

Chapter 1

Introduction

1.1 Background of the study:

Financial institution plays an important role in accelerating development of the country. It occupies a vital role in the national, economical and development framework. Due to collections of capitals through savings from citizens; makes investment in different enterprise, mobilizes the fund. In other words, banking industries are helping hands in reducing poverty, raising employment opportunities and thereby developing the society and the country as a whole.

Commercial banking industries include the banks with operational transaction of collecting deposits and lending them. It can a vital role is giving a direction to economic development overtime by financing the requirement of trades and industry in the country.

Efficient banking system is absolutely necessary for the country, especially for the underdeveloped countries. In the economic plan, capital occupies a position of strategic importance. No economic development of sizeable magnitude is possible unless there is an adequate degree of capital formation. A very important habit of underdeveloped country is freezing the capital and that will be result of in sufficient saving made by community. In the underdeveloped countries, not only is the capital stock is highly small, but the current rate of capital formation is also very low. This is because of low income source of underdeveloped nation plus limited knowledge training and advancement of science and technology. Besides the target group and target wise objectives of different banks are different. Government owned banks which is spread all over the countries, must be able to operate with good management but in context of Nepal, management of government owned bank is formulates using bureaucrats and managerial influences is existed. So, the concept of joint venture commercial banks are growing and applying faster nowadays. The top level management of the banks is hired from the foreign country and the parent company of these banks is internationally famous. So from decision making to every step of work will be in modern scientific thoughts. Hence,

government banks and foreign collaborated joint venture banks are operating in some different situation in small industry, which may give different profitability.

The above facts clear that commercial banks play a vital role for the economic development of the country. Commercial banks are the main supplier of the liquid capital, which is the blood vessel of the commercial and industrial activities.

According to history, the overall development of banking system in Nepal, the jeweler, merchants and moneylenders were the ancient bankers of Nepal. However, in 1876, Tejarath Adda was established during the Tenure of Prime Minister, Ranoddip Singh. It was the first step towards the institutional development of banking in Nepal. It didn't collect deposits from the public but gave loans to employees and public against bullion. However, the trend of modern Banking started in Nepal in 1937 with the inception of Nepal Bank Limited. It had the Herculean responsibility of attracting people towards banking sector from pre-dominant moneylenders net and of expanding banking services. Nepal Bank Limited was incorporate by the Nepal bank limited Act. Nepal Rastra Bank was set up on 1956 as a central Bank under Nepal Rastra Bank Act 1955 (now under NRB act 2001). The main function of NRB is to ensure a robust health of financial institutions. Similarly, Rastriya Banijya Bank was established in 1965, as a fully government owned commercial Bank to cope with the difficulties of NRB and NBL.

Despite all the efforts to the government, financial sector was found slugging however, the inception of Nepal Arab Bank Limited in 1984 as a first joint venture Bank proved to be a milestone in the history of banking. The many joint venture banks come to Nepal. In Nepal, though it's been a long time since commercial banks have established, they are not being able to grow to a satisfactory level. The evolution and development of banking industry is relatively slower in Nepal as compared to other nations. But in recent years the industry has experienced positive developments and has slowly started to grow at decent rate. In a situation where most of the industries are not doing well banking industry has shown continuous growth.

So after the banks are introduced, so as, the need of financial evaluation. Now different firms are involved in finding out position of their institution through the various tools.

Financial theory and practice continue the change rapidly. Not only have advances been made in valuation and in the theory of finance, but the environment has changed as well. Finance has taken on even greater strategic focus as manager cope with how to create value within a corporate setting. Proper utilization of resources, balancing various stakeholder claims, information effects and financial signaling, the globalization of finance, regulatory and tax law changes, and a host of other considerations now permeate the landscape of financial decision making.

Generally, study of financial management provides three things. First, by developing and understanding of rapidly evolving and exciting theory of finance, it enables one to evaluate how close the firm's investment, financial and dividend decision come to an objective of maximizing shareholders wealth. Second, it familiarize with the ways of analytical techniques brought to bear on financial decision making. Third, it supplies the institutional material necessary for a solid understanding of the environment in which financial decision are made.

Hence, to make rational decisions in keeping with the objective of the firm, the financial manager must have analytical tools. Dividend policy management is one important aspects of financial management. It is process of identifying the strength and weakness of the firm properly establishing the relationship between the items of the balance sheet and the profit and loss accounts.

Dividend decision of the firm is yet another crucial area of financial management. The important aspect of Dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. It is that portion of the net earning divide by the company among the shareholders as a return for their money invested. Dividends are distributed out of profits; the alternative to the payment of dividends is the retention of earning/profits. The retained earning constitutes as easily

associable important sources of financing the investment requirements of the firm. The policy of the company on the division of its profits between distribution to the shareholders as dividend and retention for its investment is known as dividend policy. All aspect and question related to payment of dividend are contained in a dividend policy. Dividend policy determines the amount of earnings to be retained and paid out by the firm. "The dividend policy must be formulated with the basic objective in mind-maximizing the wealth of the firm's owners and providing for sufficient financing. These objectives are not mutually exclusive but rather interrelated."

In Nepal only few companies are paying dividend and the other companies are not stable in the payment of dividend. There are some companies who have never paid dividend to their investors throughout their historical background. It has been noticed that company who has risen dividend generally experience on increase its stock price and that a company don't pay dividend or lowers it's has a falling stock price trend. It seems to suggest that dividend so matter, is affecting the stock price of the company but several researchers argue the fact that dividend affect stock price, rather it is the information declaration of dividend that affect the stock price. It is fact that dividend work as a simple sufficient signal of management's interpretation of the firm's recent performance and its future prospects.

Generally there are two types of shares: Preference Share and Equity Share. Dividend paid on equity is called preference dividend, which is generally fixed and payable before payment of equity dividend. There is no choice to the management for the preference dividend. But there is full choice about the rate of the equity dividend. Dividend decision is the major decision of financial management. It is in sense that the firm has to choose between distributing profits to shareholders and sloughing them back into the business. The dividend depends upon the objective of management for wealth maximization of the shareholders and owners.

Dividends are generally paid in cash because it is easy to pay to shareholders There is reciprocal relationship between retained earnings and cash dividend; larger retention,

lesser dividends; smaller retention, larger dividends. Thus the alternative uses of the net earning dividends and retained earnings are competitive and conflicting. "Financing management therefore concerned with the activities of the corporation and affect the well being stockholders. The wellbeing can be partially measured by the dividends received, but the more accurate measure is the market value of stock. But the stockholder usually thinks that the dividend yield is less than capital gain."

The dividend payout ratio obviously depends on the way earnings are measured. But net earnings may not confirm and may not be appropriate of ability of the firm to pay dividend. So, what and how much it is pay dividend is always a controversial topic because shareholders expect higher dividend.

"The issue of how much a company should pay its stockholders as dividend has concerned managers for a long time. It has often been pointed out that the company that raises its dividend often experiences an increase in its stock price and the company that lowers its dividends has a falling stock price. But this casual relationship has been refuted by several researchers on the ground of dividends that effect stock prices."

There are again corporate laws that bind limitation on the distribution of dividends as corporation have keep reserves for the protection of creditors overall interest. It is therefore a wise policy to maintain a balance between shareholders interest with that of corporate growth form internally generated funds. The return to shareholder should be better paid as dividends, since shareholders have investment opportunities to employ elsewhere.

The objective of dividend policy should be to maximize shareholder's return so that the value of the investment is maximized. Shareholders return consists of two components: dividend and capital gain. Dividend policy has directly influenced on those two components of return.

In a capital structure decision each and every firm can obtain additional funds by issuing new equity and retention of earning. So after measuring the firm's profit there is further problem of how much these profit should be distributed in terms of dividend. It is big financial decision because the firm has to choose between distribution of profit to the shareholders or reinvesting it to finance the business. Different firm adopt different approaches to distribute dividend. To maximize shareholders wealth firm should use large amount of profit for payment of dividend. But the firm's objective is expansion of its business; the firms retain profit to finance in investment program.

According to Khan and Jain, "Dividends are distributed out of the profits; the alternative to the payment of dividends is the retention of earning/profits, the retained earnings constituted an easily accessible important source of financing the investment requirement of firms. There is thus, a type of reciprocal relationship between retained earning and cash dividends. Larger retentions lesser dividends and lesser retentions larger dividends. Thus, the alternative uses of the net earnings- dividends and retained earnings are competitive and conflicting."

Having given the overall dividend implications among companies and financial institutions, this study is more specific in assessing the dividend practices of the joint venture banks (JVBs). More about the JVBs will be reflected in the coming parts.

1.2 Statement of problems:

Now-a day's people are attracted to invest in shares for the purpose of getting greater returns. So, dividend policy has become an effective way to attract new investors to keep present investors happy and to maintain goodwill of the company. Dividend, the most inspiring factor for the investment on shares of the company is thus desirable from the stockholders point of view. "Dividend decision however, is a crucial as well as controversial area of financial management. The effect of dividend policy on a corporation's market value is a subject of long standing controversy."

Dividend policy is an integral part of financial management decision of a business firm. Dividend refers to that portion of a firm's net earning which are paid out to the shareholders. Whether dividends have an influential on the value of the firm is the most critical question in dividend policy. If dividends are irrelevant, the firm should retain earnings for investment opportunities. If there are not sufficient investment opportunities providing expected returns in excess of the required return, the unused funds should be paid out as dividends.

Dividend is the most inspiring factor for the investment on shares of the company is thus desirable from the stockholder's point of view. In one hand the payment of dividend makes the investors happy. But in the other hand the payment of dividend decreases the internal financing required for making investment in golden opportunities. This will hamper the growth of the firm, which in turn affects the value of the stock. Earnings are also treated as financing sources of the firms. The firm retains the earning; its impact can be seen in many factors such as decreased leverage ratio, expansion of activities and increase in profit in succeeding years. Whereas if firm pays dividend, it may need to raise capital through capital that will affect on risk characteristics of the firm. Therefore there are many dimensions to be considered on dividend theories, policies and practices.

Commercial banks in Nepal have not satisfactory result about dividend decision, because of the various Government rules and regulations acting and reacting in banking operations. There is no limit to the identification of the problem about dividend policy that is visible in Nepalese commercial banks. In Nepal, there are only a few companies that pay dividend to shareholders. Dividend distribution is not matching with the earnings of the commercial banks. Here, especially joint venture banks have sufficient earnings and are capable to pay dividend. But they are not following appropriate dividend policies. Sometimes their earning is low but they pay high dividend and sometime earnings is high they pay low dividend. The above factors affect the dividend decision and valuation of the shares. Following are the major problems that have been identified for the purpose of this study.

- ❖ The problem is not the ability to pay dividend but the attitude to pay dividends.
- ❖ Both the banks having uniformity in dividend distribution or not?
- ❖ Are share prices affected by the dividend per share in the sampled banks.
- ❖ Is it possible to increase the value of stock by changing dividend policy or payout ratio?
- ❖ What is the relationship between dividend with earning per share, market price of share, and book value of share, net profit and net worth of the companies?

1.3 Significance of the study:

This study has been undertaken to focus on dividend policies of joint ventures banks in Nepal. Paying dividend to shareholders is an effective way to attract new investors. Due to decision of earnings of a company between dividend payout and retention of earnings, there is a possibility of some direct or indirect relationship between the dividend policy and the market price of the share of the company. In the changed context of encouraging secondary market it is time to study influences of other factors on dividend and implication of dividend on market price of shares. The study has tried to cover some such factors. However, it is not enough due to some limitation mentioned elsewhere.

Dividend paying banks have been selected for the study, so that reference can be made about implication of dividend. Shareholders have high expectations regarding market price of share, which are expected to be significantly higher than net worth, which is fulfilled in these sample banks.

Instability of dividend and inconsistent payout ratio is the most commonly observed feature of Nepalese dividend distribution practices. However, in case of Joint Venture banks having one or more foreign partner the payment of dividend is more attractive than the companies promoted by indigenous promoters. However, Joint Venture Banks are also observed to be particularly not sensitive towards the dividend policy. This will actually affect the market price, goodwill of such banks in the long run. The theoretical statement of the study was that dividend decision should depend upon earning per share

and net profit. Similarly, prices of stock and net worth should depend on dividend decision.

There is no doubt that the study will also have multidimensional importance for various areas, which are mentioned below in brief:

- ❖ Importance to policy formulators and also be useful for teachers, students of the subject, particularly those in commerce stream, chartered accountancy and institutional finance.
- ❖ Importance to stakeholders.
- ❖ Importance to the banks to know the trend, future expectations and acquire expected level of results.
- ❖ Importance to government bodies and policymakers such as central banks.
- ❖ Importance to auditors, analysts.
- ❖ It can be good asset of library and guidelines for other report writer.

1.4 Objectives of the study:

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

- ❖ To make critical study of the prevalent dividend payment practices of banks in Nepal.
- ❖ To assess whether the dividend policies adopted by banks are as per the directives set by central bank.
- ❖ To assess the type of the dividend policy that is being followed.
- ❖ To analyze the relationship between dividends per share with various important variables such as earning per share, net profit, net worth and stock price.

- ❖ To provide suggestion and possible guidelines to overcome various issues and gaps based on the findings of the analysis.

1.5 Limitations of the study:

This analysis is based on secondary data published by the bank. Some of the information of the banks are confidential and could not be included in the report. This study is not comprehensive study. There are limitations that weaken the generalization, e.g. inadequate coverage of industries, shortage of time, reliability of statistical tools used and other variables. This study is conducted for the partial fulfillment of the requirement for the degree of master in business studies (M.B.S) so, there are many deficiencies may find in this due to various limitation. Some of the limitations are mentioned below:

- ❖ Most of the information is based on secondary data. Secondary data will be analyzed to interpret results emerging from decisions, so the result depends on the reliability of secondary data.
- ❖ The study period only covers five fiscal years.
- ❖ Only two joint venture banks are taken.
- ❖ The relate data are considered only cash dividend and exclude the bonus (stock) Dividend.
- ❖ The limitation of the study is time constraints, limited budget, lack of experience, lack of up to date information.
- ❖ There are many factors that affect dividend decision and valuation of the firm. However only those factors related with dividend are considered in the study.

1.6 Organization of the study:

This study will be classified into five chapters. Each chapter is divided into subheading describing the related subject.

Chapter1: Introduction

This chapter described the background of the bank and dividend policy, statement of problems, importance of research, objectives of the study, limitation of the study and organization of research, concept of commercial banks and scope of Nepal's banking industry.

Chapter2: Review of literature

This chapter mainly deals with review of literature, which contains conceptual framework, form of dividend. This chapter also deals with the factor influencing dividend policy and also defines the different tools which help to analysis the financial indicators.

Chapter3: Research Methodology

This chapter deals with research methodology used to carry out research. It includes research design, population and sample, source and technique of data collection, data analysis tool. More over this chapter there is taken different financial and statistical tools and the formulae to find out different analyzing category.

Chapter4: Data Presentation and Analysis

This chapter is main part of the study, which includes analysis and interpretation of the data using financial and statistical tools. It contains presentation and analysis of the relevant data and information using various analytical tools and the concept of the dividend policy. Similarly this chapter also includes the major finding of the study.

Chapter5: Summary, Conclusion and recommendation

The last and fifth chapter is the summary chapter, which tries to summarize and conclude the whole study. Some recommendations are also incorporated in this chapter to improve performance of the banks. A list of bibliography will be presented at the end of chapter fifth and the necessary supplements are presented in this final segment as the appendices

Chapter 2

Review of literature

Review of literature is the compilation of the research that has been published on a topic by recognized scholars and researchers. The review should describe, summarize, evaluate and clarify this literature. It should give a theoretical base for the research which helps to determine the nature of research.

Review of literature is the way to discover what other research area of problems has uncovered. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research work that related to present study. The literature review thus provides with the knowledge of the status of the field of research. The propose of the literature review is, thus, to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing.

2.1 Conceptual Framework:

2.1.1 Meaning of Dividend:

Dividend decision of the firm is yet another crucial area of financial management. The important aspect of Dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. It is that portion of the net earning divide by the company among the shareholders as a return for their money invested. Dividends are distributed out of profits; the alternative to the payment of dividends is the retention of earning/profits. The retained earning constitutes as easily associable important sources of financing the investment requirements of the firm. The policy of the company on the division of its profits between distribution to the shareholders as dividend and retention for its investment is known as dividend policy. All aspect and question related to payment of dividend are contained in a dividend policy. Dividend policy determines the amount of earnings to be retained and paid out by the firm. "The dividend policy must be formulated with the basic objective in mind-

maximizing the wealth of the firm's owners and providing for sufficient financing. These objectives are not mutually exclusive but rather interrelated."

