

**DIVIDEND PRACTICES OF SELECTED NEPALESE  
COMMERCIAL BANKS**

**Submitted by:**

**Manisha Shrestha**

**Balkumari College**

**T.U. Regd. No. 7-2-241-278-2001**

**Roll No. 31 (2061-063)**

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# RECOMMENDATION

This is to certify that the thesis

Submitted by

**Manisha Shrestha**

Entitled

## **DIVIDEND PRACTICES OF SELECTED NEPALESE COMMERCIAL BANKS**

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

.....  
Mr. Baburam Panthi  
Thesis Advisor/  
Chairperson, Research Committee

.....  
Mr. Bharat Khanal  
Programme Incharge

.....  
Prof. Chiranjibi Shrestha  
Principal

Date:

## **VIVA-VOCE SHEET**

We have conducted the Viva-Voce examination of the  
Thesis presented by

**Manisha Shrestha**

**Entitled**

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and found the thesis to be the original work of the student and written  
according to the prescribed format. We recommended the thesis to be  
accepted as partial fulfillment of the requirement for

**Master Degree in Business Studies (MBS)**

### **VIVA-VOCE COMMITTEE**

Chairperson, Research Committee: .....

Member (Thesis Advisor): .....

Member (External Expert): .....

Date:

## **DECLARATION**

I hereby proclaim that the thesis work entitled **Dividend Practices of Selected Nepalese Commercial Banks** submitted to Balkumari College, Faculty of Management, Tribhuvan University is my original work for the partial fulfillment of the requirement for the Master's Degree of Business Studies (MBS) under the supervision of Mr. Baburam Panthi Lecturer of Balkumari College, Narayangarh, Chitwan.

**Manisha Shrestha**

Researcher

Balkumari College

Roll No. 31 (061-063)

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Date:

**Manisha Shrestha**  
**Bharatpur-4, Chitwan**

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## **ABBREVIATIONS**

A.D.	:	Anno Domini
ADBL	:	Agriculture Development Bank Limited
BOK	:	Bank of Kathmandu
BS	:	Bikram Sambat
C.V.	:	Coefficient of Variation
Co.	:	Company
DPR	:	Dividend Payout Ratio
DPS	:	Dividend Per Share
DY	:	Dividend Yield
EBL	:	Everest Bank Limited
Ed.	:	Edition
EPF	:	Employee Provident Fund
EPS	:	Earning Per Share
EY	:	Earning Yield
FY	:	Fiscal Year
HBL	:	Himalayan Bank Limited
i.e.	:	That is
Ltd.	:	Limited
MBS	:	Master's Degree in Business Studies
MPPS	:	Market Price Per Share
NIBL	:	Nepal Investment Bank Limited
NRB	:	Nepal Rastra Bank
NSBL	:	Nepal SBI Bank Limited
PER	:	Price Earning Ratio
Pvt.	:	Private
S.D.	:	Standard Deviation
TU	:	Tribhuvan University

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The economic growth of Nepal is very low and poor, although it is rich in water resources, Himalayas, low cost manpower etc. The development of an economy of any country requires the productive activity, which in turn, is the result of investment venture in productive enterprises which needs a huge amount of funds and environment to establish these enterprises. The existing enterprises and companies need the both short term and long term capital investment for their existence, smooth growth, operation and development within the economy to be the productive enterprises. Therefore, the required short term and long term capital for the productive enterprises can be procured mainly from security markets (either primary or secondary) and financial institutions.

Dividend policy for business organization is a very important decision, which depends upon the long-term and short-term strategy of a firm. Dividend policy of a firm is an effect of dividing its net earning into two parts: the retained earnings and dividend payment. (Pandey, 1999:770)

Business firms use the retained earnings to provide funds to the firm for long-term growth; we call it as internal financing source also. A major decision of financial management is the dividend in the sense that the firm has to choose between distributing the profit to the shareholders and plugging them back in to business. So the important aspect of dividend policy is to determine the amount of earning to be distributed.

Dividend policy is one of the major decisions of financial management because it affects the financial structure of the firm. Mostly, dividend is

paid in cash to its shareholders. Dividend payment reduces the total amount of internal financing. Consequently, it must be considered in relation to the overall financial decision. "A commercial bank is a dealer of money and substitute for money, such as cheque or a bill of exchange. It also provides a variety of financial services". (The Encyclopedia of Britannic, 1985; 600)

Dividend is that portion of earning, which is paid to the common stock holders, in 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 (Hunt Person, Veilliam Charlos and Donaldson, 1972, 405). Likewise, dividend policy must be considered in relation to the overall financing decision. In practice, net earnings always may not be appropriate measure of the ability of the firm to pay dividend, that's why, what and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividend but companies ensure towards setting aside funds for maximizing the shareholders' wealth. It is a major decision of the firm under which it is determined that what percentage of the earnings of the firm is distributed to its shareholders and what percentage of the earnings is retained in the firm which is desirous for the growth of the firm. It is therefore, a wise policy to maintain a balance between shareholders interest with that of corporate growth from internally generated funds.

When a company pays out a portion of it's earnings to the shareholders in the form of dividend, the shareholders are directly benefited. If company is hopeful to exploit other growth opportunities, the firm can avoid for paying cash dividends. In this condition, shareholders consider their future growth of their stock instead of getting cash dividend. On the other

hand, the firm has to pay enough dividends to satisfy investors. If they are paid higher dividends, the market price of the stock also rises. This means maximizing the shareholder's wealth. Thus shareholders' wealth (return) can be increased through either dividends or capital gains. As the division and retention are considered as dividend policy, all aspects and questions related to the payment of dividends are contained in dividend policy.

The concept of the banking has been developed from the ancient history with an effort of ancient goldsmiths who developed the practice of storing people's gold and other valuables. Under such an arrangement, the depositors would leave their gold with goldsmiths for safekeeping. Whenever the receipts were presented, the depositors would get back their gold and other valuables after paying a small amount as interests (fee) for safekeeping and serving. (Paul A Samulson, Economics, 9<sup>th</sup> page-27).

Financial institutions have definitely contributed and played a gigantic role for domestic resource mobilization and economic development to build up the confidence of the businessmen for promoting their business and industrialists for encouraging opening new business venture. It maintains confidence for various segments and extends credit to people. The dividend payout ratio obviously depends on the way earnings are measured but net earning may not confirm and may not be an approximate measure of the ability of the firm to pay dividend. So, what and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividend.

"The objective of a dividend policy should be to maximize shareholder's return so that the value of their investment is maximized. Shareholders' return consists of two components: dividend and capital gain. Dividend

policy has direct influence on these two components of return" (Pandey; 1999; 744)

In a capital structure decision, each and every firm can obtain additional fund by issuing new equity and retention of the earnings. So after measuring the firm's profit, there is further problem of what amount of these profits should be distributed in terms of dividend. It is a big financial decision because the firm has to choose one between the distribution of profit to the shareholders or retaining it to finance the business. Different firms adopt different approaches to distribute dividend. In order to maximize the shareholders' wealth, the firm should use a large amount of profit for the payment of dividend. But since the firm's objective is the expansion of its business, the firm retains profit to finance in investment programs.

Dividends are distributed out of profits. The alternative to the payment of dividend is the retention of earnings/profits. The retained earnings constitute an easily accessible important source of financing the investment requirement of firms. There is, thus, a type of reciprocal relationship between retained earnings and cash dividends. The larger the retention, the lesser is the dividend and the smaller the retention, the larger is the dividend. Thus, the alternative uses of net earning dividend and retained earning are competitive and confliction. (Khan and Jain; 1990: 35)

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.

Capital market plays an important role in the economics development of a nation. But, in Nepal, the capital market is very small and developing slowly with disorganized. The Nepalese companies (especially government enterprises) have not been able to generate sufficient as compared to the organizations that are established and operated on public sector. Hence the government is not receiving dividends from public enterprises for several years.

In the global perspective, joint ventures are the modes of trading through partnership among the nations and also a form of negotiation between various groups of industries and traders to achieve competitive advantages. Nepal's reform efforts in the financial sectors, begun in 1980's, when Nepal Rastra Bank eased entry restrictions and amendment of the Commercial Bank Act 1974. As a result, three banks namely, Nabil Bank Ltd (Formerly known as Nepal Arab Bank), Standard Chartered Bank Nepal Ltd. (only two) came into operation prior to 1990s. In 1992, Nepal Rastra Bank adopted liberal outlook in permitting commercial banks to open. Then after, the financial liberalization really took place. Other nine new joint venture banks came into operation making the total number of the commercial banks to eleven. In addition, letter of intent has been given to three more commercial banks to operate on regional basis.

Finance companies include captive financing subsidiaries of non financial corporation, general finance consumer and business finance companies, leasing companies, factors all of which are non depository financial institutions involved primarily in extending credit to businesses and consumers. (Mark Carey, post Mitch and Steven A Sharpe" Does

Corporate lending by banks and finance companies differ? (1998, P -848)  
The organization set up on financial company is new to Nepal. Finance companies are the effective measures for mobilizing public, private and external financial resources and channeling them into productive areas of short-term loan and long term loan in different commercial/industrial activities. The newly adopted liberal economic policy of government has given more emphasis to the private sector and institutional investors to invest in Nepal which has been considered as encouraging factor of sustainable growth under these facilities many finance companies have been established. Mainly they collect deposit and provide loans by mobilizing scattered saving of different sectors of the economy for the economic development.

Dividend practice in public corporations is still having problem for taking dividend policy. Thus, here neither corporation are able to generate sufficient earnings for dividend payment nor is the government expecting dividends, since it has been observed that dividend payment is practically a crucial problem of the public corporations. Corporation like Nepal Oil Corporation and Nepal Electricity Authority are not distributing earnings as dividend but total effort is focused on minimization of losing through better utilization of capital. Noticeable matter is that this shifting aim of public corporation is failed to minimize the losses. The joint venture banks in Nepal have brought new hope for productive mobilization of funds according to their new trends of dividend.

### **1.1.1 A Brief Introduction of Sample Commercial Banks**

#### **1. Bank of Kathmandu Limited**

Bank of Kathmandu Limited (BOK) started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK has today become a landmark in the Nepalese banking

sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning. To highlight its few objectives:

- To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas.
- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost
- To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies
- To contribute to the overall social development of Nepal.

The mission of BOK is to offer financial services and becoming the “Bank of Choice” by dedicating to the progress and growth of the institution for the community, customers, employees, supervisors and stockholders by promoting economic growth and becoming a caring corporate citizen, providing excellent customer services by offering personalized quality products and services, inducing modern technologies of banking that adds value to customer service, following strict risk control mechanisms, enhancing shareholders value, providing challenging career and learning opportunities for employees.

## **2. Everest Bank Limited**

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society in the kingdom of Nepal and thereby

contributes in the economic development of the country. The bank had come into former operations from 18<sup>th</sup> October 1994(1<sup>st</sup> Kartik, 2051 B.S). EBL is a joint venture with Punjab National Bank (PNB), one of the largest commercial banks in India having over 3700 branches and more than 300 foreign correspondents around the globe. PNB has a century old tradition of successful banking and is known for its financial strengths and will laid down modern banking system and procedures. PNB is providing the tough management services to EBL under the technical services agreement signed between the two institutions. EBL, thus, has advantages of the banking expertise and financial strength of its partner, currently with over 20 branches in various parts of the Kingdom of Nepal.

### **3. Himalayan Bank Limited**

Himalayan Bank Limited (HBL) was established in 1993 in joint venture with Habib Bank Limited, one of the largest commercial bank of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. Despite the cut-throat competition in the Nepalese Banking sector, HBL has been able to maintain a lead in the primary banking activities with the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under its credit standing with foreign correspondent banks. Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service.

#### **4. Nepal Investment Bank Limited**

Nepal Investment Bank Limited (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure:

A group of companies- 50% of the Capital

Rashtriya Banijya Bank -15% of the Capital

Rashtriya Beema Sansthan- 15% of the Capital

General Public - Remaining 20%

#### **5. Nepal SBI Bank Limited**

Nepal SBI Bank Limited (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employee Provident Fund (EPF) and Agriculture Development Bank Ltd. (ADBL) through a Memorandum of Understanding signed on 17th July 1992. NSBL commenced operation with effect from July 7, 1993. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. ADBL divested its stake in the Bank by selling

its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public. The equity composition of the Bank is as follows:

State Bank of India	- 55%
Employee Provident Fund	- 15%
Agricultural Development Bank	- 0%
General Public	-30%

The services provided by Nepal SBI Bank Limited include deposits, remittances, various types of loan facilities, letter of credit, bank guarantees, retail financing (house loans, vehicle loans and education loan), ATM facility, 365 days banking etc. (<http://www.nsbl.com.np>)

## **1.2 Statement of the Problem**

Corporate dividend policy is not clearly understood by a large segment of the financial community dividend. Dividend, the most inspiring factor for the investment on shares of the corporation, is not straight forward and simple aspect of corporate finance. It is more technical area of finance in the sense that it is a complex one having numerous implications for the firm. The Dividend decision is a critical decision that affects the liquidity position, capital structure, growth, and value of the firm. It deals with how much to pay to shareholders from earnings. Dividend payout reduces the amount of earnings retained in the business, which affects the internal financing of the firm. It is still confusing whether Dividend payment affects the value of the firm or not.

Different financial experts have introduced the Dividend payment models which present their view towards Dividend payment. Among them, MM model tells that Dividends are irrelevant to the value of the firm. It believes that earnings should be retained only for getting benefit from investment opportunities. If there is no investment opportunity, all the earnings should be distributed as dividend. James Walter had propounded relevant theory of dividend. He proposed a model for share valuation. According to him, the Dividend policy of the firm affects the value of the shares. His model supports that Dividends are relevant. He argues that the choice of Dividend policies almost always affect the value of an Enterprise. The Investment policy of a firm can not be separated from its dividend policy according to him both are interlinked which is just opposite to Modigliani and Miller approach. Walter's model shows clearly the importance of the relationship between the return on a firm's investment or its internal rate of return ( $r$ ) and its cost of capital or the required rate of return ( $k$ ) in determining the Dividend policy. As long as the internal rate greater than the cost of capital, the share price will be enhanced by retention and will vary inversely with dividend payment. In this way Walter's model is also known as "Optimal Theory of Dividend". Likewise other Financial Experts have their own view toward Dividend payment such as stable dividend policy, Constant payout ratio, Low regular plus extras. So, different experts view differently but none of these are completely satisfactory.

In Nepalese context, the establishment of Nepal Stock Exchange Limited had brought new atmosphere in the nation's capital market. But there still very slow growth in exchange of securities due to various factors like lack of Brokers, lack of knowledge about capital market among the investors etc. However the activities in capital market in recent years

have taken momentum and symptoms of growth. Nepalese Commercial Bank has not satisfactory result about dividend decision. Different government rules and regulations are the main factors. But there is no limit to the identification of the problem about dividend policy that is visible in Nepalese Commercial Bank. While keeping this in mind, selected problems of commercial banks with regard to dividend policy are taken.

There may be proper matching in dividend policy and earnings in the banks. Earnings of the firm are taken as financing source. When the firm retains its earnings it will decrease leverage ratio, expand activities and increases profit in succeeding years. Where as if the firm pays dividend, it may need to raise capital through capital market which reduces ownership control of the existing shareholders. In this condition the firm takes loan or raises debentures. It will affect on risk characteristic of the firm. In Nepal, there are only a few companies, especially joint venture banks have sufficient earning and are capable to pay dividend. But they are not following clearly defined dividend policies. While earning is low they pay high dividend and sometime when earning is high they pay low dividend.

### **1.3 Objectives of the Study**

The aim of the study is basically to analyze and evaluate the application of dividend decision in the selected banks and the study focus on the prevalent dividend policies and to suggest the direction of future endeavor on share market in Nepal. It 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. Besides that, the specific objectives of the study are as follows:

- i. To analyze the dividend practices of selected Nepalese commercial banks.
- ii. To explore whether dividend practices affect the market price of shares differently in different banks.
- iii. To examine the relationship of dividend with other financial variables such as MPPS, EPS, DPS etc.
- iv. To analyze the trend of different variables such as EPS, DPS, MPPS & DPR.
- v. To analyze the opinion of different investors towards dividend policies.

#### **1.4 Research Questions**

This study deals with the following research questions:

- i. Are the banks able to pay appropriate dividend to its shareholders?
- ii. What are the prevailing practices of the sample banks regarding their dividend policies?
- iii. Is there any uniformity among the banks in dividend distribution?
- iv. What is the relationship of dividend with earning per share & market price per share?
- v. Does the dividend policy affect the market price of the share differently in different companies?

#### **1.5 Significance of the Study**

Getting more return from the limited source of investment is the essential part for every investor while they seek to invest in different sector on portfolio. Nowadays, people are very much attracted towards investment in share for the purpose of getting higher return. So dividend policy has become an effective way for attracting the large number of new investors,

retain present investors and to maintain goodwill and the desired controlling position of the firm. Despite investor's high expectation, there are almost none of the firms adopting clear dividend policy in Nepal. Therefore this study of the dividend policy of the selected commercial banks in Nepal may be rewarding.

The study is not only helpful to the researcher but the final outcome of the study will prove to be a valuable tool for various concerned groups like shareholders, banks, finance companies etc. The shareholders will be able to know whether the dividend policy of the company where they invested their money is relevant or not. They will also be able to know the position of the company in the financial market. The banks & finance companies will know the dividend practices followed by other banks. They will also be able to compare their own dividend practices with those of the banks chosen and find out whether they need to improve their dividend policy or not. This research will also be useful to management to point out the loopholes and suggest the remedies about the appropriate dividend policy and also for stockbrokers, financial agencies, policy makers and other interested person.

It may be useful to government as well for policy making, controlling, supervision and monitoring. Furthermore, students will be able to study about dividend policy and will be helpful as they can take it as reference if they are doing the research in the similar topics. As mentioned above, researchers can use it as a reference for their research.

### **1.6 Limitations of the Study**

There are limitations that weaken the generalizations – e.g. inadequate coverage of industries, time constraint, reliability of statistical tools used and other variables.

The research is going to be done for the partial fulfillment of the requirement of masters in business studies programme. So, the study has following limitations:-

- The study is mainly conducted on the secondary data collected from various sources. So the result depends on the accuracy and reliability of secondary data.
- This study only covers five fiscal year period (i.e. that is 2004/05 to 2008/09).
- Due to insufficiency of time, only five commercial banks are taken as sample.
- There are many factors that affect dividend decisions and valuation of the firm. However, only those factors related with dividend will be considered in the study.

### **1.7 Chapter Scheme**

The study has been organized into five chapters, each devoted to specific aspects of the study of corporate dividend practices in Nepal. Each of these chapters is as follows:

**Chapter one** deals with the subject matters of the study. The outline of the research is presented in the chapter. The whole research will be based on the introduction chapter. It deals with introduction, background of commercial banks, statement of the problem, objectives of the study, limitation of the study and significance of the study.

**Chapter two** deals with literature review of related materials available. It includes a discussion on the conceptual framework on dividend policy. It also includes review of various studies (i.e. various books, journals & articles, master's degree thesis etc) related with dividend decision.

**Chapter three** briefly explains the Research Methodology used to evaluate dividend practices of commercial banks in Nepal. It consists of research design, source of data, population and sample, method of analysis, statistical tools and financial tools used.

**Chapter four** is the main part of the study which fulfills the objective of the study by presenting data and analyzing them with the help of various statistical tools as per methodology. In this chapter, descriptive analysis of the gathered data and information using statistical as well as financial tools is carried out. In this chapter, major findings of the study have been conducted based on primary and secondary data.

**Chapter Five** states summary, conclusion and recommendation of the study based on the data presentation and its analysis using the tools used in the analysis. It also includes suggestive frame work of the study.

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

After selecting the topics of the research, researcher needs to review related literatures in the concerned area which will help to get a clear idea, opinion and other concepts. "What others have said? What others have done? And what others have written?" these all and other related qualities are reviewed which has provided useful inputs in this research work. This chapter emphasizes on the literatures which are concerned with this connection. This process of studying different materials, which are concerned with the selected topics of the research, is known as review of literature. Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research.

The present research aims to analyze the dividend policy of Commercial Banks in Nepal. Therefore, in this chapter conceptual framework given by different authors and intellectuals of this area, magazine, books, journals, research works, previous thesis etc related to dividend and dividend policy are reviewed. Moreover, rules and regulation regarding to dividend policy are reviewed and an attempt has been made to present them properly.

#### **2.1 Conceptual Framework**

In simple words, dividend refers to a portion of earning, which is distributed to shareholders in return of their investment in share capital. Dividend decision is not only important for the shareholders but also firm's internal growth. Dividends are desirable from shareholder's point of view as it helps to increase their current wealth. It is desirable from

company's point of view, as it will help in the growth of the firm. The dividend policy determines the amount of earnings to be distributed to shareholders and reinvested in the firm. There is a reciprocal relationship between retained earnings and cash dividends. If retained earnings are kept more by the company, less will be dividends and vice versa.

The dividend decision or dividend policy of a firm is one of the major decision-making areas of financial management. Simply, the policy of a company and the division of its profit between dividends and retention are known as dividend policy. "Dividend implies the portion of earnings that is paid to the shareholders while dividend policy refers to the guidelines that management uses in establishing the portion of earnings that is paid to the shareholders in the form of dividends". (Mathur, 1979, 297)

The firm will use the net profit for paying dividends to the shareholders, if the payment will lead to maximization of the wealth of the owners, if not, it is better to retain them for re-investment.

“The arguments of funds plugging back into the firms/companies in an analogy to the financial management's objective to increase the value of the shareholders' wealth or well-being and that well-being can be measured by dividends received but a more accurate measure is the market value of the stock.” (William; 1973; 156).

“Dividend refers to that portion of a firm's net earnings which is paid out to the shareholders.” (Khan. and Jain; 1992;543).

“Dividend policy of the firm, thus, affects both the long-term financing and the wealth of shareholders. As a result, the firm's decision to pay dividends may be shaped by two possible viewpoints.” (Pandey;1982,296).

"The power to declare dividends is lodged in the board of directors of the corporation. At a meeting of the board, in accordance with the charter and corporate by-laws, the board passes a resolution declaring the amount of dividend, the period which it covers, the payable date, and the record date of ownership." (*Cooke and Bomeli; 1967;180*).

"Dividend is the residue left after meeting all obligations and adjusting for retention of earnings and other provisions. It is a residue since shareholders get dividends only when there exists balance of earnings after paying fixed obligations such as operating expenses, interest, provisions for depreciation, and setting." (*Van Horne;1993; 327*).

"When we treat dividend policy as strictly a financing decision, the payment of cash dividends is a passive residual." (*Van Horne;1993;327*).

"Dividend payout of course reduces the amount of earnings retained in the firm and affect the firm's internal financing" (*Sharma; 2001;334*).

