CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepalese economy has witness several changes in the financial liberalization. In early 1980s, when the government permitted establishment of foreign joint venture Banks (JVBs), three joint venture Banks namely, Nepal Grindlays Bank Ltd., Nepal Arab bank Ltd and Nepal Indosuez Bank Ltd were established after the arrival of democracy in 1990, democratically elected government adapted the liberal and market oriented economic policies, the number of joint venture banks has increased dramatically. In Nepal there are only a few companies that pay dividend but after the establishment or joint venture companies there is a new trend for distributing dividend. Dividend policy is the major decision in the firm. Mostly, dividend is paid in cash to its shareholders. Dividend payment reduces the total amount of internal financing. Consequently it must be considered in relation to the overall financial decision. A commercial bank is a dealer of money and substitute for money, such a check or a bill of exchange. It also provides variety financial services.

By a dividend policy, we mean some kind of consistent approach to the distribution versus retention decreases rather than making the decision on purely ad-hoc basis from period to period. The dividend payout ratio obviously depend on the way earning are measured but net earning may not be an approximate measure of the ability of ability of the firm to pay dividend. So, what and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividend.

The issue of how much a company should pay its stakeholders as dividends, has concerned manager for a long time now. It has often been pointed out that a company that raises its dividends often experiences an increase in its stock price and that a company that lowers its dividends has a falling stock price. This seems to suggest that dividend do matter, in that they affect stock price. This seems to suggests that dividend do matter, in that they affect stock price. But this casual relationship has been refuted by several researches on the grounds that dividend per share does not

affect stock prices, rather it is informational content of dividend that affect stock prices.

Dividend are distributed out of profits. The alternative to the payment of dividend is the retention of earnings/ profits. The retained earnings constitute an easily accessible important source of financing the investment requirement of firms. There is thus a type of reciprocal relationship between retained earnings and cash dividends. The larger the retention, the lesser the dividend, the smaller the retention, the larger the dividends. Thus, the alternative uses of net earning dividend and retained earnings are competitive and conflicting.

Having given the overall dividend implication among companies and financial institutions, this study is more specific in assessing the dividend practices of the jobs. More about the J VBs will be reflected in the coming chapters.

1.2 Statement of the Problem

Dividend is the most inspiring factor, for the investment on shares of the corporation, is an important aspect of financial management. Because the dividend policy determines the division of earnings between payment stockholders and reinvestment in the firm to exploit growth opportunities. It affects the value of firm as well as overall financing decision such as financial structure, the flow of funds, corporate liquidity and investor's satisfaction.

The dividend decision, however, is still a crucial as well as controversial area of managerial finance. There is no consensus among the financial scholars on this subject matter and its retention with stock price. Some financial scholars say that stock prices are least influenced by dividend per share while some others believe that its relevance to the stock prices is quite significant. The idea of relevance is vague as well. It is rather hard to define whether dividend per share has positive effect of its effect is negative one.

Dividend is desirable for the shareholders, which inspires them for the future investment on company's shares. But it is found that there is no satisfactory result about dividend decision of commercial banks in Nepal. Likewise, dividend distribution does not match with the earnings of the commercial banks, there does not

exist a proper relationship between dividend and quoted market price of share. Similarly, commercial banks with lower returns record stable (rigid) price of share and banks making sound returns do not rigid in share price.

It is because, among the various reasons, the government's rules and regulations, ownership patterns, attitudes of management, forms of management may be the partial causes of such a situation. In practices every firm follows some kind of dividend polices and there is no unique dividend policy which is appropriate for all the firms. So they follow different policies. In general, it is assumed that there is relationship between dividend and stock price but there is retention is underdeveloped country like Nepal is not yet known. So the relation between dividend and stock prices established by much finance scholars needs to be tested in the context of Nepal.

In the Nepalese context, the company's listed in NEPSE are not seen so serious regarding dividend decisions, since most of them do not have any consistent and obvious (clear cut) policy on dividend distribution. In connection to Nepalese public enterprises, M.K. Shrestha remarks that dividend is still considered as the intended strategy or the non payable obligation at a time when Nepalese government is not in position to impose the public limited companies to pay a minimum rate of dividend on the equity capital contributed. Some Nepalese acts like Nepal company Act 2053, Nepal commercial Bank regarding dividend distribution. So different companies are adopting different dividend decisions inconsistently. There is a common trend of deciding the dividend by the management of companies instead of by shareholders meeting.

This study raises some issues to be examined which are stated below:

a. Whether the problem is attitude to pay dividend or the ability to pay dividend.

b. Whether there is uniformity of dividend distribution or not.

c. Whether dividend decision affects the market price of shares differently in different banks or not.

d. Whether or not the prevailing dividend policy influences the corporate liquidity position.

e. Whether changing dividend policy or payout ratio increase the value of stock or not.

f. What is the relationship between dividend with other key variables like earning per share market price per share, book value per share, net profit and net worth of the banks?

g. What are the prevailing practices of the banks regarding their dividends?

1.3 Objectives of the Study

The objectives of a dividend decision should be to maximize the shareholders return so that the value of his investment is maximized. This study is primarily undertaken to focus on the prevalent dividend policies and to suggest the direction of future endeavors for the overall healthier development of the share market and also the possible impact of such endeavors on the share market in Nepal.

The main objectives of this study are as follows:

a. To identify what type of dividend policy is being followed and what type of dividend policy is being followed policy is appropriate.

b. To highlight dividend practices of the banks.

c. To analyze the relationship between dividend per share with various important variables such as earning per share, net profit, net worth and stock prices.

d. To provide a practical suggestion and possible guidelines to overcome various issues and gapes based on the findings of the analysis.

1.4 Significance of the Study

Due to excess liquidity and lack of investments opportunities in the capital market, now returns. When any new company issues (floats) shares through capital markets, very big congregation gathers to apply for owner's certificate. It reveals that people have expectation on higher return for investing in shares. So the dividend decision is one of the most important decisions of financial management. It is an effective tool (way) to attract new investors, maintain present investors and controlling position of

the firm. In capital market, basically, the return can be earned in the following two ways;

1. By means of dividend
2. By capital gains, i.e. increase in share price

Having lack of adequate knowledge, the people are haphazardly investing in shares. It shows that there is an extreme necessity to establish clear conception about the return that yields from investing in securities.

In the Nepalese perspective, we find that there exist almost none of the companies adopting consistent dividend policy. There may be reasons behind it. But there is not sufficient study conducted in this regard. So, I have made humble attempt to contribute to this attempt to contribute to this aspect. Therefore, considering all these facts, the study is undertaken which will help to meet deficiency of the literature relation to dividend decision and factors affecting the dividend policy. So, the study of dividend policy is of considerable importance.

I believe that so many persons and parties such as shareholders, management of banks, financial institutions, general public (depositors, perspective customers, investors etc) and other policy making bodies which are concerned with banking (especially Nepal Himalayan Bank limited, and Nepal Bangladesh Bank limited) business will be benefited from this study. It is also believed that it will provide valuable inputs for future research scholars.

1.5 Limitations of the study

There are limitations that weaken the generalization e.g. inadequate coverage of industries, shortage of reliability of statistical tools used and other variables. This study is simply a partial requirement of MBS program. So this study will be limited by the following:

a. Most of the data are secondary which itself is a limiting factor. But for the clarification purpose some primarily data which questionnaire are as follows:
b. The study period only covers fiscal year 2003/2004 to 2007/2008.

c. Due to insufficiency of time, only two joint venture banks, viz. Himalayan Bank limited and Nepal Arab bank limited, are taken as samples.

d. There are many factors that affect dividend decision and valuation of the firm. However, only those factors related with dividend will be considered in the study.

1.6 Chapter Scheme

This study comprises of five chapters.

The first chapter deals with the subject matter consisting introduction, focus of the study, statement of the problem, objectives of the study, significance of the study and chapter scheme of the study.

The second chapter deals with the review of literature that includes the conceptual framework, factors influencing dividend policy, review of major studies, review journals and articles in Nepalese perspective and review of thesis.

The third chapter describes research methodology employed in the study. It includes introduction, research design and sources of data, population and sample, method and analysis, tools defined about certain financial indicators and statistical tools used.

The fourth chapter deals with analysis of financial indicators variables, analysis of means, standard deviation, correlation matrix and simple regression analysis.

Lastly, the fifth chapter consists of summary, conclusion and recommendations.

Besides these, Bibliography and appendix are presented at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Every investor invests their money to buy share of firms with the hope of sharing profit earned by firm since they want to receive maximum returns on their investment. It depends upon management policy that how much total profit to distribute as dividend and how much to retain in the business. But this is fact that all the profit made by firms actually belong to stockholders. Whether profit are distributed in the firm of dividend or reinvested in the business, benefits go to shareholders directly or indirectly.

"Dividend decision can't be taken in isolation as well as in vacant, rather various factor like investment opportunities, financing decisions, shareholders expectation, legal provisions is to be taken into consideration so that it maximize the value of the firm or shareholders wealth. There are two sources of financing in an existing firm." (Gitman; 1976:89)

a) One is internal source (i.e. retained earnings)

b) Other one is issuing share, debenture (i.e. external source of financing)

But the retention of net profit widely effected by the dividend policy. If the firms adopt sound dividend policy then less funds will be available. On the contrary, if the firms adopt tight dividend policy then excess fund will be available for financing. So, external sources of financing and internal sources of financing affect the company's capital structure. Therefore controversial question arise in the fine of taking dividend decision for the financial manager.

In the course of retaining the portion of earnings, how much of earnings to retained to exploit growth opportunities and how much earnings to be paid to the shareholders for their contribution in capital structure, to be decided. This is the controversial question of dividend policy.

"Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most

significant sources of funds for financing corporate growth, but dividends constitute the cash flows that accurate to stockholders" (Pandey; 1989:67).

"Many variables influence dividends however for example a firm's cash flows and investment needs may be too volatile for it to set a very high regular dividend. Yet it may desire a high dividend payout to distribute funds not necessary for reinvestment. In such a case, the directors can set a relatively low regular dividend- low enough that it maintained even in a low profit years in a years when a considerable amount of reinvestment is needed- and supplement it with an extra dividend in years when excess funds are available." (Weston and brigham; 172)

"In corporate finance, dividends represent a distribution of the book surplus, accompanied by a distribution of assets, or by a change in the form of equalities, or an increase in the liabilities of the corporation. The corporation of the form of business organization entails separation between ownership and control of a company. The shareholders entrust their money to corporate managers in the expectation of a return on their capital. Dividend policy are determined by the board of directors . But they have to take into consideration of a numbers of factors in determining their dividend policies and variations there in." (Gillert and Edwin; 1967:230). The board of directors is also subject to a series of legal restriction which are intended to maintain the capital of corporation. Leaving a side the legal restriction which are intended to maintain the capital of the corporation. Leaving aside the legal considerations, the various principles underlying the policies of dividend distribution are as follows;

a. Type of industry

"The nature of the business conducted by a companies has an influence upon its dividend policy . Industies that are characterized by stability of earnings may formulate a more consistent policy as to dividends than those having an uneven flew of income usually, enterprises dealing in necessities suffer less from oscillliating earnings than those dealing in luxuries or fancy goods. For instance, public utilities are in much better position to adopt a relatively fixed dividend rate than the industrial concerns "(Mathur ;1999:73)

b. Age of corporation

"Closely related to the type of industry, the age of a company goes to determine the dividend policy newly established enterprises require much of their earnings for plant improvement and expansion, while companies which have attained a longer earning experience can formulate a clear-cut dividend programmed and may even by liberal in the distribution of earnings." (Mathur; 1999:73)

c. Extent of share distribution

"A closely held company is likely to get the acquiescence of the shareholders for the suspension of dividend or for following a conservative dividend policy. But a company with a large number of shareholders and also with shareholders widely distributed would face a great difficulty in securing such asset. Reduction in dividends can be effected but not in ordinarily with hearly co- operation of the shareholders" (Mathur;1999:74)

d. Need for additional capital

"The company retains a part of their earnings for strengthening their financial position. The extent to which the profits are ploughed backed into the business has got a conditioning influence on the dividend policy. The income may be considered for meeting the increased requirement of working capital or future expansion. Small companies possessing no other alternatives to raise finance for their growth have to depend upon this source." (Hastings;1996:

e. Business Vicissitudes

"With the cyclic variation in the business , the earnings, demand for capital investment and money market conditions also vary from stage to stage. The dividend policy is adjusted in accordance with the business oscillations. During the boom, prudent corporate management creates good reserves for facing the crisis which follows the inflationary period. Higher rates of dividend are used as a tool for marketing the securities in an otherwise depressed market. The dull years become easier to be weathered and financial solvency to be maintained more successfully if

the adequate resources have been built up through conservation of earnings" (Hasting;1996:29)

f. Change in government policies

"With the variation in the fiscal, industrial, labour, control and other government policies the earning capacity of the different earnings is affected favorably or adversely. The dividend policy has to be modified accordingly. Sometimes government limits the rate of dividend declared by concerns in a particular industry or in all the spheres of business activity. In a capitalistic society such a step taken by government leads to wasteful expenditure by the business unit besides discouragement of capital formation ."(Rao;1992:43)

g. Taxation policy

"High taxation is said to be the cause of lowering the earnings of the corporations and, consequently their rates of dividend. Some recent studies have shown that the rates of dividend may not be affected by high rates of taxes because the incidence may be shifted to consumers. This is claimed to be the case in respect of some Indian companies where the indices of taxes and the rates of dividend move in similar direction to show that the dividend distribution was not adversely affected by the alleged high rates taxes.

Corporate taxes affect dividends, both directly and indirectly- directly in as much as they reduced the residual profits after tax available for shareholders, and indirectly, as the distribution of dividends beyond a certain limit is itself subject to tax. For instance dividend beyond 10 percent of the paid up capital are subject to 7.5 percent by way of dividend tax "(Rao;1992:48)

2.1.1 Types of Dividend

"The firm uses different types of dividend to the shareholders to implement their objectives and policies. Before distributing the dividend, they first ensure that what is the current situation of the firm? What is the growth rate of the firm? How much dividend will need to meet the expectation of the shareholders? "The types of dividends that corporation follow is partly a matter of attitude of directors and partly a matter of attitude of directors and partly a matter of various circumstances and

financial constraints that bound corporate plans and policies . Some of the major types of dividends are as follows" (Shrestha; 1980:95).

a. Cash dividend

"The portion of earnings paid in cash to the investors in the proportion of their share is called cash dividend. Most of the firms pay dividend in cash to the investors in the proportion of the firms pay dividend in cash." Both the total assets and net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed." (Hasting; 1996:370)

In the context of Nepal, Cash dividend is the most popular form of dividend so it is very popular in commercial banks and other firms. However it depends upon the earnings of the firm, management decision, Government policy, Nepal Rastra Bank policy and other various internal and external factors.

b. Stock Dividend

Stock dividend is only the paying stock equaling to the dividend that is to the dividend that is to be received by shareholders. "A stock dividend is paid in additional shares of stock instead of in cash and simply involves a book-keeping transfer from retained earnings to the capital stock account." (Weston and Copeland; 1986:680)

Firm pays stock dividend instead of cash dividend. It represents nothing more that a Book keeping shift within the shareholders 'equity account on the firm's balance sheet. It is simply the payment of additional shares of common stock to shareholders .It represent nothing more than a book keeping shift within the shareholders equity proportional ownership in the firm remains unchanged. Accounting authorities make a distinction between small-percentage stock dividends large percentage stock dividends and large percentage stock dividends.

i. Small-percentage stock dividends:-

If a stock dividend represents an increase of less than 10 percent of the previously outstanding common stock, it is referred to as a small percentage stock dividend entails transferring an amount from retained earnings to common stock and additional paid-in- capital.

ii. Large-percentage stock dividends:-

Large-percentage stock dividends (typically 20 percent or higher of previously outstanding common stock) must be accounted for differently while small-percentage stock dividends are not expected to materially reduce the market price per share of stock. In the case of large percentage stock dividends, therefore, conservatism argues for reclassifying an amount limited to the par value of additional shares rather than amount related to the pre-stock dividend market value of the stock.

