

CHAPTER -I

INTRODUCTION

1.1 Background of the Study

Nepal is a country with various sectors being in developing phase. Nepal is developing its economy from different sectors such as tourism, hydropower, construction etc. For the development of these sectors, financial institutions play a vital role to provide the financial support. Hence, various commercial banks, finance companies, insurance companies etc. are established from both government sector as well as private sector to boost the economy of the country from their perspective. So, the active participation of these financial institutions towards economic development is very important for the country.

Financial Institutions play a major role in the proper functioning and development of the economy of any country. The importance of financial institutions in the developing countries like Nepal is very vast and big. The major roles of financial institutions are following;

-) Act as intermediaries between the individuals who lend and who borrow
-) Accept deposits and in turn lend it to people who are in need of financial resources
-) Make the flow of investment easier
-) Pool the scattered funds and mobilize them in productive sector

So no one can deny the role, financial institutions play in developing an economy of a country.

Investment, in its broadest sense, means the sacrifice of current Rupees (Dollars) and resources for the sake of future Rupees (Dollars) and resources. In the other words, it is a commitment of money and other resources that are expected to generate additional money and resources in future.

Investments are made in Assets. Assets generally are of two types;

- Real Assets (Land, Building, Plant, Machineries, Factories etc.)
- Financial Assets (Stocks, Bonds, T-Bills etc.)

Investment in any assets either in real or in financial assets will generate some reward or return for undertaking it. If the return is uncertain, there is some risk in it. So higher the risk, higher is the return and lower the risk, lower is the return.

Return in the investment is combination of two components. The first component that usually comes to mind is the periodic cash receipts (either interest or dividend). This cash receipt is also known as Ordinary Gain on investment. The second component is the appreciation (or depreciation) in the price of the asset and it is known as Capital Gain/Loss. So, mathematically the total return is the sum of Capital Gain/Loss and Ordinary Gain.

$$\text{Total Return} = \text{Capital Gain/Loss} + \text{Ordinary Gain}$$

Every shareholders, who invests his/her money expects both capital and ordinary return. That means, the shareholder wants good dividend as well as good value of the share. Otherwise, the shareholder could sell it in the secondary market. So it is necessary for an organization to make an appropriate and convincing dividend policy decision.

Dividend policy is decision regarding distribution of dividend out of net income and retaining the income in the organization. A company has to decide what portion of net income to be distributed to the shareholders and what portion to be retained for reinvestment in future. So, dividend policy is allocating the net income between dividend and retention. Dividend policy may have some impact on the value of stock.

1.2 Focus of the Study

The study will mainly focus on the dividend policies of commercial banks. The study will go through different practices and applications of dividend policies in the Nepalese

financial business context. The study will go through the method of dividend payment undertaken by the selected companies. With the view on different theories of dividend policy, it is very difficult subject matter to study. The study will also study the impact of dividend policy on the market price of shares of the selected banks and finance companies.

With the view on the dividend policy, the study will further focus on the different features of dividend such as Dividend per share (DPS), Earning per share (EPS), Market price per share (MPS) and other relating ratios.

1.3 Statement of Problem

In recent years, the over-subscription of ordinary shares in initial public offering showed that the people are diverting towards investing in shares, bonds rather than other traditional assets. It is also due to the high increase in the bullion price. Generally, people are investing their money in the common stocks. Some investors are being more rational towards the investment process. They are studying background, past history and performance of the organization, market demand of the stock, dividend policy undertaken by the organization etc. before investing their money. But still more investors are investing without knowing the basic concept and process of the investment. Most of the investors are not aware of the risk involved in investing on such securities. Investors should be aware of the policies and decisions taken by the company management towards wealth or profit maximization.

Different financial experts have introduced the Dividend payment models which present their view towards Dividend payment. Among them, MM model tells that Dividends are irrelevant to the value of the firm. It believes that earnings should be retained only for getting benefit from investment opportunities. If there is no investment opportunity, all the earnings should be distributed as dividend.

James Walter had propounded relevant theory of dividend. He proposed a model for share valuation. According to him, the Dividend policy of the firm affects the value of the

shares. His model supports that Dividends are relevant. He argues that the choice of Dividend policies almost always affect the value of an Enterprise. The Investment policy of a firm can not be separated from its Dividend policies according to him both are interlinked which is just opposite to Modigliani and Miller approach. Walter's model shows clearly the importance of the relationship between the return on a firm's investment or its internal rate of return (r) and its cost of capital or the required rate of return (k) in determining the Dividend policy. As long as the internal rate greater than the cost of capital, the share price will be enhanced by retention and will vary inversely with dividend payment. In this way Walter's model's is also known as "Optimal Theory of Dividend".

Dividend policy is the decision to distribute the net income to shareholder or to retain or reinvest in the company. Common shareholders are considered as real owner of the company. So they look after the return on their shares. So dividend policy directly affects the view of the common shareholders towards the company. If company is distributing the dividend regularly, common stockholders will be more positive towards the company. But if the company cannot make its shareholders satisfy, it will lose the belief from the common shareholders.

Different banks have adopted different policies and Dividends are paid in different forms such as cash dividend, stock dividend etc. Nowadays stock dividend is being more popular in Nepal especially in banking sector. But there is no rigid rule for Dividend payment because few Banks are generating profit and they are focusing toward reinvestment opportunities.

In general, the dividend policy will affect the stock price in market. If the dividend policy is shareholder oriented, then the market price of the stock will increase. It's because people want to invest in those stocks, which give more return. But some scholars and experts do not agree with this relationship of dividend and market price of stock. Some experts believe to have a positive relationship whereas others believe to have negative relationship. Thus the controversy exists on impact of dividend policy on stock price.

-) If there are no tax disadvantages associated with dividends and companies can issue stock at no cost to raise equity whenever needed, dividends do not matter, and dividend policy does not affect value.
-) If dividends have a tax disadvantage, dividends are bad, and increasing dividends will reduce value
-) If stockholders like dividends, or dividends operate as a signal of future prospects, dividends are good, and increasing dividends will increase value

Moreover; the study will be focused on the following problems regarding the subject chosen for the study. This study deals with the following issues;

-) Does there exist the positive or negative relationship between dividend and stock price?
-) What kind of dividend policies are following by the commercial banks of Nepal?
-) Is there any consistency between dividend policies followed by commercial banks?
-) Do the Nepalese investors take care about the dividend policies followed by the related companies before investing?

1.4 Objectives of the Study

The main objective of the study is to find out the appropriate dividend policies and practices in Nepal. However, following objectives can be considered more specific;

-) To study the prevailing practices and efforts made in dividend policy among the firms.
-) To find the impact of dividend policy on market price of stock.
-) To analyze the uniformity among DPS, EPS, MPS and other relating ratios.
-) To identify the appropriate dividend policy followed by the commercial bank.
-) To provide suggestion to the listed banks for the improvement of their dividend policies on the basis of findings.

1.5 Importance & Significance of the Study

As dividend is one of the factors in every organization and dividend policy decision is one of the most important decisions, this might serve to be important information for these respective firms taken as sample. Besides, the shareholders and financial institutions may also be benefited from this study. Moreover, this study will support the future researcher by providing valuable information. Especially the significance of this study can be summarized in the following points:

-) The study helps to the management and policy maker in setting and making a suitable dividend policy.
-) The dividend policy of the banking and insurance sector plays vital role for socio-economic development in the nation , that is way the study of dividend policy of these sector is needed so far as possible.
-) To raise public awareness about dividend policy and market price of share relation in order to help them for rational decision of their investment.

1.6 Limitation of the Study

The study focuses the sensitive part of the Bank which resultants the management a little bit hesitation to come up with open view regarding the Dividend policy and payment procedure. Therefore the study has been conducted on the basis of annual reports of selected banks, published and unpublished material, NRB publications.. Therefore the strength of findings will largely depends upon the correctness of input information. Since the study has been conducted by developing assuming about various factors it has following limitations:

-) The study is based on secondary data like annual reports of the selected companies, reviews, journals, articles, published and unpublished thesis works, and various related material from various websites. Hence, the study does not include primary data.
-) The Balance Sheet, Income Statement and other statements from various published and unpublished reports have been considered as the subject matters of the study. Therefore, the results depend upon the validity of the data.

-) Due to annual distribution system in Nepal, dividend has not been considered for calculation of holding monthly periodic return.
-) Dividend policy of only financial institutions is taken into account. Dividend Policy of other companies associated with industry, trade, agriculture is not covered.
-) The study covers the data of previous five years period only.
-) Again, the study is fully based on existing statistical tools, therefore, technical errors possibly may exist with least chance.
-) Among the different aspects of dividend policy only the market price of the stock been selected and only cash dividend is taken for the analysis.
-) The data being taken from secondary source the authentic of the data is dependent on the accuracy of website used.

1.7 Organization of the study

The study will be organized into following five chapters listed below;

Chapter -I: Introduction

This chapter deals with subject matters of the study consisting background of the study, introduction to selected sample companies, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter -II: Review of Literature

This chapter deals with review of the different literature of the study field. Therefore it includes conceptual framework, theoretical review along with the review of major books, journals, previous research works and thesis reports on the subject matter.

Chapter- III: Research Methodology

This chapter deals with research methodology and it includes research design, population and sample selection, sources of data, data collection procedure, tools for analysis of the study, and limitations of the methodology.

Chapter -IV: Presentation and Analysis of Data

This chapter deals with analysis and interpretation of collected data using appropriate financial and statistical tools. This chapter will illustrate the collected data into a systematic format. Similarly, analysis and interpretation of these data will also be included in this chapter.

Chapter-V: Summary, Conclusions and Recommendations

This chapter deals with summary of the entire study. Conclusions of the study will also be included in this chapter. As well as, possible and viable recommendations will also be presented in this chapter.

CHAPTER- II

REVIEW OF LITERATURE

2.1 Conceptual Framework

The three major decisions in a company are Investment Decision, Financing Decision and Dividend/Share repurchases Decision. Dividend decision is not only important for the desire of the shareholders but also firm's internal growth.

“Dividend decision of the firm is yet another crucial area of financial management. The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most significant internal sources of financing the growth of the firm. On the other hand, dividends may be considered desirable from shareholders' point of view as they tend to increase their wealth. Dividends constitute the use of the firm's funds.”
(Pandey; 1997:672)

2.1.1 Introduction to Dividend

Dividend is a periodic payment made by a company to its shareholders. It is compensation to the shareholders for the use of and risk to their investment funds. Or in other words, it is that portion of the net earning divided by the company among the shareholders as a return for their money invested.

When a company earns a profit, that money can be put to two uses: it can either be re-invested in the business (called retained earnings), or it can be paid to the shareholders of the company as a dividend. Paying dividends is not an expense; rather, it is the division of an asset among shareholders. Many companies retain a portion of their earnings and pay the remainder as a dividend. Publicly-traded companies usually pay dividends on a fixed schedule, but may declare a dividend at any time, sometimes called a special dividend to distinguish it from a regular one.

Dividends are usually settled on a cash basis, as a payment from the company to the customer. They can also take the form of shares in the company (either newly-created shares or existing shares bought in the market), and many companies offer dividend reinvestment plans, which automatically use the cash dividend to purchase additional shares for the shareholder.

2.1.2 Dividend Payment Process

Dividends must be "declared" (approved) by a company's Board of Directors each time they are paid. There are four important dates to remember regarding dividends. The dividend payment procedure follows following dates;

) Declaration date

The declaration date is the day the Board of Directors announces its intention to pay a dividend. On this day, a liability is created and the company records that liability on its books; it now owes the money to the stockholders. On the declaration date, the Board will also announce a date of record and a payment date.

) Ex-dividend date

The ex-dividend date is the day after which all shares bought and sold no longer come attached with the right to be paid the most recently declared dividend. This is an important date for any company that has many stockholders, including those that trade on exchanges, as it makes reconciliation of who is to be paid the dividend easier. Prior to this date, the stock is said to be cum dividend ('with dividend'): existing holders of the stock and anyone who buys it will receive the dividend, whereas any holders selling the stock lose their right to the dividend. On and after this date the stock becomes ex dividend: existing holders of the stock will receive the dividend even if they now sell the stock, whereas anyone who now buys the stock now will not receive the dividend.

It is relatively common for a stock's price to decrease on the ex-dividend date by an amount roughly equal to the dividend paid. This reflects the decrease in the company's assets resulting from the declaration of the dividend. The company does not take any explicit action to adjust its stock price; in an efficient market, buyers and sellers will automatically price this in.

) Holder of Record date

Shareholders who properly registered their ownership on or before the date of record will receive the dividend. Shareholders who are not registered as of this date will not receive the dividend. Registration in most countries is essentially automatic for shares purchased before the ex-dividend date.

) Payment date

The payment date is the day when the dividend cheques will actually be mailed to the shareholders of a company or credited to brokerage accounts.

2.1.3 Forms of Payment

Corporate firms choose to make the payment of dividends in view of its objectives, needs and policies. The firms may distribute the dividends in various forms. Some are briefly explained below;

i) Cash Dividend

Most companies pay dividends in cash. Sometimes cash dividend may be supplemented by a bonus issue (stock dividend). A company should have enough bank balance at the time of paying cash dividend; arrangement should be made to borrow funds. When the company follows a stable dividend policy, it should prepare a cash budget for the coming period to indicate the necessary funds which would be needed to meet the regular dividend payments of the company. It is relatively difficult to make cash planning in anticipation of dividend needs when an unstable policy is followed.

The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed.

ii) Script Dividend

When company has been suffering from the cash problem but has earned profit, script dividend is paid (issued). Script is a form of promissory note promising to pay the holder at specified later date. Under this type of dividend, company issues and distributes to shareholders transferable promissory notes which may be interest bearing or not.

iii) Stock Dividend

Stock dividend is a form of dividend out of two forms; cash and stock. In the stock dividend company distributes shares as dividend to the shareholders' and this dividend is distributed either from past retained earnings or from net profit earned in the respective year. The share price of stock dividend is fixed at market price at the time of dividend declaration.

The declaration of stock dividend will increase the paid up share capital and reduce the retained earnings. Therefore, it involves making a transfer from the retained earnings amount to the other shareholders' equity accounts like common stock and additional paid-up capital (share premium or excess of par value)

There are number of reasons why company declares stock dividend. The following are the reasons;

-) To increase share capital
-) To provide tax benefit to the shareholders. Receipts of stock dividend is not taxable income but cash dividend is a taxable income
-) To conserve cash in the organization. A company having less liquidity pay stock dividend to conserve cash
-) To provide psychological value to the shareholders
-) To decrease the share price at taxable range

The share issued to shareholders as dividend is called stock dividend. This is method of paying dividend without reducing cash balance. The issue of stock dividend is also known as bonus shares. Payment of stock dividend increases the number of outstanding shares of the company. Simply, it is a recapitalization of the owner's equity portion, i.e. the reserves and surpluses and transfer a portion of retained earnings to the capital accounts.

iv) Stock Split

Stock split is also a kind of stock dividend where company breaks (increase or decrease) shares through splitting (breaking) the par value of the share. Split takes place in two ways: Straight split, and Reverse split.

“Except in accounting treatment the stock dividend and stock split are very similar. A stock split however is usually reversed for occasion when a company wishes to achieve a substantial reduction in the market price of the shares.” (*Horne; 2000: 328*)

In stock split there is no change in the capital account: instead a large numbers of the shares of the common stock are issued. In two-for-one stock split, stockholders receive two shares for each one previously held. The book value per share is cut in a half and par or stated, value per share is similarly changed.

Straight stock split: In the straight split company increases number of shares through a proportional reduction in the par value of stock. Straight split takes place to bring the market price in reasonable range (affordable by small investors) and to increase the total dividend without increasing dividend per share. With a stock split, the number of shares increases. Stock splits are similar to stock dividends. As a result of the stock split, the common stock, paid-in capital and retained earnings accounts remain unchanged. Shareholders’ equity also stays the same; the only change is in the par value of the stock. Except in accounting treatment, the stock dividend and stock split are very similar.

Reverse stock split: In the reverse stock split, company reduces number of shares outstanding through merging the par values of the stocks. This takes place to bring low priced shares up at desirable trading levels. Reverse stock split is the opposite of straight stock split where the par value increase but the common stock, retained earnings, additional paid-in capital remain unchanged.

v) Stock Repurchase

Company repurchases its own stock as dividend decision. It is also said that stock repurchase is an alternative of cash dividend. Under this plan, company distributes cash to the shareholders buying back some of its own outstanding stock, thereby decreasing the number of shares, which would increase EPS and the stock price.

Company repurchases its own stock due to number of reasons, such as;

) to bring change in the existing capital structure

-) to increase value of stocks in the future
-) to distribute temporary excess cash
-) to manage excess liquidity

vi) Property Dividend

If the declared dividend is provided in the form of property (assets) instead of cash, the dividend is said to be property dividend. This form of dividend may be followed when there are assets that are no longer necessary in operation of the business or in extraordinary circumstances. Company's own products and securities of subsidiaries are the examples that have been paid as property dividend.

vii) Bond Dividend

Bond dividend by its name is a dividend that is distributed to shareholders in form of a bond. In other words company declares dividend in form of its own bond with a view to avoid cash out flows.

Though there are different forms of dividends, in general, the form of dividends popular in Nepal are cash dividend and stock dividend.

2.1.4 Theories of Dividend

Different dividend theories have been advanced and new and thus head to the controversy regarding those theories as the theories consider the dividend decision to be both relevant and irrelevant. Some of the relevant and irrelevant theories have been discussed below:

2.1.4.1 Residual Theory of Dividend

The crux of the argument supporting the relevance of dividends to valuation is that the dividend policy of a firm is a part of its financing decision. As a part of financing decision of the firm, the dividend policy of the firm is a residual decision and dividends are a passive residual.

Residual theory is that in which the first priority is given to the profitable investment opportunities. If there are profitable opportunities, the firm invests in those and residual income (if any) is distributed to stockholders.

“A theory that suggests that the dividend paid by the firm should be the amount left over after all acceptable investment opportunities has been untaken.” (*Gitman; 1988: 616*)

Using this approach the firm would treat the dividend decision in three steps as follows;

STEP I: Determine the optimum level of capital expenditure which would be the level generated by the point of intersection of the investment opportunities schedule (IOS) and weighted managerial cost of capital (WMCC) function.

