

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Dividend policies are the regulations and guidelines that companies develop and implement as the means of arranging to make dividend payments to shareholders. Establishing a specific dividend policy is to the advantage of both the company and the shareholder. In order to make sure the policy is workable, a company should develop a viable policy through a number of test scenarios in order to determine what impact the dividend policy have on the of the business. In fact, corporate dividend decision is not an easy, straight forward and simple task as many people conceive it. Dividend is the earning or profit distributed to shareholders by a company. It may be in cash, shares and securities or a combination of these. Generally there are two types of shares; preference shares and equity shares. Dividend paid on preference share is called preference dividend which is generally fixed and payable before payment of equity dividend. There is no choice to management for the preference dividend. But there is full choice about the rate of equity dividend. The policy of a company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. The dividend should be paid; secondly it has to determine how much it should be. All aspects and questions related to payment of dividend are contained in a dividend policy.

Bank has always been the most important and the largest of financial intermediaries, almost everywhere. Nepal is enlisted in the list of the least developed countries of the world. Majority people here are engaged in their day to day

survival various factors like landlocked situation, poor resource mobilization, lack of education as well as entrepreneurship, irrational government policy political instability are responsible for the regarding pace of development in Nepal. Nepal is a country trying to develop its economy through global trend and of course with country suited economic liberalization. Development in the financial terms is the efficient flow and generation of the funds in the most productive sectors. Although the actual owners of the company are shareholders, they are paid low dividend in some companies the dividend is not announced. But recently the payment of dividend is increasing. It affects the financial structure, the flow of funds, corporate liquidity and investors' attitude. By a dividend policy we mean some kind of coexistent approach to the distribution versus retention decision rather than making the decision on the purely and hoc basis from period to period (*William & Gordon, 1972*). So what and how much it is desirable to pay dividend is always controversial topic because shareholders always expect higher dividend, but management wants more amounts to retain to the company for investment purpose. Dividend policy decision is the major financial decision of the firm, which determines the further capital structure and the growth of the firm because retained earning is the internal source of financing which is the key factor to determine the amount if external financing. Retained earning is used for making investment in favorable investment opportunities which helps to increase the growth of the firm. Hence there should be an optimal dividend policy that can attract potential investors and finance for its growth and expansion.

As a result of the liberalization policy of Government of Nepal, foreign investors and internal investors were attracted to invest in Nepal in joint venture especially in banking business. Establishment of commercial banks contributes

significantly in the formation and mobilization internal capital and development efforts. They furnish necessary capital needed for trade and commerce of mobilization the dispersed saving of the individuals and institutions. They perform the function in different ways like accepting deposits, providing interest, granting loan etc that helps to remove the deficiency of capital. The main objective of joint venture bank is to earn profit by proper mobilization of resources. The decision regarding how much profit to distribute to the shareholders as a dividend and how much to keep in the organization is the crucial decision of the managers.

Higher the value of dividend higher will be the market value of the share. Market price of the stock (MPS) is the trading price of the stock listed in authorized or legal stock exchange. In context of Nepal, MPS is the price that is coated for purchasing or selling under Nepal Stock Exchange Act or related laws and regulations, on the stock exchange floor. MPS is the value of stock, which can be obtained by a firm from the market. Market value of a share is one of the variables, which is affected by the dividend per share and earning per share of the firm. If the earning per share and dividend per share is high, the market value per share will also be high. Market value of the share may be high or low than the book values. If the firm is growing concern and it's earning power is greater than cost of capital, the market value of the share will be higher than the book value. If the firm's earning capacity is lower than cost of capital MPS will also be lower. MPS is determined by capital market.

The theory of the impact of dividends on future stock prices goes back to the dividend irrelevance theorem of Miller and Modigliani¹ (1961), which implies that dividends have no overall effect on the dividend distribution.

Market price of the stock usually fluctuates by the adequate information. No one can earn more in the inefficiency and inefficiency is legally prohibited in order to regulate the security market in every nation. But being focused in this study, dividend policy and its impact on market price of stock, there should be discussed different models and practices which have significant effects in MPS or not. So MPS and security valuation are integral parts in it. Without valuation no one can coat the price there is no chance of trading.

1.2 Statement of the Problem

Corporate dividend policy is not clearly understood by a large segment of the financial community. Dividend is the most inspiring factor for the investment on the shares of the company and similar to the commercial banks. Dividend policy is not straight forward and simple aspect of the corporate finance. It is more technical area of finance in the sense that is a complex one having numerous implications for the firm. But Nepalese commercial banks have not satisfactory result about dividend decision. Different government rules and regulations are the main factors that act and react in the banking operations. But there is no limit to the identification of the problem about dividend policy that is visible in Nepalese commercial bank. While keeping this in mind selected problem of the commercial banks with regard to dividend policy are taken.

1. Franco Modigliani and Matron H. Miller. *Dividend policy, Growth and Valuation of shares*, journal of Business, 1961, Vol. VI, pp, 411.

In Nepal, only a small number of companies are paying regular dividend and other companies are not stable in the payment of dividend. Retained earning doesn't match with the dividend policy. It has been found that especially, the joint venture banks have been distributing regular dividend. But however, not a single, clear and convincing dividend policy that being followed is known yet. The expectation of shareholders has yet to be met by paying regular dividend. Dividend decision is crucial as well as controversial area of financial management. Besides it is not clearly understood by a larger segment of the financial community. No matter how many studies have been conducted in this regard the effect of dividend policy on a corporation's market value has remained a subject of long standing controversy. The main focus of the study is to deal with the following problems;

- 1) What are the major factors affecting dividend policy of a firm?
- 2) Is DPS proportionate to the firm's EPS?
- 3) What is the impact of dividend policy on market price of stock?
- 4) Is there any consistency in EPS, DPS, MPS and DPR of the sample firms?
- 5) What is the stock price behavior after the announcement of dividend?

1.3 Objectives of the Study

The major objective of the study is to obtain the depth knowledge about the impact of dividend policy adopted by the firms to its market price of share as well as the overall valuation of the firm. The following are the specific objectives of this study.

- a. To find out the impact of dividend policy on market price of stock
- b. To explain the prevailing policies and practices regarding dividend in the Nepalese firms with reference to the sample firm.
- c. To examine various aspects of dividend policies and practices in Nepal carried out by the banking sector.
- d. To analyze if there is any uniformity in DPS, EPS, MPS and DPR of the sample firms.
- e. To figure out the appropriate dividend policy for a firm.

1.4 Significance of the Study

Nepalese financial institutes have already experienced the practice of dividend distribution. As such it is felt significant to study the policy regarding dividend concerned with financial Institutes. Dividend policy decision is one of the most important decisions in every organization. This study is expected to fill the research gap and add to the inputs to financial literature relating to dividend. The findings may be valuable to following groups.

- (I) **To the management:** - dividend policy is the controversial topic of financial management. It may affect value of the firm. Moreover, most common objective of the firm is to maximize shareholders wealth. So management may adopt appropriate dividend policy.
- (II) **To shareholders:** - shareholders are more concerned with the amount of dividend paid by the firm. So they have more curiosity on the dividend policy, adopted by their concerned banks. With this study they can make their mind more comparable in terms of dividend pattern and value of the firm.

- (III) **To the Investors:** - Generally, most of the investors prefer to invest in profitable firm and expect high return. Corporate sector is expanding but there is information gap between the management of Nepalese companies and Nepalese investors who are eager to invest in shares they are just investing in the shares in trial and error methods. So, the dividend behavior should be effective to attract new investors keeping the previous investors satisfied and should maintain the reputation of the firm.
- (IV) **To the researcher:** - It can be used by researcher as guideline to fulfill the partial requirement of Master of Business Studies. It may help others who want to study in similar topic.

Besides these, it will also be beneficial for the policy makers from the comparative study of dividend policy. They can get important findings, which are useful in policy making about dividend policy formation. Dividend policy of banks helps the customers, financial agencies, stock brokers, interested person and scholars to find out appropriate dividend policy. It is believed that other banks will also be benefited with this study.

Finally, the dividend policies of the banks are of great interest to the several outsiders. They are customers, financial agencies, stock brokers, interested person. I believe that except above, those banks will be benefited more since the study is conduct on their dividend policy.

1.5 Limitations of the Study

A research is a vast study investigating the subject matter for solving perceived research problems. Each and every study has its own limitations. No study can be free from constraints, such as economic resources, time etc. And this

study too is not an exception. Therefore, the following are the main limitations of the study.

- a) This study is based on especially on secondary data like annual reports of the Banks under review, journals unpublished as well as published thesis works other published articles and reports and related materials from various Websites.
- b) The study covers a five-year period i.e. 2007/08 to 2011/12.
- c) The study covers only six commercial banks.
- d) The study only concentrate on dividend policy, it doesn't cover several others aspects of the commercial banks.
- e) Lack of research experience, lack of recent information, time and sources constraints are other limitations.

1.6 Organization of the Study

The study has been organized into five chapters; each chapter deals some important factors of dividend behavior. The titles of each of these chapters are listed below:

Chapter - I: Introduction

This chapter deals with the general idea about the study consisting background of the study, Statement of problem, Objective, significance and Limitation of the study and organization of the study.

Chapter – II: Review of Literature

This chapter deals with review of the different literature of the study field, therefore it includes conceptual framework along with the review of major books, journals, research works and thesis etc.

Chapter - III: Research Methodology

It includes Research design, population and sample sources of data, Data collection procedure, and research methodology with the matter and source of data population and sample of model analysis, meaning and definition of statistical tools.

Chapter - IV: Data Presentation and Analysis

Analytical framework starts from this chapter. It contains presentation and analysis of the data using financial and statistical tools. Similarly this chapter also includes the major finding of the study.

Chapter - V: Summary conclusion and Recommendation

This chapter deals with suggestive framework, which is evocated to summary conclusion and recommendations.

CHAPTER - II

REVIEW OF LITERATURE

This chapter deals with the reviewing of the different sources of dividend policy literature such as books, journals research works and unpublished thesis. Similarly this chapter includes two main heading like conceptual framework and review of related studies that will absolutely help to this research.

2.1 Conceptual Framework

2.1.1 Commercial Banks

An institution which aspects deposits, makes business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to business.

2.1.2 Meaning of Dividend

Companies that earn a profit can decide either of three ways: pay the profit out to shareholders, reinvest it in the business through expansion debt reduction or share repurchase or both. When a portion of the profit is paid out to the shareholders the payment is known as dividend. Dividend is paid in cash or stock. There is an ongoing debate about whether a company should payout its earnings as dividend or returns them for firm growth. “ the dividend policy affects the value of stock even in a situation in which the return on investment is equal to the capitalization rate and under the condition of uncertainty, the investors have a preference for present dividend to future capital gains”²

“ A **dividend** is a payment made by a corporation to its shareholders, usually as a distribution of profits”³

The dividend decision is regarded as a financing decision any cash dividend paid reduces the amount of cash available for investment by the firm. Dividend is periodic cash payments by the company to its shareholders. The dividend payable to the preference shareholders is usually filed by the terms of the issue of preference shares. But the dividend on equity share is payable at the discretion of the board of director of company. For payment of dividends a company must earn distributable profit from which the actual payment of dividend will be made. “A company in general meeting may declare dividends, but no dividend shall exceed the amount of recommended by the board. The shareholders have no right to declare more dividend than what has been recommended by the board of director” (*Gautam and Thapa; 2008:336*).

“Dividend refers to that portion of firm’s net earning, which are paid to the shareholders” (*Bhattra; 2002:12*).

2. myron j. Gordon. *The investment, financing and valuation of corporations*, 1962, Vol. III, pp. 102

³ Sullivan, Arthur; Steven M. Sheffrin (2003). *Economics: Principles in action*. Upper Saddle River, New Jersey , Pearson Prentice Hall. p. 273

"The important aspect of dividend policy is to determine the amount of earning to be retained in the firm. Retained earnings are the most significant internal sources of financing. On the other hand, dividend may be considered desirable from shareholder point of view as they tend to increase their current wealth." (*Pandey; 1997: 672*).

In theory of finance, dividend decision plays a very crucial role. Dividend decision however is still a crucial as well as controversial area of managerial finance. It is more technical area of finance in the it is complex on having numerous implications for the firm.

In the other words dividend is a periodical payment made to shareholders to compensate them for the use of and risk to their investment. Higher the dividend means higher the immediate cash flows to investors, which is good but lower future growth for firms, which is bad. Thus how much of dividend is to be paid corporate dividend is at the directors of the board of directors. Before dividend is paid to common stockholders must be satisfied. Shareholders wealth includes not only market price of shares quoted in stock market but also current dividends. Thus dividend are more than just a means of distributing unused funds and dividend is the part of earning which distributed to the shareholders.

When a corporation earns a profit or surplus, it can either re-invest it in the business (called retained earnings), or it can distribute it to shareholders. A corporation may retain a portion of its earnings and pay the remainder as a dividend. Distribution to shareholders can be in cash (usually a deposit into a bank account) or, if the corporation has a dividend reinvestment plan, the amount can be paid by the issue of further shares or share repurchase.

Dividend refers to a part of net earning which is given to its shareholders either in cash or bonus share in return of their investment in share capital. Dividend refers to that portion of a firms net earning, which are paid out to the shareholders. Dividend is generally paid in the form of cash. The payment of dividend reduces the cash balance of the company as well as the amount of retained earnings. There a reciprocal relationship between retained earnings and cash dividend. Dividend decision is one of the three major decisions of managerial finance. The policy of a company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. It may affect the financial structure of the firm flow of funds, corporate liquidity, stock prices, investor's satisfaction, growth of the firms etc. which helps in the maximization of the shareholders wealth.

"The objectives of a dividend policy should be to maximize the shareholders' return so that value of his investment is maximized" (*Pandey; 1995:28*). Return consists of two components: dividend and capital gains. Dividend policy has a direct influence on these components of return. The impact of dividend policy on future capital gain is however complex. Capital gains occur in distant future, and therefore, are uncertain. Normally, it is said that the low payout policy accelerates earnings growth; investors of growth companies will realize their return mostly in the form of capital gains. But, it is not certain that low payout policy will lead to higher prices in reality. It is quite difficult to clearly identify the effect of payout on share price. Share price is a reflection of so many factors that the long-run effect of payout is quite difficult to isolate.