The term dividend is defined as a return from investment in equity shares. The profit made by the firm which is distributed to the shareholders termed as dividend. Every firm after making profit either retain the money for further investment or distribute it among the shareholders. The firm should decide whether to keep the money as retained earning or pay the dividend. It may be in cash, share and combination of both.

The dividend policy is the policy followed by the firm regarding the dividend versus retention decision. Dividend policy of different organization may same or different, but the policy followed by the firm should be suitable for both the shareholders as well as the firm itself.

Dividend policy decision is one of the three decisions of financial management because it affects the financial structure, the flow of funds, corporate liquidating and investors' attitudes. Dividend decision of the firm is a very crucial controversial area of financial management. The main aspect of dividend policy is to determine the amount of earning to be distributed the shareholder and the amount to be retained in the firm. When a company pays dividend, the shareholder benefited directly. If the company retains the funds for investment opportunities, the shareholders can be benefited indirectly through future increase in the price of their stock. Thus, shareholders wealth can be increase through either dividend or capital gain. Divined policy involves the decision to pay out earning versus retaining them for reinvestment in the firm. Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividend means higher the immediate cash flows to investors, which is good, but lower future growth, which is bad. The dividend policy should be optimal which balances the opposing forces and maximizes stock prices. Since the motive of shareholder is to receive returns on their investment. There is an adverse relation between retained earnings and cash dividend. When the amount of retain earning is high, the company declares less dividend and when the high dividend is paid than retain earning is reduced, which reduce

the opportunity to reinvest and expansion of the organization. So dividend decision is one of the major decisions of managerial finance. This decision consist the decisive decision of choosing between distributions of profit to shareholders or investing them back into the business. Dividend decision has great influence on financial structure, flows of funds, corporate liquidity and so on. The relationship between dividend and the value of the share is not clear cut. The financial manager must understand the various conflicting factors which influence the dividend policy before deciding the allocation of its company's earnings into dividends and retain earnings.

2.1.2 Theories Regarding Dividend

a. Residual theory

Residual theory is that, in which the first priority is given to the profitable investment opportunities. If there are profitable opportunities, the firm invest is those and residual income (if any) is distribute to shareholders. Residual theory of dividends means,' A theory that suggests that the dividend paid by the firm should be the amount left over after all acceptable investment opportunities have been under taken.' Using this approach the Firm would treat the dividend decision in three steps as follows:

Step 1: Determine the optimum level of capital expenditure which would be the level generated by the point of intersection of the investment opportunities schedule (IOS) and weight managerial cost of capital (WMCC) function.

Step 2: Using the optimal capital structure proportion, it would estimate the total amount of equity financing needed to support the expenditures generated in step 1.

Step 3: Because of the cost of retained earnings is less than the cost of new common stocks; retained earnings would be used to meet the equity requirement determined in step 2. If retained earnings are inadequate to meet this need, new common stock would be sold. If the available retain earning are in excess to this needs, the surplus amount would be distributed as dividends. (Gitmen, 2001, p.544)

b. Wealth maximization theory

Under wealth maximization theory, large dividends is announced and distributed to shareholders in order to (or in hope with) maximize the wealth of the shareholders. Basically, it is applicable for those companies, which are just established and to those companies it will be beneficial whose financial profits are in decreasing trends. The main purpose of the wealth maximization theory of dividend is to make assurance to the stockholders that they are interested in the firm, which has not better market value.

2.1.3 Types of Dividend

The usual practice is to pay dividends in cash. Different companies follow different types of dividend policy. Corporations need to follow different types of dividend due to the objectives and policies, which they implement. According to various circumstances and changing needs of corporations dividend is being distributed not only in cash but in different forms of dividend they are: scrip dividend, stock dividend property dividend.

"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."

a. Cash Dividend

The most common way to pay dividend is in the form of cash. A company should have enough cash in its bank account when cash dividends are declared. If the company doesn't have enough cash at the time of paying cash dividend, arrangement should be made to borrow funds. Payment of cash dividend shouldn't lead to liquidity problem for the company. The cash account and the reserve account of a company will be reduced when the cash dividend is paid. Both the total assets and the net worth of the company are reduced by the distribution of cash dividend. Beside the market price of the share affected in most cases by the amount of cash dividend distributed.

Cash dividend has the direct impact on the shareholders. The volume of the cash dividend depends upon earnings of the firm and on the management attitude or policy.

Cash dividend has psychological value for stockholders. Each and everyone like to collect their return in cash rather than non-cash means. So cash dividend is not only a way to earnings distribution but also a way of perception improvement in the capital market. The objectives of the cash dividend are:

- ❖ To distribute the earnings to shareholders, as they hold the proportion of the share.
- ❖ To build an image in the capital market so as to create favorable condition to raise the fund at the needs.
- ❖ To make distribution easy and to account easily.

b. Stock Dividend

Distribution of additional shares to the existing shareholders as dividend is known as stock dividend. This has the effect of increasing the number of outstanding shares of company. The shares are distributed proportionally. Although stock dividend do not have a real value, firm pay stock dividend as replacement for a supplement to cash dividend. The declaration of the stock dividend will increase the paid capital and reduce the reserves and surplus of the company.

c. Property Dividend

When dividend is paid in terms of assets or property to the stockholders in any form other than cash is said to be property dividend. Whenever the firms have assets that are no longer necessary in the operations of the business, this type of dividend may be used. For example Company's own products and the securities of subsidiaries that have been paid as property dividend.

d. Scrip Dividend

That type of dividend, which is paid in promissory notes, is called scrip dividend. In this method, company issued and distributed to the shareholders transferable promissory

notes that may be interest bearing or not. "Scrip dividends are those paid in the company's promises to pay instead of cash."

"Scrip dividends are justified only when the company has really earned profit and have only to wait for the conversion of other current assets into cash in course of operation."

e. Bond Dividend

With the theory and concept of scrip dividend, if dividends are paid in the form of bond (to shareholders), promising that it will mature in future date is known as bond dividend. Therefore the intention and purpose of bond dividend is also the postponement of dividend payment for some time. The only difference between bond and scrip dividend is that bond carries relatively longer maturity date than scrip dividend.

Bonds used to pay carry interest and it means that the company assumes the fixed obligation of interest payment annually and principal amount of bond at maturity date. Bond dividend posses the following characteristic:

- ❖ Bond dividends are the means to dividend postponement for a while but more it is obligation.
- ❖ It couldn't bring back the psychological value as the cash dividend.
- ❖ Bond and scrip dividend are same, only the difference between these are maturity time i.e. scrip has relatively less maturity time than bond dividend.

f. Stock Split and Reserve Split

A method that is commonly used to lower the market price of a firm's stock by increasing the number of shares belonging to each shareholder. The effect of a stock split is an increase in the number of shares outstanding and a reduction in the par, or stated, value of shares. The total net worth of the firm remains unchanged. The stock split does not involve any cash payment, only additional certificates representing new shares. A method that is used to raises the market price of a firm's stock by exchanging certain number outstanding shares for one new share of stock.

The effect of a reverse split is a decrease in the number of shares outstanding and a increase in the par, or stated, value of shares. The total net worth of the firm remains unchanged. The reverse split does not involve any cash payment, only additional certificates representing new shares. When the market price of share of a company is falling gradually, the company may adopt reserve split which may increase the market price of share and help to maintain efficient situation of the company.

g. Stock Repurchase

It is the process of repurchasing back outstanding share of any company. A corporation's repurchase of its stock can serve as a tax advantages substitute for dividend payout. Repurchase have the effect of raising share prices so that shareholders can be taxes at the capital gain rate instead of ordinary dividend rate on cash dividend. Company can repurchase its shares in two ways:

- ❖ Open market repurchase
- ❖ Tender (Offer) repurchase

Open market repurchase usually (but not always) involve gradual programs to buy back shares over a period of time. In tender offer, the company usually specifies the number of shares it is offering to repurchase, a tender price and a period of time during which the offer is in effect. If the number of shares actually tendered by the shareholders exceeds the maximum number specified by the company, then the purchases are usually made on a pro-rata basis. Alternatively, if the tender offer is under subscribed the firm may decide to cancel the offer or extend to expiration date. Share tendered during the extension may be purchased on either pro-rata or first-come, first-served basis. (Weston and Copeland, 1991, 682)

The repurchase of stock holds major three reasons i.e. for stock option, for acquisition and for retiring the stock. However, Nepalese Company Act 1997, section 47 has prohibited company for repurchasing its own shares, it states that no company shall purchase its own shares or supply loans against the security of its own shares.

Stock is repurchased specially when the firm has abnormally high profits and is not in a position to effectively utilize surpluses.

The repurchase effects are as follows:

- ❖ The stock repurchases reduce the number of outstanding stocks.
- ❖ It increases EPS and also DPS if the payout ratio is not changed,
- ❖ It increases the proportional ownership of existing stockholders.
- ❖ It increases the stock price as net worth per share increases.

2.2 Dividend Policy

Dividend policy determines the decision of earnings between payment to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financing corporate growth, but dividends constitute the cash flow that accrues to stockholders. (Weston and Copeland, 1991, p.657) The third major decision of the firm is its dividend policy, the percentage of earnings it pays in cash to its stockholders. Dividend payout, of course, reduces the amount of earnings retained in the firm and affects the total amount of internal financing. The dividend payout ratio obviously depends on the way earnings are measured for case of exposition, we use account net earnings but assume that these earning can form true economic earnings. In practice, net earning may not conform and may not be an appropriate major of the ability of firm to pay dividends. (Van Horne, 2000, p.350)

Dividend policy refers to the issue of how much of the total profit a firm should pay to its stockholders and how much to retain for investment so that the combined present and future benefits maximize the wealth of stockholders. The dividend policy, however, not only specifies the amount of dividend, but also form of dividend, payment procedure etc. Dividend policy according to the application could be categorized as follows:

a. Stable Dividends policy:

A stable dividend policy is the long-term policy. It does not effect by variation in earning form year to year. The dividend will be regular. "Stability of dividend means regularity in

paying dividend even though the amount of dividend may fluctuate from year to year. By stability we maintain a position in relation to a dividend trend line, preferably one that is upward slopping."

The shareholders generally prefer stability or regularity of dividends because the company distributes a stable dividend over the year of the shares may be increased. It is suitable for those companies, which have got stable income. All other things being the same stable dividend may have a positive impact on the market price of the share. We can define it in other word that the term dividend stability refers to the consistency or lack of variability in the stream of dividends. There are three types of dividend stability, which are as follows:

i. Constant Dividend per Share

Constant dividend per share means that the dividend can be fixed either in amount or in percentage. According to this form of stable dividend policy companies follow a policy of paying a certain fixed amount per share as dividend every year. In this policy the fluctuations in earning would not effect the dividend payment. In fact, when a company follows such a dividend policy, it will pay dividends to the shareholders even when it suffers losses. This policy does not imply that the dividend per share or dividend rate will never be increased, when the company reaches new level of earning and expects to maintain it, the annual dividend per share may be increased. If the increase is expected temporary, the annual dividend per share is not changed and remains the existing level.

ii. Constant Payout Ratio

Another form of dividend policy is constant payout ratio. The ratio of dividend to earning is known as payout ratio. A stable payout ratio implies that the percentage of earnings paid out each year is fixed. Some companies may follow a policy of constant payout ratio, i.e., is paying fixed percentage of net earning every year. With this policy the amount of dividend will fluctuate in direct proportion to earning. This policy does not put

any pressure on a company's liquidity since dividends are distributed only when the company has profits.

iii. Low Constant Dividend per Share plus Extra Dividend

This policy is the combination of small regular dividend and an extra dividend. The alternative to the combination of small regular dividend and extra dividend is suitable for companies whose earnings fluctuate widely. Those firms use this policy, which have fluctuating earnings. With this method a firm can regularly pay fixed, though small amount of dividend so that there is no risk being able to pay dividend to the shareholders. "This type of policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility for supplementing the income of shareholders only when the company's earnings are higher than the usual without committing itself to make larger payment as a part of future fixed dividend."

b. No immediate dividend policy:

If the company does not declare dividend unless the company earn large income is called no immediate dividend policy. In other words, if there is not any hurry about dividend payment and if it could be paid only when the company earns more profit is known as no immediate dividend policy. This policy is usually pursued the following circumstances:

- ❖ When the firm is new and rapidly growing concern, which needs large amount of funds to finance its expansion program,
- ❖ When the firms' excess to capital market is difficult,
- ❖ When availability of funds is costlier,
- ❖ When stockholders have agreed to accept higher return in future.

In fact, this policy should follow by issue of bonus shares.

c. Regular stock dividend policy:

If the company regularly pays dividends to its shareholders in stock instead of cash, then it is called regular stock dividend policy. Regular stock dividend policy is also designated as bonus shares. Such policy should follow under the following circumstances:

- ❖ When the firm needs cash generated by earning to cover its modernization and expansion of projects.
- ❖ When the firm is lacking in cash despite high earning, this is particularly true when the firm's sales is affected through credit and entire sales proceeds are tied in receivables.

d. Irregular dividend policy:

It is the policy in which, the firm does not pay any fixed amount of dividend every year or dividend varied in correspondence with change in level of earning, i.e. higher earnings means higher dividend and vice-versa. The firm with unstable earnings also adopts this policy, when there are investable opportunities the company retains more and when there is not any investable opportunities, the company distributes the earning as dividend or there is not regularity of dividend payment therefore it is the most used type of dividend policy in the Nepalese context at present.

e. Irregular dividend policy:

This policy is based on the premise that investors prefer to have a firm retain and reinvest earnings rather than pay out them in dividends if the rate of return the firm can earn on reinvested earnings exceeds the rate of return investors can obtain for themselves on other investments of comparable risk. Further, it is less expensive for the firm to use retained earnings than is to issue new common stock.

2.3 Factors Influencing Dividend Policy:

The company's decision regarding the amount of earnings to be distributed as dividends depends on a number of factors. Some of these factors are mentioned below:

i. Legal Restriction

A firm or corporations are bounded by certain legal constraints for the decision of dividend payments. The legal rules provide that the dividend must be paid from earnings- either from the current year's earning or from past year earnings as reflected in balance sheet account "retained earnings".

Legal rules do not require a dividend declaration but they specify the rules under which dividend must not be paid. Such types of rules are as follows:

The net profit rule: It provides that the dividend can be paid from past and present earnings.

The capital impairment rule: It states that dividend cannot be paid out of invested capital.

The insolvency rule: It states that no dividends can be paid during insolvency (when liabilities exceed assets).

In this way legal rules are significant in that they provide the framework within which dividend policies can be formulated.

ii. Liquidity Position

The cash or liquidity position of the firm affects its dividend policy. The payment of dividends means cash outflow. Although a firm may have adequate earnings to declare dividend, it may not have sufficient cash to pay dividends. The greater the cash position and overall liquidity of a company, the greater will be its ability to pay dividends.

A mature is generally liquid and is able to pay large amount of dividends. On the other hand a growing firm faces the problem of liquidity. Even though it makes good profit, it needs funds for expanding and permanent working capital. Because of the sufficient cash or pressure on liquidity its management may not be able to declare high dividends.

iii. Borrowing Capacity of the Company

The financial condition or capability of a firm depends on its use of borrowings and interest charges payable. All the firms do not have equal access to the capital markets. A large well established company with good profit and stability of earning has easy access to capital market with greater ability to borrow. On the other hand a small new growing company is restricted to raise equity and debt funds capital markets because it is more risky for potential investors. Thus a well-established company is likely to have a higher dividend payout ratio than a small new or growing company.

iv. Control

Dividend policy may also be strongly influenced by shareholders or management control objectives. The objective of maintaining control over the company by existing management group or the body of shareholders can be an important variable in influencing the company's dividend policy. When a company pays large dividends, its cash position is affected. As a result, they will have to issue new shares to raise funds to finance its investment programs. The control of the existing shareholders will be diluted if they do not want or cannot buy additional shares. Therefore as a result dividend payout ratio will be reduced.

v. Inflation

Inflation is another factor that affects the firm's dividend decision. In an indirect way inflation can act as a constraint on paying dividends. Depreciation is charged on the basis of original costs as which assets were acquired. As a result with rising prices, funds generated from depreciation may be inadequate to replace obsolete equipment. So, greater profit retention may be required for the companies in order to make replacement or to maintain the capital intact. Consequently, their dividend payout tends to be low during the periods of inflation

vi. Stability of Earnings

A firm that has stable earnings is often going predict approximately what its future earning will be. Such a firm is therefore more likely to pay a large portion of its earnings in dividend than a firm with fluctuating earnings.

vii. Profit Rate

The rate of return on assets determines the relative need of paying out earnings in the firm of dividends to stakeholders or using them in present enterprise.

viii. Need to Repay Debt

The need to repay debt is also one of the factors that affected to the company in paying dividends. It influences the availability of cash flow to pay dividend. When a firm has sold debt to finance expansion or to substitute firm other forms of financing, it is faced with two alternatives:

- ❖ It can refund the debt at maturity by replacing it with another firm of security.
- ❖ It can make provisions for paying off the debt.