STEP II: Using the optimal capital structure proportion, it would estimate the total amount of equity financing needed to support the expenditures generated in STEP I.

STEP III: Because the cost of retained earnings (K_r) is less than the cost of new common stock (K_n), retained earnings are inadequate to meet this needs, new common stock would be sold. If the available retain earnings are in excess to this needs, the surplus amount would be distributed as dividends.

Under this policy, the firms use earning to finance the investment opportunities having good returns. If the firm has earnings left after financing all acceptable investment opportunities, these earnings would then be distributed to shareholders in the form of dividend policy as strictly a financing decision the payment of cash dividend is passive residual.

2.1.4.2 Wealth Maximization Theory

Under wealth maximization theory, larger dividends is announced and distributed to shareholders in order to (or in hope with) maximize the wealth of the stockholders. Basically, this theory is beneficial for those companies, which are just established and to those companies whose financial profiles are in decreasing trends. The main purpose of the wealth maximization theory of dividend is to make assurance to the stockholders that company has better market value and good future.

2.1.5 Overview: Dividend Policy

“Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financing corporate growth, but dividends constitute the cash flows that accrue to stockholders.” (*Weston & Copeland; 1992: 657*)

“The Objective of a dividend policy should be to maximize a shareholder’s return so that value of his investment is maximized. Return consists of two components; dividends and capital gains. Dividend policy has a direct influence on these two components of return”. (*Pandey; 1997:672*)

“Dividend policy affects the value of shares even in a situation where the return on investment and required rate of return are equal. This model explains those investors are not indifferent between current dividend and retention of earnings with the prospects of future dividends, capital gain and both. The conclusion of the study is that investor gives more emphasis to the present dividend more than future capital gain. His argument stresses that an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield (P_1/P_0) is less risky than the expected capital gain.”(*Gordon; 1962:76*)

“Dividend policy has no effect on the share price of the firm. They argue that the value of the firm depends on the firm’s earnings, which result from its investment policy. Thus, when investment decision of the firm is given, dividend decision, the split of earnings between dividends and retained earnings is of no significance in determining the value of the firm.” (*Modigliani & Miller;1961*)

Dividend Policy involves the decision by the financial manager to pay out earnings or to retain them for reinvestment in the firm.

Dividend policy has two opposing effects, which the financial manager must consider. The optimal dividend policy for a firm strikes the balance that investors in the aggregate want between current dividends and future growth, thereby maximizing the price of the stock.

Dividend policy is of great importance in the corporate firm because it affects the financial structure, the flow of fund, corporate liquidity and investor's attitude. Thus, it is one of the crucial decision and firm attempts to maximize the value of the firm's common stock by means of this decision. Due to its rapidly increasing importance, many thoughts and provoking ideas in this area are up-coming, which needs to be reviewed.

2.1.5.1 Stable Dividend Policy

“A stable dividend policy is a long term policy. It does not affect by variation in earning from year to year. When a firm constantly pays a fix amount of dividend and maintains it for all times to come regardless of fluctuations in the level of its earnings, it is called a stable dividend policy. The dividend will be regular. Stability of dividend means regularity in paying dividend even though the amount of dividend may fluctuate from year to year. By stability we maintaining a position in relation to a dividend trend line, preferably one that is upward slopping.” (*Van Horne; 2000:325*)

The shareholders generally prefer stability or regularity of dividend because the company distributes a stable dividend over the year the market price of the share may be increased. It is suitable for those companies, which have got stable income. All other things being the same stable dividend may have a positive impact on the market price of the share. In other words, the term dividend stability refers to the consistency in the stream of dividends. There are three types of dividend stability which are given below.

a) Constant DPS

Under constant DPS, a fixed amount of dividend per share is distributed each financial year throughout some financial years. The dividend per share for every year is constant. Such as if ABC Company pays Rs. 15 per share as dividend to the equity shareholders, the dividend per share for next year will also be Rs. 15 per share under the constant DPS scheme.

b) Constant Payout Ratio

“The aggregate dividend payout ratio forecast excess return on both stocks and corporate bonds. It is to mean, high dividends forecast high return and high earnings forecast low return. The correlation of earnings with business conditions gives them predicted power of returns; they contained information about future returns that is not captured by other variables. Dividend and earnings contribute explanation power at short horizon but however for long horizon stock price matters.” (*Lamont; 1998: 1563-1587*).

Under constant payout ratio companies pay dividend at constant rate of earning each year. Under this policy the payout ratio remains constant but the dividend fluctuates with earning fluctuations. The variability in dividend signals uncertainty of dividend in the future to the shareholders. Such as if ABC Company pays 20% dividend of total earnings to its shareholders, then the next year also the rate of dividend will be same, but DPS will vary according to the earnings of the Company.

c) Low Regular Dividend plus extra Dividend

Dividends are usually settled on a cash basis, as a payment from the company to the customer. They can also take the form of shares in the company (either newly-created shares or existing shares bought in the market), and many companies offer dividend reinvestment plans, which automatically use the cash dividend to purchase additional shares for the shareholder.

2.1.5.2 No Immediate Dividend Policy

If the company does not declare dividend unless the company earn large income is called no immediate dividend policy. In other words, if there is not any hurry about dividend payment and if it could be only when the company earns more profit is known as no immediate dividend policy. This policy is usually pursued the following circumstances;

- When the firm is new and rapidly growing concern, which needs tidy amount of funds to finance its expansion program
- When the firms access to capital market is difficult
- When availability of funds is costlier

- When stockholders have agreed to accept higher return in future

2.1.5.3 Regular Stock Dividend Policy

If the company regularly pays dividend to its shareholders is stock instead in cash, then it is called regular stock dividend policy. Regular stock dividend policy is also designated as bonus shares. Such policy should follow under the following circumstances;

- When the firm needs cash generated by earnings to cover its modernization and expansion project
- When the firm is deficient in cash despite high earnings, this is particularly true when the firm's sale is affected through credit and entire sales proceeds are tied in receivables

2.1.5.4 Irregular pay Dividend Policy

It is the policy in which, the firm does not pay any fixed amount of dividend every year of dividend varied in correspondence with change in level of earnings, i.e. higher earnings means higher dividend and vice versa. The firm with unstable earnings also adopts this policy, when there are investable opportunities the company retains more and when there is not any investable opportunities, the company distributes the earnings as dividend or there is not regularity of dividend payment therefore it is the most used type of dividend policy in the Nepalese context of present.

2.1.6 Dividend-Reinvestment Plans

A plan that enables a stockholder to automatically reinvest dividends received back into the stock of the paying firm. There are two types of DRPs.

- 1) Plans which involve only 'old' stock that is already outstanding
- 2) Plans which involve newly issued stock

Some companies have dividend reinvestment plans, or DRIPs. These plans allow shareholders to use dividends to systematically buy small amounts of stock, usually with no commission and sometimes at a slight discount. In some cases the shareholder might not need to pay taxes on these re-invested dividends, but in most cases they do.

Management and the board may believe that the money is best re-invested into the company: research and development, capital investment, expansion, etc. Proponents suggest that a management eager to return profits to shareholders may have run out of good ideas for the future of the company. Some studies have demonstrated that companies that pay dividends have higher earnings growth, however, suggesting that dividend payments may be evidence of confidence in earnings growth and sufficient profitability to fund future expansion.

When dividends are paid, individual shareholders in many countries suffer from double taxation of those dividends: the company pays income tax to the government when it earns any income, and then when the dividend is paid, the individual shareholder pays income tax on the dividend payment; in many countries, the tax rate on dividend income is lower than for other forms of income to compensate for tax paid at the corporate level. This is often used as justification for retaining earnings, or for performing a stock buyback, in which the company buys back stock, thereby increasing the value of the stock left outstanding. In contrast, corporate shareholders often do not pay tax on dividends because the tax regime is designed to tax corporate income (as opposed to individual income) only once. The shareholder will pay a tax on capital gains (which is often taxed at a lower rate than ordinary income) only when the shareholder chooses to sell the stock. If a holder of the stock chooses to not participate in the buyback, the price of the holder's shares should rise, but the tax on these gains is delayed until the actual sale of the shares. Certain types of specialized investment companies (such as a REIT in the U.S.) allow the shareholder to partially or fully avoid double taxation of dividends.

Shareholders in companies which pay little or no cash dividends can reap the benefit of the company's profits when they sell their shareholding, or when a company is wound down and all assets liquidated and distributed amongst shareholders.

2.1.7 Factors Influencing Dividend Policy

Many variables influence dividends, however. For example, a firm's cash flows and investment needs may be too volatile for it to set a very high regular dividend. Yet, it

may desire a high dividend payout to distribute funds not necessary for reinvestment. In such a case, the directors can set a relatively low regular dividend – low enough that it can be maintained even in low profit years or in years when a considerable amount of reinvestment is needed – and supplement it with an extra dividend in years when excess funds are available.

- I. Stability of earnings:** The nature of business has an important bearing on the dividend policy. Industrial units having stability of earnings may formulate a more consistent dividend policy than those having an uneven flow of incomes because they can predict easily their savings and earnings. Usually, enterprises dealing in necessities suffer less from oscillating earnings than those dealing in luxuries or fancy goods.
- II. Age of corporation:** Age of the corporation counts much in deciding the dividend policy. A newly established company may require much of its earnings for expansion and plant improvement and may adopt a rigid dividend policy while, on the other hand, an older company can formulate a clear cut and more consistent policy regarding dividend.
- III. Liquidity of Funds:** Availability of cash and sound financial position is also an important factor in dividend decisions. A dividend represents a cash outflow, the greater the funds and the liquidity of the firm the better the ability to pay dividend. The liquidity of a firm depends very much on the investment and financial decisions of the firm which in turn determines the rate of expansion and the manner of financing. If cash position is weak, stock dividend will be distributed and if cash position is good, company can distribute the cash dividend.
- IV. Extent of share Distribution:** Nature of ownership also affects the dividend decisions. A closely held company is likely to get the assent of the shareholders for the suspension of dividend or for following a conservative dividend policy. On the other hand, a company having a good number of shareholders widely distributed and forming low or medium income group, would face a great difficulty in securing such assent because they will emphasize to distribute higher dividend.

- V. Needs for Additional Capital:** Companies retain a part of their profits for strengthening their financial position. The income may be conserved for meeting the increased requirements of working capital or of future expansion. Small companies usually find difficulties in raising finance for their needs of increased working capital for expansion programs. They having no other alternative, use their ploughed back profits. Thus, such Companies distribute dividend at low rates and retain a big part of profits.
- VI. Trade Cycles:** Business cycles also exercise influence upon dividend Policy. Dividend policy is adjusted according to the business oscillations. During the boom, prudent management creates food reserves for contingencies which follow the inflationary period. Higher rates of dividend can be used as a tool for marketing the securities in an otherwise depressed market. The financial solvency can be proved and maintained by the companies in dull years if the adequate reserves have been built up.
- VII. Government Policies:** The earnings capacity of the enterprise is widely affected by the change in fiscal, industrial, labor, control and other government policies. Sometimes government restricts the distribution of dividend beyond a certain percentage in a particular industry or in all spheres of business activity as was done in emergency. The dividend policy has to be modified or formulated accordingly in those enterprises.
- VIII. Taxation Policy:** High taxation reduces the earnings of he companies and consequently the rate of dividend is lowered down. Sometimes government levies dividend-tax of distribution of dividend beyond a certain limit. It also affects the capital formation. N India, dividends beyond 10 % of paid-up capital are subject to dividend tax at 7.5 %.
- IX. Legal Requirements:** In deciding on the dividend, the directors take the legal requirements too into consideration. In order to protect the interests of creditors an outsider, the companies Act 1956 prescribes certain guidelines in respect of the distribution and payment of dividend. Moreover, a company is required to provide for depreciation on its fixed and tangible assets before declaring dividend on shares. It proposes that Dividend should not be

distributed out of capita, in any case. Likewise, contractual obligation should also be fulfilled, for example, payment of dividend on preference shares in priority over ordinary dividend.

- X. Past dividend Rates:** While formulating the Dividend Policy, the directors must keep in mind the dividend paid in past years. The current rate should be around the average past rate. If it has been abnormally increased the shares will be subjected to speculation. In a new concern, the company should consider the dividend policy of the rival organization.

2.1.8 Conflicting Theories of Dividend Policy

“Basically two schools of thoughts have been advanced in the theoretical literature of finance. One school, associated with Myron Gordon and John Linter, among others holds that the capital gains expected to result from earnings retention are riskier than dividend expectations. Accordingly these theories suggest that the earnings ratios are typically capitalized at bigger rates than the earnings of a high payout firm, other things held constant.” (*Weston & Brigham; 1972:686*)

The other schools, associated with Merton Miller and Franco Modigliani holds that investors are basically indifferent to returns in the form of dividends or capital gains when firms raise or lower their dividends. If their stock prices tend to rise or fall in like manner, does this prove that investors prefer dividends? Miller and Modigliani argue that it does not; that they affect change in dividends has no the price of a firm's stock is related primarily to information about expected future earnings conveyed by a change in dividends. Recalling that corporate managements dislike cutting dividends, Miller and Modigliani argue that increase in cash dividends raise expectations about the level of future earnings that they have favorable information content.

Dividends are probably subject to less uncertain than capital gains, but they are taxed at a higher rate. How do these two forces balanced out? Some argue that the uncertain factor dominates; other feel that the differential tax rate is the stranger force and causes investors to favor corporate retention of earnings; still other like Miller and schools,

reason that investors have opportunities for altering the tax effects of dividends, nor do systematic empirical studies settle the manner.

2.1.9 Role of Expected Dividend on Stock Value

This is one of the prime issues of this research. According to generally accepted theory, stock prices are the present value of future cash flows streams. In other words, the capitalization of income procedure applies to common stocks as well as to bonds and other assets. What are the cash flows that corporations provide to their stockholders? What flows do the markets in fact capitalize? A number of different models have been formulated. They are;

-) The stream of dividends
-) The stream of earnings
-) The current earnings plus flows resulting from future investment opportunities
-) The discounting of cash flows as in capital budgeting models.

In the dividend formulation, a share of common stock may be regarded as a similar to a perpetual bond or share of perpetual preferred stock and its value may be established as the present value of its stream of dividends. This is,

Value of stock (P_0) = PV of all of the expected future dividends

$$X \frac{d_1}{(1 \Gamma Kg)^1} \Gamma \frac{d_2}{(1 \Gamma Kg)^2} \Gamma \frac{d_3}{(1 \Gamma Kg)^3} \Gamma \dots$$

$$X \frac{d_r}{(1 \Gamma Kg)^r}$$

Stock values with growth:

$$\text{Price} = \frac{\text{Dividend}}{\text{Capitalization Rate}}$$

$$P_0 X \frac{d_1}{Kg}$$

Constant/Normal growth:

$$P_0 X \frac{d_0(1 \Gamma g)^t}{(1 \Gamma Kg)^t}$$

$$P_0 \times \frac{d_1}{Kg \ Zg}$$

Super Normal Growth:

Present Price = PV of dividend during super normal growth period + value of stock price at end of super normal growth period discounted back to present

$$P_0 \times \frac{d_1}{(1 \Gamma Kg)^1} \Gamma \frac{d_2}{(1 \Gamma Kg)^2} \Gamma \frac{d_3}{(1 \Gamma Kg)^3} \Gamma \Gamma \frac{d_t}{(1 \Gamma Kg)^t} \Gamma \frac{p_t}{(1 \Gamma kg)^t}$$

$$P_0 \times \frac{d_1}{(1 \Gamma Kg)^1} \Gamma \frac{d_2}{(1 \Gamma Kg)^2} \Gamma \frac{d_3}{(1 \Gamma Kg)^3} \Gamma \Gamma \frac{d_t \Gamma p_t}{(1 \Gamma Kg)^t}$$

Where,

$d_1, d_2, d_3, \dots$ are the cash dividends for the given period. **Kg** is a required return, 'g' is a growth rate.

2.2 Review of NRB Directives

In Nepalese context, companies have rules and regulations regarding dividend policy governed by NRB Directives to commercial banks and cooperative institutions. These are some NRB directives; 2066 are as below:

Directive No:1 Section 2 (q): states that bonus share mean a share issued as an additional share to the shareholders by capitalizing saving earned from profit or reserve fund and also includes a circumstances where paid up value of the shares is increased by capitalizing the said surplus and reserve fund.

Directive No:2 Section 179: Bonus shares (1) may be issued by a company to its shareholders out of the amount available for the distribution of dividends after adopting a special resolution to this effect in the general meeting. Sub-section (2) the company shall have to inform the office before issuing bonus shares under sub-section (1).

Directive No: 3 Section 182: relates to dividend distribution as follows:

1. Except in the following circumstances, the dividend shall be distributed to the shareholders within 45 days of the decision made to provide the Dividend:
 - a. If any law prohibits the distribution of Dividend
 - b. If the right to receive Dividend is subject to any dispute
 - c. If, without the fault on the part of the company, the Dividend cannot be distributed within the above mentioned time limit due to any god's act
2. A company wholly or partly owned by His Majesty's government shall distribute Dividend only with prior approval of HNG and HMG may issue necessary directives in relation to distribution of such Dividend.
3. If Dividend is not paid stipulated in sub section (1) the same shall be paid together with the interest at the rate as prescribed.
4. The shareholders in whose name the share is registered in the shareholders registers the time of declaration of the dividend or his successor shall be entitled for the payment of the Dividend.
5. A company shall not pay or distribute Dividend except from profit allocated for the purpose.

A company shall eliminate pre-incorporation expenses, deduct the amount depreciation as per the accounting standard prescribed by competent authority under law enforced and allocate any amount to be allocated or paid out of profit under the law enforced and eliminate the accumulated loss of the preceding years before the payment or distribution of Dividend out of the profit in a particular year.

Provided that a company which is required to transfer any amount out of the profit to certain reserve fund under the law in force, Dividend shall not be reserve fund.

In Company Act of India, there are some provisions regarding Dividends;

- Dividend should be paid only out of profit available after providing for depreciation as per rules and after transferring 10 percent or more of profits to reserve.

