

CHAPTER-I

INTRODUCTION

1.1 General Background

As the characteristics of most of the underdeveloped countries, agriculture is the means of livelihood for the majority of population, main source of gross domestic production, income and employment generation of Nepal. But non-agricultural sector's contribution is also significant. The overall economic growth rate 2.5% in the fiscal year 2006/07. In the FY 2006/07, the growth rate of agriculture product and non-agriculture products were 0.70 % and 3.60 % respectively. (Budget speech 2065/66)

The main contributors in economy from non- agriculture sector are commercial Banks and Finance companies. The contribution of commercial Banks to the total annual turnover is the highest, and that of Finance Companies is ranked second. The other contributors are Development Banks, Manufacturing and processing industries, Hotel and trading firms.

For efficient mobilization of financial resources, the financial market has an intermediary role to bridge funds from surplus units to deficit units. Financial markets provide a forum in which suppliers and demanders of funds can transact business funds directly. Financial market constitutes of money market and capital market. The money market is created by a relationship between suppliers and demanders of short term funds, which have maturities of one year or less. Most of the money market transactions are made in marketable securities, which are short term debt instruments such as treasury bills, commercial papers, and negotiable certificates of deposit issued by government, business and financial institutions. On the other hand, capital market is the place where financial claims and obligations of maturity period of more than one year are bought and sold. The money market exists because certain individuals, business, governments, and financial institutions have temporarily idle funds that they wish to place in some type of liquid

asset or short-term interest-earning instruments. At the same time, other individuals, governments, business and financial institutions find themselves in need of seasonal or temporary financing. The money market thus brings together these supplies and demanders of short term liquid funds.

The capital market is a financial relationship created by a number of institutions and arrangements that allow the suppliers and demanders of long term funds-funds with more than one year- to make transactions. The backbone of capital market is formed by various securities exchanges that provide a forum for debt and equity transactions.

Capital market is further divided into primary and secondary market. In primary market, stocks and bonds are initially issued and sold. In secondary markets, securities that are issued in primary market are subsequently traded. The majorities of the market transactions occur in this market and proceeds do not go to the original issuers but to the owners of the securities.

Securities exchanges provide the market place in which firms can raise funds through the sale of new securities and purchasers of securities can maintain liquidity by being able to easily resell them when necessary. Many people call securities exchanges “Stock markets”, but this level is somewhat misleading because bonds, common stock, preferred stock and variety other investment vehicles are all traded on these exchanges (*Gitman, 1988:36*).

The stock market is one of the forms of the secondary market. It is the major component of the securities market and also the medium through which corporate sector mobilizes funds to finance the productive projects by issuing shares in the market. It is a place where shares of listed companies are transferred from one hand to another at a fair price through an organized brokerage firms.

For the transactions of the securities to be made, the company should be listed in the stock exchange. Listing means the registration of issued securities with the stock exchanges to make them eligible for trading. Corporate sectors generally raise fund through the market either by issuing the common stocks or preferred stocks or debt instruments likes bonds or debentures. If the features of marketability and liquidity are not added, nobody will be interested to invest, hard earn savings in these instruments. This is simply because the investors are if in need of funds, the invested securities cannot be sold in the market. So the listings of these securities are essential.

Securities Exchange Act. 2040 also prohibited the trading of unlisted securities. It has the provision for listing, which clearly states that no securities can be traded without listing. It means all the public limited companies must enlist their securities.

In order to enlist the securities with stock exchanges, the company must submit the application form in the prescribed formats along with required documents and listing and annual fee. These documents are essential to analysed the profitability of the company, to be assured that the company will be able to reward its shareholders, to be assured that the proposed to enlist will be traded frequently in the trading floor.

For this some requirements should be met, such as size of the company, number of the year in business, earning records, number of shares outstanding, and their market value. The securities market provides at least four economic functions as follows:

-) Security exchange facilitates the investment process by providing a market place to conduct efficient and relatively less-expensive transactions. The investors are thus assured that they would have place to see their securities.
-) The investors are capable of handling continuous transactions; testing the value of securities; record judgments on the values and prospects of the

company. Those prospects are judged favorably by the investors; have higher values, which facilitate new financing and growth.

- J Security prices are more stable because of the operation of the security markets. They improve liquidity by providing continuous markets that make a more frequent but smaller price change.
- J The securities market aid in the digestion of security issue and facilitate their successful flotation (*Weston and Copelan 1992:86-92*).

Most of the investors are risk avoider who often are reluctant to tie up their saving into the long-term investment. So they are highly attracted by the liquid stock market that makes the investments less risky and more attractive. This encourages savers to invest even in the long term projects, because they can sell their securities easily and quickly if they want to get back their savings before the maturity period of their holdings. Then, the companies get easy access to the capital through issuance of shares. Stock market liquidity is positively and robustly correlated with contemporaneous and future rates of economic growth, capital accumulation and productivity growth” (Ross and SARA, 1998:554). Thus, the stock market is the backbone for the development, growth, and smooth functioning of the capital market.

In order to allocate capital efficiency and to maintain higher degree of liquidity in securities, the stock market should be efficient enough in pricing the shares solely by economic considerations based in publicly available information.

Efficiency in the stock market implies that all available relevant information regarding a given stock is instantly reflected in its price. An efficient market is one where the current price of security (share) gives the best estimate of its true worth. It is not possible to systematically gain or loss abnormal profits on the basis of available public information. In such an efficient market, the prices of securities reflect investor’s estimates level of return and risk in future cash flows. The higher securities that are priced efficiently guide the financial market allocating funds to the most productive use.

An efficient financial market exists when security prices reflect all available public information about the about the economy, about financial markets, and about the specific company involved. The implication is that market prices of individual securities adjust very rapidly to new information. As a result, security prices are said to fluctuate randomly about their “intrinsic” values. New information can result in a change in the “intrinsic value of the security, but subsequent security price movement will follow what is known as random walk (changes in price will not follow any pattern).

Expressed more formally, market efficiency means that the unanticipated portion of the return earned on a security is unpredictable and, over a sufficient number of observations, it does not differ systematically from zero. The unanticipated portion is simply the actual return less that which was expected based on some fundamental analysis (e.g., its “intrinsic” value). Put differently, it is surprise element (Hampton, 1993).

Nepal’s economy is in developing phase. So, in order to speed up this pace of economic development, financial sectors may have crucial role, as they accumulate scattered savings for capital formation. In Nepal the public investors are interested to invest in the common stock of financial institutions, as a result of which such institutions’ shares are being traded among them in the secondary market in larger volume every day.

1.1.1 Constituent of capital market in Nepal

Security Board, Nepal [SEBO/N]

Security board Nepal was established on may 26, 1993 under the provision of the security exchange act, 1983. It was established with the objectives of the promoting and protecting the interests of investors by regulating the securities market. It also assumes the responsibility of development of securities market in the country, besides the regulatory role. Security Board has identified the policy development, legal and

regulatory reform, Stand rising disclosures, bringing enforcement to insure compliance and promoting broad based market as priority area to reform. The private sector has also been participating equally in establishing a sound system of security exchange in private sector - investors , listed companies , financial and market intermediaries and in government sector - Ministry of Finance, Registrar of companies (Ministry of Industry , commerce and Supply), Nepal Rastra Bank, Nepal Stock Exchange, Federation of Nepalese Chamber of Commerce and Industries(FNCCI), Institute of Chartered Accountants of Nepal(ICAN)and Association of Chartered Accountants have been playing vital role in promoting the capital market of the country. The objectives of the Board are to promote and protect the interest of the investors by Regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities, to supervise, look after and monitor the activities of the stock exchange and other related firms on securities business, and to render contribution to the development of the capital market by making securities transaction fair, healthy, efficient and responsible.

(SEBO/N Annual Report 1999/00)

1.1.2 Nepal Stock Exchange (NEPSE)

Along with the formation of Security Exchange Board, Government of Nepal converted the Securities Exchange Centre Ltd. into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with a view to reform the capital market. It is a non- profit making organization operating under securities exchange Act. 1983. Brokers and market makers operate on the trading floor as per the Securities Exchange Act rules and bylaws of (NEPSE). Nepal Stock Exchange started its trading operation on 13 January 1994 through its licensed members. The Security Board was constituted in 1993 under sec. 1 on the Securities Exchange Act. 1983.

Its main objective is to provide essential policy direction for the systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of the investors. Nepal Stock Exchange is a trading (operational) institution, whereas Security Board is the regulating body. Before the Board came to existence, the securities exchange centre carried on both the functions. Though any corporate body desirous to carry out the transactions of securities can submit application to the Board for obtaining the license, till now Nepal Stock Exchange Ltd. alone is representing the securities market in the country.

At present, there are 31 valid member brokers and 147 listed companies. NEPSE has adopted an “open out cry” system. It means transaction of securities are conducted on the open auction principle on the trading floor, where the price is determined when bid and offer price match. The rate of brokerage on equity transactions ranges from 1 to 1.5 percent developing on the traded amount.

Similarly the basis objectives of the NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions on its trading floor through market intermediaries such as brokers, market makers etc. Nepal Stock Exchange (NEPSE) is the only organized stock exchange of Nepal.

1.1.3 Securities Market

In simple sense, securities market is the place where people buy and sell financial instrument. These financial instruments may be in the form of government bonds, corporate bonds or debentures, ordinary share, preference share etc. So far Security market is concerned; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers and all the agencies and institution that assist the sell and resell of corporate securities. Although security market is concerned in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of

securities. Security market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. In order to allocate capital efficiently to maintain higher degree of liquidity in securities, the security market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

An efficient market is one where current price of the shares gives the best estimate of its true worth. Thus, the securities market is a place where shares of listed companies are traded or transferred from one to another a fair price through the organized brokerage system. The major function of securities market is a competitive price thereby, importing future market ability and liquidity. It is a medium through which scattered savings and scarce resources are transferred to productive areas that ultimately help in the economic development and industrialization of the nation.

The first public floatation of shares in the securities market was initiated by Biratnagar Jute Mills Ltd in 1937. There were very few companies in Nepal issuing shares to the general public until another company Act came into operation in 1951. In the absence of developed security market in Nepal, the government was the sole issuing authority of Development Bonds and National Certificates. Therefore, the securities generally in the market were mainly the government securities. Government securities are fully traded under the management and supervision of Nepal Rastra Bank (NRB). Institutional Development of securities market in Nepal started from the year 1976 when securities exchange centre (SEC) was established under the company Act with the joint capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation. The Industrial policy of the government also encouraged the promotion of securities exchange activities in Nepal. The main objective of the establishment of the centre was to mobilize public savings and encourage the people to participate in the ownership of industries and business enterprises. As a securities market intermediary, its role was to organize and provide marketing facilities of channeling securities exchange business through the centre. Its activities included the purchase, underwrite and sale, directly or through the

licensed brokers or sub-brokers of the centre, the shares, stocks and debentures of public limited companies and also Development bond as well as Treasury bills issued by the Government.

1.2 statement of the problem

Most of the investors are not aware of the financial position of the company in terms of their financial indicators like NWPS, EPS, DPS, ROE, etc. Instead, in determination of MPS, there has been major influence of rumors, and the external political, social environment, rather than the strength of the company. The MPS of the commercial banks, especially foreign joint venture banks has been much higher than MPS of other sectors. Moreover, the overall NEPSE is depended upon MPS of such companies. Generally, the trend is that the MPS of the quoted companies is above their book value. The market value is determined by the supply and demand functions. However, in an efficient market MPS fully reflects all the historic information publicly available.

The efficiency of the Nepalese share market is questionable. The high movement of share price may be the outcome of the efficient market behavior. An article in Spot Light states that” our stock market is not efficient enough since all the listed companies produce timely financial statement or annual reports to the investors. The dubious and the hazardous movement of share prices has no sound fundamental backing of analysis and relationship to past results revealed in limited financial statements. It is because the share price has crossed the boundary of the calculated dividend yield, net worth and price multiples. The investors conclude that there has been foul playing using inside information. The reaction is based on the assumption of strong form of market efficiency. The Securities Exchange Act strictly prohibits the misuse of inside information but the regulating authorities can make no advance notice of how there is the use of inside information” (Shrestha).

Thus major issues might be whether the MPS of the listed are really representing the financial indicators, i.e. NWPS, EPS, DPS, ROE, etc. and to what extent the risk is involved in the investment of common stocks of the selected companies.

More specifically, the research problems area:

-) Is there any specific relationship of MPS with fundamental financial indicators (EPS, NWPS, DPS, ROE, etc)?
-) Are the investors well aware of the trend of financial indicators which have major influence on determining MPS?
-) Is the investment in the common stocks of the sampled companies equally risky from a view point of an investor?
-) Are the common stocks of the sampled bank have equilibrium-priced?
-) Does the external environment (political, social, etc) have any affect on the MPS?

1.3 Objectives of the Study

The main objectives of the study are as follows:

-) To examine and evaluate the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE, etc.
-) To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
-) To find out whether stocks of the sampled companies are equilibrium-priced or not.
-) To identify qualitative factors affecting the stock price.

1.4 Significance of the Study

In these days, the interests of the peoples are growing up rapidly toward security market. Peoples are attracted to invest in shares for the purpose of getting higher return. Therefore regularity and stability of dividend policy is an effective way to attract the large number of investors, to maintain satisfaction of investors and to earn goodwill.

Capital market plays a crucial role for the investors to select appropriate sector to invest. Numbers of investors will apply for owner's certificate through capital market when the company issues shares for public offering. While investing in shares the investor foregoes opportunity income that he could have earned. Actually; in capital market the investors can earn or make profit by two ways (a) by means of dividend (b) by capital gain i.e. increase in share price. In our country, most of the companies are not adopting the appropriate dividend policy and practice so it seems very important for our perspective.

Significance of the study is pointed as below,

- I. It will be very useful to the concerned people like shareholders management and policy makers.
- II. It may be useful to government as well as commercial banks of Nepal for policy making controlling, supervision and monitoring.
- III. It will be helpful for the further researcher to find more about the related subject;
- IV. And, it covers the partial fulfillment of M.B.S.

1.5 Limitation of the Study

Every work has its own restriction and limitation due to the lack of time resources and knowledge. Despite the enough efforts of researcher, this thesis is not free from limitation. The study is presented just for the partial fulfillment of M.B.S. (Master's of Business Studies) degree. The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis.

-) This thesis is based on secondary data collected from concerned banks. Thus, the result of the analysis depends on the information provided by them.

- J This thesis covers three commercial banks only viz. NABIL Bank Ltd, Nepal Investment Bank Ltd. And Standard Chartered Bank Ltd. only.
- J The thesis is limited to analyze five years period i.e. from FY (2003/04 to 2007/08).
- J Standard normal performance level is not available especially in Nepalese context. So, interpretations of data are depended upon common sense. In thesis context concerned experts are also consulted.
- J The source of data i.e. published annual report and internet web site is assumed to be correct.

1.6 Organization of the Study

The study has been divided into five chapters as follows:

Chapter I: Introduction

Chapter II: Review of Literature

Chapter III: Research Methodology

Chapter IV: Data Presentation and Analysis

Chapter V: Summary, Conclusion and Recommendation

Chapter first includes general introduction, statement of the problem, objectives of the study, importance of the study, limitation of the study and organization of the study.

Chapter second consists of the review of books, articles, previous master's thesis, journals, reports and other relevant materials.

Chapter third covers research design, population and sample, sources of data, data gathering procedure, analytical tools, etc.

Chapter fourth attempts to analyze and evaluate data with the help of analytical tools and interpret the result obtained.

Chapter fifth is the final chapter of the study, which consist of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances of the three banks under review.

Finally bibliography and appendix are represented at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is one of the most significant parts of research. It will be better to review some fundamental aspects of relevant literature before doing analysis. So, it is attempted to present brief glimpses on the common stock as well findings of the related previous studies. The review of literature has been divided into three broad categories which are as follows:

2.2. Conceptual Framework [Review of Books]

Conceptual framework involves some of the technical terms, which are in frequent use in researches regarding capital market and finance. Thus, before going into the details of factors affecting stock price of *Commercial Banks*, some the relevant technical terms related to capital market are defined and discussed here.

2.2.1 Common Stock [Shares]

The common stock represents ownership in the company. The holders of common stock, called shareholders or stockholders, are the legal owners of the company. The common stocks are the permanent and vital source of capital since they do not have a maturity date. For capital contributed by the shareholders by purchasing the common stock, they are entitled to dividends. The amount or the rate of the dividend is fixed by the board of directors. The common stock is therefore known as the variable income

security. Being the owners of the company, the shareholders bear the risk of ownership; they are entitled to dividends after the claims of other have been satisfied. Similarly, when the company is wound up, they can exercise their claims on assets after the claims of other suppliers of capital have been made (*Pandey, 1995:905*).

The common stocks are issued by the firms to raise the ownership capital and the investors buy them with the expectation that they receive a share of profit periodically. The common stocks legally raise the equity of a business firm, and the holders are the owners who share all the profits and the losses of the business. They enjoy all the earnings after meeting the obligation of interests on debt and dividends on preferred stocks. Thus, they enjoy all net benefits of the business by assuming the risk of losing their capital (*Pradhan: 132-133*)

Common stock is a security representing the residual ownership of a corporation. It guarantees only the right to participate in sharing the earning of the firm, if the firm is profitable. Common shareholders usually have the additional right to vote at stockholders meeting on issues affecting fundamental policies of a corporation. Also, the shareholders have the right to elect the members of the board of directors, the right to inspect the firm's books, and the right to obtain the list of the names and the addresses of other shareholders (*Hampton, 1994:31*)

Shares of common stock are units of ownership interest, or equity, in a corporation. Common shareholders expect to earn a return by receiving dividends- periodic distribution of earnings- or by realizing gains through increases in share price (*Gitman, 1988:33*)

Features

Claim on income: The common stockholders have a claim to residual income, which is earning available for ordinary shareholders, after paying expenses, interest charges, taxes and preference dividends, if any. The income may be split into two parts,

dividends and retained earnings. Dividends are immediate cash flows to shareholders, whereas retained earnings are reinvested in the business. A company is not under a legal obligation to distribute dividends out of the available earnings.