"Since dividend would be more attractive to shareholders one might think that there would be a tendency for corporation to increase distribution of dividend. But one might equally pressure that gross dividend would be reduced

some what with an increase in net after tax dividend still available to stock holders and increase in retained earning for the corporation" (*Thorpe; 1997:237*). What and how much percentage of earning is to pay dividend is always a matter of dispute. Retention of earning is desirable for the growth of firm and dividend are desirable from the shareholders point of view, as it tends to increase their current wealth. These two objectives of dividend policy are always in conflict.

Thus, dividend decision is one of the central and major decision area related to the policies seeking to maximize the value of firms common stock as well as the wealth of the shareholders.

2.1.3 Forms of Dividend

Generally dividends are paid in cash but when the company is unable to pay cash dividend. They use different forms of dividend payment for satisfying stockholders. Such forms of dividend are stock dividend, script dividend, property dividend, Bond dividend and stock repurchase.

“Though the most popular form of dividend is cash dividend, the firms need to follow various types of dividend in view of the firms’ objectives and policies, which they implement. In Nepalese context, the types of dividend that corporations follow is partly a matter of attitude of financial directors and partly a matter of various circumstances and other financial constraints that bound corporate plans and policies” (*Shrestha; 1980:12*). “Considering the changing needs of institution, dividend is being distributed in several forms i.e. cash dividend, stock dividend, script dividend, property dividend, bond dividend etc. But, in Nepal, only cash and stock dividend are in practice. The usual practice is to pay dividend in cash” (*Pandey; 1988:27*).

A. Cash Dividend

The portion of earnings paid as cash to the investors in proportion to their shares of the company is known as cash dividend. Public companies usually pay regular cash dividend. Sometimes firm will pay a regular cash dividend and extra cash dividend. Thus cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed. The firm has to maintain adequate balance of cash for the payment of cash dividend otherwise funds to be borrowed for this purpose may be difficult.

"When the company follows stable dividend policy, they uses to prepare cash budget to indicate the necessary funds which would be needed to meet regular dividend payment of the company" (*Pandey; 1995: 309*).

"The cash account and the reserve account of the company will be reduced when cash dividend is paid. Thus, both total assets and net worth of the company are reduced when cash dividend is distributed. Market price of share drops in most cases by the amount of cash dividend distributed." (*Hastings; 1966:370*).

B. Stock Dividend

Stock dividend is the payment of dividend in the form of additional share of stock instead of cash dividend. "The payment of stock dividend increases the number of outstanding share and reduces the reserve and surplus of the company. A stock dividend represents a distribution of share in lie of cash dividends. When stock holder receive

stock dividend, the number of share increase but as it is paid to existing shareholders on their proportion of their shareholding, it doesn't affect the ownership of the company. Stock dividend increases number of share as a result, EPS, DPS and Market price of share of the company decreases'.

c. Stock Splits

It is a recapitalization of the owner's equity position with the stock split the number of share is increased through a proportional reduction in the par value of stock" (*Van Horne; 1988:154*). It is also a kind of stock dividend where company breaks shares through splitting the par value of the share. "Stock split take place in two ways, they are straight split and reverse split. Stock dividend does not affect to the proportional claim of the existing shareholders or total value and total shareholders' equity amount but market price of each share of stock should decline in proportion to the number of new shares issued" (*Bhattarai; 2006:22*). Stock splits are similar to stock dividend. As a result of stock split the common stock, paid in capital and retained earning accounts remained unchanged. Shareholders' equity remains unchanged; the change is seen only in the par value of stock. In recent years some of the commercial banks and companies have adopted the policy of paying cash along with stock dividend.

D. Reverse stock Split

A method that is used to raise the market price of a firms stock by exchanging certain number of outstanding shares for one new shares of stock. The effect of a reverse split is a decrease in the number of shares outstanding and an increase in the par, or stated, value of shares. The total net worth of the firm remains uncharged. The reverse split

does not involve any cash payment, only additional certificates representing new shares. Reverse split is used to stop the market price per share below a certain level.

E. Scrip Dividend

The company may declare dividend in the form of scripts when earnings justify dividend 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 conversion of others current assets into cash in the course of operation, the company only justifies the scrip dividend.

F. Bond Dividend

It is that kind of dividend at which bond of the same company is distributed to the shareholders. Generally, this type of dividend is declared to avoid the cash outflows. The shareholders easily accept the bond dividend because they get regular interest in fixed time period. If dividend is paid in the form of bond, promising that it will mature in the future date. Similar to the scrip dividend the intention and purpose of bond dividend is to postpone the dividend payment for some time but it has more obligations. Bond dividend carries relatively larger maturity period than that of scrip dividend.

G. Repurchase of Stock

When a company wants to pay cash to its stockholders it usually declares a cash dividend. But an alternative method is for the firm to repurchase its own stock. In a stock repurchase, the company pays cash to repurchase shares from its shareholders. These shares are usually kept in the company's treasury and then resold if or when the company needs money. Stock repurchase is a method, in which a firm buys back shares of its own stock, thereby decreasing shares outstanding, increasing EPS, and often, increasing the price of the stock. Stock repurchases are an alternative to cash dividends for transmitting cash to stockholders. Share price for repurchase or the equilibrium price is calculated from the following equation;

$$\text{Repurchase price (p}^*) = \frac{S \times P_c}{S - n}$$

Where,

S = Total number of shares outstanding

P_c = current market price per share

n = number of shares to be repurchased.

H. Interim Dividend

Generally dividend is declared in the last of financial year. This is called a regular dividend. Many times directors can declare the dividend before the end of the financial year. This is called interim dividend (*Gautam and Thapa; 2008:344*).

2.1.4 Theories of Dividend

There are two fundamental of theories of dividend;

(I) Residual Theory of Dividend.

(II) Stability of Dividend.

I. Residual Theory of Dividend

Residual theory of dividend suggests that only residual earning should be distributed as dividend, which is left after accepting all profitable investment opportunities, which depend upon the investment policy of the firm. If the firm has investment opportunity with higher return than required, the firm will invest the earning to that project, and if there is only earning left after accepting all the investment opportunities then it will be distributed to stock holders as cash dividend.

When the firm has opportunity of investment in profitable sector at first they prefer the internally generated fund (Residual earnings) rather than externally generated fund which is comparatively expensive due to the floatation cost and other. So, the amount of dividends fluctuates time to time in keeping with availability of acceptable investment opportunity of the firm. "Although the residual theory of dividend appears to make further analysis of dividend policy unnecessary. It is not clear that dividends are solely a means of distributing excess funds (*Rao; 1992:458*).

“Residual theory of dividend suggest that the first priority should be given to the profitable investment opportunities, if there are any profitable opportunities the firm invites in those and the only the residual (remaining) amount of

earnings (if any) would be distributed to the shareholders. Under this theory the firm first determines the optimum level of investment opportunity schedule (IOS) and weighted average cost of capital (WAAC). Using the optimum capital structure proportion, the firm estimates the investment opportunities. Since the cost of internal equity (retained earning is less than the cost of new common stock to meet the equity financing requirement. If retained earning are not sufficient to meet the requirement, new common stock are to be sold. Any retained earnings left this would be distributed as dividend” (*Bhattarai; 2002:19-20*).

II. Stability of Dividend

Stability of dividend refers to the regularity in paying dividend even though the amount of dividend may fluctuate from period to period. 'Stability or regularity dividend is considered as desired policy by the management of most companies. Most of the shareholder also prefers stable dividends because all other things being the same, stable dividends have a positive impact on the market price of the share (Pandey; 1995: 302).

By stability we mean maintaining its position in relation to a trend lives preferably one that is up ward sloping.

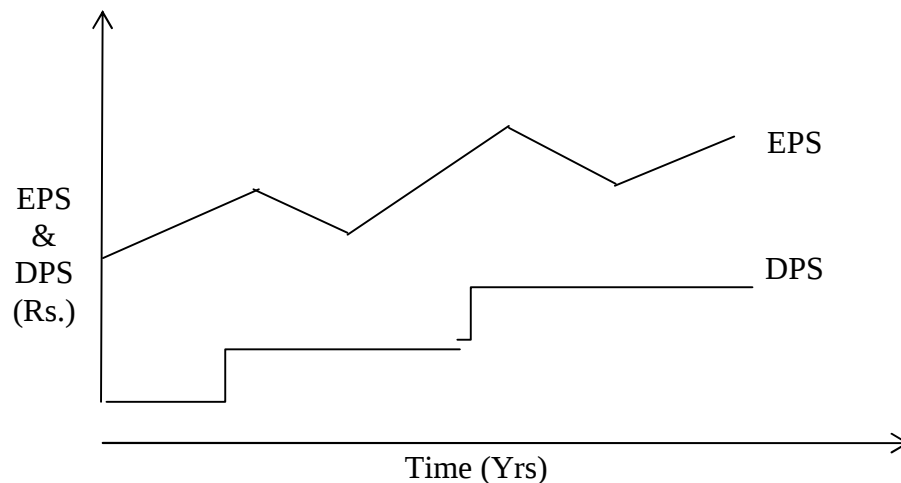
There are three major types of dividend polices developed (established) under dividend Stability. Which are as follows :

a) Constant Dividend per Share

The company which follows this policy pays a fixed amount per share as dividend every year, irrespective of the fluctuations in the earning. It is easy to follow this policy when earnings are stable but if it fluctuates, the company faces difficulties to maintain such polices.

This policy does not imply that the dividend per share will never be increased. When the company reaches new level of earnings and expects to maintain it the annual dividend per share may be increased.

Figure 2.1
Constant Dividend per Share Policy



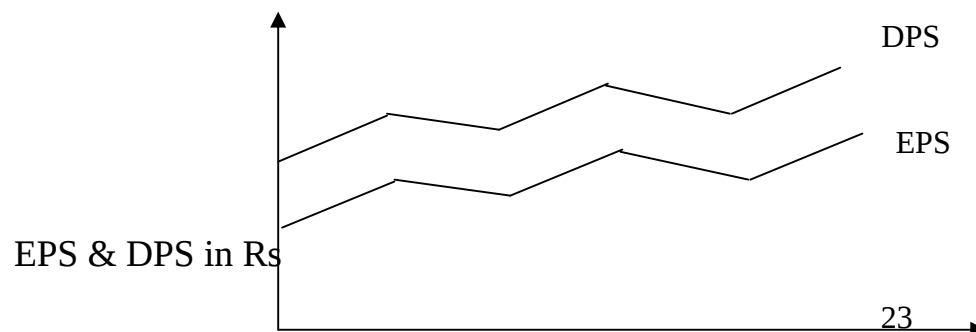
"The dividend policy of paying a constant amount of dividend per year treats common share holders without giving any consideration to investment opportunities within the firm and opportunities available to shareholders". (*Brandit; 1972:7*).

"This policy is generally preferred by those persons and institutions that depend upon dividend income to meet their living and operating expenses because of the constant amount of dividend they receive".

(b) Constant payout ratio

Constant payout ratio refers to the paying a fixed percentage of net earnings every year as dividend. Under this policy, the amount of dividend fluctuates with direct proportion of earning. If the company incurs losses no dividend shall be paid regardless of the desire of shareholders. Internal financing with Retained earnings is automatic when this policy is followed. At any payout ratio the amount of dividend and the additions to retained earnings increase with increasing earnings and vice versa.

Figure: 2.2
Constant Payout Ratio



Year

(Source: Gautam and Thapa; 2008:337)

(c) Constant dividend per share plus extra dividend (low Regular Dividend per share plus Extra)

The policy of paying a low regular dividend plus extras is a compromise between a stale dividend (or stable growth rate) and constant payout rate. Such a policy gives the firm flexibility, yet investors can count on receiving at least a minimum dividend. It is often followed by firms with relatively volatile earnings forms year to year. The low regular dividend can usually be maintained even when excess funds are available (*Gautam and Thapa; 2008:339*).

“This type of policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility for supplementing the income of shareholders only when the company’s earnings are higher than the usual, without committing itself to make larger payments as a part the future dividends”.⁴

2.1.5 Meaning and Significance of Dividend Policy

Dividend policy is the policy of any firm regarding the division of its profit between shareholders as dividend and retention for the profit making investment. “Dividend policy determines the division of earning between payments to stockholders and reinvestment in the firm. Retained earning corporate growth, but dividends constitute the cash flows that accrue to stockholders” (*Western & Copeland; 1990:657*). Management may decide retaining earning as opposed

⁴ I.M. Pandey. *Financial management*, New Delhi: Vikash publishing House Pvt. Ltd., 1995, p. 302.

to paid out as dividends. The process of paying at “what’s left” to shareholders is called dividend policy. Dividend policy involves the decision the decision to pay out earning versus retaining them for investment in the firm. Any change in dividend policy has both favorable and unfavorable effects on the firm’s stock price. Higher the dividends mean higher the immediate cash flows to investors, which are good but lower future growth, which is bad. The dividend policy should be optimal which balances the opposing forces and maximizes stock price.

The decision to keep some portion of earning of pay some portion of earning as dividend is dividend policy. Dividend policy involves the decision to payout earning versus, retaining them, for reinvestment in the firm. The policy of company on the decision about the allocation of its profit between distributions of its profit between distributions to shareholders as dividend policy. “The dividend policy includes all aspects related to the payment of dividend. There is inverse relationship between cash dividend and amount retained. In other words, if retained earning is kept more by the company less will be dividend and vice versa. The dividend policy adopted by the firm should be such that if strikes a proper balance the financing decision and investment decision. The dividend policy should be optimal which balances the opposing forces and maximizes stocks price. Dividend policy may have a critical influence on the value of the firm. If the value of the firm is a function of its dividend payment ratio, the dividend policy will affect directing the firm’s cost of capital” (*Gautam and Thapa; 2008:339*).

A company which wants to pay dividends and also needs funds to finance its investment opportunities will have to depend on external source of finance such as issuing debentures and equity shares. Dividend policy of the firm they

affects both long-term financing and the wealth of shareholders. Dividend policy which involves returning of earning is a long term financing decision related to management of capital structure of the firm. In view of this management should decide policy carefully. So that the net earning are dividend between dividend and retained earnings in an optimum way to achieve the objective of maximization the wealth of shareholders. Thus a firm's decision regarding the size of dividends it will pay to its shareholders is called dividend policy" (*Gautam and Thapa; 2008:340*).