- Unpaid Dividend should be transferred to "Unpaid Dividend Account" with 7 days of the expiry of 42 days of dividend declarations. If not, the company shall pay an interest of 12 percent per annum.
- Any unpaid Dividend declared before enforcement of this Act should also be transferred to the "Unpaid Dividend Account" within six month from the commencement of this Act.
- Dividend remained unpaid or unclaimed for 3 years from the date of transfer to "Unpaid Dividend Account" must be transferred to the general reserve account of the central Government. The claimants still apply to the government.
- On transfer of the unpaid dividend to the general account the company must also furnish a statement in the prescribed form setting forth the nature of sums, the names and addresses of the concerned persons the amount to which each is entitled and the nature of his claim there to.

Directive No: 4 Section 18: Restrictions for dividend distribution. According to this section, before providing the whole expenses by the bank for preliminary expenses, loss incurred in last year, capital reserve, risk beared fund reserve fund, the bank shall not declare and distribute the dividend to shareholders.

Directive No: 5 Section 47: This section has prohibited company from purchasing its own shares. This section states that no company shall purchase its own shares or supply loans against the security of its own share.

2.3 Review of Journals & Articles

In this part, various studies related to dividend policy from different articles published in different time are reviewed.

2.3.1 Review of International Journals & Articles

Some major articles and studies are reviewed from the international scholars and their opinions and conclusions are reviewed in this section.

Goetzmann and Jorion, (1995), in their published article, “*A Longer Look at Dividend Yield*” explains that long price and dividend series are available for today's major markets, such as the United States and the United Kingdom, few data are available for the Japanese and German markets before suspension of trading in the 1940s or for the Russian market before the major hiatus in capitalism. In this article, we explore the implications of relying solely on survived series, or series with continuous price and dividend records, for drawing inferences about dividend yield regressions. Our simulations of the effects of survivorship on dividend yield regressions and on tests of cointegration suggest that the distribution of test statistics under the null hypothesis becomes more leptokurtic and can lead to more frequent false rejection.

The use of long-term data, however, raises a crucial issue. The ex post observed structural relationship between dividends and prices is clearly conditioned on the survival of the asset series. This conditioning may have nontrivial effects on inferences about the behavior of dividend yields. For instance, when we look back over the history of the world's financial markets, we should expect the dividend yields for stock markets that existed for long uninterrupted periods of time to display mean reversion. As we show below, this mean reversion in dividend yields will manifest itself in return forecastability.

Michaely, Richard, Thaler & Kent, (1995), in their published articles “*Price Reactions to Dividend Initiations & Omissions*” explains the immediate and long term effects of dividend initiation & omissions announcements. They found that the short-run price impact of dividend omissions was negative and that of initiations was positive. Initiations reactions were one-half the magnitude of the market reaction to omission announcements. They change in yield, however, was about seven times larger for the omission announcements. They saw that the market reaction to a dividend omission announcements was no greater than to an initiation for given change yield.

Firth, (1996), in his published article, “*Dividend changes, Abnormal Returns and Intra-Industry Firm Valuations*” explains that dividend changes are associated with significant abnormal returns. This association is rationalized on the basis that the dividend announcement acts as a signal of future earnings. Another body of research has documented the existence of intra-industry transfers of information where news about one firm is extrapolated to other companies in the same industry. Earnings information transfers have been found to be positive in nature, with good news about one company leading to stock price increases for rival firms. Linking dividend signaling and information transfer, tests were constructed to ascertain whether the dividend change of one firm is associated with the stock price performance of other companies in the same industry. The results indicate there is some small positive information transfer. The magnitude of information transfer is related to the degree of the dividend surprise, the recent dividend history of the other companies, and correlations in stock returns between the dividend announcer and the other companies. Information transfer is found to affect earnings and earnings growth estimates of the other firms and this leads to revisions in their stock prices.

This article examines whether the information revealed by a dividend change announcement affects the valuations and earnings forecasts of other companies in the same industry as the announcer. It also examines the extrapolation (or signaling) of firm-specific information to other companies. The results showed there was information to other companies in the same companies. Specifically, an unexpected dividend increase (decrease) for one firm led to increased (decreased) stock returns for nonreporters. The abnormal stock returns of both the dividend announcers and the nonannouncers were positively associated with changes in analysts’ earnings forecasts of other companies and positively associated with the actual changes in future profits and dividends.

Baker and Wurgler, (2004), in his published articles, “*Catering Theory of Dividends*” proposes that the decision to pay dividends is driven by prevailing investor demand for dividend payers. Managers cater to investors by paying dividends when investors put a stock price premium on payers, and by not paying when investors prefer nonpayer. To

test this prediction, we construct four stock price-based measures of investor demand for dividend payers. By each measure, nonpayer tends to initiate dividends when demand is high. By some measures, payers tend to omit dividends when demand is low. Further analysis confirms that these results are better explained by catering than other theories of dividends.

In this article, they argue for a view of dividends that relaxes this assumption. It has three basic ingredients. First, for either psychological or institutional reasons, some investors have an uninformed and perhaps time-varying demand for dividend-paying stocks. Second, arbitrage fails to prevent this demand from driving apart the prices of payers and nonpayers. Third, managers rationally cater to investor demand--they pay dividends when investors put higher prices on payers, and they do not pay when investors prefer nonpayers. They formalize this catering view of dividends in a simple model.

2.3.2 Review of Nepalese Journals & Articles

Since Nepalese capital market is small, and at emerging stage, there are few studies regarding corporate dividend policy and its impact on share prices. Here is little review of studies in Nepalese perspective;

Adhikari, (1999), published an article on “*Corporate Dividend practices in Nepal*”. The study had covered the period of 1990 to 1996 with the total observation of 47 firms in financial sector and 30 in non-financial sector. His main objectives of the study was to examine the relationship between dividend and stock price, analyses the properties of portfolio forms on dividends and to survey the opinion of financial executive on corporate dividend practices.

After research he found that stock with large ratio of dividend per share to book value per share has higher liquidity, stock with large ratio of dividend per share to book value per share has higher profitability. Likewise, there is positive relationship between the ratio of dividend per share to book value per share and turnover ratio.

There is positive relationship between the ratio of dividend per share to the book value per share and interest coverage ratio. There is positive relationship between dividend payout ratio and current ratio whereas the negative relationship between dividend payout and quick ratio likewise there is negative relationship between dividend payout and the earnings before tax to net worth and there is positive relationship between dividend payout and interest coverage ratio.

Manandhar, (2000), published an article “*Preliminary Test of Lagged Structure of Dividend*” where he had tried to test whether Nepalese corporate firms consider the lagged earning and dividend paid to pay the dividend in current year. To carry out the test he had considered 17 corporate companies as samples and set different hypothesis.

After this study Dr. Manandhar found that there is significant relationship between change in dividend policy in terms of DPS and change in lagged earning and there is a positive relationship between changes in lagged earning and there is a positive relationship between change in lagged consecutive earning and DPS.

In addition to this there is relationship between distributed lagged profit and dividend when change in lagged consecutive earning is greater than zero, in 65% case, change in DPS and increased in EPS has resulted to the increase in dividend payment in 66.66% of the cases while decrease in EPS resulted decrease in dividend payment.

Likewise, Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share.

Katawal, (2002), conducted a research entitled “*A comparative study of dividend policy in commercial Bank*”. The main objective of the study was to examine the impact of dividend on share prices and find out the relationship between DPS, EPS, DPR, PE ratio, liquidity ratio and profitability ratio on MVPS. In addition to this the study aimed to examine if there is any uniformity among DPS, EPS and DPR on six sample joint venture banks. Main conclusion of the study are sample banks have got sufficient earning but

some of the banks are paying high dividend and other are paying low dividend, DPS is not relatively more stable than DPR, MPS is attracted by dividend and also dividend is not clearly defined.

Kharel, (2006), a research had published entitled to “*Dividend policy of commercial banks*”. She had tried to test the prevailing dividend practices of sample banks. There seems instability and inconsistency in dividend payment by the banks, every year EPS and MPS highly fluctuation. The CV of EPS has highly ranged. Similarly, MPS are also fluctuating. Government has not clear policy towards dividend and to improve the efficiency of the companies.

Chand, (2006), relevant theory of dividend with reference to some commercial banks. had conducted a study entitled “*Relevant theory of Dividend with reference to some listed commercial banks*”. His main objectives of this study was critical analysis of some important theories representing the contradiction of relevancy of dividend theory, relationship between dividend and stock market price, factors affecting dividend policy and provide information to the future researchers and also analyze the relevant theory of dividend with reference to some commercial banks.

Gautam, (2006), had conducted a study entitled to “*Dividend policy and practices in commercial Banks*”. The main objectives of her study was to examine the dividend policy of listed bank and analyze the relationship between EPS, DPS, P/E ratio, Earning yield ratio and MPS and analyze the factor affecting dividend policy. He concluded that market price of share is affected by the dividend policy therefore market price of high dividend paying company is higher than the other company likewise he also found that commercial banks has not clear.

2.4 Review of Thesis

In this review section, the unpublished thesis by students of master’s level are reviewed for the further highlight on the dividend policy and its impact on share price.

Rajbhandari, (2001) conducted a study on “*Dividend Policy: A Comparative Study Between Banks and Insurance Cos.*” with the following objectives of her study were:

- a) To examine the relationship between dividend and market price of the stock.
- b) To identify the appropriate dividend policy followed by the banks and insurance companies.
- c) To analyze the relation between dividend policy decision of banks and insurance companies.

In her comparative, she concluded that the sample institutions have average earnings which can be considered satisfactory. However, no consistency in dividend payment is found in all the sample institutions i.e. NGBL, NIBL, KBL, NIC and EIC except NLGI which seems to be paying average DPS Rs. 20 every year.

On her study, she further concluded that none of the six sample institutions have a clearly defined and appropriate dividend policy. The dissimilarity and insignificant relationship between the financial indicators of all three banks and insurance companies helps to conclude that they don't seem to follow and practice the dividend policy as established and developed in our context. However the analysis based on pooled data of dividend payment ratio between banks and insurance companies concluded that there is a kind of similarity in dividend payment decision of banks and insurance companies.

The major findings of her study are:

- a) The investors are not found to be investing their capital in the financial performance of the institutions but randomly without properly understanding the stock market.
- b) The institutions don't seem to follow the optimal dividend policy of paying regular dividend as per the shareholder's expectation and interest. This would increase uncertainty among the shareholders.
- c) The institutions need to follow liberal dividend policy as the shareholders might even expect higher dividend as always. If the intuitions are liberal on shareholders, it might make the company to raise extra capital in the near future.

- d) The controversy existed in declaring dividend by the companies in the sense that the major factors like the earning and liquidity position of the firm have been neglected, ignored and disregarded which must have been considered the most.

Kunwar, (2001) conducted the study on “*Dividend Policy: A comparative Study between Nepal Insurance Co. Ltd. and National and General Insurance Co. Ltd.*”

The main objectives of his study are:

- a) To examine the influence of financial indicators on share price.
- b) To show the relationship between dividend per share and other financial indicators.
- c) To check the consistencies amongst DPS, EPS, D/P ratio etc. of the sample insurance company.
- d) To identify the dividend policy undertaken by each company and the appropriateness of the policy undertaken.
- e) To provide useful suggestions to formulate optimal dividend policy and maximize stock price on the basis of findings.

The methodology used in the study included, financial tools such as ratio analysis and statistical tools such as correlation analysis, etc. He used secondary data for the analysis.

The major findings of his study are:

- a) There are many factors that influence the dividend and the market value of share such as earnings, liquidity position, efficiency and leverage.
- b) Earnings, liquidity position, efficiency and leverage indicate the financial position of the company.
- c) If the company has good performance in terms of Earnings, liquidity position, efficiency and leverage it will be able to provide returns in the form of dividends to its shareholders.

Luitel ,(2006) conducted study on “*Dividend Policy and its Impact on Share Price in Nepalese Context*”

The main objectives of the research are:-

- a) To study the prevailing practices and effort made in dividend policy among the firms.
- b) To find the impact of dividend policy on share price.

- c) To analyze the uniformity among DPS, EPS, MPS and DPR.
- d) To provide suggestions and recommendations.

The major findings of his study are:

- a) The market price of the share is the consequent results of various factors. Since the study aims at finding the impacts of dividend policy on the market price of the share.
- b) The study of DPS and MPS indicate that stocks with larger ratio of dividend per share to market price per share have higher dividend yield.
- c) The better the liquidity position the higher will be the amount to pay dividend.
- d) The more the earning generated by the company, the higher will be the dividend distribution and vice versa since EPS and DPS are positively correlated.
- e) The positive correlation between the MPS and DPS calls to draw the conclusion that the more the company distribute dividend the higher will be the market price per share. However, the bonus share distribution intervened this conclusion because such relation is negative in case of NIC, UNL and NLOL. It may be the impact of intervening variable like bonus share.
- f) This study rests to conclude that the cash dividend can't be said as a sole factor to affect price of share. But there are other factors like earning power, bonus share, information value of dividend decisions etc. that also cause the share price fluctuation. In the imperfection market mechanism like Nepalese share market, the security brokers, other market makers and the rumors they spread in market have also a significant role in the share price fluctuation.

Yadav (2007) conducted a study on *“Dividend Policy and its Impact on Market Price of Stock.”*

The major objectives of his study are:-

- a) To study the existing practices and effort made in dividend policy among the firms..
- b) To analyze the consistency and uniformity among DPS, EPS, MPS and DPR.
- c) To find the impact of dividend policy on market price of stock.

He selected two commercial banks and two insurance companies for the study. The selected companies are Nepal Arab Bank Limited, Himalayan Bank Limited, Himalayan General Insurance Company Limited and United Insurance Company Nepal Limited. The methodology used in the study included, financial tools such as ratio analysis and statistical tools such as correlation analysis, regression analysis and test of hypothesis etc. She used secondary data for the analysis.

The major findings of his study are:-

- a) There is not any consistency in the dividend policy of the sample firms, therefore sometimes the result of the different test accept the theoretical assumptions of dividend policy and sometimes do not.
- b) Majority of Nepalese firm gives first priority to “earning” to get into the decision of dividend. The second priority goes to the “cash availability” and third priority is given to “past dividend”
- c) HBL is a strong company with the financial market reputation, if the result of it compared to other firms, it can be said that although EPS affects DPS it is less concerned with MPS. Therefore the MPS is more or less dependent with DPS in the efficient capital market.

Raya, (2008) conducted a study entitled “*The Study of Dividend Policy of the Commercial Banks in Nepal*”

The main objectives of her study are:

- a) To study whether the commercial banks are following the suitable dividend policy or not.
- b) To compare the dividend policy followed by different commercial banks chooses.
- c) To study the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, net worth, net profit and book value of share.
- d) To provide some fruitful suggestion to the sample banks chooses regarding their dividend policy, so that they can follow the better policy if the existing policy is not fruitful enough.

The methodology used in the study included, financial tools such as ratio analysis and statistical tools such as correlation analysis and test of hypothesis etc. She used secondary data for the analysis.

The major findings of her study are :-

- a) There is lack of rules and regulations that bind companies to pay dividend every year. Not only the companies do not have dividend policy but also the government does not have any clear policy towards dividend.
- b) There seems instability of dividend and inconsistency in dividend payout ratio of the banks.
- c) Shareholders in Nepal are not conscious. Taking the advantage of unconscious shareholders, the company management does not show the commitment promised in prospectors while raising capital. Promoter lures investors mentioning to pay attractive dividends, when company makes profit. However in reality, most of the companies are deviated from their statement as promise in prospectus.
- d) Government does not have any clear policy towards dividend and to improve the efficiency of the companies. The number of companies can not earn enough profit and bureaucrats accused the cause of inefficiency to managers which is not sound.

Maharjan, (2008) conducted a study on “*Dividend Policy of Listed Commercial Banks*”

The major objectives of the study are:-

- a) To examine the dividend policies of listed banks.
- b) To analyze the relationship between dividends per share (DPS), earning per share (EPS) and market price per share (MPS).
- c) To analyze the effect of dividend on share price
- d) To provide suggestions to the listed banks for the improvement of their dividend policies on the basis of findings

. The methodology used in the study included, financial tools such as ratio analysis and statistical tools such as correlation analysis, regression analysis, trend analysis and test of hypothesis etc. She used secondary data for the analysis.

The researcher selected 9 commercial banks for the research.

The major findings of her study are:

- a) Earning per share of banks are increasing which indicates that banks in Nepal are doing well.
- b) Commercial banks of Nepal prefer cash dividend rather than stock dividend because it is easy and low operation cost to distribute likewise they prefer to provide fair return to Shareholders because in the one hand they have to increase their capital base by year 2060 and in the other hand they have to retain the market image as well.
- c) The share price in Nepal affected by various other factors rather than the earnings and dividend of those banks.

Dhungel, (2009) conducted a study entitled “*A Study on Dividend Policy of Everest Bank Limited and Bank Of Kathmandu Limited*”

The major objectives of his study are:-

- a) To identify what type of dividend policy is being followed and whether or not the followed policy is appropriate in Bank of Kathmandu and Everest Bank Limited
- b) To highlight dividend practices of the Bank of Kathmandu and Everest Bank Limited.
- c) To analyze the relationship between dividend per share with various important variables such as earning per share, net profit, net worth and stock prices.
- d) To provide a practical suggestion and possible guidelines to overcome various issues and gapes based on the findings of the analysis.

The major findings of his study are:-

- a) The Everest Bank seems to be much more successful in satisfying shareholders through distributing cash and bonus share dividend.
- b) The Everest Bank was able to generate higher amount of earning per share and hence maintaining the higher market value of share.
- c) BOK seems to be generous in distributing dividend by providing high dividend payout ratio and keeping good relationship between DPS, EPS and MPS.
- d) The dividend payout ratio shows that BOK has the policy of alluring its shareholders and EBL has the policy of retaining its earning for internal financing.

Research Gap

In this study, I have taken new journals and articles from the international and Nepalese scholars which are related to dividend policy that helps to study the prevailing practices and efforts made in dividend policy among the firms and to find the impact of dividend policy on market price of stock. Furthermore, the study has taken up five years latest data of 3 commercial banks NIC Bank, NBL and BOK with consideration of EPS, DPS, MPS and other relating ratios. Also, correlation coefficient and Regression analysis between DPS, EPS and MPS has been done. At last, test of hypothesis has been done for DPS, EPS and DPR. So, it has been believed that this study will be different and comprehensive compared to previous studies.

CHAPTER -III

RESEARCH METHODOLOGY

Introduction

Research is common parlance refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something.

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 among with the logic behind them.