The effects of stock dividend are as follows:

1. Firms assets or liabilities are same, it doesn't change
2. It doesn't affect the shareholders proportional ownership
3. Theoretically it is valueless to shareholders.

c. Bond Dividend

"It is a kind of dividend in which stockholders receive bond. It is distributed only that condition when the company declares dividend helps to postpone the payment of cash. These are given when the firms are unable to take the burden of interest of loans." (Van Horne; 1971:273)

d. Property Dividend

"Property dividend is a kind of dividend which is given in the form of property instead of cash. This method is given in the form of property instead of cash. This method is rarely used in practical. Company owning products and securities of subsidiaries are the examples that have been paid as property dividend."(Van Horne; 1971:273)

e. Interim Dividend

"Generally dividend is declared in the end of the financial year. This is called regular dividend . But when management declares dividend before the end of financial years, it is called interim dividend."(Van Horne;1971:274)

f. Scrip Dividend

"Scrip dividend is a form of promissory note promising to pay the holder at a specified later date. The scrip may be interest bearing or not. Issuing of this note indicates that the company has shortage of cash to distribute as a dividend. This type of dividend is very popular to use." (Van Horne;1971;275)

2.1.2 Residual Theory of Dividend

"This theory assumes that external source of finance is not available, the same cannot be used due to its excessive cost. Accordingly, how much dividend a company should distribute will depend on how much investment opportunities it has available at present. If there are positive NPV projects available then instead paying dividends to shareholders the same can be used in financing the positive projects. In the case shareholders wealth maximized by reducing dividend at all. Shareholders will be compensated for this reduction on nill dividend now by a gain in the form of higher dividend in the future.

Dividends are thus residual payment in the sense that this is paid provide sufficient earnings are retained in the company to finance new investments. This residual theory treats dividend as a passive decision which is completely depended on how much amount or whether company employs earnings is in financing profitable projects. Thus the dividend will vary from year to year. But such fluctuations in dividend have no effect on shareholders as they are compensated of present loss, if any of dividend by future capital gain ."(Waring;1983:87)

2.1.3 Dividend stability

The major aspect of the dividend policy of a firm is the stability of dividends. Stability of dividend payments is an attractive feature of many investors. The investors favor a stable dividend as much as they do the payment of dividends (D/P ratio). By stability we mean maintaining the position of the firms dividend payments in relation to a trend line.

Preferably one that is upward sloping. All other things being the same, a share of stock may command a higher price of it pays at a fixed percentage of earnings. "The term dividend stability refers to the consistency or lack of variability in the stream of

dividends." (Van Horne;1971:322). In more precise terms it means that a certain minimum amount of dividends can be any of the following three forms.

a. Constant dividend per share

According to this form of stable dividend policy, a company follows a policy of paying a certain fixed amount per share as dividend. For instance, on a share of face value of Rs 10, a firm may pay a fixed amount of, say, Rs 2.50 as dividend. This amount would be paid year after year, irrespective of the level of earnings . In other words fluctuations in earnings would not affect the dividend payment. In fact, when a company follows such a dividend policy, it will pay dividends to the shareholders even when it suffers losses. It should be clearly noted that a stable dividend policy in terms of a fixed amount of dividend is fixed for all times to come. The dividends per share are increased over the years when the earnings of the firm increase and it is expected that the new level of earnings can be maintained.

b. Constant payout ratio

Another form of stable dividend policy is constant target payout ratio. The term payout refers, as already mentioned, to the ratio of dividend to earnings of the percentage share of earnings used to pay dividend. A stable dividend payout ratio implies that the percentage of earnings paid out each year is fixed Accordingly, dividend would fluctuate proportionately with earnings and are likely to be highly volatile in the wake of wide fluctuations in the earnings of a firm decline substantially or there is loss in a given period, the dividends accordingly to the target payout ratios, would be low or nil. To illustrate, if a firm has a policy of 50%target payout ratios, would be low or nil. To illustrate, if a firm has a policy of 50%target payout ratios, its dividends will range between Rs 5 and zero per share on the assumptions that the earnings per share are Rs 10 per share and zero (or loss)per share respectively.

c. Low regular plus extra

Under this policy both dividend policy (constant dividend per share and constant dividend payout ratio) are included. Under this policy, a firm usually pays a constant dividend to the shareholders and when the firm swells, additional or extra dividend is paid over and above the regular dividend per share. Generally this type of policy is

mostly followed by those companies whose stockholders prefer at least a certain account of regular dividends.

2.1.4 Factors affecting dividend policy

Dividend decision is the critical decision for the management various factors should be considered while taking dividend decision. Following factors influenced dividend decision directly or indirectly.

a. Legal rules

The legal rules are important in establishing the legal boundaries with in which a firms finalized dividend policy can operate. These rules have to do with capital impairment, insolvency and undue retention of earning

i. Capital impairment rule

Some states define capital as the total par value of the common stock. If a firm's shareholder's equity consists of $4million in common stock (at par),$3 million in additional paid-in-capital and $2million in Retained earnings, total capital would be $4million. This company could not pay a cash dividend to tell more than $5million without imparing capital (i.e., reducing shareholders equity before $4 million).

Other states define capital to include not only the total per value of the common a stock But also the additional paid in capital. Under such state states dividends can be paid only to the extent of retained earnings. Notice, we did not say that dividend can be paid "out of retained earnings." A company pay dividends "out of cash "while incurring a corresponding reduction in the retained earnings account.

ii. Insolvency rule

Some states prohibit the payment of cash dividend if the company is solvent. Insolvency is defined either in a legal sense, as total liabilities of a company exceeding its assets "at a fair valuation" or,in a" equitable"(technical)sense, as the firm's inability to pay its creditors as obligation come due. As the firm's ability to pay its obligations is dependent on its liquidity rather than on its capital, the equitable (technical) solvency restriction gives creditors a good deal of protection. When cash is

limited, a company is restricted from favoring shareholders to the determent of creditors.

iii. Undue retention of earnings rule

The internal revenue code prohibits the undue retention of earnings. Although undue retention is vaguely defined , it is usually though to mean retention significantly in excess of the present and future investment needs of the company . The purpose of the law is to present companies from retained earnings for the sake of avoiding takes.

a. Liquidity position

Profits held as the retained earnings (which show up on the right hand side of the balance sheet) are generally invested in plant and equipment, inventories, and other assets, they are not held as cash. Thus even if a firm has record of earnings, it may not be able to pay cash dividends because of its liquidity position. Indeed, a growing firm, even a very profitable one, typically has a processing need for funds, in such a situation a firm may elect not to pay cash dividends.

b. Need to repay debt

When a firm has issued debt to finance expansion or to substitute for other forms of financing, it is faced with two alternatives. It can refund the debt at maturity by replacing it with another form of security, or it can make provisions for paying off the debt at maturity by replacing it with another form of security, or it can make provisions for paying off the debt. If the decision is to retire the debt, this will generally require the retention of earnings.

c. Restriction in debt contains

Debt contracts particularly when long-term debt is involved, frequently restrict a firm’s ability to pay cash dividends such restrictions, which are designed to protect the designed to protect the position of lender, usually state that(1) future dividends can be paid only out of earnings generated after the signing of the loan agreement (that is, they cannot be paid out of past retained earnings) and (2) that dividends cannot be paid when net workings capital (current assets minus current liabilities) is below a specified amount. Similarly, preferred stock agreements generally, state that

no cash dividends can be paid on the common stock until all accrued preferred dividends have been paid.

d. Stability of earnings

A firm that has relatively stable earnings is often able to predict approximately when its future earnings will such a firm be therefore more likely to pay out a higher percentage of its earnings than is a firm fluctuating earnings. The unstable firm is not certain that subsequent years the hoped for earnings will be realized, so it is likely to retain a high proportion of current earnings. A lower dividend will be easier to maintain if earnings fall off in the future.

e. Profit rate

The expected rate of return on assets determines the relative attractiveness of paying out earnings in the form of dividends to stockholders (who will use then elsewhere) or using them in the present enterprise.

f. Rate of asset expansion

The more rapidly a firm is growing, the greater its needs for financing asset expansion. The greater the future need for funds, the more likely the firm is to retain earnings rather than pay then out. If a firm is to raise fund externally, natural sources or the present shareholders, who already know the company . But if earnings are paid as dividends and are subjected to high personal income tax rates, only a portion of them will be available for investment.

g. Access to the capital markets

A large, well established firm with a record of profitability and stability of earnings has access to capital markets and other forms of external financing. A small, new or venturesome firm, however, is riskier for potential investors. Its ability to raise equity or debt funds from capital markets is restricted, and it must return more earnings to finance its operations. A well-established firm is thus likely to have a higher dividend payout rate than is a new or small firm.

h. Control

Another important variable is the effect of alternative sources of financing on the control situation of the firm. As a matter of policy, corporations expand only to the extent of their internal earnings. This policy is defended on the ground that raising funds by selling additional common stock dicules the control of the dormant group in that company. At the sametime, selling debt increases the risks of fluctuating earnings to the present owners of the company. Reliance on internal financing in order to maintain control reduces the dividend payout.

"In an indirect way inflation can act as a constraint on playing dividends. Depreciation is charged on the basis of original cost at which assets were acquired as a result, when prices rise, funds saved on account of depreciation would not be adequate to replace assets or to maintain the capital intact and preserve the earning power of the fine earning power of the fine earnings would be retained."(pandey, 1991:770)

2.1.5 Rules regarding dividend practices in Nepal

Some legal provisions for dividend payment in the Nepal. Nepal company's Act 1997 makes these provisions may be seen as- under. Section 2(m) states that bonus share (stock dividend) mean share issued in the form of additional shares to shareholders by capitalizing the surplus from the reserve fund or profit of the company. The term also indicates an increase in the paid up values of the shares after capitalizing the surplus from the reserve fund or the profit of the company. The term also indicates an increase in the paid up values of the shares after capitalizing surplus from the reserve find or the profit of the company. The term also indicates an increase in the paid up values of the shares after capitalizing surplus from the reserve fund or the profit of the company. The term also indicates an increase in the paid up values of the shares after capitalizing surplus or reserve funds.

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

Section 137 bonus share and subsection (1) states that the company must inform the office before issuing bonus shares. Under subsection (1)this may be done only according to a special resolution passed by the general meeting.

Section 140 dividends and subsequent of this section as follows.

Sub section (1) states that except in the following circumstances, dividends shall be distributed among the shareholders within 45 days from the date of decision to distributed them.

I. In case of any law forbids the distribution of dividends.

II. In case of the right to dividend is disputed.

III. In case of dividend cannot be distributed within the time limit mentioned above owing, the circumstances beyond any one's control and without any fault on the part of the company.

Sub section (2)in case dividends are not distributed with the time limit, mentioned in sub section (1) this will be done by adding interest at the prescribed rate sub section (3) states only the person who has registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

2.2 Review of major related studies

In this section, an attempt has been made to review of the major studies concerning dividends and stock prices and management views on dividend policy.

Lintner (1956) conducted a study on corporate dividend policy in the American context. He investigated a partial adjustment model as he tested the dividend patterns of 28 companies. According to John Lintner's study, dividends are 'sticky' in the sense that they are slow to change and lay behind shifts in earnings by one, or more periods. According to J lintner, dividend is a function of earnings of that year, existing dividend rate, target payout ratio and speed of adjustment . The followings were the basic objectives of the study:-

a) To identify occasions when a change in dividends might well have been under active consideration even though no change was made.

b) To determine the factors existing most actively into dividends.

He concluded that a major portion of a firms dividend could be expressed in the following manner.

DIV_t*=$PEPS_t$---------- (1)

&DIV_t-DIV_{t-1}=a+b(DIV_t* - DIV_{t-1})+e_t---------- (2)

Adding DIV_{t-1} on both sides of equation (2)

DIV_t= a+b DIV_t*+(1-b)DIV_{t-1}+et---------- (3)

Where,

DIV_t*=Firm's desired payment

EPS_t= earnings

P= Targeted payout ratio

a= constant relating to dividend growth

b=adjustment factor relating to the previous period's dividend and new desired level of dividends where, b<1

The major findings of this study were as follows:-

1. Firms generally think in terms of proportion of earnings to be paid out.
2. In order to modify the pattern of dividend, investment opportunities, liquidity position, funds flow are not considered.

Firms generally have target payout ratios in view while determining change dividend rate or dividend per share.

2.2.1 Modigliani & Miller Study

Modigliani & Miller (1961) conducted a study on the irrelevance of dividend. This is popularly, known as mm approach. It is sometimes termed as Dividend Irrelevance model.

According to mm, dividend policy of a firm is irrelevant as it does not affect the wealth of the stockholders. They argue that the value of the firm depends on the earning power of the firm's assets or its investment policy. Thus, when the investment policy is given, the dividend decision-splitting the earnings into packages of retentions and dividends does not influence the value of equity shares. In other words, the division of earnings between dividend and retained earnings is irrelevant from shareholders viewpoint.

In general, the argument supporting the irrelevance of dividend valuation is that dividend policy of the firm is a part of its financing decisions. As a part of the financing decisions of the firm, the dividend policy of the firm is a residual decision and dividends are passive residual.

The mm approach of irrelevance dividend is based on the following critical assumptions:-

a. The firms operate in perfect capital market where investors are rational. Information is freely available to all. Securities are infinitely divisible and no investor is large enough to influence the market price of securities.

b. There are no inflation costs. The securities can be purchased and sold without payment of any commission or brokerage etc.

c. Taxes do not exist.

d. The firm has a definite (fixed) investment policy, which is not subject to change.

e. Risk of uncertainty does not exist. Investors are also able to forecast future prices and dividends with certainity, and one discount rate is appropriate for all securities and all time periods.

Thus $r = k = k_t$ for all time.

M-M provide the proof in support of the argument in the following manner.

Step-one:-

The market price of a share of the firm in the beginning the period is equal to the present value of the dividends paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,

$$P_0 = \frac{D_1 + P_1}{1+K_e}$$

Where,

P_0= current market price of a share (market price at the beginning or at the zero period.)

K_e=the cost of equity capital (assumed constent)

D_1=the dividend per share to be reduced at the end of the period one

P_1=the market price of the share at the end of the period one.

Step-two:

Multiply both sides of equation (1) by the number of shares outstanding (n) to obtain the total value of the firm if no new financing exists.

$$np_c = \frac{n(D_1+P_1)}{1+K_e}$$

Where,

n=no of outstanding shares at zero period

Step-three

if the firm issues (sells) number of new shares (m)to finance the new investment needs of the fund at a price of p1,the value of the firm at the time zero will be ;

$$np_o = \frac{n(D_1 + P_1) + (nP_1 - mP_1)}{1 + K_e} \quad \ldots\ldots\ldots\ldots\ldots (2)$$

$$np_o = \frac{nD_1 + P_1 + nP_1 - mP_1}{1 + K_e} \quad \ldots\ldots\ldots\ldots\ldots (3)$$

Where,

n = no of shares at the beginning (no of outstanding shares at zero period) ,

m= no of equity shares issued at at the end of the period.

Step-four

The investment proposals of a firm, in a given period of time can be financed, either by retained earnings or the issuance of new shares or both. Thus the amount of new issued will be:

$$mp_1 = I - (E - nD_1)$$

$$\text{Or, } mp_1 = I - E + nD_1 \quad \ldots\ldots \quad (4)$$

Where,

I=investment need

E=Earning available

Step-five

By substituting the value of mp_1 from equation (4) to equation (3),we get,

$$np_o = \frac{nD_1 + (n+m)p_1 - I + E - nD_1}{1 + K_e}$$

$$np_o = \frac{p_1(n+m) - I + E}{1 + K_e} \quad \ldots\ldots\ldots\ldots\ldots (5)$$

Step- six

Conclusion:-since dividend does not appear directly in expression and E,I,$(n+m)p_1$, and k_e are assumed to be independent of dividend.

In other words, mm concludes that dividend policy is irrelevant and dividend policy has no effect in the value of the firm. A firm that pays dividend will have to raise funds externally to finance its investment plans. mm hold that when that when the firm pays dividend externally to financing offsets its advantage.