2.1.6 Dividend Policy and Market Price of Share (MPS)

MPS is that value which can be obtained by a firm from the market. Market value is one of the variables which are affected by the dividend per shareholders earning per share of the firm. If the earning per share and the dividend value is high the market per share will also be high market value of share may be high or low than book value. "financial management is therefore concerned with the activities of corporation that affect the well-being of stockholders. That well-being can be partially measure is the market value of stock."⁵ If the firm is growing concern and its earning power is greater than the cost of capital the market value of share the share will be higher than the book value. If the firm's earning capacity is lower than cost of capital MPS will also be lower MPS is determined by capital market. Market price of stock usually fluctuated by the adequate information. No one can earn more in the inefficiency and in efficiency is legally prohibited in order to regulate the security in every nation. But being focused is this study, dividend policy and its impact on market price of stock there should be discussion on different models

⁵ H. William Dean. *Finance* , The Dryden press, Library of congress, 1973, Vol. V, pp.1.

and practices, which have significant effects in MPS or not. So MPS and security valuation are integral parts. "Without valuation no one can quote the price and without price there is no chance of trading. Market price of the stock (MPS) is the trading price of the stock listed in authorized of legal stock exchanges. Dividend policy and MPS has always correlation, if the company pays dividend and the MPS increases and vice versa. But in some cases out of this interrelation, the price may remain constant or decrease too. Therefore the information lack or flow is also vital in the analysis of MPS. In the context of Nepal, MPS is the price is quoted for purchasing or selling under Nepal stock exchange Act or related laws and regulation on the stock exchange floor" (*Adhikari; 2008:16*).

Greater the perfection aviating in the stock market the highest will be relevancy of dividend policy over the market price. The cash dividend of the normal firm will have significant effect on the market price since the company is viewed as a firm of the future prospect and growth. The following framework will clear the relationship between the variable:

Independent Variable	Dependent Variable
Cash dividend Stock dividend Earning per share Net worth	Market price of share

“Share variable is an economic process which generates rational securities prices. Although the price fluctuation may appear to be chaotic, they are random arrival the new information” (*Francis; 1990:207*).

2.1.7 Payment Procedure of Dividend

Company makes dividend decision with considering number factors. Now, how does the company distribute such dividend? Dividend includes a systematic process and every company follows it. The process includes different dates and such are declaration date, holder (Shareholder) of record date, ex-dividend date and payment date.

a) Declaration Date

Managers manage the company. However, the crucial decision is made by the representative of the shareholder and those are called board of directors. Board of directors controls the firm. Board of directors meet and with the help of the management, declares dividend what the company is going to distribute. Thus this is the date on which the board of directors declares the dividend. At this time they set the amount payment of the dividend of paid.

b) Holder of Record Date

It is a date until which a person who has bought shares before ex-dividend date, must register his/her name in the company. Holder of record date is a final date to transfer the title, meaning that the sellers' name should be replaced by the buyer's name in the company's register till this date.

c) Ex-dividend Date

This date is four days prior to the record date share purchased after the ex-dividend date are not entitled to the dividend.

d) Payment Date

It is the date on which company starts to pay dividend (*Gautam and Thapa; 2008:336*).

2.1.8 Factors Affecting Dividend policy

Dividend policy is concerned with deciding the part of profit to be distributed to the share holder. Many considerations may affect a firm's decision about its dividends, some of them are unique to that company and some of the more general consideration is given subsequently, they are as follows;

a) Size of the Earnings

A firm that has high level of earning will generally pays a larger portion of its earnings in dividends. If the size of earning is small a smaller amount of the profit may be distributed to shareholders. Thus, size of earnings affects the dividend policy of the firm.

b) Investment Opportunity

The available profitable investment opportunities of firm affect the dividend decision,. If the company has lot of such opportunities, it needs excess fund to finance. So, the company retains more profit paying fewer amounts as dividend.

c) Liquidity Position

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

d) Legal Rules

Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories, first, statutory restrictions may prevent a company from paying dividend. While specific limitations vary by state, generally a corporation may not pay a dividend (i) If the firm's liabilities exceed its assets, this provision is known as 'the insolvency Rule' (ii) if the amount of the dividend exceeds the accumulated profit (retained earnings). This legal provision is known as the Net Profit Rule" (iii) if the dividend is proposed from capital invested. In the firm this provision is also known as 'The capital impairment rule.' The second type of legal restrictions is unique to each firm and results from restriction debt and preferred stock contracts.

e) Desire of Shareholders

Shareholders may be interested either in dividend incomes or capital gains. Wealthy shareholder in a high income tax bracket may be interested in capital gains as against current dividends. A retired and old person, whose source of income is dividend, would like to get regular dividend.

In a closely held company, management usually knows the desires of shareholders. So they can easily adopt a dividend policy that satisfied all customers. But in widely held company, number of shareholders is very large and they have diverse desires, regarding dividends and capital gains some shareholders want cash dividends, while other prefer bonus share.

f) Growth Prospects

A rapidly growing firm usually has a substantial need of funds to finance the abundance of attractive investment opportunities. Instead of paying large dividends and then attempting to sell new shares to raise the equity investment capital it need. This type of firm usually retains larger portions of its earnings and avoids the expense and in convenience of public stock offerings.

g) Need to Repay Debt

The need to repay debt also influences the availability of cash flow to pay dividend. If the company has to repay the debt in the current year. It needs more fund and retains more profit paying fewer amounts as dividend.

h) Restriction in Debt Contracts

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

i) Rate of Assets Expansion

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

j) Stability of Earning

A firm that has a stable earnings trend will generally pay a larger portion of its earnings in dividends. If earnings fluctuate significantly, a larger amount of the profits available for investment projects when needed.

k) Control

For many small firms and certain large ones, maintaining the controlling vote is very important. These owners would prefer the use of debt and retained profit to finance new investments than issue new stock. As a result dividend payout will be reduced.

l) Access to the Capital Markets

A firm's access to capital markets will be influenced by the age and size of the firm, therefore a well-established firm is likely to have a higher payout ratio than a smaller, newer firm (*Bhattarai; 2008:337*).

2.1.9 Review of Major International Studies

There have been so many studies made by the different persons and institution for dividend policy and stock price. There are two opinions regarding to dividend payout and market price of stocks. One point of views is that dividends are irrelevant and the amount of dividend payout does not affect the market relevant and the amount of stocks. Always a critical and confused question has arisen, weather dividend policy affects the market value of the shares or not. To put light in these matter different studies made by different international scholars and researchers are going to be discussed below.

Linter's Study (1956)

During the period of 1956, Linter made an important study of the behavior aspect of dividend policy in the American contest. He investigates a partial adjustment model as he tested the dividend pattern of 28 companies. He concludes that a major portion of the dividend of a firm could be expressed in the following way.

$$\text{Div}_t^* = P_t^{\text{EPS}} \text{-----(i)}$$

$$\text{Div}_t - \text{Div}_{t-1} = a + b (\text{Div}_t^* - \text{Div}_{t-1}) + e_t \text{-----(ii)}$$

$$\text{or, } \text{Div}_t = a + b \text{Div}_t^* + (1-b) \text{Div}_{t-1}^* + e_t \text{----- (iii)}$$

Where,

Div_t^* = firm's desired payment.

Eps_t = earning (P) is targeted payout ratio, (a) is constant relating to dividend growth and (b) is the adjustment factor relating to the previous periods dividend and new desired level of dividend where $b < 1$.

The major findings of this study where as follows.

-) Firm generally think in term of proportion of earning to be paid out.
-) Investment requirements are not considered for modifying the pattern of dividend behavior.
-) Firms generally have target payout ratio in view while determining change in dividend per share.

Modigliani and Millers Study (1961)

Modigliani and Millers provides the most comprehensive argument for irrelevance of dividend in 1961. Dividend policy of firm is irrelevant as it does not affect the value of the firm or the value of equity according to M.M. They propounded the "Irrelevance Theory of Dividend" which theory argue that the value of firm depends on the earning power of the firm asset or investment policy. Thus when the investment decision of the firm is given, a firm's value is independent of dividend policy.

The M.M. approach of irrelevance dividend is based on the following critical assumptions.

-) Perfect capital market in which all investors are rational.
-) Taxes do not exist.

- ⌋ The firm has no flotation costs.
- ⌋ Risk of uncertainty does not exist.
- ⌋ Information are available at free of cost.
- ⌋ No transaction cost and infinitely divisible securities.

M.M. provides the proof in support to their argument in the following manner.

Step-One

The market price of share of the firm in the beginning of the 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,

$$P_0 = \frac{d_1}{1 + k_e} + P_1$$

Where,

- P_0 = Current market price of a beginning
- k_e = Cost of equity capital (assumed constant)
- d_1 = The DPS to be received at the end of the end of period 1.
- P_1 = The market price of the share at the end of the period 1.

Step-Two

Multiply both sides of equation one by the number of shares outstanding to obtain the total value of the firm if no new financing exists.

$$NP_0 \times \frac{n(d_1 + P_1)}{1 + k_e}$$

Where,

n = Numbers of outstanding shares at zero period.

NP_0 = Total value of equity

Step-Three

If the firm has internal source of financing, its investment opportunities fall short of funds required and ζ_n is the number of new share issued at the end of year 1 at price P_1 then,

$$NP_0 \times \frac{n d_1 + P_1 (n + \zeta_n) Z \Delta n P_1}{1 + k_e}$$

Where,

ζ_n = No. of new share issued at the end of the period.

Step-Four

If the firm were to finance all investment proposals, the total amount of new shares issued will be,

$$\zeta_n P_1 = I - (E - nd_1)$$

$$\text{Or, } \zeta_n P_1 = I - E + nd_1$$

Where,

I = Investment needs

E = Earning available

$\zeta_n P_1$ = Additional or new equity

nd_1 = Total dividend paid during the period

Step-Five

By substituting the value of $\zeta_n P_1$ from the equation of step 4 to equation 3, we get,

$$nPo \times \frac{nd_1 \Gamma P_1 (n \Gamma \Delta n) Z I \Gamma E \Gamma nd_1}{1 \Gamma ke}$$

$$\text{Or, } nPo \times \frac{nd_1 \Gamma nP_1 \Gamma \Delta n P_1 Z I \Gamma E \Gamma nd_1}{1 \Gamma ke}$$

$$\text{Or, } nPo \times \frac{P_1 (n \Gamma \Delta n) Z I \Gamma E}{1 \Gamma ke}$$

Conclusions

Step-Six

From above, there is no role of dividend in equation, so Modigliani and Miller concluded that dividend policy has no effect on the share price or value of the firm. A firm that pays dividend will have to raise funds externally to finance its investment plans. M.M. holds that when the firm pays dividend, its advantage is offset by external finance. Thus dividend payment is irrelevant regarding the valuation of equity and firm. Hence, it seems that dividend policy may have no influence on the market price of share under several assumptions. Thus, the several assumptions may be the debated issue to apply this model in case of Nepal.

Gordon Study (1962)

The popular model was 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 this study is that investors give 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 investor considers 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. neither debt and nor preferred stock is issued.
-) The cost of capital (k) and internal rate of return (r) are constant.
-) The corporate tax does not exist.
-) Cost of equity (Ke) must be greater than growth rate (g).
-) The retention ratio (br), once decided upon, is constant therefore the growth rate (g) = (br) is constant forever.
-) The firm and its stream of earning are perpetual.

Based on the above assumptions, Gordon provided the following formula for finding out the market value per share.

$$P_0 = \frac{EPS(1-b)}{K_e - g}$$

Where,

- P₀ = Price of Share
- EPS = Earning per Share
- b = Retention Ratio
- K_e = capitalization rate
- g = growth rate
- (1-b) = dividend pay out ratio

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

In case of Growth Firm ($r > k$)

Share price tends to enhance with increase in retention ratio (b) or decrease in payout ratio ($1-b$). So dividend and stocks prices are negatively correlated with growth.

In case of Normal Firm ($r = k$)

Share price firm remains constant regardless of changes in dividend policies. It means dividend and stock price are free from each other.

Incase of Declining Firms ($r < k$)

Share price tends to enhance with increase in payout ratio ($1-b$) or decrease in retention ratio (b). So dividend and stock prices are positively correlated with each other in declining firm.

Friend and Puckett's Study (1964)

Friend and Puckett (1964) have conducted a study about the relationship between dividend and stock price through the regression analysis on the data of 110 firms from five industries in the year 1956 to 1958. These five industries were chemicals, electric utilities, electronics, food and steel. These industries were selected to permit a distinction made between the result for growth and non growth industries and to prove a basic for comparison with result by other author for earlier years. They also considered cyclical and non-cyclical industries which they covered. The

study period covered a boom year for the economy when stock prices leveled off after substantial rise (1956) and some what depressed year for the economy when stock prices, however, rose strongly (1958).

They used dividend, retained earnings and price earning ratio as independent variable in their regression model of price function. They used supply function i.e. dividend function also. In their dividend function, earnings, last year's dividend price earning ratio are independent variables.

Symbolically, their price function and dividend supply function can be written as

Price function:

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

Where,

$$\begin{aligned} P_t &= \text{Per share price at time } t. \\ D_t &= \text{Dividend at time } t. \\ R_t &= \text{Retained earning at time } t. \\ (E/p)_{t-1} &= \text{Lagged earnings price ratio.} \end{aligned}$$

Dividend Supply Function

$$D_t = e + fE_t + gD_{t-1} + h (E/P)_{t-1}$$

Where,

E_t = Earning per share at time t

D_{t-1} = Last year dividend

The study was based on the following assumptions

-) Dividend does not react to year to year fluctuation in earnings.
-) Price does not contain speculative in earnings.
-) Earnings fluctuations may not sum zero over the sample

These regression result based on the equation of $P_t = a + b D_t + c R_1$ showed the customary strong dividend and relatively weak retained earning affect in three of the five industries i.e. chemicals, foods and steel. Again they tested other regression equations by adding lagged earning price ratio to the above equation and result the following equation. $P_t = a + b D_t + c R_t + d (E/P)_{t-1}$ they found the following result: they found that more than 80% of the variation and stock prices can be explained by three independent variables. Dividend have a predominant influence on the stock prices in the same three out of five industries but they found the differences between dividend and retained earning coefficient are not quite so marked as in the first set of regressions. They also found that the dividend and retained earning coefficient are closer to each other for all industries in both years except for steels in 1956 and correlation are higher again except for steel.

