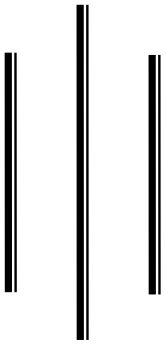
A STUDY OF

FINANCIAL PERFORMANCE INDICATORS AND STOCK MARKET OF LISTED COMMERCIAL BANKS IN NEPAL"

(With Reference Standard Chartered Bank, Nepal SBI Bank & Bank of Kathmandu Limited)



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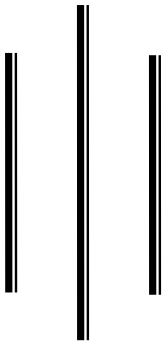

Submitted to:
Office of the Dean
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Tribhuwan University
Thakur Ram Multiple Campus

In the Partial Fulfillment of the Requirements for the Degree of Master in Business Study (MBS)
Birgunj, Nepal

Feb, 2012

RECOMMENDATION

This is to certify that the Thesis

Submitted by:
SUNIL KUMAR CHAUDHARY

Entitled
"A Study of Financial Performance Indicators and Stock Market of Listed Commercial Banks in NEPSE"

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

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Entitled

"A Study of Financial Performance Indicators and Stock Market of Listed Commercial Banks in NEPSE" *and found to the original work of the Student and written according to the prescribed format. We recommend the Thesis to be accepted as partial fulfillment of the requirement for* ***Master's Degree of Business Studies (MBS).***

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DECLARATION

I hereby declare that the thesis entitled ***"A Study of Financial Performance Indicators and Stock Market of Listed Commercial Banks in NEPSE"*** *Submitted to the Research Department faculty of Management, Thakur Ram Multiple Campus, Birgunj (Tribhuwan University) is my original work done in the form of partial fulfillment of the requirement of the Degree of Master in Business Studies* ***(MBS)*** *under the supervision of* ***Mr. Shambhu Saran Sah*** *of Thakur Ram Multiple Campus, Birgunj.*

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LIST OF ABBREVIATIONS

AMEX	**- American Stock Exchange**
BOK	**- Bank of Kathmandu**
BPS	**- Book Value per Share**
BVPS	**- Book Value per Share**
CAPM	**- Capital Assets Pricing Model**
DIZAI	**- Dow Zones Industrial Average Index**
DPS	**- Dividend per Share**
EPS	**- Earning Per Share**
HBL	**- Himalayan Bank Ltd.**
Ltd.	**- Limited**
MBL	**- Machhapuchre Bank Limited**
MBS	**- Master in Business Study**
MPS	**- Market Price per Share**
NABIL	**- Nepal Arab Bank Ltd.**
NBL	**- Nepal Bank Limited**
NEPSE	**- Nepal Stock Exchange**
NIBL	**- Nepal Investment Bank Ltd.**
NIDC	**- Nepal Industrial Development Corporation**
NPAT	**- Net Profit after Tax**
NRB	**- Nepal Rstra Bank**
NWS	**- Net Worth per Share**
NYSE	**- New York Stock Exchange**
P/E ratio	**- Price Earning Ratio**
Pvt.	**- Private**
R	**- Coefficient of Correlations**
R2	**- Coefficient of Determination**

ROA	**- Return on Assets**
ROE	**- Return on Equity**
ROI	**- Return on Investment**
SBI	**- Nepal State Bank of India**
SCBNL	**- Standard Chartered Bank Nepal Ltd**
SEBON	**- Security Board of Nepal**
SEE	**- Standard Error of Estimation**
SPSS	**- Statistical Program for Social Science**
T. U.	**- Tribhuvan University**

CHAPTER-1
INTRODUCTION

1.1 GENERAL BACKGROUND

Development and expansion of capital market is essential for the rapid economic growth of the country. Capital market helps economic development by mobilizing long term capital needed for the productive sector. The capital market was initiated in the country with the establishment of the security market center in 1976 in government sector according to the industrial policy of that time. But there was no such plan program for the development of the capital market until the sixth plan. For the first time, the activities and programs of the security marketing center were set development of this sector was initiates only after the eighth plan.

The main objective of the capital market is to create opportunity for maximum number of people to get benefit from the return obtained by directing the economy towards the productive sector by mobilizing the long term capital. The objectives can be fulfilled only by the rational and accountable behavior relating to the three factors of the capital market such as institution, mediate or and investor.

Rational and high moral character and according and accountable behavior of the institution such as the government, center bank, stock exchange organized institutions for accumulating capital from the market, mediators in the from of manager for issuing security, creator of the market manager for investment security dealers such as brokers and investors in the form of government bond holders and ordinary mutual fund until holders help to develop healthy capital market (the ninth plan, p30).

Solving the problem of underdevelopment economic markets enlistment of economic growth of nation is widely dependent on corporate success of its economic infrastructure. Manufacturing industries, financial institutions and capital markets are major components of the economic infrastructure. The corporate success or positive financial performance of every industry and every firm is almost necessary for the overall development of economic market. This positive financial performance brings satisfaction to the investors, because every corporate organization is made up of public investments, which helps to increase the value of organization. The increment of the value of corporate firm means, it makes investors to feel safer and the investment less risky. The corporate success and increased value of investors helps to increase the stock price because there is possibility to give sufficient dividend or return on investment. This offers an opportunity for investor to invest in the long term ventures again.

Strategies development of economic markets requires a steady supply of capital funds for productive investment. For the mobilizing of invincible resources capital market is an important intermediary through which effective bridging if the deficit units and surplus units can be assured. Capital markets institutions are engaged in mobilization of saving from surplus units and supply funds into the deficit units for the productive

investment. In this respect, channeling the financial resources for expanding productive capacity in the countries.

Capital market can be decomposed into the security market and non security market. Stock market is the major component of the securities market. One of the mechanisms of financial the industries from the external sources in the modern time is the capital market through which the industrial enterprises with corporate organization assemble the funds by using various forms.

A person buying a stock invests on faith, in the hope receiving dividends. The common stock certificate makes no mention of ever repaying the principle or purchase price. Therefore, playing on stock is purely estimation like bidding the cards.

In these countries like Nepal, where security markets is in infancy stage and is handle by few players, including promoters of company, markets makers and VIP share holders, to pay a days prevailing price for stock investment is sometimes suicidal. It is equally suicidal to makes investment decision relying on financial statement of companies.

There are some companies which were earning profit and were paying dividends during initial stage but from the day raised money from public they continuously been showing operational losses even though increase was noticed in productive and sales. This gave raise to the suspicious that same people may simply be trying to raise funds by manipulating performance data or intending to manipulate public funds. This requires immediate attention of securities board but no action was noticed so far.

Still one has to predict something to pay a roughly reasonable price for stock. One such prediction is about the future dividends.

People just tends to grab shares of any company because they forces to do so by the family, relatives, and friends, other types of people to do just because of the goodwill of the company .if the company is going to open the branches on other districts then also common people seem to be interested in grabbing the shares. If the management and cooperation of staff and managers is highly effective, then also people want to invest in that type of company. So these non financial terms force them to buy the shares without knowing the actual financial condition of the company. Each and every company that came in the market because successful in tapping the capital from market and the issue close to with in the minimum stipulated time of 7 days with huge over subscribed to the extend of 19 times and became simply overwhelming to the company concerned as well as the issue mangers, which lead to delay in allotment of shares, refunding and distribution of shares certificates to the allotters. But the public response varies from one business sectors to another business sector. And, recently, company has been facing problems in issuing their shares to general public. Since the first quarter of 1995, number of issuers and investing community remained limited in the absence of equality culture due to strong equation in the minds of the average investors that a stock markets showing a downward trend and is only speculative. The

company which issues shares to the general public had predicted higher dividends and earning per share but most of them are failed to deliver. The performance of issue manager is also not as expected. The mismanagement while subscription list is open and delay in allotment of shares if over subscribe tends to undermine investors confidence and thereby hinders the future growth of primary markets. In the same way, other non-financial factors like strike in the company, lack of coordination, misbehave by the company staff, appointment to the inexperienced and untrained staff etc. Can play negative roles on stock pricing of the company.

When people buy common stock, they give up current consumption in the hope of attaining increased future consumptions. They expect to collect dividends and eventually sale the stock at a profit but the future earning as well as life time stock prices is uncertain. Not knowing what lies ahead; investors are unable to plan life time consumption patterns with the certainty, because the return from investment and timing of those returns are uncertain, they complete the lack of certainty, by requiring an expected return sufficiently high to offset it. Rational investors should buy a stock at a price at least not reducing his or her current net worth or values. For this some reasoning must be made that what maximum price for a stock of the consider company ought to be paid. What value of stock deserves could be paid for it. Value is an amount equivalent to the recent worth of future assets. For example, could be expected from a stock? Two things:

1. Dividend in future, but only if the company makes profits.
2. Price from stock, which can be sold at some future date.

Then what relationship can be drawn between the dividends and stock prices? Just see the effects of bonus shares which are also a type of dividend, stock dividend.

There are different opinions and thoughts regarding the effect of bonus issue. Some regards bonus issue of lease to increase, the market value of the firm by increasing the equity capital base without affecting the dilution of share's ownership. Other regards issues of bonus shares only conserve the cash consistent with the corporate firm's motive to finance its growth and expansion from internal source. There by enhancing the future markets value. Generally bonus share issue doesn't change the ownership pattern but it affects the book value per share and the earning per of the increased numbers of the shares as a result of issue of bonus shares. (Shrestha, 1999, PP 35-38).

1.2 ORIGIN OF BANK

The origin of the bank is not new phenomenon because there was a raw form of banking in the ancient period or 'Vedic Era'. The term deposits, pledge, policy of loans, interest related can be found in the 'Many Smriti' Era too…. But we can say that after the end of Roman Emperor at 15^{th} century and the beginning of the 16^{th} century consequent commercial and other training activities in Europin countries.

According to traceable and practicable origin, the development of banking institutions in the world was from Italy as 'the bank of Venice' established at 1157 A.D. the

second banking institution 'The Bank of Barcelona' of Spain established at 1401 A.D. where as 'the bank of England' was established at 1964 A.D. as a joint stock bank and later on was the first central bank of the world.

1.2.1 The Origin of Bank in Nepal.

Development of bank in Nepalese contexts are presented below :

* The informal credit transaction started from pre-historical time.
* In 723 A.D. the Gunakama Dev had taken loan to reconstruct the Kathmandu valley.
* The Shankhardhar repaid the entire loan of the people and started the Nepal era in 8th century.
* The Rana prime minister, Ranodip Singh established "Terajuandda". That provided credit at 5% rate against the collator of gold and silver.
* The modern banking in Nepal establishment of the Nepal Bank Limited, the first commercial Bank in Nepal that has 49% share of the private sector and 51% of the government.
* Nepal Rastra Bank was established under the N.R.B., was established under the central bank of Nepal.
* The co-operative Bank was established in 2020.
* Rastriya Banijya Bank was established in 2022.
* The Agriculture Bank was established in 2024 merging the co-operative Bank in to it.
* In 2041 the government adopted the liberal economic policy according to which different joint venture bank, commercial bank, private financial co-operatives and private development Bank were established.

The number of different bank established, till today is listed below:

Table no: 1.2.1.

S.N.	Types of Bank	Number
1	Commercial Bank	25
2	Finance Company	78
3	Development Bank	58
4	Central Bank	1

Source: www.NRB.org.np

Bank plays a vital role in developing the economy of any country. Before 1792 the goldsmiths used store people's gold and other valuable goods and charge nominal charge nominal charges against the deposit. That time people deposited their gold and

valuable goods for the sake of security rather than earning interest. The term bank emerged in U.S.A. in 1792.

Bank means an institution, which deals with money. A bank performs several financial monetary and economic activities. Which are very essential for economic development of any country. Broadly speaking bank draws surplus money from the people who are not using it at present and are hoarding for future and supplies loan to those who are in a position to use it for productive purpose. Modern banks can be considered as the involvement of ancient gold smiths.

Today different types of financial institutions are established with different purpose. These banks give different types of services to people. Basically banks perform various types of service i.e., collection deposit from the public, grant loans to those investor who want to invest in business, industry and other sectors, overdraft, guarantee against any disable of payment (guarantee services) letter of credit discounting bills promissory notes, selling of others share to general public agency function task, limit of the storage commodities etc.
All of these banks barely follow the directive and policies of central bank of Nepal Rastra Bank (NRB) functions as the central Bank. NRB forwards policies that would make implement by commercial banks as well as other financial institution too. Nepal Rastra Bank formulates financial and monetary policies under which commercial banks, financial institutions are functioning.

To the greater extent, the growth rate of economic development is based on all banks and financial institutions role. Gold Smith and Indian Tankadaria played leading role to develop the latest modern banking functions. Today the tasks of banks are very much dynamic, complex, revealed that bank and economic rate of advancement are two parts of a coin or two wheel of a chariot. Today, banks are expanding and spreading all over the world.

1.2.2. Meaning of commercial bank

Commercial bank as a financial institution transfers monetary sources from savers to users. In the process of such intermediation, commercial bank deploy funds raise from different sources into different assets with a prime objective of profit generation. They also provide technical and administrative assistance to industries, trade and business.

Commercial banks are one of the most important institutions in the economy. The main function of commercial bank is to lend money to merchants, home owners, farmers and industrialists and to hold Govt. bond commercial bank also working as intermediators between surplus spending units to deficit-spending units.

According to commercial bank act 2031, “Commercial banks are those banks which are established under this act to perform commercial function except those which are established for specific purpose like Development Banks, Co-operatives etc.”

1.2.3. Functions of Commercial Bank:

A. Accepting deposits: Oldest or main function of commercial bank is accepting deposits. A bank accepts deposit in three forms namely Saving, Current and Fixed deposits.

a. **Current Account:** The account in which any amount can be deposited and withdrawn at any time is known as current account. The bank gives no interest to the account holder under this account. Nowadays, the bank under this account as per their own rule has determined minimum limit of deposit.

b. **Saving Account:** The account, which is managed to collect the small saving of people, is known as Saving Account. This account can be opened with nominal amount. The main objective of this account is to promote the saving of the people. Limited amount cam be deposited and withdrawn from the bank in the specified time. If a person needs the amount more than limit then prior information is to be given to the bank as per their rule. Bank provides nominal rate of interest in this account.

c. **Fixed Deposit Account:** The account, which is managed to accept the deposit for fixed period of time providing higher rate of interest, is known as fixed deposit Account. Amount can not be withdrawn from bank before the expiry of time. If it is necessary account holder can take loan against the security deposit of it paying 2% extra interest.

B. Advancing Loan: The second major function of a commercial bank is to provide loans and advances from the money, which receives by way of deposits loans are granted by band in form of overdrafts, cash credit, direct loans and Discounting Bills of exchange.

C. Transfer Money: Commercial Bank transfers the amount of public and organizations from one place to another place or one account to another account with the help of T.T., draft, ect.

D. Agency Function: A bank also performs number of services on behalf of it's costumers. A commercial bank undertakes the payment of subscriptions, insurance premium, rent and collection of cheques, bills, salaries, pensions, and dividends. The commercial bank arranges to remit money from one place to another place by means of cheque, draft, wire transfers and also acts as representative of correspondent for his customers.

E. Exchange Foreign Currency: Commercial Band exchanges foreign currency on the permission of Central Bank and considering to the directions provided by Central Bank time and again. Nowadays commercial bank fixes the rate of foreign currency as per market demand and competition.

F. Helps in issue of capital: On the request of company, corporation and other organization, it sells shares and debentures, gives guarantee and performs agency function for which it take commission from those organizations against the issue of capital made on behalf of those organizations.

G. Opens letter of credit: It opens L.C. for the import and export of goods. It has got right to issue and accept traveler's cheque. This provision is specially made by the bank to facilitate to the foreign trade. L.C. is the act of providing guarantee to the foreign businessman on behalf of local businessmen.

H. Other functions: It manages locker to keep gold, silver and valuable items safely, collects and publishes the financial information, purchases and sells bill of exchange, provides overdraft facility on the agreement etc.

1.3 CAPITAL MARKET IN NEPAL

The market where securities are traded is knows as capital market. The capital market is broadly categorized in to two main markets, they are:

1. Primary capital market
2. Secondary capital market

Primary capital market: the primary capital market denotes the market for the original sale of securities by an underwriting to the public. The use of the words original sale may be somewhat misleading, however, for example the issuer may initially have sold common stock to the public several years ago and has now decided to issue additional share will be sold in the primary market and ones the sales is completed, the new share will be indistinguishable from the share sold in the initial public offering.

The issuer receives cash that may be invested in productive assets or the net proceeds from the sale may be used for together purpose. The public receives the newly issued securities for the cash invested. Since in the primary market stocks are trades at par, there is no problem of price.

Secondary capital market: After securities have been purchased from the primary market, they can be traded in the secondary market. The secondary market companies organized security exchanges and a specialist facilities the transaction. The majority of all capital market transaction occurs in the secondary markets. The proceeds from sales of securities in the secondary markets do not go to the organizational issuers instead to the initial owners (sellers) of the securities.

Trading of stocks: The Nepalese practice, the trading of securities viz. government bonds and listed corporate securities is done through Nepal stock exchange limited (NEPSE), which is a non profitable organizational operating under securities exchange act, 1983. The basic objectives of NEPSE is to impart free marketability and liquidity to the goverment bonds and corporate securities by facilitating transactions it its trading floor through market intermediaries, such as brokers, market markers etc.

Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present there are 23 member brokers and market marker, who operate on the trading floor as per the securities ordinance 2005 rules and bylaws of the exchange.

Besides this NEPSE has also licensed to dealer primary market and dealer secondary market. Dealer (primary market) operates as a manager to the issue and underwriter whereas dealer (secondary market) operates as a portfolio manager. Presently, NEPSE licensed to 9 dealers (primary market) and 1 dealer (secondary market).

The rate of brokerage on equity transactions ranges from 1% to 1.5% depending on the trade amount. The rate of brokage commission on debenture ranges from 0.15% to 0.75%.
As per the rules the rate of brokage commission is listed below
If the trade securities are shares:

Table 1.3.1

Trade amount	**Rate of commission**
Up to Rs. 25000\-	1.50%
Rs. 25001 to 100000\-	1.40%
Rs.100001 to 500000\-	1.30%
Rs. 500001 to 1000000\-	1.20%
Above RS 100000\-	1.00%

If the trade securities are corporate bonds or debentures:

Table 1.3.2.

Trade amount	**Rate of Commission**
Up to Rs100000\-	0.75%
Rs100001 to Rs500000\-	0.60%
Rs500001 to 1000000\-	0.45%
Rs1000001 to Rs5000000\-	0.30%
Above 5000000\-	0.15%

Trading on the floor of the NEPSE is restricted to listed corporate securities and government bonds. At present, 135 companies have listed their securities to make them eligible for trading.

Table 1.3.3

S.N.	**Issued Capital**	**Listing Fee**	**Annual Fee**
1.	UptoRs10 million	0.20% or minimum Rs15000\-	Rs15000\-
2.	Rs10 million to Rs50million	0.15% or minimum Rs45000\-	Rs25000\-
3.	Rs50million to Rs100million	0.10% or minimum Rs75000\-	Rs35000\-
4.	Above Rs100million	0.075%or minimum Rs100000\-	Rs50000\-

NEPSE has adopted recently computerized system. It means transactions of securities are conducted in the trading floor by matching the price of buying and selling. When

the price matches the buying and selling broker declares the quantity and settlement the transaction.

NEPSE has fixed the trading hours and days during which the members are allowed to enter the floor to make the transaction:

Table 1.3.4.

Types of Trading	Days	Trading Time
Regular trading	Sunday to Thursday	11.00AM to 1.00PM
Odd lot trading	Monday & Friday	2.00 to 3.00 PM &11.00 AM 12.00 Noon

NEPSE has fixed the board lot of 10 shares if the face value is Rs.100 or 100 shares if the face value is Rs.10. the transactions on regular trading should be done for at least one board lot. The transactions of less than 10 shares are permitted only on odd lot trading hours.

The operating price of any day shall not be more or less than 5 percent of the previous trading day's closing price. Once the transactions are done within this range, the price can be changed within a limit of 2 percent in each consecutive transaction.

NEPSE has adopted a T+3 system which means that settlement of transaction should be done within 3 working days following the transaction day. Settlement will be carried out on the basis of paper verses payment. The rate of brokerage on equity transactions ranges from 1 percent to 1.5 percent depending on the trading amount.

With the establishment of the democratic system in our country, we can see the increasing role and importance of security market. Our security market has just shown some changes of facilities in the real sense. May be it also because of the already passed recession period that people have become much more optimistic that they want to save some of income to invest in the security market. Knowingly or unknowingly, what we perceive is, it is also due to the lack of other investment opportunities that people and their money flock into the great walls of NIDC capital market. Here the role off the media that is so say the newspapers, the different new management related magazine and the advert of the satellite television have played a very important role to make this small security market has to be repeated; it's the increased competition between the various types of firm striving for the survival.

As usual we have two markets under the capital market, the primary market and the secondary market. Primary market is a market where the public buys shares directly from the company through the initial offer. Yes, sometimes brokerage firms, agents underwrite the company shares. Therefore in the primary market the public apply for the shares and the company shares. Therefore in the primary market the public apply

for shares and the company does the allocation. Normally, NSEB and NIDC capital market control the value per share of the equity.

After being listed in the secondary market, trading of shares begin. So, in the secondary market, already bought shares are traded especially for capital gain purposes. Therefore the basic difference is, transferred amongst the public. The price in the primary market is said to be the par value and that in the secondary market is the market value.

In our context, NIDC capital market is the primary and the Nepal stock exchange is the secondary market.

After the IPO is done with, shares are traded in the secondary market. For this purpose, the Nepal stock exchange (NEPSE) has appointment and listed brokers who are legally entitles to trade shares in the floor. As in practice everywhere there are probable investors and seller of shares in the market. Both the parties contact brokers (authorized) through brokerage firm, negotiate the price as per ones ability and market condition. Here, normally the seller wants to get as much as possible and the buyer wants to reduce as much as possible. When both the parties agree to a particular price, the broker makes the toss by taking the responsibility of transferring the ownership of the equity. For this broker charges 0.5% to 1.5% of the total transaction amount from both the sides depending upon the amount. Normally, the higher the transaction amount, the less is the percentage of commission. It normally takes 7 days for one to complete cycle of the transaction.