"The dividend policy should be optimal which balances the opposing forces and maximizes stock price." (*Thapa and Gautam; 2004; 1*).

Normally, dividends are paid in cash. Therefore it reduces the cash balance of the company. Dividend policy affects the financial structure, funds flow, corporate liquidity, and investors' attitudes. Thus, it is one of the central decision area related to policies seeking to maximize the value of firm's common stock. Dividend policy of the firm, thus, affects both the long term financing and the wealth of shareholders. Therefore, it is regarded as a tool to determine the appropriate allocation of profits between dividend payments and the amount to be retained in the firm. It deals with how much should pay to shareholders from the earnings. It

involves the decision to payout verses retaining them for reinvestment in the firm. Dividend payout reduces the amount of earnings retained in the business which affects the internal financing of the firm. If the firm increases the retained earnings, shareholder's dividend decreases and the market price of the share increases. Thus, dividend decision is always a matter of dispute because shareholders expect higher dividend from company, as it tends to increase their current wealth whereas retention of earning is desirable for the growth of firm.

If the company pays the earning as a dividend, they are beneficial directly and if company retains in the business to finance the business opportunities they are benefited indirectly through the investment of market price of share i.e. capital gain. In both of the case shareholders get benefit.

How much dividend should be retained in business, is not a simple question. Since dividends would be more attractive to shareholders, one might not hesitate to say that dividends weight more than retention in the perception of the shareholders. But one might equally pressure that gross dividend would be reduced some what with an increase in net after tax dividend still available to shareholders and an increase in retained earnings for the corporation. It would be wise policy to maintain balance between shareholders interest with that of corporate growth from initially generated fund. If the company cannot get required rate of return by investing the funds in investment opportunities, it will be better to distribute funds so that the shareholders can invest in the more profitable project.

So in conclusion it can be said that dividend decision is a major decision of financial management. Thus this study aims to focus on all the relevant

factors, prevailing practice and policies of selected banks regarding dividend, dividend policy and their payment.

### **2.1.1 Objectives/ Motives of Dividend Declaration**

Firms enjoy the funds of other shareholders. Investors also want their funds to be utilized in productive sectors where the return will be higher. The shareholders like to have fair return on their investment. So, dividend is one of widely used means of providing returns to shareholders. The firms declare and provide dividend for following motives:

- **Increase Market Price of Share**

Dividend scheme followed by the firm greatly affects the market price of share. Stable dividend policy has a positive impact on the market price of share. Shareholders are likely to pay a premium for a stock with a relatively assured minimum stable dividend. The price of shares with stable dividend is higher than that with fluctuating dividend. No firms or shareholders would like to have lower share prices. Hence, one of the motives of providing dividend is to maintain or increase the market value of shares.

- **To Provide Fair Return to Shareholders**

Shareholders are the owner of the firms. The firms must compensate them in return for the use of their fund. The return paid by the firm is said to be fair, if it is higher than the return that could be earned if the investment were made anywhere else. This motive is also concerned with the market price of share. It is the shareholders who pay extra amount for shares and thereby increase the share price. If the firm is able to meet shareholders' expectation, the price of shares of such firm will never decline. Hence to provide fair return to shareholders must be one of the motives of providing Dividend.

- **To Be Competitive in the Market**

There are various firms which are producing/providing similar products and/or services. Only those firms can sustain in the market which can compete other firms of similar nature. Similarly, the competition compels the firms to pay dividend to shareholders. Non-payment of dividend may have negative impact on share price and reputation of a firm, if its competitive firms are providing dividend to their shareholders. Hence, the firms pay dividend to be competitive in the market.

In addition to the above three motives, the firms could have several reasons of providing dividend. The firm prefers to pay dividend if it has enough fund and no investment opportunities. The firms pay dividend to foster its reputation in the market.

### **2.1.2 Forms of Dividend**

Though cash dividend is assumed to be the most popular form of dividend, corporation needs to follow various types of dividend according to the objectives and policies, which they implement. In addition to the declaration of cash dividends, the firm has other options for distributing profits to shareholders. "The type of dividend that corporations follow is partly a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plans and policies" (*Shrestha; 1980: 670*). According to the changing needs of corporations, dividend is being distributed in several forms viz. cash dividend, stock dividend (bonus share issue), scrip dividend, property dividend, optional dividend and bond dividend.

- **Cash Dividend**

Cash dividend is the dividend which is distributed to the shareholders in cash out of the earning of the company. This is the most common form of

dividend and most preferred by the shareholders. Cash is a major form of dividend. Most of companies pay dividend in cash. A company should have enough cash in its bank account when cash dividends are declared. To pay cash as a dividend, the company should have enough cash. If the company has not sufficient cash than the company should made arrangement to borrow funds. When the company follows a stable dividend policy, it should prepare a cash budget for coming period to indicate the necessary funds, which would be needed to meet the regular dividend payment of the company. The cash account and the reserve account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend is distributed. So the companies should wisely make decisions regarding payment of cash dividend.

- **Stock Dividend (Bonus shares) and Share Split**

A stock dividend simply represents the distribution of shares in addition to the cash dividend to the existing shareholders. This has the effect of increment in the number of outstanding shares of the company. The declaration of the bonus shares will increase the paid-up share capital and reduce the reserve and surplus of the company. The total net worth is not affected by the bonus issue. In fact, it represents nothing more than recapitalization of the owners' equity portion, i.e., the reserve and surplus. It is simply an accounting transfer from retained earning to capital stock.

The bonus shares do not affect the wealth of the shareholders. In practice, however it carries advantage both to shareholders and the company. For shareholders, one of the advantages for receiving the bonus shares is the beneficial treatment of such dividends with regard to income tax.

Normally, it is also indication of higher future profits. The declaration of the bonus issue may have a favorable psychological effect on shareholders. The bonus share is also advantageous to the company because it conserves the cash and only means to pay dividend under financial difficulty and contractual restrictions.

A stock split is eventually the same, as stock shares. The shareholders are given more number of shares, for the old shares they already own. In either case, each shareholder retains the same percentage of all outstanding stock that he or she had before the stock dividends or splits.

- **Bond Dividend**

Bond dividend is the dividend which is distributed among the shareholders of the company in the form of bonds. Bond dividends are always interest bearing. These are given when the company unable to take the burden of interest of loans. The bonds can be long term bonds. Bond dividend assists to postpone the payment of cash. In other words, company declares dividend in the form of its own bond with a view to avoid cash outflows. They are issued rarely and are long term enough to fall beyond the current liability group. The stockholders become secured creditors if the bond carries lien on assets.

- **Scrip Dividend**

When earning of the company justifies dividends but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of scrip. A dividend paid in promissory notes is called a scrip dividend. Scrip dividend is a form of promissory notes promising to pay the holder at specified later date. Under this form of dividend, company issues and distributes transferable promissory notes to shareholders, which may be interest bearing or non - interest bearing.

Scrip dividend is justified only when the company has really earned profit and has only to wait for the conversion of others current assets into cash in the course of operation. Therefore, in order to overcome the temporary shortage of cash, sometimes company uses scrip dividends.

- **Property Dividend**

This dividend is also known as liquidating dividend. This involves a payment of assets/ property in any form other than cash. This form of dividend may be used when there are assets that are no longer necessary in operation of the business or in extraordinary circumstances. Companies owned products and securities of subsidiaries are the examples that have been paid as property dividend.

- **Interim Dividend**

Generally dividend is declared in the last of the financial year. This is called regular dividend. If dividend is declared before the end of financial year that is called interim dividend.

- **Composite Dividend**

If the dividend is paid partly in the form of cash and partly in the form of property, then the dividend said to be composite dividend.

- **Optional Dividend**

Instead of giving composite dividend company can give option to its shareholders to take the dividend in cash or in property. The optional dividend is, in fact, not a kind of dividend but simply a choice of dividend given to the shareholders to accept either cash or stock dividend. But the shareholders consider the comparative value of stock dividend with the amount of optional cash.

### 2.1.3 Corporate Share Repurchase

Corporate share repurchase is taken as an alternative to paying dividends. If a firm has some surplus cash (or it can borrow), it may choose to buy back some of its own stock. It is essential to see why share repurchase may be viewed as an alternative to paying dividends. By repurchasing a stock, a company is reducing the number of shares outstanding. If the price-earning (P/ E) ratio does not change after the repurchase, the stock price must rise. "If a firm has excess cash and insufficient profitable investment opportunities to justify the use of these funds, it is in the shareholders interest to distribute the funds. The distribution can be accomplished either by the repurchase of stock or by paying the funds out in increased dividends" (*Horne: 10th edition. April 1997. P-331*). It is thus corporate share repurchase is often viewed as an alternative to pay dividends. A repurchase is a signal that manager, who posses an insider's knowledge of the firm, are convinced that their stock is worth more than its current price. In addition, their conviction is strong enough to lead them to pay a premium for the stock despite the risk of dilution if they are wrong. Nepalese Company Act 1997, section 47 has prohibited company from purchasing its own shares. It states that no company shall repurchase its own share or supply loans against the security of its own share.

James C. Van Horne quoted that the equilibrium share repurchase price  $P^*$ , a company should offer is:

$$P^* = \frac{S \times P_c}{S - N}$$

Where,

S= Number of shares outstanding prior to the distribution.

$P_C$  = Current market price per share prior to the distribution.

$N$  = Number of share to be repurchased.

#### **2.1.4 General Types of Dividend Policies**

In general, the assumption behind the dividend policy being followed in the real world is that policy makers takes into account the factors that affect the values of the firm in whatever policies they make. But it is very difficult to say, which policy, among all those being adopted by firms, is correct and optimal. Some companies have a policy of paying stable dividend per share whereas some have constant payout and some have a regular plus extra dividend. Stability or regularity of dividends is considered as a desirable policy by the management of companies. Most of the shareholders also prefer stable dividends because all other things being the same, stable dividends have a positive impact on the market price of the share. By stability, we mean maintaining its position in relation to a dividend trend line, preferably one that is upward slopping. In other words, the term dividend stability refers to the consistency or lack of variability in the stream of dividends. Precisely, it means that a certain minimum amount of dividend is paid out. The dividend policy can be simply grouped into following categories.

- **Stable Rupee Amount Policy**

The stable rupee amount policy implies a steady change in dividend amount, which increases at a certain constant growth rate to compensate for inflationary effect (or remain constant or decreases at a stable decreasing rate depending on the trend of earnings) irrespective of short-term fluctuations in earnings. According to this form of dividend, the company follows the policy of paying certain fixed amount per share as dividend. The fixed amount is paid as the dividend irrespective of the

firm's earnings. The dividend payment is not affected even if the earning is fluctuated. By following this policy, the company has to pay the dividend even if there is loss. The dividend per share is increased over the years when the earning of the firm increase and it is expected that the new level of earning is maintained.

- **Constant Payout Ratio**

Paying a fixed percentage of net earning every year is called constant payout ratio. The payout ratio is the ratio of dividend to profit. There are many companies, which use a constant percentage of profit for dividend distribution. When a company uses a constant payout ratio, amount of dividend fluctuates as earning do. Following this policy necessarily means that the rupee amount of dividends will fluctuate. This policy is related to a company's ability to pay dividends. If the company incurs loss, no dividends shall be paid regardless of the desires of shareholders. Internal financing with retained earnings is automatic when this policy is followed. At any given payout ratio the amount of dividends and the additions to retained earnings increase with increasing earnings and decrease with decreasing earnings. This policy simplifies the dividend decision, and has the advantage of protecting a company against over and under payment of dividend. It ensures that dividends are paid when profits are earned, and avoided when it incurs loss. This policy is undertaken by the corporate firm with the objective of giving impression to the shareholders that they are paid more dividends as earnings increases.

- **Low Regular plus Extras**

The policy of paying a low regular dividend plus extras is a compromise between a stable dividend and a constant payout rate. Under this policy, a firm usually pays a fixed dividend to the shareholders and in years of

market prosperity, additional dividend is paid over and above the regular dividend. As soon as the normal condition returns, the firm cuts extra dividend and pays the normal dividend per share. It gives the firm flexibility, but it leaves investors with somewhat uncertainty about what their dividend income will be. If a firm's earnings and cash flows are quite volatile, this policy might be the best choice. Those companies whose stockholders prefer at least a certain amount of regular dividend plus extra dividend based on company performance mostly follow this type of policy. Management fixes a minimum regular dividend to be paid in any case unless a long run trend of losses is expected. The amount of extra dividend depends on the level of earnings. Thus, a total dividend each stockholder receives is based on a fixed amount plus a certain percentage of profit.

- **Residual Dividend Policy**

"The residual dividend policy suggests that dividend paid by the firm should be viewed as a residual amount left after all acceptable investment opportunities have been undertaken" (Lawrance; 1994: 537.17). According to this theory, dividend policy is a firm's policy in which dividend is paid only after all acceptable investments have been financed. So, payment of dividend depends on its investment policy. In other words, the firms use earnings to finance the investment opportunities having good returns. If the firm has earnings left after financing all acceptable investment opportunities these earnings would then be distributed to shareholders in the form of dividend. If not, there would be no dividends. It assumes that the internally generated funds (i.e. retained earnings) are comparatively cheaper than the funds obtained from external sources (i.e. issuing new shares). It is because the retained earning or internally generated fund does not imply any flotation cost as

in the external sources by selling equity shares. So, under this theory, dividend policy is determined by the following two major factors:

- i) Company's investment opportunities.
- ii) Availability of internally generated funds i.e., retained earnings.

According to this concept, dividend policy is totally passive in nature. 'When we treat dividend policy as strictly a financing decision, the payment of cash dividend is a passive residual' (Van Horne; 1993:327).

Residual dividend policy is the outcome of belief that investors are better off in reinvesting company profits and they prefer so. If the expected return on the reinvestment is higher than what individual investors can realize on their own, it is to the shareholders advantage to first invest profits in those projects that promise higher profit and then distribute only the leftovers as dividends.

The residual dividend policy states that profit should be used first in all profitable investment plans, which reflect equal or higher rate of return than investor's opportunity rate of return. And if there is any profit left that could not be utilized, it should be distributed as dividends. The principle on which the theory is based is clear, that is, to maximize the benefits to shareholder be first undertaking investment plans and distributing dividends if there is any leftover.

The residual policy says that the dividends decisions should be such that (a) profits are reinvested to the optimum investment level that reflects maximum returns; (b) reinvestment of profits help maintain optimal capital structure; and (c) dividends are to be paid only if earnings are more than enough for investment plans. Thus, the residual policy is consistence with the basic objective of value maximization, places more

importance to overall value maximization than present dividend to shareholders.

Although the residual theory of dividends appear to make further analysis of dividend policy unnecessary, it is indeed not clear that dividends are solely a means of disbursing excess funds. It would therefore be imprudent to conclude that there are no other implications of dividend policy, and so this study shall take a closer look at the relationship between dividend and value.

## **2.2 Factors affecting Dividend Policy**

The financial manager must understand the various conflicting factors which influence the dividend policy before deciding allocation of its company's earnings to dividend and retained earnings. Many considerations may affect a firm's decision about its dividends, some of them are unique to that company, and some of the more general considerations are given subsequently.

- **Legal Rules**

The dividend policy of the firm has to evolve with the legal framework and restrictions. Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. Second specific limitations, which is vary by state. Generally a corporation may not pay a dividend at following conditions:

- a) If the firms liabilities exceed its assets.
- b) If the amount of the dividend exceeds the accumulated profits or retained earnings.
- c) If the dividend is being paid from capital invested in the firm.

The second type of legal restriction is unique to each firm and results from the restriction in debt and preferred stock contracts.

- **Liquidity Position**

The cash/bank balances of the firm influences its ability to pay dividends. The greater the overall liquidity of the company, the greater will be the ability to pay the dividend. A firm may have sufficient retained earnings, but if they are invested in fixed assets, cash may not be available to make dividend payment. Thus, the company must have adequate cash available as well as retained earning to pay dividends.

- **Restrictions in Debt Contracts**

Restriction on loan agreement directly affects on dividend policy of a firm. Such restrictions are designed to protect the position of lender and preference shareholders.

Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above a specified amount. Also, preferred dividends take precedence to common stock dividends.

- **Desire of Shareholders**

Shareholders may be interested either in dividend incomes or capital gains. Wealthy shareholder in a high income tax bracket may be interested in capital gains as against current dividends. A retired and old person, whose source of income is dividend, would like to get regular dividend. In a closely held company, management usually knows the desires of shareholders. So, they can easily adopt a dividend policy that satisfies all shareholders. But in a widely held company, number of shareholders is very large and they have diverse desire regarding dividends some want cash dividends, while other prefers bonus share.

- **Rate of Asset Expansion**

The more rapidly a firm is growing greater its need for financing assets expansion. The greater the future need for fund, there is more likely to retain earnings rather than pay them out consequently shareholders will get minimum dividend. A high rate of asset expansion creates a need to retain funds rather than to pay dividends.

- **Need to Repay Debt**

The need to repay debt also influences ability of cash flow to pay dividend. When a firm issues debt capital, it must be refunded in maturity in order to retire debt, retention of earning is essential. So the dividend policy is affected by retained earnings.

- **Profit Rate**

The rate of return on assets determines the relative attractiveness of paying out earning in the form of dividend to stockholder. If other things remain same high profit rates is the indicator of high dividend payout.

- **Stability of Earnings**

A firm that has a stable earnings trend will generally pay a larger portion of its earnings in dividends. If earnings fluctuate significantly, a larger amount of the profits may be retained to ensure that enough money is available for investment projects when needed. So it is likely to retain a high proportion of current earnings.

- **Tax Position of Shareholders**

The tax position of the corporation's owners greatly influences the desire for dividends. Corporation owned by largely taxpayers in high income tax brackets tend toward lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

- **Control**

The existing controlling group wanting to continue their position wants to retain more profit paying fewer dividends. If the company raises additional fund selling new common stock, the chances of diluting the control position will increase. Similarly on the other sides increasing loan amount also increase the risk of existing shareholders because of these a company can retain more profit paying less as dividend.

- **Access to the Capital Markets**

A firm's access to capital markets will be influenced by the age & size of the firm. Therefore a large well established firm with record of profitability and stability of earning has easy access to capital markets and other forms of external financing. Easy accessibility to the capital market provides flexibility to the management in paying dividend as well as in meeting the corporate obligation. Thus a fast growing firm having tight liquidity position will not face any difficulty in paying dividends if it has access to the capital market.

### **2.3 Rules Regarding Dividend Practices in Nepal**

Nothing had been explained about dividend practice in Company Act 2021 in Nepal but after the establishment of Security Exchange Act 1983, Nepal Stock Exchange Limited which safeguard the investor's interest. After that, in 1997 Nepal Company Act has amended which had made some legal provision for dividend payment. These provisions may be seen as under. ( Endi Consultants Research Group 1997, 43)

Section 2 (m) states that stock dividends (Bonus share) means share issued in the forms of additional shares to shareholders by capitalizing the surplus from the profit or the reserve fund of the company. The term also denotes an increase in the paid up values of the shares after capitalizing

surplus or reserve fund of a company. The term also denotes an increase in the paid up values of the shares after capitalizing surplus or reserve funds. ( Endi Consultants Research Group 1997, 60)

Section 47 has prevailed company from purchasing its own share. This section states that no company shall purchase its own shares or supply loans against the security of its own. ( Endi Consultants Research Group 1997, 94)

Section 137, Bonus shares & sub section (i) states that the company must inform the office before issuing bonus shares under sub section (i), this may be done only according to special resolution passed by the general meeting. ( Endi Consultants Research Group 1997, 94-95)

Section 140: Dividend and sub section of this section are as follows.

1. Except in the following circumstance, dividend shall be distributed among the shareholder with in 45 days from the date of decision to distribute them.
  - a) In case any law forbids the distribution of dividends.
  - b) In case the right to dividend is disputed.
  - c) In case dividends can not be distributed with in the time limit, mentioned above owing to circumstances beyond anyone control and without any Fulton the part of the company.

Sub-section (2): In case dividends are not distributed with in the time-limit in sub- section (1), this shall be done by adding interest at the prescribed rate.

Sub- section (3): Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

The above rules indicate that Nepalese law prohibits repurchase of stock, which is against the theory of finance. The reason for this kind of provision is not known.

## **2.4 Review of Major Studies in the Relevant Field**

Here, we are going to review of the major studies concerning dividends, behavioral aspect of dividend policy, and its effect upon value of enterprises and dividend's effect on market price of share.

### **1. Linter's Study**

During 1956, Linter conducted an important study of the behavioral aspect of dividend policy in the American context. From the investigation of 28 companies in America partial adjustment model was developed by him. From this he concluded that a major portion of the dividend of a firm could be expressed in the following way. (*Linter 1956/ 97-113*)

$$D^*_t = P \cdot EPS_t$$

$$D_t - D_{t-1} = a + b(D^*_t - D_{t-1}) + e$$

Where,

$D^*_t$  = Desired Dividend

$EPS_t$  = Earnings per Share

$P$  = Targeted payout Ratio

$a$  = Constant related to dividend growth

$b$  = Adjustment factor relating to previous period's dividend and desired level of dividend ( $b > 1$ )

The major findings of this study were.

- ❖ Firms generally think in terms of proportion of earning to be paid out.

- ❖ Investment requirements are not considered for modifying the pattern of dividend behavior.
- ❖ Firm generally have target payout ratio in view while determining change in dividend, or dividend rate.

## **2. Modigliani and Miller's Study**

Modigliani and Miller (1961) conducted a study on the irrelevance of dividend. This is popularly known as MM approach. It is sometimes termed as “Dividend Irrelevance Model”. According to MM, dividend policy of a firm is irrelevant as it does not affect the wealth of the shareholders. They argue that the value of the firm depends on the earning power of the firm's assets or its investment policy. Thus, when the investment policy is given, the dividend decision - splitting the earnings into packages of retentions and dividends does not influence the value of equity shares. In other words, the division of earnings between dividend and retained earning is irrelevant from shareholders viewpoint.

This study is based on the following assumption:

- ❖ The firm operates in perfect capital market.
- ❖ These are no taxes.
- ❖ The firm has a fixed investment policy, which is not subject to change.
- ❖ Risk of uncertainty does not exist.

Considering the above critical assumption MM provide the proof in support of their arguments.

$$nP_0 = \left( \frac{P_1(n + \Delta n) - 1 + E}{1 + Ke} \right)$$

Where,

$nP_0$  = Value of firm

$P_1$  = Market price of the share at the end of year.

$n$  = No. of additional share

$\Delta n$  = No. of new shares at the end of the period.

$I$  = Total investment

$E$  = Total Earning of the firm.

By taking the above equation, it is formed that there is no role of dividend in estimating the value of firm. So Modigliani & Miller concluded that dividend policy has no effect on the share price or value of the firm. A firm that pays dividends will have to raise funds externally to finance its investment plans. MM hold that when the firm pays dividends, external financing offsets its advantage.

