Bank has maximum annual return in the year 2062/63 which is 111.03%. This is because the bank has paid high amount of dividend which is Rs. 25 and the bank also distributed 20% bonus share in the same year. EPS of the bank is continuously increasing. Expected return of the bank is 69.67% and standard deviation is 0.3090, which measures the variability (dispersion or spread) from the expected return. Its coefficient of variance is 0.4435 which shows the risk per unit of return. MPS and EPS of Everest bank is continuously increasing and this fact show the growth of stock market of this bank.

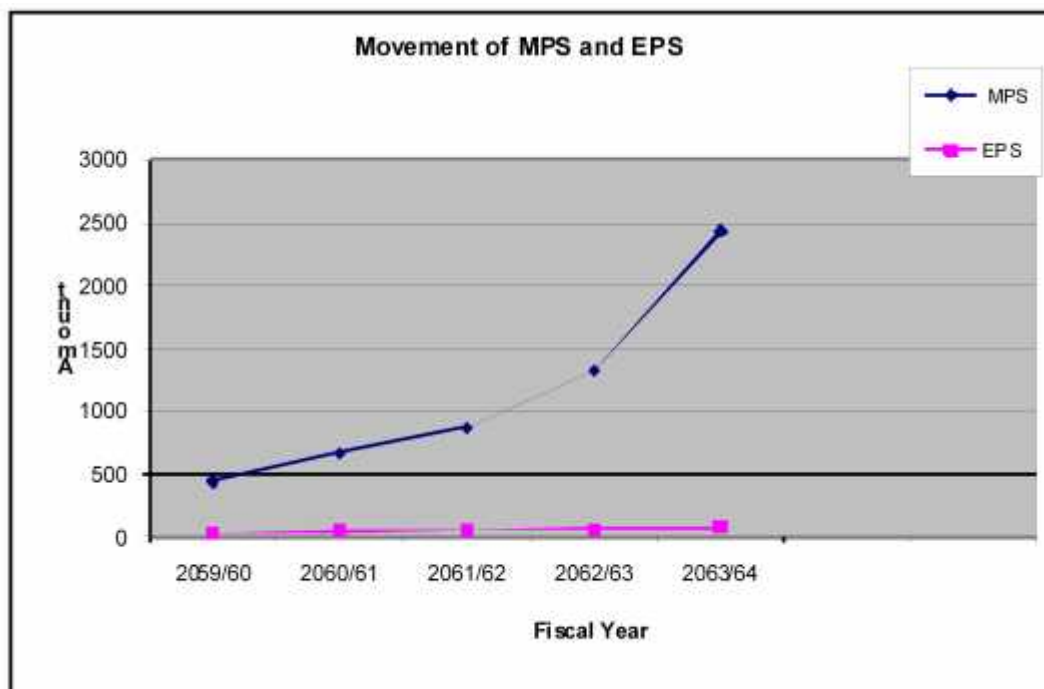


Diagram: 4.1.5.
Movement of MPS and EPS of Everest Bank.

4.2. Interfirm Comparison:

According to the result from 5.1, a comparative analysis of expected return, total risk and risk per unit is performed here. In the following table expected return, Standard deviation and coefficient of variance of each bank from the year 2060 to 2064 B.S. is summarized below:

Table: 4.2.1.

Expected return, Standard deviation and Coefficient of variance of each bank:

S.No	Banks	Expected return	Standard deviation	Coefficient of variance(CV)
1	NABIL	1.047	0.5874	0.5610
2	SCB	0.510	0.2824	0.5537
3	HBL	0.2602	0.2215	0.8513
4	NIB	0.2597	0.2712	1.0443
5	Everest	0.6967	0.3090	0.4435

Investors expect to get highest return from Nabil, which is 104.7% and lowest return from NIB, which is 25.97% from the investment in common stock. Standard deviation is highest for Nabil which is 0.5874 and lowest for HBL which is 0.2215. But while comparing risk between these banks standard deviation will not be appropriate since the returns are varying for these banks. Coefficient of variance is appropriate for comparing risk between these banks since it gives risk per unit of return. CV is lowest for Everest bank which is 0.4435, therefore this bank has less risk in terms of expected return. And it has good return of 69.67%.