If the decision is to retire the debt this will generally require the retention of earning.

ix. Rate of Assets Expansion

A high rate of assets expansion creates a need to retain funds rather than to pay dividends. The more rapid the rate at which the firm is growing, the greater is need for financing assets expansion.

xi. The Tax Position

In additional, the tax position of the corporation affects its dividend policies. Possible penalties for excess accumulation of retained earnings may induce higher payout rations.

2.4 General Payment of Dividend:

In common sense, dividend is the receipt by the share holders of parts of profit of the company, it refers to the share of the net profits of a joint stock company payable to each shareholders or member. Thus, dividend can only be paid out of profit.

A trading company is formed for the purpose of earning profit and such as the power to declare dividend is inherent or implied in the case of the trading company. It need not be expressly provided for in its memorandum or articles.

It is for the board of director to recommend the rate of dividend to be declared. The shareholders cannot enforce the distribution of profit and no shareholder can claim the decline to pay them.

How much of the profit shall be distributed to the shareholders in the form of dividend is a matter of internal management of the company and it is for the shareholders and directors to decide the issue the court will not interfere with their decision.

The board of director recommends the rate of dividend at the annual general meeting which is to be approved by the shareholders. The shareholders may reduce the rate of dividend but in no case they have the right to increase the rate recommended by the directors. Dividend become payable only when a resolution is shareholder at the meeting.

Dividend may be declared and paid out of the profit of the financial year respect of which the dividend is declared or out of the profit of previous years.

Companies are not entitled to pay any dividend unless appropriate rate of depreciation on the asset of the company has not provided for out of the profit of the company. If the company has not provided depreciation provision for any previous fiscal year, that should be deducted from the profits.

If the company incurred any loss in any previous financial years, such loss should be deducted from profits. A dividend becomes a debt from the date on which it is declared and becomes payable to the shareholder entitled to it; it can be enforced through court.

A dividend can be declared only at annual general meetings. Once a company has declared a dividend for financial years at an annual general meeting, a further dividend cannot be declared in respect of the same year at a subsequent general meeting.

A dividend can be declared only in respect of the particular financial years for which the annual general meeting has been convened. The profits earned in past years and remaining accumulated may be paid as dividend in respect of the financial year for which the annual general meeting has been convened.

No dividend can be paid out of a company's capital; such payment is ultra vires, even if sanctioned by the memorandum or the articles. The directors who are responsible for such payment are bound to repay the amount to the company.

2.5 Payment Procedure followed by Companies:

The actual payment procedure is of some importance, and the following is an outline of the payment sequence.

1. Declaration date: This is the day on which the board of directors declares the dividend. At this time they set the amount of the dividend to be paid, the holder-of-record date and payment date.

2. Holder-of-record date: This is the date the company opens the ownership books to determine who will receive the dividend; the stockholders of record on this date receive the dividend. In that date, the company closes its stock transfer books and makes up a list of the shareholders as of that day.

3. Ex-dividend date: The date when the right to the dividend leaves the stock is called the ex-dividend date. In this case, the ex-dividend date is four days before holder of record date. Therefore if someone wants to receive the dividend, he/she must buy the stock four days before the holder of record day.

4. Payment date: This is the day when dividend checks are actually mailed to the holders of record. (Weston and Copeland, 1992, p. 658)

2.6 Financial Signaling:

Cash dividend, then, may be viewed as a signal to investors; presumably, companies with good news about their future profitability will want to tell investors. Rather than make a simple announcement, dividends may be increased to add conviction to the statement. When a firm has a target payout ratio that is stable over time and it changes this ratio, investor may believe that management is announcing a change in the expected future profitability of the firm. The signal to investors is that management and the board of director truly believes things are better than the stock reflects. In this vein, Miller and Rock suggest that investors drawn influence about the firm internal operating cash flow from the dividend announcement. The ratio is based on asymmetric information. Management knows more about the true state of the company's earnings than do outside investors.

According, the price of the stock may react to any unanticipated change in dividends. To the extent dividend provided information on economic earnings not provided by reported accounting earnings and other information, share price will respond (Van Horne. 2005:334-335)

2.7 Quality Rating of Companies in Nepal:

Nepalese capital market is still lacking an independent quality rating agency. But, NEPSE, the sole secondary market of Nepal, categorizes the listed companies into two

categories: Category “A” and Category “B”, on different criteria. According to the NEPSE criteria, only those companies are included in “A” categories that have:

- ❖ Paid-up capital exceeding Rs. 20 million
- ❖ Reported profit for the last three consecutive fiscal years
- ❖ Have at least 1,000 shareholders
- ❖ Shares of the company should be trading in the stock exchange for a price above the face value
- ❖ The company should have submitted the annual report to NEPSE within six months of the end of the fiscal year.

Organizations not falling under these criteria are kept in “B” category. If not fulfilled the criteria for long-term by the financial institutions they are de-listed by the NEPSE. (Bhattarai, 2006, p. 298)

2.8 Legal Provision Regarding Dividend Practice in Nepal:

Company Ordinance, 2005 makes some legal provision for dividend payment in Nepal. These provisions may be seemed as under: Dividends and subsections of this section are as follows

Section 46: Shareholder and Debenture-holder Register Book

Subsection (1)

Every company should establish shareholder and debenture-holder register book as prescribed by law at company registrar office.

Subsection (2)

Organizations not falling under these criteria are kept in “B” category. If not fulfilled the criteria for long-term by the financial institutions they are de-listed by the NEPSE. (Bhattarai, 2006, p. 298)

1. Following description should be clearly mentioned in the shareholders 'register book

- a) Shareholder's full name and address.
- b) No. of shares holding by shareholder.
- c) Total amount paid by shareholder and remaining balance if any.
- d) Registered date of shareholder's certificate.
- e) Cancellation date of shareholder's certificate.
- f) Ownership right on share after the death of the registered shareholder.

Section 182: Dividend

Subsection (1)

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

- a) In case any law forbids the distribution of dividends.
- b) In case of right to dividend is disputed.
- c) In case dividends cannot be distributed within the time limit mentioned above owing to circumstance beyond anyone's control and without any fault on the part of the company.

Subsection (2)

Government owned companies either fully or partly can't issue dividend without permission of government and also necessary direction in the matter of dividend.

Subsection (3)

In case dividends are not distributed with the time limit mentioned in subsection (1), adding interest at prescribed rate.

Subsection (4)

Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it

Subsection (5)

The Company can't issue any form/amount as dividend expected separate reserve amount for the distribution of dividend.

Subsection (6)

The Company should deduct the operating cost, deprecation amount, payable, adjustment for previous year's losses by-law before distributing dividend from profit.

Subsection (7)

Under this section company can distribute interim dividend if it is provisioned in rules and if the dividend is verified by audit report and attested by the BOD.

Subsection (8)

Except the amount declared from AGM, the company cannot distribute dividend from fund affecting the company's reserve.

Subsection (9)

If the shareholder does not come to take the dividend within the five F/Y from the declaration date, the amount would be safe guarded according to section 186 of company act.

Subsection (10)

If any shareholder comes to take the dividend amount according to section 183 within 1 month of before the expiry date, the notice should be published publicly in national daily.

Subsection (11)

After the dividend declared form AGM, the company should establish separate book of account within 45 days and distribute to the shareholders and the amount should not be used for other purpose by the company.

2.9 Review of the International Studies:

Linter (1956) conducted a study, which is focused in the behavioral aspect of dividend policy. He investigated dividend pattern of 28 different companies of America and found that, firm generally predetermines the desired payout and tries to achieve it and rarely considers other factors. The model developed firm is his research is as follows:

$DIV^*_t = pEPS_t$ (i)

and, $DIV_t - DIV_{t-1} = a + b (DIV^*_t - DIV_{t-1}) + e_1$ (ii)

Or, $DIV_t = a + b DIV^*_t + (a+b) DIV_{t-1} + e_1$ (iii)

Where,

DIV^*_t = Firm’s desired payment

EPS = Earning per share

p= Targeted payout ratio

a = Constant relating to dividend growth

b = Adjustment factor relating to the previous period’s dividend and new desired level or dividend where $b < 1$.

Major finding of this study are as follows:

- ❖ Firms generally prefer desired proportion of earning to be paid as dividend.
- ❖ Investment opportunities are not considered for modifying the pattern of dividend behavior.

- ❖ Firm generally have target payout ratios in view while determining change in dividend per share.

Walter (1957) has proposed a model for share valuation which supports the view that the dividend policy of the firm has impact on share valuation. His works shows clearly the importance of the relationship between the firm's internal rate of return on investments (r) and its cost of capital (k) in determining the dividend policy that will maximize the wealth of shareholders. Walters's model is based on the following assumptions (Chandra, 1999, p.302)

- ❖ Retained earnings represent the only source of financing for the firm.
- ❖ The return on the firm's investment remains constant.
- ❖ The cost of the capital for the firm remains constant.
- ❖ The firm has an infinite life.

Walter's formula to determine the market price per share is as follows.

$$P = \frac{DPS}{k} = \frac{r(EP\text{S} - DPS)k}{k} = \frac{DPS + r(EP\text{S} - DPS)k}{k}$$

Where,

P = Market price per share

DPS = Dividend per share

EP\text{S} = Earning per share

r = Internal rate of return on investments

k = Cost of capital

In Walter's model the optimum dividend policy depends on the relationship between the firm's internal rate of return on investment (r) and its cost of capital (k). Walter's view of the optimum dividend payout ratio can be summarizing as follows:

Growth Firm $r > k$

Firm having $r > k$ may be referred as growth firm. The optimum payout ratio for a growth firm is 0. The market price per share increases as payout ratio decreases.

Normal Firm $r = k$

Firm having $r = k$ may be referred as normal firm. There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as the other. The market price per share is not affected by the payout ratio when $r = k$. The payout ratio for a normal firm is irrelevant.

Declining Firm $r < k$

Firm having $r < k$ may be referred as declining firm. The optimum payout ratio for a declining firm is 100%. The market price per share increases as payout ratio increases.

Thus, in Walter's Model the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rate of return (r) and its cost of capital (k).

The firm should use earnings to finance investment if $r > k$, should distribute all earnings when $r < k$ and would remain indifferent when $r = k$.

Modigliani and Miller's (1961) model (M-M) dividend policy of the firm is irrelevant. It doesn't affect the wealth of the shareholder. They argue that the value of the firm depends on the firm's earnings, which result from its investment policy. The literature suggests that dividend payments should have no impact on shareholders' value in the absence of taxes and market imperfections. Hence, companies should invest excess funds in the positive net present value projects instead of paying out them to the shareholders.

Modigliani and Miller's model hypothesis of irrelevance is based on the following assumptions. (Pandey, 2002, p.756)

- ❖ The firm operates in perfect capital markets where investors behave rationally, information is freely available to all and transaction and floatation cost do not exist. Perfect capital markets also imply that no investor is large enough to affect the market price of share.
- ❖ Taxes do not exist or there is no difference in the tax rate applicable to the capital gains and dividends. This means that investors value a rupee of dividend as much as a rupee of capital gains.
- ❖ The firm has a fixed investment policy.
- ❖ Risk of uncertainty does not exist i.e. investors are able to forecast future prices and dividend with certainty and one discount rate is appropriate for all securities and all time periods. Thus, $r=k=kt$ for all t .

Modigliani and Miller's Model provide falling model to prove their theory.

Market Value of Share:

The market value of share at the beginning of the period is equal to the present of dividend paid at the end of the period plus the market price of the share at the end of the periods. Symbolically,

$$P_0 = \frac{D_1 + P_1}{1 + k} \quad (i)$$

Where,

P_0 = Market price of share at the beginning of the period

D_1 = Dividend of the share at the end of the period

P_1 = Market price per share at the end of the period

k = Cost of the equity capital

No External Financing:

If no external financing exist the market value of firm can be computed by multiplying both sides by number of outstanding shares as follows:

$$V = nP_o = \frac{n(D_1 - P_1)}{1 + k} \quad (\text{ii})$$

Where,

V = Total value of the firm

n = Number of shares outstanding

New Shares:

If retain earning is not sufficient to finance the investment opportunities, issuing new shares is the other alternatives. Assuming that m is the number of newly issued equity share at the price of P1 the value of firm at time 0 will be:

$$nP_o = \frac{nD_1 + (n + m)P_1 - mP_1}{1 + k} \quad (\text{iii})$$

Where,

nP_0 = Total market value of outstanding shares at time 0

n = Number of outstanding shares at time 0

nD_1 = Total dividends in year 1 payable on equity shares outstanding at time 0

m = Number of outstanding shares at time 1 at price P_1

$(n+m)P_1$ = Total market value of all outstanding shares at time 1

mP_1 = Market value of shares issued at time 1

k = Discount rate

Total numbers of shares:

A firm can pay dividends and raise funds to undertake the optimum investment policy.

The firm finances all investment opportunities either by issue of new shares or retained earnings or both. Thus the amount of new shares issues will be:

$$mP_1 = I_1 - (E - nD_1) \quad (\text{iv})$$

Where,

I_1 = Total investment at time 1

E = Total net profit of the firm

$E - nD_1$ = Retained earning

Substituting equation (iv) to equation (iii) we get

$$nP_o = \frac{(n+m)P_1 - I_1 + E}{1+k}$$

A firm, which pays dividends, will have to raise funds externally to finance its investment plans. Modigliani and Miller's argument, that dividend policy does not affect the wealth of the shareholders, implies that when firm pays dividends, its advantage is offset by external financing. This means that the terminal value of the share decline when dividends are paid. Thus, the wealth of shareholders dividend plus terminal price remains unchanged. As a result, the present value per share after dividends and external financing is equal to the present value per share before the payment of dividends. Thus the shareholders are indifferent between payments of dividends and retention of earnings.

Van Horn and Mc Donald's Study, taking 86 electric utilities of two industries, Van Horn and Mc Donald conducted a more comprehensive study on dividend policy and new equity financing. Their study was fully devoted to examine the combination effect of dividend policy and new equity financial 86 electric firms of two industries, they scrutinize some basic export of conceptual framework, and empirical test were performed using cross section regression model.

They performed their study, using two regression models, as follows.

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

Where,

P_0/E_0 = Closing market price in 1986 dividend by average EPS and for 1967 and 1968

G = Expected growth 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 earning in 1968.

Lev = Financial risk measured by interest change dividend by the difference of operation revenues and operating expenses

Second model was:

$$P_0 \cdot E_0 = a_0 + a_1(g) + a_2(D_0/E_0) + a_3(\text{Lev}) + a_4(F_b) + a_6(F_c) + a_7(F_d) + U$$

Where,

Fa, Fb, Fc & Fd are dummy variables corresponding to "new issue ratio".

(NIR) group A through D.

They were categorized to firms in A, B, C & D group on the basis of NIR. For each firms, the value of remaining dummy variables and zero. In course of analysis the regression of electronics for electrical components industry they used following equation.

$$P_0/E_0 = a_0 + a_1(L_1) + a_2(D_0/E_0) + a_3(\text{Lev}) + a_4(\text{OR}) + U$$

Where,

Lev = Financial risk measured by long term debt preferred stock dividend by net worth end of 1968

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

Using above methodology, they made comparative analysis of the firms, which both pay dividends and engage in new equity financial, with other firms in an industry sample. They conclude that for electric utility firms in 1968 that share value was not dividends. Expect for host firms are highest new issue group and it made new equity a more costly of financing than the payment of dividend through excessive equity financing reduces share price. While in electronics and electric component industry a significant relationship between new equity financing and value was not demonstrated.

Gordon (1962) develops own very popular model explicitly relating the market value of the firm to dividend policy. Gordon made a study on the dividend policy and market price of the stock and concluded that the dividend policy of a firm influences the market value of stock. He explained the investor's preferred present dividend rather than future capital gains. He further explained that the dividend policy has direct relation with the value of stock even if the internal rate of return is equal to the required rate of return.

Gordon's model is based on the following assumptions:

- ❖ The firm is an all equity firm
- ❖ No external financing is available. Consequently retain earning would be used to financial expansion.
- ❖ The internal rate of return (r) of the firm is constant. This ignores the diminishing marginal efficiency of the investment.
- ❖ The appropriate discount rate (k) for the firm remains constant.
- ❖ The firm and its stream of earning are perpetual.
- ❖ The tax does not exist.
- ❖ The relation ratio (b) ones decide upon, is constant. Thus the growth rate $g=br$, each constant forever.
- ❖ $k > br = g$. if this condition is not fulfilled, we can't get a meaningful value for the share.