Hence, MM theory concluded that, it seems that under the conditions of perfect capital market, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy, its dividend policy may have no influence on the market price of the share. (Modigliani & Miller 1966, P-345)

### **3. Gordon's Study**

Myron Gordon (1962) conducted a study on the stock valuation using the dividend capitalization approach. Gordon concludes that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. He explains that investors are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. The conclusion of this study is that investors have a strong preference for present dividends to

future capital gains under the condition of uncertainty. It is assumed that current dividend is less risky than the expected capital gain. His argument stresses that an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield ( $D_1/P_0$ ) is less risky than the expected capital gain. Gordon's model is also described as "a bird in hand argument". It supports the arguments which are popularly known as a bird in hand is worth two in the bush.

What is available at present is preferable than what may be available in the future. That is to say current dividends are considered certain and risk less. So it is preferred by rational investors as compared to deferred dividend in future. The future is uncertain. The investors would naturally like to avoid uncertainty. So the current dividends are given more weight than expected future dividend by the investors. So the value per share increases if dividend payout ratio is increasing. This means there exist positive relationship between the amount of dividend and stock prices. Gordon's model is also known as GROWTH MODEL.

A firm having greater investment opportunities tends to increase retention ratio by keeping low dividend payout ratio. In his dividend model, he assumes that the firm is all equity financed and also making the firm to rely on retained earnings without external financing. According to him, market value of the share is equal to present value of an infinite stream of dividend to be received by the share.

Basically his model based on the following assumptions:

- a. No external financing is available i.e., only source is retained earning.
- b. The firm uses equity capital only.

- c. Internal rate of return (r) and cost of capital (K) of the firm remains constant.
- d. The firm has a perpetual life.
- e. There are no taxes on corporate income.
- f. The growth rate,  $g = br$ , is constant forever.
- g. Growth rate is always smaller than cost of capital [ $g < k$ ].

From, his above assumption, Gordon develop following formula for finding out the market value per share,

$$P = \frac{E(1-b)}{K_e - b.r}$$

Where,

P= Market value per share

E= Earning per share

b= Retention ratio

$K_e$ = Cost of capital or capitalization rate

r= Interest rate of return

b.  $r =$  growth rate (g)

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

According to his study, following facts are revealed.

- In case of growth firm ( $r > k$ ), share price tends to decline in corresponding with increase in payout ratio or decrease in retention ratio i.e. high dividend corresponding to earnings leads to decrease in share price and low dividend corresponding to earning leads to

- In case of normal firms( $r=k$ ), dividend payout ratio does not affect the value of share in normal firm. In other words, share value remains constant regardless of changes in dividend policies. It means dividend and stock price are free from each other in normal firm i.e.,  $r = k$  firm.
- In the case of declining firm( $r < k$ ), share price tend to rise in correspondence with rise in dividend payout ratio. It means dividend and stock prices are positively correlated with each other in a decline firm.

#### **4. Van Horne & Mc-Donald's Study**

Van Horne and Mc Donald conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They explored some basic aspects of conceptual framework, and empirical tests were performed during year-end 1968, for two industries, using a well-known valuation modal. The required data were colleted from 86 electric utility firms included on the COMPUSTAT utility data tape and 39 firms in the electronics and component industries as listed on the Compute industry data tape. (Van Horne & McDonald, 1971, 507-519)

They tested two regression models for the utilities industries.

First model was,

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + U$$

Where,

$P_0/E_0$  = Closing market price in 1968 dividend by average EPS for 1967 and 1968

$g$  = Expected growth rate, measured by the compound annual rate of growth in assets per share for 1960 through 1968.

$D_0/E_0$  = Dividend payout, measured by cash dividend in 1968 dividend by earnings in 1968.

$Lev$  = Financial risk, measured by interest charges dividend by the difference of operating revenues and operating expenses.

$u$  = Error term

The Second Model was,

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (F_a) + a_5 (F_b) + a_6 (F_c) + a_7 (F_d) + U$$

Where,

$F_0, F_b, F_c$  and  $F_d$  are dummy variables corresponding to new issue ratio (NIR) groups A through D.

It is noted that they had grouped the firms in five categories A, B, C, D and E by NIR. For each firm the value of dummy variables representing it's NIR group is one and the value of remaining dummy variables are zero.

Again, they tested the following regression equation for electronics electronic components industry.

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (OR) + U$$

Where,

Lev= Financial risk, measured by long-term debt plus preferred stock dividend by net worth as of the end of 1968.

OR= Operating risk, measured by the standard error for the regression of operating earnings per share on time of 1960 through 1968, and rest are as in first model above.

By using these models or methodology, they compared the result obtained for the firms, which both pay dividends and engage in new equity financing with other firms in and industry. They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividends, except for those in the highest new issue group and it made new a mostly costly form of financing than the retention of earning. They also indicated that the payment of dividends through excessive equity financing reduces share prices for electronics, electronic components industry, a significant relationship between new equity financing and value was not demonstrated.

### **5. Deepak Chawala and G. Srinivasan's Study**

In India, Chawala and Srinivasan studied the impact of dividend and retention on share price.<sup>18</sup> Chemical and 13 sugar industries were selected for the study. (Chawala, and Srinivasan, 1987, 137-140)

The objectives of their study were as follows:

- To set a model to explain share price, dividend and retain earnings relationship.
- To test the dividend, retained earnings hypothesis.
- To examine the structural changes in the estimated relations over time.

a. Price function,

$$P_t = [D_t \cdot R_t \cdot (P/E)^{t-1}]$$

b. Dividend supply function

$$D_t = [E_t, D_{t-1}, (P/E)^{t-1}]$$

c. Identify

$$E_t = D_t + R_t$$

Where,

P = Market price per share

D = Dividend per share.

R= retained earnings per share

E=Earning per share

P/E=Deviation from the sample average of price earnings ratio

t = Subscript for time

They used two stage least square techniques for estimation and in case of chemical industry they found the estimated coefficient had the correct sign and the coefficient of determination of all the equation were very high. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry, they found the sign for the retained earnings is negative. Finally, they concluded that dividend hypothesis holds well in chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry. They also stressed that the impact of dividend is more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings.

## 6. Walter's Study

James E. Walter in his study concluded that the choice of dividend policies almost always affects the value of enterprises. (Walter, 1996, 29-44). In his study he suggests that dividend practice of firm affects its stock price. Walter's specially highlight that, there is significant relationship between internal rate of return and cost of capital, which is the main determining factor to retain its earnings or to distribute dividend to shareholder.

His study was based on the following assumptions:

- The firm finances all investment projects through retained earning.
- All earning are either distributed as dividend or reinvested internally.
- The firm's internal rate of return ( $r$ ) and its cost of capital ( $K$ ) remain constant.
- There is no change in value of earnings per share and dividend per share.
- The firms have perpetual life.

Based on these assumptions, Prof. Walter develops a model to determine the market price per share as follows:

$$P = \frac{DIV}{K} + \frac{r(EPs - DIV)/K}{K}$$
$$= \frac{DIV + r(EPs - DIV)/K}{K}$$

Here,

$P$  = Market price per share.

$DIV$  = Dividend per share

EPS = Earnings per share

R = Internal rate of return (average)

K = Cost of capital or Capitalization rate

According to this study the given firm may have three probable conditions. They are:

### **Growth First, $r > K$**

If the firm's internal rate of return is more than cost of capital, the relation between dividend and stock price is negative, i.e., more dividend leads to low stock price and vice-versa. This kind of firm is referred to as growth firm. The zero dividend payout ratios would maximize the market value of stock for growth firm.

### **Normal Firms, $r = K$**

If a firm has  $r = K$ , there is no relation between dividend and stock price, i.e., there is no role of dividend payout ratio for determining stock price. In this situation the firm is indifferent whether to retain its earnings or to pay dividends, such firms are called normal firms. The market price of share will remain constant for different dividend payout ratios from zero to 100. Thus there is no unique optimum payout ratio for a normal firm. One dividend policy is good as another and the market value per share is not affected by the payout ratio when  $r = k$ .

### **Declining Firms, $r < K$**

If the firm's internal rate of return is less than the cost of capital, the relation between dividends and stock prices is positive, i.e., increase in payout ratio leads to increase in stock price. This type of firm is referred to as declining firm. Prof. Walter argues that 100% dividend payout would optimize the market price of share for such firm.

In this way, Walter's study conclude that dividends are negatively correlated with market value of stock for growth firm, positively correlated for declining firm and there is no relation between market value and dividend payout ratio for normal firm.

### **Criticism of Walter's Model**

#### **(i) No external financing**

This model is based on assumption that the investment opportunities of the firm are financed by retained earnings finance the investment opportunities of the firm only no external financing i.e., debt or equity is used for the purpose. When such a situation exist either the firm's investment or its dividend policy or both will be sub-optimum.

#### **(ii) Constant rate of return (R) and opportunity cost of capital (K)**

This model assumes that rate of return (R) and opportunity cost of capital or discount rate (k) is constant. In fact, rate of return (R) changes with increase and decrease of investment. i.e., R decreases as more investment occurs and cost of capital (k) changes directly with the risk borne by the firms. (Walter; 1966: 29-41, extracted from, "Panday; 1989:280").

### **2.5 Review of Research Works in Nepalese Perspective**

In this regard, there are very few articles published in Nepal under this sub- section, the two major studies are reviewed as follows:

#### **1. Pradhan's Study**

This study on "Stock market behavior in a small capital market: A case study of Nepal" was based on the data collected for 17 enterprises from 1986 through 1990. (Pradhan, 1993, 23-49)

The following were the objectives of the study.

- To assess the stock market behavior in Nepal.

- To examine the relationship of market equity, market value to book value, price- earnings, and dividend with liquidity, profitability, leverage, assets turnover, and interest coverage.

The employed equation was:

$$V = b_0 + b_1 \text{ LIQ} + b_2 \text{ LEV} + b_3 \text{ EARN} + b_4 \text{ TURN} + b_5 \text{ COV} + U_t$$

Where,

The dependent variable V chosen for the study has been specified as under:

Market equity (ME) - Market value of equity to its book value  $\left(\frac{MV}{BV}\right)$ .

Price- earning ratio  $\left(\frac{P}{E}\right)$ .

Dividend per share to market price per share  $\left(\frac{DPS}{MPS}\right)$ .

Dividend per share to earning per share  $\left(\frac{DPS}{EPS}\right)$ .

LIQ= Current ratio (CR) or quick ratio (QR).

LEV= Long-term debt to total assets  $\left(\frac{LTD}{TA}\right)$  or long-term debt to total capitalization  $\left(\frac{LTD}{TC}\right)$ .

EARN= Return on assets, that is earning before tax to total assets  $\left(\frac{EBT}{TA}\right)$  or earning before tax to net worth  $\left(\frac{EBT}{NW}\right)$ .

TURN = Fixed assets turnover, that is, sales to average fixed assets  $\left(\frac{S}{FA}\right)$ , or total assets turnover, that is sales to average total assets  $\left(\frac{S}{TA}\right)$ .

COV = Interest coverage ratio, that is, earning before tax to interest.

U = Error term

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

- Higher the earnings on stocks, larger the ratio of dividends per share to market price per share.
- Dividend per share and market price per share was positively correlated.
- Positive relationship between the ratio dividend per share to market price per share and interest coverage.
- Positive relationship between dividend payout and liquidity.
- Positive relationship between dividend payout and profitability.
- Positive relationship between dividend payout and turnover ratios.
- Positive relationship between dividend payout and interest coverage.
- Liquidity and leverage ratios are more variable for the stock paying lower dividends.
- Earnings, assets turnover, and coverage are more variable for the stock paying higher dividend.

## **2. Shrestha Study**

One article, "Public Enterprises: Have they dividend paying ability"? Was published in 1981 by Prof. Dr. Manohar Krishna Shrestha, which gives short gliMPPSe of the dividend performance of some public enterprise of that time in Nepal. (Shrestha, 1981, 23)

Dr. Shrestha has highlighted following issues in his article.

- Nepal Government (NG) expects two things from the public enterprises:
  - They should be in a position to pay minimum dividend and
  - The public enterprises should be self- supporting in financial matters in future years to come, but non of these two objectives are achieved by the public enterprises.
- One reason for this inefficiency is caused by excessive government interference in day-to-day affairs. On the other hand, high-ranking officials of HMG appointed on directors of Board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and Lead Corporation to face losses. Losing corporations are therefore not in position to pay dividend to government.
- Another reason is the lack of self-criticism and self-consciousness. Esman has pointed out that the lack of favorable leaders is one of the biggest constraints to institution building. Moreover, corporate leadership comes as managers of corporations have not been able to identify them regarding what they can contribute as managers of corporations. So, NG must be in a position to develop a financial target in corporate investment by imposing financial obligation on corporation.
- The article point out the irony of government biasness that government has not all owed bands to follow an independent dividend policy and NG is focused to have pressurized on dividend payment in case of Nepal Bank Ltd. regardless of profit. But, it has let off Rastriya Banijya Bank from dividend obligation in spite of considerable profit.

The improvements suggested by author are:

- Adopt a criteria-guided policy to drain resources from corporations through the medium of dividend payment.
- Realization by Managers about the cost of equity and dividend obligation.
- If Nepal Government wants to tap resources through dividend, the following criteria should be followed.
- Proper evaluation of public enterprises in term of capability of paying dividend should be made through corporation co-ordination committee.
  - Imposition of fixed rate of dividend by government to all the financially sound public enterprises.
  - Circulating the information to all the public enterprises about the minimum rate of dividend.
- Specifying performance criteria such as profit target in terms of emphasis, priorities, timing and plans and developing a strategic plan that is not just a statement of corporate aspiration but must be done to convert the aspiration into reality.
- Identification of corporation objectives in corporation Act, Company Act or special charter so as to clarify the public enterprise managers regarding their financial obligation to pay dividend to NG.

## **2.6 Review of Previous Thesis**

Prior to this thesis some students have conducted several thesis work out of them some studies are supported to be relevant for this study have been reviewed in this section.

**Ghimire (2002)**, has conducted a research on the topic, “*Dividend Policy of Listed Companies with ref. to Banks, Finance and Insurance Companies.*”

The main objectives of his study are:

- i) To identify the dividend policy of different sample companies.
- ii) To identify the regularity of divided distribution of different listed companies.
- iii) To identify the relationship between dividend policy and other financial indicators.
- v) To find out whether dividend policy affect the value of the firm or not.
- vi) To analyze the relationship between DPS and MPS.
- vii) To provide suggestion for the improvement of sample companies dividend policy on the basis of findings.

The methodology used in the study includes financial tools such as ratio analysis and statistical tools such as correlation co-efficient and probable error. Secondary data are used for the analysis.

The major findings:

- i) The average dividend per share of the banks is satisfactory compared to finance and insurance companies.
- ii) The average earning per share of the bank is also more satisfactory than finance and insurance companies.
- iii) DPS of the finance companies are more fluctuating in comparison to banks among them HBL has more fluctuation and NGBL being consistent.

- iv) Dividend yield of the finance and insurance are higher than banks and more consistent too.
- v) Banks are following aggressive dividend policy due to higher DPR whereas finance and insurance companies implemented moderate dividend policy.

**Dhungel (2004)**, has conducted a study on “*Dividend Policy of the Commercial Banks in Nepal*”.

The main objectives of his research are:

- i) To study whether the commercial banks are following the suitable dividend policy or not.
- ii) To study whether the dividend policy affects the value of the firm or not.
- iii) To compare the dividend policy followed by different commercial banks chosen.
- iv) To study the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, Net worth, Net profit and book value of share.

Major findings are:

- i) None of the sample banks are following suitable dividend policy except SCBNL.
- ii) The regression analysis of DPS on MPS shows that increase in MPS leads to decrease in DPS in all the sample banks except SCBNL.
- iii) There is positive relationship between EPS and MPS in all the banks except in case of SBIBC.

- iv) Change in dividend per share affects the value of share differently in different banks.

**Budathoki (2006)**, has carried out a research on “*Dividend Policy of the Commercial Banks In Nepal.*” The main objectives of her research are:

- i) To highlight the dividend practices of commercial banks.
- ii) To compare the dividend policy followed by different commercial banks chosen.

Major findings are:

- i) There is not fixed consistency between financial variable i.e. EPS, MPS, DPS, DPR, P/E Ratio, EY and DY.
- ii) Dividend practices of all sample banks are neither stable nor constantly growing. Haphazard way of distribution in growing trend is observed.
- iii) Changes in DPS affect the market price per share differently in different banks.

**Shrestha (2006)**, has made a study with the title “*Effect of Dividend Policy on Market Price of the Stock of Nepalese Commercial Banks*” taking data through 2057-2061.

The main objectives are:

- i) To find out the impact of dividend policy on market price of stock.
- ii) To analyze the variables such as profit, retained earning, growth rate and other relevant variables to show relationship between the value and other ingredients affecting it.
- iii) To analyze if there is any uniformity among DPS, EPS, MPS and DPR in the sample firms and the relation between them.

Major findings are:

- i) Market price per share of every financial institution has fluctuating nature as indicated by standard deviation.
- ii) There is positive relationship between MPS and DPS and MPS and EPS in case of NSBIL, SCBL, HBL, NBBL, NBL and BOKL.
- iii) Most of the financial institutions stock prices are highly depend in fluctuations of EPS.
- iv) The customary strong EPS and relatively week lagged DPS effect in DPS in all firms.
- v) There is greater influence of DPS rather than EPS to MPS in all the sample firms observed.

**Kharel (2006)**, conducted her studies on “*Dividend Policy of Commercial Banks with respect to Nepal Arab Bank Ltd., Himalayan Bank Ltd and Bank of Kathmandu. Ltd.*” based on the data collected for the years from 2000/01 to 2004/05.

The main objectives are:

- i) To analyze the prevailing dividend practices of sample banks.
- ii) To analyze and evaluate the application of dividend decision in the selected banks.
- iii) To analyze the relationship of dividend with earning per share, net worth, net profit, market price and book value per share.

Major findings are:

- i) DPS of the commercial banks in average shows that there is no regularity in dividend payment.
- ii) Banks should pay proper attention to enhance their percent of cash dividend on paid up value.

- iii) From the regression analysis it can be conclude that a change in DPS affects the share price differently in different banks.
- iv) Payment ratio affects stock price differently in different banks.

**Karki (2006)**, conducted a study on, “*A Study on Dividend Policy in Finance Companies*”. The main objectives of the research are:

- i) To analyze the dividend policy followed by Finance companies.
- ii) To compare the dividend paid by Annapurna Finance Company Ltd. and Butwal Finance Ltd.
- iii) To examine the relationship between DPS with EPS, MPS and BPS.
- iv) To predict DPS in future years.

The major findings of Karki are as follows;

- i) 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.
- ii) 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.
- iii) The correlations coefficient indicates that MPS increases with the increase in DPS of each bank and the relationship is positively significant.
- iv) The regression analysis indicates that the MPS of both banks are highly dependent on the DPS and EPS of corresponding banks.
- v) The trend analysis depicts that the DPS of AFCL in the fiscal year 2005/06 and 2006/07 will be Rs.12.76 and Rs.14.85

respectively, whereas the DPS of BFL will be Rs.9.82 and Rs.10.15 in the fiscal year 2005/06 and 2006/07 respectively.

**Khatiwada (2008)**, conducted a study on “*A comparative study of Dividend policy in Nepal Investment Bank Ltd. and Standard Chartered Bank Ltd.*” The main objectives of the study are as follows:

- i) To identify the dividend policy in SCBNL and NIBL.
- ii) To examine the relationship between earning and dividend distribution.
- iii) To evaluate the impact of dividend on share price.
- iv) To examine the relationship of DPS with other financial indicators.

The major findings of Khatiwada are presented below:

- i) 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.
- ii) 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.
- iii) 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%.
- iv) DPS has high influence on the price rise/fall of share. Both MPS and BPS are highly dependent on the DPS of corresponding banks.
- v) 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.
- vi) There exists high correlation between DPS and EPS, DPS and MPS and DPS and BPS of both banks.

**Maharjan (2009)**, has made study on “*Dividend policy of listed commercial banks*” based on the data of five years.

The main objectives of the study are listed below:

- i) To analyze the dividend policy of the listed commercial banks.
- ii) To find out the impact of the dividend policy in the market.
- iii) To study the relationship of dividend policy with different other financial indicators.

Major findings of Maharjan's study are as follows:

- i) Almost all banks have increasing EPS except NBBL and SCBNL has the highest average EPS and lowest variation in EPS during review period.
- ii) SCBNL have the highest amount of dividend paid per share while NBBL have paid the least amount. NABIL bank has continuously paid the dividend in the five year study period while in the case of other banks, irregularity in paying dividends.

Actually, Commercial banks are financial institutions provides services, which are different from other like development agriculture etc. So, in commercial bank there should be some unique policy and strategy. This study differs from the previous studies because it tries to analyze the capital market explaining whether the capital market is efficient or inefficient which is not cover by previous studies.

## **2.7 Research Gap**

There have been many national and international studies in the field of dividend policy to date. All concepts and practices of foreign author's model about dividend practices are not used in our Nepalese dividend policy. Those studies have tried to find out the relationship between dividend policy and market price of the stock. But as the Nepalese capital market is in the early stage of development, the conclusion made by the international studies may not be relevant in the Nepalese context. So it is recommended to devote some efforts and think foreign model dividend practices in Nepalese dividend Policy.

So far the Nepalese studies are concerned some studies like Pradhan's, Manandhar's which can be considered as landmark in the field of dividend policy. But many more changes have taken place in Nepalese capital market in last few years. So it is necessary to carry out a fresh study related to dividend pattern of commercial banks of Nepal.

This is distinct study form previous studies in terms of sample size, nature of the sample firms and methodology used. This study has covered only five commercial banks. Five years data have been analyzed with due consideration of EPS, DPS, DPR and MPPS. Taking in mind for more elaborate and extensive analysis, company wise analysis has been made. In order to assess the impact of dividend on market price of share available information from concerned banks were reviewed and analyzed. Regression analysis has been done assuming market price of share as dependent variable and other variables like DPS, EPS and D/P ratio as independent variable. So it is believed that this study is quite different.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research is the process of a systematic and in depth study or search of any particular topic, subject or of investigation backed by the collection, presentation and interpretation of relevant details or data. Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps to be adopted by the researcher in studying the problem with certain objectives. In other words, it is the steps, guidelines, and tools used in the research by the researcher. It considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It is one of the most important parts of the research which provides outlines of the research and also present method and process of entire research. It highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc .In this study research methodology has been paid due attention to achieve the objectives of the study.

#### **3.2 Research Design**

Research design is a plan, structure and strategy of investigation. It is conceived so as to obtain answers to research questions and to control variance. Research design helps in the analysis of data related to the study topic. It is a controlling media for the collection of data. It helps to collect the accurate information, which is related to dividend practices of the selected commercial banks. The research design of this study will be descriptive as well as analytical by using the variables related to the dividend policy of commercial banks.