The claims of equity holders on income cannot be paid until the claims of all creditors have been satisfied. These claims include both interest and scheduled principal payments. Once these claims have been satisfied, the firm's board of directors can decide whether to distribute dividends to the owners. Of course, a firm's ability to pay dividends may be limited by legal, contractual, or internal constraints (*Gitman, 1988:604*).

Claim to Assets: The common stockholders have a residual claim on company's assets in case of liquidation. Out of realized value of assets, first the claims of debt-holders and then preference shareholders are satisfied, and the remaining balance, if any, is paid to the common stockholders.

The claims of equity holders on the firm's assets are secondary to the claims of creditors. When the firm becomes bankrupt, assets are sold and the proceeds distributed in this order: to employees and customers; to the government; to secured creditors; to unsecured creditors; and finally to equity holders. Because equity holders are the last to receive any distribution of assets during bankruptcy proceedings, they expect greater compensation in the form of dividends or rising stock prices (*Gitman, 1988:604*).

Right to control: The ordinary shareholders have the legal power to elect directors to the board. If board fails to protect their interests they can replace the directors. They are able to participate in the management of the company through their voting right and right to maintain proportionate ownership.

Voting Right: The ordinary shareholders are required to vote in order to elect the directors and change the memorandum of association. e.g., if they want to change its authorized capital of the objective of business, they need ordinary shareholders' approval.

Generally, each share of common stock entitles the holder to one vote to the election of directors and in other special elections. Votes are generally assignable and must be cast at the annual stockholders' meeting. Occasionally, **nonvoting common stock** is issued when the firm's present owners wish to raise capital through the sale of common stock but do not want to give up any voting power. When this is done, the common stock will be classed. Class A common stock is typically designated as nonvoting; class B common stock would have voting right. Because class A shares are not given voting rights, they generally have given preference over class B share in the distribution of earnings and assets. Treasury stock, which resides within the corporation, generally does not have voting rights (Gitman, 1988:606).

Pre-emptive Right: The law grants the shareholders the right to purchase new shares in proportion to their current ownership. Thus the pre-emptive right entitles a stockholder to maintain his proportionate share ownership in the company. The stockholder's option to purchase, a stated number of new shares at a specified price during a given period, is called rights which can be exercised at a subscription price which is generally much below the current market price of shares.

Many issues of common stock provide shareholders with pre-emptive right, which allow stockholders to maintain their *proportionate* ownership in the corporation when new issues are made. Most states permit shareholders to be extended this privilege in the corporate charter. Pre-emptive rights allow existing shareholders to maintain their voting control and protect against the dilution of their ownership and earnings. Dilution

of ownership usually results in the dilution of earnings, since each present shareholder will have a claim on a smaller part of the firm's earnings than previously (*Gitman, 1988:610*)

Under a preemptive right, existing common stockholders have the right to preserve their proportionate ownership in the corporation. If the corporation issues additional common stock, they must be given the right to subscribe to the new stock so that they maintain their pro rate interest in the company. You may own 100 shares of a corporation that decides to make a new common stock offering for the purpose of increasing outstanding shares by 10%. If you have a preemptive right, you must be given the option to buy 10 additional shares so that you can preserve your proportionate ownership of the company. Various states have different laws regarding preemptive rights, But most of them provide that a stockholders has a preemptive right unless the corporate charter otherwise denies it (*Van Horne, 1993:550*).

Limited Liability: The common stockholders are the true owner of the company, but their liability is limited to the amount of their investment in the shares. If a stockholder has already fully paid the issue price of share purchased, he was nothing more to contribute in the event of financial distress or liquidation. The limited liability feature of share encourages unwilling investors to invest their funds in the company which helps company to raise funds (*Panday, 1995:905-908*).

Maturity: Equity capital is a permanent form of financing. It does not "mature", and therefore repayment of the initial amount paid in is not required. Since equity does not mature and will be liquidated only during bankruptcy proceedings, the owners must recognize that although a market may exist for the firm's shares, the price that can be realized may fluctuate. This potential fluctuation of the market price of equity makes the overall returns to the firm's owner even more risky (*Gitman, 1988:604*).

Tax Treatment: Interest payments to debt holders are treated as tax-deductible expenses on the firm's income statement, whereas dividend payments to common and preferred stockholders are not tax deductible. The tax-deductibility of interest primarily accounts for the fact that the explicit cost of debt is generally less than the explicit cost of equity (*Gitman, 1988:604-605*).

Some Features of Common stock are described as follows:

The corporate charter of a company specifies the number of authorized shares of common stock, the maximum that the company can issue without amending this charter. Although amending a charter is not a difficult process, it does require the approval of existing shareholders, which takes time. For this reason, a company usually likes to have a certain number of shares that are authorized but unissued. When authorized share of common stock are sold, they become issued stock. Outstanding stock is the number of shares issued and actually held by the public; the corporation can buy back the part of its issued stock and hold it as treasury stock.

A share of common stock can be authorized either with or without par value. The par value of the stock is merely a stated figure in the corporate charter and is of little economic significance. A company should not issue stock at a price less than par value, because stock holders who bought stock for less than par would be liable to creditors for the difference between the below par price they paid and the par value. Consequently, the par values of most stocks are set at fairly low figures relative to their market values.

The book value of a share of a stock is the shareholders' equity of a corporation less the par value of preferred stock outstanding divided by the number of shares outstanding.

Although one might expect the book value of a share of stock to correspond to the liquidating value (per share) of the company, frequently it does not. Often assets are sold for less than their book values, particularly when liquidating costs are involved. In some cases certain assets- notably land and mineral rights-have book values that are modest in relation to their market value. Thus, book value may not correspond to liquidating value and, as we shall see, it often does not correspond to market value (Van Horne, 1993:28-29).

The dividends and value of the firm are linked with the earning power of the firms, which ultimately affects the market price of shares. So, brief discussions have been presented in the following paragraphs, on earnings per share, dividend per share, book value per share, and market price of share.

Earning per share (EPS)

Accounting earnings that represent the difference between revenues and expenses, including the expenses associated with non-equity source of funds (such as interest to debt, dividend to preference share) is also known as total earnings available for common stock. If this portion of income is divided by number of outstanding shares, we get EPS.

The firms EPS are generally of interest to present or prospective stockholders and management. The EPS represent the number of dollars earned on behalf of each outstanding share of common stock. They are closely watched by the investing public and are considered an important indicator of corporate success. EPS is calculated as follows:

$$\text{Earnings per share} = \frac{\text{Earnings available for common stockholder}}{\text{Number of outstanding shares}}$$

Number of shares of common stock outstanding

This is a market indicator of profits and the most important profit measure for stockholder and other individuals outside the firm. If the earnings continue to increase on a per share basis, the firm is judged to be increasingly successful. On the other hand, a drop in earning per share is viewed as a symptom of problems (Hampton,1994:145). Earning per share is calculated by dividing net income by the number of shares outstanding .Shares authorized but not issued, or authorized, issued, and repurchased (treasury stock), are omitted from the calculation (Hampton, 1994;116).

Retained Earning:

The Balance sheet account when indicates the total amount of earnings the firm has not paid out as dividend throughout the history; these earnings have been re-invested in the firm.

Dividend per Share (DPS):

The percentage of earnings the firm pays in cash to the shareholders is known as dividend. The dividends, of course, reduce the amount of earnings retained in the firm and affect the total amount of internal financing (Horne, 2000:305).

Nothing is more important than dividends to stockholders. They buy shares of firm with the hope of sharing profits earned by the firms. The sole motive of stockholders is receive return on their investment; nothing pleases them more then knowing the firms earning and more profits mean more dividends coming in (*Pradhan, 1996:375-376*).

The payment of corporate dividends is at the discretion of the board of directors. Most corporations pay dividend quarterly. Dividends may be paid in cash, stock of

merchandise. Cash dividends are the most common; merchandise dividends are the least common. The common stockholder is not promised a dividend, but he or she grows to expect certain payments based on the historical dividend pattern of the firm. Before dividends are paid to common stockholders, the claims of all the creditors, the government, and preferred stockholders must be satisfied (*Gitman, 1988:609*)

The common stockholder is very concerned about the position taken by the firm with respect to the payment of cash dividends. If the firm is paying insufficient dividends, the stock is not attractive to investors desiring some current income from their investment. If it pays excessive dividends, it may not be retaining adequate funds to finance future growth.

To pay consistent and adequate dividends, the firm must be liquid and profitable. Without liquidity, the firm cannot locate the cash needed to pay the dividends. Without profits, the firm does not have sufficient retained earnings to make dividend declaration. Firms cannot declare dividends if the balance in their retained earnings account is not at least as large as the amount of dividend. A more important factor is that, without profits, the firm does not have the resources to pay the dividends (*Hampton, 1994:120*).

Forms of dividend:

Cash dividends:

Payments made in cash to shareholders are termed as cash dividends. For which, a firm needs to have enough cash in its bank account. When cash dividend is declared, the cash account and reserve account of the firm will be reduced, thus both the total assets and the net worth of the firm are reduced in case of the distribution of cash dividend.

Bonus share (Stock Dividend):

An issue of bonus share represents a distribution of shares in addition to cash dividend (Known as stock dividend in U.S.A.) to the existing shareholders. This practice has the effect of increasing the number of outstanding shares of the company, which are distributed proportionately. Thus a shareholder retains his/her proportionate ownerships of the company (*panday, 1995:705-706*)

A stock dividend is the payment of a dividend in the form of stock to existing owners. Often, firms pay stock dividends as a replacement for or a supplement to cash dividends. Although stock dividends do not have a real value, stockholders may perceive them to represent something they did not have before and therefore to have value (*Gitman, 1988:625*).

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. This has the effect of increasing the number of outstanding shares the firm's stock. e.g. if a shareholder owns 100 shares of common stock at a time when a firm distributes a 5% stock dividend, the shareholder receives 5 additional shares.

There are several aspects of stock dividend:

The stock dividend allows the firm to declare the dividend without using up cash that may be needed for operations or expansion. Rather than seek additional external financing, the firm can retain funds that would otherwise be distributed to shareholders. Thus it helps conserve cash.

Normally a stock dividend is an indication of higher future profits. If the profits do not rise, the firm would experience a dilution of earnings is not desirable, stock dividends are usually declared only by boards of directors who expect rises in earnings to offset the additional outstanding shares.

If the regular cash dividend is continued after an extra stock dividend is declared, the shareholders receive an increase in future cash dividends.

Because of the positive aspects of stock dividends, the dividend declaration is usually received positively by the market. This tends to encourage investment in the stock, thus supporting or raising its market price. Instead of experiencing a drop in value after a stock dividend, the price may actually rise. Thus it has high psychological value.

The stock dividend differs from an issue of new common stock. If the existing shareholders do not have the funds to purchase new stock, their proportion of the ownership in the firm will decline as the new investors purchase shares. This is avoided by a stock dividend that is, it retains proportional ownership for shareholders (*Hampton, 1994:515-516*).

Stock split

Stock splits have an effect on the firm's share price similar to that of stock dividends. A stock split is the method commonly used to lower the market price of the firm's stock by increasing the number of shares belonging to each shareholder. Quite often, a firm believes that the stock is priced too high that lowering the market price is necessary to enhance the marketability of the stock and stimulate market activity. A stock split has no effect on the firm's capital structure. It commonly increases the number of shares outstanding and reduces the stock's per share par value. In other words, when a stock is split, a specified number of new shares are exchanged for a given number of outstanding shares. In a 2-for-1 split, 2 new shares are exchanged for a given number of outstanding shares. Sometimes, a reverse split is made. A certain number of outstanding shares are exchanged for old shares; in a 2-for-3 split, 2 new shares are exchanged for 3 old shares, and so on (*Gitman, 1988:627-628*).

A stock split is a change in the number of outstanding shares of stock achieved through a proportional reduction or increase in the par value of the stock. Only the par value and number of outstanding shares are affected. The amounts in the common stock contributed capital and retained earnings accounts do not change.

Just as the accounting values in the equity accounts do not change, the market price of the stock will normally adjust immediately to reflect a stock split.

Several reasons may be offered for the splitting of a firm's common stock, as follows:

Reduction of Market Price of Stock. The major goal of most stock splits is to reduce the per-share price of the firm's common stock. A lower price per share makes the stock more affordable in round lots (100 shares) to more investors. By reducing the price, the firm encourages more investors to purchase the stock, thus increasing demand and the market price of the stock.

Indication of Growth; The firm's management may use the stock split to inform the market that continued high growth is forecast. The stock of high growth companies would soon sell for several hundred dollars per share if it were not split periodically. The split thus might have informational value that the firm wants to avoid future high per share prices for its stock, which will occur due to growth.

Reverse Split-An Indication of Trouble. Instead of increasing the number of outstanding shares of stock, the firm may want to reduce the number. This can be accomplished through the reverse split, which is the reduction of outstanding shares. The reverse split is normally used to keep the price of the stock from falling below a certain level. The stock falling below the certain level and the need of the company to declare a reverse split to keep the piece up are both indicators of financial difficulty. If the firm is not in difficulty, it will expect the market price to rise above certain level due to future earnings, dividends or growth. With these prospects, it will not declare the reverse split. The declaration of a reverse split is an indication that the firm does not have such prospects (*Hampton, 1994:517-518*).

Stock Repurchase

A stock repurchase is made for a number of reasons: to obtain shares to be used in acquisitions, to have shares available for employee stock option plans, to achieve a gain in the book value of equity when shares are selling below the book value, or merely to

retire outstanding shares. The accounting entries that result common stock is repurchased are a reduction in cash and establishment of a contra capital account called “treasury stock”, which is shown as a deduction from the stockholders equity. The repurchase of stock can be viewed as a cash dividend, since it involves the distribution of cash of the firm’s owners, who are the sellers of the shares. The advantages of stock repurchase are an increase in per share earning and certain owner tax benefits. The tax advantage stems from the fact that if the cash dividend is paid, the owners will have to pay ordinary income tax on it. Of course, when the stock is sold, if the proceeds are in excess of the original purchase price, the capital gain will be taxed as ordinary income (*Gitman, 1988:628-629*).

A repurchase of stock occurs when a firm buys back outstanding shares of its own common stock. Firms repurchase stock of three major reasons:

1. *For Stock Options.* A stock option is the right to purchase a specified number of shares of common stock during a stated period and at a stipulated price. Stock option are frequently given to senior officers of a company as an incentive to work to raise the value of the firm. Repurchase of stock allows the firm to fulfill options without increasing the total number of shares outstanding.
2. *For Acquisitions.* When a firm is seeking control of another firm, it may be willing to offer its own common stock for the stock of the other firm. In this exchange of stock situation, the firm can repurchase stock to make the acquisition. This allows the takeover without increasing the number of outstanding shares and avoids a dilution of earnings.
3. *For retiring the stock, Thus Increasing Earnings per Share.* When a firm retires a portion of its stock, the retirement increases the firm’s earning per share. The repurchase of stock for the purpose of retiring it is treated as a form of cash dividend by the Internal Revenue Service.

The firm could have distributed dividends with the excess cash. Instead, it chose to reduce the number of shares outstanding so that future dividends could be increased.

With this motive, the repurchase decision can be treated similarly to a dividend decision (*Hampton, 1994:518-519*).

Net Worth per Share (NWPS)/ Book value per share

A corporation will generate income, much of which is paid out to creditors (as interest) and to shareholders (as dividend). Any remainder is added to the amount shown as cumulative retained earnings on the corporation's books. The sum of cumulative retained earnings and other entries (such as common stock and capital contributed in excess of par value) under shareholder's equity is the book value of the equity. The book value per share is obtained by dividing the book value of the equity by the number of shares outstanding (*Sharpe, Alexander, Biley, 2001:506*).

The book value of the equity reflects the historical costs of brick and meter- the physical assets of the company. A well run company with strong management and an organization that functions efficiently should have a market value greater than the historical book value of its physical assets (*Weston and Copelan, 1992:695*).

Organization that functions efficiently should have a market value greater than the historical book value of its physical assets

The accounting value of a share of a common stock equal to the common equity of the firm (common stock +retained earning) divided by the number of shares outstanding (*Weston and Brigham, 1987:674*).

Book value is generally considered to be relatively unimportant in determination of the value of the company –investments that may have little relating to current values of price (*Weston and Copelan, 1992:1113*).

Book value per share is simply the amount per share of common stock to be received if all assets are liquidated for their exact book value and if the proceeds remaining after paying all liabilities are divided among the common stockholders. This method lacks

sophistication and can be criticized on the basis of its reliance on historical balance sheet data. It ignores the firm's expected earnings potential and generally lacks any true relationship to the firm's value in the marketplace (*Gitman, 1988:259*).

The book value of a firm's common stock is calculated by dividing the stockholders' equity by the number of the shares outstanding. This ownership ratio is somewhat related to the capital structure ratios, since it measures the accounting value of a portion of the firm's assets-the portion financed by the owners.