Myron Gordon (1962) conducted a study on the stock valuation using the dividend capitalization approach. Gordon concludes that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. He explains that investment are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. The conclusion of this study is that investors have a strong preference for present dividends to future capital gains under the condition of uncertainity . it is assumed that current dividend is less risky than the expected capital gain. His argument stresses that an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield (D_1/p_0) is less risky than the expected capital gain.

Basic assumption of this model are as follows

1. The firm uses equity capital only,
2. Internal rate of return (r) and cost of capital (k_e) are constant.
3. The firm and its stream of earnings are perpetual.
4. There are no taxes on corporate income.
5. The retention ratio (b) once decided upon is constant. Thus the growth rate, (g=br)is constant forever.
6. K_e'must be greater than g(=br) to get meaningful value.
7. The source of financing for new investment is only retained earning. No external financing is available.

Gordon's model is also known as GROWTH MODEL.

The formula for finding out the market value per share, proposed by Gordon is given below

$$P = \frac{E(1-b)}{k_e - b_r} = \frac{E(1-b)}{k_e - b_g}$$

Where,

p=price of share/ market value per share

E=Earning per share

b=Retention ratio/percentage of retained earning

1-b=Dividend payout ratio (i.e, percentage of earning distributed as dividend)

K_e=capitalization rate/cost of capital

b_r=g or growth rate in r, (i.e.,rate of return on investment of an all equity firm)

Irwin Friend and Marshall Puckett (1964) conducted a atudy on the relationship between dividends and stock prices. They used the regression analysis on the data of 110 firms from the industry samples, viz., chemicals (n=20), electronics (n=20), electric utilities (n=25), foods (n=25), and steels (n=20), in each of two years, 1956 and 1958. The industries ever selected to permit a distinction to be made between the results for growth and non-growth industries and to provide a basis for comparison with results by other authors for earlier years. Both cyclical and non-cyclical industries were covered. The periods covered include a boom year for the economy when stock prices leveled off after a substantial rise (1956) and a somewhat depressed year for the economy when stock prices, however, rose strongly (1958).

They used two-regression model of price function and dividend supply function. In price function, dividends, retained earnings and price earnings ratio are independent variables, whereas, earnings, last year's, dividends and price earning ratio are independent variables in dividend supply function. Symbolically, their price function and dividend supply function can be written as:

Price function; $P_t = a + b\ D_t + c\ R_t + d\ (E/P)\ t\text{-}1$

Where,

P_t=per share price at time t

D_t=Dividends at time t

R_t=Retained earnings at time t

$(E/p)_{t-1}$=lagged earnings price ratio

And, Dividend supply function;

$$D_t = e + f E_t + g D_{t-1} + h (E/P)_{t-1}$$

Where,

E_t=Earnings per share at time t

P_{t-1}=last year dividend

The followings were the basic assumptions of their study:

a. Dividends do react to year-to-year fluctuations in earnings.

b. Price does not contain speculative components.

c. Earnings fluctuations may not sum zero over the sample.

Friend and Puckett concluded that dividends have p predominant influence on stock prices in the same three out of five industries but the differences between the dividends and retained earnings coefficients were closer to each other for all industries in both years except for steels in 1956, and the correlations are higher, again except for steels.

At last, Friend and Puckett found a conclusion that, it is possible that management might be able, at least in some measure, to increase stock prices in non-growth industries by raising dividends, and in growth industries by greater retention, i.e, smaller(lower) dividends.

James E-walter (1966) conducted a study on dividend and stock prices. He proposed a model for share valuation. According to him, the dividend policy of the firm affects the value of the shares. So, the dividends are relevant. He argues that the choice of dividend policies always affect the value of enterprise.

His studies shows clearly the importance of the relationship between internal rate of return (R) and its cost of capital (k)in determining the dividend policy.

The assumptions of the Walter's model are as follows:-

a. Firm finances all investment through retained earning. The external funds (i.e. debt, new equity) are not used for new investment.

b. All earnings on the firm's investment(R) and the cost of capital (k) are constant.

c. All earnings are either distributed as dividend or reinvested internally..

d. The values of EPS and DPS are assumed to remain constant forever in determining a given value.

e. The firm has a perpetual or infinite life.

Based on these above assumptions, Walter has given following formula of valuation of equity share.

$$P=\frac{DPS}{K_e}+\frac{r/k_e(EPS-DPS)}{K_e}$$

Where,

P=market value of an equity share (market price per share)

DPS=Dividend per share

EPS=Earning per share

r=The rate of return on the firm's investment

k_e=cost of capital/capitalization rate

According to Walter's model, the optimum dividend policy depends djon the relationship between the firm's internal rate of return (r) and its cost of capital (k).

Van Horne and Mc-Donald (1971) conducted a study on dividend policy and new equity of financing decision on the market value of the firm's common stocks.

Empirical tests are performed with year end 1968 cross sections for two industries, using a well known valuation model. For there investigation, they employed two samples af firms viz.the 86 electric utilities in the continental U.S. which are included on the COMUSTAT utility data taps;and 39 companies in the electronics and electric component industries are listed on the COMPUSTAT industrial data tape in1968.

They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividends, except for those firms in the highest new issue group and it made new equity a more costly form of financing than the retention of earnings.

They also indicated that the "cost" new disadvantages of new equity issues relatives to retained earnings widens as relatively large amounts of new equity are raised, so that the payment of dividends through expressive equity financing reduces share prices. For forms in the electronics – electronic component industry, a significant relationship between new equity financing and value was not demonstrated.

Deepak Chawla and G.Srinivasan (1987) conducted a study on the impact of dividend and retention on share price. They selected 18 chemicals and 13 sugar companies and estimated cross selectional relationship for the years 1969 and 1973.

They collected the required data from the official directory of Bombay stock exchange. They used two stages least square technique for estimation. They also used lagged, earnings price ratio instead of lagged price earnings ratio,i.e. $P/E_{(t-1)}$

The followings were the prime objectives of their study :

i. To test the hypothesis of dividend and retained earnings.
ii. To estimate a model to explain share price, dividend and retained earnings relationship.
iii. To examine the structural changes in estimated relations over time.

In order to achieve (attain)these objectives , they used simultaneous equation model as developed by Friend and Puckett (1964). The following was the model in its unspecified form.

a. Price function

$P_t = f[D_t, R_t, P/E_{(t-1)}]$

b. Dividend supply function

$D_t = f[E_t, D(t-1), P/E(t-1)]$

c. Identity,

$E_t = D_t + R_t$

It was found, from the result of their two stages least square estimation, that the estimated coefficient has the correct sign and the coefficients of determination of all the equations were very high in case of chemical industry. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry, they found that the sign for retained earnings in negative in both years and left for further analysis of sugar industry.

Finally, they concluded that dividend hypothesis holds well in the chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry. They also stressed that the impact of dividend is more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings.

2.3 Review of Journals and Articles

Dr. M.K. Shrestha (1981) in his articles article "Public Enterprises: Have They dividend paying Ability?" highlighted (focused) the following issues in the article.

Government wants two things from the public enterprises . They should be in a position to pay minimum dividend and public enterprises should be self supporting in financial matters in future years to come. But these both objectives are not achieved by public enterprises.

1. One reason for this inefficiency is caused by excessive governmental interference over daily affairs even though there is provision of government interference only for policy matters . on the other hand, high ranking officials

of Nepal Government appointed as directors of board do nothing but simply show their bureaucratic personalities, Burearcracy has been the enemy of efficiency and thus led corporation to face losses. Losing corporations are, therefore, not in a position of pay dividends to government.

2. Another reason for this is lack of self-consciousness.

Dr. M.K. Shrestha (1992) in his article "shareholders" Democracy and annual General meeting Feedback" has dealt with the policies and financial performance of some financial companies and has made the following outcomes

i) The cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment.

ii) Multiple decreases in the purchasing power of the Nepalese currency to the extent that higher return by the way of dividend is just a natural economic consequence of it.

iii) Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholders' purchasing power by raising dividend payout ratio on the basis of both earnings and cost theory.

iv) Indo-Nepal trade and transit deadlock has become a sort of economic warefare putting rise in the cost of living index to a considerable extent. This is one of the reasons, which made shareholders to expect higher demand for satisfactory dividend.

v) The waiting of five years with peanut dividend in previous year is equally a strong enforceable reason of the bank's shareholders to expect handsome dividend already assured and committed in various reports of the earlier annual general meeting.

vi) One way to encourage risk-taking ability and preference is to have proper risk-return trade off by bank's management board in a way that higher return must be the investment rule for higher risk-takers that comprise bank's shareholder.

vii) Dr. R.S. pradhan (1993) in his articles "*stock market behaviors in a small market: A case of Nepal* ", has conducted a study on small market Behavior in A Small Capital Market : A case of Nepal in 1993. It is pertinent to put forth here because he has analyzed various ratios related to dividend and market price of shares. The study was based on the pooled-cross sectional data of 17 enterprises covering the year from 1986 to 1990.

The objectives of this study were as follows:

i) To assess the stock market behavior in Nepal.

ii) To examine the relationship of market equity, market value to book value, price-earning , and dividends with liquidity, profitability, leverage, assets turnover and interest coverage.

Some findings of his study, among others, were as follows:

i) Stocks with larger ratio of dividend per share to market price per share have higher liquidity. Liquidity position of stocks paying lower dividends is also more variable as compared to

Stock paying higher dividends.

ii) Stocks with larger ratio of dividend per share to market price per share have lower leverage ratios. So, leverage ratios of stocks paying smaller dividends are also more variable as compared to stocks paying higher dividends.

iii) Stocks with larger ratio of dividend per share to market price per share also have higher earnings. But these earning ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

iv) Positive relationship is observed between the ratio of dividend per share to market price per share and turnover ratios. Stocks with larger ratio of dividend per share to market price per share also have higher turnover ratios. Turnover ratios of stocks paying larger dividends are also more

variable than that of stocks paying larger dividends are also more variable than that of stocks paying smaller dividends.

v) There is also positive relationship between the ratio of dividend per share to market price per share and interest coverage. Stocks with higher ratio of dividend per share to market price per share also have higher interest coverage. Interest coverage stocks paying larger dividends is also more variable as compared to stocks paying smaller dividends.

vi) So, in conclusion, it indicates positive relationship of dividend per share to market price per share with liquidity, profitability, assets turnover and interest coverage; and negative relationship with leverage.

2.4 Review of Thesis

Minaraba Sharma (Rajopadhaya)(2002) conducted a research on *"dividend policy with respect to insurance companies in Nepal"* in July 2002. The objectives of this research were;

a) To identify the existing practice of dividend policy in insurance companies.

b) To find out the impact of dividend per share of the market price of the stock.

c) To examine whether there is significant different or not among DPS,EPS and DPR on the selected companies.

d) To know if there is any relationship between market value per share (MVPS) ON dividend policy and other financial indicator such as DPS, EPS, DPE, PE Ratio, liquidity ratio.

Some major Findings of the study are pointed out as:

a. The average DPS and EPS of NLGICO and NICO is satisfactory compared to ICO and UICO.

b. The insurance companies are new in dividend distribution.

c. The analysis of coefficient of variation indicates largest fluctuation in PICO and UICO.

d. The dividend is fluctuation in all sample in all sample insurance companies.

Prashant Adhikari (2003) carried out a research on *"corporate dividend practices in Nepal"* using primary as well as secondary data. The main objectives of his research were:

a. To analyze the properties of portfolios formed on dividend.

b. To examine the relationship between dividend and stock prices.

c. To survey the opinions of financial executives on corporate dividend practices.

Major findings of this research are:

a. Financial position of high dividend paying companies is comparatively better than that of low dividend companies.

b. Market price of stock of both finance and non finance sectors are affected by dividends.

c. There is a positive relationship between dividend and stock price.

d. There is a negative relationship between dividend payout and earnings before tax to net worth.

e. Stocks with larger ratio of DPS to book value per share have higher profitability. These profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

f. Companies paying higher are reluctant to employ higher degree of leverage in their capital structures.

g. The stocks with larger ratio of dividend per share to book value per share have also higher turnover ratio and higher interest coverage.

Kishori Budhathoki (2006) carried on a research on *"The study of dividend policy of the commercial banks in Nepal on May 2006."* The main objectives of the study were;

a. To highlight the dividend practices of commercial Banks.

b. To compare the dividend policy followed by different commercial banks chosen.

c. To provide the sample with some fruitful suggestion that can be implemented easily and possible guideline to overcome various issues and gaps based on the findings of the analysis.

Some of the major findings of this study are:

a. The average earning per share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS.
b. The average dividend per share (DPS) shows that there is no regularity in dividend payment.
c. The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable.
d. The average market price shows that there is quite high level of fluctuation.

Ram Hari Bhattari (2007) conducted study on *"Dividend Decision and its impact on stock valuation."* The objectives of this study were as follows:

a. To test the relationship between dividend per share and stock prices.

b. To identify whether it is possible to increase the market value of the stock changing dividend policy or pay out ratio.

c. To determine the impact of dividend policy or payout ratio.

The study used simultaneous equation model are developed by friend and puckett (1964), to explain the prices behavior. The findings of the study were as follows:

a. The relationship between dividend per share and stock prices is positive in the sample companies.

b. Dividend per share affects the share prices variedly in different sectors.

c. Changing the dividend policy or dividend per share might help to increase in market price of shares.

d. The relationship between prices and retained earnings per share is not prominent.

e. The relationship between stock prices and lagged earnings price ratio is negative.

Mita Pandey (2008) researched on *"pricing and yield behavior of Equity shares in Nepal: A case of commercial Banks"*on March 2008. The main objectives of the study are:

a. To establish relationship between market prices of commercial bank's equity shares and their yield behavior in Nepal.

b. To see how effective is yield in determining the market price of the securities?

c. If yield is not the sole determining factor then what could be other factors, which could affect the market prices of the securities in Nepal.

d. To identify problems of securities market in Nepal and suggest measure to correct the existing problems.

Main findings of this research are:

a. Market prices of the equity shares ate overvalued when compared to the earnings per share, which is the primary indicator of the financial status of the concerned financial institution. This was mainly due to ignorance and Improper access to financial health of the company.

b. The result of simple regression analysis between the market price and yield indicator reflected that net worth per share explained the best of the market prices compared to other indicators. Dividend per share and earnings per share were equally explanatory, whereas dividend payout ratio was not a good indicator of stock pricing. The result showed that market price corresponds to the earnings per share at a greater extent and then to dividend per share and then to earnings per share.

CHAPTER -III

RESEARCH METHODOLOGY

3.1 Research Design

The main objective of this research work is to evaluate the dividend policy of commercial banks. To complete this study, following design and format has been adopted.

First of all, information and data are collected. The important information and data are selected. Then data are arranged in useful manner. After that, data are analyzed by using appropriate financial and descriptive and analytical tools. In analysis part, interpretation and comments are also made wherever necessary.

3.2 Sources of Data

The study is based on secondary and primary data. The secondary data are collected from their respective annual reports especially from profit and loss accounts, balance sheet and other publications made by the banks. Likewise, some other related information is gathered from related banks and related agencies like Nepal Rastra Bank, Nepal Stock Exchange limited, and the sources of primary data is questionaire that is distributed to the staffs at various levels of the samples banks.

3.3 Data Processing Procedures

For the purpose of this study, the different data are obtained from different sources, which are scanned and tabulated under different sources, which are scanned and tabulated under different heads. After tabulation, they are analyzed by applying both financial and statistical tools.

3.4 Population and Sample

At present, there are 26 commercial banks operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, samling will be done selecting from population. The samples to be selected are as follows:

(i) Himalayan Bank Limited.

(ii) Nepal Arab Bank Limited.

3.5 Period of the study

The study is based on five years financial data of sample banks (i.e., Himalayan Bank Limited and Nepal Arab Bank Limited) from fiscal year 2003/04 to 2007/08.

3.6 Research Tools

To achieve the objectives of the research, the following financial and statistical tools will be used.

