CHAPTER - ONE

INTRODUCTION

1.1 Background of the Study

Nepal is a small landlocked under developing country situated 26° 22” to 30° 27” northern latitude and 80°04" to 88°12” eastern longitude between two large country India and China. Total area of Nepal is 147181 km which is 0.3 percent of Asia and 0.03 percent of the world. Average length of eastern Mechi to western Mahakali is 885 kms and average gap between Northern sides to southern side is 193 kms. It is an underdeveloped country with per capita income of US$ 290 according to World Bank and almost 32 percent of the population lives below the poverty line.

Nepal is one of the countries in the world in terms of rich and unique in natural resources and attributes like it’s bio-diversity, socio-cultural, cultural heritage, manifested in its architecture, temples, sculptures, monuments etc. Actually slow pace of developing of Nepal is due to illiteracy, lack, of finance, landlocked position, poor resources mobilization and its utilization, weak infrastructure development, institutional weaknesses, poor economic policy and unstable eco-political environment. For this to overcome, the process of capital accumulation among other perquisites should be enhanced. The economic development of nation is on initial stage. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade and transit policy

Banks and other various financial institutions are playing vital role in the economic development of the country. Banks and financial intuitions have increased the industrial development as well as educational development. Actually, they regulate different policy so that the economic standard of the country automatically uplifted. So, if there is insufficiency of banking and financial facilities, the growth of the economic development automatically becomes slow. Earning more and more profit in every transaction period by proper mobilizing the resources available in particular productive use after collecting them from scattered sources is the basic objective of the commercial banks. It is fairly safe that banks are not the outcome of the economic development but are the courses for it.

Banking is one of the major tools with the aid of which the vicious circle of backwardness and poverty can be broken. In real sense, Banks are the resources for the economic development, which maintain the self-confidence of various segment of society and expand credit to the people. Commercial banks are major financial institution, which collects the scatter deposits from the people and disburse loan for the different sector like trade, commerce, industry and agriculture for the development. In the beginning, function of commercial banks was limited to accepting deposits and giving loans. But in present, it has wide worldwide activities. When the economy is in boom, commercial banks increase interest rate, which reduces probability to inflation and in the depression; they reduce interest rate so the people are interested in investment. It is fairly safe to say that banks provide different facilities to the economic development but the causes for it. Especially commercial banks provide different facilities to the people engaged in trade, commerce and industry. That is why they are being the mean for the upliftment of society.

In current scenario, since the importance of banks is highly appreciated, it needs proper attention to run successfully. They all should be incorporated and conducted after proper analyzing the various factors. Banks should have to pay more attention towards the public welfare as well as appropriate level of profit for sustaining in the competitive market. Actually, they should pay more attention whether their money is properly utilized or not and running at profit or loss. All the business firms always seek to have the existence of sufficient profit. Without having sufficient profit, business firm becomes unable to provide its facilities in the long run.

In Global prospective, Joint Venture are the modes of trading though partnership amoung nations and also a form of negotiation between various groups of industries and trades to achieve mutual exchange of advantages. “A Joint Venture is the joining of forces between two of more enterprises for the purpose of carrying out a specific operation (Industrial or Commercial investment of trade).”

Most of the public enterprises, in our country are operating in loss that is either due to inefficiency in proper management or of having suffered from over corruption. In such enterprises, the problems are not distribution of dividend rather minimization of losses thought better utilization of capital.

In context of Nepalese company only few company that pay dividend. But after establishment of Joint Venture Companies, there is new trend for distributing dividend that has brought new hopes for productive mobilization of funds. So, major decisions of the firm are its dividend policy, the percentage of earning it pays in cash to its shareholders. Dividend payout, actually, reduces the total amount of internal financing. "By a dividend policy we mean some kind of consistent approach to the distribution versus retention decision, rather than making the decision on the purely ad-hoc basis from period to period." So what and how much it is desirable to pay dividend is always controversial topic because shareholders always expect higher dividend, but the firm ensures towards setting aside funds for maximizing the shareholders wealth.

"In the decades since Modigliani and Miller proclaimed that corporate dividend policy was a more detain in the context of there analysis, the air has been filled with debate on the importance of dividends."

There are again corporate laws that bind limitations on the distribution of dividends, as corporation has to keep reserves for the protection of creditors overall interest with that of corporate growth from internally generated funds. The return on shareholders should be better paid as dividends since shareholders have invested opportunities to employ elsewhere. "Financial management is therefore concerned with the activities of corporation that affect the well being of shareholders. That well being can be partially measured by the dividends received, but a more accurate measured is the market value of stock."

There is conceptual conflict about the dividend payout policy i.e. whether it should pay in cash or retain in company for the purpose of long term financing i.e. internal financing.

Each of these alternatives has own impact while deciding dividend policy. If the investor couldn't get cash dividend, they would think their investment worthless. Similarly, on the other hand, management desires to retain all the earning for internal financing which is essential for corporate growth. Company feels so because of having lower flotation cost about retaining the earning in the company rather paying it out to the shareholders. The dividend will affects long term financing, net profit, market price per share, book value per share and earning per share.

Concerning to our country, the government is unable to receive dividends from the public enterprises as documented in past several year's budget speech and economic survey published by HMG's ministry of finance. According to the study made by management consultants and company, it is found that the government never received a dividend more than 1.07 percent aggregate net worth. So, neither the corporation of Nepal is capable of generating sufficient earning for dividend payout nor the government expects dividends since it has been observed that dividend payment is practically a crucial problem of the corporation. When we see the fact that the corporation cannot pay dividend, the corporation is unable to generate earning due to numbers of causes beyond their control. Decision regarding the dividend is very crucial factor for every corporation. Corporation like Bansbari Leather and Shoes Factory (before privatizing it), RNAC, Nepal Electricity Corporation have been unable to pay dividend because that they always suffer with maximum losses. There problem is about the recovery of the past losses and they won't always want to distribute the dividend from their earning. They have to minimize the losses thought better utilization of capital. Major problem of having maximum loss is due to the bureaucratic policy, which always lead the company towards maximum corruption. But Janakpur Cigarette factory, NIDC etc are the enterprises which are following balanced dividend declaration and profit retention. On the other hand, the corporation that could afford to dividend out of accumulate profit of the past could not do due to the necessity of compensating current losses that shacked their financial reputation.

In Nepal we can find very small number of corporation that are paying regular dividends and the other corporations are not stable in the payment of dividends in their historical background.

We find that most of the Joint Venture Banks have practiced in paying dividend. They all like to pay more attention for paying appropriate dividend to the shareholders. "But the appreciations in the market value of share of these Joint Venture Banks have, without any doubt, provided adequate sense of protection to shareholders."

This research work will look into all relevant factors of dividend regarding dividend policy among Nabil Bank Ltd. and State Bank of India (SBI). These banks are selected to show the differences in policy adopted by them considering size of the profit and dividend. The study shows overall implication of dividend of Joint Venture Banks. It is also more specific in application of dividend policy in Joint Venture Banks.

1.1.1 Origin of Bank in Nepal

The words BANK was initiate form Latin words Bancus, French words Banque and Italian words Banca, which means refer that a Bench where sitting over there invest, exchange and keep record of money and cash. History tells us that initiation of bank in eastern side of world was mentioned in economics of Kautilya and Manusmirti. Likely in west banking system was started from 'Bank of Venice, 1157 Bank of Barcelona. Actually banking system was inaugurated after established of Bank of England.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuable treasures under such arrangement the depositors would leave their gold for safekeeping and given a receipt by the goldsmith. Whenever, the receipt was presented the depositors would get back their gold and valuable treasures after paying a small amount as fee for safekeeping and saving.

The Banking system in Nepal was developed gradually from the past. The history states that King Gunakamadev had received loans from the public in the 8^{th} century to renovate "Kathmandu City". The foundation of banking system in Nepal was established by a businessperson named Shankhadhar Shakha in 10^{th} century. He had paid back all the loans taken from the public and since then Nepal Sambat had stated in our country. This tells us that the system of lending money and paying back started long time back in our country. Later on in the 14^{th} century, King Jayasthiti Malla divided the people into 64 castes according to their occupation, amongst them 'TANKADHARI' one is that dealt with the lending of money to the public. Main objective of the 'TANKADHARI' was to earn profit by providing money as a loan to people and taking certain interest rate. Prime Minister Ranadeep Singh established 'TEJARATH ADDA' in the 1933^{th} B.S In order to protect people from higher interest rate, The 'TEJARATH ADDA' was responsible for providing loans to the people working in the government offices based on the security and the public based on the collateral they deposited in the 'TEJARATH ADDA' was not to earn profit, it charged its creditors with a low interest rate of 5% per annum. It was only subjected to lend but did not accept deposits, hence it cloud not be counted as a bank. However, it can be said that 'TEJARATH ADDA' was the main financial institution that led to the development of modern banking system into the country.

The actual banking system of Nepal starts from the establishment of Nepal Bank Limited (NBL) as the first modern bank in our country Nepal in B.S. 1994 Kartik 30^{th} according to the Nepal Bank Act 1993. NBL was the first bank to be established in Nepal and prior to this, there was no such organized banking system in the country. Therefore year B.S. 1994 is said to be the Golden year for modern banking system in Nepal.

After two decade Nepal Rastra Bank established in 14^{th} Baisakh, 2013 BS as a being central bank of Nepal under “Nepal Rastra Bank Act 2012” to perform the function of the central banking in Nepal. It established to promote, control, direct, supervision and manages banking activities and to in the country under the provision of Brussels International monetary conference (IMC). Main objective of Nepal Rastra Bank was to make economic assistance, issue and exchange of Nepalese note and currency, good govern of banking system etc. and use of own Nepalese note in whole country Nepal.

Nepal Industrial Development Corporation (NIDC) was established In 2016 BS under NIDC act 2016.it established for promote industrialization in Nepal. Main objective of NIDC was to provide technical and financial assistant for industry and commerce. Subsequently another fully state owned commercial bank “Rastriya Banijya Bank” was established on 10th Magh, 2022 BS under Rastriya Banijya Bank act 2021 which was the second commercial bank of Nepal. With the establishment of RBB, a noticeable progress could be seen in banking industry of Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries. Both the banks have majority of shares owned by the government of Nepal. Rastriya Banijya Bank is fully owned by the government. In 2024 Magh 7th BS Agriculture Development Bank (ADB) was established under Agricultural Development Bank act 2024. ADB was established combined merge of cooperative bank and Bhumisudhar Bachat Corporation.

Nepal adopted the free economic policy privatization, liberalization and globalization. Liberal free economic policy allowed establishing Joint venture bank under collaboration with foreign bank as well as on private sector. In 2041 Ashad 29 Nepal Arab Bank limited was first joint venture bank established in Nepal which is known as NABIL Bank in today. After that Investment bank (Nepal Indoswis bank), Standard Chartered Bank (Greenland bank), Himalayan Bank, SBI Bank etc instigate accordingly. As the time passed, a need for the more commercial banks arose. At the present time various commercial bank established and some are in process for operation. Today there are altogether 26 commercial banks, 36 Development Banks, 72 Finance Companies, 11 Micro Credit Development Banks and various cooperative firm are functioning in the our country in Nepal. Still many other commercial banks are in the process of opening in the market. Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry. In this way we know origin and development of commercial bank in Nepal.

1.2 Brief Profiles of the Sample Banks

A. Nabil Bank Limited

Nabil Bank Limited, the first foreign joint venture commercial bank of Nepal, started operations in July,1984. It was incorporated with the objective of extending international standard modern banking services to various sectors of the society.

Nabil Bank Ltd, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Tele-banking system. NABIL Bank Limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 as the first joint venture bank, to commence operations in the Kingdom of Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the Bank of 1st Choice to all of its stakeholders and customers. For the customers, it want to be the first choice in meeting all of the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of a model bank, it want to be an outstanding corporate citizen in all the communities, it work in and finally, it want to be the first choice as an employer with whom to build a career. To achieve this mission, it has a core set of values by which we live. The values are C.R.I.S.P., i.e. Customer Focused, Result Oriented, Innovative, Synergistic and Professional. They are committed to live our values everyday in everything we do, for it is, these values that make us uniquely NABIL Bank Limited.

The bank is a full services bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides us in being 'Your Bank at Your Service'

B. Nepal SBI Bank Limited

Nepal SBI Bank Ltd. (NSBI) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employees Provident Fund (EPF) and Agricultural Development Bank Ltd.(ADBL)through a Memorandum of Understanding signed on 17th July 1992. NSBI was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/l.Pa./7/2049/50. NSBI commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 351. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBI classifying it as an "A" class licensed institution on April 26, 2006 under license no. NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores and Rs. 131.76 Crores, respectively. In terms of the Techhnical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team viz. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager(Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public.

1.3 Statement of the problem

Dividend, the most inspiring factor for the investment on shares of the company is thus desirable from the stockholder’s point of view. But, Nepalese commercial bank has no satisfactory result about dividend decision. It is partly due to various government rules of regulations acting and reacting in the banking operations. But there is no limit to the identification of the problem about dividend policy that are visible in Nepalese commercial banks. While keeping this in mind selected problems of commercial banks with regard to dividend policy that can be quantified are taken.

Dividend policy of commercial banks is not matching with the earnings. Similarly there is no proper relationship between dividend and quoted market price of share exists. Earnings of firm are treated as decreasing leverage ratio, expanding activities and increasing profit in succeeding years. Where as, if the firm pays dividends it may need to raise capital through capital market which adulterate ownership control. In the later case, the firm takes loan or raises debenture. Which ultimately affect on risk of the firm? However dividend is a must for the attraction of investors and it reflects firm's healthy position in the market

As mentioned above, following are the major problems that have been identified for the purpose of the study.

1. What are the relationship of the dividend with earnings per share, market price of share, book value of share, net profit and net worth per share?
2. What are the prevailing practices of the banks regarding their dividend policies?
3. Does the dividend policy affect or influence the market price of share differently in different companies?
4. Are these Joint Venture Banks having uniformity in dividend distribution?
5. Do the Companies paying larger dividend have a good financial position?
6. Is it possible to increase the value of stock by changing dividend policy or payout ratio?

1.4 Objective of the study

The main objectives of the dividend policy should be the maximum return on shareholders equity so that value of investment is maximized. Stock market plays a vital role in challenging the invisible funds in most productive sector. The aim of the study is basically to analyze and evaluate the application of dividend decision in the selected banks and study focus on the prevalent dividend policies and to suggest the direction of future endeavor or share market in Nepal. Besides that the overall objectives of the study are briefly enumerated below.

1. To analyze the relationship of dividend with various important variables such as earning per share, market price per share, book value per share, net worth and net profit.
2. To study the type of dividend policy is being followed by Joint Venture Banks.
3. To find out the major factors, which affect dividend policy in Nepalese firm?
4. To provide the companies with some fruitful suggestions that can be implemented easily and possible guideline to overcome various issues and gaps based on the finding of the analysis.

1.5 Significance of the study

Nowadays, people are very much interested to invest in share, especially in the commercial banks to get the attractive return. Getting more return from the limited source of investment is the essential part for every investor while they seek to invest in different sector based on portfolio. People are very attracted to invest in shares for the purpose of getting greater return. Therefore, dividend is the major factor to attract the investors, retain the investors and ensure the goodwill of the company.

Dividend decision is one of the important decision areas of any business concerns. Now a day people are concerned in attracted return. So dividend policy is an effective way to attract new investors to keep present investor happy and to maintain goodwill of the company and the desire controlling position of the firm.