So investing in Everest Bank's stock would be best decision on analysis of past five year's data.

The comparison can be also shown with the help of diagram.

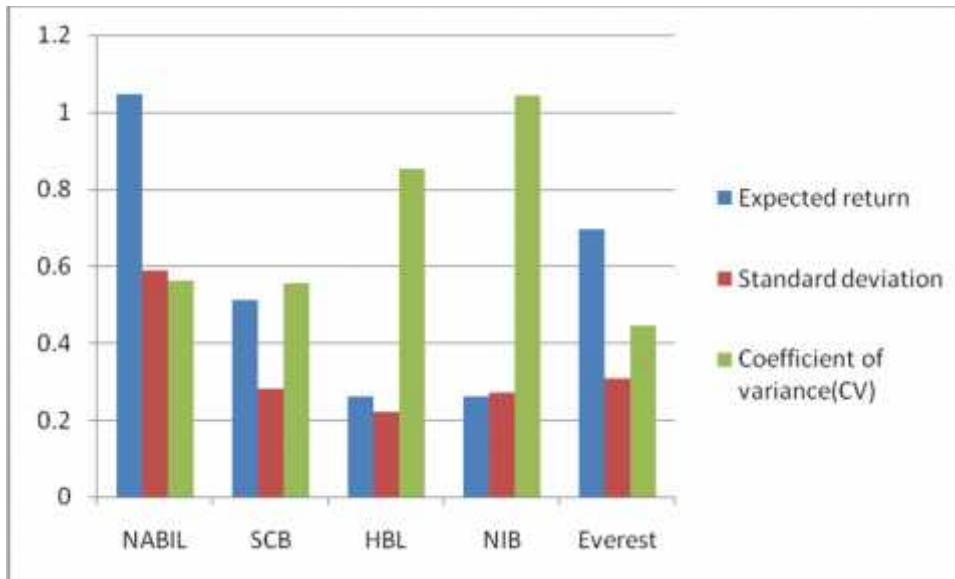


Diagram: 4.2.1.

Expected return, Standard deviation & coefficient of variance of Commercial banks

4.3. Analysis of Share Quantity Traded of commercial bank:

Table 4.3.1.

Traded Share Quantity (In 000)

Fiscal Year	NABIL	SCB	HBL	NIB	Everest
2059/60	32.68	21.48	50.53	80.00	20.12
2060/61	20.56	48.16	60.32	110.36	38.77
2061/62	94.61	52.30	90.67	97.26	45.69
2062/63	124.80	45.71	109.20	201.97	97.02
2063/64	125.60	61.66	158.00	331.70	203.40
Average Share Quality Traded	79.65	45.86	93.74	164.26	81

Data Source: Trading Report of NEPSE

In the above table 4.3.1: the share quantity traded of listed commercial banks is shown. The trend analysis of share quantity traded can be figure out by the volume of increasing and decreasing of share quantity traded in the study period. Share quantities traded are in increasing trend for all five banks, this shows is one of the indicator to show the growth of stock market in perspective of listed commercial banks.

NIB Bank has the highest share quantity traded i.e. 164.26 and SCB has the lowest i.e. 45.86 during the study period. The share quantity traded of NIB Bank is in the increasing trend i.e. maximum in the year 2063/64 i.e. 331.70 and minimum in the year 2059/60 i.e. 80.

4.4. Percentage Contribution of Commercial bank in the context of Market Capitalization:

Table: 4.4.1.