Book value is the reflection of the accounting records of the firm rather than a strong measure of the real value of the firm's assets. If two otherwise identical firms used different depreciation schedule, the book value of their assets would be different. Historically, the book value has resulted from the use of conservative accounting techniques and has been lower than the market value of the stock. For this reason, it is of limited value as an ownership ratio. Three valid use of book value may be identified:

1. *Liquidation Value*. When a firm is experiencing liquidity or profitability problems, it may consider selling its assets, paying off its debt, and distributing the remaining money, if any, to its shareholders. In case of possible liquidation, the book value gives the indication of the amount that can be distributed to shareholders. If the firm can sell its assets for, say, 80% of the recorded asset value, and pays its debt at 100% value, the reminder is available for common shareholders. Normally, a firm with a high book value per share has more remaining for shareholders than a firm with a low book value per share.
2. *Market price near Book value*. In many cases, an interesting phenomenon occurs when a firm's market price nears its book value. Investors note that the firm's assets do support a certain price and do not allow the market price to drop below that price. In effect, the book value becomes a support level for the price of the common stock. In some cases, it may become a rallying point, and investor demand will begin to

push up the price of the stock. Analysts and investors take notice of the low market price in relation to book value and begin to purchase the apparently undervalued stock.

3. *Legal Proceedings.* In certain legal or tax proceedings, book value may have a use. It may become the taxable base for taxes on securities (*Hampton, 1994:119-120*).

Market price per share (MPS)

The market price of any asset, indeed, depends on the future earning power of the asset or the value of an asset depends on the future cash flows that the asset is expected to generate (*Pradhan, 1996:20*).

Once the shares issued in the primary market are listed in the stock exchange, investors are able to buy and sell the shares themselves with the help of brokerage firm. Generally the prices of shares are determined by demand and supply preferences.

Due to market imperfections and uncertainty, shareholders may give a higher value to the near dividends and capital gains. Thus, payment of dividends increases the value of shares and lower dividends reduce the value (*Pandey, 1995:681*).

Given the two companies in the same general position and with the same earning power, the one paying the larger dividend will always sell at higher price (*Pandey, 1995:687*).

Return on Equity

The ROE measures the return earned on the owners' (both preferred and common shareholders') investment. Generally, the higher this return, the better off the owners. Return on equity is calculated as follows:

$$\text{Return on Equity (ROE)} = \frac{\text{net profits after taxes}}{\text{Stockholders' equity}}$$

2.2 Review of Related Articles

Deepak Raj Kafle, in his articles “Building a Dynamic Capital Market” he concluded that the government sector involvement in the market operation should gradually be shifted to benefit from private sector efficiency and competition, and its focus should be towards strengthening the market regulator and in building market infrastructures. This would demand government to screen the different regulations based on their consistency with the overall economic and fiscal policies and not normally get involved in the details of regulation. This will help to rationalize the market which currently is requiring balancing the interest of the government sector stock exchange and SEBON as government regulator.

Government has recently announced opening of stock exchange for foreign investment. In the meantime, the mechanism for collective investment vehicles with proper enabling Trust Act would be a right step to increase the market depth and manage outward flow of investment. Now, the urgency is in establishing appropriate policies through regulation, and setting standards and procedural guidelines. In this process, some regulations viz. regulation enabling SEBON to exercise its regulatory powers, regulation requiring license for stock exchange and setting operational standards and regulation for licensing of brokers-dealers and setting their regulatory standards have already been developed by SEBON and awaiting government’s approval. Besides, merchant banking regulation covering issue management, underwriting and securities transfer registrar, and SEBON’s employee regulation have been drafted by the management are in the discussion stage at the board. Other draft regulations finalized by the management are securities registration and disclosure regulation and mutual fund regulation. The regulations, which are currently under the approval stage of the government, are very urgent to address the emerging issues in the market before the deadline of securities registration, and licensing of stocks exchange and business persons as set by the Securities Act.

The stock exchange needs to adopt the listing, membership and the trading by laws to give appropriate standards with in its jurisdictions. As the draft bylaws have already been suggested by the international experts, it should be adopted at the earliest. Furthermore, the stock exchange is in last phase of introducing trading automation under the Corporate and Financial Government project. It will add up efficiency and transparency of the market and pave the way for further extension to online trading.

Kiran Thapa, in his articles “Nepalese Securities Market: Regulation and Development.” He concluded that the weak performance of the market and slow pace of development. Several efforts were made to reform the market and improve market performance. However, these efforts have not become fruitful because of structural deficiencies in market mechanism. Lack of appropriate and standard legal framework has been the major reason for not improving efficiency of regulation. Various kinds of frauds and malpractices from the service providers have been noted. Investors are being the victims of market hypes, as their awareness level could not be raised adequately.

SEBON as being the regulator of securities market must be responsible for proper functioning of market. With the enactment of new Securities Act, SEBON should gear up for the overall development of the market. For this SEBON should give maximum emphasis to bring into implementation of the various regulations as provisioned by the Act. A prerequisite for this would be the capacity building of the regulator with adequate authority and operational autonomy, proper resources and experts, and technological enhancement.

SEBON should focus to play its role in infrastructure development, improvement of professionalism of the market participants, enhance disclosure standards, supervise market and take enforcement actions to ensure fairness and transparency in the market.

Gunakhar Bhatta, in his article “Financial policies to Prevent Financial Crisis”, Nepal Rastra Bank Samachar, the author has suggested that the financial markets have become an exciting, challenging and ever changing sector in the recent years. The emergence of global financial institutions as a result of increased economic liberalization has raised a host of questions for financial planners and policy makers. The growth of financial markets has caused complexities in the management and if they are not managed and addressed properly with appropriate policies, then the end result is the financial crisis. The financial crisis which took place in Chile in 1992, México in 1994, South Asian Countries in 1997, Russian Federation in 1998, Ecuador and Brazil in 1999 and Argentina in the late 2001 were the result of an abrupt growth in the size of financial markets posing serious challenges to their management. According to the author of the article, the financial crisis in most of the markets, particularly in emerging market, undergo several stages. The initial stage is deterioration’ in financial and non-balance sheets and which promotes the second stage that is currency. The third stage is a further determination of financial and non-financial balance sheets as a result of the currency crisis. This stage is the one that caused the economy to full-fledged financial crisis with its devastating consequences.

Policies to prevent Financial Crisis

The author has suggested following policies to be adopted for preventing financial crisis:

1. Prudential Supervision:

Banking sector problems promote most of the financial crisis. The experience of crisis hit countries show that the deterioration in banks balance sheet increase financial crisis. Further, foreign exchange crisis also lead to a full-blown financial crisis. The supervisory system must give special emphasis on following to prevent financial crisis:

- I) Stop undesirable activities of financial institutions.
- II) Adequate resources and statutory authority for prudential supervisors.
- III) Accountability of supervisors.

- IV) Restrictions on concerned lending.
- V) Limiting too-big to fail (too-bit-to fail is a policy in which all depositors at a big bank are fully protected if the bank fails).

1. Accounting standards and disclosure requirements:

It is true that both markets and supervisors need enough information so as to effectively monitor financial institutions to stop excessive risk taking. There is a practice of making bad loan to the troubled borrowers. As a result, it becomes harder for the markets or supervisors to decide when the banks are insolvent and need to be closed down. In this respect, implementation of proper accounting standards and disclosure requirements helps to established healthy financial institutions.

2. Legal and Judiciary system:

The efficient functioning of the financial system requires an efficient legal and judiciary framework in many developing countries; the legal system may not well be defined about the use of certain assets as collateral or makes attaching collateral a costly and time consuming process. Thus, an effective legal and judiciary system is required to secure the investment of the lender and other similar cases by decreasing information problem.

3. Monetary policy and price stability:

Monetary policy and price stability can also help to prevent financial crisis. When the countries have in past high inflation, foreign debt contracts make the financial system more fragile and thus trigger a financial crisis. Achieving price stability is a necessary condition for having sound currency and with sound currency it is easy to banks and non-financial firms and system government to raise debt in local currency.

4. Exchange rate regimes and foreign exchange reserves:

Exchange rate regime and foreign exchange reserves can also create financial instability. The experiences of crisis hit countries have also shown that economies with

low amount of foreign currency reserve seemed to be more vulnerable to crisis though, pegged/fixed exchange rate regime is an efficient mechanism is dominated by substantial amount of foreign debt. Thus, some researchers have advocated that increased holding of foreign currency reserves is required insulate countries for financial crisis.

5. Encouraging market based discipline:

Market based discipline is very much essential for a sound financial system.

This can be maintained by:

- Disclosure requirement, which provides information to the markets that, assist them to' monitor financial institutions and keep them away from taking on too much risk.
- Having credit ratings to financial institutions. Requiring them to issue subordinated debt.

6. Entry of Foreign Bank:

A liberalized economy with sound supervisory/regulatory infrastructure can permit foreign banks to enter in financial system. The adverse shocks in economy will not affect the functioning of these banks since their risk is diversifiable and their entry can encourage the adaptation of best practices in the banking industry. It is believed that these banks come with better risk management techniques and more efficient banking system.

7. Limitation of too-big to fail in the corporate sector:

When some corporate houses considered to be too-big-to fail (or politically influential) by the government, these corporations enjoy excessive risk taking. If such is the case, lenders do not hesitate to supply additional funds to the troubled corporations and which

violates the market discipline. Therefore, too-big to fails as in the banking sector should be eliminated.

In conclusion the author has remarked that there is no doubt is not doubt that the day to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experiences of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation in the global market place until a sound domestic infrastructure can be put into place.

2.3 Review of Related Thesis

Acharya (2007), In his thesis entitled “The impact of information of share price” has pointed out following objectives:

1. To determine the impact of dividend declaration on share price.
2. To analyze the effect of EPS on share price.
3. To determine the impact of ROE on share price.
4. To determine the impact of Nepal Rastra bank’s directives on share price.

Major Findings of this study are as follows:

1. MPS of SCBL is positively correlated with DPS and ROE but negatively correlated with EPS. The relationship is statically insignificant at the level of 5%.
2. MPS of NSBL is negatively correlated with EPS, DPS and ROE respectively. However the relationship is statistically insignificant at the level of 5%.
3. The relationship between MPS and DPS as explained by the simple regression analysis is significant at the 5% level only for NSBL. Therefore, the model explains that NSBL’s MPS highly depends upon DPS.

Chapalu (2008), in this thesis entitled “A Study on the Behavior of Stock Market Prices

in Nepalese security Market” has pointed out following objectives:

-) To study and analyze the stock price trend and volume of stock traded on the Nepal stock exchange.
-) 2. To study and analyze the investors views regarding to the investment in Nepalese Stock Market.
-) To study and analyze the signaling factors impact on stock price with the help of NEPSE index.
-) To find out the correlation coefficient of the sample companies.
-) To forecast the future market prices by using regression analysis.
-) To provide suggestion and recommendation based on findings of the studies.

Major Findings of the Studies are as follows:

-) Paid up value indicates the actual amount of the investment in assets whereas market capitalization indicates the present value of the investment.
-) When analyzing the regression analysis between EPS and market price, all sample companies had positive regression coefficient which indicates that the forecasted price will be interested in an average.
-) On analyzing the primary data major portion of the investors would like to invest their money in banking sector.
-) Investors have poor understanding and knowledge about stock market. It was found when analyzing the primary data.
-) Lacks of awareness in the investors are major problems in Nepalese Securities Market.
-) Analyzing the primary as well secondary data it was also found that the Nepalese Stock Market is in developing stage.
-) Volume of stock traded in stock in sock exchange during the study period was found in increasing trend except the fiscal year 2000/01and 2002/03.

Subedi (2008) in his thesis entitled ‘Determinants of stock price in Nepal Stock Exchange(with special reference to joint venture bank)’ has pointed out following objectives:

Investors require proper knowledge of share price i.e. how it is formed, why does it fluctuate, what factors are responsible for the determination of its price and so on. A few studies have been made regarding securities listed in NEPSE, however, most of the studies made up to present n capital market are related to the financial performance evaluation, capital structure analysis, dividend policy, risk and return etc. But sufficient researchers have yet not been done to provide core perspective on the determinants of stock price. Thus, the present study will be very much important to the investors, planners, researchers, student and policy makers to get the deep insight into the concerned field on the study. Therefore, this study aims to identify the factors responsible for determinants of stock price and their relationship with the stock price, so that it will give a better insight into the stock price. Furthermore, this study is proposed to meet the following objectives.

-) To identify qualitative as well as qualitative factors affecting the stock price in NEPSE with focus to commercial banks.
-) To determine the effect of earnings and book value to the stock price.
-) To determine the effect of dividend to the stock price
-) To make appropriate recommendations/ suggestions for the betterment of the stock market and so on.

Major Findings of the studies:

In this study both of the primary as well as secondary data are analyzed. The researcher with the help of research questionnaire gathered primary data which helped to identify the factors affecting stock price. Similarly, with the help of secondary data, the

relationship of market price per share with dividend, earning as well as book value was determined. The analysis of data, commercial banks gives the following results.

- J For standard chartered bank, MPS is negatively correlated with DPS where as it is positively correlated with BPS and EPS. None of these relationships are significant at 95 % level of significance. BPS, EPS and MPS are less volatile except DPS. In overall SCB has very good performance in the last six years.
- J For NBL, MPS is positively correlated with DPS and EPS whereas negatively with BPS. However, the relationship is not significant at 95% level of significance. DPS, BPS and EPS as well as MPS are less volatile. It is revealed from analysis that NBL has good performance in last six years.
- J While analyzing the HBL, MPS is positively correlated with DPS and EPS and negatively correlated with BPS. The degree of correlation is high however these relationships are not significant. BPS is very much consistent where as MPS and EPS are not bad and DPS is a bit more volatile. HBL is overall have satisfactory performance.
- J MPS is significantly affected by company's performance such as earnings, cash dividends payment, book value, risk associated with the company and growth rate at 95% level of significance.
- J Similarly, the political, economic and environment factors such as instability of government, strike and demonstrations, cease-fire, national economy, tax rate etc. significantly affect the share price where as global economy insignificantly affect the share price of at 95 % level of significance.

Karki(2007), in his thesis entitled 'Determinants of share price in Nepalese capital market' has pointed out following objectives:

- J To analyze and mobility/ fluctuation of market share prices through analyzing the factors affecting the share price of the Nepalese stock market.
- J To examine the relationship of MPS, EPS and DPS.

- J To analyze the stock market sensitivity of the listed companies in the NEPSE.
- J To study and analyze the stock price trend, number of listed companies and number have transacted company in NEPSE.
- J To suggest and recommend on the basis of major findings.

Major findings of the studies are as follows:

- J From the trend analysis of the NEPSE index, it is found that NEPSE index is in fluctuating trend. This indicates that NEPSE index is not going to increase consistently. But now a day the NEPSE index is in increasing trend due to the political and economic stability.
- J The number of listed companies is in increasing trend order from the fiscal year 1995/96 to 2000/01. However, this increasing trend of listed companies is suddenly decreased in the fiscal year 2001/02. Again, after that year it is started to increase from the fiscal year 2002/03 to 2004/05. It is also found that the growth rate of the number of the listed companies in Nepal Stock Exchange Limited is the highest in the fiscal year 2002/03 i.e. 12 %. This highest growth rate of the listed companies has showed that financial position of the country was sound during this fiscal year. In other hand, the growth rate of the listed companies is in negative from in the fiscal year 2001/02 i.e. -16.5217 %. This negative growth rate of the listed companies shows that Nepal has faced the financial crisis at that time due to the internal conflict. Still now, the number of the listed companies reached to 125 and this trend is going to increase due to the agreement between seven parties and Maoist. This increasing trend of the listed companies shows that the financial position of the Nepal is also going to improve and being strong.
- J The number of transacting companies is in increasing order from the fiscal year 1995/96 to 1998/99. However this trend is remain constant during two fiscal year i.e.1988/99 to 1999/00. This trend is also increased from the fiscal year 2000/01 to 2004/05. This growth rate of transacting companies is the highest in

the fiscal year 2002/03 i.e. 17.39 % and the lowest growth rate of the transacting companies is -2.89 % in the fiscal year 2000/01. In this way, it is found that the most of the companies are actively involved in the capital market to increase the total market capitalization and to mobilize the national capital.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher, studying his research problem along with the logic behind them.

“Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation of relevant details of data.”(Michel, 1985:57). In other words, research methodology is a systematic way to solve the research problem.

“Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view.” Kothari, (1994:19).

Research methodology is also known as a systematic way to solve the research problem. It describes the process and methods applied in the entire aspects of the study. Research methodology also refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives. This chapter contains the research design, variables, sample size, sample selection procedure, data collection procedure and data processing tools and technologies.

3.2 Research Design

Research design is a plan, structure and answer to research question and to control variance. In other words, research design is the strategy for conducting research work, which describes the general framework for collecting, analysis and evolution of identifying data. It also provides the basis about what the researcher wants to know and what has to be dealt with in order to obtain required information. In detail research design has two purposes.

1. To answer the research question test the relationship.
2. To control the variance.

In order to make any type of research a well-set research design is necessary to fulfill the objectives of the study. Generally, research design means definite procedure and techniques, which guide to study and provide ways for research viability. It is arrangements for collection and analysis of data. To achieve the objectives of this study, historical, descriptive as well as analytical research design has been adopted. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate the Role of Financial Indicator in capital Market.”

Historical research is the critical investigation of events and experiences in the past. It addresses a present status of a phenomenon and examine the cumulative effects of past.

Descriptive research includes survey and fact-findings inquiries of different kind. This method assumes that the researcher has no control over the variables or researcher can only report what has happened or what is happening. A fact findings approach relative largely to the present and abstracting generations by the cross sectional study of the current study is the descriptive research.