According to Gordon's Dividend Capitalization Model the market value of a share is equal to the present value of an infinite stream of dividend to be received by the share. Thus:

$$P_o = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \dots + \frac{D_n}{(1+k)^n}$$

Gordon has further developed the following equation for the computation of the market value of stock.

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

Where,

P = market price per share

EPS = earning per share

b = retention ratio

k_e = cost of capital

$1-b$ = payout ratio

br = growth rate

Gordon's relevant theory is a popular theory of dividend as investors prefer current dividends earnings rather than expected higher future income so as to eliminate the risk associated with future capital gain. Gordon stressed that the higher payout increases the dividend yield and hence increases the value of stock. But the assumption of this model is also far from the reality. (Pandey, 2002, p.751)

Friend and Puckett (1964) conducted a study on the relationship between dividend policy and price of stock by running regression analysis on the data taken from 110 firms from five industries in the year 1956 to 1958. Industries taken as samples were chemicals, electric utilities, food, steels, and electronics. These industries were selected to permit a distinction made between the results for growth and non-growth industries and to provide a basis for comparison with the results by other authors for earlier years. They also considered cyclical and non-cyclical industries in their study. The study period covered a boom year for the economy when stock prices leveled off after rise (1956) and a depressed for the economy when stock prices, however rose strongly (1958). They used dividends, retained earnings and price earning ratio as independent variable in their regression model of price function and dividends as supply function. Earnings, previous year's dividend and price earning ratio are independent variable in the dividend function. Symbolically, their price function and dividend supply function are as follows:

Their study based on the following assumption:

- ❖ Dividends react with year-to-year fluctuation in earnings.
- ❖ Price doesn't contain speculative components.
- ❖ Earnings fluctuation may not sum zero over the sample.

The regression results based on the equation of:

$P_t = a + b D_t + c R_t + d h(E/P)_{t-1}$ shows the customary strong dividend and relatively weak retained earning in three of the five industries, i.e. chemicals, foods and steels. They again tested other regression equation by addition of lagged earning price ratio to the above equation and result the following equation:

$$P_t = a + bD_t + cR_t + d(E/P)_{t-1}$$

Where,

P_t = Per share price at time t

D_t = Dividends at time t

R_t = Retain earning at time t

$(E/P)_{t-1}$ = Lagged earning price ratio

$$\text{Dividend supply function } D_t = e + fE_t + gD_{t-1} + d(E/P)_{t-1}$$

Where,

E_t = Earning per share at time t

D_{t-1} = Last year dividend

They found that more than 80% of the variation in the stock price could be explained by three independent variables. Dividends have predominant influence of stock price in the same three out of five industries but they found the difference between the dividend and retained earnings coefficient are not quite so marked as in the first set of regression. They also found that the dividend and retained earning coefficient are closer to each other for all industries in the both the years except for steels in 1956 and the correlations are higher again except for steels.

They also calculate the dividend supply equation ($D_t = e + fE_t + gD_{t-1} + d(E/P)_{t-1}$) and derived price equation for four-industry group in 1958. The derived price equation showed that there were no significant changes' from those obtained in the single equation approach as explained above. They argued that the stock price or more accurately the price-earning ratio does not seem to have a significant effect on dividend payout. On the other hand they noted that the retained earnings effect increased relatively in the three of the four cases tested. Further their result suggested, price effects on dividend supply are probably not a serious source of bias on the customary deviation of dividend and retained earnings effects of short-term income movement are sufficiently great. Further they used lagged price as a variable instead of lagged earning price ratio and showed that more than

90 percent of variation in stock prices can be explained by three independent variables and retained earnings received greater relative weight than dividends in most of the cases. The only exception was steels and food in 1958. They considered chemicals, electronics, and utilities as growth industries in these groups and the retained earnings effect was larger than the dividends effect for both the years covered. For the other two industries, namely food and steels, there was no significant systematic difference between the retained earnings and dividends coefficient.

Similarly, they tested the regression equation, $P_t = a + bD_t + cR_t$, by using normalized earnings again, which they obtained by subtracting dividends from normalized earnings. This process of normalized earnings was based on the period 1950 to 1961. They again added prior year's normalized earning price variable and compared the results and found that there was significant role of normalized earnings and retained earnings but the effect of normalized price earning ratio was constant. When they examined the later equation they found that the difference between dividend and retained earnings coefficient disappeared. Finally they conclude that management might be able to increase price somewhat by raising dividend in food and steel industries.

They conducted more detailed examinations of chemical samples which disclosed that the result obtained largely reflected the undue regression weighting given the three firms with price deviating most from the average price in the sample of twenty firms and retained earnings as a price determinant.

Finally, Friend and Puckett concluded that, management might be able, at least in some measure, to increase stock prices in non-growth by raising dividends payout and in growth industries by greater retention.

Foong, Zakaria, and Tan (2007) investigated the relationship between individual stock returns with dividend yield, dividend stability and changes in dividend yield from 1992 to 2000 in the Malaysian Trading/Services and Plantation firms. The statistical result from annually cross-sectional regression show weak evidence to support the significant role of

dividend yield and dividend stability in explaining firm stock returns. Changes in dividend yield, on the other hand, have negative and significant coefficients in explaining stock returns in Trading/Services firms throughout 1993-1996 and the average crisis period. For Plantation firms, it is negatively significant only in 1994 and 1997.

The main purpose in conducting this study was to identify the role of dividend in explaining Malaysian firm stock returns. They tested the relationship of firm stock returns with the so-called the dividend related variables, comprising dividend yield, dividend stability and changes in dividend yield.

Although they do not obtained very strong results that the dividend related variables are the main factors explaining firm stock returns, they do find that changes in dividend play some role in explaining firm stock returns, especially of the Trading/Services firms, which are essentially representing growth firms. If this holds true across the whole Malaysia listed firms, this suggests that CEO and top management of growth firms should pay careful attention to the changes of dividend yield in their firms, which has an inverse relationship with the stock returns.

The frequent changes in firm dividend policy may be particularly useful in attempting to differentiate high value firm from their low-value counterparts that have high dividend payout levels. The negative sign documented implies that the lower the changes in the dividend yield, the higher the stock returns. This suggests that the management should try to minimize changes in the dividend yield. Smoothing dividends payment over time can push the stock price to higher level. Another option is to maintain the level of dividend yield by adjusting the dividend payment relative to the stock price. Furthermore, announcing changes in the level of dividend payment provides important information to investors and must be carefully considered. This will eventually maximize the firm value; follow by the maximization of shareholder wealth.

Uddin (2003) empirical results based on 137 samples of dividend paying companies listed on Dhaka Stock Exchange (DSE) showed that investors do not gain value from

dividend announcement. Indeed shareholders lost about 20 percent of value over a period of 30 days prior to the dividend announcement through to 30 days after the announcement. The lost value may be partially compensated because of the current dividend yield. Overall, the evidence tends to support the dividend irrelevancy hypothesis. Evidence also indicates that dividend payment does not signal any information to the investors.

The study shows that the highest average dividend was paid in the Fuel and Power sector, followed by that in the banking sector. The highest dividend was announced in the food sector, and lowest in the Jute and Services sectors. In Jute sector, only one company announced dividend during the sample period. The average dividend was 19.5 percent with standard deviation of 12.9 percent. Overall, the study shows that the sample includes stocks from all sectors, except the paper sector. The number of samples are also fairly equally distributed with 10 to 20 stocks from each sector except Paper, Jute and Services sectors. This is also noted that out of 137 companies, 34 companies announced dividend in 2001 and 103 in 2003. Sample also displays that 108 companies belong to A category, 17 belong to B category and 12 belong to Z category.³

Fama and Babiak (1968) study has proven that there is significant positive relationship between the change of a firm's dividend payment and change in its stock price. Fama and Babiak (1968) find a time series relation between annual dividends and earnings that is consistent with the view that dividend paying firms increase their dividend only when management is relatively confident that their higher payment can be maintained. Their view is supported by Capstaff, et al. (2004), who found that stock market reaction is more pronounced for large, positive dividend announcements that are followed by permanent cash flow increases.

Anagho and Tah (2007) in their case study "The ex-dividend day stock price behavior," studied the movement of ex-dividend day stock price behavior for the FTSE100 stock index for the period 2001 to 2006. The study was carried out by comparing the actual value of the raw price ratio, market adjusted price ratio, raw price drop and market

adjusted price drop to their theoretical values. The difference was tested for significance using the one sample t-test. The results showed that there are significant differences in the observed figures from their theoretical or expected values. The observed raw price ratio is higher than the expected value of 1, implying that the stock price on the ex-dividend day drops by an amount that is higher than the dividend paid. Similarly, the market adjusted raw price ratio is also higher than the expected value of 1. The raw price drop and market adjusted price drop are lower than the dividend yield, indicating again that the stock price drops by an amount that is less than the dividend paid. The study is inconsistent with the findings by Nikolas et al (2006), who studied the ex-dividend day stock price behavior in the SHSE and SZSE indices of the Chinese Stock Exchange using a similar method but consistent with Alm et al (1999) who carry out a study using the Stockholm stock exchange where his findings showed that the stock price drop on average is less than the dividend been paid out.

- ❖ Raw Price Ratio (RPR) is the drop in share price expressed as a fraction of the difference between the cum-dividend price and the ex-dividend price all over the actual dividend paid. Under normal circumstances, that is, where there are no arbitrage opportunities and where the market efficiency hypothesis is assumed to be true, the theoretical value of the raw price ratio should be equal to 1.
- ❖ Market Adjusted Price Ratio (MAPR) is the difference between the cum-dividend price and the market adjusted ex-dividend price expressed as a fraction of the actual dividend. Similarly under perfect capital markets, the theoretical or expected value of the market adjusted raw price ratio is equal to 1.
- ❖ Raw Price Drop (RPD) is the difference between the cum-dividend price and the ex-dividend price expressed as a fraction of the cum-dividend price. In perfect capital markets, the hypothesized value of the raw price drop is equivalent to the dividend yield.
- ❖ Market Adjusted Price Drop (MAPD) is the difference between the cum-dividend price and the market adjusted price expressed as a fraction of the cum-dividend price. Also, under perfect capital markets, the market adjusted price drop is equivalent to the dividend yield.

H. Kent Baker, Gail E. Farrelly and Richard B. Edelman surveyed management view on dividend policy. They questioned to corporate financial managers about what they consider the most important in determining their firm's dividend policy. Those objectives of their study were,

- ❖ To compare the determinative of dividend policy with linter', behavioral model of corporate dividend policy and to asses management's argument with linter's findings.
- ❖ To examine management's perception of signaling and clientele effect:
And,
- ❖ To determine whether managers in different industries share similar views about determination of policy. They selected 562 firms for the study purpose, which listed at New York exchange (NYSE).

These were selected from various sectors. 150 from utility sector, 309 from manufacturing sectors and 103 from wholesale retail sector they mailed questionnaire to obtain information about corporate dividend policy. The questionnaire consisted of three parts.

- ❖ 15 close- end statements about the importance of various factors that each firm used, to determine policy.
- ❖ 18 close- end statements about theoretical Issues involving corporate dividend policy and
- ❖ A respondent's profile including such items as firm's dividend and earnings per share. They sent the final survey statement to the Chief Financing Officers (CFO's) of the 562 firms, followed by second complete mailing to improve the response rate and reduce potential non response bias. Based on the dividend and earnings per share data provided by the respondents. They found that payout ratio of the responding utilities sectors (70.60%) and wholesale/retail (36.10%) sector. The results of their study on the aspect of determent of dividend policy where as follows:
 - ❖ The highly ranked determinants were the anticipated level of firm's future earnings, and the pattern of past dividend. This was consistent with linter's findings.

- ❖ The third important determinant of dividend policy was availability of cash.
- ❖ The fourth determinant was concern there for maintaining or increasing stock price. They found this factor is particularly strong among utilities, which ranked this factor second in importance.

2.10 Research Gap:

The topic of dividend policy has been a controversial subject for a long time. Although dividend policy is not a new area of research, it is still attracting the attention of financial economists and for many researchers it remains one of the most interesting and puzzling topics in modern corporate finance.

The examination of dividend policy in Nepal has been much more limited. It has been observed that the extent studies in this area have not focused on what determines dividend policy of Nepalese publicly listed companies. Few of them have attempted to study comprehensively based on primary and secondary data but the factors incorporated in the studies are too limited. Therefore, the lack of comprehensive studies on dividend policy especially on cash dividend practice in Nepalese capital market does strong justification for the current study. They focused on overall dividend policy implemented by the companies or they tested the dividend practice on few international theories or principles.

This study is different from the previous studies on the following ground:

- ❖ This study is mainly based on secondary data.
- ❖ Cash dividend payment practices have been more emphasized in this study.
- ❖ The study tries to examine the homogeneity in the cash dividend payment by various sectors.
- ❖ The study has attempted to establish the relationship between the theoretical and empirical issues about dividend policy in general.
- ❖ The study has tried to found the relationship between the MPS and the cash dividend.

Chapter 3

Research Methodology

Research methodology can be designed as systematic that is adopted by the research in studying problems with certain objectives. It is a set of a rules and procedures that are considered while conducting the research. It refers to the aggregate of the research design used, data collection techniques used, sampling design implemented, statistical tools and technique used and employed and so on. Research methodology has now a due place in academic programs of the universities in Nepal. The research orientation and activities are encouraged in the college and universities in order to reinforce and improve learning, and to enhance analytical and research skills. Also, it is now widely accepts that and understanding of the concepts and methods of research are just not the concern of university family, but are essential for the other professionals working in different fields. Thus, over the past few decades, the level of interest in research methodology has exploded.

Under Research Methodology we have:

3.1 Research Design:

A research design is a set of instruction to the investigator to gather and analyze his/her data in a certain way. Research design is a plan that shows how to fulfill the goal of purposed study.

In this study, we have tried to make comparison and to establish relationship between two or more variables. So the research is termed as analytical and descriptive. So as to facilitate the assessment, researcher collected two years data of selected commercial banks and site of those banks have tabulated them with the graph presentation as well. Different financial tools have been used to analyze and find out needed result. This study is concerned with the detail analysis of dividend policy of two different commercial banks and their complete study. The adopted method of research design is case study method. It is intensive study of two different banks.

3.2 Population and Sampling:

Population or universe refers to the entire group of people, events, or thing of interest that we wish to investigate and sample is the collection of items or elements from population or universe. Since mid 1980s when HMG of Nepal adopted economic liberalization policy in Nepal, many joint venture banks are established within a short span of time. As a result now a day's many joint venture banks are operating in the country. For assessment purpose only two of them are chosen from the total population. Here only two banks are used as sample in this thesis.

3.3 Method of Sampling:

It is very important to decide which method to use for the sampling before we take the sample. The method used depends upon the nature of the data, the objectives and the availability of the time and cost.

In this research the study makes use of selected matter. Among the total population of 23 commercial banks, we have selected 2 samples for our study. The selection of samples are mainly guided by the following grounds:

- ❖ For the sake of uniformity: subject matters selected for the study fall under common category “A” class commercial who are allow to carry out similar functions and offer similar product. Thus the natures of business carried out by these banks are almost identical.
- ❖ These banks are regulated by common regulator- Nepal Rastra Bank. So these banks have to follow the same set of guidelines, directives and rules prescribed by Nepal Rastra Bank.
- ❖ A good number of subject matters have been selected from the total population size after considering various aspects like a mix of new and old generation banks, joint venture and government owned banks, very well performing bank and the ailing bank.

- ❖ This study is concerned with detailed study of dividend policy of financial institutions. Through this study the true dividend and financial position of the bank is made crystal clear. The study makes use of secondary data which are available in the various forms like bank's annual report, website and newspaper.

3.4 Nature of Data:

The world data in a simple sense is aggregate of facts which can numerically be expressed. Data are raw, facts or unanalyzed number which provides some important information after they are processed. Data are gathered for making correct and important decision concerning the field of enquiry.

For this research work is very difficult to get the primary data. Banks were not interested to disclose their profit and assets. So, mostly, secondary data were used for this research study. We have mostly used the book of famous writers, websites, journals, annual reports of various banks and articles published in different magazines for this research.

❖ Secondary data:

Secondary data were collected from various source including annual reports, banking and financial statistics, NRB banking operation department, as well as NRB economic report. The information is downloaded by the official website of the banks.