They also calculated dividend supply equations i.e. $D_t = e + f E_t + f D_{t-1} + n (E/P)_{t-1}$ and the dividend price equation for four industries groups in 1958. In their derived price equation it seems that there was no significant changes from those obtained from the single equation approach as explained above. They argued that the stock prices or more accurately the price earning ratio does not have a significant effect.

On the other hand, they noted that the retained earning effect is increased relatively in three of the four cases tested. Further, they argued that their result suggests price effect on the dividend supply are not a serious source of bias is the customary derivation of the dividend and retained earnings effects on the marked if the disturbing effect of short run income movements are sufficiently great.

Further, they lagged price as a variable instead of lagged earning price ratio and showed that more than 90% of variation in stock prices can be explained by the three independent variables and retained earnings received greater relative weight than dividend in most of the cases. The only exception was steels and foods in 1958. They considered chemicals, electronics and utilities as growth industries, in these groups and the retained earnings effect was larger than the dividend effect for both years covered. For the other two industries, namely foods and steels, there were no significant systematic differences between coefficients.

Similarly, they tested the regression equation $P_t = a + bD_t + cR_t$ by using normalized retained earnings by subtracting dividend from normalized earnings. The normalized procedure was based on the period 1950 – 1962. Again they added prior years normalized earning price variable and they compared the result.

Comparing the result they found that there was significant role of normalized earnings and retained earnings but effects of normalized price earning ratio was constant. When they examined the later equation, they found that the difference between dividend and retained earnings coefficients disappeared.

Finally they concluded that management might be able to increase prices somewhat by raising dividend in food and steel industries. They conducted more detailed examination of the chemical samples that examination disclosed that the result obtained largely reflected the undue regression weighting given the three firms with price deviating most from the average price in the sample of 20 firms and retained earning as price determinant.

Friend and Puckett concluded that, it is possible that management might be able, at least in some measure, to increase stock prices in the non growth industries by raising dividend and in growth industries by greater retention, in low dividend.

Van Horne and Mc Donald's Study (1971)

Van Horne and Mc Donald Conducted a comparative study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision the market value of the firm's common stocks.

Empirical tests were preferred with tear end cross. Section for two industries, using a well known valuation model. For there investigation, they employed two samples of firms Viz. the 86 electric utilizes in the continental U.S., which were included on the COMUSTAT utility data, tape; and 39 companies if the electronics and electronic component industries as listed on the COMUSTAT industrial data tape in 1968.

The first model was

$$Po/Eo = a_0 + a_1 (g) + a_2 (Do/Eo) + a_3 (Lev) + U$$

Where,

Po/Eo = Closing market price in 1968 dividend by the compound annual rate of growth in assets per share for 1960 through 1968.

Do/Eo = Dividend payout, measured by the cash dividend in 1968 dividend by earning in 1968.

Lev = Financial risk, measured by interest charge dividend by the different of operating revenues and operating expenses.

U = error term

The second model was

$$Po/Eo = a_0 + a_1 (g) + a_2 (Do/Eo) + a_3 (Lev) + a_4 (fa) + a_5 (fb) + a_6 (fc) + a_7 (fd) + U$$

Where,

Fa, fb, fc and fd are dummy variables corresponding to new issue ratio (NIR) group A through D.

It is noted that had grouped the firms in five categories; A, B, C, D and E by NIR. For each firm the value of dummy variables representation its NIR group is one and the values of remaining dummy variables are zero.

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

$$Po/Eo = a_0 + a_1 (g) + a_2 (Do/Eo) + a_3 (lev) + a_4 (OR) + U$$

Where,

Lev = financial risk, measured by long term debt plus preferred stock dividend by net worth as of 1968. Or operating risk, measured by the standard error for the regression of operating earnings per share on time for 1960 through 1968, and rest are as in first model above.

By using these models they compared the result obtained for the firms which both pay dividend and engage in new equity financing with other firms in an industries sample. they concluded that for electric utility firms in 1968, share

value was not adversely affected by new equity financing in the presence of cash dividends, except for those firms in the highest new issue group and it made new equity more costly form of financing than retention of earnings. They also indicated that the payment of dividend through excessive equity financing reduces share prices. For firms in the electronics electronic component industry, a significant relationship between new equity financing and value was not demonstrated (Adhikari;2008:46).

Walter's Study (1996)

The argument advanced by Professor Walter is of considerable interest in the literature of finance. He holds that the choices of dividend policies almost always affect the value of the enterprise. The main point which he emphasized is that there is significant relationship between the internal rates of return on investment project and market rate demand by the investors. As the market rate, the stock price will be enhanced by retention of earnings and will vary with dividend payout. This approach is based on that dividend policy can be used to maximize the wealth position of shareholder.

Basic Assumption

- ┌ The firm finances all investment through retained earnings that is debt or new equity is not issued.
- ┌ The firm's internal rate of return, (r) and its cost of capital, (k) are constant.
- ┌ All earnings are either distributed as dividend or reinvested internally.
- ┌ There is no change in values of earnings per share and dividend per share.

) The firm has a very long infinite life.

Based on above assumption, Walter has suggested the following formula.

$$P = \frac{DPS}{K} + \frac{r(EPS - Z \cdot DPS)}{K}$$

or $P = \frac{DPS}{K} + \frac{r/k(EPS - Z \cdot DPS)}{K}$

Where,

P = Market price per share

r = Internal rate of return

k = Cost of capital

DPS = Dividend per share

EPS = Earning per share.

Walter has suggested different dividend policy for different firm based on their growth stage. They are:

Growth Firm ($r > k$)

Firms having $r > k$ are referred as growth firm. Growth firms are assumed to have simple profitable opportunities. These firms re invest earning because they have higher rate of return than the rate of return expected by the shareholders. It is more beneficial to retain all earning for investment to maximize the value of growth firm.

Normal Firm ($r=k$)

If internal rate of return is equal to cost of capital, the dividend payout does not affect the value of share i.e. dividend policy is irrelevant whether the earnings are retained or distributed as dividend, the market value per share is not affected. Thus, there are no unique optimum payout ratio for a normal firm.

Declining Firm ($r < k$)

There is a positive relation between dividend and stock price if the internal rate of return is less than cost of capital. By distributing the entire earning as dividend, the value of share will be at optimum value. Thus, the optimum payout ratio for declining firm has to be loose.

2.2 Review of Journal & Articles

Pradhan (1993), conducted a land mark study in the field of “*Dividend policy in Nepal*”. He studies stock market behavior of 17 firms covering the period 1986 to 1990 with the following objectives:

-) To access the stock market behavior in Nepal.
-) To examine the relationship of market equity market value, price earning and dividend with liquidity profitability, leverage assets turnover and interest turnover.

Finding of his study are as follows:

-)] Higher earning in the stock leads to the larger the ratio of dividend per share.
-)] Stock with larger ratio of dividend per share to market price have lower leverage ratio.
-)] Stock with larger ratio of dividend per share and market price has higher liquidity.
-)] Positive relationship between the ratio of dividend per share to market price and interest coverage ratio.
-)] Dividend per share and market price per share are positively correlated.
-)] Positive relationship of dividend payout with liquidity profitability assets turnover and interest coverage ratio.

Manandhar (2000), conducted a study on “*Bonus Share and Dividend Charge Empirical, Analysis in Nepalese Context.*” To test the lagged structure of dividend payout and other financial features were tested. He carried out his study based on the data taken from 17 Nepalese corporate firms and covered the period of 1987 to 1998. The conclusions of this study are as follows;

-)] There is significant relationship between changed in dividend policy in terms of dividend per share and change in lagged earning.
-)] There is relationship between distributed lagged profit and dividends.
-)] In overall there is a positive relationship between in lagged consecutive earning and dividend share.
-)] When change in lagged consecutive earning is greater than zero in 65% cases change in dividend per share.

2.3 Review of Thesis

Prior to this thesis several thesis works has been conducted by some students relevant for this study are presented below:

Bhattraï, (2002), conducted a research on “*Dividend Policy and Its Impact on Market Price of Stork*” with data taken from two commercial banks and two insurance companies in 2002. He analyzed the data multiple regression equations.

Main Objective are:

-) To study the prevailing practices and efforts made in the dividend policy in the Nepalese firms with the help of sample firms.
-) To find out the impact of dividend policy on market price of stock.
-) To analyze if there is any uniformity among DPS, MPS and DPR in the sample firms.

Major Findings are:

-) There is not any consistency in dividend policy in the sample firms. It has indicated the need of dividend strategy as well as the need of proper analysis of the respective sector of the firms.

Major findings are:

-) DPS of the commercial banks in average shows that there is no regularity in dividend payment.
-) Banks should pay proper attention to enhance their percent of cash dividend on paid up value.
-) From the regression analysis it can be conclude that a chance in DPS affects
-) The share price differently in different banks.
-) Payment ratio affects stock price differently in different banks.

Shrestha, (2006), conducted a study on “*Effect of Dividend policy on Market Price of the stock of Nepalese commercial banks*” on July 2006 taking data through 2057-2061.

Main Objectives are:

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

Major findings are:

Bhattra (2009), conducted a study on “*Dividend Practices of Commercial Banks and its Impact on Stock Prices*”.

Main Objective are:

- ） To analyze the impact of dividend on stock price.
- ） To identify the determination of the dividend per share (DPS) and market price of stock (MPS).
- ） To analyze the relationship of DPS with EPS and MPS.
- ） To compare dividend practices of selected commercial banks.

Major findings are:

- ） There is high degree positive relationship between DPS and EPS in most of the banks as they are statically significant.
- ） Relationship between DPS and MPS is found to be high degree positive in most of banks as they are statically significant also.
- ） The dividend per share of Nepalese commercial bank is depending on current earnings. The banking is following earning based dividend policy.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology indicates the methods and processes employed in the entire aspect of the study. In other words, research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives. Research methodology is a way for systematically solving the research problem. 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. In other words, it is a systematic way to find research problems.

This chapter has been divided into four sections. Section one represents the research design, while section two describes the nature and source of data, section three represents the population and sample and section four explains the method of analysis.

3.2 Research Design

The research design of this study basically follows the impact of dividend on stock price. In other words, this research is designed so as to find out the impact on the market price of common stock of a company when dividend is paid to the shareholders and also how the market price of stock responds when dividend is not paid to the shareholders. In other words, the study is closely related to the impact of dividend on market price of common stock and wealth

position of shareholders. Therefore, the descriptive as well as the analytical approach are adopted here to make the analysis more effective, financial tools, statistical tools and testing models are also used.

3.3 Population and Sample

There are thirty one commercial banks in the country on 31st july, 2013 (including government owned, private and joint venture) due to time and resource factors it is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting form population

Table 3.1
Commercial Banks in Nepal

S.N.	Name of Bank	Date of Estd.	Central Office
1	Nepal Bank Limited	1994/07/30	Dharmapath, Kathmandu
2	Rastriya Baniyya Bank	2022/10/10	Snghadurbar, Kathmandu
3	Agriculture Development Bank Ltd.	2024/10/07	Ram shah path, Kathmandu
4	NABIL Bank Ltd.	2041/03/29	Kantipath, Kathmandu

5	Nepal Investment Bank Ltd.	2042/11/26	Durbarmarg, Kathmandu
6	Standard Chartered Bank Nepal Ltd.	2043/10/16	New Baneswar, Kathmandu
7	Hilamaya Bank Ltd.	2049/10/05	Thamel, Kathmandu
8	Nepal SBI Bank Ltd.	2050/03/23	Hattisar, Kathmandu
9	Nepal Bangladesh bank Ltd.	2051/02/23	New Baneswar, Kathmandu
10	Everest Bank Ltd.	2051/07/01	Laimpat, Kathmandu
11	Bank of Kathmandu Ltd.	2051/11/28	Kamaladi, Kathmandu
12	Nepal credit & commerce bank Ltd.	2053/06/28	Siddharthanagar, Rupandehi
13	Lumbini bank Ltd.	2055/04/01	Narayangarh,

			Chitwan
14	Machhapuchhre Bank Ltd.	2057/06/17	Prithivi chowk, Pokhara
15	Kumari Bank Ltd.	2057/12/21	Pualisadak, Kathmandu
16	Laxmi bank Ltd.	2058/12/21	Adharshanagar, birgunj, Parsa
17	Siddhartha Bank Ltd.	2059/09/09	Kamaladi, Kathmandu
18	Global IME bank Ltd.	2063/09/18	Birgunj, parsa
19	Citizens Bank International Ltd.	2064/01/	Kamaladi, Kathmandu
20	Prime Commercial Bank Ltd.	2064/06/07	Nayasadak, Kathmandu
21	Sunrise Bank Ltd.	2064/06/25	Gairidhara, kathmandu
22	Grand Bank Ltd.	2065/02/12	Kamaladi, kathmandu

23	NMB Bank Ltd.	2065/02/20	Babarmahal, Kathmandu
24	Kist Bank Ltd.	2066/01/24	Anamnagar, Kathmandu
25	Jnata Bank Ltd.	2066/12/23	New Banesware, kathmandu
26	Mega Bank Ltd.	2067/04/07	Kantipath, kathmandu
27	Commerz and Trust bank Ltd.	2067/05/30	Kamaladi, Kathmandu
28	Civil bank Ltd	2067/08/10	Kamaladi, Kathmandu
29	Century bank Ltd.	2068/11/27	Pitalisadak, Kathmandu
30	Sanima Bank Ltd.	2068/11/	Nagpokhari, kathmandu
31	NIC Asia Bank	2070/3/16	

Sources: NRB's report

Out of 31 commercial banks that are operating their activities in Nepal, we have selected 6 commercial banks for this study. So, we are going to analysis 6 commercial banks about their operating activities as a sample.

