

## **DIVIDEND POLICY OF COMMERCIAL BANKS**

A dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

By

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May-2024

## **CERTIFICATION OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**DIVIDEND POLICY OF COMMERCIAL BANKS** ”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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## REPORT OF RESEARCH COMMITTEE

Mr. Sabin Koirala has defended Research proposal entitled “**DIVIDEND POLICY OF COMMERCIAL BANKS** ” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor sir **Kamal Prakash Adhikari** and submit the thesis for evaluation and viva-voce examination.

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## ACKNOWLEDGEMENTS

This thesis entitled “**DIVIDEND POLICY OF COMMERCIAL BANKS**” has been prepared for the partial fulfillment of the requirement for the degree of Master of Business studies.

I extend my deep sense of indebtedness to my respected supervisor **Kamal Prakash Adhikari** for his precious guidelines, inspiration and suggestion thoroughly during the period of this research. Without their valuable insight, I would not think of accomplishment of this thesis. I would like to express my gratitude to my honorable campus chief **Asso. Prof. Krishna Prasad Acharya** of Shanker Dev Campus and Shanker Dev Campus Library who provided the reference and reading materials during the period of research. I also like to thank to my respectable teacher for guiding and inspiring me to complete this thesis.

I am deeply indebted to my respected teachers and friends for helping me during the period of research.

**Sabin Koirala**

Researcher

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## ABBREVIATIONS

|           |   |                                       |
|-----------|---|---------------------------------------|
| %         | : | Percentage                            |
| &         | : | And                                   |
| CV        | : | Coefficient of Variance               |
| DPR       | : | Dividend Payout Ratio                 |
| DPS       | : | Dividend Per Share                    |
| DY        | : | Dividend Yield                        |
| EBL       | : | Everest Bank Limited                  |
| EPS       | : | Earning Per Share                     |
| etc       | : | Etcetera                              |
| FY        | : | Fiscal year                           |
| i.e       | : | That is                               |
| JSEL      | : | Johannesburg Stock Exchange Limited   |
| Ltd       | : | Limited                               |
| MPS       | : | Market Price per Share                |
| NABIL     | : | Nabil Bank Limited                    |
| NEPSE     | : | Nepal Stock Exchange                  |
| NRB       | : | Nepal Rastra Bank                     |
| P/E Ratio | : | Price Earning Ratio                   |
| REPS      | : | Retained Earnings Per Share           |
| r         | : | Correlation coefficient               |
| Rs.       | : | Rupees                                |
| S.D       | : | Standard Deviation                    |
| SCBNL     | : | Standard Chartered Bank Nepal Limited |

## ABSTRACT

The research has been carried out with the aim to analyze the impact of dividend policy in Nepalese financial institution and factors affect dividend policy directly and indirectly of only selected commercial banks. Descriptive research is the systematic collection and presentation of data to give a clear picture of particular situation. This study is based only on secondary data and to collect the secondary data, published annual financial reports are viewed in websites of sampled banks and Nepal Rastra bank. Only three banks Everest Bank Limited (EBL), Standard Chartered Bank Nepal Limited (SCBNL) and Nabil Bank Limited (NBL) have been selected using convenient sampling method.

This research explores the dividend policy of commercial banks, examining its significance, determinants, and implications. This paper reviews empirical studies, theoretical frameworks and regulatory guidelines to provide insights into the dividend policies adopted by commercial banks. Understanding the dynamics of dividend policy is essential for investors, regulators and bank management to make informed decisions regarding capital allocation, risk management and corporate governance in the banking sector.

The calculated value t-cal of sample banks i.e. EBL, SCBNL, NABIL (0.4238, 0.9416 and 1.2187) is less than tabulated value at 5% significance level with 8 degree of freedom for two tailed test (2.306). It indicates that there is insignificant difference between EPS and MPS of sample banks. It indicates that correlation coefficient between DPS and MPS of all three sample banks are insignificant. By using t- statistic, the calculated value t-cal of EBL and SCBNL (1.1052 and 1.1052) is less than tabulated value at 5% significance level with 8 degree of freedom for two tailed test (2.306). It indicates that correlation coefficient between EPS and DPS of EBL and SCBNL is insignificant and significant of NABIL. By testing the beta significant test, among the two independent variables, all of them are insignificant (with the beta co-efficient) with MPS while testing t-statistic since p value (0.7202, 0.4659) is greater than 0.05 at 5% level of significance of NABIL.

**Key words:** *earning per share, market price per share, book value per share, dividend per share.*

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

Dividends are a portion of profits disbursed to shareholders, serving as a reward for their investments in a company's shares. The decision to pay dividends is at the discretion of the board of directors, guided by the company's established dividend policy (Joshi, 2019). This policy dictates the amount allocated for dividends and the retained earnings earmarked for reinvestment in new projects (Hashemijoo, Ardekani, et al., 2012). The complexity of the dividend policy decision is a recurring theme in corporate finance discussions (Nazir, Nawaz, et al., 2012).

Crucial to financial management, dividend policy significantly impacts the financial structure, funds flow, liquidity, investor attitudes, and working capital of a firm (Malla, 2009). A thorough analysis of the relationship between dividends and firm value is essential in understanding the implications of the dividend policy (Poudel et al., 2007). Various factors, including legal provisions, the firm's liquidity, debt repayment requirements, and personal tax rates, influence the dividend decision.

In essence, dividend policy delineates how earnings are divided between shareholder payments and reinvestment in the company. It represents a pivotal decision for commercial banks and financial institutions, playing a motivating role for shareholders and influencing overall financial decisions (Van Horne, 1997).

In the Nepalese context, stakeholders express interest in capital appreciation and dividend expectations, but inconsistency prevails in dividend announcements across firms. Some commercial banks and public limited companies are adopting new trends in dividend payments. The stock price fluctuates based on adequate information, and the impact of dividend distribution on stock prices varies, sometimes leading to constant or even decreased market values (Bhattarai, 2002).

Every profitable firm faces the choice of retaining earnings for future investments or distributing them among shareholders as dividends. The dividend policy reflects the firm's stance on this dividend versus retention decision (Bhattarai, 2002). The company's

share price is significantly influenced by its dividend policy, while the dividend decision is affected by various financial variables. Dividend policy may impact areas such as the firm's financial structure, funds flow, stock price, investor satisfaction, and overall growth (Gautam & Thapa, 2006).

For boards of directors, deciding on a dividend policy involves a delicate balance between keeping shareholders content in the short run and retaining funds for potentially more beneficial long-term investments. Ultimately, the primary objective of a dividend policy should be to maximize shareholder wealth. Studying dividend policy sheds light on how a firm allocates its net earnings between retained earnings and dividends (Bhattarai, 2007).

### **1.1.1 Profile of Sample Banks**

#### **Everest Bank Limited (EBL)**

Everest Bank Limited (EBL) with a customer base exceeding 10 lakhs, Everest Bank Limited (EBL) is a reliable source for professionalized and efficient banking services. Established in 1994, the bank has emerged as a prominent player in the country, contributing to corporate, agricultural, and industrial development. Serving diverse segments of society, EBL has played a pivotal role in the nation's progress.

Punjab National Bank (PNB), our joint venture partner holding a 20% equity stake, stands as one of India's largest nationalized banks, boasting a widespread presence in key centers. Recognized for its exceptional performance in 2012-13, PNB received accolades such as the "IDRBT Banking Technology Excellence Award" for Customer Management & Intelligence Initiatives and the "Golden Peacock Business Excellence Award 2013" from the Institute of Directors. Additionally, CNBC TV 18 acknowledged PNB as the 'Best Public Sector Bank.' With over 7,000 branches and 8,500 ATMs across India, PNB provides top management support to EBL through a Technical Service Agreement.

#### **Standard Chartered Bank Nepal Limited (SCBNL)**

Operating in Nepal since 1987, Standard Chartered Bank Nepal Limited is an integral part of the Standard Chartered Group, owning 70.21% of the company, while 29.79% is publicly owned in Nepal. As the only international bank in Nepal, SCBNL is a leading global banking group with a 160-year history, present in 60 markets and serving clients in 85 regions. Listed on multiple stock exchanges, including London, Hong Kong, Bombay,

and National Stock Exchanges in India, Standard Chartered PLC is committed to driving commerce and prosperity through its diverse operations.

With 15 representation points, 26 ATMs, and a local staff of over 531, Standard Chartered Bank Nepal Limited offers extensive domestic services. Leveraging the global network of Standard Chartered Group, the bank delivers international banking services in Nepal. The bank's offerings span a comprehensive range of products and services catering to individuals, local corporations, multinationals, public-sector companies, and various developmental organizations. It holds the distinction of being the first bank in Nepal to implement Anti-Money Laundering policies and 'Know Your Customer' procedures for all customer accounts.

The bank is committed to delivering shareholder value in a socially, ethically, and environmentally responsible manner. Through its Global Community Program Strategy, the bank has actively supported health and education initiatives. In 2018, the "Future makers by Standard Chartered" initiative was launched in Nepal, focusing on empowering the next generation through education, employability, and entrepreneurship.

### **NABIL Bank Limited**

Nabil bank limited Established in July 1984, Nabil Bank Limited is Nepal's first private sector bank, dedicated to providing international standard modern banking services. With 118 points of representation and over 1500 Nabil Remit agents nationwide, Nabil Bank plays a pivotal role in offering commercial banking services.

As a pioneer in introducing innovative products and marketing concepts, Nabil represents a milestone in Nepal's banking history, emphasizing customer satisfaction as a focal objective. The bank's operations and risk management are overseen by a highly qualified and experienced management team. Equipped with modern technology, including international standard banking software supporting E-channels and E-transactions, Nabil is committed to being the "1st Choice Provider of Complete Financial Solutions" for stakeholders.

Nabil's mission is reflected in its brand promise, "Together Ahead," and the values embraced by the entire Nabil team, represented by "C.R.I.S.P" – Customer Focused, Result Oriented, Innovative, Synergistic, and Professional. The bank strives for excellence across various parameters, aiming to deliver comprehensive financial solutions to customers, shareholders, regulators, communities, and staff.

## **1.2 Problem Statement**

The decision-making process regarding dividends is both critical and contentious within managerial finance. In Nepal, the capital market is in its early stages of development and growth. Investors often lack sufficient knowledge to select the best securities for their investments, relying on market price trends when purchasing stocks. They tend to favor stocks with higher market prices due to the anticipation of higher dividends, without being fully aware of the associated risks (Gautam,2017).

While dividends are desirable for shareholders, there is a lack of satisfactory results regarding the dividend decisions of commercial banks in Nepal. The absence of consistency and a clear policy on dividend distribution is notable in companies listed on the Nepal Stock Exchange (NEPSE). Nepalese acts, such as the Nepal Commercial Bank Act 2031 and Nepal Company Act 2063, along with other regulating acts, do not provide specific guidelines on dividend distribution. Consequently, different companies adopt varying and inconsistent approaches to dividend decisions. A prevailing trend is that management, rather than shareholders in a meeting, typically decides on dividend distribution.

