A COMPARATIVE STUDY OF DIVIDEND POLICY

Evidence from Standard Chartered Bank Nepal Limited and Himalayan Bank Limited.

A THESIS

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RECOMMENDATION

This is to Certified that the Thesis

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has been prepared as approved by this department in the prescribed format of faculty of Management.
This thesis is forwarded for examination

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VIVA- VOCE SHEET

We have conducted the viva –voce examination of the thesis presented by

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And found the thesis to be the original work of the student and written According to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master Degree of Business Studies (M.B.S.)

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DECLARATION

I hereby declare that the work reported in thesis entitled, *'**A Comparative Study of Dividend Policy of Evidence from Standard Chartered Bank Nepal Limited and Himalayan Bank Limited.)'*** Submitted to Office of Dean, Faculty of Management, Tribhuvan University, is my original work done in the form or partial fulfillment of the requirement for the master's Degree in Business Studies (MBS) under the supervision of **Asso. Prof. Ruchila Pandey** and **Lal Prasad Aryal** of **Shanker Dev Campus**.

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ABBREVIATIONS

%	Percentage
&	And
A.D	Anno Domini
ATM	Automated Teller Machine
B. S.	Bikram Sambat
C. V.	Coefficient of Variation
CA	Current Assets
CL	Current Liabilities
CRR	Cash Reserve Ratio
DPR	Dividend Payout Ratio
DPS	Dividend Per Share
EPS	Earning Per Share
FY	Fiscal Year
HBL	Himalayan Bank Limited
i .e	That is
JVB	Joint Venture Bank
LTD	Limited
MBS	Masters' of Business Studies
Misc.	Miscellaneous
MVPS	Market Value Per Share
NEPSE	Nepal Stock Exchange
No.	Number

NRB	Nepal Rastra Bank
P.E	Probable Error
PE	Price Earning
S.D	Standard Deviation
SCBNL	Standard Chartered Bank Nepal Limited
SDC	Shankar Dev Campus
SEBON	Securities Board of Nepal
T. U.	Tribhuwan University

CHAPTER-I

INTRODUCTION

1.1 Introduction

Dividend is defined as an amount of the profits that company pays to people who own shares in the company (oxford dictionary 2011). Dividend and dividend policy as, 'Dividends refer to that portion of retained earnings that is paid to stockholders while dividend policy refers to the policy or guidelines that management uses in establishing the portion of retained earnings that is to be paid in dividends''(Iqbal, 1979:297).

Dividend refers to the portion of net income paid out to shareholders. It is paid in cash and/or stock for making investment and bearing risk. Dividend decision of the firm is yet another crucial area of financial management as it affects shareholders wealth and value of firm. The percentage of earning paid out in form of cash dividend is known as dividend payout ratio. A company may retain some portion of its earnings to finance new investment. The percentage of earnings retained in the firm is called retention ratio. Dividend policy is an integral part of the firm's financing decision as it provides internal financing. Dividend policy is concerned with determining the proportion of firm's earnings to be distributed in the form of cash dividend and the proportion of earnings to be retained. A firm has three alternatives regarding the payment of cash dividends: It can distribute all of its earning in the form of cash dividends, or It can retrain all of its earnings for reinvestment, or It can distribute a part of earnings as dividends and retain the rest for reinvestment purpose. When dividends are paid to the stockholders the firm's cash is reduced. A firm may decrease its dividend payout and use the retained funds to expand its capacity, to pay off some of its debt or to increase investment. In this way, the firm's dividend policy is closely related with the firm's investment and financing decisions. Determining the part of earnings to be distributed as dividends is a key decision that affects the value of the firm's common stock in the market

place. Similarly, the retained earnings are considered to be the most convenient internal source available for financing corporate growth. Thus, every corporate firm should establish and implement an effective dividend policy that leads to stockholders wealth maximization. It should be recognized that a firm's dividend payout ratio depends on many factors. For example, it may be affected by the volatility in firm's cash flows and changing investment needs over the time. If the firm's cash flow is volatile, it may prefer to set a minimum level of regular cash dividends that can be maintained even at low profits. Similarly, if the firm has profitable investment opportunities it prefers to retain more amount reducing dividend payout ratio. (Paudel and et.al 2005)

Dividend policy is one of the major decisions of financial management because it affects the financial structure, the flow of funds, corporate liquidity and investor's attitudes. After the successful completion of fiscal year having sufficient profit management decide to declare dividend to shareholders. The important aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. It also determines the forms of dividend.(Luitel, B, 2011)

'Bank is the establishment for keeping money, valuables etc. safely, the money being paid out on the customer's order (by means of cheques.) Similarly, a definition given in the encyclopaedia that 'a bank is a business organisation that receives and holds deposits of funds from others and makes loans or extends credits and transfers funds by written orders of deposit. The banking sector in Nepal started with the establishment of Nepal bank limited on 30th Kartik 1994 (. It is the oldest bank of Nepal. Its initial authorised capital was Rs 10 million and issued capital was Rs 25 lakhs, paid up capital was Rs 8 lakhs 42 thousand but now it has increased its capital in many fields. Under the Nepal Rastra bank act 2012. Nepal Rastra bank was established in14th Baisakh 2013.in Nepal. But this act has been repealed and the Nepal Rastra bank act 2058 has been enacted by parliament. It is known as the central bank of Nepal.

After the establishment of Nepal Rastra bank, the first 5 years plan was introduced in the country to fulfil the need of the financial institution for achieving industrialization and development of the country. Nepal Industrial Development Corporation 2016, Agricultural Development Bank, 2024 were established under the special legal provision on corporate act and Agricultural Development Bank, Rrastriya Banijya Bank was established in the government sector in 2022 under Banijya Bank act 2021 as per the recommendation of Nepal Rastra bank.(www.seabon.com)

The research work will look into all relevant factors of dividend policy of commercial banks of SCBNL, HBL. These banks are selected for thesis writing as the size of profit and dividends are comparatively high. They are running smoothly and cover sufficient period of the study.

1.2 Profile of Banks

Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987(2043 BS) as Nepal Grind lays bank in collaboration with Grindlays Bank London. After Standard Chartered group acquire world wide operation of Grindlays, it changes its name on July 16th, 2001. The bank is an integral part of Standard Chartered Group having an ownership of 75% and the balance owned by the Nepalese public. The bank is the largest international bank currently operating in Nepal. This bank is a second foreign joint venture bank under the company act 1964, the head office of Standard Chartered Bank is situated at New Baneshwor, Kathmandu.

With 16 points of representation, 17 ATMs and more than 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its' customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the bank a unique opportunity to provide truly international banking services in Nepal. Standard Chartered Bank Nepal

Limited offers a full range of banking products and services in wholesale and consumer banking. The bank has been the pioneer in introducing 'customer-focused' products and services and aspires to continue to be a leader in introducing new products in delivering superior services. Along with Nepal, the bank has its operation in about 70 countries including Nepal. It is considered as the best international and commercial bank in the world. The main headquarter of this bank is in London, England. The bank has a history of 150 years. The bank employs almost 75000 people representing over 115 nationalities, worldwide including Nepal. It is trying to increase its branch in other countries around the world slowly and gradually**.**(www.sc.com/np/en)

1.2.2 Himalayan Bank Limited Nepal

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number one Bank easily confirms our claim. All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking

software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking.Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first**.**(www.himalayanbank.com)

In the context of Nepal, none of banks (SCBL and HBL) has clearly defined dividend policy. Shareholders in Nepal don't seem to be investing their capital on the basis of cash dividend. Market price is influenced with stock dividend. Dividend policy has public concern issue. Nepal Rastra Bank (regulatory body) has changed its monetary policy time to time banks dividend distribution decision has linked with monetary policy. Due to the cause of monetary policy, banks don't seek to give stock dividend in the recent period. Sample banks paid up capital have increased up to said optimum level these effects show in dividend policy. In this thesis, Due to the analyse the dividend payment system of standard chartered bank and Himalayan bank in current situation on the basis of five years recent data.

1.3 Statement of the Problem

It is in fact that various organisations are running in Nepal but some of them are paying dividend regularly. Joint venture banks have sufficient earning and are capable of payment of dividend. Dividend is not being distributed by these on the basis of profit. Sometime, they pay low or high dividend in relation to profit. Dividend decision is an important of financial management. Generally, MPS of is affected by the rate of dividend distributed by the company. It is the crucial decision for the management to distribute its profit in different sector. Therefore it is great challenge a company to distribute its profit. There is no specific policy of management of earning in Nepalese organization. The commercial banks are also still in confusion that which types of dividend policy will make positive impact on MPS and investors are unknown about the practise of dividend policy of commercial banks. In this regard, there are no specific rules and regulations for payment of dividend in the country. It is a type of problem to the investors or shareholder for making decision on their long term investment. Thus there are many dimensions to be considered on dividends theories, policy and practices and still many questions unanswered and rose by the dividend policy. The study seeks to answer such following questions.

- What type of dividend policies and practises are being adopted by the banks?
- Why Banks with similar profit range have different dividend payment decision?
- Is there any relation of dividend with EPS and MPS of the company?
- What are major types of dividend followed by the commercial banks of Nepal.
- Are share prices affected by dividend per share in the sample banks?
- Should the sample banks have uniformity in dividend policy?

1.4 Objective of the Study

The basic objective of the study is to make comparative analysis of dividend policy of selected banks. But the specific objectives are follows:

- To identify dividend policy of selected Banks
- To analyze the relationship of financial indicators such DPS, EPS and DPR, PE Ratio, Liquidity Ratio and Profitability Ratio on Market Value Per Share (MVPS) Per Share.
- To explore if there is any uniformity among DPS , EPS and DPR on the two sample joint venture banks
- To provide the summary, conclusions and recommendations.

1.5 Significance of Study

This research may be helpful for them in identifying the productivity of their investment and justify the rationale of their investment decision. It will also benefited by the management to point out the loop holes and suggest the remedies about the appropriate dividend policy. This research will be beneficial to policymakers from the comparative study of the dividend policy. The dividend policy of the joint venture banks are of great interest to the several outsiders. They are customers, financial agencies, stockbrokers, interested person and scholars. It is the public concern issue. This study will provide crucial information for stakeholders. The main significance of the study has been given below:

This study will assist to formulate dividend policy to the policy makers while marketing their dividend policy. They will be able to know the reasons for inconstant fluctuation of dividend distribution in Nepal.

This study will be a matter of interest for academicians, students and invest. They will be able to understand the current dividend practices in Nepal.

This research might have the clear conception over their investment. They will be able to distinct the right investment among all investment opportunities.

1.6 Limitation of Study

No study can be free from its own limitations. So, the present study has also some limitations. Reliability of statistical tools used and lack of research experience are the major limitations and some other limitations can be enlisted as follows:

- It covers the study period of 5 years.
- Only two commercial banks listed in Nepal Stock Exchange are taken as Sample.
- The main focus is given to the quantitative aspects, qualitative factors are not studies.
- Data related to cash dividend are analysed and interpreted.
- There may be reporting error in the secondary data
- There will be time and resource constraints.
- Primary information will not be taken into consideration of the study.
- The study is simply presented to fulfil a partial requirement of MBS program.

1.7 Organization of Study

Organization of this thesis work is based on the standard format of thesis writing. The standard of thesis/research writing format basically includes five chapters each devoted to some aspects of dividend policy and practises of commercial banks, which this thesis also follows:

- The first chapter (introduction) includes following components: Background information, focus of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study, and Organization of the study.
- The second chapter (review of literature) includes a discussion on the conceptual framework on dividend and review of major-studies relating with dividend decision.

- The third chapter (research methodology) includes these components: Research design, Sources of data, Data processing procedure, Population and sample, Period of the study, Financial indicators and Variables, Method of analysis.
- The fourth chapter (presentation and analysis of data) consists of deals with the presentation and analysis of the facts found in the study in organized and sequential manner. This section is concerned with analytical framework. It includes the analysis of financial indicators; analysis means, standard deviation, coefficient of variation, correlation coefficient, regression analysis and findings.
- The fifth chapter (summary, conclusions and recommendations) includes the suggestive framework that consists with conclusions and recommendations of the study.

CHAPTER-II

REVIEW OF LITERATURE

The present research aims to analyze the dividend policy and practices of commercial banks especially two joint venture banks viz. Standard chartered Banks Nepal and Himalayan banks limited Nepal. For this purpose, it needs to review related literature in this concerned area which helps to get clear idea, opinion and other concepts. 'What other has said? What other has done? And what other have written?' these all and other related questions are reviewed which has provided useful inputs in this research work. This The present research aims to analyze the dividend policy and practices of commercial banks especially two joint venture banks viz. Standard chartered bank Nepal and Himalayan bank limited Nepal. For this purpose, it needs to review related literatures in this concerned area which will help me to get clear ideas, opinions chapter emphasizes about the literatures which were concerned in this connections. Therefore, in this chapter conceptual frameworks given by different authors and intellectuals of this area, books, journals, research works, and previous thesis related to dividend and dividend policy and practises are reviewed. Moreover, rules regarding to dividend policy are reviewed and an attempt has been made to present them properly.

2.1 Conceptual Review

Dividend policy plays a vital role for maximization of the wealth and growth of the company. Shareholders always expect a higher return on their on their investment. Dividend is that portion of the net earning dividend by the company among the shareholders as return for their money invested or in other words dividend is a periodic payment made to shareholders to compensate them for the use of and risk to their made by a corporation to its shareholders out of its net earnings or profit for the year.

Dividend policy means some kind of consistent about the distribution versus retention decision. In other word, the policy for a company on the decision about the allocation of its profit between distribution to shareholders as dividend and retention for the investment is known as dividend policy. All aspects and question related to the payment contains in a dividend policy.

The dividend policy adopted by the firm should be such that it strikes a proper balance between the financing decision and investment decision. There is reciprocal relationship between the retained earning and cash dividend. If retained earning is kept more by the company less will be dividend and vice versa. It is the sense that the firm has to choose between distribution profit of to shareholders and plugging then back in to the business. The decision depends upon the ability of achieve the objective of wealth maximization. The firm will use the net profit for investment. If reinvestment leads to maximization the wealth of the shareholders, if not, it is better to distribute them to the shareholders.

‘’How much it is desirable to pay dividend is always a controversial topic. Because owners expect higher dividend from the company but company ensure towards setting aside finds for maximization of the overall shareholders wealth financial management is therefore concerned with the activities of corporation that affect the well being of stock-holders. That well-being can be partially measured is the market value of stock’’ (William; 1980:1)

The shareholders expect, at some point a distribution of firm’s earning in the form of dividend. This expectation takes priority over the desire to retain earning to finance expansion and growth. Thus shareholders expectation can be fulfilled through either capital gain or dividends. ‘’Since dividends would be more attractive to shareholder, one might think that there would be a tendency for corporations to increase distribution of dividend. But one might equally pressure that gross dividends would be reduced somewhat, with an increase in

net after tax dividends still available to stockholders and increase in retained earnings for the corporation. ‘’So the form should maintain a policy between distribution dividends and retained earnings. (Thorpe, 1994: 90-91)

Dividends are generally paid in cash; therefore it reduces the cash balances of the company. ‘’The dividend policy must be formulated with the basic objective of maximizing the wealth of the firm’s owners and providing for the sufficient financing. These objectives are not mutually exclusive but rather interrelated’’ (Paudel, B 2009:114)

2.1.1 Types of Dividend

Though cash dividend is assumed as the most popular form of dividend, corporation need to follow various types of dividend in view of the objectives and policies, which they implement. In Nepalese context, ‘’the type of dividend that corporations follow is partly of a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plans and policies.’’ (Shrestha, 1980: 670) According to changing needs of corporations, dividends is being distributed in several forms viz. Cash dividend, stock dividend (bonus share issue), scrip dividend, property dividend, optional dividend and bond dividend. But in Nepal and India only two types of dividend namely cash dividend and stock dividend are being practised.

Cash Dividend: Cash dividend is one form of dividend, which is distributed to shareholders in cash out of earnings of company. The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash distributed. (Hastings, 1966:370) So the companies should be wisely making the decision regarding payment of cash dividend. (Shrestha, j 2007)

Stock Dividend/Bonus Share: A stock dividend represents a distribution of shares in addition to the cash dividend to the existing shareholders. This has the effect of increasing the numbers of outstanding shares of the company. The declaration of the bonus shares will increase the paid-up share capital and reduce the reserve and surplus of the company. The total net worth is not affected by the bonus issue. In fact, it represents nothing more than re-capitalization of the owners' equity portion, i.e., the reserve and surplus. It is simply an accounting transfer from the retained earnings to capital stock. (Shretha, J 2007))

Scrip dividend: A scrip dividend is issued when company has been suffering from the cash problem and does not permit the cash dividend, but has earned profit. A dividend paid in promissory notes is a scrip dividend. Scrip is a form of promissory notes promising to pay the holder at specified later date. Under this form of dividend, company issues and distributes transferable promissory notes to shareholders, which may be interest bearing or non-interest bearing. The use of scrip dividends is desirable only when corporations have really earned profit and have only to wait for the conversion of other current assets into cash. Therefore, in order to overcome the temporary shortage of cash, sometimes company uses scrip dividends. (Shretha, J 2007))

Property Dividends: It is also known by the name of liquidating dividends. It involves a payment of assets/property in any form other than cash. Such form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Companies own products and security of subsidiaries are the example that has been paid as property dividend. (Shretha, J 2007))

Optional Dividend: The optional dividend is, in fact, not a kind of dividend but simply a choice of dividend given to the shareholders to accept either cash or stock dividend. But the shareholders consider the comparative value of stock

dividend with the amount of optional cash. ‘’If the two are very nearly the same, as it often the case, the cash option may be a convenience to the small shareholder, who thus avoids the case and expense of selling either whole or fraction of shares he does not wish to keep.’’ (Warning, 1931:404) If the cash dividend is subject to income taxes over and above the limit he prefers to have stock dividend. (Shretha, J 2007))

Bond Dividend: This type of dividend is distributed to the shareholders in the form of bond. It helps to postpone the payment of cash. In other words, company declares dividend in the form of its own bond with a view to avoid cash outflows. They are issued rarely. They are long term enough to fall beyond the current liability ground. The stockholders become secured creditors if the bond carries lien on assets. But none of these types except cash and stock dividend have been practised in Nepalese corporations although they have ample scope. (Shretha, J 2007))

2.1.2 Types of Dividend Policies

The dividend amount payment out of profit, but from past and present, is guided by dividend policy the firm follows. Generally, dividend can be categories as conservative, liberal, moderate and progressive dividend policy. Whatever the divided policy followed by the corporate firm, it is the concept that resolves the apparent conflict by finding optional dividend payout that balance the need of shareholders for their current incomes and expected future growth of the corporate firms so as to maximise the value of the firm. The optional dividend policy is the dividend policy that sticks a balance between current and future growth and maximizes the firm’s stocks price. We can simply group them into the following categories (Paudel, B 2009)

Stable Dividend Policy: When a firm constantly pay a fixed amount of dividends and maintains it for all times to come regardless of fluctuations in the level of its earnings, it is said to have pursued a relatively stable dividend

policy. In such a policy stockholders are assured of fixed dividend per share. During the period of prosperity the firm withholders all extraordinary income of the business to use them to maintain dividend during lean years. Stability of dividend policy does not mean stagnation in dividend payout ratio. In fact slow but steady change is the prime feature of a stable dividend policy. When the company's earning tend to rise regularly and the management feels satisfied than increased earning are sustainable, permanent dividend per share is increased. Likewise, dividend will not be allowed to decline in corresponding with a fell in business earning until it is felt that firm will not be able to recover from the setback. (Paudel, B 2009)

Policy of Regular Extra Dividend: The policy refers to the combination of regular dividend with the payment of additional dividend whenever earnings are signification high warrant it. Company followings regular dividend policy pay out dividend constantly to stockholders at constant rate and do change the payout ratio unless it is believed that change in earnings are permanent. When profit of the company swell, the management may decide to distribute a part of the increased earning as extra dividend instead of enhancing the regular dividend payout ratio. (Paudel, B 2009)

Policy to Pay Irregular Dividend: Company following this policy does not pay out a fixed amount of dividend per share. Instead, dividend per share is varied in correspondences with charge in level of in level of earnings. Larger earnings mean higher dividend and vice-versa. This policy is based on the management belief that stockholders are entitled to dividend only when earnings and earnings and liquidity position of the firm warrants. Generally, this is adopted by firms with unstable earnings. (Paudel, B 2009)

Fixed Payout Policy: Corporate firms establish fixed payout policy in which fix percentage of profits will be paid out each year as dividend. Dividend

payout ratio relatively remains constant and may increase with the increase in profit while dividend per share fluctuates from year to year.

Policy of no Immediate Dividend: In this policy, management of company may declare no dividend despite large earnings of the company. This policy is usually purposed when the firm is a new and rapidly growing concern which needs a large amount of funds to finance its expansion programs, when the firms access to capital market is difficult or when availability of funds is costlier, when shareholders have agreed to accept higher return in future or they have strong preference for long-term capital gains as opposed to short term dividend income. Policy of no immediate dividend should be followed by issues of bonus shares so that the company's capital increase and amount of reserves and surplus reduced.