While investing in shares the investors gains the opportunity of income that they could have earned in the capital market, the return can be earned in two ways (1) by means of dividend (2) by capital gains i.e. increase in shares prices. Due to lack of enough knowledge, the people are investing hit or miss shares. It is necessary that results from investing in securities. In our country, most of the companies are not adopting the appropriate dividend policy, and so it seems very important for our perspective.

Significance of the study is as follows.

1. This study will be very helpful for the further researcher to find more details on the same topic.
2. It may be useful to government for policy making, controlling, supervision and monitoring.
3. It will be very useful to the concerned people like shareholders, management and policy makers.
4. It covers the partial fulfillment of MBS.

1.6 Limitation of the study

Since the study is very much challenging it must have to completed and find the optimum solution regarding the study area. Dividend is the most important topic in financial management. Financial manager should have to be undertaken several aspects of decision while managing the job to achieve optimum goal. Areas of financial management decision are investment, capital, structure, liquidity, leverage, dividend and others. Here the study interprets and analyzes the dividend distribution practices relationship with different variables like EPS, MVPS, BVPS, NW etc. Numbers of limitations should be faced during the study period. So some assumption should be created to fulfill the study. The study will be limited by the following factors.

1. Only the secondary data will be collected, analyzed to interpret result so the result depends on the reliability of the data.
2. Only those factors will be considered which are related to dividend.
3. The study period covers only five years beginning from 2003/04 to 2007/08. The related data are considered only cash dividend and excluded the bonus or stock dividend.
4. Only two banks are considered under this study though it concerned with all commercial bank of Nepal.

1.7 Organization of the Study

The whole study will be divided into five main chapters which are as follows. Every chapter bears equal important to some aspect of the study.

Chapter-1, Introduction

Chapter first deals with the subject matter of the study consisting introduction, statement of the problems, significant of the study, objective of the study and limitation of the study.

Chapter-2, Literature Review

Chapter second deals with review of literature. It consists a discussion on the conceptual framework on dividend policy and also includes major studies relating with dividend decision.

Chapter-3, Research Methodology

Chapter third describes research methodology used to evaluate dividend practices of joint venture banks in Nepal. It consists of research design, source of data, population and sample, statistical and financial tools.

Chapter-4, Presentation and Interpretation of Data

Chapter four explains about presentation and interpretation of data. These data will be interpreted and analyzed with the help of various analytical tools and techniques.

Chapter-5, Summary, Major Findings and Recommendations

Chapter five deals with major findings, summary, conclusion and recommendation of the study and it states suggestive framework of the study.

CHAPTER - II
REVIEW OF LITERATURE

Theoretical Review

In this part, focus has been made on the conceptual framework and the review of literature that is relevant to the dividend policy of commercial bank. Review of literature is based on available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries; document collection center helps to take adequate feed back to broaden the information to study. The first part of the chapter includes the conceptual framework and the second part includes the review of various related studies.

I) Conceptual Review

II) Review of Related Studies

2.1 Conceptual Framework

2.1.1 Forms of Dividend

Thought the most popular form of dividend is cash dividend, firms need to follow various types of dividend in view of the firm's objectives and polices, which they implement. In Nepalese context, the types of dividend that corporations follows is partly a matter of attitude of financial directors and partly a matter a various circumstances and other financial constraints that bound corporate plans and policies.

Based on the financial suitability of corporations, dividend may be distributed in various forms like cash dividend, property dividend, scrip dividend and stock dividend and bond dividend.

In our country, only cash dividend and stock dividend are declared and paid.

1. **Cash Dividend**

It is a kind of dividend, which is distributed to the shareholders in the form of cash out of the earnings of the company. If dividend is paid, it will reduce the balance of cash and reserve amount. The market price of the share drops in most cases by the amount of the cash dividend distributed. The firm has to maintain adequate level of liquidity position for distribution of cash dividend otherwise the company should borrow the needed fund externally." In a sample of companies, a stock declined by 0.78 of the dividend on the ex-dividend date (Walter James; 1966, PP.29-42).

2. **Stock Dividend (Bonus Share)**

A stock dividend simply is the payment of additional stock to stockholders. It represents nothing more than a re-capitalization of company, a stockholder's pro-portional ownership remains unchanged. It is actually the payment of existing owners of the dividend in the form of stock. Although stock dividends don't have a real value, firms pay stock dividend as replacement for supplement to cash dividend (Van Horne, 1998:334).

3. **Bond dividend**

Actually, it is a kind that is distributed to shareholders in the form of bond. Company, in other words, declares dividend in form of its own bond with a view to avoid the cash outflows (Van Horne, 1998:334).

4. **Property Dividend**

The payment of assets/ property in any form other than cash is known as property dividend. When there are assets that are no longer necessary in operation of the business or in extra ordinary circumstances, the company follows this form of dividend. Companies own products and securities of subsidiaries are the examples that have been paid as property dividend (Van Horne, 1998:334).

5. **Scrip Dividend**

The company may declare dividend in the form of scripts when earning justifies dividends but the company's cash position is temporarily weak and doesn't permit cash dividend. Scrip is a form of promissory note promising to pay the holder at specified later date. When the company has really earned profit and has only to wait for the conversation of others current assets into cash in the course of operation, the company only justifies the scrip dividend.

In general, the forms of dividends popular in Nepal are cash dividend and stock dividends, although there are different forms of dividend. Generally, the term dividend, so far in my study, has referred to cash dividend (Van Horne, 1999:340).

2.1.2 Residual Theory of Dividend

This theory suggests the company to distribute its earnings to shareholders in the form of cash dividend, only when the firm has retained earning left over after financing all possible acceptable investment opportunities. In other words, the stock holders get dividend only when there exist balance of earning after paying fixed obligation and financing all acceptable investment opportunities. There will be no dividend distributed to stockholders when if there doesn't exist balance of earning after paying fixed obligation and financing all acceptable investment. When the company treats dividend policy as strictly a financing decision, the payment of cash dividends is a passive residual. The amount of dividend payment will fluctuate in the amount of acceptable investment available to the company.

The theory assumes that the internally generated funds (retained earnings) are comparatively cheaper than the funds obtained form external sources due to flotation costs. But the company always may not be able to do so because of the variation in the attitude of the shareholders (Van Horne, 1997).

Therefore, dividend policy is influenced by (1) the availability of internally generated capital, and (2) availability of the company's investment opportunities. "The treatment of dividend policy as a passive residual determinant solelt by the availability of acceptable investment proposals implies those dividends are irrelevant the investor is indifferent between dividends retention by the firm.

2.1.3 Factors Affecting Dividend Policy

The factors, influencing the dividend policy of the company are one of the main focuses of the study. Most of the public enterprises owned by government are operating in loss, therefore, there is not question of paying dividend arise rather minimize loss. Due to the generation of the sufficient profit by Joint Venture Company dividend policies play vital role.

To the question how much the company should pay dividend is affected by the factors recognized as an active variable in determination of dividend that all variables known as factors affecting dividend policy as discussed below.

1. **Legal Consideration**

Legal rules always play the important role for the limitation of the amount of dividends. Legal restrictions can be dividend into two categories: First, statutory restrictions may prevent a company from paying dividends, while specific limitations insure by state. Generally, a corporation may not pay a dividend (a) if the firm's liabilities exceed its assets (b) if the amount of the dividend exceeds the accumulated profit (c) if the dividend is being paid from capital investment in the firm. The second type of restriction is unique to each firm and results restriction by bond issue, preferred stock issue and loan arrangement which is clearly specified in indenture.

2. **Liquidity Position**

The liquidity position of the company influences its ability to pay dividend payment of dividend is possible only if the firm has sufficient earning. But, if firm invests in fixed assets from its sufficient retained earnings, cash amount is available to make dividend payment. Indeed, a growing firm, even a very profitable one typically had a pressing need for funds. So, the company must have to manage adequate liquidity position as well as retained earnings.

3. **Regularity of Earning**

The firm's earning is major determinations of sound dividend policy. Depending upon the characteristics of earnings, corporation has to follow a dividend policy that tends to overcome the effect of business cycles. Company where earnings are relatively incentives to business cycles can usually afford high payout ratio.

4. **Ownership Control**

Maintaining the controlling vote is very important for many small firms and certain large ones. These owners would prefer the use of debt and retained profits to finance new investment opportunities rather than issue new stock. Dividend payment, certainly, reduces the cash balance of the company and if the company need funds to invest in new proposals should issue common stocks. If the existing owner could not buy new shares or do not want the ownership is diluted and the control mechanism is affected.

5. **Opportunities for Investment**

If the firm has future profitable investment opportunities the firm likely to reinvest the earnings rather than pay dividends. " The more rapid the rate at the need for financing assets expansion, the greater the future need for funds, the more likely the firm is to retain earnings rather than pay them out."

6. **Earning Predictability**

Larger portion of dividend from earnings will be possible to pay out when if the firm has stable level of earnings. A larger amount of the profits may be retained to ensure that enough money is available for investment projects when needed if earnings fluctuate significantly.

7. **Access to Capital Market**

Availability of the needed fund from the capital market should have to be considered before declaring the dividend to the shareholders. The age and size of the company affects the access to capital market of the firm. Therefore, a well-established firm is likely to pay higher dividend than smaller and newer firm.

8. **Tax Position of Stockholder**

Paying dividend is not only the action of the company but it is also should consider the preferential need of the stockholder. The shareholder with high-income tax brackets prefers to receive, low dividend and high rate of retention. Corporation owned by largely taxpayers in high income tax whereas corporation owned by small investors tends towards higher dividend payout.

9. Restriction in Debt Contract

If the firms more funds for its opportunity investment and has sufficient earnings for paying it as dividend to shareholders, it will ignore the dividend payment and retain all for its opportunity investment. Similarly, when the creditors restrict the need level of funds for investment to the company to give it should not pay out the dividend rather invests it by retaining the amount. Thus, debt contract between debtors and creditors also affects the dividend policy.

10. Inflation

The price of the assets rises up in the situation of inflation. Funds generated from depreciation may be inadequate to replace the equipment. Thus, the fund should be expensed more than reserve earlier or the amount from earning should spend for assets and earning reduced by the way dividend is affected.

11. Others

a) Absence or lack of other source of financing also makes the firm serious to retain the earnings for opportunity investment and cut the dividend to the shareholders.

b) An adequate cash flow should be maintained and the payment of cash dividend should not endanger the cash flow of the corporation.

c) A high rate of asset expansion creates a need to retain funds rather than to pay dividends.

d) Paying back the debt to the creditors also influences the availability of cash flow to pay the dividend.

2.2 Review of Financial Journals & Books

Global perspective

This section is devoted to review the major studies in general concerning dividends and stock prices, management views on dividends. Here presented the previous studies conducted in international level by various authors and experts to review them as needed for the study.

Walter's Study

Walter studied on "Dividend policy and Common stock price" in 1966. He advocated that dividend policy affects the stock prices. He has said that dividend policy almost always affects the value of the firm. The relationship between firm's internal rate of return and cost of capital is determining factors to retain earnings or distribute dividend. As long as the internal rate of return is greater than the cost of capital, the stock price will be enhanced by retention and will vary with dividend payout.

According to him, the model contains the following assumptions:

- All earnings are either distributed as dividend or reinvested internally immediately.
- With additional investments undertaken, the firm's business risk doesn't change. That is 'k' and 'r' is constant.
- The firm finances all investment through retained earnings i.e. debt or equity is not issued.
- The firm has very long (perpetual) life.
- The value of earning per share and dividend per share are assumed to be constant forever.

Considering the above assumptions, this model to determine the market price per share is as follows:

$$P = \frac{D + r/k\,(E-D)}{K}$$

Where,

P = Theoretical market price per share

D = Dividend per share

E = Earning per share

r = Internal rate of return

K = Cost of capital or market capitalization rate

Walter displays his model with the help of the relationship between 'r' and 'k'. According to him optimum dividend payout ratio on the relationship between 'r' and 'k' can be summarized as follows:

<u>Growth Firm (r > k)</u>

When the internal rate of return is higher than cost of capital, the firm is said to be a growth firm. In this case, the relation between dividends and stock prices is negative; i.e. more dividends lead to low stock prices. Growth firm is a good profitable opportunities. Walter argued that zero dividends would maximize the market price of shares. Since the firm reveal retained earnings at the rate higher than cost of capital, the value per share will be maximum. Such a condition of a firm is benefited to the shareholders as their EPS retained and share value increases greater than they employ it in the market. When firm is the condition of r > k, the market value of share increases as pay out ratio declines.

<u>Normal firm (r = k)</u>

If the firm has r = k, there is not any role of dividend on stock prices fluctuation. In such a condition the payment of dividend or retained them does not affect the share price. It is a condition of indifference. The firm can either enjoy by paying profits as dividend or retained them. It happens because if the dividend is paid and invested by shareholders outside the firm, gets same return as the firm gave them in case of retained since r = k.

<u>Declining Firm (r < k)</u>

The relation between dividends and stock prices will be positive, i.e. increase in dividend per share yield increase in stock prices if the firm's internal rate of return is less than the cost of capital. This type of firm is said to be a declining firm. There are no profitable investment opportunities to invest the earnings internally. Firm's earning rate would be less than the investor's minimum required rate as in the market. The investors who have invested in such firm like to distribute the earning as dividend at all so that they can invest the fund in such profitable opportunities where they get higher rate of return than the declining firm. Walther argued cent percent dividend payment would maximize the market price of shares for declining firm.

To conclude, according to Walter, dividend policy depends upon the availability of investment opportunities of the firm, which we know the relationship between 'r' and 'k'. When r > k, firm has availability of profitable investment opportunities and so the firm is to finance investment through retained earnings, when r < k firm has not availability of profitable investment opportunities and so the firm is to distribute all earnings and in case of r = k, firm is in the condition of indifference. In other words, in declining firm, dividends are positively correlated with share price. There is not any relationship between dividends and stock prices in case of normal firm. And, dividend is negatively correlated with stock prices in case of growth firm.

Limitations of the Model

Due to the presence of various assumptions, the study is not fully free from the limitations. Walter has assumed that only retained earnings finance the firm, which would be applicable to those firms, which have financed all by equity capital. Concerning to the Nepalese companies, 'r' and 'k', dividend per share and earning per share may or may not be constant. Rate of return (r0 changes with increase and decrease of investment and cost of capital (k) changes with risk beard by the company. This model also ignores the effect of risk on the value of the firm. This is not the realistic assumption because risk and return are positively correlated i.e. lesser the risk lower the return and higer the risk more the return.

Gordon's Study

Another popular model is developed by Myron J. Gordon (1962) which concluded that dividend policy of a firm affects its value even in a situation where the return on investment and required rate of return are equal. This study explains that investors are not indifferent between current dividend and retention of earnings with the prospects of future dividend and capital gain. The conclusion of the study is that investor gives more emphasis to the present dividend more than future capital gain. According to this study, an increase in dividend pay out ratio leads to increase in the stock price for the reason that the investors consider the dividend yield is less risky than the expected capital gain.

The concerning assumptions adopted in this model are as follows:

- No external financing is available in the market.
- The firm is an all equity-financing firm. I.e. no debt and preferred stock are issued.
- The cost of capital (k) and internal rate of return ® are constant.
- The corporate tax rate does not exist.
- Cost of equity (ke) must be greater than growth rate 'g' (br).
- The retention ratio (b), once decided upon, is constant therefore the growth rate (g) = (br) is constant forever.
- The firm and its stream of earning are perpetual.