3.5 Sources of data:

"Sources" means any people or place from where and whom something emerges. Data may be obtained from several sources. Each research has its own data need and data sources.

This study is mostly based upon secondary data, which has been published by Nepal Rastra Bank, some commercial banks e.t.c for this study five year's data has been analyzed. The data are mostly collected from the annual reports and websites. Various

types of other useful resources like articles, books, previous research reports and journals were referred to find out the implication of ratio and to provide necessary justification.

For the purpose of this study, required financial statements are collected from some banks. And those statements are:

- ❖ Balance sheets of banks
- ❖ Profit and loss accounts of banks
- ❖ Annual reports of banks
- ❖ Income statement of banks

3.6 Data collection:

Collected data is the connecting link to the world of reality for the researcher. The data collection activity consist of taking ordered information from reality and transferring it into some recording system so that it can later be examined and analyzed for pattern.

The study is mostly based on the secondary data and it has been collected from websites, books, published articles e.t.c the data were five years old i.e from fiscal year 2005/06 to 2008/09 and mostly was from websites and annual reports. Other related data were also collected and used in this thesis. An opinion surveys with an officials has disclose the information that was difficult to obtain from annual reports and the secondary sources of data.

3.7 Techniques of data presentation:

One of the popular techniques of data presentation is tabulation. Tabulation is the process of arranging the data in an orderly manner into rows and columns.

In this study, we have used the tabulation process so that it could simplify the presentation of the data to facilitate comprising between related information. All the data received has been transferred in the tabulation form in an orderly manner which will help

tom read or study the thesis easily. Similarly, we have used the graph presentation as well which will help others or readers to understand properly in an efficient manner. It has shown the clear picture of trend, increasing or decreasing profitability position of the banks in various years.

Aggregately, the collected data were processed for analysis and interpretation. In course of that, graphs, table and figures were prepared in the sequential order. Like :

- ❖ Editing
- ❖ Coding
- ❖ Classification
- ❖ Tabulation

3.8 Analytical tools:

After the collection of the data, another step is to analyze it. Since, huge and wide masses of data are confusing and difficult to remember, the data presentation required value for the study purpose can only be used by different analytical tools.

Various statistical tools were used to derive concrete solution. Ratios, percentage, means, average, trend and correlation are calculated to make effective research.

3.8.1 Financial Indicator Used

a) Dividend per share (DPS):

DPS indicates the part of earning distributed to the shareholders on per share basis. It is calculated by dividing the total dividend to equity shareholders by the total no. of equity shares.

$$DPS \equiv \frac{\text{Total dividend to ordinary shareholders}}{\text{No of ordinary shares outstanding}}$$

b) Net Profit to Net worth or Return on Equity (ROE):

Net worth or shareholder's equity refers to owner's claim on the assets of the bank. ROE measures how profitably the owner's funds have been utilized by the bank. As a commercial bank, the objective of joint-venture banks is to earn profit to provide a reasonable return to its owners. Higher ratio indicates sound management and efficiency for earning a satisfactory return to its equity shareholders. Net worth refers to the owner's claim in the assets of the bank. It can be found by subtracting total liabilities from the total assets (excluding intangible assets and accumulated losses). This ratio indicates how well the banks have used the resources of the owners. It is calculated by dividing net profit after tax by net worth. This ratio can be calculated as:

$$\text{Net Profit to Net Worth} \equiv \frac{\text{Net Profit}}{\text{Net Worth}}$$

c) Earning per share (EPS):

EPS calculations made over the years indicate whether than banks earning power on per share basis have changed over the period or not. The earnings per share ratio are mainly useful for companies with publicly traded shares. Most companies will quote the earnings per share in their financial statements saving you from having to calculate it yourself. By itself, EPS doesn't really tell you a whole lot. But if you compare it to the EPS from a previous quarter or year it indicates the rate of growth a companies' earnings are growing (on a per share basis). EPS is calculated by dividing the net profit after taxes by the total no. of the common shares outstanding.

$$EPS \equiv \frac{\text{net profit after taxes}}{\text{No of common shares outstanding}}$$

d) Dividend payout Ratio (DPR):

This ratio shows that what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for growth of the banks. A stable dividend payout ratio indicates a solid dividend policy by the company's board of directors. It is calculated by dividing the DPS by EPS.

$$DPR \equiv \frac{DPS}{EPS}$$

e) Price Earning Ratio (P/E Ratio):

This ratio reflects the price currently paid by the market for each rupee of currently reported earning per share (EPS). It is calculated by dividing the market value per share (MVPS) by earning per share (EPS)

$$P / E \text{ ratio} = \frac{\text{Marketvaluepershare}(MVPS)}{\text{Earningpershare}(EPS)}$$

f) Dividend Yield Ratio:

Share holders are real owners of a company and they are interested in real sense in the earnings distributed and paid to them as dividend. Therefore, dividend yield ratio is calculated to evaluate the relationship between dividends per share paid and the market value of the shares. The dividend yield ratio is a financial ratio of the amount a company pays out in dividends divided by the current share price of the stock. Dividend yield is a way to compare unrelated income-producing stocks to determine their relative value. It is calculated by dividing the cash dividends per share (DPS) by the market value per share (MVPS).

$$\text{DividendYield} = \frac{\text{Dividendpershare}(DPS)}{\text{Marketvaluepershare}(MVPS)}$$

g) Market Value per Share to Book Value per Share Ratio:

Book value is an accounting term. It is based on the accounting profit after tax and reserves and surplus the company is maintain in its books. While market price per share is a market term. It's by and large determined by the demand and supply in the market. It's beyond book value in many cases because it reflects the day to day risk of the business of the company. It also absorbs in it future wealth creating capacity of the company. It is calculated by dividing the market value per share (MVPS) by the book value per share (BVPS).

$$\text{MarketvaluepersharetoBookvaluepershare} = \frac{\text{MarketValuepershare(MVPS)}}{\text{Bookvaluepershare(BVPS)}}$$

3.8.2 Statistical Tools Used

A brief explanation of statistical tools used in this study is as follows:

a) Arithmetic Mean (A.M):

The mean is the figure we get when the total of all the values in a distribution is divided by the number of values in the distribution. The arithmetic mean is also known as the average. It should, however, be remembered that the mean can only be calculated for numerical data. The mean is an appropriate term than saying average. The mean of data is biased toward extreme values. The mean is suitable when the scores are distributed symmetrically about the center of the distribution.

$$\text{Mean}(\bar{x}) = \frac{\sum x}{n}$$

b) Standard Deviation (S.D.):

The measurement of the scatterness of the mass of figure in a series about an average is known as the dispersion. The standard deviation measures the absolute dispersion. The greater amount of dispersion, greater the standard deviation. A small standard deviation

means a high degree of uniformity of the observation as well as homogeneity of a series and vice-versa. This is calculated as follows:

$$\text{Stander deviation (S.D.)} = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

c) Coefficient of Variation (CV):

The coefficient of variance is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is calculates as follows:

$$(CV) = \frac{SD}{Mean} \times 100$$

e) Karl Pearson's Correlation Coefficient (r):

If two quantities vary in such a way that movements in the one are accompanied by movement in other, these quantities are correlated. The degree of relationship between the variables under consideration is measure through the correlation analysis. Correlation can either be positive or it can be negative. If both variables are changing in the same direction, the correlation is said to be positive but when the variations to the two variables take place in the opposite direction, the correlation is termed as negative in this study; simple coefficient of correlation is used to determine the relationship of different factors with dividend and other variables. The correlation coefficient ranges from -1 to 1 . A value of 1 implies that a linear equation describes the relationship between X and Y perfectly, with all data points lying on a line for which Y increases as X increases. A value of -1 implies that all data points lie on a line for which Y decreases as X increases. A value of 0 implies that there are no linear correlations between the variables. Correlation analysis only helps in determining the extent to which the two variables are correlated but it does not tell us about cause and effect relationship.

$$\text{Karl Pearson's Correlation Coefficient (r)} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

f) T-statistics:

To test the validity of our assumption, if the sample size is less than 30, t-test is used. For applying t-test in context of small sample the t-value is calculated first and compared with the t-value on table at certain level of significance for given degree of freedom. If calculated value of 't' exceeds the tabulated value (say 0.05) we can say that the difference is significant at 5% level and vice-versa. The value is calculated by using following formula:

$$\text{T-statistics (t)} = \frac{\bar{x} - \mu}{\frac{s}{\sqrt{n}}}$$

g) F-statistics:

ANOVA is a statistical technique especially designed to test whether the means of more than two quantitative populations are equal. It is applied to find out whether the two samples may be regarded as drawn from the normal population having the same variance. The value of "F" is calculated as:

$$\text{F- Statistics (F)} = \frac{\text{VarinaceBetweenSamples}}{\text{VarianceWithSamples}}$$

Chapter 4

Data presentation and analysis

4.1 History and evolution of Banking in Nepal:

Nepal is a developing country. The living standard of Nepalese people is very low. Their investment is low likewise there saving also low. Nepal could not develop its trade, foreign business technology till now. In this situation banking plays a significant role in economic development of the country. Bank is a resource for economic development, which maintains the self-confidence of various segments of society, and extends credit to the people. The main objective of commercial banks is to mobilize idle resources in particular productive uses after collecting them from scattered sources. Commercial banks are those financial institutions mainly dealing with activities of trade, commerce, industry and agriculture that seek regular finance and other help from them for growing and flourishing. Commercial banks as a financial institution transfer monetary sources from saver to users. Commercial banks contribute significantly in the formation mobilization of internal capital and developmental efforts. They furnish necessary capital required for trade and commerce in mobilizing the dispersed savings of the individuals and institutions. Especially commercial banks provide different facilities to the people engaged in trade, commerce and industry. Banks are being the means of upliftment of society. The function of commercial banks are accepting deposits, creation of credit, remittance, granting loans which help to remove the deficiency of capital performing agency functions which makes it easier.

In the present context, the role and importance of the commercial banks has loomed larger. In this connection Nepalese economy has witnessed several changes in the financial system in the last few years such as financial linearization. In the early 1980's government permitted establishment of foreign joint venture banks (JVBs). Three joint venture banks namely Nepal Grindlays Bank Ltd, Nepal Arab Bank Ltd, Nepal Indosuez Bank Ltd was established. After the democracy democratically elected government adopted the liberal and market oriented economic policy, the number of JVBs has increased dramatically. In Nepal there were only few companies that use to pay

dividend. But after the establishment of joint venture companies there is new trend of distribution of dividend. Dividend policy is major decision of a bank. Mostly dividends are 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 financing decision.

“A commercial bank is dealer in money and substitutes for money, such as cheque or a bill exchange. It also provides a variety of financial services.”

4.1.1 Meaning of Joint Ventures Banks:

Joint venture is simply known as project where two or more than two stocks or capital are together for specific purpose. It is also called joint stock and joint investment. Joint venture banks are established by joining different and ability to achieve a common goal of the partners.

A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (Industrial or Commercial Investment, Production or Trade)

In 1980, the government introduced “Financial Sector of Returns,” Nepal allowed the entry of the foreign banks as the joint venture with up to a maximum of 50% equity participation. At present so many joint venture banks are operating in Nepal.

Some Major Features of Joint Ventures Banks:

1. Joint venture is limited to a single business adventures.
2. The work may he carried out by one or all participants.
3. It is confined to a single deal.
4. Capital contributed jointly and profits/losses are shared proportion to their investment

4.1.1.1 Introduction Of Himalayan Bank Limited:

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

Himalayan Bank Limited holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services; therefore we at HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers.

To become the Bank of first choice is the main objective of the Bank.

HBL is not only a Bank, It is committed Corporate Citizen. Corporate Social Responsibility (CSR) holds one of the very important aspects of HBL. Being one of the corporate citizens of the country, HBL has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as large.

4.1.1.2 Introduction of Everest Bank Limited:

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society.

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India having 112 years of banking history. PNB is a technology driven bank serving over 35 billion customers through a network of over 4500 branches spread all over the country with a total business of around INR 2178.74 billion. The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London.

The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector.

The main aim of EBL is to extend professional banking service to various section of the society in the kingdom of Nepal and they are contributing in the economic development of the country.

4.2 Presentations and Analysis of Data

This part of study is totally based on secondary data. The basic objectives of the study have already mentioned in the first part of the report i.e. “Introduction”. So, to achieve these objectives, several analytical tools and techniques are employed which is defined in the second chapter, “Research Methodology”. In this method the effort has been made to analyze the comparative dividend decision of joint venture banks (JVBS) in Nepal and the attitude of the management towards the optimum dividend decision. The analysis is highly supported by the practices of dividend distribution by JVBS.

4.2.1 Analysis of Financial Indicators Variables:

Below mention are the ratios relating to dividend policy of Himalayan Bank Limited (HBL) and Everest Bank Limited (EBL).The following table shows all details relating to dividend per share, earning per share, net profit, market price per share, net worth and no. of outstanding share of HBL and EBL.

Himalayan Bank Limited

Year	DPS (In Rs)	EPS (In Rs)	Net Profit (In Million)	Market Value of Share	Net Worth (In Million)	No. of outstanding Share
2004/05	5.55	47.91	308.28	920	1539.75	6.43
2005/06	17.77	59.24	457.46	1100	1766.18	7.72
2006/07	9.10	60.66	491.82	1740	2146.50	8.17
2007/08	15.53	62.14	635.87	1980	2512.99	10.23
2008/09	7.43	61.90	752.84	1760	3119.88	12.16

4.01. Table: Analysis Financial Indicators of HBL

Everest Bank Limited

Year	DPS (In Rs)	EPS (In Rs)	Net Profit (In Millions)	Market Value of Share	Net Worth (In Millions)	No. of outstanding Share
2004/05	0.00	54.22	170.80	870	832.60	3.15
2005/06	15.70	62.78	237.20	1379	962.80	3.78
2006/07	7.80	78.42	296.40	2430	1201.50	3.78
2007/08	18.36	91.82	451.2	3132	1921.2	4.91
2008/09	29.99	99.99	638.7	2455	2203.6	6.39

4.02. Table: Analysis Financial Indicators of EBL

A) Dividend per Share (DPS):

Dividend per share (DPS) indicates the part of earning distributed to the shareholders on per share basis. It is calculated by dividing the total dividend to equity shareholders by the total number of equity shares.

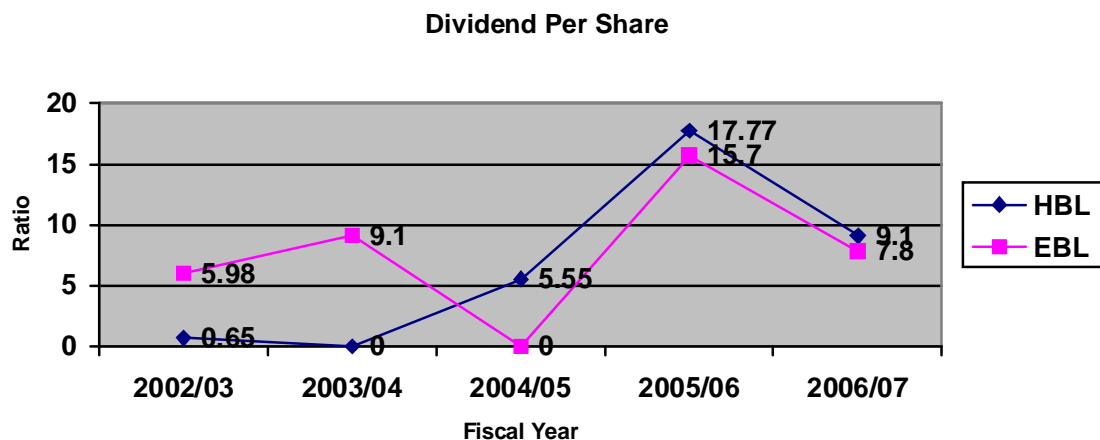
$$\text{DividendPerShare} = \frac{\text{DividendPayoutRatio}}{\text{EarningPerShare}}$$

Calculation Dividend per Share (DPS)

(Amount In Million)

Year	HBL			EBL		
	Dividend Per Share (In %)	Earning Per Share	Dividend Per Share (In Rs)	Dividend Per Share (In %)	Earning Per Share	Dividend Per Share (In Rs)
2004/05	11.58	47.91	5.55	0	54.22	0.00
2005/06	30	59.24	17.77	25	62.78	15.70
2006/07	15	60.66	9.10	10	78.42	7.84
2007/08	25	62.14	15.53	20	91.82	18.36
2008/09	12	61.90	7.43	30	99.99	29.99
Average			11.08			14.38

4.03. Table: Dividend per Share of HBL and EBL



4.1a Fig: Trend Analysis of DPS.