3.3 Variables

In this study, market price of the share is the dependent variables and other factors that affect to the share price in the market are the independent variables i.e. earning per share (EPS), Dividend per share (DPS), economic condition of the nation, political situation, interest rate etc.

3.4 Population and Sample

At present there are 16 commercial banks listed in the NEPSE. For the purpose of convenience only, 3 commercial banks viz. NABIL Bank Limited, Nepal Investment Bank Limited and Standard Chartered Bank Nepal Limited have been taken as sample of this study and rest of the commercial banks are considered as population. Five years data are taken to conduct the study from FY i.e. 2003/04 to 2007/08. Following commercial banks have been selected for the study. They are:

1. NABIL Bank Limited
2. Nepal Investment Bank Limited
3. Standard Chartered Bank Nepal Limited

3.5 Data collecting procedure

Besides the above stated sources of data, a detailed review of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from library of Shaker Dev Campus, Central library of Tribhuvan University, Library of Nepal commerce campus, Library of Nepal Rastra Bank and Library of SEBO/N. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then, results were concluded and interpretations were made.

Methods of Data Analysis

For the purpose of the study, financial statements of the selected JVBs are analysed by using financial with the statistical tools.

3.6.1. Financial Tools

To conclude the findings, some financial tools have been used in this study. The major financial tools are as follows:

3.6.1.1 Ratio Analysis

Financial analysis is the process of identifying the financial strength and weakness of firm establishing relationship between times of balance sheet and profit and loss account (Van Horne, 1979). Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating results and growth (Poudel, 2053 B.S.).

3.6.1.1.1 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The difference between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of the companies for the financial performance. Higher the profitability ratio, better the financial performance of the commercial bank and vice versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

a. Net profit to Total Assets Ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. This is found by using the following formula:

$$= \frac{\text{Net profit}}{\text{Total assets}} \times 100$$

The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total asset ratio usually indicator that high profit margin and high turnover of total asset and vice versa.

b. Net profit to total deposits (Return on Total Deposits)

This ratio enables to evaluate what extend the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of profit. It is calculated by using the following formula.

$$= \frac{\text{Net profit}}{\text{Total Deposits}} \times 100$$

Here, net profit means profit after interest and taxes and total deposit means that total amount deposited in various accounts i.e. current, saving, fixed, call and short deposits and other. Generally, higher ratio indicates better utilization pf total deposits and vice-versa.

c. Return on Net worth Ratio

This ratio shows the capacity of the banks to utilize its owner's fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. Higher ratio represents the sound management and efficient mobilization of owner's equity. It is calculated by the following formula:

$$= \frac{\text{Net profit}}{\text{Net worth}} \times 100$$

Here, net worth focuses not only the paid up capital but also include general reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

d. Interest Earned to Total Asset Ratio

This ratio is used to measure the percentage of interest earned in relation to total assets of the banks. It signifies the mobilization of the banks assets in interest generating purpose. Higher ratio signifies better efficiency in utilizing the resources in interest generating sectors. It is calculated by using following formula.

$$= \frac{\text{Total Interest Income}}{\text{Total Assets}} \times 100$$

The numerator comprises total interest income from loans, advances cash credit and overdrafts, government securities, inter commercial bank and other investment. A high ratio is an indicator of high earning power, and better performance of the JVBs on its total working fund and vice-versa.

Market price peer per share (MPS)

The market price is the amount in which a share of the stock is traded in the market. Records of high, low and closing prices are studied for the purpose of this study. Since the calculation of real average price is constrained by lack of adequate information regarding volume and price of each transaction throughout the year, the closing price has been used as market price of share.

Mathematically,

$$\text{MPS} = \frac{\text{Total Market capitalization}}{\text{No. of Outstanding shares}}$$

Dividend:

Both cash and stock dividend i.e. bonus share declared by each company have taken into account for the purpose of this study. Total amount of dividend can be calculated as follows:

Total amount of dividend = cash dividend+ (stock dividend % x Net years)

In case of dividend declared is capitalization in paid up value.

Total dividend amount= cash dividend+(Capitalized % x paid up value/ share of preceding year).

Dividend per Share (DPS).

The dividend per share is the amount paid as dividend to the shareholder of the stock.

Mathematically,

$$\text{DPS} = \frac{\text{Total Dividend Paid}}{\text{No. of Outstanding Shares}}$$

Earning per Share (EPS)

Earning per share calculations made over years indicates whether or not the company's earning power on per share basis has change over the period. EPS shows the profitability of the company of a per share basis. It is calculated by following formula.

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{No. of common shares}}$$

Dividend pay out ratio (D/P Ratio)

This ratio reflects at what percentage of net profit is distributed term of dividend and what percentage is retained in the bank. It is calculated by the following formula:

$$\text{D/P Ratio} = \frac{\text{Dividend per Share}}{\text{Earning per Share}} \times 100$$

Price Earning Ratio (P/E Ratio)

This ratio shows the price currently paid by the market for each rupee of currently reported earning per share. It is calculated by the following formula:

$$= \frac{\text{Market value per Share}}{\text{Earning per Share}} \times 100$$

3.6.2 Statistical Tools

The statistical tools selected for the comparative study of three banks (NABIL Bank Ltd., Nepal Investment Bank Ltd., and Standard Chartered Bank Nepal Ltd.) are as follows.

Mean (Average)

An average is a single value or observation related from a group of value or observations to represent them i.e. a value is supposed to stand for whole group. There are also different type's averages like arithmetic mean. Weighted mean, geometric mean, median and mode are the major types of averages. The widely and popular used mean is arithmetic mean. Adding together all the items and dividing the total by the total number of items can calculate the value of arithmetic mean. Mathematically, it can be presented below:

$$\text{Arithmetic Mean (A.M.)} = \frac{\sum x}{n}$$

$$\text{or, } \bar{x} = \frac{\sum x}{n}$$

Where, \bar{x} = Arithmetic mean

$\sum x$ = sum of all the values of the variables x

n = Number of observations

Standard deviation:

Standard deviation is a statistical measure of the variability of a distribution of return around its mean. So the standard deviation measures the absolute dispersion. In other words, it is the square root of variation and measure the unsystematic risk on stock investment. Then the greater the standard deviation greater will be magnitude of the deviation of the values from the mean. Small standard deviation means a degree of uniformity of the observations as well as homogeneity of a series and vice versa. Mathematically, it can be presented below:

$$\text{Standard deviation (} \sigma \text{)} = \sqrt{\frac{\sum (x - \bar{x})^2}{n - 1}}$$

The standard deviation is absolute measures of dispersion but the coefficient of variation is a relative measure. To compare the variability between two or more series, CV is more appropriate statistical tool. In other words, CV is the ratio of standard deviation of return to the mean of that distribution. It is a measure of relative risk. The higher the coefficient of variation, the higher the relative risk of the investment. Symbolically, it is presented below:

$$CV = \frac{R}{\bar{R}} \times 100$$

Correlation Coefficient (r)

One of the widely used statistical tools of calculating the correlation coefficient between two variables is Karl Pearson's correlation coefficient. It is also known as Pearson's coefficient. Correlation coefficient is denoted by r.

Mathematically,

$$r = \frac{COV_{xy}}{\sigma_x \sigma_y} \quad \text{or,}$$

$$r = \frac{n \sum x_1 x_2 - (\sum x_1)(\sum x_2)}{\sqrt{n \sum x_1^2 - (\sum x_1)^2} \sqrt{n \sum x_2^2 - (\sum x_2)^2}}$$

Where

r = correlation coefficient between variable x and y

COV_{xy} = Covariance between variable x and y

$\sigma_x \sigma_y$ = Standard deviation of variable x and y

Covariance:

Mathematically, covariance between two variables is calculated by following formula:

$$COV(x,y) = \frac{\sum (x-x)(y-y)}{n-1}$$

Simple Regression Equation:

Regression Analysis is also the techniques of studying how the variations are one series are related to variations in other series. Regressions analysis shows that how the variable are related. Thus, regression is the estimation of unknown values or prediction of one variable from known values of other variables. So regression analysis is a mathematical measure of the average relationship between two or more variables in terms of the original units of the data. The regression analysis confined to the study of only two variables at a time is called simple regression. In this study, the following regression lines are taken as a statistical tool:

Regression Equation of Y on X

$$Y = a+bx.....(i)$$

$$y = na+b x.....(ii)$$

$$xy = a x+b x^2.....(iii)$$

Multiple Regression Equation:

The multiple regression equation describes the average relationship between one dependent variable and two or more independent variables and this relationship is very much useful for estimating the dependent variables. The multiple regression equation of x_1 on x_2 and x_3 is given below:

$$X_1 = a_1+b_1x_2+b_2x_3.....(i)$$

$$x_1 = na_1+b_1 x_2+b_2 x_3.....(ii)$$

$$x_1x_2 = a_1 x_2+b_1 x_2^2+b_2 x_2x_3.....(iii)$$

$$x_1x_3 = a_1 x_3+b_2 x_3^2.....(iv)$$

Where,

X_1 = Dependent variable

X_2 and x_3 = Independent variable

a_1 = Value of x_1 , x_2 and x_3 equals to zero

b_1 = Partial regression coefficient of x_1 on x_2 when x_1 is constant

b_2 = Partial regression coefficient of x_1 on x_3 when x_2 is constant

(i.e. amount of change in x_1 per unit change in x_3 , holding x_2 constant)

N = Number of observations taking in the calculation.

3.7 Analytical Procedure

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial tool along with the statistical tool.

Financial tools have been used to measure strength and weakness of the three selected banks have been compared and analysis according to the various ratios findings.

Statistical tools have been used to analysis the study for finding which bank more homogenous or uniform then the other, according to the co-efficient of variation, co-efficient of correlation should be used to measure the degree of relation between the two related variable.

CHAPTER-IV PRESENTATION AND ANALYSIS OF DATA

This Chapter deals with the data presentation, analysis and interpretation as per the research methodology dealt in the third chapter. Data regarding the values of different financial indicators of various financial institutions gathered from various sources has been presented. By using various financial and statistical tools, the data has been analysed and the results has been presented in various appropriate tables as well. The samples of computation of each model have been included in annexes.

4.1 Financial Tools

In this study, financial tools have been grouped into profitability ratio, dividend payout ratio, price earning ratio, dividend per share, Earning per share etc.

4.1.1 Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. This ratio measures the proportion of each components of operating income to total operating income. The main components of operating income are interest earned, commission and discounts, exchange income and other income, bank receives interest from loans and advances, cash credit, overdraft, investment in government securities and bonds, money at call and short notice, debenture, inter-bank loan and others. Bank receives commission by discounting bills of exchange, remittance, foreign currency fluctuation etc. Under this, following ratios are used.

A Net Profit to Total Assets Ratio

Net profit refers to profit after interest and taxes. Total assets comprise of those assets that appear on the assets side of the balance sheet. A higher degree of ratio shows that total assets of the banks have been utilized in profit earnings. The following table shows the ratio of net profit to total assets.

Table 4.1**Net Profit to Total Assets Ratio**

(In percentage)

Name of Banks	Fiscal Year					Average	Σ	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	2.43	2.73	3.06	3.23	2.72	2.83	0.317	11.20
NIBL	1.27	1.13	1.42	1.61	1.79	1.44	0.235	16.32
SCBNL	2.42	2.27	2.46	2.56	2.42	2.43	0.093	3.83

(Source: See Annex 1)

In the above table net profit to total assets ratio has been derived by dividing net profit by total assets. This ratio shows the relationship between net profit and total assets. On an average, I see that Nabil bank has the highest percentage of net profit 2.83% on total assets. Next to it; there is SCBNL with 2.43%. NIBL has the lowest profit i.e. 1.44% on total assets. It indicates that NABIL bank has been successful to generate more profit than other banks by using its total assets.

From S.D. point of view, Nabil bank has the highest S.D. of 0.317 point and SCBNL has the lowest S.D. of 0.093 point. It implies that Nabil bank has high fluctuation (less homogeneity) in generating profit than other sampled JVB_s over the study period, where as SCBNL has lowest S.D. of 0.093 point has low fluctuation (more homogeneity) in generating more profit.

From C.V. point of view, NIBL has the highest C.V. of 16.32%. Next to it; there is Nabil bank with C.V. of 11.20%, where as SCBNL has the lowest C.V. of 3.83%. It implies that NIBL and Nabil bank have higher degree of variability or is inconsistent in generating net profit and SCNBL with lowest C.V has lower degree of

variability or is consistent in generating more net profit by using total assets in a systematic way.

B. Net Profit to Total Deposit Ratio

This ratio of selected banks measure of NPAT earned by using total deposits. This ratio shows how efficiently the management has utilized its deposits in profit generating activities. This ratio is a mirror for bank’s overall financial performance as well as its success in profit generation. Because of the deposit made by its customer’s is the major source of earning of the commercial banks. The higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is presented by following table.

Table No. 4.2
Net Profit to Total Deposit Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	3.10	3.22	3.56	3.28	2.86	3.21	0.22	6.85
NIBL	1.47	1.32	1.63	1.85	2.05	1.66	0.261	15.72
SCBNL	2.70	2.54	2.79	2.86	2.81	2.74	0.1126	4.11

(Source: See Annex 2)

In the above table, net profit to total deposit ratio has been derived by dividing net profit by total deposit. This ratio shows the relationship of net profit and total deposits.

On an average point of view, Nabil bank has the highest ratio of 3.21%. There is SCBNL next to it with 2.74% and NIBL has the lowest ratio of 1.66% over the study period. It implies that Nabil bank and SCBNL have been successful in utilizing the

depositor's fund more efficiently ingenerating more profit. NIBL has not managed the deposit efficiently and thus it has failed to generate more profit over the study period.

From S.D. point of view, NIBL has the highest S.D. of 0.261 point. Next to it; there is Nabil bank with S.D. of 0.22 point. And SCBNL has the lowest S.D. of 0.1126 point. It implies that NIBL and Nabil bank have high fluctuation (less homogeneity) in generating profit by using deposit where as SCBNL with lowest S.D. of 0.1126 indicates it has low fluctuation (more homogeneity) in generating profit by managing the deposit efficiently.

From C.V. point of view, NIBL has the highest C.V. of 15.72%. SCBNL has the lowest C.V. of 4.11% over the study period. It implies that NIBNL has high degree of variability or is inconsistent in generating profit and SCBNL has lower degree of variability or is more consistent ingenerating profit by employing the deposit efficiently.

C. Return on Shareholder's Equity or Net worth Ratio

This ratio reveals how profitably the banks have utilized the owner's funds. For the commercial banks, the objective is to earn maximum profit so as to provide reasonable return to the owners. Higher this ratio indicates sound and efficient management. It also indicates towards the favorable condition of wealth maximizations of the bank.

Table 4.3**Return on Shareholder's Equity or Net worth Ratio**

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	43.52	30.73	31.29	33.88	32.72	34.43	4.68	13.59
NIBL	18.29	20.94	19.67	24.77	26.70	22.07	3.16	14.32
SCBNL	47.62	35.96	34.07	37.55	32.68	37.58	5.29	14.08

(Source: See Annex 3)

In the above table, return on shareholder's equity or net worth ratio has been derived by dividing net profit by net worth or shareholder's equity. Over the study period, on an average of SCBNL has the highest ratio of 37.58%. Next to it; there is Nabil bank with 34.43%. NIBL has the lowest ratio of 22.07% over the study period. It indicates that SCBNL was providing highest return to it's shareholder than other banks.

From S.D. point of view, SCBNL has the highest S.D. 5.29 point. There is Nabil bank next to it with S.D. of 4.68 point and NIBL has the lowest S.D of 3.16 point. It implies that, over the study period, SCBNL and Nabil bank have high fluctuation (less homogeneity) in giving the return to shareholders where as in case of NIBL; there is low fluctuation (more homogeneity) in providing more rate of return to it's shareholders over the study period.

From C.V. point of view, NIBL has the highest C.V. of 14.32%. Next to it; there is SCBNL with C.V. of 14.32%. Nabil bank has the lowest C.V. of 13.59%. It implies that NIBL and SCBNL have higher degree of variability or is inconsistent in providing return to their shareholders. In the same period, Nabil bank with lowest C.V. of

13.59%, has lower degree of variability or is consistent in providing return to its shareholder.

D. Net Interest Earned to Total Assets Ratio

This ratio measures how much interest has been earned in different years by mobilizing the overall assets of the bank. Interest income is main source of income of the banks. Generally, banks generate interest income through the loan and advances, investment, overdrafts, hire purchase finance and loan given to priority and deprived sector as well. A higher ratio represents the better efficiency in mobilizing its resources for the purpose of generating interest income. This ratio has been presented by following table.

Table 4.4
Net Interest Earned to Total Assets Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	σ	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	4.23	4.20	4.70	4.27	3.79	4.24	0.289	6.81
NIBL	2.95	3.00	3.25	3.14	3.20	3.11	0.1152	3.70
SCBNL	3.55	3.20	3.63	3.44	3.50	3.46	0.1460	4.22

(Source: See Annex 4)

In the above table, net interest earned to total assets ratio has been derived by dividing net interest earned by total assets. On an average, from the above table, I found that, Nabil bank has the highest ratio of 4.24%. Nest to it' there is SCBNL with 3.46%. It implies that Nabil bank has been managing the assets efficiently and earning more interest out of it. NIBL has the lowest ratio of 3.11%. It implies that NIBL has not been able to utilize the assets efficiently and earning low interest.