3.6.1 Financial Tools

Earning per share (EPS)

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholders. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa. This ratio can be computed by dividing the earning available to common shareholders by the total number of common stock outstanding of banks. Thus,

$$\text{EPS} = \frac{\text{Earning available to common stock holders}}{\text{Number of common stock outstanding}}$$

Dividend Per Share (DPS)

Dividind per share indicates the rupee earnings actually distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholders. Generally, the higher DPS creates positive attitude of the shareholders toward the bank, which consequently helps to increase the market value of the shares.

Thus,

$$\text{DPS} = \frac{\text{Total amount of dividend paid to ordinary shareholders}}{\text{Number of ordinary shares outstanding}}$$

Dividend Payout Ratio (DPR)

It is the portion of the earning used for the payment of dividend. The dividend payout ratio is the earnings paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. This ratio is calculated by dividing dividend per share by the earning per share. Thus,

$$\text{DPR} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

Price-Earning Ratio (P/E Ratio

The P/E ratio measures investor's expectation and market appraisal of the performance of firm. This is important to compare the market share prices of different stock given their earning per share. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm's future . This ratio is computed by dividing earning per share to market price per share. Thus,

$$\text{P/E Ratio} = \frac{\text{Market price per share}}{\text{Earning per share}}$$

Earning Yield and Dividend Yield (EY and DY Ratio)

The earning Yield and dividend yield both are expressed in terms of the market value (price) per share. Earning Yield and dividend Yield are two important profitability ratios from the point of view of the ordinary shreholders.

Earning Yield (EY)

Earning per share as the percentage of market price per share in the stock market is called the earning yield. In other words, it is a financial ratio relating to earning per share to the market share price at a particular time. It measures the earning in relation to market value of share. It gives some idea of how much an investor might get for his money.

$$\text{EY Ratio} = \frac{\text{Earning per share}}{\text{Market price per share}}$$

Dividend Yield (DY)

Dividend Yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. It measures the dividend in relation to market value of share. So, dividend yield is the dividend received by the investors as a percentage of market prices per share in the stock market.

Thus,

$$\text{DY Ratio} = \frac{\text{Dividend per share}}{\text{Market price per share}}$$

Market Value (Price) Per Share to Book Value Per Share (MPS to BVPS) Ratio

This ratio measures that the market situation per share in the competitive open market with respect to book value per share of joint ventures banks. This ratio indicates the price that the market is paying for the share that is reported from the net worth of the banks.

The higher ratios represent to conclude that the better performance of joint venture banks in term of market price per share to book value per share. This ratio can be derived by dividing market price per share by book value per share. Thus,

$$\text{MPS to BVPS Ratio} = \frac{\text{Market price per share}}{\text{Book value per share}}$$

3.6.2 Statistical Tools

Arithmetic Mean or Average

An average is a single value that represents a group of values. It depicits the characteristic of the whole group. It is a representative of the entire mass of the largest and the smallest items. It is obtained by dividing the sum of the quantities by the number of items. Thus,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$ = sum of the sizes of the items

N= number of items

Standard Deviation (S.D)

Standard deviation is the positive square root of the arithmetic average of the squares of all the deviations measured from the arithmetic average of the series. It is independent of the position of the origin. Generally, it is denoted by small Greek letter σ (read as sigma) and is obtained as follows:-

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

Where,

N = Number of items in the series.

$\bar{X}$ = mean

X = Variable

Coefficient of Variation (C.V.)

The series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. It is denoted by C.V. and is obtained by dividing the arithmetic mean to standard deviation. Thus,

$$\text{Coefficient of Variation } (C.V.) = \frac{\sigma \times 100}{\bar{X}}$$

Where,

σ = Standard Deviation

$\bar{X}$ = Mean

Coefficient of correlation

The coefficient of correlation is a number, which indicates to what extent two things (variables) are related to what extent variations in one go with the variations in the other (Levin and David; 1994:613)

The value of coefficient of correlation as obtained shall always lie between ± 1,a value of -1 indicating a perfect negative relationship between the variables, of +1 a perfect positive relationship, and of no relationship when correlation coefficient is zero. The zero correlation coeficient means the variables are uncorrected.

Thus, in this study, the degree of relationship between dividend and other relevant financial indicators such as earning per share, market price per share, current ratio, net profit andnet worth is measured by the correlation coefficient, which is denoted by r or r_x or r_{yx} (of X and Y are two sets). It is defined by Karl Pearson as:

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

Under the correlation analysis, the following financial variables have been calculated.

Simple Correlation Coefficient:

a) Between dividend per share and earning per share.
b) Between market price per share and dividend per share.
c) Between Book value per share and dividend per share.
d) Between earning yield and dividend yield.
e) Between market price per share and dividend payout ratio.

Multiple Correlation coefficients:

a) Between market price per share (MPS) and earning per share (EPS), dividend per share (DPS).

Coefficient of Determination

Coefficient of determination measures only the strength of a linear relationship between two variables . It refers to a measure of the total variance in a dependend variables that is explained by its lineat relationship to an independent variable. The R^2 is defined as the ratio of explained variance to the total variance. Thus,

$$\text{Coefficient of Determination } (R^2) = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

Regression Analysis

Regression Aanlysis is a statistical method for investing relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of the relationship between two (Simple Regression) or more (Multiple regression) variables. It helps to predict of estimate the value of one variables. It helps to predict or estimate the value of one variable when the value of other variables is also known. In order to make easier, regression analysis has been divided into two parts.

Simple regression

The analysis, which is used to explain the average relationship between two variables, is known as simple linear regression analysis. In this study, the following simple regression has been analyzed.

Simple Regression Analysis

Dividend per share on Earning per share

$Y=a + bX$

Where,

Y= Dividend per share

a = Regression constant

b= Regression coefficient

X= Earning Per share

This model has been constructed to examine the relationship between dividend per share (dependent variable) and earning per share (independent variable). It enables to determine whether the variable of earning per share is the influencing factor to dividend decision of not.

Average stock price on Dividend per share

$$Y=a+bX$$

Where,

Y=Average stock price

a=Regression constant

b=Regression coefficient

X=Dividend per share

This model examines the relationship between the average stock price and dividend per share.

Dividend per share on Book value per share

$$Y=a+bX$$

Where,

Y=Average stock price

a=Regression constant

b=Regression coefficient

X=Dividend per share

The relationship between book value per share and dividend per share can be explained through this model.

Dividend Yield on Earning Yield

$$Y=a+bX$$

Where,

Y=Dividend Yield

a=Regression constant

b=Regression coefficient

X=Earning Yield

The relationship between dividend Yield and earning yield can be explained through this model.

Average stock price on Dividend payout ratio

$$Y = a + bX$$

Where,

Y=Average stock price (market price per share)

a=Regression constant

b=Regression coefficient

X=Dividend payout ratio

This model tests the dependency of market price per share on dividend payout ratio.

Multiple Regression

In multiple regression analysis, two or more independent variables are used to estimate the values of dependent variable. It is the extension of simple regression technique. In this study, the following multiple regression analysis have been analyzed.

Market price per share on Earning per share and Dividend per share

$$X_1 = a_1 + b_1X_2 + b_2X_3$$

Where,

X_1 =Market price per share

a_1 =Regression constant

b_1 =Regression coefficient of variable 1st

b_2 =Regression coefficient of variable 2nd

X_2=Dividend per share

X_3=Earning per share

It helps to predict the market price per share on earning per share and dividend per share.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

The basic objectives of this study have been already highlighted in the first chapter. In order to accomplish the stated objective, analytical and explorative research methodology has been followed. In this chapter, the effort has been made to analyze the dividend policy of both the banks i.e. NABIL and HBL.

4.1 Secondary Data Analysis

This section consists presentation and analysis of secondary data related with different variables using both financial and statistical tools explained in the third chapter.

4.1.1 Earning Per Share (EPS)

Earning per share shows the company's capability of generating profit per share. Higher EPS indicates better performance of the companies and company with net loss will result negative EPS. The EPS of both the banks, HBL &NABIL is presented in the table 4.1.

Table 4.1

Earning Per Share (EPS)

Year	HBL	NABIL
2003/04	49.05	92.61
2004/05	47.91	105.49
2005/06	59.24	129.21
2006/07	60.66	137.08
2007/08	62.74	108.31
Average	55.92	114.54
S.D. (σ)	6.19	16.28
C.V. %	11.06	14.21

Source: Annual reports of HBL and NABIL.

From the observation of the table 1.1, the EPS of HBL has decreased from fiscal year 2003/04 (Rs. 49.05) to fiscal year 2004/2005 (Rs. 47.91). However,the EPS reached to Rs.62.74 in the fiscal year 2007/08. The average EPS is Rs. 55.92, standard

deviation is 6.19, and the coefficient of variation is 11.06%. This coefficient of variation clears that there is 11.06% fluctuation in EPS, which means there is acceptable consistency in EPS.

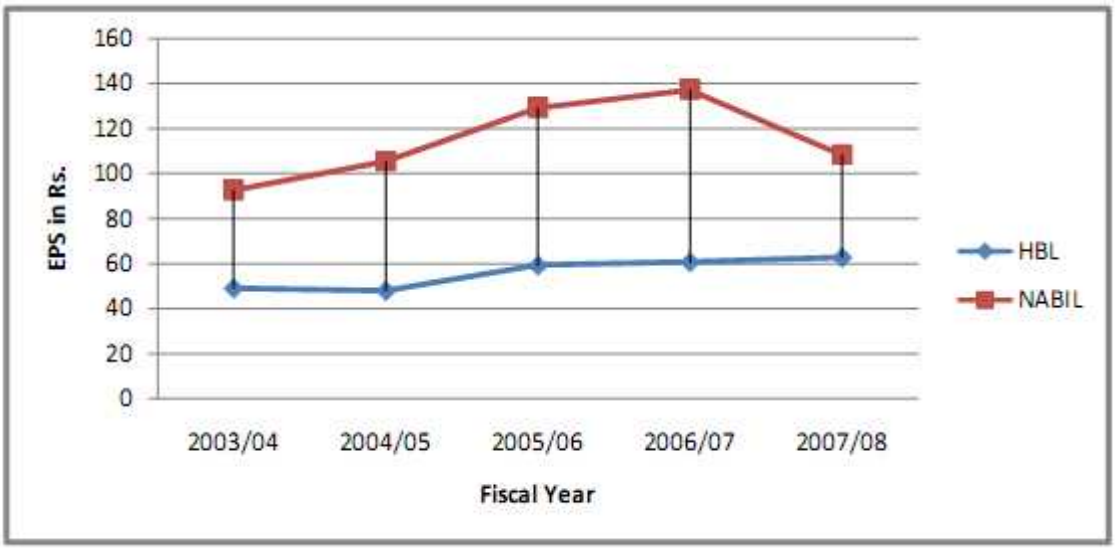
The EPS of 2003/04 and 2004/05 are lower than the average EPS of this bank. In other words, this bank is not able to maintain its average EPS for two years, and EPS of rest three years 2005/06, 2006/07 and 2007/08 are higher than the average EPS.

Similarly, the EPS of NABIL has followed the increasing trend from the base year 2003/04 to the fiscal year 2006/07 and decreased in the fiscal year 2007/08. The EPS of NABILin the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 are Rs 92.61, Rs105.49, Rs 137.08, Rs.108.31 respectively. The company enjoyed higher EPS in each year compared to the EPS of previous year except in the fiscal year 2007/08. Likewise, the average EPS of previous year in the fiscal year 2007/08 .Likewise, the average EPS of NABIL in the fiscal year is Rs. 114.54 and the standard deviation & Coefficient of Variation are 16.28 and 14.21 respectively.

In average, NABIL enjoyed more than two times of EPS (Rs. 114.54) than that of HBL (Rs.55.92). so, it can be considered that NABIL remained more successful than HBL in generating higher EPS of HBL is more consistent than that or NABIL.

Figure 4.1

Earning Per Share



4.1.2 Dividend per share (DPS)

Dividend per share is the amount of dividend distributed to the shareholders for their single unit of share. Higher the amount of DPS retains the shareholder for long term. However, only cash dividend distributed to the shareholders for long term. However, only cash dividend distributed to the shareholders of HBL and NABIL is presented in the table 4.2.

Table 4.2

Dividend Per Share

Year	HBL	NABIL
2003/04	0	65
2004/05	11.58	70
2005/06	30	85
2006/07	15	100
2007/08	25	60
Average	16.32	76
S.D. (σ)	10.52	14.63
C.V. %	64.46	19.25

Source: Annual reports of HBL and NABIL.

The dividend per share shown in the above table reflects that DPS of HBL has ranged between Zero (0) to Rs. 30. Similarly, the HBL has not paid any dividend in the fiscal year 2003/04. Despite the profit, HBL has paid no profit as dividend, which indicates that HBL has retained all the earnings for its internal growth in the fiscal year 2003/04. The HBL has paid a dividend of Rs. 30 and Rs. 25 in the fiscal year 2005/06 and 2007/08 respectively which are higher than the average DPS of Rs. 16.32. The standard deviation and the coefficient of variation of the bank are 10.52 and 64.46 percent respectively. The coefficient of variation indicates that there is high inconsistency in the ratio.

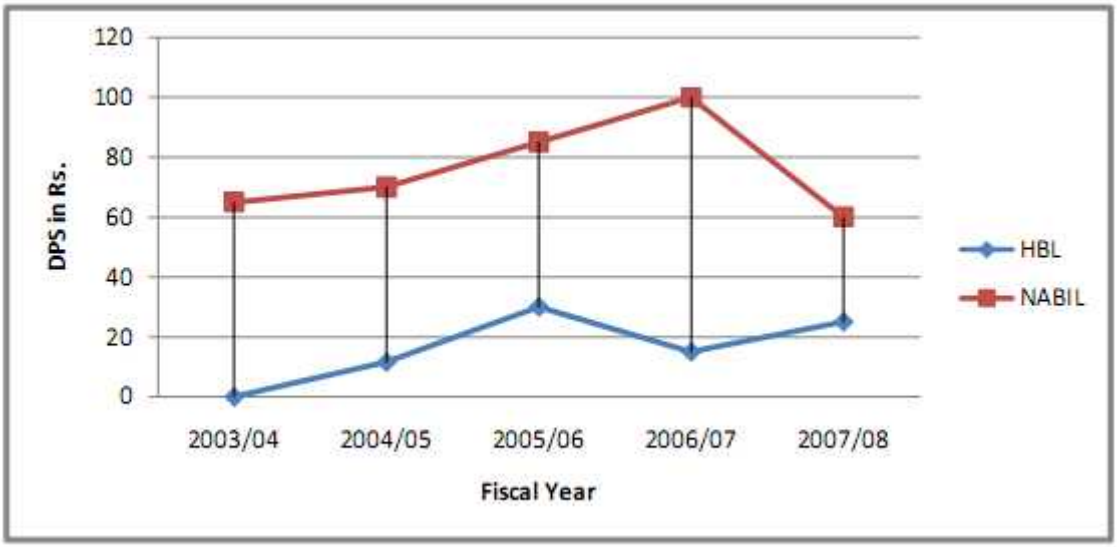
In case of NABIL, the shareholder are enjoying higher amount of cash DPS in each fiscal year compared to the dividend of previous year except in the fiscal year except in the fiscal year compared to the dividend of previous year except in the fiscal year 2007/08. The DPS of NABIL followed an increasing trend for the initial four year

2007/08. The average DPS of this bank is Rs. 76, standard deviation is 14.63 and coefficient of variation is 19.25 percent.

In conclusion, the average dividend per share paid by NABIL (Rs 76) is comparatively higher than the average dividend per share of HBL (Rs. 16.32). So, NABIL is comparatively more successful to create the positive attitudes of shareholders towards the bank. It consequently helps to increase the market value of shares and also helps to demonstrate the better performance of the bank's management.

Figure 4.2

Dividend Per Share



4.1.3 Bonus Share Dividend (DP)

The bonus share dividend indicates the number of bonus share distributed for holding a single share. The bonus share dividend equivalent to Rupees of both HBL and NABIL is presented in the following table 4.3.

