CHAPTER I
INTRODUCTION

1.1 Background of the Study

Dividend policy has been a puzzle in corporate finance for several decades. Among numerous research subjects about dividend policy, the most popular one is the relationship between the dividend level and the share price of a firm. According to the dividend discount model of Gordon (1959), it is feasible to derive that the dividend payment augmentation should be accompanied by the value increase in a firm. Miller and Modigliani (1961), however, point out that the value of a firm is not influenced by current and future dividend decisions, which was well recognized as the dividend irrelevance theory. Later on, several empirical studies were conducted, and the results were inconsistent nevertheless. Several hypotheses were developed sequentially to explain the relation between a firm's dividend policy and the price of its shares. Among those hypotheses, tax effect (tax clientele effect), information asymmetric/dividend signaling, and agency problems are the most famous ones. This paper focuses on the empirical analysis of the dividend signaling hypothesis and investigates the announcement effect of cash dividend changes. According to the dividend signaling hypothesis, cash dividends function as a good signaling vehicle of a firm's future cash flow, thus implying that unanticipated dividend changes should be accompanied by share price changes in the same direction.

The issue of how much a company should pay its stockholders, as dividend is one that has been of concern to managers for a long time. The optimal dividend policy of a firm may be defined as the best dividend payout ratio the firm can adopt. But, what does "best" mean in this concept? Since the objective of the firm is to increase the wealth of its stockholders, the best dividend policy is the one that increases shareholders wealth by the greatest amount. It is therefore necessary, to understand the nature of the relationship between dividend and

value of the firm. It is in the light of this that the study examines the possible effects of a firm's dividend policy on the market price of its common stock.

Moreover, the investors invest in the stock market primarily with the hope of getting return in the form of dividend. Thus, an optimal dividend payment is the necessity of the today's listed companies, and among them the banking sector is not the separate entity. The banking concepts and activities started in Nepal only after the establishment of Nepal Bank Limited in 1937. A central bank (Nepal Rastra Bank) was established to regulate the banking activities and, declare & implement monetary policy of the nation. Then after, it was realized that the commercial bank has its own role and contribution in the economic development. It is the source of economic development; it maintains economic confidence of various segments and extends credit to people. So, another commercial bank, Rastriya Banijya Bank was established on 1966. At present, 32 commercial banks are operating in the country. However, the analysis all these banking sectors within this study is almost impossible. Considering this fact, the study examines the dividend policy of only the sampled banks.

1.1.1 Dividend and Dividend Policy

Dividends are payments made by a corporation to its shareholder members. It is the portion of corporate profits paid out to stockholders. When a corporation earns or surplus, that money can be put to two uses: it can either be re-invested in the business or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earnings and pay the remainder as a dividend.

Dividend policy of a firm is an effect of dividing its net earning into two parts: the retained earnings and dividend payment. Business firms use the retained earnings to provide funds to the firm for long-term growth; we call it as internal financing source also. Dividend is that portion of earning, which is paid to the common stock holders, is a return on their investment. By a dividend policy we mean some kind of consistent approaches to the distribution versus retention

decision rather than making the decision on the purely ad hoc basis from period to period.

The optimal dividend policy of a firm depends on investor's desire for capital gains as opposed to income, their willingness to forgo dividend now for future returns, and their perception of the risk associated with postponement of returns. However any normative approach to dividend policy intended to be operative under real world conditions should consider the firm's investment opportunities, any preferences that investors have for dividends as opposed to capital gains and vice versa, and difference in "cost" between retained earnings and new equity issues. Various firms adopt dividend policies depending on the company's articles of association and the prevailing economic situation. Some make high pay out, while others make low pay out and yet others pay stock dividends (bonus issue) in lieu of or in addition to cash dividend while others pay cash only. All in a bid to maximize shareholders wealth which, in this case, is the market value of the firm's common stock. Modigliani and Miller demonstrated the irrelevance of dividend policy under a set of assumption, that is, dividend policy has no effect on stock prices. But when these assumptions are relaxed, the theory begins to collapse. This raises the question does dividend policy have any effect on the value of firms in Nepal? If yes, to what extent?

1.2 Statement of the Problem

Dividend is desirable for the shareholders, which inspires them for the further investment on company's shares. But it is found that there is no satisfactory result about dividend decision of commercial banks in Nepal. Likewise, dividend distribution does not match with the earnings of the commercial banks, there does not exist a proper relationship between dividend and quoted market price of share. Similarly, commercial banks with lower returns record stable (rigid) price of share and banks making sound returns do not rigid in share price.

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

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

Thus for the study, the following research problems have been raised;

a) What is the situation of earning and dividend distribution of commercial banks of Nepal?
b) What impacts do DPS and DPR and have on the MPS of the bank?
c) Does the joint effect of DPS and EPS changes the MPS?
d) For what reasons do the commercial banks distribute dividend?
e) Why the investors are attracted toward stock investment?

1.3 Objectives of the Study

The study primarily focuses on the dividend practices of commercial banks with a view to suggest ways to maximize the shareholders return, i.e. value of their investment is maximized. Followings are the specific objectives of the study.

a) To analyze the earning and dividend distribution of commercial banks.
b) To examine the impact of DPS on MPS, and the effect of dividend payout ratio on the MPS, and the joint effect of EPS and DPS on MPS.
c) To detect the major reasons behind distributing dividend by banks.
d) To trace the causes behind the stock investment.

1.4 Significance of the Study

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

Having lack of adequate knowledge, the people are haphazardly investing in shares. It shows that there is an extreme necessity to establish clear conception about the return that yields from investing in securities. In the Nepalese perspective, we find that there exist almost none of the companies adopting consistent dividend policy. There may be many reasons behind it. But there is not sufficient study conducted in this regard. Therefore, considering all these facts, the study is undertaken which will help to meet deficiency of the literature relating to dividend practice and price of stock. So this study is of considerable importance.

So, many persons and parties such as shareholders, management of banks, financial institutions, general public (depositors, prospective customers, investors etc.) and other policy making bodies which are concerned with banking (especially NABIL Bank Ltd, Standard Chartered Bank Ltd., Everest Bank Ltd., Bank of Kathmandu and Himalayan Bank Ltd.) business will be benefited from this study. It is also believed that it will provide valuable inputs for future research scholars.

1.5 Limitations of the Study

The limitations of the study are as follows:

a) The accuracy of secondary data depends on the reliability of the annual reports of the concerned banks.

b) The study is focused only on dividend practice, earning and price of stock only and does not cover the other financial aspects.
c) Only five banks are taken as samples to fulfill the objectives of the study.
d) This study covers five fiscal year period only, i.e. from 2007/08 to 2011/12.

1.6 Chapter Scheme

The study has been organized into five chapters. The first chapter of the study relates with the introduction of the study. More broadly, it consists of background of the study, statement of the problem, objectives of the study, significance of the study and limitation of the study. The second chapter reviews the literature related to the study. It includes a discussion on the conceptual framework on dividend and its practices. It also reviews the major studies relating with dividend decision of several authors/researchers and from the several books, journals and article, and thesis. After this, the third chapter is related to research methodology. This section explains the used methodology to evaluate dividend practices of commercial banks in Nepal. It consists of research design, population and sample, source of data collection, method of analysis financial tools and statistical tools used in the analysis. Further, the fourth chapter is related to data presentation and analysis. The chapter four fulfills the objective of the study by presenting data and analyzing them with the help of various statistical tools as per methodology. It is ended with the findings of the study. Finally, the fifth chapter presents summary, conclusion and recommendations of the study based on the data presentation and its analysis using the tools used in the analysis. Besides these chapters, Bibliography and Appendix are also included at the end of the study.

CHAPTER II
REVIEW OF LITERATURE

Under this section of the study, the conceptual framework related to the dividend has been reviewed. Besides this, the previous journals and articles, and the thesis related to the subject matter of the study have been reviewed.

2.1 Conceptual Framework

2.1.1 Dividend

Dividends are payments made by a corporation its shareholder members. It is the portion of corporate profits paid out to stockholders. When a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business (called retained earnings), or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earnings and pay the remainder as a dividend (Scholes, 2010).

For a joint stock company, a dividend is allocated as a fixed amount per share. Therefore, a shareholder receives a dividend in proportion to their shareholding. For the joint stock company, paying dividends is not an expense; rather, it is the division of after tax profits among shareholders. Retained earnings (profits that have not been distributed as dividends) are shown in the shareholder equity section in the company's balance sheet - the same as its issued share capital. Public companies usually pay dividends on a fixed schedule, but may declare a dividend at any time, sometimes called a special dividend to distinguish it from the fixed schedule dividends. Cooperatives, on the other hand, allocate dividends according to members' activity, so their dividends are often considered to be a pre-tax expense (DeAngelo & DeAngelo, 2006).

Dividends are usually paid in the form of cash, store credits (common among retail consumers’ cooperatives) and shares in the company (either newly created shares or existing shares bought in the market.) Further, many public

companies offer dividend reinvestment plans, which automatically use the cash dividend to purchase additional shares for the shareholder (Scholes, 2010).

2.1.2 Forms of Dividend Payment

Mainly, five forms of dividend payment have been practiced by the firms to till date. They are;

a. Cash dividends

Cash dividends (most common) are those paid out in currency, usually via electronic funds transfer or a printed paper check. Such dividends are a form of investment income and are usually taxable to the recipient in the year they are paid. This is the most common method of sharing corporate profits with the shareholders of the company. For each share owned, a declared amount of money is distributed (DeAngelo & DeAngel, 2006).

b. Stock or Scrip Dividends

Stock or scrip dividends are those paid out in the form of additional stock shares of the issuing corporation, or another corporation (such as its subsidiary corporation). They are usually issued in proportion to shares owned. If the payment involves the issue of new shares, it is similar to a stock split in that it increases the total number of shares while lowering the price of each share without changing the market capitalization, or total value, of the shares held (Lang & Litzenberger, 1999).

c. Property Dividends

Property dividends are those paid out in the form of assets from the issuing corporation or another corporation, such as a subsidiary corporation. They are relatively rare and most frequently are securities of other companies owned by the issuer, however they can take other forms, such as products and services (Scholes, 2010).

d. Other Dividends

These dividends can be used in structured finance. Financial assets with a known market value can be distributed as dividends; warrants are sometimes distributed in this way. For large companies with subsidiaries, dividends can take the form of shares in a subsidiary company. A common technique for "spinning off" a company from its parent is to distribute shares in the new company to the old company's shareholders. The new shares can then be traded independently (Lang & Litzenberger, 1999*).*

2.1.3 Reliability of Dividends

There are two metrics which are commonly used to gauge the sustainability of a firm's dividend policy.

Payout ratio is calculated by dividing the company's dividend by the earnings per share. A payout ratio greater than 1 means the company is paying out more in dividends for the year than it earned.

Dividend cover is calculated by dividing the company's cash flow from operations by the dividend. This ratio is apparently popular with analysts of income trusts (DeAngelo & DeAngelo, 2006).

2.1.4 Dividend Dates

Any dividend that is declared must be approved by a company's Board of Directors before it is paid. For public companies, there are four important dates to remember regarding dividends. These are discussed in detail with examples at the Securities and Exchange Commission site.

a. Declaration date

It is the day the Board of Directors announces its intention to pay a dividend. On this day, a liability is created and the company records that liability on its books; it now owes the money to the stockholders. On the declaration date, the Board will also announce a date of record and a payment date (Elsevier & Amidu, 2006).

b. In-dividend date

This is the last day, which is one trading day before the ex-dividend date, where the stock is said to be cum dividend. In other words, existing holders of the stock and anyone who buys it on this day will receive the dividend, whereas any holders selling the stock lose their right to the dividend. After this date the stock becomes ex dividend (Lang & Litzenberger, 1999).

c. Ex-dividend date

This is the day on which all shares bought and sold no longer come attached with the right to be paid the most recently declared dividend. This is an important date for any company that has many stockholders, including those that trade on exchanges, as it makes reconciliation of who is to be paid the dividend easier. Existing holders of the stock will receive the dividend even if they now sell the stock, whereas anyone who now buys the stock will not receive the dividend. It is relatively common for a stock's price to decrease on the ex-dividend date by an amount roughly equal to the dividend paid. This reflects the decrease in the company's assets resulting from the declaration of the dividend. The company does not take any explicit action to adjust its stock price; in an efficient market, buyers and sellers will automatically price this in (Elsevier & Amidu, 2006).

d. Book closure Date

Whenever a company announces a dividend pay-out, it also announces a date on which the company will ideally temporarily close its books for fresh transfers of stock.

e. Record date

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

f. Payment Date

It is the day when the dividend checks will actually be mailed to the shareholders of a company or credited to brokerage accounts" (Elsevier & Amidu, 2006).

2.1.5 Factors Influencing Dividend Decision

The dividend decision is a decision made by the directors of a company. It relates to the amount and timing of any cash payments made to the company's stockholders. The decision is an important one for the firm as it may influence its capital structure and stock price. In addition, the decision may determine the amount of taxation that stockholders pay. There are three main factors that may influence a firm's dividend decision:

- Free-cash flow
- Dividend clienteles
- Information signalling

a. The Free Cash Flow

Under this, the dividend decision is very simple. The firm simply pays out, as dividends, any cash that is surplus after it invests in all available positive net present value projects.

Most companies pay relatively consistent dividends from one year to the next and managers tend to prefer to pay a steadily increasing dividend rather than paying a dividend that fluctuates dramatically from one year to the next (Baker & Jeffrey, 2004).

b. Dividend clienteles

A particular pattern of dividend payments may suit one type of stock holder more than another. A retiree may prefer to invest in a firm that provides a consistently high dividend yield, whereas a person with a high income from employment may prefer to avoid dividends due to their high marginal tax rate on income. If clienteles exist for particular patterns of dividend payments, a firm may be able to maximize its stock price and minimize its cost of capital by

catering to a particular clientele. This model may help to explain the relatively consistent dividend policies followed by most listed companies (Smith, 2003).

c. Information Signalling

A model developed by Merton Miller and Kevin Rock in 1985 suggests that dividend announcements convey information to investors regarding the firm's future prospects. Many earlier studies had shown that stock prices tend to increase when an increase in dividends is announced and tend to decrease when a decrease or omission is announced. Miller and Rock pointed out that this is likely due to the information content of dividends.

When investors have incomplete information about the firm (perhaps due to opaque accounting practices) they will look for other information that may provide a clue as to the firm's future prospects. Managers have more information than investors about the firm, and such information may inform their dividend decisions. When managers lack confidence in the firm's ability to generate cash flows in the future they may keep dividends constant, or possibly even reduce the amount of dividends paid out. Conversely, managers that have access to information that indicates very good future prospects for the firm (e.g. a full order book) are more likely to increase dividends.

Investors can use this knowledge about managers' behavior to inform their decision to buy or sell the firm's stock, bidding the price up in the case of a positive dividend surprise, or selling it down when dividends do not meet expectations. This, in turn, may influence the dividend decision as managers know that stock holders closely watch dividend announcements looking for good or bad news. As managers tend to avoid sending a negative signal to the market about the future prospects of their firm, this also tends to lead to a dividend policy of a steady, gradually increasing payment (Miller & Rock, 1985).