2.1.3 Factors Influencing dividend policy

Formulating a policy regarding determination of amount of dividends to be paid out to the stockholders requires careful consideration of a myriad that come to bear upon dividend policy. It should be noted that although the factors may affect the payment the payment of dividends, there is no necessary relationship between these factors and actual dividend policy (Weston and Copeland; 1992:628). The factors affecting the extent to pay out dividends instead of retaining earnings are briefly outlined below:

2.1.4 Legal Rules

The legal rules provide the framework within which dividend policy can be formulated. Legal rules emphasize three rules (Weston and Copland; 1992:629)

The Net Profit Rule: The net profit rule provides the payment of dividend from past and present earnings only.

The Capital Important Rule: This rule prohibits the payment of liquidating dividend (i.e. payment of dividend out of capital). Liquidating dividend would mean distributing from investment rather than earnings.

The Insolvency Rule: This rule prohibits the payment of liquidating dividend (i.e. payment of dividend out of capital). Liquidating dividend would mean distributing dividend from investment rather than earnings.

2.1.5 Investment Opportunities and Stockholders Preferences

Appropriate dividend policy of a firm is one that is designed in the light of company's investment opportunities and stockholders' preference. If the company has host of profitable investment opportunities in hand and the stockholders have preference long-time gains, the management has no alternative but to retain entirely or sizable portion of its earnings to finance the investment projects. However, the management will be in dilemma if the company has a number of potential investment proposals requiring plenty of funds and at the same time its stockholders have strong preference for dividend income. In such a situation the finance manager must balance the net preference of stockholders against the different cost of retained earnings and net stock before deciding about the size of dividends to be distributed.(Paudel, B 2009)

2.1.6 Growth Rate (Rate of Assets Expansion)

A rapidly growing concern will have regular needs of long-term funds to seize upon favourable opportunities and for that purpose it may find it expedient to finance a greater part of its expansion. Such a decision will mean that dividend must be kept a minimum. But a company, which does not need additional funds for expansion or for replacement of assets, may distribute a high portion of its earnings. (Paudel, B 2009)

2.1.7 Liquidity Position

Even if a firm has a 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 pressing need for funds. In such a situation the firm may elect not pay cash dividends.

2.1.8 Debt Repayment and Restriction on Debt Contract

The dividend policy of corporate firm using debt is also affected by decision to repay debt on or before maturity which generally requires more retention of earnings, lowering the dividend rate. In case a company is indebted with long-term debt, the provisions of debt agreements greatly influence dividend payments. There may be an agreement with lenders which may either prevent the payment of dividend entirely or limit the amount of dividend to be paid or disallow payment of dividend until certain conditions are fulfilled.

2.1.9 Stability of Earnings

Dividend policy followed by corporate firm to a greater extend depends on rate of earnings and its stability in several years. Corporate firm with high and stable earnings are expected to gradually increase the percentage of earnings for divided payment. Similarly, a firm that has relatively low and fluctuating is less likely to pay out a higher percentage of dividends.

2.1.10 Control

Control is also important factor that influence the pattern of income distribution. The issues of additional common stocks for procuring funds dilute control of the dominant group in that company while raising risk. In view of this, the payments owners' desire to maintain control dictates the policy of withholding dividend payment to build up funds for growth and other purposes.

2.1.11 Access to Capital Market

A large well established corporate firm with a record of profitability and stability of earning has easy access to capital markets and another form of financing. Such firms are more likely to have higher percentage of dividend payout. Out the contrary, a small, new or venturesome firm however is riskier for potential. Its ability to raise equity or debt funds form capital markets is restricted, and hence it must retain more earnings to finance its operations.

2.1.12 Ownership Structure

In a closely held company with a few but wealthy stockholders, the management will always retain larger share of profits so as to reduce tax liability of stockholders. But if a firm comprises a few wealthy stockholders and others in middle income group. It is difficult to take a define stand because of conflicting interest of the owners. The former may prefer low dividend payout rate whereas the latter is very likely to favour relatively high dividend payout rate. The dividend policy in such company may be a compromise between a low and high payment an intermediate payout ratio. However, the stockholders of large, widely held corporation might prefer a high dividend payout.

2.1.13 Legal Provision Regarding Dividend Policy And Practises in Nepal

In Nepal, company act 2006 (2063 B.S.) has made certain legal provisions for divided payments. There provisions play vital role on dividend practises. Section 2 (P), bonus share (stock divided) means shares issues in the form of additional shares to shareholders by capitalising the surplus firm of the profit or the reserve fund of the company. The term also denotes an increase in the paid of values of the shares after capitalizing surplus reserve fund. Section (61), has prohibited company from purchasing its own shares, this section is subsection (1) states that no company shall purchase its own shares (by back) or supply loans against the security of its own shares. Section 179, bonus shares and sub section 2 states that company must inform the shareholders before issuing

bonus shares under subsection (1), this may be done only according to a special resolution past by the general meeting. Subsection (2) states that according to subsection 1 to inform the office before issuing bonus shares. Section 182, dividends and sub section of this section are as follows:

Subsection 1: Except in the following circumstances, dividend shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

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

Subsection 2: Without permission of government the fully owned shares or majority on shares of government's institution cannot distribute the dividend. Government can forward the direction to these organisations for distribution of dividend.

Subsection 3: In case dividends are not distributed with in time limit maintained in subsection (1), this shall be done by adding interest at the prescribed rate.

Subsection 4: Only the person whose name stands registered in the register of existing shareholders at the time of the declaring the dividend shall be entitled to it. The above rules indicate that Nepalese law prohibits repurchase of stock which is against the theory of finance. The reason for this kind is provision of unknown. (www.nepalmissionjenova.org)

Likewise, commercial act 1972 (2031) section 18 (4th Amendment 2046) has prohibited the distribution of dividend unless the following conditions are net:

- Before writing of preliminary expenses
- Before making provisions for previous years loses
- Before maintaining adequate (a) capital fund, (b) provision for loan losses and (c) reserve fund, 20% of the net profit should be appropriated reserve fund reaches double of paid up capital.

2.2 Review of Major Studies

In this section an attempt has been made to review of the major studies concerning dividends and stock price and management views on dividend policy . The studies draws heavily from these studies to carry it out .James E Walter (1966) conducted a study on dividend and stock price in 1966. He proposed a model for share valuation. According to him, the dividend policy of the firm affects the value of the shares. So, the dividend are relevant. He argues that the choice of dividend policy always affects the value of enterprise.

His study shows clearly the importance of relationship between internal rate of return (R) and it costs of capital (K)in determining the dividend policy.

The assumption of the Walter's model is as follows:

- The firm finance all the investment through retained earnings. The external funds (i.e. debt, new equity) are not used for new investment.
- All earning of the firm's investment (R) and the cost of capital (k) are constant.
- All earning are either distributed as dividend or reinvested internally
- The value of EPS and DPS are assumed to remain constant forever in determining a given value.
- The firm has perpetual or indefinite life
- Based on these above assumptions, Walters has given following formulae of valuation of equity shares

$$P = \frac{DPS}{Ke} = \frac{\frac{r}{Ke(EPS - DPS)}}{Ke}$$

or

$$P = \frac{DPS + \frac{r}{Ke(EPS - DPS)}}{Ke}$$

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

DPS= dividend per share

EPS= earning per share

r=the the rate of return firms investment

ke=cost of capital/capitalization rate

according to the walter's model, the optimtheum dividend policy depends on the relationship between the firms internal rate of return (r) and cost of capital(ke) . Walter's referred different dividend policy for different types of the firm which can be summarized as follows.

Growth firm (r>k): Growth firm are firm, which expand rapidly. Because of ample investment opportunities yielding return(r) is higher than the opportunity cost of capital (k). So , firm having r>k referred as growth firms which are able to reinvest earnings at a rate which is higher than the rate expected by shareholders. they will maximize the value per share if they follows a policy of returning all earning for internal investment. Thus, the correlation between dividend and stock price is negative, and the optimum payout ratio for a growth firm is zero. The market value per share (p), increase, as payout ratio decline when r>k.

Normal firm (r=k): If the internal rate of return is equal to cost of capital, the dividend payout does not affect the value of share. i.e. dividends are indifferent from stock prices. In other words, there is no rule of dividend on stock prices. Such a firm can be called as a normal firm. Whether earning are retained or distributed as dividend, it is a matter of indifference for a normal firm. The market price of a share will remain constant for a different dividend payout ratio from 0 to 100. Thus, there is no unique optimum payout ratio for a normal

firm. One dividend policy is good as other and the market value per share is not affected by the payout ratio when r=k.

Declining firm (r<k): If the internal rate of return (R) is less than cost of capital (k),it indicates that the shareholders can earn a higher return by investing elsewhere. In such a case for maximizing the value of shares, dividend also should be maximized. By distributing the entire earning as dividend, the of share will be at optimum value. In other words, the market value per share of a declining firm with r<h will be maximum when it does not retain earning at all. The relation between dividend and stock price is positive. The optimum payout ratio for a declining from a declining firm is 100 percent and the market value per share increase and the market value per share increases as payout ratio increases when r<k.

Criticism of Walter's Model (1972)

No external financing: This model is based on assumption of the firm are financed by retained earning finance the investment opportunities of the firm only no external financing i.e., debt or equity is used for this purpose. When such a situation exists either the firm's investment or its dividend policy or both will be sub-optimum (clark, 1972:347)

Constant of return(R) and Opportunity Cost of Capital (k)

This model assumes that the rate of return(R) and opportunity cost of capital or discount rate (k) is constant. In fact, rate of return (R) changes with increase and decrease of investment, i.e., R decreases as more investment occurs and cost of capital (k) change directly with the risk borne by the firms.

Modigliani & Miller (1962) developed theory for irrelevant of dividend which are most comprehensive and logical. According to them dividend policy does not affect value of time and is, therefore of no relevance. They are of the view that sum of the discounted value per share after dividend is equal to the market

value per share before dividend is paid. It is the earning potentially and investment policy of the firm than its pattern of distribution of earning that affects the value of the firm.

M-M approach is based on some assumption like existence of perfect capital market where all investor are rational. Information is available to all at no cost; there are no transaction costs and floatation costs. There does not exist taxes. Firms investor policy is well planned and is fixed for all the time to come. There is no uncertainly as to future investments and of the firm.

The crux of the M-M argument is that shareholders do not necessarily depend on dividends for obtaining cash. They can get cash by devising "home made dividend" from arbitrage process without any dilution in their wealth. According to M-M, the effect of dividend payments on shareholders wealth is offset exactly by the other means of financing. M-M suggests that the sum of the market value per share after financing and dividends paid is equal to the market value per share before the payment of dividends. The stocks decline in market price because of external financing offsets exactly by the payment of the dividend. Thus a stockholder is said to be indifferent between dividends and the retained and subsequent capital gains.

MM view that the market price of share at the beginning of a period as equal to the present value of the dividend paid at the end of the capital plus the market price at the end of the period. Thus

$$P_0 = \frac{1}{1+k}(D1 + P1) \ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where

P1= Market price of share at the end of the year

D1= Dividend paid at the end of the year

Po= Price of a share at the beginning of the year

K= Cost of capital

The value of the firm (V) if no new financing exist can be written as:

$$P_0 = \frac{1}{1+K}(D1 + P1) \ldots\ldots\ldots\ldots\ldots (2)$$

Where

n= number of shares outstanding

if the firm sells 'm' number of new shares at time 1 at a price of P1, the value of the firm at time 0 will be,

$$V = np_0 = \frac{n(D1 + P1)}{1+k} \ldots\ldots\ldots\ldots\ldots (3)$$

Thus the total value of the firm as per equation 3 is equal to the capitalized value of dividends to be received during the period plus the value of the number of shares outstanding at the end of the period less the value of the newly issued shares.

A firm can finance its investment programme either by ploughing back its earning or by issue of new shares or both. Thus, total amount of new shares that the firm will issue to finance its investment will be :

$$mP_0 = 1 - nD_1 \ldots\ldots\ldots\ldots (4)$$

where

mP1 = Total amount of funds raised by issued of the new shares to finance investment projects.

I = Total new investment during period 1

X= New profits

If equation (4) is substituted in equation (3), we find the following equation:

$$nP_0 = \frac{(n+m)P_1 - 1 + X}{1+K} \ldots\ldots\ldots\ldots (5)$$

Thus the value of firm is unaffected by dividend policy. Because it is possible to restate the value of the firm in equation (5) without dividends. D which shows that dividends have on value of the firm when external financing is used MM concludes that the current value of firm is independent of its current dividend decisions. What are gained by stockholders in increase dividends is

offsets exactly by the decline in the terminal value of their stock (Weston & Copland; 1992:632).

(Gordon) has developed another popular and important model relating the stock valuation using the dividend capitalization approach. Gordon concludes that dividend policy affect the value of shares even when the return on investment and required rate of return are equal. He explains that investors 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 uncertainty. 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 stock price for the reason that investors consider the dividend yield $\frac{D_1}{P_0}$ is less risky than expected capital gain.

(Gordon, 1962:683)

Gordon's model is also described as ''bird in hand argument''. It supports the argument which is probably known as a bird in hand is worth two in the bush. What is available is preferable than what may be available in the future. This is to say current dividend are considered certain and riskless. So it is preferred by rational investors as compared to deferred dividend in the future. The future is uncertain. The investors would naturally like to avoid uncertainty. So the current dividends are given more weight than expected future dividend by the investors. So the value per share increases if dividend payout ratio is increasing. This means there exists positive relationship between the amount of divided and stock prices.

Basic assumptions of this model are as follows:

a) The form uses equity capital only.
b) Internal rate of return (r) and cost of capital (ke) are constant.
c) The firm and its stream are perpetual.

d) There is no tax on corporal income.

e) The retention ratio (b) once decided upon is constant. Thus the growth rate, (g=br) is constant forever.

f) 'Ke' must be greater than g(=br) to get meaningful value.

g) The source of financing for new investment is only retained earning. No external financing is available.

2) 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.

$$P = \frac{E(1-b)}{Ke-br} = \frac{E(1-b)}{Ke-g}$$

Where

3) P= Price of share / mardet value per share

4) E= Earnings per share

5) b= Retention ratio/percentage of retained earning

6) 1-b= Dividend payout ratio (i.e., percentage of earning distributed as dividend)

7) ke= Capitalization rate/cost of capital

8) br= g or growth rate in r, (i.e., rate if return on inv e stment of an all equity firm)

1st case: Growth Firms (r>k).In this case of growth firm, the value of a share will increase as the retention ratio (b) increases and the value of share will decrease as the retention ratio (b) decreases. i.e. high dividend corresponding to earnings leads to decrease in share prices and low dividend corresponding to earning leads to increase in share prices. So dividends and stock prices are negatively correlated in growth firm i.e., r>k firm. 2nd case: Normal Firms: (r=k) Dividend payout ratio does not affect the value of share in firm. In other words, share value remains constant regardless of changes in dividend policies. It means dividend and stock price are free from each other in normal firm i.e, r=k firm. 3rd case: Decline Firms: (r<k) In case declining firms, share price tends to enhance with increase in payout ratio, 1-b or decrease in retention ratio, b. So, dividends and stock prices are positively correlated with each other in decline firm i.e., r<k firm.

Van Horne and Mc-Donald (1968) conducted a most comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity 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 their investigation, they employed two samples of firm's viz. the 86 electric utilities in the continental U.S. which are included on the COMPUSTAT utility data tape; and 39 companies in the electronics and electric component industries as listed on the COMPUSTAT industrial data tape in 1968.

They performed empirical study by testing two regressions for the electric utilities and one regression model for electronics and electronic components industry. 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'' 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 excessive 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.

Lintner (1956) in the mid-1950's conducted a classic series of interviews with corporate managers about their dividend policies. His description of how dividends are determined can be summarised in four ''*Stylized facts*''

The first fact is that the firms have long run target payout ratios. Mature companies with stable earnings generally pay out a high proportion of earnings,

growing companies have low payout. The second fact is that managers focus more on dividend changes than on absolute levels. Thus, paying Rs. 50 dividend is an important financial decision if last year's dividend was Rs. 10, but no big deal if last year's dividend was Rs.50. The third fact is dividend changes follow shifts in long-run, sustainable earnings. Managers "smooth'' dividends. Transitory earnings changes are unlikely to affect dividend changes that might have to be reversed. They are particularly worried about having to rescind a dividend increase.

Linter developed a simple model which is consistent with these facts and explains dividend payments well. If a firm always stuck to its target payout ratio, then the dividend payment in the coming year (DIV) would equal proportion of earnings pre share (EPS).

DIV_1 = Target Dividend

Target Ratio X $EPSA_1$

The divided change would equal

$DIV_1 – DIV_0$ = Target Change

=Target Ratio X $EPS_1 – DIV_0$

A firm that always stuck to its target payout ratio would have to change its divided whenever earnings changed. But the managers in Linter's survey were reluctant to do this. They believe that shareholders prefer a steady progression in dividends. Therefore, even if circumstances appeared to warrant a large increase in their payment.

Their dividend changes therefore seemed to conform to the following mode:

DIV-DIV= Adjustment Rate X Target Change

= Adjustment Rate X (Target Ratio X EPS-DIV)

The more conservation the company, the more slowly it would move towards its target and therefore, the lower would be its adjustment rate.

Linter's simple model suggest that the dividend depends in part on the firm's current earnings and in part on the dividend for the previous year, which in turn depends on that year's earnings and the dividend in the year before. Therefore, if Linter is current and past earnings which can be demonstrated as:

$DIV_1 = aT(EPS)+(1-a)DIV_{t-1}$

Where,

'a' is the adjustment rate and T is the target payout ratio.

The popularity of an increase in the dividend rate should be greatest when current earnings have increased, it should be somewhat less when only the earnings from the previous year have increased and so on as conformed by Fama and Babiak (1968).

$DIV=aT(EPS)_t +aT(1-a)(EPS_{t-1})+aT(1-a)^2 (EPS_{t-2})+.....+aT(1-a)^n (EPS_{t-n})$

Their test of Linter's model suggests that it provides a fairly good explanation of how a company on dividend rate, but it is not the whole story. It is expected that managers take both future prospects as well as past achievement into account when setting dividend payment.

Irwin Friend and Marshall Puckett (1958) have conducted a study about the relationship between dividend and stock prices. They used the regression analysis on the data of 110 firms from five 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 were 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; $P_t = a + b\,D_t + CR_t + d(E/P)_{t-1}$

Where,

P_t= Per share price at time t

D_t= Dividends at time t

R_t = Retained earnings at time t

And, dividend supply function;

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

Where,

Et= Earnings per share at time t

P_{t-1} = Last year dividend

The following were the basic assumptions of their study.

1. Dividends do react to year-to-year fluctuations in earnings.
2. price does not contain speculative components.
3. Earnings fluctuations may not sum zero over the sample.

$D_t = e + E_t + g\,D_{t-1} + h(E/P)_{t-1}$The regression $P_t = a + b\,D_t + cR_t$ presents the usual simple linear relationships between average prices and dividends and retained earnings to show with the data. They found the customary strong dividend and relatively weak retained earnings effect in three of five industries i.e., chemicals, foods, and steels.

By adding lagged earnings price ratio to the above equation, they got the following results.

$P_t = a + b\,D_t + CR_t + d(E/P)_{t-1}$

They tested this equation and found the following results.

Dividends have a predominant influence on stock prices in the same three out of five industries but the differences between the dividends and retained earnings coefficient were not quite so marked as in the first set of regressions. 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. They also calculated the dividend supply equation i.e.

$D_t = e + E_t + g\,D_{t-1} + h(E/P)_{t-1}$ And derived price equation for four industry groups in 1958. The derived price equation show no significant changes from those obtained from single equation approach as explained above, reflecting the fact that stock price, or more accurately the price earnings ratio, does not seem to have a significant effect on dividend payout. On the other hand, they noted that, in three of the four cases tested, the retained earnings effect is increased relatively. Moreover, their result suggested that price effects on dividend supply are probably not a serious source of bias in customary derivation of dividend and retained earnings effects on stock prices, though such a bias might be masked if the distributing effects of short run income movements are sufficiently great.

Further, they used lagged price as a variable instead of lagged earnings price ratio. They found that retained earnings received grater relative weight then dividends in the majority of the cases. The only exceptions were steels and foods in 1958. Chemicals, electronics, and utilities were considered as growth industries and the retained earning effect was larger than the dividend effect for both years covered. For the other two industries (steels and foods) there no longer seems to be any significant systematic differences between the retained earnings and dividend coefficients.