This chapter looks into the research design, nature and sources of data, data collection procedure and tools & technique of analysis.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study can not be obtained without help of proper research methodology. For the purpose of achieving the objectives of study the applied methodology is used. The research methodology used in the present study is briefly mentioned below.

3.1 Research Design

The research design is a mixture of descriptive, exploratory, and analytical. While analyzing the research, both parametric and non-parametric tools will be used wherever and whenever necessary.

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in

procedure. Descriptive and analytical research designs have been used to this study. With the help of maintained research design the study evaluates the dividend policy structure of selected sample commercial banks as well as its impact on the market price of the stocks of the respective banks.

The research design is basically focused on analytical study. Ratio analysis, correlation and regression analysis have been done for analyzing the research. The research examines the relationship of EPS, MPS and DPS with respect to the dividend policy of the banks.

3.2 Sources of Data

Data is the raw material for any kind of research through which further analysis of study can be done. Therefore, data collection happens to be a very important task. In this study, various types of data collection methods are adopted. They are presented in the tabular and graphic method as required in this report. Mainly primary and secondary data collection methods have been used.

The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. The Secondary data, on the other hand are those, which have already been collected by some one else and already, been passed through the statistical process.

Primary sources of necessary data and materials will be collected from direct and indirect conversation with the employees or staffs and the customers of various commercial banks. Some materials and data will be collected from interview, face to face and telephone interview company officials, customers of the company, library of Social Science Baha and various departments whenever and wherever necessary.

Secondary sources of data will be collected from the Annual Reports of sample commercial banks, final accounts, income statements, official records, financial statistics and other journals. Various financial reports from Securities Board of Nepal (SEBO),

Nepal Stock Exchange (NEPSE), Nepal Stock market, Nepal share market, Nepal Rastra Bank (NRB) and other financial organizations will provide other necessary data needed for the study. Various other related organizations and departments will be visited to collect necessary data for the study.

The study is mainly based on secondary data. So, the major sources of secondary data for this study are as follows:

- a) Annual reports of the NIC
- b) Annual reports of the NBL
- c) Annual reports of the BOK
- d) Reports of NRB
- e) Reports of NEPSE
- f) Published and unpublished bulletins, reports relating to dividend policy
- g) Previous studies and reports
- h) Unpublished official records
- i) Various Books
- j) Various Internet Websites

3.3 Population and Sample

According to NEPSE, currently about 28 commercial banks are operating with expanding their branches all over the country. So collection the data from all banks is very complicated. With that reason only some banks are chosen as sample for the study. The study will mainly focus the data from such sample commercial banks. The selected commercial banks for the sample are;

- 1) NIC Bank Limited (NIC)
- 2) Nabil Bank Limited (NBL)
- 3) Bank of Kathmandu (BOK)

It has been made a best effort to select the combination of three commercial banks which were not chosen for the research purpose before.

3.4 Data Collection Procedure

The data and information are collected from both the primary and secondary sources. For the collection of secondary data and information, directives of Nepal Rastra Bank, annual reports selected sample commercial banks, various publications of Nepal Rastra Bank, Security Board of Nepal, NEPSE, Nepal share market, Nepal stock market, magazines, the other publications and the internet websites have been used to search about the dividend policy. Also, for other related information, various books and periodicals have been referred from library.

3.5 Data Analysis Tools

Since the study will be including both primary and secondary data, the financial and statistical tools will be used to analyze the relationship between the variables. Central Tendency Measurement, Regression analysis and other ratio analysis will be used to analyze the collected data.

The relationship between different variables related to study topic will be illustrated with the use of different financial and statistical tools. The various calculated results obtained through financial and statistical tools will be tabulated. Then, the results will be compared with various other results and interpreted.

Various processing tools are used to present and analyze the data collected from different sources. The data from different sources are in raw form. Those data should be presented in various statistical ways. For the analysis of the data, different statistical tools such as percentage, ratios, mean, standard deviation and other comparisons are calculated for effective study.

Before analyzing the data, the data and information have been presented systematically in the formats of Tables, Graphs and Charts which will explain a lot about the data and information collected.

For the analysis of the research study, the following financial tools and statistical tools are used.

3.5.1 Financial Tools

Ratio analysis is the best and widely used tools for financial analysis. It measures the strength and weakness of the company. A ratio is defined as a relationship between two components, numbers, amount or measurements, which shows how much greater one is than another. Hence, a ratio analysis refers to the quantitative relationship between two variables. Ratios can be taken as expression of relationships between two items or group of items and therefore may be calculated in any number and ways so far meaningful co-relationship is obtainable.

Pandey (1995) emphasizes that a ratio is used as a benchmark for evaluating the financial position and performance of a firm.

There are some measures to analyze the effectiveness of the Dividend Policy. These measures are useful to both company and the stockholders. So, following measures will be used in the study;

-) **Dividend Per Share (DPS):** The Net Profit after the deduction of taxes belongs to the shareholders. The amount of earning distributed and paid as cash dividend on per share basis is Dividend Per Share (DPS). DPS shows the part of earning distributed to the shareholders on per share basis.

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

-) **Earning Per Share (EPS):** Apart from the rate of return, the profitability of a firm from the point of view of the ordinary shareholders is the Earning Per Share (EPS). It measures the profit available to the equity shareholders on per share basis. EPS will be useful to evaluate change in the company's earning power on per share basis over certain period of time or year.

$$EPS = \frac{\text{Net Profit after Tax}}{\text{No. of Shares Outstanding}}$$

) **Market Price Per Share (MPS):** It is the value of the stock which is traded in the secondary market of the stock. It is generally believed that if the EPS and DPS are high, the market value of the share (MPS) will also be high.

) **Dividend Payout Ratio (DPR):** This ratio measures the relationship between the earning belonging to the ordinary shareholders and the dividend paid to them. It measures the percentage of earnings that the company pays in terms of dividends to the shareholders. It will also show the percentage of earnings to be retained as reserve for the future investment for the company.

$$DPR \times \frac{DPS}{EPS}$$

) **Price Earning Ratio (P/E Ratio):** This ratio reflects the market value per share for each rupee of currently reported earning per share.

$$P/E \text{ Ratio} = \frac{MPS}{EPS}$$

) **Dividend Yield Ratio (DYR):** It is defined as the ratio of dividend per share to market value per ordinary share. Its measures the return that an investor can make from dividends alone.

$$DYR \times \frac{DPS}{MPS}$$

) **Earning Yield Ratio (EYR):** The ratio is defined as the ratio of earnings per share to market value per ordinary share.

$$EYR \times \frac{EPS}{MPS}$$

) **Net Worth Per Share (NWPS):** Net Worth Per Share is a measurement of the net worth of the company for each share of stock that has been issued.

$$NWPS = \frac{\text{Shareholders' Equity}}{\text{Number of Shares}}$$

) **Market Value to Book Value (MV/BV) Ratio:**

$$MV/BV \text{ Ratio} = \frac{\text{Market Value Per Share}}{\text{Book Value Per Share (Net Worth)}}$$

3.5.2 Statistical Tools

The basic tools of statistics are Average or Mean, Standard Deviation ($\bar{x}$) and Coefficient of Variation (C.V.). The following formulae have been used to calculate the value of Mean ($\bar{x}$), Standard Deviation (σ) and Coefficient of Variation (C.V.);

$$\text{Average or Mean } (\bar{x}) = \frac{\sum x}{N}$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum X^2}{n-1} - \left(\frac{\sum X}{n-1}\right)^2}$$

$$= \sqrt{\frac{\sum (X - \bar{x})^2}{n-1}}$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S.D. } (\sigma)}{\text{Mean } (\bar{x})} \times 100\%$$

There are other statistical tools available to measure the relationship between two data, validity of the calculations and other measures. The following statistical tools are also used to analyze the calculated data:

3.5.2.1 Correlation Analysis

The relation between two variables is correlated by Karl Pearson's correlation coefficient. The following is the formula proposed by Karl Pearson for calculation of correlation coefficient.

$$R = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

N = Numbers of pairs in observation

X = Product of the first variable

Y = Product of the second variable

To ease the calculation, a shortcut formula has been proposed which has been used in to calculate correlation coefficients in this thesis report. The shortcut formula is as follows:

$$R = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Where,

x = (X - $\bar{X}$)

y = (Y - $\bar{Y}$)

Coefficient of Determination (R^2)

3.5.2.2 Regression Analysis

$$Y = a + bX$$

Y → Dependent Variable

a → Intercept (Regression Constant)

b → Slope variable (Regression Coefficient)

X → Independent Variable

This model has been applied to examine the relationship between

EPS and DPS

EPS and MPS

MPS and DPS

Standard Error of Estimate (SEE)

3.5.2.3 Test of Hypothesis

Test of Hypothesis is one of the important aspects of statistical methods. “In testing of hypothesis, an assumption is made about the population parameter. To test whether the assumptions or hypothesis is right or not, a sample is selected from the population, sample statistic is obtained, observe the difference between sample and the population hypothesized value, and test, whether the difference is significant. Smaller the difference, the sample mean is close to the hypothesized value, and larger the difference the hypothesized value has low chance to be correct.”

There are different tests to check the hypothesized value. Such as Z-test, F-test, t-Test and χ^2 -test. The suitable test should be used according to the nature of the data.

For the test of hypothesis, the correlation of capital fund with collection of deposits and the correlation of capital fund with the credit are tested. The correlation of the capital with the collection of deposits and credit is more important than others. It is because where the capital position is stronger; more deposits could be attracted and invested into the form of credit. So capital fund has some relation with the deposits and the credits. So as the collection of deposits and creation of credit can boost the performance of the bank. The calculated correlation coefficients have been used to test the hypothesis by using the following t-test formula:

$$t = \frac{r \sqrt{n-2}}{\sqrt{1-r^2}}$$

Where,

r = calculated correlation coefficient

n = number of observations

The hypotheses have been tested with at a 95% level of confidence.

T- Statistic

To test the validity of our assumption, if sample size is less than 30, t-test is used for applying t-test in the context of small sample, the “t” value is calculated first and then

compared with the table value of “t” at a certain level of significance for given degree of freedom. If the calculated value of “t” exceeds the table value, we infer that the difference is significant at 5% level but if “t” value is less than the concerning table value of the “t” the difference is not treated as significant.

F-Statistic

To test the validity of the assumption, f-test is also used. The difference between two sample mean can be studied through t-test where as to examine the significance of the differences between more than two sample means at one at the same time, F-test is used. F-test, i.e. the technique of analyzing variance enables to test the significance of difference between more than two sample means. Using this technique, one will be able to make inferences about whether his/her regression equation provides statistically significant result or not.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulating, and performing statistical analysis.

This chapter consists of presentation and analysis of data which is collected from different sources. The data is mainly focused on the capital adequacy position and its impact on the performance of the sample banks. To obtain best result, the data and information have been analyzed with the measures of different financial and analytical tools by using appropriate tables, graphs, formulae, hypothesis and other tools.

Presentation of Data

The collected data and information are presented in this section. Various tables, charts and graphs are used to best present the data. The data and information has been presented in most understandable format.

Dividend is a periodic payment made by a company to its shareholders. It is compensation to the shareholders for the use of and risk to their investment funds. Or in other words, it is that portion of the net earning divided by the company among the shareholders as a return for their money invested.

For the study of dividend policy of commercial banks in Nepal, 3 commercial banks are selected as sample banks. From the selected sample banks, data related to dividend policy are collected and presented as well as analyzed in this chapter.

4.1 Analysis of Financial Indicators

4.1.1 DPS of Selected Banks

Dividend per share (DPS) is that amount, which is paid to common shareholders on a per share basis. DPS shows that what exactly do the ordinary shareholders receive. It is calculated by dividing the total dividend to equity shareholders by the total numbers of equity shares.

The Dividend Per Share of the sample banks is presented in the following Table 4.1

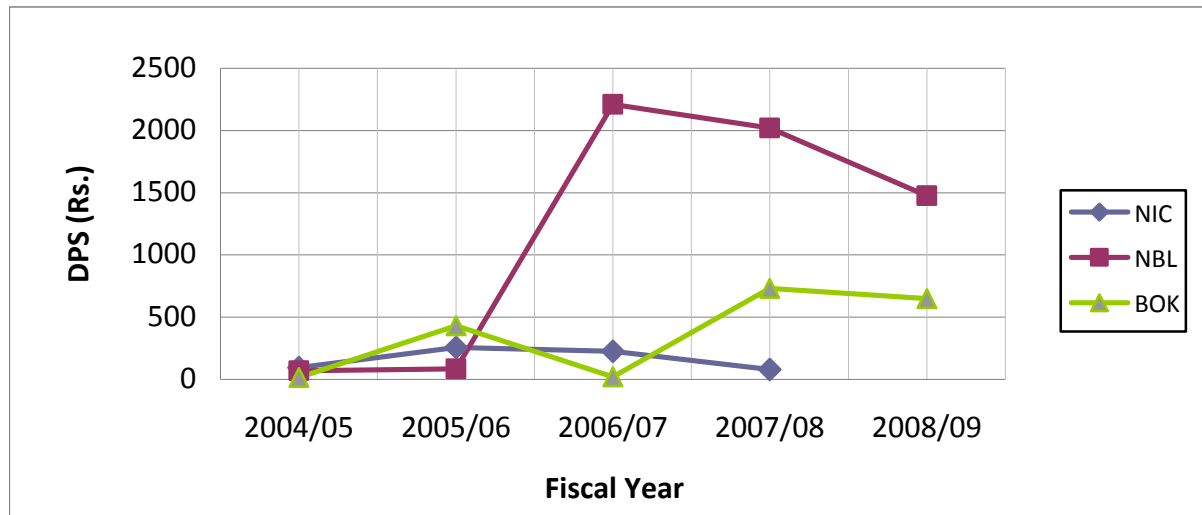
Table 4.1
Dividend per Share (In Rs.)

Fiscal Year	NIC			NBL			BOK		
	Cash Div.	Stock Div.	Total Div.	Cash Div.	Stock Div.	Total Div.	Cash Div.	Stock Div.	Total Div.
2004/05	10	99.2	109.2	70	0	70	15	0	15
2005/06	0.53	95	95.53	85	0	85	18	412.5	430.5
2006/07	1.05	256.8	257.85	100	2110	2210	20	0	20
2007/08	1.05	225.2	226.25	60	1959.6	2019.6	2.11	730	732.11
2008/09	0.79	79.2	79.99	35	1440	1475	7.37	642	649.37
Mean ($\bar{x}$)			153.76			1171.92			369.40
S.D. (σ)			73.36			925.60			303.76
CV %			47.71			78.98			82.23

(Source: Appendix III)

The DPS of selected banks are presented in the trend form in Figure 4.1 below;

Figure 4.1
Dividend per Share



The dividend per share shown in the table 4.1 reflects that in fiscal year 2004/05 NIC has DPS of Rs.109.2. The DPS decreased to Rs.95.53 in fiscal year 2005/06 and highly increase to Rs. 257.85 in fiscal year 2006/07 and then decreased to Rs. 226.25 in following fiscal year 2007/08. The DPS highly decrease to Rs. 79.99 in fiscal year 2008/09. In average, NIC paid cash dividend of Rs.153.76 in the entire period taken for research. The standard deviation and the coefficient of variation of the bank are 73.36 and 47.71% respectively. The coefficient of variation indicates that there is 47.71% fluctuation in the DPS which is less inconsistency among three banks.

In case of NBL, it has DPS of Rs. 70 in fiscal year 2004/05. The DPS increase to Rs.85 in fiscal year 2005/06 and highly increased to Rs. 2210 in fiscal year 2006/07. The DPS decrease dramatically to Rs. 2019.6 and Rs. 1475 in two fiscal years 2007/08 and 2008/09. The average DPS of this bank is Rs.1171.92. The standard deviation is 925.60 and coefficient of variation is 78.98%. The more C.V. indicates that the DPS is more inconsistent.

Likewise, BOK has Rs. 15 DPS in fiscal year 2004/05. The DPS increased highly to Rs. 430.5 in fiscal year 2005/06 and highly decreased to Rs. 20 in fiscal year 2006/07. Then, highly increased to Rs. 732.11 in fiscal year 2007/08 and the DPS slightly decrease to Rs. 649.37 in fiscal year 2008/09. The average DPS of BOK is Rs. 369.40. The standard deviation is 303.76 and the C.V. is 82.23%. The CV indicates that BOK is more inconsistent among three banks.

In conclusion, the average dividend per share paid by NBL (Rs.1171.92) is higher than the average dividend per share of NIC (Rs. 153.76) and BOK (Rs. 369.40). So, NBL is comparatively more successful to create the positive attitudes of shareholders towards the bank. It consequently helps to increase the market value of shares and also helps to indicate the better performance of the bank's management. However, BOK has more inconsistency in dividend payment than NBL and NIC.

4.1.2 SDPS of Selected Banks

A dividend paid as additional shares of stock rather than as cash. If dividends paid are in the form of cash, those dividends are taxable. When a company issues a stock dividend, rather than cash, there usually are not tax consequences until the shares are sold. The SDPS of selected banks are calculated by deducting cash dividend on share capital from Dividend (including bonus) on share capital. While converting the stock dividend on cash we have to consider the MPS of next year. For calculation of stock dividend 2004/05 we have to consider the MPS of 2005/06.

The Stock Dividend Per Share of the sample banks is presented in the following Table

4.2 Stock Dividend

Table 4.2
Stock Dividend Per Share (In Rs.)