It is important at this stage to look over the relevant data on dividend for the purpose of the analysis. I have taken dividend per share of five years of both HBL and EBL. But it is found to be fluctuating year to year. However average dividend per share of HBL is Rs 11.08 and dividend per share of EBL is Rs 14.38.

Dividend per share of HBL is fluctuating throughout the year. HBL has dissatisfied its shareholder with only 5.55 dividends per share in the year 2004/05. It has distributed

dividend per share of Rs 17.77 in the year 2005/06 which is the highest dividend per share. In the year 2006/07, bank has distributed Rs 9.10 dividend per share which is decreased by Rs 8.67 than previous year. Similarly, in the year 2007/08 bank has distributed 15.53 dividends per share which is increased by Rs 6.43 than previous year. In the year 2008/09 bank has distribute Rs 7.43 dividend per share which is again decreasing by Rs 8.1 than year 2007/08. DPS of HBL is fluctuating year by year which is not good for the share holders.

Similarly, dividend per share of EBL is also fluctuating throughout the year. In the year 2004/05 EBL was unable to pay cash dividend to its shareholder. It has distributed dividend per share of Rs 15.70 in the year 2005/06 which is the highest dividend per share. In the year 2006/07 bank has distributed Rs 7.84 dividend per share which is decreased by Rs 7.86 than previous year. In the year 2007/08 EBL distributed Rs 18.36 DPS which is again increased by Rs 10.52 than previous year. Similarly, in the year 2008/09 bank has distributed Rs 29.99 which is again increasing by Rs 11.63 than previous year which is highest dividend per share. EBL DPS is continuously increasing in order which is good for the shareholders of the bank.

B) Net Profit to Net Worth or Return on Equity (ROE):

Net worth or shareholder's equity refers to owners claim on the assets of the bank. ROE measures how profitably the bank has utilized the owner's funds. As a commercial bank, the objective of joint-venture bank is to earn profit to provide a reasonable return to its owners. Higher ratio indicates sound management and efficiency for earning a satisfactory return to its equity shareholders. This ratio can be calculated as:

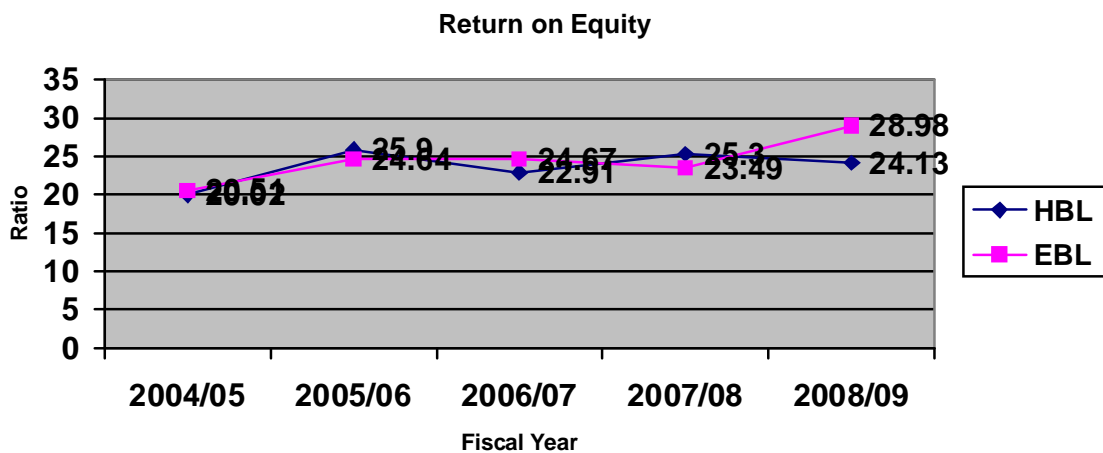
$$\text{Net Profit To Net Worth} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Calculation of Return on Equity (ROE).

(Amount In Million)

Year	HBL			EBL		
	Net Profit	Net Worth	Ratio in Percentage (%)	Net Profit	Net Worth	Ratio in Percentage (%)
2004/05	308.28	1539.75	20.02	170.80	832.60	20.51
2005/06	457.46	1766.18	25.90	237.20	962.80	24.64
2006/07	491.82	2146.50	22.91	296.40	1201.50	24.67
2007/08	635.87	2512.99	25.30	451.20	1921.20	23.49
2008/09	752.84	3119.88	24.13	638.70	2203.60	28.98
Average			23.65			24.45

4.04. Table: Return on Equity of HBL and EBL



4.2a Fig: Trend Analysis of ROE.

In the fiscal year 2004/05 the ROE Of HBL was 20.02% and EBL was 20.51% and in the fiscal year 2005/06 the Roe HBL was 25.90% which is increased by 5.88% than previous year and ROE of EBL was 24.67 which is also increased by 4.13 than previous year. In the fiscal year 2006/07 the ROE of HBL was 22.91% and EBL was 24.67% and in fiscal 2007/08 the ROE of HBL was 25.30% which is increased by 1% than previous year and ROE of EBL was 23.49% which is decreased than previous year. But in final year

2008/09 the ROE of HBL was 24.13% and the ROE of EBL was 28.98% which is increased by 5% than previous year.

The above table shows that the return to equity of EBL is better than that of HBL. The average ROE of HBL is 23.65 and EBL is 24.45 respectively. This indicates that EBL has sound management and efficiency for earning satisfactory return to its equity shareholders.

C) Earnings per Share (EPS): -

Normally the performance and the achievement of business organization are measured in terms of its capacity to generate earning. Higher earning shows higher strength while lower earning shows weaker performance of business organization. The earning of any organization helps in its growth, expansion and diversification.

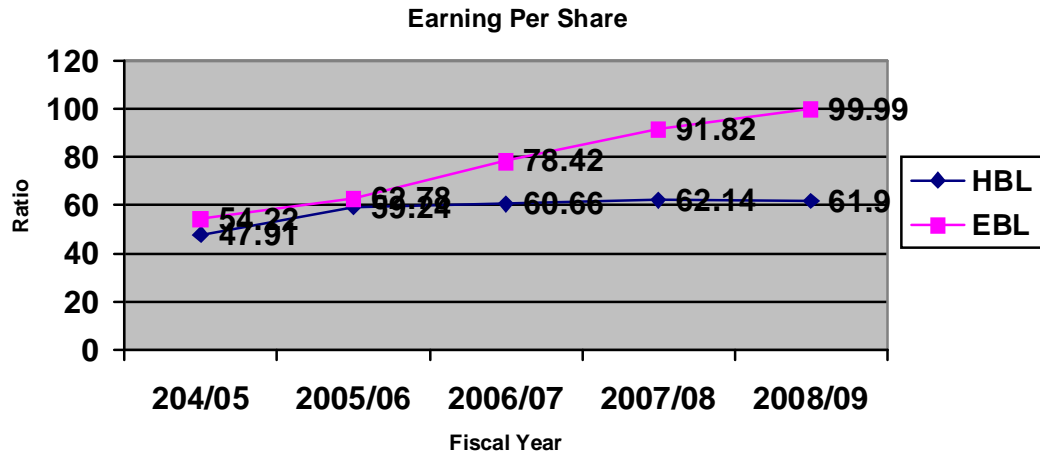
$$EarningPerShare = \frac{Net\ Profit\ After\ Tax}{No.\ of\ Common\ Share\ Outstanding}$$

Calculation Earning Per Share (EPS)

(Amount In Million)

Year	HBL			EBL		
	Net Profit After tax	No. of Share outstanding	EPS	Net Profit After tax	No. of Share outstanding	EPS
2004/05	308.28	6.43	47.91	170.80	3.15	54.22
2005/06	457.46	7.72	59.24	237.20	3.78	62.78
2006/07	491.82	8.12	60.66	296.40	3.78	78.42
2007/08	635.87	10.23	62.14	451.20	4.91	91.82
2008/09	752.84	12.16	61.90	638.70	6.39	99.99
Average			58.37			77.44

4.05. Table: Earning per Share of HBL and EBL



4.3a. Fig: Trend Analysis of EPS

In the fiscal year 200/05, total earning of HBL was Rs308.28 million. In this year HBL number of share is 6.43. Earning per share was Rs 47.91. In the fiscal year 2004/05, total earning of EBL was Rs 170.80 million. In the year total number of share is 3.15. Therefore earning per share was Rs 54.20, which was higher by Rs 6.29 per share in comparison with HBL.

In the fiscal year 2005/006 total earning of HBL was 457.46 million that was excess by Rs 149.18 million than previous year. Number of share was 6.43 to 7.72. Earning per share was Rs 59.24 i.e. increased by Rs 11.33 than previous year. In the fiscal year 2005/06, total earning of EBL was 237.20 million and earning per share was Rs 62.80, which was increased by 8.6 than previous year. This figure is higher by Rs 3.56 per share in comparison with HBL. And in case of fiscal year 2006/07 total earning of HBL was Rs 491.82 million. Total number of share was 8.12 while earning per share was Rs 60.66. In the fiscal year 2007/08 total earning of HBL was Rs 635.87 million and earning per share was Rs 62.14. In the fiscal year 2008/09 HBL has maintain its performance with total earning of Rs 752.84, number of share was 12.16. And earning per share was Rs 61.90.

In the year 2006/07 total earning of EBL was Rs 296.40 million. Earning per share was Rs 78.42 and total number of share was 3.78. In the fiscal year 2007/08 total earning was increase to Rs 451.2 million. Earning per share was Rs 91.82. In the fiscal year 2008/09

earning per share was significantly increase to Rs 638.7 million and earning per share was Rs 99.99 and no. of share was 6.39.

At last total earning per share of HBL was Rs 2646.27 and total earning per share of EBL was Rs 1794.3 million. Average earning per share of HBL is Rs 529.25 which is higher than EBL Rs 358.86.

D) Dividend Payout Ratio:

Earning determines the amount of dividend. The greater is the earning of banks, the greater is ability to pay dividend and vice versa. This ratio expresses the amount of dividend as percentage of earning available for equity shares after meeting all charges. The following table shows the dividend payout ratio of two banks from the fiscal year 2004/05 to 2008/09.

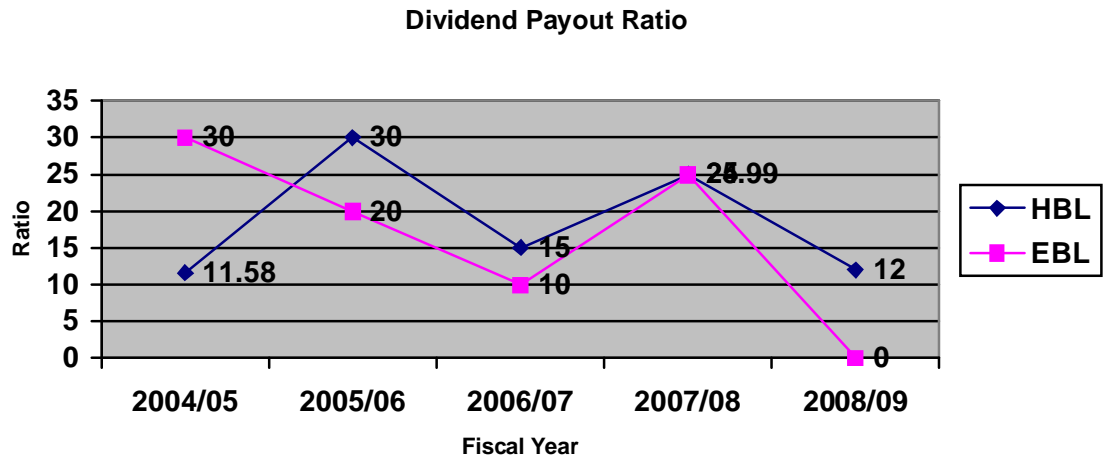
$$\text{DividendPayoutRatio} = \frac{\text{DividendPerShare}}{\text{EarningPerShare}}$$

Calculation Dividend Payout Ratio

(Amount In Million)

Year	HBL			EBL		
	Dividend Per Share	Earning Per Share	Payout Ratio (%)	Dividend Per Share	Earning Per Share	Payout Ratio (%)
2004/05	5.55	47.91	11.58	0.00	54.20	0.00
2005/06	17.77	59.24	30.00	15.70	62.80	25.00
2006/07	9.10	60.66	15.00	7.84	78.40	10.00
2007/08	15.53	62.14	24.99	18.36	91.82	20.00
2008/09	7.43	61.90	12.00	29.99	99.99	30.00
Average			18.71%			17%

4.06. Table: Dividend Payout Ratio of HBL and EBL



4.4a Fig: Trend Analysis of Dividend Payout Ratio

In the fiscal year 2004/05 the dividend per share and earning per share of HBL was 5.5 and 47.91 respectively. Where as in the fiscal 2004/05 the dividend per share of EBL was 0 and EPS was 54.20. In the year 2004/05 HBL distributed 11.58% dividend payout ratio but EBL unable to distributed any dividend payout ratio. In the fiscal year 2005/06 the dividend payout ratio of HBL was 30% which was increased by 18.42% than previous year and the dividend payout ratio of EBL was 25% which was increased by 25% than previous year. But the DPR of HBL was higher than EBL.

In the fiscal year 2006/07 the dividend per share and earning per share of HBL was 9.10 and 60.66 respectively. In the fiscal year 2006/07 the dividend per share and earning per share of EBL was 7.80 and 78.40 respectively. In the fiscal year 2006/07 HBL DPR was 15% and EBL DPR was 10%. DPR of HBL was higher than DPR of EBL. Similarly, in the fiscal year 2007/08 the dividend per share and earning per share of HBL was 15.53 and 62.14 respectively. And DPR was 24.99%. In the fiscal year 2007/08 the dividend per share and earning per share of EBL was 18.36 and 91.82 respectively. In the fiscal year 2007/08 the DPR of HBL was 24.99% which is increased than previous year by 9.99% and DPR of EBL was 20% which is also increased than previous year by 10%.

In the final year 2008/09 the dividend per share and earning per share of HBL was 7.43 and 61.90 respectively and the dividend per share and earning per share of EBL was

29.99 and 99.99 respectively. Here the DPR of HBL was 12% and DPR of EBL was 30%. The DPR of EBL was higher than HBL.

The above trend analysis show that the dividend payout ratio of both banks is fluctuating every year. A reduction in dividends paid is looked poorly upon by investors, and the stock price usually depreciates as investors seek other dividend paying stocks. A stable dividend payout ratio indicates a solid dividend policy by the company's board of directors.

E) Price Earning Ratio: -

This ratio reflects the price currently paid by the market for each rupee of currently reported earning per share (EPS). It is calculated by dividing the market value per share (MVPS) by earning per share (EPS).

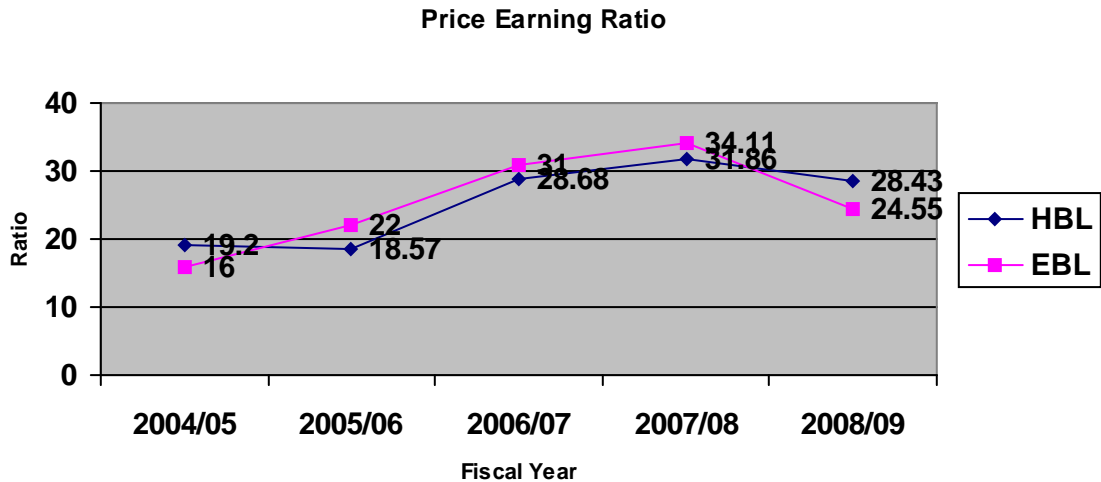
$$PriceEarningRatio = \frac{Market\ Price\ Per\ Share}{Earning\ Per\ Share}$$

Calculation Price Earning Ratio

(Amount In Million)

Year	HBL			EBL		
	Market Price Per Share	Earning Per Share	Price Earning Per Share	Market Price Per Share	Earning Per Share	Price Earning Per Share
2004/05	920	47.91	19.20	870	54.20	16.00
2005/06	1100	59.24	18.57	1379	62.80	22.00
2006/07	1740	60.66	28.68	2430	78.40	31.00
2007/08	1980	62.14	31.86	3132	91.82	34.11
2008/09	1760	61.90	28.43	2455	99.99	24.55
Average			25.35			25.53

4.07. Table: Price Earning Ratio of HBL and EBL



4.5a Fig: Trend Analysis of Price Earnings Ratio

In the fiscal year 2004/05 market price per share and earning per share of HBL was Rs 920 and 47.91 respectively and price earning per share was 19.20. Similarly, in the fiscal year 2004/05 market price per share and earning per share of EBL was Rs 870 and 54.20 respectively and price earning per share was 16. In the fiscal year 2005/06 market price per share and earning per share of HBL was Rs 1100 and 59.24 respectively and price earning per share was 18.57 which is decreased by 0.63 than previous year. But In the fiscal year 2005/06 market price per share and earning per share of EBL was Rs 1379 and 62.80 respectively and price earning per share was 22.00 which are increased by 6 than previous year. In the fiscal year 2006/07 the PER of HBL was 28.68 which is increased than previous year by 10.11. Similarly, in the fiscal year 2007/08 and 2008/09 the PER of HBL was 31.86 and 28.43 respectively. Where as in the fiscal year 2006/07 the PER of EBL was 31.00 which is increased than previous year by 9.00. Similarly, in the fiscal year 2007/08 and 2008/09 the PER of EBL was 34.11 and 28.43 respectively.