From S.D. point of view, Nabil bank has the highest S.D. with 0.289 point. Next to it there is SCBNL with S.D. of 0.1460 point. It implies that there is high fluctuation (less homogeneity) in interest earning capacity of Nabil bank and SCBNL over the study period. Whereas, NIBL with lowest S.D. of 0.1152 indicates that it has low fluctuation (more homogeneity) in interest earning capacity over the entire study period among sampled banks.

From C.V. point of view, Nabil bank has the highest C.V. of 6.81%. Next to it; there is SCBNL with C.V. of 4.22%. NIBL has the lowest C.V. of 3.70%. It implies that Nabil bank and SCBNL have high degree of variability or is inconsistent in earning interest by using of its assets over the study period. Whereas, with the lowest C.V. of 3.70%, NIBL is more consistent or has lower degree of variability in earning interest by the proper use of its total assets over the study period.

4.1.2 Earning Per Share

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance or share value, it is profit after tax (NPAT) figure that is divided by the number of common share to calculate the value of earning per share. This figure tells what profit has been earned by the common share holder for every share hold. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically affect carrying per share.

Table 4.5
Earning Per Share

(In Rs)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	92.61	105.49	129.21	137.08	108.31	115	16.28	14.16
NIBL	51.70	39.50	59.35	62.57	57.87	54.19	8.03	15.88
SCBNL	143.55	143.14	175.84	167.37	167.37	159.45	13.51	8.47

(Source: See Annex 5)

From the above table we can see that on an average, SCBNL has the highest amount of EPS Rs. 159.45. Next to it, there is Nabil bank with EPS of Rs 115, among three selected JVBs. NIBL has the lowest amount of EPs i.e. Rs. 54.19 over the study period. It means that SCBNL and Nabil bank have been able to provide maximum profit to equity holder on a per share basis.

From the S.D. point of view, Nabil bank has highest S.D. of 16.28 point. Next to it, there is SCBNL with 13.51 point. NIBL has the lowest S.D. of 8.03 point. It implies that Nabil bank and SCBNL have high fluctuate (less homogeneity) in EPS over the study period. Where as NIBL with lowest S.D. of 8.03 point, indicates that low fluctuation (more homogeneity) in EPS over the study period.

From C.V. point of view, NIBL has the highest C.V. of 15.88% next to it, there is Nabil bank with C.V. of 14.16% and SCBNL with C.V. of 8.47%. It implies that NIBL and Nabil bank have high degree of variability or is inconsistent in EPS amount over the study period. SCBNL has lowest C.V. of 8.47% which indicates it has low degree of variability or is consistent in providing EPS amount to the equity holders on a per share basis over the study period.

4.1.3 Dividend Payout Ratio

Dividend payout ratio measures what percentage/portion of the net profit after tax and preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future. This ratio has been presented by following table.

Table 4.6
Dividend Payout Ratio

(In percentage)

Name of banks	Fiscal Year					Average	Σ	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	65	70	85	100	60	75	14.66	19.55
NIBL	15	12.50	20	5	7.50	12	5.33	44.42
SCBNL	110	120	140	130	130	126	10.19	8.09

(Source: See Annex 6)

From the above table we can see that on an average basis SCBNL has the highest percentage of payment ratio with 126%. Next to it, there is Nabil bank with 75% likewise NIBL has the lowest ratio with 12%.

From S.D. point of view, Nabil bank has the highest S.D. of 14.66 point and next to it; there is SCBNL with S.D. of 10.19 point. At last, NIBL has the lowest S.D. of 5.33 point. It implies that Nabil bank and SCBNL have high fluctuation in providing dividend through out the study period. NIBL with lowest S.D indicates low fluctuation in providing dividend to its share holders throughout the study period.

From the C.V. point of view, NIBL has the highest C.V. of 44.42%. Next to it; there is Nabil bank with C.V. of 19.55%. SCBNL has the lowest C.V. of 8.09%. It indicates that

NIBL and Nabil bank have high degree of variability and SCBNL has low degree of variability is consistent in providing a regular amount as dividend.

4.1.4 Price Earning Ratio

This ratio shows the price currently paid by the market for each rupees of currently reported earning per share. This ratio has been presented by following table.

Table 4.7
Price Earning Ratio

(In Times)

Name of banks	Fiscal Year					Average	Σ	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	10.80	14.27	17.34	36.84	48.70	26	14.36	55.23
NIBL	18.18	20.25	21.23	27.63	42.33	26	8.78	33.76
SCBNL	12.16	16.38	21.47	35.25	51.77	27	14.45	53.51

(Source: See Annex 7)

From the above table shows that, on an average basis SCBNL has the highest P/E ratio with 27 times. Next to it there are Nabil Bank and NIBL with 26 times.

From S.D. point of view, Nabil bank and SCBNL have the highest S.D. of 14.36 and 14.45 point respectively .NIBL has the lowest S.D. of 8.47 point. It implies that Nabil bank and SCBNL have high fluctuation in market price per share than NIBL . From C.V. point of view, Nabil bank and SCBNL bank have high P/E ratio of 55.23% and 53.51% respectively. NIBL has lowest C.V. with 33.76%, indicates that low degree of variability is consistent in market price per share as earning per share.

4.2 Statistical Tools

4.2.1 Relationship of MPS with EPS and DPS.

This study is assumed that the MPS might be affected by changing of EPS and DPS in the Nepalese capital market. So, the market price of a company will be higher than other company if the company declares and distribute the dividend to their stockholders at the right time. Similarly, if net worth and EPS of the company increases, the market price per share of that company increases, the market price per share of that company also will be increased. In this way, EPS and DPS are the main financial indicators in share market. Therefore, to know the degree of relationship of MPS with EPS and DPS, here MPS is taken as dependent variable and other remaining factors like EPS and DPS are taken as the independent variables. The effect of EPS and DPS to the MPS are tested in all company taken as sampled. The simple correlation and coefficient of determination are calculated for knowing the relationship of MPS with EPS and DPS, to determine the magnitude of the effect of the independent variables to the dependent variables. Simple regression analysis is made and then magnitude is determined.

4.2.2 Correlation and Regression analysis of NABIL Bank Ltd.

Table 4.8
Performance indicators of NABIL Bank Ltd.

Year	MPS(x_1)	DPS(x_2)	EPS(x_3)
2003/04	1000	65	92.61
2004/05	1505	70	105.49
2005/06	2240	85	129.21
2006/07	5050	140	137.08
2007/08	5275	100	108.31
Sum	15070	460	573
Mean	3014	75	115
	1668.23	12	16.28
CV	55.34	126	14.16

Table 4.9

Relationship of MPS with EPS and DPS

Variables	R	r^2
$r_{x_1x_2}$	0.86	0.74
$r_{x_1x_3}$	0.5425	0.2943

(Source: See Annex 8)

- r = Correlation coefficient
- $r_{x_1x_2}$ = Correlation coefficient Of MPS and DPS
- $r_{x_1x_3}$ = Correlation coefficient Of MPS and EPS
- r^2 = Coefficient of determination
- S.D = Standard Deviation
- C.V = Coefficient of variation
- Average = Mean (i.e. Arithmetic Mean)

The performance of the NABIL Bank Ltd. during the period of 2003/04 to 2007/08, as shown by the various financial indicators like MPS, DPS and EPS reflects an increasing trend. Table 4.8 shows that the MPS, DPS and EPS, mean, standard deviation, coefficient of variation. MPS, DPS and EPS have increased significantly during the period. However, DPS and EPS increasing level of the Bank are very low in comparisons of MPS. Whenever the public limited companies issue new shares, the stock market gets busy with crowds of share applicants. It is evident by the heavy over subscriptions and very good initial market returns in the Nepal stock exchange. So the gap of MPS with EPS and DPS is very high. The mean return of MPS is Rs 3014 but the mean return of DPS and EPS are only Rs 75 and Rs 115 only. This shows that the Nepalese share market is not very good condition, in comparison to the overall market returns. This is in confirmation with the findings of many empirical studies in other developed and emerging capital markets. The standard deviation of MPS with DPS and EPS are 1668.23, 12 and 16.28 respectively. It shows that the return of MPS in Nepalese share market are more risky than the overall stock market returns. The CV of MPS with DPS and EPS are 55.34%, 12.6% and 14.16% respectively. It shows that the MPS of this Bank is very volatile in comparison of DPS and EPS. So, DPS and EPS of this Bank are less risky.

The correlation of coefficient on MPS with DPS and EPS are 0.86 and 0.5425. This indicates that MPS with DPS and EPS are weekly related. In other words if MPS is Re.1 than the DPS is increased by 0.86 and EPS is changes 0.5425. In this sense, it is positively related.

Here the coefficient of determination MPS with DPS and EPS are 0.74 and 0.2943 respectively. It indicates that out of total variability of return are 0.74 and 0.2943. Variability is due to market movement or macro economic factor which cannot be diversify. The remaining portion of changes in MPS may be due to other variables.

The linear relationship of MPS with DPS and EPS of NABIL Bank Ltd is presented in figure.

Figure No 4.1

Relationship of MPS with DPS and EPS of NABIL Bank Ltd.

The above line of fit is derived from the simple regression analysis based on MPS being dependent variable.

MPS on DPS (MPS = a+b DPS)

$$\text{MPS on DPS} = -2277.84 + 57.52 \text{ DPS}$$

The regression constant -2277.84 implies that when DPS is Zero, MPS is Rs -2277.84 (but in practice market price of shares never becomes negative, even zero, shares has always some value). The constant for DPS is 57.52 implies that when DPS increases by Re. 1 MPS increases by Rs 57.52 and vice-versa. The simple correlation coefficient is 0.86.

MPS on EPS (MPS = a+b EPS)

$$\text{MPS on EPS} = -4044.21 + 61.59 \text{ EPS}$$

The constant of regression equation is -4044.21. It indicates that when EPS is equal to zero, than MPS remains 4044.21. The coefficient of EPS is 61.59. It implies that when EPS increases by Re. 1, than MPS also increases by Rs 61.59 and vice-versa.

MPS on DPS and EPS (Multiple regressions)

$$\text{MPS on DPS and EPS} = (a_1 + b_1 \text{DPS} + b_2 \text{EPS})$$

$$\text{MPS} = 56.44 + 65.78 \text{ DPS} - 27 \text{ EPS}$$

From the above equation, multiple regression constant a_1 is 56.44 suggest that when DPS and EPS is zero, MPS would be Rs 56.44. The constant for DPS is + 65.78 shows that when 1 percent change in DPS increase by Rs 65.78 percent price of mps by keeping EPS constant. The constant for EPS is -27, implies that Re 1 decrease price of the MPS by keeping DPS constant, when EPS decreased by Re 1, the MPS also decreased by Rs -27, and vice-versa by keeping DPS constant.

Finally, from the above analysis, it has been clearly observed that MPS on DPS is positive and MPS on EPS is negative relationship.

4.2.2 Correlation and Regression Analysis of Investment Bank Ltd.

Table No 4.10

Performance indicators of Investment Bank Ltd.

Year	MPS(x_1)	DPS(x_2)	EPS(X_3)
2003/04	940	15.00	51.70
2004/05	800	12.50	39.50
2005/06	1260	55.46	59.35
2006/07	1729	30.00	62.57
2007/08	2450	40.83	57.87
Sum	7179	153.79	271
Mean	1436	12	54.19
	599.25	5.33	8.03
CV	47.85%	44.42	15.88

Table 4.11

Relationship of MPS with EPS and DPS

Variables	R	r ²
R _{x₁x₂}	1.2359	1.52748
R _{x₁x₃}	0.6490	0.4213

(Source: See Annex 9)

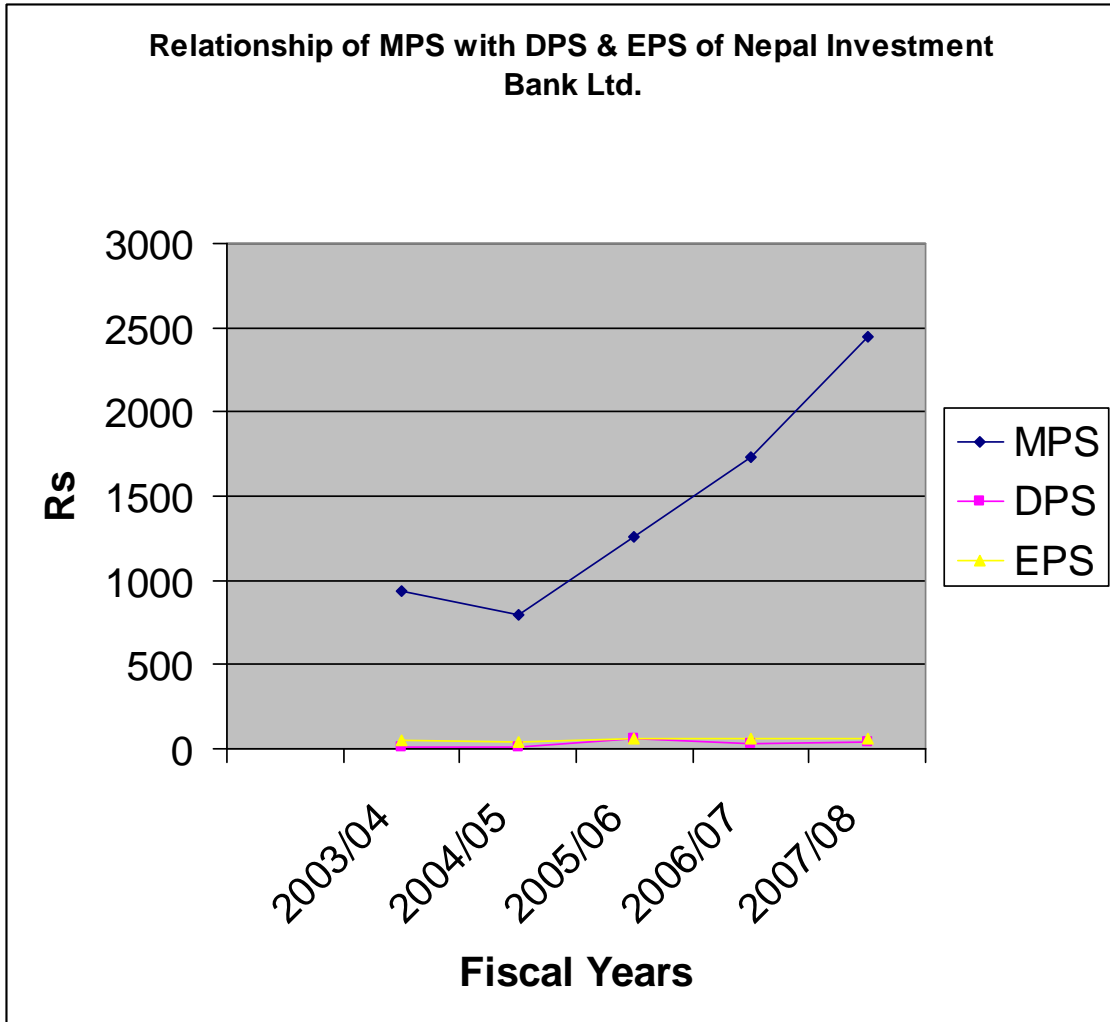
MPS, DPS and EPS are taken as the major performance indicators of Nepal Investment Bank Ltd. The above table shows that there is fluctuation in MPS during the observed period. The highest MPS of NIB is Rs 2450, it was recorded in the fiscal year 2007/08. And the lowest MPS of NIB is Rs 800, it was recorded in the fiscal year 2004/05. Generally, the MPS of this bank is increasing trend except fiscal year 2004/05.

The CV indicates the realities in the variables during the period of observation. So higher CV indicates the higher volatile and lower CV indicates the lower volatile. Therefore CV of EPS is 15.88% which has lower CV than other remaining variables. It means EPS less volatile. But the CV of DPS and MPS are 44.42 percent and 47.85 percent respectively. In this way, CV of MPS is higher than other variables like EPS and DPS. Then MPS of NIB Ltd is little bit more volatile. The simple correlation coefficient shows that the relationship between one dependent variable and other two independent variable. The above table shows that MPS of NIB is positively correlated with its DPS and EPS. It means that, if the value of DPS and EPS changes then the value of MPS also changes. The magnitude of correlation of MPS on DPS and EPS are 1.2359 and 0.6490 respectively. The coefficient of determination shows that 1.52748 of the change in MPS is described by DPS and 4.37 percent of the change in MPS is described by EPS. It seems and concluded that the effect of independent variables to

dependent variables has insignificant figure, MPS is positively correlated with DPS and EPS.

The linear relationship of MPS with DPS and EPS can be presented in following figure.

Figure No 2



The above line of fit is derived from the simple regression analysis based on MPS being dependent variable.

MPS on DPS

$$\text{MPS} = 20.93 - 46 \text{ DPS}$$

The constant of regression equation is 20.93, it show that when DPS is equal to zero, than MPS remain 20.93. The coefficient of DPS is 46, it shows that when DPS increases by Re. 1, then MPS decreased by Rs. 46 and vice versa.

MPS on EPS

$$\text{MPS} = 1152 + 47.75 \text{ EPS}$$

The constant of regression equation is 1152, it implies that when EPS is equal to zero, then MPS remain 1152. The coefficient EPS is 47.75, it implies that when EPS increase by Re 1, then MPS also increases by Rs 47.75 and vice versa.

MPS on DPS and EPS ($a_1 + b_1 \text{ DPS} + b_2 \text{ EPS}$)

$$\text{MPS} = 1470.65 + 58.11 \text{ DPS} + 33.62 \text{ EPS}$$

The above presented multiple regression equation describes that the constant coefficient a_1 is 1470.65, it shows that if DPS and EPS are is Zero the MPS becomes 1470.65. The value of constant coefficient has not economic interpretation since it lies for from the observed data.