Table 4.3

Bonus Share Dividend

Year	HBL	NABIL
2003/04	20	0
2004/05	20	0
2005/06	5	0
2006/07	25	40
2007/08	20	40
Average	18	16
S.D. (σ)	6.78	19.60
C.V. %	37.68	122.47

Source: Annual reports of HBL and NABIL.

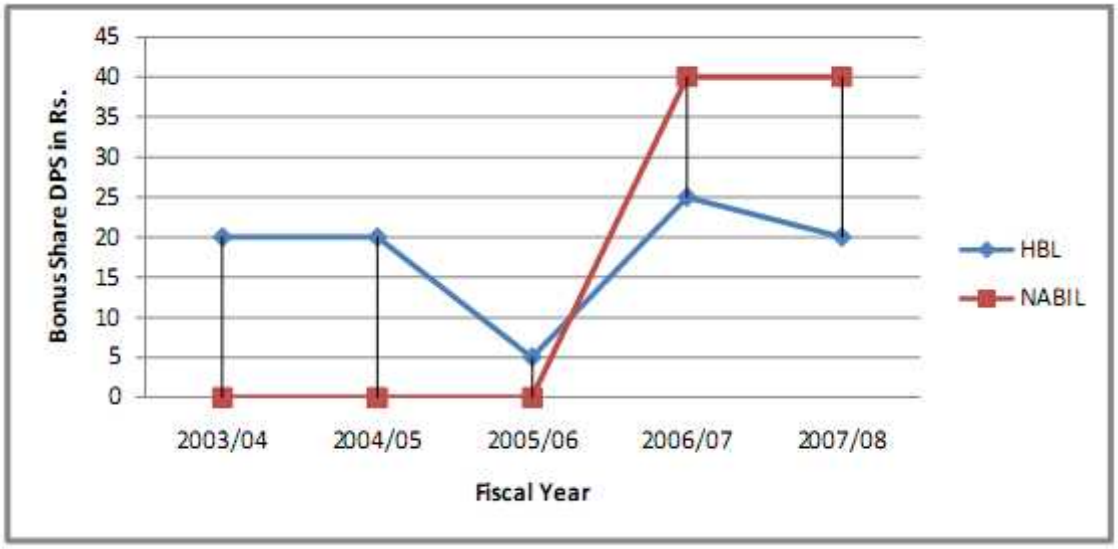
The above table showed that the bonus shre dividend of HBL ranged from Rs. 5 in the fiscal year 2005/06 to Rs. 25 in the fiscal year 2006/07. HBL distributed an average bonus share of Rs.18 in the five year period. The standard deviation and coefficient of variation on the bonus share are Rs 6.78 and 37.68% respectively. The C.V. indicated that distribution of bonus share fluctuated by 37.68% in the periods for study.

However, the NABIL did not distribute any share as dividend for the last three years. Eventually, it paid bonus share of Rs. 40 in the fiscal year 2006/07 and year 2007/08. As a result, the bonus share of average Rs. 16 was paid by NABIL in the five year period. The coefficient of variation shows that there is no standard policy of distributing bonus share as dividend in NABIL.

Comparing the average bonus share dividend of HBL (Rs. 18) and NABIL (Rs. 16), it can be considered that the shareholders of HBL enjoyed more bonus share than that of NABIL.

Figure 4.3

Bonus Share Dividend



4.1.4 Dividend Payout Ratio (DPR)

Dividend payout Ratio measures the percentage of dividend paid out of the net profit after tax. It also clears about the retained earning, since net profit is composed of dividend and retained earning, since net profit is composed of dividend and retained earning only. Higher dividend payout ratio attracts the shareholders and consequently increases the market price of share.The dividend payout ratio of both banks is presented in the following table 4.4.

Table 4.4

DPR Analysis

Year	HBL			NABIL		
	DPS	EPS	DPR	DPS	EPS	DPR
2003/04	0	49.05	0.00	65	92.61	70.19
2004/05	11.58	47.91	24.17	70	105.49	66.36
2005/06	30	59.24	50.64	85	129.21	65.78
2006/07	15	60.66	24.73	100	137.08	72.95
2007/08	25	62.74	39.85	60	108.31	55.40
Average			27.88			66.14
S.D. (σ)			17.10			5.97
C.V. %			61.34			9.03

Source: Annual reports of HBL and NABIL.

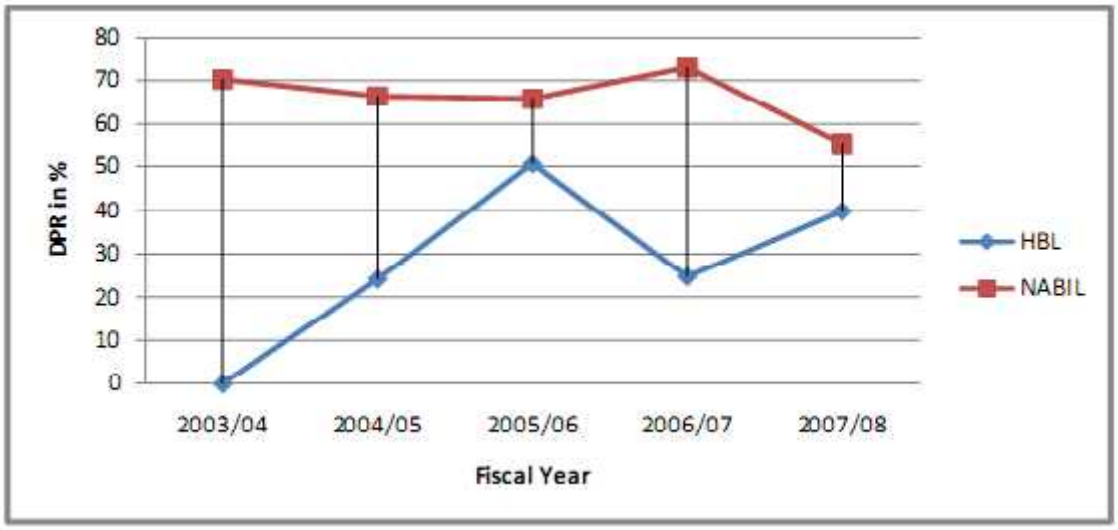
The above table showed that dividend payout ratio of HBL ranged from 0% in the fiscal year 2003/04, since no dividend distributed in that year, to 50.64% in the fiscal year 2005/06. The bank distributed almost half of its earning as a dividend in the fiscal year 2005/06. The bank maintained an average DPR of 27.88% in the five fiscal years. The standard deviation of DPR is 17.10% and coefficient of variation is 61.34%. The coefficient of variation shows that the DPR fluctuated by 61.34% in the five year periods and there is high inconsistency in the DPR. Gazing 0% DPR and 50.64% DPR in the fiscal year 2003/04 and 2005/06 respectively, it can be said that HBL does not have any benchmark to distribute dividend.

The DPR of NABIL decreased in each year except in the fiscal year 2006/07, when its DPR followed increased to 72.95% compared to the DPR of previous year 2005/06 (65.78%). The DPR of NABIL ranged from 55.40% in the fiscal year 2007/08 to 72.5% in the fiscal year 2006/07. However, NABIL, maintained an average DPR of 66.14% during the five year period, which clearly indicated NABIL gave more effort in retaining its existing shareholders and attracting potential shareholder toward it, because it retained only 33.86% in the average for internal financing. The standard deviation and C.V. are also 5.97% and 9.03% respectively.

Thus, it can be concluded that NABIL has more consistent DPR (C.V. 9.03%) than that of HBL (C.V.61.34%) and also NABIL's DPR is higher than that of HBL. Looking the average DPR of NABIL (66.14%), it can be said that NABIL became more successful to satisfy its shareholder than HBL.

Figure 4.4

Dividend Payout Ratio



4.1.5 Price Earning Ratio (P/E Ratio)

Price Earning Ratio is the ratio between market price per share and earning per share. It indicates the payment by the investors in the market for per rupee of earning in the company. The price earning ratio of both banks for the period taken for study is presented in the following table 4.5.

Table 4.5

Price Earning Ratio

Year	HBL			NABIL		
	MPS	EPS	P/E	MPS	EPS	P/E
2003/04	840	49.05	17.13	1000	92.61	10.80
2004/05	920	47.91	19.20	1505	105.49	14.27
2005/06	1100	59.24	18.57	2240	129.21	17.34
2006/07	1740	60.66	28.68	5050	137.08	36.84
2007/08	1980	62.74	31.56	5275	108.31	48.70
Average			23.03			25.59
S.D. (σ)			5.90			14.67
C.V. %			25.62			57.31

Source: Annual reports of HBL and NABIL.

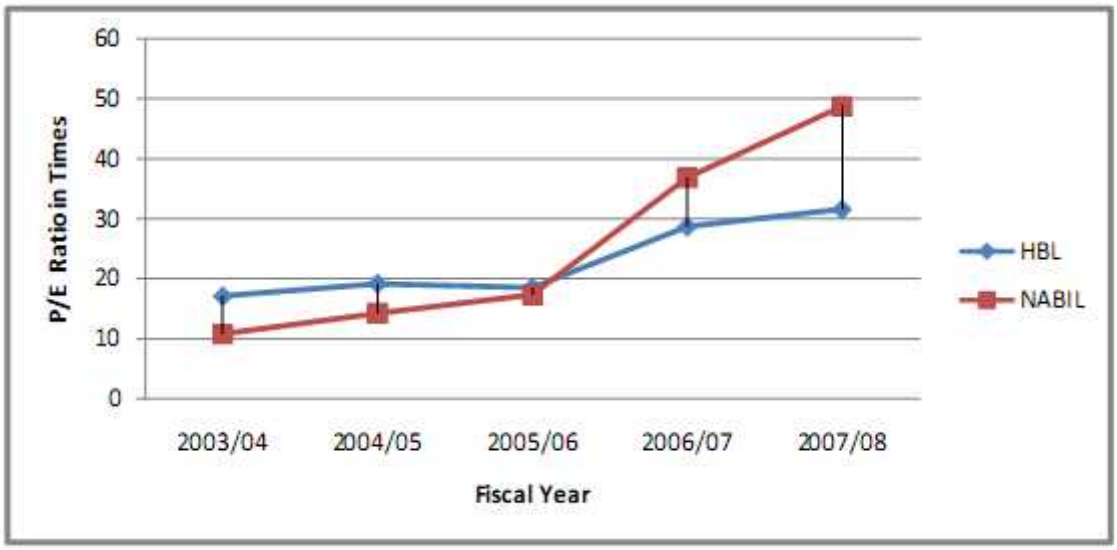
The above table exhibits the P/E Ratio of two banks viz. HBL and NABIL. The P/E ratio of HBL followed an increasing trend up to the fiscal year. The P/E ratio of HBL is 17.13 times, 19.20 times, 18.57 times, 28.68 times and 31.56 times in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. However, HBL maintained an average 23.03 times P/E ratio in the five year period, which indicates that the investors paid Rs. 23.03 for 1rupee of earning.

Similarly, the P/E ratio of NABIL ranged from 10.80 times in the fiscal year 2003/04 to 48.70 times in the fiscal year 2007/08. The P/E ratio in the remaining years is 14.27 times, 17.34 times and 36.84 times in the fiscal years 2004/05, 2005/06 and 2006/07 respectively. The P/E ratio of NABIL has increased in each year compared to that of previous year. The standard deviation and the coefficient of variation are 14.67 times and 57.31% respectively. The C.V. shows that there is more fluctuation in P/E ratio of 25.59 times in the five Year period, which indicated that the shareholders of NABIL invested Rs. 25.59 to generate 1 rupee of earning.

Comparing the P/E ratio of two banks, it can be considered that the investors of HBL paid fewer amounts by Rs. 2.56 to gain 1 rupee of earning. However, the P/E ratio of NABIL fluctuated more by 57.31% compared to P/E ratio of HBL in these period.

Figure 4.5

Price Earning Ratio



4.1.6 Earning Yield Ratio (EY)

It measures the earning in relation to market value of share. It gives some idea of how much an investor might get for his money. The share with higher earnings yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market. The Earning Yield is informative to compare the market share prices of stocks in the secondary market. The Earning Yield Ratio (EY) of HBL and NABIL is presented in the following table 4.6.

Table 4.6

EY Analysis

Year	HBL			NABIL		
	EPS	MPS	EY	EPS	MPS	EY
2003/04	49.05	840	5.84	92.61	1000	9.26
2004/05	47.91	920	5.21	105.49	1505	7.01
2005/06	59.24	1100	5.39	129.21	2240	5.77
2006/07	60.66	1740	3.49	137.08	5050	2.71
2007/08	62.74	1980	3.17	108.31	5275	2.05
Average			4.62			5.36
S.D. (σ)			1.08			2.69
C.V. %			23.33			50.12

Source: Annual reports of HBL and NABIL.

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

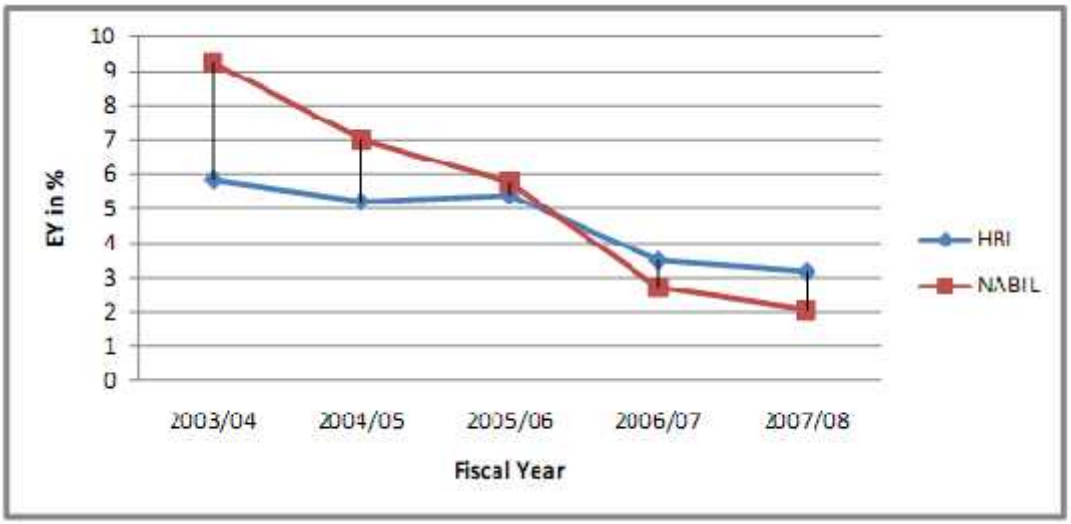
As presented in the above table the earning yield ratio of HBL is in decreasing order except in the fiscal year 2005/06. The earning yield decreased from 5.84% in the fiscal year 2007/08. The average earning yield decreased from 5.84% in the fiscal year 2003/04 to 3.17% in the fiscal year 2007/08. The average earning yield ratio of that bank is 4.62%, which is higher than the earning yield ratio of the last two years and is lower than the earning yield ratio of the remaining years. The standard deviation is 1.08 and the coefficient of variation is 23.33% of that bank.

Likewise, the earning yield ratio of NABIL also followed decreasing trend. The EY ratio of NABIL in the fiscal year 2003/04 is 9.26% and decreased to 2.05% in the fiscal year 2007/08.The average earning yield ratio is 5.36%, standard deviation is 2.69 and coefficient of variation is 50.12%. Although the EPS of NABIL followed increased trend, the EY ratio indicates that the proportionate increase in EPS is lower than the proportionate increase in MPS, which means that the investor is paying more in the market to gain one rupee earning in each fiscal year.

Comparing the average earning yield ratio of HBL (4.62%) and that of NABIL (5.36%), it can be considered that NABIL is more efficient in earning by 0.74% on the basis of market price of share.

Figure 4.6

Earning Yield



4.1.7 Dividend Yield Ratio (DY)

Dividend yield Ratio is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. The dividend Yield ratio of HBL and NABIL during the five year period is presented in the following table 4.7.