Considering the above assumptions, he has provided the following formula to determine the market value of the share, which is a simplified version of original formula.

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

Where,

P = Market price of a share

b = Retention ratio

b.r. = Growth rate in r, i.e. rate of return on investment of an all equity firm

E = Earning per share

E (1-b) = Dividend per share

Ke = Capitalization rate

1-b = Percentage of earning distributed as dividend

Based on the study, we can get the following fact:

In case of Growth Firm

Share price tends to decline in corresponding to the increase in pay out ratio or decrease in retention ratio, i.e., and high dividend corresponding to earnings leads to decrease in share price. So, stock prices and dividends are negatively correlated.

In case of Declining Firm

Share prices tend to rise in correspondence with rise in dividend pay out ratio. So, dividend and stock prices are positively correlated with each other.

In case of Normal Firm

Share prices remain constant in correspondence to the changes in dividend policies. So, dividend and stock prices are free from each other.

Modigliani and Miller's study

Modigliani and Miller, considering dividend policy, make a comprehensive argument for irrelevancy concept regarding dividend policy. In their article published in 1961, for the first time in the history of finance, advocated that dividend policy does not affect the value of the firm, i.e. dividend policy has no effect on the share prices of the firm. They said that the value of the firm is determined by the earnings power of the firm's assets or its investment policy that the manner in which the earning steam is split between dividend and retained earnings does not affect this value.

Thus, as per MM theory, a firm's value is independent of dividend policy. And, the critical assumptions included in this theory are as follows:

- The firm operated in perfect capital market. All the investors in the market are rational for their attitude of investment. Information is available to all free of costs, no transaction cost and securities are infinity divisible.
- No investor is large enough to influence the market price of securities; there is no flotation cost.
- Perfect certainty of future investment and profit of the firm.
- There are no taxes. Alternatively, there are no indifferences in tax applicable to capital gain and dividends.

- Risk of uncertainty doesn't exist.

Considering the above various critical assumptions, they provided the proof in support of their argument as in the following manner.

Step 1:

The market price of a share of stock at the beginning of a period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,

$$Po = \frac{Di + Pi}{1 + k}$$

Where,

Po = Current or beginning market price of stock

Di = Dividend per share to be received at the end of the period

k = Capitalization rate for firm in the risky class (assume constant)

Pi = Market price of a share at the end of the period

Step 2:

The total capitalized value of the firm, assuming no external financing would be simply the number of shares time price each share;

There, we have:

$$npo = \frac{(Di + pi)}{1 + k}$$

Where,

n = Number of equity shares at zero period

Step 3:

If the firm's internal source of financing, investment opportunity fall short of the funds required and Δn is the number of new share issued at the end of the period 1 at price pi. Then above equation (Step 2) can be seen as:

$$npo = \frac{nDi + (n + \Delta n) pi - \Delta npi}{K}$$

Where,

n = No. of shares at the beginning

Δn = No. of equity shares issued at the end of the period

Step 4:

If the firms were to finance all investment proposals, the total amount of new share issued would be given as following equation:

$$\Delta npi = I – (E – nDi)$$

$$\text{or, } \Delta npi = I – E + nDi$$

Where,

Δnpi = Amount came from selling new shares to finance the capital requirement

E = Total earning of the firm during the period

I = The total requirement of budget for capital budget

nDi = Total dividend paid during the period

(E – nDi) = Total retained earnings

Step 5:

We get the new equation given below by substituting the value of nDi from equation of step 4 to equation of step3.

$$npo = \frac{nDi + (n+\Delta n)-I +E –nDi}{1+k}$$

$$npo = \frac{pi\ (n + \Delta n) – I +E}{1 + k}$$

Step 6. Conclusion:

Dividend does not play any role in the above equation. Thus, Modigliani and Miler argued and concluded that dividend policy does not have any effect to the share price.

Concerning to the Nepalese context, this theory doesn't have any impact though this is vert crucial for the financial decision. Critical assumptions significantly deviate when it is applied. In case of Nepal, the assumption of perfects capital market and rational investors faulty assumption. Flotation cost, transation cost and tax and effect on capital gain is neglected by MM theory, which is not realistic in the practical life. Arbitrage arguments as described by this theory apply only when there are very sensitive investors. This is not possible to our country, Nepal.

Van Horne and MC Donald's Study

Van Horne and MC Donald had conducted a research and presented an article of journal of finance in 1971. They made a comprehensive study on dividend policy and equity financing. As needed to the study, they collected the required data from 86 electric utility firm's undivided on the COMPUSTAT utility data tape and 39 electric firms in the electronics and electronic component industries as listed on the CAMPUSTAT industrial data tape.

They compared the results obtained for firms, by using different models and methodology, which both pay dividends and engage in new equity financing with other firms in an industry sample. They concluded that for electric utility firm in 1968, share value is not adversely affected by new equity financing in the presence of cash dividend, except for those firms in the highest new issue group and it make new equity a more costly form of financing that the retention of earnings, so that the payment of dividend through excessive financing reduce the prices.

For electronics, electronic- component industry, a significant relationship between new equity financing and value was not mentioned.

Nepalese Perspective

Since very few articles and books related to dividend policy have been published in Nepal, here review some of them related to my topic, which have been presented as follows:

M.K. Shrestha's study

We can find very few articles related to dividend policy that is being published in Nepalese context. Dr. Manohar Krishna shrestha writes one of those related to dividend published. In 1981, the study presented by him was: " Public Enterprises: have they Dividend Paying Ability?" It gives short glimpse of the dividend performance of some public enterprises of their time in Nepal.

Dr. Shrestha has highlighted following issue in the articles:

- The expectation of HMG from the public enterprises are of two things: (1) They should be in a positive of paying minimum dividend (2) Public enterprises should be self-supporting in financial matters in future years to come, but non of these two objectives are achieved by public enterprises.
- One reason for excessive government causes this inefficiency interferes in day to day affairs. On the other hand, high-ranking officials of HMG appointed as Directors of Board do nothing but simple show their bureaucratic personalities Bureaucracy has been the enemy of efficiency and so led corporation to face losses. Losing corporations are, therefore, not in a position of paying dividends to government.
- Another reason is the lack of self-criticism and self-consciousness. Esman has pointed out that the lack of favorable leadership is one biggest constraint to institutional building. Moreover corporate leadership comes, as managers are not ready to have self-criticism. In fact, all so-called managers of corporations have not been able to identify themselves regarding what they can contribute as managers of corporation. So, HMG must be in a position to develop a financial target to corporate investment by imposing financial obligations on corporations.

- The articles point irony about government biases that government has not allowed to follow an independent dividend policy and HMG is found to pressurize dividend payment in case of Nepal Bank Ltd. regardless of profit. But, it has allowed Rastriya Banijaya Bank to be relieved from dividend obligation in spite of considerable profit.

He has suggested the need of criteria as:

1. Adopt a criteria guided policy to drain resources from corporation through the medium of dividend payment.
2. Realization by managers about the cost of equity and dividend obligation.

HMG should follow the following criteria to trap the resources through dividend:

1. Proper evaluation of public enterprises on capability of paying dividend through corporate co-ordination committee.
2. Circulating the information to all public enterprises brought the minimum rate of dividend.
3. Imposition of foxed rates of dividend by government to financially sound public enterprises.
4. Specifying performance criteria such as profit target in terms of emphasis, priorities, timing and plans and developing a strategic plan, this is not just a statement of corporation aspiration but must be done to make those aspirations to reality.
5. Identification objectives in corporation Act, company Act or special charter so as to clarity public enterprise managers regarding their financial obligation to pay dividend

R.S. Pradhan's Study

The study conducted by him was based on the data collected for 17 enterprises from 1986 to 1990, and appropriate topic selected for the study was " Stock Market Behavior in Small Capital Market " He has attempted to assess some of the cross selection behaviors of the stock market. This examines the relationship of market equity, market value to book value price earning and dividend with liquidity, profitability, leverage, assets turnover and interest coverage. Actual concentration, he has taken, is towards the relationship of dividend with liquidity, interest coverage, profitability and assets turnover.

The main objectives of the study were as follows:

- To asses the stock market behavior in Nepal.
- To test the relationship of market equity, market value to book value, profitability, leverage, price earnings and dividends with liquidity, assets turnover and interest coverage.

The model for the study was:

V = bo + b1 LIQ + b2 LEV + b3 EARN + b4 TURN + b5 COV +Ui

Where,

V = Chosen for the study were market equity (ME), market value of equity to ifs book value (MV/BV), price earning ratio (PE), dividend per share to market price per share (DPS/MPS), and dividend per share to earning per share (DPS/EPS).

LIQ = Current ratio (CR), or quick ratio, or acid-test ratio

LEV = Long-term debt to total assets (LTD/TA) or long-term debt to total capitalization (LTD/TC)

EARN = Return on assets i.e. earning before tax to net worth (EBT/NW)

TURN = Fixed assets turnover, i.e. sales to average fixed assets (S/AF), or total assots turnover, i.e. sales to average total assets (S/TA)

COV = Interest coverage ratio, i.e. earning before tax to interest

U = Error

Major findings presented in his study were as follows:

- The relationship between dividend per share and market price per share is positive.
- Higher the earnings on stock larger the ratio of dividend per share to market price per share.

- There is positive relationship between the ratio of dividend per share to market price per share and interest coverage.
- The relationship between dividend pay out and liquidity is positive.
- There is positive relationship between dividend payout and assets turnover ratios.
- Dividend Payout and profitability are positively correlated.
- Positive relationships between dividend payout and interest coverage.
- The negative relationship is notified between dividend pay out ratio and leverage ratio.
- The relationship of dividend per share to earning per share with liquidity, as sets turnover and interest coverage is positive and negative with leverage.

In conclusion, his findings are stocks paying higher dividend have higher liquidity, lower leverage, higher earnings, higher interest coverage and higher turnover. However, leverage and liquidity ratios are more variable for the stocks paying lower dividend while earnings assets turnover and interest coverage are more variable for the stocks paying higher dividends.

Shrestha and Manandhar's Study

Shrestha and Manadhar (1999) conducted empirical study on bonus share issue practices in Nepalese corporate firms. The study is concentrated on factual analysis of the prevailing practices among Nepalese corporate firm regarding the issue of bonus shares. Besides issue of bonus share is characterized by aphorism and imperfect and under-developed capital market, the study fulfills the research gap and add inputs to financial literatures relating to this topics.

The period of study expends over then years form 1988/1989 to 1997/98. The study covers the bonus share issue by the sample by the sample corporate firms which had issued the bonus share at least once during the study period. There are a total of 36 bonus issues amounting to Rs 951.8 million for the period under study.

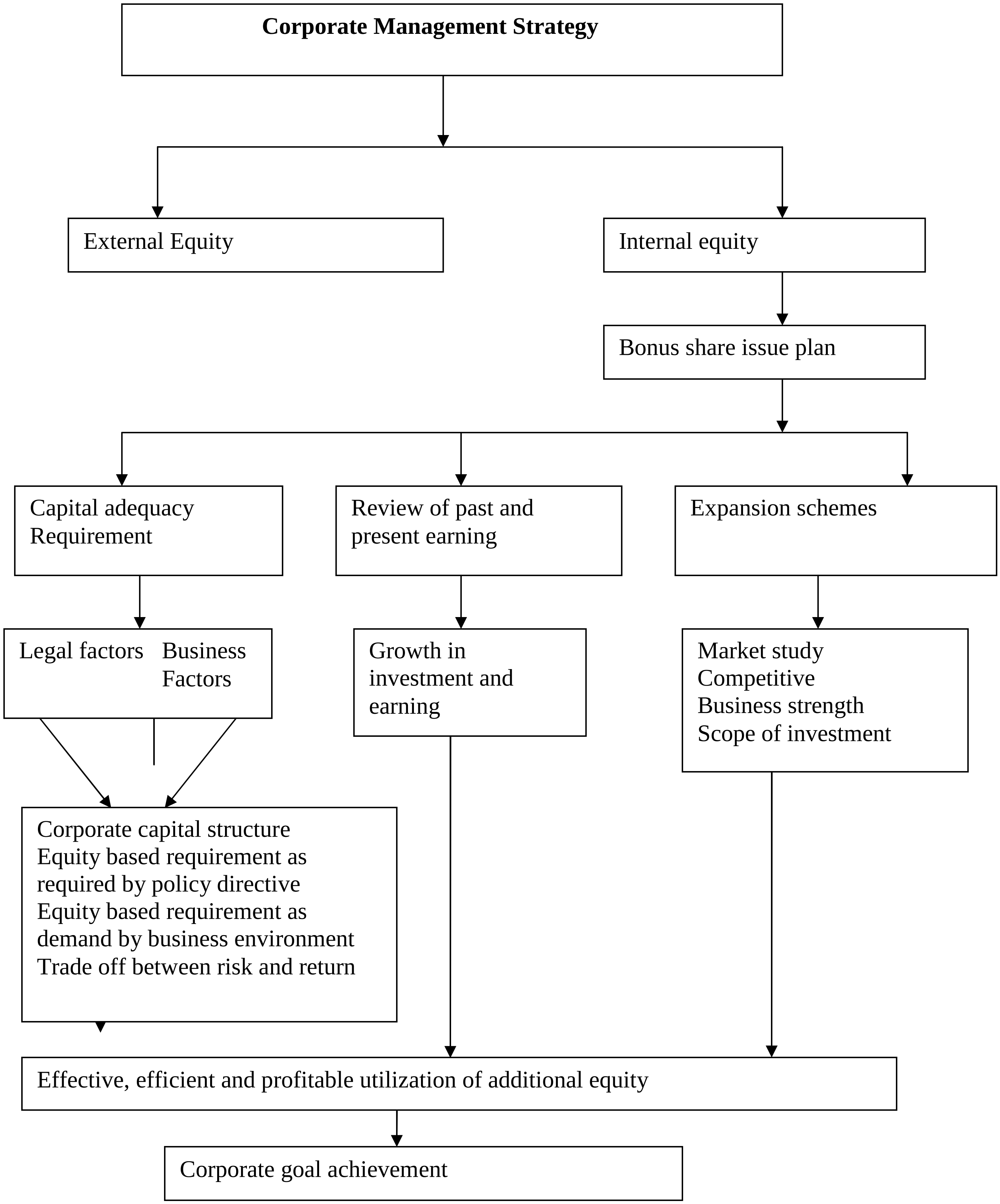
They used simple statistical tools to analyze and interpret the data. Used statistical tools are percentage frequency distribution and average.

The main objectives of the study are to study and analyze the frequency of bonus share issue and study and analyze the regularity of bonus share issue. Similarly, To identify the most popular bonus share issue ratio. As well as study and analyze the relation of bonus share issue to the size and age of the corporate firms.

The study's selected samples are related to commercial banking, insurance, finance, trading and service sectors. On the basis of analysis of 12 bonuses issuing corporate firms, following finding were observed on the bonus share issue practices in Nepal.