Various financial experts have introduced dividend payment models that reflect their perspectives on dividend payment. The Modigliani and Miller (MM) Model asserts that dividends are irrelevant, meaning that the firm's dividend policy does not impact its value. In contrast, Walter's viewpoint holds that dividends are relevant, and the firm's dividend policy does affect its value. Consequently, the general consensus suggests that dividend policy can influence the stock price in the market. However, not all experts agree with this relationship between dividends and the market price of stocks ( Pant,2019). The study primarily addresses these issues.

- What is the position of EPS, DPS, MPS, BVPS, of selected banks?
- What is the relationship between dividend per share with earning per share, market price of share of selected banks?
- What is the effect of EPS and DPS on MPS?

## **1.3 Objectives of the Study**

The study aims to examine the influence of dividend policy on Nepalese financial institutions, focusing on selected commercial banks and the factors that directly and indirectly affect their dividend policies. The specific objectives are as follows:

- To examine the position of EPS, MPS, DPS, BVPS selected banks.
- To measure the relationship between DPS, EPS and MPS of selected banks.
- To examine the effect of EPS and DPS on MPS.

#### **1.4 Rationale of the Study**

In contemporary times, there is a notable inclination among individuals to invest in shares with the aim of achieving higher returns. Consequently, dividends have emerged as an effective strategy to attract a large number of investors and uphold the company's goodwill. The outcomes of this research hold significant value for shareholders, providing insights into the dividend policies of two banks through a comparative analysis. This information aids shareholders in assessing the productivity of their investments and justifying the rationale behind their investment decisions. Moreover, it offers valuable guidance to management in identifying appropriate remedies related to dividend policies.

The study also holds relevance from the firm's perspective, enabling them to understand investor objectives. Investors typically fall into two categories: those seeking regular dividends and those aiming for capital gains. Armed with knowledge about investor objectives, firms can tailor their plans and policies accordingly. This study serves as a helpful resource for investors, facilitating informed decision-making regarding the impact of dividends on the market price of shares and investment choices ( Bhattarai, 2019) .

The specific significance of this study lies in its exclusive focus on dividend-related factors. It not only provides valuable insights for concerned individuals such as shareholders, managers, and policymakers but also serves as a foundation for future researchers seeking to delve deeper into the same topic. Shareholders benefit from enhanced investment security, potential investment opportunities, and the assurance of dividends. For managers, the study aids in performance evaluation, ensuring continuity within the organization, and fostering career development. Similarly, policymakers can leverage the findings to guide business expansion, identify new investment opportunities, and facilitate fund collection. Recognizing the pivotal role of dividend policies in banks and the insurance sector, this study contributes to the socio-economic development of the nation ( Thapa, 2021).

### **1.5 Limitations of the Study**

Dividend represents a critical aspect of financial management, alongside various other decisions undertaken to fulfill organizational goals, including investment decisions, capital structure management, and liquidity management, leverage, and dividend policy. This study specifically focuses on the dividend policy. The specific limitation is outlined as follows:

- Among 20 commercial banks, this study is based on only three banks EBL, SCBNL and NABIL.
- This study is based on secondary data taken from annual financial reports of the sample banks.
- This study covers 10 years' time period from 2013/14 to 2022/23.
- Only limited financial and statistical tools are used for analysis.

## **CHAPTER-II**

### **LITERATU REREVIEW**

The structure of the literature review can differ across disciplines and assignments, but its fundamental purpose remains consistent: the critical examination of a body of knowledge through summarization and comparison. Likewise, when conducting research on a specific subject, it is essential to review relevant literature. This literature review serves to revisit significant works related to the study, aiming to identify previous research and gather insights. The primary objectives of this review are to comprehend the existing body of work in the subject and explore the concepts and ideas associated with the chosen topics by thoroughly examining all pertinent materials relevant to the study.

#### **2.1 Theoretical Review**

A "Theoretical Review" is a critical examination and synthesis of existing theories and frameworks relevant to a specific research topic, providing a foundation for understanding the theoretical context and informing the development of research questions or hypotheses.

##### **2.1.1 Dividend Policy**

In essence, dividend policy involves the decision on whether the cash flow available to shareholders should be reinvested in the company or distributed to shareholders. This decision-making process determines the appropriate balance between retaining funds for new projects and paying dividends to shareholders. The complexity of this decision arises from the dual motive behind investing in a company's shares, where shareholders seek both dividend yield and share value growth. The question of whether to distribute dividends or retain them for higher capital gains becomes crucial (Naz and Siddiqui, 2020).

The significance of dividend policy extends to investors, managers, lenders, and other stakeholders. For investors, dividends serve not only as a source of income but also as a gauge of the company's attractiveness as an investment. The chosen dividend policy affects a company's flexibility to invest in future projects, as more dividends paid mean fewer funds available for investment. Lenders are also concerned about the amount of dividends declared, as it directly impacts the servicing and redemption of their claims. This information is crucial for stakeholders, especially claim holders, in reducing agency

costs. Shareholders aim to maximize returns, which can be in the form of dividends or capital gains, and the company's dividend policy influences their investment decisions (Naz and Siddiqui, 2020).

Financial management's primary objective is to maximize shareholders' wealth, encompassing decisions in investment, financing, and dividends. Dividend decisions, explored in this study, involve determining the payout policy regarding the size and pattern of cash distributions to shareholders over time. The interplay of investment, financing, and dividend decisions aims to theoretically maximize shareholders' wealth. A sound dividend policy is essential to achieving this objective, with shareholder returns comprising dividends and capital gains (Pandey, 2000).

Examining the firm's dividend decision is a crucial aspect of financial management, involving the determination of the amount of earnings to be distributed to shareholders and the amount to be retained within the firm. Retained earnings play a significant role as internal sources of financing for the firm's growth. Dividends, while desirable for shareholders, involve the use of the firm's funds. Stock or equity shares are vital components of the capital structure, representing ownership for equity shareholders who receive returns in the form of dividends and capital gains upon selling. The stock price is influenced by various factors, including industry and company performance, profits, dividend announcements, management changes, investor sentiment, and economic and political factors.

In the capital market, firms operate to generate earnings, and shareholders invest in equity capital with expectations of earning dividends or capital gains. The decision on what to do with the profit—retain it within the company or distribute it as dividends—impacts shareholder wealth. Dividend policy, focused on determining the distribution of earnings and retention for reinvestment, plays a crucial role in achieving the firm's objectives. The study emphasizes the need to maximize shareholder wealth, considering both dividends and capital gains (Khan & Jain, 1999).

Dividend policy determines the proportion of earnings distributed as dividends and retained for reinvestment purposes. A higher dividend payment implies greater dependence on external financing, affecting the firm's capital budgeting decision. Conversely, if the capital budgeting decision is dependent on the dividend decision, higher payments may restrict capital budgeting. The relationship between dividend policy and the market price of equity shares is a contentious and unresolved question in corporate finance (Chandra, 2008). The controversy lies in the balance between

shareholder expectations for higher dividends and the corporation's responsibility to maximize overall shareholders' wealth by setting aside funds for future growth (Hampton, 2001).

### **2.1.2 Rules and Regulation Regarding Dividend Policy in Nepal**

Nepal lacks clear provisions regarding dividend policy. Nepal stock exchange, Nepal currently lacks explicit provisions regarding dividend policies. The Nepal Stock Exchange, as outlined in the Securities Exchange Act of 1983, is entrusted with taking necessary actions to safeguard the interests of shareholders. However, this institution has not effectively protected shareholders' interests, primarily due to the significant influence of the Board of Directors (BOD) in managing public limited companies. The majority of BOD members are typically government-nominated.

The Corporation Act stipulates that corporations must allocate a specific portion of their profits as reserves before announcing dividends, and they are required to segregate the tax provision prior to declaring dividends.

Key legal provisions under the Nepal Company Act of 2006 (B.S. 2063) that significantly impact dividend practices are outlined below:

**Section 2 (P):** Bonus shares or stock dividends refer to shares issued as additional shares to shareholders by capitalizing surplus from the company's profit or reserve fund. This term also encompasses an increase in the paid-up values of shares after capitalizing surplus funds.

**Section 61:** Companies are prohibited from purchasing their own shares or providing loans against the security of their own shares.

**Section 179: *Sub-section 1:*** A company, through a special resolution in the general meeting, may issue bonus shares to its shareholders from the amount available for distribution as dividends.

***Sub-section 2:*** If a company is required to issue bonus shares as per subsection 1, it must inform the office before issuing such shares.

Section 182: *Sub-section 1:* Dividends should be distributed among the shareholders within 45 days from the date of the decision to distribute them, except in specific circumstances.

When law forbids the distribution.

- In case the right to dividend is disputed.
- In case dividends cannot be distributed within the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

Sub-section 2: A company fully or partly owned by the Government of Nepal may distribute dividend only after obtaining prior approval of the government of Nepal who may give necessary directive on the matter of dividend to be distributed by such company.

Sub-section 3: In the event of failure in distribution of dividend within time limit mentioned in subsection 1, this shall be done by adding interest at prescribed rate.

Sub-section 4: Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

Sub-section 183: The BOD is required to bring a special resolution for consent and approved by  $\frac{3}{4}$  of its shareholders present an annual general meeting of the company. The bank should obtain a prior approval of NRB before AGM. Free reserve should not be less than 50% of paid up capital of the company after issue of bonus share. This provision is not applicable in case such issuance is as per the guidelines of the regulatory body.

Sub-section 5: A company shall not pay dividend any manner except out of the amount of profits set aside for distribution of dividend.

Sub-section 7: The BOD may, in the following circumstances distribute interim dividend out of the profit of previous year:

- Where the articles of association contains a provision on distribution of interim dividend.
- When annual financial statements of profits of year is certified by auditors which is to be used to pay interim dividend.

Sub-section 9: Dividend not claimed by any shareholders even after expiry of a period of five year after the date of resolution adopted by the company in its general meeting to

distribute dividend shall be credited in the investor protection fund established under section 183 (Bhattacharai, 2002).

### **2.1.3 Dividend Policy Theories**

Over the time various theories of dividend policy have emerged; some of the main theories are as follows:

#### **2.1.3.1 The Residual Theory of Dividend Policy**

The residual theory of dividend policy asserts that a company should only distribute dividends from residual earnings, meaning dividends are only paid if funds are available after fulfilling the optimal level of capital expenditures, essentially financing all appropriate investment opportunities.

Under a residual dividend policy, the firm places a primary emphasis on investments, making dividend policy a passive decision variable. In this context, the value of a firm is directly influenced by its investment decisions, rendering dividend policy irrelevant.

#### **2.1.3.2 Dividend Irrelevancy Theory**

The theory of dividend irrelevancy posits that dividend policy has no impact on either the firm's stock price or its cost of capital.