1.4 SIGNIFICANCE OF THE STUDY

Firstly the study will provide some indicators based on facts to the potential investors of commercial bank's securities. Secondly, the study is assumed to be helpful to the financial managers of commercial banks to make financing and dividend decisions. Finance to know the practice in Nepal what study in the books. Last but most importantly, the study will provide a literature or further researches of this area.

1.5 STATEMENT OF THE PROBLEM

Financial performance means the financial activities of the company directed towards achieving its value maximizing objectives. For better financial activities, effective & efficient decisions are necessary and those financial activities contribute to excellent financial performance, which in turn results into growth of the organization. Financial activities involve decision regarding:

- Forecasting & planning of financial requirements.
- Investment decision.
- Financial decision.

Rational decisions enhance financial performance of the company. The outcomes is reflected in ROE, ROL, EPS, DPS & growth. Moreover, better performance reduces the associated risk, which aids to achieve high rating.

Theories say that the stock pricing in market is guided by the intrinsic value which is calculated by the aid of company's result of financial performance such as dividend (d) required rate of return (k) and the growth (g).in an efficient market stock price uses to be equal to the intrinsic value since the buyers and the sellers are fully informed about the fact and the figures of the company. Therefore, one can say that market price and financial performance are positively correlated. However the degree of correlation depends upon the efficiently of the market. In an efficient stock market like NYSE and AMEX correlation between two variables in near to unity where as in an inefficient stock market like NEPSE, correlation may not be close to+1.

However there are eight different sectors listed in NEPSE but commercial bank occurs nearly an half paid up capita value of common stock among other sector i.e. Rs8522.73 million out of Rs20008.55 million and market capitalization occupies 70.97 percent. Therefore it is an important for the study of only the stock market behavior of commercial bank.

Though EPS, DPS, ROE, ROA are the main of changes stock prices, sometimes misleading and inadequate information can also influence the price resembling insufficient market situation for the short period. However the situation will overcome through the capital gain or loss.

In Nepalese stock market, most of the professional says that whatever the theory has depicted is not applicable in Nepalese context. Most of the investors do not know to interpret the information & so they cannot come to a rational decision regarding transaction of the stock. Therefore the stock price in Nepal is determined more by other factors rather than the financial performance of the concerned company. Therefore to find out whether it is fact or mot, this study will give meaningful result.

A commercial bank overcomes the limitations of unlimited liabilities and limited capital as in the sole proprietorship and partnership firms. A commercial bank consisting of billions of rupees of capital divided into millions of common stocks are compulsory to begin a commercial bank.

These common stocks are firstly marketed by the capital raising companies through primary capital market. A common stock neither guarantees for the annual return nor does it ensure for the return of price of the stock.

Therefore, it needs a faith of investors upon stock certificates. But how to rely on these stocks? What prices could be paid for a stock? Greater the faith investors in stock, higher will be the chance of emerging new companies in the country and rapid will be the economic growth.

Obviously, an average investor will simply plan the prices to be paid for a stock based on:
1 expected annual return in terms of dividends.
2 expected worth of the stock in future time.

Both of these will be sure to the extent of financial performance of commercial bank.

But what could be said about the performance of Nepalese commercial banks? About their financial performance? About stock prices? What is the correlation between the DPS and their stock prices? Do the investors at least see the real financial performances while paying price for the stocks? If not, what other factors might influence the price of stocks?

These are the burning issues regarding stock price determination which encourage conducting this research study. The main problems of the study are as follows:

1. What factors might influence the stock price?
2. Do the investors at least see the effect of events while paying price for a stock?
3. Do investors see the price trend and volume of stock treaded and other views while making investment decision?
4. Investment in common stock is risky in comparison of others. Still why most of the investors want to invest in common stock.
5. What is the relationship between EPS and prices, DPS and price?

1.6 OBJECTIVE OF THE STUDY

The main objective of the study is to examine the impact of financial performance on common stock pricing. These basic objectives can be further elaborated as:

1.To study and examine the relation of financial performance and stock price.
2.To examine the relation of dividends and stock prices.
3.To explore the signaling effect on the stock price determination.
4.To examine either the market index of commercial bank is in random order or not.
5. To point out suggestion to the stockholders of stock market.

1.7 LIMITATION OF THE STUDY

1. The study is based on all commercial bank listed in Nepal stock exchange (NEPSE).
2. Financial performances represent profitability ratios, dividend and net worth per share.
3. Only 5 years observation covering from F/Y 2008/09 to 2009/10 analyzed.
4. Signaling effects cover the factors from brokers, experts, company managers and investors.

5. The depend variable only the market value per share of common stock.
6. The study mainly relies on the secondary data are collected from annual reports. So, the study suffers from all those limitation that are associated with these reports.
7. Marker index of commercial bank are taken only three months i.e. 2064 Magh to Chaitra.

1.8 ORGANIZATION OF THE STUDY

The study is divided in the following five chapters as prescribed by the university:

Chapter I : Introduction
Chapter one focuses on general background of the study. It includes objective of the study, research problem, origin of bank, limitation of the study etc. This chapter signifies the rational of this study

Chapter II : Review of literature
Second chapter deals with the literature review which is devoted to theoretical foundation of stock market and related empirical works. Therefore it includes review of books, thesis, journals and articles and other relevant materials on the subject matter of the study.

Chapter III : Researches methodology
Chapter three is devoted to methodological approach employed in this study. This chapter will cover research methodology, source of data, population and sample, data collection procedure, financial and statistical tools.

Chapter IV : Presentation and analysis of data
Chapter four deals with the technique used in analyzing the collected data and its presentation in the descriptive and analytical manner.

Chapter V : Summary, Conclusion and Recommendations
The last chapter will includes the summary of the study within the topic, conclusion of the study and suitable and concrete measure will be suggested in the form of recommendation.

CHAPTER-2
REVIEW OF LITERATURE

The concerned study primarily focuses on the relationship between stock price and financial performance and between stock and non-financial factors. Here, the predominant emphasis is on the price pf the stock of a company and its fluctuation with the impact of financial and non financial factors. But, for simplicity, this chapter is divided into: Theoretical Framework of the study, the Literature Review from foreign previous studies, Nepalese previous thesis studies relating to Nepalese Stock market, Conclusion of Literature Review, and Research Gap Analysis.

2.1 THEORETICAL FRAMEWORK

2.1.1 Common stock

Common stock represents ownership interest in the corporation. The ownership capital generally referred equality, when issued to the public for subscription in the form of divisible units of equal value is termed as common stock. Unlike, dept, once a corporation issues common stock, generally it has no obligation to redeem the stock by purchasing it from the investor. Usually common stock is issued with the perpetual life. These stocks are subjects to issue and trading in primary market where it is generally issues with its face value and once the stocks is listed in the stock exchange, the trading starts to take place and this particular market is called secondary market.

Stock is the ownership interest of a corporation. Each share of stock is a fraction of the rights and privileges that belongs to the owners of a business. A stock certificate is evidence of that fractional ownership; it is tangible evidence, a certificate of title to part of the company. (Henderson, Trennepohl and Wert, 1984, p.98).

Common stockholders of the corporation are its residual owners, their claim to income and assets come after creditors and preferred stockholders have been paid to full. As a result, a stockholder's return on investment is less certain than the return to a lender or to a preferred stockholder. On the other hand, the return to a common stockholder is not bounded on the upside as are returns to the others. A share of common stock can be authorized either with or without par value. The par value of a stock is merely a stated figure in the corporate character and is of little economic significance. A company should not issue stock at price less than par value, because stockholders who bought stock less than par value would be liable to creditors for the difference between the below par price they paid and the par value. (Van Horne, 1997, p.124).

2.1.2 Common stock values

Par value:

The face value when the stock initially issued at a price as mentioned in article and memorandum of the company is called par value. The par value doesn't change until there is a stock or other such initiative by the board of directors. In Nepal, the Par value of new issue is usually Rs.100, as directed by Company Act 1993.

Book value:
It represents the asset value per share after entire obligation of the corporation is met. It is calculated by dividing the total common equity on the balance sheet by the number of common shares outstanding.

Market value:
This is the value, which is determined by the demand and supply factors and reflects the negotiation between investor and seller for the transaction. The market value is influenced by many factors like economic and industry conditions, expected earnings and dividend, and other signaling effects.

2.1.3 Classification of common stock:

Blue Chip Stock: Stocks of very large, well established and of corporation have been dominant positions; strong balance sheets and size are called blue-chip stocks, e.g. stocks of IBM, Microsoft, American Express Company, Citicorp, etc.

Growth Stocks: Stocks which price grows with the growth of corporation's earning and dividends with a comparatively higher growth than the average price appreciation.

Income Stocks: Stocks having stable cash dividends record are often called as income stocks.

Cyclic and Defensive Stocks: Stocks which are influenced by economic and industrial cycles are called cyclic stocks, where as stocks, which are less susceptible to economic cycles, are called defensive stocks.

Speculative Stocks: Stocks, which are viewed by investors with some speculative motives, are called speculative stocks.
Small Stocks: Stocks depending in the capitalization norms are generally known as small or even blue chip stocks.

Treasury Stocks: If a corporation decides to buy back its own stock, the acquired stocks are called treasury stocks.

In Nepal, growth stocks, income stocks, and speculative stocks are generally seen in practice and are common in the security market.

2.1.4 Characteristics of common stocks

The characteristics of common stock are well studied in relation to the rights and privileges enjoyed by the common shareholders as owners.

Control: The common stockholders have voting rights to elect the Board of Directors, which in turn, elects the management committee. The stockholders also have voting rights on issues which have substantial effect on corporations, on issues which brings about change in their ownership percentage, any contract or financial arrangement.

Preemptive Right: In this right, the stockholders are the first party to purchase any new issued shares so that they would not lose voting right, control and there is protection in the value of the shares being diluted. This right is substantiated by the use of the rights offerings.

Right to Income and Distribution of the Others Share: As a matter of fact, shareholders have no right to receive income distribution from the corporation. As practice prevails, BOD declares cash dividends if enough financial resources are available. The dividends can be cash dividends, stock dividends, property dividends etc.

2.1.5 Investment analysis of common stock in brief

There are many mathematical models developed, which are used for the valuation of common stocks. In reality, there are many other non-financial factors (Presented in Analysis Part), which determine the value/price of the stock. Hence, in the real complex and intricate world of security market, these models may not be justifiable; however, it can provide a useful framework for the analysis.

Mathematical valuation model gives a quantitative procedure which implies precision and accuracy but what the real world says that the valuation of common stock is an art rather than only being mathematical analysis and forecasting. Models are just tools for making decisions but not as a decision making in them.

What theory says is that the value of a common stock is determined by two prime factors, i.e. the future earnings the common stock can provide and the riskiness of the income stream. Hence, the evaluation of common stock can be taken as function of income and the risk associated with the income as shown below:
V_n = f (income, risk)
Where, V_n = intrinsic value of the common stock in period n. lets suppose an investor would estimate the price in one year, henceforth then V_n is the likely price at which the stock will be sold.

Basically, there are three models of stocks valuation, which are based on different assumption of dividend growth and is relationship to the discount rate used to calculate present values. We name these models as dividend discount model (DDM).

1.Zero growth DDM

$V_o = D/K$
Where,
V_o = Intrinsic value of stock or value at period t = 0.
D_t = DPS in period t.
K = Investor's required rate of return consisting of risk free rate of return and risk premium.

We can write the module considering the dividend as perpetuity: $V_o = D/K$

2. Constant growth of DDM

$$Vo = \frac{Do\ (1+g)}{K-g}$$

The above models holds true under the assumption hat the growth rate is less than the investor's required rate of return (g<K).

3. Super Normal Growth DDM

$$Vo = \frac{Do\{(1+++g2)+A+B(G1-G2)\}}{K-g2}$$

Assumption:
G1>K
G2<K

2.1.6 Investment decision

After the completion of analysis, it is now time to make decision. The general mode of decision making is to compare the estimated expected return and estimated required holding period return.

$$\text{Expected return; E (HPR1)} = \frac{V_1-P_0+D_1}{P_0}$$

Where,

E (HPR1) = Expected holding period return over 1 year.
V_1 = Value at the end of one year.
P_0 = Price at the beginning of the year.
D_1 = Dividend paid at the end of one year.

Now, the estimated required return as suggested by CAPM
$E(R_i) = R_1 + B_i[E(R_m) - R_f]$
Where,

$E(R_i)$ = Expected required holding period return
R_f = Risk free return
B_i = Beta for the stock
$E(R_m)$ - = Expected Market Return

Now the analyst should compare E(HPR) and $E(R_j)$ and if $E(HPR > E(R_j)$, the analyst should invest for long term and if $E(HPR_0 < E(R_j)$ should invest for short span.

2.1.7 Financial Performance Analyses

Financial analysis is the process of identifying the financial strengths & weakness of the firm by properly establishing relationships between the items of the balance sheet & the profit and loss account. Financial analysis can be undertaken by management of the firm, or by parties outside the firm viz. owners, creditors, investors, and other. Investors, who have invested their money in the firm's share, are most concerned about the firms' earnings. They restore more confidence in those firms that show steady growth in earnings. As such, they concentrate on the analysis of the firm's present and future profitability. They are also interested in the firm's financial structure to the extent it influences the firm's earnings ability and risk. (Pandey, 1997, p.36)

Net Profit After Tax (NPAT)

It is also called EAT (earning after tax) which is the earning after the obligation of corporate taxes are met.

Earning Per Share (EPS)

EPS are the per share profits after taxes and after preferred stock dividends that are available to stockholders. It can be calculated quarterly or for full year. EPS shows earning made by each share or the after tax and preferred dividend return on each share. The higher the EPS, the better it is an subsequently higher the stock price is expected.

$$EPS = \frac{\text{Profit after taxes} - \text{Preferred stocks dividend}}{\text{Number of share of common stock outstanding}}$$

Dividend Per Share (DPS)

The above mentioned (EAT-Preferred Dividend) which is the earning available to the stock holder may be either retained fully i.e., ploughed back for further expansion or growth purposes in the form of bonus shares or may be partly retained and the rest may be distributed to the stockholders in the form of cash, as enough financial resource is available to the corporation, which is called dividend. This earning available to each share is called dividend per share. Usually, all the stockholders invest their funds in expectation of this income stream. The dividend may be in the form of cash dividend, stock dividend, (1-b) / no of outstanding share

Where, b= retention ratio

Capital gain

As seen in the stock market the price of the shares of the corporation excellently are rising in the speedy rate. Lets suppose the market price of ABC bank today is Rs 400 and after the year the market price becomes Rs 500-Rs 400 = Rs100 is the gain due to the valuation of the stock of the security market , which Capital gain is =(p1-p0) /p0x100

Here, p1=Rs500 p0 =Rs400

Return on investment (ROI)

The term investment may refer to the net asset. The conventional approach of calculating ROI is to divide PAT/2 by investment. Investment represents pool of funds supplied by shareholder; therefore, it is conceptually un sound to use PAT in the calculation of ROI.

Also as discussed PAT is affected by capital structure. It is therefore more appropriate to use following measurement:-

ROI=ROA= (Operating profit / total assets) x 100

Return on equity (ROE)

Common share holders are entitled to the residual profit. The rate of dividend is not fixed. Nevertheless, the net profit after tax represents their return. A return on share holder's equity calculated to see the profitability of the stockholders investment.

ROE= (profit after tax / Net worth) x100

ROE indicates how well the firm has used the resources of stockholders. In fact, the ratio is one of the most important ratios for common stock pricing.

Price Earning Ratio (P/E Ratio)

The reciprocal of the earning yield is called P/E Ratio.

P/E =Market value per share/ earning per share

The price earning ratio is widely used by the security analysis to value, the firm's Performance as expected by investors. Therefore, P/E Ratio can be a yard stick Measurement of stock pricing.

Earning Yield

Earning yield shows the return to stock holders as a percentage of current market value per share, earning yield gives a good reflection of the current profit on stock investment.

Earning Yield= (earning per share / market value per share) x100

Dividend Yield

Since the company is not legal liable to pay a specified dividend to common stock holders. It may vary from company to company and year to year with in a company. The return what the stock holders get on their stock is indeed, the dividend yield.

Dividend yield = (dividend per share /market value per share) x100

2.2 REVIEW FROM FOREIGN PREVIOUS STUDIES

Lois Bachelor first tested the random walk model in 1900. He tested the model in the commodity prices and that those prices followed a random walk. He presented the evidence that the commodity speculation in France was a 'fair game' model. He also concluded that the current price of the commodity was an unbiased estimate of its future price. Unfortunately his insights were so far ahead that was largely unnoticed for a long period until his paper was rediscovered and eventually translated into England and was printed in 1964. In 1927, Slutsky proved that the randomly generated price changes look like stock price change and they appear to exhibit cycles and other patterns. Alfred cowls in 1933 found little evidence that stock market analysis could predict future price. Halbrook working extensively analyzed commodity prices and noted that speculative price patterns might be shown to be random comparing with artificially generated series of price. According to him, it has several times been noted that time series commodity posses in many respects the characteristic of cumulated random numbers. The separate items in such times are by no mean random in character, but changes between successive items tend be largely random.

Alfred cowls and Herbert E. Jones in 1937 reported that stock prices moved with predictable trends. They gave a controversy to the random walk model as a valid share price behavior model in USA. This finding remained a challenge against the random walk hypothesis more than two decades. After the working in 1960 had pointed out an error in their analysis and they withdrew their previous conclusion in 1960.actually the error occurred because, where each units of time series even where the original series is an averaging will be to introduce positive first-order correlation in the first differences of such a series even where the original series a random series. In the study of serial correlation in price series it is important to bar the mind that the use of the average can introduce correlations not present in the original series.

In 1953, Kendal examined the behavior of weekly changes in 19 indices of British industrial share prices and in spot prices for cotton (New York) and wheat (Chicago).He found no relationship between share price changes in the current week and previous week. After extensive analysis of serial correlation, he suggested that the series look like a wandering one, almost as if once a week the demon chance of drew a random number from a population of fixed dispersion and added it to the current price to determine the next week price.

H.V. Roberts carried his next study in 1959. He concluded simulation tests by comparing the cumulating of random numbers and Dow Jones Industrial Average Index (DIZAI) for about a year starting 30 Dec 1956. He further observed that the first difference of these tow series produce the same pattern. His work was significant in that he gave a number of methodical suggestions for testing what he calls the chance model. In particular, he suggested run analysis for testing independence of price changes. Another study conducted by Osborne, one of the distinguished physicists, ignorant about the stock prices to see whether they conformed to certain law governing the motion of physical objects. He found the movement of stock prices similar to that of the movement of small particles suspended in a chemical solution so called "Brownian Motion". Although, Osborne attempted to give the empirical justification for his theory, most of his data were cross sectional and could not be provide an adequate test. Tough, his point of view is differents, the findings are consistent with Robert's work (1959).

Alexander (1961) tested the filter rule technique on the closing prices of two indices, the Dow Jones Industrials from 1897-1959 and standard &Poor's Industrials from 1929-1959 and reported that in general , filters of all different sizes and all different periods yield substantial profits, significantly greater than that of simple buy and policy . Finally he concluded that the independence assumption is not validated as a description of reality by his data. But later in 1964, he corrected the shortcomings on his previous study were the failure to realize that dividends were cost rather than benefit. Alexander found that his filter rules produce very large rate of return, particularly for small filters .However when transaction cost are considered the abnormal returns disappear for all filter rules.

In another studies carried out by Granger and Moorgenstern (1962) applied special methods of analysis to the weekly , monthly and volume series from New York stock Market which involved of Dow-Joned, standard and poor and various indices as well as price series of individual stocks . The result coffined the random walk hypothesis for weekly and monthly price data from the New York Stock Market. Again, Godfrey, Granger and Morgenstern tested the same method broadly and found that random walk model a reasonable one.

In 1962, A.B. Moore examined changes of 29 randomly selected stocks for 1951-58 and found that average serial correlation co-efficient of -0.06. This value is extremely low, indication that data on weekly changes are valueless in predicting future changes. This interpretation of his test is that a low co-efficient estimate suggests that previous price change do not provide any reliable information in estimating any future price changes. Cootner (1964) tested the randomness of the series by using serial correlation on the logarithum of daily price changes of 45 companies stock from New York Exchange. In this study he found low correlation coefficient of -0.046, which are insufficient to predict the future price changes.

In 1965, Samuelson though lacked theoretical discussion in his paper, but his findings support the independence hypothesis of random walk theory in stock price. He concluded that if market has zero transaction costs of all available information are free to all interested parties and if all participants either potential and existing have the same time horizon and expectation about the prices, the market will be efficient and prices will fluctuate randomly.

In 1965, Fama analysed the movement of stock market price changes of all the stocks that make up the Dow Jones Industrial index for the period end 1952-1962 and investigated the daily proportional price changes of those 30 industrial stocks and auto correlation were estimated for a variety of lags ranges from 1 to 10 days. In his study, he found that the auto correlation coefficients for daily average being 0.03, near to 0. Out of thirty, eleven auto correlation co-efficient was significantly different from zero and lagged prices changes show degree of dependence. He further analysed the data by run tests by total number of runs by sign and distribution of runs by length. He found slight tendency for this to occur, but again the results were sufficient to accept the random walk hypothesis.

King in 1966 investigated on the monthly price change from 1927 to 1960 of 63 socks and authenticated the random walk model. The estimated average serial correlation coefficient was +0.018, which is close to zero.

In 1966, Fama and Blume used the filter technique to overcome the shortcomings of Alexander's mechanical rules. They tested the probability of 24 filters ranging from 0.5 percent to 50 percent to buy and hold return of each of the stock of the Dow Jones. Ignoring the transaction costs, only two out of thirty were superior to buy and hold policy, when commissions were taken into consideration only four out of thirty have positive returns and not comparable with buy and hold return. Therefore, according to

their demonstration, it seems that filter technique can not provide returns larger than those under naive buy and hold policy.

Brealy (1970) examined the various stocks using similar methodology to that used by Fama in 1965 also supported the random walk model and concluded that successive price changes in the stock market are independent .

Dryden (1970) concluded that the share price movements were non random. However in his later study, he used serial correlation and runs analysis to examine the daily closing prices of 14 individuals stocks UK Market and supported the independence hypothesis of successive price changes. Similarly, Kemp and Remp's study (1971) was also against the random walk theory. They derived the conclusion that share price movements were conspicuously non random over the period considered.

In 1971, Narchos studied price series of 15 individual stocks from Athens stock Exchange for the period from 1957-1968. He found the serial correlation coefficient for individual stock as 0.006, close to zero. So he concluded that the price fluctuations were random walk and past price has no meaningful information to predict future prices.