Similarly, they tested the regression of $P_t = a + b\,D_t + cR_t$ by using normalized earnings again. They obtained normalized retained earning by

subtracting dividends from normalized earnings. That normalization procedure was based on the period 1950-61. Again, they added prior year's normalized earnings price variable and they compared the result. Comparing the result, they found that there was significant role of normalized earnings and retained earnings but effects of normalized price earnings ratio were constant. After examining the later equation, they found that the difference between dividend and retained earnings coefficients disappeared. Lastly, they come to know a conclusion that management might be able to increase prices somewhat by raising dividends in foods and steel industries.

At last, Friend and Puckett (1958) 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.

2.3 Review of Journals and Articles

Fama and Bbiak (1968) *"Dividend Policy and Empirical Analysis"* examined several other models for explaining dividend behaviour. Their result support Linter's view that mangers prefer a stable dividend policy and are reluctant to increase dividend to level that cannot be sustained. Therefore, these researchers concluded that change in per share dividend is largely a function of target dividend payout based on earnings and the last period dividend payout.

Baker and Farrelly (1988) "*Dividend Achievers: A Behaviours Perspective"* reported similar result for dividend achievers, which they defined as companies having an unbroken record of at least ten consecutive years of dividend increase. They also concluded a survey of institutional investors. Their findings showed that this sophisticated investor believe that dividend policy affect stock prices and that in line with Linter's behavioural model, dividend consistency is very important.

Ojha (2000) published an article *"Financial Performance and Common Stock Pricing."* His objectives of this study were to study and examine the difference of financial performance and stock prices, to examine the relationship of dividends and stock price and to explore the signaling effects in stock price and his major findings of his study were Nepalese stock market is in infancy stage. In general it is very new and just started to develop. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging. Corporate firm with long history have relatively stable profitability parameters that the firm established after the economic liberalization of 1990. Older firms have been issuing bonus share more times than the new one. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been highly fluctuating. Due to lack of proper investment opportunity most of the investors have directed their saving towards the secondary stock market. There is significant positive correlation between the dividends paid and stock prices of banking and manufacturing industries. All other have not a perfect correlation between the net worth per share and common stock price.

Timilsina (2009) published an article *"Capital Market Development and Stock Price Behaviors in Nepal."* Major Findings of the Study are the coefficient of correlation between earning per share (EPS) and observed market value of share and also between the dividend per share (DPS) and observed market value of share were computed. Also regressions were run to see the influence of the explanatory variables, EPS and DPS on equity prices. A positive correlation was found to exist between EPS and the market price of the share. The coefficient of correlation between dividend per share and the market price was also computed taking DPS as independent variable and market price as dependent variable. A high

degree of positive relationship (r= 0.83) was observed between the two variables.Timilsina concluded that the market price of shares depends on EPS as well as on DPS, but DPS is more prices sensitive and it will have direct and immediate response in the market.

Charles and Christopher (2010), in his article *"Do Banks Provide Financial Slack?"* their main hypothesis is that the banks have the ability to accurately price financial claims thus including a preference for undervalued firms to choose bank debts as their marginal financial source. They refer to this escapes that this information benefit will be weighed against the verity of contracting costs in a firms ultimate financing choice since they expect that these firms are the most likely to be undervalued, these financing are consist dent with the presence of and information. Benefit to bank debt finance. For identify whether the firms weighted these information benefits of bank finance against other contracting costs they examine the variation. In the sensitivity of the bank loan likelihood to their variables measuring potential under valuation they the find that firms with public debt outstanding tend to exhibit a relatively low sensitivity of bank loan likelihood to these variables. .since they accept that the contracting cost of bank debt information benefits of bank debt against the contracting costs.

The result suggest that for firms with public securities market for the firms to cross the threshold where the information benefits of bank debt finance outweigh the relatives contracting costs. Agricultural projects center has submitted in their report on where "ongoing evaluation of intensive Banking program in (October 1985)" this study has widely covered the whole aspects of IBP. It says due to the wide net work of commercial banks they have now 346 branches at present and the huge amount of ideal funds estimate at Rs.3226 million in 1984/85 lying with

them. The investment of commercial banks in the priority sectors areas seems justified. To generate intensive for commercial banks, it has necessary to raise the interest rate which would sufficiently cover up the cost leading leave some profit margin as well. As the indirect cost of borrowing small loan between two to thousand rupees is six percentages some active measure could be taken to dower this rate to compensate the small borrows for the proposed rise in the rate of interest.

2.4 Review of Thesis

Nepalese capital market is in the early stage of development. There are only few studies done in this field. Due to lack of information and expertise, no sufficient studies have been carried out in regards to the dividend policy. However recent developments in the field of capital markets have shown some says of hope for the future. Some of the studies done in the field of dividend policy and stock prices have been reviewed here under.

Shah (2008) carried out a research on "*Cash Dividend Practice and its Impact on Share Price in Nepal"*. It covered 5 years period (2004-2008) including commercial banks, manufacturing companies, development banks, insurance companies, and financial institutions and hotels sectors.The Main objectives of the study are as follows.

- Its basic objectives were to evaluate the trend of cash dividend forecasting and payment by the Nepalese financial institution and to see and examine the impact of cash dividend on market price per share.
- To achieve these objectives, the information are interpreted and analyzed by using regression model and hypothesis test.

The Major findings of the study are as follows.

- Commercial banks of Nepal are seen the regular dividend paying financial institution.

- In average 90% companies pay less than 50% cash dividend. The company having good earning only have been paying regular cash dividend.
- The lack of financial knowledge and the market inefficiency has affected the market price of the share in all the firms. But it is theoretically argued.

Timsina (2009) carried out a research on *"A Study on Dividend Policy and Its Impact on Stock Price of Selected Commercial Banks"* concluded that: This study has covered the period of ten years being from 1999 to 2008. there are 26 commercial banks have been listed in NEPSE to date, however only 5 of them have been selected for analysis while conducting this study secondary data have been applied as well as some necessary information for analysis the data has been collected from some financial and managerial experts.Different financial and statistical tools have been applied for analyzing the data.

The major findings mentioned above led this study to conclude that there is notable dividend Impact on market price of the share in most of the banks. In another words dividend pays an important role to change the market price of the shares. Besides this the following conclusions are made:

- There is high degree positive relationship between DPS and EPS in most of the bank.
- There is normal positive relationship between DPS and EPS in most of the banks.
- While comparing the impact of EPS and lagged DPS on DPS, It is found that there is normal positive role of change in EPS to change the DPS but there is nominal or very less role of lagged DPS.CBL is highest of the firms.

- While observing the effect of dependent variable, i.e. DPS and MPS, on its independent variable, i.e. DPS, EPS and lagged DPS it is not sufficient information and meaning that there is a notable role of others, managerial and environmental factors.

Gautam (2010) carried out a research on *"Dividend Policy in Commercial Banks"* which focuses on the objectives to identify the type of dividend policy that is being adopted and to find out whether the policy.The Main objectives of the study are;

- To examine the impact of dividend on share price.
- To identify the relationship between DPS and other financial indicators.
- To know if there is any uniformity among DPS, EPS and DPR sampled commercial Banks.

The Major findings of the study are as follows.

- There is the largest fluctuation in EPS and DPS,
- The relationship between DPS and EPS is positive; however it is not significant. There may be various other factors beside EPS to affects MPS and the growth rate of dividend is inconsistent.
- It concluded that no sampled commercial banks have followed distinctly defined dividend policy.

Luitel, (2011) in his research work "*A comparative study of dividend policy of NABIL bank ltd., standard chartered bank Nepal ltd. and Nepal investment bank ltd.*

1. Some banks are paying high dividend and other are paying low dividend .
2. Dividend per share is not more stable then dividend payout ratio.
3. Market price of share is attracted by dividend.
4. The banks have not clearly defined dividend policy.

He had recommended the following issue.

1. The banks needs to create somehow paying reasonable DPS every year, it's because higher DPS creates positive attitude of share holders and investor has psychological value of shareholder is also valued as the assets of banks.
2. Dividend payments adopted by bank are not stable. In May case a small amount of dividend are paid without considering the risk free rate of return.
3. Banks should have long term vision regarding earning and dividend payment that help to cope with challenging competitive situation of present world.
4. The policy should be determine whither the bank is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividend.
5. The legal rule for the treatment of dividend is must for the smooth growth of any enterprises as well as growth of national economy.

Budhathoki (20012) carried on a research on *"The Study of Dividend Policy of the Commercial Banks in Nepal"* the Main objectives of the study are as follows.

- To highlight the dividend practices of Commercial Banks,
- To compare the dividend policy followed by different commercial banks chosen,
- To provide the sample banks 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.

The Major findings of the study are as follows.

- 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.
- The average dividend per share (DPS) shows that there is no regularity in dividend payment.

- The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable.
- The average market price shows that there is quite high level of fluctuation.

Dahal (2013) carried out the research on the topic *"Dividend and stock Price"* the major objective of study was to know about the influence in price caused by dividend policy of the Nepalese commercial banks. The specific objectives of his study were as follows.

- To test the relationship between dividend per share and stock price.
- To determine the impact of dividend policy on stock price.
- To identify whether it is possible to increase the market value of stock by changing dividend policy or payout ratio.

The main findings of his study were as follows.

- The relationship between dividend per share and stock price is positive in the sample companies.
- DPS affects the share price differently in different sector.
- By changing the dividend policy or DPS might help to increase the MPS.
- The relationship between stock prices and retained earnings per share is not important.
- The relationship between stock price and lagged earning price ratio is negative.

2.5 Research Gap

There have many national and international studies in the dividend policy .The weakness and drawbacks are also mentioned there with. All the concepts and practices of foreign author's model there about divided practices are not used in our Nepalese dividend policy. There have been several researches done in past regarding dividend policy and practice of various books of various financial and

statistical tools. In the changing environment, the past research can not address the recent problems .It is public concern issue .In this thesis, only two sample banks SCBL and HBL are considered out of total population 31 Commercial Banks operating presently in the market. As to research crap is considered, the trend of MPS and EPS over the study period and forecast of these financial indicators for next three years were predicted which might be one of the difference from the other studies thesis. It finally helps various stakeholders to be acquainted with major financial indicators of the leading two banks in the country.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is way to systematically solve the research problem. Research methodology describes the method and process applied in the entire aspect of the study. The major objective of the study is to find out ‘model of good fit’ to explain the dividend policy on the sample commercial banks. This chapter highlights about the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. 'Research Methodology' is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. l "Research methodology" refers to the various sequential steps (along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view" (Kothari, 1994:19). So it is the methods, steps, and guidelines, which are to be followed in analysis, and it is a way presenting the collected data with meaningful analysis.

3.1 Research Design

Research design refers to a series of stage in concluding a study. The research design of this study will be more descriptive cum analytical using the various phenomena related and influencing the dividend decision. Descript able and analytical research design is used in this study.

For the analytical purpose, the annual reports published by the relative banks and other publications of the related banks published by Nepal Rastra Bank, Nepal Stock Exchange Ltd. & other related agencies, are collected for the year 2007/08 to 2011/012.

- Research Design is the plan structure and strategy of investigations conceived so as to obtain answers to research questions and to control variable.
- A research design is the logical systematic planning and direction of piece of research.
- A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.
- To maximize the variable of the dependent variable influenced by the independent variable(s) of the substantive research hypothesis.
- To control the variable of extraneous or unwanted variable that may have an effect on his/her experimental outcomes but in which the researcher is not interested.
- To minimize the error of random variable or fluctuation.

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For the analytical purpose, the annual reports published by the relative banks and other publications of the related banks published by Nepal Rastra Bank, Nepal Stock Exchange Ltd. & other related agencies, are collected for the year 2007/08 to 2011/012.

3.2 Sources of Data

Mainly the study is conducted on the basis of secondary data. The data relating to the dividend policy are obtained from Nepal Stock Exchange. The supplementary data and information are obtained from annual reports of concerned commercial banks. Other information sources have been taken from

central library Tribhuvan University, Shanker Dev Campus library, American library, ministry of finance and National Commission e.t.c.

3.3 Population and Sample

Due to the liberalisation Nepal has many commercial banks. They are operating at same rules and regulation. The population for this study comprises all the commercial banks listed in Nepal Stock Exchange (NEPSE). At present, there are 31 commercial banks. Two listed commercial banks namely Himalayan, Standard chartered has been selected out of the total population as sample for this study.

3.4 Method of Analysis

3.4.1 Financial Tools

Considering research objective, to analyse the impact of dividend on various key variables such as earning per share, dividend payout ratio, price earning ratio, dividend yield and earning yield are considered. Following financial indicator tools related to objectives are also considered.

a) Earning Per Share(EPS)

It is a type of ratio, which refers total earnings available to common shareholders or total number of outstanding common shares. It measures the profit available to the equity shareholders on per share basis. It reflects the earning power of a company. Higher EPS represents greater net profit.

EPS= Total earning available to common shareholders/ Number of common shares outstanding

b) Dividend Per Share (DPS)

Financial sound companies can distribute dividends to its shareholders. Higher DPS attracts investors to invest in share of company and maintains goodwill in the market. It is calculated by dividend net earnings paid to the common shareholders (after payment of preference dividend) by number of common share outstanding.

$$\text{DPS} = \frac{\text{Total Dividend}}{\text{Number of Common Outstanding}}$$

c) Dividend Payout Ratio (DPR)

It is the ratio, which measures the relationship between the dividend paid to common shareholders and total earnings of the company after tax. It is calculated by dividend the DPS by the EPS.

$$\text{Dividend Payout Ratio} = \frac{\text{Earning per share}}{\text{Market Price per share}}$$

d) Price Earning Ratio (PER)

This is the type of ratio, which indicates the price currently paid by the market for each rupee of currently reported earning per share. It can be calculated by using the following ratio.

$$\text{P/E Ratio} = \frac{\text{Earning Per Share}}{\text{Market Price per share}}$$

e) **Dividend Yield (DY)**

It is the ratio of dividend per share to market price per share. It is the return to shareholders in form of dividend in relation to market price of the share. Shareholders can get dividend as a return in relation to market price of the share.

$$\text{Dividend Yield (DY)} = \frac{\text{Dividend per share}}{\text{Market Price per share}}$$

Dividend yield is dependent on market value per share. Higher the market value leads to decrease in the ratio and vice versa.

f) Earning Yield (EY)

Earning yield is the most important profitability ratio, which is expressed in terms of market value of share. The earning yield can be defined as the ratio of earning per share to the market value per ordiary share and is calculated as follows.

$$\text{Earning Yield} = \frac{\text{Earning per share}}{\text{Maeket value per share}}$$

g) Liquidity Position Analysis

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting cash reserve ratio (CRR) requirements prescribed by NRB. The commercial banks should ensure that they do not suffer form the liquidity problem and should ensure that it does not have excess liquidity as well. The failure of the bank to meet this obligation will result bad credit image and loss of creditors confidence.

Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{Current\ Laibities}$$

h) **Profitability Ratio**

The ultimate objective of banks is to earn profit. Strictly speaking, no bank can survive without profit. Profit is the indicator of efficient operation of bank. The bank acquires profit by providing different services to its customers or by making investment of different kinds. Sufficient profit is a must to have good liquidity, grab investment opportunities, expand banking transaction, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for the bank. Profitability ratios measure the efficiency of a bank. The following profitability ratios, were used to evaluate the profitability of the selected commercial banks.

Net Profit Margin

$$\text{Net Profit Margin} = \frac{Net\ Profit\ After\ Tax}{Total\ Operating\ Income}$$

Return on Total Assets (ROTA)

$$\text{Rrturn on Total Assets (ROTA)} = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

3.4.2 Statistical Tools

a) Mean or average

Simply mean or average is the set of observation that represents the entire data; its value lies somewhere in between the two extremes observation of the data. For this reason an average is frequently referred to as a measure of central tendency. The data related to dividend are tabulated and drawn out average mean over different years. It is an envoy of the mass of homogeneous data. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically,

Arithmetic mean (AM) is given by

Where,

$\overline{X}$ = Arithmetic mean

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

N=number of observations

The measurement of the scattering of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity if a series, a large standard deviation means just opposite. In this way standard deviation is calculated for selected dependent and independent variables specified in the models presented above.

$$\text{Satandard Deviation}(\sigma) = \sqrt{\frac{\Sigma(x-\bar{x})^2}{N}}$$

Where,

n= No of observation of X

= Summation of square of deviation from mean value

Or

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

b) Coefficient of Variation (C.V.)

C.V. is the qualitative measure of the dispersion to compare more than assets; coefficient of frequency variation is used. It is relative measurement of dispersion based on standard deviation coefficient of variation is given by following formula,

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

Where,

(σ) Standard deviation

$(\bar{x})$= Arithmetic mean

It represent the ratio of the standard deviation to the mean and it is a useful static for comparing the degree of variation from one data series to another, even if the means are drastically different from each other.

c) **Coefficient of Correlation(r):**

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. The sufficient of correlation measures the degree of relationship between two sets of figures. In this study, simple coefficient of correlation is used to determine the relationship of different factors with dividend and other variables. The data related to dividend over different years are tabulated and their relationships with each others are drawn out. Karl Pearson's coefficient is used to study the extend or degree of correlation between the variables. If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1. The formula for the calculation of coefficient is given below.

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

Where, r= coefficient of correlation

∑xy= sum of product of the observation is series x & y.

$\sum x$= sum of the observation in serious x

. $\sum y$= sum of the observation in serious y

$\sum x^2$ = Sum of the squre s observation X

$\sum y^2$ = Sum of the squre s observation y

N = Number of observation of x & y

'r' lies between +1 & -1.

'r' lies always between +1 and -1

When 'r'= +1, there is perfect positive correlation

When 'r'=-1, there is perfect negative correlation

When 'r'=0, there is no correlation

When 'r' lies between 0.7 to 0.999 (or -0.7 to -0.999) there is higher degree of positive or negative correlation.

When 'r' lies between 0.5 and 0.699, there is a moderate degree of correlation

When 'r' is less than 0.5, there is low degree of correlation

d) Coefficient of Determinations (r^2):

The coefficient of determination is a measure of the degree linear association or correlation between two variable one of which happens to be independent and other being dependent variable. In other words, (r) measures the percentage total variation in dependent variable explained by independent variables. The coefficient of determination value can have ranging from zero to one. A value of one can occur only if the unexplained variation is zero which simply means that all the data points in the scatter diagram fall exactly on the regression line. It is more appropriate while verifying the results than the correlation coefficient and computed by square of the correlations coefficient as mentioned above.

r^2= r×r

e) Probable Error (P.E.)

The probable error of the coefficient of correlation denoted by P.E. is the measure of testing the reliability of the calculated value of r. If be the

calculated value of r from a sample of n pair of observations, then P.E. is defined by,

$$\text{P. E.} = \ 0.6745 \text{ X} = \frac{1 - \text{r}^2}{\sqrt{n}}$$

It is used in interpretation whether calculated value of 'r' is significant or not.

i. If r<P.E., it is insignificant. So, perhaps there is no evidence of correlation.

ii. If r>6P.E., it is significant.

In other cases, nothing can be concluded.

The probable error of correlation coefficient may be used to determine the limits within the population correlation coefficient are r= +, - P.E.

Where,

P.E.= probable error

r= Coefficient of correlation

n= number of pairs observation

f) Time Series Analysis

Time series analysis is one of the quantitative methods we use it to determine the pattern in data collected over time. Time series analysis is used to detect the pattern of change in statistical information over the regular interval of time. Time series analysis helps us cope with uncertainty about the future. It is a very useful to analyse the financial performance as well as to forecast future trend. There are four kinds of change or variation involve in time series analysis they are secular, cyclical, fluctuation, seasonal in time series and irregular trend. Trend analysis is very useful too. The study of trend allows to describe a historical pattern and to project past patterns or trends into future. Knowledge of past can tell great about future. This method is most widely used in practice. Tend analysis describes the average relationship between two series where the one series relates to time and other series the value of a variable. It generally

shows that the line of best-fit or straight line is obtained or not. The line of best fit describes the change in a given series accompanying a unit change in time.
So, researchers is going to analyse the trend of Dividend per share, Earning per share, Dividend pay-out ratio, PE-Ratio, Dividend Yield and Liquidity Ratio with the help of this Trend value analysis using Least square method. On the basis of past five years and also future value of next 5 year is being forecasted.
For the calculation of the ‘’Line of the best fit’’ following equations should be used

Yc= a+bx

Where,

Yc is used to designate the trend values to distinguish them from the actual y values. ‘a’ is the y intercept or the computed trend figure of the Y Variable when x=0. ‘b’ represents the slope of the trend line or the amount Y Variable that is associated with a change of one unit in X variable. The X variable Trend analysis represents the time.

CHAPTER-VI

DATA PRESENTATION AND ANALYSIS

This chapter deal with the main body of the study i.e. analysis and finding of the collection of data. The collected data are tabulated, analyzed and presented to meet the objectives of the research. And all the calculation is as mentioned in the research methodology chapter

In Nepal company act 2006 (2063) has made certain legal provision for divided payments. Nepalese residual firm must follow the company act 2006. There provisions play vital role are dividend practices. Under the rules and regulation, Company can be the practices any kind of policies. Dividend policy can be influence the corporate firm's investment capacity, liquidity and profitability. Dividend policy can be categories conservative, liberal, moderate and progressive dividend policy. We can be simply group them into the following categories (i) stable dividend policy (ii) policy of regular extra dividend (iii) policy to pay irregular dividend (iv) fixed payout policy of no immediate dividend.