The coefficient of independent variables like DPS and EPS etc shows that there is marginal relationship between there variables and dependent variable like as MPS.

The coefficient of DPS is 58.11, it shows that when one percent change in DPS then the MPS increases by 58.11 while taking a constant.

Similarly, the coefficient of EPS is 33.62, it implies that when one percent change in EPS then MPS also increases by 33.62 taking DPS as a constant.

4.2.3 Correlation and Regression Analysis of Standard Chartered Bank Ltd.

Table No 4.12

Performance indicators of Standard Chartered Bank Ltd.

Year	MPS(x_1)	DPS(x_2)	EPS(X_3)
2003/04	1745	110	143.55
2004/05	2345	120	143.14
2005/06	3775	140	175.84
2006/07	5900	130	167.37
2007/08	6830	130	131.32
Sum	20595	630	761
Mean	4119	126	159.45
	1970	10.19	13.51
CV	47.85%	8.09%	8.47%

Table 4.13

Relationship of MPS with EPS and DPS

Variables	R	r^2
$R_{x_1x_2}$	0.6147	0.3779
$R_{x_1x_3}$	-0.0012	0.0000015

(Source: See Annex 10)

Standard Chartered Bank Nepal Limited, one of the leading banks in the country, was established in 1985 as a foreign joint venture bank. The bank is managed under Technical Services Agreement between Standard Chartered Bank Limited and Nepalese promoters. The bank has wisely used newer technologies for providing services to the

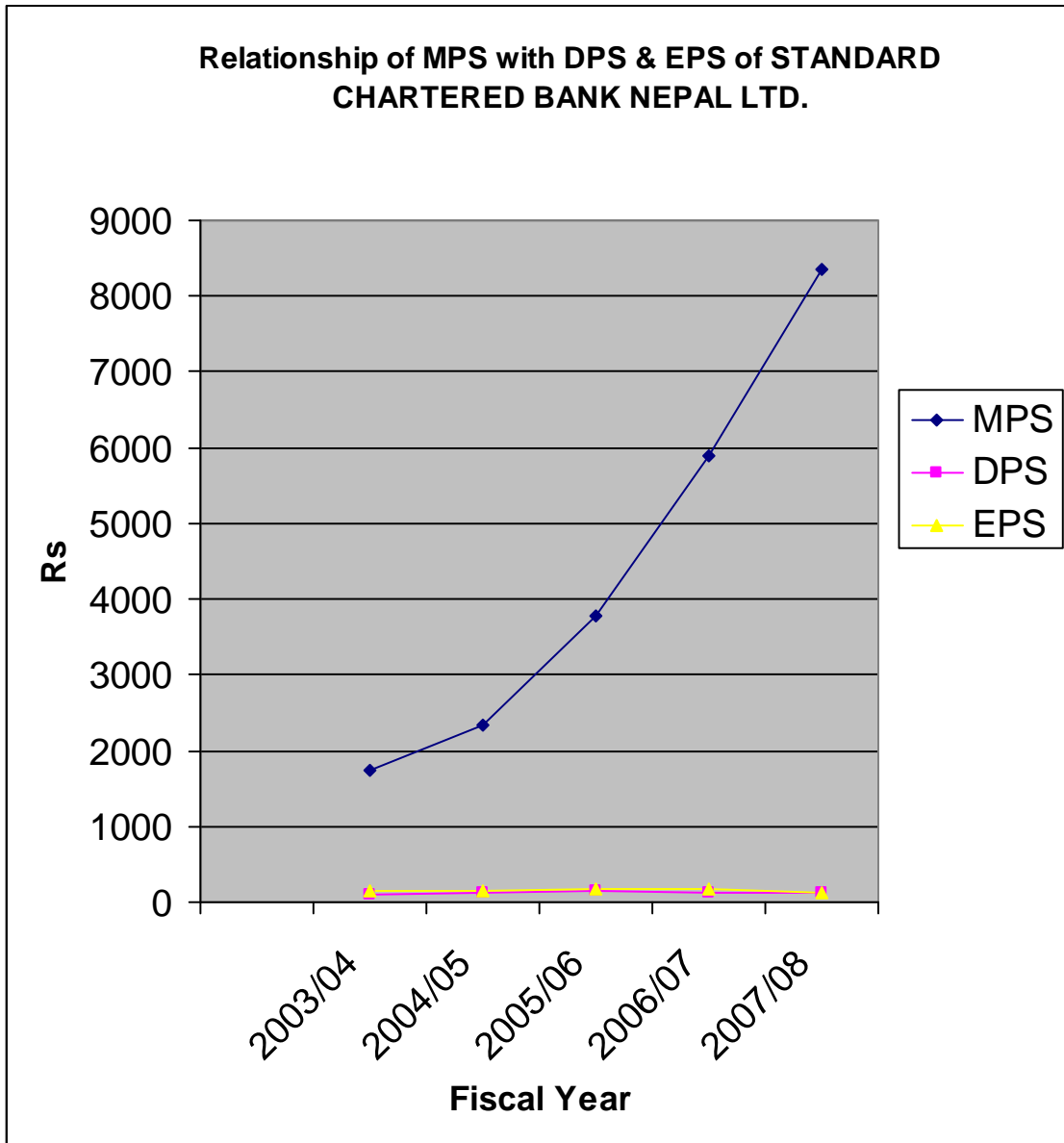
customers. The Bank is fairly large sized having MPS Rs 6830 as the end of the year 2008. The bank showed all-round improvement in its results over the study period. This is evident from the table 4.12.

Review of the Banks annual reports revealed that it considered the dividend per share to be important financial indicator. The Bank had target dividend payout ratio of 100% on paid up value, which it maintained. As revealed by table 4.12, the EPS of SCBNL by the end of this fiscal year 2007/08 reached to Rs 131.32. There is fluctuation of EPS. The mean return of MPS is 4119 which is much higher than the EPS and DPS mean return which is Rs 126 and Rs 159.45 respectively. This shows that the MPS is very high in comparison of EPS and DPS. The standard deviation of MPS with DPS and EPS are 1970, 10.19 and 13.51 respectively. It shows that the return of MPS in Nepalese share market are more risky than the DPS and EPS. The CV of MPS with DPS and EPS are 47.85 percent, 8.09 percent and 8.47 percent. It shows that the MPS of SCBNL is little bit more volatile than the EPS and DPS.

The correlation between MPS and DPS is positive at lower end. This shows that the MPS move to the similar direction of DPS but the conclusion is not definitive. But the MPS on EPS is negative (i.e. -.0012). Table 4.13 summarizes the explanation.

The linear relationship of MPS with DPS and EPS can be presented in following figure.

Figure No-3



The above line of fit is derived from the simple regression analysis based on MPS being dependent variable.

The regression analysis (simple)

MPS on DPS (a+b DPS)

$$\text{MPS} = -10849.80 + 118.80 \text{ DPS}$$

The analysis shows that the DPS is positive relation with the MPS. The constant for DPS is 118.80 implies that when DPS increases by Re 1, MPS increases by Rs 118.80 and vice-versa. The coefficient of independent variable is found to be low relationship in the above model.

MPS on EPS (a+b EPS)

$$\text{MPS} = 3780 + 2.23 \text{ EPS}$$

The positive coefficient of MPS on EPS shows that they have significant positive relationship with the MPS. The regression constant is 3780 reveals that when EPS is zero, MPS is 3780. The constant for EPS is +2.23 implies that when DPS increased by Re 1, MPS is also increased by 2.23 and vice-versa.

Multiple Regression Equation

MPS on DPS and EPS ($a_1 + b_1 \text{ DPS} + b_2 \text{ EPS}$)

$$\text{MPS} = 4165.27 - 0.3499 \text{ DPS} - 0.0144 \text{ EPS}$$

The significance of coefficient of independent variable is found to be very low in the above model. Besides, the problem of multicollinearity has been found the independent variables. The multiple regressions constant 4165.27 has no economic interpretation since it lies far outside the range of observed data. The multiple regressions constant 4165.27 suggest that when DPS and EPS are zero, MPS would be Rs 4165.27. The constant for DPS is -0.3499, implies that when one percent change in DPS, MPS decreases by Rs 34.99% keeping EPS is constant. The constant for EPS is -0.0144, implies that one percent change in EPS, the MPS decreased by 1.44 percent by keeping DPS constant.

4.3. Major Findings of the study

On the basis of presenting and analyzing the data, the following important findings are observed.

The profitability ratio of three JVBs reveals that:

- J The average ratio of net profit to total assets of Nabil bank, NIBL and SCBNL is 2.83%, 1.44% and 2.43% respectively. It implies that, on an average basis, Nabil bank has earned highest percentage (i.e. 2.83%) of net profit by utilizing its total assets among the sampled banks. Similarly, on an average basis, NIBL has earned 1.44% of net profit against the use of total assets over the entire study period. Like wise, SCBN has earned 2.43% of net profit against the use of total assets over the entire study period. Like wise, SCBNL has earned 2.43% of net profit against the use of total assets over the study period. The above ratio shows how efficiently the sample banks have utilized their available assets over the study period. Among all the samples banks, NIBL has the lowest ratio i.e. 1.44%. It means that NIBL has not mobilized its assets into profit generating projects than other sampled banks.
- J The average ratio of net profit to total deposit of Nabil bank, NIBL and SCBNL is 3.21%, 1.66% and 2.74% respectively. It implies that, on an average basis, Nabil bank has earned the highest percentage (i.e. 3.21%) of net profit by utilizing its total deposit than other sampled banks. Like wise, NIBL has earned the lowest percentage (i.e. 1.66%) of net profit by utilizing its total deposit over the entire study period. The above ratio shows low efficiently the sample banks have utilized their available deposit into profit generating project. On the other hand, Nabil bank with highest ratio has been successful in the earning more net profit by the proper use of its available deposits than others.

-) The average ratio of return on shareholders equity (net worth) of Nabil Bank, NIBL and SCBNL is 34.43%, 22.07% and 37.58% respectively. It implies that, on an average basis, SCBNL has provided the highest percentage (i.e. 37.58%) of return to its shareholder by utilizing the shareholders fund among the sample banks. The above ratio shows how much profitability the sample banks have utilized the available fund of shareholders into profit generation over the study period. Among the samples bank NIBL has the lowest ratio. It means that NIBL has not mobilized the fund of shareholder effectively into profit generating project.
-) The average ratio of net interest earned to total assets of Nabil Bank, NIBL and SCBNL is 4.24%, 3.11% and 3.46% respectively. It implies that, on an average basis Nabil Bank has earned the highest percentage (i.e. 4.24%) of net interest by utilizing its total assets into interest generating projects. Among all the sample banks, NIBL has the lowest ratio. It means that NIBL has not mobilized its assets into interest generating projects.
-) The average earning per share of Nabil bank, NIBL and SCBNL is Rs. 115, Rs. 54.19 and Rs. 159.45 respectively. On an average basis, SCBNL has the highest earning per share (i.e. Rs. 159.45) than other selected joint venture banks over the study period. Similarly, Nabil bank and NIBL have comparatively lower EPS.
-) The average dividend payout ratio of Nabil bank, NIBL and SCBNL is 75%, 12% and 126% respectively. SCBNL has highest dividend payout ratio (126%) with provides maximum amount of dividend to its shareholder over the entire study period.
-) The average price earning ratio of Nabil bank, NIBL and SCBNL is 17.60, 21.48 and 14.25 times respectively. It implies that NIBL has highest price earning ratio (i.e. 17.60 times) than other sampled banks. It also means that

NIBL's market price per share is 17.60 times greater than its earning per share.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter is the important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusion and recommendations. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as further research.

5.1 Summary

Expecting good returns in the future, the general public wants to invest their savings, and one of the best things to invest is the common stock of the public companies. The determination of MPS of any public companies should be in accordance with their financial performance i.e. the key financial indicators like EPS, DPS and DPR have the major influence in the determination of MPS.

NEPSE is the only place in Nepal where share transactions are made. It is the only stock market of Nepal. Most of the share transactions that take place in NEPSE each

day are those are commercial Banks, thus they are the main indicators of the NEPSE index. Since commercial Banks are the major share market indicators, the fluctuations in their market price affect a lot in the NEPSE Index. Thus the major issue of this study is to determine whether there is any role of the financial indicators like EPS,DPS,DPR and ROE in determining the share price of the selected commercial Banks.

Therefore, this study is focused on the analysis the relation of MPS with different financial indicators of sampled companies comprising five commercial banks. This study is totally based on the secondary data and information obtained from various financial reports, annual reports, regular publications, news, journals, official web-sites, etc.

This study has attempted to identify the interrelationship of MPS with major financial indicators like EPS, DPS and DPR, and the analysis are based on five years observation for commercial banks.

The statistical tools used are the correlation analysis and the multiple regression analysis.

The major objectives of the study are as follows.

-) To examine and evaluate the relationship of MPS with various financial indicators like EPS, DPS, DPR, etc.
-) To analyze the market trends of MPS with various financial indicators.
-) To find out whether stocks of the sampled companies are equilibrium-priced or not.
-) To outline the possible implications and also suggest for the betterment of the stock market.

To meet the desired objectives, the researcher identified the correlation for the development of factors, DPS, EPS, with MPS by correlation and regression analysis of secondary data, where as to identify the qualitative factors affecting the market price of shares. From the data analysis it is known that there is not consistent performance in the relationship of MPS with EPS and DPS for the 5 sampled listed companies. From the above computed correlation of DPS to the MPS in NEPSE. So DPS is not a strong determine of MPS in NEPSE from these correlation analysis of the sampled listed companies separately. In the same way, the correlation coefficient of MPS and EPS shows that, the correlation coefficient for sampled companies are positive. It reveals that, listed companies market price in NEPSE has positive relationship with earnings. So, we can consider EPS as one of the determining factors of the MPS in NEPSE, even though the relationship of MPS with EPS is not consistent.

Theoretically when earnings, dividend and book value of share increases, the market price of share also increases and vice versa. But in NEPSE, there are controversial results in many cases. It shows share price in NEPSE is affected by other factors too.

Most of the listed companies are not able to meet the organizational objectives i.e. value maximization or share price maximization. The listed companies in commercial banking sector, finance sector, and insurance sector are performing well. But these sectors are investing sectors and they collect fund for investments. Ultimately their investment should be on manufacturing, trading or hotel sectors. But the performance of these sectors is very weak. The manufacturing sector is the backbone of the capital markets in the well-established organized stock organized stock exchanges of the world and the foundation of the economic development of the nation. And it is suffering in Nepal commercial banking sector has dominated the overall performance of NEPSE.

5.2 Conclusion

Based on the above summary and findings of this research, the researcher came into the following conclusions:

1. 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, stock price in NEPSE shows rather irrational behavior.
2. In NEPSE, DPS and EPS individually do not have consistent relationship with the market price of the share, among the listed companies. The pricing behavior varies from one company to another. But EPS and DPS, jointly, have significant effect in market price of shares. So there may be other major factors affecting the share price significantly.
3. Correlation coefficient is a measurement of relationship between two variables. Correlation analysis also shows the mixed result from the calculations; some of the companies' returns are closely related to the market return whereas others are less related. Therefore it can be concluded that the overall return has closer relationship with the market return, which implies that the return of individual company is affected by any changes in market return and vice versa.
4. There is deficiency of proper laws and policies regarding the capital market. Shareholders are feeling unsecured to invest in security markets due to poor regulatory mechanism to protect shareholders interest.
5. 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.

Hence, we can conclude that the Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance. The market price of share in Nepal is not indicative of a company's financial performance in the stock market. The share market is imperfect and is not efficient and is not liable to manipulation. Basically, value of the share price is to be determined by the future prospects of the company on the basis of the past financial indicators. Unfortunately, our stock market does not run on the basis of proper information about the company and various qualitative factors affect a lot in determining the market price of share of various companies.

5.3 Recommendation

As in other developing countries, the stock market in Nepal is also growing in nascent stage. Its existing operational problems and fragile legal framework are the factors for the underdevelopment of Nepalese stock market. Nepal has committed itself to economic liberalization after correctly recognizing that financial sector reform is an integral part of this process. To carry on the economic liberalization process smoothly there should be made several modifications in the prevailing rules and regulations. However, it also requires huge investment for the revival. Thus, the role of capital market should be effective towards saving funds through people's participation. Therefore, based on the study findings and also the foregoing conclusions, certain tangible recommendations emerged, which are categorized below:

For the stockbrokers

The stockbrokers are the medium of the stock market. Therefore they are one of the vital parts of the market. Some recommendations derived from the study are as follows:

-) The investors have blamed that, brokers are not playing proper role to provide advices to the clients, which causes to bear losses while trading stocks. Therefore, the brokers should play friendly behavior to the investors for providing advices to them.
-) The stockbrokers in the stock market should make their role effective in promoting capital market in the country by adopting changed environment. They should be professional to aware the investors.

For the investors

The investors are also one of the major parts of the stock market. Therefore for the development of the stock market, investor should be aware. Here are some recommendations to the investors.

-) Stock market investment is a risky venture. To win the stock market, investors should always be clear to his/her own-strengths, weakness, needs desires, risk taking capabilities and how to react on different and ever changing market conditions. This is one game where self-knowledge, superior forecasting ability, sound understanding on the information of stock marker can give a winning edge to the investors.
-) On seeing the investment priority of investment majority of investors were found attracted with Banking/Finance sectors. But for the sake of stock market, they should diversify their investment in other sectors also such as manufacturing, trading, insurance and other sectors.
-) There is lack of proper knowledge of investment towards the stock market, they are not aware about it. Therefore, every investor should read the monthly

journals as well as daily newspapers. It provided extensive statistical data, financial news and even a bit a humor.