### **3.3 Population and Sample**

Since mid 1980s when NG (Nepal Government) adopted economic liberalization policy in Nepal, many Joint venture banks and finance companies has established within a short period of time. As a result, now a days, many Joint Venture Banks and finance companies are operating in the country.

There are many Joint Venture Banks whose share is traded actively in the stock market. It is not possible to study all of them regarding the study topic. Therefore sampling technique will be used for selecting sample from population. The list given below shows the listed commercial banks in the securities board. This research work has selected five Commercial Banks for the study purpose. The samples selected for this study are as given below:

- i) Bank of Kathmandu (BOK)
- ii) Everest Bank Limited (EBL)
- iii) Himalayan Bank Limited (HBL)
- iv) Nepal Investment Bank Limited (NIBL)
- v) Nepal SBI Bank Limited (NSBL)

### **3.4 Nature and Sources of Data**

The researcher can use two methods of data collection i.e. Primary and Secondary data. Primary data are the data collected directly from the field survey. Those data are very reliable if researcher can reach the correct destination with required tools. Secondary data are collected from different other sources such as annual reports, magazines, newspapers, journals, articles etc. Here both the primary and secondary data are used for the study. The study is based on both primary and secondary data. With the list of questionnaire, commercial banks its shareholders and other related personals are visited and data are collected from there. Some data are again collected from the respective commercial bank's annual

reports especially from profit and loss accounts, balance sheet and other publications made by the banks, which are the secondary data. Other supplementary data and information are obtained from Nepal Rastra Bank's reports.

### **3.5 Methods of Analysis**

Specific financial and statistical tools are used in this research. The analysis of data is done according to pattern of data available. Wide varieties of methodology have been applied according to the reliability and consistency of data. Various financial and statistical tools have been applied to analyze the variables regarding the study topic. The various calculated results have been obtained through financial and statistical tools. The calculated results are tabulated under different heading for ease of reading, and then they are compared with each other to interpret results. The financial tools used earning per share, dividend per share, dividend yield, earning yield, dividend payout ratio and the market price per share etc. The statistical tools that are used are arithmetic mean, standard deviation, coefficient of correlation, coefficient of determination, regression equation and trend analysis.

### **3.6 Tools Used for Analysis**

Various statistical and financial tools are used in this study. Wide varieties of methodology have been applied according to the reliability and consistency of data. Before using the analytical tools to compare the result, the data containing in the financial statements have been grouped and rearranged so as to make comparison easy. For the purpose of analysis the data of five years were taken as sample from 04/05 to 08/09. The data are analyzed financially and statistically. The calculated results are also tabulated under different heading for ease of reading, and then they are compared with each other to interpret results.

### **3.6.1 Financial Tools Used for Analysis**

To evaluate the financial position and performance of any firm ratio is used as a key tool of financial analysis. “Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account”. Financial analysis is the use of financial statements to analyze a company’s financial position and performance and to assess future financial performance.

#### **❖ Earning Per Share (EPS)**

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the profitability of the shareholders investment. The earning per share simply shows the profitability of the banks on a per share basis. It reveals whether the banks earning power per share basis have changed over the period. A higher earning indicates the better achievements in terms of profitability of the banks by mobilizing their funds and vice-versa. In other words, higher earning per share denotes the strength and lower earning per share indicates the weakness of the banks.

Earning per Share is computed to know the earning 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 stocks outstanding. Thus,

$$EPS = \frac{\text{Earning Available to Common Stockholders}}{\text{Number of Common Stock Outstanding}}$$

#### **❖ Divided Per Share (DPS)**

Dividend per share indicates the rupee earnings distributed to common stockholders per share out of earnings available. It measures the dividend distribution to each equity shareholders. Dividend per share shows the portion of earning distribution to the shareholders on per share basis.

Generally, the higher DPS creates positive attitude of the shareholders toward the banks which consequently helps to increase the market value of the shares. It also works as the indicator for better performance of the bank management.

It is calculated by dividing the total dividend distributed to equity shareholder by the total number of equity shares outstanding. The equation of DPS is given below:

$$DPS = \frac{\text{Total Amount of Dividend Paid to Ordinary Stockholders}}{\text{Number of Ordinary Shareholders Outstanding}}$$

#### ❖ **Dividend Payout Ratio (DPR)**

It is the percentage of the profit on share that is distributed as dividend. 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. In other words, the amount of dividend that a bank pays depends upon the earning capacity of the bank. Higher earning enhances the ability to pay more dividend and vice-versa. There is an inverse relationship between dividend and retained earning. The higher the dividend payout ratio, the lower will be the proportion of retained earning and vice versa. Hence, the capacity of internal financing of the firm is checked out by the retention ratio.

It is calculated as the percentage of the profit that is distributed as dividend. This ratio is calculated by dividing per share by the earning per share. Thus,

$$DPR = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

$$\begin{aligned} \text{And, Retention Ratio} &= (1-\text{Dividend payout ratio}) \\ &= (1-\text{DPR}) \end{aligned}$$

### ❖ **Price Earning Ratio (P/E Ratio)/ Earning Multiplier**

Price- earning ratio is also called the earnings multiplier. Price- earning ratio is the ratio of market price per share to earning per share. In other words, this represents the amount which the investors are willing to pay for each rupee of the firm's earnings. It reflects the price currently paid by the market for each rupees of currently reported earning per share.

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

$$PE\ Ratio = \frac{Market\ Price\ Per\ Share}{Earning\ Per\ Share}$$

### ❖ **Dividend Yield (DY)**

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

This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share. The share with higher dividend yields is worth buying. Thus the price of higher dividend yields increases sharply in the market. Dividend has important guidance to commit funds for the buying shares in the secondary market. This ratio is calculated by dividing dividend per share by market price of the stock. Thus,

$$DY\ Ratio = \frac{Dividend\ Per\ Share}{Market\ Per\ Share}$$

### ❖ **Earning Yield (EY)**

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

$$\text{Earning Yield} = \frac{\text{Earning Per Share}}{\text{Market Price Per Share}}$$

### ❖ **Market Price Per Share (MPPS)**

MPPS is the price of share on which shares are traded in the secondary market. Thus, this price is fixed in the stock market on the basis of demand and supply position for a specified share. Higher MPPS is more desirable. It reflects per unit price of the share traded in the market. MPPS is determined according to the demand and supply of share in the market. If there is high demand it leads to the increase in MPPS and if there is low demand it leads to decrease in MPPS. MPPS also indicates the performance of the firm. Firm with high MPPS are regarded better and are thought to be in good financial position.

### **3.6.2 Statistical Tools**

Besides the financial tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared, analyzed and interpreted. In this study, the following statistical tools are used to analyze the relationship between dividend and other variables.

### ❖ **Arithmetic Mean (Average)**

Arithmetic mean is also called 'the mean' or 'average' as most popular and widely used measure of central tendency. Arithmetic Mean is statistical constants which enables us to comprehend in a single effort of the whole. Arithmetic mean represents the entire data by a single value. It

provides the gist and gives the birds' eye view of the huge mass of a widely numerical data. It is calculated as:

$$\bar{X} = \frac{1}{n} \sum_{i=1}^n xi$$

Where,

$\bar{X}$  = Mean value or arithmetic mean

$\sum_{i=1}^n xi$  = Sum of observation

n = number of observation

#### ❖ **Standard Deviation (SD)**

The measurement of the scatter ness of the mass figures in a series about an average is known as dispersion. Amongst all the methods of finding out dispersion, standard deviation is regarded as the best. The standard deviation measures the absolute dispersion. The greater the value of dispersion means greater the value of SD. A small value of standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series. SD is also known as "Root Mean-Square Deviation". Because it is the square root of the arithmetic mean of the squares of the deviation. In this study standard deviation of different ratios are calculated as follows:

$$\text{Standard Deviation ( } \sigma \text{ )} = \sqrt{\frac{\sum (x - \bar{x})^2}{N - 1}}$$

#### ❖ **Coefficient of Variation (CV)**

The coefficient of variation measures the relative measures of dispersion, hence it is capable to compare two variables independently in term of variability.

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

Where,

$\sigma$  = Standard deviation

$\bar{X}$  = sum of the observation

### ❖ **Karl Persons Coefficient of Correlation**

Correlation Coefficient is a statistical tool to measure the relative association between two variables series; it describes how much linear co-movement exists between two variables. Karl Persons measure, known as persons correlation coefficient between two variables (series) X and Y usually denoted by  $r(X, Y)$  or simply  $r$  can be obtained as;

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

The value of correlation coefficient,  $r$  lies between -1 to +1

If  $r = 1$  there is perfect positive relationship

$r = -1$  there is perfect negative relationship

$r = 0$  there is no correlation at all

The closer the value of,  $r$  is 1 or -1, the closer the relationship between the variables and the closer,  $r$  is to 0, the less close relationship.

### ❖ **Probable Error (PE)**

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where,

$r$  = correlation coefficient

$n$  = number of pairs of observation

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

If  $r < PE$ , it is insignificant. So, perhaps there is no evidence of correlation.

If  $r > 6PE$ , it is significant.

In other cases nothing can be concluded.

### ❖ **Regression Analysis**

Regression is stepping or returning back to the original position. It is used as a tool of determining the strength of relationship between two variables. The cause and effects of relationship clearly indicated through regression analysis than by correlation. In other words, regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. There are two types of variables i.e. dependent variables and independent variables. The variables whose value is influenced or to be predicated is called dependent variable whereas the variable which influences the value or used for prediction is called independent variable. Thus regression analysis studies the statistical relationship between the variables. The main objective of regression is to predict or estimate the value of variables corresponding to a given value of independent variables. While regression analysis has been developed to study and measure the statistical relationship between two variables only then the process is known as the simple regression analysis. Regression lines expresses in terms of mathematical relations are known as regression equations. It is the line which gives the best estimates for the value of  $y$  for any specified values of  $X$ .

Following Variables have been used for simple regression analysis to fulfill the stated objectives of this study.

1. Dividend Per Share (Y) on Earning Per Share (X)
2. Dividend Per Share (Y) on Market Price Per Share (X)

### 3. Earning Per Share (Y) on Market Price Per Share (X)

Regression equation of Y on X is given by

$$y = a + bx$$

Where,

y = dependent variable

x = Independent variable

a = Intercept of the line

b = Slope of the line

The value of the constants 'a' and 'b' can be determined by solving two normal equations (applying principle of method of least squares).

$$\Sigma y = na + b\Sigma x \dots\dots\dots ii$$

$$\Sigma xy = a\Sigma x + b\Sigma x^2 \dots\dots\dots iii$$

#### ❖ Trend Analysis

Trend analysis is used to measure the change of financial, economical as well as commercial data. The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The Straight-line trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Where,

Y = Dependent variable

x = Independent variable

a = Y - intercept

b = Slope of the trend line

Y is the dependent variable, a is y intercept or value of y when x = 0, b is the slope of the trend line.

## **CHAPTER FOUR**

### **PRESENTATION AND ANALYSIS OF DATA**

Dividend policy is a major decision of the firm due to its decision of dividing net earnings into two parts: the retained earnings and dividends and its impact upon value of the firm. The study contains different objectives, which have already mentioned in the previous chapter. In order to fulfill these objectives, the study attempts to analyze the secondary data regarding dividend policy of joint venture Banks (JVBs). The purpose of this chapter is to carry out secondary data analysis. In this chapter, the relevant data and information regarding dividend policy of commercial banks are presented and analyzed comparatively. The analysis includes several tools and techniques such as statistical and financial indicators as well as the attitude of management towards the optimum decision. This analysis is highly supported by the practice of dividend distribution by JVBs. Presentation and interpretation of financial statement is done here to serve the objective of this research. Also the correlation and regression analysis of the sample firm is calculated and data are presented in a systematic tabulated form.

#### **4.1 Analysis of Financial Tools**

##### **4.1.1 Earning Per Share (EPS)**

Normally, the performance and achievement of a business organization are measured in terms of their capacity for generating earnings. Higher earning indicates the strength and lower earning denotes the weakness of business organization. Earning per share is calculated by dividing the net profit after taxes (NPAT) by the total number of common shares

outstanding. EPS is the measurement of good and bad performance of institutions. For instance, higher EPS shows the good performance and lower EPS shows the weak performance. As a result, EPS, the achievement of the institutions are measured with the help of its capacity to generate higher earning per share. So, higher EPS is the important financial performance indicators of business organization to achieve its goals and objectives. The earning per share of the banks under study is tabulated as follows:

**Table No. 4.1**  
**Analysis of Earning Per Share (EPS)**

<b>Fiscal Year</b>	<b>BOK</b>	<b>EBL</b>	<b>HBL</b>	<b>NIBL</b>	<b>NSBL</b>
<b>2004/05</b>	30.10	54.22	47.91	39.50	13.29
<b>2005/06</b>	43.67	62.78	59.24	59.35	18.27
<b>2006/07</b>	43.50	78.42	60.66	62.57	39.35
<b>2007/08</b>	59.94	91.82	62.74	57.87	28.33
<b>2008/09</b>	54.68	99.99	61.90	37.42	36.18
<b>Average</b>	46.38	77.45	58.49	51.34	27.08
<b>SD</b>	11.55	19.17	6.06	11.90	11.21
<b>CV(%)</b>	24.90	24.75	10.36	23.18	41.40

*Source: Annual reports of concern banks*

The table 4.1 shows the earning per share of the five listed banks from the year 2004/05 to 2008/09. From the above table it is clear that EBL has the highest EPS of Rs. 77.45 where as NSBL has the lowest EPS of Rs. 27.08 only.

BOK has average EPS of Rs. 46.38 and its SD is 11.55 and CV is 24.90%. There is not more fluctuation in EPS of BOK. EPS of BOK is increasing continuously but the in year 2008/09 it has decreased to Rs.54.68.

The average EPS of EBL is Rs.77.45. Its SD is 19.17 and CV is 24.75%. EPS of EBL is in growing trend in these five years. There is not more fluctuation in EPS of EBL. Average EPS of EBL is the highest among these five banks.

The average EPS of HBL is Rs.58.49 which is in 2<sup>nd</sup> position. Its SD is 6.06 and the coefficient of variation is 10.36%. CV indicates the fluctuation in EPS, which means only 10.36% variation is there in EPS of HBL.

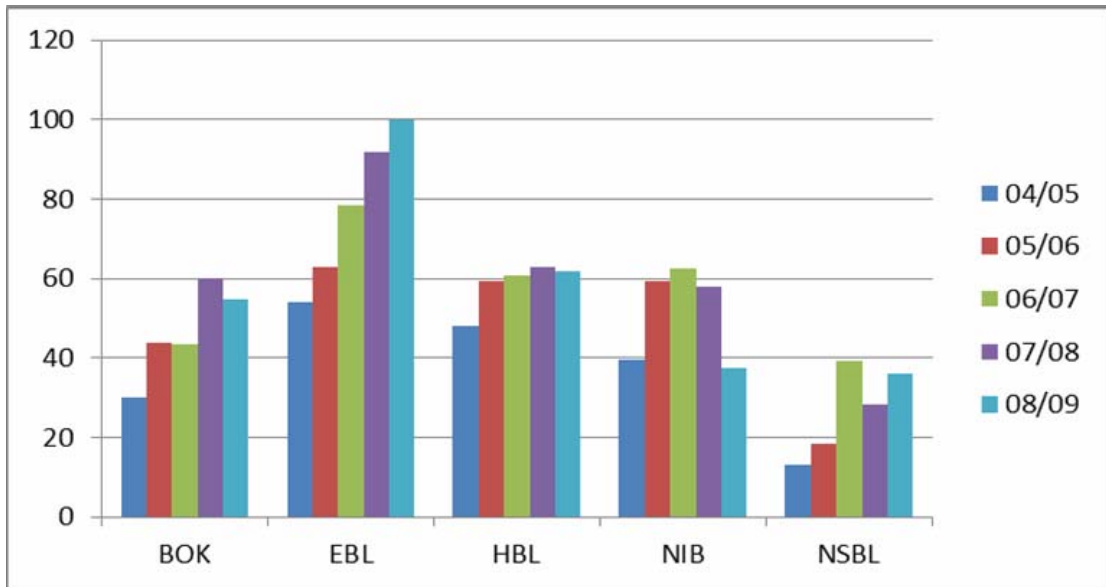
NIBL has average EPS is Rs.51.34. Its SD is 11.90 and its CV is 23.18%. It indicates 23.18% fluctuation in EPS which means there is not more fluctuation in EPS of NIBL. In FY 08/09 EPS has decreased but before that it has increased regularly.

The average EPS of NSBL is Rs.27.08, its SD is 11.21 and CV is 41.40% which indicates that there is 41.40% fluctuation in EPS of the bank. EPS of NSBL is increasing in FY 04/05 to 06/07 then after in year 07/08 it has decreased to 28.33. But in FY 08/09 it has again increased.

Without considering the rate of fluctuation the analysis of EPS cannot be completed. For this we can observe the co-efficient of variation (CV). It can be observed that the CV of the banks ranges from 10.36% to 41.40%. This implies that there is high fluctuation in the EPS of these banks which demonstrates that performance is not consistent and satisfactory.

**Figure No. 4.1**

**Analysis of Earning Per Share (EPS)**



*Source: Table No. 4.1*

**4.1.2 Dividend per Share (DPS)**

Dividend per share indicates the proportion of earning distributed to owner (shareholder) on per share basis. It shows what exactly do the ordinary shareholders receive. It is calculated by dividing the dividend provided to equity shareholders by the total number of equity shares. Generally, the higher DPS creates positive attitude among the shareholders toward the bank, which accordingly helps to increase the market value of shares. The dividends per share of the banks under study are stated in the table below.

**Table 4.2**

**Analysis of Dividend per Share (DPS)**

<b>Fiscal Year</b>	<b>BOK</b>	<b>EBL</b>	<b>HBL</b>	<b>NIBL</b>	<b>NSBL</b>
<b>2004/05</b>	5.00	-	11.58	12.50	-
<b>2005/06</b>	10.00	25.00	30.00	20.00	5.00
<b>2006/07</b>	15.00	10.00	15.00	5.00	12.59
<b>2007/08</b>	18.00	20.00	25.00	7.5	-
<b>2008/09</b>	20.00	30.00	12.00	20.00	2.11
<b>Average</b>	13.6	17.00	18.72	13.00	3.94
<b>SD</b>	6.11	12.04	8.31	6.94	2.52
<b>CV(%)</b>	44.92	70.82	44.39	53.38	63.95

*Source: Annual reports of concern banks*

The table 4.2 shows the dividend per share of five listed commercial banks from the year 04/05 to 08/09. It is clear to see that average DPS of HBL is the highest, i.e. Rs.18.72. NSBL has the lowest of average dividend per share of Rs 3.94.

BOK has a moderate dividend per share of Rs.13.6 in average; it has SD of 6.11 which shows that there is a chance to decrease in dividend payment by 6.11. CV of BOK is 44.92% i.e. it has high fluctuation in EPS.

In the FY 04/05 EBL has not paid any dividend to its shareholders. Distribution of dividend of EBL is highly fluctuating. It has average DPS Rs.17.00 and SD of 12.04. Its CV is 70.82% which is highest among the above five commercial banks.

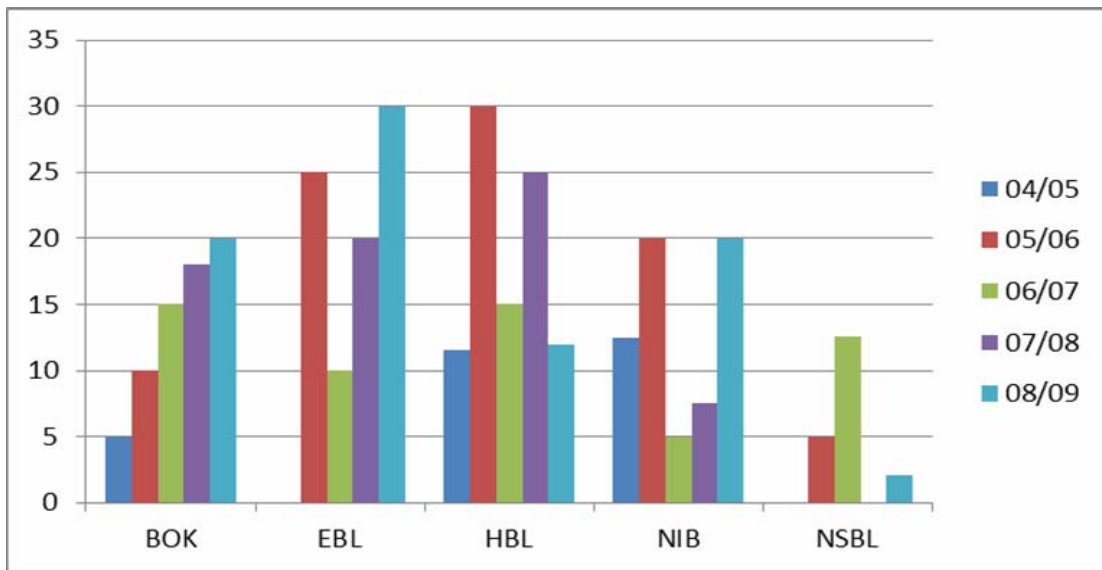
HBL has Rs.18.72 of average DPS. Its SD is 8.31 and it is fluctuated by 44.39%. There is very inconsistency in the DPS of HBL.

NIBL has average DPS of Rs.13.00. It has 6.94 SD and CV is 53.38%. There is high fluctuation in DPS of NIBL which is reflected in its CV i.e. 53.38%.

NSBL has lowest average DPS Rs 3.94. It has not paid dividend in FY 04/05 and 07/08. In comparison to dividend of above five years it has paid highest dividend in FY 06/07, i.e. Rs.12.59. Its SD is 2.52. Its CV is 63.95% which means its DPS is highly inconsistent.

In an average all the above listed banks except NSBL are providing good dividend to its shareholders. Investors invest their money and want maximum return from it so DPS is also one the indicator of evaluating the return.

**Figure No. 4.2**  
**Analysis of Dividend per Share (DPS)**



*Source: Table No. 4.2*

#### **4.1.3 Dividend Payout Ratio (DPR)**

This Ratio shows the amount of dividend as a percentage of earning available for equity share. It depends upon earnings of organization. Greater the earning is the more ability to pay dividend. It is calculated by

dividing the dividend per share to ordinary shareholders by the earning per share (EPS). The DPR of the banks under study are stated in the table as follows.