2.1.6 Dividend Policy

The dividend policy theories of an enterprise are a plan of action to be followed whenever you decide about the distribution of dividends. The policy should be

considered taking into account two basic objectives: to maximize the benefit of the owners of the company and provide sufficient funding.

a. All profits are distributed

The benefit-sharing ratio is 100% based on the idea that all one wants to shareholders are dividends. Managers, who need their own funding, should convince shareholders that the investment projects will provide increases in their wealth, thus encouraging them to invest in the company. In any case, companies often do not follow this distribution policy (Hill, 1996).

b. Not distributed dividends

It is the opposite of the previous policy, and based on that given the tax and transaction costs exist, dividends are a luxury that neither the shareholder nor businesses can afford. Very few companies follow this policy of no dividends.

c. Both fixed on profits

Under this, the company distributes a fixed percentage of total annual earnings. This policy, more logical than the previous ones, is unusual in business, because the benefits are a random variable, so will the dividends, which often adversely affect the stock price (increase in economic risk company).

d. Dividend as waste

The residual theory of dividends suggests that companies should undertake all investments that increase the wealth of shareholders, i.e. those with a positive NPV. Therefore, any excess cash should be returned to shareholders via dividends or repurchase its shares. The problem underlying this theory is that if the profits or investment opportunities vary from year to year in strict compliance with this theory would imply a variation of the dividends, which would increase risk and, therefore, the return demanded by shareholders. As a result this policy will not usually be followed strictly by the companies, although many of them the rate used to establish a framework for the distribution of dividends in the long term (Renneboog & Szilagyi, 2006).

e. Stable Dividend Policy

Formerly, many companies paid a constant dividend if it seemed clear that future profits were sufficient to keep it that way. A corollary of this policy was an attempt to avoid having to reduce dividends. Because inflation has pushed up the value of benefits has emerged called policy of steady growth rate, in which the policy framework marks a growth rate of profits and tries to match it. It is played with the reserves to offset the bad year's dividend (distributed under the same) or to accumulate excess undistributed profits in the good. This type of policy tends to provide stability in the price, even if the upward or downward movement of the benefits appear to be durable, the company will reconsider this policy.

Extraordinary dividends, the periodic release of bonus shares, etc., are adjustment mechanisms to ease the stiffness of a constant dividend policy. Dividends are set in line with expected cash flows and are based on long-term benefits on the one hand, and dividends from the previous period, on the other. So in the short term, dividends tend to receive a smoothing in order to avoid frequent changes. This can be reconciled with the notion of the information contained in dividends that managers seem to use as a signal indicative of long-term yields. Hence, the need to follow a stable policy in the dividend distribution policy that seems to follow most of the companies (Michaely & Roberts, 2006).

f. Dividend Arbitrary or Erratic

Each year a dividend that does not follow any of the above policies. This policy, to call in some way, is followed by companies that are adrift in the market and have failed to stabilize in the same (Gugler, 2003).

2.1.7 Reasons for Paying Dividends

A dividend is a payment to a company's stockholders either in the form of cash or additional shares. Not all companies pay dividends. Small or high-growth companies generally do not pay dividends; large, mature companies are more

likely to pay dividends. Dividend payment was the norm as recently as the early 1970s. Far fewer companies pay dividends now.

a. Profit Decision

A profitable company has to make a choice of what to do with the profit. The decision depends on the opportunities available to the company. The company may be able to use its earnings to expand or grow the business. There may be the opportunity to grow through acquisition. The company can also retain earnings for future use, buy back stock, or pay a dividend to shareholders. All of these options can increase shareholder value. Large mature companies may not have viable options for further growth. Companies without options for additional growth will frequently pay out a portion of their earnings to shareholders in the form of a dividend (Gugler, 2003).

b. Share Price Effects

Dividends may make a stock more attractive to investors. Payment of dividends provides stability to a company's stock price. Dividends paying stocks tend to suffer smaller losses in a down market. A company can anticipate two benefits from reduced share price volatility. Investors may be more attracted to stocks that pay dividends due to the reduced volatility. Management may also value the reduced volatility as management is often rewarded on the basis of the performance of the company's stock (Asquith & Mullins, 2000).

c. Investor Confidence

Dividends increase investor confidence. Steady dividend payment assures investors that the company's reported profit is real. Dividends also provide assurance of the company's financial health; they are an indication that management feels the company can continue to remain profitable. Reducing or eliminating dividends sends the opposite signal to investors. Companies will generally only pay out a portion of their earnings as dividends. Retaining a portion of earnings provides a cushion to assure on-going dividends payment (Grullon, Michaely & Swaminathan, 2002).

2.1.8 Reasons for Investors to go with Dividends

Dividend paying stocks are an excellent source of passive income and can be extensively used for building long-term wealth. The main reasons for investors to buy the stock of dividend paying firms are listed below;

a. Performance

Companies that pay a regular dividend have been shown to provide great returns over time. Generally, companies that pay a dividend outperform companies that do not pay a dividend. They grow steadily during bull markets and yet are fairly good at reducing losses during recessions. So, wise investors are not following only the myth that dividend-paying-companies offer a lower return just because they are safer (Allen, Bernado & Welch, 2000).

b. Diverse Returns

When one invests in a company that does not pay dividends, one only has one way to profit: capital appreciation (increase of the stock price). The desired outcome is to watch the stock price go up, and that compromises 100% of the returns. A company that pays growing dividends, however, offers two streams of growth: dividend income and capital appreciation (Grullon, Michaely & Swaminathan, 2002).

c. Valuation Competency

It's important to invest in things one understands. Out of all the companies one should evaluate for investing, one feel most competent at evaluating dividend-paying companies. Seeing historical dividend growth and comparing current yield to previous yield are two extra metrics, among others, that dividend-paying companies have over companies that do not pay a dividend.

d. Shareholder Friendly

A dividend is pretty good evidence that a company is shareholder friendly. When looking for a company to invest in, it's important to note that a great company might not make a great stock. A great company might be overvalued in terms of share price, or it might not care about creating shareholder value.

Companies that pay dividends are taking care of the shareholders, and are likely to keep doing that (Allen, Bernado & Welch, 2000).

e. Company Diligence

Dividend-paying companies use capital more efficiently. Firstly, paying a dividend requires solid cash flow. This means that a company has to have its financials in order to know how much it can reasonably pay over the long term. Secondly, a company that has less capital to work with (due to paying some capital as dividends) will stick to investing in its best ideas, not simply all of its ideas. This means that they return money to the shareholder, and then use the rest to invest in only their very best ideas. The best part is that one can reinvest dividends into buying more shares, so one can fully embrace all of his best ideas.

f. Simplicity

Dividend stocks are generally less volatile than companies that do not pay a dividend. This is especially true if one invests in large-cap dividend payers. Dividend-paying companies are an excellent option if one wants to take control of own finances (individual stock selections) without having to check on each of companies every day. This also means that dividend paying companies are excellent companies to start investing with, and are perfect for someone who is interested in building some serious wealth without feeling the need to think about investing all the time *(*Grullon, Michaely & Swaminathan, 2002*).*

g. Management Projection

The amount by which the company directors decide to raise dividend payouts in a given year says a lot about their confidence for the future. Past history is one thing to take note of, but the future is what really matters to investors, so it's great to get insight into managerial confidence. If management is unsure or pessimistic about the future of their company, they are likely to keep dividends conservative. If management raises dividends by a considerable amount, it shows they see great promise in their future. This is because companies that

focus on increasing dividends each year have to conservatively manage their dividend payouts to ensure that they don't bite off more than they can chew, since if their projections don't work out right, they may have to cut dividends, and that always gives horrible press and angers shareholders. When a company raises dividends by a noteworthy amount, it's likely that management is optimistic about long-term future performance (Allen, Bernado & Welch, 2000).

h. Retirement

When one retires, one can keep all of dividend investments and rely on the passive income of dividends. Once one buys into a dividend paying company, if one has made a wise investment choice and that proves to be a good investment for decades, one could literally hold onto that investment for the rest of life (Gugler, 2003).

2.1.9 Dividend Theories

The literature currently advances four main theories purporting to explain the methodology of dividend policy, each of which centers on the idea of remitting residual earnings to investors:

a. Pure Residual Dividend Policy

This theory states that when the corporation's return on equity capital is greater than the rate of return the investor could obtain by reinvesting those dividends in another investment of equivalent risk, the investor would rather the corporation act on his behalf and reinvest the earnings rather than issue a dividend; the firm can determine which option is better suited to benefiting the investor by first identifying the firm's optimal capital budget, thereby noting the level of equity capital required, and then maintaining the amount of earnings required to finance the equity capital in the capital budget and allowing "residual" funds (earnings not utilized in internal investment) after the mandated reinvestment to be issued as a dividend. Therefore, dividends are a function of earnings fluctuations, and this method allows for significant fluctuations in dividends with changes in earnings and corporate investment

opportunities. In effect, all residual earnings are paid out which causes the dividend payout ratio to fluctuate. This policy also results in a dividend that varies from year to year, and when equity investment is greater than earnings, equity financing must be initiated to create a residual *(*Watts, 2004).

b. Smoothed Residual Dividend Policy

This theory suggests that dividend fluctuations are kept to a minimum. Dividend policy changes tend to lag behind earnings fluctuations and, as dividends are set equal to the long-run residual between forecasted earnings and investment requirements. Dividend changes, in turn, are made only when this long run residual is expected to change; earnings fluctuations believed to be temporary are ignored in setting dividend payments. The clear preference is for a stable, but increasing, dividend per share. As such, the dividend payout ratio fluctuates significantly with this payment method, and dividends have the potential to exceed the residual if earnings are unexpectedly low (Kalay, 2007)

c. Small Quarterly Dividend with Annual Bonus

This theory suggests a small periodic dividend and a yearly bonus dividend offered to investors if earnings exceed expectations. Companies that experience wide earnings and investment fluctuations often use this policy. This option benefits both management, as they have cash flexibility, and the investors as they are guaranteed a small yearly dividend (Aharony & Swary,1990).

2.1.10 Do Dividends Signal Future Success?

Positive factors further encouraging corporations to issue dividends include the psychological perceptions of investors. The favorable behavioral reactions of stockholders to the positive signal dividends convey as well as the economic rationale for a reliable dividend policy suggest the underlying value of dividends. Although management's choice to either raise or lower a current dividend may not greatly affect the current value of the firm, these changes can have a marked effect on the market price of the stock and the opinions of both investors and company stakeholders.

Dividends serve as an indicator of the firm's present and future performance and potential risk level by lending credibility to management claims, and as such may help determine the market price of the stock. Stability in dividend policy is often necessary to eliminate uncertainty and the potential poor market valuation by investors associated with unpredictable dividend payments, and a decrease in dividends often results in a negative market response as seen by a reduction in the price of the stock. The level of the decline in stock price is, however, often dependent upon the reason behind the dividend cut, be it poor earnings or future growth potential.

Therefore, dividend payout percentages are often raised only after a permanent increase in earnings is expected with the firm, which results in a lag between earnings and payout ratios. The dividend-signaling hypothesis is in line with the smoothed residual dividend policy. Other economic rationale behind a stable dividend includes the idea that dividends limit both the amount of expensive external financing that is needed by the firm and the associated floatation costs and investor concerns which can result. Stable dividend policy further limits the transaction costs paid by the investor when a variable dividend may result in selling or buying of shares to compensate for the deviation from needed current income. High dividends provide benefit to investors as when firms must resort to external financing methods, the unbiased opinion of the lender provides stockholders with a good indication of the firm's standing and future potential (Kane, Lee & Marcus, 2001).

2.2 Review of Journals and Articles

Tuladhar & Baskota (2007) have stated that the dividend is the cost of equity capital to equity shareholders. The dividend announcement has an impact on the market price of the shares; the market will react positively, if the dividend is up to the expectation level of the equity investors. At the same time if the dividend announcement is not the expectation level of the shareholders, the market reaction will in bear trend for that particular scrip.

In recent years the Securities Exchange Board of Nepal (SEBON) has initiated a number of reforms to make the Nepalese stock market at par with developed stock markets of the world. One of such reforms is compulsory quarterly earnings announcement and dividend announcements. This reform is based on the experiences of regulatory bodies around the world as well as the compulsions of domestic markets. The compulsory announcements will have an impact on the stock market. Researchers around the world have studied some of these impacts and it is considered as an event study. Event studies focus on the impact of various announcements like bonus issue, right issue, stock splits, earnings, dividends, mergers and acquisitions, buyback of stocks, etc.

Dividend announcements are one of the most important events and the studies on stock market reaction to earnings information are included in the semi-strong form of efficient market hypothesis (EMH). The semi-strong form of efficient market hypothesis states that stock prices reflects all the publicly available information instantaneously and accurately. In this study an attempt is on the stock market reaction to dividend announcements in Nepal in the light of various previous studies conducted in various developed countries of the world.

Satyal (2009) has examined the relationship between the ownership structure, corporate governance and dividend payout using a large panel of Nepalese corporate firms over 2001-2008. The study documented that unobserved firm heterogeneity explains a large fraction of cross-sectional variation in dividend payout growth that exists among Nepalese corporate firms, and found in several studies. Furthermore, it is the first example of using well established dividend payout models to examine the impact of ownership structures, corporate governance and dividend payout policies in context of an emerging market. Due to high ownership concentration, the conflict between large and controlling owners and small outside shareholders is one of the main issues in the corporate governance literature.

The study finds that ownership is one of the important variables which influence the dividend payout policies. Though the relationship is different for different class of owners and at different levels, it suggests that the ownership structure does not influence dividend payout policy uniformly. The impact changes over the change in size of the holdings as well as their identity. The results support the hypothesis, that the interest alignment between different classes of owners is one of the important factors influencing the dividend payout. The study contributes the literature of corporate governance by expanding the effect of corporate governance to another area, that of dividend payout policy, where the study finds significant effect of ownership structure on dividend payouts in case of an emerging economy, Nepal.

Baral & Gurung (2010) have adopted a sample of cash dividend changes from all listed A-share firms in Nepal over the period 2000 to 2009 and applied an event study in order to investigate the impact of cash dividend changes on share prices and to examine simultaneously if the dividend signaling hypothesis holds in Nepal's stock markets. The study finds that the cash dividend changes do have a considerable influence on share prices. The share prices react significantly positive to both cash dividend increases and cash dividend decreases. The result only half supports the signaling hypothesis. In fact, only the positive announcement effect for cash dividend increases fits the dividend signaling hypothesis. Cash dividend decreases, on the other hand, also have a positive announcement effect. Such a market reaction to dividend changes implies that cash dividends are welcome whether they are cash dividend increases or cash dividend decreases.

The announcement effect of cash dividend changes is positive for the sample of different listed companies, but the significance alters with sources of the sample and the event window selection. Therefore, there is no great dissimilarity between the announcement effects of cash dividend changes for different markets in Nepal. However, the empirical result of the 2002 cash dividend change sample reveals that the cash dividend changes are

accompanied by stock price changes in the opposite direction. This analysis result is completely opposite to the dividend signaling hypothesis and also different from that of the 2002-2006 cash dividend change sample. Such result implies that investors react pessimistically to cash dividend increases and react optimistically to cash dividend decreases. Therefore, investors may have a negative point of view on cash dividends in 2002. However, when the ratio of cash-dividend-paying firms increased sharply after two rules we mention above were announced, cash dividends became a major source of income. Investors' attitudes towards cash dividends may turn positive, and react positively to all cash-dividend-paying firms. In short, the announcement effect of cash dividend changes and investors' attitude toward cash dividend changes may shift with time.

Rijal & Aryal (2011) have stated that dividends payment is more of attractive bait for stimulating investment in Nepal. For it is unusual for the rejection of dividend declaration in favor of capital gains by share holders and neither would they advocate a reduction in the level of dividends declared for any other reason for that matter. As for the significance of dividend policy, it all boils down to the question of relevance, though the researcher is of the opinion that dividend o matter to the average Nepalese investor or potential investor as such, the development of policy on dividends by companies is nonetheless important.