Over the study period both sample banks paid stock and cash dividend but SCBNL did not provide the stock dividend at the year 200/11. However DPS and other financial indicator have positive co-relation all our study period, we can not say which dividend policy adopted the sample banks. Both sample banks cannot define their dividend policy and government has no provision of particular policy. We can understand these phenomena as relative term but not absolute term. Thus we can say that sample banks adopt the mixed dividend policy.

4.1 Data Presentation and Analysis.

The study is focused on the two commercial Banks as mentioned in the introduction chapter and their return is computing in this section. The data and

result are tabulated, interpreted and presented in the figure for more simplicity clarity.

4.1.1 Data presentation and Analysis of major Financial Indicators of HBL.

Table: 4.1

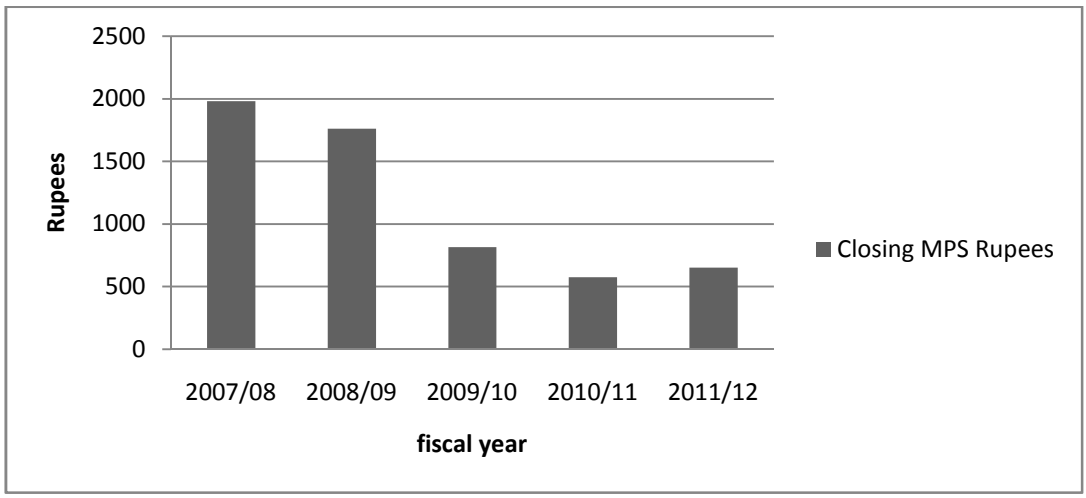
Major Financial Indicators of HBL

Fiscal Year	Closing MPS(Rs.)	DPS (Rs.)	Stock Dividend (%)	Total Dividend (Rs.)	EPS
2007/08	1980	25	20	421	62.74
2008/09	1760	12.56	31	540	61.90
2009/10	816	11.84	27	175.4	31.80
2010/11	575	16.84	20	131.84	44.66
2011/12	653	13.42	15	199	39.94

Source: HBL Annual Report (Appendix-1)

Figure: 4.1

Closing MPS Moment of HBL

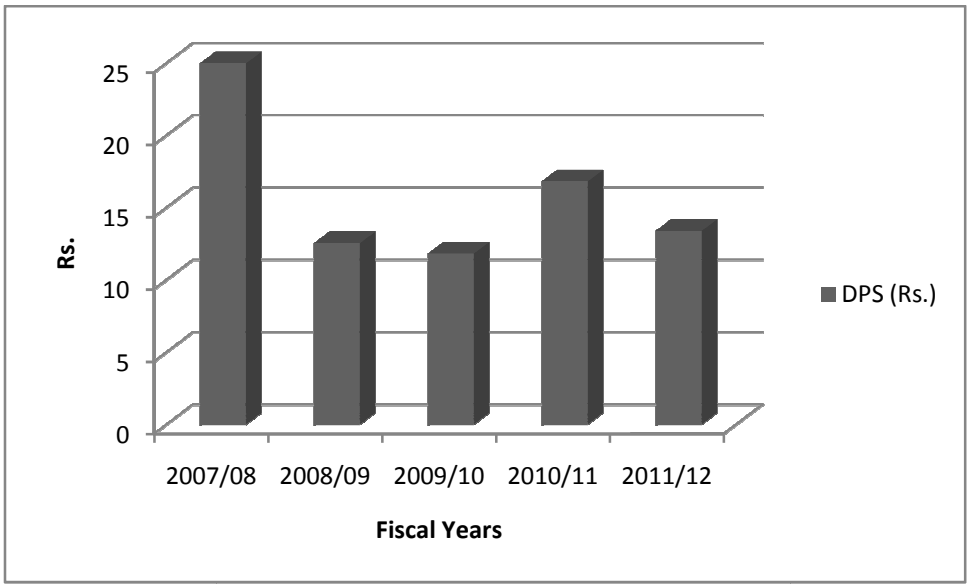


The market price of HBL is recorded highest in the year 2007/08 while the lowest recorded in the year 2010/11 during the study period stock dividend is

providing in the every year. The value this stock dividend is valued in the respective closing price of the year. The trend of the MPS of the banks over the of study has been presented in figure 4.1.

Figure: 4.2

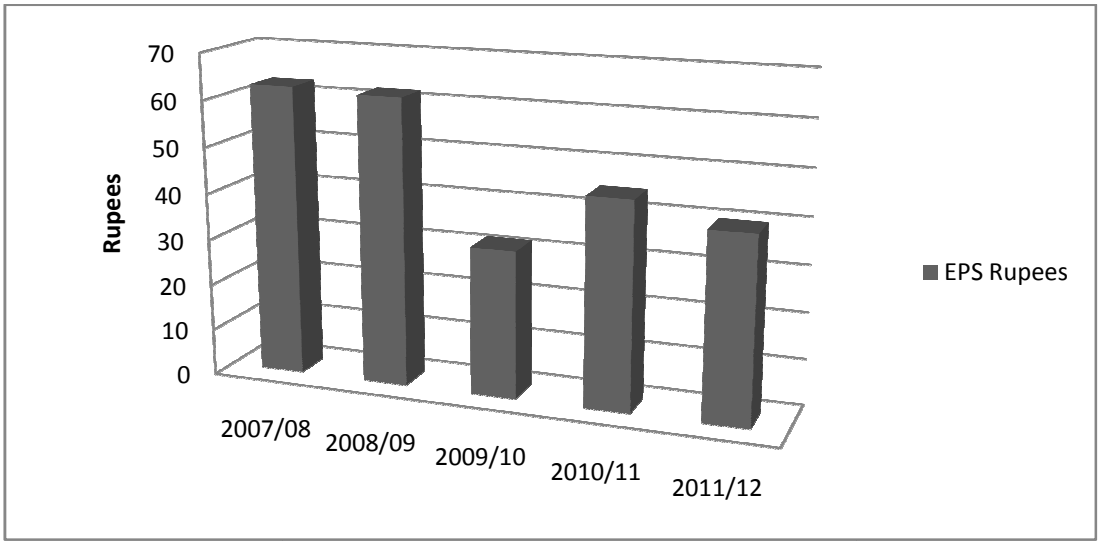
Dividend Per Share of HBL



The figure revealed 4.2 shows only the amount of cash dividend per share of HBL past five year. However the bank has been found to adopt both cash dividend and stock dividend paying practice. Hence, the cash dividend policy of the bank is decreasing up to three years and increasing fourth year and again decreasing at last year. The stock dividend flows decreasing trend up to third year, and constant fourth year and decreasing last year. The stock dividend has been valued in the closing MPS.

Figure: 4.3

Earning Per Share of HBL



The figure portrayed 4.3 revealed the EPS of HBL for the immediate past five year likewise the cash dividend per share, the EPS is at decreasing up to three years, increasing fourth year and then decreasing last year. The bank has the adequate amount of earning to distribute the shareholder in the firm of dividend. However, it has adopted policy of returning some person of profits over the year.

4.1.2 Data Presentation and Analysis of Major Financial Indicators of SCBNL.

Table: 4.2

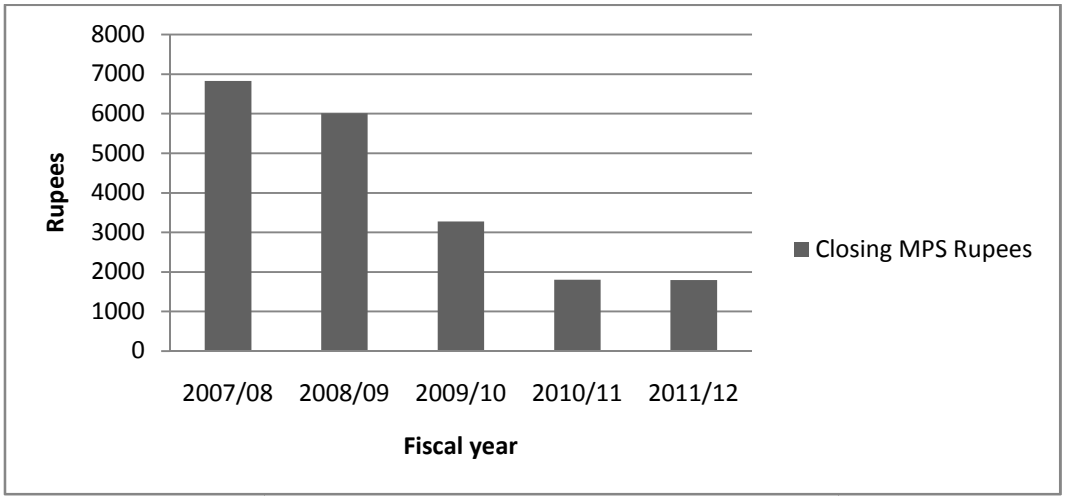
Major Financial Indicators of SCBNL.

Fiscal year	Closing MPS	DPS (Rs.)	Stock dividend (%)	Total dividend (Rs.)	Earning per share (EPS)
2007/08	6830	80	50	8959	131.92
2008/09	6010	50	50	6060	109.99
2009/10	3279	55	15	2350	77.65
2010/11	1800	50	0	950	69.51
2012/13	1799	45	15	944	72.60

Source: SBNL Annual Report (Appendix-1)

Figure: 4.4

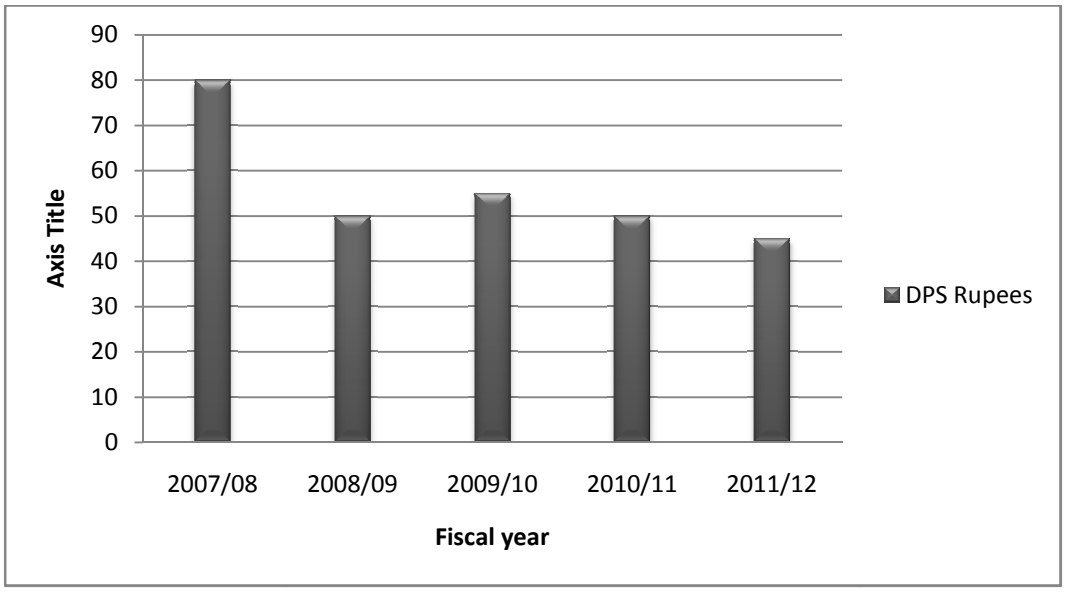
Closing MPS Rupees



The market price of SCBNL is recorded highest in the year 2007/08 while the lowest recorded in the year 2011/12. During the study period stock dividend is providing every year except fourth year. The value this stock dividend is valued in the respective closing price of the year. The cash dividend for the bank are found at in decreasing at second year and increasing in third year and again decreasing fourth and fifth at 5% The trend of the MPS of the banks over the of study has been presented in figure 4.4.

Figure: 4.5

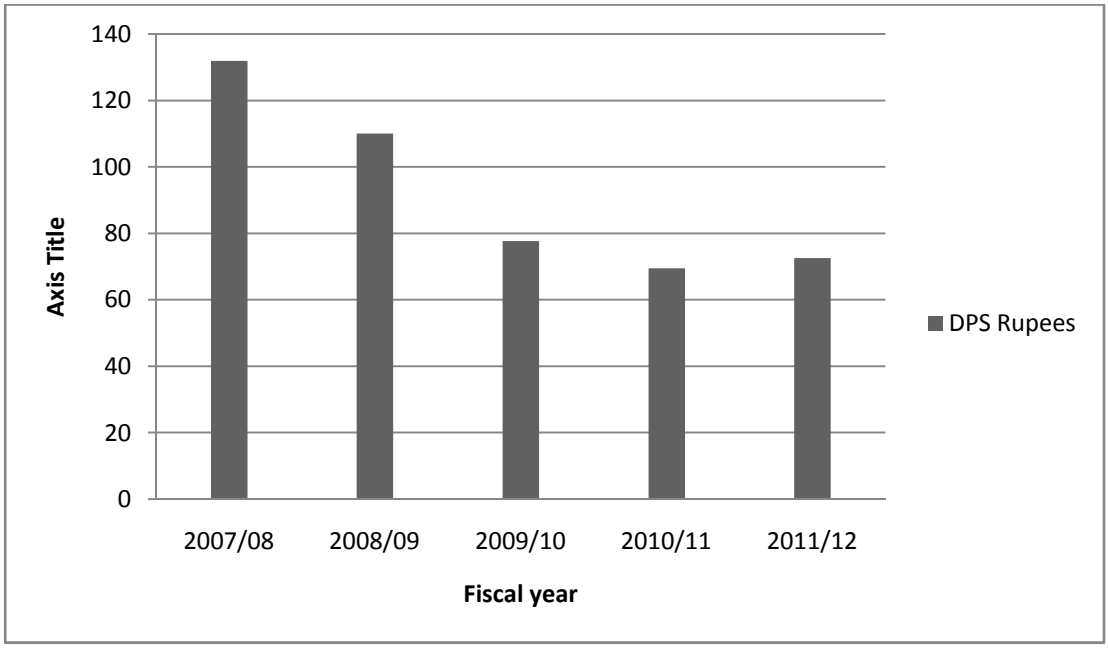
Dividend (Cash) Per Share of SCBNL



The cash dividend per share of SCBNL seemed slightly fluctuating like as HBL. The cash dividend is recorded highest in the beginning year 2007/08, decreasing in second year and starting to decrease 5% rate in every year. The bank has found to be adopting both the policy of continuous of cash dividend but at the year 2010/11 stock dividend is not provide. Total dividend highest in the beginning year and decreasing every year. MPS are also followed the decreasing trend all over the study period.

Figure: 4.6

Earning Pers share of SCBNL



The figure 4.6 reveals the EPS of SCBNL for the last five year the EPS is rapidly decrease of to fourth year and slightly increase in the last year during the study period. In the year 2007/08 the bank has been able to record the highest EPS. In the fourth year of study, the bank has been record the lowest EPS and recovered at the last year slightly.

4.1.3 Comparative Analysis of HBL and SCBNL

This section deals with the comparative study of EPS, DPS (cash dividend) retain earning and dividend payout ratio of the two sampled commercial banks

Table: 4.3

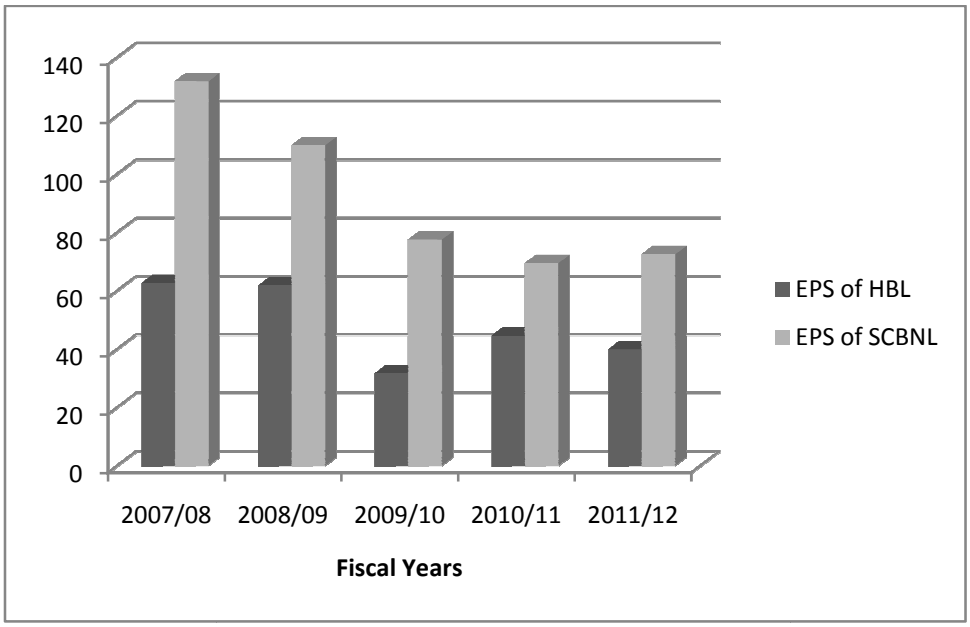
EPS of HBL and SCBNL

Fiscal year	EPS of HBL	EPS of SCBNL
2007/08	62.74	131.92
2008/09	61.91	109.99
2009/10	31.80	77.65
2010/11	44.66	69.51
2011/12	39.94	72.60
Average	48.20	92.33
S.D.	12.23	24.37
C.V.	25.38	26.39

Source: *Appendix- 1*

Figure: 4.7

EPS of Two Banks in Comparison



The average EPs of HBL over the study period is Rs. 48.20 where as that of SCBNL is 92.33. the EPS of SCBNL has the higher standard deviation than HBL. The coefficient of variation of EPS of HBL is 25.38 % where as that of SCBNL is 26.39% . this shows that HBL has and more consistent EPS over the

study period. As seen in the figure 4.7 the comparison EPs of SCBNL and HBL are seen over the study period of five year. The decreasing rate of EPS of SCBNL is higher than HBL.

4.1.3.2 Comparative Analysis of DPS (Cash)

Table: 4.4

DPS of HBL and SCBNL

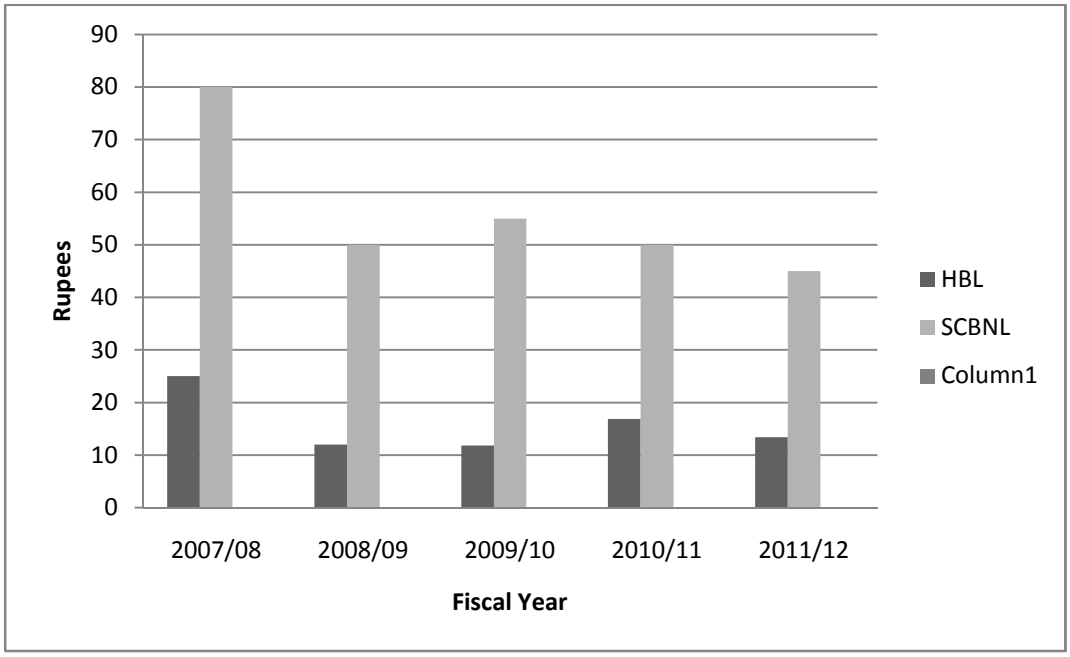
Fiscal year	DPS of HBL (Rs.)	DPS of SCBNL (Rs.)
2007/08	25	80
2008/09	12	50
2009/10	11.84	55
2010/11	16.84	50
2011/12	13.42	45
Average	15.82	56
S.D.	4.9296	12.4097
C.V.	31.61	22.161

Source: Annual Report of HBL and SCBNL

The average cash DPS over the study period is Rs. 15.82 where as that of SCBNL is Rs. 56. The DPS of SCBNL has the higher standard deviation then that of HBL. The coefficient of variation of DPS of HBL is 31.16% where as that of SCBNL is 22.16%. This shows that HBL has higher and more consistent DPS over the study period. In other words HBL has been following more stable and regular cash dividend policy out of its earnings as compare to SCBNL.