**Table No. 4.3**  
**Analysis of Dividend Payout Ratio (DPR)**

<b>Fiscal Year</b>	<b>BOK</b>	<b>EBL</b>	<b>HBL</b>	<b>NIBL</b>	<b>NSBL</b>
<b>2004/05</b>	16.61	-	24.17	31.65	-
<b>2005/06</b>	22.90	39.82	50.64	33.70	27.37
<b>2006/07</b>	34.48	12.75	24.73	7.99	31.99
<b>2007/08</b>	30.03	21.78	39.85	12.96	-
<b>2008/09</b>	36.57	30.00	19.39	53.45	5.83
<b>Average</b>	28.12	20.87	31.76	27.95	13.04
<b>SD</b>	8.29	15.37	13.06	18.17	15.46
<b>CV(%)</b>	29.48	73.65	41.12	65.00	118.56

*Source: Annual reports of concern banks*

The table 4.3 shows the dividend pay-out ratio (DPR) of five listed commercial banks. During the period of study, BOK has an average DPR of 28.12%. The standard deviation of the DPR is 8.29. The C.V. of 29.48% has shown a less consistent behavior of dividend payment by BOK.

Everest Bank Ltd. has an average DPR of 20.87% during the period of study. It means that it generally pays 20.87% of its earning to its shareholders in form of dividend. The standard deviation of DPR is 15.37 whereas the coefficient of variation of 73.65% the fluctuating nature of DPR of EBL.

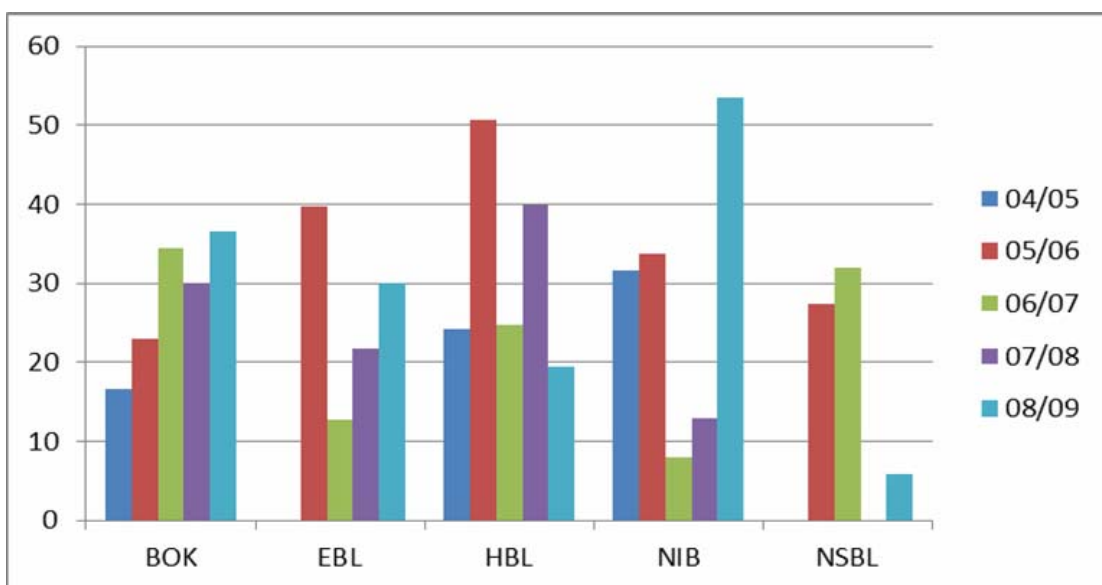
Average DPR of NIBL from FY 04/05 to 08/09 is 27.95. Its SD is 18.17 and CV is 65.00%. There is the moderate fluctuating nature of DPR of NIBL.

The average DPR of HBL is 31.76. It means that HBL generally pays 31.76% of its total earning as dividend to its shareholders. The standard deviation of DPR is 13.06. The coefficient of variation is 41.12%, which indicates that there is more variable in its DPR over the years. HBL has more fluctuation in its DPR, it has not maintained consistency in its DPR.

An average DPR of 13.04% of NSBL indicates that it generally pays out 13.04% of its earning as dividend. NSBL has fluctuating trend in its dividend payment. The standard deviation is 15.46 and coefficient of variation is 118.56%. The C. V. indicates that the DPR of NSBL highly fluctuated during the period of study.

The above calculation shows that HBL has the highest average DPR of 31.76 where as NSBL has the lowest average DPR of 13.04. From the above data it is clear that BOK and HBL are paying high dividend to its shareholders. But all other banks have retained most of its earning for future investment. If the DPR is high, company can retain only less amount and vice-versa.

**Figure No. 4.3**  
**Analysis of Dividend Payout Ratio (DPR)**



Source: Table No. 4.3

#### 4.1.4 Market Price per Share (MPPS)

MPPS is the price of share on which shares are traded in the secondary market. Thus, this price is fixed in the stock market on the basis of demand and supply position for a specified share. Higher MPPS is more desirable. The MPPS depicts the perception of the market relating to the performance of a company. MPPS is the current price at which the stock is traded. The average market price shares of the banks under study are presented in table as follows.

**Table No. 4.4**  
**Analysis of Market Price per Share (MPPS)**

<b>Fiscal Year</b>	<b>BOK</b>	<b>EBL</b>	<b>HBL</b>	<b>NIBL</b>	<b>NSBL</b>
<b>2004/05</b>	430.00	870.00	920.00	800.00	335.00
<b>2005/06</b>	850.00	1379.00	1100.00	1260.00	612.00
<b>2006/07</b>	1375.00	2430.00	1740.00	1729.00	1176.00
<b>2007/08</b>	2350.00	3132.00	1980.00	2450.00	1511.00
<b>2008/09</b>	1825.00	2455.00	1760.00	1388.00	1900.00
<b>Average</b>	1366.00	2053.20	1500.00	1525.4	1106.8
<b>SD</b>	761.80	911.28	461.52	614.79	639.89
<b>CV(%)</b>	55.77	44.38	30.76	40.30	57.81

*Source: Annual reports of concern banks*

The table 4.4 shows the market price of the listed five commercial banks from FY04/05 to 08/09. According to the table highest average market price is of EBL and lowest of NSBL. BOK, HBL and NIBL are also performing very well.

BOK has average MPPS Rs 1366.00 which shows it is performing well. Its standard deviation is 761.80 and CV is 55.77%. According to the table MPPS of BOK is fluctuating as it has 55.77% CV.

EBL has average MPPS of Rs 2053.20 which is the highest among 5 banks. Its standard deviation is 911.28. CV of EBL is 44.38% which means that there is not so high variation in MPPS. Price of share is increasing continuously.

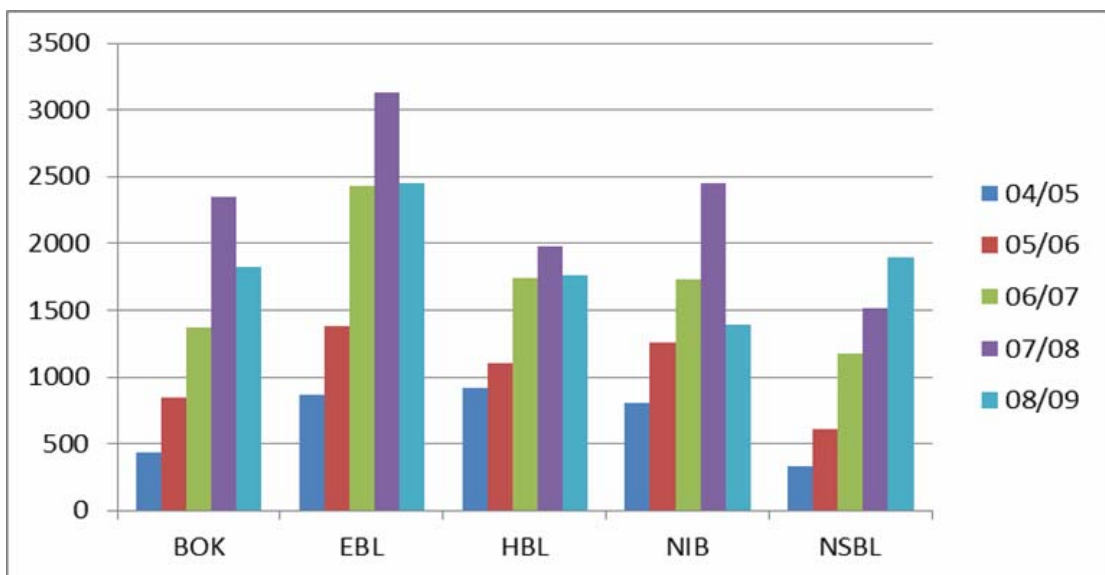
HBL has average MPPS of Rs 1500.00. Its SD is 461.52 and CV is 30.76%. MPPS is increasing continuously in all the five years. Fluctuation in MPPS of HBL is 3076% which is lowest among these five commercial banks.

Market price of the share of NIBL is increasing continuously for the four years but in the fifth year 08/09 it has decreased. Average MPPS is Rs 1525.4. Standard Deviation of NIBL is 614.79. Its CV is 40.30%.

NSBL has lowest MPPS Rs 1106.80. Market Price per Share is in increasing trend. Fluctuation of MPPS is the highest among the above mentioned five commercial banks i.e. 57.81% and SD is 639.89.

According to the table performance of EBL is very good. All the above five commercial banks are continuously increasing its MPPS; it means that in the market, share of these banks are traded well.

**Figure No. 4.4**  
**Analysis of Market Price per Share (MPPS)**



Source: Table No. 4.4

#### 4.1.5 Dividend Yield (DY)

Dividend yield is the percentage of DPS on MPPS. It measures the dividend in relation to market value of share. It is the dividend received by the investors as a percentage of market prices per share in the stock market. This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share. Typically, companies with good growth potential retain a high proportion of earnings and have a low dividend yield, whereas more matured industries pay out high portion of their earnings and have a relatively high dividend yield.

The dividend yields of the banks, under the period of the study, are presented in the table given below.

**Table No. 4.5**  
**Analysis of Dividend Yield (DY)**

<b>Fiscal Year</b>	<b>BOK</b>	<b>EBL</b>	<b>HBL</b>	<b>NIBL</b>	<b>NSBL</b>
<b>2004/05</b>	1.16	-	1.26	1.56	-
<b>2005/06</b>	1.18	1.81	2.73	1.59	0.82
<b>2006/07</b>	1.09	.041	0.86	0.29	1.07
<b>2007/08</b>	0.77	0.64	1.26	0.31	-
<b>2008/09</b>	1.09	1.22	0.68	1.44	0.11
<b>Average</b>	1.06	0.74	1.36	1.04	0.4
<b>SD</b>	0.17	0.78	0.81	0.68	0.51
<b>CV(%)</b>	16.04	105.41	59.55	65.38	127.5

*Source: Annual reports of concern banks*

The table 4.5 shows the dividend yield of listed commercial banks for the period of five year.

The DY BOK ranges between 1.18% and 0.77% during the period of study. During this period, the average DY is 1.06%. The standard deviation of DY of BOK under the period of study is 0.17. The C.V. of 16.04% indicates that the fluctuation of in DY of BOK is the more stable.

The average DY of EBL, during this period of study, is 0.74%. The Standard deviation of DY is 0.78 whereas the coefficient of variation is 105.41%. The C.V indicates a high fluctuation in the DY of the bank.

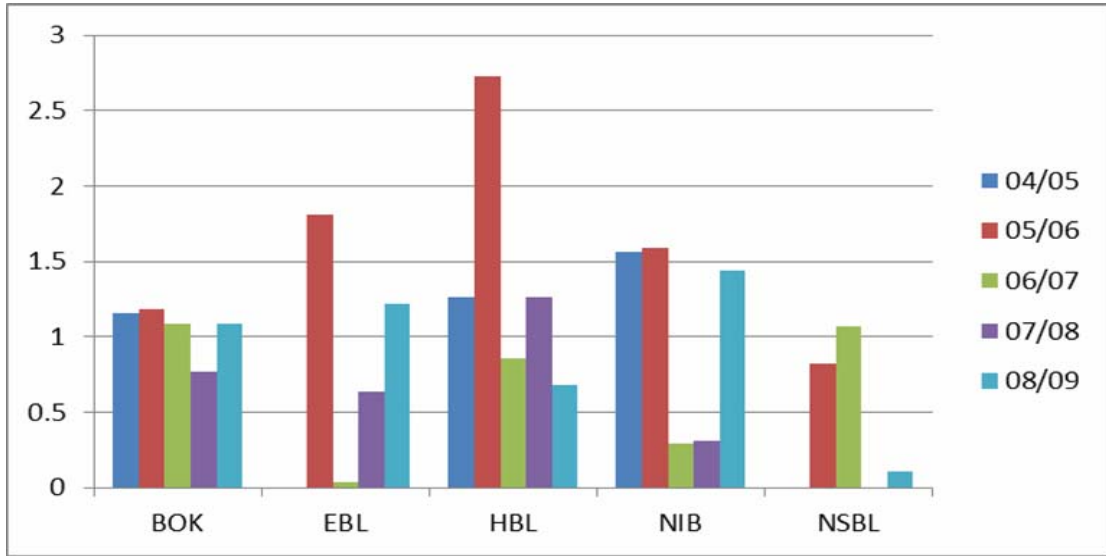
HBL within the period of study has an average DY of 1.36% ranging between 2.73% and 0.68%. It has fluctuating trend in DY. The standard deviation is 0.81 and the fluctuation of 59.55% in the DY, shown by the coefficient of variation.

NIBL has an average DY of 1.04% with standard deviation 0.68. The DY ranges between 1.59% and 0.29%. The coefficient of variation shows that there is a fluctuation of 65.38% in DY of NIBL.

During the period of study, Nepal SBI Bank Ltd. (NSBL) has an average DY of 0.40% with a standard deviation of 0.51. The DY ranges between 1.07% and 0.11%. The coefficient of variation shows that there is a fluctuation of 127.50% in DY of NSBL. NSBL is not in better position in respect of DY. NSBL has lowest dividend yield in comparison to other banks.

From the above data and calculation, it can be said that the average DY of HBL is the highest and that of NSBL is the lowest. The standard deviation of HBL is the highest and BOK is the lowest. The coefficient of variation of these banks shows a high level of fluctuation in the DY. In comparison, NSBL has the less consistent DY among the selected banks.

**Figure No. 4.5**  
**Analysis of Dividend Yield (DY)**



*Source: Table No. 4.5*

#### **4.1.6 Earning Yield (EY)**

Earning Yield is a financial ratio relating to earning per share to the market share price at a particular time. It measures the earning in relation to market value of the share. It gives some idea that of how much an investor is earning for his money.

**Table No. 4.6**  
**Analysis of Earning Yield (EY)**

<b>Fiscal Year</b>	<b>BOK</b>	<b>EBL</b>	<b>HBL</b>	<b>NIBL</b>	<b>NSBL</b>
<b>04/05</b>	7.00	6.23	5.21	4.94	3.97
<b>05/06</b>	5.14	4.55	5.39	4.71	2.99
<b>06/07</b>	3.16	3.23	3.49	3.62	3.35
<b>07/08</b>	2.55	2.93	3.17	2.36	1.87
<b>08/09</b>	3.00	4.07	3.52	2.70	1.90
<b>Average</b>	4.17	4.20	4.16	3.67	2.82
<b>SD</b>	1.87	1.31	1.05	1.16	0.92
<b>CV(%)</b>	44.84	31.00	25.24	31.61	32.62

*Source: Annual reports of concern banks*

The average of EY of 4.17% with the standard deviation of 1.87 is seen for Bank of Kathmandu (BOK). The highest and the lowest EY are 7.00% and 2.55% respectively. The coefficient of variation is 44.84% during the period of study which shows that it is less consistent.

The average EY of EBL during the period of study is 4.20%. It is within the range of 6.23 and 2.93. The standard deviation of EY is 1.31 whereas the coefficient of variation is 31.00%. The coefficient of variation in EY of EBL indicates there is moderate fluctuation during this period.

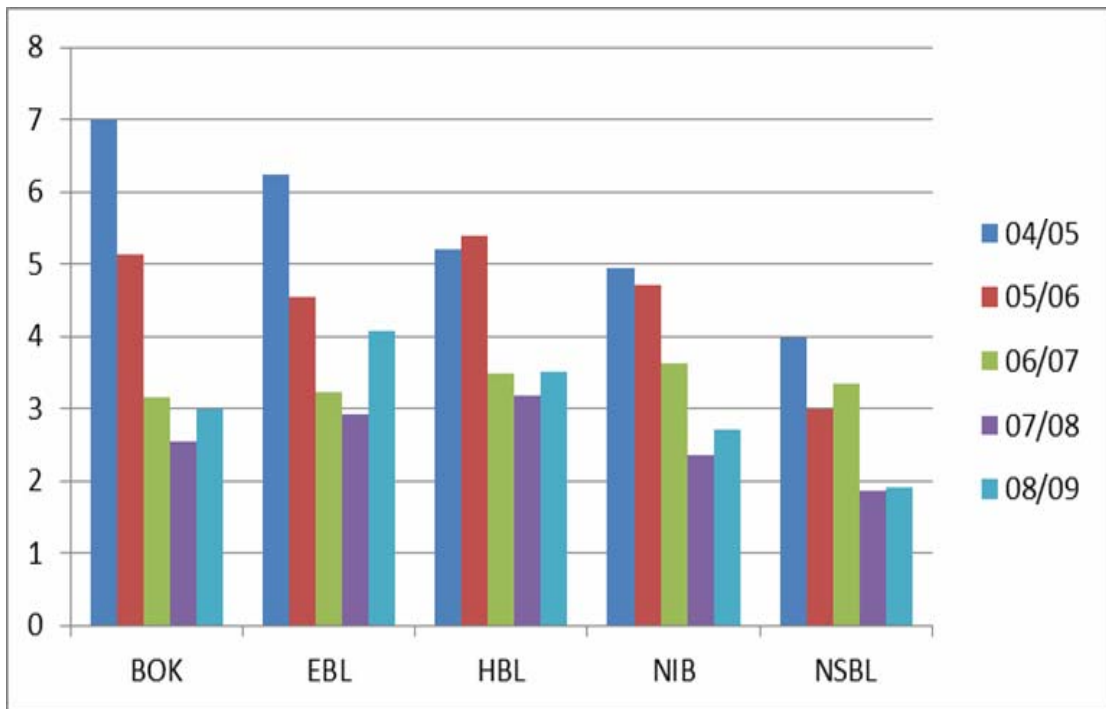
HBL has an average 4.16%. The standard deviation is 1.05 and coefficient of variation is 25.24%. The C.V indicates that it has more homogeneity.

The average EY of NIBL is 3.67% noted during the period of study. The standard deviation of the EY is 1.16. The C.V of 31.61% indicating that there is a less consistent in the EY of NIBL.

Nepal SBI Bank Ltd (NSBL) has an average EY of 2.82%. The standard deviation is 0.92 and coefficient of variation is 32.62%. The C.V indicates that the EY of NSBL is less homogeneous.

From the above calculation, EBL has the highest average EY and NSBL has the lowest. The C.V. indicates that among the selected banks, BOK have the less consistency in its earning yield where as the earning yield of HBL has more homogeneous.

**Figure No. 4.6**  
**Analysis of Earning Yield (EY)**



*Source: Table No. 4.6*

#### **4.1.7 Price Earning Ratio (P/E)**

Price Earning Ratio represents the amount which the investors are willing to pay for each rupee of the firm's earnings. It reflects the price currently paid by the market for each rupees of currently reported earning per share. The P/E ratio measures investor's expectation and market appraisal of the performance of the firm.

**Table No. 4.7**

**Analysis of Price Earning Ratio (P/E) ( In Rs.)**

<b>NAME</b>	<b>BOK</b>	<b>EBL</b>	<b>HBL</b>	<b>NIBL</b>	<b>NSBL</b>
<b>04/05</b>	14.29	16.04	19.20	20.25	25.21
<b>05/06</b>	19.46	21.97	18.57	21.23	33.49
<b>06/07</b>	31.61	30.99	28.69	27.63	29.89
<b>07/08</b>	39.21	34.11	31.56	42.33	53.34
<b>08/09</b>	33.37	24.55	28.43	37.10	52.52
<b>Average</b>	27.59	25.53	25.29	29.71	38.89
<b>SD</b>	10.34	7.20	5.98	9.74	13.15
<b>CV(%)</b>	37.48	28.00	23.65	32.78	33.81

*Source: Annual reports of concern banks*

BOK has an average P/E ratio of 27.59. The standard deviation is 10.34 and coefficient of variation is 37.48%. The CV indicates that P/E ratio of BOK is less homogeneous.

An average P/E Ratio of 25.53 has been noted during the period of study for EBL. The standard deviation of the P/E Ratio is 7.20. The C.V of 28.00% indicates that there is more consistent in the P/E Ratio of EBL.

HBL has an average P/E ratio 25.29. The Standard deviation is 5.98 and coefficient of variation is 23.65%. The CV indicates that P/E ratio of HBL is more homogeneous.

NIBL has an average P/E ratio 29.71, ranging between 42.33 and 20.25. The S. D. is 9.74 and C.V. is 32.78%.

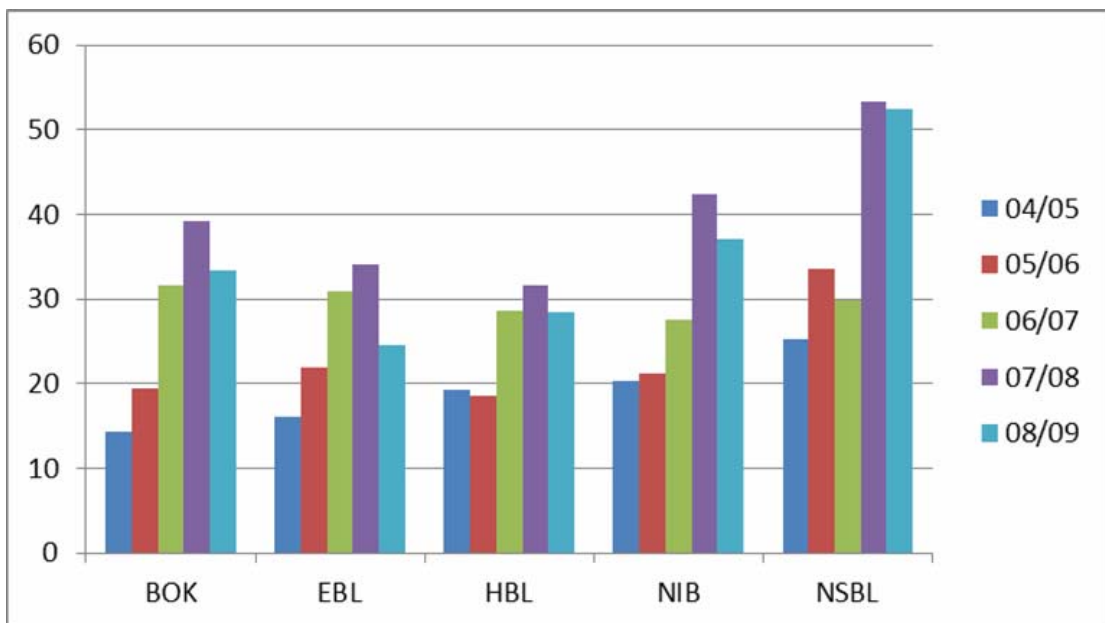
Nepal SBI Bank Ltd. (NSBL) has an average P/E ratio of 38.89, ranging between 53.34 and 25.21 during the period of study. The standard deviation of 13.15 and the fluctuation of 33.81% in the P/E ratio are seen

during this period which indicates the moderate fluctuating nature in P/E ratio for NSBL.