The study revealed that dividends affect the demand for share price and subsequently the value of the firms. However, the dividend policy does not affect the value of firms currently as share price fixing in regulated by the Security and Exchange Commission in respect of the quoted companies. The study insists that so many factors both internal and external to a firm have to be considered when formulating the dividend policy. Most investors buy and own shares for prestigious reasons aimed at boosting their egos and not for speculative reason. Another reason for share ownership is the fact that, share is an acceptable security in obtaining credit facility such as Bank loan. Moreover,

firms do have a dividend policy that is dependent on earnings. However, the trend is not very consistent and proportionate. From the earnings and dividends over time it can be said that the size of dividend is dependent on the amount earnings as, earnings and dividend follow the same trend.

2.3 Review of Thesis

Deuja (2005) has the main objective to analyze the dividend practices in Nepal. The other specific objectives of the study are; to analyze the properties of portfolios formed on dividend, to examine the relationship between dividend and stock prices and to test the impact of earning on dividend distribution.

The major findings of this research are: financial position of high dividend paying companies is comparatively better than that of low dividend paying companies, market price of stock of both finance and non finance and non finance sectors are affected by dividends, there is a positive relationship between dividend and stock price, there is a negative relationship between dividend payout and earnings before tax to net worth, stocks with larger ratio of DPS to book value per share have higher profitability. These profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

Budhathoki (2006) has the main objective to examine the dividend policy in banks. The other specific objectives of the study are; to compare the dividend policy followed by different commercial banks chosen, to analyze the relationship of dividend on other financial indicators, 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 this study are: 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.

Ghimire (2007) has the main objective to examine the dividend policy of listed companies. The other specific objectives of the study are; To identify the regularity of divided distribution of different listed companies. To identify the relationship between dividend policy and other financial indicators. To find out whether dividend policy affect the value of the firm or not. To analyze the relationship between DPS and MPS. To provide suggestion for the improvement of sample companies dividend policy on the basis of findings.

The major findings of the study are: The average dividend per share of the banks is satisfactory compared to finance and insurance companies. The average earning per share of the bank is also more satisfactory than finance and insurance companies. DPS of the finance companies are more fluctuating in comparison to banks among them HBL has more fluctuation and NGBL being consistent. Dividend yield of the finance and insurance are higher than banks and more consistent too. Banks are following aggressive dividend policy due to higher DPR whereas finance and insurance companies implemented moderate dividend policy.

Sherpa (2008) has the main objective to identify the dividend policy in SCBNL and NIBL. The other specific objectives of the research are; to examine the relationship between earning and dividend distribution, to evaluate the impact of dividend on share price, to examine the relationship of DPS with other financial indicators.

The major findings of the study are; The shareholders of SCBNL received comparatively very high DPS than the shareholders of NIBL. On average, SCBNL paid Rs. 110 DPS, whereas NIBL paid Rs. 14.50 DPS. SCBNL remained more successful than NIBL in generating earning per share. On average, SCBNL earned Rs. 155.84 per share, while NIBL earned only Rs.

50.54. The DPR of SCBNL is also very high compared to that of NIBL. The average DPR of SCBNL is 70.59% and that of NIBL is 28.69%. DPS has high influence on the price rise/fall of share. Both MPS and BPS are highly dependent on the DPS of corresponding banks. The prime objective to invest in bank is to earn dividend. About 78% of the respondents stated that dividend is the most alluring factor in share investment. There exists high correlation between DPS and EPS, DPS and MPS and DPS and BPS of both banks.

Bohara (2010) has the main objective to find out the dividend policy in CBs. The other specific objectives of this study are: to find out the impact of dividend on share prices. to analyze the relationship of financials indicators, to examine if there is any uniformity among DPS, EPS and DPR on the six sample banks.

The major findings of this study are: Average EPS and DPS for the period covered by the study of all concerned banks are satisfactory. Analysis of coefficient of variance indicates that there is large fluctuation in EPS and DPS and other are relatively more consistent. The analysis of DPR shows that none of the sample banks have consistent dividend policy. The market value of shares in market in fluctuating in all sample banks. The most important decision is that no specific dividend payment strategy is followed by these banks. Payment of cash dividend and stock dividend are made without wise managerial decision due to unstable and adequate dividend and unequal payout ratio.

Majhi (2011) has the main objective to examine the dividend policy followed by finance companies. The other specific objectives of the research are; to compare the dividend paid by Annapurna Finance Company Ltd. and Butwal Finance Ltd, to examine the relationship between DPS with EPS, MPS and BPS, to predict DPS in future years.

The major findings of the study are; the shareholders of AFCL enjoyed higher DPS than those of BFL. AFCL made more EPS than BFL. However, DPR of

BFL is higher than DPR of AFCL, which indicates that BFL has concentrated on attracting new shareholders by distributing more portion of its earning while AFCL focused on retaining earning for internal financing. There is high positive relationship between DPS and EPS of AFCL and the relationship is statistically significant. However, the relationship between DPS and EPS of BFL is positive but the relationship is insignificant. The correlations coefficient indicates that MPS increases with the increase in DPS of each bank and the relationship is positively significant. The regression analysis indicates that the MPS of both banks is highly dependent on the DPS and EPS of corresponding banks.

2.4 Research Gap

All of the above research focused on the secondary data analysis to examine the dividend distribution pattern in listed companies. However, for the examination of dividend policy, the analysis of primary data is also equally important. Keeping this fact into consideration, the present study embraces both the secondary data and primary data to analyze the dividend practices and its impact on market price. Further, the study uses multiple regression analysis to trace out the joint effect of EPS and DPS on MPS.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

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

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

3.2 Population and Sample

At present, there are 32 commercial banks operating in Nepal. However, only 25 commercial banks are listed in NEPSE. Due to limited time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, sampling has been done selecting from population. The samples to be selected are as follows:

a. Nabil Bank Limited (NABIL)
b. Standard Chartered Bank Nepal Limited (SCBNL)
c. Everest Bank Limited (EBL)
d. Bank of Kathmandu Limited (BOK)
e. Himalayan Bank Limited (HBL)

3.3 Sources of Data

Primary Source: Questionar was designed to create primary data. The questioner was administered to male and female investor and employers**.**

Secondary Source

The secondary data are collected mainly from the annual reports of NABIL, SCBNL, EBL, BOK and HBL, especially financial indicators presented by the

banks. Besides these, the circulars and annual reports of NRB, annual reports of SEBON and NEPSE, the official website of the sampled banks has been equally visited for the data collection.

3.4 Period of the study

The study is based on five years financial data of sample banks (i.e., NABIL, SCBNL, EBL, BOK and HBL) from fiscal year 2006/07 to 2010/11.

3.5 Data Analysis

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

3.5.1 Financial Tools

a) Earning Per Share (EPS)

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholders. EPS is computed to know the earnings capacity and to make comparison between concerned banks. This ratio can be computed by dividing the earning available to common shareholders by the total number of common stock outstanding of banks. Thus,

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

b) Dividend Per Share (DPS)

Dividend per share indicates the rupee earnings actually distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholders. It is defined as the result received by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus,

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

c) Dividend Payout Ratio (DPR)

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

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

d) Dividend Yield (DY)

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. It measures the dividend in relation to market value of share. This ratio is calculated by dividing dividend per share by market price of the stock. Thus,

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

3.5.2 Statistical Tools

a) Arithmetic Mean or Average (}X)

An average is a single value that represents a group of values. It depicts the characteristic of the whole group. It is a representative of the entire mass of homogeneous data, its value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is obtained by dividing the sum of the quantities by the number of items. Thus,

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

Where,

X = sum of the sizes of the items

N= number of items

b) Standard Deviation (S.D.)

It is the most usual measure of dispersion and it represents the square root of the variance of a group of numbers, i.e., the square root of the sum of the squared differences between a group of numbers and their arithmetic mean. Generally, it is denoted by small Greek letter ∃ (read as sigma) and is obtained as follows.

$$S.D.(\sigma) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{N}}$$

Where,

N = Number of items in the series.

∈X = mean

X = Variable

The standard deviation measures the absolute dispersion or variability of a distribution; the greater the amount of dispersion or variability the greater the standard derivation, for the greater will be the magnitude of the deviations of the values from their mean.

c) Coefficient of Variation (C.V.)

Karl Pearson developed this measurement to measure the relative dispersion. It is used in such problems where we want to compare the variability of two or more series. It is denoted by C.V. and is obtained by dividing the arithmetic mean to standard deviation. Thus,

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

d) Coefficient of Correlation

The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables. It helps us in determining the degree of relationship between to or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two things (variables) are related to what extent variations in one go with the variations in the other.

The value of coefficient of correlation as obtained shall always lie between ±1, a value of –1 indicating a perfect negative relationship between the variables, of +1 a perfect positive relationship, and of no relationship when correlation coefficient is zero. The zero correlation coefficient means the variables are uncorrected. It is defined by Karl Pearson as:

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

e) Regression Analysis

Regression is a statistical method for investing relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of relationship between two (Simple Regression) or more (Multiple regression) variables.

f) Probable Error

The probable error denoted by P.E. is used to measure the reliability and test of significance of correlation coefficient. Significance of relationship has been tested by using the probable error (P.E.) and it is denoted by the following model:

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

Where, r = the value of correlation coefficient

n = number of pairs of observations

if r < P.E., it is insignificant, i.e. there is no evidence of correlation

if r > 6 P.E., it is significant

if P.E. < r < 6 P.E., nothing can be concluded

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Analysis

Under this part of the study, the dividend distribution pattern of the selected commercial banks, and the impact of dividend on the major financial indicators have been analyzed with the aid of statistical tools.

4.1.1 Earning Per Share

Earning per share shows the company's capability of generating profit per share. Higher EPS indicates better performance of the companies and company with net loss will result negative EPS.

Table 4.1

Earning Per Share

FY	SCBNL	NABIL	EBL	BOK	HBL
2007/08	131.92	115.86	91.82	59.94	62.74
2008/09	109.99	113.44	99.99	54.68	61.90
2009/10	77.65	83.81	100.16	43.08	31.80
2010/11	69.51	70.67	83.18	44.51	44.66
2011/12	72.60	83.57	88.55	37.88	39.94
Mean	**92.33**	**93.47**	**92.74**	**48.02**	**48.21**
S.D.	**24.51**	**17.95**	**6.59**	**8.07**	**12.24**
C.V.%	**26.55**	**19.21**	**7.11**	**16.82**	**25.39**

(Source: Appendix II)

The table 4.1 shows the trend of EPS of the selected sample banks. The EPS of SCBNL has fluctuated during the five year periods. The EPS has ranged from Rs. 69.51 in the fiscal year 2010/11 to Rs. 131.92 in the fiscal year 2007/08. In

average, SCBNL has earned Rs. 92.33 per share. Also, the C.V. of 26.55% on the EPS indicates quite inconsistency in the EPS.

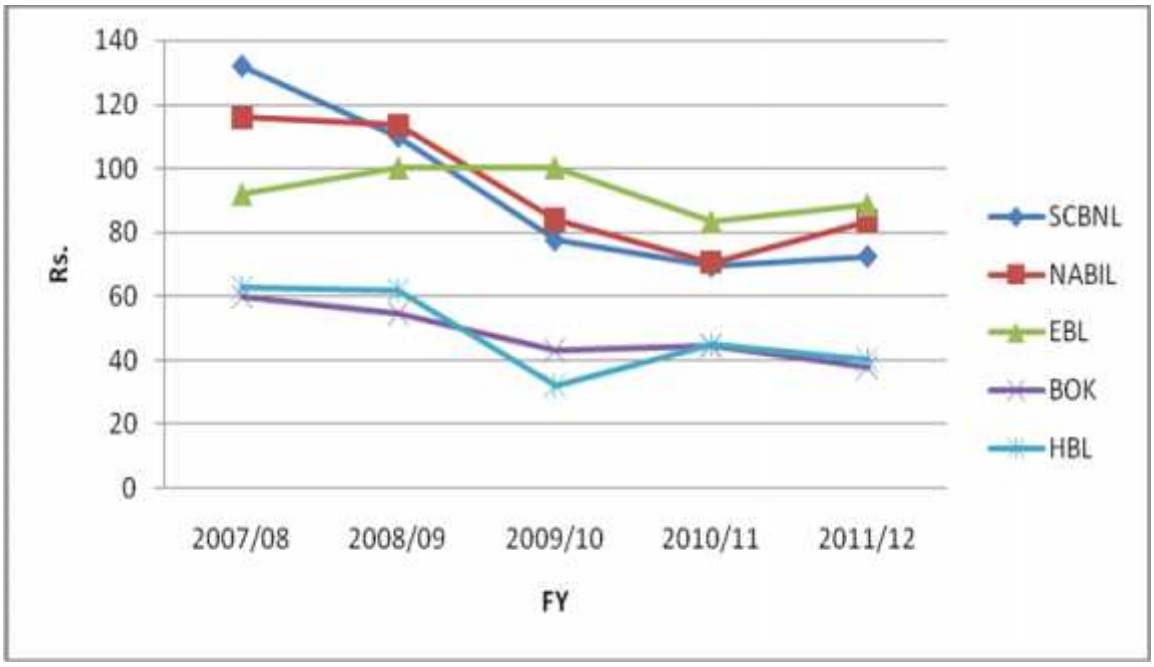
Likewise, the EPS of NABIL has decreased for the first four years, i.e. from Rs. 115.86 in the fiscal year 2007/08 to Rs. 70.67 in the fiscal year 2010/11, then the EPS of NABIL has increased to Rs. 83.57 in the fiscal year 2011/12. However, in average NABIL has earned Rs. 93.47 per share and the C.V. on such EPS was 19.21%. In contrast, the EPS of EBL has followed increasing trend for the first three fiscal years, and then fluctuated in the remaining periods. The EPS of EBL ranged from Rs. 83.18 in the fiscal year 2010/11 to Rs. 100.16 in the fiscal year 2009/10. In average, the EPS is Rs. 92.74 and the coefficient of variation was 7.11%, indicating quite consistency.

On the other part, the EPS of BOK has continuously decreased during the periods. The EPS is Rs. 59.94 at the beginning of the observed periods, and by the end of the examined periods, the EPS has recorded to be Rs. 37.88. In average, BOK has earned Rs. 48.02 per share and the coefficient of variation on such EPS is 16.82%. Moreover, the EPS of HBL has decreased in the first three fiscal years, and then fluctuated in the remaining periods. The EPS of HBL has been highest, Rs. 62.74, in the fiscal year 2007/08 and has been lowest, Rs. 31.80, in the fiscal year 2009/10. In average, HBL has earned Rs. 48.21 per share and the coefficient of variation on such EPS was 25.39%, which indicates quite inconsistency on EPS.

Comparing five banks on the basis of EPS, it can be concluded that NABIL is the highest profit earning bank than others. However, BOK needs to earn much to compete with the other observed banks in terms of EPS. The decrease in the EPS of most of the banks could have been resulted due to the global recession, increased competition, uncontrolled expenses and others.

Figure 4.1

Earning Per Share



4.1.2 Dividend Per Share

Dividend per share is the amount of dividend distributed to the shareholders for the single unit of share. Higher the amount of DPS retains the shareholder for long term. Both cash dividend and bonus share dividend distributed to the shareholders of the sampled banks is presented in the Table 4.2.