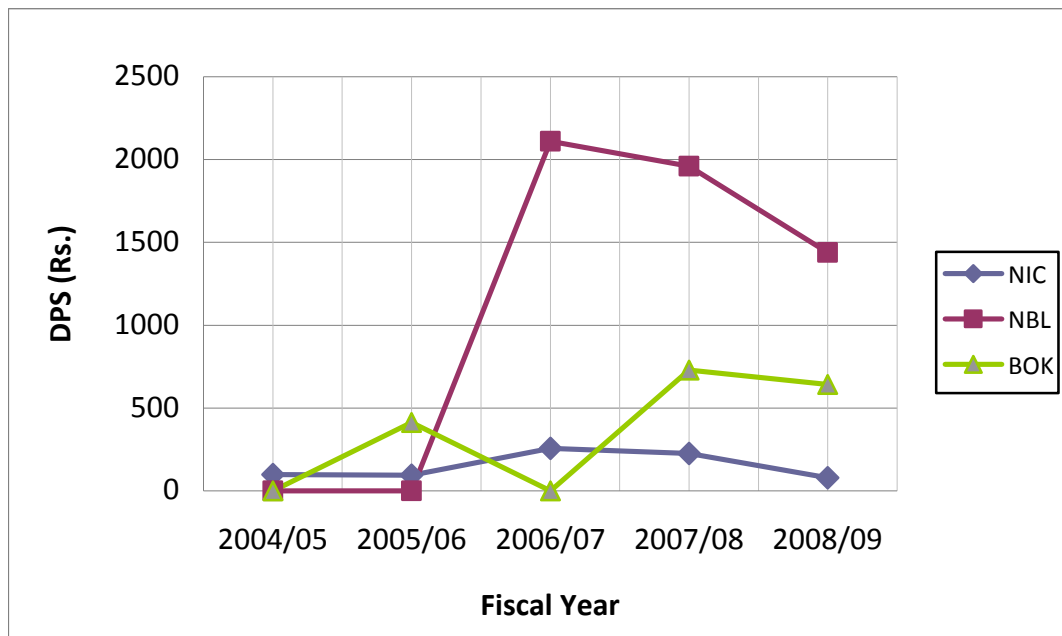
Fiscal Year	NIC	NBL	BOK
2004/05	99.2	0	0
2005/06	95	0	412.5
2006/07	256.8	2110	0
2007/08	225.2	1959.6	730
2008/09	79.2	1440	642
Mean ($\bar{x}$)	151.08	1101.92	356.9
S.D. (σ)	74.40	926.78	309.30
CV %	49.25	84.11	86.66

(Source: Annual Reports of NIC, NBL and BOK)

(Source: Appendix III)

The SDPS of selected banks are presented in the trend form in Figure 4. 2 below;

Figure 4.2
Stock Dividend per Share



The stock dividend per share (SDPS) shown in the table 4.2 depicts that in fiscal year 2004/05 NIC has SDPS of Rs. 99.2 which decreased to Rs. 95 in fiscal year 2005/06.

And, again highly increased to Rs. 256.8 in fiscal year 2006/07 and slightly decreased to Rs. 225.2 in fiscal year 2007/08. The SDPS fell down to Rs.79.2 in fiscal year 2008/09. In average, NIC paid stock dividend of Rs.151.08 in the entire period taken for research. The standard deviation of the bank is 74.40, being lowest among the selected banks and the coefficient of variation is 49.25% which also being lower than the other banks. The coefficient of variation indicates that there is 49.25% fluctuation in the SDPS, which indicates there is low inconsistency in SDPS.

In case of NBL, they didn't have stock dividend for the fiscal years 2004/05 and 2005/06. It has SDPS of Rs. 2110 in the fiscal year 2006/07 and decreased to Rs. 1959.6 in the fiscal year 2007/08. And, it has decreased to Rs. 1440 in the fiscal year 2008/09. The average SDPS of this bank is Rs.1101.92, which was highest among the selected banks. The standard deviation is 926.78 and coefficient of variation is 84.11%. The high C.V. indicates that the SDPS is very inconsistent.

Likewise, BOK didn't have any stock dividend in the fiscal years 2004/05 and 2006/07. It has SDPS of Rs. 412.5 in the fiscal year 2005/06. And, it has SDPS of Rs. 730 in the fiscal year 2007/08 and SDPS decreased to Rs. 642 in the fiscal year 2008/09. The average SDPS of BOK is Rs. 356.9. The standard deviation is 309.30 and the C.V. is 86.66% which is highest among the chosen banks. The high percentage of C.V. shows high inconsistency in SDPS.

In conclusion, the average stock dividend per share paid by NBL (Rs.1101.92) is higher than the average dividend per share of NIC (Rs. 151.08) and BOK (Rs. 356.9). So, NBL was comparatively more successful to create the positive attitudes of shareholders towards the bank. It consequently helps to increase the market value of shares and also helps to indicate the better performance of the bank's management.

4.1.3 EPS of Selected Banks

Earning per Share (EPS) is one of the most important financial indicators, which measure the earning capacity of a firm. It measures the profit available to the ordinary

shareholders on a per share basis. EPS is calculated by dividing net income available to the common stockholders by the total number of common shares outstanding.

The EPS of the selected sample banks is presented below in Table 4.3

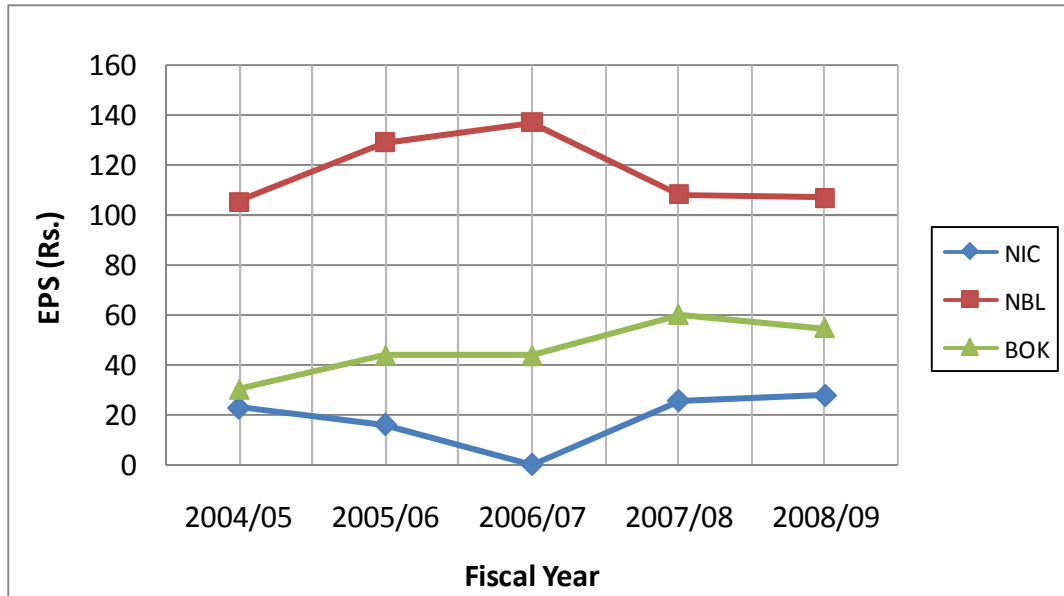
Table 4.3
Earning Per Share (In Rs.)

Fiscal Year	NIC	NBL	BOK
2004/05	22.75	105.49	30.10
2005/06	16.1	129.21	43.67
2006/07	24.01	137.08	43.50
2007/08	25.75	108.31	59.94
2008/09	27.83	106.76	54.68
Mean ($\bar{x}$)	23.29	117.37	46.38
S.D. (σ)	3.98	13.15	10.33
CV %	17.09	11.20	22.27

(Source: Annual Reports of NIC, NBL and BOK)

The EPS of selected banks are presented in the trend form in Figure 4.3 below;

Figure 4.3
Earning Per Share



In above table, the Earning Per Share of selected banks are presented. The average EPS of NIC, NBL and BOK are Rs. 23.29, Rs. 117.37 and Rs.46.38 respectively . From the table it can be seen that the EPS of NBL is better than that of other banks. The average EPS of NBL is Rs. 117.37. On the base of that the average EPS of NIC is lesser among 3 selected banks. The average EPS of NIC is only Rs. 23.29.

The average EPS of NIC is Rs. 23.29. NIC has highest EPS in the fiscal year 2008/09 (Rs.27.83) and lowest EPS in the fiscal year 2005/06 (Rs.16.10). In the fiscal year 2006/07 NIC has EPS Rs.24.01 and increased to Rs.25.75 in the fiscal year 2007/08 and again increased to Rs.27.83 in the fiscal year 2008/09. The standard deviation of EPS of NIC is 3.98 and coefficient of variation being 17.09%. The C.V 17.09% of NIC indicates that there is less inconsistent of EPS.

Similarly, the average EPS of NBL is Rs. 117.37, which is highest among the selected banks. NBL has highest EPS in fiscal year 2006/07 (Rs. 137.08) and lowest EPS is in fiscal year 2004/05 (Rs.105.49). From the table, it can be seen that the earning per share of NBL in fiscal year 2005/06 is 129.21 and the EPS increased to Rs.137.08 in fiscal year 2006/07. Then, the EPS decreased to Rs.108.31 and 106.76 in the following years 2007/08 and 2008/09. The standard deviation of EPS of NBL is 13.15 and coefficient of variation being 11.20%. The 11.20% C.V. of NBL indicates that there is low fluctuation in the EPS of NBL.

Lastly, The average EPS of BOK is Rs. 46.38. BOK has highest EPS in fiscal year 2007/08 (Rs. 59.94) and lowest EPS is in fiscal year 2004/05 (Rs. 30.10). From the table, it can be seen that the earning per share of BOK in fiscal year 2005/06 and in fiscal year 2006/07 is Rs.43.67 and Rs.43.50 respectively. Similarly, the EPS is increased to Rs. 59.94 in fiscal year 2007/08 and the EPS is slightly decreased to Rs. 54.68 in fiscal year 2008/09. The standard deviation of EPS of BOK is 10.33 and coefficient of variation was calculated to be 22.27%. The 22.27% C.V. of BOK is highest among selected banks. And this indicates EPS is pretty inconsistent.

In average, NBL enjoyed higher EPS (Rs.117.37) than that of NIC (Rs.23.29) and BOK (Rs.46.38). Also, there is more consistency in the EPS of NBL than that of NIC and BOK, as C.V. of NBL (11.20%) is lower than the C.V. of NIC (17.09%) and C.V. of BOK (22.27%). So, it can be considered that NBL remained more successful than NIC and BOK in generating higher EPS.

4.1.4 MPS of selected banks

Market price of share is that value of stock, which can be received by firm or equity holders selling it in capital market. The capital market determines MPS. If this analysis MPS represents the closing market price of NEPSE index of the sample firms.

The Market Price of Share of the sample banks is presented in the following Table 4.4

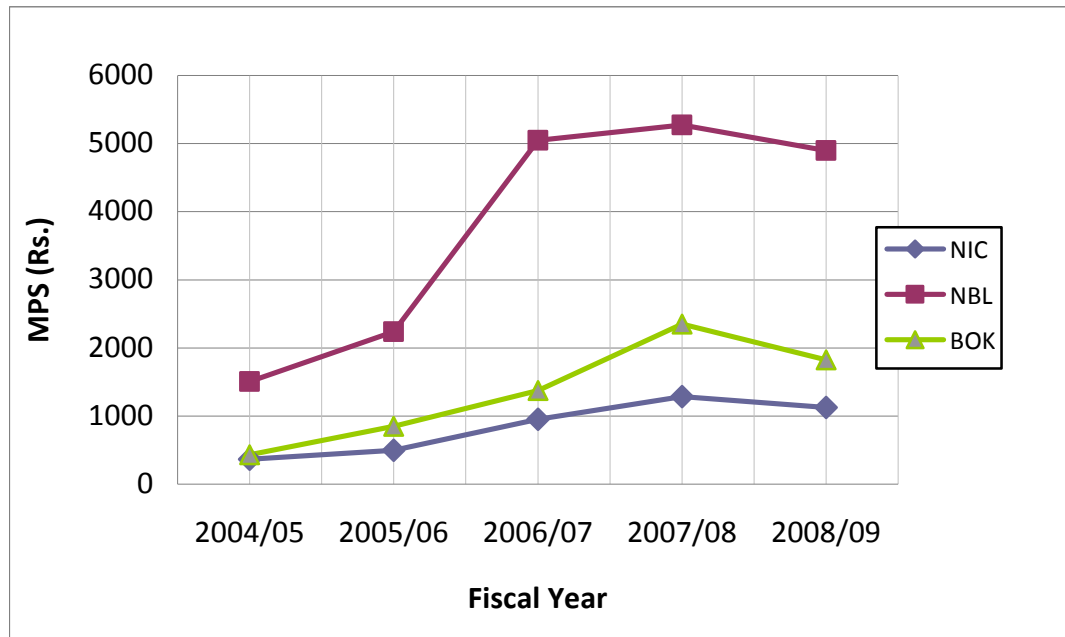
Table 4.4
Market Price of Share

Fiscal Year	NIC	NBL	BOK
2004/05	366	1505	430
2005/06	496	2240	850
2006/07	950	5050	1375
2007/08	1284	5275	2350
2008/09	1126	4899	1825
Mean ($\bar{x}$)	844.4	3793.8	1366
S.D. (σ)	356.08	1590.37	681.38
CV %	42.17	41.92	49.88

(Source: Annual Reports of NIC, NBL and BOK)

The MPS of selected banks are presented in the trend form in Figure 4.4 below;

Figure 4.4
Market Price Per Share



The table 4.4 shows the market price of three commercial banks for the fiscal year 2004/05 to fiscal year 2008/09. The table shows that NBL has highest average MPS (Rs.3793.8) and NIC (Rs.844.4) has lowest one. Reviewing the C.V. (41.92%) NBL bank has least variability in MPS.

NIC has highest MPS of Rs. 1284 in fiscal year 2007/08 and lowest MPS of Rs. 496 in fiscal year 2004/05. The table shows, the MPS of NIC has increased in first four years and decreased in 5th year. The MPS of NIC are Rs. 366, Rs.496, Rs.950, Rs.1284 and Rs.1126 in the fiscal years 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The average MPS of NIC is Rs. 844.4. Its standard deviation is 356.08. And its coefficient of variation is 42.17%.

Similarly, NBL has highest MPS of Rs.5275 in fiscal year 2007/08 and lowest MPS of Rs.1505 in fiscal year 2004/05. The table shows, the MPS of NBL in fiscal year 2005/06 is Rs.1505. And, the MPS of NBL increased up to fiscal years 2005/06, 2006/07 and

2007/08 by Rs. 1505, Rs. 5050 and Rs. 5275 respectively. Then, it decreased to Rs.4899 in fiscal year 2008/09. The average MPS of NBL is Rs. 3793.8. Its SD is 1590.37 and its CV is 41.92%. The CV of the bank indicates that there is 41.92% fluctuation in MPS. This shows the MPS is consistent than NIC and BOK.

Lastly, BOK has highest MPS of Rs.2350 in fiscal year 2007/08 and lowest MPS of Rs.430 in fiscal year 2005/06. The table shows, the MPS of BOK in fiscal year 2004/05 is Rs.430. And, the MPS of BOK increased up to fiscal years 2005/06, 2006/07 and 2007/08 by Rs.850, Rs.1375 and Rs.2350 respectively. Then, its MPS decreased to Rs.1825 in fiscal year 2008/09. The MPS of BOK is in fluctuating position. BOK has average MPS of Rs. 1366. Its SD is 681.38 and its CV is 49.88% which is highest among the selected banks.

4.1.5 DPR of selected banks

Dividend payout ratio measures the percentage of dividend paid out of the net profit after tax. It also clears about the retained earning, since net profit is composed of dividend and retained earning only. Higher dividend payout ratio attracts the shareholders and consequently increases the market price of share.

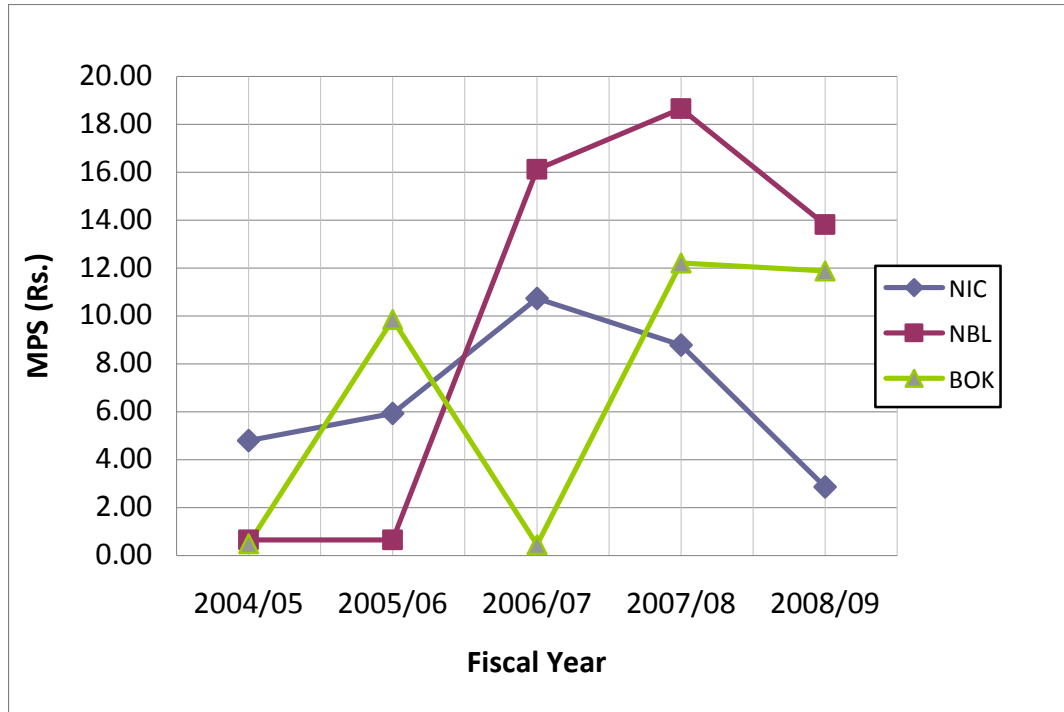
The dividend payout ratio of the sample banks is presented in the following Table 4.5

Table 4.5
Dividend Payout Ratio

Fiscal Year	NIC			NBL			BOK		
	DPS	EPS	DPR	DPS	EPS	DPR	DPS	EPS	DPR
2004/05	109.2	22.75	4.8	70	105.49	0.66	15	30.10	0.50
2005/06	95.53	16.10	5.93	85	129.21	0.66	430.5	43.67	9.86
2006/07	257.85	24.01	10.74	2210	137.08	16.12	20	43.50	0.46
2007/08	226.25	25.75	8.79	2019.6	108.31	18.65	732.11	59.94	12.21
2008/09	79.99	27.83	2.87	1475	106.76	13.82	649.37	54.68	11.88
Mean ($\bar{x}$)			6.63			9.98			6.98
S.D. (σ)			2.81			7.76			5.37
CV %			42.38			77.76			76.93

The DPR of selected banks are presented in the trend form in Figure 4.5 below

Figure 4.5
Dividend Payment Ratio



The table 4.5 shows the dividend pay-out ratio (DPR) of three selected sample banks. From the above table it is clear that NBL has the highest average DPR of 9.98 where as NIC has the lowest average DPR of 6.63. From the table, is clear that the DPR of NBL (C.V. 77.76%) is highly inconsistent in comparison with other banks.