From the above calculation, NSBL has the highest average P/E Ratio and HBL has the lowest. The C.V indicates that among the banks under study during the period, HBL has the less consistency in P/E ratio whereas the P/E ratio of NSBL is more stable.

**Figure No. 4.7**

**Analysis of Price Earning Ratio (P/E)**



*Source: Table No. 4.7*

**4.2 Correlation Analysis**

The correlation analysis is a technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two 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 variables are related with each other. Similarly, what extent variations in one lead to the variation in the other?

The correlation coefficient measures the relationship between the two variables. It also measures the extent to which one variable affects the other one. The correlation coefficient lies between +1 and -1. Here we have calculated the relationship between EPS and MPPS, MPPS and DPS and EPS and DPS.

#### 4.2.1 Correlation between EPS and MPPS

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

**Table No. 4.8**  
**Correlation Coefficient between EPS and MPPS**

<b>Banks</b>	<b>r</b>	<b>Relationship</b>	<b>r<sup>2</sup></b>	<b>PE</b>	<b>6PE</b>	<b>Remarks</b>
<b>BOK</b>	0.96	Positive	0.92	0.024	0.14	Significant
<b>EBL</b>	0.89	Positive	0.79	0.063	0.38	Significant
<b>HBL</b>	0.83	Positive	0.69	0.93	0.56	Insignificant
<b>NIBL</b>	0.57	Positive	0.32	0.20	1.23	Undefined
<b>NSBL</b>	0.82	Positive	0.67	0.10	0.6	Significant

*Source: Calculate by SPSS*

The Table 4.8 helps to depict the relationship between Earning Per Share (EPS) and Market Price Per Share (MPPS) of above five commercial banks. The correlation coefficient (r) between EPS and MPPS of all the banks are positive which indicates the positive relationship between EPS and MPPS. It means that the MPPS increases with the increase in EPS. Four banks namely BOK, EBL, HBL and NSBL are highly positive and for NIBL the correlation is 0.57 which shows it's positive but there is not so high relationship.

PE measures the reliability of the observed correlation coefficient. The relationship between the EPS and MPPS of BOK, EBL and NSBL is

significant as the value of 'r' is greater than 6PE. Similarly the in case of HBL PE is insignificant which indicates there no evidence of correlation. PE of NIBL is undefined as  $PE < r < 6PE$  and nothing can be concluded about the relationship between EPS and MPPS.

#### 4.2.2 Correlation Coefficient between MPPS and DPS

The correlation coefficient between MPPS and DPS is as follows:

**Table No. 4.9**

#### **Correlation Coefficient between MPPS and DPS**

<b>Banks</b>	<b>r</b>	<b>Relationship</b>	<b>r<sup>2</sup></b>	<b>PE</b>	<b>6PE</b>	<b>Remarks</b>
<b>BOK</b>	0.92	Positive	0.85	0.05	0.27	Significant
<b>EBL</b>	0.47	Positive	0.22	0.23	1.41	Undefined
<b>HBL</b>	0.00023	Positive	0.00	0.30	1.81	Insignificant
<b>NIBL</b>	-0.58	Negative	0.34	0.20	1.20	Insignificant
<b>NSBL</b>	0.005	Positive	0.00	0.30	1.81	Insignificant

*Source: Calculate by SPSS*

Table 4.9 presents the correlation coefficient between MPPS and DPS of listed five banks. BOK, EBL, HBL and NSBL have positive correlation. It means when there is increase in DPS; it also leads to increase in the MPPS and vice-versa. Among these BOK has the highest degree of positive relation and EBL and NSBL has very low degree of positive relationship. The correlation of NIBL is negative which indicates the inverse relationship between MPPS and DPS of these two banks.

Probable error in the measurement of relationship between MPPS and DPS of the HBL, NIBL and NSBL is insignificant as  $r < PE$  but for BOK it is significant. PE in the correlation of the EBL cannot be defined.

### 4.2.3 Correlation Coefficient between EPS and DPS

The correlation coefficient between EPS and DPS is as follows:

**Table No. 4.10**

#### **Correlation Coefficient between EPS and DPS**

<b>Banks</b>	<b>r</b>	<b>Relationship</b>	<b>r<sup>2</sup></b>	<b>PE</b>	<b>6PE</b>	<b>Remarks</b>
<b>BOK</b>	0.92	Positive	0.85	0.05	0.27	Significant
<b>EBL</b>	0.66	Positive	0.43	0.17	1.03	Undefined
<b>HBL</b>	0.39	Positive	0.15	0.26	1.56	Undefined
<b>NIBL</b>	-0.49	Negative	0.24	0.23	1.38	Insignificant
<b>NSBL</b>	0.55	Positive	0.30	0.21	1.26	Undefined

*Source: Calculate by SPSS*

According to the above table, BOK has high degree of positive correlation between EPS and DPS. In case of EBL, HBL and NSBL correlation is 0.66, 0.39 and 0.55, which is also positive but it's not so high. For these four banks when their EPS increases; their DPS also increases. But as the correlation of NIBL is negative, the value of DPS decreases as the value of EPS increases and vice-versa.

According to the above table the PE of EBL, HBL and NSBL is undefined. So, the error in the correlation cannot be concluded. But for BOK it's significant and for NIBL it's insignificant.

### 4.3 Simple Liner Regression Analysis

The regression analysis is used in determining the strength of relationship between two variables.

#### 4.3.1 Regression Analysis between DPS and EPS

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under the study. Regression

analysis helps us to know the relative movement in the variables. Regression Analysis of DPS and EPS is calculated in the table below. We have taken the data of the above five banks where EPS is taken as independent variable and DPS as dependent variable.

**Table No. 4.11**  
**Regression Analysis between DPS and EPS**

<b>Banks</b>	<b>Intercept (a)</b>	<b>Slope(b)</b>	<b>SEE</b>	<b>Sb</b>	<b>T value</b>	<b>Remarks</b>
<b>BOK</b>	-8.66	0.48	2.89	0.1251	3.84	Significant
<b>EBL</b>	-14.75	0.41	10.50	0.27	1.52	Insignificant
<b>HBL</b>	-12.87	0.54	8.83	0.73	0.74	Insignificant
<b>NIBL</b>	27.37	-0.28	7.02	-0.012	2.33	Insignificant
<b>NSBL</b>	-3.10	0.26	5.05	0.23	1.13	Insignificant

*Source: Appendix I*

According to the above table, slope (b) of BOK, EBL, HBL and NSBL are positive which indicates that when there is increase in EPS it also leads to the increase in DPS. There is positive relationship between EPS and DPS of these banks but in case of NIBL there is negative relationship. When one unit of EPS increases it leads to 0.28 unit decrease in DPS of NIBL.

The test of t-statistics helps to conclude that relationship between DPS and EPS of BOK is significant as its calculated t-value is higher than the tabulated t-value (2.78) at 5% level of significance on 4 degree of freedom. In case of other banks it is insignificant.

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under the study. Regression analysis helps us to know the relative movement in the variables. Regression Analysis of DPS and EPS is calculated in the table below. We

have taken the data of the above five banks where EPS is taken as independent variable and DPS as dependent variable.

#### 4.3.2 Regression Analysis between DPS and MPPS

MPPS is taken as independent variable and DPS as dependent variable. In this basis regression analysis of MPPS and DPS is calculated and it is presented in the table below.

**Table No. 4.12**  
**Regression Analysis between DPS and MPPS**

<b>Banks</b>	<b>Intercept(a)</b>	<b>Slope(b)</b>	<b>SEE</b>	<b>Sb</b>	<b>T value</b>	<b>Remarks</b>
<b>BOK</b>	-200.58	115.19	337.43	27.61	4.17	Significant
<b>EBL</b>	1451.06	35.42	929.89	38.62	0.92	Insignificant
<b>HBL</b>	1499.76	0.013	532.91	32.06	0.0004	Insignificant
<b>NIBL</b>	2144.72	-47.64	598.60	43.13	1.10	Insignificant
<b>NSBL</b>	1104.24	0.65	738.87	146.60	0.004	Insignificant

*Source: Appendix I*

The above table, shows that the slope of NIBL is negative which defines when there is one unit increase/decrease in the MPPS; it leads to the 47.64 units decrease/increase in the DPS of the banks respectively. But the positive relationship between MPPS and DPS of BOK, EBL, HBL and NSBL shows the increase in DPS when MPPS increases and vice-versa. Intercept (a) is the average value of DPS when MPPS is equal to zero. Intercept of BOK is found to be negative; other four commercial banks have their intercept.

The calculated t-value of relationship between DPS and MPPS is lower than the tabulated t-value (2.78) at 5% level of significance on 4 degree of freedom for EBL, HBL, NIBL and NSBL and is found to be insignificant. But for BOK it is significant.

### 4.3.3 Regression Analysis between EPS and MPPS

To describe the average relationship between EPS and MPPS, we have performed the regression analysis of all the five banks. In this analysis, we have assumed MPPS as depended variable and EPS as the independent. The summary of the regression analysis is presented in the table below.

**Table No. 4.13**  
**Regression Analysis between EPS and MPPS**

<b>Banks</b>	<b>Intercept (a)</b>	<b>Slope(b)</b>	<b>SEE</b>	<b>Sb</b>	<b>T value</b>	<b>Remarks</b>
<b>BOK</b>	-1569.26	63.29	247.97	10.73	5.90	Significant
<b>EBL</b>	-1228.19	42.37	476.83	12.44	3.40	Significant
<b>HBL</b>	-2196.57	63.20	297.36	24.53	2.57	Insignificant
<b>NIBL</b>	12.86	29.46	583.07	24.50	1.20	Insignificant
<b>NSBL</b>	-3010.78	-152.03	4114.82	183.53	0.83	Insignificant

*Source: Appendix I*

From this analysis we have found the slopes (b) of four banks BOK, EBL, HBL and NIBL are positive. It means when there is one unit change in EPS it leads to 63.29, 42.37, 63.20 and 29.46 changes in MPPS of BOK, EBL, HBL and NIBL respectively. This data shows the positive relationship between EPS and MPPS. Relationship between EPS and MPPS of NSBL is negative. Intercept (a) is the average value of MPPS when its EPS is equal to zero. According to the above data, intercept of all the banks except NIBL are found to be negative.

Also, the calculated value of t (5.90) of BOK is higher than the tabulated value of t (2.78) at 5% level of significance and 4 Degree of freedom, which indicates that the result is statistically significant. Similarly for EBL also it is significant. For rest of the banks HBL, NIBL and NSBL it is insignificant.

#### 4.4 Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the pattern of growth. Trend Analysis informs about the future expected values of studied variables. It gives a glimpse of future expected value if the same growth level is achieves. This information is crucial for management to make decision regarding future. This method is widely used in practice.

##### 4.4.1 Trend Analysis of MPPS

Trend analysis of MPPS shows the pattern of market price per share growth. It may be positive or Negative. Trend helps the investor to estimate its future market value of share and make decision regarding purchase or sale of the share.

**Table No. 4.14**  
**Trend Analysis of MPPS (in Rs.)**

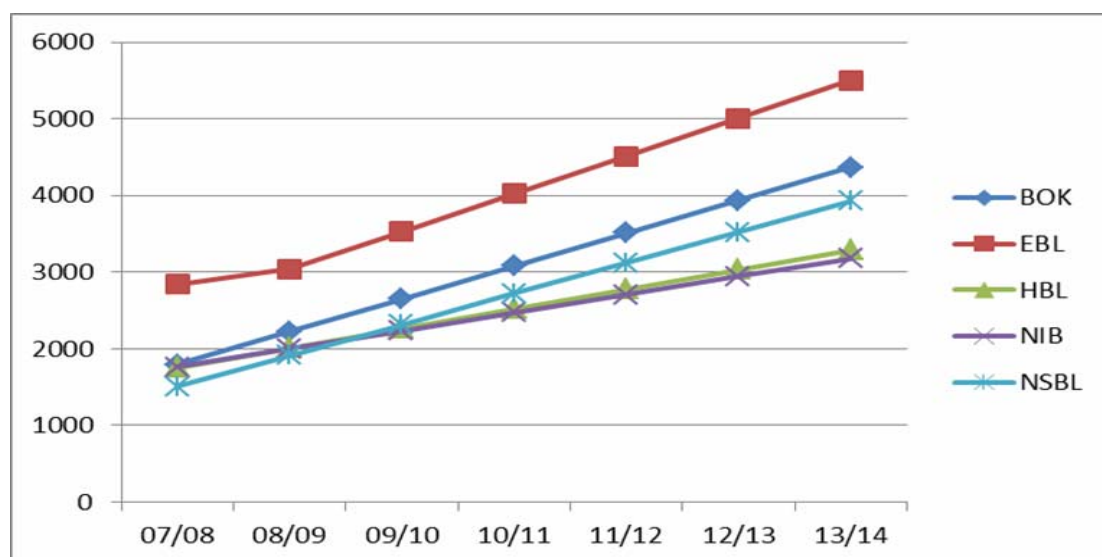
Bank	a	b	07/08	08/09	09/10	10/11	11/12	12/13	13/14
BOK	1366	429	1795.00	2224.00	2653.00	3082.00	3511.00	3940.00	4369.00
EBL	2053.2	492.3	2845.50	3037.80	3530.10	4022.40	4514.70	5007.00	5499.00
HBL	1500	256	1756.00	2012.00	2268.00	2524.00	2780.00	3036.00	3292.00
NIBL	1525.4	236.6	1762.00	1998.6	2235.20	2471.80	2708.40	2945.00	3181.00
NSBL	1106.8	402.9	1509.7	1912.60	2315.50	2718.40	3121.30	3524.20	3927.10

*Source: Appendix II*

Above table shows the trend analysis of the MPPS of the five commercial banks for the three years ahead. According the above table MPPS of all the commercial banks are found to be increasing. We have here forecasted the MPPS of year 09/10, 10/11, 11/12, 12/13 and 13/14. As usual EBL is expected to have highest MPPS. Similarly all other banks like BOK, EBL, HBL whose MPPS was fluctuating before are also expected to increase their MPPS in future due to their increasing rate of MPPS.

The following figure also shows the trend analysis of MPPS in more descriptive form.

**Figure No. 4.8**  
**Trend Analysis of MPPS**



Source: Table No. 4.14

#### 4.4.2 Trend Analysis of EPS

Trend analysis helps to forecast the future. Here EPS of the five banks are forecasted with the help of trend analysis. Future EPS of the banks is shown in the table below.

**Table No. 4.15**  
**Trend Analysis of EPS (In. Rs.)**

Banks	a	b	07/08	08/09	09/10	10/11	11/12	12/13	13/14
BOK	46.38	6.543	52.92	59.47	66.00	72.55	79.09	85.62	92.16
EBL	77.45	12.058	89.51	101.57	113.62	125.68	137.74	149.80	161.85
HBL	58.49	3.148	61.64	64.79	67.93	71.08	74.23	77.38	80.52
NIBL	51.34	-0.564	50.78	50.21	49.65	49.08	48.52	47.95	47.39
NSBL	27.08	5.584	32.66	38.25	43.83	49.42	55.00	60.58	66.16

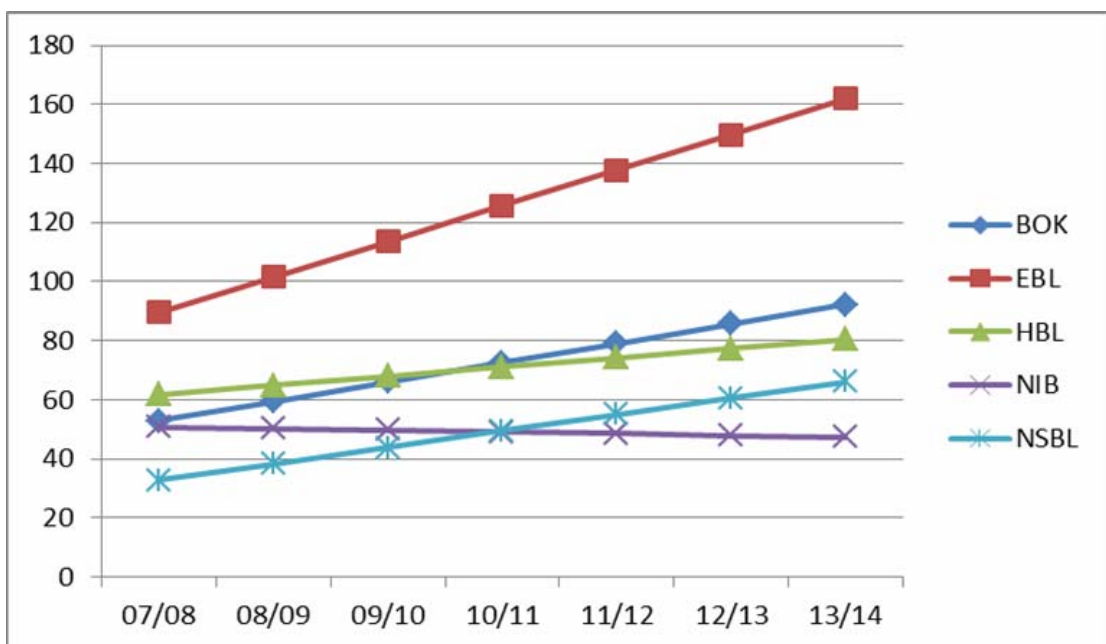
Source: Appendix II

As MPPS, EPS of all the banks are also increasing in year 09/10, 10/11, 11/12, 12/13 and 13/14 except of NIBL. NIBL's EPS from the previous

years is decreasing and in future also it seems to be decreased. Earnings per Share of other banks are expected to increase in future also. It shows good future of the shareholders in earning good return in their investment. Almost all the banks have fluctuating EPS previously but now it may increase continuously.

The trend of EPS has been presented to have eagle eye on future trend.

**Figure No. 4.9**  
**Trend Analysis of EPS**



*Source: Table No. 4.15*

#### 4.4.3 Trend Analysis of DPS

Future Dividend per Share of the listed commercial banks is forecasted with the help of trend analysis. Summary of the forecasted DPS of the coming five years 09/10, 10/11, 11/12, 12/13 and 13/14 is given below.

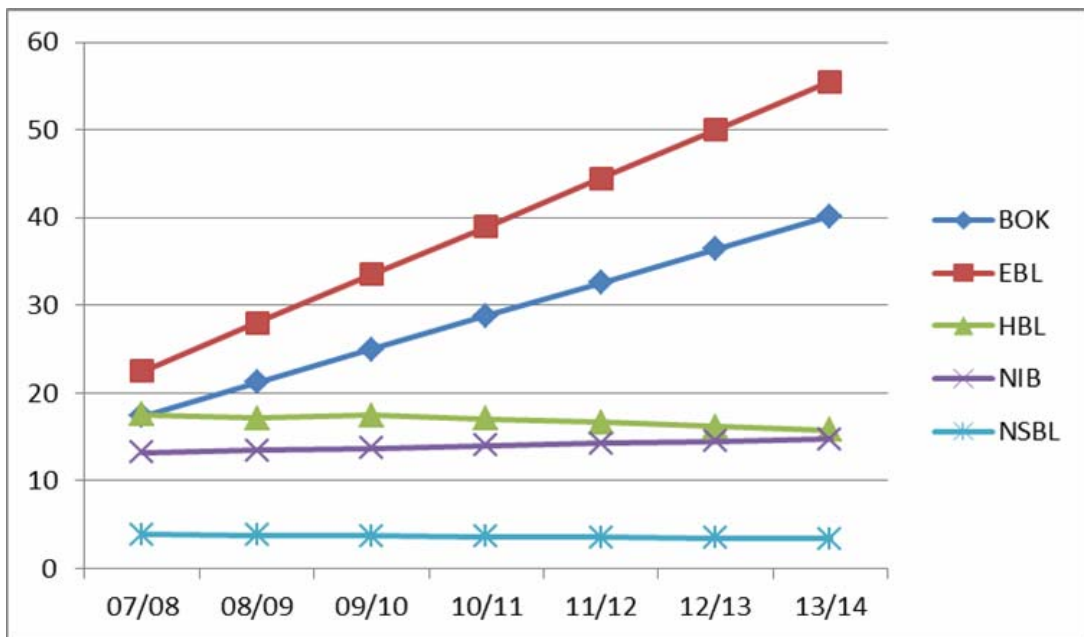
**Table No. 4.16**  
**Trend Analysis of DPS (In Rs.)**

Banks	a	b	07/08	08/09	09/10	10/11	11/12	12/13	13/14
BOK	13.6	3.8	17.40	21.20	25.00	28.80	32.60	36.40	40.20
EBL	17	5.5	22.50	28.00	33.50	39.00	44.50	50.00	55.50
HBL	18.72	-0.416	17.58	17.17	17.47	17.06	16.64	16.22	15.82
NIBL	13	0.25	13.25	13.50	13.75	14.00	14.25	14.50	14.75
NSBL	3.94	-0.078	3.86	3.78	3.71	3.63	3.55	3.47	3.39

*Source: Appendix II*

DPS of BOK, EBL and NIBL are in increasing trend and are expected to increase in future also. NSBL has not paid dividend in 07/08 and now also it is in decreasing trend. Similarly, the DPS of HBL is also decreasing as per our calculation and prediction. Investors may be glad in future also with the dividend paid by some of these commercial banks but it seems NSBL and HBL's shareholders will not be satisfied with the dividend of their banks.

**Figure No. 4.10**  
**Trend Analysis of DPS**



*Source: Table No. 4.16*

#### 4.4.4 Trend Analysis of DPR

Dividend Payout Ratio of the five commercial banks is forecasted here. According to the calculations done in appendix the future forecast of the DPR of the above mentioned banks is shown in the table below.