- The most popular bonus ratios prevalent in Nepalese corporate practices are 1:2, and 1:1 and 1:5 but 1:2 ratios overwhelmingly dominated.
- The number of bonus issue tended to rise from 1992/93 and enthusiastic increase in number of bonus share issue in the fiscal year 1994/95.
- There is a trend to raise the additional equity capital by capitalization the reserve and net profit by issuing bonus shares and stocks dividend.
- In the later years the important of 1:2 bonus decreased and importance of other ratio less then 1:2 increased which are 1: 5 and 1:4 The ratio bonus share is considered high as compared to widely prevalent practice in American corporate forms.
- The overall average of bonus issue is noticed amount Nepalese corporate practice during the study period.
- Nepalese corporate forms are found depend in internal equity rather than external equity for additional capital.
- Though capitalizing the retained profit by issuing the bonus share is the prevalent practice. The average growth rate in increase in equity capital between the commercial banking group and non banking group differed widely.
- The large corporate firms are found to issue bonus shares more times than small size corporate firms.

Based on the study and analysis the model suggested for bonus share is given below



Source: Sebon.com

2.3 Review of Thesis

This dissertation has been written after studying various books journals article website and previous thesis. I here comprise the some previous thesis review, which are mainly concerned about dividend policy, Right share, Bonus share Initial public, credit management and loan management of various company.

Nabaraj Adikary (1997) has submitted a thesis "Corporate Dividend practices in Nepal" for the fulfillment of master's degree. The study is based on primary and secondary data analysis. Necessary sample was taken from the NEPSE (1990-1997), all company that pay regular dividends. And for the purpose of primary date a 14 closed-end questionnaire were administered to 135 financial executives of different companies in Nepal. The various aspects of questionnaire on dividend policy were a respondent's profits motives of cash and stock dividends, shareholders preference and legal restriction on share repurchases, factors affecting corporate dividend policy, suggestion with regard to dividend policy and theoretical issue on corporate dividend policy.

His objectives of the study are:

- To analysis the proportion of portfolio formed on dividends.
- To test the relationship between dividend and stock price.
- To survey the opinion of financial executives on corporate dividend practices.

He concluded that a major portion of dividend of a firm could be expressed in the following:

DIV*t = pEPSt 1

And, DIV – DIV t-1 = a + b DIV *t – DIV t-1 + e1 2

Or, DWt = a + n DIV*t + (1-b) DIV* t-1 + et 3

Dhakpa Gela Sherpa (2001) has conducted research on “Corporate Information Disclosure and its Effect on Share Price”. The primary objectives of this study were to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies.

The main objectives of the study were:

- To highlight the corporate disclosure practice in Nepal.
- To identify the extent of disclosure of each of the item of information and to develop the information disclosure index.
- To check the quality of corporate disclosure of Nepalese listed companies measured by company characteristic namely asset size, number of shares outstanding and earning margin.
- To see the relationship between corporate information disclosure and stock prices.

His research study began with the construction of disclosure index for which he collected 59 informational items, classified according to their importance and calculated mean value after the collection of primary data. Thereafter, he selected 33 listed companies, used their annual reports and calculated disclosure scores, which was followed by use of various statistical tools like regression, correlation etc. to attain the mentioned objectives.

From the detail analysis, he found that most of companies do not disclose adequate and qualitative information on their annual reports, and most of disclosed information consisted of only relationship between disclosure scores and variables like earning margin, asset size etc. The important finding of his research is that there is positive relationship between market price of share and disclosure score. In other words, the company having greater disclosure score had the higher prices of stock.

Jyoti Joshi (2003) has conducted research on "Role of Nepal Stock Exchange in the secondary Market" she using the secondary data from 1996/97to 2002/02.
The main objectives of this study were:

- To assess the past and present behaviour of business operation in the Nepal Stock Exchange Market.
- To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- To prescribe ways and means by which secondary market would be more effective and meaningful.

The basic conclusion of her study was:

NEPSE should introduce digital technology and online marketing in its trading procedure. The rules and regulations should be up to date, Privatization process needs to be carried out effectively in order to develop Nepalese stock market. Tax system should be reformed which should encourage and stimulate capital formation.

Risi Khanal (2003) has prepared the thesis on “Growth, Problems and Prospects of Nepalese Stock Market”. Using the secondary data from 1993/94 to 2001/2002.

The main objectives of his study were:

- Tax system should be reformed which should encourage and stimulate capital formation.
- To examine the investors’ awareness,
- To examine the stock broker’s and other related institution performance,
- To analyze sector wise financial performance of NEPSE,
- To observe the coordination among SEBON, NEPSE and Rastra Bank.

In this study, Khanal concluded that the development of stock market in Nepal so far can not be considered satisfactory. This is evident from the facts and figures available in the stock market performance. But there is enough long term liquidity in the market. Again he added that the stock market and economic activity move in similar direction. They influence each other. Nepal Stock Exchange is the only one institution in the country to regulate and control the financial system of a country. The official stock market in Nepal, NEPSE is ten years old. It means it is in infant stage thus equity market and related institutions are still in their infancy stage.

Deepak Paudel (2005) entitled “Stock price behavior of commercial banks in NEPSE” with the objective to examine monthly closing price of 6 listed commercial banks during the period of three consecutive years from 2002 to 2004. He used correlation coefficient, regression analysis, and run test and auto correlation

The main objective of his study was:

- To find out Nepalese people’s awareness of the securities investment.

- To identify the stock market participation trend in Nepal
- To study and examine the major investment influencing factors.
- To provide some useful suggestions regarding stock market participation.

He found in his study that successive price changes were correlated with previous price series. He also found that most of the stocks did not follow random walk hypothesis. The present stock prices were dependent to the historical prices. The EPS was the most affecting factor for the price change of the stock. Most of the investors wanted to invest in the shares of commercial banks because the fluctuation in NEPSE index was due to the transaction of commercial bank shares. There were serious limitations in the study. Data used in this study, monthly closing price of stocks not enough to predict the behavior of share prices.

Sarada Mainali (2006) has conducted research on "A Study on Share Price Behaviour of Listed Companies".

The main objectives of this study were:

- To analyze the behavior of stock price of Listed Companies.
- To examine the stock price trend and volume of stock traded on the secondary market.
- To identify the factors affecting stock price.
- To analyze the investors' view regarding the decision on stock investment.

In her study, Mainali concluded that Share trading system in share market is still uncivilized even in this IT age. Though the volume to trading has increased the number of brokers has not increased. Therefore, for the systematic operation of the share market, the number of brokers should be increased according to the volume of trading. Similarly, the automation system has to be put in to practice to make the share market effective and competitive.

The public investors not direct their savings in shares haphazardly. They should at least analyze or get suggestions from experts about financial position and the level of risk prior to taking and investment decisions. Because of the persistence in the stock price movements professional traders either institutional or individual can beat the market. Thus it is suggestions that the investors should be alert to exploit the opportunities Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

Rudra Hari Gyawali, (2007) has conducted research on “Rights share practice and its impact on share price movement “The researcher sketches various conclusions through the research.

The main objectives of the study were

- To explain the price movement before the right offering.
- To analyze the relationship between share price movement and market movement.
- To identify the problem associated with the right practice.
- To study investors opinion regarding various aspect of right offering.

In his study he found impact of right offerings on share price movement various from company to company in case of listed companies such differences are not only between the companies of different sectors but also between the companies with in the scoter . Different on share price movement before and after right offering are significant as well as in significant.

Bibek Paudel, (2008) "Dividend policy and its impact on share price in Nepalese context". The study is concentrated on factual analysis of the prevailing practices among Nepalese commercial bank regarding the issue of Dividend policy. Besides issue of bonus share is characterized by aphorism and imperfect and under-developed capital market, the study fulfills the research gap and add inputs to financial literatures relating to this topics.

The main objectives of the study were

- To examine the prevailing practice and effect made in dividend policy.
- To analyze dividend policy and its impact on share price
- To access the relationship between the dividend with earning, market price of share and net worth.

- To provide the suggestion to policy maker and execute to overcome the various issue and gaps.

Significant of the study

- By means of dividend
- Capital gain i.e. increase in the share price

The study focus to evaluate the result and its impact of dividend on MPS, the study concern joint venture bank EBL, BOK and HBL.

The feasibility of the conclusion made in this study depends upon the accuracy of secondary data. The study shows that the MPS of the share is consequent result of the various factors. Study aims to finding to impact of dividend policy on market price of share.

Rameshwor Raj Gautam, (2009), in his thesis papers "Dividend policy in commerical Banks" A comparative study a NABIL and NIBL. The main objectives of this study were as follows.

- To highlight dividend policy of the banks.
- To analyze the relationship of dividend with various important variables such as earning per share, net profit, net worth and stock price.
- To provide a workable suggestion and possible guidelines to overcome various issues and gap on the finding of the analysis.

R.R Gautam analysis the factors using various statistical and financial tools and concludes that:

- Average earning per share of both two banks is satisfactory and dividend per share is too much unsatisfactory.
- There is no consistency in dividend payment and its growth rate is not static as well.
- There is no prominent difference in DPS and D/P rate of both two banks however; there is no uniformity in EPS.

R.R Gautam recommends as follows:

- To follow clearly defined dividend strategy as lack of it causes serious in convenience to may other sectors of finance.
- Banks should consider the interest and expecatation of the investors while making dividend decisions.

2.4 Research Gap

The purpose of this study is to draw some ideas concerning to the dividend policy and to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation. In this context, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. It is clear that the reference of new research can't be found on the exact topics, i.e. "Dividend policy of Nepalese Commercial Banks (A comparative study)" therefore to complete this research work, many books, journals articles and various published and unpublished dissertations and field opinion are followed as guideline to make the research easier and smooth through these reference materials. The researcher can find out the gaping from the past research that has to be fulfilled by the present research work.

This is a new topic for the research work. It is expected that the uncovered areas of this research work will be studied. The gapping between old and new research work will be focused and filled up based on the given objectives and limitation in this research.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the methodology adopted in the process of present study. Besides, the review of literature with possible review of relevant ideas, and research finding has described. For selection of appropriate research methodology these studies and analysis helps me very strongly. This is useful to reflect the dividend practices of Joint Venture Banks (JVB's). Therefore, the fundamental objective of this study is to analyze the dividend policy of commercial banks in Nepal (With special reference to two Joint Venture Banks) and is to find out the factors that affect dividend policy. To obtain these objectives the study follows the research methodology described in the chapter. "Research Methodology refers to the various sequential steps (along with a rational, of each, such steps) to be adopted by researcher in studying a problem with certain objects in view". Research in common parlance refers to a search for knowledge. Anyone can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact research is an art of scientific investigation.

It also focuses about sources and limitation of the data, which are used in the present study. ‘Research Methodology is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study.’ “Research Methodology” refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objects in view. So, it is the methods steps and guidelines which are to be followed in analysis and it is a way of presenting the collected data with meaningful analysis.
Research in an academic activity and such a term should be used in a technical sense.

3.2 Research Design

The research design is a conceptual structure within which a research is conducted. A research design is a plan for the collection and analysis of data. It is purposeful scheme of action proposed to be carried out in a sequence during the process of research. Research design helps researcher to enable him to keep track of action and to know whether he was moving in the right direction to achieve his goal.

"A research design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances." (Krelingers F.N; 1983)
The research design of this research basically follows descriptive analysis but more prescriptive because the historical secondary data have been employed to analyze the used variables which are related to dividend practices of commercial banks.

3.3 Sources of Data

The study is conducted based on secondary data, which are related to the dividend policy and all are directly obtained from concerned banks. The supplementary information and data regarding to the study are obtained from annual reports of concerned banks. Other information has been concerned with different institutions and regarding authorities like Rastra Bank, Security Exchange Board, Ministry of Finance and National Planning Commission etc.
This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

- Annual Report of Concern Bank.
- Internet and E-mails.
- NRB directives.
- Economy survey of Government of Nepal and Ministry of finance.
- Newspaper, journals, articles and various magazines.
- Dissertation of Central Library of T. U. and Library of Campus.

3.4 Population and Sample

In Nepal, there are 26 commercial banks whose shares are traded actively in stock market. It is not possible to study all of them regarding the study topic due to the different constraints. Therefore, judicial sampling technique is a used for selecting sample from population. (Appendix - I)

Sample Bank

So among the various commercial banks in the banking industry, Here Nabil Bank Ltd and Nepal SBI Bank Ltd have been selected as sample for the present study. Likewise, financial statements of five years are selected as samples for the purpose of it.

Nabil Bank Limited

Nepal SBI Bank Limited

3.5 Data Analysis Tools

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these some graph charts and tables will be presented to analyze and interpret the findings of the study. The tools applied are-

1. Financial Tool
2. Statistical method

3.6 Analysis of Data

3.6.1 Financial tools

The following financial tools have been used in the preset study:

(a) Earning per Share (EPS)

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholders investment. The earning per share shows the profitability of the banks on a per share basis. The higher earning indicates the better achievements in terms of the profitability of the banks by mobilizing their funds and vice versa. Earning per share is computed to know the earnings capacity and to make comparison between concerned banks. This ratio ban be computed by dividing the earning available to common shareholders by the total number of common stocks outstanding. Thus

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

(b) Dividend Per Share (DPS)

Dividend per share indicates the rupee earnings distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholders. Dividend per share shows the portion of earning dis5trubution to the shareholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the bank is common stock, which consequently helps to increase the market value of the shares. And it also works as the indicator of better performance of the bank management.

It is calculated by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus

$$\text{DPS}= \frac{Total\ \ Amount\ of\ \ Dividend\ \ paid\ to\ Ordinary\ Shareholdrs}{Number\ of\ \ Ordinary\ Shares\ Outs\tan ding}$$

(c) Dividend Percent (DP)

Dividend percent is the 4ratio of dividend per share to the paid-up price per ordinary share. It can be calculated as:

$$\text{DP}= \frac{Dividend\ Per\ Share}{Paid\ \mathrm{Z} up\ \Pr ice\ Per\ Share}$$

(d) Dividend Pay out Ratio (DPR)

It is the proportion of earning paid in the form of dividend. The dividend pay out ratio is the earning paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. The dividend payout ratio of a bank depends upon the earnings made by the bank. Higher earning enhances the ability to pay more dividends and vice versa

There is an inverse relationship between dividends and retained earnings. The higher the dividend payout ratio, the lower will be the proportion of retained earnings and vice versa. The capacity of internal financing of the firm is checked by the retention ratio
It is calculated as the percentage of the profit that is distributed as dividend. This ratio is calculated by dividing dividend per share by the earning per share. Thus

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

And, Retention Ratio = (1-Dividend Payout Ratio)

= (1-DPR)

(e) Earning Yield (EY)

Earning yield is the percentage of earning per share to market price per share in the stock market. In other words, it is a financial ratio relating to earning per share to the market value of share. It gives some idea of how much an investor is earning for his money. The share with higher earning yield is informative to compare the market share prices of stocks in the secondary market. It is calculated as:

$$EY\ Ratio = \frac{Earning\ Per\ Share}{Market\ \mathrm{Pr}ice\ Per\ Share}$$

(f) Dividend Yield (DY)

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

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

$$\text{DY Ratio} = \frac{Dividend\ Per\ Share}{Market\ \mathrm{Pr}ice\ per\ Share}$$

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

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

This is important to compare the market share prices of different stocks o the basis of the book value per share. It shows the market share price of a stock as a percentage of book value per share and the effect of later on the former. The higher ratios represent to conclude that the better performance of joint venture banks in terms of market price per share to book value per share. This ratio can be derived by dividing market price per share by book value per share. Thus

$$\text{MPS to BVPS Ratio} = \frac{Market\ \mathrm{Pr}ice\ Per\ Share}{Book\ Value\ Per\ Share}$$