Sweeny (1988), developed a filter rule that was able to earn modest profits. He replicated Fama and Blume's resulted in the short position usually generated the trading losses. In contrast, Sweeny found that the long position were often profitable. So, he used an X % filter rule. If the price of security rises at least X% buy and hold the security until its price drops at least X% from a subsequent high. Then, liquid the long position and invest the proceeds in risk free short-term bonds until price reaches its next through and then rises X% .

Sweeny also found that filter rule trading tended to be fairly and consistently profitable in some stocks while being fairly consistently unprofitable year after year in other stocks. This filter rules could mechanically trade some stocks and earn a statistically significant rate of profit after deducting tiny trading costs incurred. However this filter rule seems to be unprofitable if the higher commission rates that most investors pay were deducted.

Fama, Fisher, Jension and Roll examined the effect of stock splits on security prices. A number of prior studies had suggested that stock splits increase the value of the firm. This was disturbing to many because stock splits simply involve changing the percentage ownership of any shareholder or the asset or earning of the company. Fama and other scholars argued that stock splits might be associated with other more fundamental changed and the effects that researchers were attributing to stock splits might be better attributed to these other phenomenon.

2.3 REVIEW FROM JOURNAL AND ARTICAL

There are many loopholes in our stock-exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod Pharmaceutical Company that floated in shares but where are they now? Similarly, it has been more than a year that Bansbari leather age ha allotted its shares but why didn't the company lists its shares in the stock market? It has been three years that Gorakhkali Rubber Udhyog hasn't called for its AGM Government has remained silent in all these cases. This is why the general public as well as the institutional buyers are not felling secure in investing in stock market. (Business age, Jan 200; 25)

Investment in share has traditional been done by rating the institutions on the basis of price earning ratio or dividend. Hardly do investors compare current assets with current liabilities or take a look at the debt equality ratio. Unless investors are analyzing the intricate financial details of corporate institutions before making investment decision the market can not develop smoothly.

Share invest has traditionally been guided by the investor's returns. Most earnings of investors here have been in the forms of dividends rather than capital gains, through high dividend are often seen in corporate finance theory as a wasteful use of scares capital. With the commercial bank becoming the only potential investment destination, with other stock market particulars hardly making profit and even if they did failing to meet investor's expectations, demand for shares of commercial banks outpaced supply and their boomed.

Now the latest sums in secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on whim. Even officials at stock exchange and the securities board, refuting investors, allegations of the market manipulation and insiders trading of last February discreetly claimed that the Nepalese stock market is in a has cent stage and that investment are made more in an impulse rather that through market study and credit rating. (Business age, June 2001; 25)

"Return from investment in stock is not short run phenomenon". Investors have to learn few things before they make investment on stock. First of all they should know the financial health of that company. For example, if somebody want to invest in investment of bank's shares, he/she mist see its balance sheet or at least paid-up capital, last year net profit, current years anticipated profit and calculate earning per share and price earning ratio. These two numbers would give a fair idea about company's health an then market price would judged through the discount factors based upon one of the sound company's data. Market price is equal to earning per share divided by discount factor. EPS can derive by dividing total net profit after tax by total number of share and price earning ratio by dividing market price with capital gain and other. (Business age, July 2001; 20)

The essence of the massage is that investors should be careful at this time while investing in the secondary market. For example, buy shares of Standard Chartered bank Ltd, When they come down to Rs. 1500, because the dividend yield then will be

more than 7 percent. Investors should be considered also while investing in the primary market. Do not get excited to make heavy investment on primary issue because the allocation would be and you may have to wait for six months before the scrip you invest on will be open for trading on the secondary market. Even it will not offer the price sufficient to compensate for the wait. (Business age, February 2002; 56)

Various factors such as fall in gold price and attraction of investment aboard provided decision slightly igniting their coyness in the stock market. The political instability marked by continuous rejection of Thapa Government by major parties, inability to gat the peace talks renewed, end of one fiscal year's activities and investment unfriendly atmosphere also contributed to the dismal show in NEPSE, say observers. The budget presentation patterns, fractured for the last year due to absence of House of Representatives, the highest body elected by the people, could also be responsible in bringing about uncertainty in the stock market. (Business age, July 2003; 23)

The private sector had many points to rejoice in the budget and it felt encouraged by this government to get forward in investment. The scheduling of peace talks in Nepalgunj for translating the current ceasefire into permanent feature also helps the environment to be investment-friendly. The monetary policy announced by Nepal Rastra bank promptly after the Governmental proposal for income and expenditure for the year provided some assurance in its own way. The agitation of political parties, although continuing and highly opposed to the Government, does not seem to be highly effective in deterring investors' confidence in mobilization of capital. All these factors combined should have prompted NEPSE to go up. (Business age, August 2003; 19)

The political situation in the country got complicated recently with the disruption of peace talks, resumption of violence and climaxing of the five party political agitation sending disappointing signals to the whole economy. The Government's banning of protest of any kind in Kathmandu and the five parties decision to lunch civil disobedience challenging it made investors disturbed but they showed no direct edginess, said an observer of NEPSE index behavior. To avoid flood of people scheduled to gather in Kathmandu in connection with the protest, Prime Minister introduced tough antidemocratic measure. But it could not stimulate the economy. It somehow helped the stock market to gain as compared to last week of August. The investors appear to have moved cautiously and positively in the NEPSE floor. (Business age September 200; 35)

Investment in the capital market now has become very uncertain sending the investors in search of avenues of more certain retains. The equity investment is considered riskier than investment in bond and preferred stock around etc. the secondary market is not performing well. The NEPSE index is moving around 208 and 215 since long. After great sump in Nepal stock market in Fiscal Year 2000/2001, dissatisfaction has increased in the mind of investors. The NEPSE index on 3rd November 2000 had

reached the peak of 545.82 and after that is continuously on the decline. (Business age, March 2004; 42)

Nepal stock exchange's securities prices (NEPSE index) during the month of June remained fluctuating. It remained bullish till June 10 reaching 213.75 and than it turned bearish continuously searching the level of 211.31 on June 15. the rise was started with the appointed of new government and the main leader was commercial bank group market dominating sector in the exchange understandably enough, the increase in the price was fueled by the expectation for early end of conflict between government and political parties after the appointment of Deuba as a Prime Minister. But the publication of the quarter financial result (where showed the operating profit increasing more than 50 percent over the competition amount the banks) was no way less important factor for such positive impact on commercial bank sector as been in June 2004.

NEPSE index fell after reaching 216.75 on June 10 and plummeted to 211.31 over a short span on three days. This fall was however caused by noticed published by some companies inviting applications for their new issue (Paschimanchal Development Bank and Kist merchant Banking and finance LTD both on 10 call of NBL for application on purchase its holding on SCBNL, Issuance of right share by the NB finance LTD). As well as the possible strike of the NEPSE employees and wrangle among the political parties that delayed the formation of coalition of government.

Since June 16, the index turned bullish again till the end of the month. Despite the strike of employees of NEPSE, the market increased on June 16, one day before the strike and continued to increase, during and after the strike till the end of the month. There were no any major event to cause the price of share goes up. However, the expectation of less disturbance after the four parties suspended the outgoing demonstration and the moist student union called off the education strike, the country budget and positive development reported for the formation of coalition government etc. increased the expectation of investrors.

The NEPSE index since sensitive to political, economical and financial sectors development it has raised after the discloser of financial situation by the companies and when there were positive sign of political stability and it decreased for some companies shares. It show that the investors becoming aware about when to buy and sell the securities.(Business age2004 July;53)

The stock market is showing a bullish trend ever since February 1, 2005, why? Some analysts argue that the Nepali stock exchange is following the global trend. Globally, the stock markets are in the bullish trend. For example, in India, the sensex recently crossed the 10000 marks, recording the new high. The index one year ago was in the range of 6000. Similarly, Dow Jones Industrial Average in the USA has crossed 11000 from 9000 year ago.

But that seems to be too simplistic an analysis. The Indian economy is reaching a double digit growth rate and the market there is connected with the global phenomenon with a lot of direct foreign investment coming in, both in real sectors as well as in the stock market. But till date, we can not say that the Nepali stock market is able to sense the global effect. This market can not even sense the domestic environment.

The NEPSE index increased by 25 percent during one year of the king's direct administration. The index reached 309.04 on February 1, 2006 increased by 61.63 points from the level of 247.41 on February 1, 2005. But this is not a result of the king's move. The market had started to increase much earlier than February 1. There were a number of other factors that helped to push the NEPSE.

First, more than 90 percent of the market is dominated by banks, finance, companies and Insurance companies and the financial performance of these companies is continuously improving. Second, the stock market is totally concentrated in Kathmandu valley and the people fell safer in this area. So, the people here fell safer to invest in the stock market. Third, the Nepali stock market has no impact from the situation out of the valley. If there is some such effect, the people who had their investment in the assets outside the valley have diverted it to the stock market in the valley. Fourth, the buying and selling pressure in the market is totally dependent on the valley's limited investors. Fifth, there is the diversion of the investment from gold to the stock market. Lastly, as the opportunities to invest in other sectors are limiting, the people are increasingly investing in the stock market. (New Business Age, February 2006)

The NEPSE index rose to 492.46 on November 29th. Gaining 84.08 points with in a month. It was only 408.38 at the end of October. A similar bullish trend was observed in the stock exchange after the reinstatement of the parliament on April 24th and the revision of monetary policy in July.

However, the latest bullish trend was not sustained for long. The market turned bearish from early December, losing 15 points in few days. This is attributed to the news that the price actions on the market were not based on strong fundamentals.

The arrangement sigh between the seven party alliance and Maoist on November 18th sent the NEPSE index jumping by over 11 points on following day. A similar phenomenon was observed after the peace accord was signed on November 21, which caused the NEPSE index to increase, by 45.98 points with in the following week.

This phenomenon is attributed to the new confidence of receive in better returns in the future from investments in the market. The regular market speculators were trying to cash in on the political agreement by spreading rumors of better economy in the future.

Similarly, speculators spread propaganda about NB Bank's future prospects after its management was taken over by Nepal Rastra Bank (NRB). NB Bank's share gained over Rs.100 reaching Rs.335 after NRB took over NBB's management. This was quit unjustified on the basis of Bank's fundamentals. The book value of the bank at the end of Fiscal Year 2007/08 was only Rs. 65 per share. Just before NRB's takeover depositors had withdrawn over Rs. 3.5 billion from the Bank drastically reducing its business capacity. (Business age, December 2006; 60)
One should analyze and develop various alternatives to anticipate the best returns before making a decision. That however is not enough. Investors have to use their own common sense to make a right decision. Considering the risks, investors also need to be gutsy while investing in stock. Starting the journey somehow and learning the tricks alone the way. It is commonly known that profit and loss is part of the game. There may be some monetary loss in beginning, but investors should not worry as they learn lesson in this way, which can prove to be an asset in the long seem. Start by playing safe and alone the journey, be patient and try to develop a proper understanding of market language, investor's psychology and market behavior. (Business age, February 2007; 32)

The NEPSE index was bullish this month experience a revival after an abysmal performance in the past months. The index ended up gaining a swashbuckling 62.66 points when compared to the last month's opening at 512.38 and closing 575.04. The Sensex though increased less proportionately by 17.4 points opening at 128.18 and closing at 145.58. Shares trading also increased in comparison to the previous month. The Boss, Jul-Aug; 2007)

Nepali shares closed at 813.77 points on the last day of the trading from the opening of 796.34 points on Sunday. On the first day of the trading, the sole secondary market index set a record by crossing 800 points mark for the first time in its 14 years long history and posted 811.98 points.

On the second day of the trading, NEPSE index registered 828.77 points and it witnessed an investment of 12.12 points on the third day as the index posted 833.56 points. However, the NEPSE index could not continue its growth throughout the week as it posted 821.44 points on the fourth day. Finally the NEPSE index closed only 1.79 points higher on the last day of the trading from Sunday's closing, as one of the current market driver hydropower group registered a loss of 43.62 points.

Buyers were continuous on the unnatural growth of share prices of the institutions that have negative net worth and PE ratio. Unnatural growth also forced NEPSE to issue precautionary notice to the investors. (The Himalayan Times. 16 September, 2007)

After continued rises, the stock market fell by 12.13 points over the week, as investors were skeptical over the sustainability of overheated market. NEPSE opened at 718.09 points and closed at 705.96. the commercial banks group, which drives the market, saw a sharp fall. Its index fell to 782.55 points, down from 801.53 points. Market analysts termed the fall as the market correction. The shares prices were rising

unjustifiably in the past, and they were bounded to retreat. They said that the market had rising significantly over the months and the market correction would simply return the price to the previous level. (The Kathmandu Post, 19 August; 2007)

India shares claimed Thursday tracking regional markets and helped by gains in banking automobile shares. The Bombay Stock Exchange's 30-shares sensex index moved up 170 points, or 1.1 percent to close at 15616 points on the boarder National Stock Exchange, the 50-company S&P Nifty n\index moved up 42 points, or 1 percent, to end at 4518 points. (The Kathmandu Post, 7 September, 2007)

The trend that market analysts have termed as a "mad growth" continued as the share price kept soaring this week with the NEPSE reporting a growth of 40.29 point over the week. The NEPSE opened at 756.05 points and closed at 796.34. market analysts said investors are locking in money, envying profits made by others, instead of analyzing any fundamentals. There is no change in the corporate and economy scenario to push the price up like this, but the price are moving up. This trend shows that the market will see a downturn sooner or later, they added. (The Kathmandu Post, 9 September, 2007)

The overheated stock market showed signs of cooling down growing by just 1.79 point this week with the market secondary a steep fall towards the end of the week. The market had grown 40.29 points in the previous week.

Market analysis said as the market has raising too much, it was now starting to correct. The share prices had been raising even though there wasn't any favorable development. The commercial banks group, the leading sector, posted a rise of 3.82 points. In the previous week it had soared by 38.53 points. Its index finished off at 910.37 points this week, from 906.55. (The Kathmandu Post, 16 September, 2007)

2.4 REVIEW FORM NEPALESE PREVIOUS THESIS STUDIES

It is found that numerous studies have been concluded pertaining to the stock market or stock prices behavior. In Nepali context, there are few studies on the stock market prices. Some of them have been reviewed here in brief.

Pardhan (1992) concluded his study by collecting the data of 17 enterprises from 1956 to 1990. the objectives of his study were to assess the stock market behavior in Nepal, to examine the relationship of market equity, market value to book value, price earning and dividend with liquidity, profitability, and leverage assets turnover and interest coverage. The major findings of his study were the higher the earning of the stocks, the larger the ration of dividend per share to market price per share, stocks with larger ration to DPS to MPS have lower leverage rations, positive relationship existed between dividend payout and liquidity, positively relationship between dividend payout and interest coverage and DPS and MPS are positively correlated.

Aryal (1995) has studied behavior of stock market prices with objective to discuss the movements of stock market prices and to develop the empirical probability distribution of successive price change of an individual common stock market as a whole. This study was based on secondary information obtained from Nepal Stock Exchange. This study covers almost 8 months period and the sample was 21 listed stocks. He applied serial correlation and runs test as statistical tools to analyze the data. The dependence nature of price series produces by general market fluctuation statistically implied; today's change is positively depending upon yesterday's price changes. This implied that there is a sufficient lack of financial and market analysts who are sophisticated and superior in analyzing the general market fluctuations, predicating the occurrence of future potential and economic events that their eventual effects on price series.

Shrestha (1999) has conducted research on stock behavior in Nepal with the objectives to examine the efficiency of stock market of Nepal, to examine the serial correlation successive daily price changes of the individual stocks, to determine whether the sequence of price changes are consistent with changes of the series of random number expected under the independent Bernoulli process, to determine the efficiency of the stock market. The finding of the study are when the log days increase, the mean value of serial correlation of coefficient is lower, that indicates that the past price changes may have low price to predict the future price changes in the long run. There exist no profitable trading rules to make greater profit that they would make under the native buy and hold strategy in their speculation through the information of past price changes and Nepal Stock market is not efficient in pricing shares.

Paudel (2001) has undertaken his study on the share price movements of the joint venture commercial bank in Nepal by using financial and statistical tools (standard deviation, correlation, beta, t-test etc.). The major objectives of the study are to examine Nepal Stock Exchange and to judge whether the market shares of different banking indicators (book value per share and major financial ratio) explain the share price movements, analyze the scenario why the shares of selected banks emerge as blue chips to the potential investors and to make a conclusion on the basis of financial rations analysis. The findings of his studies were market price moves randomly, the market value per share does not accommodate all the available historical information. The beta coefficient, which measures the riskiness of individual security in relative term, suggests that the stocks of joint venture commercial banks are less risky as compared to other average stocks traded in the stock exchange.

Mainali (2003) undertook his study on the share price behavior of listed commercial banks with the major objectives as to analyze the share price behavior of the commercial banks listed with NEPSE and to examine the risk involved in the common stock investment of the sampled commercial banks. His findings were that the past and present price changes and there exist a significant differences in the actual and expected numbers of runs for the series of daily closing price changes of the sampled commercial banks and today's price change is dependent upon the information of yesterday's price changes.

Paudel (2003) conducted his study on stock price movement of joint venture commercial banks with the use of financial and statistical tools. The major objectives of his studies were: to examine the movements of stock price in relation to Nepal joint venture commercial banks are either dependent or independent to historical prices of the stock to evaluate the risk and return proportion of investment on stock. The major findings of the study revealed that Nepalese Stock Market is not efficient but it builds hard to categories into the forms of Efficient Market Hypothesis and stock of the sampled banked were under priced and thus are suggested to buy and hold stocks of joint venture commercial banks.

Paudel (2005) examined monthly closing price of 6 listed commercial banks during the periods of three consecutive years from 2002 to 2004 by means of correlation coefficient, Regression analysis, Run test and Autocorrelation. He found in his study that successive price changes were correlated with previous price series. He also found that most of the stocks did not follow random walk hypothesis. The present stock price was dependent to the historical prices. The EPS was the most affecting factor for the price change of the stock. Most of the investors wanted to invest in the shares of commercial banks because the fluctuation in NEPSE index was due to the transaction of commercial bank's shares. There were serious limitations in the study. Data used in this study, monthly closing price of stocks not enough to predict the behavior of shares.

Subedi (2005) conducted his study on stock price behavior in Nepal with the use of financial and statistical tools. He used Standard Deviation, simple regression, multiple regression, coefficient of determination, T-test, Z-test. The major objectives of his studies were:

- To evaluate the effect of earning to stock price in stock market.
- To evaluate the book value to the stock price in stock market
- To evaluate the dividend to stock price in stock market
- To assess the effect and efficient qualitative factors in the opinion of the employees of A grade companies listed in NEPSE during fiscal year 2060/61 that play major role of common stock pricing in NEPSE.

The major findings of his study are as follows:

- Nepalese investors have not adequate education about the capital market. They do not have good knowledge and to analyze the scenario and to forecast share price. Perhaps due to this reason, a stock price in NEPSE shows rather irrational behavior.

- In NEPSE, DPS, BPS and EPS individually do not have consistent relationship with the market price of share, among the listed companies. The pricing behavior varies from one company to another. But EPS, BPS and DPS, jointly, have significant effect in market price of shares. So, there may be other major factors affecting the share price significantly.

- Commercial Banking sector has dominated the overall performance of NEPSE. Manufacturing and processing, trading and hotel sector have week performance. So financial intermediaries are strong but their ultimate investment is suffering.

- There is deficiency of proper laws and polices regarding the capital market. Shareholders are feeling unsecured to invest in security markets due to poor regulatory mechanism to protect shareholders interest.

- Listed companies do not provide sufficient to their shareholders and they are not able to act according to the shareholders desire. The performance of most of the listed companies is not transparent.

- Since NEPSE is in an increasing trend, in spite of unfavorable environment for investment, Nepalese citizens have a huge amount of scattered fund remained idle, which can be used in the industrial development through capital market to accelerate the economic growth of the nation.

Kasaju (2006) carried out the study on performance analysis of top 5 commercial banks in Nepal. The main objective of the study was to analyze the comparative financial status of top five commercial bank of Nepal i.e. Standard Chartered Bank Nepal Ltd., Nabil Bank Ltd., Himalayan Bank Ltd., Everest Bank Ltd., Nepal Investment Bank Ltd. He used arithmetic mean, standard deviation, co-efficient of variations and F-test as performance indicator from the utilization of deposit, EPS, cash dividend, capital adequacy ratio. He concluded only the financial performance of selected five commercial banks.

Shrestha (2062) studied of the financial performance of Nepal Bank Ltd. and Rastriya Banijya Bank. Primary objective of his study was to analyze and to evaluate the financial performance of Nepal Bank Ltd. and Rastriya Banijya Bank and others are to analyze the financial performance indicators, to evaluate the financial performance of each bank. He used trend analysis, Karl Pearson's correlation co-efficient as statistical tools. He concluded that EPS is negative in F/Y 2000/01 to 2008/09 in both the banks. The new management team has improved the financial performance such as the EPS is positive and increased I F/Y 2009/10 to F/Y 2007/08 in both the banks. The interest income to loan and advances is 10.17% and 5.48% in F/Y 2009/10 and 2007/08 in Nepal Bank Ltd. The interest income to loan and advances is 7.92% and 7.78% in F/Y 2009/10 and 2007/08 in RBB. The staff expenses to total operating expenses are decreased in 2009/10 than 2007/08 in both the banks. Interest expenses to total deposit and borrowing are decreased in F/Y 2009/10 than 2007/08 in both banks. Exchange

change gain to total income is also decreased in F/Y 2009/10 than 2007/08 in both banks. The net profit to loan and advances has increased in F/Y 2007/08 of both banks than previous year. He also conclude only there performance of the bank after the management of both banks have been handed over the external management.

Shrestha (2006) has carried out the study on the daily stock price behavior o commercial bank of Nepal. The information of seven commercial bank for the period of 16 July 2005 to 16 July 2006 are used. He has tested mean, standard deviation and coefficient of variation. His study concluded that most of the sampled stocks exhibit large variation in their price. They are not doing well. Commercial sector is more sensitive tan the NEPSE index. Nepalese stock market is inefficient in pricing shares.

Thapa (2006) carried out the study on behavior of Nepal Stock Exchange index. The statistical tools used in this study are percentage, line charts, bar diagram and standard deviation. Standard deviation has been used to analyze the volatility of the behavior of NEPSE index. The specific objectives of the study are as follows.