Market Capitalization of Commercial Banks:

(Rs in Million)

Fiscal Year	NABIL	SCB	HBL	NIB	Everest	Total
2059/60	1689.03	4890.00	1906.00	910.00	502.40	9897.43
2060/61	2749.57	7945.56	2200.00	1812.58	1339.20	16046.91
2061/62	7389.47	8785.32	4830.00	2362.34	2740.50	26107.63
2062/63	12176.94	17279.98	9500.00	9945.66	5640.11	54542.69
2063/64	24795.25	24382.03	14270.26	13855.39	9185.40	86488.33

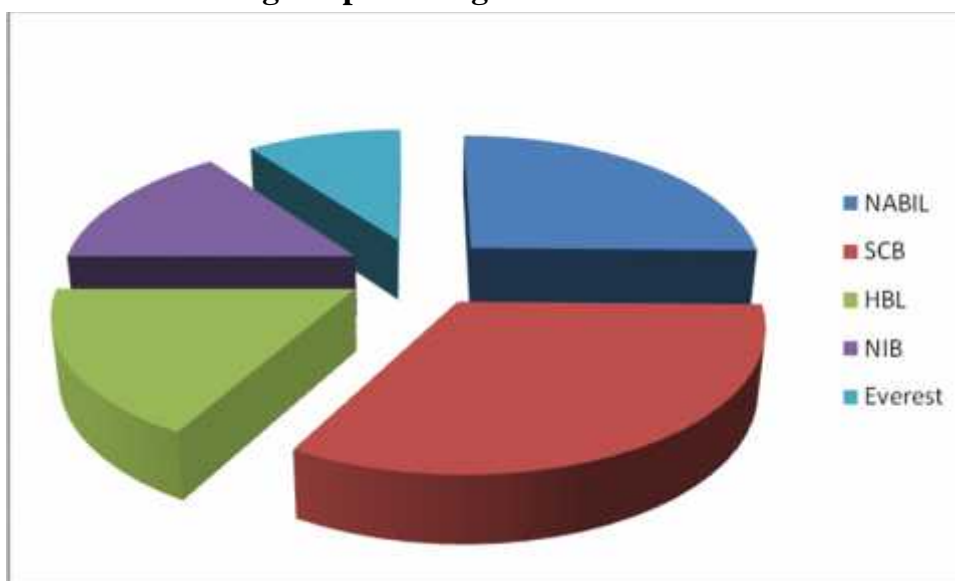
Total	48800.26	63282.89	32706.26	28885.97	19407.61	193083
% Contribution	25.27%	32.77%	16.93%	14.96%	10.05%	

Data Source: Trading Report of NEPSE

In the above table: 4.4.1. Total market Capitalization of above five banks are in increasing trend from 9897.43 to 86488.33 million. These five banks are taken as sample for all listed commercial banks. So this analysis shows that stock market is growing in terms of listed commercial banks. If we see the percentage contribution of each bank, Standard Chartered Bank has the highest contribution with 32.77%, this is because SCB has the highest MPS and Everest Bank has the lowest contribution with 10.05% only. If we see market capitalization of each bank separately we can see that they all are in increasing trend which is good indicator for future growth of stock market in perspective of listed commercial banks.

Diagram: 4.4.1.

Pie Chart showing the percentage contribution of each commercial bank.



4.5. Comparison with the Market:

There is only one stock exchange in Nepal. His Majesty's Government, under a programmed initiated to reform capital markets converted securities exchange center into Nepal Stock Exchange in 1993. Nepal Stock Exchange in short (NEPSE) is a non-profit organization operating under securities exchange Act 1983.

Country's overall market movement is represented by market index or NEPSE index. Market Return, its standard deviation and coefficient of variance are shown in the table: 5.5.1. NEPSE index Movement and market return movement is shown in Diagram

Table: 4.5.1.

Realized Market Return (R_m), Standard deviation (), and Coefficient of variance (CV) of NEPSE:

Fiscal Year	NEPSE Index (NI)	$R_m = \frac{NI_t - NI_{t-1}}{NI_{t-1}}$	$R_m - \bar{R}_m$	$(R_m - \bar{R}_m)^2$
2059/60	210.54	-	-	
2060/61	241.63	0.1477	-0.1161	0.0134
2061/62	338.29	0.4000	0.1362	0.0185
2062/63	439.67	0.2997	0.0359	0.0012
2063/64	531.09	0.2079	-0.0559	0.0031
Total		1.0553		0.0362