Generally a high P/E ratio means that investors are anticipating higher growth in the future. The average market P/E ratio is 20-25 times earnings. The P/E ratio can use estimated earnings to get the forward looking P/E ratio.

F) Dividend Yield Ratio: -

The dividend yield reflects the percentage relationship between dividend per share and market value per share. It is calculated by dividing the cash dividend per share (DPS) by the market value per share (MVPS).

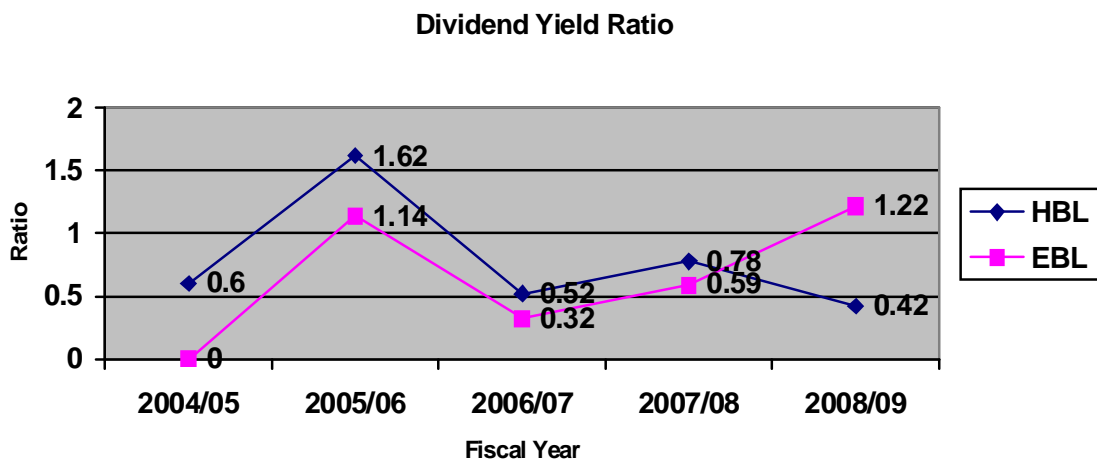
$$\text{DividendYieldRatio} = \frac{\text{DividendPerShare}}{\text{MarketValuePerShare}}$$

Calculation Dividend Yield Ratio

(Amount In Million)

Year	HBL			EBL		
	DPS	MVPS	Dividend Yield Ratio	DPS	MVPS	Dividend Yield Ratio
2004/05	5.55	920	0.60	0.00	870	0.00
2005/06	17.77	1100	1.62	15.70	1379	1.14
2006/07	9.10	1740	0.52	7.80	2430	0.32
2007/08	15.53	1980	0.78	18.36	2455	0.59
2008/09	7.43	1760	0.42	29.99	3132	1.22
Average			0.79			0.65

4.08. Table: Dividend Yield Ratio of HBL and EBL



4.6a. Fig: Trend Analysis of Dividend Yield Ratio

Above table shows that average dividend yield ratio of HBL is 0.79 times, where as EBL average ratio is 0.65 times only. HBL was not successful to maintain company average for four year expected 2005/06. EBL was failed to maintain company average of 0.65 times in the year 2004/05, 2006/07 and 2007/08 (no dividend was paid to shareholder in 2004/05).

Dividend yield ratio highly influences the market value per share because a change in dividend per share can brings effective change in the market value of the share. Therefore, before allocation of dividend to shareholders the impact on market scenario and price fluctuation is to be studied and evaluated for the long run survival of the bank.

G) Market Value per Share to Book Value per Share:-

This ratio indicates the price, the market is paying for the price that is reported from the net of the bank, or in other word, and it is the price of the outsiders is paying for each rupee reported by the balance sheet of the bank. It is calculated by dividing the market value per share (MVPS) by the book value per share (BVPS).

$$\text{MarketvaluepersharetoBookvaluepershare} = \frac{\text{MarketValuepershare(MVPS)}}{\text{Bookvaluepershare(BVPS)}}$$

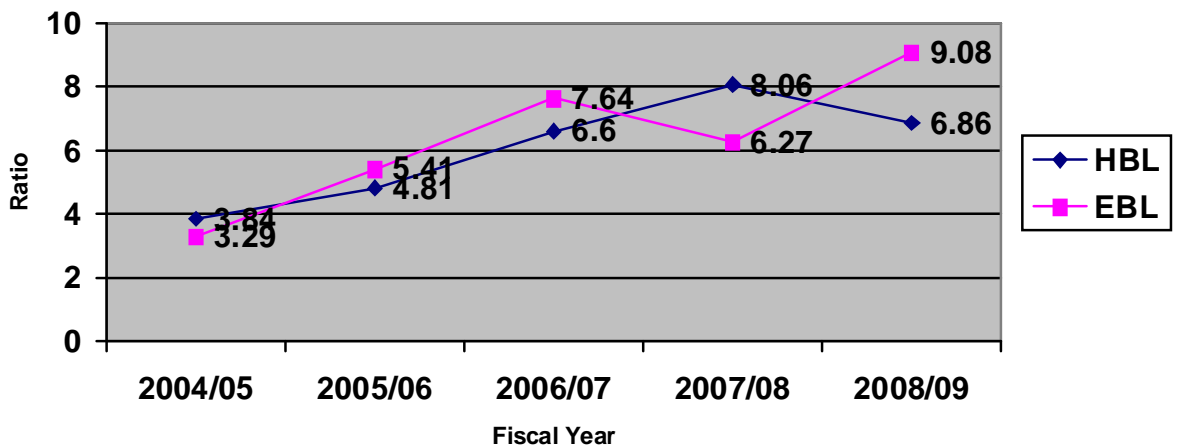
Calculation Market Value per Share to Book Value per Share

(Amount In Million)

Year	HBL			EBL		
	Market Value Per Share	Book Value Per Share	HBL MV/BV	Market Value Per Share	Book Value Per Share	EBL MV/BV
2004/05	920	239.46	3.84	870	264.32	3.29
2005/06	1100	228.77	4.81	1379	254.71	5.41
2006/07	1740	263.73	6.60	2430	317.86	7.64
2007/08	1980	245.65	8.06	2455	391.28	6.27
2008/09	1760	256.57	6.86	3132	344.85	9.08
Average			6.034			6.338

4.09. Table: Market Value per Share to Book Value per Share

Market Value per Share to Book Value per Share



4.7a. Fig: Trend Analysis of Market Value per Share to Book Value per Share

In the fiscal year 2004/05 MVPS to BVPS of HBL was 3.84. Similarly, in fiscal year 2005/06, 2006/07 and 2007/08 the MVPS to BVPS of HBL was 4.81, 6.60 and 8.06 respectively. But, in the fiscal year 2008/09 the MVPS to BVPS of HBL was decrease to 6.86 than previous year. But in the fiscal year 2004/05, 2005/06 and 2006/07 the MVPS

to BVPS of EBL was 309, 05.41 and 7.64 respectively. But fiscal year 2007/08 the MVPS to BVPS of EBL was to 6.27 than previous year and in fiscal year the MVPS to BVPS of EBL was again increased by 2.81 than previous year.

Here the MVPS to BVPS of HBL and EBL was fluctuating year by year. The average MVPS to BVPS of HBL was 6.034, where as the average MVPS to BVPS of EBL was 6.338.

4.2.2 Analysis of Statistical Tools:

A) Calculation of Mean, Standard Deviation and Correlation:

Mean standard deviation and correlation of dividend per share with earning per share, net profit, market price per share and net worth.

Bank	Variables	Cases	Mean	Standard Deviation	Correlation with				
					DPS	EPS	NP	NW	MP
HBL	DPS	5	11.08	7.74	1	0.50	0.13	0.13	(0.08)
	EPS	5	58.37	5.33	-	1	-	-	-
	NP	5	529.25	152.84	-	-	1	-	-
	NW	5	2217.06	560.30	-	-	-	1	-
	MP	5	1500	412.80	-	-	-	-	1
EBL	DPS	5	14.38	7.80	1	0.80	0.87	0.83	0.57
	EPS	5	77.44	17.65	-	1	-	-	-
	NP	5	358.86	167.80	-	-	1	-	-
	NW	5	1424.34	541.65	-	-	-	1	-
	MP	5	2353.2	868.53	-	-	-	-	1

4.10. Table: Calculation of Mean, Standard Deviation and Correlation

Where,

DPS represent dividend per share

EPS represent earning per share

NP represents net profit

NW represents net worth

MP represent market price

(-) represent not calculating coefficient correlation

The correlation coefficient says something about the strength of the relationship between two variables, it does not quantify it. It can provide the basis for further analysis designed to determine a causal relationship.

A correlation coefficient of zero means that the two numbers are not related. A non-zero correlation coefficient means that the numbers are related, but unless the coefficient is either 1 or -1 there are other influences and the relationship between the two numbers is not fixed. So if you know one number you can estimate the other, but not with certainty. The closer the correlation coefficient is to zero the greater the uncertainty, and low correlation coefficients means that the relationship is not certain enough to be useful.

It is clear from above correlation matrix that the dividend per share is positively correlated with earning per share, net profit and net worth in HBL and dividend per share is negatively correlated with market price per share in HBL. But in EBL dividend per share is positively correlated with earning per share, net profit, net worth and market price per share. Both these banks are not following any particular policy of dividend. They distribute dividend when they are able to pay dividend. There is no fixed rule and regulation about dividend policy.

B) Calculation Regression Analysis for Himalayan Bank Limited:

Year	(P _t)	R _t per share	DPS	(E/P) _{t-1}
2003/04	840	3.47	0.00	19.20
2004/05	920	3.30	5.55	18.57
2005/06	1100	2.64	17.77	28.68
2006/07	1740	3.04	9.1	31.86
2007/08	1980	1.56	15.53	28.43

4.11. Table: Regression Analysis for Himalayan Bank Limited

In simple regression analysis, we studied the linear relationship between only two variables, one independent and the other dependent variables and based upon this relationship, we could predict the variable the value of dependent variables for a given value of independent variables. But in real life, so many independent variables do affected the dependent variables.

We have regression with an intercept and the regressors dividends, retained earnings and lagged earning price ratio.

The population regression model for HBL is: $P_t = a + b D_t + c R_t + d (E/P)_{t-1}$

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.9660654
R Square	0.9332823
Adj. R Square	0.7331292
St. Error	264.76712
Observations	5

ANOVA

	df	SS	MS	F	Sign. F
Regression	3	980618.37	326872.79	4.6628416	0.3251803
Residual	1	70101.629	70101.6293		
Total	4	1050720			

	Coeffs	St. Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	1740.58	1179.703	1.47543	0.3792003	-13248.97	16730.13
Rt per share (DPS)	-610.0345	277.7182	-2.19659	0.2719711	-4138.779	2918.71
(E/P) _{t-1}	71.47669	32.09165	2.22726	0.2686573	-336.286	479.2398

In above calculation we used dividends, retained earnings and lagged earning price ratio of HBL as independent variable in their regression model of price function. In a multiple linear regression model, adjusted R square measures the proportion of the variation in the dependent variable accounted for by the explanatory variables. Unlike R square, adjusted R square allows for the degrees of freedom associated with the sums of the squares. From above calculation we found that adjusted R square (R^2) = 0.73313 which means that 73.31% of the variation in the price could be explained by three independent variables. The significant F of HBL was 0.3252, which explain all three independent variables not significantly influence per share price.

In statistical significance testing, the p-value is the probability of obtaining a test statistic at least as extreme as the one that was actually observed, assuming that the null hypothesis is true. One often "rejects the null hypothesis" when the p-value is less than the significance level (Greek alpha), which is often 0.05 or 0.01. Here, let's assume $\alpha = 0.10$. When the null hypothesis is rejected, the result is said to be statistically significant.

Here, the p-value of dividend, retained earnings and $(E/P)_{t-1}$ was 0.36495, 0.27197 and 0.26866 respectively. Here, the p-value of all independent variables was greater than $\alpha = 0.10$. It was therefore statistically insignificant at significance level $\alpha = 0.10$ as $p > 0.10$. On another way we can say that, the null hypothesis is accepted, the result is said to be statistically insignificant.

From, above calculation we found that Friend & Puckett (1964) model was not appropriate for regression analysis of HBL because the study period only covers five fiscal years from 2003 to 2008. From, limited data and limited study period we cannot

calculate the significant data according to Friend & Puckett model. But this model was very popular in international industries, banks, financial institutions etc.

B) Calculation Regression Analysis for Everest Bank Limited:

Year	(P _t)	R _t per share	(DPS)	(E/P) _{t-1}
2003/04	680	1.03	9.1	16
2004/05	870	1.30	0	22
2005/06	1379	1.73	15.70	31
2006/07	2430	1.66	7.8	34.11
2007/08	3132	3.71	18.36	25.55

4.12. Table: Regression Analysis for Everest Bank Limited

Similarly, we have regression with an intercept and the regressors dividends, retained earnings and lagged earning price ratio.

The population regression model for EBL is: $P_t = a + b D_t + c R_t + d (E/P)_{t-1}$

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.9459004
R Square	0.8947276
Adj. R Square	0.5789105
St. Error	681.81148
Observations	5

ANOVA

	df	SS	MS	F	Sign. F
Regression	3	3950981.9	1316994	2.833056	0.405744
Residual	1	464866.89	464866.9		
Total	4	4415848.8			

	Coeffs	St. Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-1199.33	1300.129	-0.92247	0.5256583	-17719	15320.37
Rt per share	853.082	455.2795	1.87375	0.3120922	-4931.79	6637.957
(DPS)	-18.2471	67.3019	-0.27112	0.8314492	-873.399	836.9052
(E/P) _{t-1}	57.30602	49.43569	1.159203	0.4531453	-570.834	685.44607

In above calculation we used dividends, retained earnings and lagged earning price ratio of EBL as independent variable in their regression model of price function. From above calculation we found that adjusted R square (R^2) = 0.57981 which means that 57.98% of the variation in the price could be explained by three independent variables.

Again, let, assume $\alpha = 0.10$. The column labeled significant F has the associated P- value. Since $0.4057 > 0.10$, we do not reject H_0 as significant level 0.10. The significant F of EBL was 0.4057, which explain all three independent variables not significantly influence per share price.

The P values tell us whether a variable has statistically significant predictive capability in the presence of the other variables, that is, whether it adds something to the equation. In some circumstances, a no significant P value might be used to determine whether to remove a variable from a model without significantly reducing the model's predictive capability. Here, the p-value of dividend, retained earnings and $(E/P)_{t-1}$ 0.83145, 0.31209 and 0.45315 respectively. Here, the p-value of all independent variables was greater than $\alpha = 0.10$. It was therefore statistically insignificant at significance level $\alpha = 0.10$ as $p > 0.10$.

Similarly, from above calculation we found that Friend & Puckett (1964) model was again not appropriate for regression analysis of EBL because the study period only covers five fiscal years from 2003 to 2008. From, limited data and limited study period we cannot calculate the significant data according to Friend & Puckett model.