- To analyze the trend of annul turnover of NEPSE.
- To analyze the listed companies during fiscal year 2002 to 2006.
- To analyze the trend in market capitalization.
- To analyze the behavior of NEPSE index.

Conclusion of his study are as; commercial banks total annual turnover stood at 89.1 percent by the end of Fiscal Year 2007/08 with those shares accounting for 67.25 percent of the total current capitalization during fiscal year. These indicators reveal that the shares of commercial banks have a dominant role in determining the key indicators of the Nepalese stock exchange. It is thus unsurprising that commercial banks have continued to appear as the most investment alternatives since the opening of the floor.

2.5 CONCLUSION FROM REVIEW OF LITERATURE

On the basis of the review from previous studies may be concluded that the stock market prices shown a random movement and the security prices appear to be serially independent. So, the investors cannot develop any profitable trading strategy using the information of past series. Chartist claim that the statistical tests do not prove practically that more complex strategies can not be formulated through the past price data to earn an abnormal rate of return. Similarly, some advocators of technical analysis contended that these tests were too narrow an unsophisticated to pick up the complicated patterns in stock prices.

On the basis of review done from the Nepalese thesis studies we can say that only few research works are done in the field of share market behavior, specially of commercial bank. However are done, they conclude that today's change is positively depending upon yesterday's price change. Past price changes may have low price to predict the future price. The market value per share does not accommodate all the available historical information.

2.6 RESEARCH GAP

Although some very valuable researches in the field of stock market have been done so far, there is still a great deal of opportunity remained for the researchers in this area to explore and identify new facts and figures about the immature stock market of Nepal. Till the date, this fellow has found following outputs in this field explored by the researchers viz. Stock market behavior after dividend declarations, Legal requirements and their effectiveness in developing stock market of Nepal, Earning and dividend co-relation in Nepalese firms, Impact of signaling effects on stocks prices of Nepalese listed firms.

But consulting various literatures, what I found, there were still many things to done in the field of investor's interest. Researchers are still unaware about the type of stock market prevails in Nepal, the co-relation between the financial performances indicators and stock prices and the appropriateness of decisions made on such indicators and etc. Also currently, NEPSE index is increasing rapidly day to day. One year before it was 386.83 on July 2006 but nowadays it is around 800. in such a condition research had not done recently on this topic. I found on research work very close to research I have done which has covered only profitability aspect of the correlation study. It is different from other research that, I have used correlation coefficient analysis and run test as a tool for new commercial banks also. Because of that I thought of conducting research work on the similar topic but with an intensive coverage both in terms of number of banks and time.

CHAPTER-3
RESEARCH METHODOLOGY

3.1 INTRODUCTION

Research methodology, describes the methods and process applied in the entire aspect of the study. Every research should be outline in the systematic manner and for that reason Research Methodology is one of most important parts of the every research. In fact, Research Methodology is a way to systematically solve the research problem. It refers to the various sequential steps to be adopted by a researcher is studying a problem with certain objects in views. (Kothari, 1978 P: 19). The basic objectives of this study is to explain, test and analysis of commercial banks performance. This study is based on secondary data and this chapter describes the methodology employed till the entire study will be conducted.

3.2 RESEARCH DESIGN

This research has attempted two core aspects of the market price determination of common stock. Firstly, correlation between the financial performances and common stock price has been tested market index of commercial bank has been tested: either it is randomly or not, secondary, non financial factors which are known as signaling effects have been identified. Therefore, this study includes both statistical study as well as exploratory study to identify the exact scenario of the stock market. Correlation study is done in case of the quantitative data are sufficiently available. This is done to identify whether there is a sufficient strong correlation between the variables under study prevail or not. Exploratory research is done to identify other factors affecting stock which are beyond the financial performance, and could be the major to be considered while making decision regarding stock investment.

3.3 POPULATION AND SAMPLES

The population for this study comprised all the commercial banks listed to Nepal stock exchange (NEPSE). Till now, 25 commercial banks are listed to NEPSE. All commercial banks which have been regularly submitting the financial statements since last 5 years are taken for the study. In this way, this study covers all commercial banks, meeting the requirement of latest five years undisrupted submission of annual repots in SEBON, as the sample for the study and for the run test, three month (Magh 2064 to Chaitra) NEPSE index of commercial bank sector are taken as sample for the study.

3.4 DATA COLLECTION PROCEDURE

Only secondary data are used in this research. All quantitative analysis and hypothesis testing are based on the financial statements of the selected commercial banks. Those financial statements were extracted from the website of NEPSE (www.nepalstock.com), intensive and structured interviews were conducted with outstanding shareholders, potential investors, financial managers of the banks, NEPSE authority, SEBO authority and marker markers.

3.5 RESEARCH VARIABLES

A relationship between the independent variables (predictors) and dependent variables has been shown in this research work. Independent variables are financial performance and signaling effects. Financial performances for the study have been defined in term of ROA, ROE, EPS, DPS, net worth, etc. signaling effects represent the views, attitudes, opinions etc. of the stakeholders. Market Value per share (MVPS) is the only one dependent variable for this study. Following is the brief description of the variables:

ROA (Return on Assets): Return on assets is the percentage of net profit after tax on total assets of the company. Net profit after is the profit to the company after deducting all expenses including non-operating expenses and taxes. Similarly, total assets are the total of assets side of the balance sheet which includes current assets, operating assets and fictitious assets. The purpose to calculate ROA is to identify how efficiently and effectively the assets of the company are utilize or exploited. The higher the ROA, the better it is considered to be because it is the representative return
symbolically, ROA=NPAT/TA*100
Where, ROA=Return on Assets
NPAT=Net Profit After Tax
TA=Total Assets

ROE (Return on Equity): It is the rate of return earned by the equity shareholders of the company who are also the real owners. Since they are the ultimate stakeholders of the company, the success or failure of the company finally is measured in terms of their return. Even if the ROA of the company comes lower, ROE cam be higher due to
ROE=Earning available to equity shareholders/shareholder's equity*100

EPS (Earning Per Share): It is the rupees return earned by a share of the company. High amount of total profit does not mean a higher EPS all the times, rather it cam be higher if the company has low total profit. If the two companies are having equally net profit after tax or earning after preferred dividend are met, the company which has less number of share will have higher EPS because it is allocated over less number of shares.
EPS=Earning available to equity shareholders/No. of outstanding shares*100

DPS (Dividend Per Share): It is the cash dividend earned by one share of the company. Generally, there is the positive correlation between profitability and DPS of the company. Out of total profit earned, one portion is retained within the company for

the growth, which is called retained earning and the rest is distributed among the shareholders, which is called dividend declared.
DPS=Total amount of dividend declared/No. of outstanding shares*100

BVPS (Book Value Per Share): It is the book value of assets per share after settling all liabilities and preferred stocks of the company. If the company retains hundred percent of its earning, it's BV will be increased equally by the amount of profit it earns. Therefore, to increase the book value, there must be retention of profit in the organization. It is also called net worth of the company.
BVPS=Total net worth/No. of outstanding shares

Signaling Effects: Signaling effects are the changes in the market value per share of the company due to the effect other than the financial performance of the company. These are happened when positive or negative rumors regarding the future price of the shares are spread in the stock market. Generally, when some special events are occurred in an economy which could have significant impacts on the smooth running of the business operations, these effects are even becoming more vital.

3.6 ANALYSIS TOOLS

The data are analyzed on the basis of different statistical, financial and accounting analytical tools. Statistical tools such as measures of central tendency (Mean, Mode) Correlation, Regression analysis are used to identify the average figures, degree of relationship and trend in study of variables under study respectively. collected data are stratified, tabulated and analyze in an appropriate and purposive way. Hypotheses are tested on the basis of pearson's correlation coefficient and run test. Therefore, R,R2, Se, Regression co-efficient, t-statistic, and p-value have been calculated to accept or reject the null hypothesis. Besides these statistical models, other simple financial tools, such as ratio analysis have been applied. Signaling effects have been analyzed in a descriptive way.

To compute the value of R, R2, Se Regression coefficient (a and b), t-statistics and probability value, a computerized SPSS program model has been used, which output are presented in the annex for the detail study.

Simple Regression Analysis:

Simple Regression Analysis is used to estimate the likely value of one variable from the known value of the other variable i.e. in regression analysis we establish a kind of average irreversible functional relationship between the two variables. The cause and effect relationship is clearly indicated through regression analysis, than by correlation. In other words, regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. There are two type of variables in regression analysis-*dependent variable & independent variable*. The variable whose value is influenced or is to be predicted is called dependent variable whereas the variable which influences the value or is used for

prediction is called independent variable. The dependent variable is also known as regressed or explained variable while the independent variable is called as regressor or predictor or explanatory variable.

I. Regression equation of Y on X.

It is the line which gives the best estimates for the values of Y for any specified values of X.

Regression equation of Y on X is given by:

$$Y = a+bX \text{……..(i)}$$

Where,

Y = Dependent variable
X = Independent variable
a = Intercept of the line
b = Slope of the line

The value of the constants a & b can be determined by solving following two normal equations.

$$Y = na + b\ X \text{……(ii)}$$
$$XY = a\ X + b\ X2 \text{……(iii)}$$

Now, substituting the value of a and b in equation (i) , we get required estimated regression equation of Y on X.

II. Regression equation of X on Y.

It is the line which gives the best estimates for the value of X for any specified value of Y. It is given by:

$$X = a + bY \text{……(i)}$$

Where,

X = Dependent variable
Y = Independent variable
a = Intercept of the line
b = Regression coefficient of X on Y

The value of constant a and b determined from the following two normal equations:

$$X = na + b\ Y \text{…….(ii)}$$
$$XY = a\ Y + b\ Y2 \text{……(iii)}$$

Now, substituting the values of a and b in equation (i) , we get the required estimated regression equation of X on Y.

3.7 HYPOTHESIS

To make the research more specific, following hypothesis have been set:

Hypothesis: 1

H0: There is no correlation between the profitability and stock prices.
H1: There is a significant correlation between the profitability and stock prices.

Hypothesis: 2
H0: There is no correlation between the dividends paid and stock prices.
H1: There is a significant correlation between the dividends paid and stock prices.

Hypothesis: 3
H0: There is no correlation between the Net Worth per share (NWS) and stock prices.
H1: There is a significant correlation between Net Worth per share (NWS) and stock prices.

Hypothesis: 4
H0: There is no correlation between the financial performance indicators and stock prices.
H1: There is significant correlation between financial performance indicators and stock price.

Hypothesis: 5
H0: Market index of commercial bank sector is in random manner.
H1: Market index of commercial bank sector is not in random manner.

Various studies have been taken in the field of share price behavior. The significant of this study is to find out whether the financial performance indicators (DPS, EPS, ROE, ROA, Net worth) effect on the market price of commercial bank or not. For this study, signaling effect also to be taken for more specific of the study.

CHAPTER-4
PRESENTATION AND ANALYSIS OF DATA

This thesis was mainly undertaken with a purpose to study and examine the relationship between financial performance and stock pricing in Nepalese commercial banks' stock market. To fulfill this core objective, two kinds of information have been acquired. Firstly, the financial position of selected commercial banks and market index of commercial bank sector and secondly, signaling effects covering the views and attitudes of outstanding shareholders, potential share holders, financial manager of the bank, market markers and regulators. Analysis has been classified in to four main parts to generalize the facts of the information.

FINANCIAL PERFORMANCE OF SELECTED COMMERCIAL BANKS:

Under this, profitability ratio and other financial indicators have been presented in tabular from by industry and also by individual firm and these key indicator have been explained. Firstly, it is tried to compare the correlation of different financial indicators of a firm with the market price of the share of the same firm. In this way, five performance indicators of nine commercial banks are presented and their graphical and tabular presentation is also made. Tabular presentations are done to identify to figure to figure compression with the market price in the passage of time. Graphical presentations, which are done on the percentage growth basis, are done to understand of growth of industrial variables and the trend of MVPS and relative study between the independent variables (ROA, ROE, EPS, DPS, and BVPS) and dependent variable (MVPS).

4.2 STATISTICAL ANALYSIS AND HYPOTHESIS TESTING:

Under this sub-unit, statistical tools including correlation (R), Co-efficient of determination (R2), statement Error (PER), Regression coefficient (a & b), t- statistic and prob. Value (P) and run test have been applied to test the pre-stated hypothesis.

4.3 SIGNALING EFFECTS (NON-FINANCIAL FACTORS AFFECTING STOCK PRICE)

This part deals with the factors affecting stock prices other than the financial performance. It is quiet known that stock price determination is the out come of the interaction of the demand and supply of the stock of the company. On the other hand especially in the country where there is a high chance of information manipulation, demand is again the result of subjective judgment of the investors regarding present and future performance of the company. So I have tried to disclose the variable that is quite influencing in determining the price of the stock in Nepalese stock market. It is tried to disclose the effect of singling effects from the interview of experts and investors, questionnaire method from the investors regarding with investors awareness and their views for invest in stock market.

4.4 FINANCIAL PERFORMANCES OF SELECTED COMMERCIAL BANKS

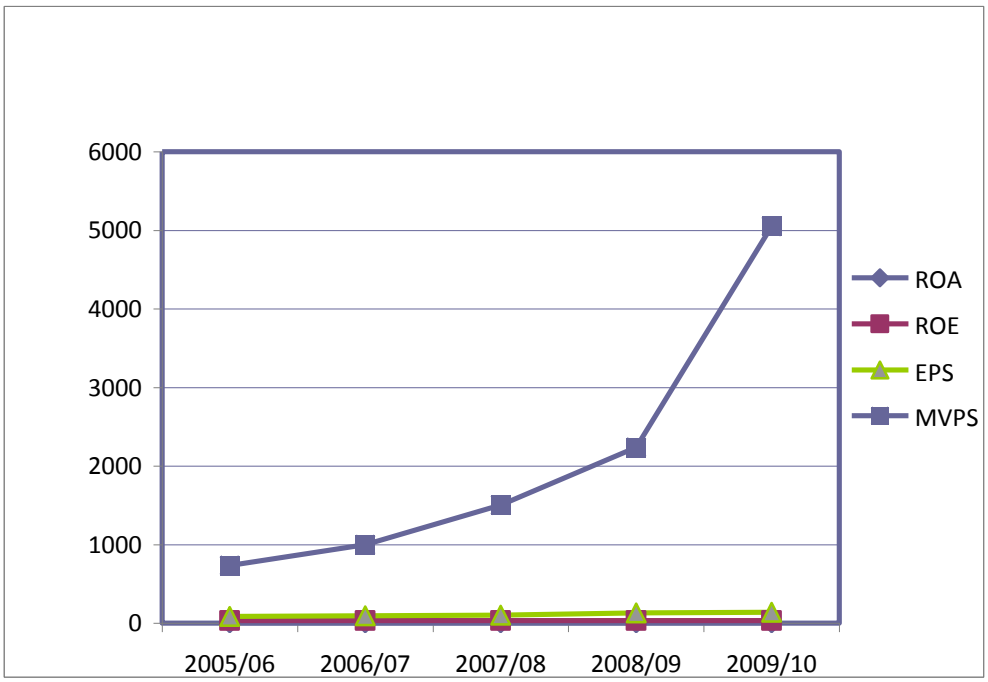
TABLE- 4.4.1

Nabil Bank Ltd.

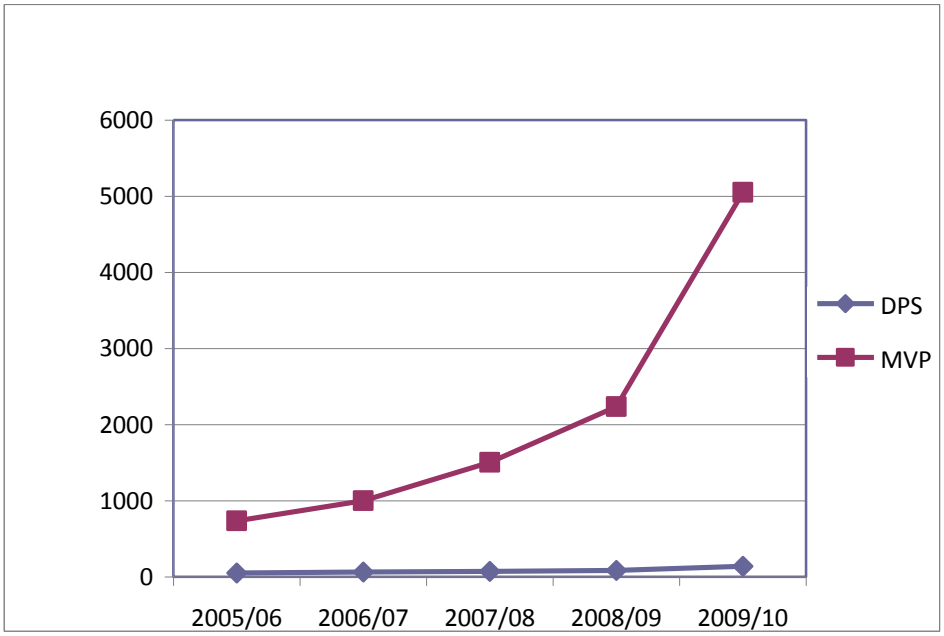
Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	2.51	2.72	2.96	2.85	2.72
ROE	31.67	30.73	30.69	33.88	32.16
EPS	84.66	92.61	103.45	129.21	137.08
DPS	50	65	70	85	140
BVPS	267.3	301.37	337.16	381.36	418
MVPS	734.01	998.66	1502.98	2236.99	5050

Source: Annual Report (2005-2010), SEBO Nepal

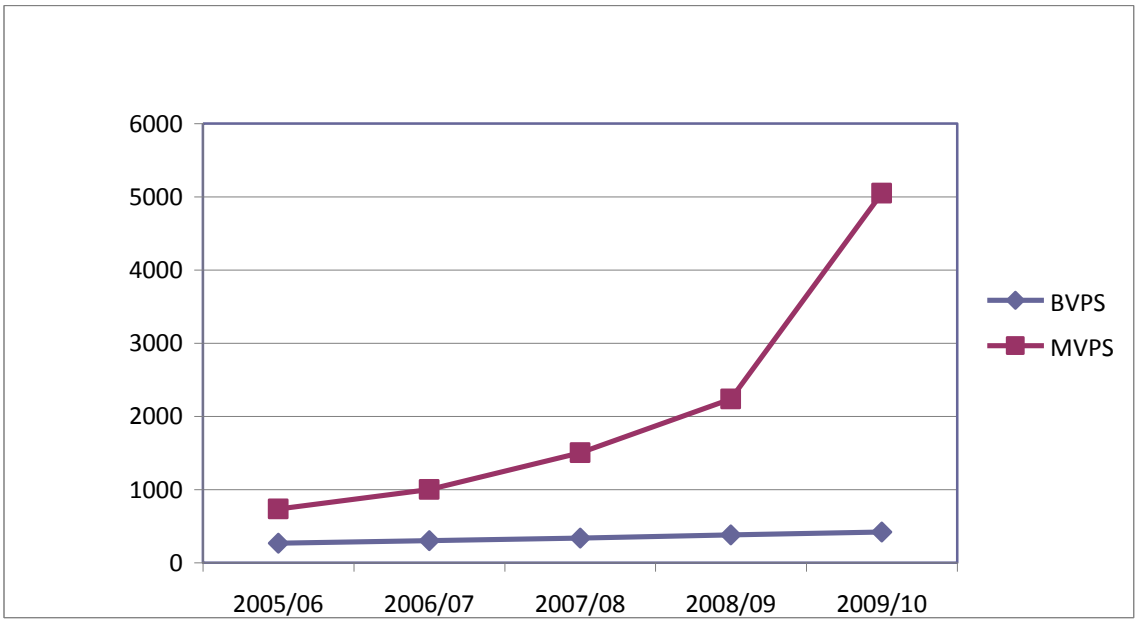
GRAPH 4.4.1 (I)



GRAPH 4.4.1 (II)



GRAPH 4.4.1 (III)



From the table – 4.4.1, we saw that, there is a strong correlation between profitability and MVPS. But there is not positive correlation of ROE in the year 2007/08, where ROE is decreasing but the MVPS growth rapidly.

While looking at the *GRAPHS-4.4.1 (I, II & III)* we can observe that there is a very strong correction between the rate of growth of profitability and MVPS growth rate except in the year 2009/10. The growth rate of MVPS is negatively correlated with the growth of DPS but positively correlated with BVPS.

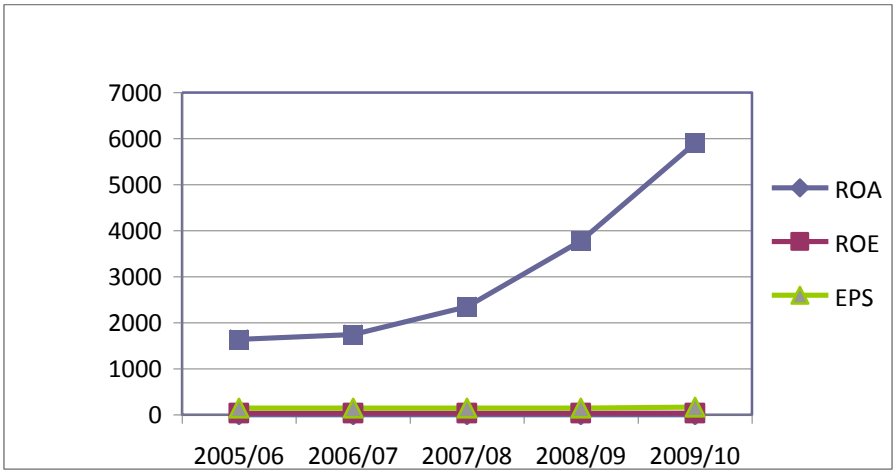
TABLE-4.4.2

Standard Chartered Bank Nepal Limited.

Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	2.41	2.28	2.46	2.56	2.42
ROE	37.03	35.96	34.08	37.56	34.55
EPS	149.3	143.55	143.55	143.55	167.38
DPS	120	110	120	140	130
BVPS	403.16	399.24	422.37	468.22	483.29
MVPS	1640	1745	2345	3775	5900

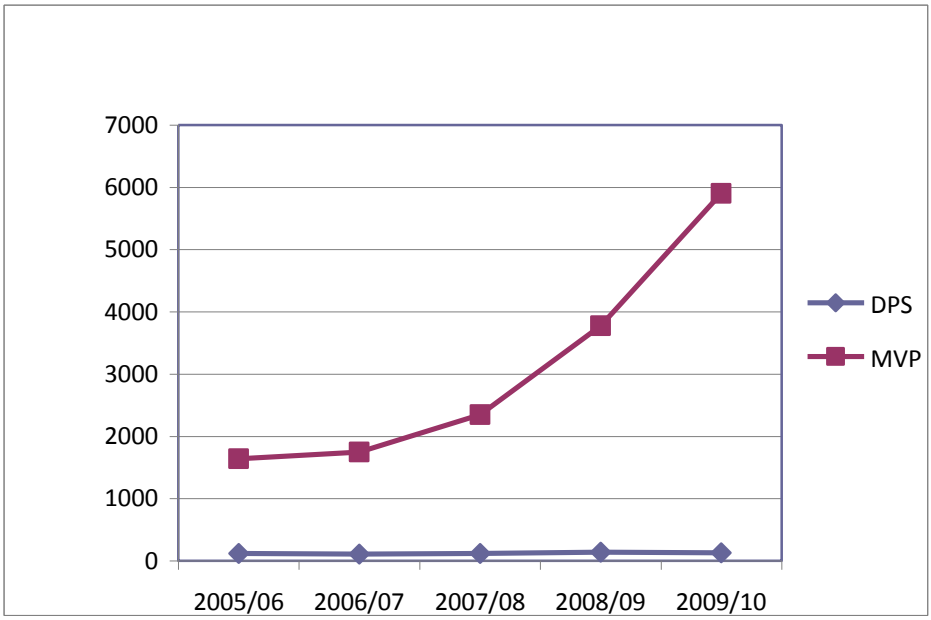
Source: Annual Report (2005-2010), SEBO Nepal

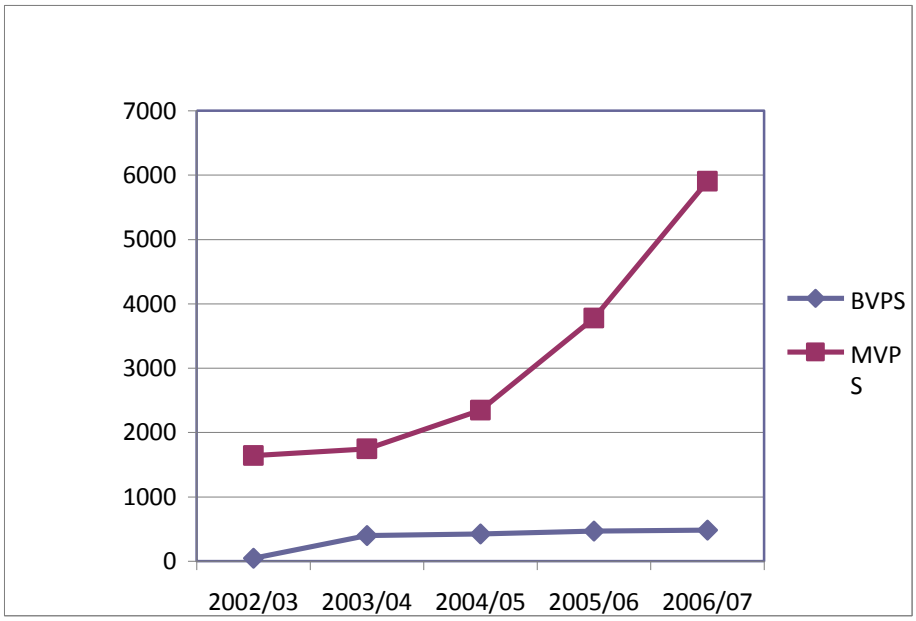
GRAPH-4.4.2 (I)



From the *TABLE-4.4.2*, *we* see that there is almost negative correlation between profitability ratios and MVPS. In case of DPS, there is increasing trend of DPS except in the year 2009/10 but, controversy with the theory; MVPS is also in increasing trend. In CHART 4.1.2 (I), MVPS is in increasing trend where as whatever bee in profitability ratio.

GRAPH-4.4.2 (II)





GRAPH4.4.2(III)

In chart-4.4.2 (II), we can see that in the initial year, DPS is increasing more rapidly than MVPS but in the later, MVPS is increasing more rapidly than DPS. In aggregate, we can say that MVPS is perfectly positive correlated with DPS. Similarly, from the GRAPH-4.1.2(III), we see that, MVPS is perfectly correlated with BVPS.

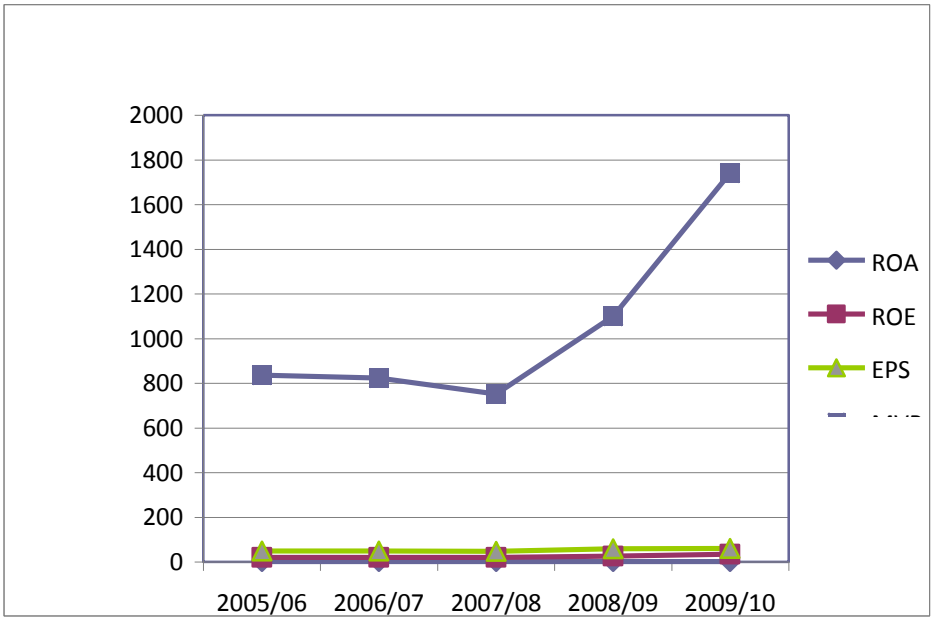
TABLE 4.4.3

Himalayan Bank Limited

Indicators	2005/06	2006//07	2007/08	2008/09	2009/10
ROA	0.91	1.06	1.11	1.54	1.47
ROE	19.95	19.87	20	25.9	34.9
EPS	49.45	49.05	47.91	59.24	60.66
DPS	25	20	37	35	40
BVPS	247.82	246.93	239.59	228.72	264.74
MVPS	836	822.37	750.58	1100	1740

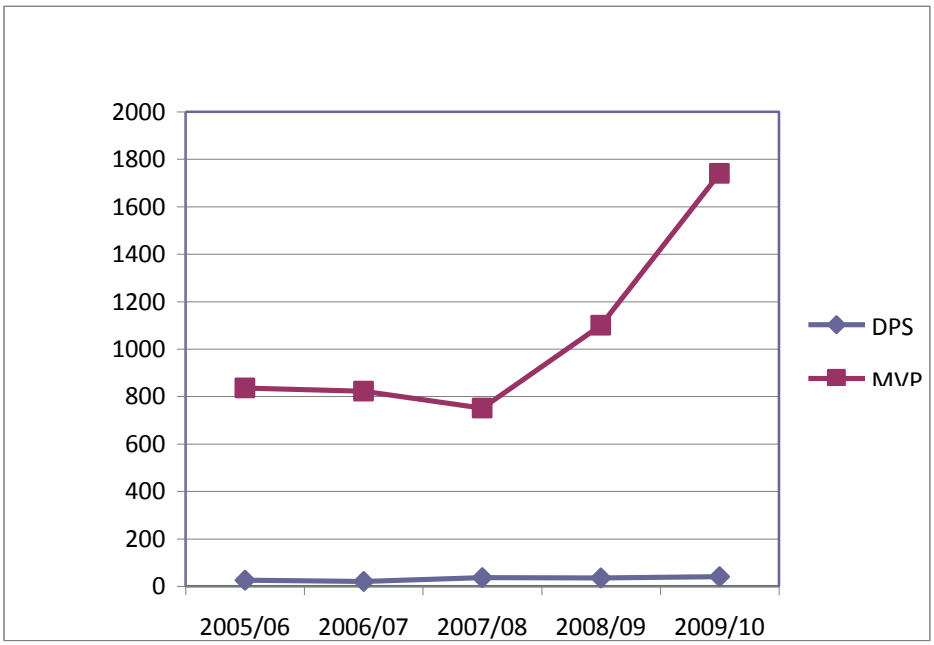
Source: Annual Report (2005-2010), SEBO Nepal

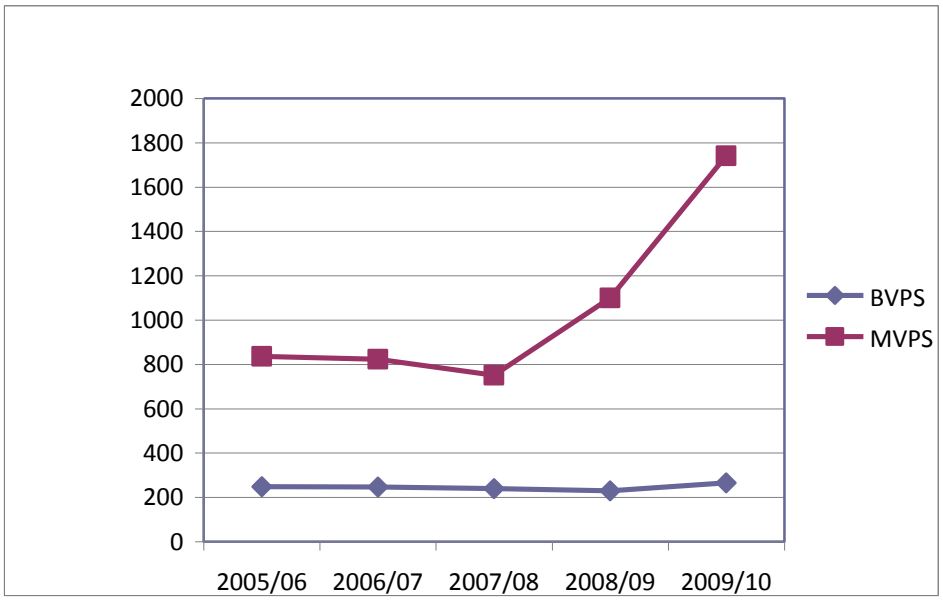
GRAPH 4.4.3 (I)



From the table 4.4.3, we can find out that, profitability ratios are decreasing in the year 2008/09, but even the MVPS is increasing. But in the later year MVPS is almost positively correlated with the profitability ratio. From the same table, we can conclude that MVPS is perfectly positively correlated with BVPS except in the year 2008/09. Similarly from the graph- 4.1.3 (I), we can say that MVPS is negative correlated with the profitability ratio in the first two years but later it is positively correlated with the profitability ratio.

GRAPH-4.4.3(II)





GRAPH4.4.3(III)

From the CHART-4.4.3 (II&III), we can observe that, according to theory, DPS is negatively correlated with DPS, positively correlated with BVPS in the case of Himalayan Bank Limited.

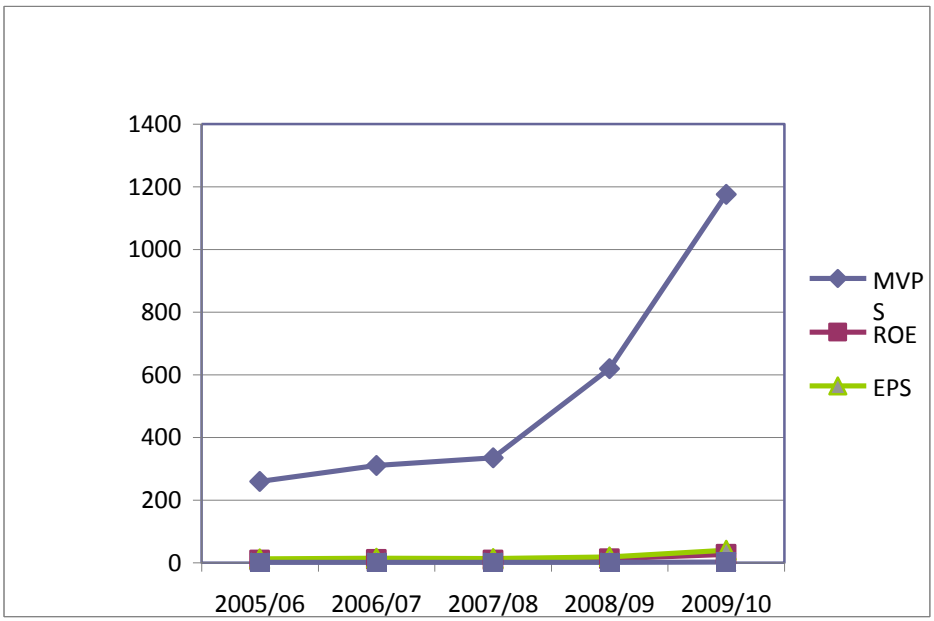
TABLE-4.4.4

Nepal SBI Bank Limited

Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	0.64	0.72	0.55	0.9	1.83
ROE	8.56	9.71	8.33	11.91	26.95
EPS	11.74	14.25	13.29	18.27	39.35
DPS	8	0	0	5	47.59
BVPS	134.05	146.8	159.54	153.44	161.29
MVPS	259.06	310.44	334.84	619.23	1176

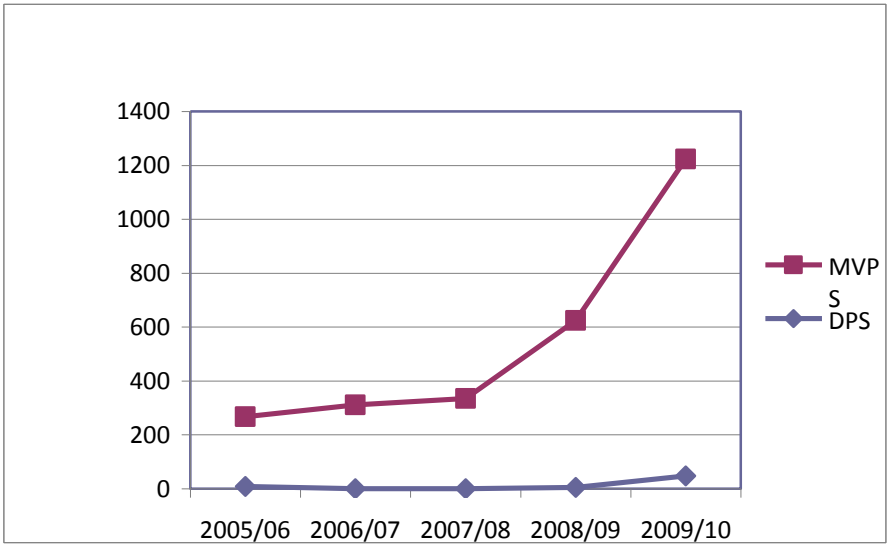
Source: Annual Report (2005-2010), SEBO Nepal

GRAPH-4.4.4(I)

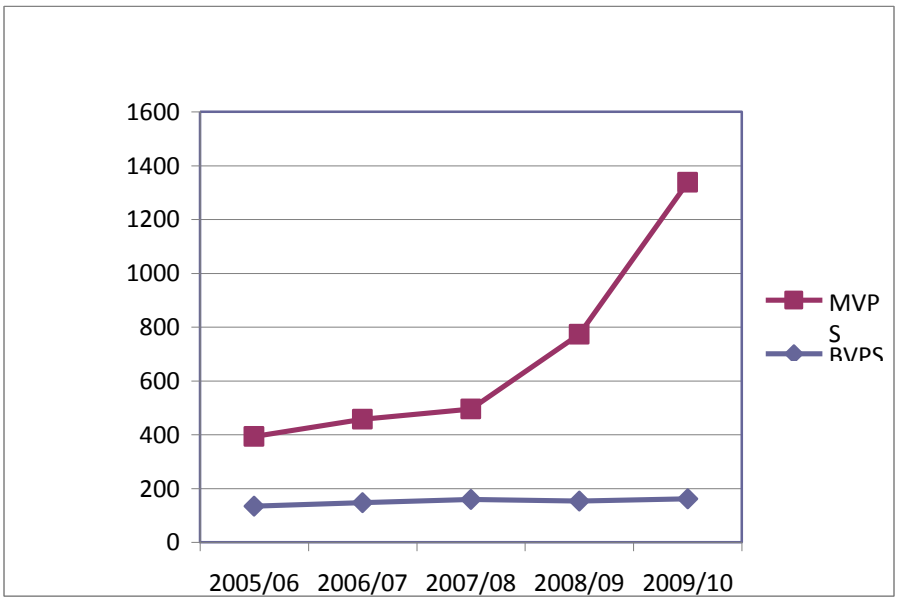


From the TABLE-4.4.4 above, it has seem that there is positive correlation between profitability ratio and MVPS except in the year 2007/08, where all profitability ratios are decreased but the value of MVPS is increasing. Similarly, we can see that MVPS is positive correlated with BVPS except in the year 2008/09. In graph 4.4.4(I), we can see that MVPS is positively correlated with the profitability ratio.

GRAPH-4.4.4(II)



GRAPH-4.4.4 (III)



By absorbing the graph-4.4.4 (II&III), we can say that MVPS is positively correlated with the DPS but increasing and decreasing trend of MVPS is stable than DPS and it cannot be relationship between BVPS and MVPS in the case of Nepal SBI Bank Limited.

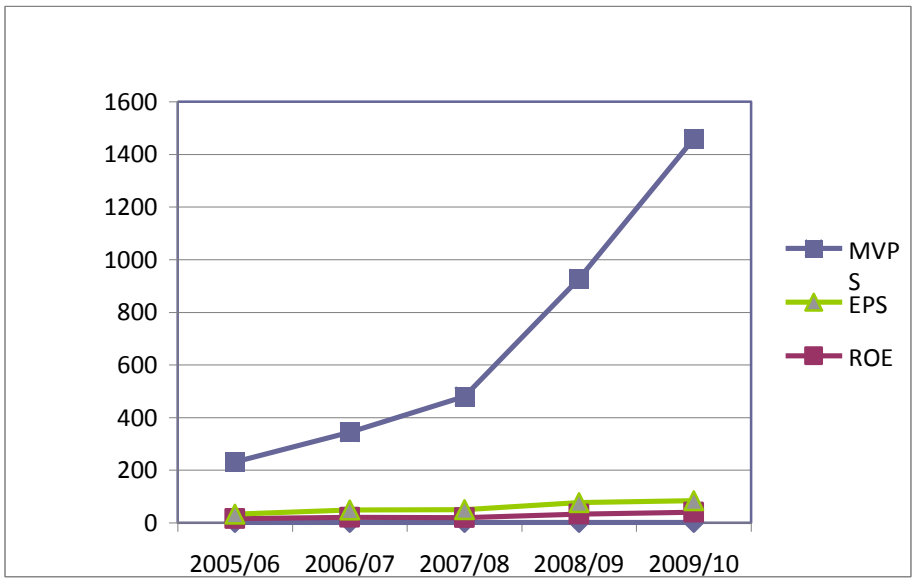
TABLE 4.4.5

Bank of Kathmandu

Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	1.10	1.34	1.32	1.65	1.8
ROE	14.18	19.52	18.11	31.65	38.75
EPS	17.72	27.4	30.1	43.67	43.50
DPS	5	10	15	48	
BVPS	124.93	140.37	155.47	181.14	162.81
MVPS	198	295	430	850	1375

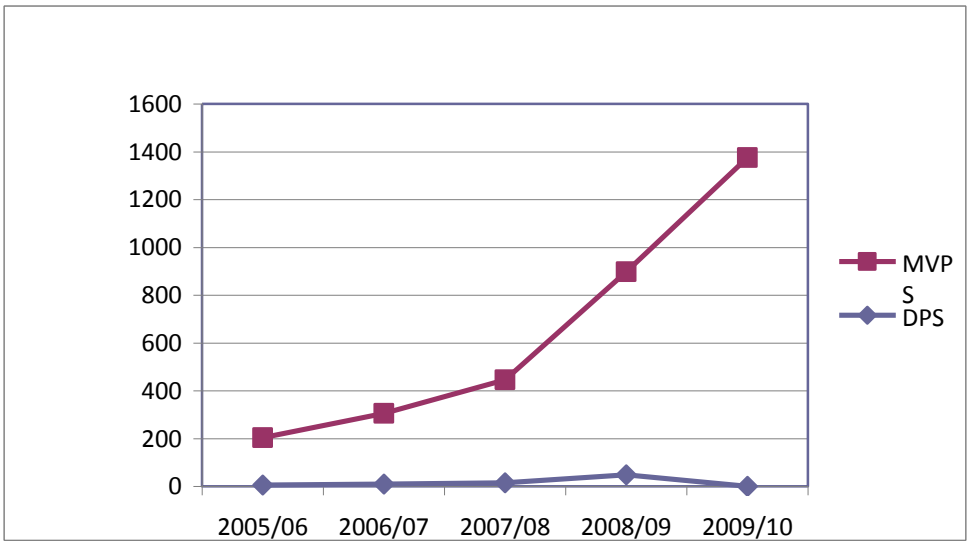
Source: Annual Report (2005-2010), SEBO Nepal

GRAPH 4.4.5(I)

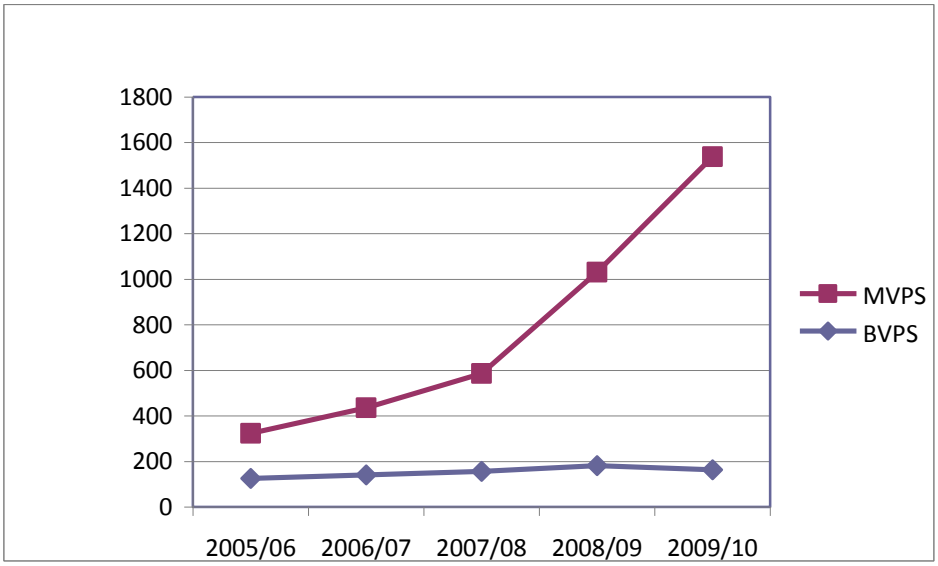


In the TABLE 4.4.5, we can see that MVPS is increasing trend in all the year and EPS and BVPS also but ROA and ROE had decreased in the year 2007/08. In GRAPH 4.1.5 (I), we can observe that, MVPS is increasing in slow way but the profitability ratios are not in that way.