Source: Trading report of NEPSE

We have,

$$\text{Expected Return, } R = \frac{\sum R}{n} = \frac{1.0553}{4} = 0.2638$$

$$\text{Standard Deviation, } \sigma_m = \sqrt{\frac{\sum (R_m - \bar{R}_m)^2}{n}} = \sqrt{\frac{0.0362}{4}} = 0.0951$$

$$\text{Variance, } \sigma_m^2 = (0.0951)^2 = .0090$$

$$\text{Coefficient of Variance, C.V.} = \frac{\sigma_m}{\bar{R}_m} = \frac{0.0951}{0.2638} = 0.3605$$

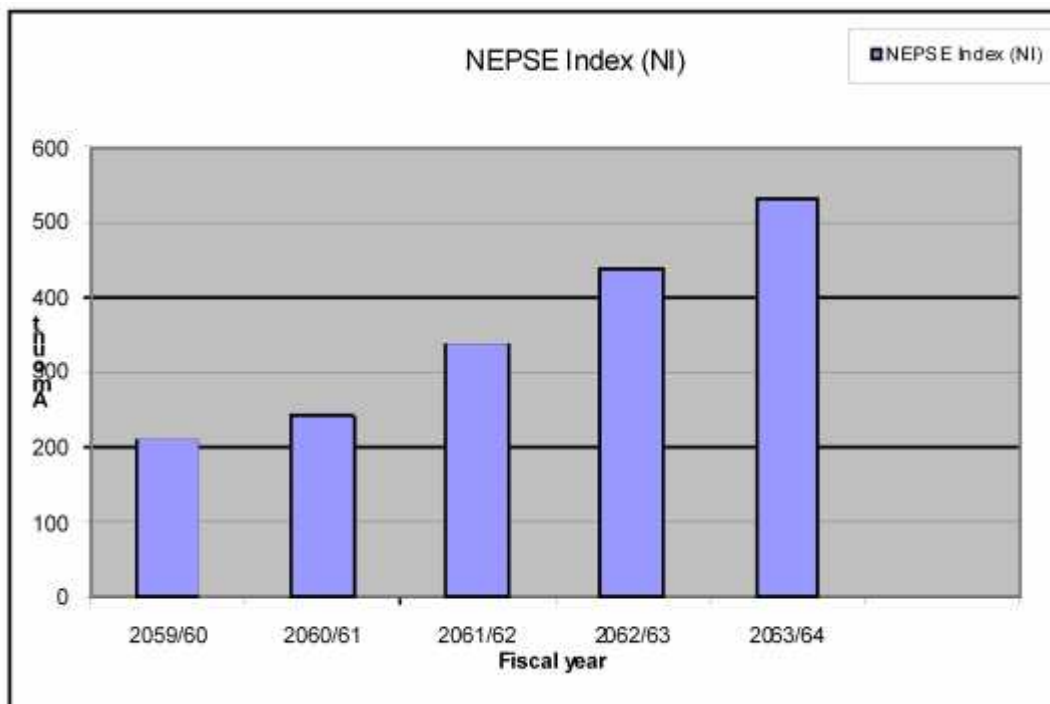


Diagram: 4.5.1.
Movement of NEPSE Index (NI)

From the above table we can see that NEPSE index is in increasing trend. The expected return of market is 26.38% and standard deviation is 9.51% and coefficient of variance is 36.05%.

4.6. Analysis of Market Sensitivity:

Market sensitivity of stock is explained by beta coefficient. Beta is an index of systematic risk or unavoidable risk. This risk cannot be diversified away by investing in more stock, because it depends on such things as changes in the economy and in the political atmosphere, which affects all stocks. Beta measures the sensitivity of a stock's returns to changes in returns on the market portfolio. The beta of the market portfolio is equal to 1.0 by definition. Higher the beta represents greater the sensitivity and higher the reaction to the market movement and vice-versa.

Calculation of Beta coefficient of common stock of Nabil Bank is shown in the following table

Table 4.6.1

Calculation of Beta coefficient of common stock of Nabil Bank.