Table 4.7

DY Analysis

Year	HBL			NABIL		
	DPS	MPS	DY	DPS	MPS	DY
2003/04	0	840	0.00	65	1000	6.50
2004/05	11.58	920	1.26	70	1505	4.65
2005/06	30	1100	2.73	85	2240	3.79
2006/07	15	1740	0.86	100	5050	1.98
2007/08	25	1980	1.26	60	5275	1.14
Average			1.22			3.61
S.D. (σ)			0.88			1.91
C.V. %			72.28			52.86

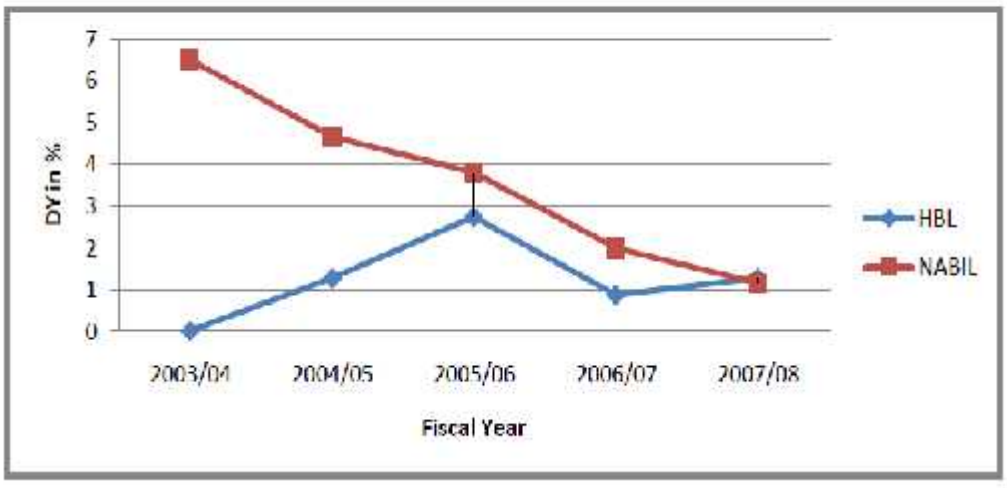
Source: Annual reports of HBL and NABIL.

The above table reveals the dividend yield ratio of the concerned banks from the fiscal year 2003/04 to 2007/08. The dividend yield ratio of the concerned banks from the fiscal year 2003/04 (no dividend paid) to 2.73% in the fiscal year 2005/06. The average dividend yield of HBL during the five year period is only 1.22% and the standard deviation & C.V. are 0.88% and 72.88% respectively. The average dividend yield of HBL indicated that the shareholders are paid dividend of only 1.22% dividend of the market price they invested per share.

Likewise, the dividend yield of NABIL ranged from 1.14% in the fiscal year 2007/ to 6.50% in the fiscal year 2003/04. The dividend yield of NABIL followed a decreasing trend. NABIL maintained an average dividend yield of 3.61%, standard deviation of 1.91% and C.V. of 52.86%. The average dividend yield indicates that NABIL paid 3.61% of the market price as an average dividend. Comparing the average dividend of NABIL (3.61%) and HBL (1,22%), it can be considered that the shareholders of NABIL got more percentage of the market price they paid for a share as dividend in return.

Figure 4.7

Dividend Yield



4.1.8 Market Value per Share to Book value per share Ratio

This ratio indicates the price that the market is paying for the share that is reported from the net worth of the banks. The market price per share to book value per share of both banks is presented in the following table 4.8.

Table 4.8

Analysis of MPS to BVPS Ratio

Year	HBL			NABIL		
	MPS	**BVPS**	**Ratio**	**MPS**	**BVPS**	**Ratio**
2003/04	840	246.93	3.40	1000	301	3.32
2004/05	920	239.59	3.84	1505	337	4.47
2005/06	1100	228.59	4.81	2240	381	5.88
2006/07	1740	264.74	6.57	5050	418	12.08
2007/08	1980	247.95	7.99	5275	354	14.90
Average			5.32			8.13
S.D. (σ)			1.72			4.54
C.V. %			32.36			55.83

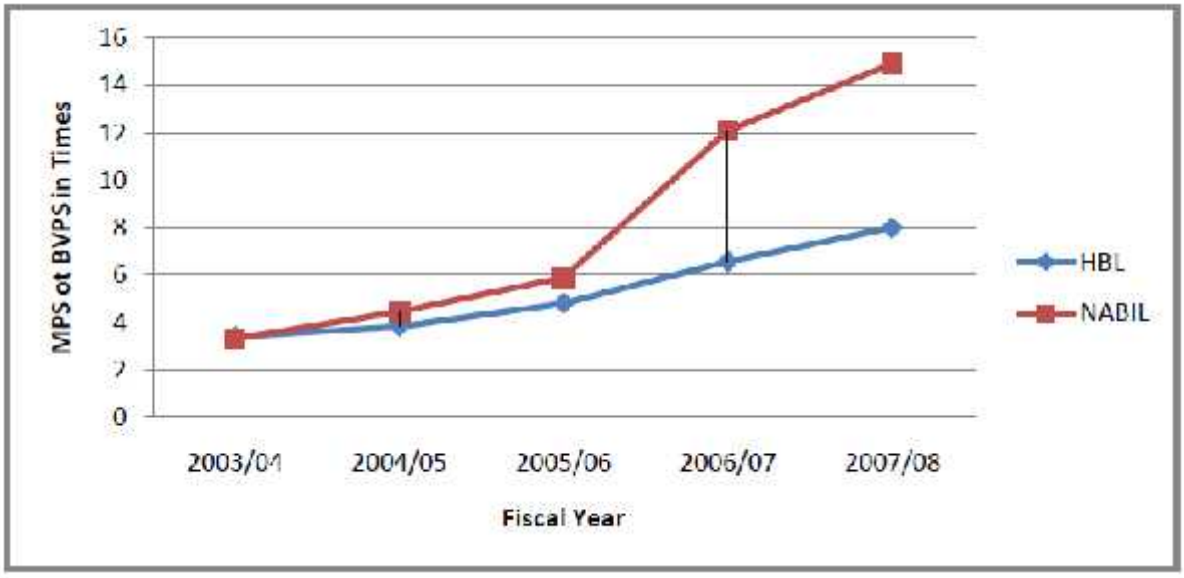
Source: Annual reports of HBL and NABIL.

As per the above table, the ratio of market value per share (MPS) to book value per share (BVPS) of HBL is in ascending order in the five year periods. The ratio increased from 3.40 times to 7.99 times in the fiscal year 2003/04 to 2007/08respectively. It means that the investor paid 3.40 times of the book value in the market in the fiscal year 2003/04 and paid 7.99 times of the book value in the market in the fiscal year 2007/08 to hold the share. The average MPS to BVPS in the five year period is 5.32 times, standard deviation is 1.72 times and C.V. is32.36%. In average, investor paid 5.32 times of the book value per share to acquire a single share.

Likewise, the market price per share to book value per share of NABIL increased in each fiscal year. The ratio ranged from 3.32 times to 14.90 times in the fiscal year 2003/04 and 2007/08 respectively. The average ratio of NABIL is 8.13 times, standard deviation is 4.54 times and coefficient of variation is 55.83 percent. In the five year period, the shareholders paid 8.13 times more than the book value per share to possess a single share in market value.

Figure 4.8

Market price per Share to Book value per Share



4.1.9 Simple Correlation and Regression Analysis

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

4.1.9.1 Dividend per Share (DPS) and Earning Per Share (EPS)

4.1.9.1.1 Correlation between DPS and EPS

The correlation coefficient between DPS and EPS as calculated in Appendix III is summarized below.

Table 4.9

Correlation Coefficient between DPS and EPS

Banks	r	Relationship	r^2	PE	6PE	Remarks
HBL	0.7637	+ve	0.5832	0.1990	1.1942	Insignificant
NABIL	0.8972	+ve	0.8049	0.1062	0.6373	Significant

Source: Appendix III.

The table 4.9 helps to depict the relationship between Earning Per Share (EPS) and Dividend Per Share (DPS) of HBL and NABIL. The correlation coefficient (r)

between EPS and DPS of HBL is 0.7637 which indicates the positive relationship between EPS and DPS. It means that the DPS increases with the increase in of EPS of HBL. Likewise, the relationship between EPS and DPS of NABIL is also positive, 0.8972, and the degree of correlation coefficient is high. Coefficient of determination is the measure of the degree of linear association or correlation between two variables. The value of r2 of HBL is 0.5832, which indicates that 58.32% of variation is explained in the dependent variable DPS due to the change in the value of independent variable EPS.

Similarly, in case of NABIL, the coefficient of determination between EPS and DPS 0.8049, which indicates that the variations in the DPS explain 80.49% due to change in the value of EPS. Likewise, the probable error indicates that the relationship between EPS and DPS of HBL is insignificant (r < 6 x P.E.) and the relationship between EPS and DPS of NABIL is significant (r > 6 x P.E.).

4.1.9.1.2 Regression Analysis: Dividend per Share (DPS) on Earning Per Share (EPS)

The simple regression equation of DPS on EPS calculated in the Appendix III is:

Y = a + b X

DPSHBL = -56.29 + 1.30 x EPSHBL

DPSNABIL = -16.35 + 0.81 x EPSNABIL

The regression variable and t-value obtained is summarized in the following table 4.10.

Table 4.10

Regression Analysis of DPS on EPS

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)	T value
HBL	5	-56.29	1.30	2.05
NABIL	5	-16.35	0.81	3.52

Source: Appendix III.

The table 4.10 depicts the output of simple regression analysis of DPS on EPS of the two banks viz. HBL and NABIL. In case of HBL, beta coefficient is 1.30, which

indicates that a one rupee increase in EPS leads to an average Rs. 1.30 increase in independent variable DPS, holding other variables constant. The constant (a) is -56.29. Also, the calculated value of t (2.05) is lower than the tabulated value of t (2.78) at 5% level of significance and 4 Degree of freedom, which indicates that the result is statistically insignificant.

In the case of NABIL, the beta coefficient is 0.81, which indicates a one-rupee increase in EPS leads to an average Rs. 0.81 increase in DPS, if the constant (a), -16.35, remains constant. Since calculated t-value (3.52) of NABIL is higher than the tabulated value of t (2.78) at 5% level of significance, the result is statistically significant.

4.1.9.2 Market Price per Share (MPS) and Dividend per Share (DPS)

4.1.9.2.1 Correlation between MPS and DPS

The correlation between MPS and DPS and the probable error calculated in *Appendix III* is summarized in the below table 4.11.

Table 4.11

Correlation Coefficient between MPS and DPS

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
HBL	0.4934	+ve	0.2435	0.2838	1.7026	Insignificant
NABIL	0.2806	+ve	0.0787	0.2998	1.7987	Insignificant

Source: Appendix III.

The table 4.11 reveals the relationship between dividend per share (DPS) and market price of stock (MPS). Coefficients of correlation of HBL and NABIL are 0.4934 and 0.2806 respectively. The coefficient of correlation between DPS and MPS of HBL and NABIL indicates the lower degree of positive correlation in each bank. However, there is no significant relationship between MPS and DPS of HBL since the ‗r' (0.4934) is lower than the 6 P.E. (1.7026). Also, in case of NABIL, since the value of ‗r' (0.2806) is lower than 6 P.E. (1.7987), there is no significant relationship between MPS and DPS, which means MPS does not necessarily has to increase with the increase in DPS.

4.1.9.2.2 Regression Analysis: Average Stock Price (MPS) on Dividend Per Share (DPS)

Let the dependent variable MPS is denoted by Y and independent variable DPS is denoted by X, then the regression equation of MPS on DPS is given by: Y = a + bX.

MPSHBL = 932.08 + 13.40 x DPSHBL

MPSNABIL = 390.93 + 34.51 x DPSNABIL

Table 4.12

Regression Analysis of MPS on DPS

Banks	no. of observation (n)	Constant (a)	Regression coefficient (b)	T-value
HBL	5	965.09	21.51	0.98
NABIL	5	390.93	34.51	0.51

Source: Appendix III.

The table 4.12 depicts the major output of simple regression analysis of average market price per share (MPS) on dividend per share (DPS) of the concerned banks as far as the regression of MPS and DPS is concerned, the regression coefficient of HBL and NABIL are positive, which are 21.51 and 34.51 respectively. It indicates that a one-rupee increase in DPS leads to increase an average of Rs. 21.51 increase in MPS of HBL and Rs. 34.51 increase in MPS of NABIL, if the other variable remains constant. The test of t-statistics aid to conclude that in HBL the relationship between MPS and DPS is insignificant, since the calculated value of t (0.98) is lower than tabulated value of t (2.78) and in NABIL as well the relationship is statistically insignificant, since the calculated t-value (0.51) is lower than the tabulated t-value (2.78) at 5% level of significance on 4 degree of freedom. Hence, the MPS of both the sampled banks is not significantly affected by the dividend payment pattern of the banks.

4.1.9.3 Book value per Share (BVPS) and Dividend Per Share (DPS)

4.1.9.3.1 Correlation between BVPS and DPS

The correlation coefficient between BVPS and DPS and the probable error is presented in the following table 4.13.

Table 4.13

Correlation between BVPS and DPS

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
HBL	-0.3712	-ve	0.1378	0.2959	1.7755	Insignificant
NABIL	0.8510	+ve	0.7242	0.1434	0.8606	Insignificant

Source: Appendix III.

The above table 4.13 depicts the relationship between dividend per share (DPS) and book value per share (BVPS) of the two sampled banks. Coefficients of correlation between DPS and BVPS of HBL and NABIL are -3712 and 0.8510respectively. HBL has negative correlation between DPS and BVPS, which means that DPS decreases with the increase in BVPS, while NABIL has high degree of positive correlation between BVPS and DPS, which means DPS increases with the increase in BVPS. However, the probable error of HBL shows that the relationship between BVPS and DPS is insignificant, since the ‗r' (-0.3712) is lower than the 6 P.E. (1.7755) and the relationship between DPS and BVPS of NABIL is also insignificant, since the value of ‗r' (0.8510) is lower than the 6 P.E. (0.8606). Hence, it can be concluded that MPS is not totally dependent on BVPS and does not always increases with the increase in BVPS.

4.1.9.3.2 Regression Analysis: Dividend per Share (DPS) on Book value per Share (BVPS)

Let DPS be denoted by Y and BVPS be denoted by X, then the regression line of DPS (Y) on BVPS (X) is given by:

$Y = a + b X$

DPSHBL = 97.38 – 0.33 x BVPSHBL

DPSNABIL = -36.65 + 0.31 x BVPSNABIL

Table 4.14

Regression Analysis of DPS on BVPS

Banks	No. of observation (n)	Constant (a)	Regression coefficient (b)	T-value
HBL	5	97.38	-0.33	0.69
NABIL	5	-36.65	0.31	2.81

Source: Appendix III.

With respect to the above regression result of Book value per Share (BVPS) on dividend per share (DPS), beta coefficient is negative in HBL (-0.33) and positive in NABIL (0.31). The beta coefficient of HBL (-0.31) indicates that 1 rupee increase in Book value per share yields to Rs. 0.31 decrease in dividend per share. Hence the relationship between BVPS and DPS of HBL is inverse. Similarly, the beta coefficient of NABIL (0.31) implies that 1 rupee increase in BVPS leads to 0.31 increase in DPS. Also, the calculated t-value (0.69) shows that the relationship between BVPS and DPS of HBL is insignificant and the calculated t-value of NABIL (2.81) proofs that the relationship between BVPS and DPS is significant (tcal > ttab) at 5% level of significance and 4 degree of freedom.

4.1.9.4 Earning Yield (EY) and Dividend Yield (DY)

4.1.9.4.1 Correlation between EY and DY

The correlation between DY and EY and the probable error determined in Appendix III is summarized in the below table 4.15.

Table 4.15

Correlation between EY and DY

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
HBL	0.0098	+ve	0.0001	0.3016	1.8099	Insignificant
NABIL	0.9967	+ve	0.9933	0.0040	0.0241	Significant

Source: Appendix III.