GRAPH 4.4.5(II)



GRAPH 4.4.5(III)



From the GRAPH4.4.5 (II&III), we can say that there is no any relation in DPS and MVPS but in the case of MVPS and BVPS, they are positively correlated but the fluctuation of MVPS line is more than the BVPS line.

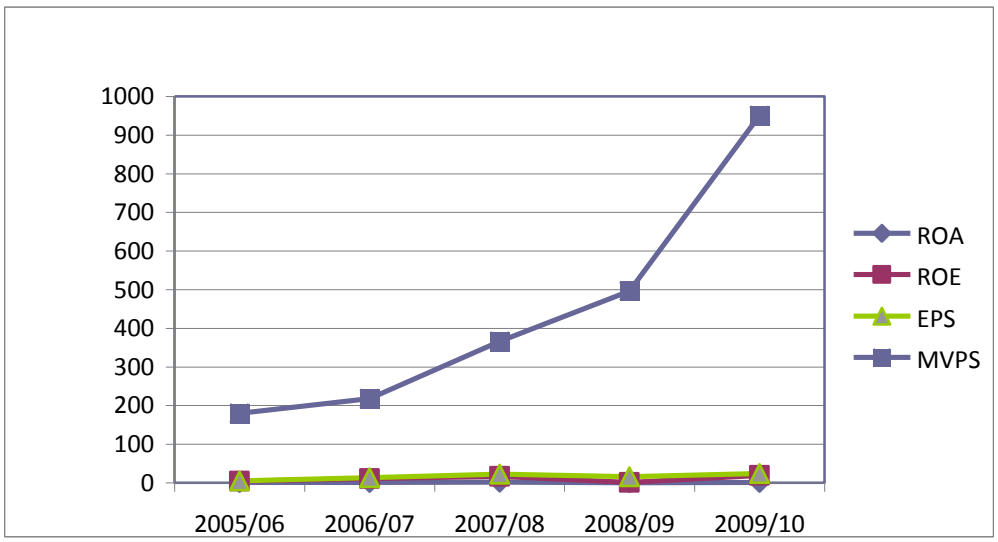
TABLE 4.4.6

Nepal Industrial and Commercial Bank Limited

Indictors	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	0.62	1.15	1.52	0.06	1.19
ROE	4.54	11	16.63	0.85	19.36
EPS	5.19	13.65	22.75	16.1	24
DPS	0	0	20	10	21.05
BVPS	110.42	124.08	136.84	127.74	143.74
MVPS	180	218	366	496	950

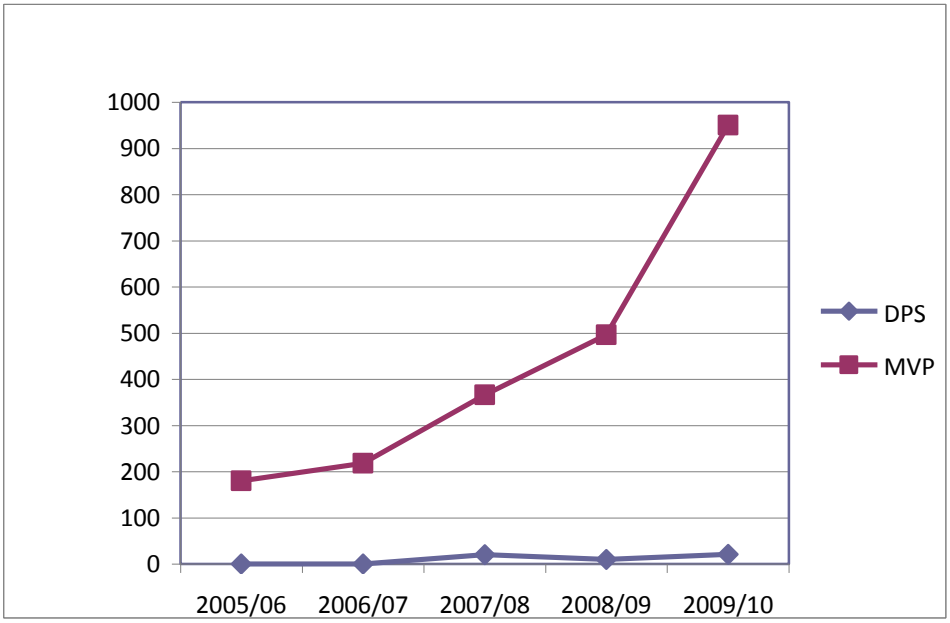
Source: Annual Report (2005-2010), SEBO Nepal

GRAPH 4.4.6(I)

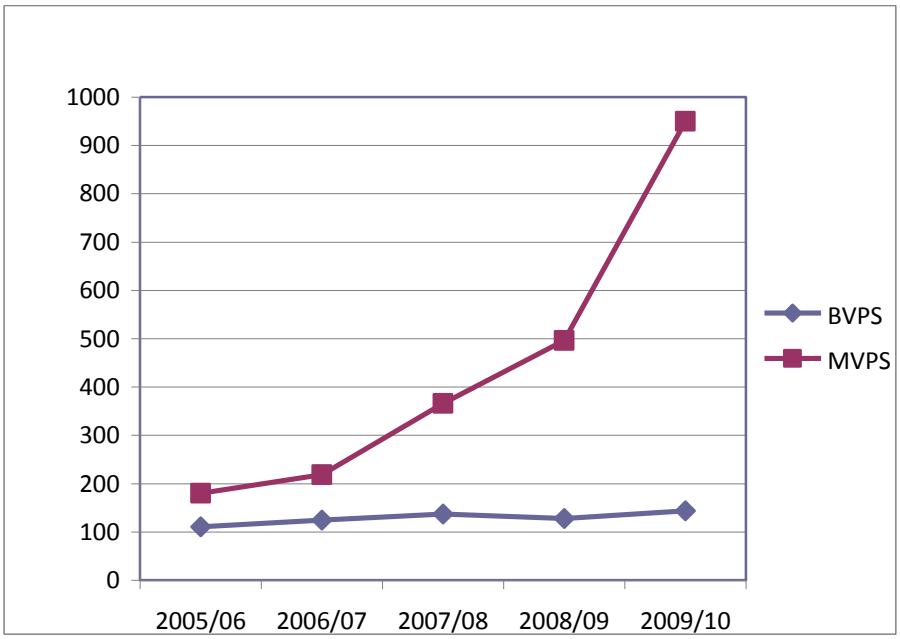


In TABLE 4.4.6, we can't see any relation between the financial performance ratio and market value per share as a whole, where market value of share is increasing trend. But all other ratios are in random order. Similarly, in the GRAPH 4.1.6 (I), we can't see any relation between profitability ratio and MVPS.

GRAPH 4.4.6(II)



GRAPH 4.4.6(III)



By observing the GRAPH 4.4.6(II), the NIC Bank hadn't give any dividend till the year 2009/10 but when it starts to give dividend, then market value seems positively

correlated with DPS. By GRAPH 4.1.6(III), we can't see any relationship between BVPS and MVPS in the case of NIC Bank.

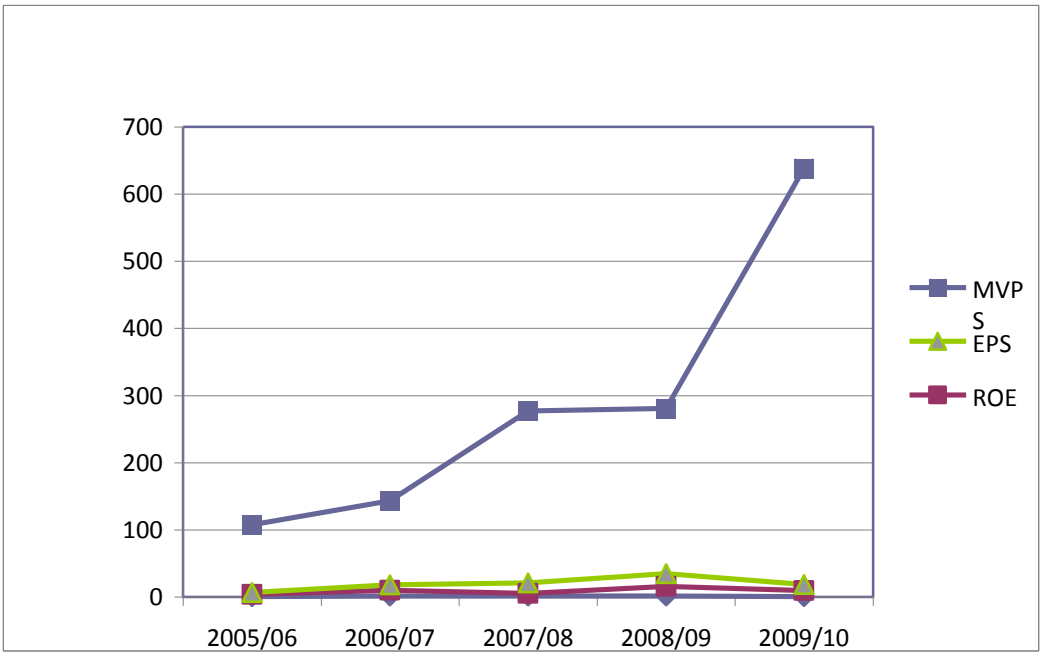
TABLE 4.4.7

Machhapuchhre Bank Limited

Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	0.64	1.35	1.31	1.48	0.69
ROE	3.05	8.42	4.11	14.39	8.66
EPS	2.81	8.49	15.43	18.74	9.02
DPS	0	0	0	15	10
BVPS	92.19	100.77	115.95	130.22	132.62
MVPS	101.07	125	256	246.15	620

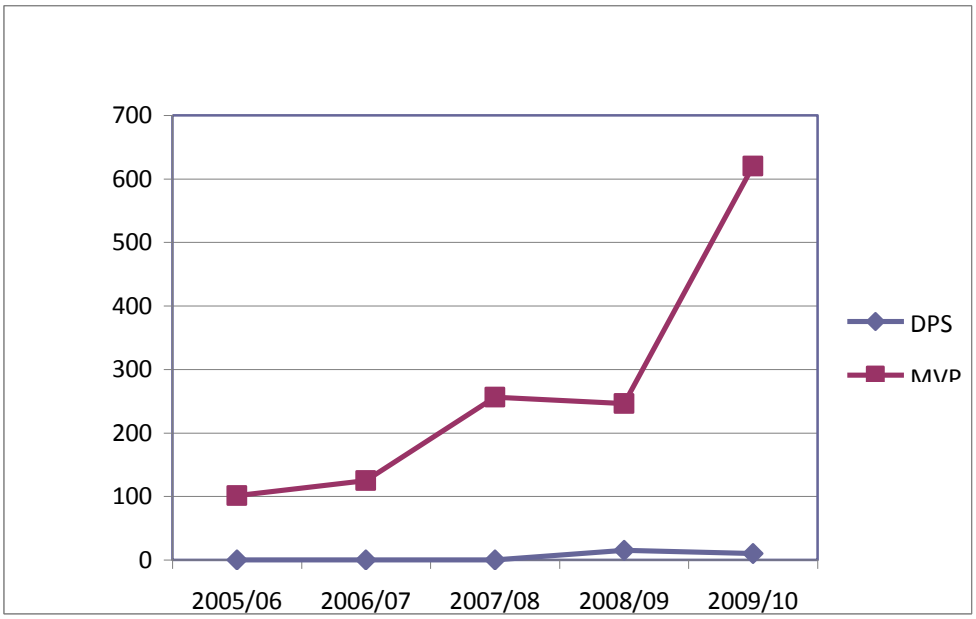
Source: Annual Report (2002-2006), SEBO Nepal

GRAPH 4.4.7(I)

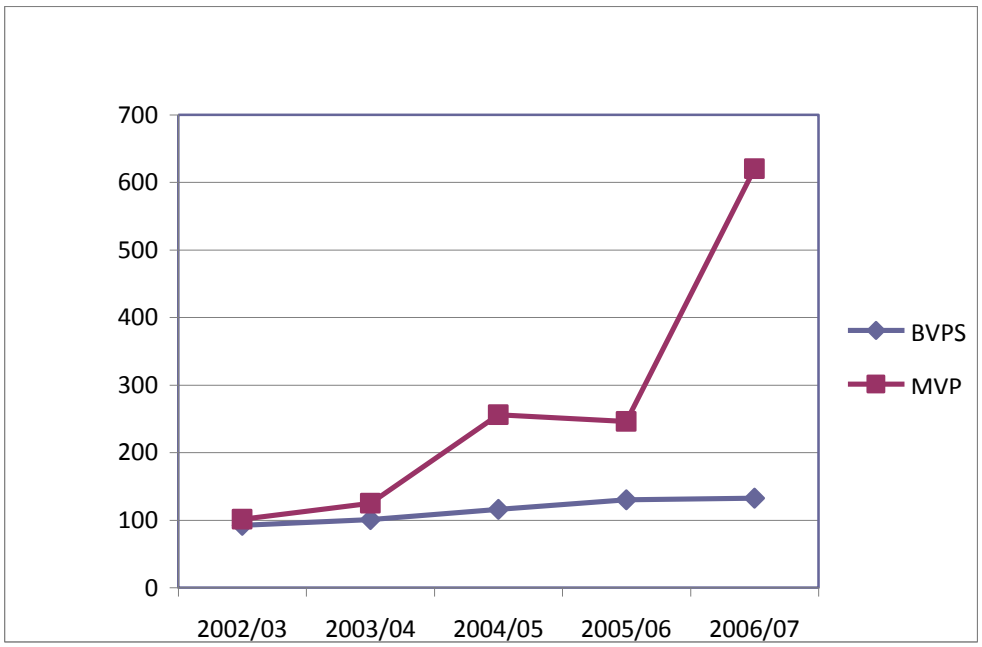


From the TABLE 4.4.7, we can see that ROA, EPS of Machhapuchhre Bank Limited is increasing except in the year 2007/08 and year 2009/10 but the MVPS of the bank is increasing also in the year 2007/08 and year 2009/10. Where as dividend hadn't given to the shareholder except in the last two years. Theoretically, MVPS and BVPS should de decreasing in that year but also BVPS is increasing in the year. By observing the GRAPH 4.1.7(I), we can see that, when MVPS is increasing trend, at that time all the profitability ratios are in decreasing trend and vice versa. But MVPS is relatively stable than other profitability ratio.

GRAPH 4.4.7 (II)



GRAPH 4.4.7(III)



From the GRAPH 4.4.7 (II), we an see that there is increasing and decreasing trend of MVPS but no give the dividend except in the last two years. In GRAPH 4.1.7 (III), we can see that percentage change in MVPS is higher than percentage change in BVPS as change of sign.

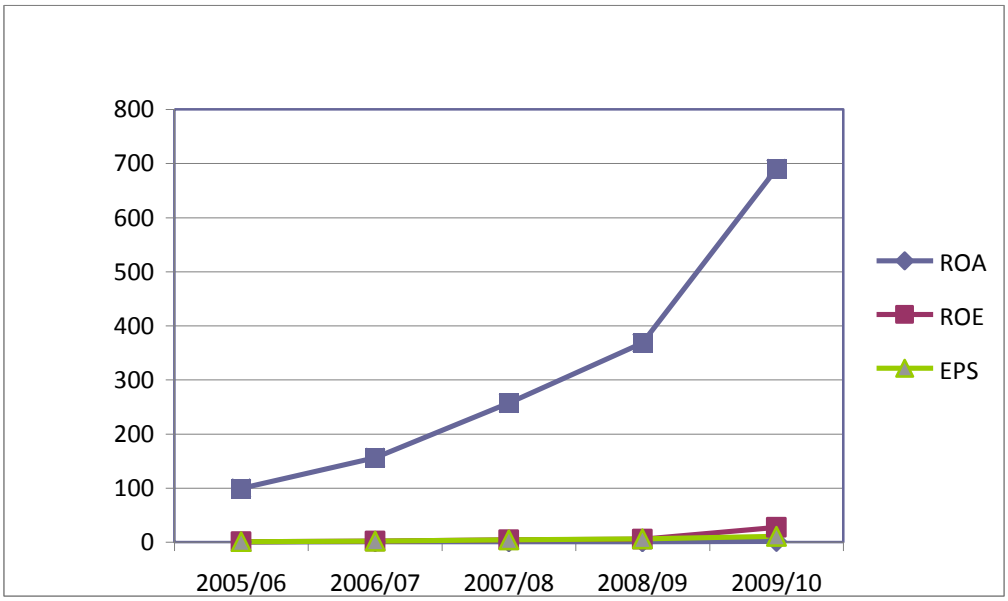
TABLE 4.4.8

Laxmi Bank Limited

Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	0.09	0.4	0.69	0.68	0.95
ROE	0.32	1.88	4.11	5.2	27.10
EPS	0.31	1.9	4.34	5.8	10.75
DPS	0	0	0	0	
BVPS	99.04	101.32	105.53	111.33	119.47
MVPS	99.04	156.06	257.03	368.05	690

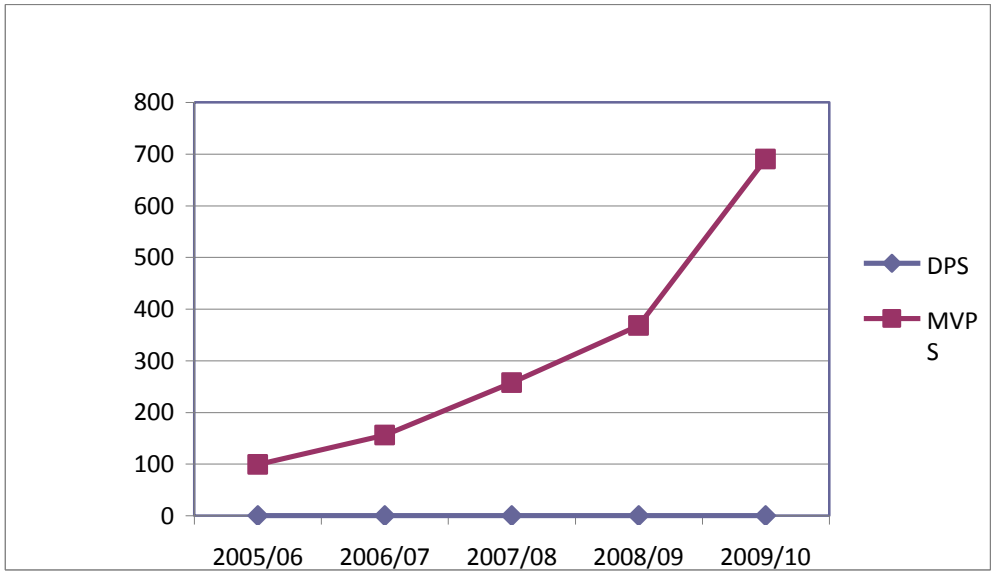
Source: Annual Report (2005-2010), SEBO Nepal

GRAPH 4.4.8(I)

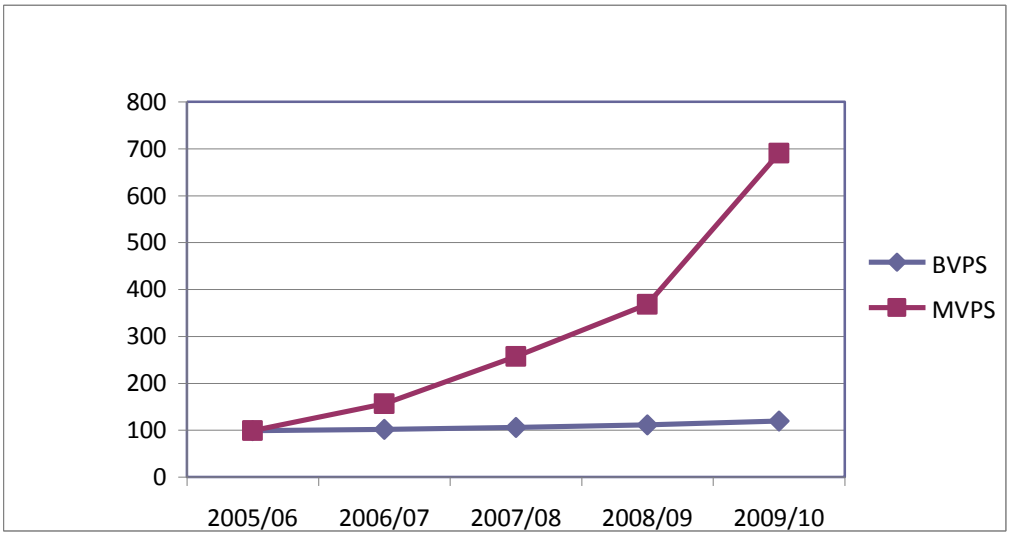


From the TABLE 4.4.8, we can see that Laxmi Bank Limited hadn't paid any dividend till now. Other all the financial indicators and MVPS are in increasing except ROA. ROA is decreased in the year 2008/09. By observing the GRAPH 4.1.8 (I), we can see that MVPS is relatively stable than other profitability ratio but almost they are in same trend.

GRAPH4.4.8(II)



GRAPH 4.4.8(III)



From the GRAPH 4.4.8(II&III), we can see that bank hadn't paid any dividend till now and BVPS of the company is continuously increasing in all year but MVPS is decreasing in the year 2008/09.