Figure: 4.8

DPS (Cash) of Two Banks Comparison



As revealed in the figure 4.8can be easily noticed that cash dividend per share of SCBNL over the study period are higher than HBL. The cash dividend per share of HBL is more stable than SCBNL.

4.1.3.3 Comparative Analysis of Retained Earning per Share

Table: 4.5

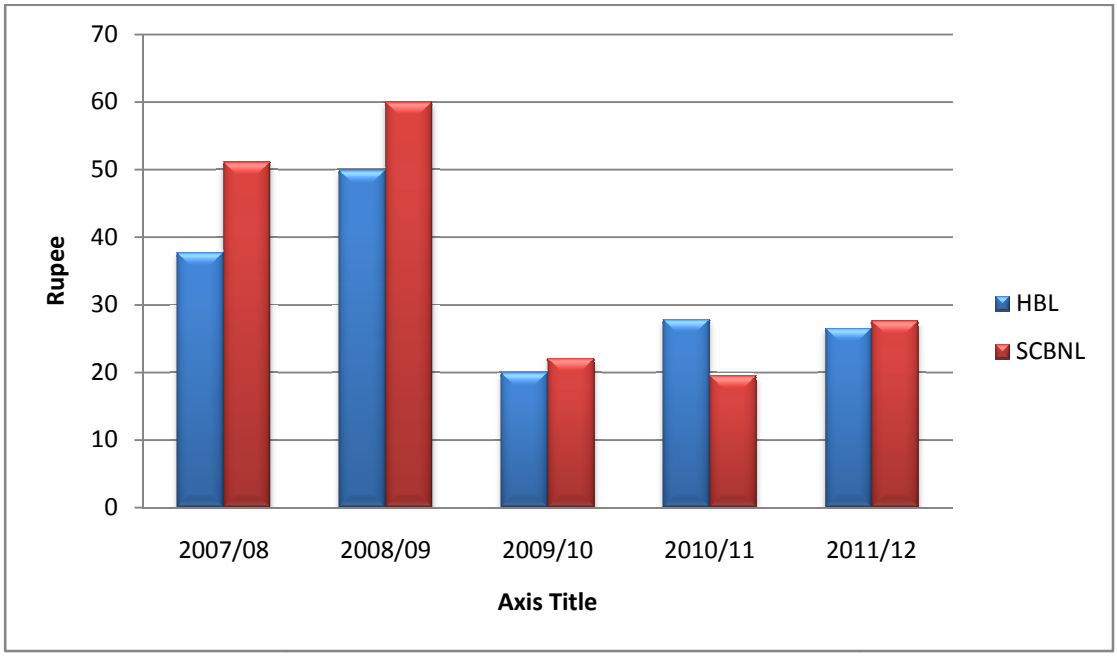
Retained Earnings per Share of HBL and SCBNL

Fiscal year	RPS of HBL(Rs.)	RPS of SCBNL (Rs.)
2007/08	37.74	51.09
2008/09	49.90	60
2009/10	19.96	22.07
2010/11	27.82	19.5
2011/12	26.52	27.6
Average	32.36	36.30
S.D.	10.24	10.80
C.V. %	32.01	29.80

Source- appendix-1

Figure: 4.9

Retained Earnings Per Share of two Banks in Comparison



The table 4.5 indicates he retained earnings per share of HBL and SCBNL, figure 4.9 the table is presented the respected data in a bar. The retained earnings per share the two banks with respect two five year of study. The retained earning presented in the table has been calculated by subtracting the cash dividend per share from the respective earning per share. In the year 2007/08 to 2009/10 the retained earnings per share HBL lower in comparison than SCBNL. And again in the year 2010/11 the retained earnings of HBL is higher than SCBNL. At the last year of the study period retained earnings of SCBNL is higher than HBL. SCBNL average retained earnings 36.3 is higher than HBL retained earning 32.36. on average study of past five year. Similarly the standard deviation and variation of coefficient of the data SCBNL is lower than HBL. It indicated that retained per share that SCBNL is more consistent in the compassion of HBL.

4.1.3.4 Comparative Analysis of Dividend payout ratio

Table: 4.6

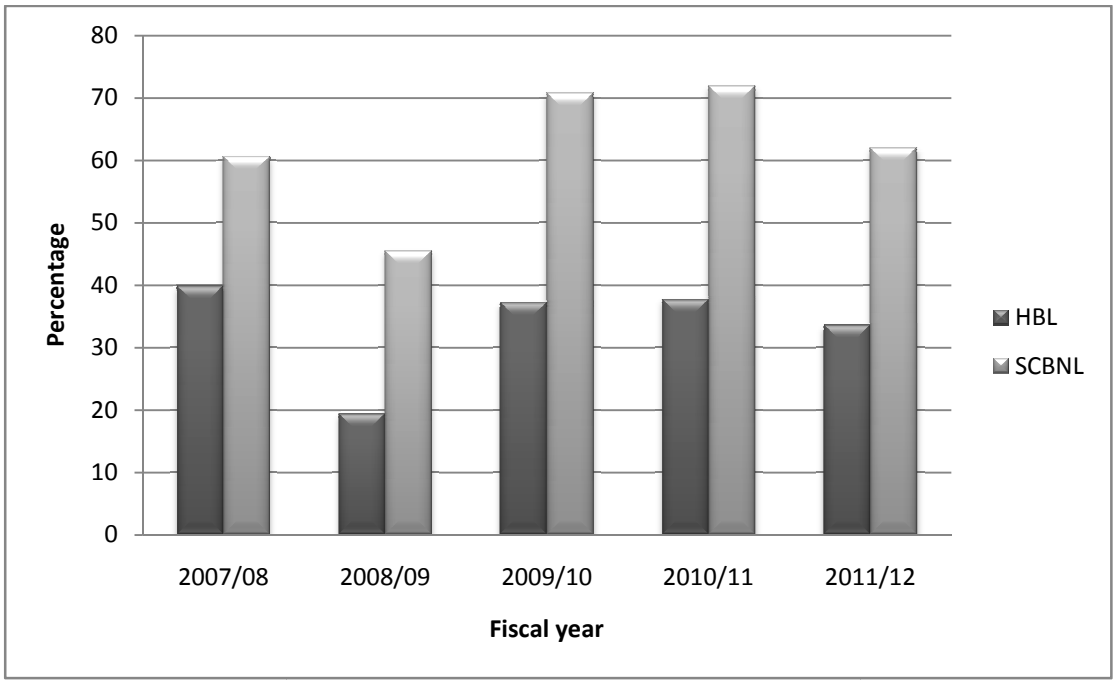
Dividend Payout ratio and Retention Ratio of HBL and SCBNL.

Fiscal year	D/P Ratio of HBL	D/P Ratio of SCBNL	Retention Ratio of HBL	Retention Ratio of SCBNL
2007/08	39.85	60.60	60.15	39.36
2008/09	19.39	45.50	80.61	54.50
2009/10	37.23	70.80	62.77	29.20
2010/11	37.71	71.9	62.29	71.10
2011/12	33.60	62	66.40	38
Average	33.56	62.2	66.45	37.8
S.D.	7.36	9.5	7.36	9.5
C.V. %	21.93	15.3	11.07	25.11

Source- Appendix-1

Figure: 4.10

Dividend Payout ratio and table of the two banks comparison



The table 4.6 depicted about the payout ratio and retention for the two banks over the study period only the data regarding cash dividend payout ratios are represented in a bar figure with respected to the fiscal year as shown has the figure 4.10. The retained earnings ratios for the banks are calculated by subtracting the percentage of dividend payout ratios. From the total earning 100%. The dividend pay out ratio are higher in case of SCBNL as compare to HBL. In all year SCBNL has higher dividend payout ratio 62.2 as compare of to that 33.55% of HBL. The standard deviation of dividend payout ratio of SCBNL and HBL are 9.5% and 7.36% respectively. It indicate that dividend payout ratio of HBL are more consistent that SCBNL. Similarly the average retention ratio of banks HBK and SCBNL are found as 33.55% and 62.2% respectively with respective coefficient variation of 21.93% and 25.11%.

4.1.3.5 Comparative Analysis of Dividend Yield.

Table: 4.7

Dividend Yield of HBL and SCBNL.

Fiscal year	HBL	SCBNL
2007/08	21.26	51.2
2008/09	32.24	50.8
2009/10	26.45	16.7
2010/11	22.93	2.78
2011/12	17.06	17.50

Source-Appendix 3

The table 4.7 reveals the total dividend yield of the two banks. Here the total dividend include the total cash dividend and valuation of stock for the respective years.

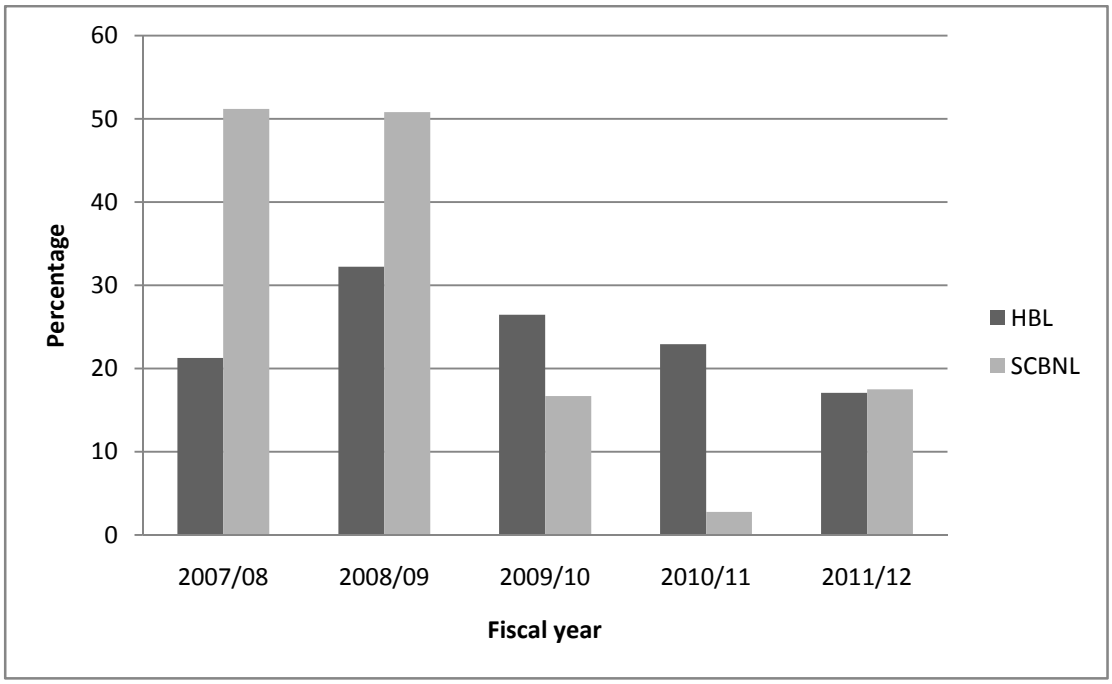
The total dividend yield of HBL is obtained 21.26, 32.24, 26.45, 22.93 and 17.06. The dividend yield of HBL is lowest in the year 2011/12 and highest in

the year 2008.09. The reason behind dividend yield to be highest has due to the valuation of stock dividend.

The total dividend yield of SCBNL are obtained 51.2, 50.8, 16.7,2.78 and 17.50. The dividend yield of SCBNL is lowest in the year 2010/11 and highest in the year 2007/08 The reason behind dividend yield to be lowest has due to no stock dividend at the year 2010/11. The dividend yield of the banks are in the two digits because of stock dividend expect dividend yield of SCBNL in the year 2010/11.

Figure: 4.11

Dividend Yield of Two Banks in Comparison



On the basis figure 4.11 it is found that dividend of SCBNL in beginning two year of the study period are higher than the respective dividend yield of HBL. In the study period of the third year HBL dividend yield higher than SCBNL dividend yield. At the fourth year dividend yield of HBL is very higher than SCBNL due to the cause of SCBNL no stock dividend to be provide. At last year of the study period the dividend yield of SCBNL (17.5%) is slightly higher than dividend yield of HBL (17.06%).

4.1.3.6 Comparative Analysis of Earnings per Yield.

Table: 4.8

Earnings per Yield of HBL and SCBNL

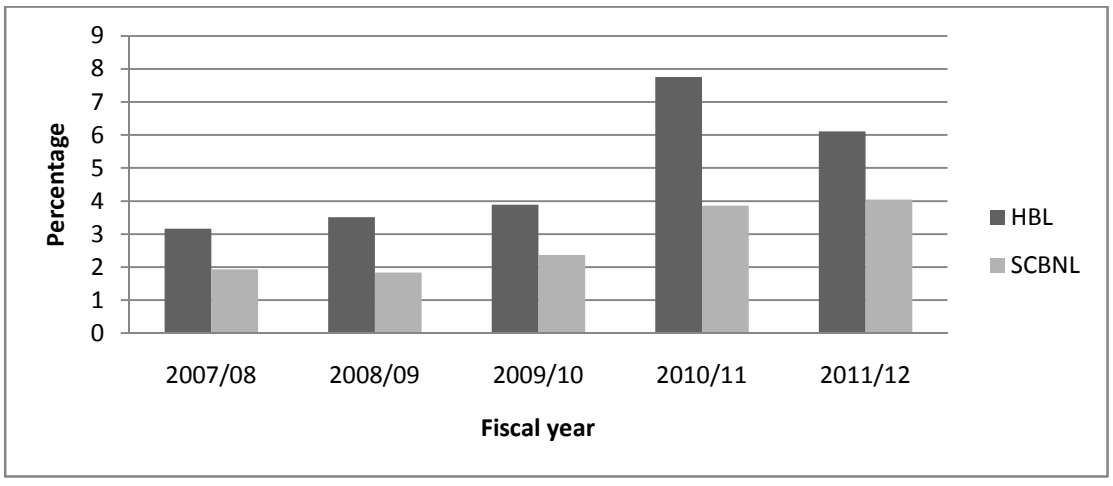
Fiscal year	HBL	SCBNL
2007/08	3.16	1.93
2008/09	3.51	1.83
2009/10	3.89	2.37
2010/11	7.76	3.86
2011/12	6.11	4.04

Source- Appendix- 3

The table 4.8 reveals the earning yield of two banks the obtained are plotted in the bar figure as shown figure 4.12. The earnings yield of HBL is obtained as 3.16%, 3.15%, 3.89%, 7.76% and 6.11%. The earnings yield of HBL is lowest in the year 2007/08 and highest in the year 2010/11. The reason behind the lowest in the year 2007/08 is due to excessive higher value of market. The earnings yields of SCBNL are obtained as 1.93%, 1.83%, 2.37%, 3.86% and 4.04%. The earnings yield of SCBNL is lowest in the year 2008/09 and highest in the year 2011/12. The reason behind the lowest in the year 2007/08 is due to excessive higher value of market.

Figure: 4.12

Earning Yield of two banks in Comparison



On the basis of comparative bar figure showings earning Yield s of HBL and SCBNL, the year 2007/08 to 2011/12. The earnings yield of HBL are found higher than that of SCBNL on the observation the 4.12 revealing earnings yield of the two samples banks till the study period , it is found that the earning yield for both banks is moving in increasing direction up to fiscal year except fiscal year 2011/112 but earning yield of HBL decrease in fiscal 2011/12 in the comparison the fiscal year 2010/11.

4.2 Liquidity Position Analysis

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting cash reserve ratio (CRR) requirements prescribed by NRB. The commercial banks should ensure that they do not suffer form the liquidity problem and should ensure that it does not have excess liquidity as well. The failure of the bank to meet this obligation will result bad credit image and loss of creditors confidence.

4.2.1 Current Ratio

The current ratio is a measure of the firm's short-term solvency. Current ratio of 2:1 or more is generally considered satisfactory, which is not a strict rule. This conventional rule is based on the assumption that even if the current assets are decreased by half, the firm can easily meet its current obligations.

Table: 4.9

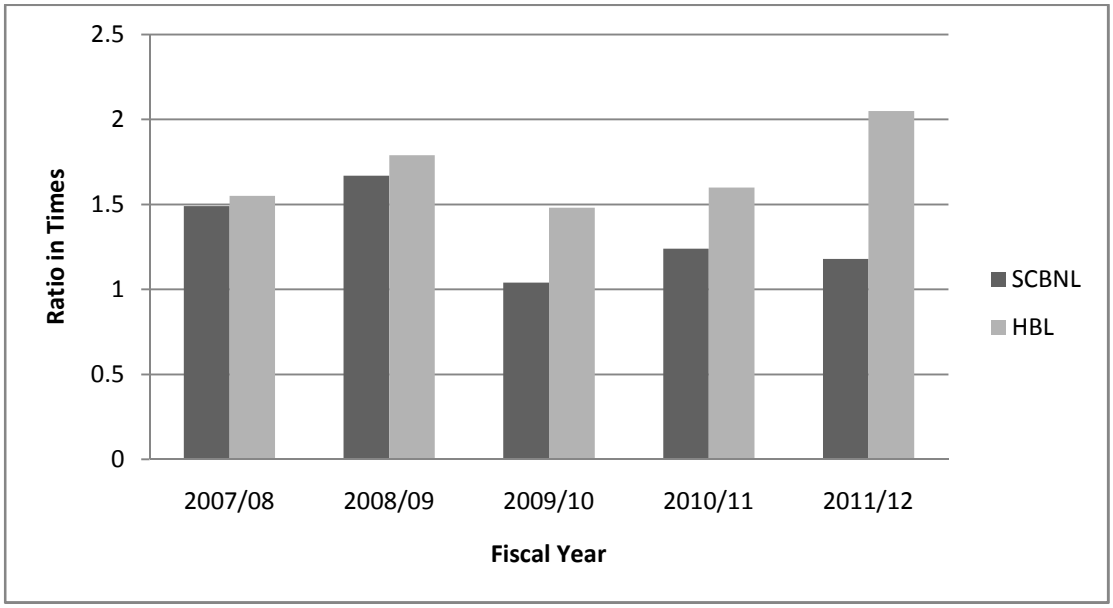
Current Ratios

FY	SCBNL	HBL
2007/08	1.49	1.55
2008/09	1.67	1.79
2009/10	1.04	1.48
2010/11	1.24	1.60
2011/12	1.18	2.05
Mean	1.33	1.69
S.D	0.25	0.23
C.V	19.03	13.58

Source: Appendix-5

Figure: 4.13

Current Ratios



The table 4.9 measured the current ratio of the sampled banks. The table showed that the current ratio of SCBNL fluctuated during the five year periods. The ratio is highest (1.67 times) in the fiscal year 2008/09 and lowest (1.04 times) in the fiscal year 2009/010. In average, SCBNL maintained 1.33 times as the current ratio to meet the obligations. Similarly, the current ratio in HBL is also fluctuating each year during the study period the highest ratio is 2.05 times in the fiscal year 2011/012 and that of lowest is 1.48 times in the fiscal year 2009/010. In average, the current ratio of HBL is 1.69 times and the coefficient of variation in the ratio is 13.58%. Comparing two sampled banks, it can be concluded that the liquidity position of HBL is better than that SCBNL.

4.2.2 Cash Reserve Ratio

Each bank has to operate its activities as per the direction set out by Nepal Rastra Bank. According to the directives of NRB, the cash balance at NRB should be 5% of the total local deposit in the fiscal year 2007/08, however the same ratio should be 4% from the fiscal year 2008/09 and 5.5% from October

2012. Thus, cash reserve ratio measures, whether the bank has effectively mobilized the local deposit to implement the NRB directives.