From the above table, it's seen that DPR of NIC was 4.8 in fiscal year 2004/05 and increased to 5.93 in fiscal year 2005/06. And increased to 10.74 in fiscal year 2006/07 and DPR slightly decreased to 8.79 in fiscal year 2007/08. Again, highly decreased to 2.84 in fiscal year 2008/09. NIC has average 6.63 DPR. The standard deviation is 2.81 and CV is 42.38% which is less inconsistent among the selected banks in the dividend payment.

Similarly, From above table it is seen that NBL has DPR 0.66 in fiscal year 2004/05 and remains constant in fiscal year 2005/06. Similarly, DPR 16.12, DPR 18.65 and DPR

13.82 in fiscal years 2006/07, 2007/08 and 2008/09 respectively. NBL has average 9.98 DPR. The standard deviation is 7.76 and the CV is 77.76% which is highly inconsistent among selected banks.

Lastly, BOK has fluctuating trend of DPR. It's DPR 0.50 in fiscal year 2004/05 and highly increased to 9.86 in fiscal year 2005/06. Again, DPR decreased to 0.46 in fiscal year 2006/07 and DPR of BOK highly increased to 12.21 in fiscal year 2007/08. Then, slightly decreased to 11.88 in fiscal year 2008/09. BOK has average 6.98 DPR. The standard deviation is 5.37 and CV is 76.93%.

4.1.6 P/E Ratio of selected banks

Price Earning Ratio is the ratio between market price per share and earnings per share. It indicates the payment by the investors in the market for per rupee of earning in the company.

The price earning ratio of selected banks for the period taken for study is presented in the following Table 4.6.

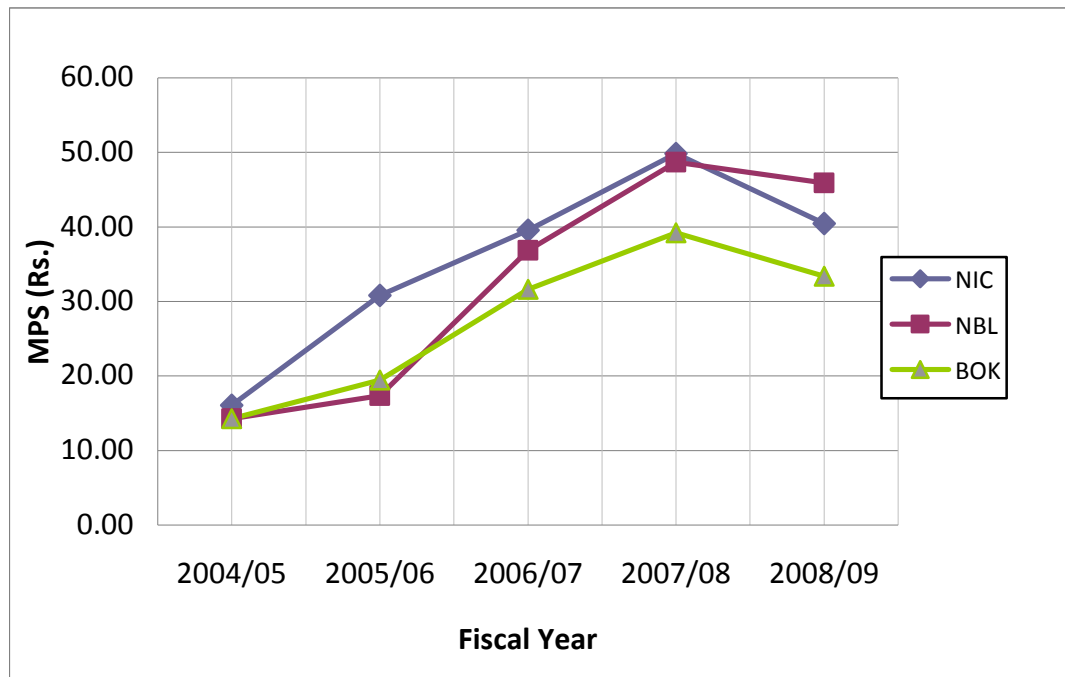
Table 4.6
Price Earning Ratio

Fiscal Year	NIC			NBL			BOK		
	MPS	EPS	P/E	MPS	EPS	P/E	MPS	EPS	P/E
2004/05	366	22.75	16.09	1505	105.49	14.27	430	30.10	14.29
2005/06	496	16.10	30.81	2240	129.21	17.34	850	43.67	19.46
2006/07	950	24.01	39.57	5050	137.08	36.84	1375	43.50	31.61
2007/08	1284	25.75	49.86	5275	108.31	48.70	2350	59.94	39.21
2008/09	1126	27.83	40.46	4899	106.76	45.89	1825	54.68	33.38
Mean ($\bar{x}$)			35.36			32.61			27.59
S.D. (σ)			11.37			14.30			9.25
CV %			32.15			43.85			40.95

(Source: Annual Reports of NIC, NBL and BOK)

The P/E Ratio of selected banks are presented in the trend form in Figure 4.6 below;

Figure 4.6
Price Earning Ratio



The table 4.6 depicts that the P/E Ratio of NIC followed an increasing trend in the first four years period. The P/E ratio of NIC was 16.09 times in the fiscal year 2004/06. Then P/E ratio increased to 30.81 times in the fiscal year 2005/06. Again, increased to 39.57 times in the fiscal year 2006/07 and highly increased to 49.86 times in the fiscal year 2007/08. The P/E ratio decreased to 40.46 times in the fiscal year 2008/09. Similarly, NIC maintained an average 35.36 times P/E ratio in the five year period, which indicates that the investors paid Rs. 35.36 for 1 rupee of earning in average. The standard deviation of the same bank in P/E ratio is 11.37 and the CV is 32.15%.

Likewise, the P/E ratio of NBL was 14.27 in fiscal year 2004/05 and it followed increasing trend up to fiscal year 2007/08. The P/E ratios of NBL were 17.34, 36.84 and 48.70 in three fiscal years 2005/06, 2006/07 and 2007/08 respectively. Then, P/E ratio of NBL decreased to 45.89 in fiscal year 2008/09. However, NBL maintained an average

32.61 times P/E ratio in the five years period, which indicates that the investors paid Rs. 32.61 for 1 rupee of earning in average. The standard deviation is 14.30 which are slightly deviated from the mean P/E ratio. The CV of NBL is 43.85% which is highly inconsistent among selected banks.

Similarly, the P/E Ratio of BOK was 14.29 in the fiscal year 2004/05 and it followed increasing trend in the next three years. The P/E Ratio of BOK was 19.46, 31.61 and 39.21 in three fiscal years 2005/06, 2006/07 and 2007/08 respectively. Then, the P/E Ratio slightly decreased to 33.38 in fiscal year 2008/09. However, BOK maintained an average 47.26 times P/E Ratio in five year period, which indicates that the investors paid Rs. 27.59 for 1 rupee of earning in average. The standard deviation of the same bank in P/E ratio is 9.25, which is slightly deviated from the mean P/E ratio. The CV of BOK is 40.95% which means that the P/E ratio is high inconsistent.

Comparing the P/E ratio of selected banks, it can be considered that the investors of BOK paid fewer amounts among the other banks to gain 1 rupee of earning. However, the P/E ratio of NBL fluctuated more compared to P/E ratio of NIC and BOK in these periods.

4.1.7 D/Y Ratio of selected banks

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share.

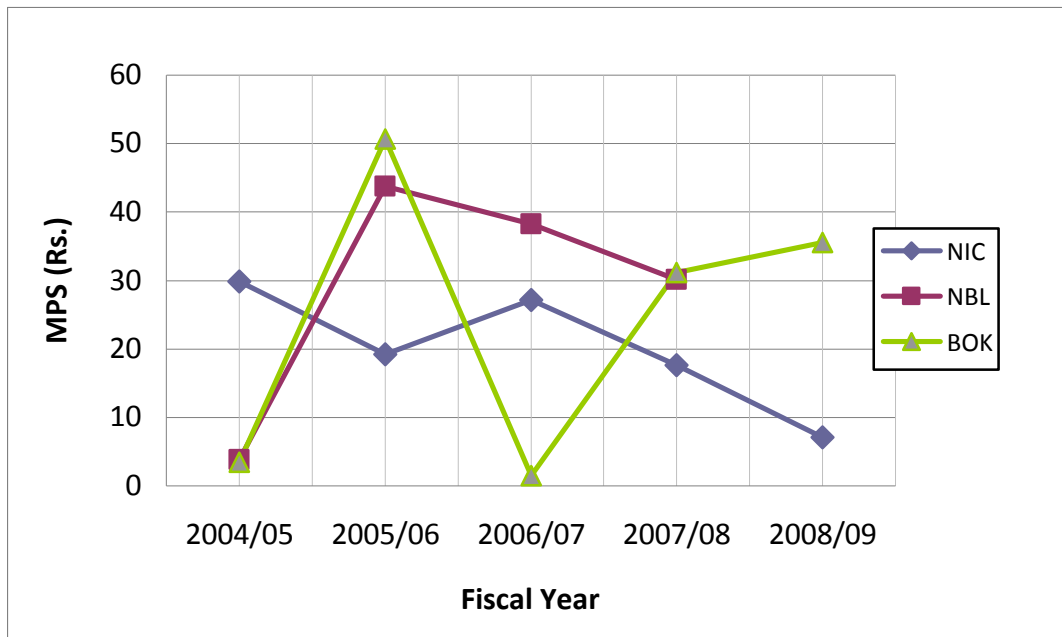
The dividend yield ratio of selected banks during the five year period is presented in the following Table 4.7

Table 4.7
Dividend Yield Ratio (In %)

Fiscal Year	NIC			NBL			BOK		
	DPS	MPS	D/Y R	DPS	MPS	D/Y R	DPS	MPS	D/Y R
2004/05	109.2	366	29.84	70	1505	4.65	15	430	3.49
2005/06	95.53	496	19.26	85	2240	3.79	430.5	850	50.65
2006/07	257.85	950	27.14	2210	5050	43.76	20	1375	1.45
2007/08	226.25	1284	17.62	2019.6	5275	38.27	732.11	2350	31.15
2008/09	79.99	1126	7.10	1475	4899	30.11	649.37	1825	35.58
Mean ($\bar{x}$)			20.19			24.12			24.46
S.D. (σ)			8.00			16.82			19.10
CV %			39.62			69.73			78.09

The Dividend Yield Ratio of selected banks are presented in the trend form in Figure 4.7 below;

Figure 4.7
Dividend Yield Ratio



The above table depicts that the dividend yield ratio of NIC was 29.84% in fiscal year 2004/05. Then, it highly decreased to 19.26% in fiscal year 2005/06 and increased to 27.14% in fiscal year 2006/07. Then, it decreased to 17.62% in fiscal year 2007/08 and again decreased to 7.10% in fiscal year 2008/09. The average dividend yield of NIC during the five year period is 20.19%. The standard deviation and CV are 8.00% and 39.62% respectively. This shows the Dividend Yield ratio of NIC is less inconsistent among the selected banks. The average dividend yield of NIC indicates that the shareholders are paid dividend of Rs. 20.19 for Rs.100 investment per share in the market.

Similarly, the table shows that the dividend yield of NBL in fiscal year 2004/05 was 4.65% and the dividend yield decreased to 3.79% in fiscal year 2005/06. Then, dividend yields highly increased to 43.27% in the fiscal year 2006/07 and decreased to 38.27% and 30.11% in two following years 2007/08 and 2008/09. NBL maintained an average dividend yield 24.12% which indicated that the shareholder of NBL got Rs. 24.12 dividend for Rs.100 investment per share in the market. Likewise, standard deviation and C.V of DY ratio in NBL are 16.82 and 69.73% respectively.

Likewise, the DY ratio of BOK was 3.49% in fiscal year 2004/05 and highly increased to 50.65% in fiscal year 2005/06. And, highly decreased to 1.45% in fiscal year 2006/07 and increased to 31.15% and 35.58% in two following years 2007/08 and 2008/09. The average DY ratio of BOK is 24.12%. This average dividend yield of BOK indicated that the shareholder are paid dividend of Rs.24.12 for Rs.100 investment per share in the market. The standard deviation is 19.10. BOK has a CV of 78.09% which is highly inconsistent among selected banks.

Comparing the average dividend of NIC (20.19%), NBL (24.12%) and BOK (24.46%), it can be considered that the shareholders of BOK got more percentage of the market price they paid for a share as dividend in return than the other banks.

4.1.8 E/Y Ratio of selected banks

It measures the earning in relation to market value of share. It gives some idea of how much an investor might get for his money. The share with higher earnings yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market.

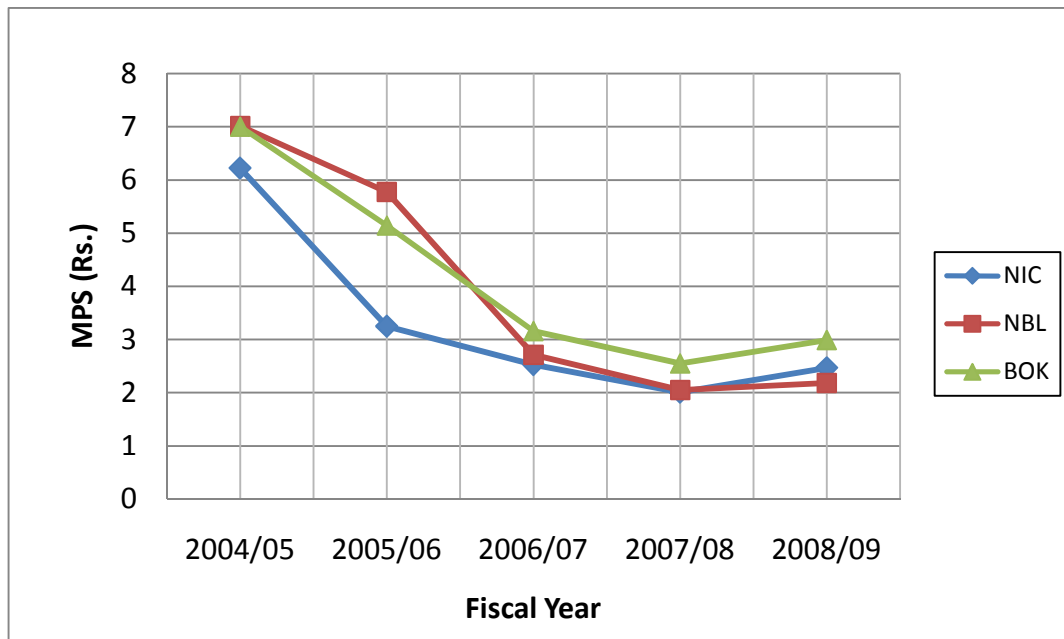
The Earning Yield Ratio (EY) of selected banks is presented in the following Table 4.8

Table 4.8
Earning Yield Ratio (In %)

Fiscal Year	NIC			NBL			BOK		
	EPS	MPS	E/Y R	EPS	MPS	E/Y R	EPS	MPS	E/Y R
2004/05	22.75	366	6.22	105.49	1505	7.01	30.10	430	7
2005/06	16.10	496	3.25	129.21	2240	5.77	43.67	850	5.14
2006/07	24.01	950	2.53	137.08	5050	2.71	43.50	1375	3.16
2007/08	25.75	1284	2.01	108.31	5275	2.05	59.94	2350	2.55
2008/09	27.83	1126	2.47	106.76	4899	2.18	54.68	1825	2.99
Mean ($\bar{x}$)			3.30			3.94			4.17
S.D. (σ)			1.51			2.05			1.67
CV %			45.76			52.03			40.05

The Earning Yield Ratio of selected banks are presented in the trend form in Figure 4.8 below;

Figure 4.8
Earning Yield Ratio



The relationship between earning per share and market price per share of selected banks of different years are exhibited in the above table. The main reason behind such kind of tabulation is to point to the percentage relationship between EPS and MPS so as to illustrate the earning yield of the concerned banks, which may be a reliable tool to calculate the real value of the dividend as compared with the current market value of each share.

The table 4.8 depicts that the earning yield ratio of NIC followed decreasing order in first four years period. The earning yield ratios of NIC are 6.22%, 3.25%, 2.53% and 2.01% in the fiscal years 2004/05, 2005/06, 2006/07 and 2007/08 respectively. Then, it slightly increased to 2.47% in the fiscal year 2008/09. The average earning yield ratio of that bank is 3.30%. The standard deviation is 1.51 and the coefficient of variation is 45.76% respectively. The coefficient of variation indicates that there is 45.76% fluctuation in the

EY of NIC. Similarly, the average EY of NIC indicates that only 3.30% of MPS is converted to EPS in the five year period.

Similarly, the earning yield ratio of NBL was 7.01% in fiscal year 2004/05 and it followed decreasing trend from 2005/06 to 2007/08 by 5.77% to 2.05%. The EY ratio increased slightly to 2.18% in fiscal year 2008/09. The EY Ratio of NBL was in fluctuating trend. The average earning yield ratio was found to be 3.94%. The standard deviation is 2.05 and coefficient of variation is 52.03% respectively. The CV indicates that there is 52.03% fluctuation in the EY of NBL which is higher among the selected banks. Similarly, the average EY of NIC indicates that only 3.94% of MPS is converted to EPS in the five year period.

Likewise, the EY Ratio of BOK was 7.00% in fiscal year 2004/05 and decreased from fiscal year 2005/06 to 2007/08 by 5.14% to 2.55%. Then, it increased slightly in fiscal year 2008/09 by 2.99%. The average earning yield ratio of BOK is 4.17% which is slightly higher than NBL. The standard deviation is 1.67 and coefficient of variation is 40.05%, ie the EY ratio of BOK is less inconsistent among the selected banks. The average EY of BOK indicates that only 4.17% of MPS is converted to EPS in the five year period.

Comparing the average earning yield ratio of NIC (3.30%), NBL (3.94%) and that of BOK (4.17%), it can be considered that BOK is more efficient than other banks on the basis of market price of share.