Fiscal Year	Return (R _j)	(R _j - \bar{R}_j)	Return on market (R _m)	(R _m - \bar{R}_m)	(R _j - \bar{R}_j) (R _m - \bar{R}_m)
2059/60	-	-	-	-	-
2060/61	0.43	-0.617	0.1477	-0.1161	0.0716
2061/62	0.57	-0.477	0.4000	0.1362	-0.0649
2062/63	1.89	0.842	0.2997	0.0359	0.0302
2063/64	1.30	0.252	0.2079	-0.0559	-0.0140
Total:	4.19		1.0553		0.0229

$$\begin{aligned}
 \text{Covariance of } (R_j, R_m) &= \frac{(R_j - \bar{R}_j) (R_m - \bar{R}_m)}{n} \\
 &= \frac{0.0229}{4} \\
 &= 0.0057
 \end{aligned}$$

$$\text{Beta}_j = \frac{\text{Cov}(R_j, R_m)}{\text{Var}(R_m)}$$

$$= \frac{0.0057}{0.0090} = 0.6333$$

For individual stocks, the beta could be less than, equal to or more than 1 depending upon the volatility of that stocks return relative to the market. The beta equal to 1 implies the average market risk and commands the average market premium. The beta less than 1 imply that a stock's return is less sensitive to market fluctuation and such stock is considered to be the defensive assets. And if the beta of an asset is greater than 1 it is an aggressive assets and its return is more volatile than the market portfolio.

Table: 4.6.2.

Beta coefficient of each commercial bank:

S.NO.	Commercial banks	Beta ()
1	NABIL	0.63
2	SCB	1.133
3	HBL	0.04
4	NIB	1.88
5	Everest	1.4

(For Calculation of beta of other banks see appendix 1)

Beta is an index of systematic risk. It measures the sensitivity of a stock's returns to changes in returns on the market portfolio. If the beta of a stock is equal to 1, it means the stock has the same systematic risk as the market as a whole. Beta greater than 1 means that the sock has more unavoidable risk than the market as a

whole and is called aggressive investment. Beta less than 1 means that the stock has less systematic risk than the market as a whole and is called defensive investment. From above analysis we can see that SCB, NIB and Everest has beta greater than 1 which means that their share are riskier than the market and thus demands more return. NIB's beta is 1.88 which represents that if the market return rises by 1 percent, NIB's stock return should rise by 1.88 percent and vice-versa. Beta of Nabil and HBL is less than one which means that they are defensive stock. So from above analysis we found that some stocks of banks are aggressive assets and some are defensive assets, this gives us opportunity to make prosperous portfolio. And possibilities of creating good portfolio with these banks indicate their stock market growth in future.

4.7. Major Findings of the study:

Major findings constitute the core of any research. The major findings of the present study are as follows:

-) Through analysis of five commercial banks, it is found that both share price and quantity are increasing. This fact point out the opportunistic investment.
-) Banks actions and decisions are influenced by NRB rules and directives, some of them help banks while other may constraint banks growth.
-) Yearly share quantity traded for five sample banks are in increasing trend. This point out the growth of stock market in perspective of listed commercial banks. On average it is seen that NIB's share is traded most frequently.
-) Through analysis of covariance of banks with market and calculating beta, different values are resulted thus giving good opportunity of creating

- portfolio. Creating portfolio with these banks and yielding good return indicate future growth of stock market in perspective of these banks.
-) Market capitalization is highest for SCB with 32.77%. This is because SCB has the highest MPS and Everest Bank has the lowest contribution with 10.05% only. If we see market capitalization of each bank separately we can see that they all are in increasing trend which is good indicator for future growth of stock market in perspective of listed commercial banks.
 -) The development of stock market primarily depends on the government policies and programs and their proper implementation. Government should develop an appropriate policy framework to increase the demand for supply of securities.
 -) The expected return is an income received on investment, usually expressed in percentage. Expected return is simply an average return of the investment. The expected return of Nabil is highest i.e. 104.7%. The reason of expected return being so high is the effect of annual return, issues of bonus shares and increase in the share closing price. Expected return of NIB is lowest i.e. 25.97%.
 -) The risk of an asset can be measured quantitatively using statistic the Standard deviation and coefficient of variance. Standard deviation is a strong statistical device to measure total risk involved in the investment that consists of both market risk and diversifiable risk. Moreover, it denotes the volatility of stock return that is expected. Therefore, total investment risks associated with common stock investment of different selected commercial banks are 0.5874, 0.2824, 0.2215, 0.2712 and 0.3090 respectively.