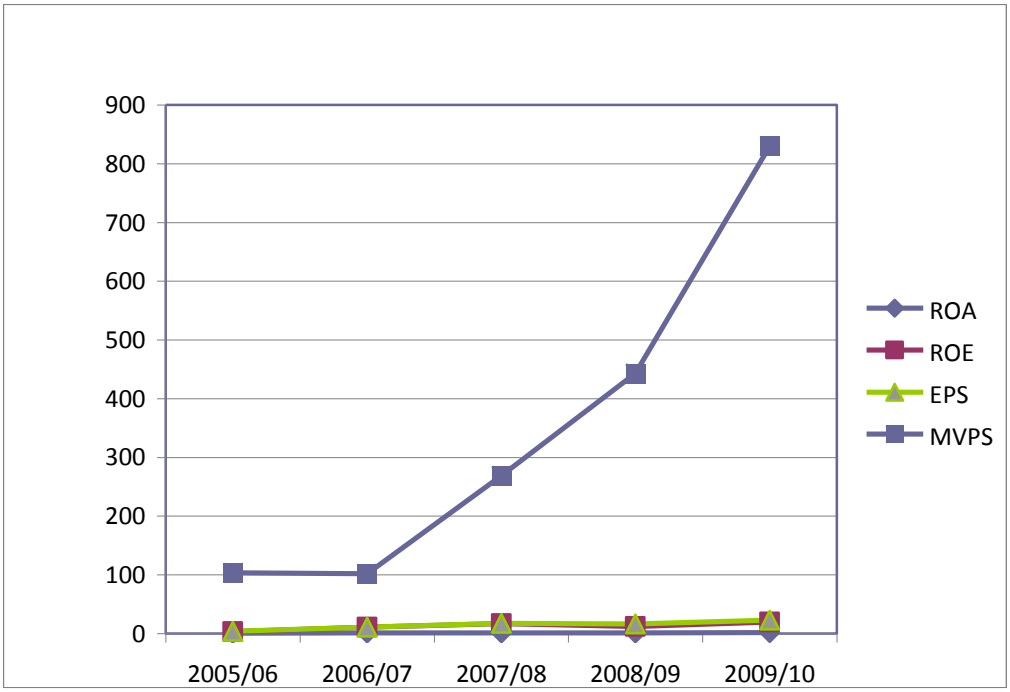
TABLE 4.4.9

Kumari Bank Limited

Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	0.42	1.01	1.18	1.15	1.48
ROE	3.45	10.88	16.98	12	19.61
EPS	3.56	11.09	17.58	16.59	22.70
DPS	0	0	0	20	21
BVPS	103.15	101.95	103.52	138.22	149.32
MVPS	103.15	101.95	269	443	830

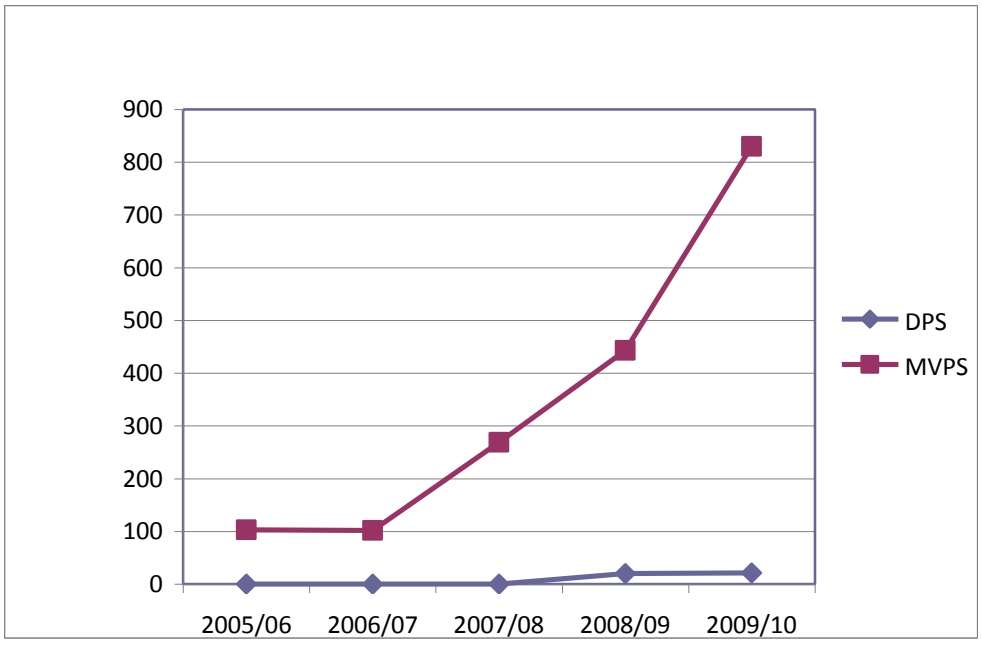
Source: Annual Report(2005-2010), SEBO Nepal

GRAPH 4.4.9(I)

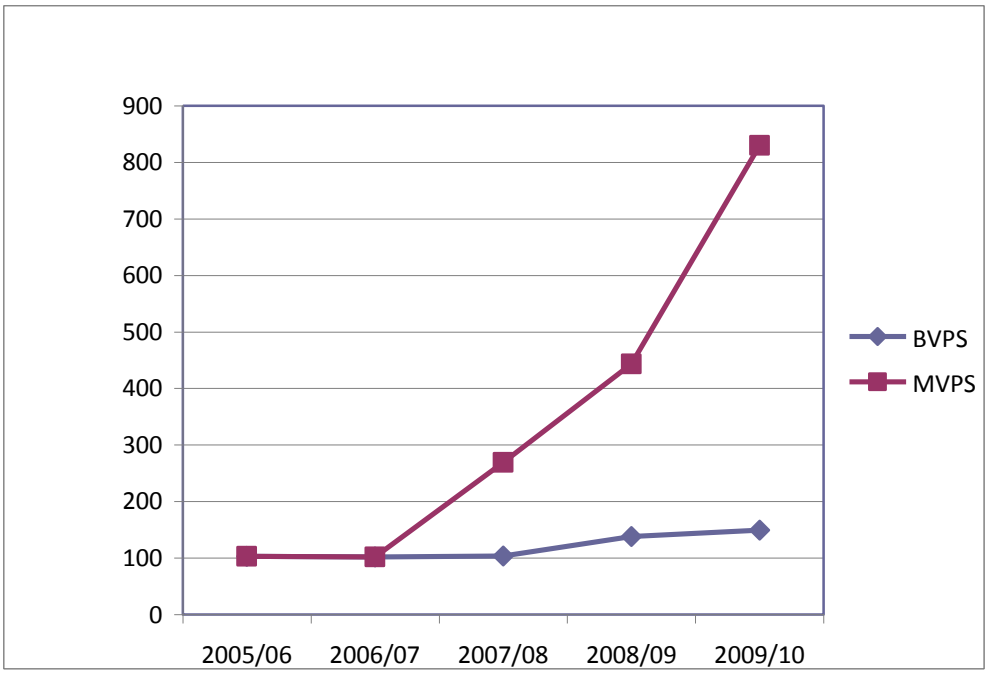


From the TABLE 4.4.9, ROA, EPS and DPS are increasing in all the year except in the year 2008/09 and also MVPS is increasing all the year. Kumari Bank Limited hadn't paid any dividend till year 2007/08. BVPS is also increasing except in the year 2009/10. Similarly by observing the GRAPH 4.1.9(I), we can say that profitability ratios are increasing in the first year and then decreasing. But till the 2009/10, MVPS is constant then increased in the first year and then decreased.

GRAPH4.4.9(II)



GRAPH 4.4.9(III)



From the GRAPH 4.4.9 (II&III), we can say that Kumari Bank Limited hadn't paid any dividend till 2007/08 and MVPS is sometime increase and sometime decrease where as BVPS is almost same till the year 2007/08 but in the last year it is rapidly increased.

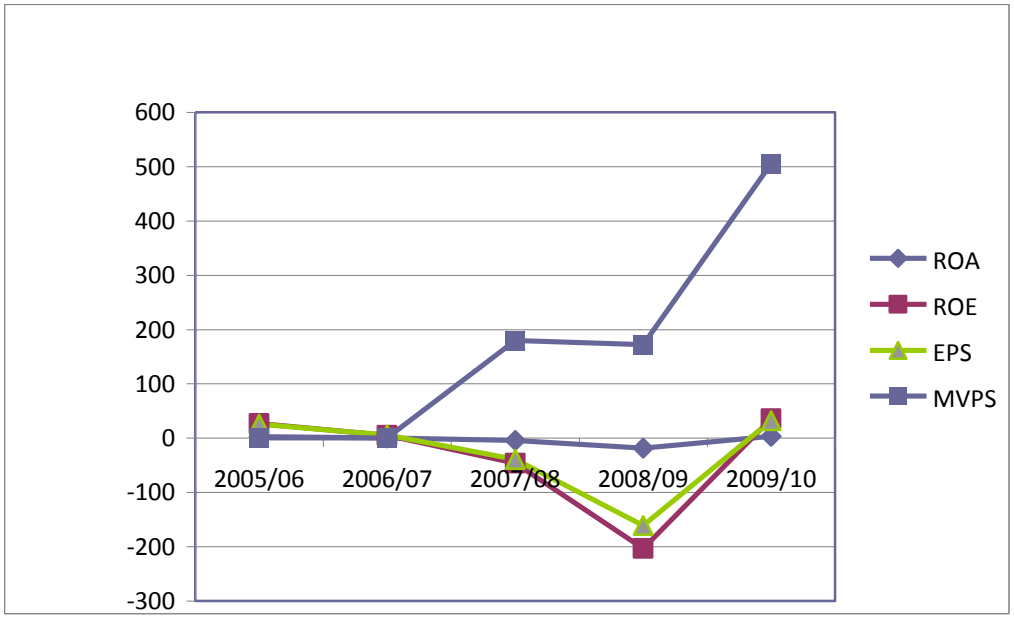
TABLE 4.4.10

Lumbini Bank Limited

Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	2.59	0.43	-4.38	-18.92	3.37
ROE	26.51	4.65	-46.28	-203.63	35.23
EPS	25.47	5.33	-39.35	-161.21	32.07
DPS	0	0	0	0	0
BVPS	96.30	84.71	49	144.41	71.61
MVPS	0	0	180	172	505

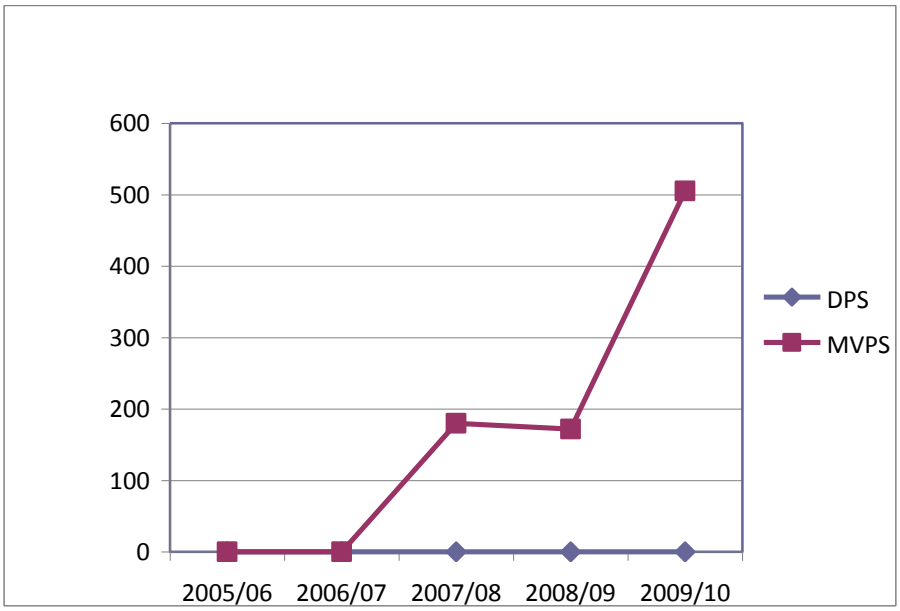
Source: Annual Report (2005-2010), SEBO Nepal

GRAPH 4.4.10(I)

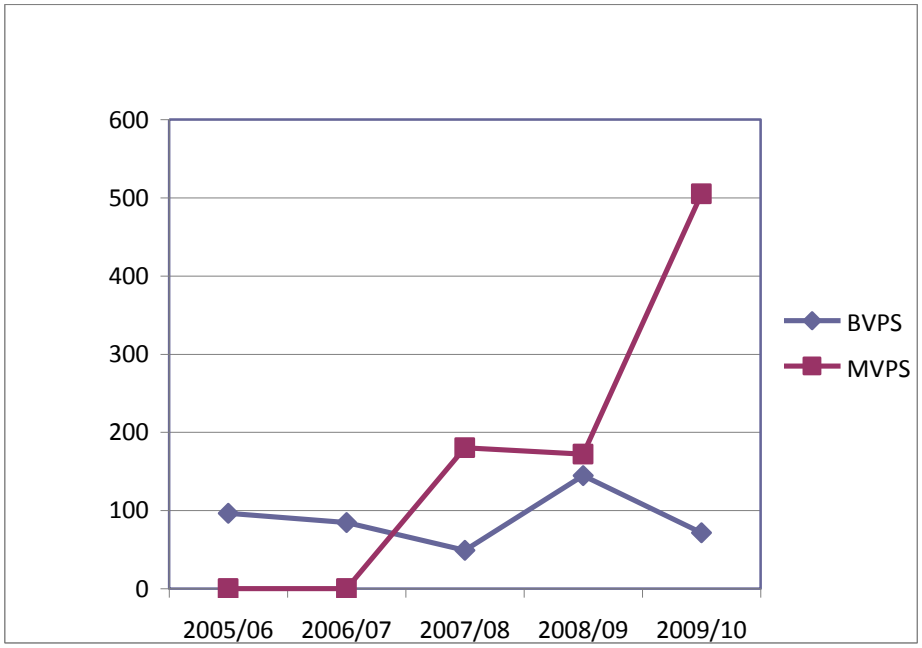


From the TABLE 4.4.10 we can see that Lumbini Bank Limited hadn't paid any dividend till now. All the financial indicators are in fluctuation trend. In the last year all the financial indicators are increasing except BVPS.

GRAPH 4.4.10(II)



GRAPH4.4.10 (III)



From the GRAPH 4.4.10 (II&III), we can say that bank hadn't paid any dividend till now and BVPS and MVPS of the company is in fluctuation trend.

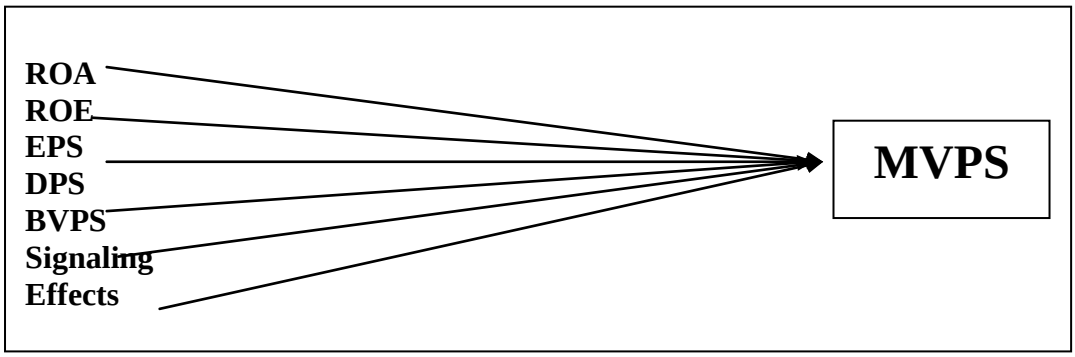
4.5 STATISTICAL MODEL SUMMARY AND HYPOTHESIS TESTING

This research have been conducted to test hypothesis that weather the financial performance and common stock market value on Nepalese Commercial Banks are correlated.

Financial performances and Common Stock Pricing

Independent Variables (X) Dependent Variables (Y)
(Predictors or Constant)

FIGURE 4.5.1



Statistical tools:

Pearson's Correlation Coefficient=R
Coefficient of Determination=R^2
Standard Error of Estimation=SEE
Constant of Regression=a

Slope of Variables=b
T-Statistics
Probability Value=P

TABLE 4.5.1
Model Summary

Predictors	R	R^2	P
ROA, ROE,EPS			
Nabil	0.997	0.994	0.095
NIBL	0.984	0.969	0.224
SCBN	0.508	0.258	0.939
HBL	0.990	0.979	0.183
SBI	0.975	0.951	0.279
EBL	0.997	0.995	0.90
BOK	0.989	0.979	0.186
NIC	0.998	0.997	0.074
MBL	1	1	0.024
LBL	1	0.999	0.032
Industry	0.998	0.996	0.084
DPS			
Nabil	0.82	0.67	0.089
NIBL	0.804	0.647	0.101
SCBN	0.897	0.804	0.039
HBL	0.115	0.013	0.854
SBI	0.323	0.104	0.596
EBL	0.804	0.646	0.101
BOK	0.957	0.917	0.10
NIC	0.699	0.488	0.189
MBL	0.558	0.312	0.328
LBL			
Industry	0.986	0.971	0.002
BVPS			
Nabil	0.95	0.903	0.013
NIBL	0.333	0.111	0.584
SCBN	0.935	0.874	0.02
HBL	0.202	0.041	0.744
SBI	0.678	0.495	0.209
EBL	0.979	0.958	0.004
BOK	0.969	0.94	0.006
NIC	0.632	0.4	0.253
MBL	0.909	0.825	0.033
LBL	0.998	0.996	000

Industry	0.903	0.815	0.036
ROA, DPS, BVPS			
Nabil	0.998	0.995	0.086
NIBL	0.882	0.777	0.578
SCBN	0.988	0.976	0.196
HBL	0.915	0.838	0.499
SBI	0.99	0.98	0.181
EBL	0.998	0.996	0.085
BOK	03.999	0.999	0.047
NIC	0.997	0.994	0.101
MBL	0.999	0.999	0.041
LBL	0.998	0.996	0.004
Industry	0.999	0.999	0.04

Above summary of the statistical model has been extracted from the computer SPSS (Statistical Program for Social Science) program. Before the test of hypothesis, it is worthy to mention that the study may not reflect hundred percent true pictures of Nepalese Stock Market. But it is try to minimize the deficiencies of the study to the possible extent.

Interpretation of R^2

R^2 or co-efficient of determination is the best measurement of goodness of fit. The value of R^2 shows that how well the actual value fit with the prediction to be made by regression line. Larger the value of R^2 (close to 1), higher is the probability that the independent variable can significantly predict the dependent variable and less is the error in forecasting the values. Smaller the value of R^2 more is the error term in prediction which suggests a strong existence of intervening variables. For example, in case of variables ROA, ROE & EPS, the value of R^2 of the regression line on MVPS is 0.996. it means 99.6%, change in MVPS can be explained by change in ROA, ROE, & EPS (profitability ratio) and only 0.4 percent is the effect of other intervening variables. Similarly the value of R^2 of the regression line of net worth per share on MVPS is 0.815. It means to the extent of 81.5 percent is the effect of other intervening variables.

Interpretation of p value

The customary levels of significance are 0.10, 0.05 and 1.01 and so on. In case of this research work, I have reasonable taken 5% (0.05) level of significance.

Therefore;
p>.05: We accept the null hypothesis.
P<.05: We reject the null hypothesis.

TABLE 4.5.2
Industry wise summary of p values

Independent variables of industry	p	Comparison with Level of significance	Null Hypothesis (HO)
ROA, ROE & EPS	0.084	P>.05	Accept
DPS	0.002	P<.05	Reject
BVPS	0.036	P<.05	Reject
ROA, DPS & BVPS	0.040	P<.05	Reject

Test of Hypothesis:

Hypothesis: 1

HO: There is no correlation between the profitability and stock prices.
H1: There is a significant correlation between the profitability and stock prices.

Result: In case of profitability ratios (ROA, ROE & EPS) of industry average, null hypothesis has been accepted (p>.05). It means there is no correlation between the profitability and stock price.

Hypothesis: 2

HO: There is no correlation between the dividends paid and stock prices.
H1: There is a significant correlation between the dividends paid and stock prices.

Result: Null hypothesis has been rejected in case of DPS of industry average (p<.05). Therefore we conduct that there is a significant correlation between the dividends paid and stock prices.

Hypothesis: 3

HO: There is no correlation between the Net Worth per share (BVPS) and stock prices.
H1: There is a significant correlation between Net Worth per share (BVPS) and stock prices.

Result: Null hypothesis has been rejected in case of industry average of BVPS (p<.05). Therefore we conclude that there is a significant correlation between the Net Worth per share (BVPS) and stock prices of commercial bank industry.

Hypothesis: 4

HO: There is no correlation between the financial performance indicators and stock prices.
H1: There is a significant correlation between financial performance indicators and stock prices.

Result: Null hypothesis has been rejected in case of industry average of financial performance indicators (ROA, DPS & BVPS) ($p<.05$). Therefore we conclude that here is a significant correlation between the financial performance indicators and stock prices of commercial bank industry.

Hypothesis: 5
HO: Market index of commercial bank sector is in random manner.
H1: Market index of commercial bank sector is not in random manner.

For that hypothesis test, I take run test as a tool. For that test following data has been used.