Table 4.2

Dividend Per Share

Banks	Fiscal Year					Mean	S.D.	C.V.
	2007/08	2008/09	2009/10	2010/11	2011/12			
SCBNL								
CD	80	50	55	50	45	**56.00**	**12.41**	**22.16**
BSD	50	50	15	0	15	**26.00**	**20.35**	**78.26**
TD	**130**	**100**	**70**	**50**	**60**	**82.00**	**29.26**	**35.68**
NABIL								
CD	60	35	**30**	**30**	40	**39.00**	**11.14**	**28.55**
BSD	40	50	**40**	**0**	20	**30.00**	**17.89**	**59.63**
TD	**100**	**85**	**70**	**30**	**60**	**69.00**	**23.75**	**34.42**
EBL								
CD	20	30	**30**	**10**	1.58	**18.32**	**11.18**	**61.05**
BSD	10	0	0	40	29.42	**15.88**	**16.15**	**101.67**
TD	**30**	**30**	**30**	**50**	**30**	**34.00**	**8.00**	**23.53**
BOK								
CD	2.11	7.37	15	16.75	21.32	**12.51**	**6.88**	**54.96**
BSD	40	40	15	18	5	**23.60**	**14.07**	**59.60**
TD	**42.11**	**47.37**	**30**	**34.75**	**26.32**	**36.11**	**7.72**	**21.37**
HBL								
CD	25	12	11.84	16.84	13.42	**15.82**	**4.93**	**31.16**
BSD	20	31.56	25	20	15	**22.31**	**5.60**	**25.11**
TD	**45**	**43.56**	**36.84**	**36.84**	**28.42**	**38.13**	**5.90**	**15.48**

(Source: Appendix II)

The table 4.2 has depicted the dividend pattern of the sampled banks. The table shows that SCBNL distributed Rs. 80, Rs. 50, Rs. 55, Rs. 50 and Rs. 45 as cash dividend in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Also, the bank has distributed bonus share equivalent to Rs. 50, Rs. 50, Rs. 15 and Rs. 50 in the fiscal year 2007/08, 2008/09, 2009/10 and 2011/12 respectively. In average, SCBNL has disbursed Rs. 82 per share as

dividend; Rs. 56 as cash dividend and Rs. 26 as bonus share. The coefficient of variation of 35.68% indicates inconsistency in the dividend policy.

Similarly, the cash dividend paid by NABIL is Rs. 60, Rs. 35, Rs. 30, Rs. 30 and Rs. 40 in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. NABIL disbursed bonus share dividend equivalent to Rs. 40 in each fiscal year 2007/08 and 2009/10, Rs. 50 in the fiscal year 2008/09, and Rs. 20 in the fiscal year 2011/12. In average, NABIL has paid Rs. 69 per share as dividend, viz, Rs. 39 per share as cash dividend and Rs. 30 per share as bonus share dividend. Also, the coefficient of variation on dividend payment is 34.42%, indicating inconsistency.

Likewise, EBL has paid Rs. 20, Rs. 30, Rs. 30, Rs. 10 and Rs. 1.58 as cash dividend in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Also the bonus share dividend equivalent to Rs. 10 is paid in the fiscal year 2007/08, Rs. 40 is disbursed in the fiscal year 2010/11 and Rs. 29.42 is paid in the fiscal year 2011/12. In average, EBL has paid Rs. 34 as dividend, viz, Rs. 18.32 per share as cash dividend and Rs. 15.88 per share as bonus share dividend. The coefficient of variation of 23.53% indicates irregularity in the payment of dividend.

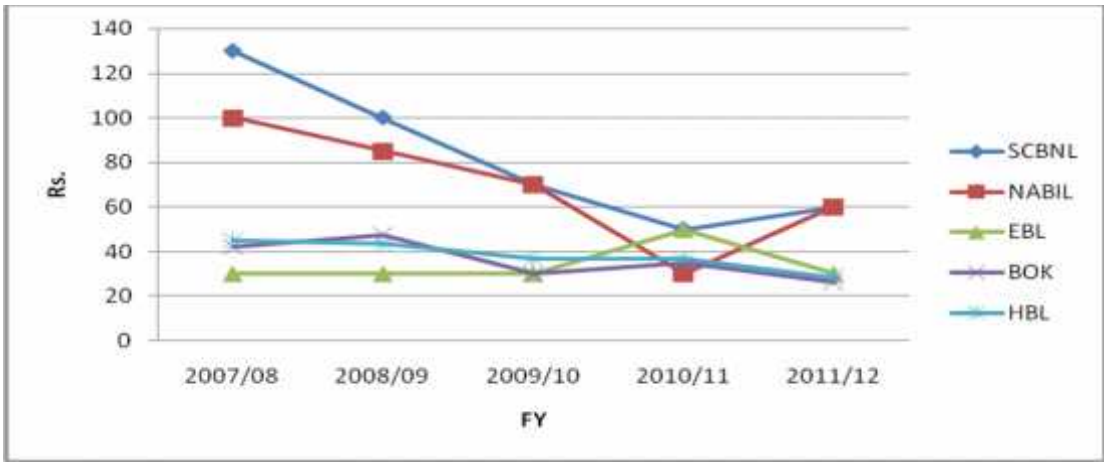
In contrast, BOK has paid Rs. 2.11, Rs. 7.37, Rs. 15, Rs. 16.75 and Rs. 21.32 as cash dividend in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Also the bank disburses bonus share equivalent to Rs. 40 in each fiscal year 2007/08 and 2008/09, Rs. 15 in the fiscal year 2009/10, Rs. 18 in the fiscal year 2010/11, and Rs. 5 in the fiscal year 2011/12. In average, BOK has paid Rs. 36.11 as total dividend, viz, Rs. 12.51 as cash dividend and Rs. 23.60 as bonus share dividend. It seems that the bank focused more on distributing bonus share rather than cash as dividend to retain the cash within the bank. However, the coefficient of variation of 21.37% signals that the bank lacks good dividend policy.

In addition, HBL has paid Rs. 25, Rs. 12, Rs. 11.84, Rs. 16.84 and Rs. 13.42 as cash dividend in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The bank also distributes bonus share dividend equivalent to Rs. 20, Rs. 31.56, Rs. 25, Rs. 20 and Rs. 15 in that order in the five observed periods. The higher the average bonus share dividend (Rs. 22.31) than average cash dividend (Rs. 15.82) implies that HBL has focused more on bonus share than cash while making decision on the form of dividend. In average, HBL has paid Rs. 38.13 as dividend for the five year periods and the coefficient of variation on such dividend is 15.48%.

On the basis of DPS, it can be concluded that SCBNL remains more success to retain its existing shareholders and to allure the potential shareholders toward it by distributing higher amount of dividend per share than other banks. However, there is high inconsistency in dividend policy of SCBNL as the coefficient of variation on DPS of SCBNL is highest compared to that of other banks. Eventually, it can be inferred that these banks have focused on retention policy in recent years as a result the dividend distribution has decreased. Only EBL has much stable dividend payment, as the bank paid same amount in most of the observed periods.

Figure 4.2

Dividend Per Share



4.1.3 Market Price Per Share

Market price per share is the value per share of the organization in the market. The MPS measures the eagerness of the investors to participate in the concerned organization as a shareholder. Highest MPS indicates highest demand of share and vice-versa. The MPS of the five sampled banks is presented in the Table 4.3.

Table 4.3

Market Price Per Share

FY	SCBNL	NABIL	EBL	BOK	HBL
2007/08	6830	5275	3132	2350	1980
2008/09	6010	4899	2455	1825	1760
2009/10	3279	2384	1630	840	816
2010/11	1800	1252	1094	570	575
2011/12	1799	1355	1033	628	653
Mean	**3944**	**3033**	**1869**	**1243**	**1157**
S.D.	**2109**	**1727**	**812**	**715**	**592**
C.V.%	**53.48**	**56.95**	**43.44**	**57.56**	**51.14**

(Source: Appendix II)

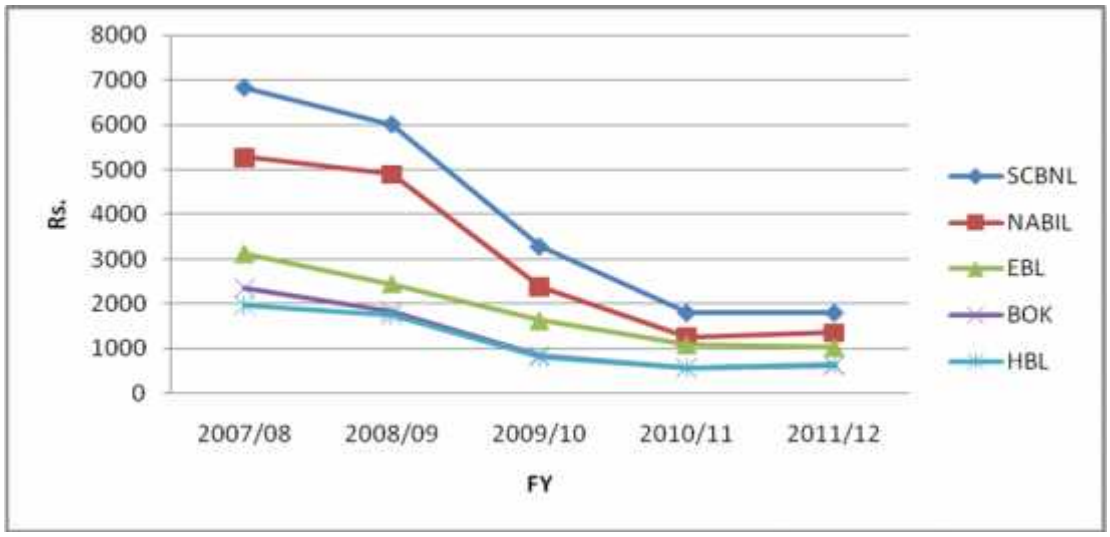
The Table 4.3 shows the market price per share of the sampled banks. The table has shown that the MPS of each banks is in decreasing trend in most of the observed fiscal years. The MPS of SCBNL has continuously decreased from Rs. 6830 in the fiscal year 2007/08 to Rs. 1799 in the fiscal year 2011/12. Similarly, the MPS of NABIL has decreased from Rs. 5275 in the fiscal year 2007/08 to Rs. 1252 in the fiscal year 20110/11 and it increases to Rs. 1355 in the fiscal year 2011/12. Further, the MPS of EBL has decreased from Rs. 3132 in the fiscal year 2007/08 to Rs. 1033 in the fiscal year 2011/12. Likewise, the MPS of BOK has declined from Rs. 2350 in the fiscal year 2007/08 to Rs. 570 in the fiscal year 2010/11, and finally increased to Rs. 627 in the fiscal year 2011/12. Also, the MPS of HBL has declined from Rs. 1980 in the fiscal year

2007/08 to Rs. 575 in the fiscal year 2010/11, and then has increased to Rs. 653 in the fiscal year 2011/12.

On the basis of average MPS of SCBNL (Rs. 3944), NABIL (Rs. 3033), EBL (Rs. 1869), BOK (Rs. 1243) and HBL (Rs. 1157), it can be concluded that the share of SCBNL has highest demand in the secondary market than that of other banks. This might be due to higher earning capacity and highest generosity in paying dividend by the SCBNL. Further, ranking the bank on the basis of highest MPS on average, SCBNL comes into rank 1, NABIL comes into rank 2, EBL comes into rank 3, BOK comes into rank 4 and HBL comes into rank 5. Finally, it can be said that the investors might have been diverted toward other investment, like real estate, in the recent periods and shown less interest in stock transactions, as a result the MPS of observed banks has started to decrease from the fiscal year 2007/08.

Figure 4.3

Market Price per Share



4.1.4 Dividend Payout Ratio

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

The dividend payout ratio of the sampled banks is presented in the following Table 4.4.

Table 4.4

DPR Analysis

FY	SCBNL	NABIL	EBL	BOK	HBL
2007/08	98.54	86.31	32.67	70.25	71.72
2008/09	90.92	74.93	30.00	86.63	70.37
2009/10	90.15	83.52	29.95	69.64	115.85
2010/11	71.93	42.45	60.11	78.07	82.49
2011/12	82.64	71.80	33.88	69.48	71.16
Mean	**86.84**	**71.80**	**37.32**	**74.81**	**82.32**
S.D.(±)	**8.99**	**15.61**	**11.50**	**6.73**	**17.34**
C.V.%	**10.36**	**21.75**	**30.80**	**8.99**	**21.07**

(Source: Appendix II)

The Table 4.4 shows the dividend payout ratio of the sampled banks, SCBNL, NABIL, EBL, BOK and HBL. The table showed that the dividend payout ratio of SCBNL in the five consecutive years is 98.54%, 90.92%, 90.15%, 71.93% and 82.64% respectively. Similarly, the dividend payout ratio of NABIL has ranged from 42.45% in the fiscal year 2010/11 to 86.31% in the fiscal year 2007/08. Also, the dividend payout ratio of EBL has ranged from 29.95% in the fiscal year 2009/10 to 60.01% in the fiscal year 2008/09. Likewise, the dividend payout ratio of BOK is highest in the fiscal year 2008/09, i.e. 86.63%, and lowest in the fiscal year 2011/12, i.e. 69.48%. Finally, the dividend payout ratio of HBL has ranged from 70.37% in the fiscal year 2008/09 to 115.85% in the fiscal year 2009/10.

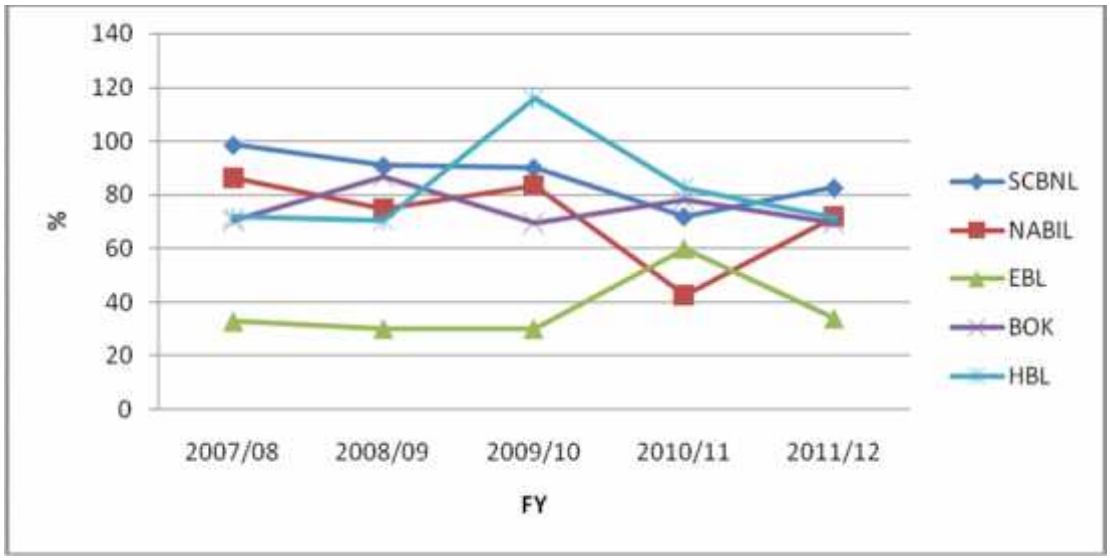
In average, SCBNL, NABIL, EBL, BOK and HBL has distributed 86.84%, 71.80%, 37.32%, 74.81% and 82.32% respectively of the total earnings as dividend to the shareholders of the corresponding banks. Besides these, the

coefficient of variations on dividend payout ratio of SCBNL is 10.36%, NABIL is 21.75%, EBL is 30.80%, BOK is 8.99% and HBL is 21.07%.

Although HBL has distributed 115.85% of earnings as dividend, the dividend payout ratio of SCBNL is considered best since the average dividend payout ratio of SCBNL is highest compared to that of other banks. Hence, it can be considered that the shareholders of SCBNL are more satisfied than those of other banks, as SCBNL's shareholders has received more percentage of EPS in the form of dividend. Also, on the basis of highest dividend payout ratio, it can be considered that SCBNL is most matured bank than others. In addition, the lowest C.V. of 8.99% of BOK indicates best uniformity on dividend payout ratio.