-) Risk is the variability of returns, which can be measured in terms of standard deviation of returns. In terms of risk, common stock of Nabil is the highest and most risky. Nabil has standard deviation of 0.5874 and it has the highest expected return i.e.104.7%. The security of Nabil is most risky and it indicates “high risk, high return”.
-) While comparing risk standard deviation will not be appropriate since the returns are varying for five sample banks. Coefficient of variance is appropriate for comparing risk between these banks since it gives risk per unit of return. CV is lowest for Everest bank which is 0.4435, therefore this bank has less risk in terms of expected return. And it has good return of 69.67%. So investing in Everest Bank’s stock would be best decision on analysis of past five year’s data.
-) Standard deviation measures total risk while beta measures systematic risk. Beta explains the sensitivity of the stock with the market. Higher the beta greater the volatility and riskier the common stock. According to the calculation of beta coefficient, common stock of NIB is most volatile i.e. 1.88.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary:

Investor's perception about risk and their demand for compensation describe the relationship between risk and return. No investors will like to invest in risk assets unless he is assured of adequate compensation for the acceptance of risk. Investor's often asked about the total risk they will be assuming in an investment and like to know if the risk premium provides is enough. Higher risk command higher premium and assumes the linear relationship between risk and risk premium. Hence, risk plays a central role in the analysis of investments. Risk and return is getting considerable attention in the financial field. Financial ratios have been used for centuries as rule of thumb to aid in understanding trade of between risk and return but they only scratch the surface.

The main objective of this study is to explain the growth of stock market in perspective of listed commercial banks with the help of risk return analysis and share quantity and capitalization analysis. Various statistical and financial tools like standard deviation, mean, Coefficient of variance, CAPM, are used, so as to achieve the above stated objective and to make the study more effective and informative.

NEPSE is only stock market in Nepal. Investors will hesitate to invest in securities because of lack of proper knowledge and well guidance in this field. Investor's wants to have full information about risk and return from their investment and they should be confident about their investment being utilized in the secured field.

Five listed commercial banks in NEPSE are taken as sample and their individual risk and return and capital assets pricing model are calculated and analyzed in a whole to find out the growth trend. Scientific methods are used to make the analysis more effective. Tables and diagram are used to present the data and results. Secondary data are collected from NEPSE, related commercial banks and Internet.

5.2. Conclusion:

In this research it is seen that the closing market price of the sampled five banks has increased over the sample period of five years, this gives capital gain to the investors. Cash dividends are also regularly distributed with only few exceptions, and on few occasions banks also have distributed bonus shares, these things add up to the investor's gain. Investor's gain brings more investors to buy the shares of these banks, which results in the overall growth of the stock market. Obviously stock market growth is not only due to banks shares and their investor's gain, but in this thesis, research has been narrowed to examine only the growth of stock market in perspective of listed commercial banks. Quantity of share traded in stock market is also good indicator of share market's growth. In this thesis this research is conducted and found that the share quantity traded has increased over the years. Market capitalization is next good indicator of growth of stock market. In this thesis market capitalization of five sampled banks are considered. Market capitalization is product of outstanding equity and closing mps. Outstanding equity is increased by new issues and issue of bonus shares which banks has performed. And increase of mps is influenced by banks performance and market speculations. This both factors has increased the market capitalization of sampled banks, and thus reinforced the growth of stock market. This thesis has also considered NEPSE'S index and found positive return and covariance of banks with market is always positive, which means that the banks share's value is going

along with the market which shows the future growth or prosperous share market of listed commercial banks.

5.3. Recommendation:

On the basis of this conducted research following recommendation and suggestions are given.