Table 3.2
Sample Banks

Table 3.3
Sampling

S.No.	Selected Banks	Abbreviation Used
1	Nabil Bank Limited	NABIL
2	Standard Chartered bank Nepal limited	SCBNL
3	Nepal SBI Bank Limited	SBI
4	Bank Of Kathmandu Limited	BOK
5	Everest Bank Limited	EBL
6	Himalayan Bank Limited	HBL
Population(N)		Sample Ratio(n/N)
Listed Commercial bank(N) = 31		Selected Commercial Banks for Study(n) = 6 6/31 = 19.35%

Description

3.4 Nature and Source of Data

This study is based on the secondary data. The data relating to the dividend decision, which are directly obtained from commercial bank. Annual reports, balance sheet, profit and loss account of commercial banks are main source of data. Beside the data are also collected from various journals, articles, newspapers and magazines published by commercial firms. Main sources of secondary data are:

-) Annual report published by commercial bank
-) Data are collected for the year 2007/08 to 2011/2012 in case of NABIL, HBL, SCBNL, SBI, EBL and BOK and as 5 years data are analyzed.
-) Nepal Stock Exchange, website (www.nepalstock.com) and perspective firm's central office and security exchange board.

3.5 Methods of Analysis

Various Financial and Statistical tools have been used to analyze the data of this study.

a. Financial Tools

Financial tools are those which help to study the financial position of the firms. The financial tools used in this study are as follows.

b. Earning Per Share(EPS)

The profitability of common stockholder's investment can be measured in many other ways. The income of per share is calculated by dividing the earning available to common shareholders by the total number of common stock outstanding, thus,

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

The higher earning indicates the better achievements in terms of profitability of the bank by mobilizing their funds and vice versa. In other words, the Earning per share indicates the strength and weakness of the bank.

c. Dividend Per Share (DPS)

The whole amount of earning may or may not be distributed to shareholders by a company. How much per share the dividend is distributed to common shareholder's can be known from this ratio. The dividend distributed among the common shareholders on a per share basis can be determined by this ratio. Formula for calculating this ratio is as under.

$$\text{DPS} = \frac{\text{Total dividend amount}}{\text{No of outstanding shares}}$$

Generally, the higher DPS creates positive attitude of the shareholders toward the bank's 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.

d. Dividend Pay Out Ratio(DPR)

The purpose of calculating this ratio is to know the portion of dividend distributed out of total earning. This ratio shows the relation between the returns belonging to equity shareholders and the dividend paid to them. It can be calculated as under:

$$\text{Dividend Payout Ratio (DPR)} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

The higher the dividend payout ratio, the lower will be the proportion of retained earning and vice versa.

e. Market Price Per Share (MPS)

Market price per share is that value of stock, which can be obtained by a firm from the market. Market value of share is one of the variables which are affected by the dividend per share and earning per share of the firm. If the EPS and DPS are high, value of the share will also be high. If the firm is growing concern and its earning power is greater than the cost of capital, the market value of share will be higher than the book value. If firms earning capacity is lower than the cost of capital, the market price of share will also be lower. The capital market determines MPS. Theoretically calculated current price of the share can be derived by using the following formula:

$$(MPS = P_0) P_0 \times \frac{D_1}{(K_s - g)}$$

$$P_0 \times \frac{D_0 (1 + g)}{(K_s - g)}$$

Where,

P_0 = Current market price per share

D_0 = Current dividend per share

D_1 = Expected dividend per share at the end of year 1

g = Dividend growth rate

K_s = Investor's required rate of return

f. Dividend Yield (DY) Ratio

It defined the relationship between dividend per share and market value per share. It is very useful for the investors. So, dividend yield is the dividend received by the investors as a percentage of market prices per share in stock market. Thus,

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

g. Price Earning Ratio(P/E)

This ratio is closely related to the earning yield. The reciprocal of the earning yield is called the price earning ratio. It is very useful to prospective investors. The higher P/E ratio implies the high market price of a stock given the earning per share and greater confidence of investor in the firms future.

Thus,

$$\text{P/E Ratio} = \frac{\text{Market price per share}}{\text{Earning per share}}$$

h. Statistical Tools

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

i. Arithmetic Mean or Average

Arithmetic Mean is the average return over periods. Arithmetic mean of a given set of observation is their sum divided by the numbers of observations. In general, $X_1, X_2, \dots, X_n$ are given 'n' observation and observation. It is calculated by,

$$\bar{X} = \frac{\sum X}{n}$$

j. Standard Deviation

Standard deviation is quantitative measure of total risk. It provides more information about the risk of the assets. The standard deviation of a distribution is the square root of the variance of returns around the mean. It measures the absolute dispersion; the following formula is applied to calculate the standard deviation, using historical returns.

$$\text{Standard Deviation} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

k. Coefficient of Variation

The coefficient of variation is the relative measure of dispersion, comparable across distribution which is defined as the ratio of standard deviation to the mean expressed in percent. The risk per unit of expected return can be measured

by coefficient of variation. It should be used to compare investments when both the standard deviation and the expected values differ. C.V. is computed as follows:

$$C.V. = \frac{\text{Standard Deviation}}{\bar{X}} \times 100$$

The higher C.V. denotes the higher variability of variable and vice versa.

L. Correlation Coefficient (r)

Correlation Coefficient measures the relationship between two variables. It is the statistical tool, which can be used to describe the degree to which one variable is linearly related to another and measures the directions of relationship between two set and figures. Correlation coefficient can be either positive or negative which range from +1 to -1 more preciously, if both variables are changing in the same direction, the correlation is said to be positive, on other hand, if both variables are changing oppositely to each other, then correlation is known as negative. Correlation can be seen between or among several variables. The correlation coefficient can be calculated as:

$$\frac{\text{Covariance (X, Y)}}{S.D_x \times S.D_y}$$

$$\text{Correlation Coefficient (r)} = \frac{\text{Covariance (X, Y)}}{\text{S.D.}_x \mid \text{S.D.}_y}$$

Where,

$$\text{Covariance (x, y)} = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{n}$$

r = Karl Pearson's Correlation coefficient

Under this study, correlation between the following variables is analyzed:

- a) Market price per share and earning per share
- b) Market price per share and dividend per share
- c) Market price per share and dividend payout ratio
- d) Market price per share and dividend yield
- e) Market price per share and price earning ratio

m. Coefficient of determination (r²)

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. It refers to a measure of the total variance in a dependent variable that is explained by its linear relationship to an independent variable. The coefficient of determination is denoted by r² and the values lies

between zero and unity or the r^2 is always a positive number. The r^2 is defined as the ratio of explained variance to the total variance.

Thus,

$$\text{Coefficient of determination} = \frac{\text{Explained variance}}{\text{Total variance}}$$

n. Regression Analysis

Regression analysis studies the statistical relationship between the variables. The main objective of regression analysis is to predict or estimate the value of dependent variable corresponding to a given value of independent variables. There are two types of regression analysis.

o. Simple Regression Analysis

Simple regression analysis, concerned with the study of the relationship between one variable called dependent variable and another variable called independent variable. Regression analysis has been developed to study and measure the statistical relationship between two variables only, and then the process is known as simple regression analysis. In simple linear regression, a mathematical regression equation is developed to describe the functional relationship that exists between the two variables. In this study the following simple regression have been analyzed.

p. Market price per share on Dividend per share(DPS)

$$y = a + bx$$

Where,

y = Market price per share (MPS)

a = Regression constant

b = Regression coefficient

x = Dividend per share (DPS)

This model has been constructed to examine the relationship between market price per share (dependent variable) and Dividend per share (independent variable)

q. Market price per share on Earning per share

$$y = a + bx$$

Where,

y = Market price per share (MPS)

a = Regression constant

b = Regression coefficient

x = Earning per share (EPS)

This model has been constructed to examine the relationship between MPS (dependent variable) and EPS (independent variable).

r. Market price per share (MPS) on Dividend payout ratio (DPR)

$$y = a + bx$$

Where,

y = Market price per share (MPS)

a = Regression constant

b = Regression coefficient

x = Dividend payout ratio (DPR)

s. Market price per share (MPS) on Dividend Yield

$$y = a + bx$$

Where,

y = Market price per share (MPS)

a = Regression constant

b = Regression coefficient

x = Dividend yield

The relationship between MPS (dependent variable) and Dividend yield(independent variable) can be explained through this model

t. Dividend per share on Earning per share

$$y = a + bx$$

Where,

y = Dividend price per share (DPS)

a = Regression constant

b = Regression coefficient

x = Earning per share

The relationship between DPS (dependent variable) and EPS (independent variable) can be explained through this model.

In order to obtain the value of 'a' and 'b', we have the following two normal equations;

$$\sum Y = na + bx$$

$$\sum XY = a \sum x^2$$

Where,

'a' and 'b' are unknown

n = number of observation in the sample.

II) Multiple Regression analysis

In multiple regression analysis, two or more independent variables are used to estimate the values of dependent variable. It is extension of simple regression technique, thus multiple regression analysis consists of the measurement of the relationship between the dependent variable and two or more independent variables. The main objectives of multiple regression analysis are;

-) To derive an equation which provide estimates or the dependent variable from values of the two or more independent variable.
-) To obtain a measure of the proportion of variance in the dependent variable which is explained by the independent variable
-) To obtain a measure of error involved in using the regression equation as a basis for estimation using this regression equation as a basis for estimation of the dependent variable.

In this study, the following multiple regression analysis have been analyzed.

a) Market price per share on earning price per share and Dividend per share

$$y = a + b_1x_1 + b_2x_2$$

Where,

y = Market price per share

a = Regression constant

b_1 & b_2 = Regression coefficient of 1st and 2nd variable

X_1 & X_2 = EPS and DPS respectively

This model helps to predict the MPS on EPS and DPS

b) Market price per share on Earning per share and Dividend payout ratio

$$y = a + b_1x_1 + b_2x_2$$

Where,

y = Market price per share

a = Regression constant

b_1 & b_2 = Regression coefficient of 1st and 2nd variable

x_1 & x_2 = EPS and DPR respectively

It helps to predict the MPS on EPS and DPR

Regression Constant: The value of constant which is intercept of the model indicates the average level of dependent variable when independent variables are zero. In other words, it is better to understand that 'a'(constant) indicates the mean or average effect on dependent variable if all the variables committed from the model.

Regression Coefficient: The regression coefficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all other independent variable in the regression model. In other words, the coefficient describes how changes in independent variables affect the values of dependent variable's estimate.

Standard Error of Estimate (SEE): With the help of regression equation perfect prediction is practically impossible, standard error of estimate is a measure of reliability of the estimating equation indicating the variability of the observed points around the regression line, that is the extent to which observed values differ from their predicted values on the regression line. The smaller the value of SEE, the closer will be the dots to the regression line and the better the estimates based on the equation for this line. If SEE is zero, then there is no variation about the line and the correlation will be perfect. Thus, with the help of SEE, it is possible for us to ascertain how well the representative the regression line is as a description of the average relationship between two series.

3.6 Regression Analysis Development

a. Simple Regression Analysis

Three simple regression analyses would be done which are as follows:

$$Y = a + bx$$

$$\text{Or MPS} = a + b (\text{DPS})$$

Where,

MPS = market price per share

DPS = Dividend per share

A & b is regression coefficient.

$$Y = a + bx$$

$$\text{Or MPS} = a + b (\text{EPS})$$

Where,

EPS = earning per share

$$Y = a + bx$$

Or $DPS = a + b (EPS)$

b. Multiple Regression Analysis

Two multiple regression analysis would be done which are as follows;

$$Y = a + b_1 x_1 + b_2 x_2$$

$$MPSt = a + b_1 (DPSt) + b_2 (EPSt)$$

Where,

MPSt = Market price per share for t year

DPSt = Dividend per share for t year

EPSt = Earning per share for t year

a, b₁, & b₂ are regression coefficient.

$$Y = a + b_1 x_1 + b_2 x_2$$

$$\text{Or } DPSt = a + b_1 (EPSt) + b_2 (DPSt_{-1})$$

Where,

DPSt = Dividend per share for t year

EPSt = Earning per share for t year

DPSt₋₁ = Dividend per share for t-1 year

a, b₁, & b₂ are regression coefficient.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, to achieve the objective, which is set in introduction chapter, the relevant data and information on dividend policy and its impact on market price of stock of commercial banks are presented. Presentation and analysis of data is the study. Using the various financial variable and statistical tools discussed in “Research Methodology”. This Chapter has divided into four sections.

4.1 Presentation of Financial Variables

Before observing the impact of different financial indicators and variables on dividend as well as value of firm, we need to present and analyze them systematically. For this purpose DPS, EPS, DPR, MPS, DY, P/E ratio have been selected as an effecting variables. However these variables show the dividend status of the banks as well as their

strength. Consequently, helps to identify the banks' position regarding dividend payout. These variables have been presented by the help of table, figure and analyzed by using statistical tools as specified in chapter three.