Figure 4.4

Dividend Payout Ratio



4.1.5 Price Earning Ratio

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

Table 4.5

Price Earning Ratio

FY	SCBNL	NABIL	EBL	BOK	HBL
2007/08	51.77	45.53	34.11	39.21	31.56
2008/09	54.64	43.19	24.55	33.37	28.43
2009/10	42.23	28.45	16.27	19.50	25.66
2010/11	25.90	17.72	13.15	12.81	12.88
2011/12	24.78	16.21	11.67	16.58	16.35
Mean	**39.86**	**30.22**	**19.95**	**24.29**	**22.98**
S.D.(±)	**12.56**	**12.31**	**8.37**	**10.19**	**7.16**
C.V.%	**31.50**	**40.75**	**41.94**	**41.95**	**31.17**

(Source: Appendix II)

The table 4.5 depicts the P/E Ratio of sampled banks. The P/E ratio of SCBNL has ranged from 24.78 times in the fiscal year 2011/12 to 54.64 times in the fiscal year 2008/09. The P/E ratio of SCBNL has followed an decreasing trend in most of the periods. However, SCBNL has maintained an average 39.86 times P/E ratio in the five year period, which indicates that the investors has paid Rs. 39.86 for 1 rupee of earning in average. The standard deviation and coefficient of variation of the same bank in P/E ratio are 12.56 times and 31.50% respectively.

Similarly, the P/E ratio of NABIL has followed decreasing trend in the five consecutive years. The P/E ratio of NABIL has decreased from 45.53 times in the fiscal year 2007/08 to 16.21 times in the fiscal year 2011/12. The average P/E ratio of 30.22 times indicates that the shareholder of NABIL has to invest Rs. 30.22 on market to generate Re. 1 as earnings. However, the coefficient of variation of 40.75% depicts higher fluctuation in the P/E ratio.

Likewise, the P/E ratio of EBL has followed decreasing in the observed years. The table shows that the P/E ratio of EBL ranges from 11.67 times in the fiscal year 2011/12 to 34.11 times in the fiscal year 2007/08. In average, the P/E ratio

of EBL is 19.95 times which tacitly states that the shareholders has invested Rs. 19.95 to gain Re. 1 as earning.

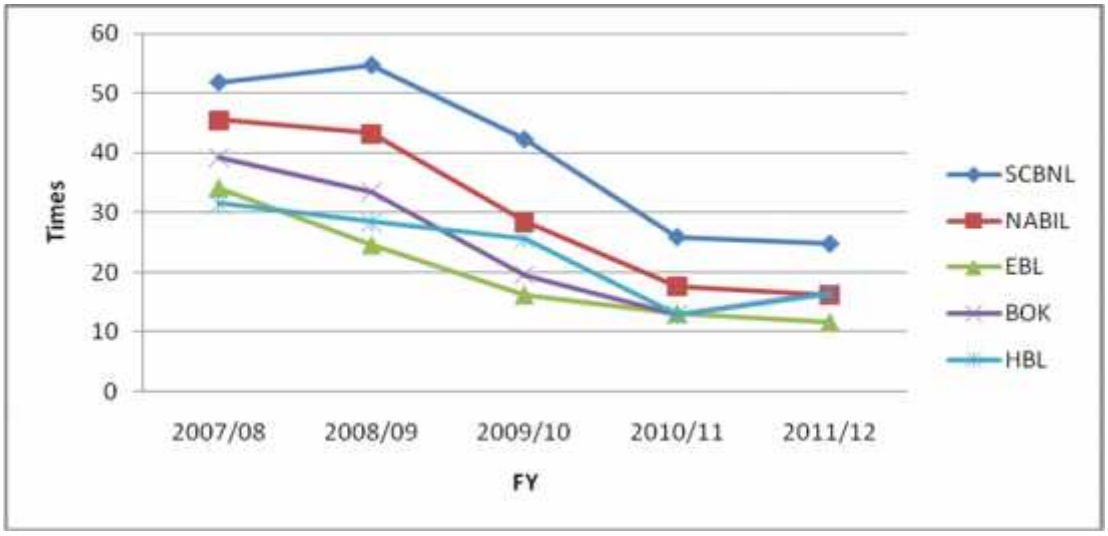
Further, the P/E ratio of BOK is also found to be decreasing in most of the periods, which ranges from 12.81 times in the fiscal year 2010/11 to 39.21 times in the fiscal year 2007/08. The average P/E ratio of BOK in the five years period is 24.29 times, which implies that the shareholders of BOK has invested Rs. 24.29 in market to achieve Re. 1 as income. Also, the coefficient of variation on the P/E ratio is 41.95%, which indicates higher inconsistency.

Moreover, the P/E ratio of HBL has decreased in the first four fiscal years and increased in the last year. The P/E ratio of HBL has decreased to 31.56 times in the fiscal year 2007/08 from 12.88 times in the fiscal year 2010/11, then it has increased to 16.35 times in the fiscal year 2011/12. In average, the shareholders of HBL has spent Rs. 22.98 to earn Re. 1, as the average P/E ratio of HBL is 22.98 times. Eventually, the coefficient of variation on P/E ratio of HBL is 31.17%, indicating higher inconsistency.

Comparing the P/E ratio of the sampled banks, it can be considered that the investors of EBL has paid least amount and those of SCBNL has paid highest amount to gain 1 rupee of earning.

Figure 4.5

Price Earning Ratio



4.1.6 Earning Yield Ratio

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

Table 4.6

EY Analysis

FY	SCBNL	NABIL	EBL	BOK	HBL
2007/08	1.93	2.20	2.93	2.55	3.17
2008/09	1.83	2.32	4.07	3.00	3.52
2009/10	2.37	3.52	6.14	5.13	3.90
2010/11	3.86	5.64	7.60	7.81	7.77
2011/12	4.04	6.17	8.57	6.03	6.12
Mean	**2.81**	**3.97**	**5.86**	**4.90**	**4.90**
S.D.	**0.95**	**1.65**	**2.11**	**1.95**	**1.77**
C.V.%	**33.97**	**41.67**	**35.98**	**39.68**	**36.10**

(Source: Appendix II)

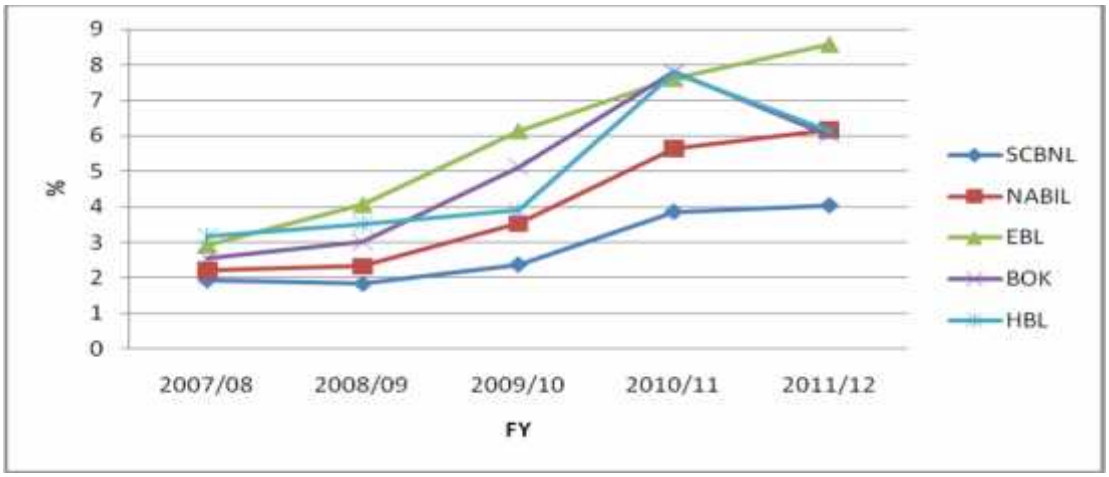
The Table 4.6 shows the earning yield ratio of the five sampled banks. The earning yield of SCBNL has increased in most of the periods, except in the fiscal year 2008/09. The earning yield of SCBNL has ranged from 1.83% in the fiscal year 2008/09 to 4.04 in the fiscal year 2011/12. Similarly, the earning yield of NABIL ranges from 2.20% in the fiscal year 2007/08 to 6.17% in the fiscal year 2011/12, EBL increases from 2.93% in the fiscal year 2007/08 to 8.57% in the fiscal year 2011/12 and BOK ranges from 2.55% in the fiscal year 2007/08 to 7.81% in the fiscal year 2011/12. In addition, the earning yield of HBL has ranged from 3.17% in the fiscal year 2007/08 to 7.77% in the fiscal year 2010/11. In the final year 2011/12, it seems that the earning yield of HBL has decreased compared to that of the previous year. In average, SCBNL,

NABIL, EBL, BOK and HBL has converted 2.81%, 3.97%, 5.86%, 4.90% and 4.90% of the total market price of the corresponding bank into earning per share respectively. The coefficient of variations on earning yield of SCBNL, NABIL, EBL, BOK and HBL are 33.97%, 41.67%, 35.98%, 39.68% and 36.10% respectively.

Comparing four banks on the basis of earning yield, it can be concluded that EBL has remained more successful to efficiently convert its market price per share into earning per share. This might be due to lower growth of MPS of EBL on the comparison of MPS of other banks.

Figure 4.6

Earning Yield



4.1.7 Dividend Yield Ratio

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. The dividend yield ratio of EBL and BOK during the five year period is presented in the following Table 4.7.

Table 4.7

DY Analysis

FY	SCBNL	NABIL	EBL	BOK	HBL
2007/08	1.90	1.90	0.96	1.79	2.27
2008/09	1.66	1.74	1.22	2.60	2.48
2009/10	2.13	2.94	1.84	3.57	4.51
2010/11	2.78	2.40	4.57	6.10	6.41
2011/12	3.34	4.43	2.90	4.19	4.35
Mean	**2.36**	**2.68**	**2.30**	**3.65**	**4.00**
S.D.	**0.62**	**0.97**	**1.32**	**1.47**	**1.52**
C.V.%	**26.04**	**36.15**	**57.36**	**40.38**	**37.87**

(Source: Appendix II)

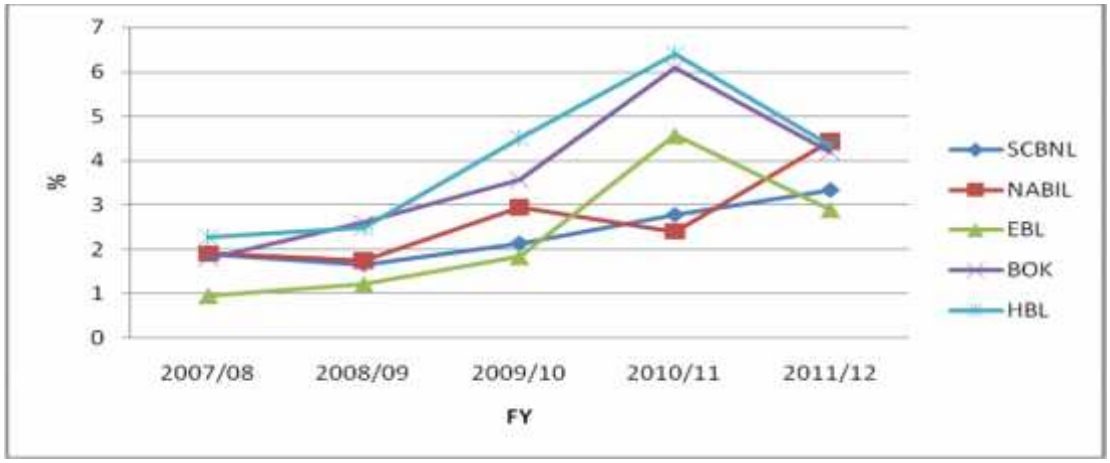
The Table 4.7 depicts that the dividend yield ratio each bank is in fluctuating trend. The dividend yield of SCBNL has ranged from 1.66% in the fiscal year 2008/09 to 3.34% in the fiscal year 2011/12. Similarly, the dividend yield ratio of NABIL has ranged from 1.74% in the fiscal year 2008/09 from 4.43% in the fiscal year 2010/11 and the dividend yield of EBL has ranged from 0.96% in the fiscal year 2007/08 to 4.57% in the fiscal year 2010/11. In addition, the dividend yield of BOK has varied from 1.79% in the fiscal year 2007/08 to 6.10% in the fiscal year 2011/12. Also, the dividend yield of HBL has ranged from 2.27% in the fiscal year 2007/08 to 6.41% in the fiscal year 2010/11. In average, the dividend yield ratio of SCBNL, NABIL, EBL, BOK and HBL is 2.36%, 2.68%, 2.30%, 3.65% and 4.00% respectively and the coefficient of variation on such dividend yield of the respective banks is 26.04%, 36.15%, 57.36%, 40.38% and 37.87% respectively.

Comparing five banks on the basis of dividend yield, it can be concluded that HBL is more aggressive in paying dividend by considering the market price per share as the dividend yield of HBL is highest compared to that of other banks.

Hence, the shareholders of HBL are more satisfied than those of others as the shareholders of HBL have received more percentage of amounts as returns that they have invested in the market while purchasing share.

Figure 4.7

Dividend Yield



4.1.8 Correlation and Regression Analysis

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

4.1.8.1 Dividend per Share and Earning Per Share

4.1.8.1.1 Correlation between DPS and EPS

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

Table 4.8

Correlation Coefficient between DPS and EPS

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
SCBNL	0.9923	+ve	0.9847	0.0046	0.0276	Significant
NABIL	0.9299	+ve	0.8648	0.0408	0.2448	Significant
EBL	-0.7249	-ve	0.5255	0.1431	0.8589	Insignificant
BOK	0.9010	+ve	0.8118	0.0568	0.3406	Significant
HBL	0.7756	+ve	0.6016	0.1202	0.7211	Significant

(Source: Appendix III)

The Table 4.8 depicts the relationship between Earning Per Share (EPS) and Dividend Per Share (DPS) of the sample banks. The correlation coefficient (r) between EPS and DPS of SCBNL is 0.9923, which indicates positive relationship between EPS and DPS, meaning DPS increases with the increase in EPS. Further, the higher value of r (0.9923) than the calculated 6 P.E. (0.0276) indicates that there exist significant relationship between DPS and EPS of SCBNL. Similarly, the correlation coefficient between DPS and EPS of NABIL is positive, i.e. 0.9299, which is also higher than the 6 P.E. (0.2448), indicating significant relationship. Also, the coefficient of determination, 0.8648, indicates that 86.48% in the DPS of NABIL is explained by the change in EPS.

However, DPS of EBL has negative relationship with EPS as the correlation coefficient between EPS and DPS is -0.7249. Moreover, the relationship is statistically insignificant as the correlation coefficient 'r' (-0.7249) is lower than the calculated 6 P.E. (0.8589). Further, the coefficient of determination 'r^2' (0.5255) indicates that 52.55% variation in DPS is explained by the change in EPS. In contrast, the DPS of BOK has direct relationship with the EPS of same bank. As the correlation coefficient 'r' (0.9010) is higher than the calculated 6 P.E. (0.8118), it can be concluded that the relationship between EPS and DPS is statistically significant and hence DPS increases with the increase in EPS. Eventually, the correlation coefficient of 0.7756 demonstrated that the relationship between EPS and DPS of HBL is positive and the coefficient of determination 'r^2' (0.6016) indicates that 60.16% variation in DPS is explained by the variation in EPS. As the correlation coefficient 'r' (0.7756) is greater than the calculated 6 P.E. (0.7211), it can be considered that there exists significant relationship between EPS and DPS and hence the DPS of HBL increases with the increase in EPS.

Comparing five sampled banks, it can be concluded that the DPS is highly influenced by EPS in SCBNL in the comparison of other banks, as the correlation coefficient 'r' (0.9923) of SCBNL is greatest than that of other banks.