Arguments supporting Dividend Irrelevance:

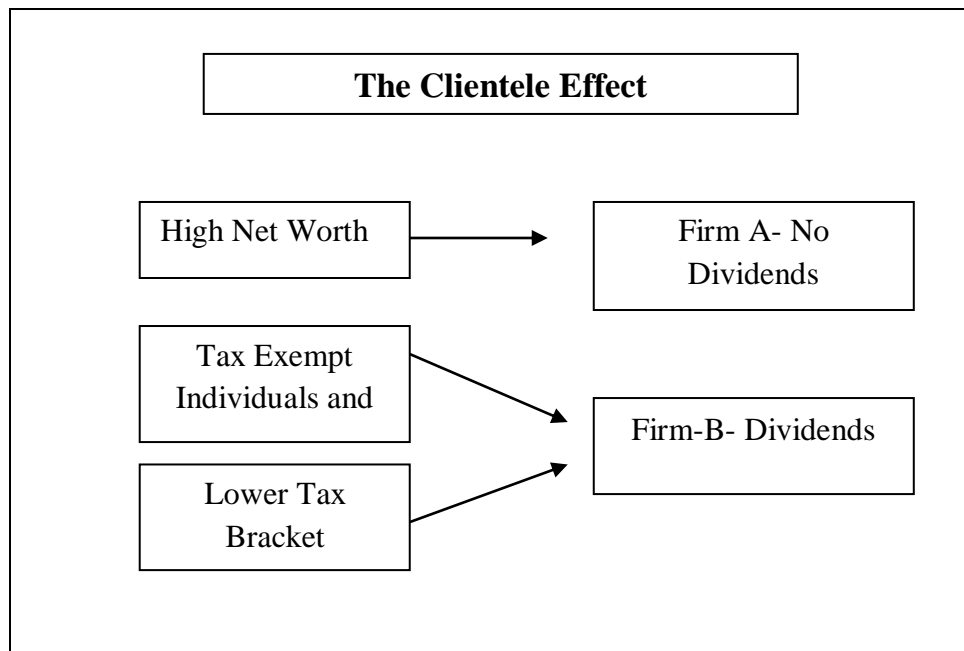
**Share Price Unaffected:** Dividend policy has no influence on the share price because the firm's value is determined by its earning capacity and the risk associated with its assets.

**Information Effect:** Any impact of dividends on value is solely due to the informational content they provide regarding management's earnings expectations.

**Clientele Effect:** There is a clientele effect, where firms can attract shareholders whose dividend preferences align with the historical dividend payout patterns of the firm.

A study by Aswath Damodaran found that:

- Older investors were more inclined to hold high-dividend stocks.
- Less affluent investors tended to hold high-dividend stocks.
- Consequently, firms with older investors tend to pay higher dividends, while firms with wealthier investors tend to pay lower dividends (Miller & Modigliani, 1961).

**Figure 2.1: The Clientele Effect**

(Source: Miller & Modigliani, 1961)

**(c) Signaling effect:**

An increase in dividend payments is seen as a favorable indicator, while a decrease in dividend payments is considered a negative signal regarding the company's future earnings outlook, potentially causing an increase or decrease in the firm's stock prices. Managers utilize dividends as a means to communicate information to the capital market. Theoretical models developed by Bhattacharya, Miller and Rock, John and Williams, and Williams suggest that dividend increases convey positive news, while dividend decreases convey negative news. It is essential to note that this theory relies on the following assumptions:

- There is an existence of perfect capital markets i.e. No personal or corporate taxes and no transaction costs.
- The firm's investment policy is independent of its dividend policy.
- Investors behave rationally and information is freely available to them
- Risk or uncertainty does not exist.

The above-mentioned assumptions exclude personal and corporate taxes as well as any linkage to capital investment policy as well as other factors that limit its application to real world situations.

### **2.1.3.3 The Bird in the Hand Theory**

The core of this theory lies in the idea that stockholders, being risk-averse, favor current dividends because of their lower level of risk compared to future dividends. Dividend payments help decrease investor uncertainty, consequently enhancing the value of stocks. This theory operates on the principle that 'what is available at present is preferable to what may be available in the future.' Investors would rather have a certain dividend now than a pledged, albeit larger, dividend in the future. Therefore, according to (Gordon, 1963), dividend policy is pertinent and does impact the share price of a firm.

### **2.1.3.4 The Tax Differential Theory**

This theory straightforwardly states that due to dividends being taxed at higher rates than capital gains, investors demand higher rates of return as dividend yields rise. Accordingly, this theory proposes that a low dividend payout ratio will optimize the value of the firm.

Rubner (2006) argued that shareholders prefer dividends and directors and managers requiring additional finance would have to convince the investors that proposed new investments would increase their wealth. However to increase their job security and status in the eyes of the shareholders companies can adopt 100 per cent payout. However this policy is not followed in practice.

### **2.1.3.6 Per Cent Retention Theory**

Clarkson and Eliot (2010) contended that considering taxation and transaction costs, dividends are a luxury that both shareholders and companies cannot afford. Consequently, a firm has the option to adopt a policy of retaining 100 percent of its earnings. This approach allows firms to capitalize on new investment opportunities that would also be advantageous for shareholders.

### **2.1.3.7 Agency Cost Theory**

Since Jensen and Meckling, numerous studies have presented arguments connecting agency costs to various financial activities of a firm. It has been suggested that firms distribute dividends as a strategy to mitigate agency costs. Distributing dividends helps keep firms engaged in the capital market, where monitoring managers is more cost-effective. In situations where a firm has surplus cash flows, it is more advantageous to share them with stockholders through dividend payouts to reduce the risk of these funds being misused on unprofitable (negative net present value) projects. This contemporary

perspective on dividend policy underscores the significant role of dividend policy in addressing agency problems and thereby enhancing shareholder value (Jensen, 1976).

### **2.1.3.8 A Summary View of Dividend Policy Theories**

The dividend policy theories focus on the issue of the relevancy of dividend policy to the value of a firm.

#### **Dividend Irrelevance**

- Dividends do not make any difference (M& M theory)
- If there are no taxes disadvantages associated with dividends.

#### **Dividend Relevance**

- Dividends are relevant and have positive impact on firm value
- If stockholders like dividends, or dividends operate as a signal of future prospects (Lintner & Gordon)
- Dividends help to resolve agency problem and thus enhancing shareholder value. (Jenson)
- Dividends are not good (Graham and Dodd)
- If dividends have a tax disadvantage and increasing dividends reduce value.

There are therefore, conflicting viewpoints regarding the impact of dividend decision on value of a firm.

### **2.1.4 Dividend Models**

The various models that support the above-mentioned theories of dividend relevance and irrelevance are as follows:

#### **2.1.4.1 Modigliani and Miller's Study**

Modigliani and Miller's research supports the idea of the irrelevance of dividends. This implies that paying dividends does not impact the firm's value or the wealth position of shareholders. MM contends that the firm's value is determined by the earning power of its assets or its investment policy, and the distribution of the earnings stream between dividends and retained earnings does not influence this value. However, it's important to note that the MM approach relies on certain assumptions that may not be applicable in the current situation, particularly in the context of Nepal.

#### **2.1.4.2 Walter's Model Study**

Walter contends that dividends play a significant role in determining the value of a firm. This assertion is grounded in the concept of the company's reinvestment. In other words,

the payment of dividends does have an impact on the firm's value. Walter's model stands in contrast to the MM Model. The assumptions underlying Walter's model include:

- All financing is done through retained earnings.
- The firm's business risk does not change i.e. 'r' and 'k' is constant.
- Earnings and dividends remain constant.
- The firm has perpetual life.

### Implications

- When the rate of return is greater than the cost of capital ( $r > k$ ), the price per share increase as the dividend payout decreases.
- When the rate of return is equal to the cost of capital ( $r = k$ ), the price per share does not vary with change in dividend payout ratio.
- When the rate of return is lesser than the cost of capital ( $r < k$ ), the price per share increases as the dividend payout increases.

### Optimal Payout Ratio

| Company        | Condition | Payout     |
|----------------|-----------|------------|
| Growth firm    | $r > k$   | Nil        |
| Normal firm    | $r = k$   | Irrelevant |
| Declining firm | $r < k$   | 100%       |

Valuation of shares under this model

$$P_0 = \frac{D + \frac{r}{K_e}(E - D)}{K_e}$$

Where,

$P_0$  = Current market price of share

D = Dividend per share

E = Earning per share

R = Return on investment

$K_e$  = Cost of equity capital or equity capitalization rate

In Walter's model, the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rate of return 'r' and cost of capital 'k'. The firm should use earnings to finance investments if  $r > k$ , should distribute all earnings when  $r < k$  and would remain in different when  $r = k$ . Thus dividend

policy is a financing decision. Therefore, Walter's model is also known as "optimal theory of dividend."

Gordon's model posits that dividends have a bearing on the value of a firm, indicating that the payment of dividends does influence the firm's value. This model shares similarities with Walter's model and is a stock valuation model using the dividend capitalization approach. According to Gordon's model, the value of a share is determined by the dividend per share.

Known as the growth model, Gordon's theory operates under the assumption that investors place greater importance on present dividends than on future capital gains. This theory is often referred to as the "Bird in the Hand" theory. The model asserts that an increase in the dividend payout ratio results in an increase in the stock price, as investors perceive dividend yield to be less risky than anticipated capital gains. Consequently, rational investors prefer this theory over the uncertainty associated with future gains.

Gordon's model has following assumption:

- The firm is an all equity firm.
- Rate of return ( $r$ ) and equity capitalization rate ( $K_e$ ) are constant.
- The firm has perpetual life.
- Retention ratio and growth rate are constant.
- Equity capitalization ( $K_e$ ) > growth rate ( $bxr$  or  $g$ )
- Tax does not exist.

### **Implications**

- When the rate of return is greater than the discount rate ( $r > k$ ), the price per share increases as the dividend payout ratio decreases.
- When the rate of return is equal to the discount rate ( $r = k$ ), the price per share remains unchanged in response to variations in the dividend Payout ratio.
- When the rate of return is less than the discount rate ( $r < k$ ) the price per share increases as the dividend payout ratio increases.

### Optimal Payout Ratio

| Company        | Condition | Payout     |
|----------------|-----------|------------|
| Growth firm    | $r > k$   | Nil        |
| Normal firm    | $r = k$   | Irrelevant |
| Declining firm | $r < k$   | 100%       |

Valuation of share under this model:

$$P_0 = \frac{E(1 - b)}{K_e - b \times r}$$

Where,

$P_0$  = Price of a share

$E$  = Earnings per share

$B$  = Retention ratio or percentage of earnings retained

$1 - b$  = Dividend payout ratio

$K_e$  = Capitalization rate or cost of equity

$b \times r = g$  = Growth rate

## 2.2 Empirical Review

Kosasih, Aditya, et al., (2024) studied to explore firms' specific factors with the variables of corporate governance, firm size, and firm profitability along with economical phenomenon factor with the variable of inflation towards dividend policy at once. The data documentation techniques was secondary data collection from The Indonesia Stock Exchange, Bank Indonesia, journals, articles, and scientific papers. The data collected was coded and analyzed using SPSS (Statistical Package for Social Sciences). The result showed that dividend policy is affected by both internal (firm-specific factor) and external (economical phenomenon) stimuli. However, it was deduced from the tests results that there is a stronger impact arise from the internal factor; in comparison to the otherwise.