4.2.3 Test of Hypothesis

Under this topic, an effort has been made to test the significance regarding the parameter of the population based on drawn from the population. Generally, the following steps are followed for the test of hypothesis.

- i. Formulation of Hypothesis
- ii. Computation of test statistic
- iii. Fixing the level of significance
- iv. Finding the criteria region
- v. Deciding the two tailed or one tailed test
- vi. Making decision

A) Testing of Hypothesis for small samples:

i) Paired t-test for Himalayan Bank Limited

Null Hypothesis (H_0): $\sim_x = \sim_y$ i.e. there is no significant difference between the before Market value per share and after Dividend per share of Himalayan Bank Limited.

Null Hypothesis (H_1): $\sim_x \neq \sim_y$ (two tailed test) i.e. there is significant difference between the before Market value per share and after Dividend per share of Himalayan Bank Limited.

Calculation of \bar{d} and S_d

Before MVPS	After DPS	$d = y - x$	$\left(d - \bar{d}\right)^2$
920	914.45	-5.55	30.54
1100	1082.23	-17.77	832.09
1740	1730.90	-9.10	3.90
1980	1964.47	-15.53	19.84
1760	1752.57	-7.43	13.29
		$\sum d = -55.38$	$\sum \left(d - \bar{d}\right)^2 = 899.66$

4.13. Table: Testing of Hypothesis for HBL

We have,

$$\bar{d} = \frac{\sum d}{n} = \frac{55.38}{5} = -11.08$$

and
$$S_d = \sqrt{\frac{1}{n-1} \sum (d - \bar{d})^2} = \sqrt{\frac{1}{5-1} \times 899.66} = 14.99$$

Test statistic,

$$t = \frac{\frac{\bar{d}}{s_d}}{\frac{1}{\sqrt{n}}} = \frac{-11.08}{\frac{14.99}{\sqrt{5}}} = -1.66$$

$$|t| = 1.66$$

Degree of freedom = $n-1 = 4$

Level of significance (α) = 5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and 4 d.f is 2.776.

Decision: Since calculated value of t is less than tabulated value t , the null hypothesis H_0 is accepted. That is, there is no significant change in after DPS.

ii) Paired t-test for Everest Bank Limited

Null Hypothesis (H_0): $\bar{x} = \bar{y}$ i.e. there is no significant difference between the before Market value per share and after Dividend per share of Everest Bank Limited.

Null Hypothesis (H_1): $\bar{x} \neq \bar{y}$ (two tailed test) i.e. there is significant difference between the before Market value per share and after Dividend per share of Everest Bank Limited.

Calculation of \bar{d} and S_d

Before MVPS	After DPS	$d = y - x$	$(d - \bar{d})^2$
870	870	0	202.49
1379	1363.3	-15.70	2.16
2430	2422.2	-7.80	41.34
3132	343.64	-18.36	17.06
2455	2425.01	-29.29	226.80
		$\sum d = -71.15$	$\sum (d - \bar{d})^2 = 489.85$

4.14. Table: Testing of Hypothesis for EBL

We have,

$$\bar{d} = \frac{\sum d}{n} = \frac{71.15}{5} = -14.23$$

and
$$S_d = \sqrt{\frac{1}{n-1} \sum (d - \bar{d})^2} = \sqrt{\frac{1}{5-1} \times 489.85} = 11.07$$

Test statistic,

$$t = \frac{\bar{d}}{\frac{s_d}{\sqrt{n}}} = \frac{-14.23}{\frac{11.07}{\sqrt{5}}} = -2.88$$

$$|t| = 1.66$$

Degree of freedom = $n-1 = 4$

Level of significance (α) = 5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and 4 d.f is 2.776.

Decision: Since calculated value of t is less than tabulated value t , the null hypothesis H_0 is accepted. That is, there is no significant change in after DPS.

4.3 Major Findings:

Dividend payment is not regular phenomena in Nepalese companies. Average earning per share of EBL is greater than HBL. HBL paid dividend in regular basis but EBL has not paid dividend in regular basis. Other main findings of the study are mention below:

i) Dividend per share:

Average dividend per share of EBL is higher than HBL. HBL has paid dividend to its shareholders all five years. Whereas EBL has distributed dividend to its shareholders all five years except in 2004/05.

ii) Return on Equity:

Net profit to net worth or return on equity ratio measures efficiency of a bank to generate profit from net worth. The average return on equity of HBL is 23.65 and EBL is 24.45. It explains that both the banks are generating good return from equity.

iii) Earning per share:

The average earning per share of EBL is higher than HBL. Earning per share of HBL and EBL is 58.37 and 77.44 respectively.

iv) Dividend payout ratio:

On the basis of dividend payout ratio, HBL is paying higher percentage of its earning as dividend that EBL. The pattern of dividend payout ratio of both banks demonstrated the conservative dividend policy followed by the banks. Relationship between the earnings, dividend payment and growth and expansion programmed of the companies did not exit. In this way dividend policy followed by banks is not appropriate because this type of dividend policy does not have any rules and criteria. A reduction in dividends paid is looked poorly upon by investors, and the stock price usually depreciates as investors seek

other dividend paying stocks. A stable dividend payout ratio indicates a solid dividend policy by the company's.

vi) Price earning ratio:

Average price earning ratio of HBL and EBL was 25.35 and 25.53 respectively. Both banks maintain the P/E ratio. Generally a high P/E ratio means that investors are anticipating higher growth in the future. The average market P/E ratio is 20-25 times earnings. The P/E ratio can use estimated earnings to get the forward looking P/E ratio.

vii) Dividend yield ratio:

On the basis of dividend yield ratio, HBL is more efficient than EBL for distribution of dividend on the basis of market price per share.

viii) Market Value per Share to Book Value per Share:

Average market value per share to book value per share ratio of EBL is higher than HBL. It indicates that there is chance of higher capital gain to EBL shareholders.

ix) Dividend Decision:

There is not stable dividend paid by both the banks over years. They are paying fluctuating dividend since. Similarly there is no criterion to adopt payout ratio, so, it is clearly said that there is no long term vision in the context with dividend decision.

x) Correlation Coefficient:

The correlation matrix that the dividend per share is very high (significant) correlated with earning per share, net profit and net worth in EBL but the dividend per share is high correlated with market price per share in EBL. In HBL correlation matrix that the dividend per share is high correlated with earning per share and very low (insignificant)

correlated with net profit and net worth and dividend per share is negatively correlated with market price per share in HBL.

xi) Regression Analysis:

In a multiple linear regression model, adjusted R square measures the proportion of the variation in the dependent variable accounted for by the explanatory variables. Unlike R square, adjusted R square allows for the degrees of freedom associated with the sums of the squares. Therefore, even though the residual sum of squares decreases or remains the same as new explanatory variables are added, the residual variance does not. For this reason, adjusted R square is generally considered to be a more accurate goodness-of-fit measure than R square. In multiple regression equation the significant F of HBL and EBL was 0.32518 and 0.40574 respectively which explain all three independent variables not significantly influence per share price. Both bank p-value was greater than null hypothesis therefore the null hypothesis is rejected, the result is said to be statistically significant. Friend & Puckett (1964) model was not appropriate for regression analysis of both banks because the study period only covers five fiscal years from 2003 to 2008.

Chapter 5

Summary, Conclusion and Recommendation:

This chapter is a summary of the study and it released some suggestive package. It contains summary, conclusion and recommendations. Summary is a brief introduction of whole study. Conclusions are made on the basis of the analysis of relevant data by using various tools. Recommendations are provided after analyzing the relevant data and looking forward what we and other person can do for betterment of the desired objective of the firm.

5.1 Summary:

After the restoration of democracy in 1990 A.D., Nepal has implemented liberal economic policy. As a result, many more companies are established in different sectors such as industrial, tourism, transportation, trade and mostly in financial sector who contribute to build up economy of the country. Nepal is a country trying to develop its economy through global trend and cooperation with developed countries.

This presentation paper contains the five chapters:

The development of the country largely depends on the level of economic development. The economy of the nation depends on the growth of the different sectors like financial institutions, industry etc. nowadays, banks are highly focused on maintaining the correct liquidity position as well as holding the right amount of cash, only sufficient, if needed, and remaining towards investment. Too much holding of cash makes it idol, but investing it in different sector may help in growth of national economy and brings various opportunities for employment and earning. And this will be the major contribution to the country's GDP.

Chapter 1 deals with the general introduction of the banks with its background. The introduction of dividend policy and different ratio has also been described in this chapter. The objective of the study, significance of the study, problems of the study, importance of the study, limitation of the study and organization of the study have been

simultaneously figured out. The brief introduction of dividend policy and the commercial banks has been illustrated in this chapter.

Chapter 2 deals with the review of the topic. How other person has briefed about dividend policy. What are the methods they have used to enhance the importance of this dividend policy towards financial institutions and country as whole? What are the things that they didn't mentioned regarding the role of the dividend policy which was important in the context of developing countries and which has been mentioned in this study. In this chapter method, models, different way of doing analysis and the types as well as parties involved in this process have been described thoroughly, so that people could easily understand it. The scopes of Nepal's banking industry have been pointed out in this chapter. This chapter also mentioned the factor influencing dividend policy.

Chapter 3 deals with the method and ways of collecting the data for the analysis. The ways of collecting secondary data has been explained in this chapter. What kinds of data were used in this study has been mentioned in this chapter. The ways and techniques used to present the data has been researched and used in this thesis. The tools has been described which has been used in the analysis process. All the method of collecting the data and used for the analysis has been figured out in this chapter.

Chapter 4 deals with the detail information of dividend policy analysis and position of institutions, after analyzing the data which was captured from the different source by using the different types of method. For easy purpose and clear view, some of the analysis has been illustrated and explained through the tables and diagrams. This chapter mainly deals with the methods of finding out the overall financial situation of the banks.

Chapter 5 deals with the summary, conclusion and recommendation. Summary is a brief introduction of whole study. The writer's opinions about what was learned, based on the data presented, what steps should be taken as a result, and what additional studies are needed, should be given in the Conclusions and Recommendations.

5.2 Conclusion:

Nepalese Banking Industry which started with the commencement of operation of Nepal Bank Limited in 1994 has seen an ocean change over the period of 7 decades. Start with the basis objective of mobilizing the saving (deposits) into the productive sector by providing loans to needy people and business houses, the functions of commercial bank has been growing day by day. The ever growing volume of international trade, remittance inflow and outflow and the complexity in hedging the risk arising from foreign exchange rate or differential interest rates are some of the basic facts which requires an involvement of a reliable expertise. All business houses may not have expertise, but the modern banks have stepped into the shoes of a reliable partner who not only provide general banking facility to these business houses, but also provide a complete range of customized structure solutions to meet the client's expectation.

The inevitable question thus arise "Have Nepalese Banks been able to provide such facilities to its clients?" In the real sense, our commercial banks have just have doing what they did in past. We cannot blame the commercial banks alone; it is the entire system that is responsible for these problems. Internal conflicts, civil war, frequent bandhs and strikes have tremendously jeopardized profitability and capability for banks and banking sector. The unclear political sentiments and lack of proper security in the society have disputed investors' sentiment. This has become a major backlog in opening sound avenues for banks to invest their surplus funds. Banks are forced to lend to few good names which ultimately creates a concentration risk and banks end up by laying all eggs in very few baskets.

From the study we find out that there are differences in financial position of high dividend paying and low dividend paying banks. Other things remaining the same financial position of thigh dividend paying bank is comparatively better than that low dividend paying bank and not paying dividend bank. Other important conclusion that can be drawn from this study is:

The practices of dividend payment adopted by the both HBL and EBL are not stable. In many cases a small amount of dividend is paid without considering risk free rate of return. Future, the price of shares on which the dividend is not paid is on upward trend. So, management is playing active role in determining dividend instead of shareholders collective opinion. There are no legal rules that bind these banks to pay dividend when they are running at profit. Not only the companies have any clear policy towards dividend decision but also there is no provision in company act. So, government has decided to improve the policies regarding this issue. Enough advice and feedback from the research are undertaken for improvement.

These banks follow no specific dividend payment strategy. Payment of cash and stock dividend are made without wise managerial decision. Although total earning after tax is increasing every year, earning per share is highly fluctuating due to the issue of bonus share. The implications of fluctuating earning per share could not be made clear to the public.

Market price of share is affected by dividends. In case of HBL market price is positively affected DPS it means higher the DPS higher is its market price. But just saying that increase in DPS leads to increase in market price may not always be true. This we can see in the case of EBL. It appears that DPS and EPS are inversely correlated to market price of the share. However the fall in market price of the share of EBL is an account of extraneous factors such as political and economic turmoil. Change in dividend per share affects the share price and net worth differently in different banks. Similarly a change in earning per share and net profit affects dividend per share differently in different banks. Lastly, there is not uniformity of dividend distribution policy in both the banks.

In multiple regression equation we used Friend & Puckett model for HBL and EBL. This model was not appropriate for the both banks. Because we only cover five years study period. From the hypothesis calculation we found that, the null hypothesis H_0 is accepted, there is no significant change after DPS in both banks.

5.3 Recommendations:

Although this study was concerned with dividend decision, it may be appropriate to provide a package of suggestion in the lights of findings, issues and gaps. This suggestion will be helpful to improve existing condition. These guidelines are explained below:

1. Formulation of dividend policy will clearly guide HBL and EBL, the way to follow dividend distribution. The policy should determine where the company is going to adopt stable dividend policy, constant payout ratio or low regular extra dividend. What should be the long run dividend payout ratio, either it is pure residual theory, fixed dividend payout policy or smooth residual dividend policy should be made clear.
2. Bank plays significant role in the economic development of the country. So, HBL and EBL should achieve target rate of return by linking its activities towards income generating programs.
3. HBL and EBL should made clear legal rule about dividend policy, which is essential for the smooth growth of the banks as well as the growth of national economy. Some companies are in position to pay dividends but some companies are suffering from losses and there are efforts to minimize loss rather than payment of dividend. Therefore, the government should act in favor of investors and bind their companies by separate rules.
4. The legal rules and regulation must be in favor of investors to exercise the dividend practice and to protect the shareholders rights.
5. Manager should be alerted to protect shareholders interest rather than operation of company desired by them.

6. The choice should be given to shareholders whether they prefer stock dividend or cash dividend. They should be well informed that issue of stock dividend decreases market value per share and earning per share because number share will be increased by issuance of stock dividend. Issue of cash dividend increases both market value per share and earning per share but it does not increases the number of shares.
7. An organization should be formed by the conscious shareholders for working in favor government should encourage this kind of organization to promote the activities and to protect the interest of investors. There are no organizations fully devoted to protect investor's interest.
8. Payment of dividend is neither static nor constantly growth. It is highly fluctuating. Such way of paying dividend could not impress the marked positively. So these banks are advised to follow either static or constantly growing dividend policy. It would be better to fix the amount of dividend in general annual meeting. This is important not only from the point of view of adequate return of shareholders but also to generate stable and increasing market value per share, long run survival of ban, efficient management and socially distribution of income.

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Annexure-I

Comparative Financial Indicator of HBL and EBL of three years i.e. 2006/07 to 2008/09

(Amount in Millions)

	HBL	EBL	HBL	EBL	HBL	EBL
Financial Indicator	2006/07	2006/07	2007/08	2007/08	2008/09	2008/09
Source						
Capital & Reserve	2146.50	1201.5	2512.99	1921.2	3119.88	2203.6
Deposits	30048.42	18186.2	31842.79	23976.3	34681.35	33322.9
Borrowing	595.97	300.0	943.18	300.0	500.0	612.0
Other Liabilities	728.26	2163.4	876.57	1449.1	1019.10	1363.2
Total	33519.15	21851.1	36175.53	27646.6	39320.33	37501.7
Application						
Cash & Bank	1757.34	2391.3	1448.14	2667.9	3048.53	6164.4
Loan & Advance	16998.0	14082.7	19497.52	18836.4	24793.16	24469.6
Investment	11822.99	4984.3	13340.18	5059.6	8710.69	5948.5
Call Money	1710.03	0.00	518.53	346.0	1170.79	0.00
Fixed Assets	574.06	222.66	795.31	376.2	952.20	492.17
Other Assets	656.73	170.14	575.85	360.5	644.96	427.16
Total	33519.15	21851.1	36175.53	27646.6	39320.33	37501.83

	2006/07	2006/07	2007/08	2007/08	2008/09	2008/09
Total Income	2164.27	1370.7	2510.94	1848.2	2926.64	2565.3
Total Expenses	1381.20	772.8	1460.28	1024.3	1694.08	1491.8
Operating Profit	783.07	597.9	1050.66	823.9	1232.56	1073.5
Net profit	491.92	296.4	635.87	451.2	752.83	638.7