4.1.8.1.2 Regression Analysis: DPS on EPS

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

$DPS_{SCBNL} = -27.35 + 1.18 \times EPS_{SCBNL}$

$DPS_{NABIL} = -45.99 + 1.23 \times EPS_{NABIL}$

$DPS_{EBL} = 115.56 - 0.88 \times EPS_{EBL}$

$DPS_{BOK} = -5.24 + 0.86 \times EPS_{BOK}$

$DPS_{HBL} = 20.09 + 0.37 \times EPS_{HBL}$

Table 4.9

Regression Analysis of DPS on EPS

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)
SCBNL	5	-27.35	1.18
NABIL	5	-45.99	1.23
EBL	5	115.56	-0.88
BOK	5	-5.24	0.86
HBL	5	20.09	0.37

(Source: Appendix III)

The Table 4.9 depicts the output of simple regression analysis of DPS on EPS of the five banks viz. SCBNL, NABIL, EBL, BOK and HBL. In case of SCBNL, beta coefficient is 1.18, which indicates that one rupee increase in EPS leads to an average Re. 1.18 increase in dependent variable DPS, holding the constant (a), -27.35, uniform. Similarly, the beta coefficient of 1.23, 0.86 and 0.37 of NABIL, BOK and HBL respectively indicates that one rupee increase in EPS leads to Rs. 1.23, Rs. 0.86 and Rs. 0.37 increase in dependent variable DPS of NABIL, BOK and HBL respectively, holding the other

variable constant. However, the DPS of EBL decreases by Rs. 0.88 with per rupee increment in its EPS.

Comparing five banks, it can be concluded that NABIL shows most generosity while distributing dividend in case of increase in EPS by the same amount in all banks. In other word, the shareholders of NABIL have received more dividend amount than other bank's shareholders with the increase in EPS by same amount.

4. 1.8.2 Market Price per Share and Dividend per Share

4.1.8.2.1 Correlation between MPS and DPS

The correlation between MPS and DPS and the probable error calculated in Appendix III is summarized in the below Table 4.10.

Table 4.10

Correlation Coefficient between DPS and MPS

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
SCBNL	0.9708	+ve	0.9494	0.0174	0.1042	Significant
NABIL	0.8936	+ve	0.7984	0.0608	0.3648	Significant
EBL	-0.4772	-ve	0.2277	0.2330	1.3977	Insignificant
BOK	0.8186	+ve	0.6702	0.0995	0.5970	Significant
HBL	0.8596	+ve	0.7389	0.0787	0.4725	Significant

(Source: Appendix III)

The Table 4.10 reveals the relationship between dividend per share (DPS) and market price of stock (MPS). Coefficient of correlation of SCBNL, NABIL, EBL, BOK and HBL is 0.9708, 0.8936, -0.4772, 0.8186 and 0.8596 respectively. The coefficient of correlation between DPS and MPS of SCBNL, NABIL, BOK and HBL indicates that there exists statistically significant relationship, as the correlation coefficient of SCBNL, NABIL, BOK and HBL is higher than the calculated 6 P.E. of corresponding bank. Thus, the MPS of the aforementioned banks depends upon the DPS. However, there is insignificant relationship between MPS and DPS of EBL, since the value of 'r' (-0.4772) is lower than 6 P.E. (1.3977), there is insignificant relationship

between MPS and DPS, which means MPS does not increase with the increase on DPS.

Comparing five sampled banks, it can be concluded that DPS has highest impact on the MPS of SCBNL, since the correlation coefficient between DPS and EPS is greatest in SCBNL compared to that of other banks.

4.1.8.2.2 Regression Analysis: MPS on DPS

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

$MPS_{SCBNL} = -1794.34 + 69.98 \times DPS_{SCBNL}$

$MPS_{NABIL} = -1451.27 + 64.99 \times DPS_{NABIL}$

$MPS_{EBL} = 3515.25 - 48.43 \times DPS_{EBL}$

$MPS_{BOK} = -1496.91 + 75.87 \times DPS_{BOK}$

$MPS_{HBL} = -2127.70 + 86.13 \times DPS_{HBL}$

Table 4.11

Regression Analysis of MPS on DPS

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)
SCBNL	5	-1794.34	69.98
NABIL	5	-1451.27	64.99
EBL	5	3515.25	-48.43
BOK	5	-1496.91	75.87
HBL	5	-2127.70	86.13

(Source: Appendix III)

The Table 4.11 depicts the major output of simple regression analysis of average market price per share (MPS) on dividend per share (DPS) of the concerned banks.

As far as the regression of MPS and DPS is concerned, the regression coefficient of SCBNL, NABIL, EBL, BOK and HBL is 69.98, 64.99, -48.43, 75.87 and 86.13 respectively. It indicates that a one-rupee increase in DPS

leads to an average of Rs. 69.98 increase in MPS of SCBNL, Rs. 64.99 increase in MPS of NABIL, Rs. 48.43 decrease in MPS of EBL, Rs. 75.87 increase in MPS of BOK and Rs. 86.13 increase in MPS of HBL, if the other variable remains constant.

Comparing five banks, it can be concluded that even a single rupee change in DPS leads to highest amount of Rs. 86.13 variation in MPS of HBL. Thus, it can be considered that DPS has greatest impact to MPS in HBL than other banks in term of amount.

4.1.8.3 Earning Yield and Dividend Yield

4.1.8.3.1 Correlation between EY and DY

The correlation between DY and EY and the probable error determined in Appendix III is summarized in the below Table 4.12.

Table 4.12

Correlation between EY and DY

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
SCBNL	0.9683	+ve	0.9375	0.0188	0.1130	Significant
NABIL	0.7726	+ve	0.5969	0.1216	0.7295	Significant
EBL	0.8135	+ve	0.6617	0.1020	0.6122	Insignificant
BOK	0.9824	+ve	0.9651	0.0105	0.0632	Significant
HBL	0.8899	+ve	0.7919	0.0628	0.3767	Significant

(Source: Appendix III)

The Table 4.12 depicts the relationship between earning yield (EY) and dividend yield (DY) of the concerned banks. According to this table, the correlation coefficients between DY and EY of SCBNL, NABIL, EBL, BOK and HBL is 0.9683, 0.7726, 0.8135, 0.9824 and 0.8899 respectively. Similarly, the coefficient of determination indicates that 93.75%, 59.69%, 66.17%, 96.51% and 79.19% variation in dividend yield of SCBNL, NABIL, EBL, BOK and HBL respectively is explained by the change in earning yield.

Moreover, the relationship is statistically insignificant in each banks, since the value of 'r' of each bank is higher than its respective 6 P.E.

Comparing five sampled banks, it can be concluded that earning yield has highest effect on dividend yield in BOK than in other banks, since there exists highest perfect correlation between earning yield and dividend yield of BOK.

4.1.8.3.2 Regression Analysis: Dividend yield on Earning yield

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

$DY_{SCBNL} = 0.61 + 0.62 \times EY_{SCBNL}$

$DY_{NABIL} = 0.88 + 0.45 \times EY_{NABIL}$

$DY_{EBL} = -0.68 + 0.51 \times EY_{EBL}$

$DY_{BOK} = 0.001 + 0.74 \times EY_{BOK}$

$DY_{HBL} = 0.27 + 0.76 \times EY_{HBL}$

Table 4.13

Regression Analysis of DY on EY

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)
SCBNL	5	0.61	0.62
NABIL	5	0.88	0.45
EBL	5	-0.68	0.51
BOK	5	0.001	0.74
HBL	5	0.27	0.76

(Source: Appendix III)

The Table 4.13 depicts the major output of simple regression analysis of Dividend Yield (DY) on Earning Yield (EY) of the concerned banks.

With respect to the above regression result of dividend yield (DY) in earning yield (EY), in case of SCBNL, beta coefficient is 0.62, which means that one rupee increase in earning yield leads to an average of about Rs. 0.62 increase in the dividend yield holding other variable, 0.61, constant. Similarly, the beta coefficient indicates that one rupee increase in earning yield leads to Rs. 0.45,

Rs. 0.51, Rs. 0.74 and Rs. 0.76 increase in dividend yield of NABIL, EBL, BOK and HBL respectively, if the other variable of the corresponding banks remain uniform.

Comparing five sampled banks, it can be concluded that earning yield has highest impact on dividend yield of HBL than in other banks, since the same amount of increase in earning yield leads to highest (Rs. 0.76) increase in HBL.

4.1.8.4 Market Price Per Share and Dividend Payout Ratio

4.1.8.4.1 Correlation between MPS and DPR

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

Table 4.14

Correlation between MPS and DPR

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
SCBNL	0.8538	+ve	0.7290	0.0818	0.4905	Significant
NABIL	0.6158	+ve	0.3792	0.1873	1.1237	Insignificant
EBL	-0.4969	-ve	0.2469	0.2272	1.3629	Insignificant
BOK	0.2078	+ve	0.0432	0.2886	1.7317	Insignificant
HBL	-0.4257	-ve	0.1812	0.2470	1.4819	Insignificant

(Source: Appendix III)

As shown in Table 4.14, the correlation coefficient between dividend payout ratio (DPR) and market price per share of SCBNL, NABIL, EBL, BOK and HBL is 0.8538, 0.6158, -0.4969, 0.2078 and -0.4257 respectively, which indicates positive relationship between the two variables in SCBNL, NABIL and BOK and negative relationship in EBL and HBL. Coefficient of determination (r^2) indicates that 72.90%, 37.92%, 24.69%, 4.32% and 18.12% variations in MPS is explained by DPR. However, the lower the value of 'r' of NABIL, BOK, EBL and HBL with their corresponding calculated 6 P.E. indicates that the change in DPR has nothing to do with the variation in MPS. But in contrast, the change in DPR has positive impact on the change in MPS

in case of SCBNL, since the value of 'r' of NABIL is greater than the corresponding 6 P.E. and hence MPS increases with the increment in DPR.

Comparing five sampled banks on the basis of correlation coefficient between DPR and MPS, it can be concluded that the dividend payout ratio has highest impact on market price per share in SCBNL than in other banks.

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

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

$MPS_{SCBNL} = -13441.26 + 200.20 \times DPR_{SCBNL}$

$MPS_{NABIL} = -1857.67 + 68.11 \times DPR_{NABIL}$

$MPS_{EBL} = 3178.55 - 35.09 \times DPR_{EBL}$

$MPS_{BOK} = -410.20 + 22.09 \times DPR_{BOK}$

$MPS_{HBL} = 2352.04 - 14.52 \times DPR_{HBL}$

Table 4.15

Regression Analysis of MPS on DPR

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)
SCBNL	5	-13441.26	200.20
NABIL	5	-1857.67	68.11
EBL	5	3178.55	-35.09
BOK	5	-410.20	22.09
HBL	5	2352.04	-14.52

(Source: Appendix III)

The Table 4.15 depicts the linear relationship between stock price (MPS) and dividend payout ratio (DPR) of concerned banks. The beta coefficient indicates that there exists positive relationship between DPR and MPS of SCBNL, NABIL and BOK and one percentage increase in DPR leads to Rs. 200.20, Rs. 68.11 and Rs. 22.09 increase in MPS of SCBNL, NABIL and BOK respectively, if the other variables of the corresponding bank remain constant.

However, such one percent increase in DPR leads to Rs. 35.09 decrease in MPS of EBL and Rs. 14.52 decrease in MPS of HBL.

Comparing five sample banks, it can be considered that even the same percentage increase in dividend payout ratio yield highest rupee increase in MPS of SCBNL (Rs. 200.20) in comparison with the other banks and hence DPR plays most crucial role to upgrade the value of MPS in SCBNL than in other remaining banks.

4.1.9 Trend Analysis

The trend analysis aids to predict the future value on the basis of the past years. To know the DPS, MPS and DPR of the concerned banks, the trend analysis has been used.

4.1.9.1 Trend Analysis of DPS

Let Year (X) 1, 2, 3, 4 and 5 denotes fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Then regression line of DPS (Y) on year is given by;

$DPS_{SCBNL} = 139.00 - 19.00\ X$

$DPS_{NABIL} = 109.50 - 13.50\ X$

$DPS_{EBL} = 28.00 + 2.00\ X$

$DPS_{BOK} = 49.37 - 4.42\ X$

$DPS_{HBL} = 50.10 - 3.99\ X$

Table 4.16

Trend Analysis of DPS

FY	SCBNL	NABIL	EBL	BOK	HBL
2012/13	25.00	28.50	40.00	22.85	26.17
2013/14	6.00	15.00	42.00	18.43	22.18

(Source: Appendix IV)

The table 4.16 shows the trend DPS of all the sampled banks for the forthcoming two fiscal years. The table depicts that the DPS of SCBNL, NABIL, EBL, BOK and HBL in the fiscal year 2012/13 will be Rs. 25, Rs. 28.50, Rs. 40, Rs. 22.85 and Rs. 26.17 respectively and in the fiscal year

2013/14 will be Rs. 6.00, Rs. 15.00, Rs. 42.00, Rs. 18.43 and Rs. 22.18 respectively.

Likewise, the regression line of DPS on year demonstrates that in each year, the value of DPS in SCBNL will decrease by Rs. 19, in NABIL will decrease by Rs. 13.50, in EBL will increase by Rs. 2.00, in BOK will decrease by Rs. 4.42 and in HBL will decrease by Rs. 3.99.

4.1.9.2 Trend Analysis of MPS

Let Year (X) 1, 2, 3, 4 and 5 denotes fiscal year 2007/08, 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Then regression line of MPS (Y) on year is given by;

MPS_{SCBNL} = 8225.20 – 1427.20 X

MPS_{NABIL} = 6479.10 – 1148.70 X

MPS_{EBL} = 3536.50 – 555.90 X

MPS_{BOK} = 2652.30 – 469.90 X

MPS_{HBL} = 2308.50 – 383.90 X

Table 4.17

Trend Analysis of MPS

FY	SCBNL	NABIL	EBL	BOK	HBL
2012/13	-338	-413	201	-167	5.10
2013/14	-1765	-1562	-355	-637	-379

(Source: Appendix IV)

The table 4.17 shows that the trend MPS of all the sampled banks follows decreasing trend. The table depicts that the estimated MPS of SCBNL, NABIL, EBL, BOK and HBL in the fiscal year 2010/11 onward will be nil, though sound awkward, if no additional effort is put. However, the MPS of EBL in that year will be Rs. 201 and its MPS will be nil from 2013/14 onward. Eventually, the trend value indicates that lackadaisical to buy the share of will continuously long in the future.

4.1.9.3 Trend Analysis of DPR

Let X denotes the fiscal year and Y denotes the DPR. Then regression line of DPR (Y) on year is given by;

DPR_{SCBNL} = 102.07 – 5.08 X

DPR_{NABIL} = 90.25 – 6.15 X

DPR_{EBL} = 27.56 + 3.25 X

DPR_{BOK} = 77.84 – 1.01 X

DPR_{HBL} = 79.02 + 1.10 X

Table 4.18

Trend Analysis of DPR

FY	SCBNL	NABIL	EBL	BOK	HBL
2012/13	71.60	53.25	47.08	71.78	85.62
2013/14	66.52	47.20	50.33	70.77	86.72

(Source: Appendix IV)

The table 4.18 showed that there was positive relationship between DPR and year in EBL and HBL only. In each fiscal year the DPR of SCBNL, NABIL, and BOK decreases by the multiple of 5.08 percent, 6.15 percent and 1.01 percent respectively. Similarly, the DPR of EBL increases by 3.25 percent and that of HBL increases by 1.10 percent.

The table showed that the estimated dividend payout ratio of SCBNL, NABIL, EBL, BOK and HBL will be 71.60%, 53.25%, 47.08%, 71.78% and 85.62% respectively in the fiscal year 2012/13 and will be 66.52%, 47.20%, 50.33%, 70.77% and 86.72 respectively in the fiscal year 2013/14.