The above table 4.15 depicts the relationship between earning yield (EY) and dividend yield (DY) of two concerned banks. According to this table, the correlation coefficients of HBL and NABIL are 0.0098 and 0.9967 respectively. In case of HBL, it has a very low positive correlation between the two variables. And coefficient of determination (r^2) indicates that 0.01% variation is explained in dividend yield due to change in the value of earning yield. However, the Probable Error (1.8099) shows that there is insignificant relationship between the DY and EY of HBL because the correlation coefficient r (0.0098) is lower than 6 P.E. (1.8099).

The coefficient of correlation between earning yield and dividend yield of NABIL (0.9967) shows the high degree of positive correlation between the variables, which means that DY increases with the increase in EY. And coefficient of determination r^2 indicates that 99.33%variation is explained in dividend yield due to the change in the value of earning yield. Since correlation coefficient 'r' of NABIL (0.9967) is higher than 6 P.E. (0.0241), there is significant relationship between the two variables.

4.1.9.4.2 Regression Analysis: Dividend yield (DY) on Earning yield (EY)

Let dividend yield be denoted by Y and earning yield be denoted by X, then the regression line of dividend yield on earning yield is given by;

Y = a + b X

DYHBL = 1.18 + 0.01 x EYHBL

DYNABIL = -0.18 + 0.71 x EYNABIL

Table 4.16

Regression Analysis of DY on EY

Banks	no. of observation (n)	constant (a)	Regression coefficient (b)	T-value
NABIL	5	1.18	0.01	0.02
HBL	5	-0.18	0.71	21.42

Source: Appendix III.

The table depicts the major output of simple regression analysis of Dividend Yield (DY) on Earning Yield (EY) of the concerned banks. With respect to the above

regression result of dividend yield (DY) in earning yield (EY), in case of HBL beta coefficient is 0.01, which means that a one percent increase in earning yield leads to an average of about 0.01 percent increase in the dividend yield holding other variables constant. However, the result is not statistically significant at 5% level of significance because the computed value of 't' (0.02) is lower than the tabulated value of 't' (2.78). While in case of NABIL, beta coefficient is 0.71, which indicates that a one percent increase in earning yield leads to an average of about 0.71 percent increase in the dividend yield holding other variables constant. This result is statistically significant at 5% level of significance because the computed value of t (21.42) is higher than the tabulated value of t (2.78).

4.1.9.5 Market Price Per Share (MPS) and Dividend Payout Ratio (DPR)

4.1.9.5.1 Correlation between MPS and DPR

Let r be the correlation coefficient between MPS and DPR and P.E. be the probable error.

Table 4.17

Correlation between MPS and DPR

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
HBL	0.4193	+ve	0.1758	0.2923	1.7539	Insignificant
NABIL	-0.3467	+ve	0.1202	0.2973	1.7837	Insignificant

Source: Appendix III.

As shown in table 4.17, the correlation coefficient between dividend payout ratio (DPR) and market price per share of HBL and NABIL are 0.4193 and -0.3467 respectively, which indicates lower degree of positive relationship between the two variables of HBL and a negative degree of positive relationship between the variables of NABIL. Coefficient of determination (r^2) of HBL is 0.1758 which shows DPR of HBL explains 17.58% of variations in the MPS. Likewise, according to the same table, coefficient of determination (r^2) of NABIL is 0.1202, which explains that the variation in the DPR explains 12.02% of variations in MPS.

Since, r of HBL (0.4193) is lower than 6 P.E. (1.7539), the relationship between DPR and MPS is insignificant, which means that the increase in DPR does not necessarily mean the increase in MPS. Similarly, r of NABIL (-0.3467) is lower than 6 P.E (1.7837), which also indicates that there is insignificant relationship between DPR and MPS.

4.1.9.5.2 Regression Analysis: Market Price Per Share (MPS) on Dividend Payout Ratio (DPR)

Let MPS be denoted by Y and DPR be denoted by X, then the regression line of Y on X is given by:

Y = a + b X

MPSHBL = 1002.40 + 11.24 x DPRHBL

MPSNABIL = 9923.45 – 104.47 x DPRNABIL

Table 4.18

Regression Analysis of MPS on DPR

Banks	no. of observation (n)	constant (a)	Regression coefficient (b)	T-value
HBL	5	1002.64	11.24	0.80
NABIL	5	9923.45	-104.47	0.64

Source: Appendix III.

The table 4.18 depicts the linear relationship between stock price (MPS) and dividend payout ratio (DPR) of concerned banks. In case of HBL, beta coefficient is 11.24, which indicates that a one percent increase in dividend payout ratio

(DPR) leads to an average Rs. 11.24 increase in market price per share (MPS), all other things being same. However, the calculated 't' value (0.0.80) is lower than the tabulated _t' value (2.78) at 5% level of significance and 4 d.f., which means that there is insignificant relationship between DPR and MPS of HBL.

Similarly, in case of NABIL, beta coefficient is -104.47, which indicates that a one percent increase in DPR leads to an average Rs. 104.47 decrease in average stock price, other variables remaining constant. But the calculated t0.05 (0.64), which is

lower than the tabulated t0.05 (2.78), shows that the relationship between DPR and MPS of NABIL is insignificant.

4.1.10 Market Price Per Share (MPS) and Earning Per Share (EPS) and Dividend Per Share (DPS)

4.1.10.1 Multiple Correlations between MPS, EPS and DPS.

Let correlation between MPS and DPS be denoted by r12, DPS and EPS be denoted by r23 and MPS and EPS be denoted by r13. Then the multiple correlation coefficient of MPS on DPS and EPS is given by; *(Appendix IV)*

R1.23 = r2

12 + r2

13 – 2 r12 r23 r13

1-r2

23

RMPS.DPS EPS (HBL) = 0.9027

RMPS.DPS EPS (NABIL) = 0.6990

Table 4.19

Multiple Correlation between MPS, EPS and DPS

Banks	R	Relationship	R^2	P.E.	6 P.E.	Remarks
HBL	0.9027	+ve	0.8148	0.0559	0.3351	Significant
NABIL	0.6990	+ ve	0.4886	0.1542	0.9255	Insignificant

Source: Appendix III.

The above table 4.19 shows the multiple correlation between market price per share (MPS) and dividend per share (DPS) and earning per share (DPS) of two concerned banks during the year covered for study. The multiple correlation coefficients (R) between MPS, DPS and EPS of HBL and NABIL are 0.9027 and 0.6990 respectively, which show the high degree of positive relationship in HBL and moderate degree of positive correlation in NABIL between these variables of both the banks. The coefficient of multiple determination (R^2) of HBL is 0.8148, which is higher than that of NABIL (0.4886). It shows that, in case of HBL, 81.48% of variation in dependent variable (MPS) is explained by the variation in independent variables (EPS and DPS).

Similarly, 48.86% variation in dependent variable (MPS) of NABIL is explained by the variation in independent variables (DPS and EPS). To measure the significance of the relationship between MPS, EPS and DPS of the two concerned banks, it would be more preferable to calculate the probable error of correlation coefficient. The same table depicts that R of HBL is greater than 6 P.E of the corresponding bank, however R of NABIL is lower than 6 P.E. So, it can be concluded that the relationship between MPS, EPS and DPS is significant in HBL only. It indicates that market price per share depends upon dividend payments and earning per share in case of HBL.

4.1.10.2 Multiple Regression Equation: MPS on DPS and EPS

Let MPS, DPS and EPS be denoted by X1, X2 and X3 respectively. Then the multiple regression equation of MPS on DPS and EPS is given by;

$X1 = a + b1\ X2 + b2\ X3$

MPSHBL = -3251.09 – 17.47 DPSHBL + 86.77 EPSHBL

MPSNABIL = -5802.92 – 125.40 DPSHBL + 160.18 EPSHBL

Table 4.20

Multiple Regression Line of MPS on DPS and EPS

Banks	No. of year	Constant (a)	Regression Coefficient (b)	
			b_1	b_2
HBL	5	-3251.09	-17.47	86.77
NABIL	5	-5802.92	-125.40	160.18

Source: Appendix IV.

The above table represents the linear relationship between MPS, with DPS and EPS of two concerned banks. The constant (a) is negative in HBL (-3251.09) and in NABIL (-5802.92). In case of HBL, the beta coefficient of DPS and EPS are -17.47 and 86.77 respectively. It indicates that a one-rupee increase in DPS leads to Rs. 17.47 decrease in MPS and one rupee increase in EPS leads to an average about Rs. 86.77 increase in MPS. On the other hand, in case of NABIL, the regression coefficients of DPS and EPS are -125.40 and 160.18 respectively, which indicates that a one rupee increase in DPS causes Rs. 125.40 decrease in MPS and one rupee increase in EPS leads to an

average about Rs. 160.18 increase in MPS. Hence, it can be concluded that EPS has direct influence on MPS and DPS has indirect relationship with MPS of NABIL.

4.2 Primary Data Analysis

The primary data analysis has been done by distributing questionnaire containing 10 questions to 10 employees of each sampled banks. Hence in total, 20 employees were approached for questionnaire purpose. The primary data has been collected from the head office of each bank.

4.2.1 Reasons for Paying Dividend

To examine for what reasons the commercial banks are interested to pay the dividend each year, the respondents were asked on this matter. The responses obtained from them are presented in the below table.

Table 4.21

Reasons for Paying Dividend

Reasons	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
Retain Existing Investors	3	30	2	20	5	25
Attract Potential Investors	3	30	4	40	7	35
Capture the Market	4	40	4	40	8	40
Total	10	100	10	100	20	100

Source: Field survey, 2011.

The table showed that the majority of both the groups, 40% of the NABIL's staff (4 out of 10) and 40% of the HBL's staff (4 out of 10), are in the view that the main reasons behind distributing dividend is to capture the market of the banking industry. Similarly, 30% of the NABIL's employee and 40% of the HBL's employee are in the view that to attract the potential customers is the main reason behind distributing dividend. Finally, 30% of the NABIL's employee and 20% of the HBL's employee stated that to retain existing investors is the main reason behind disbursing dividend. In overall, 5 out of 20 (25%), 7 out of 20 (35%) and 8 out of 20 (40%) of the respondents opined that to retain existing investors, to attract potential investors and

to capture the market are the main reasons behind disbursing dividend. Hence, looking the majority of the overall respondents and the majority of each individual bank‘s employee, it can be concluded that to capture the market of banking industry is the main reason behind disbursing industry.

4.2.2 Effect of Dividend distribution on Market Price per Share

To analyze whether the dividend distribution pattern affects the market price per share of the concerned banks, the respondents were asked on this matter. The responses obtained from them are presented in the table below.

Table 4.22

Effect of Dividend Distribution on Market Price Per Share

Effect	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
High	6	60	5	50	11	55
Medium	3	30	3	30	6	30
Low	1	10	2	20	3	15
Total	10	100	10	100	20	100

Source: Field survey, 2011.

The above table revealed that the majority of the respondents (55%), 11 out of 20, opined that dividend has high effect on changing the value of MPS. Similarly, 30% of the respondents, (6 out of 20), and 15% of the respondents (3 out of 20) stated that dividend has medium effect and low effect on market price respectively. Also, looking the responses of each bank‘s employee, 60% of NABIL‘s employee (6 out of 10) and 50% of HBL‘s employee (5 out of 10) stated that dividend has high effect on changing the market price per share. Hence on the majority, it can be concluded that dividend distribution pattern has high impact on the variability of market price.

4.2.3 Factors for Dividend Practice

To know the factors that should be considered to adopt the dividend practice, the respondents were given options and asked to choose from them. The responses obtained from them are presented in the following table 4.23.

Table 4.23

Factors for Dividend Practice

Factors	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
Legal consideration	6	60	6	60	12	60
Liquidity position	3	30	2	20	5	25
Borrowing capacity of the firm	1	10	1	10	2	10
All of above	0	0	1	10	1	5
Total	10	100	10	100	20	100

Source: Field survey, 2011.

The above table reflects that 60% of both banks consider the legal considerations to be adopted while declaring dividend. Likewise 30% of NABIL and 20% of HBL replied liquidity position should be adopted for that. Similarly 10% respondents of both banks consider borrowing capacity of the firm before declaring dividend. None of the respondents of NABIL and 10% respondents of HBL replied in favor of all above mentioned factors. Also in overall, the majority (60%) of the respondents, 12 out of 20, opined that legal consideration has to be adopted while declaring dividend. Similarly, 25% of the respondents, 10 % of the respondents, and 5% of the respondents stated that liquidity position, borrowing capacity and all, i.e. the aforementioned cases, should be considered respectively while making the dividend distribution.

4.2.4 Major Motive of Cash Dividend

To know the actual reason for providing cash dividend to the shareholders, the respondents were asked to choose the best answer that suits their motive for distributing cash dividend. The responses achieved are summarized in the following table 4.24.

Table 4.24

Major Motive of Cash Dividend

Motive	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
To convey information that the company is doing well.	1	10	2	20	3	15
To draw attention from the investment community.	2	20	2	20	4	20
To increase the market value of the firm's stock	2	20	2	20	4	20
To fulfill shareholder's expectation.	5	50	4	40	9	45
Total	10	100	10	100	20	100

Source: Field survey, 2011.

The above table shows that 45% of the respondents stated that the major motive of paying cash dividend is to fulfill the shareholder‘s expectation. Similarly, 20% respondents said that increase the market value of stock and draw attention from investment community are the major motives to pay cash dividend. And 15% of the respondents said that to convey information to the shareholders that the bank is doing well is the major motive for paying cash dividend.

Likewise, 20% of HBL and NABIL responded that the company pays cash dividend to convey information to share holders that the company is doing well. 20% of both banks said in order to draw attention from investment community cash dividend is paid. Similarly, 20% of respondents of both the banks also replied that cash dividend is paid to increase the market value of the firm‘s stock. And remaining 40% and 50% of respondents of HBL and NABIL respectively said that cash dividend is paid to fulfill share holder‘s expectations. But, none gave any reasons other than mentioned above behind paying cash dividend. Hence gazing the overall majority and the majority of each individual bank, it can be concluded that the major motive of paying cash dividend is to fulfill the shareholder‘s expectation.

4.2.5 Dividend Practice Followed

The respondents were asked to state the types of dividend practices that are followed by the banks in Nepal. The responses obtained from them is presented in table 4.25.

Table 4.25

Dividend Practice Followed

Practice	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
Payment of dividend after financing in all investment	5	50	6	60	11	55

The above table clearly depicts that the majority of the respondents (55%) strongly opined that the bank should pay dividend after financing all investment opportunities. While, 35% of the respondents said that the bank should pay regular dividend and 10% of the respondents said that the bank should follow both the aforementioned practice. Likewise, 50% and 60% of respondents of HBL and NABIL respectively said dividend is a residual decision. But, 50% of HBL and 20% of NABIL replied the banks followed regular dividend practice None of NABIL and 20% of HBL respondents consider that both followed both above mentioned practice Hence, considering the overall majority and majority of the respondents of each individual bank, it can be concluded that the bank should follow the practice of declaring dividend after financing all the investment opportunities.

4.2.6 Indifferent by Nepalese Shareholder on Dividend

To know the interest of Nepalese shareholder on dividend that are paid by the banks of Nepal, the respondents were asked about the degree of indifferent shown by shareholders. The responses obtained from them are presented in the table 4.26.

Table 4.26

Indifferent by Nepalese Shareholder on Dividend

Indifference	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
Yes	2	20	2	20	4	20
No	5	50	6	60	11	55
Don't know	3	30	2	20	5	25
Total	10	100	10	100	20	100

Source: Field survey, 2011.

The above table reflects that 20% of both the banks responded that the Nepalese Shareholders are indifferent whether the company pays or does not pay dividend. But, 60% of HBL and 50% of NABIL did not agree with the question that they are indifferent whether the company pays or does not pay dividend. Similarly, 20% of HBL and 30% of NABIL said that they have no idea about it. In overall, 55% of the respondents said that the shareholders won‘t be indifferent whether the banks pays dividend or not, 20% of the respondents said that the they remains indifferent and 25% of the respondents remained neutral in this question. Hence, on the overall majority and the majority of respondents of each bank, it can be concluded that the Nepalese shareholders have strong interest on the dividend of the company and thus do not remained indifferent.