4.1.1 Analysis of EPS of the Sample Banks

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

Table 4.1
EPS of Sample Banks

Banks Years	NABIL	SCBNL	SBI	BOK	EBL	HBL	Average
2007/08	115.86	131.92	28.33	59.94	91.82	62.74	81.70
2008/09	113.44	109.99	36.18	54.68	99.99	61.90	79.47
2009/10	83.81	77.65	23.69	43.08	100.16	31.80	60.03
2010/11	70.67	69.51	24.85	44.51	83.18	44.66	56.23
2011/12	83.57	72.60	22.93	37.88	88.55	39.94	57.58
Mean	93.47	92.33	27.32	48.02	92.74	48.21	67.01

S.D.	17.95	24.51	4.86	8.07	6.59	12.24	
C.V. (%)	19.20	26.55	17.79	16.81	7.11	25.39	

Source: Appendix I and II

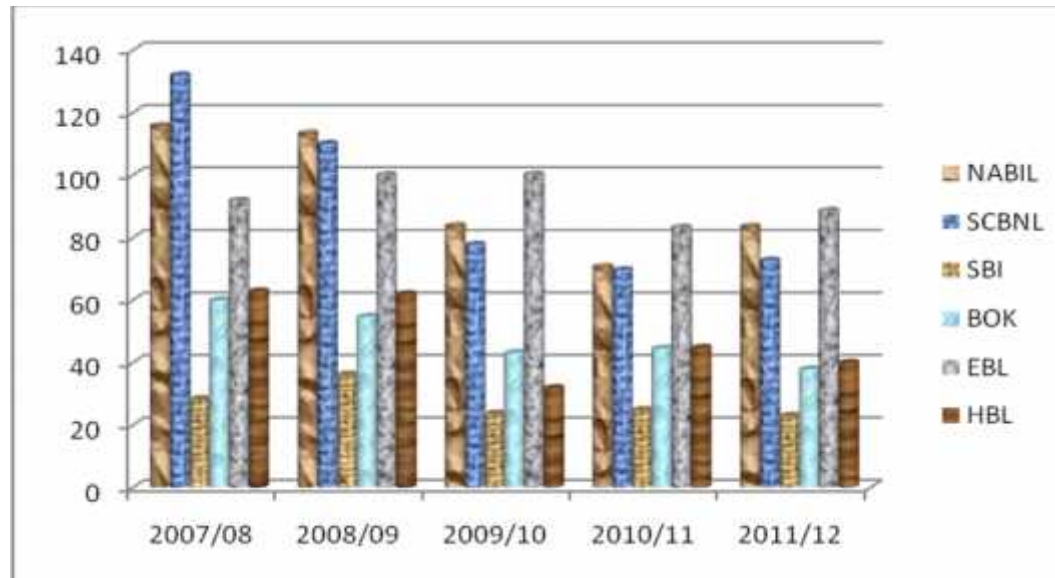


Figure no. 4.1

Table 4.1 shows the EPS of the selected banks from the year 2007/08 to 2011/12. In the table mean, standard deviation and coefficient of variation respective have been presented. The EPS of NABIL range between Rs.70.67 to Rs.115.86 during the period of study. During this period, the average EPS is Rs.93.47, the S.D. of the EPS is 17.95 and the C.V. of sample bank is 19.20% SCBNL with in the period of study, has an average EPS of Rs.92.33 ranging between Rs.72.60 to Rs.131.92. The S.D. is 24051 and the fluctuation of 26.5% is shown by the C.V. of the bank.

During the period of study SBI has an average EPS of Rs.27.32 with the S.D. 4.86. The EPS range between Rs.22.93 to Rs.36.18. The C.V. shows there is period of study which is 17.79%. The average EPS of BOK, during the period of study is Rs.48.02. It stayed with in the range of Rs.37.88 to Rs.59.94. The S.D. of EPS is Rs.8.07 where as C.V. is 16.81%. EBL has the EPS range between Rs.83.18 to Rs.100.16. The average EPS is Rs.92.74. The S.D. of EPS is Rs.6.59 where as C.V. of EPS is 7.11% During the period of study & lastly the EPS of HBL range between 31.80 to 62.74 during the period of study. During this period, the average EPS is Rs 48.21 and the C.V. of sample bank is 25.39%.

From the above analysis, it can be seen that the average EPS of NABIL is the highest and average EPS of SBI is the lowest under the period of study. The C.V. of SCBNL is higher among the sample bank and NBL has lowest among the sample banks. It indicates that SCBNL has the most consistent EPS among all sample bank during the period of study.

4.1.2 Analysis of DPS of Sample Banks

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

Table 4.2
DPS of Sample Banks

Banks Year	NABIL	SCBNL	SBI	BOK	EBL	HBL	Average
2007/08	60	80	0	2.11	20	25	31.19
2008/09	35	50	2.11	7.37	30	12	22.75

2009/10	30	55	5.00	15	30	11.84	24.47
2010/11	30	50	5.00	16.75	50	16.84	28.10
20011/12	40	45	5.00	21.32	1.58	13.42	21.05
Mean	39	56	3.42	12.51	26.32	15.82	
S.D.	11.14	12.41	2.04	6.88	15.75	4.93	
C.V. (%)	28.56	22.16	59.65	54.99	59.84	31.16	

Source: Appendix I and II

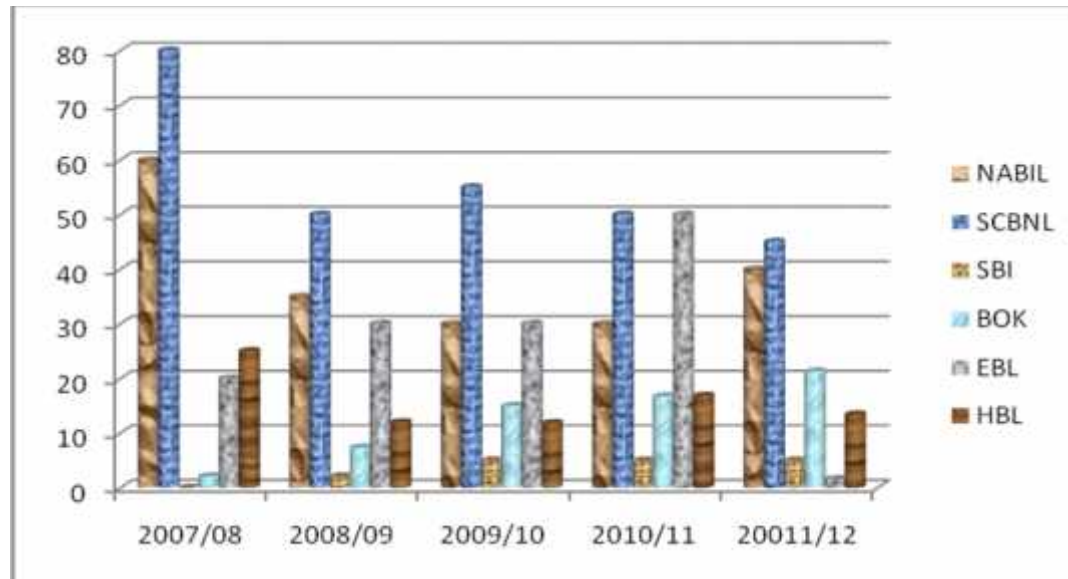


Figure no. 4.2

While observing the mean DPS, SCBNL in first position with Rs.56. Similarly NABIL,EBL,HBL, BOK and SBI are in 2nd, 3rd, 4th, 5th and 6th position of mean DPS with Rs.39, Rs.26.32, Rs. 15.82 Rs.12.51 and Rs.3.42 respectively. This result indicates that SCBNL is better than that of other banks with respect to dividend per share.

Using the C.V. criterion, we can say that consistency in DPS for SCBL is highest than other banks. C.V. of SCBL is lowest than other banks i.e., 22.16. It indicates the bank is following. Stable dividend policy in comparison to other banks policy. In another words, as it is less volatile than others are, there is more stability in dividend payment in SCBNL. Where as the DPS of NABIL, SBI, BOK and EBL is high fluctuation. Similarly C.V. for NABIL, SBI, BOK, EBL and HBL are 28.56%, 59.65%, 54.99%, 59.84% and 31.16% respectively. From above analysis we can see also that SBI, EBL and BOK have paid lower cash dividend regularly during the period of study. Starting from the year 2007/08 SCBNL has the highest EPS than other banks, which paid higher dividend also in comparison with other banks. the lowest earning made by SBI and had not paid any earnings in dividend.

In 2008/09 the EPS of SBI and HBL slightly increased and decreasing trend of other four banks continues. But SBI paid lower DPS in comparison with other banks. The EPS of SCBNL and NABIL is decreased in this year they paid low dividend than previous year. The DPS of BOK and EBL is increased.

The data related to the year 2009/10 shows the decrease in EPS except EBL. But the amount of dividend is increased in case of SCBNL, SBI and BOK. EBL have paid constant dividend this year. NABIL and HBL have decreased the amount of dividend in this year.

In the year 2010/11, no more progress in EPS of all banks. NABIL and SBI paid constant dividend and BOK, HBL and EBL paid more dividend than previous year. SCBNL has paid less dividends in comparison with previous year.

In the year 2011/12 the EPS of NABIL, SCBNL and EBL is increased but in case of SBI, BOK and HBL, it is decreased. In this year DPS of NABIL and BOK is increased, SBI paid constant dividend while other three banks reduced dividend payment.

On the average, NABIL has the highest EPS. , EBL, SCBNL, HBL, BOK and SBI come after NABIL respectively. The pooled average is 67.01, which is quite satisfactory.

Since the average of EPS of NABIL is highest among all six banks but SCBNL has been able to pay considerably higher amount of dividend to its shareholder in comparison with other five banks. SBI have the lowest EPS in average among all six banks.

Without considering the rate of fluctuation the analysis of EPS and DPS cannot be completed, for this we can observe the coefficient of variation. It can be observed that the CV of SCBNL is lowest (22.16%) in comparison with other banks and the CV of SBI, EBL and BOK are 59.65, 59.84 and 54.99 which is almost higher than that of SCBNL which shows the great fluctuation in EPs of SBI and EBL while NABIL and HBL has the lower degree of fluctuation in EPS in comparison with these three banks.

4 .1.3 Analysis of Dividend Payout Ratio (DPR) of Sample Banks

The DPR of the sample banks under the study are tabulated as follows.

Table 4.3
DPR of Sample Banks

Banks Year	NABIL	SCBNL	SBI	BOK	EBL	HBL	Average
2007/08	51.79	60.64	0	3.52	21.78	39.85	29.60
2008/09	30.85	45.46	5.83	13.48	30	19.39	24.17
2009/10	35.79	70.83	21.10	34.82	29.95	37.23	38.29
2010/11	42.45	71.93	20.12	37.63	60.11	37.71	44.9
2011/12	47.86	61.98	21.80	56.28	1.78	33.70	37.23
Mean	41.75	62.17	13.77	29.15	28.72	33.58	
S.D.	7.65	9.51	9.07	18.67	18.77	7.36	
C.V. (%)	18.32	15.30	65.87	64.05	65.36	21.92	

Source: Appendix I and II

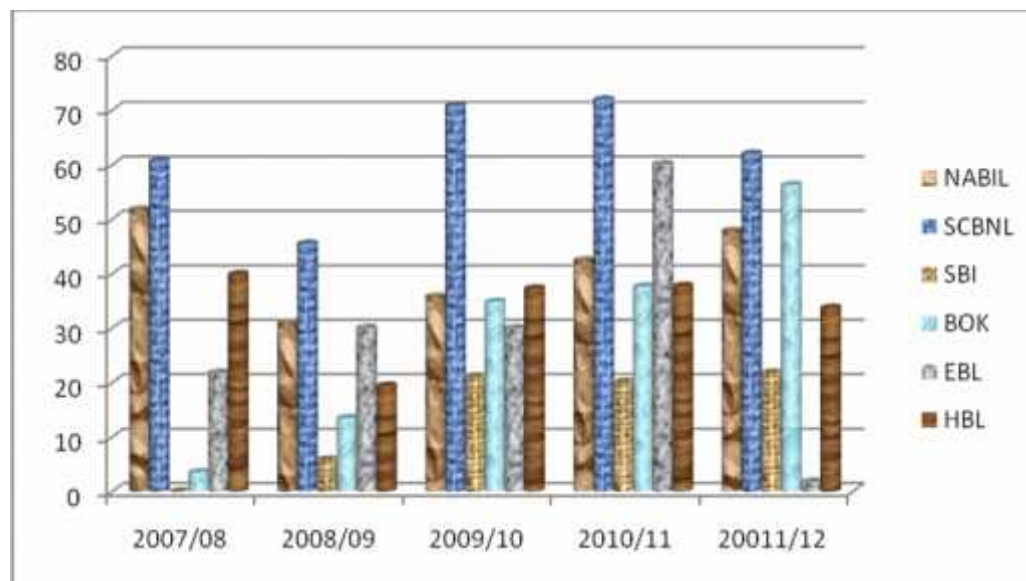


Figure no. 4.3

An average DPR of NABIL is 41.75%. It shows that NABIL generally pay 41.75% of its total earning as dividend to its shareholders. The S.D. of DPR is 7.65. The C.V. is 18.32%. This indicates that there is an only about 18.32% fluctuation in the DPR of the bank over the study period. SCBNL has an average DPR is 62.17% it means SCBNL is generally paying 62.17% it means SCBNL is generally paying 62.17% of its earning as dividend to its shareholders. The S.D. of DPR is 9.51% and the C.V. is 15.30%. An average DPR of SBI indicates that SBI generally payout 13.77% of its total earning as dividend to its shareholders. The S.D. of DPR is 9.07% and C.V. is 65.87%. BOK has an average DPR is 29.15%. It means that BOK generally paying 29.15% of its earning as dividend to its shareholders.

The S.D. of DPR is 18.67% and C.V. is 64.05% which indicates that there is 64.05% fluctuation in the DPR during the period of study. EBL has an average DPR is 28.72% during the study period. The Bank generally payout 28.72% of its total earning as dividend. The S.D. is 18.77% and the C.V. 65.36% fluctuation during the period of study. In average 33.58% dividend is paid by HBL. The fluctuation in dividend payments is 21.92% which is indicated by cv in the table. The standard deviation is 7.36% during the period of study.

The above calculation shows that an average DPR of SCBNL is higher among the all bank and its C.V. has also lowest among all banks under study. It shows SCBNL has the consistent dividend payment.