On the basis of estimated DPR, it can be concluded that HBL will adopt the highest DPR policy than other sampled banks in the forthcoming periods in order to fascinate the potential and existing investors toward it.

4.2 Primary Data Analysis

Primary data have been used to reach greater depth of dividend practice. Although secondary data has provided a result in this section, the opinions of

various types of respondents are collected in this report. This investigation deals with the study of the opinions of respondents with respect to the major aspects dividend policy of the sample banks. The study is based on the opinions of ten respondents from investors and ten respondents from surveyed banks' employees. The questionnaire has been distributed randomly to the investors and employees. The Performa of the questions asked and details of responses are given in Appendix I.

Representation of Responses

Category	Approached	Responded	Representation	Male		Female		Total
				No.	%	No.	%	
Employees	20	10	50%	6	60%	4	40%	10
Investors	25	10	40%	6	60%	4	40%	10
Total	45	20	44%	12	60%	8	40%	20

4.2.1 Reasons to invest in Share Capital

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

Table 4.19

Reasons to invest in Share Capital

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

(Source: Opinion Survey, 2013)

In overall, 45% of the total respondents (9 out of 20), 15% of the respondents (3 out of 20), 30% of the respondents (6 out of 20) and 10% of the respondents

(2 out of 20) said that to utilize the surplus, just due to the best method of investment, to receive dividend, and to get voting right respectively are the main reasons behind investing in share capital. Hence, it can be concluded that to utilize surplus is the main reason behind investment in share capital.

From the above table it has been revealed that 40% of the investors and 50% of the employees replied that people invest in share capital to utilize surplus. Likewise, 20% of the investors and 10% of the employees considered the investment in share capital is the best method. Similarly, 30% of the employees and 30% of the investors have insisted that people invest in share capital in order to get dividend. In addition, 10% of the employees and 10% of the investors said that the reason for investment in share capital is to get voting rights.

4.2.2 MPS after Dividend Payment

Since in most cases, MPS of the company changes by the dividend distribution, to ascertain whether MPS increases or decreases by the dividend payment is the major issue. The respondents are asked to opine their experience on the change of MPS by dividend payment.

Table 4.20

MPS after Dividend Payment

Response	**Investors**		**Employees**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
MPS always decreases	1	10	0	0	1	5
MPS sometime decreases	1	10	2	20	3	15
MPS always increases	2	20	2	20	4	20
MPS sometime increases	5	50	6	60	11	55
No change	1	10	0	0	1	5
Total	**10**	**100**	**10**	**100**	**30**	**100**

(Source: Opinion Survey, 2013)

The table depicts that the majority of each category, 60% of the employees, and 50% of the investors, have opined that after the payment of the dividend the

market price per share of the company sometimes increases. Similarly, 20% of the employees and 10% of the investors have avowed that the MPS sometimes decreases after dividend payment. Likewise, 20% of the banking personnel and 20% of the investors have asserted that the MPS always increases after dividend payment. In contrast, 0% of the employees and 10% of the investors have opined that the MPS always decreases after dividend is paid. Finally, 10% of investors have stated that there will be no change in MPS whether the bank pays dividend or not.

In overall, 55% of the total respondents have said that the MPS of the company will sometime increases after dividend payment, 15% of the respondents have stated that MPS sometime decreases, 20% of the respondents have affirmed that MPS always increases, 5% of the respondents have asserted that MPS always decreases and 5% have stated no change in MPS. Thus, it can be concluded that in most situation, the MPS of the company increases just after the payment of dividend.

4.2.3 Effect in MPS by Dividend Distribution

Pragmatically, the MPS of the company has ascertained to be affected by the dividend payment, but to what extent is the major question. To solve this uncertainty, the opinions of the respondents have been analyzed.

Table 4.21

Effect in MPS by Dividend Distribution

Response	**Investors**		**Employees**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
High	7	70	4	40	11	55
Medium	2	20	4	40	6	30
Low	1	10	2	20	3	15
Total	**10**	**100**	**10**	**100**	**20**	**100**

(Source: Opinion Survey, 2013)

The table depicts that 40% of the employees of the banks and 70% of the investors have opined that the payment of dividend has high degree of effect in

MPS of such company. Likewise, 40% of the personnel of the bank and 20% of the investors have asserted that the payment of dividend has medium level of effect in market price of the stock. Similarly, 20% of the employees and 10% of the investors have stated that market price of share is affected in low level by the payment of dividend.

In overall, 55% of the respondents (11 out of 20) have pointed high level of influence on MPS, 30% of the respondents (6 out of 20) have stated medium level of effect, and 15% of the respondents (3 out of 20) have said low level of effect on MPS by the dividend distribution. Considering the overall majority, it can be stated that MPS is highly influenced by the dividend payment.

4.2.4 Factors for Dividend Practice

To know the factors that should be considered to adopt the dividend practice, the respondents were given options and asked to choose from them. The responses obtained from them are presented in the following table 4.22.

Table 4.22

Factors for Dividend Practice

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

(Source: Opinion Survey, 2013)

The banks need to mostly consider whether the legal provision related to the dividend distribution is suitable, as per the majority of the total respondents. About 60% of the total respondents have stated that the legal consideration is the most influencing factor of dividend policy of the bank. After that, it can be said that the liquidity position of the bank before and after the dividend payment should be considered, as 25% of the total respondents have paid

concern to liquidity. However, only few of the total respondents, 10%, have stated that the borrowing capacity of the bank so that the bank may not face difficulty due to lack of capital is the major influencing factor of dividend. Analyzing the responses obtained from each category, it has been found that 60% of each category, investors and employees, consider the legal considerations to be adopted while declaring dividend. Likewise 30% of investors and 20% of employees replied liquidity position should be adopted for that. Similarly 10% respondents of each group consider borrowing capacity of the firm before declaring dividend. None of the investors and 10% of employees replied in favor of all above mentioned factors.

4.2.5 Major Motive of Cash Dividend

To know the actual reason for providing cash dividend to the shareholders, the respondents were asked to choose the best answer that suits their motive for distributing cash dividend. The responses achieved are summarized in the following table 4.23.

Table 4.23

Major Motive of Cash Dividend

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

(Source: Opinion Survey, 2013)

The banks take the expectation of the shareholders' as the major liability to be covered up, since the majority of the respondents, 45%, have said that the major motive of bank in paying dividend is just to fulfill the shareholders' expectations. In addition, 15% of the total respondents have said that the major

motive of the bank in paying dividend is just to show the shareholders their investment is secured as the bank is capable to pay dividend as well besides making profit. Moreover, the other 20% of the total respondents are in the view that the major motive of the bank in paying dividend is just to put bait to the potential investors for making investment in their bank. Finally, another 20% of the investors opined that the major motive for paying dividend is to manipulate the market price per share. Analyzing separately, 20% of employee and 10% of investors responded that the company pays cash dividend to convey information to shareholders that the company is doing well. 20% of each group said that in order to draw attention from the investment community, cash dividend is paid. Similarly, 20% of respondents of each group also replied that cash dividend is paid to increase the market value of the firm's stock. And remaining 40% and 50% of respondents of employee and Investors respectively said that cash dividend is paid to fulfill share holder's expectations. But, none gave any reasons other than mentioned above behind paying cash dividend.

4.2.6 Dividend Practice Followed

The respondents were asked to state the types of dividend practices that are followed by the banks in Nepal. The responses obtained from them are presented in table 4.24.

Table 4.24

Dividend Practice Followed

Practice	**Investors**		**Employees**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
Payment of dividend after financing in all investment opportunities.	5	50	6	60	11	55
Paying regular dividend	5	50	2	20	7	35
Both of above	0	0	2	20	2	10
None of above	0	0	0	0	0	0
Total	**10**	**100**	**10**	**100**	**20**	**100**

(Source: Opinion Survey, 2013)

Generally, most of the banks have given low predilection to the dividend payment, as the majority of the total respondents, 55%, have stated that the bank pays dividend only if no other lucrative investment opportunities is avail. However, some of the respondents, 35%, have said that the payment of dividend is taken as the regular practice by some of the banks. Moreover, only 10% of the respondents have said that both of the alternatives are seen in the banks. The above table also depicts that 50% of Investors and 60% of employee said that dividend is a residual decision. But, 50% of investors and 20% of employee replied that the banks followed regular dividend practice, while none of the investors and 20% of employee considered that both practices, payment of dividend after financing in all investment opportunities and paying regular dividend, should be followed.

4.2.7 Suggestion in case of no Cash to pay Dividend

The respondents were asked to give their valuable suggestions if the company is unable to pay cash dividend. The suggestions obtained from them are presented in the table 4.25.

Table 4.25

Suggestion in case of no Cash to pay Dividend

Suggestions	**Investors**		**Employees**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
Pay from Reserve	3	30	4	40	7	35
Pay Stock dividend	3	30	2	20	5	25
Don’t pay	4	40	4	40	8	40
Total	**10**	**100**	**10**	**100**	**20**	**100**

(Source: Opinion Survey, 2013)

The bank should not pay dividend, if it has liquidity problem. This statement has been supported by majority of the respondents, 40%. In their view, being insolvent is much more not tolerable than not paying dividend. Similarly, 35% of the total respondents have said that the bank needs to fulfill the expectation of shareholders by paying dividend from reserve in case of cash shortage. However, 25% of the respondents said that the bank should pay stock dividend

if such situation arises. Interpreting the responses of each group, it is clear from the above table that 40% of employee and 30% of investors suggested that the company should pay from reserve if the company has no cash to pay the dividends. But 20% of employee and 30% of investors suggested paying stock dividend if no cash to pay cash dividends. Similarly, 40% of both the banks recommended not paying both cash dividends and stock dividends.

4.2.8 Suggestion for Dividend Policy in Nepal

The respondents were also asked to suggest with regard to the dividend policy in Nepalese enterprises. The valuable suggestions achieved from them are inserted in the table 4.26.

Table 4.26

Suggestion for Dividend Policy in Nepal

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

(Source: Opinion Survey, 2013)

The table shows that 30% of the employees and 30% of the investors suggested that treatment of dividend as an obligation should be dividend policy in Nepalese enterprises. Similarly, 40% of the investors and 30% of the employees suggested stability of dividend and unhaphazard payout ratio with regards to dividend policy in banks. And 30% of the investors and 40% of the employees recommended that cash balance for dividend should be adequately planned and maintained. But, no respondents replied other specific policies.

Likewise, 35% of the overall respondents suggested that treatment of dividend as an obligation, 15% of the respondents suggested that stability of dividend and unhaphazard payout ratio, and 50% adequate cash balance planning should be the dividend policy in banks.

4.3 Major Findings

On the basis of the analysis of data, the following major findings have been found.

Findings from Primary Data Analysis

- EPS analysis shows that the NABIL has made highest profit in the five years profit. The average EPS of SCBNL, NABIL, EBL, BOK and HBL is Rs. 92.33, Rs. 93.47, Rs. 92.74, Rs. 48.02 and Rs. 48.21 respectively.
- SCBNL has distributed highest DPS than other banks. The average distribution of dividend in the five year periods of SCBNL, NABIL, EBL, BOK and HBL is Rs. 82, Rs. 69, Rs. 34, Rs. 36.11 and Rs. 38.13 respectively.
- The MPS of SCBNL has always remained highest in the periods taken for study. Next to SCBNL, NABIL's MPS is highest. The average MPS of SCBNL, NABIL, EBL, BOK and HBL is Rs. 3944, Rs. 3033, Rs. 1869, Rs. 1243 and Rs. 1157 respectively.
- The DPR ratio shows that the dividend policy scheme of SCBNL is far better than that of other sampled banks. However, the consistency in dividend payout ratio of BOK (8.89%) is highest. In average, SCBNL provided 86.84%, NABIL has provided 71.80%, EBL has provided 37.32%, BOK has provided 74.81% and HBL has provided 82.32% of the total earnings of the respective banks.
- The P/E ratio shows that the difference between MPS and EPS of SCBNL is highest than other banks. In average, the shareholders has invested 39.86 times, 30.22 times, 19.55 times, 24.29 times and 22.98 times more amount than the par value of share of SCBNL, NABIL, EBL, BOK and HBL respectively. This clearly demonstrates that the investors are more interested to possess the share of SCBNL.
- The dividend yield ratio shows that HBL has paid highest percentage of market price as dividend. 2.36%, 2.68%, 2.30%, 3.65% and 4.00% of the average market price is provided as dividend by SCBNL, NABIL,

EBL, BOK and HBL respectively. Hence the shareholders of HBL has enjoyed more divided percent compared to the shareholders of other banks on the basis of MPS.

- In case of SCBNL, the correlation of DPS with EPS, MPS with DPS, EY and DY signficant, and MPS with DPR is insignificant. In case of NABIL, the correlation between DPS and EPS, and MPS and DPS and EY and DY is significant, while the correlation between MPS and DPR is insignificant. Similarly, there exists insignificant relationship between, DPS and EPS, DPS and MPS, and MPS and DPR of EBL, and EY and DY of EBL.
- Likewise, the relationship between DPS and EPS, DPS and MPS, EY and DY is significant in BOK and HBL and the relationship between DPR and MPS is insignificant in BOK and HBL.
- The estimated DPS of SCBNL, NABIL, EBL, BOK and HBL for the fiscal year 2013/14 will be Rs. 6.00, Rs. 15.00, Rs. 42.00, Rs. 18.43 and Rs. 22.18 respectively.
- The estimated MPS of SCBNL, NABIL, BOK and HBL would be nil from the fiscal year 2012/13 onward, and would be nil in EBL from the fiscal year 2013/14 onward.
- Also, the estimated dividend payout ratio of SCBNL, NABIL, EBL, BOK and HBL in the fiscal year 2013/14 will be 66.52%, 47.20%, 50.33%, 70.77% and 86.72% respectively.

Findings from Primary Data Analysis

- 45% of the respondents stated that the reason behind people's investment in share capital is to utilize the surplus.
- The majority of the respondents, 55%, stated that the MPS sometimes increases just after the payment of dividend by the bank. Likewise, the 55% of the respondents said that the impact of dividend policy in MPS is high.

- 60% of the respondents replied that legal consideration should be taken into consideration while adopting dividend practices.
- 45% of the respondents stated that the reason behind paying cash dividend was to fulfill shareholders' expectation.
- 55% of the respondents stated that Nepalese banks pay the dividend after financing in all investment opportunities.
- 40% of the respondents stated that neither should the company pay cash dividend nor stock dividend if it has no cash to pay dividends.
- 35% of the respondents stated both that dividend should be stable and unhaphazard, and other 35% of the respondents stated that cash balance for dividend should be adequately planned and maintained with regard to dividend policy in Nepalese banks.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Dividend policies are the regulations and guidelines that companies develop and implement as the means of arranging to make dividend payments to shareholders. Establishing a specific dividend policy is to the advantage of both the company and the shareholder. In order to make sure the policy is workable, a company should develop a viable policy and then run this policy through a number of test scenarios in order to determine what impact the dividend policy would have on the operation of the business.

In many cases, companies choose to explicitly state the provisions within the dividend policy. This is definitely to the advantage of the shareholder, as a well defined policy makes it much easier to project the amount of payout profits generated for the period under consideration and thus be able to determine the size of the dividends that will be issued. When the dividend policy is well defined and documented, it is easy for the shareholder to obtain a written copy and thus be fully informed as to how the policy works. However, there are cases where the dividend policy is not so well documented. When this is the case, investors sometimes base their assumptions on upcoming dividend payments on what has occurred in the past. While less systematic, it is still possible to project a more or less accurate estimate of what the dividend payout will actually be.