Table: 4.10

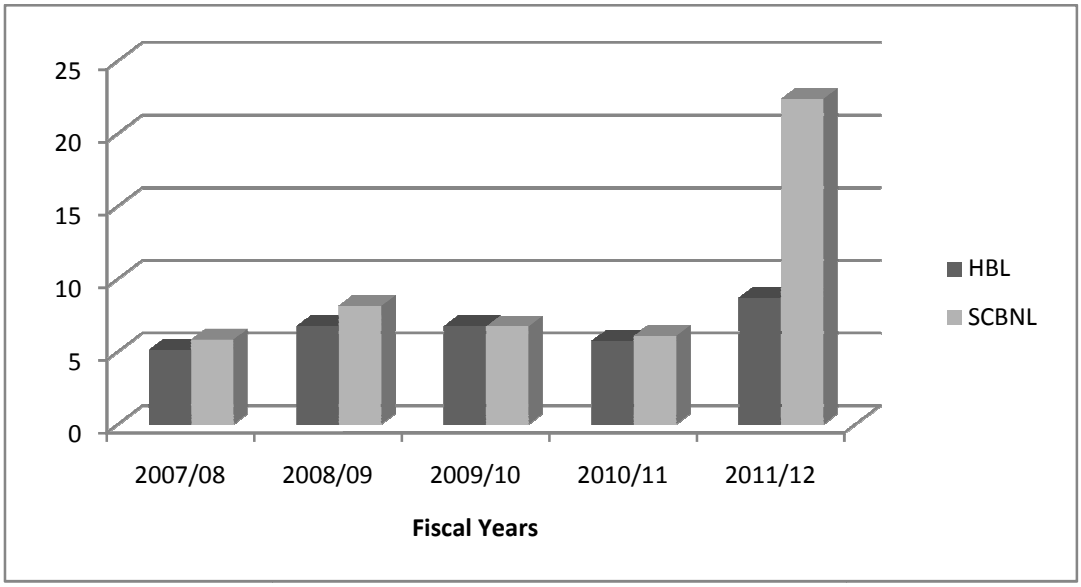
Cash Reserve Ratios

FY	HBL	SCBNL
2007/08	5.13	5.84
2008/09	6.76	8.16
2009/10	6.76	6.74
2010/11	5.75	6.10
2011/12	8.72	22.40
Mean	6.62	9.84
S.D	1.21	6.32
C.V	18.27	64.32

Source: Annual reports of sample banks

Figure: 4.14

Cash Reserve Ratio



The table 4.10 depicted the cash reserve ratio of the sampled banks. The table showed that the CRR maintained by HBL is in increasing trend for the first three years and decreased to 5.75% in the fiscal year 2010/011 compared to that in the previous year and increase in the fiscal year 2011/012 to 8.72%. In average, HBL maintained 6.62% as the cash reserve ratio. The cash reserve ratio indicated that the liquidity position of HBL is quite good, since the ratio is greater than the ratio directed by NRB in each fiscal year. Similarly, the CRR in SCBNL ranged from 5.84% in the fiscal year 2007/08 to 22.40% in the fiscal year 2011/012. In average, SCBNL maintained 9.84% as the cash reserve ratio. The table depicted that SCBNL is better to meet the standard set by NRB for CRR.

4.3 Profitability Ratio

The ultimate objective of banks is to earn profit. Strictly speaking, no bank can survive without profit. Profit is the indicator of efficient operation of bank. The bank acquires profit by providing different services to its customers or by making investment of different kinds. Sufficient profit is a must to have good liquidity, grab investment opportunities, expand banking transaction, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for the bank. Profitability ratios measure the efficiency of a bank. The following profitability ratios, are used to evaluate the profitability of the selected commercial banks.

4.3.1 Net Profit Margin

The ratio signifies the effectiveness of expenses management and cost control and gives the direction to the management for service pricing policies. It means how much of total revenue has been declared as net profit after all the charges are over up. The higher ratio means the management has been able to control its operational costs and maintain efficiency.

$$\text{Net Profit Margin} = \frac{Net\ Profit\ After\ Tax}{Total\ Operating\ Income}$$

Table 4.11

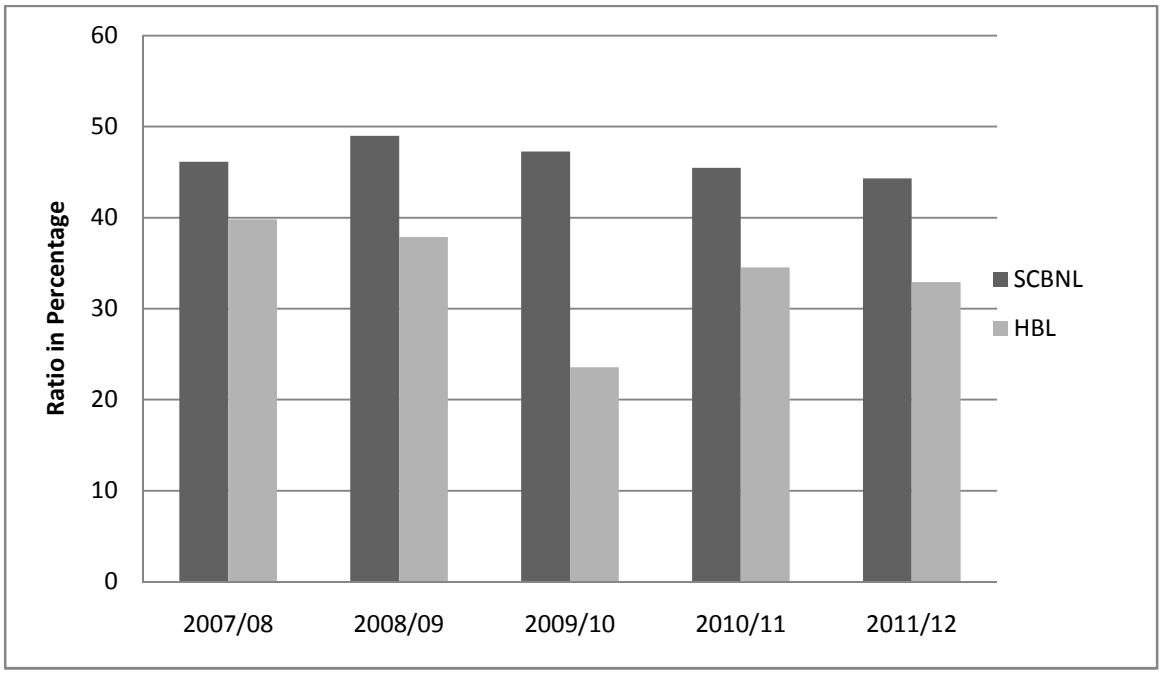
Net Profit Margin Ratio(%)

FY	SCBNL	HBL
2007/08	46.16	39.80
2008/09	49.00	37.87
2009/10	47.26	23.58
2010/11	45.47	34.53
2011/12	44.30	32.93
Mean	46.44	33.74
S.D	1.79	6.29
C.V	3.86	18.64

Source: Appendix-6

Figure: 4.15

Net Profit Margin Ratio (%)



The table and figure shows that both the banks net profit ratios are not in consistency. The ratio of SCBNL is highest of 49% in the fiscal year 2008/09 and that of lowest is 44.30% in the fiscal year 2011/012. Similarly, the ratio of HBL is highest of 39.80% in the fiscal year 2007/08 and that of lowest is

23.58% in the fiscal year 2009/010. The average NPM ratios of SCBNL & HBL are 46.44% & 33.74% respectively it shows that the NPM ratio of SCBNL is better than HBL.

4.3.2 Return on Total Assets (ROTA)

The ratio is a primary indicator of managerial efficiency. It indicates how efficiently the assets are utilized by the bank. The ratio measures how far the management has utilized all the assets of the bank for profit generating activities. Higher ROTA indicates higher efficiency in the utilization of the total assets and vice versa.

$$\text{Rrturn on Total Assets (ROTA)} = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

Table: 4.12

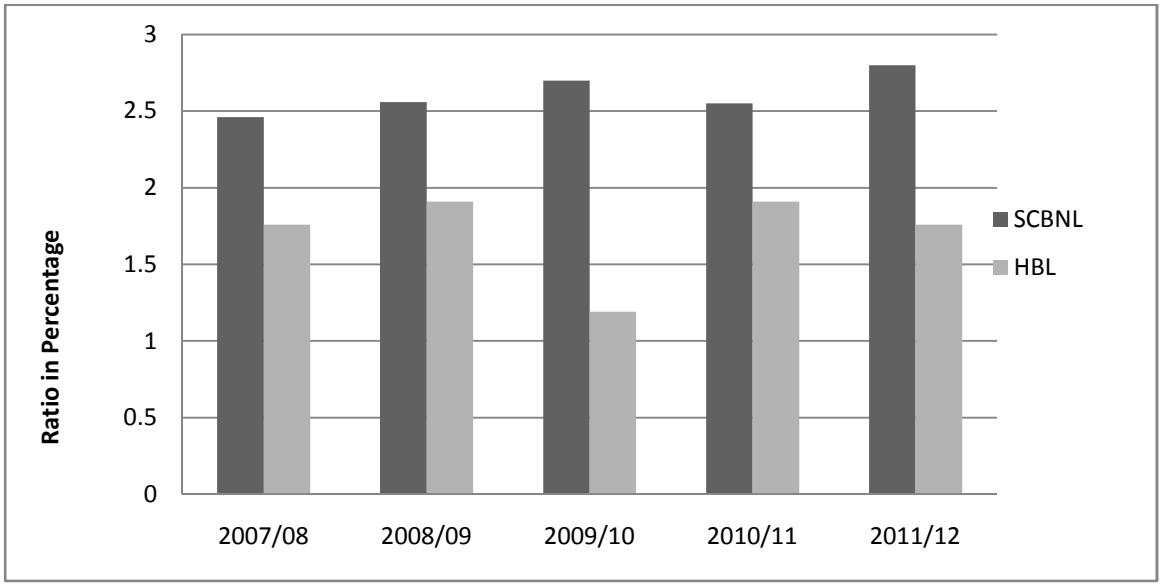
Return on Total Assets Ratio (%)

FY	SCBNL	HBL
2007/08	2.46	1.76
2008/09	2.56	1.91
2009/10	2.70	1.19
2010/11	2.55	1.91
2011/12	2.80	1.76
Mean	2.61	1.71
S.D	0.13	0.30
C.V	5.16	17.47

Source: Appendix-7

Figure: 4.16

Return on Total Assets Ratio (%)



The table 4.12 & figure 4.16 exhibits that the total assets ratio of SCBNL ranged between 2.46% in the fiscal year 2007/08 to 2.80% in the fiscal year 2011/012. Whereas, the ratio of HBL ranged from 1.76% in the fiscal year 2007/08 to 1.91% in the fiscal year 2010/011. The return on total assets ratios of both banks are fluctuating trend each year during the study period. The average ROTA ratios of SCBNL & HBL are 2.61% & 1.71% it shows that the SCBNL has better RORA ratio than the HBL.

4.4 Share Price Analysis

Table: 4.13

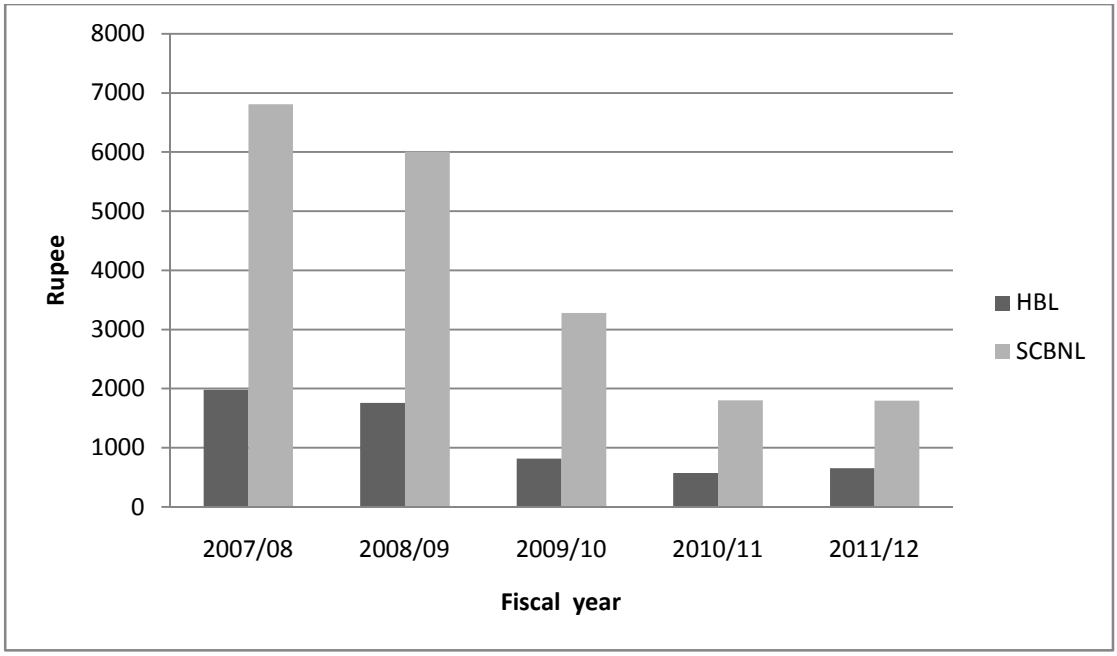
Share price Analysis of MVPS

Fiscal year	HBL	SCBNL
2007/08	1980	6810
2008/09	1760	6010
2009/10	816	3279
2010/11	575	1800
2011/12	653	1799
Average	1156.8	3939.60
S.D.	591.60	2103.43
C.V.	51.14	53.39

Source *: Annual Reports of Sample Banks*

Figure: 4.17

MVPS of Sample Banks



The table 4.13 and figure 4.17 shows that the market price of share of sample banks. The MVPS of HBL is decreases each year during the study period

except the fiscal year 2011/012 similarly the MVPS of SCBNL is also decreases each year than previous year during the study period. The MVPS of SCBNL is Rs. 6810 in the fiscal year 2007/08 and it is decreases to Rs. 1799 in the fiscal year 2011/012. The average MVPS of HBL & SCBNL are Rs. 1156.8 & Rs. 3939.60. There is high deviation between the MBPS of SCBNL & HBL and the MVPS of SCNL is greater than HBL in each fiscal year.

Table: 4.14

Correlation between Variation Financial indicators

S/n	Correlation between	Correlation coefficient	Result
a)	DPS and EPS of HBL	r= +.5376	Positive moderate degree relationship
b)	DPS and EPS of SCBNL	r= +.7871	Higher degree of positive relationship
c)	DPS and MPS of HBL	r= +.69	Positive moderate degree relationship
d)	DPS and MPS of SCBNL	r= +.71	Higher positive degree of relationship
e)	D/P ratios of HBL and SCBNL	r= +.85	Higher positive degree of relationship
f)	Liquidity (CA) & MVPS of SCBNL	r = +0.7856	Higher positive degree of relationship
g)	Liquidity (CA) & MVPS of HBL	r = -0.1848	Low degree of negative correlation
h)	Profitability (NPM) & MVPS of SCBNL	r = +0.6300	Moderate degree of positive correlation
i)	Profitability (NPM) & MVPS of HBL	r = +0.6544	Moderate degree of positive correlation

Source- Appendix- 2

a) The correlation coefficient of DPS (cash dividend) and EPS of HBL is obtained as +.5376 indicates that the is moderate positive relationship between cash dividend payment per share for the banks. In other words, it can be said that EPS could be impact cash dividend policy partially but not fully.

b) The correlation coefficient of DPS (cash dividend) and EPS of SCBNL is obtained as +.7871 indicates that the is higher positive relationship between cash dividend payment per share for the banks. In other words, it can be said that EPS could be impact fully cash dividend.

c) The correlation coefficient of DPS (cash dividend) and MPS of HBL is obtained as +.69 indicates that the is moderate positive relationship between cash dividend payment per share for the banks. In other words, it can be said that MPS could be impact cash dividend policy partially but not fully.

d) The correlation coefficient of DPS (cash dividend) and EPS of SCBNL is obtained as +.71 indicates that the is moderate positive relationship between cash dividend payment per share for the banks. In other words, it can be said that EPS could be impact cash dividend policy partially but not fully.

e) The calculated correlation coefficient dividend payout ratio of HBL and SCBNL is obtained as +.85 which indicate that the dividend policy of two banks are related to each other. The policy of pay out of earning for the two banks match to each other.

f) The correlation between liquidity and MVPS of SCBNL is 0.7856, which indicate that there is positive relationship between liquidity & MVPS and if liquidity increase the MVPS also increase. However, the relationship between liquidity and MVPS is negative of 0.1814 it indicates that if liquidity increase MVPS will be decrease.

g) The relationship between profitability and MVPS of both banks is positive the value of correlation of SCBNL & HBL are 0.63 & 0.6544 it indicates that if profitability increases the MVPS of both banks also increases and vice-versa.

4.4.1 Analysis of EPS and DPS cash with respect to time series

This section study try to analysis a relationship between EPS and DPS (Cash dividend) with respect to time individually , by using least square method in this since the number of year is odd, 2010 (Ending mid July) as the mid year deducted from years (X).

4.4.1.1 Calculation of Trend Line of HBL.

Table: 4.15

Actual values and Trend values of EPS

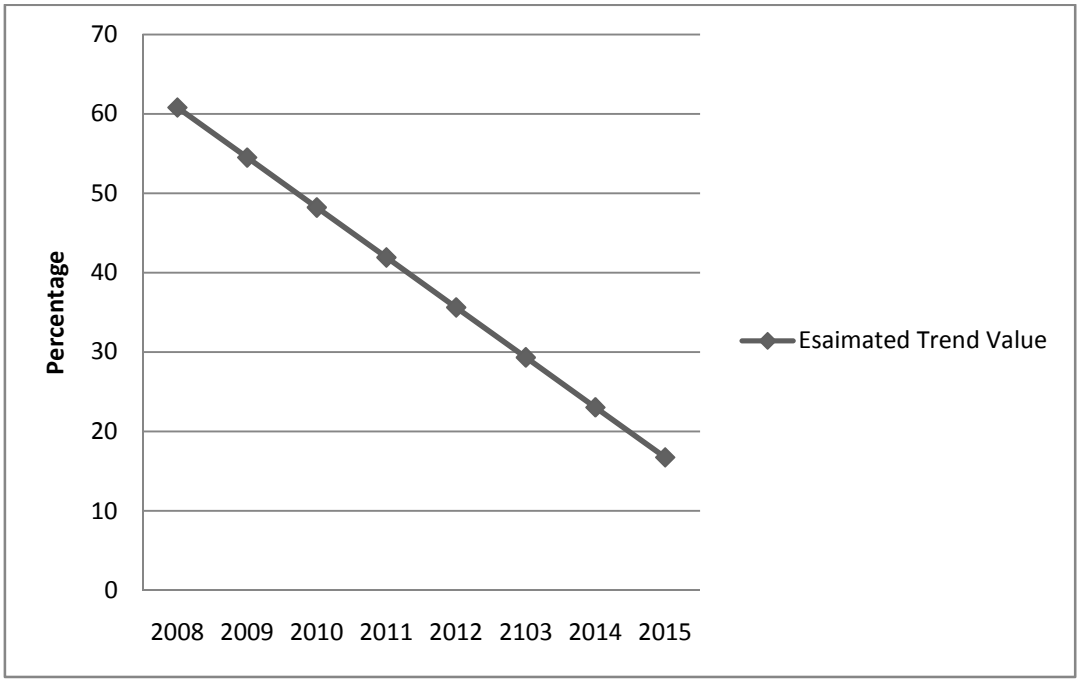
Fiscal year(x)	**Actual EPS (Rs)**	**Estimated trend Value YC=48.20+(-6.29)X**
2008	62.74	60.78
2009	61.90	54.49
2010	31.8	48.20
2011	44.66	41.91
2012	39.94	35.62
2013	-	29.33
2014	-	23.04
2015	-	16.75

Source – Appendix 4

The table 4.15 depicted the earning per share of HBL and is calculated trend values with respect to fiscal years, Both the EPS and calculated trend values of banks are found at decreasing trends. The trend equation of the EPS with respect to the years is obtained as, Yc=48.20+(-6.29)X. The predicted value of the EPS for the year 2013, 2014 and 2015 are obtained is 29.33, 23.04 and 16.75. The EPs of the banks is found at decreasing rate of EPS with respect to the year is calculated as 6.29.

Figure: 4.18

Trend Line of Estimated Value of EPS of HBL.



The 4.13 figure shows the actual EPS and the trend of the data for the past five years the estimated trend values showed highly downward trend as compare to the actual data.