(i) Net Worth Per Share

It is a rupee value per share. It is calculated dividing Book Value of Net Worth (or Net Worth) by total number of shares outstanding. Thus

$$\text{Net Worth Per Share} = \frac{Net\ Worth}{Number\ of\ Share}$$

h). Price-Earning ratio

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

P/E ratio = $\frac{\text{Market value per share (MVPS)}}{\text{Earning per share (EPS)}}$

3.7 Statistical Tools

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

i) Mean:

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

$$\bar{X} \text{ X} \frac{X}{N}$$

Where, $\bar{X}$ = Mean of the values

X = Summation of the values

N = No. of Observations

ii) Standard Deviation (±)

Karl Pearson first introduced the concept of standard deviation in 1983. "It is the most usual measure of dispersion and it represents the square root of the variance of group of numbers, i.e the square root of the sum of the squared differences between a group of numbers and their arithmetic mean" Standard deviation is the positive square root of the arithmetic average of the squares of all the deviations measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. The greater the amount of dispersion the greater the standard derivation. i.e greater will be the magnitude of the deviations of the values from their mean, A small standard deviation means denoted by Greek letter "± " (sigma) and is calculated as follows:

$$\text{Standard Deviation } (\pm) = \sqrt{\frac{(X \text{ Z} \bar{X})^2}{N}}$$

Where,

N= Number of items in the series

($\overline{X}$) = Mean

X = Variable

iii) Coefficient of Variation (C.V)

It is the measurement of the relative dispersion developed by Karl Pearson. It is used to compare the variability of two or more series. The series with higher coefficient of variation is said to be more variable, less consistent, less uniform, less stable and less homogenous. On the contrary, the series with less coefficient of variation is said to be less variable, more consistent, more uniform, more stable and more homogenous. It is denoted by C.V and is obtained by dividing the standard deviation by arithmetic mean. Thus,

$$\text{Coefficient of Variation (C.V)} = \frac{S.D}{Mean} X100 = \frac{\pm}{\overline{X}} X100$$

Where,

$\pm$ = Standard Deviation

$\overline{X}$ = Mean

iv) Coefficient of Correlation (r)

According to Richard I. Levin, Correlation analysis is the statistical tools that we can used to describe the degree to which are variable, is linearly related to another". The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables; it describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two variables are related with each other and to what extent variations in one leads to the variations in the other. The value of coefficient of correlation always lies between +1 to -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables are uncorrelated. The closer r is to +1 or -1, the closer the relationship between the variables and closer r is to zero (0), the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the coefficient is concerned with the strength, or closeness of the relationship between two variable, Thus, in this study, the degree of relationship between market price and other relevant financial indicators such as dividend per share, earning per share, dividend payout ratio etc is measured by the correlation coefficient. The correlation coefficient can be calculated as:

$$r = \frac{Cov(XY)}{\pm_X \pm_Y}$$

or,

a) $$r = \frac{\overline{(X \; Z \overline{X})(Y \; Z \overline{Y})}}{(N) \pm_X \pm_Y}$$

v) Coefficient of Determination (r^2)

The coefficient of determination is the primary way to measure the extent, or strength, of the association that exists between two variables, x and y "Coefficient of determination measures only the strength of a linear relationship between two variables". It refers to a measure of the total variance in adependent variable that is explained by its linear relationship to an independent variable, The coefficient of determination is denoted by (R^2) and the value lies between zero and unity. The closer to unity, the greater the explanatory

vi) Standard error of Estimate (S.E.E)

Practically, the perfect predication is not possible with the help of regression equation. Standard Error of Estimate is used to measure the reliability of the estimating equation. It measures the variability or scatter of the observed values around the regression line. It also measures the reliability of the estimating equation, indicating the variability of the observed values differ from their predicated values on the regression line.

The larger the value of S.E.E, the greater the scattering or dispersion of points around the regression line, conversely, if S.E.E is equals to zero, then, there is no variation about the line and the correlations will be perfect. So, we expect the estimating equation to be a "perfect" estimator of the depend variable. In that case, all the data points would lie directly on the regression line and no points would be scattered around it. Similarly the smaller the S.E.E the closer will be the dots to the regression line and the better the estimates based on the equation for this line, Thus with the help of standard error of estimate, it is possible for ascertaining how well and representative the regression line is as a description of the average relationship between two series.

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

Here, r = Correlation coefficient

N = Number of pairs of observations

vii) Trend Analysis:

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends, line following formula can be used:

y= a + bx

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

In this chapter, to achieve the objectives, which are set in introduction chapter, the relevant data and information on dividend policy and its effect on stock price of commercial banks are presented. Presentation and analysis of data is the major part of this research study. So, we analyze the data to achieve our objective of this study, using the various financial variables and statistical tools discussed in 'Research Methodology.'

4.1 Presentation of Financial Variables

4.1.1 Analysis of EPS of the sample banks

The earnings per share of the banks under study are tabulated as follows:

Table 4.1

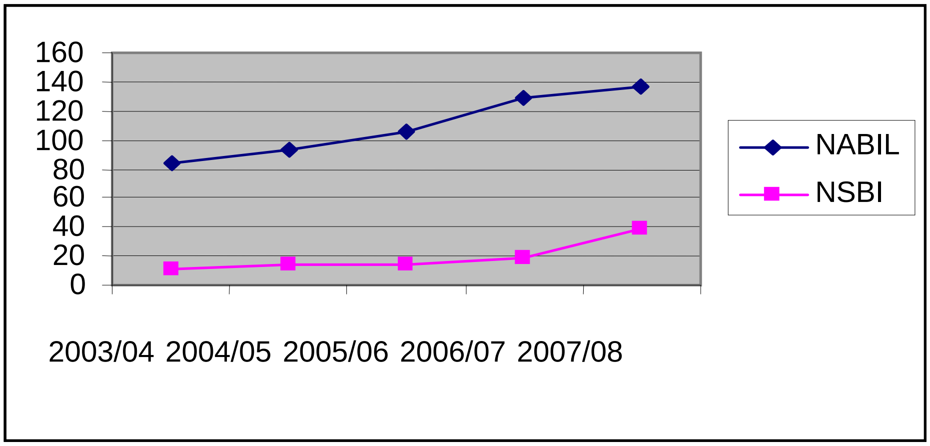
Comparative Earnings per Share of banks under study

Year	**NABIL**	**NSBI**
2003/04	84.66	11.47
2004/05	92.61	14.26
2005/06	105.79	13.29
2006/07	129.21	18.27
2007/08	137.08	39.35
Mean	**109.87**	**19.33**
S.D. (σ)	**22.72**	**11.47**
C.V.	**20.68**	**59.32**

Source: www.nepalstock.com (Annual report of Nabil Bank & Nepal SBI Bank)

The earnings per share of the banks under study are presented in graphical form as below:

Figure No 4.1



The average EPS of Nabil Bank Ltd. is Rs 109.87 during the period of study. It stayed within the range of Rs 137.08 to Rs. 84.66. The S.D. of EPS is 22.72, and its C.V. is 20.68%, which is moderate during the period of study.

Nepal SBI Bank Ltd. (NSBI) has an average EPS of Rs. 19.33 during the period of study, with S.D. of 11.47. The EPS range between Rs. 39.35 to Rs. 11.47. The C.V. of 59.32% shows that there is a high level of fluctuation in the EPS during the period of study.

From the above analysis, it can be seen that the average EPS of NABIL is higher from NSBI Bank and that of NSBI has lower S.D. than Nabil under the study period. NSBI also has the higher C.V. than Nabil bank and its average EPS is also lower than Nabil Bank.

4.1.2 Analysis of DPS of sample banks.

The dividend per share of the sample banks under study are tabulated as under:

Table 4.2

Comparative Dividend per Share of banks under study

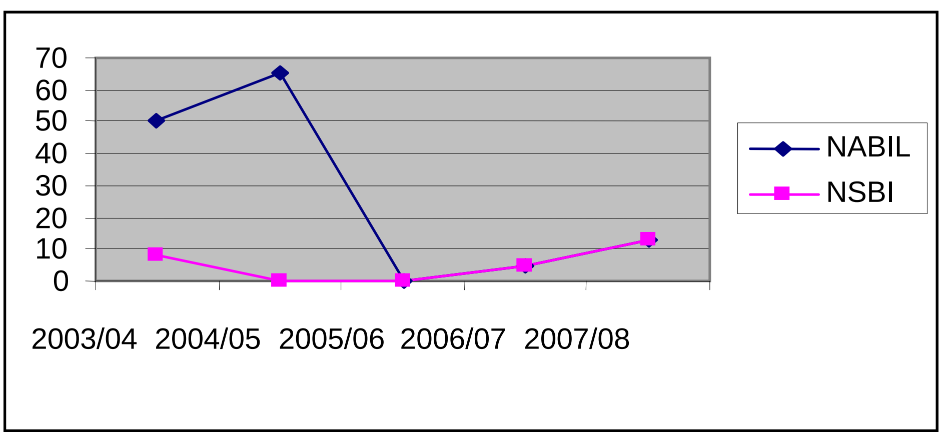
Year	**NABIL**	**NSBI**
2003/04	50.00	8.00
2004/05	65.00	0.00
2005/06	0.00	0.00
2006/07	5.00	5.00
2007/08	12.59	12.59
Mean	**26.52**	**5.12**
S.D. (σ)	**29.12**	**5.40**
C.V.	**109.82**	**105.46**

Source: www.nepalstock.com

The dividends per share of banks under study are presented in graphical form as below:

Figure 4.2

Comparative Dividend per share of banks under study



The average DPS of Nabil Bank Ltd. is Rs. 26.52. It is within the range of Rs. 65 and Rs. 12.59. The S.D. of DPS is 29.12 whereas the C.V. is 109.82. This indicates that there is a high degree of fluctuation in dividend payment during the period of study.

Nepal SBI Bank Ltd. (NSBI) had an average DPS of Rs. 5.12. The S.D. is 5.40 with C.V. of 105.46%, which means there is high degree of fluctuation in their dividend payment.

From the above analysis, we can say that Nabil has the higher average DPS than NSBI banks during the period of study. The C.V. indicates that among the sample banks during the study period, Nabil has the higher consistency in paying dividend, whereas DPS of NSBI bank is highly fluctuating. Nevertheless, Nabil bank comes first in terms of amount of dividend paid.

4.1.3 Analysis of Dividend Payout Ratio (DPR)

The dividend payout ratio of the sample banks are presented below:

Table 4.3

Comparative Dividend Payout Ratio of banks under study

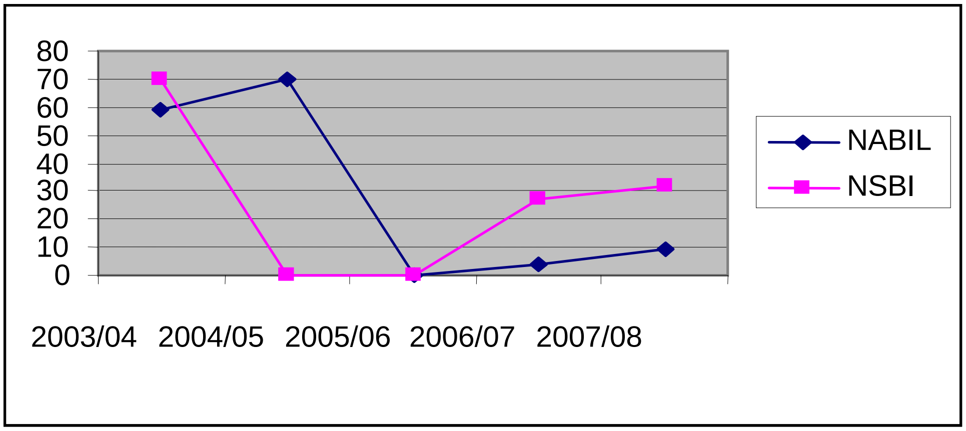
Year	**NABIL**	**NSBI**
2003/04	59.06	69.75
2004/05	70.19	0.00
2005/06	0.00	0.00
2006/07	3.87	27.37
2007/08	9.18	31.99
Mean	**28.46**	**25.82**
S.D. (σ)	**33.41**	**28.74**
C.V.	**117.38**	**111.29**

Source: www.nepalstock.com

The DPR of the banks under study are presented in the figure as follows:

Figure 4.3

Comparative Dividend Payout Ratio of banks under study



The average DPR of Nabil Bank Ltd. is 28.46%, which means, it generally pays out 28.46% of its total earnings as dividend to its stockholders. The S.D. is 33.41 and C.V. is 117.38%, which shows the high fluctuation in the DPR during the period of study.

NSBI has average DPR of 25.82%, which means, it pays out 25.82% of its total earning as dividend to its stockholders. The S.D. is 28.74 and C.V. is 111.29%. The C.V. indicates that the DPR of NSBI is highly fluctuating during the period of study.

If analysis is done taking the mean DPR of the sample banks, the average dividend payout ratio of the sample banks comes out to be 27.14% with a standard deviation of 31.07 and C.V. of 114.33%. It indicates that, in average, out of the total earnings made 27.14% is distributed as dividend to the stockholders with a fluctuation of 114.33%, which is quite high than moderate level.

4.1.4 Analysis of Market Price of Share (Stock Price)

MPS is the price of stock on which stocks are treated in the secondary market. The closing stock price of the banks under study is presented in table as follows:

Table 4.4

Comparative MPS of banks under study

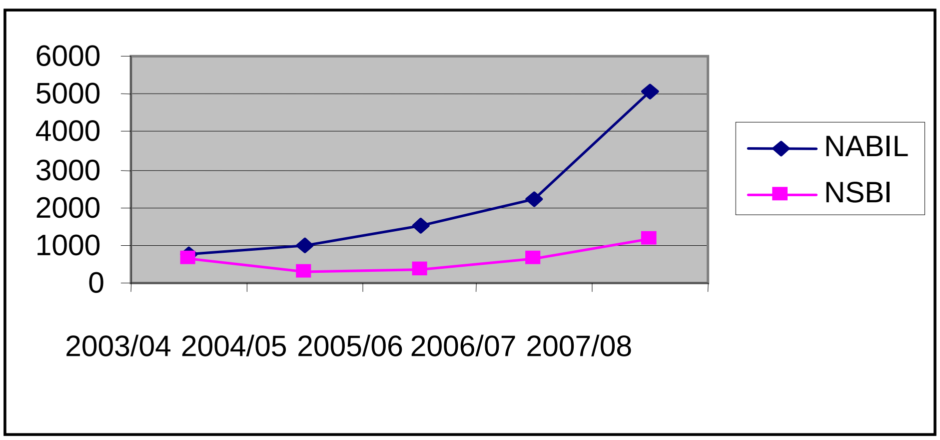
Year	NABIL	NSBI
2003/04	740.00	656.00
2004/05	1000.00	307.00
2005/06	1505.00	335.00
2006/07	2240.00	612.00
2007/08	5050.00	1176.00
Mean	**2107.00**	**617.20**
S.D. (σ)	**1741.80**	**349.88**
C.V.	**82.67**	**56.69**

Source: www.nepalstock.com

The Closing Market Price per share of the banks under study is also presented in the graphical form as below:

Figure 4.4

Comparative MPS of banks under study



The average of closing MPS of Nabil Bank Ltd. is Rs. 2107 during the period of study. The highest and lowest closing MPS of Nabil Bank Ltd. during the period of study are Rs. 5050 and Rs. 740 respectively. The S.D. of closing MPS is 1741.80 with a C.V. of 82.67%. However, its MPS has also increased over the periods of study

During the period of study, NSBI has an average of closing MPS of Rs. 617.20 with a S.D. of 349.88. The C.V. shows that there is a fluctuation of 56.69% in closing MPS of NSBI during the period of study, which is quite high. The highest and lowest prices are Rs. 1176 and Rs. 307 respectively.