TABLE 4.5.3
NEPSE Index for Commercial Bank during Magh, Falgun & Chaitra of 2067

Magh		Falgun		Chaitra	
Date	**Index**	**Date**	**Index**	**Date**	**Index**
17-Jun-07	628.80	17-Jul-07	804.26	19-Aug-07	788.56
18-Jun-07	618.35	18-Jul-07	767.70	20-Aug-07	793.44
19-Jun-07	622.91	19-Jul-07	768.89	21-Aug-07	807.00
20-Jun-07	639.93	22-Jul-07	779.55	22-Aug-07	808.39
21-Jun-07	664.01	23-Jul-07	791.75	23-Aug-07	810.82
24-Jun-07	645.10	24-Jul-07	791.29	24-Aug-07	811.39
25-Jun-07	651.34	25-Jul-07	781.14	26-Aug-07	807.12
26-Jun-07	654.18	26-Jul-07	774.04	27-Aug-07	802.53
27-Jun-07	653.41	29-Jul-07	768.12	30-Aug-07	824.91
1-Jul-07	655.21	30-Jul-07	761.08	2-Sep-07	845.42
2-Jul-07	662.27	31-Jul-07	759.67	3-Sep-07	859.19
3-Jul-07	666.18	1-Aug-07	764.24	5-Sep-07	871.39
4-Jul-07	677.38	2-Aug-07	778.09	8-Sep-07	883.95
5-Jul-07	681.89	5-Aug-07	791.68	9-Sep-07	906.55
9-Jul-07	684.56	6-Aug-07	795.41	10-Sep-07	932.44
10-Jul-07	692.44	7-Aug-07	813.29	11-Sep-07	937.55
11-Jul-07	710.57	8-Aug-07	817.18	12-Sep-07	921.52
12-Jul-07	726.88	9-Aug-07	810.09	13-Sep-07	910.37
15-Jul-07	748.48	13-Aug-07	801.53	16-Sep-07	916.14
16-Jul-07	789.21	14-Aug-07	794.90	17-Sep-07	917.58
		15-Aug-07	782.86		
		16-Aug-07	782.55		

Source: www.nepalstock.com

Here in above data total sample (n) =62
Median (Me) = $\frac{782.86+788.56}{2}$ =785.71

Symbol sequence:

```
-------------------++----+-----++----------++++++++++---+++
        1       2       3       4       5       6       7       8
```

Here,
Number of runs (r) = 8
Number of positive sign (nı) = 31
Number of Negative Sign (n2) = 31

The test statistic for testing HO is

$$Z= \frac{r - \left(\frac{2n1n2}{n1+n2}+1\right)}{\sqrt{\frac{2n1n2(2n1n2-n1-n2}{(n1+n2)^2(n1+n2-1)}}}$$

Or,

$$Z= \frac{8 - \left(\frac{2\times 31\times 31}{31+31}+1\right)}{\sqrt{\frac{2\times 31\times 31\times(2\times 31\times 31-31-31)}{(31+31)^2(31+31-1)}}}$$

Z = -6.14

Critical region:
For 5% level of significant, we obtained the critical Value
$Z_{0.05}$ = 1.96

Decision: Since Z = 6.14 > 1.96 = $Z_{0.05}$, we may reject H_o, i.e. the market index of commercial bank is not in random order. It is influence by some factors. We can say that they may be financial performance indicators because it is also proved by the above four hypothesis test.

REGRESSION ANALYSIS:

Regression Analysis is known as the useful device to determine the strength of relationship between independent and dependent variables. It is considered to be an important statistical device that helps to predict or forecast the value of dependent variable when the value of independent variable is already known. As this study focuses on the determinants of the share price (MPS), MPS may be dependent upon various financial indicators. That's why, it is attempted here to analyze and evaluate the influence of various financial indicators on MPS separately. All data are calculated by the computer SSPSS program.

TABLE 4.5.4

Regression equation of MPS on ROA, ROE and EPS (MPS=a+b1ROA+b2roe+b3eps)

	Description	a	b1	b2	b3	r^2	SEE	F-value	Sig. F
Commercial Bank Average	Coefficient Values	-1054.71	-456.51	-67.62	83.23	0.996	38.707	76.499	0.084
	Standard Error	133.26	286.39	34.89	10.14				
	t-value	-7.92	-1.59	-1.94	8.21				
	Sig.t-value	0.08	0.357	0.303	0.077				

The regression coefficient of ROA (b1) is -456.51 which implies that increase of one rupee in ROA decrease MPS by rupees 451.65 on average it the other factors remain constant. The regression coefficient of ROE (b2) is -67.62 which also implies that increase in one rupee of ROE decrease MPS by 67.62 on average if the other variables remain constant. Similarly the regression coefficient of EPS (b3) is 83.23 which implies that an increase of one rupee in EPS increase MPS by 83.23 rupees. But the estimates of b1, b2 and b3 may vary by 286.39, 34.89 and 10.14 respectively as indicated by standard error. The regression constant is -1054.71, which shows that when value of ROA, ROE and EPS are zero, then MPS will be negative 1054.71. But this could not be practical because the value of MPS can not go down to the zero level. The t-values for a, b1, b2, and b3 are -7.32, -1.59,-1.94 and 8.24 respectively. The significant t-values and significant F-value are greater than 5% level. So coefficients mentioned above are not statistically significant. The regression model explains the variation of MPS by 99.6% due to the variation in ROA, ROE and EPS, as indicated by the coefficient of determination. The figures of standard error of estimate (SEE) is 38.707, which states that the prediction of this model yields a clear variation of about 38.707 rupees.

TABLE 4.5.5

Regression Equation of MPS on DPS (MPS= a + b DPS)

Commercial Bank Average	Regression coefficient		SE or b	r^2	SEE	F	Sig. F
	Constant (a)	Slope (b)	3.24	0.971	57.33	102.07	0.002
	-188.42	32.77					

Prediction of MPS is strong because the coefficient of determinant (r^2) is very high which 0.971 is. This implies that the variation in MPS due to the influence of DPS is 97.1%. But this prediction may vary by rupees 57.33 as shown by the figure in the column of standard error of estimate (SEE). The value of significance-F is less than 5% which shows that the relation is statistically significant at 5% level of significance. This implies that the independent variable DPS describe the variation in MPS significant. Regression slope (b) is 32.77, which describe that increase one rupee in DPS, MPS increase by rupees 32.77. Similarly, the regression constant is -188.42, which shows that when the value of DPS is zero, then MPS will be negative 188.42. But this could not be practical because the value of MPS can not go down to the zero level.

TABLE 4.5.6

Regression Equation of MPS on (BVPS) Net Worth (MPS= a + b BVPS)

Commercial Bank Average	Regression coefficient		SE or b	r^2	SEE	F	Sig. F
	Constant (a)	Slope (b)	3.15	0.815	145.82	13.24	0.036
	-1471.63	11.44					

Prediction of MPS is strong because the coefficient of determinant (r^2) is very high which 0.815 is. This implies that the variation in MPS due to the influence of BVPS is 81.5%. But this prediction may vary by rupees 145.82 as shown by the figure in the column of standard error of estimate (SEE). The value of significance-F is less than 5% which shows that the relation is statistically significant at 5% level of significance. This implies that the independent variable BVPS describe the variation in MPS significant. Regression slope (b) is 11.44. Similarly the regression constant is -1471.63, which shows that when the value of BVPS is zero, then MPS will be negative 1471.63. But this could not be practical because the value of MPS can not go down to the zero level.

TABLE 4.5.7

Regression Equation of MPS on ROA, DPS and BVPS (MPS = a+b1ROA + b2DPS + b3BVPS)

	Description	a	b1	b2	b3	r^2	SEE	F-value	Sig. F
Commercial Bank Average	Coefficient Values	-2842.5	-577.88	5.07	21.62	0.999	18.6	332.23	0.04
	Standard Error	507.06	112.82	5.49	4.12				
	t-value	-5.61	-5.12	0.92	5.24				
	Sig.t-value	0.112	0.123	0.526	0.12				

The regression coefficient of ROA (b1) is -577.88 which imply that an increase of one rupee in ROA decrease MPS by rupees 577.88 on average if the other factors remain constant. The regression coefficient of DPS (b2) is 5.07 which also implies that increase in one rupee of DPS increase MPS by 5.07 on average if the other variable remain constant. Similarly the regression coefficient of BVPS (b3) is 21.62 which implies that an increase of one rupee in BVPS increase MPS by 21.62 rupees. But the estimates of b1, b2 and b3 may vary by 112.82, 5.49 and 4.12 respectively as indicated by standard error. The regression constant is -2842.5, which shows that when value of ROA, DPS and BVPS are zero, then MPS will be negative 2842.5. But this could not be practical because the value of MPS can not go down to the zero level. The t-values for a, b1, b2, and b3 are -5.61, -5.12, -0.92 and 5.24 respectively. The significant t-values are greater than 5% level. So coefficients mentioned above are not statistically significant. But all determinants (Financial performance indicators) are statistically significant because Sig.-F value is less than 5% level of significance. The regression model explains the variation of MPS by 99.9% due to the variation in ROA, DPS and BVPS, as indicated by the coefficient of determination. The figures of standard error of estimate (SEE) is 18.6, which states that the prediction of this model yields a clear variation of about 18.6 rupees.

CHAPTER-5
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

Industrialization and economic prosperity of a country heavily depend upon effective mobilization of savings. Stock markets are the corner stones for the mobilization of people's savings. Equity or ordinary shares in Nepalese corporate firms comprise the largest category of securities listed with the stock exchange. It has predominance in both quantity and value. The magnitude of preference shares and debentures is very small. On the whole, equity shares accounted for more than 98 percent of all the listed securities.

This research work has carried to study and analyze the relationship between the financial performances and common stock market values of commercial bank. This study attempts to establish a validation about the public response on stock market in the context of Nepal. The study is assumed to be much helpful to all the stockholders of stock market in Nepal.

The main purpose of this study was to examine the relationship between the financial performances (profitability. Dividends and net worth) and the common stock price (MVPS) of commercial bank. Besides, the study has made an attempt towards the signaling effects upon the stock prices.

Many literatures were reviewed including books, researches, journals, daily papers and materials found on different internet sites. All the literatures have suggested that, of course, there ought to be a correlation between the financial indicators and common shock values.

Correlation research design and Regression analysis has been used for this study. Financial data were extracted from the web sites of Nepal Stock Exchange, SEBO publications, different Commercial Bank's Annual Reports and NEPSE Records. Structured intensive interviews were conducted to derive some in-depth insights regarding the stock market performance. 10 Commercial banks were selected for the research study. These are taken on the basis of availability of information in the SEBON, which includes the Commercial Banks which have been regularly submitting the Annual Reports from last 5 years. In this way, I have taken all the Commercial Banks meeting my study requirements in terms of data availability for 5 years. Past 5 year's trends have been analyzed for each Commercial Bank. The study had assumed Five main hypothesis relating to the correlation test between the independent variables (DPS, EPS, ROE, ROA and Net Worth per share). To compute the value of R. R2, P, etc. a computer software-SPSS program was used.

Analysis of financial indicators have shown that Nepalese stock market is not in its infancy stage for the commercial bank sector. Financial indicators are more stable of

commercial bank. Growth rates are super normal. Potential investors are highly attracted by banking industries.

Tests of hypothesis suggested that, in case of commercial bank sector, there is almost perfect positive correlation between the financial performances and stock prices. Investors do not buy the shares analyzing the financial position of the firm. The role of signaling effect is very dominant to fluctuate the share prices in Nepalese stock market. Investors of the stock market are not showing rational behaviors. Stock investors are showing their investment behavior in such a manner that it is almost impossible to fit a theory or prescription for pre-determining the market value of stocks.

The determinants of market value per share, behavior of stock investors and other aspects relating to stock market in Nepal for commercial band were extensively studied taking some stratified samples. Findings and conclusions of the study are summarized in following key points:

1. Basically investors and sellers of stocks are not aware with the financial parameters such as DPS, EPS, ROA, ROE,BVPS etc, stocks are not traded because of good financial parameters but because of non-financial factors such as lack of other investment opportunity, expectation of bonus shares, right shares, rumors, speculations, and like.
2. Nepalese stock market is in infancy stage. In general, it is very new and has just started to develop.
3. Commercial Bank with a long history have a relatively stable profitability parameters than the new commercial bank.
4. Dividend per share of commercial bank is more or less stable.
5. Capital gains are not only supernormal, more ever, those are abnormal. Most of the investors make security transactions for speculation purpose in stead of normal return.
6. Due to lack of proper investment opportunity, most of the investors have directed their savings towards the secondary stock market. This factor has created a bulk demand for stocks.
7. People have a misconception that the issuances of bonus shares and dividend which actually decreases the net worth per share, and resultantly out to decrease the market price of stock also, do not decrease the prices and this makes them to incest even at a too high price with a expectation of getting the same to increase their overall wealth.
8. Findings of test of hypothesis:

a. There is not significant positive correlation between the profitability parameters (ROA, ROE, DPS) and the stock prices of the commercial bank.
b. There is a significant positive correlation between the dividend paid and stock prices of commercial bank.
c. There is a significant positive correlation between the book value per share (Net worth) and stock prices of commercial bank.
d. There is a moderately positive correlation between financial performance indicators and stock price of commercial bank.

e. Market index of commercial bank is not in random manner.

9. Findings of regression analysis: Regression analyses also give the same result as in above hypothesis test.

5.2 CONCLUSIONS

An Investment in common stock of a corporate firm neither ensures an annul return nor ensures the return of principal. Therefore, investment in common stock is very sensitive on the ground of the risk. Dividends to common stockholders are paid only if the firm makes an operating profit after tax and preference dividend. The company can return the principal in case of its liquidation only to the extent of the residual assets after satisfying to all of its creditors and preference shareholders. Besides this, the investors have to sacrifice the return of their investment in common stocks, which could be earned investing the fund elsewhere in the next best alternative.

Therefore, a rational investor of common stock needs to consider at least one of following three factors:

1. Profitability of the corporation.
2. Net assets value per share.
3. Opportunity coast of the fund.

Nepalese stock market is an imperfect stock market, but in the case of only commercial bank sector it has been seen that there is perfect stock market because almost all the financial indicators are in increasing order with its market price, although market price is very much than its book value per share. Limited bulk investors, VIP shareholders, brokers, under writers and the firms are dominating the whole stock market. Their coalition, intention and rumors highly affect to the market price of their targeted corporations. Some of the firms under those industries have a market value per share less than the book value per share. Whereas in case of banking it is in some cases, 10 times greater than the book value per share.

Stock market in Nepal has not been properly analyzed and understood by many investors in Nepal and because of this there is degree of imperfection in the market. It is quit obvious that if any degree of imperfection prevails in any system that leads to a manipulation or an arbitrage opportunity to the players. Therefore, even if the investors are well known about the theory and concepts of the stock market, they fail in the reality because of the malpractices prevailed in the system. There are so many examples where investors failed when they based their decisions on the theoretical knowledge of the stock market. Stock market in Nepal is required to an overall restructuring because there is a huge gap between the generalized theories of stock prices and the reality so happening here in Nepal. Stocks market behaves generally in response to the whims and rumors spread by the major players of the market in most of the times than the actual financial performances of the companies shown by the indicators.

5.3 RECOMMENDATIONS

1. Mutual fund should be promoted for collect small amount of low income level people and to give them the opportunity of getting the benefit from the financial sector investment.
2. Central depository system should be initiated for making the faster transaction of stock.
3. The promoters of stock issuing company, the management, the VIP shareholders and the market makers should not encourage to rumors which ultimately vanish the stock market. Rumors and other artificial factors as well as the intangible factors make the security market inefficient which becomes a hurdle for the smooth growth of the stock market. Thus the intelligent stakeholders of the stock market should make the ordinary stock investors aware about the rational investment decision by disseminating the proper massage.
4. Speculation and potential investors are scattered. It should be made possible for them to transact in the secondary market easily. Most of the scattered shareholders and potential investors are passive due to inaccessibility of the security exchange. They should be brought into the boundary of security market in order develop the stock market.
5. Speculation should be discouraged since it inflates the price of stocks. Speculators, holding bulk shares, raise the rumors that the uneducated and irrational investors believing it give rise to demand. Supply being controlled by the speculators; they take undue advantages of the artificially increased price of stocks. Speculation involves high degree of risk and it is a short period effect making the stock market inefficient. It should be discouraged through increasing awareness among the outstanding and potential investors.
6. Security board and security exchange centre should attempt to make aware to the investors regarding the factors which ought to be considered for making less risky and rational investment. The authorities related to the stock market should have effective packages and programs to educate and train to the stake holders who directly involve in security transactions. This can be done by;
    a. Publishing the matters of stock investment more frequently.
    b. Disseminating the recent information and knowledge through mass media.
    c. Launching program like seminars, workshops trainings, round table talks, ect. Which develop a skill and awareness among the investors and market makers.
7. The corporate firms should communicate the real financial statements. Value of assets and liabilities should not be manipulated to report the under or over profitability. Every decision of the corporation should be made to maximize the value of the firm and value per share.
8. Corporate firms should not hesitate to hire the experts of financial management. Of course, they get the advantages in excess of the costs of hiring such manpower.
9. An attempt by the concerned stakeholders should be made to establish a credit rating agency.
10. Immediate action should be taken by the concerned authority over the market makers indulging in unethical transactions and activities.

11. Few years' back, NG had announced a tax on dividend income. It is quite unjustifiable and discouraging to the potential common stock investors. Therefore income tax should not be imposed on dividend income since the corporation already pays income tax on total profits before distributing dividends.
12. Investors should make their investment decisions based on financial parameters of the company. They should not rush over the rumors.
13. Price should be paid for shares correlating it with at least one of the following:
    a. Net worth per share.
    b. Dividend yield plus growth rate.
    c. Opportunity cost market rate of return

    If the investors have no idea about the proper valuation of securities, they can consult with the expert of this sector. At least, they can take advice to subject faculties of different universities.
14. There is a great potentiality of starting financial consultancy and research institutions on financial market. This is an opportunity to the finance intelligent. The authorities should encourage the up comers and established academicians and practitioners to initiate such career. This will definitely contribute in maturing the financial market/
15. I strongly suggest to the further researchers on this area to take more samples and all the sector, if possible the whole population, and more intensive primary data based research to generalize the facts about the market value per share of common stocks. But it requires a great deal of effort to collect the data of other corporate firms that are not included in this research.

Last but not least, all the stakeholders of the Nepalese stock market should realize that our stock market is in infancy stage. There are many arbitrage opportunities prevail in our system. Therefore, if sufficient concern is not paid by every stakeholders of our financial system, it is sure that the same indecisive situation may last even for coming many years.

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APPENDIX

ANNEX-I

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF NABIL BANK LTD.

Indicators	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	2.51	2.72	2.96	2.85	2.72
ROE	31.67	30.73	30.69	33.88	32.16
EPS	84.66	92.61	103.45	129.21	137.08
DPS	50	65	70	85	140
BVPS	267.3	301.37	337.16	381.36	418
MVPS	734.01	998.66	1502.98	2236.99	5050

Source: Annul Report (2009-2010), SEBO Nepal

ANNEX-II

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF NEPAL SBI BANK LTD.

Indicators	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	0.64	0.72	0.55	0.90	1.83
ROE	8.56	9.71	8.33	11.91	26.95
EPS	11.74	14.25	13.29	18.27	39.35
DPS	8	0	0	5	47.59
BVPS	134.05	146.80	159.54	153.44	161.29
MVPS	259.06	310.44	334.84	619.23	1176

Source: Annul Report (2009-2010), SEBO Nepal

ANNEX-III

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF BANK OF KATHMANDU LTD.

Indicators	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	1.10	1.34	1.32	1.65	1.80
ROE	14.18	19.52	18.11	31.65	38.75
EPS	17.72	27.40	31.10	43.67	43.50
DPS	5	10	15	48	-
BVPS	124.93	140.37	155.47	181.14	162.81
MVPS	198	295	430	850	1375

Source: Annul Report(2009-2010), SEBO Nepal

ANNEX-IV

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF STANDURED CHARTERED BANK LTD.

Indicators	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	2.41	2.28	2.46	2.56	2.42
ROE	37.03	35.96	34.08	37.56	34.55
EPS	149.30	143.55	143.55	143.55	167.38
DPS	120	110	120	140	130
BVPS	403.16	399.24	422.37	468.22	483.29
MVPS	1640	1745	2345	3775	5900

Source: Annul Report(2009-2010), SEBO Nepal

ANNEX-V

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF HIMALAYAN BANK LTD.

Indicators	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	0.91	1.06	1.11	1.54	1.47
ROE	19.95	19.87	20	25.90	34.90
EPS	49.45	49.05	47.91	59.24	60.66
DPS	25	20	37	35	40
BVPS	247.82	246.93	239.59	228.72	264.74
MVPS	836	822.37	750.58	1100	1740

Source: Annul Report (2009-2010), SEBO Nepal

ANNEX-VI

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF NIC BANK LTD.

Indicators	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	0.62	1.15	1.52	0.06	1.19
ROE	4.54	11	16.63	0.85	19.36
EPS	5.19	13.65	22.75	16.10	24
DPS	-	-	20	10	21.05
BVPS	110.42	124.08	136.48	127.74	143.74
MVPS	180	218	366	496	950

Source: Annul Report (2009-2010), SEBO Nepal

ANNEX-VII

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF LAXMI BANK LTD.

Indicators	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
ROA	0.09	0.40	0.69	0.68	0.95

ROE	**0.32**	**1.88**	**4.11**	**5.2**	**27.10**
EPS	**0.31**	**1.90**	**4.34**	**5.80**	**10.75**
DPS	**-**	**-**	**-**	**-**	**-**
BVPS	**99.04**	**101.32**	**105.53**	**111.33**	**119.47**
MVPS	**99.04**	**156.06**	**257.06**	**368.05**	**690**

Source: Annul Report (2009-2010), SEBO Nepal

ANNEX-VIII

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF KUMARI BANK LTD.

Indicators	**Fiscal Year**				
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**
ROA	**0.42**	**1.01**	**1.18**	**1.15**	**1.48**
ROE	**3.45**	**10.88**	**16.98**	**12**	**19.61**
EPS	**3.56**	**11.09**	**17.58**	**16.59**	**22.70**
DPS	**-**	**-**	**-**	**20**	**21**
BVPS	**103.15**	**101.95**	**103.52**	**138.22**	**149.32**
MVPS	**103.15**	**101.95**	**269**	**443**	**830**

Source: Annul Report (2009-2010), SEBO Nepal

ANNEX-IX

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF MACHHAPUCHRE BANK LTD.

Indicators	**Fiscal Year**				
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**
ROA	**0.64**	**1.35**	**1.31**	**1.48**	**0.69**
ROE	**3.05**	**8.42**	**4.11**	**14.39**	**8.66**
EPS	**2.81**	**8.49**	**15.43**	**18.74**	**9.02**

DPS	**-**	**-**	**-**	**15**	**10**
BVPS	**92.19**	**100.77**	**115.95**	**130.22**	**132.62**
MVPS	**101.07**	**125**	**256**	**246.15**	**620**

Source: Annul Report (2009-2010), SEBO Nepal

ANNEX-X

MAIN INDICATORS OF FINANACIAL PERFORMANCE OF LUMBINI BANK LTD.

Indicators	**Fiscal Year**				
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**
ROA	**2.59**	**0.43**	**-4.38**	**-18.92**	**3.37**
ROE	**26.51**	**4.65**	**-46.28**	**-303.63**	**35.23**
EPS	**25.47**	**5.33**	**-39.35**	**-161.21**	**32.07**
DPS	**-**	**-**	**-**	**-**	**-**
BVPS	**96.30**	**84.71**	**49**	**144.41**	**71.61**
MVPS	**-**	**-**	**180**	**172**	**505**

Source: Annul Report (2009-2010), SEBO Nepal