4.1.9 NWPS of selected banks

Net Worth Per Share is a measurement of the net worth of the company for each share of stock that has been issued. This will give a good indication about whether the company is overvalued or undervalued by the market.

The Net Worth Per Share (NWPS) of selected banks is presented in the following Table 4.9

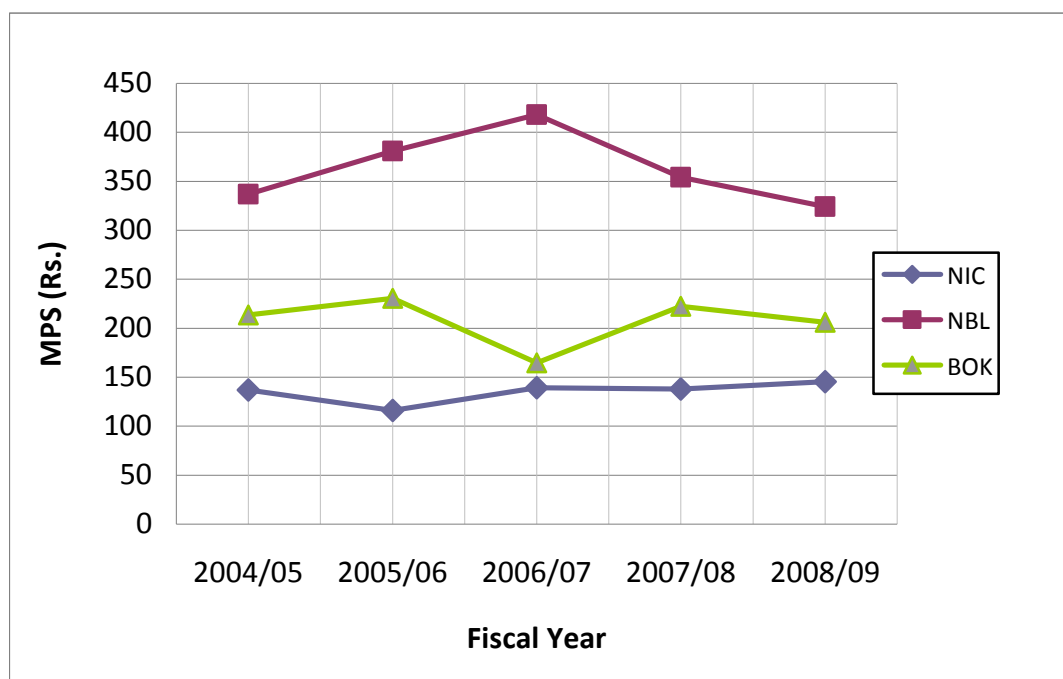
Table 4.9
Net Worth Per Share (In Rs.)

Fiscal Year	NIC	NBL	BOK
2004/05	136.84	337	213.60
2005/06	116.13	381	230.67
2006/07	139.17	418	164.68
2007/08	138.09	354	222.51
2008/09	145.58	324	206.25
Mean ($\bar{x}$)	135.16	362.8	207.54
S.D. (σ)	9.98	33.55	22.95
CV %	7.38	9.23	11.06

(Source: Annual Reports of NIC, NBL and BOK)

The Net worth per Share of selected banks are presented in the trend form in Figure 4.1.9 below;

Figure 4.9
Net Worth Per Share



The NIC bank has highest NWPS of Rs. 145.58 in fiscal year 2008/09 and the lowest Rs. 116.13 in fiscal year 2005/06. The NWPS of NIC followed fluctuating trend. The NWPS of NIC was Rs. 136.84 in fiscal year 2004/05 and increased to Rs. 116.13 in fiscal year 2005/06. It increased to Rs. 139.17 in fiscal year 2006/07 and slightly decreased to Rs. 138.09 in fiscal year 2007/08. Again, it increased to Rs.145.58 in fiscal year 2008/09. It has average NWPS of Rs.135.16. The standard deviation is 9.98 and CV is 7.38%. The CV indicates that the NWPS of NIC is less inconsistent among selected banks.

Similarly, the Net worth per share of NBL has an increasing trend in first three fiscal years 2004/05, 2005/06 and 2006/07 which was Rs. 337, Rs.381 and Rs.418 respectively. Then, it has decreasing trend in following two years 2007/08, 2008/09 which was Rs.354, Rs.324 respectively. It has highest NWPS of Rs. 418 in fiscal year 2006/07 and lowest NWPS of Rs. 324 in fiscal year 2008/09. The average NWPS of NBL is Rs. 362.8. The standard deviation is 33.55 and CV is 9.25%. The CV indicates that the NWPS of NBL is less inconsistent.

Likewise, the Net worth per share of BOK was Rs.213.60 in fiscal year 2004/05 and increased to Rs.230.67 in fiscal year 2005/06. Then, decreased to Rs.164.68 in fiscal year 2006/07 and it increased to Rs.222.51 in fiscal year 2007/08 again NWPS of BOK was decreased to Rs.206.25 in fiscal year 2008/09. BOK followed fluctuating trend of NWPS. The highest NWPS was Rs.230.67 in fiscal year 2005/06 and the lowest NWPS was Rs.164.68 in fiscal year 2006/07. The average NWPS is Rs.207.54. The standard deviation is 22.95 and CV is 11.06% which indicates that the NWPS of BOK is more inconsistent among selected banks.

Comparing the average NWPS of NIC (Rs. 135.16), NBL (Rs. 362.8) and BOK (Rs. 207.54), it can be concluded that NBL is much valued in the market in comparison with other banks and NIC is less valued in market among the selected banks.

4.1.10 MV/BV Ratio of selected banks

This ratio indicates the price that the market is paying for the share that is reported from the net worth of the banks.

The market price per share to book value per share ratio (MV/BV Ratio) of selected banks is presented in the following Table 4.10

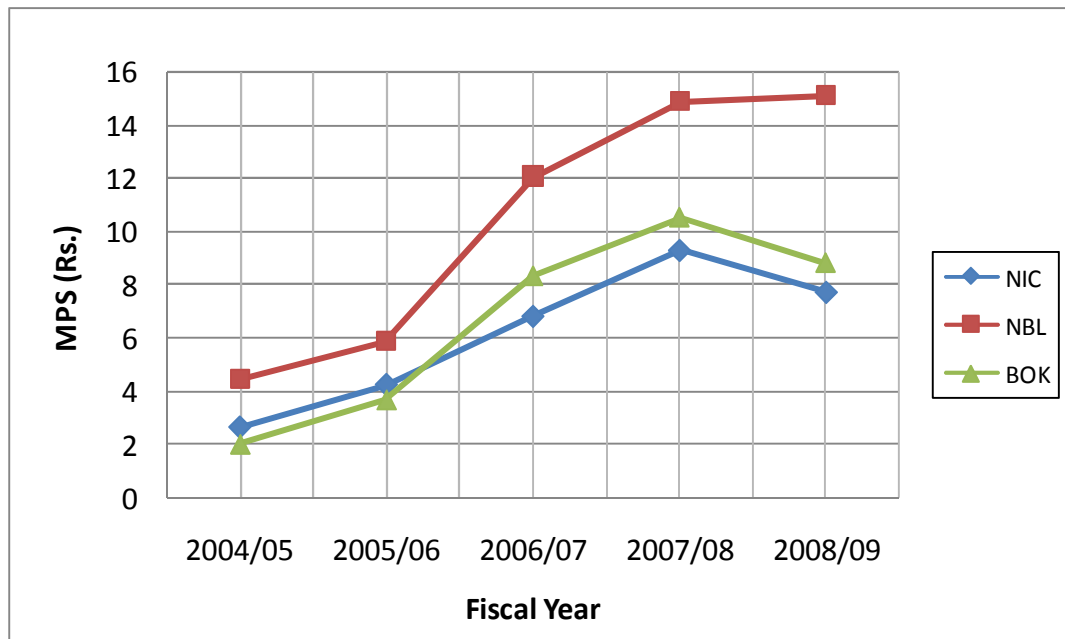
Table 4.10
MV/BV Ratio

Fiscal Year	NIC			NBL			BOK		
	MPS	BVPS	Ratio	MPS	BVPS	Ratio	MPS	BVPS	Ratio
2004/05	366	136.84	2.67	1505	337	4.47	430	213.60	2.01
2005/06	496	116.13	4.27	2240	381	5.88	850	230.67	3.68
2006/07	950	139.17	6.83	5050	418	12.08	1375	164.68	8.35
2007/08	1284	138.09	9.30	5275	354	14.90	2350	222.51	10.56
2008/09	1126	145.58	7.73	4899	324	15.12	1825	206.25	8.85
Mean ($\bar{x}$)			6.16			10.49			6.69
S.D. (σ)			2.39			4.49			3.27
CV %			38.80			42.80			48.88

(Source: Annual Reports of NIC, NBL and BOK)

The MV/BV Ratio of selected banks are presented in the trend form in Figure 4.10 below;

Figure 4.10
MV/BV Ratio



The table 4.10 shows that the ratio of market value per share (MPS) to book value per share (BVPS) of NIC was in increasing trend in first four years and then it decreased to 5th year. The ratio increased from 2.67 times in the fiscal year 2004/05 to 9.30 times in the fiscal year 2007/08 and then, it decreased to 7.73 times in the fiscal year 2008/09. It means that the investor paid Rs. 2.67 in the market for Re. 1 book value of the share in the fiscal year 2004/05 and Rs. 7.73 in the market for Re.1 book value of the share 2008/09. The average MV/BV Ratio of NIC in the five year period is 6.16 times, standard deviation is 2.39 and C.V. is 38.80%. In average, investor paid 6.16 times of the book value per share in the market to possess a single share.

Likewise, the MV/BV Ratio of NBL is in increasing trend. The ratio increased from 4.47 times in the fiscal year 2004/05 to 15.12 times in the fiscal year 2008/09. The average ratio of NBL is 10.49 times, standard deviation is 4.49 and coefficient of variation is

42.80%. In average investor paid 10.49 times of the book value per share in the market to possess a single share.

Similarly, the MV/BV of BOK has increased in first four fiscal years and decreased in the 5th years. The ratio increased from 2.01 times in the fiscal year 2004/05 to 10.56 times in the fiscal year 2007/08 and then decreased to 8.85 times in the fiscal year 2008/09. The average ratio of BOK is 6.69 times, standard deviation is 3.27 and coefficient of variation is 48.88%. The MV/BV ratio of BOK is more inconsistent among the selected banks.

4.2 Simple Correlation and Regression Analysis

To find the relationship of dividend with other determinants of share price the Karl Pearson's correlation coefficient and simple regression lines have been analyzed.

4.2.1 Dividend Per Share (DPS) and Market Price of Share (MPS)

4.2.1.1 Correlation between DPS and MPS

The correlation between MPS and DPS and the probable error calculated in Appendix I is summarized in the below Table 4.11

Table 4.11
Correlation between DPS and MPS

Sample Banks	R	Relationship	R ²	Probable Error (P. E.)	6 P.E.	Significant / Insignificant
NIC	0.4877	+ve	0.2379	0.2299	1.3794	Insignificant
NBL	0.9654	+ve	0.9320	0.0205	0.123	Significant
BOK	0.7561	+ve	0.5717	0.1292	0.7752	Insignificant

(Source: Appendix I)

As shown in Table 4.11, the correlation coefficient between Market Price of Share (MPS) and Dividend Per Share (DPS) of NIC, NBL and BOK are 0.4877, 0.0205 and 0.7561 respectively. The above figure indicates moderate degree of positive relationship between the two variables of NIC, higher positive relationship between the variables of NBL and positive relationship between the variables of BOK. Coefficient of determination (r^2) of NIC is 0.2379, which shows DPS of NIC explains 23.79% of variations in the MPS.

Likewise, according to the same table, coefficient of determination (r^2) of NBL is 0.9320, which explains that the variation in the DPS explains 93.20% of variations in MPS. Similarly, the table shows BOK has coefficient of determination (r^2) of 0.5717, which explains that the variation in the DPS explains 57.17% of variations in MPS.

Since, r of NIC (0.4877) is lower than 6 P.E. (1.3794), the relationship between DPS and MPS is insignificant, which means that the increase in DPS will not increase in MPS. Similarly, r of NBL (0.9654) is higher than 6 P.E (0.123), which indicates that there is significant relationship between DPS and MPS, which means that the increase in DPS will increase in MPS. Likewise, r of BOK (0.7561) is lower than 6 P.E (0.7752), which also indicates that there is insignificant relationship between DPS and MPS.

4.2.1.2 Regression Analysis between DPS and MPS

Let the dependent variable MPS is denoted by Y and independent variable DPS is denoted by X , then the regression equation of MPS on DPS is given by: (*Appendix I*)

$$Y = a + bX$$

$$MPS_{NIC} = 1208.36 + 2.3670 \times DPS_{NIC}$$

$$MPS_{NBL} = 5737.78 + 1.6588 \times DPS_{NBL}$$

$$MPS_{BOK} = 1992.5 + 1.6960 \times DPS_{BOK}$$

Table 4.12
Regression Analysis between DPS and MPS

Banks	No. of Obsv. (n)	Constant (a)	Regression Coefficient (b)	T-value
NIC	5	1208.36	2.3670	0.9676
NBL	5	5737.78	1.6588	6.4118
BOK	5	1992.5	1.6960	2.0012

The Table 4.12 depicts the major output of simple regression analysis of average market price per share (MPS) on dividend per share (DPS) of the concerned banks.

As far as the regression of MPS and DPS is concerned, the regression coefficient of NIC, NBL and BOK are 2.3670, 1.6588 and 1.6960 respectively. It indicates that a one-rupee increase in DPS leads to an average of Rs. 2.3670 increase in MPS of NIC, Rs.1.6588 increase in MPS of NBL and Rs.1.6960 increase in MPS of BOK, if the other variable remains constant. The test of t-statistics aid to conclude that in NIC the relationship between MPS and DPS is insignificant, since the calculated value of t (0.9676) is lower than tabulated value of t (2.78), in NBL the relationship between MPS and DPS is significant as the calculated value of t (6.4118) is higher than tabulated value of t (2.78) and in BOK the result is insignificant, since the calculated t-value (-2.0012) is lower than the tabulated t-value (2.78) at 5% level of significance on 4 degree of freedom.

4.2.2 Earning Per Share (EPS) and Market Price of Share (MPS)

4.2.2.1 Correlation between EPS and MPS

The correlation between EPS and MPS and the probable error calculated in Appendix I is summarized in the below Table 4.13

Table 4.13
Correlation between EPS and MPS

Sample Banks	R	Relationship	R ²	Probable Error (P. E.)	6 P.E.	Significant / Insignificant
NIC	0.7324	+ve	0.5364	0.1398	0.8388	Insignificant
NBL	0.0804	+ve	0.0065	0.2997	1.7982	Insignificant
BOK	0.9595	+ve	0.9206	0.0240	0.144	Significant

(Source: Appendix I)

As shown in Table 4.13, the correlation coefficient between Market Price of Share (MPS) and Earning Per Share (EPS) of NIC, NBL and BOK are 0.7324, 0.0804 and 0.9595 respectively. The above figure indicates moderate positive relationship between the two variables of NIC, lower positive relationship between the variables of NBL and high degree of positive relationship between the variables of BOK. Coefficient of determination (r^2) of NIC is 0.5364, which shows EPS of NIC explains only 53.64% of variations in the MPS. Likewise, according to the same table, coefficient of determination (r^2) of NBL is 0.0065, which explains that the variation in the EPS explains 0.65% of variations in MPS. Similarly, the table shows BOK has coefficient of determination (r^2)

of 0.9206, which explains that the variation in the EPS explains 92.06% of variations in MPS.

Since, r of NIC (0.7324) is lower than 6 P.E. (0.8388), the relationship between EPS and MPS is insignificant, which means that the increase in EPS will not increase the MPS. Similarly, r of NBL (0.0804) is lower than 6 P.E (1.7982), which also indicates that there is insignificant relationship between EPS and MPS, which means it is not necessary that increase in EPS will not increase MPS. Likewise, r of BOK (0.9595) is higher than 6 P.E (0.144), which means that there is significant relationship between EPS and MPS.

4.2.2.2 Regression Analysis between EPS and MPS

Let the dependent variable MPS is denoted by Y and independent variable EPS is denoted by X , then the regression equation of MPS on EPS is given by: (Appendix I)

$$Y = a + bX$$

$$MPS_{NIC} = 2373.84 + 65.675 \times EPS_{NIC}$$

$$MPS_{NBL} = 4935.34 + 9.7260 \times EPS_{NBL}$$

$$MPS_{BOK} = 4301.44 + 63.2939 \times EPS_{BOK}$$

Table 4.14

Regression Analysis between EPS and MPS

Banks	No. of Obsv. (n)	Constant (a)	Regression Coefficient (b)	T-value
NIC	5	2373.84	65.675	1.8631
NBL	5	4935.34	9.7260	0.1398
BOK	5	4301.44	63.2939	5.8974

The Table 4.14 depicts the major output of simple regression analysis of average market price per share (MPS) on earning per share (EPS) of the concerned banks.

As far as the regression of MPS and EPS is concerned, the regression coefficient of NIC, NBL and BOK are 65.675, 9.7260 and 63.2939 respectively. It indicates that a one-rupee increase in EPS leads to an average of Rs. 65.675 increase in MPS of NIC, one rupee

increase in EPS of NBL leads to an average of Rs.9.7260 increase in MPS of NBL and one rupee increase in EPS leads to an average of Rs. 63.2939 increase in MPS of BOK, if the other variable remains constant. The test of t-statistics aid to conclude that in NIC the relationship between MPS and EPS is insignificant, since the calculated value of t (1.8631) is lower than tabulated value of t (2.78), in NBL the relationship between MPS and EPS is also highly insignificant as the calculated value of t (0.1398) is lower than tabulated value of t (2.78) and in BOK the results are highly significant, since the calculated t-value (5.8974) is higher than the tabulated t-value (2.78) at 5% level of significance on 4 degree of freedom.