-) The investors should always be aware of the daily stock price and volume traded figures of stock price record published by NEPSE.

For the Listed and Non-Listed Companies

The listed companies are also the main factor influencing the stock market. Therefore this study has explored some recommendations to the listed companies and also to the non-listed companies, which are as follows:

-) The stock market is facing the problems of not submitting the timely and transparent financial reporting and non-performance of due diligence requirements prior to issuance of new listings. Therefore the non listed companies willing to be listed should fulfill all the requirements of the NEPSE.
-) Similarly, most of the listed companies are not submitting their financial reports to SEBO/N and NEPSE, which is causing difficulties in trading shares. Therefore, the listed companies should update their financial reports.
-) The listed companies should provide their information(financial and non-financial), which should include amendment in the memorandum and articles of associations; declaration of interim dividend, book closure, change of directors and other executive bodies, acquisition of business of another company or sale of whole or part of the business, significant expansion or diversification of business, suspension of transfer of ownership, renewal of the securities, major contracts entered into by the company having significant impact on it's profitability , and suspension of business because of strikes and lockout, natural calamities, accidental event and other reasons.
-) The listed companies should give the flow of reliable information from the concern authorities to attract the individuals as well as institutional investors to invest into shares.

For the NEPSE and SEBO/N

The NEPSE and SEBO/N are the monitoring and regulatory bodies of the listed companies. Thus, some recommendation derived through the study for these bodies are as follows:

-) There must be sufficient updated and relevant information flow from the listed companies to the investors at the joint initiatives of the NEPSE and SEBO/N.
-) The listed companies' data, their performance appraisal, their conduction of work, their productivity, their commitment to NEPSE should be updated and analysed in time. If any company is found in doing works against NEPSE rules, should immediately take action on it.
-) The stock exchange should have high-speed settlement and clearance system, investors-friendly environment, well equipped office (automation and on-line trading system) and well trained brilliant, hard working staffs.
-) NEPSE should modify information brochure to help investors and new trading rules from time to time ensure fair share transactions. Similarly, SEBO/N should conduct a number of studies to inform investors regarding compliance of legal provisions and other relevant studies to visualize on the performance status of the listed companies.
-) SEBO/N should increase its information dissemination activities to meet the expectations of investor of different parts of the company so that his involvement of the investors out of the Kathmandu valley could be increased.

For the Government

The Government is the monitoring and regulatory body of the whole country. The Government's plan and policy affects all the sectors. Some recommendations to the Government are made after the study, which are as follows:

-) The stock market, like other institutions of Nepal is tied to the need of stable politics, sustainable peace in the country. Therefore, the Government should try to maintain the political stability, sustainable peace for the development of the stock market.
-) The Government should simplify and rationalize the tax system to encourage the private sector formation and there should be no capital gain tax on the securities transactions to encourage long-term investment through the stock market.
-) The government should promulgate suitable policies to foster the development of capital markets in the economy. Similarly, it should motivate financial intermediaries and all their facilitators to make the stock market stable.
-) The regulator body of financial market, like Nepal Rastra Bank, which is not only financial regulator, but also regulator and monitor of Government rules and regulations regarding financial market should show enthusiasm in generating new mood in the stock market.

Therefore, in brief, this study recommends that the transparency and openness of transactions, quality of professional and improved legal, regulatory and supervisory frameworks, government commitment to make and implement the rule and regulations, political stability and sustainable peace in the country, investors; awareness are the urgent need to build up confidence of the potential investors as well as for the development of the stock market in Nepal.

For the Further Studies

This research study has covered with stock market behavior in Nepal. This study tried to trace out the factors affecting the Nepalese Stock Market. There are many factors influencing stock market such as political situations, economic factors. Like income per capital and GDP, internal and external environment of the listed companies,

Government plans and policies etc. This study might not cover all these sectors due to time constraints and other related factors. Therefore, further researchers are advised to cover up role of economic factors, role of internal and external environment of the listed companies towards the stock market in their research. They can even conduct research studies on impact of the problems and prospects of the listed companies on the Nepalese Stock Market.

Annex – 1

Net Profit to Total Assets Ratio (X)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$fX \sum \bar{X} \bar{A}$	X	$fX \sum \bar{X} \bar{A}$	X	$fX \sum \bar{X} \bar{A}$
2003/04	2.43	0.1600	1.27	0.0289	2.42	0.0001
2004/05	2.73	0.0100	1.13	0.0961	2.27	0.0256
2005/06	3.06	0.0529	1.42	0.0004	2.46	0.0009
2006/07	3.23	0.1600	1.61	0.0289	2.56	0.0169
2007/08	2.72	0.121	1.79	0.1225	2.42	0.0001
Total	14.17	0.5039	7.22	0.2768	12.13	0.0436

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \dagger \quad X \sqrt{\frac{1}{n} \sum fX - \bar{X} \bar{A}} \quad \text{C.V.} = \frac{\dagger}{\bar{X}} | 100$$

Nabil Bank	$X \frac{14.17}{5}$ X2.83	$X \sqrt{\frac{1}{5} 0.5039}$ X0.317	$X \frac{0.317}{2.83} 100$ X11.20%
NIBL	$X \frac{7.22}{5}$ X1.44	$X \sqrt{\frac{1}{5} 0.2768}$ X0.235	$X \frac{0.235}{1.44} 100$ X16.32%
SCBNL	$X \frac{12.13}{5}$ X2.43	$X \sqrt{\frac{1}{5} 0.0436}$ X0.093	$X \frac{0.093}{2.43} 100$ X3.83%

Annex – 2

Net Profit to Total Deposit Ratio (X)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$\frac{\sum fx}{n} - \bar{X}$	X	$\frac{\sum fx}{n} - \bar{X}$	X	$\frac{\sum fx}{n} - \bar{X}$
2003/04	3.10	0.0121	1.47	0.0361	2.70	0.0016
2004/05	3.22	0.0001	1.32	0.1156	2.54	0.0400
2005/06	3.56	0.1225	1.63	0.0009	2.79	0.0025
2006/07	3.28	0.0049	1.85	0.0361	2.86	0.0144
2007/08	2.89	0.1024	2.05	0.1521	2.81	0.0049
Total	16.05	0.2420	8.32	0.3408	13.70	0.0634

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{and} \quad \text{C.V.} = \frac{\frac{\sum \sqrt{\frac{1}{n} \sum (fx - \bar{X})^2}}{\sum X}}{\bar{X}} \times 100$$

Nabil Bank	$\frac{16.05}{5}$ X3.21	$\frac{\sqrt{\frac{1}{5} \times 0.2420}}{\sum X}$ X0.22	$\frac{0.22}{3.21} \times 100$ X6.85%
NIBL	$\frac{8.32}{5}$ X1.66	$\frac{\sqrt{\frac{1}{5} \times 0.3408}}{\sum X}$ X0.261	$\frac{0.261}{1.66} \times 100$ X15.72%
SCBNL	$\frac{13.70}{5}$ X2.74	$\frac{\sqrt{\frac{1}{5} \times 0.0634}}{\sum X}$ X0.1126	$\frac{0.1126}{2.74} \times 100$ X4.11%

Annex -3

Return on Shareholder's Equity or Net Worth Ratio (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$\sum fX / Z \bar{X} \bar{A}$	X	$\sum fX / Z \bar{X} \bar{A}$	X	$\sum fX / Z \bar{X} \bar{A}$
2003/04	43.52	82.63	18.29	14.29	47.62	100.80
2004/05	30.73	13.69	20.94	1.28	35.96	2.62
2005/06	31.29	9.86	19.67	5.76	34.07	12.32
2006/07	33.88	0.30	24.77	7.29	37.55	0.001
2007/08	32.72	2.92	26.70	21.44	32.68	24.01
Total	172.14	109.40	110.37	50.06	187.88	139.75

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \dagger \quad X \sqrt{\frac{1}{n} \sum fX - \bar{X} \bar{A}} \quad \text{C.V.} = \frac{\dagger}{\bar{X}} | 100$$

Nabil Bank	$X \frac{172.14}{5}$	$X \sqrt{\frac{1}{5} 109.40}$	$X \frac{4.68}{34.43} 100$
	X34.43	X4.68	X13.59%
NIBL	$X \frac{110.37}{5}$	$X \sqrt{\frac{1}{5} 50.06}$	$X \frac{3.16}{22.07} 100$
	X22.07	X3.16	X14.32%
SCBNL	$X \frac{187.88}{5}$	$X \sqrt{\frac{1}{5} 139.75}$	$X \frac{5.29}{37.58} 100$
	X37.58	X5.29	X14.08%

Annex-4

Net Interest Earned to Total Assets Ratio (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$\frac{\sum fX}{Z \bar{X} \bar{A}}$	X	$\frac{\sum fX}{Z \bar{X} \bar{A}}$	X	$\frac{\sum fX}{Z \bar{X} \bar{A}}$
2003/04	4.23	0.0001	2.95	0.0256	3.55	0.0081
2004/05	4.20	0.0016	3.00	0.0121	3.20	0.0676
2005/06	4.70	0.2116	3.25	0.0196	3.63	0.0289
2006/07	4.27	0.0009	3.14	0.0009	3.44	0.0004
2007/08	3.79	0.2025	3.20	0.0081	3.50	0.0016
Total	21.19	0.4167	15.54	0.0663	17.32	0.1066

Where,

N = 5 years

\bar{X}	$X \frac{\sum t}{n}$	\pm	$X \sqrt{\frac{1}{n} \sum fX - \bar{X} \bar{A}}$	$C.V. = X \frac{\sum t}{\bar{X}} 100$
Nabil Bank	$X \frac{21.19}{5}$ X4.24		$X \sqrt{\frac{1}{5} 0.4167}$ X0.289	$X \frac{0.289}{4.24} 100$ X6.81%
NIBL	$X \frac{15.54}{5}$ X3.11		$X \sqrt{\frac{1}{5} 0.0663}$ X0.1152	$X \frac{0.1152}{3.11} 100$ X3.70%
SCBNL	$X \frac{17.32}{5}$ X3.46		$X \sqrt{\frac{1}{5} 0.1066}$ X0.1460	$X \frac{0.1460}{3.46} 100$ X4.22%

Annex -5
Earning Per Share (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$\sum fX - \bar{X}n$	X	$\sum fX - \bar{X}n$	X	$\sum fX - \bar{X}n$
2003/04	92.61	501.31	51.70	6.20	143.55	252.81
2004/05	105.49	90.44	39.50	215.79	143.14	266.01
2005/06	129.21	201.92	59.35	26.62	175.84	268.63
2006/07	137.08	487.53	62.57	70.22	167.37	62.72
2007/08	108.31	44.75	57.87	13.54	167.37	62.72
Total	572.70	1325.95	270.95	322.42	797.25	912.89

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \dagger \quad X \sqrt{\frac{1}{n} \sum fX - \bar{X}n} \quad \text{C.V.} = \frac{\dagger}{\bar{X}} | 100$$

Nabil Bank	$X \frac{572.70}{5}$	$X \sqrt{\frac{1}{5} 1325.95}$	$X \frac{16.28}{115} 100$
	X115	X16.28	X14.16%
NIBL	$X \frac{270.95}{5}$	$X \sqrt{\frac{1}{5} 322.42}$	$X \frac{8.03}{54.54} 100$
	X54.19	X8.03	X15.88%
SCBNL	$X \frac{797.20}{5}$	$X \sqrt{\frac{1}{5} 912.89}$	$X \frac{13.51}{159.45} 100$
	X159.45	X13.51	X8.47%

Annex -6
Dividend Payout Ratio (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$fX \sum \bar{X} \bar{A}$	X	$fX \sum \bar{X} \bar{A}$	X	$fX \sum \bar{X} \bar{A}$
2003/04	65	100	15	9	110	256
2004/05	70	25	12.50	.25	120	36
2005/06	85	100	20	64	140	196
2006/07	100	625	5	49	130	16
2007/08	60	225	7.50	20.25	130	16
Total	375	1075	60	142.5	630	520

Where,

N= 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{and} \quad \sqrt{\frac{1}{n} \sum fX - \bar{X} \bar{A}} \quad \text{C.V.} = \frac{\sqrt{\frac{1}{n} \sum fX - \bar{X} \bar{A}}}{\bar{X}} \times 100$$

$$\begin{aligned} \text{Nabil Bank} \quad & \frac{\sum X}{n} = \frac{375}{5} = 75 \quad \text{and} \quad \sqrt{\frac{1}{5} \sum fX - \bar{X} \bar{A}} = \sqrt{\frac{1}{5} \times 1075 - 75^2} = \sqrt{215 - 5625} = \sqrt{-5410} \\ & \text{X}75 \quad \text{X}14.66 \quad \text{X}19.55\% \end{aligned}$$

$$\begin{aligned} \text{NIBL} \quad & \frac{\sum X}{n} = \frac{60}{5} = 12 \quad \text{and} \quad \sqrt{\frac{1}{5} \sum fX - \bar{X} \bar{A}} = \sqrt{\frac{1}{5} \times 142.50 - 12^2} = \sqrt{28.5 - 144} = \sqrt{-115.5} \\ & \text{X}12 \quad \text{X}5.53 \quad \text{X}44.42\% \end{aligned}$$

$$\begin{aligned} \text{SCBNL} \quad & \frac{\sum X}{n} = \frac{630}{5} = 126 \quad \text{and} \quad \sqrt{\frac{1}{5} \sum fX - \bar{X} \bar{A}} = \sqrt{\frac{1}{5} \times 520 - 126^2} = \sqrt{104 - 15876} = \sqrt{-15772} \\ & \text{X}126 \quad \text{X}10.19 \quad \text{X}8.09\% \end{aligned}$$

Annex – 7
Price Earning Ratio

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$\sum fX$	X	$\sum fX$	X	$\sum fX$
2003/04	10.80	231.04	18.18	61.15	12.16	220.22
2004/05	14.27	137.59	20.25	33.06	16.38	112.78
2005/06	17.34	74.99	21.23	22.75	21.47	30.58
2006/07	36.84	117.50	27.63	2.65	35.25	68.06
2007/08	47.70	470.89	42.33	266.66	51.77	613.55
Total	130	1032.01	130	386.27	135	1045.19

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{and} \quad \text{C.V.} = \frac{\sum \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}}{\bar{X}} \times 100$$

$$\begin{aligned} \text{Nabil Bank} \quad & \frac{\sum X}{n} = \frac{130}{5} = 26 \quad \text{and} \quad \sum \sqrt{\frac{1}{5} \sum (X - \bar{X})^2} = 14.36 \\ & \text{C.V.} = \frac{14.36}{26} \times 100 = 55.23\% \end{aligned}$$

$$\begin{aligned} \text{NIBL} \quad & \frac{\sum X}{n} = \frac{130}{5} = 26 \quad \text{and} \quad \sum \sqrt{\frac{1}{5} \sum (X - \bar{X})^2} = 8.78 \\ & \text{C.V.} = \frac{8.78}{26} \times 100 = 33.76\% \end{aligned}$$

$$\begin{aligned} \text{SCBNL} \quad & \frac{\sum X}{n} = \frac{135}{5} = 27 \quad \text{and} \quad \sum \sqrt{\frac{1}{5} \sum (X - \bar{X})^2} = 14.45 \\ & \text{C.V.} = \frac{14.45}{27} \times 100 = 53.51\% \end{aligned}$$

Annex-8

Correlation coefficient and regression equation of NABIL Bank Ltd.

year	MPS(x ₁)	DPS(x ₂)	EPS(x ₃)	x ₁ x ₂	x ₂ x ₃	x ₁ x ₃	x ₁ ²	x ₂ ²	x ₃ ²
2003/04	1000	65	92.61	65000	6019.65	92610	1000000	4225	8576.61
2004/05	1505	70	105.49	105350	7384.3	158762.5	2265025	4900	11128.14
2005/06	2240	85	129.21	190400	10982.85	289430.4	5017600	7225	16695.22
2006/07	5050	140	137.08	707000	19191.2	692254	25502500	19600	18790.92
2007/08	5275	100	108.31	527500	10831	571335.3	27825625	10000	11731.05
Sum	15070	460	573	1595250	54409	1804392	61610750	45950	66922

By putting the value of all variables in the following formula then we get MPS on DPS.

$$r_{X_1 X_2} = \frac{n \sum x_1 x_2 - \sum x_1 \sum x_2}{\sqrt{\left(n \sum x_1^2 - \left(\sum x_1 \right)^2 \right) \left(n \sum x_2^2 - \left(\sum x_2 \right)^2 \right)}}$$

$$= \frac{5 \times 1595250 - 15070 \times 460}{\sqrt{\left(5 \times 61610750 - \left(15070 \right)^2 \right) \left(5 \times 45950 - \left(460 \right)^2 \right)}}$$

$$= \frac{1044050}{\sqrt{80948850 \times 18150}}$$

$$r_{X_1 X_2} = 0.86$$

$$r^2 = 0.74$$

Similarly, correlation coefficient MPS on EPS.

$$\begin{array}{r}
 5 \mid 1804392 \quad Z \mid 5070 \quad A \mid 573A \\
 \hline \hline
 5 \mid 61610750 \quad Z \mid 5070 \quad A \mid 573A \quad 5 \mid 66922 \quad Z \mid 573A \\
 \hline \hline
 386850 \\
 \hline \hline
 80948850 \quad \mid 6281 \\
 r \times 0.5425 \\
 r^2 \times 0.2943
 \end{array}$$