Bhatta and Jain (2023) attempted to explain how dividend payment is influenced by corporate governance system in Nepal with a sample from the commercial banking sector by utilizing a regression model of panel data. Using board characteristic variables such as board size, board independence, regularity of board meeting, and size of audit boards as the proxies of corporate governance along with profitability, capital gearing, and bank size as control variables, they explored that except audit committee size all explanatory variables are insignificant in determining the dividend payment. The size of audit committee members was positively and significantly affects dividend payout. This finding led us to conclude that the outcome hypothesis was partially applicable and corporate governance is not an important and influencing factor to

the dividend decisions in commercial banking sectors signifying that governance practice and dividend policy are not helpful in mitigating agency conflicts. It was also concluded that banking dividend payouts are not the result of the good or poor governance mechanism. Further, among other firm-specific determinants, profitability, leverage, and bank size significantly positively affect the dividend decision.

Naz, and Siddiqui, (2022) had conducted a study on the effect of dividend policy on share Price volatility in Pakistan. The purpose of this paper was to investigate the relationship between the share price volatility in Pakistan and their dividend policies which effect the share price. It had used dividend yield and dividend payout as proxies of dividend policy, and regress these ratios together with other control variables. The variables involved in study were Dividend yield, Price volatility Earning Volatility, Payout ratio, size were independent variables and Price volatility is dependent variables. The findings of this study are that payout ratio and price volatility is significantly positively related. The size and debt are negatively related with share price volatility. This study proposed that dividend yield is better and more important determinant factor in determining share price volatility in KSE 100 index rather than payout ratio.

Raj and Dalwadi (2022) examined the relationship between the determinants of dividend policy and the market price of shares. For this purpose, the researchers considered 7 public sector banks for five years span of time from the year 2014- 15 to 2018-19. Karl Pearson's correlation and multiple regression analysis with all assumptions have been applied with the use of SPSS and Excel. The profitability (ROE & EPS), Liquidity (Current Ratio), Leverage (Total Debt to Total Assets Ratio), Size (LN of Total Assets), Dividend Policy (DPS, DPO&DY), and Risk(P/E Ratio) have considered as explanatory variables and Closing Market Price of Share is taken as the dependent variable to examine the relationship between two variables. The result of multiple linear regression analysis shows the significant positive impact of liquidity, size, and leverage on the market price of shares, positive but insignificant relationship between profitability, risk and dividend policy with market price of shares and growth has an insignificant relationship with market price of shares of selected PSBs.

Lydia (2021) had conducted a study on the role of dividend policy in share price volatility. The objective was to establish whether relationships exist between share price volatility and dividend policy for shares listed on the Johannesburg Stock Exchange Limited (JSE). Dividend policy is an important consideration in the wealth creation process, particularly whether or not to distribute dividends to shareholders. Dividend policy is often structured to cater for shareholders' expectations. The results indicated that the association between share price volatility and dividend yield is positive and significant but that between share price volatility and payout ratio is

insignificant. A positive correlation between share price volatility and dividend yield as well as share price volatility and dividend payout ratio was established and was consistent with the expectations. The weak correlation between share price volatility and dividend yield as well as share price volatility and dividend payout ratio was enforced by the findings of the regression analysis. The results of the panel data analysis indicated, firstly, that the fixed effects model was most appropriate in the regression analysis. Secondly, an association between share price volatility and dividend policy was established, with dividend yield found to have a significant association and dividend payout found to have an insignificant association with share price volatility.

Raza, Ramakrishnan, et al., (2018) had conducted a study on the effect of dividend policy on share. The objective of the study was to find out the effect of dividend policy on share price. The study intends to conduct a non-systematic review of literature on the empirical and theoretical studies on corporate dividend policy in order to understand its nature and dimensions. In this concern, an extensive review of existing literature has been performed and it is found that there are three different approaches or schools of thought. First school of thought is that a rise in dividend payout will increase the firm value (share price). Second, thinks that a rise in dividend payout will reduce the firm value (share price) and third supports Miller and Modigliani (1) argument that firm value or share price are not affected by dividend policy. Till to date no consensus has appeared and results are inconclusive. This study also attempts to cover key empirical studies on dividend policy across countries, which shows that the phenomena of dividend policy differ from one country to another. The continuing nature and wide array of discussion on dividend policy has formulated a massive volume of literature that increase day by day. Therefore, it not feasible to do a full-fledge review of all debates.

Hosain (2016) had conducted a study on determinants of the dividend payout policy: A study on listed private commercial banks of Dhaka stock exchange limited in Bangladesh. The objective of the study was to investigate the determinants of dividend payout policy of the listed private commercial banks in Bangladesh. In this study, eight variables are considered as potential determinants of dividend payout policy. Both pooled ordinary least square (POLS) and dynamic panel regression model were run on a sample of ten listed private commercial banks of Dhaka Stock Exchange Limited in Bangladesh for the period of eleven years from 2005 to 2015. While testing the impact of the eight independent variables on the dividend payout ratio, we concluded that only five can explain the dividend policy. Fixed effect regression model was chosen to test the relationship between dividend determinants and dividend payout. The results show that dividend payout ratio were positively and significantly affected by liquidity, firm growth, previous year's dividends but are negatively affected by leverage and profitability. Firm size, firm

risk and ownership structure do not have a direct influence on the dividend payments. Thus, Leverage, liquidity, firm growth, previous year's dividends, and profitability are functioning as the key determinants of dividend payout of the listed private commercial banks in Bangladesh.

Akit, Hamzah, et al., (2015) conducted a research on "Impact of Dividend Policy on the Shareholders' Wealth: shariah vs Non-shariah Companies". This study examines the impact of dividend policy on the shareholders' wealth of shariah and non-shariah compliance companies listed in Bursa Malaysia main market. A sample of 274 Shariah compliance companies and 129 non-Shariah compliance companies listed on Bursa Malaysia for the period of 2004 to 2013 has been selected. The results are obtained through two-way Fixed-Effect Generalized Least Squares (GLS) regression for Shariah compliance companies and random-effect GLS regression for non-Shariah compliance companies. The identified determinants are dividend per share (DPS), retained earnings per share (REPS), return on equity (ROE), lagged price earnings ratio (PERt-1), financial leverage (DTE) and firm's size (lnTA). The results indicate that the measurements for dividend policy (DPS and REPS) are significant determinants of shareholders' wealth for both Shariah and non-Shariah compliance companies. On the other hand, it is revealed that financial leverage is an influential determinant of shareholders' wealth for non-Shariah compliance companies but not for Shariah compliance companies. The results indicate that dividend policy variables (DPS and REPS) and ROE are significant factors affecting shareholders' wealth of both groups of companies. Empirical results indicate that the estimated coefficients of DPS and REPS of Shariah compliance companies are greater than those of non-Shariah compliance companies. Estimated coefficient of ROE for non-Shariah compliance companies is bigger than Shariah compliance companies. All independent variables are statistically and positively related to shareholders' wealth. It appears that dividend policy variables increase the value of the shareholders' wealth. Financial leverage has no impact on shareholders' wealth of Shariah compliance companies since these companies are permitted to have only 33% debt financing in their capital structure. On the other hand, financial leverage is an important factor on shareholders' wealth for non-shariah compliance companies since they do not have such restriction and they are able to seek capital financing via debt and equity.

Kamat and Manasvi (2015) published an article on "Corporate Dividend Policy in India". The cross-sectional trends in dividends were investigated at an aggregate level of

ownership (i.e. closely/largely held and regulated firms), and at disaggregate level across 20 industries to examine how Indian Private Corporate Sector appropriated its profits over 1961-2007 periods. Alternatively it is examined whether internal funds are a significant source of finance and the dynamics of relation between dividends relative to earnings across type of companies and industries. Indian corporate sector pays relatively more equity dividends than preference dividends. Other things being equal, the probability of paying cash dividends decreases with shareholder concentration and the regulated companies pay relatively larger dividends. Dividend payouts for all type of firms decline, and such tendency is more pronounced after liberalization periods indicating a greater choice of internal financing through retained earnings. The analysis of inter-corporate and inter-industry variations reveals that dividends interplays differently with exogenous factors. For purpose of analysis the data from Reserve Bank of India (RBI), emerging from two different dataset compilations namely the published data compendium by on the Private Corporate Business Sector in India-Selected Financial Statistics from 1950-51 to 1997-98 (All Industries), and published compendium on Selected Financial Statistics on Public Limited Companies 1974-75 to 1999-2007 (Selected Industries) consisting of industry level data respectively. The Indian corporate sector pays relatively more equity dividends than preference dividends, and the average equity dividend return earned by equity holders is twice that of preference holders. The absolute average rupee earnings available to equity holders and to preference-holders increase commencing 1961-2007 and earnings drastically increase in the post 1991 sub-period and this growth and clearly translate in higher growth of absolute dividends by private limited companies and finance companies in the post-reform and the full period respective. The average dividend payout ratios for all type of companies decline in case of closely held as well as the widely held firms as well but fall is more pronounced in case of closely held firms, after the liberalization period indicating a greater choice of internal financing through retained earnings. The average dividend payout ratios for all type of companies (closely-held, widely-held firms, and across industry cross-section) decline and such a tendency is more pronounced after the liberalization periods.

Al-Shawawreh (2014) conducted a research on the “Impact of Dividend Policy on Share Price Volatility”. This research was empirical evidence from Jordanian stock market. The purpose of this study was to examine the relationship between dividend policy and share price volatility with a focus on companies represent four sectors listed in Jordanian stock

market. For this purpose, a sample of 53 companies listed in main market of Bursa Amman were selected and the relationship between share price volatility with two main measurements of dividend policy, dividend yield and payout ,were examined by applying multiple regression for a period of 13 years from 2001 to 2013. The primarily regression model was expanded by adding control variables including size, stock repurchase, and stock dividend. The empirical results of this study showed significant negative relationship between share price volatility with dividend payout and a very weak positive relationship between dividend yield and share price volatility. Moreover, a significant positive relationship between share price volatility and size is found. Based on findings of this study, dividend payout and stock dividend have most impact on share price volatility amongst predictor variables.

The major findings of research work are as follows: The empirical findings suggest that there is a significant negative relationship between the payout ratio of a firm and the volatility of its stock price and a weak positive relationship between dividend yield and the volatility of stock price. The results generally suggest that the high rate of payout ratio leads to lower volatility in the share price. That payout ratio is the main determinant of the volatility of stock price. Among the control variables, size had a very low positive relationship with price volatility, suggesting that the larger the firm, the less volatile the stock price, stock repurchase had insignificant relationship with price volatility. Since both management and investors are concerned about the volatility of stock price, this research has provided a light on the path way to discovering what moves stock price and important factors to be considered by investors before making investment decisions, and management in formulating dividend policies for their firms.