From the above data and calculations, it can be seen the average closing MPS of Nabil Bank is the higher than NSBI Bank. Also the C.V. of Nabil is higher than NSBI Bank under study.

4.1.5 Analysis of Price-Earning Ratio (P/E) of the sample banks

The price-earning ratios of the banks under study are presented in the table as follows:

Table 4.5

Comparative P/E of banks under study

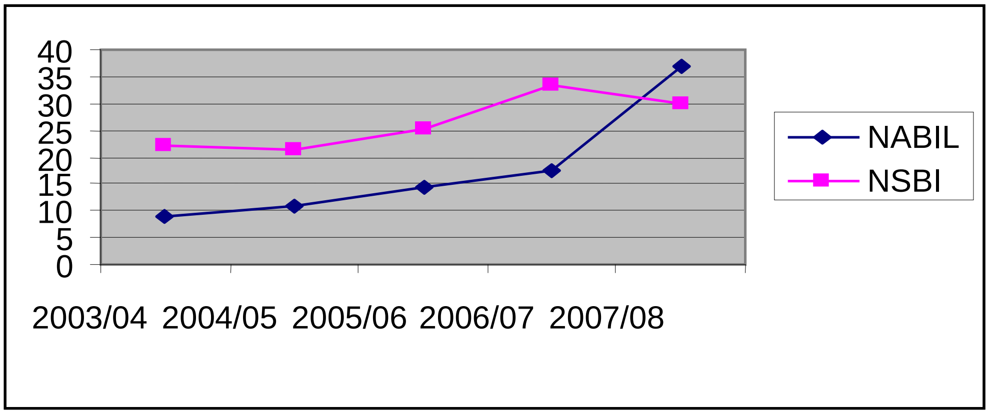
Year	**NABIL**	**NSBI**
2003/04	8.74	22.24
2004/05	10.80	21.54
2005/06	14.23	25.21
2006/07	17.34	33.49
2007/08	36.84	29.89
Mean	**17.59**	**26.47**
S.D. (σ)	**11.25**	**5.12**
C.V.	**63.96**	**19.33**

Source: www.nepalstock.com

The Price-Earning Ratios of the banks under study are also presented in graphical form as follows:

Figure 4.5

Comparative P/E of banks under study



Nabil Bank Ltd. has an average P/E ratio of 17.59. The S.D. is 11.25 and coefficient of variation is 63.96%. It indicates that P/E ratio of Nabil Bank Ltd. is somewhat high.

Nepal SBI Bank Ltd. (NSBI) has an average P/E ratio of 26.47, ranging from 33.49 to 21.54. The S.D. of P/E ratio is 5.12 and C.V. is 19.33%, which is moderate.

From the above calculations, NSBI has the higher average P/E ratio and Nabil has the lower. The C.V. indicates that among the banks in the study period, NSBI has higher consistency in P/E ratio whereas the P/E ratio of Nabil is highly fluctuating. P/E ratio of Nabil Bank Ltd. in F.Y. 2007/08 is highest among the sample banks.

4.1.6 Analysis of Dividend Yield (D.Y) of the sample banks

The dividend yields of the banks under study are presented in the table as below:

Table 4.6

Comparative Dividend Yield of banks under study

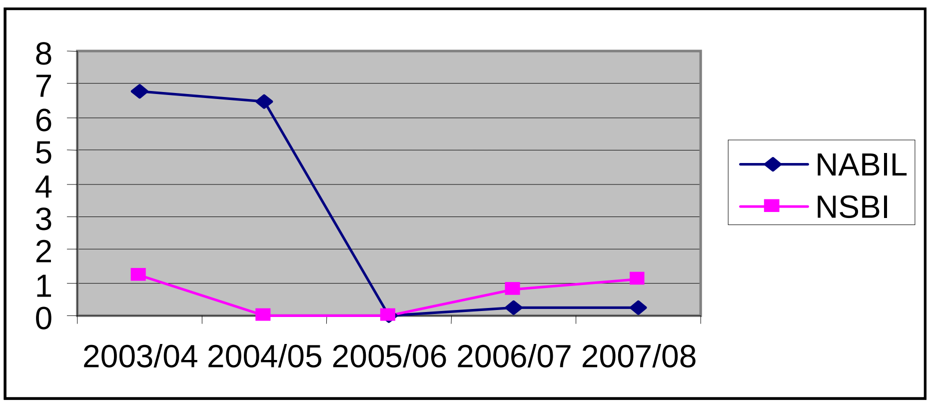
Year	NABIL	NSBI
2003/04	6.76	1.22
2004/05	6.50	0.00
2005/06	0.00	0.00
2006/07	0.22	0.82
2007/08	0.25	1.07
Mean	**2.75**	**0.62**
S.D. (σ)	**3.55**	**0.59**
C.V.	**129.17**	**94.18**

Source: www.nepalstock.com

The dividend yields of the banks under study are presented in the graph as below:

Figure 4.6

Comparative Dividend Yield of banks under study



The average D.Y. of Nabil Bank Ltd. During this period of study is 2.75%. It stayed within the range of 6.76% to 0%. The S.D. of D.Y. is 3.55 whereas the coefficient of variation is 129.17%, which is very high.

During the period of study, Nepal SBI Bank Ltd. (NSBI) has an average D.Y. of 0.62%, with a S.D. of 0.59. The D.Y. ranges from 1.22 to 0. The C.V. of 94.18% shows there is high level of fluctuation in dividend yield.

From the above data and calculations, it can be seen that the average D.Y. of Nabil is the higher and than of NSBI. The D.Y. range of the banks under study during the period is between 6.76% and 0%. The C.V. of these banks shows a high level of fluctuation in dividend yield. If compared, Nabil has consistent D.Y. than NSBI Bank.

4.1.7. Analysis of NWPS of the sample banks

The Net worth per share of the banks under study is stated in the table as follows:

Table 4.7

Comparative Analysis of Net worth per Share of banks under study

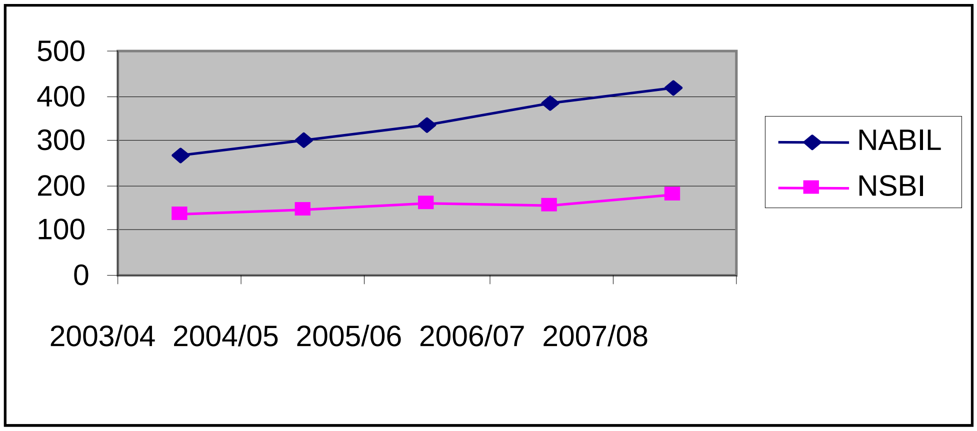
Year	**NABIL**	**NSBI**
2003/04	267.30	134.03
2004/05	301.00	146.80
2005/06	337.16	159.54
2006/07	381.36	153.44
2007/08	418.39	179.58
Mean	**341.04**	**154.68**
S.D. (σ)	**60.55**	**16.84**
C.V.	**17.55**	**10.88**

Source: www.nepalstock.com

The net worth per share of the banks under study is presented in the graphical form as below:

Figure 4.7

Comparative Analysis of NWPS of banks under study



Nabil has an average NWPS of Rs. 341.04, with S. D. of 60.55. The C.V. is 17.75%, which means there is moderate level of fluctuation in NWPS of Nabil Bank Ltd. during the period of study.

The average net worth per share of NSBI is Rs. 154.68, with S.D. of 16.84 and C.V. of 10.88%. The C.V. indicates that there is less fluctuation in net worth of NSBI during the period of study.

The above analysis shows that Nabil has higher net worth per share, than of NSBI. The NWPS of the banks under study during the period ranges from Rs. 418.39 to Rs. 134.03. Similarly, the S.D. of Nabil is higher than the NSBI. The C.V. of these banks shows that there is moderate level of fluctuation in net worth per share, among them Nabil has the most consistent level of NWPS.

4.2 Statistical Analysis

4.2.1 Correlation Analysis

The correlation analysis is generally used to describe the degree to which one variable is related to another. It helps to determine whether a positive or a negative relationship exists. The positive correlation indicates that increase in value of one variable leads to increase in value of other variable, and the negative correlation indicates that increase in value of one variable leads to decrease in value of the other variable. The correlation coefficient lies between +1 and -1. The +1 coefficient indicates that the variables are perfectly positively correlated and -1 coefficient indicates that the variables are perfectly negatively correlated. And if the correlation coefficient is 0, it means that the variables are not related to each other. The number indicates the degree of correlation between the variables.

The table given below shows the correlation coefficient (r) between the financial variables of banks under study.

4.2.1.1 Correlation between financial variables of Nabil Bank Ltd.

Table 4.8

Correlation coefficient of Nabil Bank Ltd.

	EPS	DPS	DPR	P/E	D.Y.	NWPS
MPS	0.876	- 0.506	- 0.562	0.998	- 0.634	0.902
EPS	-	- 0.734	- 0.783	-	-	-
DPS	-	-	0.996	-	-	- 0.725

From the above table it can be seen that the MPS of Nabil has positive correlation with its EPS, P/E ratio, and NWPS. But it has negative correlation with its DPS, DPR and D.Y. This is because of irregularity in paying dividend. The EPS of Nabil is negatively correlated with DPS and DPR, because with they are decreasing with the increase in EPS. Also, the DPS is positively correlated with DPR, but negatively correlated with NWPS.

4.2.1.2 Correlation between financial variables of NSBI

Table 4.9

Correlation coefficient of NSBI

	EPS	DPS	DPR	P/E	D.Y.	NWPS
MPS	0.883	0.969	0.508	0.502	0.782	0.602
EPS	-	0.743	0.048	-	-	-
DPS	-	-	0.704	-	-	0.391

The above table indicates that MPS of NSBI is positively correlated with its EPS, DPS, DPR, P/E ratio, D.Y. and NWPS. Similarly, the EPS is positively correlated with its DPS and DPR. It is because of the reason that the DPS and DPR are decreased with the decrease in the EPS. Also the DPS of NSBI has positive correlation with the DPR and NWPS.

From the above analysis, the MPS of Nabil is negatively correlated with their dividend components i.e., DPS and DPR despite the fact that Nabil has been paying dividend regularly, but Nabil didn't pay dividend in F.Y. 2005/06. Their dividends also show high degree of fluctuation. It also shows that MPS is not only dependent upon dividend. For Nabil bank, the M.M. Model holds good to some point. However, the MPS of both the banks are positively correlated with their EPS, which means that with the increase in EPS, there is increase in stock price.

The MPS of NSBI is positively correlated with their DPS and DPR, which points to the fact that dividend policy is not irrelevant. Even though, NSBI EPS is not as high as and Nabil, nevertheless, the dividends of these banks have had positive effect on their stock price. Also, we can see from the above analysis that the MPS of sample banks is positively correlated with their P/E ratio. The MPS of Nabil is negatively correlated with their dividend yield, which is because of their high stock price and low dividend yield, and their stock prices has increased with decrease in D.Y, and vice versa, over the period of study.

Analyzing the relation between EPS-DPS and EPS-DPR, there is positive correlation for NSBI bank except Nabil. It indicates that with the increase in EPS, both DPS and DPR will increase and vice versa. But in the case of Nabil, the EPS is negatively correlated with DPR. It is due to the fact that DPR has not increased with the increase in EPS.

Regarding the correlation of DPS with DPR and NWPS, only NSBI is positively correlated with their DPR and NWPS. The DPS of Nabil is positively correlated with their DPR, but negatively correlated with NWPS.

4.2.2 Regression Analysis

The regression analysis is used to determine the statistical relationship between two or more variables and to make prediction of one variable on the basis of the others.

4.2.2.1 Regression analysis between MPS on EPS

Table 4.10

Regression Analysis of MPS on EPS

Bank	Variables	b	Std. error of b	T Value	Sig. T	R^2
NABIL	Constant (a)	-5273.11	-	-2.21	0.11	0.77
	EPS	67.17	21.34	3.15	0.05	
NSBI	Constant (a)	96.56	-	0.53	0.63	0.78
	EPS	26.94	8.28	3.25	0.05	

The above table of regression analysis shows that both two banks under study have positive relation between MPS and EPS. The regression relation between MPS and EPS of Nabil indicates that with an increase of Rs. 1 in EPS, the MPS will increase by Rs. 67.17. Similarly, there will be increase in MPS of NSBI Rs 26.94 respectively with an increase in EPS by Rs. 1, with other variables remaining constant.

The standard error of estimate of NABIL and NSBI are 21.34, and 8.28, respectively. These values indicate the probable error in the predicted value for the respective banks. Here, S.E.E is lower in NSBI, which shows that estimation of EPS can be predicted nearer to accuracy.

The coefficient of multiple determination (R^2) is lower for Nabil (0.77), which indicates that only 77% in MPS is explained by EPS i.e 77% variation in MPS of the bank is explained due to change in the value of EPS of the bank. The value of R^2 of NSBI is 0.78

respectively, which indicates that 78% variation in the MPS of these banks is explained by the change in EPS of the respective banks.

4.2.2.2 Regression analysis between MPS on DPS

Table 4.11

Regression analysis of MPS and DPS

Bank	Variables	b	Std. error of b	T Value	Sig. T	R^2
NABIL	Constant (a)	2908.895	-	2.627	.079	.256
	DPS	-30.240	29.792	-1.015	.385	
NSBI	Constant (a)	295.742	-	4.545	.020	.939
	DPS	62.809	9.249	6.791	.007	

The above table of regression analysis of MPS on DPS shows that among these two banks under study, NSBI has positive regression relation between MPS and DPS, whereas NABIL has negative relation between MPS and DPS. With Rs. 1 increase in DPS of NSBI MPS will increase by Rs. 62.81.

The standard error of estimate of NABIL and NSBI are 29.79 and 9.25 respectively. These values indicate the probable error in the predicted value for the respective banks. Here, S.E.E is lower in NSBI, which means that estimation of DPS can be predicted nearer to accuracy. The coefficient of multiple determinations is lower for NSBI (0.18), which indicates that only 18% variance in the MPS, is explained by DPS, i.e. 18% variation in MPS of the bank is explained due to the change in value of DPS of the bank.