**Table No. 4.17**  
**Trend Analysis of DPR**

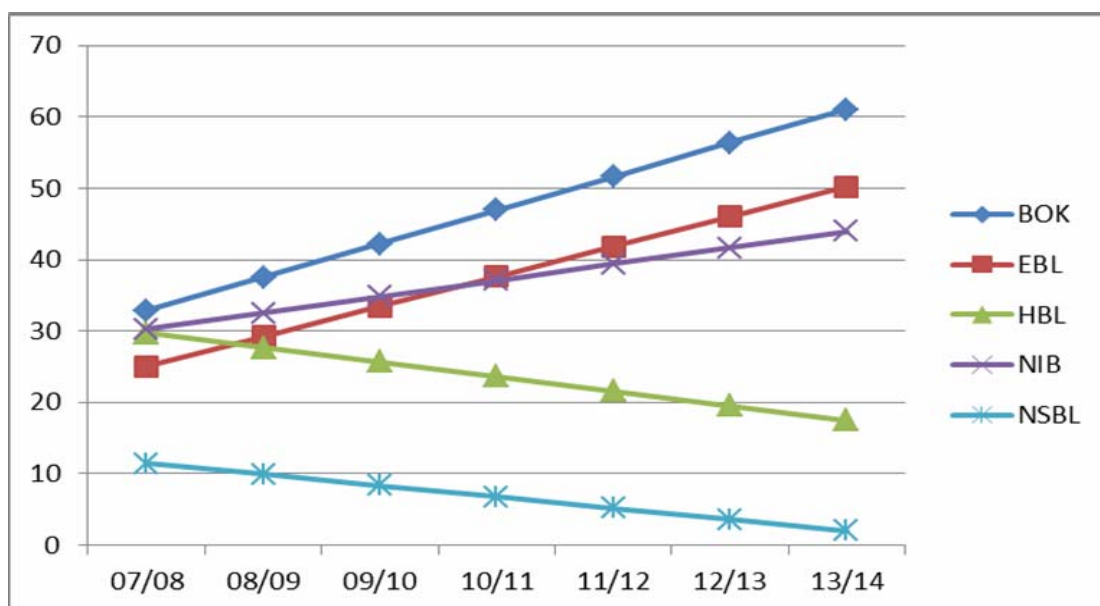
Banks	a	b	07/08	08/09	09/10	10/11	11/12	12/13	13/14
BOK	28.12	4.705	32.83	37.53	42.23	46.94	51.64	56.35	61.05
EBL	20.87	4.196	25.07	29.26	33.45	37.65	41.85	46.04	50.24
HBL	31.76	-2.035	29.73	27.69	25.65	23.62	21.58	19.55	17.51
NIBL	27.95	2.286	30.24	32.52	34.81	37.09	39.38	41.66	43.95
NSBL	13.04	-1.571	11.47	9.90	8.33	6.76	5.18	3.62	2.05

*Source: Appendix II*

Table 4.17 presented above predicts the DPR of the commercial banks for the coming five years, 09/10, 10/11, 11/12, 12/13 and 13/14. DPR of BOK, EBL and NIBL are in increasing trend. It will be increasing continuously in the coming years. But HBL and NSBL will go on distributing fewer dividends to its investors and retain more for the internal use of the bank, as per our calculation. In the previous years also these two banks don't have uniform DPR.

The following figure shows the above table in more descriptive form:

**Figure No. 4.11**  
**Trend Analysis of DPR**



Source: Table No. 4.17

#### 4.5 Analysis of Primary Data

For the collection of primary data, questionnaire was distributed to 50 respondents from different fields. After the distribution of list of questionnaires to different respondents, following result is achieved.

##### 4.5.1 Preference of Dividend Option

In the question no. 1, for the preference of the dividend option, following answer is collected from the respondents.

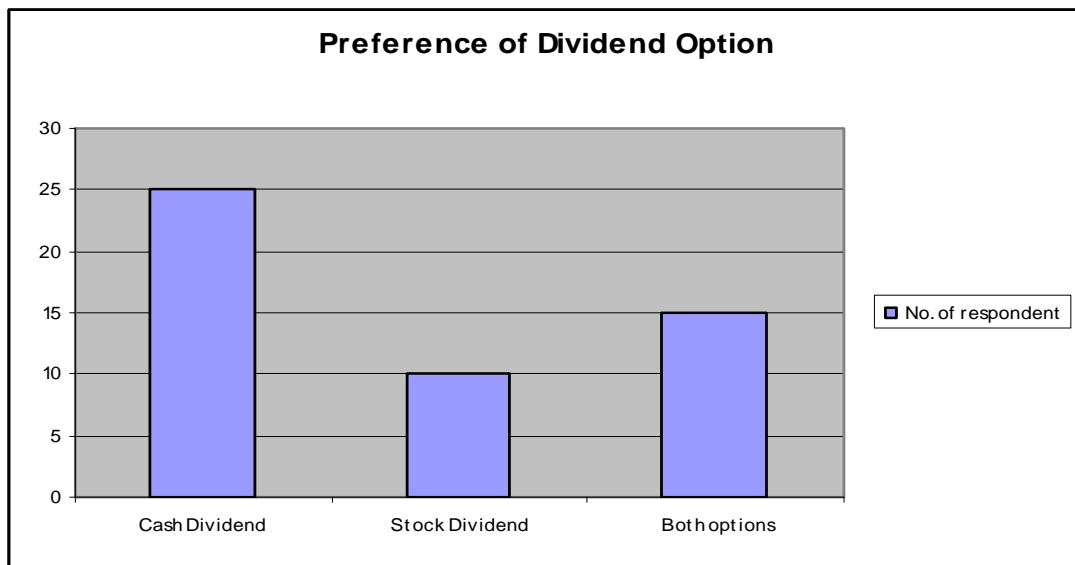
**Table No. 4.18**  
**Preference of Dividend Option**

Option	No. of Respondent	%
Cash Dividend	25	50%
Stock Dividend	10	20%
Both options	15	30%
<b>Total</b>	<b>50</b>	<b>100%</b>

Source: Field Survey, 2010

Most of the respondents wished for cash dividend. Among the 50 respondents, 25 i.e. 50% wanted cash dividend and only 10 wanted for stock dividend. Both options were wished by only 15% respondents.

**Figure No. 4.12**  
**Preference of Dividend Option**



Source: Table No. 4.18

#### 4.5.2 Factors Considered by the Investors

The second question, what factors should be considered by the investors while selecting the Financial Institution is answered as follows.

**Table No. 4.19**  
**Factors Considered by the Investors**

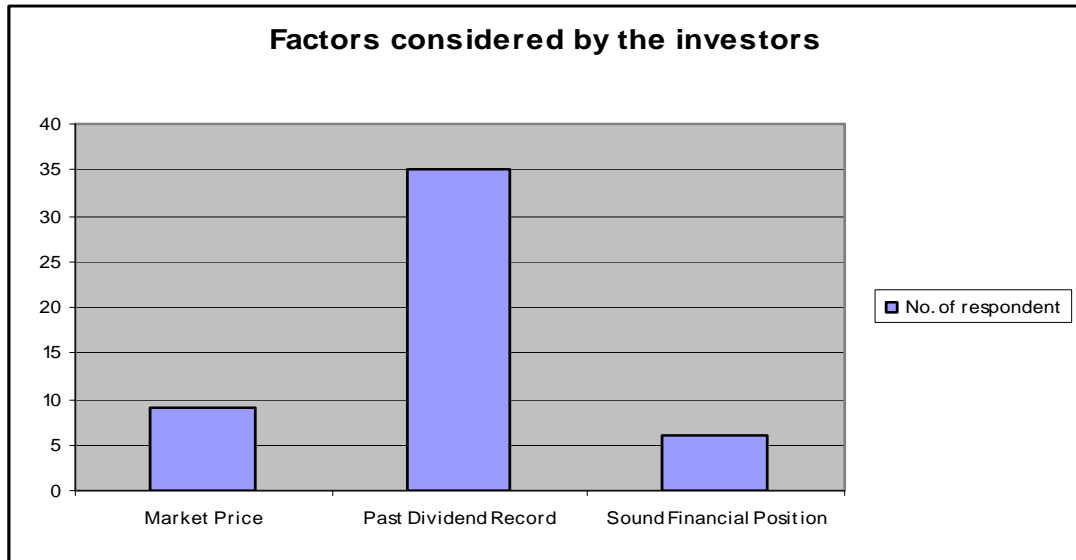
Option	No. of Respondent	%
Market Price	9	18%
Past Dividend Record	35	70%
Sound Financial Position	6	12%
<b>Total</b>	<b>50</b>	<b>100%</b>

Source: Field Survey, 2010

Most of the investors, 70% as per this survey, considered the past dividend record of the firm while investing in them. Among the 50 respondents, 9 considered market price and 6 considered the sound financial position while investing.

**Figure No. 4.13**

**Factors considered by the investors**



*Source: Table No. 4.19*

**4.5.3 Factors to be considered while Adopting Dividing Policy**

The third question, what factors should be considered while adopting dividend policy, is answered as follows.

**Table No. 4.20**

**Factors to be considered while adopting dividend policy**

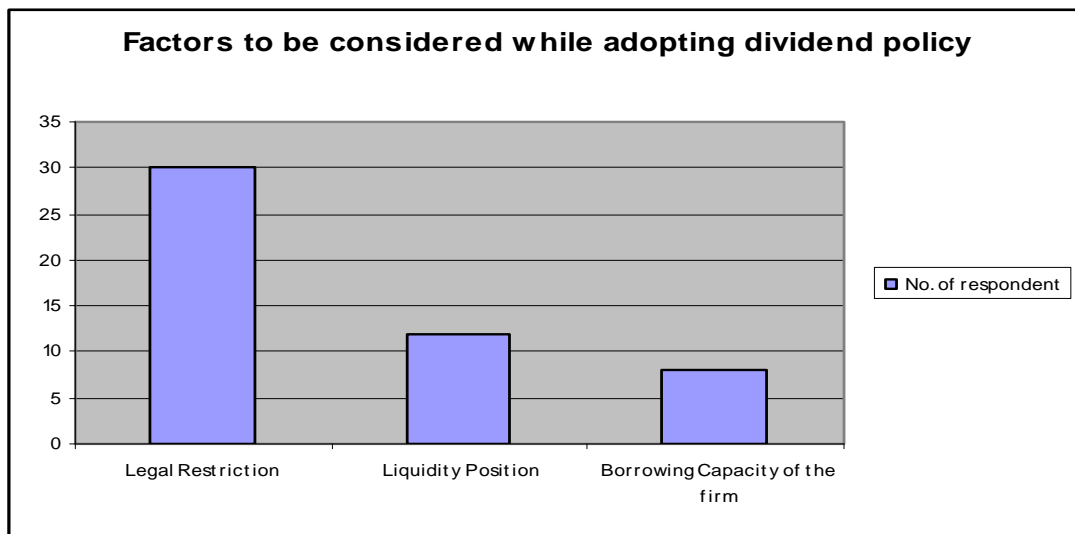
Option	No. of Respondent	%
Legal Restriction	30	60%
Liquidity Position	12	24%
Borrowing Capacity of the firm	8	16%
<b>Total</b>	<b>50</b>	<b>100%</b>

*Source: Field Survey, 2010*

The above table reflects that 60% of the respondents consider the legal restriction to be adopted while declaring the dividend. Similarly, 12 respondents i.e. 24% of them replied liquidity position and 16% replied borrowing capacity of the firm should be considered before declaring the dividend.

**Figure No. 4.14**

**Factors to be considered while adopting dividend policy**



*Source: Table No. 4.20*

**4.5.4 Reason of Investing in the Share Capital**

In the fourth question the respondents are asked why the do people invest in the share capital. The answer is as follows:

**Table No. 4.21**

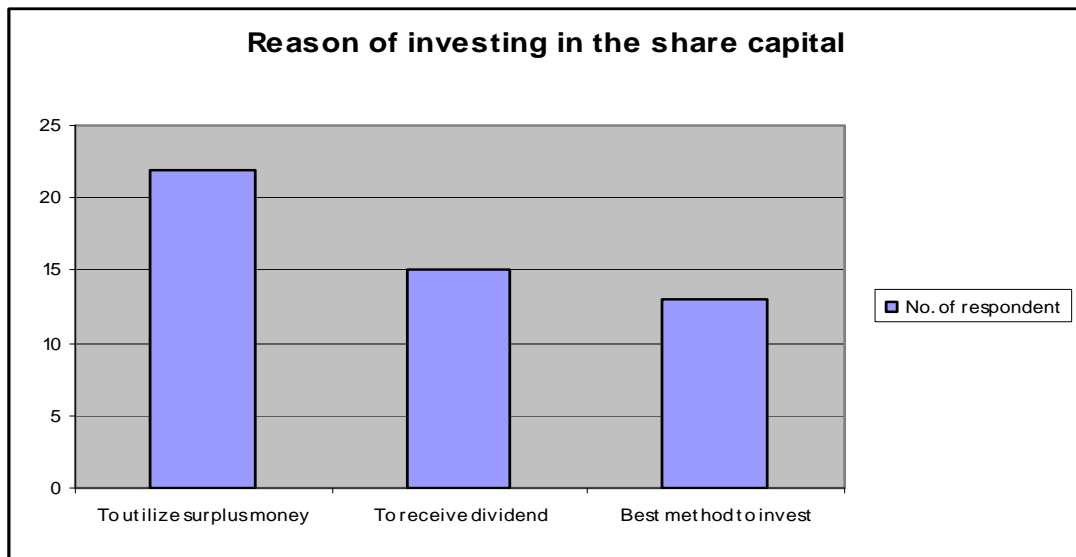
**Reason of investing in the share capital**

<b>Option</b>	<b>No. of respondent</b>	<b>%</b>
To utilize surplus money	22	44%
To receive dividend	15	30%
Best method to invest	13	26%
<b>Total</b>	<b>50</b>	<b>100%</b>

*Source: Field Survey, 2010*

According to the above table, among the 50 respondents, 44% invested to utilize their surplus money. 15 of them invested their money in the share capital in want of dividend and remaining 26% thought it is the best method to invest.

**Figure No. 4.15**  
**Reason of investing in the share capital**



*Source: Table No. 5.21*

#### **4.5.5 Received Cash or Stock Dividend**

Whether the investors have received cash or stock dividend till date is asked in the fifth question. The answer can be summarized as follows.

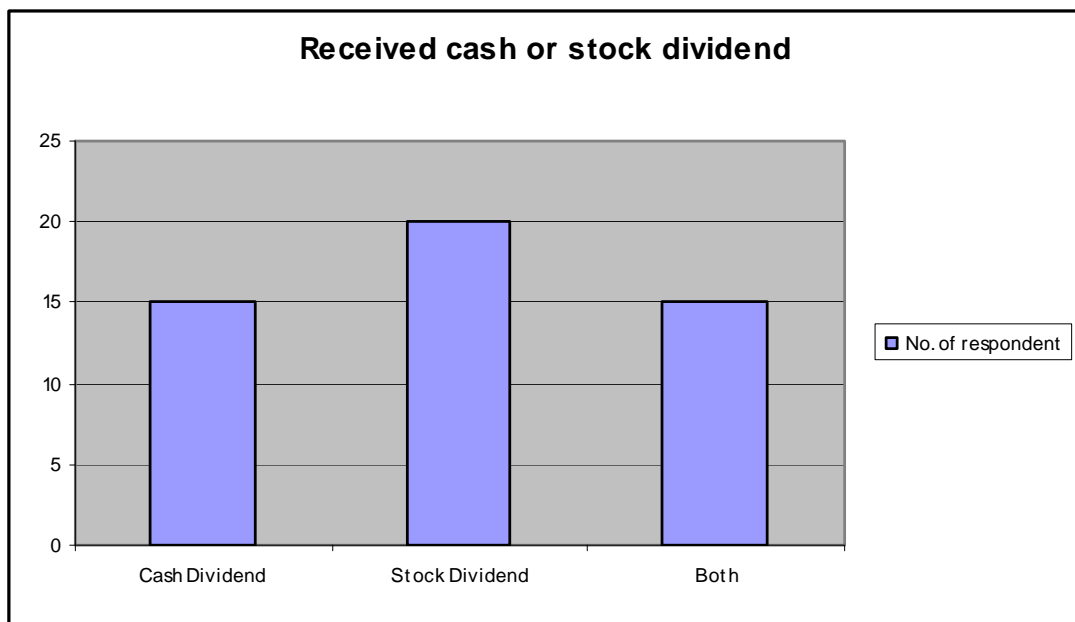
**Table No. 4.22**  
**Received Cash or Stock Dividend**

<b>Option</b>	<b>No. of respondent</b>	<b>%</b>
Cash Dividend	15	30%
Stock Dividend	20	40%
Both	15	30%
<b>Total</b>	<b>50</b>	<b>100%</b>

*Source: Field survey, 2010*

Among the 50 respondents 15 of them have received cash dividend from the company and 20 of them i.e. 40% have received stock dividend and remaining 30% received both cash and stock dividend.

**Figure No. 4.16**  
**Received Cash or Stock Dividend**



*Source: Table No. 4.22*

#### **4.5.6 Suggestions if there is no Cash to pay Cash Dividend**

Suggestions to the company if the company does not have cash to pay cash dividend is asked with the respondents in question no 6, which is answered in the following way by the respondents.

**Table No. 4.23**  
**Suggestions if there is no cash to pay cash dividend**

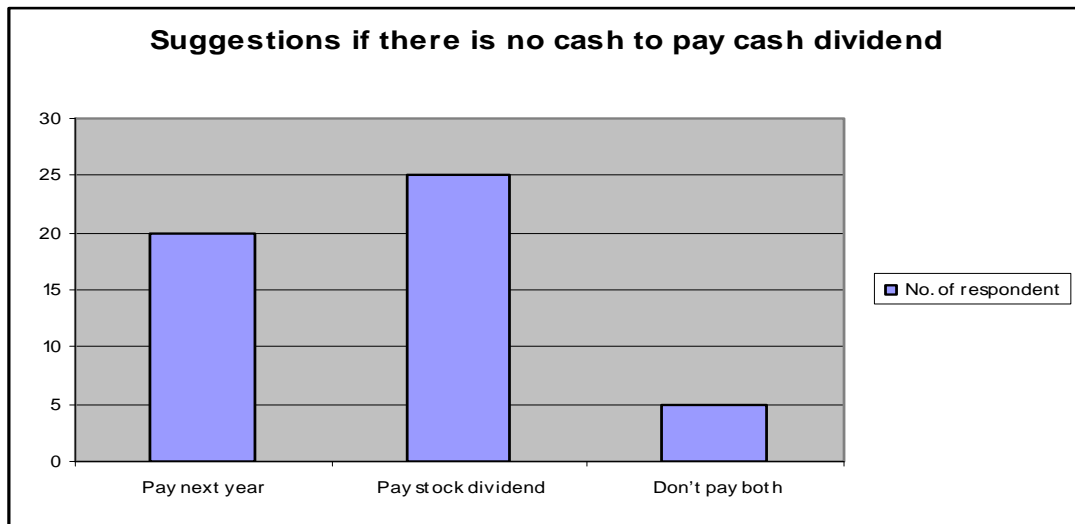
<b>Option</b>	<b>No. of respondent</b>	<b>%</b>
Pay next year	20	40%
Pay stock dividend	25	50%
Don't pay both	5	10%
<b>Total</b>	<b>50</b>	<b>100%</b>

*Source: Field Survey, 2010*

The above table reflects that 40% of the respondents want the company to pay dividend next year. 25 of the respondents want the company to pay stock dividend instead of cash dividend and remaining 10% says not to pay the both this year.

**Figure No. 4.17**

**Suggestions if there is no cash to pay cash dividend**



*Source: Table No. 4.23*

**4.5.7 Motives of Cash Dividend**

Respondents are asked about the major motives of cash dividend by the banks in the seventh question. They have answered it as follows:

**Table No. 4.24**

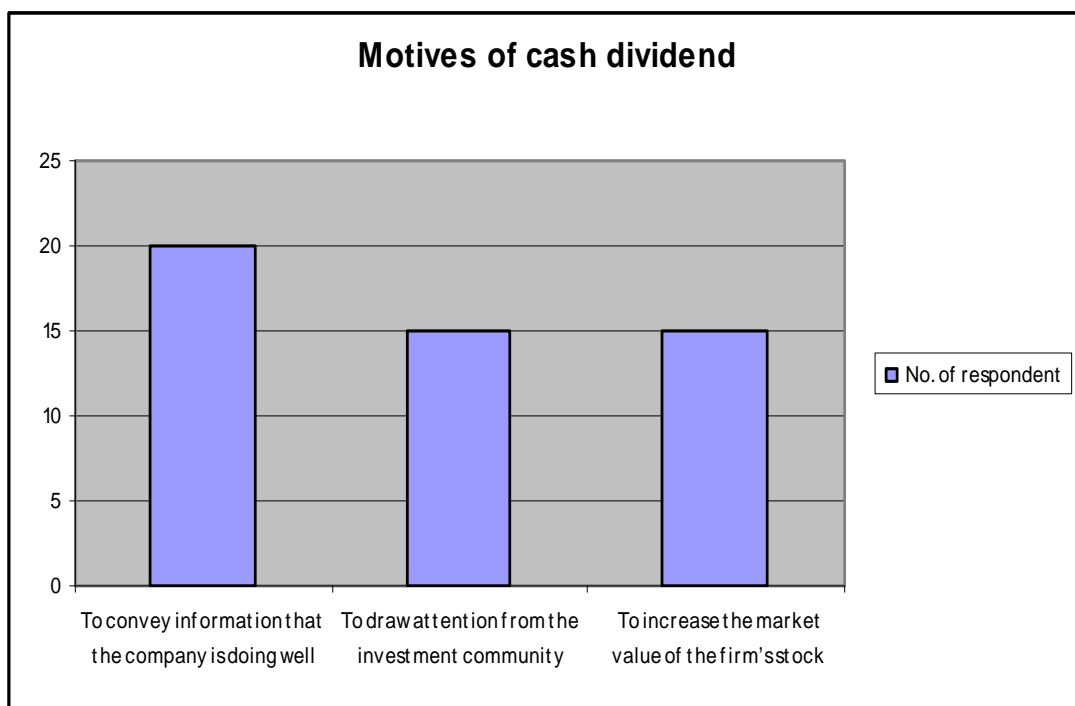
**Motives of Cash Dividend**

<b>Option</b>	<b>No. of respondent</b>	<b>%</b>
To Convey Information	20	40%
To Draw Attention	15	30%
To Increase the Market Value	15	30%
<b>Total</b>	<b>50</b>	<b>100%</b>

*Source: Field Survey, 2010*

According to the above table, 40% of the respondents think that the motive of the company to distribute the cash dividend is to convey the information that the company is doing well. 15 among the 50 respondents think company pays dividend to draw the attention of the new investors. In the view of next 30% respondents, company pays cash dividend to increase the market value of the stock

**Figure No. 4.18**  
**Motives of Cash Dividend**



*Source: Table No. 4.24*

## **4.6 Major Findings of the Study**

### **4.6.1 Major Findings of the Secondary Data**

The major findings of the secondary data are as follows:

- Market Price Per Share (MPPS) of these five listed banks is now in increasing trend. EBL is now in highest position in case of MPPS. Banks are now able to get better reputation in the market due to their increasing MPPS.
- Earning Per Share (EPS) is the total earning earned in a share. EBL has good EPS along with consistency in it. Similarly HBL is also able to earn good return with consistency in it. Some fluctuations are seen in the EPS of the listed commercial banks which may effect in the image of the firm.
- Dividend Per Share (DPS) is highly fluctuating in every commercial banks. HBL distributed Rs 18.72 as dividend in average which is the highest among these five banks. But its fluctuation is also 44.39%. NSBL and EBL have not been able to distribute dividend in some years. It shows inconsistency in their dividend which is not marked good.
- Dividend Payout Ratio (DPR) is the ratio paid to the shareholders after retaining by the firms for further investment. None of the above banks are providing high dividend. Most of the earnings are retained by themselves as retained earning. HBL has previously paid highest DPR i.e. 31.76% in average.
- Positive relationship is found between the EPS and MPPS of the all above listed commercial banks. These are highly correlated and any change in EPS leads to the positive change in MPPS also. But

- Trend of MPPS for future five years is in increasing state. Similarly in case of EPS also it is increasing for all except NIBL. DPS of HBL is decreasing but for other four banks have increasing trend. DPR of HBL and NSBL is also predicted to decrease.