4.1.4 Analysis of MPS of Sample Banks

The MPS of the sample banks under the study are tabulated as follows:

Table 4.4
MPS of Sample Banks

Banks Year	NABIL	SCBNL	SBI	BOK	EBL	HBL	Average
2007/08	5275	6830	1511	2350	3132	1980	3513
2008/09	4899	6010	1900	1825	2455	1760	2848.17
2009/10	2384	3279	741	840	1630	816	1615
2010/11	1252	1800	565	570	1094	575	976

2011/12	1355	1799	635	628	1033	653	1017.17
Mean	3033	3943.6	1070.4	1242.6	1868	1156.8	
S.D.	1727.27	2108.90	535.89	715.23	807.58	591.60	
C.V. (%)	56.95	53.48	49.88	57.56	43.23	51.14	

Source: Appendix I and II

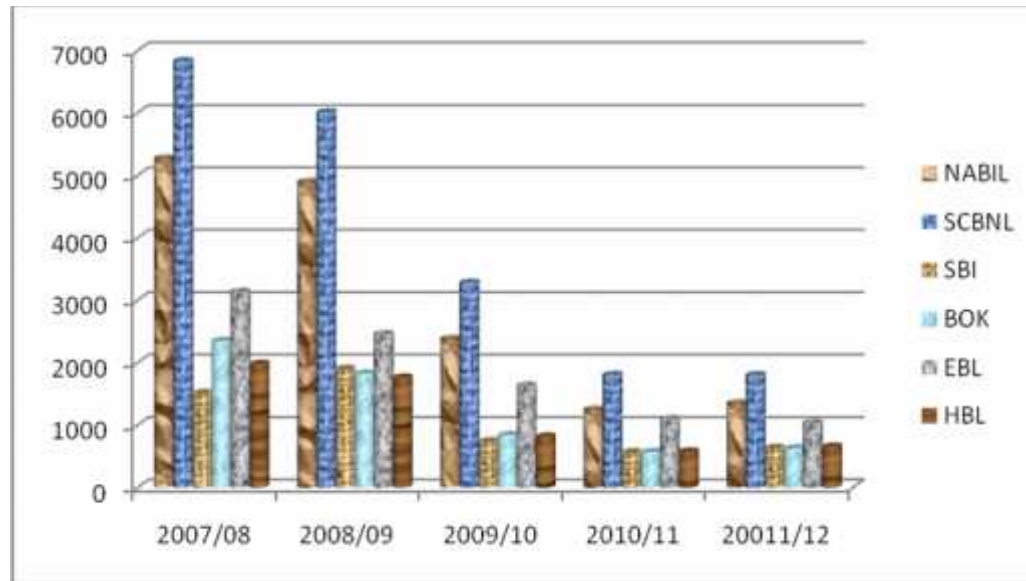


Figure no. 4.4

Table 4.4 shows the MPS of selected banks during the study period.

As per the table, highest mean MPS is Rs.3943.6 of SCBNL and the lowest one is Rs.1070.4 of SBI. Mean MPS of NABIL, BOK, HBL and EBL are Rs.3033, Rs.1242.6, Rs.1156.8, Rs.1556.67 and Rs.1868 respectively. By this result we can say that SCBNL is best than others i.e. Rs.3943.6. As we observe in figure 4.4 MPS of all banks

generally in decreasing trend. When the capital rate decreases, there is also decrease in MPS. Here the analysis of MPS trend shows that capital decreasing rate of all banks is not similar to each other.

When we take the CV criterion, consistency in MPS is highest in EBL over the study period that is why it has lowest C.V. (i.e., 43.23%). Similarly C.V. for NABIL, SCBNL, SBI, BOK and HBL are 56.95%, 53.48%, 49.88%, 57.56% and 51.14% respectively.

4.1.5 Analysis of Dividend yield (D/Y) of the Sample Banks

The Dividend Yield (D/Y) of the Sample banks under study is tabulated as follows:

$$\text{Dividend yield} = \frac{\text{DPS}}{\text{MPS}}$$

Table 4.5

D/Y of Sample Banks

Banks Year	NABIL	SCBNL	SBI	BOK	EBL	HBL
2007/08	1.14	1.17	0	0.09	0.64	1.26
2008/09	0.71	0.83	0.11	0.40	1.22	0.68
2009/10	1.26	1.68	0.67	1.78	1.84	1.45
2010/11	2.40	2.78	0.88	2.94	4.57	2.93
2011/12	2.95	2.50	0.79	3.39	0.15	2.06

Mean	1.69	1.79	0.49	1.72	1.68	1.68
S.D.	0.8414	0.7410	0.3630	1.3176	1.5161	0.7663
C.V. (%)	49.79	41.40	74.08	76.60	90.24	45.61

Source: Appendix I and II

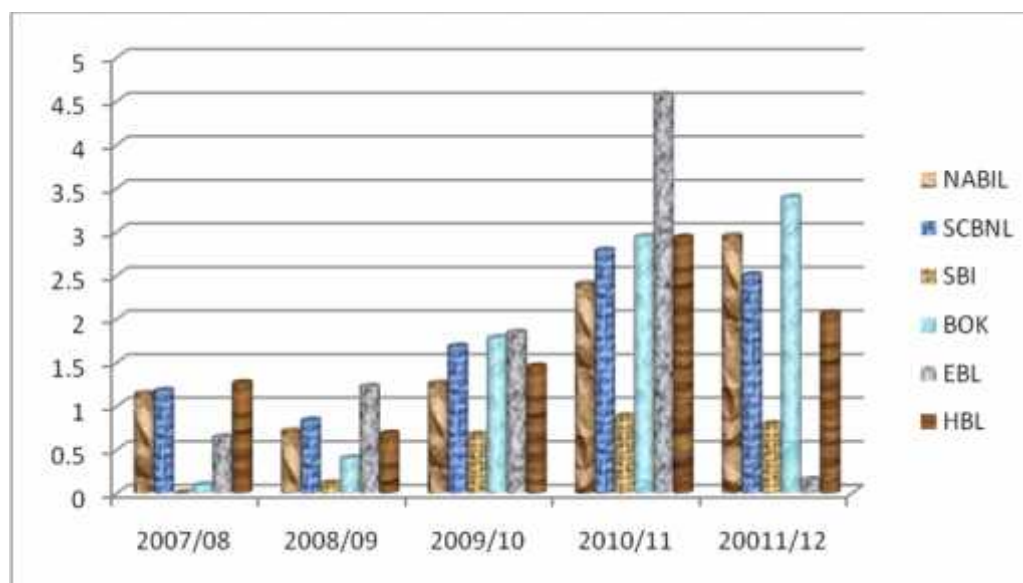


Figure no. 4.5

The D/Y of NABIL range between 0.71% to 2.95% during the period of study. The average of D/Y is 1.69% The S.D. of the D.Y. under the period of study 0.84. The C.V. of bank is 49.79%, which indicators that the fluctuation of D/Y of NABIL is 49.79%. SCBNL within the period of study has an average D/Y 1.79% ranging between 0.83% to

62.78%. The S.D. is 0.74 where as C.V. 41.40. The C.V. indicates there is fluctuation of 41.40% in the Dividend Yield.

Nepal SBI bank has an average D/Y of 0.49% within S.D. of 0.36. The D/Y range between 0 to 0.88%. The C.V. shows that there is a fluctuation of 74.08% in SBI has not paid dividend in FY 2007/08.

EBL within in the period of study has an average DY of 1.68% ranging between 0.15% to 4.57%. The S.D. is 1.52% where as C.V. is 90.24%. The C.F. indicates there is a fluctuation of 90.24%. During the period of study BOK has an average DY is 1.72% with a S.D. of 1.32. The D.Y. range between 0.09 to 3.39%. The C.V. shows that there is a fluctuation of 76.60% in D/Y of BOK. HBL has an average D/Y of 1.68% with in S.D. of 0.77. The D/Y range 0.68 to 2.93% the c.v. shows that there is a fluctuation of 45.61%.

4.1.6 Analysis of P/E Ratio of Sample Banks

Price earning ratio reflects the price which is currently paid by the market for each rupees of price which is currently reported earning per share. The price earning ratio could be calculated by dividing the market price per share by earning per share.

$$\text{Price earning ratio} = \frac{\text{MPS}}{\text{EPS}}$$

Table 4.6
P/E Ratio of Sample Banks

Banks Year	NABIL	SCBNL	SBI	BOK	EBL	HBL
2007/08	45.53	51.77	53.34	39.21	34.11	31.56
2008/09	43.19	54.64	52.52	33.37	24.55	28.43
2009/10	28.45	42.23	31.28	19.50	16.27	25.66
2010/11	17.72	25.90	22.74	12.81	13.15	12.87
2011/12	16.21	24.78	27.69	16.58	11.67	13.54
Mean	30.22	39.86	37.51	24.29	19.95	22.41
S.D.	12.43	12.56	12.88	10.19	8.36	7.75
C.V. (%)	41.13	31.51	34.34	41.95	41.90	34.58

Source: Appendix I and II

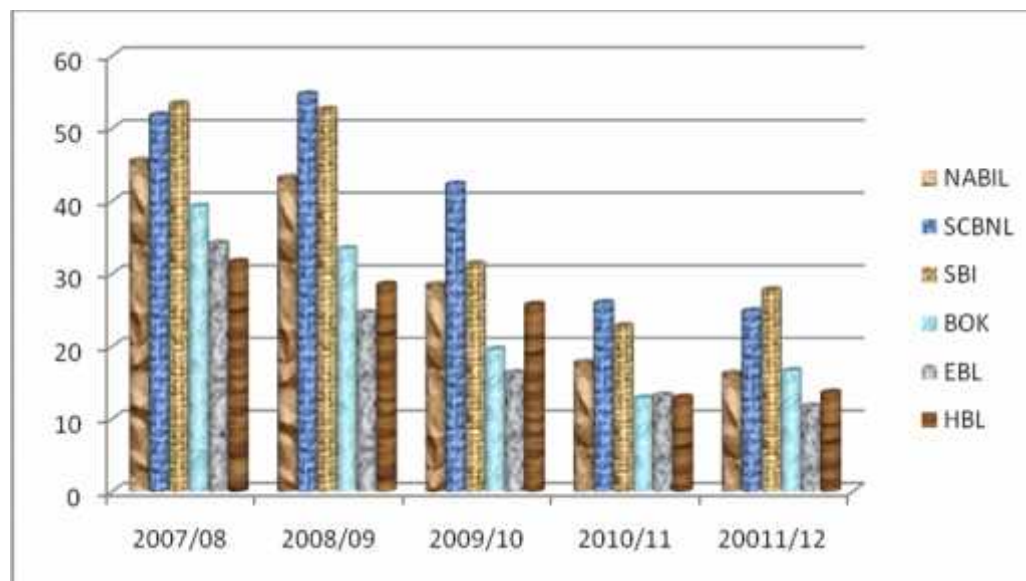


Figure no. 4.6

P/E ratio of selected banks has been presented table 4.6 It is clear from the table that mean P/E ratio of SCBNL (i.e., 39.86) is the highest position throughout the study period where as EBL is lowest position with 19.95. Similarly SBI, NABIL, BOK and HBL are in 2nd, 3rd, 4th and 5th position with 37.51, 30.22, 24.29 and 22.41 times respectively. P/E ratio of all banks is in decreasing trend.

In the year 2007/08, the P/E Ratio of SBI has the highest P/E Ratio among these six banks and HBL has the lowest P/E Ratio.

In 2008/09, the P/E Ratio of SCBNL has increased and that is of all banks have decreased.

In 2009/10, the P/E ratio of all six banks is decreased. SCBNL has the highest P/E Ratio (42.23).

In the year 2010/11, the decreasing pattern follows again. In this year SCBNL stands first with 25.90.

The year 2011/12 also follows decreasing trend in P/E Ratio but P/E ratio of SBI, BOK and HBL are starting to increase.

The CV analysis shows that SCBNL is more consistent than others and P/E ratio of BOK is highly fluctuating in these five years.

4.2 Statistical Tools

4.2.1 Correlation Analysis

The correlation analysis is generally used to describe the degree to which one variable is related to another. Hence, in statistics, it is used in order to depict the co-variation between two or more variable. 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 decrease in the value of the other. The correlation coefficient lies between +1 and -1. The +1 coefficient indicates that 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 variable.

Correlation matrix for selected banks among seven variables has been presented bellows:

4.2.1.1 Correlation between Financial Variable of NABIL

Table 4.7

Correlation between Financial variable of NABIL

	EPS	DPS	MPS	DPR	D/Y	P/E
MPS	2.97	0.62	1	-0.083	-0.85	0.99
EPS	1	0.67	0.97	-0.02	-0.75	0.95
DPS	0.67	1	0.62	0.72	-0.19	0.56

Sources: Appendix III

The table 4.7 indicates that the MPS of NABIL has negative correlation with its DPR and D/Y whereas it is positively correlated with its EPS, DPS and P/E ratio. Similarly EPS has negative correlation with DPR and D/Y and has positive correlation with its DPS, MPS and P/E ratio. Likewise, DPS of NABIL bank has positive correlation with its EPS, MPS, DPR and P/E ratio whereas it has negative correlation with its D/Y.

4.2.1.2 Correlation between Financial Variable of SCBNL

Table 4.8

Correlation Matrix of SCBNL

	EPS	DPS	MPS	DPR	D/Y	P/E
MPS	0.97	0.72	1	-0.65	-0.93	0.95
EPS	1	0.80	0.97	-0.59	-0.84	0.85
DPS	0.80	1	0.72	-0.003	-0.50	0.57

Sources: Appendix III

The above table indicates that MPS of SCBL have negative correlation with its DPR, and D.Y and has positive correlation with its EPS, DPS and P/E. On the other hand EPS of SCBL has positive correlation with DPS, MPS and P/E whereas it has negative correlation with its DPR and DY. Above table also indicate that DPS has positive correlation with its EPS, MPS and P/E and negative correlation with its DPR and D.Y.

4.2.1.3 Correlation between financial Variable of SBI

Table 4.9

Correlation between financial Variable of SBI

Sources: Appendix

	EPS	DPS	MPS	DPR	D/Y	P/E
MPS	0.93	-0.84	1	-0.90	-0.94	0.82
EPS	1	0.64	0.93	-0.73	-0.77	0.72
DPS	0.64	1	-0.84	0.99	0.96	0.81

The above table
the SBI has positive

III

shows that MPS of
correlation with its

EPS and P/E ratio whereas it has negative correlation with its DPS, DPR and DY. Similarly, The EPS has positive correlation with its DPS, MPS and P/E ratio and negative correlation with DPR and DY. Likewise, The DPS has positive correlation with its EPS, DPR and P/E ratio and negative correlation with its MPS.

4.2.1.4 Correlation between Financial Variable of EBL

Table 4.10

Correlation between Financial Variable of EBL

	EPS	DPS	MPS	DPR	D/Y	P/E
MPS	0.45	-0.07	1	-0.13	-0.84	0.99
EPS	1	-0.12	0.45	-0.26	-0.45	0.34
DPS	-0.12	1	-0.07	0.99	0.94	-0.06

Sources: Appendix III

From the above table it is found that the MPS of EBL has positive correlation with its EPS and P/E ratio and has negative correlation with its DPS, DPR and D.Y. Similarly, the EPS is positively correlated with MPS and P/E ratio, but has negative correlation with DPS, DPR and D.Y. Likewise the DPS has positive correlation with DPR and D.Y whereas it has negative correlation with its EPS, MPS and P/E ratio.