In cases where the dividend policy is not specifically defined, investors often look at the history to spot any trends that emerged in the past. If the dividend payments have been more or less constant for the last several years, and there has been no loss in business volume, it is reasonable to assume the payments will still be in the same general range as before. However, if the dividend history is more volatile, the shareholder may attempt to identify what factors led to the up and down movement of the dividends and determine if any of those factors are relevant to the current dividend period.

In both expressed and implied dividend policy procedures, it is less common for the dividends to be increased. Part of the reason for that is companies tend to look closely at retained earnings and want to make sure the increased level of earnings will be sustained over the long term. Once this upward trend is deemed to be more or less permanent, the company may choose to increase dividends.

Far more common is the practice of reducing dividends. This usually takes place because there is a decrease in the company's business volume that is not anticipated to be recaptured in the foreseeable future. At other times, the decrease may be due to the need to retain more cash on hand for capital expenses. In both these scenarios, companies tend to notify the shareholders in advance that these factors exist and a chance in dividends will take place in order to meet the challenge to remain profitable.

Considering all these facts, the present study has been conducted to ascertain the dividend practices adopted in Nepalese commercial banks. For the study, only five commercial banks; namely SCBNL, NABIL, EBL, HBL and BOK, are taken as sample for the study. The study has revealed that SCBNL is the greater dividend distributing bank, as the average dividend distribution of SCBNL is Rs. 82, NABIL is Rs. 69, EBL is Rs. 34, BOK is Rs. 36.11 and HBL is Rs. 38.13. In addition, the study has revolved in the impact of dividend payout ratio on market price per share, and the effect of dividend yield on DPS, MPS and, EPS of the corresponding bank. Finally, the trend value of DPS, MPS and DPR for the forthcoming two fiscal years have been executed.

5.2 Conclusion

Excerpting the analysis of the study, it can be concluded that NABIL is the highest profit making bank in most of the fiscal years in terms of per share, i.e. in EPS. Moreover, the EPS of most of the observed banks have decreased in most of the periods, except in EBL where EPS has been found to be in increasing in most of the periods.

Unlike EPS, the dividend distribution practice of all the observed commercial banks has been found to be irregular. This directly indicates the commercial bank lacks sound dividend policy and retention policy. Nonetheless, among the five commercial banks, the dividend distribution pattern of SCBNL is most enticing, since the dividend payout ratio of SCBNL is highest in comparison to that of other banks. Moreover alike EPS, the MPS of all the commercial banks has decreased in most of the periods, which enlightens that the MPS might have been affected by the EPS and DPS of the bank. Besides these, HBL is more aggressive in paying dividend by considering the market price per share as the dividend yield of HBL is highest compared to that of other banks.

The statistical analysis clarifies that increase in EPS apparently increase in DPS, because EPS has significant relationship with DPS in four observed banks, except in EBL. Moreover, the impact of DPS on MPS is also significant in four banks excluding EBL, indicating that the dividend amount certainly affects the MPS. However, the MPS is not dependent on the dividend payout ratio, as this ratio has insignificant relationship with MPS in most of the banks. Eventually, it can be concluded that the fluctuation in MPS is not limited to the single determinant; rather it has been affected by the various internal financial indicators and macroeconomic indicators like inflation, GDP growth, per capita income and others.

On the basis of trend analysis, it can be considered that, except EBL, all the other observed banks will continuously disburse less dividend in forthcoming years as well. However, the disinterest on investors to invest on the stock market will be continuously decreased in future as well. Consequently except EBL and HBL, all other banks will decrease the dividend payout ratio in the future. The shareholders of HBL will be most satisfied by the greatest dividend payout ratio that the bank will be adopting in future.

As far as the opinion survey is conducted, it can be concluded that the investors have assumed the investment in share as one of the best opportunity to gear up their surplus. Moreover, it can be said that the MPS sometimes increases just after the payment of dividend by the bank, and as opposed to the findings from secondary data, it has been revealed that DPS has high effect on MPS. Moreover, it can be stated that the banks, in most of the situation, are making negligence to the legal considerations while paying dividend, and the investors expect cash dividend in lieu of other forms of dividend. Banks distribute dividend only after financing in all investment opportunities, and need not pay dividend at all, if no sufficient cash is avail. In other words, it can be said that the bank should consider mainly the liquidity status while declaring dividend and pay cash dividend to fulfill shareholder's expectation. With regard to dividend policy, cash balance for dividend should be adequately planned and maintained.

5.3 Recommendations

To enhance the dividend practices of the commercial banks of the country, the following recommendations have been presented;

- The banks should define their dividend strategy (policy) clearly whether the bank is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends. The clearly defined policy will guide the way on how to follow dividend distribution. The bank should follow them (defined dividend strategy) strictly in normal condition. If there is lack of clearly defined dividend strategy, so many problems or inconveniences will be created to many other organizational sectors especially on the financial sectors.
- There should be certain program to improve the efficiency and reduce the government interference in daily affair. Similarly, the managers should be able to fulfill their duties and responsibilities and to protect the shareholder's interest but not for operation of company desired by themselves.

- There is no clear-cut legal provision regarding dividend payments. So the government should act in favor of investors and should bind through such legal provisions or distinct rules so that the profit earning companies should distribute certain percent of their earnings as dividend.
- Banks are playing on the public money. So in this regard, they are advised to have target rate of return (earnings) and target payout ratio that will help the banks to build good image in stock market and investors will be benefited on making investment decision.
- It would be better to fix the amount of dividend in the annual general meeting of shareholders. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.
- Banks should provide a chance to their shareholders for their interest. They should try to know whether they (shareholders) prefer to obtain cash dividend or stock dividend or any forms of dividend. So, instead of declaring cash or stock or any forms of dividend, dividend declaration should be proposed to the annual general meeting of shareholders for their approval. Furthermore, the banks should also be careful about informing the impacts of dividends, the advantages and disadvantages of different forms of dividend to those shareholders or potential investors who know less about the matters.
- The bank should consider the existing conditions and expectations of shareholders while distributing dividends so that the distributed dividend should meet the interests or expectations of the shareholders as far as possible.
- The bank should study about the strategy to attract the ordinary or small or low level investors so that the interest or the expectation of shareholders will not be destroyed even the bank can't pay the dividend in some year.

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APPENDIX I

QUESTIONNAIRE

Dear Sir/Madam,

This is to bring your kind information that this is an attempt to identify the *dividend policy of the commercial banks*. You are kindly requested to fill up the following questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

Respondents:

Name : ……... Sex: M [ ] F [ ]

Bank: ……. Position (Optional): …….

Please tick the best answers.

1. Why do people invest in share capital?
   a) To utilize the surplus money
   b) This is the best method of investment.
   c) To receive dividend
   d) To get voting rights.

2. Generally, what you have observed on the change in MPS just immediately after the dividend payment?
   a) MPS always decreases
   b) MPS sometimes decreases
   c) MPS always increases
   d) MPS sometimes increases
   e) No change at all

3. To what extent has MPS been changed after dividend distribution?
   a) High
   b) Medium
   c) Low

4. What factors should be considered while adopting dividend practice?

a) Legal Restriction
b) Liquidity Position
c) Borrowing capacity of the firm
d) All of above

5. What is the major motive of cash dividend in your bank?

a) To convey information to shareholders that the company is doing well.
b) To draw attention from the investment community.
c) To increase the market value of the firm's stock.
d) To fulfill shareholders' expectation.

6. What are the dividend practices being followed by the banks in Nepal?

a) Payment of dividend after financing in all investment opportunities.
b) Paying regular dividend
c) Both of above
d) None of above

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

a) Pay from reserve
b) Pay stock dividend
c) Pay Scrip Dividend
d) Pay Property Dividend
e) Pay no dividend at all

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

a) Treatment of dividend as an obligation
b) Stability of dividend and unhaphazard pay out ratio.
c) Cash balance for dividend be adequately planned and maintained.

Thank You.

APPENDIX - II

Calculation of Financial Ratios

A) SCBNL

FY	EPS	DPS	MPS	DPR	P/E Ratio	EY	DY
2007/08	131.92	130	6830	98.54	51.77	1.93	1.90
2008/09	109.99	100	6010	90.92	54.64	1.83	1.66
2009/10	77.65	70	3279	90.15	42.23	2.37	2.13
2010/11	69.51	50	1800	71.93	25.90	3.86	2.78
2011/12	72.6	60	1799	82.64	24.78	4.04	3.34
Mean	**92.33**	**82.00**	**3944**	**86.84**	**39.86**	**2.81**	**2.36**
S.D.	**24.51**	**29.26**	**2109**	**8.99**	**12.56**	**0.95**	**0.61**
C.V.%	**26.55**	**35.68**	**53.48**	**10.36**	**31.50**	**33.95**	**25.88**

B) NABIL

FY	EPS	DPS	MPS	DPR	P/E Ratio	EY	DY
2007/08	115.86	100	5275	86.31	45.53	2.20	1.90
2008/09	113.44	85	4899	74.93	43.19	2.32	1.74
2009/10	83.81	70	2384	83.52	28.45	3.52	2.94
2010/11	70.67	30	1252	42.45	17.72	5.64	2.40
2011/12	83.57	60	1355	71.80	16.21	6.17	4.43
Mean	**93.47**	**69.00**	**3033**	**71.80**	**30.22**	**3.97**	**2.68**
S.D.	**17.95**	**23.75**	**1727**	**15.62**	**12.31**	**1.66**	**0.97**
C.V.%	**19.21**	**34.42**	**56.95**	**21.75**	**40.75**	**41.75**	**36.24**

C) EBL

FY	EPS	DPS	MPS	DPR	P/E Ratio	EY	DY
2007/08	91.82	30	3132	32.67	34.11	2.93	0.96
2008/09	99.99	30	2455	30.00	24.55	4.07	1.22
2009/10	100.16	30	1630	29.95	16.27	6.14	1.84
2010/11	83.18	50	1094	60.11	13.15	7.60	4.57
2011/12	88.55	30	1033	33.88	11.67	8.57	2.90
Mean	**92.74**	**34.00**	**1869**	**37.32**	**19.95**	**5.86**	**2.30**
S.D.	**6.59**	**8.00**	**812**	**11.49**	**8.37**	**2.11**	**1.32**
C.V.%	**7.11**	**23.53**	**43.44**	**30.80**	**41.94**	**35.96**	**57.36**

D) BOK

FY	EPS	DPS	MPS	DPR	P/E Ratio	EY	DY
2007/08	59.94	42.11	2350	70.25	39.21	2.55	1.79
2008/09	54.68	47.37	1825	86.63	33.38	3.00	2.60
2009/10	43.08	30	840	69.64	19.50	5.13	3.57
2010/11	44.51	34.75	570	78.07	12.81	7.81	6.10
2011/12	37.88	26.32	628	69.48	16.58	6.03	4.19
Mean	**48.02**	**36.11**	**1243**	**74.82**	**24.29**	**4.90**	**3.65**
S.D.	**8.07**	**7.72**	**715**	**6.73**	**10.19**	**1.95**	**1.47**
C.V.%	**16.82**	**21.37**	**57.56**	**8.99**	**41.95**	**39.69**	**40.36**

E) HBL

FY	EPS	DPS	MPS	DPR	P/E Ratio	EY	DY
2007/08	62.74	45	1980	71.72	31.56	3.17	2.27
2008/09	61.9	43.56	1760	70.37	28.43	3.52	2.48
2009/10	31.8	36.84	816	115.85	25.66	3.90	4.51
2010/11	44.66	36.84	575	82.49	12.88	7.77	6.41
2011/12	39.94	28.42	653	71.16	16.35	6.12	4.35
Mean	**48.21**	**38.13**	**1157**	**82.32**	**22.98**	**4.89**	**4.00**
S.D.	**12.24**	**5.90**	**592**	**17.34**	**7.16**	**1.77**	**1.52**
C.V.%	**25.39**	**15.48**	**51.14**	**21.07**	**31.18**	**36.11**	**37.86**

Formulae: P/E = MPS/EPS

DY = DPS x 100/MPS

EY = EPS x 100/MPS

DPR = DPR x 100/EPS

Note: The Data has been extracted from Sch. 31 of annual reports of each bank.

APPENDIX III

a) Calculation of Correlation Coefficient of DPS and EPS of SCBNL

Year	EPS X	DPS Y	$x = X-\bar{X}$	$y = Y-\bar{Y}$	x^2	y^2	xy
2007/08	131.92	130	39.59	48.00	1567.05	2304.00	1900.13
2008/09	109.99	100	17.66	18.00	311.73	324.00	317.81
2009/10	77.65	70	-14.68	-12.00	215.62	144.00	176.21
2010/11	69.51	50	-22.82	-32.00	520.93	1024.00	730.37
2011/12	72.6	60	-19.73	-22.00	389.43	484.00	434.15
Total	**461.67**	**410.00**			**3004.77**	**4280.00**	**3558.66**

i) Calculation of Mean

For EPS: Mean $\bar{X} = \sum X/5 = 92.33$

For DPS: $\bar{Y} = \sum Y/5 = 82.00$

ii) Calculation of Correlation Coefficient between EPS and DPS

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}} = \frac{3558.66}{3586} = 0.9923$$

iii) Calculation of Standard Deviation (б)

For EPS

$$б_x = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{3004.77}{5}} = 24.51$$

For DPS

$$б_y = \sqrt{\frac{\sum y^2}{N}} = \sqrt{\frac{4280.00}{5}} = 29.26$$

iv) Simple Regression Equation of EPS on DPS

$$Y-\overline{Y} = \frac{r \times б_y (X-\overline{X})}{б_x}$$

$$\text{or, } Y-82 = \frac{0.9923 \times 29.26 (X-92.33)}{24.51}$$

$$\text{or, } Y-82 = 1.18X - 109.35$$

$$\text{or, } Y = 27.35 + 1.18X$$

v) Calculation of Probable Error

r^2	$1-r^2$	$.6745*(1-r^2$	P.E.	6 P.E.
0.9847	0.0153	0.0103	0.0046	0.0276

APPENDIX IV

a) Calculation of Trend value of EPS of SCBNL

Year	Year X	DPS Y	$x = X-\overline{X}$	$y = Y-\overline{Y}$	x^2	y^2	xy
2007/08	1	130	-2.00	48.00	4.00	2304.00	-96.00
2008/09	2	100	-1.00	18.00	1.00	324.00	-18.00
2009/10	3	70	0.00	-12.00	0.00	144.00	0.00
2010/11	4	50	1.00	-32.00	1.00	1024.00	-32.00
2011/12	5	60	2.00	-22.00	4.00	484.00	-44.00
Total	**15**	**410.00**			**10.00**	**4280.00**	**-190.00**

i) Calculation of Mean

	For EPS		For DPS
Mean	$\overline{X} = \sum X/5$	= 3.00	$\overline{Y} = \sum Y/5$ = 82.00

ii) Calculation of Correlation Coefficient between EPS and DPS

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sqrt{\sum y^2}}} = \frac{-190}{207} = -0.9184$$

iii) Calculation of Standard Deviation (б)

For EPS

$$б_x = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{10.00}{5}} = 1.41$$

For DPS

$$б_y = \sqrt{\frac{\sum y^2}{N}} = \sqrt{\frac{4280.00}{5}} = 29.26$$

iv) Simple Regression Equation of EPS on DPS

$$Y-\overline{Y} = \frac{r \times б_y (X-\overline{X})}{б_x}$$

or, Y-82 = $\frac{0.9184 \times 29.26 (X-3)}{1.41}$

or, Y-82 = 19.00 X + 57

or, Y = 139 - 19.00 X

v) Calculation of Trend Value

FY	a	b	x	Y= a + bx
2012/13	0.00	0.00	6	0.00
2013/14	0.00	0.00	7	0.00

Note: Same process has been adopted to find the trend value of other banks and other variables.