Similarly, we have regression equation MPS on DPS.
 By putting the value of all variables in the simple regression then we get,

$$\begin{array}{l}
 15070 = 5a + 460b \dots\dots\dots I \\
 1595250 = 460a + 45950b \dots\dots II
 \end{array}$$

By solving these two equations we get the value of a and b

$$a = -2277.84 \quad b = 57.52$$

Then the regression equation is $MPS = -2277.84 + 57.52 \text{ DPS}$

Again, regression equation MPS on EPS.

$$\begin{array}{l}
 15070 = 5a + 573b \dots\dots\dots I \\
 1804392 = 573a + 66922b \dots\dots\dots II
 \end{array}$$

By solving these two equations we get the value of a and b

$$a = -4044.21 \quad b = 61.59$$

Then the regression equation is $MPS = -4044.21 + 61.59 \text{ EPS}$

Similarly, multiple regression equation MPS on DPS and EPS.

$$\begin{array}{l}
 15070 = 5a_1 + 460b_1 + 573b_2 \dots\dots\dots I \\
 1595250 = 460a_1 + 45950b_1 + 54409b_2 \dots\dots\dots II \\
 1804392 = 573a_1 + 544096b_1 + 66922b_2 \dots\dots\dots III
 \end{array}$$

By solving these three equations we get,

$$a_1 = 56.44 \quad b_1 = 65.78 \quad b_2 = -27$$

By putting the value of these constant we get the required equations.

$$\text{MPS} = 56.44 + 65.78 \text{ DPS} - 27 \text{ EPS}$$

Annex-9

Correlation coefficient and regression equation of Investment Bank Ltd.

year	MPS(x ₁)	DPS(x ₂)	EPS(x ₃)	x ₁ x ₂	x ₂ x ₃	x ₁ x ₃	x ₁ ²	x ₂ ²	x ₃ ²
2003/04	940	15.00	51.70	48598	775.50	48598	883600	225	2673.00
2004/05	800	12.50	39.50	10000	493.75	31600	640000	156.25	1560.25
2005/06	1260	55.46	59.35	69880	3291.55	74781	1587600	3075.81	3522.42
2006/07	1729	30.00	62.57	51870	1877.1	108184	2989441	900	3915.00
2007/08	2450	40.83	57.87	100034	2362.88	141782	6002500	1667	3349
Sum	7179	153.79	271	280382	8800	404945	12103141	6024.148	15020

By putting the value of all variables in the following formula then we get MPS on DPS.

$$r_{X_1 X_2} = \frac{n \sum x_1 x_2 - \sum x_1 \sum x_2}{\sqrt{\left(n \sum x_1^2 - \left(\sum x_1 \right)^2 \right) \left(n \sum x_2^2 - \left(\sum x_2 \right)^2 \right)}}$$

$$= \frac{5 \mid 280382 - \sum 7179 \mid 153.79}{\sqrt{\left(5 \mid 12103141 - \sum 7179 \mid 7179 \right) \left(5 \mid 6024.148 - \sum 153.79 \mid 153.79 \right)}}$$

$$= \frac{297851.59}{\sqrt{8977664 \mid 6469.3759}}$$

$$r_{X_1 X_2} = 1.2359$$

$$r^2_{X_1 X_2} = 1.52748$$

Similarly, correlation coefficient MPS on EPS.

$$\begin{array}{r}
 5 \mid 404945 \quad Z \mid 7179 \quad A \mid 271 \\
 \hline \hline
 5 \mid 12103141 \quad Z \mid 7179 \quad A \mid 5 \mid 15020 \quad Z \mid 271 \quad A \\
 79216 \\
 \hline \hline
 8977664 \mid 1659 \\
 r \times 0.6490 \\
 r^2 \times 0.4213
 \end{array}$$

$$\begin{array}{r}
 5 \mid 280382 \quad Z \mid 7179 \quad A \mid 153.79 \quad A \\
 \hline \hline
 5 \mid 12103141 \quad Z \mid 7179 \quad A \mid 5 \mid 6024.148 \quad Z \mid 153.79 \quad A \\
 297851.59 \\
 \hline \hline
 8977664 \mid 6469.3759 \\
 r \times 1.2359 \\
 r^2 \times 1.52748
 \end{array}$$

Similarly, we have regression equation MPS on DPS.
 By putting the value of all variables in the simple regression Equation then we get,

$$\begin{array}{l}
 7179 = 5a + 153.79b \dots\dots\dots I \\
 280382 = 153.79a + 6024.148b \dots\dots II
 \end{array}$$

By solving these two equations we get the value of a and b

$$a = 20.93 \qquad b = -46$$

Then the regression equation is $MPS = 20.93 + 46 \text{ DPS}$

Again, regression equation MPS on EPS.

$$\begin{array}{l}
 7179 = 5a + 271b \dots\dots\dots I \\
 4049945 = 271a + 15020b \dots\dots\dots II
 \end{array}$$

By solving these two equations we get the value of a and b

$$a = 1152 \qquad b = 47.75$$

Then the regression equation is $MPS = 1152 + 47.75 \text{ EPS}$

Similarly, multiple regression equation MPS on DPS and EPS.

$$7179 X + 5a_1 + 153.79b_1 + 271b_2 \dots\dots\dots I$$

$$280382 X + 153.79a_1 + 6024.148b_1 + 8800b_2 \dots\dots\dots II$$

$$404945 X + 271a_1 + 8800b_1 + 15020b_2 \dots\dots\dots III$$

By solving these three equations we get,
 $a_1 = 1470.65$ $b_1 = 58.11$ $b_2 = 33.62$

By putting the value of these constant we get the required equations.

$$MPS = 1470.65 + 58.11 \text{ DPS} + 33.62 \text{ EPS}$$

Annex-10

Correlation coefficient and regression equation of Standard Chartered Bank Ltd.

year	MPS(x ₁)	DPS(x ₂)	EPS(x ₃)	x ₁ x ₂	x ₂ x ₃	X ₁ X ₃	x ₁ ²	x ₂ ²	x ₃ ²
2003/04	1745	110	143.55	191950	15790.5	250494.75	3045025	12100	20606.60
2004/05	2345	120	143.14	281400	17176.8	335663.30	5499025	14400	20489.06
2005/06	3775	140	175.84	528500	24617.6	663796	14250625	19600	30919.71
2006/07	5900	130	167.37	767000	21758.1	987483	34810000	16900	28012.72
2007/08	6830	130	131.32	887900	17071.6	896915.6	46648900	16900	17244.94
Sum	20595	630	761	2656750	96415	3134353	104253575	79900	117273

By putting the value of all variables in the following formula then we get MPS on DPS.

$$r_{X_1 X_2} = \frac{n \sum x_1 x_2 - \sum x_1 \sum x_2}{\sqrt{(n \sum x_1^2 - (\sum x_1)^2)(n \sum x_2^2 - (\sum x_2)^2)}}$$

$$= \frac{5 | 2656750 - 20595 \cdot 630}{\sqrt{(5 | 104253575 - 20595^2)(5 | 79900 - 630^2)}}$$

$$= \frac{308900}{\sqrt{97113850 | 2600}}$$

$$r_{X_1 X_2} = 0.6147$$

$$r^2_{X_1 X_2} = 0.3779$$

Similarly, correlation coefficient MPS on EPS.

$$\frac{5 \mid 404945 \quad \Sigma f_1 179 \text{A} 271)}{\sqrt{\frac{5 \mid 12103141 \quad \Sigma f_1 179 \text{A} 271)}{79216} \cdot \frac{5 \mid 15020 \quad \Sigma f_2 271 \text{A}}{8977664 \mid 1659}}$$

$r = 0.6490$
 $r^2 = 0.4213$

$$\frac{5 \mid 3134353 \quad \Sigma f_2 20595 \text{A} 761 \text{A}}{\sqrt{\frac{5 \mid 104253575 \quad \Sigma f_2 20595 \text{A} 761 \text{A}}{r = 0.0012} \cdot \frac{5 \mid 117273 \quad \Sigma f_1 761 \text{A}}{r^2 = 0.0000015}}}$$

Similarly, we have regression equation MPS on DPS.
 By putting the value of all variables in the simple regression Equation then we get,

$$\begin{aligned} 20595 &= 5a + 630b \dots\dots\dots \text{I} \\ 2656750 &= 630a + 79900b \dots\dots \text{II} \end{aligned}$$

By solving these two equations we get the value of a and b

$$a = -10849.80 \quad b = 118.80$$

Then the regression equation is $\text{MPS} = -10849.80 + 118.80 \text{ DPS}$

Again, regression equation MPS on EPS.

$$\begin{aligned} 20595 &= 5a + 760b \dots\dots\dots \text{I} \\ 3134353 &= 761a + 117273b \dots\dots\dots \text{II} \end{aligned}$$

By solving these two equations we get the value of a and b

$$a = 3780 \quad b = 2.23$$

Then the regression equation is $\text{MPS} = 3780 + 2.23 \text{ EPS}$

Similarly, multiple regression equation MPS on DPS and EPS.

$20595 X 5a_1 \Gamma 630b_1 \Gamma 761b_2 \dots \dots \dots I$
 $2656750 X 6360a_1 \Gamma 79900b_1 \Gamma 96415b_2 \dots \dots \dots II$
 $3134353 X 761a_1 \Gamma 96415b_1 \Gamma 117273b_2 \dots \dots \dots III$

By solving these three equations we get,

$$a_1 = 4165.27 \qquad b_1 = -0.3499 \qquad b_2 = -0.0144$$

By putting the value of these constant we get the required equations.

$$MPS = 4165.27 - 0.3499 \text{ DPS} - 0.0144 \text{ EPS}$$

Annex-11
NABIL BANK LIMITED
Five years Financial Summary
(Balance Sheet)

NPR in Thousand

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Cash and Bank Balance	970486	559381	630239	1399826	2671141
Money at call	918733	868428	1734902	563532	1952360
Investment	5835949	4267233	6178533	8945310	9939771
Loan, advance and Bill Purchase	8189992	10586170	12922543	15545778	21365053
Fixed Assets	338126	361235	319086	286895	598038
Other Assets	492199	413340	544668	512050	606393
Total Assets	16,562,625	16,745,485	17,055,787	22,329,971	37132756
Share Capital	491654	491654	491654	491654	689216
Reserve and Surplus	435007	990027	1165983	1383340	1747982
Borrowings	961461	229660	17062	173202	1360000
Deposit	13447661	14119032	14586608	19347399	31915047
Bills Payable	387526	119753	77128	92538	238421
Proposed and undistributed Dividends	-	-	361221	435084	437373

Income Tax Liabilities	-	-	15345	34605	38776
Other liabilities	839316	795359	340786	372149	465940
Total Capital and Liabilities	16,562,625	16,745,485	17,055,787	22,329,971	37132756

Annex-12
NABIL BANK LIMITED
Five years Financial Summary
(Profit & Loss Account)

NPR in Thousand

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Interest Income	1017872	1002872	1068747	1309998	1587758
Interest Expenses	(317348)	(282948)	(243545)	(357161)	(555710)
Net Interest Income	700,524	718,669	825,202	952,837	1,032,048
Exchange Earnings	144075	157324	184879	185484	209926
Commission Earnings	144406	135958	128883	138294	150609
Other Operating Income	86946	38755	55934	82898	87574
Other Non Operating Income	34154	92781	72241	26808	56942
Gross Income	1,110,102	1,143,487	1,267,139	1,386,321	1,537,099
Staff Costs	(210583)	(180840)	(199516)	(219781)	(240161)
Provision for Staff Bonus	(66364)	(71941)	(84198)	(89800)	(99504)
Premises Costs	(166200)	(19259)	(22237)	(23381)	-
Other Operating Costs	-	(131500)	(168062)	(159315)	(188183)
Other Non Operating		(51574)	-	-	-

Costs					
Total Costs	(494,721)	(403,540)	(474,013)	(492,277)	(568,584)
Profit Before Tax	615381	739947	793126	894044	1009251
Income Tax	199146	201763	239149	262741	321086
Book write off Bad Loans	-	(82873)	(31133)	7729	10926
Provision for Loan Loss	-	-	(4207)	(3770)	(14206)
Net Profit After Tax	416,235	455,311	518,637	635,262	673,959

Annex-13
NEPAL INVESTMENT BANK LIMITED
Five years Financial Summary
(Balance Sheet)

NPR in Thousand

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Cash & Bank Balance	926535	1226923	1340481	2335521	2441514
Money at Call & Investment	1745240	4172483	4074189	5672869	6868650
Loans & Advances	5921788	7338566	10453164	13178152	17769100
Net Fixed Assets	191116	249788	320592	343450	759456
Other Assets	379216	476177	202226	201090	234797
Total Assets	9,163,895	13,463,937	16,390,652	21,732,081	28,073,517
Paid-Up Capital	295293	295293	587739	590586	801353
Profit Capitalization	-	-	-	-	-
Reserve Fund	314845	419092	567511	778904	955417
Profit & Loss Account	28404	14663	24924	45950	121354
Total Shareholder's Fund	638,542	729,048	1,180,173	1,415,440	1,878,124
Borrowings	6829	361500	350000	550000	800000
Customer's Deposit	7922766	11524680	14254574	18927306	24488856
Other Liabilities	446111	640269	278796	437392	423866
Provision For Loan Loss	149647	208441	327108	401944	482673

Total Liabilities	8,525,359	12,734,889	15,210,479	20,316,642	26,195,394
Total Liabilities & Shareholders' Fund	9,163,895	13,463,937	16,390,652	21,732,081	28,073,517

Annex-14
NEPAL INVESTMENT BANK LIMITED
Five years Financial Summary
(Profit & Loss Account)

NPR in Thousand

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Loans, Advances & Overdrafts	421847	663016	769195	964689	1302122
Others	37662	68387	117605	208053	282865
Interest Expenses	(189214)	(326202)	(354549)	(490947)	(685530)
Net Interest Income	270,295	405,201	532,251	681,795	899,457
Exchange Gain	50834	87980	102518	125747	135355
Commission Income	40811	55747	93551	115942	163899
Other Operating Income	26288	36816	56567	46607	114096
Other Non-Operating Income	487	1768	6192	391	1426
Total Income	388,715	587,512	791,079	970,482	1,314,233
Staff Expenses	61288	89749	97004	120664	145371
Operating Expenses	108038	149479	182915	190605	243431
Non-Operating Expenses	-	-	-	-	-
Staff Bonus	18905	25719	37075	50491	72338

Total Expenses	188,231	264,947	316,994	361,760	461,139
Profit Before Tax	200,484	322,565	474,085	608,722	853,094
Loan Loss Provision	30335	91092	140409	103808	129719
Income Tax	53332	78801	101529	154378	221977
Net Profit/(Loss) After Tax	116,817	152,671	232,147	350,536	501,399

Annex-15

STANDARD CHARTERED BANK NEPAL LIMITED

Five years Financial Summary

(Balance Sheet)

NPR in Thousand

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Cash & Bank Balance	1512304	2023162	1111116	1276241	2021019
Money at Call and Short Notice	1657909	2218599	2259691	1977271	1761151
Investments	10216199	11360328	9702553	12838555	13553233
Loan, Advances & Bill Purchased	5695823	6410242	8143207	8935417	10502637
Fixed Assets	191710	136234	71412	101302	125590
Other Assets	1637022	1493492	605596	638564	633055
Total Assets	20,910,970	23,642,059	21,893,578	25,767,352	28,596,689
Share Capital	339548	374640	374640	374640	413254
Reserve & Surplus	1029357	1121098	1207775	1379498	1703098
Loans & Borrowings	79163	78282	55926	-	400000
Deposit Liabilities	18755634	21161441	19335094	23061032	24647020
Bills Payable	54841	59024	56297	55750	36168

Proposed & Unpaid Dividend	-	-	-	499979	341744
Income Tax Liabilities	-	-	-	-	5598
Other Liabilities	652423	847571	863843	396450	1049804
Total Liabilities & Equity	20,910,970	23,642,059	21,893,578	25,767,352	28,596,689

Annex-16

STANDARD CHARTERED BANK NEPAL LIMITED

Five years Financial Summary

(Profit & Loss Account)

NPR in Thousand

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Loan & Advances	563506	558006	581664	596622	1411981
Others	437854	484170	477014	592981	-
Interest Expenses	(255154)	(275809)	(254127)	(303198)	(413055)
Net Interest Income	746,206	766,367	804,551	886,405	998,926
Exchange Earnings	232522	273050	266865	283472	309086
Commission Earnings	215201	198948	184830	222929	221208
Other Operating Income	50131	69835	62945	25442	28784
Other Non-Operating Income	4389	-	2957	1433	9492
Gross Income	1,248,449	1,308,200	1,322,148	1,419,681	1,567,495
Staff Costs	(128327)	(134685)	(148586)	(168231)	(199778)

Provision for Staff Bonus	(76084)	(85955)	(88683)	(93937)	(101609)
Premises Costs	(311013)	(23151)	(26105)	(28944)	-
Other Operating Costs	(15530)	(256543)	(230544)	(192143)	(228450)
Other Non-Operating Costs	-	(10756)	-	(2411)	(4915)
Total Costs	(530,954)	(511,090)	(493,918)	(485,666)	(534,752)
Profit Before Tax	717495	797110	828230	934015	1032743
Income Tax	(208222)	(235793)	(258944)	(280619)	(324427)
Provision For Non-Banking Assets	(2340)	-	-	-	-
Book write off Bad Loan	-	(23517)	-	53090	20159
Provision for Loan Loss	-	-	(30082)	(47730)	(36808)
Net Profit (Loss) After Tax	506,933	537,800	539,204	658,756	691,668