Table: 4.16

Actual values and Trend values of DPS (cash)

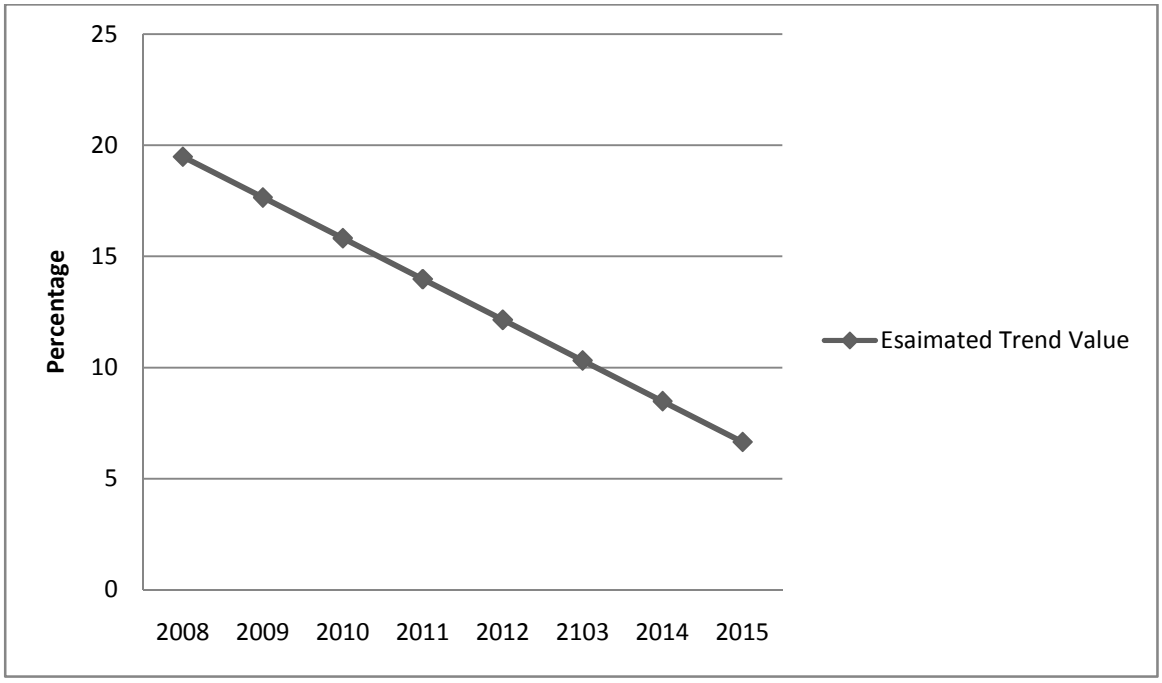
Fiscal year(x)	**Actual DPS cash (Rs)**	**Estimated trend Value YC=15.82+(-1.83)X**
2008	25	19.48
2009	12	17.65
2010	11.84	15.82
2011	16.84	13.98
2012	13.42	12.15
2013	-	10.32
2014	-	8.49
2015	-	6.66

Source – Appendix 4

The table 4.16 depicted above portrays the total cash dividend per share of HBL with respect to the fiscal year mid July and the calculated trend value of the cash dividend per share. The cash dividend per share of HBL remained highest in year 2008. The cash dividend per share of the banks are found at a decreasing trend the calculated trend value o the cash per share the HBL are found at highly decreasing rate over the year. The trend equation of the cash DPS with respect to the years are obtained as Yc= 15.82+(-1.832)X. The predicted value of the cash dividend for the year 2013, 2014, and 2015 are obtained is 10.32, 8.49 and 6.66. The cash DPS of the is found at decreasing rate of cash DPS with respect to the year is calculated as -1.83.

Figure: 4.19

Trend line Estimated Values of DPS of HBL.



The 4.14 figure reveals the actual values and trend line of cash dividend per share of HBL for the past five year the estimated trend values showed highly downward trend as compare to the actual data.

4.4.1.2 Calculation of Trend line of SCBNL.

Table: 4.17

Actual values and Trend values of EPS

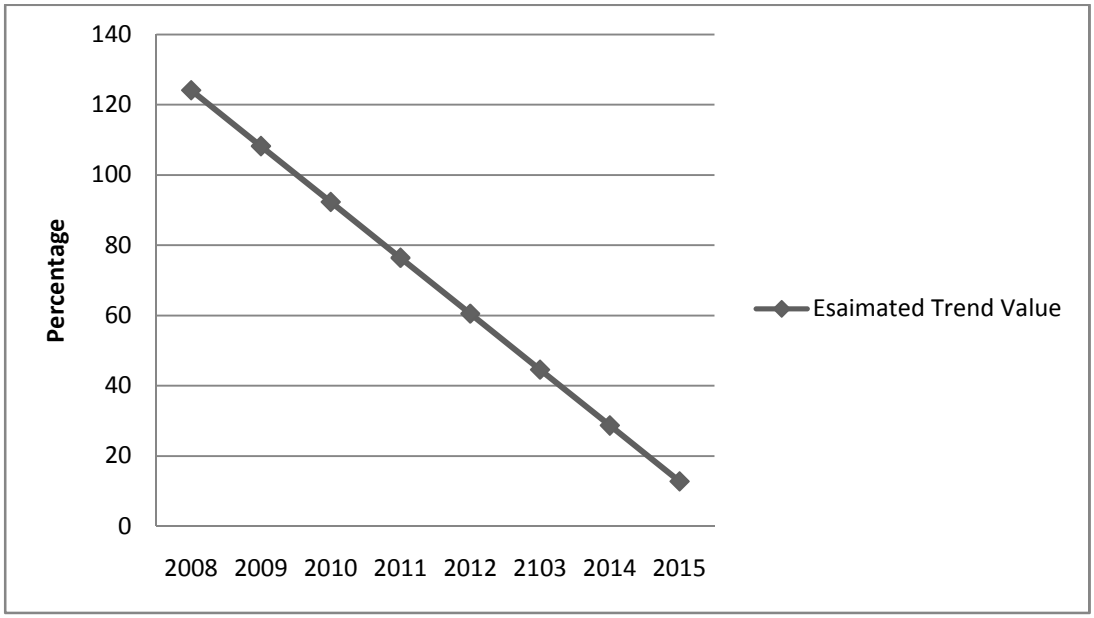
Fiscal year(x)	**Actual EPS (Rs)**	**Estimated trend Value YC=92.33+(-15.90)X**
2008	131.90	124.13
2009	109.99	108.23
2010	77.65	92.33
2011	69.51	76.43
2012	72.66	60.53
2013	-	44.60
2014	-	28.69
2015	-	12.79

Source- Appendix 4

The table 4.17 depicted the earning per share of SCBNL and is calculated trend values with respect to fiscal years, Both the EPS and calculated trend values of banks are found at decreasing trends. The trend equation of the EPS with respect to the years was obtained as, Yc=92.33+ (-15.90)X. The predicted value of the EPS for the year 2013, 2014 and 2015 are obtained was 44.6, 28.69 and 12.79. The EPS of the SCBNL remained highest on the year 2008 likewise HBL, the EPS of SCBNL was found at decreasing trend.

Figure: 4.20

Trend estimated values of EPS of SCBNL.



The figure 4.20 shows the actual EPS and the trend line of the data of SCBNL for the past five years. Actual data and estimated trend values both showed and downward trend.

Table: 4.12

Actual values and Trend values of DPS (cash)

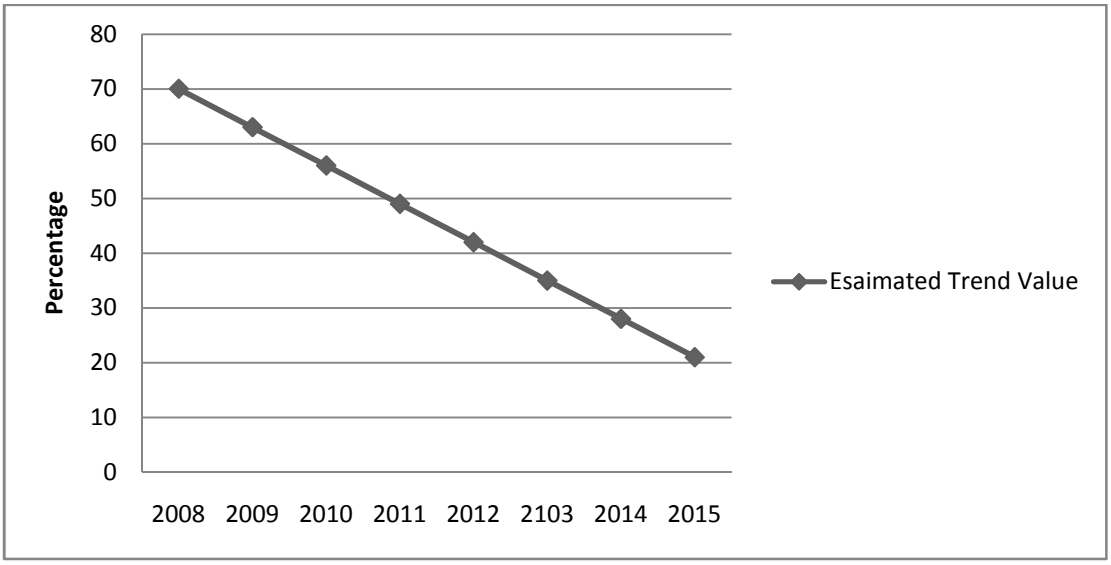
Fiscal year(x)	**Actual DPS cash (Rs)**	**Estimated trend Value YC=56+(-7)X**
2008	80	70
2009	50	63
2010	55	56
2011	50	49
2012	45	42
2013	-	35
2014	-	28
2015	-	21

Source- Appendix 4

The table depicted 4.12 portrays the total cash dividend per share of SCBNL with respect to the fiscal year mid July and the calculated trend value of the cash dividend per share. The cash dividend per share of SCBNL remained highest in year 2008. The cash dividend per share of the banks are found at a decreasing trend the calculated trend value o the cash per share the SCBNL are found at highly decreasing. However it increase to Rs.55 in the 2010 ending July. The trend equation of the cash DPS with respect to the years are obtained as Yc= 56+(-7)X. The predicted value of the cash dividend for the year 2013,2014,2015 are obtained is 35, 28 and 21. The cash DPS of the is found at decreasing rate of cash DPS with respect to the year is calculated as -7.

Figure: 4.21

Trend estimated values of DPS (cash) of SCBNL.



The figure 4.21 reveals the actual data and trend line cash DPS of SCBNL with respect to past five year, on the observation of the figure it is inherent that the data shown fluctuating trend with declination over the year.

4.5 Major Findings

Based on the analysis of data and their interpretation, the major finding of the study in relation to the objectives set could be summarized as follows.

- The market price of both banks is found at a decreasing trend all over the study period. The market price of SCBNL is found higher than HBL.
- The average cash dividend of SCBNL Rs. 56 is higher than average cash dividend of HBL 15.84. The cash dividend of the HBL banks shows decreasing trend 2007/08 to 2009/10, in increasing 2010/11 and lastly captured the decreasing trend again. Like as SCBNL shows decreasing trend up to second year of the study period, increase in third year and lastly went to decreasing trend.
- HBL provided stock dividend every year of the study period but SCBNL provided stock dividend every year except 2010/11 over the study period. Due to the cause of no provide of the stock dividend in the year 2010/11, SCBNL total dividend showed very little on the comparison of the other years of the study period.
- The EPS of SCBNL is found to be higher as compared to the EPS of HBL on an average study period of the EPS of the two banks over the past five year. The earning per share of HBL (σ= 12.2) are found to be more consistent in the comparison to the earning per share of SCBNL (σ= 24.37).
- SCBNL has average cash dividend per share DPS Rs. 56 is higher than HBL cash dividend per share Rs. 15.82. It shows that SCBNL has been paying higher amount of cash dividend to the stock holder than HBL. likewise coefficient of variation of SCBNL is lower than that of HBL. It indicate that cash dividend payment of SCBNL where higher and more consistent than HBL.
- Both the banks has adopted the policy of retaining some amount earning every year. The average retained earning per share of SCBNL and HBL

are 37.83 and 66.44 respectively. However, the retained earning per share of HBL are more consistent than that of SCBNL, as the coefficient of variation of retained earning per share of SCBNL is found more than that of HBL. (as 11.07<25.11%).

- The average dividend payout ratio of SCBNL and HBL over the past five years found as 62.2and 33.56 respectively. It indicate that dividend pay out of SCBNL is higher than that of HBL on an average study of past five year but the dividend payout ratio of HBL is found more consistent than SCBNL. Hence, the average D/P ratio of HBL is higher than that of SCBNL
- There is high degree of positive correlation between EPS and DPS of SCBNL but HBL is more moderate positive relationship. It shows that the dividend payment of SCBNL is more consistent with regard to the total earning as compare to HBL.
- The correlation coefficient between cash dividend per share and market price per share of HBL is obtained as +0.69 whereas the same for SCBNL is obtained +.71 it indicate that there is a high degree of positive relationship between cash dividend and market share of both banks.
- The correlation coefficient between dividend payout ratios of HBL and SCBNL whereas obtained as +0.85 which indicate that dividend policy of the banks are related to each other. The policy pays dividend payout of two banks matched each other.
- From the year 2007/08, the earnings yield of HBL is higher than SCBNL all over the study period.
- The dividend yield of the SCBNL has been found higher than HBL beginning study period 2007/08 to 2008/09. Than 2009/10 to 2011/12 , HBL has been found higher than SCBNL.
- The data of EPS of HBL showed a decreasing trend over the year. The yearly decreasing rate of EPS of HBL with respect year is obtained as -

6.29 times likewise SCBNL, the yearly decreasing is -15.90 time which is higher than that of HBL.

- The data of cash DPS of HBL showed a decreasing trend. The yearly decreasing rate of cash DPS of HBL is found as -1.83 times. Similarly the cash DPS of SCBNL showed a also decreasing trend. The yearly decreasing rate of cash of DPS of SCBNL is found to be just -7 time.
- The average current ratio of HBL has 1.69 times and SCBNL has 1.33 times comparing two sampled banks, it can be found that the liquidity position of HBL is better than that SCBNL.
- During the five year study period, HBL maintained 6.62% & SCBNL maintained 9.84% cash reserve ratio.
- The average NPM ratios of SCBNL & HBL are 46.44% & 33.74% respectively the NPM ratio of SCBNL is better than HBL.
- The average ROTA ratios of SCBNL & HBL are 2.61% & 1.71% the SCBNL has better ROTA ratio than the HBL.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This chapter focuses on summarizing the study held with the researcher's conclusion. The next attempt in this chapter will be made for the recommendations on the basis of findings. For this whole purpose the chapter is sub divide in to summery conclusion and recommendation as followings.

Dividend policy decision is undoubtedly one of the three major decisions of financial management. It is right to say that dividend policy decision affect on the operation and prosperity of a financial companies because it has the power to influence other to decision namely capital structure decision and investment decision. Basically every investor except handsome earning on his/her share capital investment. The firm that is not able to distribute fair dividend, will not be able to raise further equity capital market. The total earning that a shareholder can gain from share investment may be classified into dividend yield and capital gain yield. The company therefore needs to device poorer balance between retention and dividend distribution. So, is it justified to whole that a clearly defined and effectively manage dividend policy is required in all financial companies to fulfil the shareholders' expectation with that of corporate growth from internally generated funds. So, the funds couldn't be used due to lack of investment opportunities would be better as dividend, since shareholders have investment opportunities elsewhere. In this research two banks SCBNL and HBL are taken for sample.

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987(2043 BS) as Nepal Grind lays bank in collaboration with Grindlays Bank London. After Standard Chartered group acquire world wide operation of Grindlays, it change its name on July 16th, 2001. The bank is an integral part of Standard Chartered Group having an ownership of 75% and the balance owned

by the Nepalese public. The bank is the largest international bank currently operating in Nepal. This bank is a second foreign joint venture bank under the company act 1964, the head office of Standard Chartered Bank is situated at New baneswor.

Himalayan Bank is established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking are first introduced by HBL.

Is is found out during the study period that both banks has been adopting two kinds of dividend practices: cash dividend and stock dividend. There is regularity in cash dividend payment of the banks but the dividend paid is not stable. The amount of cash dividend payment of SCBNL is higher than that of HBL. Both the companies are retaining some portion of earnings the earnings also higher than that of HBL the stock dividend are begin given frequently by HBL as compare to the SCBNL over the study period .

Both the banks MPS are at a decreasing trend likewise total dividend cash dividend and earning per share of two banks are at a decreasing trend.

The dividend payout ratio of the two banks is found to be positively correlated indicating exact relationship or similarity in paying cash dividend per share out of the earning per share. In terms of value of total dividend total dividend per share of the banks is found to be highly correlated. The total dividend yield of SCBNL are higher as compare to total dividend yield of HBL. The dividend

yield of both banks are founds at a decreasing trend the earnings of the yield of the both banks are found to be increasing over the year due to declination MPS of the banks.

5.2 Conclusions

On the basis of the study and major finding it can be conclude that both banks has not followed any particular dividend policy and practise the banks has been adopting regular cash dividend and stock dividend practices over the study period but SCBNL was not provided stock dividend in the year 2010/011. Both banks has been using retained earnings as internal source of financing. The earning per share, dividend per share and market price of both banks where decreasing over the years and where predicted the to decrease in the future also. There are dissimilarity in cash dividend payout. The dividend payout ratio of the SCBNL where higher than that of HBL the dividend payout ratios of the both banks where less than 100%. The amount of cash dividend per share of the SCBNL is higher than HBL. But the amount of cash dividend per share of HBL is higher and more consistent as compare to that of SCBNL. The average dividend yield of SCBNL are found higher than that of HBL but in the year 2010/11 the dividend yield of SCBNL is very low because of no providing stock dividend. The dividend yield of both banks is at a decreasing rate. The earnings of the both banks are at increasing trend, in brief it can be concludes that SCBNL has been performing well in comparison to HBL.

5.3 Recommendations

On the basis of findings the following recommendation is made for the further application of dividend policy to have the strong MPS in the capital market.

- Bank is paying dividend without adopting any appropriate policy Companies should have their clearly defined dividend policy. Clearly defined dividend policy helps to determine specific policy i.e. stables dividend or constant pays out or low regular plush extras. What should be

the long run dividend payout ratio either are residual policies. Fixed dividend payout policies or smooth dividend policies. This helps to investor in deciding whether to buy or not the share of particular company and to build image stock market.

- Government should act in favor of investors legal provisions or distinct rules so that the profit earning companies should distribute certain percent of their earnings as dividend.
- Each and every company should provide regarding their activities and performance, so that investor can analyze the situation and invest their money in the best company.
- The banks should study about the strategy to attract the ordinary people and shareholders so that their interest and expectations will not be killed even the bank cannot pay the dividend pay in same years.
- Government should be operation awareness programs for investor. In the contest of the Nepal dividend should not drive the market price of the share it should be corrected .
- In the lack of dividend distribution, investor would know about the companies internal investing policies.

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Appendix-1

1. Major Financial indicator of HBL

Fiscal Year	Closing MPS	Cash dividend (%)	Stock dividend (%)	Total dividend= cash dividend+ stock dividend	Earning Per share (EPS)
2007/08	1980	25	20	421	62.74
2008/09	1760	12	31.56	567.45	61.90
2009/10	1816	11.84	25	215.84	31.80
2010/11	575	16.84	20	131.84	44.66
2011/12	653	13.42	15	111.37	39.94

Source: Annual Report of HBL

*Value of stock dividend is calculated on that year's closing MPS.

2. Major Financial indicator of SCBNL

Fiscal Year	Closing MPS	Cash dividend (%)	Stock dividend (%)	Total dividend= cash dividend+ stock dividend	Earning Per share (EPS)
2007/08	6830	80	50	3495	131.92
2008/09	6010	50	50	3055	109.99
2009/10	3279	55	15	546.85	77.65
2010/11	1800	50	0	50.00	69.51
2011/12	1799	45	15	314.85	72.60

Source: Annual Report of SCBNL

*Value of stock dividend is calculated on that year's closing MPS.

2. **Calculation of Dividend payout ratios (D/P Ratio) and Retention ratios of HBL**

Fiscal Year	**Cash dividend (%)**	**EPS (Rs.)**	**D/P Ratio= (cash DPS/ EPS)*100%**	**Retention ratio =100%- D/p ratio**
2007/08	25	62.74	39.85	60.15
2008/09	12	61.90	19.39	80.51
2009/10	11.84	31.80	37.23	62.77
2010/11	16.84	44.66	37.71	62.29
2011/12	13.42	39.94	33.60	66.4
Average	15.84	48.2	33.56	66.44
S.D.	4.92	12.2	7.36	7.36
C.V.	31.16	25.4	21.93	11.07

Source: Annual Report of HBL

3. **Calculation of Dividend payout ratios (D/P Ratio) and Retention ratios of SCBNL**

Fiscal Year	**Cash dividend (%)**	**EPS (Rs.)**	**D/P Ratio= (cash DPS/ EPS)*100%**	**Retention ratio =100%- D/p ratio**
2007/08	80	131.92	60.64	39.36
2008/09	50	109.99	45.46	54.54
2009/10	55	77.65	70.8	29.2
2010/11	50	69.51	71.9	28.1
2011/12	45	72.60	62	38
Average	56	92.3	62.2	37.8
S.D.	12.4	24.4	9.5	9.5
C.V.	22.16	26.4	15.3	25.11

Source: Annual Report of SCBNL

4. **Competition Retained Earnings per share.**

Retention Earnings per share OF HBL.