4.2.2.3 Regression analysis between MPS on DPR

Table 4.12

Regression Analysis of MPS on DPR

Bank	Variables	b	Std. error of b	T Value	Sig. T	R^2
NABIL	Constant (a)	2941.550	-	2.864	.064	.316
	DPR	-29.324	24.890	-1.178	.324	
NSBI	Constant (a)	457.437	-	2.074	.130	.258
	DPR	6.187	6.054	1.022	.382	

The regression analysis between MPS and DPR shows positive relation for NSBI, i.e. with an 1% increase in DPR, the MPS will increase by Rs. 6.19, assuming that other variables remain constant. The regression analysis between MPS and DPR of NABIL is negative, which means that the price of their stock increased considerably despite their low DPR.

The standard error of estimate of NABIL and NSBI are 24.89 and 6.05 respectively. These values indicate the probable error in the predicted value for the respective banks. Here, S.E.E is lower in NSBI, which shows that the estimation of DPR can be predicted to nearer to accuracy.

The coefficient of multiple determinations (R^2) is lower for NSBI (0.26), which indicates that only 26% in MPS is explained by DPR i.e. 26% variation in MPS of the bank is explained due to change in the value of DPR of the bank. The DPR is higher in case of NABIL (0.32), which means 32% change in value of MPS is due to change in the DPR.

4.2.2.4 Regression analysis between MPS on D.Y.

Table 4.13

Regression Analysis of MPS on D.Y.

Bank	Variables	b	Std. error of b	T Value	Sig. T	R^2
NABIL	Constant (a)	2961.591	-	3.220	.049	.402
	D.Y.	-311.213	219.196	-1.420	.251	
NSBI	Constant (a)	326.454	-	1.868	.159	.612
	D.Y.	467.438	214.925	2.175	.118	

The above table of regression analysis shows that NSBI has positive regression relation between MPS and D.Y. but NABIL. has higher in case of NSBI between MPS & D.Y. the bank MPS will increase by Rs. 467.44 respectively with a 1 % increase in D.Y, assuming other variables are constant.

The standard error of estimate of NABIL and NSBI are 219.20 and 214.93 respectively. These values indicate the probable error in the predicted value for the respective banks. Here, S.E.E. is lower in NSBI which shows the estimation of D.Y. can be predicted nearer to accuracy.

The coefficient of multiple determinations (R^2) is lower for Nabil (0.402), which indicates that only 40% in MPS is explained by D.Y. i.e. 40% variation in MPS of the bank is explained due to change in the value of D.Y. of the bank. The value of R^2 of NABIL and NSBI are 0.40 and 0.61 respectively, which indicate that 40% and 61% variation in the MPS of this bank are explained due to change in D.Y. of the respective banks.

4.2.2.5 Regression analysis between DPS on EPS

Table 4.14

Regression Analysis of DPS on EPS

Bank	Variables	b	Std. error of b	T Value	Sig. T	R^2
NABIL	Constant (a)	129.928		2.314	.104	.539
	EPS	-.941	.502	-1.873	.158	
NSBI	Constant (a)	-1.642		-.412	.708	.552
	EPS	.350	.182	1.922	.150	

The regression analysis between DPS and EPS shows a positive relation for NSBI bank but it should higher relation for NABIL. The regression relation between DPS and EPS indicates that with an increase of Rs. 1 in EPS, there will be increase in DPS of NSBI by Rs. 0.35 assuming that other variables remain the same.

The standard error of estimate of Nabil and NSBI are 0.50 and 0.18 respectively. These values indicate the probable error in the predicted value for the respective banks. Here S.E.E. is lower for NSBI, which shows that the estimation of EPS can be predicted to nearer to accuracy.

The coefficient of multiple determination (R^2) is lower for NABIL (0.539) which indicates that only 53.9% in DPS is explained by EPS i.e. 53.9% variation in DPS of the bank is explained due to change in the value of EPS of the bank. The value of R^2 for NSBI 0.55, which indicates that 55% variation in DPS of this banks are explained due to change in the EPS of the respective banks.

4.2.2.6 Regression analysis between DPS on NWPS

Table 4.15

Regression Analysis of DPS on NWPS

Bank	Variables	b	Std. error of b	T Value	Sig. T	R^2
NABIL	Constant (a)	145.460	-	2.203	.115	.526
	NWPS	-.349	.191	-1.824	.166	
NSBI	Constant (a)	-14.276	-	-.539	.627	.153
	NWPS	.125	.170	.736	.515	

The above table of regression analysis shows that, among the banks under study, NSBI has positive regression relation between DPS and NWPS, and Nabil bank has negative regression relation between DPS and NWPS. In case of NSBI, with an increase of Rs. 1 in NWPS the DPS will increase by Rs. 0.13, assuming other variables remain constant. In contrast, with an increase of Rs. 1 in NWPS of NABIL the DPS will decline by Rs. 0.35 assuming other variables remain constant.

The standard error of estimate of NABIL and NSBI are 0.19 and 0.17 respectively. These values indicate the probable error in the predicted value for the respective banks. Here, S.E.E. is lower in NSBI than NABIL which shows the estimation of NWPS can be predicted nearer to accuracy.

The coefficient of multiple determinations (R^2) is higher for NABIL (0.526), which indicates that 526% variation in DPS is explained by NWPS of the bank. The value of R^2 of NSBI is 0.15, which indicate that 15% variation in the DPS of these banks is explained due to the change in NWPS of the respective banks.

4.2.2.7 Regression analysis of MPS on P/E Ratio and DPS

Table 4.16

Regression Analysis of MPS on P/E Ratio and DPS

Bank	Variables	B	Std. error of b	T Value	Sig. T	R^2
NABIL	Constant (a)	-549.986	-	-3.087	.091	.997
	P/E Ratio	152.952	6.894	22.188	.002	
	DPS	-1.261	2.663	-.474	.682	
NSBI	Constant (a)	67.617	-	.238	.834	.954
	P/E Ratio	9.299	11.257	.826	.496	
	DPS	59.281	10.673	5.554	.031	

The Multiple Regression Analysis shows that with an increase of 1% in P/E ratio, the MPS of NABIL and NSBI will increase by Rs. 152.95 and Rs. 9.30 respectively, keeping DPS constant, and with an increase of Rs. 1 in DPS, the MPS of NSBI will increase by 59.28 keeping P/E ratio constant. Whereas, in case of NABIL with an increase of Rs. 1 in DPS, the MPS will decline by Rs. 1.26.

The value of coefficient of multiple determination (R^2) of NABIL and NSBI are 0.99 and 0.95 respectively, which indicate that 99% and 95% variation in the MPS of these banks are explained due to change in P/E ratio and DPS of the respective banks.

4.2.2.8 Regression analysis of MPS on EPS and DPR

Table 4.17

Regression Analysis of MPS on EPS and DPR

Bank	Variables	b	Std. error of b	T Value	Sig. T	R^2
NABIL	Constant (a)	-7840.451	-	-1.623	.246	.807
	EPS	86.245	38.280	2.253	.153	
	DPR	16.575	26.032	.637	.589	
NSBI	Constant (a)	-36.894	-	-1.230	.344	.997
	EPS	26.249	1.262	20.806	.002	
	DPR	5.683	.503	11.290	.008	

The above table of multiple regression analysis shows that among the banks under study, both NABIL and NSBI have positive relation between MPS on EPS and DPR. With an increase of Rs. 1 in EPS of NABIL and NSBI MPS will increase by Rs. 86.25 and Rs. 26.25 respectively, keeping DPR constant. Similarly, with an increase of 1% in DPR of NABIL and NSBI the MPS will increase by Rs. 16.56 and Rs. 5.68.

The value of coefficient of multiple determination (R^2) of NABIL and NSBI are 0.81 and 0.99 respectively, which means that 81% and 99% variation in the MPS of these banks are explained due to change in EPS and DPR of the respective banks.

Forms of Dividend Policy

This residual theory suggests the company to distribute its earnings to shareholders in the form of cash dividend, only when the firm has retained earning left over after financing all possible acceptable investment opportunities. In other words, the stock holders get dividend only when there exist balance of earning after paying fixed obligation and financing all acceptable investment opportunities. There will be no dividend distributed to stockholders when if there doesn't exist balance of earning after paying fixed obligation and financing all acceptable investment. When the company treats dividend policy as strictly a financing decision, the payment of cash dividends is a passive residual. The amount of dividend payment will fluctuate in the amount of acceptable investment available to the company.

The theory assumes that the internally generated funds (retained earnings) are comparatively cheaper than the funds obtained form external sources due to flotation costs. But the company always may not be able to do so because of the variation in the attitude of the shareholders.

Therefore, dividend policy is influenced by (1) the availability of internally generated capital, and (2) availability of the company's investment opportunities.

Thought the most popular form of dividend is cash dividend, firms need to follow various types of dividend in view of the firm's objectives and polices, which they implement. In Nepalese context, the types of dividend that corporations follows is partly a matter of attitude of financial directors and partly a matter a various circumstances and other financial constraints that bound corporate plans and policies.

Based on the financial suitability of corporations, dividend may be distributed in various forms like cash dividend, stock dividend, bond dividend, property dividend and scrip dividend. In our country, only cash dividend and stock dividend are declared and paid.In general, the forms of dividends are popular in Nepal is cash dividend and stock dividends, although there are different forms of dividend. In this study of these two banks both banks also had adopted both cash and stock dividend.

Factors Affecting Dividend Policy

The factors, influencing the dividend policy of the company are one of the main focuses of the study. Most of the public enterprises owned by government are operating in loss, therefore, there is not question of paying dividend arise rather minimize loss. Due to the generation of the sufficient profit by Joint Venture Company dividend policies play vital role.

To the question how much the company should pay dividend is affected by the factors recognized as an active variable in determination of dividend that all variables known as factors affecting dividend policy as discussed below.

12. Legal Consideration

Legal rules always play the important role for the limitation of the amount of dividends. Legal restrictions can be dividend into two categories: First, statutory restrictions may prevent a company from paying dividends, while specific limitations insure by state. Generally, a corporation may not pay a dividend (a) if the firm's liabilities exceed its assets (b) if the amount of the dividend exceeds the accumulated profit (c) if the dividend is being paid from capital investment in the firm. The second type of restriction is unique to each firm and results restriction by bond issue, preferred stock issue and loan arrangement which is clearly specified in indenture.

13. Liquidity Position

The liquidity position of the company influences its ability to pay dividend payment of dividend is possible only if the firm has sufficient earning. But, if firm invests in fixed assets from its sufficient retained earnings, cash amount is available to make dividend payment. Indeed, a growing firm, even a very profitable one typically had a pressing need for funds. So, the company must have to manage adequate liquidity position as well as retained earnings.

14. Regularity of Earning

The firm's earning is major determinations of sound dividend policy. Depending upon the characteristics of earnings, corporation has to follow a dividend policy that tends to overcome the effect of business cycles. Company where earnings are relatively incentives to business cycles can usually afford high payout ratio.

15. Ownership Control

Maintaining the controlling vote is very important for many small firms and certain large ones. These owners would prefer the use of debt and retained profits to finance new investment opportunities rather than issue new stock. Dividend payment, certainly, reduces the cash balance of the company and if the company need funds to invest in new proposals should issue common stocks. If the existing owner could not buy new shares or do not want the ownership is diluted and the control mechanism is affected.

16. Opportunities for Investment

If the firm has future profitable investment opportunities the firm likely to reinvest the earnings rather than pay dividends. " The more rapid the rate at the need for financing assets expansion, the greater the future need for funds, the more likely the firm is to retain earnings rather than pay them out."

17. Earning Predictability

Larger portion of dividend from earnings will be possible to pay out when if the firm has stable level of earnings. A larger amount of the profits may be retained to ensure that enough money is available for investment projects when needed if earnings fluctuate significantly.

18. Access to Capital Market

Availability of the needed fund from the capital market should have to be considered before declaring the dividend to the shareholders. The age and size of the company affects the access to capital market of the firm. Therefore, a well-established firm is likely to pay higher dividend than smaller and newer firm.

19. Tax Position of Stockholder

Paying dividend is not only the action of the company but it is also should consider the preferential need of the stockholder. The shareholder with high-income tax brackets prefers to receive, low dividend and high rate of retention. Corporation owned by largely taxpayers in high income tax whereas corporation owned by small investors tends towards higher dividend payout.

20. Restriction in Debt Contract

If the firms more funds for its opportunity investment and has sufficient earnings for paying it as dividend to shareholders, it will ignore the dividend payment and retain all for its opportunity investment. Similarly, when the creditors restrict the need level of funds for investment to the company to give it should not pay out the dividend rather invests it by retaining the amount. Thus, debt contract between debtors and creditors also affects the dividend policy.

21. Inflation

The price of the assets rises up in the situation of inflation. Funds generated from depreciation may be inadequate to replace the equipment. Thus, the fund should be expensed more than reserve earlier or the amount from earning should spend for assets and earning reduced by the way dividend is affected.

22. Others

e) Absence or lack of other source of financing also makes the firm serious to retain the earnings for opportunity investment and cut the dividend to the shareholders.

f) An adequate cash flow should be maintained and the payment of cash dividend should not endanger the cash flow of the corporation.

g) A high rate of asset expansion creates a need to retain funds rather than to pay dividends.

h) Paying back the debt to the creditors also influences the availability of cash flow to pay the dividend.

So these are the major factors which affect dividend policy in Nepalese firms under the study of both two commercial banks. All these major factors affect dividend policy of the company. By visiting and taking with the managers and with the management teams of both commercial banks of NABIL and Nepal SBI bank Ltd the above conclusion is made for the factor affecting dividend policy. How much the company should pay dividend is affected by these above factors. Before declaring dividend of the company both these two banks must carefully analysis these important factors and then declare the dividend of the company. Dividend also shows the financial position of the company so before declaring dividend all these above factors should be study carefully.

4.3 Major Findings of the Study

The study covered only two commercial banks and only for the last five fiscal years from 2003/04 to 2007/08. The available secondary data had been analyzed using various financial and statistical tools. So, the reliability of the conclusions of this study is dependent upon the accuracy of secondary data.

The major findings of this study can be summarized as follows:

- The average earning per share of bank is satisfactory for NABIL. The coefficient of variation indicates that for NSBI bank EPS seem satisfactory. The C.V. ranges from 59.32% and 20.68%. Among these two banks under study, Nabil has higher average EPS and lower C.V. NSBI has lower average EPS with higher degree of fluctuation.
- The average DPS showed that there was no consistency in payment of dividend. The C.V. ranged from 26.52% to 105.46%. Among the banks under study, Nabil has the higher average DPS, and NSBI has the lower (5.12). Except for NABIL, NSBI has high degree of fluctuation in dividend payment.
- The analysis of DPR also showed high degree of fluctuation for Nabil. The fluctuation ranged from 117.38% to 111.29%. The study shows that, NSBI has the lower DPR.
- The analysis of MPS also showed that the average MPS of the MPS had quite high level of fluctuation. Nabil has the higher average MPS than NSBI. Among the two banks under study, NABIL has higher level of fluctuation in other side NSBI has lower level of fluctuation.
- The average dividend yields of the banks ranged from 2.75% to 0.62%. Among these two banks NABIL has the higher dividend yield with high level of fluctuation. NSBI has lower dividend yield with low level of fluctuation.
- The analysis of net worth per share showed that NABIL has the higher average NWPS and NSBI has the lower. The C.V. indicated that there was a moderate level of fluctuation in NWPS of the banks under study.

Upon using the major statistical tools i.e. correlation and regression, the findings were as follows:

- The MPS of NABIL has positive correlation with its EPS but negative correlation with its DPS, DPR and D.Y. This was due to high degree of fluctuation in MPS; even when DPS, DPR, and D.Y. were decreased, the MPS was high.
- The MPS of NSBI has positive correlation with EPS, DPS, DPR, and D.Y. This was due to the fact that MPS of NSBI has low level of fluctuation and there was no extreme value of MPS.

