

The Relationship between Earnings, Dividend and Stock Returns in Sri Lanka

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Sri Lankan banking sector which was primarily led by the continuation of relaxed monetary policy and improved macro-economic performance, remained robust in the recent past. Sri Lankan banking sector is administered by the Monetary Law Act and Banking and Exchange Control Act. Three forms of financial institutions are legalized under Banking Act and the Finance Companies Act to function in Sri Lanka by the Central Bank of Sri Lanka. Those three pillars are Licensed Commercial Banks, Registered Finance Companies and Licensed Specialized Banks.

Sri Lankan stock market experienced various fluctuations and this resulted in a decrease in the individual investments since this made difficult for individual investors to make their investment decisions. The purpose of this study is to make the individual investment decisions by considering the financial variables. This study will help the individual investors to their decision making process, using financial variables other than the economic variables. Researcher intend to collect secondary data from audited financial statements of Sri Lankan Licensed Commercial Banks and from the All Share Price Index (ASPI). To calculate the earnings, dividends and stock returns the researcher will use Earnings per Share (EPS), Dividend per Share (DPS) and Average Stock Price. To test the stated variables researcher will use the Ohlson model (Ohlson, 1995).

The expected outcome of this study would be a positive relationship between earnings, dividends and stock return of licensed commercial banks of Sri Lanka.

Keywords: *License Commercial Banks, Earnings per Share, Dividend per Share, All Share Price Index, Stock Returns*

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