4.2.7 Suggestion in case of no Cash to pay Dividend

The respondents were asked to give their valuable suggestions if the company is unable to pay cash dividend. The suggestions obtained from them are presented in the table 4.27.

Table 4.27

Suggestion in Case of No Cash to Pay Dividend

Suggestions	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
Pay from reserve	3	30	2	20	5	25
Pay stock dividend	2	20	2	20	4	20
Pay scrip dividend	3	30	4	40	7	35
Property dividend	0	0	0	0	0	0
Don't pay dividend at all	2	20	2	20	4	20
Total	10	100	10	100	20	100

Source: Field survey, 2011.

The above table showed that the majority of the respondents (35%) stated that the bank should pay scrip dividend, i.e. promising to pay dividend later on, in case of non availability of cash. Similarly, 25% of the respondents said that the bank should pay from the reserve as dividend, 20% of the respondents affirmed that the bank should pay stock dividend and 20% of the respondents said that the bank should not pay dividend at all. While none of them said that the bank should pay property dividend. Also, looking individually, the majority of NABIL's employee (30%) and the majority of HBL's employee (40%) said that the bank should pay scrip dividend in case of cash scarcity.

4.2.8 Impact of Dividend on Liquidity

To know the degree of agreement on the impact of dividend on liquidity position of the firm, the respondents were asked on this regard. The answers obtained from them are presented in table 4.28.

Table 4.28

Impact of Dividend on Liquidity

Impact	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
Yes	5	50	4	40	9	45
No	2	20	4	40	6	30
Don't Know	3	30	2	20	5	25
Total	10	100	10	100	20	100

Source: Field survey, 2011.

The above table reflects that 45% of the total respondents opined that dividend has impact on the liquidity position, 30% of the total respondents stated that dividend has no impact and 25% remained neutral. Similarly, 50% of respondents of NABIL and 40% of HBL respondents are in view that dividend distribution influences the liquidity position. 20% respondents of NABIL and 40% of HBL do not think so and 30% respondents of NABIL and 20% of HBL did not have any idea.

4.2.9 Suggestion for Dividend Policy in Nepal

The respondents were also asked to suggest with regard to the dividend policy in Nepalese enterprises. The valuable suggestions achieved from them are inserted in the table 4.29.

Table 4.29

Suggestion for Dividend Policy in Nepal

Suggestion	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
Treatment of dividend as an obligation	3	30	3	30	6	30
Stability of dividend and unhaphazard payout ratio	4	40	3	30	7	35
Cash balance for dividend be adequately planned and maintained	3	30	4	40	7	35
Total	10	100	10	100	20	100

Source: Field survey, 2011.

From the above table it is clear that 30% of both banks suggested that treatment of dividend, as an obligation should be dividend policy in Nepalese enterprises. Similarly, 30% of HBL and 40% of NABIL suggested stability of dividend and unhaphazard pay out ratio with regards to dividend policy in Nepalese enterprises. And 40% of HBL and 30% of NABIL recommended that cash balance for dividend should be adequately planned and maintained. But, no respondents replied other specific policies.

Likewise, 30% of the overall respondents suggested that treatment of dividend as an obligation, 35% of the respondents suggested that stability of dividend and unhaphazard payout ratio, and 35% adequate cash balance planning should be the dividend policy in Nepal.

4.2.10 Reasons to investment in Share Capital

Large number of people is driving to invest in share capital. So to know the actual causes that provoke them to invest, the respondents were requested to give the main reasons that attracts the investors in share capital.

Table 4.30

Reasons to Invest in Share Capital

Reasons	NABIL		HBL		Total	
	No.	%	No.	%	No.	%
To utilize the surplus	4	40	5	50	9	45
This is the best method of investment	2	20	1	10	3	15
To receive dividend	3	30	3	30	6	30
To get voting right	1	10	1	10	2	10
Total	10	100	10	100	20	100

Source: Field survey, 2011.

From the above table it is obvious that 50% of HBL and 40% of NABIL replied that people invest in share capital to utilize surplus 10% of HBL and 20% of NABIL considered the investment in share capital the best method. Similarly, 30%of both the

banks responded that people invest in share capital in order to get dividend. And, 10% of both banks said that the reason for investment in share capital is to get voting rights.

Similarly in overall, 45% of the total respondents (9 out of 20), 15% of the respondents (3 out of 20), 30% of the respondents (6 out of 20) and 10% of the respondents (2 out of 20) said that to utilize the surplus, just for becoming the best method of investment, to receive dividend, and to get voting right respectively are the main reasons behind investing in share capital. Hence, it can be concluded that after utilizing surplus, to get dividend is the main reason behind investment in share capital.

4.3 Major Findings of the Study

The major findings that have drawn from the analysis of secondary data and primary data are presented below.

Findings of secondary data

- EPS analysis shows that the average EPS of NABIL (Rs. 114.54) is more than double the average EPS of HBL (Rs. 55.92). The NABIL bank earned higher earning per share in comparison with the HBL bank. However, the C.V. analysis of EPS in HBL (11.06%) is more consistent as compared to that of NABIL (14.21%).

- NABIL bank distributed Rs.76 as DPS in average, while HBL distributed an average DPS of Rs.16.32 during the period taken for research. Also, there is more consistent in DPS of NABIL (C.V. = 19.25%) as compared to the dividend distribution of HBL (C.V. = 64.46%).

- HBL distributed bonus share dividend in each fiscal year taken for research. The average bonus share equivalent to Rs. 18 per share has been distributed during the period. While, NABIL distributed bonus share only in the fiscal year 2006/07 and 2007/08 equivalent to Rs. 40 per share in each year. Therefore there is no standard bonus share dividend policy in NABIL.

- The DPR ratio shows that HBL provided an average 27.88% of its EPS as dividend which is comparatively very low compared to the dividend payout ratio of NABIL (66.14%). HBL focused more on retaining profit for internal financing purpose, whereas NABIL focused more on retaining shareholders through providing more dividends.

- The P/E ratio shows that MPS of HBL is almost 23.03 times greater than its average EPS, whereas the MPS of NABIL is almost 25.59 times higher than EPS. This means that the shareholder of HBL invests Rs. 23.03 and that of NABIL invests Rs. 25.59 to achieve one rupee earning per share.

- The dividend yield ratio shows that only 1.22% of the average market price of HBL was provided as dividend during the period taken for study, whereas 3.61% of the MPS of NABIL was provided as dividend. Hence the shareholders of NABIL enjoyed more divided percent compared to the shareholders of HBL on the basis of MPS. Also, the MPS is 5.32 times greater than BVPS of HBL, while the MPS of NABIL is 8.13 times higher than the BVPS.

- In case of HBL, the correlation of DPS with EPS and MPS is positive but the results are insignificant, while the correlation of DPS with BVPS in negative and insignificant. Also, the correlation between EY with DY, and MPS with DPR is positive but significant. However, the correlation of MPS with DPS and EPS is positive and significant. Similarly in case of NABIL, the correlation between DPS and EPS is positive and significant, DPS and MPS is positive but insignificant, DPS and BVPS is positive and insignificant, EY and DY is positive and significant, MPS and DPR is negative and insignificant, and the correlation of MPS with DPS and EPS is positive but insignificant.

Findings of Primary Data

- 40% of the total respondents said that the main reasons for paying dividend is to capture the market of banking industry.

- 55% of the total respondents said that the effect of dividend distribution pattern has high impact on changing the market price per share of the bank.

- 60% of the respondents said that the bank should consider the legal consideration before declaring the dividend payout ratio.
- 45% of the respondents said that the major motive behind distributing the dividend is to fulfill the shareholder‘s expectation.
- 55% of the respondents stated that the bank should follow the practice of paying dividend only after financing all the investment opportunities.
- 55% of the respondents said that the Nepalese Investors does not remain indifferent on whether the bank pays dividend or not, rather they are interested in dividend.
- In case of no cash dividend to pay, 35% of the respondents suggested to pay scrip dividend.
- 45% of the respondents said that dividend payment has greater impact on the liquidity position of the bank.
- 35% of the respondents each suggested that stability of dividend and unhaphazard payout ratio, and 35% adequate cash balance planning should be the dividend policy in Nepal.
- 45% of the respondents said that the investors invest in share capital to utilize the surplus.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Dividend policy decision is undoubtedly one of the major decisions of financial management. It is right to say that dividend policy decision affects the operation and prosperity of a financial company because it has the power to influence other two decisions namely capital structure decision and investment decision. Basically an investor expects two types of return namely, capital gain and dividend, by investing in equity capital or ordinary share. So, payment of dividend to shareholders is an effective way to attract new investors and maintain present investors to invest in shares. So, it is justified to hold that a clearly defined and effectively managed dividend policy is required in all financial companies to fulfill the shareholders expectations with that of corporate growth from internally generated funds. So, the funds that could not be used due to lack of investment opportunities would be better to be distributed as dividend, since shareholders have investment opportunities elsewhere.

Considering time and resource constraints only two commercial banks namely NABIL and HBL have been selected as sample banks in study to fulfill the objective of studying dividend policy decision and other factors related to dividend. The study period covers only last five fiscal years from 2003/04 to 2007/08. The available secondary data have been analyzed using various financial and statistical tools in this study. So, the reliability of the conclusions of this study is determined on the accuracy of secondary data and the responses achieved from questionnaire.

The study is organized in five chapters, viz, i) Introduction, ii) Review of Literature, iii) Research Methodology, iv) Data Presentation and Analysis and v) Summary Conclusion and Recommendations.

5.2 Conclusion

From the findings of the study of primary data, it can be concluded that companies distribute dividend to capture the market. Further, the payment of dividend has high

effect on the market price of share. The bank should consider mainly the legal consideration while declaring dividend and pay cash dividend to fulfill shareholder‘s expectation. In addition, the bank should pay dividend only after financing in all investment opportunity. Shareholders are not indifferent whether company pays dividend or does not pay dividend. Company should pay scrip dividend if it has no cash dividend to pay. Also, dividend distribution influences the liquidity position of the firm. With regard to dividend policy, either dividend should be stable and un haphazard or cash balance for dividend should be adequately planned and maintained. Most of the people invest in share capital in order to utilize the surplus.

On the basis of secondary data analysis, it can be concluded that NABIL is paying higher portion of its earning as dividend since the average dividend per share of NABIL is higher than HBL. However, HBL pays has the practice of paying bonus share dividend more than that of NABIL. Similarly, the earning capacity of NABIL is higher as average earning per share of NABIL is greater than HBL. NABIL leads HBL in the sense that it has greater average dividend payout ratio and dividend percent than that of HBL. Likewise, average price earning ratio of HBL is higher than that of NABIL, which means HBL has better performance for enhanced the wealth of shareholders.

Average market value per share to book value per share of NABIL is greater than that of HBL. So, there is greater chance of higher capital gain to the shareholders of NABIL. Similarly, average dividend yield ratio as well as the average earning yield ratio of NABIL is greater than that of HBL.

The correlation of DPS of NABIL with EPS is positive and significant whereas the correlation between of DPS with MPS and BVPS, and DPR with MPS is insignificant. This means that DPS increases with the increase in EPS. But, in case of HBL, the correlation of DPS with EPS, MPS is positive but insignificant, whereas the correlation between DPS and BVPS is negative and insignificant. This implies that there is no significant relationship of DPS with EPS, MPS and BVPS of HBL.

Finally on the basis of secondary data, it can be concluded that NABIL remained more successful than HBL in satisfying its shareholder through distributing dividend,

generating higher amount of earning per share, maintaining higher market value of its share and good relationship between DPS and EPS.

5.3 Recommendations

Based on major findings and conclusion drawn, the major are provided below hoping that these recommendations will certainly be proved milestone to overcome existing issues in this field.

- The bank should consider the existing conditions and expectations of shareholders while distributing dividends so that the distributed dividend should meet the interests or expectations of the shareholders as far as possible.
- The bank should study about the strategy to attract the ordinary or small or low level investors so that the interest or the expectation of shareholders will not be destroyed even the bank can't pay the dividend in some year.
- There should be certain program to improve the efficiency and reduce the government interference in daily affair. Similarly, the managers should be able to fulfill their duties and responsibilities and to protect the shareholder's interest but not for operation of company desired by themselves.
- Banks are playing on the public money. So in this regard, they are advised to have target rate of return (earnings) and target payout ratio that will help the banks to build good image in stock market and investors will be benefited on making investment decision.
- It would be better to fix the amount of dividend in the annual general meeting of shareholders. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.
- The banks should define their dividend strategy (policy) clearly whether the Bank is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends. The clearly defined policy will guide the way on how to follow dividend distribution. The bank should follow them (defined dividend strategy) strictly in normal condition. If there is lack of clearly defined dividend strategy, so many problems or inconveniences will be

created to many other organizational sectors especially on the financial sectors.

- There is no clear-cut legal provision regarding dividend payments. So the government should act in favor of investors and should bind through such legal provisions or distinct rules so that the profit earning companies should distribute certain percent of their earnings as dividend.
- Banks should provide a chance to their shareholders for their interest. They should try to know whether they (shareholders) prefer to obtain cash dividend or stock dividend or any forms of dividend. So, instead of declaring cash or stock or any forms of dividend, dividend declaration should be proposed to the annual general meeting of shareholders for their approval. Furthermore, the banks should also be careful about informing the impacts of dividends, the advantages and disadvantages of different forms of dividend to those shareholders or potential investors who know less about the matters.
- The payment of dividend is highly fluctuating, which is neither static nor constantly growing. Such inconsistency and irregularity in the dividend payment may create more confusion and miss-conception about that firm. Due to higher degree of risk and uncertainty, such fluctuations impact the firm's market price per share adversely. So these banks are advised to follow either static or constantly growing dividend payment policy. Similarly, according to the changing context and shareholders interest and expectation, the predetermined policies should be reviewed.
- It is recommended to the concerned parties that the optimum dividend policy must be based on the following criteria. a. Optimum retention is made for excellent expansion and modernization. b. Optimum dividend so that market value per share will increase rapidly i.e., net present value of shareholders wealth can be maximized. c. Stable or consistency in the dividend payment.

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APPENDIX - I

QUESTIONNAIRE

Dear Sir/Madam,

This is to bring your kind information that this is an attempt to identify the dividend policy of Nepalese Commercial Banks listed for the partial fulfillment of Thesis required for MBS degree, TU. You are kindly requested to fill up the following questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

Respondents:

Name : ……... Sex: M [ ] F [ ]

Bank: ……. Position (Optional): …….

Please tick the best answers.

1. Why does the bank pay dividend?
    a) Retain Existing Investors b) Attract Potential Investor
    b) Capture the Market d) All
2. To what extent does dividend policy affects the market price per share?
    a) High b) Medium c) Low
3. What factors should be considered while adopting dividend practice?
    a) Legal Restriction
    b) Liquidity Position
    c) Borrowing capacity of the firm
    d) All of above
4. What is the major motive of cash dividend in your bank?
    a) To convey information to shareholders that the company is doing well.
    b) To draw attention from the investment community.
    c) To increase the market value of the firm‘s stock.
    d) To fulfill shareholders‘ expectation.
5. What are the dividend practices being followed by the banks in Nepal?
    a) Payment of dividend after financing in all investment opportunities.
    b) Paying regular dividend
    c) Both of above

d) None of above

6. Nepalese share holders are indifferent whether the company pays or does not pay different dividend. Do you agree?

a) Yes b) No c) Don‘t know

7. What do you suggest if the company has no cash to pay dividends?

a) Pay from reserve

b) Pay stock dividend

c) Pay Scrip Dividend

d) Pay Property Dividend

e) Pay no dividend at all

8. Payment of dividend has impact on the liquidity position of the firm. Do you agree?

a) Yes b) No c) Don‘t know

9. What would you like to suggest with regard to dividend policy in Nepalese enterprises?

a) Treatment of dividend as an obligation

b) Stability of dividend and unhaphazard pay out ratio.

c) Cash balance for dividend be adequately planned and maintained.

10. Why do people invest in share capital?

a) To utilize the surplus money

b) This is the best method of investment.

c) To receive dividend

d) To get voting rights.