Hasan, Asaduzzaman, et al., (2013) had conducted a study on The Effect of Dividend Policy on Share Price: An Evaluative Study. The objective of the study has been undertaken aiming at evaluating the effect of dividend policy on market price of share in the context of Bangladesh. The study has covered secondary data and analyzed the data by employing descriptive statistics, correlation and multiple regression models. The study has found that the effect of dividend payout is more on market price than retention. This dependency is significant at 1%. Finally, the paper concludes that the findings over the effect of dividend policy on market price supports the relevant theory of dividend policy i.e. Walter's model and Gordon's model. This study has investigated the relationship between dividend policy and market price per share. MPPS, DPS and

REPS are examined. It is hypothesized that there is a significant effect of dividend policy on the share price. The regression model has shown that there is a positive relationship between the MPPS and DPS, and MPPS and REPS. The result has also indicated that highly payout industries have more MPPS than low payout industries. The study has proved that there is a significance effect of dividend policy on MPPS which supports the relevance theory of the dividend policy.

Table 2.1

*Summary of Empirical Review*

| <b>Author / Year</b>                    | <b>Title</b>   | <b>Objective</b>   | <b>Methodology</b>   | <b>Findings</b>   |
|---|--|--|--|---|
| Rimintsiwa, Ibrahim, and Maitala (2024) | The effect of dividend policy on all of Nigeria's D-SIBs (Domestic Systemically Important Banks) | the influence was homogenous among the selected banks                          | This study adopted an ex post facto research design, with dividend policy and bank performance | The data were analyzed using panel regression and pooled mean group (PMG) estimators. The study observed that dividend policy had significant impact on the profitability and efficiency of these five D-SIBs, a partial impact on their valuation, and no impact on their liquidity and solvency |
| Bhatt (2023)                            | Does Market Power Affect Banking Dividend Policy? Evidence from Nepal                            | banking sector employing a panel data regression model                         | The data documentation techniques was secondary data collection                                | profitability is found insignificant determinant of dividend payment  |
| Kosasih, Aditya & Rachma (2022)         | Impacting Factors of Dividend Policy in Indonesian Banking Sector                                | to explores firms' specific factors with the variables of corporate governance | The data documentation techniques was secondary data collection                                | The result showed that dividend policy is affected by both internal (firm-specific factor) and external (economical phenomenon) stimuli   |
| Naz, and Siddiqui (2021)                | The Effect of Dividend Policy on Share Price Volatility in                                       | to investigate the relationship between the share price                        | The study has covered secondary data and analyzed the  | The findings of this study are that payout ratio and price volatility is significantly  |

|   |  |   |   |   |
|---|--|---|---|---|
|   | Pakistan   | volatility in Pakistan  | data  | positively related. The size and debt are negatively related with share price volatility  |
| Raj & Dalwadi (2020)                          | The determinants of dividend policy and the market price of shares | This considered 7 public sector banks for five years span of time from the year 2014- 15 to 2018-19           | Karl Pearson's correlation and multiple regression analysis with all assumptions have been applied with the use of SPSS and Excel | The result of multiple linear regression analysis shows the significant positive impact of liquidity  |
| Lydia (2019)                                  | The role of dividend policy in share price volatility.             | The objective was to establish whether relationships exist between share price volatility and dividend policy | The study has covered secondary data and analyzed the data  | The results of the panel data analysis indicated, firstly, that the fixed effects model was most appropriate in the regression analysis   |
| Raza, Ramakrishnan, Gillani, and Ahmad (2018) | The Effect of Dividend Policy on Share.                            | The study was to find out the effect of dividend policy on share price.                                       | The study has covered secondary data and analyzed the data  | This study also attempts to cover key empirical studies on dividend policy across countries, which shows that the phenomena of dividend policy differ from one country to another |
| Pradhan and Gautam (2017)                     | Impact of Dividend Policy on Share Price of Commercial Bank in     | This study is to examine the impact of dividend policy on the share price of commercial                       | The study has covered secondary data and analyzed the data  | The study conclude that except DPR, the other factors like EPS, P/E ratio have positive relationship with stock price among them P/E is the strongest factor                      |

|                               |  |  |   |   |
|-------------------------------|--|--|---|---|
|                               | Nepal  | bank in Nepal  |   | that affects the share price in case of top gainer commercial banks   |
| Hosain (2016)                 | Determinants of the Dividend Payout Policy: A Study on Listed Private Commercial Banks of Dhaka Stock Exchange Limited in Bangladesh | the study is to investigate the determinants of dividend payout policy of the listed private commercial banks in Bangladesh  | The study has covered secondary data and analyzed the data  | The results show that dividend payout ratio were positively and significantly affected by liquidity, firm growth, previous year's dividends but are negatively affected by leverage and profitability. Firm size, firm risk and ownership structure do not have a direct influence on the dividend payments |
| Akit, Hamzah and Ahmad (2015) | Impact of Dividend Policy on the Shareholders' Wealth: shariah vs Non-shariah Companies  | This study examines the impact of dividend policy on the shareholders' wealth of shariah and non-shariah compliance companies listed in Bursa Malaysia main market | A sample of 274 Shariah compliance companies and 129 non-Shariah compliance companies listed on Bursa Malaysia for the period of 2004 to 2013 has been selected | The results are obtained through two-way Fixed-Effect Generalized Least Squares (GLS) regression for Shariah compliance companies and random-effect GLS regression for non-Shariah compliance companies   |
| Kamat and Manasvi (2015)      | Corporate Dividend Policy in India   | to examine how Indian Private Corporate Sector appropriated its profits over 1961-2007 periods   | The study has covered secondary data and analyzed the data  | For purpose of analysis the data from Reserve Bank of India (RBI), emerging from two different dataset compilations namely the published data compendium by on the Private Corporate Business Sector in   |

|  |   |  |   | India-Selected<br>Financial Statistics<br>from 1950-51 to<br>1997-98   |
|--|---|--|---|--|
| Al-Shawawreh<br>(2014)                       | Impact of<br>Dividend<br>Policy on<br>Share Price<br>Volatility                     | to examine<br>the<br>relationship<br>between<br>dividend<br>policy and<br>share price  | this purpose, a<br>sample of 53<br>companies<br>listed in main<br>market of<br>Bursa Amman<br>were selected<br>and the<br>relationship<br>between share<br>price volatility<br>with two main<br>measurements<br>of dividend<br>policy | The empirical results<br>of this study showed<br>significant negative<br>relationship between<br>share price volatility<br>with dividend payout<br>and a very weak<br>positive relationship<br>between dividend<br>yield and share price<br>volatility |
| Hasan,<br>Asaduzzaman<br>and Karim<br>(2013) | The Effect of<br>Dividend<br>Policy on<br>Share Price:<br>An<br>Evaluative<br>Study | the study has<br>been<br>undertaken<br>aiming at<br>evaluating<br>the effect of<br>dividend<br>policy on<br>market price<br>of share in<br>the context<br>of<br>Bangladesh | The study has<br>covered<br>secondary<br>data and<br>analyzed the<br>data   | The result has also<br>indicated that highly<br>payout industries<br>have more MPPS<br>than low payout<br>industries   |

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### 2.3 Research Gap

As is customary in research, the iterative process of exploration is aimed at uncovering new insights. Similarly, this research concentrates on specific financial aspects to rectify any shortcomings from previous studies. It addresses the current issues, presenting a contemporary analysis of financial indicators, data, and the actual status of share prices among selected commercial banks. To capture the most recent financial landscape, the study spans the period from 2013/14 to 2022/23, encompassing the latest data and changes that have occurred during this timeframe. Consequently, this study bridges the existing research gap, providing an in-depth analysis of dividend policy, a matter of paramount concern for stakeholders. Notably, the Nepalese capital market has undergone

significant changes in recent years, warranting a fresh examination of the dividend patterns of commercial banks in Nepal (Bhatt and Jain, 2023).

The research endeavors to present the most current data on sampled commercial banks to analyze their dividend policies. Considering that previous studies on dividends have covered data only up to 2023, an update is essential to account for the rapid changes occurring in the financial market. Therefore, this study is relevant to various interested parties, including scholars, professors, students, government officials, and business professionals, offering insights both from an academic and policy perspective (Pradhan and Gautam, 2021).

This research study serves as a continuation of the exploration into the impact of dividend policy on the market price of commercial banks, specifically focusing on Everest Bank Limited (EBL), Standard Chartered Bank Nepal Limited (SCBNL), and Nabil Bank Limited (NBL). Its findings are expected to provide a reference point for future studies on similar subjects (Baral, 2009).

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

Research is a methodical and structured endeavor aimed at exploring a particular problem in need of a solution. This investigative process encompasses a series of well-planned activities involving the collection, recording, analysis, and interpretation of data with the objective of uncovering solutions to the problem at hand. Therefore, the comprehensive approach through which we strive to address problems or seek answers to questions is referred to as research (Wolf & Pant, 2002).

#### **3.1 Research Design**

The research design constitutes the specific set of methods and procedures employed to gather the necessary information for structuring or resolving problems. Simply put, it serves as the conceptual framework within which the research is executed. This study adopts a descriptive and analytical research approach. Descriptive research involves the methodical collection and presentation of data to provide a comprehensive depiction of a particular situation. This includes various types of surveys and fact-finding inquiries. Conversely, analytical research entails the utilization of existing facts and information, and after collecting these data, the researcher can conduct an analysis and critically evaluate the materials. Analytical research is particularly concerned with understanding cause-and-effect relationships between two or more variables. To fulfill analytical objectives, the study considers the annual reports published by the relevant banks. Following data tabulation, analysis will be conducted using both financial and statistical tools.

#### **3.2 Nature and Sources of Data**

This investigation relies exclusively on secondary data. The collection of secondary data involves the examination of published annual financial reports, which are sourced from the websites of the sampled banks and the Nepal Rastra Bank.

#### **3.3 Population Sampling and Sample Method**

There are a total of 20 commercial banks operating in Nepal, which are considered the population for this study. Due to constraints in time and resources, it is challenging to study all of them on the chosen topic. Therefore, convenience sampling is employed, which is a non-probability sampling method where the sample is drawn from a group of

individuals that are easy to contact or reach. Consequently, the study focuses on a sample comprising the following three banks:

- Everest Bank Limited (EBL).
- Standard Chartered Bank Nepal Limited (SCBNL).
- Nabil Bank Limited (NBL).

### **3.4 Method of Data Collection**

The required data for this study is collected from the annual reports of the selected banks for the study periods, which are obtained from the official websites of these banks. Furthermore, regulatory directives from Nepal Rastra Bank (NRB), statistics related to commercial banks in Nepal, and other pertinent publications are also sourced from their respective official websites.