#### **4.6.2 Major findings of the Primary Data**

The major findings of the primary data are as follows:

- 50% of the investors have invested their money in the firms in want of regular cash return. 20% want stock dividend and 30% want both the options i.e. cash as well as stock dividend.
- Among the 50 respondents, 35 investors evaluate the past dividend record of the firms before investing in them. 18% analyze the market price and 12% compare the sound financial position of the company before investing.
- According to the primary data collected it is found that most of the firms (60%) consider the legal restrictions while adopting the dividend policy. Liquidity position of the firm and borrowing capacity of the firm is also to be considered while adopting the dividend policy according to the respondents.
- About 44% of the investors are investing their money in share capital to utilize their money. Some of them invest it in want of dividend. Few of the i.e. 26% people think investing in the share capital is the best method to invest.
- In case the firm does not have sufficient cash to pay dividend, investors want the company to distribute the stock dividend instead

- According to the survey, 40% of the shareholders have received stock dividend. Cash dividend and both the stock as well as cash dividend is also received by most of them.
- According to the survey, maximum investors think that firms pay cash dividend to convey the information that the company is doing well. Dividend is paid to attract more new investors or also to increase the market value their stock in the view of others.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

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

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

Instability of dividend and inconsistent dividend payout ratio are the most applied phenomena of commercial banks and financial companies in Nepal. But, in Nepal, only the banks and finance companies operating

under Joint Venture are paying dividend more attractively than the banks and finance companies promoted by indigenous promoters.

Further companies have not been able to follow the stable dividend policy. However, dividend policy is taking its path, slowly in Nepalese Commercial Environment. This study is mainly based on the study of the dividend practices of sampled banks. The dividend payout ratio of the companies in Nepal is also not fair. There is no any consistency in the dividend payment. Hence it is concluded that more or less the dividend policy depends on the earning per share of a company. The earning per share and dividend per share having the positive relation may also impact on the market price of share.

Considering time and resource constraints only five commercial banks have been selected as sample banks in study to fulfill the objective of studying dividend policy decision and other factors related to dividend. The study period covers the past five fiscal years from 04/05 to 08/09. The available secondary data have been analyzed using various financial and statistical tools in this study. So, the reliability of the conclusions of this study is determined on the accuracy of secondary data.

## **5.2 Conclusion**

The thesis includes both primary as well as secondary data. But the presentation and calculation part is mainly based on the secondary data. According to the analysis of the data presented above it can be concluded that banks are performing well. Among them EBL is showing better performance. MPPS of EBL is also increasing regularly and has highest average MPPS. All other banks also have good MPPS and are doing well as they are successful in increasing the share value and also better

reputation in the market due to it. EPS of all these banks are also high and increasing which encourages the new investors to invest in it and also the existing investors are motivated. All five banks are consistently earning good return. EBL has good EPS every year than that of other four banks. But the distribution of dividend by these commercial banks is not regular and also not consistent. EBL has not paid the dividend in FY 04/05. Only BOK is increasing its DPS every year. All others have fluctuations in DPS. Shareholders of NSBL could not enjoy the dividend in two years and in other years also it is very less. Looking at the DPS of the banks it can be said that investors may not be satisfied with the dividend they are getting from their respective banks. It seems banks are retaining most of their earnings for their own investment and paying only few percentage of earning as dividend to their shareholders. This DPR is also not consistent for any of the above listed banks.

The correlation between EPS and MPPS of all banks are positive. Similarly relationship between EPS and DPS and also MPPS and DPS is positive for BOK, EBL, HBL and NSBL. But only in case of NIBL this relationship is negative. PE of these correlation is also calculated to test whether the calculated value of  $r$  is significant or not.

Finally on the basis of the secondary data, it can be concluded that EBL is more successful in gaining good position in the market than other banks. But HBL's data is seen more consistent than any other banks. Other banks have also shown satisfactory performance. Although MPPS of all banks is growing, none of them have consistency in DPS and DPR. So share holders may not be satisfied with them.

Every bank has its own dividend practices. Such different policies have different kinds of effect. It means each bank and financial institutions do not have similar effect in its Market Prices of Share from their dividend

practices. MPPS of all banks are increasing but their DPS is highly fluctuating. So it proves that other many qualitative and quantitative factors also play a great role in the determination of market price of share. DPS is determined on the basis of EPS. EPS of the firm is divided into DPS and Retained Earning, so if the firm wants to retain capital the DPS will be decreased instead of good earning of the firm. Thus it can be concluded that DPS only is not the determining factor of the share price. Banks may provide bonus share, it leads to decrease in share price and dividend payout ratio will not be good, but in the market the reputation and image of that bank will be high.

### **5.3 Recommendation**

This study is basically for the analysis of the dividend policy of different commercial banks. So, various aspects of the commercial banks have to be studied to come into the conclusion. All banks have their own resources and on the basis of those resources management try to get the optimal result. This study has tried to find out some real facts about dividend policy and other interrelated variables with dividend policy of different commercial banks. Based on the above summary and conclusions following recommendation have been provided hoping that these recommendations will be proved as a milestone to overcome the existing issues in this field.

- **Meet the Shareholders Interest**

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. It 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.

- **To improve efficiency and reduce government interference**

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. The government should encourage the establishment of organization to promote and to protect activities in favor of investors. Government should reduce the interference in the daily affairs of the organizations.

- **To have target rate of return**

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. Bank should have target rate of earning and target payout ratio that will help companies to build good image in stock market and investors can also make good investment decision.

- **To have clear view regarding Dividend Policy**

Dividend policy is the only mirror of management perspective to shareholders return therefore all banks should have to come up with clear view regarding dividend policy. Dividend policy means to determine the portion of net profit after tax to be distributed and decide to retain the amount for future growth prospects. But Nepalese banks do not seem to have clear vision regarding dividend declaration neither any capital Budgeting procurers are followed to come up with the retention decision. This increases the confusion of shareholders and they may hesitate to be part of capital market and ultimate effect could be the economic

slowdown therefore commercial banks should feel the reality. Current uncertain scenario should be eliminated and a proper disclosure is required to strength the Nepalese stock market.

- **To provide timely information regarding company's activities**

Each and every company should provide the information regarding their activities and performance, so that investors can analyze the situation and invest their money in the best company. On the other hand, NEPSE should provide all the necessary information regarding the company's activities. The information regarding secondary market and capital market is not duly flash out today. Therefore concerning body should timely provide all the information about this factor.

- **To have clear cut legal rules regarding dividend policy**

Legal rules relating to dividend policy indeed helps the central banks to protect the interest of depositors but there are still some loopholes in legal rules regarding to dividend declaration therefore NRB should come up with more monitoring tools to strengthen the banking system in country. There are no any clear legal provisions about the payment of dividends in our country. So the government should act in favor of the investors. Legal rules should be made in order to protect the rights of the shareholders.

- **To have clear defined vision**

Companies should have long term vision regarding earnings and dividend payment that helps to cope with challenging competitive situation of present world. Companies should define their vision clearly considering their future plans, expansion in business, future economy of the country. Considering various internal and external factors, companies should choose whether to adopt stable dividend policy or constant payout ratio or low plus extra or leaving dividend as residual.

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## Appendix I

### Calculation of Regression Analysis

#### DPS on EPS for BOK

We have,

$$Y = a + bX \quad \text{----(i)}$$

Where, Y = Dependent Variable (DPS)

X = Independent Variable (EPS)

Now,

$$\Sigma Y = na + b\Sigma X \quad \text{----(ii)}$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \quad \text{----(iii)}$$

Year	DPS (Y)	Y <sup>2</sup>	EPS (X)	X <sup>2</sup>	XY
04/05	5	25	30.10	906.01	150.5
05/06	10	100	43.67	1907.07	436.7
06/07	15	225	43.50	1892.25	652.5
07/08	18	324	59.94	3592.80	1078.92
08/09	20	400	54.68	2989.90	1093.6
<b>Total</b>	<b><math>\Sigma Y =</math> 68</b>	<b><math>\Sigma Y^2 =</math> 1074</b>	<b><math>\Sigma X =</math> 231.89</b>	<b><math>\Sigma X^2 =</math> 11288.03</b>	<b><math>\Sigma XY =</math> 3412.22</b>

Putting the values in equations (i) and (ii)

$$68 = 5a + 231.89b \quad \text{----(iv)}$$

$$3412.22 = 231.89a + 11288.03b \quad \text{----(v)}$$

Multiplying equation (iv) by 46.378 and subtracting (v) from (iv), we get

$$3153.70 = 231.89a + 10754.59b$$

$$3412.22 = 231.89a + 11288.03b$$

$$\begin{array}{r} - \\ - \\ - \\ \hline -258.52 = 0 \qquad -533.44b \end{array}$$

$$\text{or, } b = \frac{-258.52}{-533.44}$$

$$b = 0.48$$

Putting the value of b in equation (iv) we get,

$$68 = 5a + 231.89*0.48$$

$$a = -8.66$$

### Calculation of T- Value

$$\begin{aligned} SEE &= \frac{\Sigma Y^2 - a\Sigma Y - b\Sigma XY}{N-2} \\ &= \frac{1074 - (-8.66)*68 - 0.48*3412.22}{3} \\ &= 2.89 \end{aligned}$$

$$\begin{aligned} S_b &= \frac{SEE}{\Sigma(X-\bar{X})^2} \\ &= \frac{2.89}{23.10} \\ &= 0.1251 \end{aligned}$$

$$\begin{aligned} |t| &= \frac{b}{S_b} \\ &= \frac{0.48}{0.1251} \\ &= 3.84 \end{aligned}$$

Similarly, for EPS, HBL, NIBL and NSBL.

### MPPS on EPS for EBL

We have,

$$Y = a + bX \quad \text{----(i)}$$

Where, Y = Dependent Variable (MPPS)

X = Independent Variable (EPS)

Now,

$$\Sigma Y = na + b\Sigma X \quad \text{----(ii)}$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \quad \text{----(iii)}$$

Year	EPS (X)	X <sup>2</sup>	MPPS (Y)	XY
04/05	54.22	2939.80	870	47171.4
05/06	62.78	3941.33	1379	86573.62
06/07	78.42	6149.70	2430	190560.6
07/08	91.82	8430.91	3132	287580.24
08/09	99.99	9998.0	2455	245475.45
<b>Total</b>	<b>ΣX = 387.23</b>	<b>ΣX<sup>2</sup> = 31459.74</b>	<b>ΣY = 10266</b>	<b>ΣXY = 857361.31</b>

Putting the values in equations (i) and (ii)

$$10266 = 5a + 387.23b \quad \text{----(iv)}$$

$$857361.31 = 387.23a + 31459.74b \quad \text{----(v)}$$

Multiplying equation (iv) by 77.446 and subtracting (v) from (iv), we get

$$795060.64 = 387.23a + 29989.41b$$

$$857361.31 = 387.23a + 31459.74b$$

$$\begin{array}{r} - \\ - \\ - \\ \hline -62300.67 = 0 \quad -1470.33b \end{array}$$

$$\text{or, } b = \frac{-62300.67}{-1470.33}$$

$$b = 42.37$$

Putting the value of b in equation (iv) we get,

$$10266 = 5a + 387.23 \times 42.37$$

$$a = -1228.19$$

### Calculation of T- Value

$$SEE = \frac{\Sigma Y^2 - a\Sigma Y - b\Sigma XY}{N-2}$$

$$= \frac{24399890 - (-1228.19) \times 10266 - 42.37 \times 857361.31}{3}$$

$$= 247.97$$

$$S_b = \frac{SEE}{\Sigma(X-\bar{X})^2}$$

$$= \frac{247.97}{23.01}$$

$$= 10.73$$

$$|t| = \frac{b}{S_b}$$

$$= \frac{63.29}{10.73}$$

$$= 5.90$$

Similarly, for BOK, HBL, NIBL and NSBL.

### MPPS on DPS for HBL

We have,

$$Y = a + bX \quad \text{----(i)}$$

Where, Y = Dependent Variable (MPPS)

X = Independent Variable (DPS)

Now,

$$\Sigma Y = na + b\Sigma X \quad \text{----(ii)}$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \quad \text{----(iii)}$$

<b>Year</b>	<b>DPS (X)</b>	<b>X<sup>2</sup></b>	<b>MPPS (Y)</b>	<b>Y<sup>2</sup></b>	<b>XY</b>
04/05	11.58	134.10	920	846400	10653.6
05/06	30	900	1100	1210000	33000
06/07	15	225	1740	3027600	26100
07/08	25	625	1980	3920400	49500
08/09	12	144	1760	3097600	21120
<b>Total</b>	<b>ΣX = 93.58</b>	<b>ΣX<sup>2</sup> = 2028.10</b>	<b>ΣY = 7500</b>	<b>ΣY<sup>2</sup> = 12102000</b>	<b>ΣXY = 140373.6</b>

Putting the values in equations (i) and (ii)

$$7500 = 5a + 93.58b \quad \text{----(iv)}$$

$$140373.6 = 93.58a + 2028.10b \quad \text{----(v)}$$

Multiplying equation (iv) by 18.716 and subtracting (v) from (iv), we get

$$140370 = 93.58a + 1751.44b$$

$$140373.6 = 93.58a + 2028.10b$$

$$\begin{array}{r} - \\ - \\ - \\ \hline -3.6 = 0 \quad -276.66b \end{array}$$

$$\text{or, } b = \frac{-3.6}{-276.66}$$

$$b = 0.013$$

Putting the value of b in equation (iv) we get,

$$7500 = 5a + 93.58*0.013$$

$$a = 1499.76$$

### Calculation of T- Value

$$\begin{aligned} \text{SEE} &= \frac{\sum Y^2 - a\sum Y - b\sum XY}{N-2} \\ &= \frac{12102000 - 1499.76*7500 - 0.013*140373.6}{3} \\ &= 929.89 \end{aligned}$$

$$\begin{aligned} S_b &= \frac{\text{SEE}}{\sqrt{\sum (X-\bar{X})^2}} \\ &= \frac{929.89}{24.08} \end{aligned}$$

$$= 38.62$$

$$|t| = \frac{b}{S_b}$$

$$= \frac{35.42}{38.62}$$

$$= 0.92$$

Similarly, for BOK, EPS, NIBL and NSBL.

## Appendix II

### Calculation of Trend Analysis

#### MPPS of BOK

Year	$\bar{X} = (X-A)$	MPPS (Y)	$X^2$	$XY$
04/05	-2	430	4	-860
05/06	-1	850	1	-850
06/07	0	1375	0	0
07/08	1	2350	1	2350
08/09	2	1825	4	3650
		$\Sigma Y = 6830$	$\Sigma X^2 = 10$	$\Sigma XY = 4290$

Assume,

$$A = 2007$$

Now,

$$\begin{aligned} a &= \frac{\Sigma Y}{N} \\ &= \frac{6830}{5} \\ &= 1366 \end{aligned}$$

$$\begin{aligned} b &= \frac{\Sigma XY}{\Sigma X^2} \\ &= \frac{4290}{10} \\ &= 429 \end{aligned}$$

Now for different years,

**For 07/08,**

$$\begin{aligned} Y &= a + bX \\ &= 1366 + 429 * 1 \\ &= 1795 \end{aligned}$$

**For 08/09,**

$$\begin{aligned} Y &= a + bX \\ &= 1366 + 429 * 2 \\ &= 2224 \end{aligned}$$

**For 09/10,**

$$\begin{aligned} Y &= a + bX \\ &= 1366 + 429*3 \\ &= 2653 \end{aligned}$$

**For 10/11,**

$$\begin{aligned} Y &= a + bX \\ &= 1366 + 429*4 \\ &= 3082 \end{aligned}$$

**For 11/12,**

$$\begin{aligned} Y &= a + bX \\ &= 1366 + 429*5 \\ &= 3511 \end{aligned}$$

Similarly, for EBL, HBL, NIBL and NSBL.

### **EPS of BOK**

<b>Year</b>	<b><math>\bar{X} = (X-A)</math></b>	<b>EPS (Y)</b>	<b><math>X^2</math></b>	<b>XY</b>
04/05	-2	30.10	4	-60.2
05/06	-1	43.67	1	-43.67
06/07	0	43.50	0	0
07/08	1	59.54	1	59.94
08/09	2	54.68	4	109.36
		<b><math>\Sigma Y = 231.49</math></b>	<b><math>\Sigma X^2 = 10</math></b>	<b><math>\Sigma XY = 65.43</math></b>

Assume,

$$A = 2007$$

Now,

$$\begin{aligned} a &= \frac{\Sigma Y}{N} \\ &= \frac{231.49}{5} \\ &= 46.38 \end{aligned}$$

$$\begin{aligned} b &= \frac{\Sigma XY}{\Sigma X^2} \\ &= \frac{65.43}{10} \\ &= 6.543 \end{aligned}$$

Now for different years,

**For 07/08,**

$$\begin{aligned} Y &= a + bX \\ &= 46.38 + 6.543*1 \\ &= 52.92 \end{aligned}$$

**For 08/09,**

$$\begin{aligned} Y &= a + bX \\ &= 46.38 + 6.543*2 \\ &= 59.47 \end{aligned}$$

**For 09/10,**

$$\begin{aligned} Y &= a + bX \\ &= 46.38 + 6.543*3 \\ &= 66.00 \end{aligned}$$

**For 10/11,**

$$\begin{aligned} Y &= a + bX \\ &= 46.38 + 6.543*4 \\ &= 72.55 \end{aligned}$$

**For 11/12,**

$$\begin{aligned} Y &= a + bX \\ &= 46.38 + 6.543*5 \\ &= 79.09 \end{aligned}$$

Similarly, for EBL, HBL, NIBL and NSBL.

### **DPS of BOK**

<b>Year</b>	<b><math>\bar{X} = (X-A)</math></b>	<b>DPS (Y)</b>	<b><math>X^2</math></b>	<b>XY</b>
04/05	-2	5	4	-10
05/06	-1	10	1	-10
06/07	0	15	0	0
07/08	1	18	1	18
08/09	2	20	4	40
		<b><math>\Sigma Y = 68</math></b>	<b><math>\Sigma X^2 = 10</math></b>	<b><math>\Sigma XY = 38</math></b>

Assume,

$$A = 2007$$

Now,

$$a = \frac{\Sigma Y}{N}$$

$$= \frac{68}{5}$$
$$= 13.6$$

$$b = \frac{\Sigma XY}{\Sigma X^2}$$
$$= \frac{38}{10}$$
$$= 3.8$$

Now for different years,

**For 07/08,**

$$Y = a + bX$$
$$= 13.6 + 3.8*1$$
$$= 17.40$$

**For 08/09,**

$$Y = a + bX$$
$$= 13.6 + 3.8*2$$
$$= 21.20$$

**For 09/10,**

$$Y = a + bX$$
$$= 13.6 + 3.8*3$$
$$= 25$$

**For 10/11,**

$$Y = a + bX$$
$$= 13.6 + 3.8*4$$
$$= 28.8$$

**For 11/12,**

$$Y = a + bX$$
$$= 13.6 + 3.8*5$$
$$= 32.6$$

Similarly, for EBL, HBL, NIBL and NSBL.

## DPR of BOK

Year	$\bar{X} = (X-A)$	DPR (Y)	$X^2$	XY
04/05	-2	16.61	4	-33.22
05/06	-1	22.90	1	-22.90
06/07	0	34.48	0	0
07/08	1	30.03	1	30.03
08/09	2	36.57	4	73.14
		<b><math>\Sigma Y = 140.59</math></b>	<b><math>\Sigma X^2 = 10</math></b>	<b><math>\Sigma XY = 47.05</math></b>

Assume,

$$A = 2007$$

Now,

$$a = \frac{\Sigma Y}{N}$$

$$= \frac{140.59}{5}$$

$$= 28.12$$

$$b = \frac{\Sigma XY}{\Sigma X^2}$$

$$= \frac{47.05}{10}$$

$$= 4.705$$

Now for different years,

**For 07/08,**

$$\begin{aligned} Y &= a + bX \\ &= 28.12 + 4.705*1 \\ &= 32.83 \end{aligned}$$

**For 08/09,**

$$\begin{aligned} Y &= a + bX \\ &= 28.12 + 4.705*2 \\ &= 37.53 \end{aligned}$$

**For 09/10,**

$$\begin{aligned} Y &= a + bX \\ &= 28.12 + 4.705*3 \\ &= 42.23 \end{aligned}$$

**For 10/11,**

$$\begin{aligned} Y &= a + bX \\ &= 28.12 + 4.705*4 \\ &= 46.94 \end{aligned}$$

**For 11/12,**

$$\begin{aligned} Y &= a + bX \\ &= 28.12 + 4.705*5 \\ &= 51.64 \end{aligned}$$

Similarly, for EBL, HBL, NIBL and NSBL.

## Appendix III

### Questionnaires

- 1) Which dividend option you would like to prefer?
  - a) Stock dividend
  - b) Cash dividend
  - c) Both Options
  
- 2) What factor you consider the most before buying stock of any Financial Institution?
  - a) Market price
  - b) Past dividend record
  - c) Sound Financial Position
  
- 3) What factors should be considered while adopting dividend policy?
  - a) Legal Restriction
  - b) Liquidity position
  - c) Borrowing capacity of the firm
  
- 4) Why do people invest in share capital?
  - a) To utilize surplus money
  - b) To receive dividend
  - c) This is the best method to invest
  
- 5) Have you received cash dividend or stock dividend till date?
  - a) Cash dividend
  - b) Stock dividend
  - c) Both

- 6) What do you suggest if the company has no cash to pay cash dividend?
- a) Pay next year
  - b) Pay stock dividend
  - c) Don't pay both
- 7) What is the major motive of cash dividend by the banks?
- a) To convey information 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