- The MPS of NABIL also has positive correlation with its EPS but negative correlation with its DPS, DPR and D.Y. This was also due to high level of fluctuation in MPS, and it could also be that the M.M. model holds good in the case of NABIL, which says that stock price depends upon earning and not dividend. The EPS of NABIL bank is higher than NSBI bank under study.
- The regression analysis of MPS on DPS indicated that the regression coefficient (b) is negative for NABIL, whereas it was positive for NSBI. The coefficient of multiple determination for the regression analysis of MPS on DPS of NSBI is higher than Nabil bank.
- The regression analysis of MPS on DPR showed that the regression coefficient (b) is negative for NABIL, but it is positive for NSBI bank under study. The coefficient of multiple determinations (R^2) of Nabil is higher than NSBI bank.
- The regression coefficient (b) of the regression analysis between MPS and D.Y. showed that among two banks Nabil has positive relation. The coefficient of multiple determinations (R^2) of SBI is higher than Nabil.
- The regression coefficient (b) for the analysis between DPS on EPS is positive for NSBI and higher for NABIL. The coefficient of multiple determinations (R^2) is high for NSBI than Nabil under study and NSBI than other banks under study.
- The regression coefficient (b) for the analysis between DPS and NWPS was positive for NSBI but it was negative for Nabil bank under study. The coefficient of multiple determination (R^2) of NSBI is higher than NABIL under study.
- The multiple regression analysis of MPS on P/E ratio and DPS showed that the regression coefficient (b) is positive for both P/E ratio and DPS in case of NSBI. For NABIL it was negative for DPS.

The multiple regression analysis of MPS on EPS and DPR showed that both NABIL and NSBI has positive regression coefficients (b) for both EPS and DPR.

CHAPTER - V
SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary

Dividends play important role in the valuation of stocks. Of course, earning is important for commercial banks, but stockholders also expect regular dividends. So earning and dividend are closely related. They should be viewed as complementary. Those commercial banks that have high earnings command high market price, but earnings alone will not increase stock price if it does not pay dividends. Therefore it is essential to pay regular dividends because it serves as a simple and comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. Dividend Policy constitutes one of the most critical issues of the public limited companies. Dividend Policy decision is one of the three major decisions of financial management. The dividend policy decision affects on the operation and prosperity of the organization because it has the power to influence other two decision of the organization i.e. capital structure decision and investment decision.

Theories of dividend policy do differ; some prefer residual theory that conveys passive residual earning available for payment whereas M.M. Hypothesis insists on dividend irrelevance in the sense that dividend does not affect the stock price. There are others who argue that dividend policy does affect value due to the factors of uncertainty. Many factors affect the dividend payment depending upon investors need and preference on one hand and the financing needs of the financial institutions and potential investment opportunities on the other hand. Dividend Policy involves many aspects such as selecting the types of dividend and other forms as well as selecting stable or fluctuating or extra dividend payment.

The stockholders have a high desire and expectation that market price of share will be higher than net worth and getting high percent of dividend from earnings. So distributing dividend to the shareholders is effective to achieve the trust of investors and encourage them to invest in shares. Besides this dividend paying ability reflects the financial position of the organization in the market. So the funds that could not be used due to the lack of investment opportunities would be better as dividend, since stockholders have investment opportunities elsewhere.

Dividend paying banks have been selected for the study, so the references can be made about implication of dividend policy they have adopted in their market price per share. Even if market price is governed by various other factors, this study is made to analyze one of the important factors i.e. dividend.

This study is mainly focused to access the dividend practices of two banks. Instability of dividend and haphazard payout ratios the most common practice of Nepalese Companies do not adequately maintain cash balance for dividend payment. So it covers some specific objectives to find out the relationship between other financial indicators and also to find out appropriate dividend polices for two banks. Shares will be significantly higher than net worth. The study of relationship between the dividend and stock prices have been accomplished by collecting and calculating the earning per share, dividend per share, dividend payout ratio, dividend yield, earning yield and price earning ratio. To make the researcher reliable, many more analysis are conducted to find out appropriate relationship between dividend and other variables, which affects the dividend. The consistency of dividend distribution of both banks is also analyzed by using statistical tools. The study is mainly based on the secondary data of two commercial banks which are listed in NEPSE. The last five years data from FY 2003/04 To 2008/09 are taken for study. They reliability of conclusion made in this study depends upon the accuracy of secondary data. Three major aspect of the study are discussed in this chapter. At the beginning all the finding has been made summarized and same conclusions have been drawn up to the basis of finding. An attempt is also made to present the gap and the factors to cause those gaps.

The recommendation is presented in the last part of this chapter considering the major finding and gaps fund. The recommendations presented will certainly be milestone to improve existing condition in this field.

5.2 Conclusions

From the analysis of financial and statistical indicators of the sample banks, following conclusions are drawn:

1. The market price per share i.e. stock price is affected by the dividend related financial variables such as DPS and DPR either positively or negatively. The changes in DPS affect the stock price differently in different banks. In case of both banks, there exists positive relation between dividend and stock price, while for others, there is negative relation. Besides this the stock price largely depends upon dividend. The stock price of NABIL is shown to be dependent on EPS rather than DPS. However, NABIL has been paying dividend regularly.
2. The stock price is also affected by other factors such as earning per share, price-earning ratio, net worth per share etc. Their effect is also different for different banks.
3. The dividend per share is affected by earning per share, retention ratio, net profit and net worth per share differently in both banks.
4. An analysis of the average DPR of the banks shows that out of the total income generated, about 27.14% is distributed as dividend in general. If the individual DPR of the banks are compared to this figure, NABIL and NSBI have the average DPR of 28.46% and 25.82 respectively.
5. The coefficient of variation of the average DPR of the banks indicates that the fluctuation in the payment of dividend is 64.34%, which is above moderate level. Thus it can be concluded that Dividend Policy of the banks are not stable. There is no strategy of calculating growth in the dividends paid by banks, which shows that the dividend policy of the commercial banks is not uniform and consistent. There is fluctuation in the dividend payment even if the banks are making profit regularly. The dividend payout ratio also does not show any stability and coordination with other variables.
6. There is large fluctuation in dividend in each year. There are not certain criteria for paying dividend. Dividends are distributed at an ad hoc basis. From this, the researcher of this study concludes that there is no long-term vision regarding the dividend policy.

7. Stock price or market price of the listed commercial banks under study is higher than net worth per share. There exists vast difference between MPS and NWPS. This situation clearly indicates that the investors are not comparing book value and market value of shares. They are investing in stocks to gain advantage from capital appreciation rather than dividends.

5.3 Recommendations

Based on the major finding of this study, some recommendations have been made so as to overcome some shortfalls regarding the issue of dividend of the banking sector. These recommendations may also have some repercussions, but there is no doubt of the measures to improve the existing conditions.

1. The legal rule for treatment of dividend is for the smooth growth of the banks as well as growth of national economy, but there is lack of proper legal provisions regarding the dividend payment. The government as well as the central bank of Nepal, Nepal Rastra Bank should pay their attention in this matter for prescribing certain provisions and rules regarding the percentage of earning as payment of dividend.
2. The commercial banks are paying dividend without adopting any appropriate policy. It seems impossible to increase shareholders wealth. The commercial banks management is advised to adopt the long-run dividend policy also. It is a stable dividend policy, constant payout ratio or low regular plus extra dividend policy, which helps to boost up the wealth of shareholder.

3. Dividend payment of commercial banks is neither stable nor constantly growing. Due to the uncertainty and high degree of risk, the market price per share may be adversely affected. So the commercial banks should follow either stable or constantly growing dividend payment policy.
4. Nepalese investors are investing their funds on commercial banks haphazardly, randomly and without consulting capital market analyst. So, they are suggested to analyze the capital market situation before pouring their fund.

5. EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks healthy positions in market.

6. While making dividend decision, a minor mistake may lead the bank to serious crisis. Due to this reason, it is advised to adopt optimum dividend decision based on the following criteria:
    - Optimum retention for excellent expansion and modernization of bank.
    - Stable or consistency in dividend payment.
    - Optimum dividend so that market value per share will increase rapidly i.e.

net present value or shareholders wealth maximization.

Finally, after making this study, it is realized that dividend payment practices of the commercial banks are not regular in Nepal. Banks are organizations established to run for a long period in the small economy of Nepal. There are already over a two dozen banks and neck to neck competition. So, even a small wrong decision can lead to bankruptcy. So there is a necessity of legal provisions and rules for prescribing certain policy regarding the dividend payment in the banking sector. For this purpose the concerned authority i.e. Nepal Government, Nepal Rastra Bank, Security Board and Nepal Stock Exchange should be conscious about formulation and implementation of rule regarding dividend payment. This will help to regularize the dividend policy of financial sector in Nepal.

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Website:
http://www.nabilbank.com
http://www.nsbl.com.np
http://www.nrb.org.np
http://www sebonp.com.np

APPENDIX – I

List of Licensed Commercial Banks

S.N.	Commercial Banks	Operation date (A.D.)	Head office
1	Nepal Bank Ltd.	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Nabil Bank Ltd.	1984/07/16	Kathmandu
4	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
5	Standard Chartered Bank Ltd.	1987/01/30	Kathmandu
6	Himalayan Bank Ltd.	1993/01/18	Kathmandu
7	Nepal SBI Bank Ltd.	1993/06/05	Kathmandu
8	Nepal Bangladesh Bank Ltd.	1994/10/18	Kathmandu
9	Everest Bank Ltd.	1994/03/12	Kathmandu
10	Bank of Kathamndu Ltd.	1995/03/12	Kathmandu
11	Nepal Credit & Commerce Bank	1996/10/14	Siddharthanagar
12	Lumbini Bank Ltd.	1998/07/17	Narayangadh
13	Nepal Industrial and Commercial Bank	1998/07/21	Biratnagar
14	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara
15	Kumari Bank Ltd.	2000/04/03	Kathmandu
16	Laxmi Bank Ltd.	2000/04/03	Birgung
17	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
18	Global Bank Ltd.	2007/01/02	Birjung
19	Citizen International Bank Ltd.	2007/06/21	Kathmandu
20	Agriculture Development Bank	2006/03/16	Kathmandu
21	Prime Bank Limited	2007/09/28	Kathmandu
22	Bank Of Asia	2007/10/12	Kathmandu
23	NMB Bank	1996/12/26	Kathmandu
24	DCBL Bank	2001/01/23	Kathmandu
25	Sunrise Bank	2007/10/12	Kathmandu
26	Kist Bank	2003/02/21	Kathmandu

Source: *NRB, Banking and financial statistics MID-July, 2007*.

APPENDIX – II

CORRELATION ANALYSIS

Nabil Bank Ltd. (NABIL)

	EPS	DPS	DPR	MPS	P/E Ratio	D.Y.	NWPS
EPS	1.000	-0.734	-0.783	0.854	-0.842	0.991	0.876
DPS	-0.734	1.000	0.996	-0.490	0.969	-0.725	-0.506
DPR	-0.783	0.996	1.000	-0.548	0.987	-0.779	-0.562
MPS	0.854	-0.490	-0.548	1.000	-0.621	0.887	0.998
P/E Ratio	-0.842	0.969	0.987	-0.621	1.000	-0.850	-0.634
D.Y.	0.991	-0.725	-0.779	0.887	-0.850	1.000	0.902
NWPS	0.876	-0.506	-0.562	0.998	-0.634	0.902	1.000

Nepal SBI Bank Ltd. (NSBL)

	EPS	DPS	DPR	MPS	P/E Ratio	D.Y.	NWPS
EPS	1.000	0.743	0.048	0.541	0.408	0.871	0.883
DPS	0.743	1.000	0.704	0.400	0.903	0.391	0.969
DPR	0.048	0.704	1.000	0.010	0.913	-0.350	0.508
MPS	0.541	0.400	0.010	1.000	0.354	0.570	0.502
P/E Ratio	0.408	0.903	0.913	0.354	1.000	0.011	0.782
D.Y.	0.871	0.391	-0.350	0.570	0.011	1.000	0.602
NWPS	0.883	0.969	0.508	0.502	0.782	0.602	1.000

APPENDIX – III

REGRESSION ANALYSIS

Nabil Bank Ltd. (NABIL)

1. MPS on EPS

Model Summary

Mode l	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876(a)	.768	.690	969.60742

Predictors: (Constant), EPS

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5273.108	2384.345		-2.212	.114
	EPS	67.171	21.340	.876	3.148	.051

Dependent Variable: MPS

2. MPS on DPS

Model Summary

Mode l	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.506(a)	.256	.008	1735.24880

Predictors: (Constant), DPS

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2908.895	1107.414		2.627	.079
	DPS	-30.240	29.792	-.506	-1.015	.385

Dependent Variable: MPS

3. MPS on DPR

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.562(a)	.316	.088	1663.01971

Predictors: (Constant), DPR

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2941.550	1027.096		2.864	.064
	DPR	-29.324	24.890	-.562	-1.178	.324

Dependent Variable: MPS

Nepal SBI Bank Ltd. (NSBL)

1. MPS on EPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.883(a)	.779	.706	189.83911

Predictors: (Constant), EPS

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	96.598	181.131		.533	.631
	EPS	26.935	8.278	.883	3.254	.047

Dependent Variable: MPS

2. **MPS on DPS**

Model Summary

Mode l	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.969(a)	.939	.919	99.84420

Predictors: (Constant), DPS

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	295.742	65.073		4.545	.020
	DPS	62.809	9.249	.969	6.791	.007

Dependent Variable: MPS

3. **MPS on DPR**

Model Summary

Mode l	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.508(a)	.258	.011	347.94019

Predictors: (Constant), DPR

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	457.437	220.559		2.074	.130
	DPR	6.187	6.054	.508	1.022	.382

Dependent Variable: MPS

Curriculam-Vitae

Full Name	: Binaya Prakash Shrestha
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	Tel No-071-545394®, 545941(o)
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	E-mail: hanshy41@yahoo.com
Date of Birth	: 2038-07-01
Nationality	: Nepali
Religion	: Hindu
Marital Status	: Unmarried

Educational Qualification:

Year of Passing	Name of the Examination	Name of the University	Marks Obtained	Total Marks	Percentage
2053 B.S.	S.L.C	HMG	440	700	62.86
1999 A.D.	I.COM	TU	522	1000	52.20
2002 A.D.	BBS	TU	677	1400	48.36
	MBS	TU	577	900	64.10*

* Thesis Under Process

Computer Education and Experience:

- Computer Basic (MS Word, MS Excel, Internet, E-mail) & PageMaker.

Languages Known:

Name of the languages	Whether	
	Can Speak	Can Write
English	Yes	Yes
Nepali	Yes	Yes
Hindi	Yes	Yes

Training:

- General Banking Course Organized by KFA, KTM.
- Basic Accounting Course Organized by Lumbini Banijya Campus, Butwal

Work Experience:

- Present Working in Sagarmatha Insurance Co. Ltd., Butwal as a Branch Incharge.

Other Activities

- Founder Member of Lions Club of Butwal Lumbini, presently Public Relation Officer in the club.
- Founder member of Hariyali Multi-Purpose Co-operative Society Ltd., Butwal, Presently Member in Account Committee
- Member of Butwal Youth Sports Club, Butwal “Related with Cricket Games”