### **3.5 Method of Data Analysis**

In pursuit of the specified objective, a range of financial and statistical tools have been employed. A sample of data spanning ten years, from 2013/14 to 2022/23, was taken for analysis. Initially, the gathered data were organized into appropriate formats, presented in various tables and charts based on their characteristics. Subsequently, financial and statistical methodologies were applied for further examination.

#### **3.5.1 Financial Tools**

##### **Earning per Share (EPS)**

Earnings Per Share (EPS) represents the monetary value earned per share of Common Stock that is outstanding. It serves as an indicator of a bank's profitability on a per-share basis, revealing both strengths and weaknesses. A higher EPS signifies better performance and strength, while a lower EPS indicates weakness.

##### **Dividend per Share (DPS)**

Dividend Per Share (DPS) signifies the actual rupee earnings allocated to common stockholders for each share they hold. It is a measure that financially robust companies can undertake. DPS straightforwardly reveals the portion of earnings distributed to shareholders on a per-share basis. In general, a higher DPS fosters a positive perception of the shares.

### **Market Price per Share (MPS)**

The Market Price per Share (MPS) is the valuation of the stock exchanged in the secondary market, influenced by the capital market. MPS is reflective of the closing market price of the NEPSE index for sampled firms. This value is subject to the impact of both Earnings Per Share (EPS) and Dividend Per Share (DPS) of the company. A higher MPS is expected when both EPS and DPS are elevated.

### **Dividend Payout Ratio**

Dividend per share is the total amount of dividends attributed to each individual share of a company's outstanding stock. Calculating the dividend per share allows an investor to assess how much money he or she will receive from the company on a per-share basis.

### **P/E Ratio**

The Price/Earnings (P/E) ratio, also recognized as the earnings multiplier, is a simple calculation derived from the relationship between market price per share and earnings per share. Essentially, it reflects the amount investors are willing to invest for each rupee earned by the firm. A higher P/E ratio indicates an elevated market share price relative to earnings per share and suggests increased investor confidence in the firm's future.

### **Book Value per Share (BVPS)**

Corporations employ the Price-to-Book (PB) ratio to assess the relationship between a company's market capitalization and its book value. Value investors utilize the PB ratio to pinpoint potential investment opportunities. The calculation involves dividing the company's stock price per share by its book value per share (BVPS).

## **3.5.2 Statistical Tools**

### **Arithmetic Mean ( $\bar{X}$ )**

It is simply average return during on investment period when there is no probability of return/ Arithmetic mean of a given set of observation is their sum dividend by the number of observations. It can be calculated by using following equation.

$$\bar{X} = \frac{x_1 + x_2 + x_3 + \dots + x_n}{n}$$

Or,

$$\bar{X} = \frac{\sum x}{n}$$

Where,

$\bar{X}$  = Arithmetic mean

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

n = no. of observation

### **Standard Deviation ( $\sigma$ )**

Standard deviation is an average or weight average difference between expected return and actual return. It is an absolute measure, which can be applied when the projects involve the same out lay. It tells us about the variability associated with the expected cash flows in terms of the degree of risk. It measures total risk. It can be calculated by using following formula.

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

$\sigma$  = Standard deviation

X = Return at give period

$\bar{X}$  = expected return

### **Coefficient of Variation (C.V)**

Coefficient of variance is ratio or proportion between total risk and expected return of individual investment alternatives, normally use when there are different standard deviation and different expected mean returns. It measures per unit risk.

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

Where,

C.V. = Coefficient of Variation

$\sigma$  = Standard Deviation

$\bar{X}$  = Arithmetic Mean

### Correlation Coefficient (r)

Correlation measures the extent of the relationship between the returns of two securities involved in a portfolio. It is a statistical measure indicating the degree to which the returns on any two securities are linked. However, it signifies association rather than causation; even with a high degree of correlation between two variables, determining cause and effect remains uncertain. Correlation provides information about the magnitude and direction of two sets of figures. In this investigation, a simple coefficient of correlation is employed to assess the relationship between various variables and dividends. The correlation coefficient can be computed using the following formula.

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \cdot \sqrt{n \sum y^2 - (\sum y)^2}}$$

Where,

r = Correlation Coefficient

T-test for significance of observed sample correlation coefficient.

### Regression Analysis

It is a statistical metric aimed at assessing the intensity of the connection between a single dependent variable (typically denoted as Y) and a set of other varying variables (referred to as independent variables). The fundamental types of regression include linear regression and multiple regressions. Linear regression employs a single independent variable to elucidate and/or forecast the Y outcome, while multiple regressions involve two or more independent variables to make predictions about the outcome.

$$Y = a + b_1 X_1 + b_2 X_2 + e_i$$

Where y = Dep. Variable i.e.

Y = Market price per share (MPS)

X<sub>1</sub> = Earnings per share (EPS)

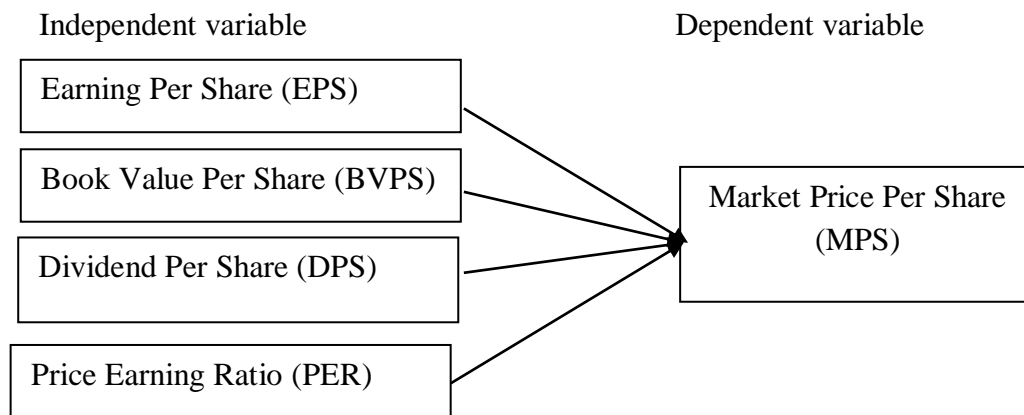
X<sub>2</sub> = Dividend per share (DPS)

b<sub>1</sub> = Coefficient of EPS

b<sub>2</sub> = Coefficient of DPS

### 3.6 Research Framework and Definition of variables

Earning per share is the ratio that gauges how profitable a company is per share of its stock. On the other hand, a dividend per share calculates the portion of a company's earnings that is paid out to shareholders.



(Source: Singh and Tandon, 2019)

Figure 3.1 Research Framework

**Earning per share :** Earning per share is the monetary value of earnings per outstanding share of common stock for a company. It is a key measure of corporate profitability and is commonly used to price stocks.

**Dividend per share:** Dividend per share is the total amount of dividends attributed to each individual share of a company's outstanding stock. Calculating the dividend per share allows an investor to assess how much money he or she will receive from the company on a per-share basis.

**Price earning ratio :** Price earning ratio is the amount of earning by the per unit share which is denoted by the P/E ratio. Define the dividend per share earning an investor to assess how much money he or she will generate from the company on a per-share basis.

**Book Value of share:** Book Value of stock, or the share price, is the base price that a stock has value for. It's a function of market forces, occurring when the price a buyer is willing to pay for a stock meets the price a seller is willing to accept for a stock.

**Market price per share of stock:** Market price per share of stock or the "share price," is the most recent price that a stock has traded for. It's a function of market forces, occurring when the price a buyer is willing to pay for a stock meets the price a seller is willing to accept for a stock.

## CHAPTER IV

### RESULTS AND DISCUSSION

This chapter deals with the result and discussion. This collected data and information are presented in various tables and graphs. The main purpose of this study is to carry out the analysis upon the secondary data in order to achieve the objectives.

#### 4.1 Descriptive Analysis

This section deals with the impact of dividend announcement EPS, DPS, P/E ratio and Book Value per Share (BVPS) on the market share price of 'A' banks in Nepal.

Table 2

*Descriptive Statistics*

| Particulars | N  | Minimum | Maximum | Mean     | Std. Deviation |
|-------------|----|---------|---------|----------|----------------|
| EPS         | 30 | 4.13    | 86.04   | 31.1388  | 22.36693       |
| DPS         | 30 | 35.66   | 296.59  | 72.73    | 38.45          |
| P/E ratio   | 30 | 5.48    | 83.94   | 31.263   | 19.42234       |
| BVPS        | 30 | 125.43  | 263.97  | 136.8856 | 12.56104       |
| MPS         | 30 | 149     | 3600    | 919.62   | 908.35184      |

Source: *SPSS Analysis*

Table 2 shows the descriptive statistics of 3 sampled commercial banks listed on NEPSE from 2013/14 to 2022/23. Descriptive statistics shows that, the mean of the EPS is 31.1388 with standard deviation of 22.36693 and ranges from 4.13 to 86.04. This implies that, value of EPS can vary on both sides by 22.36693. The average of the Dividend per share (DPS) is 72.73 with standard deviation of 35.45 and ranges from 35.66 to 296.59 which means the value of dividend per share can deviate on both sides by 35.45. The mean of the P/E is 31.263 with standard deviation of 19.42234 and ranges from 5.48 to 8.94 which means the value of P/E can deviate on both sides by

19.42234. Similarly, BVPS has mean value of 136.8856 and standard deviation of 12.56104 ranging from 125.43 to 263.97 which means the value can be deviated by 12.56104. Finally, market stock price (MPS) has mean value, standard deviation and minimum and maximum range of 919.62, 908.35184, and 149 to 3600 respectively shows that minimum and maximum value can be deviated by 908.35184.

#### 4.2 Correlation Analysis

Table 3

*Correlation Analysis of Factors Affecting Share Price of Commercial Banks in Nepal*

|           | EPS | DPS      | P/E    | BVPS    | MPS     |
|-----------|-----|----------|--------|---------|---------|
| EPS       | 1   | -0.654** | -0.38  | .218    | 0.448*  |
| DPS       |     | 1        | .974** | .825**  | .637**  |
| P/E Ratio |     |          | 1      | 0.608** | 0.838** |
| BVPS      |     |          |        | 1       | 0.286   |
| MPS       |     |          |        |         | 1       |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 3 explains the correlation between factors affecting market share price of commercial banks in Nepal. The major focus is given to EPS, DPS P/E ratio, BVPS, and MPS. The correlation coefficient between EPS and DPS is -0.654 for commercial banks which mean there is negative correlation between these two variables. Where, EPS and PE is -0.38 for commercial banks which means there is negative relationship between EPS and PE. Similarly, the correlation coefficient between EPS and BVPS is 0.218 for commercial banks positive relationship between EPS and BVPS for both sample commercial banks. Likewise, the correlation coefficient between EPS and MPS is 0.448 for commercial banks which means there is moderately positive relationship between EPS and MPS result a significant influence over each other. Furthermore, the correlation coefficient between P/E and BVPS is 0.608 for commercial banks which means there is

positive relationship between P/E and BVPS for moderately relationship for commercial banks. Correspondingly, the correlation coefficient between P/E and MPS is 0.838 for top gainer and 0.181 for commercial banks which means there is very positive relationship between P/E and MPS for commercial banks. Equivalently, the correlation coefficient between by and MPS is 0.286 for 0.266 for commercial banks which means there is positive relationship between BVPS and MPS for commercial banks. All in all, it can be concluded that PE ratio and EPS have highest correlation with share price of commercial banks respectively.