Fiscal Year	Cash dividend (%)	EPS (Rs.)	RPS= EPS- Cash DPS (Rs.)
2007/08	25	62.74	37.74
2008/09	12	61.90	49.90
2009/10	11.84	31.80	19.96
2010/11	16.84	44.66	27.82
2011/12	13.42	39.94	26.52
Average	15.84	48.2	32.36
S.D.	4.92	12.2	10.24
C.V.	31.16	25.4	32.01

Source: Annual Report of HBL

5. **Competition Retained Earnings per share.**

Retention Earnings per share OF SCBNL.

Fiscal Year	Cash dividend (%)	EPS (Rs.)	RPS= EPS- Cash DPS (Rs.)
2007/08	80	131.92	51.90
2008/09	50	109.99	60
2009/10	55	77.65	22.70
2010/11	50	69.51	19.50
2011/12	45	72.60	27.60
Average	56	92.3	36.30
S.D.	12.4	24.4	10.80
C.V.	22.16	26.4	29.80

Source: Annual Report of SCBNL

Appendix- 2

Calculation of Correlation Coefficient

1. DPS and EPS of HBL

Fiscal Year	DPS(Rs.)(X)	EPS(Rs.)(Y)	XY	X^2	Y^2
2007/08	25	62.74	1568.50	625	3936.30
2008/09	12	61.90	742.80	144	3831.61
2009/10	11.84	31.80	376.51	140.18	1011.42
2010/11	16.84	44.66	792.07	283.58	1994.51
2011/12	13.42	39.94	535.99	180.09	1595.20
Total n=5	ΣX=79.1	ΣY=241.04	ΣXY=3975.88	Σ X^2=1372.87	Σ Y^2= 12368.87

Source: Annual Report of HBL

Correlation (r_{xy}) = $\frac{n\sum XY-\sum X\sum Y}{\sqrt{n\sum X^2-(\sum X)^2\times n\sum Y^2-(\sum Y)^2}} = o.5376$

2. DPS and EPS of SCBNL

Fiscal Year	DPS(Rs.)(X)	EPS(Rs.)(Y)	XY	X^2	Y^2
2007/08	80	131.92	10553.60	6400	17402.88
2008/09	50	109.99	5499.5	2500	12057.80
2009/10	55	77.65	4270.75	3025	6029.52
2010/11	50	69.51	3475.50	2500	4831.64
2011/12	45	72.6	3267	2025	5270.76
Total n=5	ΣX=280	ΣY=461.67	ΣXY=27066.35	Σ X^2=16450	Σ Y^2= 45632.60

Source: Annual Report of SCBNL

Correlation (r_{xy}) = $\frac{n\sum XY-\sum X\sum Y}{\sqrt{n\sum X^2-(\sum X)^2\times n\sum Y^2-(\sum Y)^2}} = o.771$

3. DPS and MPS of HBL

Fiscal Year	DPS(Rs.)(X)	MPS(Rs.)(Y)	XY	X^2	Y^2
2007/08	25	1980	158400	6400	3920400
2008/09	12	1760	88000	2500	3097600
2009/10	11.84	816	44880	3025	665856
2010/11	16.84	575	28750	2500	330625
2011/12	13.42	653	29385	2025	426409
Total n=5	ΣX=79.1	ΣY=5784	ΣXY=349415	Σ X^2=16450	Σ Y^2= 8440890

Source: Annual Report of HBL

Correlation (r_{xy}) = $\frac{n\sum XY-\sum X\sum Y}{\sqrt{n\sum X^2-(\sum X)^2\times n\sum Y^2-(\sum Y)^2}} = o.69$

4. DPS and MPS of SCBNL

Fiscal Year	DPS(Rs.)(X)	MPS(Rs.)(Y)	XY	X^2	Y^2
2007/08	80	6810	544800	6400	46376100
2008/09	50	6010	300500	2500	36120100
2009/10	55	3279	180345	3025	10751841
2010/11	50	1800	90000	2500	3240000
2011/12	45	1799	80955	2025	3236401
Total n=5	ΣX=280	ΣY=19698	ΣXY=1996600	Σ X^2=16450	Σ Y^2= 99724442

Source: Annual Report of SCBNL

Correlation (r_{xy}) = $\frac{n\sum XY-\sum X\sum Y}{\sqrt{n\sum X^2-(\sum X)^2\times n\sum Y^2-(\sum Y)^2}} = o.71$

5. Dividend Payout Ratio of HBL & SCBNL

Fiscal Year	D/P ratio of HBL(X%)	D/P ratio of SCBNL	XY	X^2	Y^2
2007/08	39.85	60.6	2414.91	1588.02	3632.36
2008/09	19.39	45.5	882.24	375.97	2070.25
2009/10	37.23	70.08	2635.88	1386.07	5012.64
2010/11	37.71	71.9	2711.34	1422.04	5169.61
2011/12	33.6	62	2083.20	1128.96	3844
Total n=5	ΣX=167.78	ΣY=310.80	ΣXY=10727.69	Σ X^2=5901.07	Σ Y^2= 19768.86

Source: Annual Report of HBL and SCBNL

Correlation (r_{xy}) = $\frac{n\sum XY-\sum X\sum Y}{\sqrt{n\sum X^2-(\sum X)^2\times n\sum Y^2-(\sum Y)^2}} = o.85$

6. Retention Ratios of HBL &SCBNL.

Fiscal Year	Retention ratio of HBL(X%)	Retention ratio of SCBNL(X%)	XY	X^2	Y^2
2007/08	60.15	39.36	2367.50	3618.02	1549.21
2008/09	80.61	54.54	4396.46	6457.57	2974.61
2009/10	62.77	29.17	3831	3940.073	850.88
2010/11	62.29	28.07	1748.48	3880.04	787.92
2011/12	66.4	38	2523.20	4408.96	1444
Total n=5	ΣX=332.22	ΣY=189.14	ΣXY=12866.65	Σ X^2=22345.07	Σ Y^2= 706.63

Source: Annual Report of HBL and SCBNL

Correlation (r_{xy}) = $\frac{n\sum XY-\sum X\sum Y}{\sqrt{n\sum X^2-(\sum X)^2\times n\sum Y^2-(\sum Y)^2}} = o.85$

7. Total dividend of HBL & SCBNL

Fiscal Year	Total dividend of HBL(X%)	Total dividend SCBNL(X%)	XY	X^2	Y^2
2007/08	421	3495	1471395	173241	12215025
2008/09	566.45	3055	1733560	321999.5	9333025
2009/10	215.84	546.85	118032.1	46586.91	299044.90
2010/11	131.84	50	6592	17381.79	2500
2011/12	111.37	314.85	35064.84	12403.28	99130.52
Total n=5	ΣX=1447.50	ΣY=7461.70	ΣXY=3364644.85	Σ X^2=575612.50	Σ Y^2= 21948725

Source: Annual Report of HBL and SCBNL

Correlation (r_{xy}) = $\frac{n\sum XY-\sum X\sum Y}{\sqrt{n\sum X^2-(\sum X)^2\times n\sum Y^2-(\sum Y)^2}} = o.92$

8. Calculation for Mean Value, Standard Deviation, Coefficient of Variation & Correlation between liquidity & MVPS of SCBNL

Year	**CR (X)**	**MVPS(Y)**	X^2	Y^2	**XY**
2008/09	1.49	6810.00	2.22	46376100.00	10146.90
2009/10	1.67	6010	2.79	36120100.00	10036.70
2010/11	1.04	3279.00	1.08	10751841.00	3410.16
2011/12	1.24	1800.00	1.54	3240000.00	2232.00
2012/13	1.18	1799.00	1.39	3236401.00	2122.82
N = 5	**∑X = 6.62**	**∑Y = 19698**	**∑X² =9.09**	**∑Y² = 99724442.00**	**∑XY = 27948.58**

Source: Annual Report of SCBNL

Current Ratio,

Mean ($\overline{X}$) = $\frac{\sum X}{N}$ = 1.32

Standard Deviation (δ_X) = $\sqrt{\frac{1}{n}\left[\sum X^2 - \frac{(\sum X)^2}{n}\right]}$ = 0.25

Coefficient of Variation (CV) = $\frac{\delta}{\overline{X}}$ = 19.10

MVPS,

Mean ($\overline{Y}$) = $\frac{\sum Y}{N}$ = 3939.60

Standard Deviation (δ_Y) = $\sqrt{\frac{1}{n}\left[\sum Y^2 - \frac{(\sum Y)^2}{n}\right]}$ = 2351.71

Coefficient of Variation (CV) = $\frac{\delta}{\overline{Y}}$ = 59.69

Correlation (r_{xy}) = $\frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2 \times n\sum Y^2 - (\sum Y)^2}}$ = 0.7856

9. Calculation for Mean Value, Standard Deviation, Coefficient of Variation & Correlation between liquidity & MVPS of HBL

Year	**CR (X)**	**MVPS (Y)**	X^2	Y^2	**XY**
2008/09	1.55	1980.00	2.40	3920400.00	3069.00
2009/10	1.79	1760	3.20	3097600.00	3150.40
2010/11	1.48	816.00	2.19	665856.00	1207.68
2011/12	1.60	575.00	2.56	330625.00	920.00
2012/13	2.05	653.00	4.20	426409.00	1338.65
N = 5	**∑ X = 8.47**	**∑ Y = 5784**	**∑ X² =14.56**	**∑ Y² = 8440890**	**∑ X Y = 9685.73**

Source: Annual Report of HBL

Current Ratio,

Mean ($\overline{X}$) = $\frac{\sum X}{N}$ = 1.69

Standard Deviation (δ_X) = $\sqrt{\frac{1}{n}\left[\sum X^2 - \frac{(\sum X)^2}{n}\right]}$ = 0.23

Coefficient of Variation (CV) = $\frac{\delta}{\overline{X}}$ = 13.57

MVPS,

Mean ($\overline{Y}$) = $\frac{\sum Y}{N}$ = 1156.80

Standard Deviation (δ_Y) = $\sqrt{\frac{1}{n}\left[\sum Y^2 - \frac{(\sum Y)^2}{n}\right]}$ = 661.43

Coefficient of Variation (CV) = $\frac{\delta}{\overline{Y}}$ = 57.18

Correlation (r_{xy}) = $\frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2 \times n\sum Y^2 - (\sum Y)^2}}$ = -0.1848

10. Calculation for Mean Value, Standard Deviation, Coefficient of Variation & Correlation between NPM & MVPS of SCBNL

Year	**CR (X)**	**MVPS (Y)**	X^2	Y^2	**XY**
2008/09	46.16	6810.00	2130.75	46376100.00	314349.60
2009/10	49.00	6010	2401.00	36120100.00	294490.00
2010/11	47.26	3279.00	2233.51	10751841.00	154965.54
2011/12	45.47	1800.00	2067.52	3240000.00	81846.00
2012/13	44.30	1799.00	1962.49	3236401.00	79695.70
N = 5	**$\sum$X = 232.19**	**$\sum$Y = 19698**	**$\sum X^2$ =10795.26**	**$\sum Y^2$ = 99724442**	**$\sum$XY = 925346.84**

Source: Annual Report of SCBNL

Net Profit Margin,

Mean ($\overline{X}$) = $\frac{\sum X}{N}$ = 46.44

Standard Deviation (δ_X) = $\sqrt{\frac{1}{n}\left[\sum X^2 - \frac{(\sum X)^2}{n}\right]}$ = 1.79

Coefficient of Variation (CV) = $\frac{\delta}{\overline{X}}$ = 3.86

MVPS,

Mean ($\overline{Y}$) = $\frac{\sum Y}{N}$ = 3939.60

Standard Deviation (δ_Y) = $\sqrt{\frac{1}{n}\left[\sum Y^2 - \frac{(\sum Y)^2}{n}\right]}$ = 231.71

Coefficient of Variation (CV) = $\frac{\delta}{\overline{Y}}$ = 59.69

Correlation (r_{xy}) = $\frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2 \times n\sum Y^2 - (\sum Y)^2}}$ = 0.63

11. Calculation for Mean Value, Standard Deviation, Coefficient of Variation & Correlation between NPM & MVPS of HBL

Year	**CR (X)**	**MVPS (Y)**	X^2	Y^2	**XY**
2008/09	39.80	1980.00	1584.04	3920400.00	78804.00
2009/10	37.87	1760	1434.14	3097600.00	66651.20
2010/11	23.58	816.00	556.02	665856.00	19241.28
2011/12	34.53	575.00	1192.32	330625.00	19854.75
2012/13	32.93	653.00	1084.38	426409.00	21503.29
N = 5	**$\sum$X = 168.71**	**$\sum$Y = 5784**	**$\sum X^2$ =5850.90**	**$\sum Y^2$ = 8440890**	**$\sum$XY = 206054.52**

Source: Annual Report of HBL

Net Profit Margin,

Mean ($\overline{X}$) = $\frac{\sum X}{N}$ = 33.74

Standard Deviation (δ_X) = $\sqrt{\frac{1}{n}\left[\sum X^2 - \frac{(\sum X)^2}{n}\right]}$ = 6.29

Coefficient of Variation (CV) = $\frac{\delta}{\overline{X}}$ = 18.64

MVPS,

Mean ($\overline{Y}$) = $\frac{\sum Y}{N}$ = 1156.80

Standard Deviation (δ_Y) = $\sqrt{\frac{1}{n}\left[\sum Y^2 - \frac{(\sum Y)^2}{n}\right]}$ = 661.43

Coefficient of Variation (CV) = $\frac{\delta}{\overline{Y}}$ = 57.18

Correlation (r_{xy}) = $\frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2 \times n\sum Y^2 - (\sum Y)^2}}$ = 0.6544

Appendix-3

Calculation of dividend yield and Earning Yield

HBL

Fiscal Year	Closing MPS (Rs.)	Total dividend	Dividend Yeild=Total dividend/MPS	Earnings per share (EPS)	Earnings Yeild (EPS/MPS)
2007/08	1980	421	21.26	62.74	3.16
2008/09	1760	567.45	32.24	61.90	3.51
2009/10	816	215.84	26.45	31.80	3.89
2010/11	575	131.84	22.93	44.66	7.76
2011/12	653	111.37	17.06	39.94	5.11

Source: Annual Report of HBL

Calculation of dividend yield and Earning Yield

SCBNL

Fiscal Year	Closing MPS (Rs.)	Total dividend	Dividend Yeild=Total dividend/MPS	Earnings per share (EPS)	Earnings Yeild (EPS/MPS)
2007/08	6830	3495	51.2	131.92	1.93
2008/09	6010	3055	50.8	109.99	1.83
2009/10	3279	546.85	16.7	77.65	2.37
2010/11	1800	50	2.78	69.51	3.86
2011/12	1799	31.85	17.5	72.60	4.04

Source: Annual Report of SCBNL

Appendix-4

Computed of Trend Values

1. EPS of HBL

Fiscal year	EPS (Y)	X=X-2010	X^2	XY	Trend Values Yc= 48.20+(-6.29)X
2007/08	62.74	-2	4	-125.48	60.78
2008/09	61.90	-1	1	-61.90	54.49
2009/10	31.80	0	0	0	48.20
2010/11	44.66	1	1	44.66	41.91
2011/12	39.94	2	4	79.88	35.62
Total,n=5	241.04	0	10	-62.84	

Source: Annual Report of HBL

a= $\frac{\sum y}{n} = \frac{241.04}{5}$= 48.20

$b = \frac{\sum XY}{X^2} = \frac{-62.84}{10}$= -6.29

Estimation of Trend Value:

For Year Ending mid July2010, X=2013-2010=3

Yc= 48.20-6.29×3=29.33

For middle of the mid July 2014, X=2014-2010=4

Yc= 48.20-6.29×4=23.04

For year ending mid July 2015, 2015-2010=5

Yc= 48.20-6.29×5=16.75

2. EPS of SCBNL

Fiscal year	**EPS (Y)**	**X=X-2010**	X^2	**XY**	**Trend Values Yc= 92.33+(-1590)X**
2007/08	131.9	-2	4	-263.8	124.13
2008/09	109.99	-1	1	--109.99	108.23
2009/10	77.65	0	0	0	92.33
2010/11	69.51	1	1	69.51	76.43
2011/12	72.60	2	4	145.2	60.53
Total,n=5	461.65	0	10	-159.08	

Source: Annual Report of SCBNL

a= $\frac{\sum y}{n} = \frac{461.65}{5}$= 92.33

$b = \frac{\sum XY}{X^2} = \frac{-159.08}{10}$= -15.90

Estimation of Trend Value:

For Year Ending mid July2010, X=2013-2010=3

Yc= 92.33-15.90×3=44.60

For middle of the mid July 2014, X=2014-2010=4

Yc= 92.33-15.90×4=28.69

For year ending mid July 2015, 2015-2010=5

Yc= 92.33-15.90×5=12.79

1. DPS of HBL

Fiscal year	EPS (Y)	X=X-2010	X^2	XY	Trend Values Yc= 15.82+(-1.83)X
2007/08	25	-2	4	--50	19.48
2008/09	12	-1	1	-12	17.65
2009/10	11.84	0	0	0	15.82
2010/11	16.84	1	1	16.84	13.98
2011/12	13.42	2	4	26.84	12.15
Total,n=5	79.1	0	10	-18.32	

Source: Annual Report of HBL

a= $\frac{\sum y}{n} = \frac{79.1}{5}$= 15.82

$b = \frac{\sum XY}{X^2} = \frac{-18.32}{10}$= -1.83

Estimation of Trend Value:

For Year Ending mid July 2010, X=2013-2010=3

Yc= 15.82-1.83×3=10.32

For middle of the mid July 2014, X=2014-2010=4

Yc= 15.82-1.83×4=8.49

For year ending mid July 2015, 2015-2010=5

Yc= 15.82-1.83×5=6.66

2. DPS of SCBNL

Fiscal year	EPS (Y)	X=X-2010	X^2	XY	Trend Values Yc= 56+(-7)X
2007/08	80	-2	4	-160	70
2008/09	50	-1	1	-50	63
2009/10	55	0	0	0	56
2010/11	50	1	1	50	49
2011/12	45	2	4	90	42
Total,n=5	280	0	10	-70	

Source: Annual Report of SCBNL

$a = \frac{\sum y}{n} = \frac{280}{5} = 56$

$b = \frac{\sum XY}{X^2} = \frac{70}{1-0} = -7$

Estimation of Trend Value:

For Year Ending mid July2010, X=2013-2010=3

Yc= 56-7×3=35

For middle of the mid July 2014, X=2014-2010=4

Yc= 56-7×4=28

For year ending mid July 2015, 2015-2010=5

Yc= 56-7×5=21

Appendix-5

Calculation of Current Ratios

Fiscal Year	SCBNL			HBL		
	CA	CL	CR	CA	CL	CR
2007/08	11572.95	7743.84	1.49	9767.99	6305.96	1.55
2008/09	13008.82	7793.32	1.67	8758.73	4882.3	1.79
2009/10	12168.89	11675.27	1.04	8684.74	5859.2	1.48
2010/11	17327.61	13970.79	1.24	9937.37	6223.71	1.60
2011/12	16287.8	13773.75	1.18	14464.99	7056.95	2.05
Mean			1.33	Mean		1.69
S.D			0.25	S.D		0.23
C.V			19.03	C.V		13.58

Source: Annual Report of SCBNL and HBL

Appendix-6

Calculation of Net Profit Margin Ratio(%)

Fiscal Year	SCBNL			HBL		
	NPAT	OI	NPM	NPAT	OI	NPM
2007/08	818.92	1774.15	46.16	635.87	1597.49	39.80
2008/09	1025.11	2092.13	49.00	752.83	1988.05	37.87
2009/10	1085.87	2297.71	47.26	508.79	2157.96	23.58
2010/11	1119.17	2461.26	45.47	893.12	2586.74	34.53
2011/12	1168.96	2638.45	44.30	958.64	2911.21	32.93
Mean			46.44	Mean		33.74
S.D			1.79	S.D		6.29
C.V			3.86	C.V		18.64

Source: Annual Report of SCBNL and HBL

Appendix-7

Calculation of Return on Total Assets Ratio (%)

Fiscal Year	SCBNL			HBL		
	NPAT	TA	ROTA	NPAT	TA	ROTA
2007/08	818.92	33335.79	2.46	635.87	36175.53	1.76
2008/09	1025.11	40066.57	2.56	752.83	39330.13	1.91
2009/10	1085.87	40213.32	2.70	508.79	42717.12	1.19
2010/11	1119.17	43810.52	2.55	893.12	46736.2	1.91
2011/12	1168.96	41677.05	2.80	958.64	54364.43	1.76
Mean			2.61			1.71
S.D			0.13			0.30
C.V			5.16			17.47

Source: Annual Report of SCBNL and HBL