4.2.3 Earning Per Share (EPS) and Dividend Price of Share (DPS)

4.2.3.1 Correlation between EPS and DPS

The correlation between EPS and DPS and the probable error calculated in Appendix I is summarized in the below Table 4.15

Table 4.15
Correlation between EPS and DPS

Sample Banks	R	Relationship	R ²	Probable Error (P. E.)	6 P.E.	Significant / Insignificant
NIC	0.2474	+ve	0.0612	0.2832	1.699	Insignificant
NBL	0.1608	+ve	0.0259	0.2938	1.763	Insignificant
BOK	0.8830	+ve	0.7797	0.0665	0.399	Significant

(Source: Appendix I)

As shown in Table 4.15, the correlation coefficient between Earning Per Share (EPS) and Dividend Per Share (DPS) of NIC, NBL and BOK are 0.2474, 0.1608 and 0.8830 respectively. The above figure shows a moderate positive relationship between the DPS and EPS of NIC, a lower positive relationship between the variables of NBL and higher positive relationship between the variables of BOK. The coefficient of determination (r^2) of NIC is 0.0612, which indicates that 6.12% of the variation of DPS is determined by the explanatory variable EPS. Likewise, according to the same table, coefficient of determination (r^2) of NBL is 0.0259, which explains that the variation in the DPS explains only 2.59% of variations in EPS. Similarly, the table shows BOK has coefficient

of determination (r^2) of 0.7797, which explains that the variation in the DPS explains 77.97% of variations in EPS.

Since, r of NIC (0.2474) is lower than 6 P.E. (1.699), the relationship between EPS and MPS is insignificant, which means that the increase in EPS will not increase the DPS. Similarly, r of NBL (0.1608) is lower than 6 P.E (1.763), which also indicates that there is insignificant relationship between EPS and DPS. Likewise, r of BOK (0.8830) is higher than 6 P.E (0.399), which means that there is significant relationship between EPS and MPS and hence increase in EPS will increase its DPS.

4.2.3.2 Regression Analysis between EPS and DPS

Let the dependent variable DPS is denoted by Y and independent variable EPS is denoted by X , then the regression equation of DPS on EPS is given by: (*Appendix I*)

$$Y = a + bX$$

$$DPS_{NIC} = 259.97 + 4.5609 \times EPS_{NIC}$$

$$DPS_{NBL} = 2500.58 + 11.3203 \times EPS_{NBL}$$

$$DPS_{BOK} = 1573.76 + 25.9683 \times EPS_{BOK}$$

Table 4.16
Regression Analysis between EPS and DPS

Banks	No. of Obsv. (n)	Constant (a)	Regression Coefficient (b)	T-value
NIC	5	259.97	4.5609	0.4423
NBL	5	2500.58	11.3203	2.8237
BOK	5	1573.76	25.9683	3.2582

The Table 4.16 depicts the major output of simple regression analysis of average dividend per share (DPS) on earning per share (EPS) of the concerned banks.

As far as the regression of EPS and DPS is concerned, the regression coefficient of NIC, NBL and BOK are 4.5609, 11.3203 and 25.9683 respectively. It indicates that a one-

rupee increase in EPS leads to an average of Rs. 4.5609 increase in DPS of NIC, one-rupee increase in EPS leads to an average of Rs.11.3203 increase in DPS of NBL and one- rupee increase in EPS leads to an average of Rs. 25.9683 increase in DPS of BOK, if the other variable remains constant. The test of t-statistics aid to conclude that in NIC the relationship between EPS and DPS is insignificant, since the calculated value of t (0.4423) is lower than tabulated value of t (2.78), in NBL the relationship between EPS and DPS is significant as the calculated value of t (2.8237) is higher than tabulated value of t (2.78) and in BOK the result is also significant, since the calculated t-value (3.2582) is higher than the tabulated t-value (2.78) at 5% level of significance on 4 degree of freedom.

4.3 Test of Hypothesis

4.3.1 Test of DPS among the sample banks

Null Hypothesis (H_0): $\mu_1 = \mu_2 = \mu_3$ i.e. There is no significant difference in DPS of the sample banks.

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2 \neq \mu_3$ i.e. There is significant difference in DPS of the sample banks.

Table 4.17
Dividend Per Share

Fiscal Year	NIC	NBL	BOK
2004/05	109.2	70	15
2005/06	95.53	85	430.5
2006/07	257.85	2210	20
2007/08	226.25	2019.6	732.11
2008/09	79.99	1475	649.37

Source: Annual Reports of NIC, NBL and BOK

F-Test Statistic

Correction Factor (C.F.) = 4788827.01

Total Sum of Squares (TSS) = 7650552.79

Sum of squares due to row or between banks (SSR) = 2878639.28

Sum of squares due to error or within banks (SSE) = 4771913.51

Table 4.18
One-Way ANOVA table for DPS

Sources of Variation	Sum of Squares	Degree of freedom (d.f. = n-1)	Mean Sum of Squares	F-Ratio
Between Banks	2878639.28	3 – 1 = 2	1439319.64	3.6195
Within Banks	4771913.51	14 – 2 = 12	397659.46	
Total	7650552.79	15 – 1 = 14		

Critical Value: The tabulate value of F at 5% level of significance for 2 and 12 d.f. is 3.89

Decision: Since the calculated F (3.6195) is lower than the tabulated value of F (3.89), the Null Hypothesis (H_0) is accepted. Therefore, we can conclude that there is no significant difference in DPS of sample banks.

4.3.2 Test of EPS among the sample banks

Null Hypothesis (H_0): $\mu_1 = \mu_2 = \mu_3$ i.e. There is no significant difference in EPS of the sample banks.

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2 \neq \mu_3$ i.e. There is significant difference in EPS of the sample banks.

Table 4.19
Earning Per Share

Fiscal Year	NIC	NBL	BOK
2004/05	22.75	105.49	30.10
2005/06	16.1	129.21	43.67
2006/07	24.01	137.08	43.50
2007/08	25.75	108.31	59.94
2008/09	27.83	106.76	54.68

(Source: Annual Reports of NIC, NBL and BOK)

F-Test Statistic

Correction Factor (C.F.) = 58304.11

Total Sum of Squares (TSS) = 25517.79

Sum of squares due to row or between banks (SSR) = 24040.71

Sum of squares due to error or within banks (SSE) = 1477.08

Table 4.20
One-Way ANOVA table for EPS

Sources of Variation	Sum of Squares	Degree of freedom (d.f. = n-1)	Mean Sum of Squares	F-Ratio
Between Banks	24040.71	3 – 1 = 2	12020.36	97.655
Within Banks	1477.08	14 – 2 = 12	123.09	
Total	25517.79	15 – 1 = 14		

Critical Value: The tabulate value of F at 5% level of significance for 2 and 12 d.f. is 3.89

Decision: Since the calculated F (97.655) is greater than the tabulated value of F (3.89), the Null Hypothesis (H_0) is rejected. Therefore, we can conclude that there is significant difference in EPS of sample banks.

4.3.3 Test of DPR among the sample banks

Null Hypothesis (H_0): $\mu_1 = \mu_2 = \mu_3$ i.e. There is no significant difference in DPR of the sample banks.

Alternative Hypothesis (H_1): $\mu_1 \neq \mu_2 \neq \mu_3$ i.e. There is significant difference in DPR of the sample banks.

Table 4.21
Dividend Payout Ratio

Fiscal Year	NIC	NBL	BOK
2004/05	4.8	0.66	0.50
2005/06	5.93	0.66	9.86
2006/07	10.74	16.12	0.46
2007/08	8.79	18.65	12.21
2008/09	2.87	13.82	11.88

Source: Annual Reports of NIC, NBL and BOK

F-Test Statistic

Correction Factor (C.F.) = 927.48

Total Sum of Squares (TSS) = 518.99

Sum of squares due to row or between banks (SSR) = 33.98

Sum of squares due to error or within banks (SSE) = 485.01

Table 4.21
One-Way ANOVA table for DPR

Sources of Variation	Sum of Squares	Degree of freedom (d.f. = n-1)	Mean Sum of Squares	F-Ratio
Between Banks	33.98	$3 - 1 = 2$	16.99	0.4203
Within Banks	485.01	$14 - 2 = 12$	40.42	
Total	518.99	$15 - 1 = 14$		

Critical Value: The tabulate value of F at 5% level of significance for 2 and 12 d.f. is 3.89

Decision: Since the calculated F (0.4203) is less than the tabulated value of F (3.89), the Null Hypothesis (H_0) is accepted. Therefore, we can conclude that there is no significant difference in DPR of sample banks.

4.4 Major Findings

In this segment we analyze various aspects of dividend and summarize the major findings for easy reference.

- a) The average dividend per shares of selected banks shows that NBL paid highest DPS of Rs. 1171.92 in average. NBL is comparatively more successful to create the positive attitudes of shareholders towards the bank. It consequently helps to increase the market value of shares and also helps to indicate the better performance of the bank's management. And, BOK has the highest inconsistency in dividend payment than other banks. The dividend payment by NIC is less inconsistent than other banks and the lowest average DPS.
- b) NBL distributed highest stock dividend per share of Rs. 1101.92 in average. So NBL is comparatively more successful than other banks to create the positive attitude of shareholders towards the bank. NIC has the lowest SDPS of Rs. 151.08 in average and the SDPS is less inconsistent in comparison with other banks. The SDPS of BOK is highly inconsistent among the selected banks.
- c) In average NBL enjoyed the highest EPS of Rs.117.37. So, NBL's profitability of common shareholders investment is better than NIC and BOK and EPS of NIC is less inconsistent among the selected banks. While, NIC has lowest average EPS of Rs. 23.29.
- d) NBL has the highest MPS of Rs. 3793.8 in average. BOK and NIC has highly lower MPS than NBL of Rs. 1366 and Rs. 844.4 respectively. But BOK seems to have more inconsistent MPS than other two banks. However, NBL seems less inconsistent than other two banks.
- e) The average Dividend Payout Ratio of selected banks shows that NBL has highest DPR of 9.98 times and is more inconsistent than other banks. NIC is less inconsistent than other banks and has lowest DPR of 6.63 times.

- f) Similarly, NIC has the highest P/E ratio 35.36 times in average which considered that the investors of NIC paid high amounts among the other banks to gain 1 rupee of earning. BOK has the lowest P/E Ratio 27.59 times in average. It can be considered that the investors of BOK paid fewer amounts among the other banks to gain 1 rupee of earning.
- g) There is not much difference between dividend yield ratio of NBL and BOK in average. NBL has 24.12% in average and BOK has 24.46% in average. It can be considered that comparatively the shareholders of BOK got more percentage of the market price they paid for a share as dividend in return than the other banks. Whereas, NIC has the lowest dividend yield ratio of 20.19% in average. BOK is highly inconsistent among three banks.
- h) BOK has the highest Earning Yield ratio of 4.17% in average among the selected banks. Which means BOK is more efficient in than other banks on the basis of market price of share. Whereas, NIC has the lowest Earning Yield ratio of 3.30% in average and NBL is high inconsistent among the selected banks.
- i) Comparing the average NWPS, NBL has the highest average NWPS of Rs.362.8. Hence, it can be concluded that NBL is much valued in the market in comparison with other banks and NIC bank is less valued in market among the selected banks.
- j) NBL has highest MV/BV Ratio of 10.49 times which means the investor paid 10.49 times of the book value per share in the market to possess a single share. Whereas, NIC has lowest MV/BV Ratio of 6.16 times among selected banks.
- k) DPS and MPS of all three banks were positively correlated. And, NIC bank and BOK has an insignificant relationship between EPS and MPS whereas NBL has significant relationship between EPS and MPS.

- l) EPS and MPS of all three banks were positively correlated. It is also found that the relationship between EPS and DPS of two banks NIC and NBL were insignificant. But, only BOK has a significant relationship between EPS and MPS.
- m) EPS and DPS of all three banks were positively correlated. But, only BOK has a significant relationship between EPS and DPS.
- n) The regression analysis between DPS and MPS shows that all three banks have the positive regression. The regression coefficient of NIC bank, NBL and BOK were 2.3670, 1.6588 and 1.6960 respectively. It indicates that a one-rupee increase in EPS leads to an average of Rs.2.3670, Rs.1.6588 and Rs.1.6960 increase in MPS of NIC bank, NBL and BOK respectively.
- o) The regression analysis between EPS and MPS shows that all three banks have the positive regression. NIC bank has the highest regression coefficient 65.675. It indicates that a one-rupee increase in EPS leads to an average of Rs. 65.675 increase in MPS of BOK. While NBL and BOK has also a positive regression coefficient (9.7260) and (63.2939) respectively. This means, one rupee increase in EPS leads to an average of Rs. 9.7260 and Rs.63.2939 increase in MPS of NIC bank and NBL.
- p) The regression analysis between EPS and DPS shows that all three banks have the positive regression. The regression coefficient of NIC bank, NBL and BOK were 4.5609, 11.3203 and 25.9683 respectively. It indicates that a one-rupee increase in EPS leads to an average of Rs. 4.5609, Rs. 11.3203 and Rs. 25.9683 increase in DPS of NIC bank, NBL and BOK respectively.
- q) The calculated F (3.6195) is less than the tabulated value of F (3.89), the Null Hypothesis (H₀) is accepted. Therefore, we can conclude that there is no significant difference in DPS of sample banks.

- r) Since the calculated F (97.655) is greater than the tabulated value of F (3.89), the Null Hypothesis (H_0) is rejected. Therefore, we can conclude that there is significant difference in EPS of sample banks.
- s) As the calculated F (0.4203) is less than the tabulated value of F (3.89), the Null Hypothesis (H_0) is accepted. Therefore, we can conclude that there is no significant difference in DPR of sample banks.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The shareholders are paid with portion of firm's net earning known as dividend. Dividend serves as simple, comprehensive signal of management's interpretation of the firm's record performance and its future prospects. The improved corporate dividend practices are thus essential means to solve the problem of asymmetric information between companies and Nepalese's investors who have poured their fund there in.

In Nepal, only a few listed companies have paying regular dividends to their shareholders. Further companies have not been following stable dividend payout policy. On the other hand, the dividend payout ratio of listed companies in Nepal has not been able to distribute fair dividends. In this regards, however commercial banks are also no exception.

The theoretical statement of this study is to study the impact of dividend policy on market price of the stock, therefore, it is concluded that more or less the dividend policy depends on the earning per share of a company; the earning per share and dividend per share having the positive relation may also impact on market price of stock. For this argument two simple regressions were formed. The first simple regression was formed to assess the impact of DPS on market price of share. It concludes the fact that DPS has positive impact on MPS of all three banks. Whereas, the second simple regression was formed to assess the impact of EPS on market price of share. It concludes the fact that EPS has positive impacts on MPS of all three banks. The third simple regression was formed to assess the impact of EPS on DPS. It concludes the fact that EPS has positive impact on DPS of all three banks. From the regression analysis, it can be concluded that a change in dividend per share affects the share price differently in different banks.

The Earning Per Share of selected banks seems to have a fluctuated trend. NBL seems to have highest average EPS and the trend was less inconsistent in comparison to other banks. So, NBL secures the interest of investors in terms of regular dividend.

Since Nepalese stock market is not perfect competitive .Share price of stock do not moves as per the risk and return of that share. It was found that the correlation coefficient between DPS and MPS of NBL is positively correlated. Correlation coefficient between EPS and MPS of all banks are positive. Which obviously proves the higher earning enables the banks higher dividend and vice versa.

5.2 Conclusions

In this section, the things perceived in this study are presented as conclusions. The issues related to dividend and other relevant factors found while analyzing the variables are also presented here. Then possible causes to perceive this gap will be examined as far as possible.

On the basis of secondary data, we can conclude that NBL has higher earning capacity and paying more dividends in Rupees than other banks. According to DPR, NBL is paying higher portion of its earning as dividend than other banks. Similarly, NBL paid higher amounts among the other banks to gain 1 rupee of earning. Also, Net worth per share of NBL is higher among the selected banks. Again, the average MPS of NBL is greater than other banks. Thus, it can be concluded that NBL was more successful in comparison with other two banks.

It is also concluded that, there is no definite rules and regulations that forces companies to pay dividend every year. Not only companies, even government doesn't have any clear policy towards dividend. Also there is instability in dividend and inconsistency in dividend payment ratio of the banks. The EPS of all the banks seems to have fluctuated trend. This sort of fluctuation leads to lose the public faith.

Shareholders in Nepal seem to be not much conscious. Taking the advantage of this flaw, the company management does not show the commitment promised in prospectus while

raising capital. Promoter tempts investors mentioning to pay attractive dividends, when company makes profit. However in reality, most of the companies are deviated from their statement as promise in prospectus. Government also seems to fail in improving the efficiency of the companies, as government does not have any clear policy towards dividend.

5.3 Recommendations

On the basis of major findings and issues encountered during course of this study, some recommendations are presented as follows:

1. Banks are paying dividend without adopting any appropriate policy. Companies should have their clearly defined dividend policy. Clearly defined dividend policy helps to determine specific. This helps to investor in deciding whether to buy or not the share of particular company. The dividend payment should be stable and consistent because dividend policy is the only mirror of management perspective to shareholders return therefore all banks should have to come up with clear view regarding dividend policy.
2. Central Bank, NRB should come up with more monitoring tools to strengthen the banking system of the country because there are still some loopholes in rules and policies regarding dividend declaration. Legal rules relating to dividend policy indeed helps the central banks to protect the interest of depositors.
3. Each and every company should provide the detailed information regarding their performance and activities, so that investors can analyze them before they make an investment. On the other hand, NEPSE should provide all the necessary information regarding the company's activities. The information regarding secondary market and capital market is not duly flash out today. Therefore concerning body should timely provide all the information about this factor.
4. Banks should have long term vision regarding earning and dividend payment that helps to cope with challenging competitive situation of present world. Various internal and external factors should be considered before taking decision.

5. EPS of selected banks seem to be in fluctuating trend; therefore these banks should search the fruitful investment opportunities and plan for profit maximization.
6. The DPS analysis shows that there is no consistence in dividend policy in all the selected banks. Therefore, these banks need to create somehow paying reasonable DPS every year, it is because higher DPS creates positive attitude of shareholders towards the company. This consequently helps to increase the market value of shares.
7. The government should play a prominent role and interfere to encourage for the establishment of organizations to promote and protect activities those are fruitful to investors.
8. Shareholder should be given option to choose between stock dividend and cash dividend instead of declaring stock or cash dividend arbitrary. For this dividend declaration should be proposed to the annual general meeting of shareholders for approval.
9. Banks are advice to have target rate of earning and target payout ratio that will help companies to build good image in stock market and investors will be ease on making investment decision.