### 4.3 Regression Analysis

Table 4

*Structure of Model Summary*

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .955 <sup>a</sup> | .912     | .849              | 0.19691                    |

a. Predictors: (Constant),EPS, DPS, PE, BVPS and MPS

Sources: *SPSS analysis*

The table 4 shows the model summary of data. Adjusted R square value of 0.955 shows that 84.90% of variability in MPS can be explained by the independent variables. Remaining 15.10% of variance in MPS is related to other variables which are not depicted in the model. R square which measures the overall fitness of model shows value of 91.20% which means that the model is capable of explaining 91.20% variability in MPS. Also, R static value of 0.955 indicated the existence of high level of relationship between study variables. It can explain that dependent variable MPS is highly influenced by its independent variables.

Table 5

*Structure of ANOVA table*

|   | Model      | Sum of Squares | Df | Mean Square | F     | Sig.              |
|---|------------|----------------|----|-------------|-------|-------------------|
| 1 | Regression | 127.675        | 6  | 21.279      | 3.137 | .008 <sup>b</sup> |
|   | Residual   | 630.838        | 93 | 6.783       |       |                   |
|   | Total      | 758.513        | 99 |             |       |                   |

a. Dependent Variable: MPS

b. Predictors: (Constant), EPS, DPS, PE and BVPS

Sources: *SPSS analysis*

The table 5 indicates that the dependent and independent variables have significant relationship between them. MPS, the dependent variable has significant relationship with all independent variables (EPS, DPS, PE, and BVPS) having significant value of 0.008 which is less than 0.05.

Table 6

*Structure of coefficients table*

| Model           | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig.  |
|-----------------|-----------------------------|------------|---------------------------|-------|-------|
|                 | B                           | Std. Error | Beta                      |       |       |
| 1<br>(Constant) | 1.636                       | 4.151      | .089                      | .394  | 0.000 |
| EPS             | 24.555                      | 9.186      | .088                      | 1.235 | 0.000 |
| DPS             | 5.889                       | 10.021     | .135                      | .588  | .561  |
| PE ratio        | 46.488                      | 15.729     | .043                      | 1.679 | 0.000 |
| BVPS            | -180.25                     | -1.614     | -.323                     | 1.955 | 0.012 |

a. Dependent Variable: MPS

Table 6 shows the detail description about the variables impact on the dependent variable. It provides idea about the significance of individual variables. Here, the coefficient table also helps to formulate an equation to determine the value of Average price of the stock with involvement of all other independent variable. From the above coefficient table, the below equation can be formulated.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4$$

$$Y = -0.483 - 0.037x_1 + 0.271x_2 + 0.149x_3 + 0.407x_4$$

Where,

Y = Average price of the stock

a = Constant

b1, b2, b3, b4 = Regression coefficient

Regression coefficient of Earning per Share (EPS), Dividend per Share (DPS), Price earning Ratio (P/E ratio) and Book Value per Share per Share (BVPS) are -24.55, 5.889, 46.48 and -180.25.

The beta for all the attributes or independent variables undertaken in the study to determine their influence on EPS level of the stock. It shows that average Cash dividend has Beta of 24.55. Further the beta coefficient implies that 1-unit change in Cash dividend leads to 24.55 unit change in EPS with other factors remain unchanged. The significance value of the cash dividend on Average price of the stock is 0.000 so, there is significant influence of Cash dividend on EPS of the stock. Stock dividend has Beta of 5.889, likewise, the beta coefficient signifies that 1-unit change in Stock dividend leads to 5.889 unit change in Average price of the stock with other factors remain unchanged. Here, the significance of the variable on average price of the stock is 0.561 so there is no proper significance of this variable with Average price of the stock in the study ( $\beta=5.899$ ,  $t=5.88$ ,  $p=0.561$ ). Similarly, Dividend yield has Beta of 10.011, the beta coefficient implies that 1-unit change in Dividend yield leads to 10.011 unit change in average price of the stock with other factors remain unchanged. Here the significance level of the variable is 0.011. Thus, there is significant effect of dividend yield on average price of the stock ( $\beta=10.011$ ,  $t=2.702$ ,  $p=0.011$ ).

#### 4.4 Discussion

Bhattarai's (2016) research indicated a significant correlation coefficient between EPS and MPS for EBL, while the correlation was not significant for two other banks. The correlation coefficients between DPS and MPS for EBL, SCBNL, and NABIL were 0.7605, 0.4834, and 0.6093, respectively, signifying a positive correlation across all banks. Baral and Pradhan (2018) found similar results, highlighting a positive relationship between factors like EPS and P/E ratio, with P/E ratio being the strongest determinant of share prices. This positive correlation implies that an increase in DPS leads to an increase in MPS. Pal Singh and Tandon (2020) concluded that there is a significant effect of dividend policy on the stock prices of firms, supported by correlation coefficients between EPS and MPS of 0.2377, 0.4776, and 0.5755 for EBL, SCBNL, and NABIL,

respectively. Devkota (2017) demonstrated a positive result for average EPS in the banks under study, suggesting that an increase in EPS corresponds to an increase in MPS. The correlation coefficients between EPS and DPS for EBL, SCBNL, and NABIL were 0.5379, 0.3704, and 0.8482, respectively, indicating a positive correlation in sample banks. Joshi (2019) similarly concluded that dividends have a significant effect on market stock prices in both banking and non-banking sectors.

It is essential to note that this study relies on secondary data. The analysis of the data revealed several significant findings:

- The average cash dividend per share paid by SCBNL (24.76%) is highest than NABIL (24.06%) and EBL is lowest (20.21%) among the sample banks. So SCBNL is comparatively more successful to create the positive attitudes of shareholders towards the bank. The C.V of cash dividend per share of NABIL is 57.36% which is less than the C.V of SCBNL (69.43%) and EBL (102.28%) which shows there exist more consistent in cash dividend per share of NABIL in comparison to SCBNL and EBL.
- The C.V of stock dividend per share of NABIL is 47.53% which is less than the C.V of EBL (97.32%) and SCBNL (142.91%) which shows there exist more consistent in stock dividend per share of NABIL in comparison to EBL and SCBNL.
- The earning per share of EBL is in decreasing trends except in the fiscal year 2013/14 and 2014/15 and ranged from Rs. 29.71 to 91.88 in the fiscal year 2022/23. Similarly, the earning per share of SCBNL has also followed the fluctuating trend the fiscal year 2013/14 to 2022/23. The highest and lowest earning per share of SCBNL during the period of study is Rs.72.60 and Rs.24.81 in year 2014/15 and 2022/23 respectively. Likewise; the earning per share of NABIL has followed the fluctuating trend from the fiscal year 2013/14 to 2022/23. The earnings per share are ranged from Rs.36.16 in the fiscal year 2022/23 to Rs.91.05 in the fiscal year 2015/16. The C.V of earning per share of NABIL is 25.63% which is less than C.V of SCBNL (36.10%) and EBL (42.93%) which shows there exist higher consistency in earning per share of NABIL than SCBNL and EBL.

- The C.V of market price per share of NABIL is 38.84% which is less than C.V of SCBNL (49.86%) and EBL (57.70%) which shows there exist higher consistency in market price per share of NABIL than SCBNL and EBL.
- The net worth per share of EBL also in fluctuating trends and ranged from Rs.200 in the fiscal year 2020/21 to Rs.371 in the fiscal year 2018/19 and the average ratio of EBL is 287.50. The net worth per share of SCBNL is in fluctuating trends and ranged from Rs.174 in the fiscal year 2020/21 to Rs.296 in the fiscal year 2019/20. The average net worth per share of SCBNL is 236.00. Similarly, net worth per share of NABIL is also in fluctuating trends and ranged from Rs.225 in the fiscal year 2013/14 to Rs.275 in the fiscal year 2015/16. The average net worth per share of NABIL is Rs.256.20.
- The C.V of dividend payout ratio of NABIL is 18.47% which is less than the C.V of EBL (52.87%) and SCBNL (71.96%) which shows there exist more consistent in dividend payout ratio of NABIL in comparison to EBL and SCBNL.
- The average ratio of EBL is 2.92% with the coefficient of variation 38.70%. Likewise, the dividend yield ratio of SCBNL has followed fluctuating trend during the study period. The highest and lowest dividend yields of SCBNL during the period of study are 4.59% and 0.97% in the fiscal year 2019/20 and 2018/19 respectively. The average dividend yield of SCBNL is 2.60%; standard deviation is 0.95 and coefficient of variation is 36.57%. Similarly, the dividend yield of NABIL has followed fluctuating trend. The highest and lowest dividend yields of NABIL during the period of study are 4.61% and 1.92% in year 2022/23 and 2018/19 respectively.
- The C.V of earning yield of NABIL is 27.92% which is less than the C.V of SCBNL (32.76%) and EBL (45.26%) which shows there exist more consistent in earning yield of NABIL in comparison to SCBNL and EBL.
- The price earning ratio of EBL is in fluctuating trend during the study period whereas highest and lowest price earning ratio is 83.94 times in the fiscal year 2018/19 and 11.67 times in the fiscal year 2014/15. The highest and lowest price earning ratio of SCBNL during the period of study is 78.33 times and 22.44 times in year 2018/19 and 2021/22 respectively. Similarly, the highest price earning ratio of NABIL in the fiscal year 2018/19 is 39.55% and lowest is 15.82% in the fiscal year 2021/22. The C.V of price earning ratio of NABIL is 32.63% which is

less than the C.V of SCBNL (48.53%) and EBL (71.00%) which shows there exist more consistent in price earning ratio of NABIL in comparison to SCBNL and EBL.