-) One of the most important things to consider when choosing investment strength is the balance between risk and return that you are comfortable with. Investment in Nabil seems profitable as it has highest return of 104. 7% but it requires huge investment and it is also most risky. Coefficient of variance helps us to see clearly risk return combination. CV of Everest bank is lowest i.e. 0.4435. Therefore statistically it is wise to make investment in Everest share.
-) Share price of five sample banks have never been dropped in past five years, considering yearly closing MPS. Therefore “long position investment” is recommended i.e. buying share and holding for at least a year and selling it at profit. SCB is most promising in this situation.
-) Bonus share is more profitable than capital gain and dividend gain, since it gives current MPS as a whole as profit to the investor. SCB is more likely to give bonus share according to the observation of past five year’s data. Those who have huge bank roll and can bear risk SCB’s share provides high profit.
-) Stock market investment is risky job. To win the stock market, investors should be always be clear his own strengths, weakness, needs, desires, risk taking capabilities and how to react on different and ever changing market conditions. This is one game where self-knowledge, superior feasting ability,

sound understanding on the information of stock market can give a winning edge to the investors.

-) Investment in common stock is a risky job, as they do not guarantee the return of initial investment. Although there is a change of more return than that is expected.

-) Government needs to amend the rules and regulation regarding stock market to make the police that protect the individual investor's right. On the other hand, Government needs to implement such rules properly and to monitor from time to time.

-) There is a lack of knowledge about capital market to brokers and investors. Some of people only have aware about stock market. So that the stock market is becoming as a gambling. To erase this sort coming of stock market, the concerned authority or regulatory body should start to make them conscious.

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APPENDICES

Appendix-1

Calculation of Beta coefficient of common stock of Standard chartered Bank is shown in the following table

Fiscal Year	Return (R _j)	(R _j - \bar{R}_j)	Return on market (R _m)	(R _m - \bar{R}_m)	(R _j - \bar{R}_j) (R _m - \bar{R}_m)
2059/60	-	-	-	-	-
2060/61	0.125	-0.385	0.1477	-0.1161	0.0447
2061/62	0.413	-0.097	0.4000	0.1362	-0.0132
2062/63	0.902	0.392	0.2997	0.0359	0.0141
2063/64	0.599	0.089	0.2079	-0.0559	-0.0049
Total:	2.039		1.0553		0.0407

$$\text{Covariance of } (R_j, R_m) = \frac{(R_j - \bar{R}_j) (R_m - \bar{R}_m)}{n}$$

$$= \frac{0.0407}{4}$$

$$= 0.0102$$

$$\text{Beta, } = \frac{\text{Cov}(R_j, R_m)}{\text{Var}(R_m)}$$

$$= \frac{0.0102}{0.0090} = 1.133$$

Calculation of Beta coefficient of common stock of Himalayan Bank limited is shown in the following table

Fiscal Year	Return (R _j)	(R _j - \bar{R}_j)	Return on market (R _m)	(R _m - \bar{R}_m)	(R _j - \bar{R}_j) (R _m - \bar{R}_m)
2059/60	-	-	-	-	-
2060/61	0.0048	-0.255	0.1477	-0.1161	0.0296
2061/62	0.1798	-0.080	0.4000	0.1362	-0.0108
2062/63	0.2428	-0.017	0.2997	0.0359	-0.0006

2063/64	0.6136	0.353	0.2079	-0.0559	-0.0197
Total:	1.041		1.0553		0.0015

$$\begin{aligned} \text{Covariance of } (R_j, R_m) &= \frac{(R_j - \bar{R}_j)(R_m - \bar{R}_m)}{n} \\ &= \frac{0.0015}{4} \\ &= 0.0004 \end{aligned}$$

$$\begin{aligned} \text{Beta, } &= \frac{\text{Cov}(R_j, R_m)}{\text{Var}(R_m)} \\ &= \frac{0.0004}{0.0090} = 0.0444 \end{aligned}$$

Calculation of Beta coefficient of common stock of Nepal Investment Bank is shown in the following table

Fiscal Year	Return (R _j)	(R _j - \bar{R}_j)	Return on market (R _m)	(R _m - \bar{R}_m)	(R _j - \bar{R}_j)(R _m - \bar{R}_m)
2059/60	-	-	-	-	-
2060/61	0.1924	-0.0673	0.1477	-0.1161	0.0078
2061/62	-0.1383	0.398	0.4000	0.1362	0.0542
2062/63	0.6	0.3403	0.2997	0.0359	0.0122
2063/64	0.3849	0.1252	0.2079	-0.0559	-0.0069
Total:	1.039		1.0553		0.0673

$$\begin{aligned} \text{Covariance of } (R_j, R_m) &= \frac{(R_j - \bar{R}_j)(R_m - \bar{R}_m)}{n} \\ &= \frac{0.0673}{4} \\ &= 0.0168 \end{aligned}$$

$$\begin{aligned} \text{Beta, } &= \frac{\text{Cov}(R_j, R_m)}{\text{Var}(R_m)} \\ &= \frac{0.0168}{0.0090} = 1.88 \end{aligned}$$

Calculation of Beta coefficient of common stock of Everest Bank is shown in the following table.

Fiscal Year	Return (R _j)	(R _j - \bar{R}_j)	Return on market (R _m)	(R _m - \bar{R}_m)	(R _j - \bar{R}_j) (R _m - \bar{R}_m)
2059/60	-	-	-	-	-
2060/61	0.5258	-0.171	0.1477	-0.1161	0.0198
2061/62	0.2985	0.398	0.4000	0.1362	0.0542
2062/63	1.1103	-0.414	0.2997	0.0359	-0.0148
2063/64	0.8521	0.155	0.2079	-0.0559	-0.0086
Total:	2.7867		1.0553		0.0506

$$\begin{aligned} \text{Covariance of } (R_j, R_m) &= \frac{(R_j - \bar{R}_j) (R_m - \bar{R}_m)}{n} \\ &= \frac{0.0506}{4} \\ &= 0.0126 \end{aligned}$$

$$\begin{aligned} \text{Beta, } &= \frac{\text{Cov}(R_j, R_m)}{\text{Var}(R_m)} \\ &= \frac{0.0126}{0.0090} = 1.4 \end{aligned}$$

Appendix-2

Corporate Actions and Decisions of the Listed Companies

**Fiscal Year 2063/64
(2006/07)
BANKING SECTOR**

Security Short Name :NABIL Bank Limited

YEAR :2005/07/16 to 2006/07/15

Ex date :2006/10/27

Book Closure Period :2006/10/27 TO 2006/11/07

Record date :2006/10/26

Cash Dividend :85% Which means Rs.85/- for every Share

Meeting Type :22nd AGM

Meeting Date :2006/11/07

Time :2.00 5.M

Security Short Name :Himalayan Bank Ltd.

YEAR :2005/07/16 to 2006/07/15

Ex date :2006/12/20

Book Closure Period :2006/12/20 TO 2007/01/12

Record date :2006/12/19

Cash Dividend :30% Which means Rs.30/- for every Share

Stock Dividend :5%

Meeting Type :14th AGM

Meeting Date :2007/01/12

Time :1.00 P.M

Security Short Name :Standard Chartered Bank (Nepal)Ltd.

YEAR :2005/07/16 to 2006/07/15

Ex date :2006/11/13

Book Closure Period :2006/11/13 TO 2006/12/03

Record date :2006/11/12

Stock Dividend :10% which means 1extra share

Cash Dividend :130% which means Rs.130/- for every share.

Meeting Type :20th AGM

Meeting Date :2006/12/03

Time :9.00 A.M

Security Short Name :Everest Bank Limited

YEAR :2005/07/16 to 2006/07/15

Ex date :2006/11/05

Book Closure Period :2006/11/05 TO 2006/11/27

Record date :2006/11/04

Stock Dividend :20%

Cash Dividend :25% Which means Rs.25/- for every Share

Meeting Type :12th AGM

Meeting Date :2006/11/27

Security Short Name :Nepal Investment Bnak Limited

YEAR :2005/07/16 to 2006/07/15

Ex date :2006/10/31

Book Closure Period :2006/10/31 TO 2006/11/14

Record date :2006/10/30

Cash Dividend :20% Which means Rs.20/- for every Share

Meeting Type :20th AGM

Meeting Date :2006/11/14

Time :10.00 A.M