- The correlation coefficient between EPS and MPS of EBL, SCBNL and NABIL are 0.2377, 0.4776 and 0.5755 which shows positive correlation between two variables in all banks. The coefficient of determination ( $r^2$ ) of EBL is 0.0565 which shows only 5.65% variation in EPS is explained by MPS. In the same way the coefficient of determination of SCBNL is 0.2281 which shows 22.81% variation in EPS is explained by MPS and the coefficient of determination of NABIL is 0.3312 which shows 33.12% variation in EPS is explained by MPS. Since, the calculated value t-cal of sample banks i.e. EBL, SCBNL and NABIL (0.4238, 0.9416 and 1.2187) is less than tabulated value at 5% significance level with 8 degree of freedom for two tailed test (2.306). It indicates that there is insignificant difference between EPS and MPS of sample banks.
- The coefficient of determination ( $r^2$ ) of EBL is 0.5784 which shows only 57.84% variation in DPS is explained by MPS. In the same way the coefficient of determination of SCBNL is 0.2337 which shows 23.37% variation in DPS is explained by MPS. Similarly the coefficient of determination of NABIL is 0.3713 which shows 37.13% variation in DPS is explained by MPS. By using t- statistic, the calculated value t-cal of EBL, SCBNL and NABIL (2.0288, 0.9565 and 1.3309) is less than tabulated value at 5% significance level with 8 degree of freedom for two tailed test (2.306). It indicates that correlation coefficient between DPS and MPS of all three sample banks are insignificant.
- By using t- statistic, the calculated value t-cal of EBL, SCBNL (1.1052, 0.6906) is less than tabulated value at 5% significance level with 8 degree of freedom for two tailed test (2.306). It indicates that correlation coefficient between EPS and DPS of EBL and SCBNL is insignificant and significant in NABIL.
- By testing the beta significant test, among the two independent variables, all of them are insignificant (with the beta co-efficient) with MPS while testing t- statistic since p value (0.4119, 0.0146) is greater than 0.05 at 5% level of significance.
- By testing the beta significant test, among the two independent variables, all of them are insignificant (with the beta co-efficient) with MPS while testing t-

statistic since p value (0.3110, 0.3191) is greater than 0.05 at 5% level of significance.

- By testing the beta significant test, among the two independent variables, all of them are insignificant (with the beta co-efficient) with MPS while testing t-statistic since p value (0.7202, 0.4659) is greater than 0.05 at 5% level of significance.

## **CHAPTER V**

### **SUMMARY AND CONCLUSIONS**

#### **5.1 Summary**

The study aimed to scrutinize the dividend practices and their influence on the stock market prices of selected Nepalese commercial banks from the fiscal year 2013/14 to 2022/23. Employing a descriptive and analytical research design, the research focused on three commercial banks. Secondary data formed the basis of the study, and the analysis involved various descriptive statistical tools, correlation analysis, regression analysis, and financial tools.

The first chapter introduces the study, providing insights into the background, profiles of the selected banks (EBL, SCBNL, and NABIL), statement of the problem, study objectives, significance, limitations, and the study's organizational structure. The second chapter presents the conceptual framework, reviews related studies, identifies research gaps, and outlines the research methodology that encompasses various tools and techniques used for data analysis—both financial and statistical. The fourth chapter constitutes the main body, presenting and analyzing the data through different techniques, including financial and statistical tools, tables, and charts. The major findings are derived from the data interpretation. The fifth chapter comprises a summary, conclusions drawn from the major findings, and recommendations, along with suggestions for future research. The study concludes with a bibliography and appendices.

To enhance the study's reliability, various analyses were conducted to explore the relationships between market prices and other variables influencing dividend policies. The theoretical framework focuses on examining the impact of dividends on stock prices. It is concluded that none of the sample firms have adopted a consistent dividend policy, and the dividend policy is generally contingent on the company's earnings per share. The positive correlation between earnings per share and dividend per share may also impact the stock market prices.

#### **5.2 Conclusion**

Various analyses were conducted to arrive at the conclusions presented in this research. Numerous issues were identified while scrutinizing variables to assess the overall impact of dividend policy. During the specified period, sample banks did not adhere to a specific

dividend policy. The reasons behind this were thoroughly investigated. Based on the data analysis, the following conclusions can be drawn:

NABIL has been relatively more successful in fostering positive attitudes among shareholders. It is evident that NABIL stands out as the leading bank in distributing stock dividends during the given period. The stock dividends per share (DPS) of the banks exhibited fluctuations throughout the period. Earnings per share (EPS) serves as an indicator of a company's profit-generating capability, with higher EPS reflecting better performance and lower EPS indicating weaknesses. NABIL outperforms EBL and SCBNL in terms of EPS, as its average EPS is higher. This suggests a superior performance by NABIL's management.

In conclusion, the average market price per share of SCBNL surpasses that of NABIL and EBL. EBL outshines NABIL and SCBNL in terms of net worth per share, with an average net worth per share higher than both. This underscores the superior performance of EBL's management.

The sampled banks did not appear to adopt a fixed dividend payout ratio, and SCBNL exhibited a high average dividend payout ratio, which is considered favorable for investors and indicative of good banking performance. NABIL's average dividend yield exceeds that of EBL and SCBNL, while its coefficient of variance is lower than SCBNL and EBL. EBL demonstrates a higher average earning yield compared to NABIL and SCBNL, indicating NABIL's efficiency in earning relative to the other two banks.

SCBNL boasts the highest average price-earnings ratio, and the coefficient of variance for these ratios suggests moderate fluctuations in the price-earnings ratio for all sampled banks. Statistical tests revealed insignificant differences between earnings per share (EPS) and market price per share (MPS) for the sample banks. Additionally, the correlation coefficient between dividend per share (DPS) and MPS for all three sample banks was found to be insignificant.

T-tests for correlation coefficients indicated that the correlation between EPS and DPS for EBL and SCBNL is insignificant, while it is significant for NABIL. Beta significance tests for two independent variables showed insignificance with MPS for NABIL.

### 5.3 Implications

On the basis of major findings of the study, following implications has been made as below:

- The CV of cash dividend per share of NABIL is less than CV of SCBNL and EBL banks, shows there exist higher consistency in cash dividend per share of NABIL than SCBNL and EBL. So that it is suggested to EBL and SCBNL to make consistency on cash dividend per share.
- SCBNL has fluctuating stock dividend per share than NABIL and EBL. It is suggested to SCBNL to maintain uniformity in stock dividend per share declared by bank.
- All the sample banks should maintain consistency regarding EPS by effectively utilizing the available assets.
- Since there is highly volatile in the price of SCBNL than NABIL and EBL. So, that SCBNL should properly consider about it. Funding gap should properly managed by sample banks. Because of fluctuation in MPS, sample banks should try to make more consistent.
- The trend of Net worth per Share of EBL, SCBNL and NABIL is fluctuating. So that it is suggested to make consistency on net worth per shares for all sample banks.
- The CV of dividend payout ratio of NABIL is less volatile than EBL and SCBNL so, that it is suggested to SCBNL and EBL to make it more consistent.
- The trend of dividend yield of EBL, SCBNL and NABIL is fluctuating. CV of dividend yield of NABIL is less than the CV of SCBNL and EBL, which shows that EBL and SCBNL should focus more on making consistency on dividend yield.
- The trend of earning yield of EBL, SCBNL and NABIL is fluctuating. The CV of earning yield of NABIL is less than the CV of SCBNL and EBL bank shows that it is suggested the source use and fund should be properly managed for obtaining satisfactory earning yield.
- Although EBL has higher consistency in price earning ratio than NABIL and SCBNL, but sample banks are suggested to exist higher consistency in price earning ratio.

- Correlation coefficient between EPS and MPS of NABIL, SCBNL and EBL has insignificant so that it is suggested to sample banks to make it significant.
- Correlation coefficient between DPS and MPS of sample banks are insignificant, shows that NABIL, SCBNL and EBL banks try to make significant on DPS and MPS.
- Correlation coefficient between EPS and DPS of EBL and SCBNL is insignificant so that it is suggested to EBL and SCBNL to make significant on EPS and DPS.

In general, Commercial banks should focus on impact of dividend policy on market price of commercial banks to provide proper rate of dividend to their shareholders.

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## APPENDIX

| Everest Bank Limited |                   |                    |                         |                      |                        |
|----------------------|-------------------|--------------------|-------------------------|----------------------|------------------------|
| Year                 | Earning per Share | Dividend per Share | Price Earning per Share | Book Value per Share | Market Price per Share |
| 2013/14              | 83.18             | 50.00              | 72.13                   | 325                  | 1094                   |
| 2014/15              | 88.55             | 1.58               | 35.66                   | 326                  | 1033                   |
| 2015/16              | 91.88             | 50.00              | 65.30                   | 292                  | 1591                   |
| 2016/17              | 86.04             | 50.00              | 72.06                   | 296                  | 2631                   |
| 2017/18              | 78.04             | 5.00               | 44.85                   | 336                  | 2120                   |
| 2018/19              | 40.33             | 0.00               | 173.57                  | 371                  | 3385                   |
| 2019/20              | 32.48             | 0.00               | 101.60                  | 290                  | 1353                   |
| 2020/21              | 32.78             | 20.00              | 61.01                   | 200                  | 663                    |
| 2021/22              | 38.05             | 20.00              | 65.70                   | 219                  | 666                    |
| 2022/23              | 29.71             | 5.53               | 35.44                   | 220                  | 675                    |

| Standard Chartered Bank Nepal Limited |                   |                    |                         |                      |                        |
|---------------------------------------|-------------------|--------------------|-------------------------|----------------------|------------------------|
| Year                                  | Earning per Share | Dividend per Share | Price Earning per Share | Book Value per Share | Market Price per Share |
| 2013/14                               | 69.51             | 50.00              | 71.93                   | 228                  | 1800                   |
| 2014/15                               | 72.60             | 45.00              | 82.64                   | 256                  | 1799                   |
| 2015/16                               | 65.70             | 40.00              | 76.10                   | 249                  | 1820                   |
| 2016/17                               | 65.47             | 41.50              | 78.66                   | 249                  | 2799                   |
| 2017/18                               | 57.38             | 19.21              | 77.05                   | 265                  | 1943                   |
| 2018/19                               | 45.96             | 1.75               | 76.35                   | 268                  | 3600                   |
| 2019/20                               | 35.49             | 5.26               | 296.59                  | 296                  | 2295                   |
| 2020/21                               | 27.33             | 17.50              | 64.03                   | 174                  | 755                    |
| 2021/22                               | 30.39             | 22.50              | 74.04                   | 186                  | 682                    |
| 2022/23                               | 24.81             | 4.84               | 47.72                   | 189                  | 645                    |

| Nabil Bank Limited |                   |                    |                         |                      |                        |
|--------------------|-------------------|--------------------|-------------------------|----------------------|------------------------|
| Year               | Earning per Share | Dividend per Share | Price Earning per Share | Book Value per Share | Market Price per Share |
| 2013/14            | 65.91             | 30.00              | 42.45                   | 225                  | 1252                   |
| 2014/15            | 83.23             | 40.00              | 71.80                   | 269                  | 1355                   |
| 2015/16            | 91.05             | 40.00              | 68.32                   | 275                  | 1815                   |
| 2016/17            | 83.68             | 45.00              | 77.68                   | 251                  | 2535                   |
| 2017/18            | 57.24             | 6.84               | 64.36                   | 259                  | 1910                   |
| 2018/19            | 59.27             | 15.00              | 75.93                   | 244                  | 2344                   |
| 2019/20            | 59.86             | 18.00              | 80.19                   | 270                  | 1523                   |
| 2020/21            | 51.84             | 22.00              | 68.68                   | 256                  | 921                    |
| 2021/22            | 50.57             | 22.00              | 67.24                   | 257                  | 800                    |
| 2022/23            | 36.16             | 1.76               | 97.51                   | 256                  | 765                    |



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