4.2.1.5 Correlation between Financial Variable of BOK

Table 4.11

Correlation between Financial variable of BOK

	EPS	DPS	MPS	DPR	D/Y	P/E
MPS	0.96	-0.97	1	-0.94	-0.94	0.99
EPS	1	-0.99	0.96	-0.99	-0.94	0.93
DPS	-0.99	1	-0.97	0.99	0.97	-0.94

Sources: Appendix III

The above table indicates that the MPS of BOK has positive correlation with EPS and P/E ratio and has negative correlation with its DPS, DPR & D.Y. Similarly EPS of BOK has positive correlation with its MPS and P/E ratio whereas it has negative correlation with its DPS, DPR and D.Y. Likewise, the DPS has positive correlation with DPR and DY and negative correlation with its EPS, MPS and P/E/ ratio.

4.2.1.6 Correlation between Financial Variable of HBL

Table 4.12

Correlation between Financial Variable of HBL

	EPS	DPS	MPS	DPR	D/Y	P/E
MPS	0.88	0.44	1	-0.33	-0.79	0.89
EPS	1	0.54	0.88	-0.40	-0.50	0.57
DPS	0.54	1	0.44	0.56	0.07	0.31

Sources: Appendix III

The above table indicates that MPS of HBL has positive correlation with its EPS, DPS and P/E and has negative correlation with its DPR and D/Y. Similarly EPS of HBL has positive correlation with its DPS, MPS and P/E ratio and has negative correlation with its DPR and D/Y. Likewise the DPS of HBL is positively correlated with its EPS, MPS, DPR, D/Y and P/E ratio.

4.4 Major Findings

This section includes the key findings of the study obtained from the analysis of data. Conclusions derived from the findings are presented in the next chapter.

-) The NABIL has the highest mean EPS among the banks which is Rs. 93.47 and SBI has the lowest, which is Rs 23.62 the same result is seen to be Rs.92.33, Rs48.02 Rs48.21 and Rs92.74 in SCBNL, BOK, HBL and EBL respectively. Most of the firm always seeks to have more earning so that they can sustain efficiently in the competitive capital market. Therefore, earning is the indicator of firm's. Again there is higher earning consistency in EBL i.e., 7.11%, where as there is lower consistency in BOK, SBI, NABIL, HBL and SCBNL Indicating C.V. by 16.81%, 17.97%, 19.20%, 25.39%and 26.55 respectively than that of EBL.
-) The SCBNL has the highest mean DPS among selected banks where as it is lowest in SBI (i.e. Rs56 and Rs.3.42). If DPS of any firm is high, it will create positive attitude of its shareholders towards the firm, which is consequently helps to increase the market value of the share. In another words the firm is paying higher dividend implies that it is performing better. Consistency in DPS is also highest in SCBNL than that other banks representing (C.V. = 22.16%) which is lower than others.
-) Higher DPR indicates that the firm is paying higher dividend to its shareholders and lower Dividend payout ratio implies that the firm is retaining its profit to profitable investment opportunities. The mean DPR of NABIL, SCBNL, SBI, BOK, EBL and HBL are 41.75%, 62.17%, 13.77%, 29.15%, 28.72% and 33.58% respectively.

This evidence shows that SBI is retaining more its earning and it might be the consequences of the higher growth opportunities.

-) The SCBNL has the highest mean MPS among the selected banks which is Rs3943.60 and SBI has the lowest, which is Rs1070.40. Increase in MPS is the indication of better performance MPS trend over the sample period. Consistency in MPS in EBL is higher than that of others as its C.V. (i.e. 43.23%) is smallest as compared to other banks.
-) The average Dividend yield of SCBNL highest among the bank which is 1.79% and lowest one is 0.49% in SBI. Dividend yield defined the relationship between dividend per share and market value per share. It is very useful for the investors.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter focuses on summarizing the study held with the conclusions and some recommendation on the basis of findings. For this purpose, the chapter has been divided into three parts as summary, conclusion and recommendation.

5.1 Summary

The study was conducted with objectives to analyze the dividend practices and its impact on market price of stock of selected Nepalese commercial banks over the study period 2007/08 to 2011/12. Following a descriptive and

analytical research design, the sample for the study of six commercial banks listed in Nepal Stock Exchange (NEPSE). The Study is based on secondary data and the data obtained were analyzed using various descriptive statistical tools, correlation and various financial tools.

Dividend services as simple, 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 police decision is one of the 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 decisions.

Theories of dividend policies do differ some prefer resident theories that convey 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 other who argue that dividend policy does affect value to the factors of uncertainty. Many factors affect the dividend payment depending upon investors need and preference on one hand and the financing need of the financial institutions 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 earning. So distributing dividend to the share holder is effective way 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 share holders 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 factors, this study is made to analyze one of the important fact i.e. Dividend. The study covers seven commercial banks and only for last five fiscal years from 2007/08 to 2011/12. The available secondary data have been analyzed using various financial and statistical tools. So, the reliability of the conclusion of this study is determined on the accuracy of secondary data.

To make the study more reliable, different types of analysis have been conducted to find out the appropriate relationship between market price and other Variables, which affect the dividend. The theoretical statement is to study of the impact of dividend on stock price, therefore it is concluded that none of the sample firm have adopted consistent dividend policy except SCBNL. More or less the dividend policy depends on the earning per share of the company: the earning per share and dividend per share having the positive relation may also impact on market price of stock.

5.2Conclusion

The above mentioned major findings led this study to conclude that there is no uniformity in dividend policy and practices followed by Nepalese banks. Dividend is distributed as an ad-hoc or situational basis. The dividend payment is not consistent with earning and there is greater fluctuation on the trend of dividend payment. Dividend affects the market price of stock but the nature of effect would be different for different banks. There are also other factors that affect the market price of stock viz. earning per share, price earning ratio, information value of dividend decision etc. However, the MPS do not truly and uniformly reflect the actual dividend paid by joint venture banks under study. There are no significant relationships of DPS with MPS in almost all of the banks.

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

-) Above mentioned major findings led this study concludes that the earnings of banks are satisfactory in Nepalese context. Among sample banks NABIL is in leading position in terms of earning followed by SCBNL, EBL, HBL, BOK and SBI respectively.
-) It is found from the study that there is no consistency found in dividend distribution in all sample companies. The research shows that none of these companies have well defined and appropriate policy regarding dividend payments. SCBNL is paying higher dividend than other sample banks.
-) It has been found from the study that there is positive and significant relationship between market price of share and earnings per share for all sample banks. It means that there is positive effect of earning to the market price of stock in Nepalese commercial banks.

-) Though there is positive relationship between market price of share and last year's dividend for all sample banks. There is negligible effect on market price of stock due to dividend.
-) The insignificant relationship between DPS and other financial indicators like EPS and CR indicates that the dividend policy of all these companies is unscientific.
-) From the analysis it has been found that the market price of stock is affected by other variables which indicate about the rational behavior of investors.
-) Most of the companies don't seem to follow the optimum dividend policy of paying regular dividend per shareholder's expectation. It might cause uncertainty among stockholders.
-) The major findings have also led to conclude that the companies are neglecting the major factors like earning position of the firm, liquidity position while paying dividend.
-) The study deals with only examining and analyzing the dividend practices of 6 sample banks for a period covering 5 years from 2007/8 to 2011/12 due to limited time period.

5.3 Recommendation

The study has found many findings and conclusions from the presentation and analysis of the various data. Based on this study the following recommendation and suggestions can be prescribed regarding dividend policy and practices of banks.

-) The commercial banks are paying dividend without adopting any appropriate policy. Its seems impossible to increase shareholders wealth. The management of commercial banks is advised to adopt the long run dividend policy or constant payout ratio or low regular plus extra dividend policy, which helps raise the wealth of shareholders.
-) As the EPS of all the sample banks are in the fluctuating trend, it may give uncertainty to shareholders and negatively affect the market price of the respective shares. So, those banks should search the fruitful investment opportunities.
-) From the analysis, it has been found that none of the sample banks have followed consistent dividend policy as a result of which a high degree of fluctuation is observed in DPS. It may not satisfy minimum Expectations of shareholders. So, all the firms should have well defined dividend policy which helps to satisfy the investors and to create better position of firm in the capital market. For this, the concerned firms may adopt the policy of paying reasonable DPS every year as it will create positive attitudes of shareholders towards the firms, which consequently helps to increase the market value of the shares. The psychological value of the shareholders is also valued as the assets of the firm.

-)] While making dividend decision, a minor mistake may lead the bank to financial crisis. Due to this reason, it is advised to adopt optimal dividend decision based on the following criteria:
 - Optimum retention for excellent expansion & modernization of bank.
 - Stable or consistency in dividend payment.
 - Optimum dividend so the market value per share will increase rapidly i.e. net present value or shareholder's wealth can be maximized.
-)] All the firms should analyze the internal rate of return and cost of capital in deciding DPR, which helps to maximize the shareholders wealth.
-)] All the firms must accept one major fact that EPS is to be considered for determining dividend amount. The analysis shows the condition of not being able to say either significant or insignificant relationship between EPS and DPS in average. It is important to consider earning rather than neglecting it while making dividend decision.
-)] The legal rules and regulation must be in favor of investors to exercise the dividend practice and to protect the shareholders' rights.
-)] Most of the banks seem to ignore the dividend expectation of the minority shareholders. It seems necessary to be organized to promote and protect the shareholders right.
-)] The organization formed by conscious shareholders like 'Shareholder's Association of Nepal' should be encouraged to work against the management ignorance.

) Due to lack of information about securities market, the potential investors are not stimulated properly. So, seminars, workshops etc. should be organized and information's should be delivered to shareholders as well as potential investors to develop efficient securities market in Nepal

Lastly, after making this study it is realized that dividend payment practices of the commercial banks are not regular in Nepal. Banks organizations establish to run for long periods in the small economy of Nepal there are already over a two dozen banks and have neck to neck competition. So even a small wrong decision can lead to bank rupty. So it is necessity of legal provisions and rules for preserving certain policy regarding the dividend payment in the banking sectors for this purpose the concerned authority. i.e. Nepal Government, Nepal Rastra Bank, Security Board, Nepal Stock Exchange and also commercial institution should be serious about the formulation and implication of rules regarding dividend payment this will help to regularized the dividend policy of the financial sector in Nepal.

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APPENDICES

Appendix – I

EPS of Sample Banks

Banks Years	NABIL	SCBNL	SBI	BOK	EBL	HBL
2007/08	115.86	131.92	28.33	59.94	91.82	62.74
2008/09	113.44	109.99	36.18	54.68	99.99	61.90
2009/10	83.81	77.65	23.69	43.08	100.16	31.80
2010/11	70.67	69.51	24.85	44.51	83.18	44.66
2011/12	83.57	72.60	22.93	37.88	88.55	39.94

Source: Annual Report of Sample Bank provided by the NEPSE

DPS of Sample Banks

Banks Year	NABIL	SCBNL	SBI	BOK	EBL	HBL
2007/08	60	80	0	2.11	20	25
2008/09	35	50	2.11	7.37	30	12
2009/10	30	55	5.00	15	30	11.84
2010/11	30	50	5.00	16.75	50	16.84
20011/12	40	45	5.00	21.32	1.58	13.42

Source: Annual Report of Sample Banks Provided by the SEBON

$$\text{DPR} = \frac{\text{DPS}}{\text{EPS}} \times 100$$

DPR of Sample Bank

Source : Annul Report of Sample Banks provided by the SEBON

Banks Years	NABIL	SCBNL	SBI	BOK	EBL	HBL
2007/08	$\frac{60}{115.86} \times 100 = 51.79$	$\frac{80}{131.92} \times 100 = 60.64$	$\frac{0}{28.33} \times 100 = 0$	$\frac{2.11}{59.94} \times 100 = 3.52$	$\frac{20}{91.82} \times 100 = 21.78$	$\frac{25}{62.74} \times 100 = 39.85$
2008/09	$\frac{35}{113.44} \times 100 = 30.85$	$\frac{50}{109.99} \times 100 = 45.46$	$\frac{2.11}{36.18} \times 100 = 5.83$	$\frac{7.37}{54.68} \times 100 = 13.48$	$\frac{30}{99.99} \times 100 = 30.00$	$\frac{12}{61.90} \times 100 = 19.39$
2009/10	$\frac{30}{83.81} \times 100 = 35.79$	$\frac{55}{77.65} \times 100 = 70.83$	$\frac{5}{23.69} \times 100 = 21.10$	$\frac{15}{43.08} \times 100 = 34.82$	$\frac{30}{100.16} \times 100 = 29.95$	$\frac{11.84}{31.80} \times 100 = 37.23$
2010/11	$\frac{30}{70.67} \times 100 = 42.45$	$\frac{50}{69.51} \times 100 = 71.93$	$\frac{5}{24.85} \times 100 = 20.12$	$\frac{16.75}{44.51} \times 100 = 37.63$	$\frac{50}{83.18} \times 100 = 60.11$	$\frac{16.84}{44.66} \times 100 = 37.71$
2011/12	$\frac{40}{83.57} \times 100 = 47.86$	$\frac{45}{72.60} \times 100 = 61.98$	$\frac{5}{22.93} \times 100 = 21.80$	$\frac{21.32}{37.88} \times 100 = 56.28$	$\frac{1.58}{88.55} \times 100 = 1.78$	$\frac{13.42}{39.94} \times 100 = 33.70$

Source : Annul Report of Sample Banks provided by the SEBON

$$\text{Dividend Yield (D.Y)} = \frac{\text{DPS}}{\text{MPS}} \times 100$$

DY of Sample Banks

Banks Years	NABIL	SCBNL	SBI	BOK	EBL	HLB
2007/08	$\frac{60}{5275} \times 100 = 1.14$	$\frac{80}{6830} \times 100 = 1.17$	$\frac{0}{1511} \times 100 = 0$	$\frac{2.11}{2350} \times 100 = 0.09$	$\frac{20}{3132} \times 100 = 0.64$	$\frac{25}{1980} \times 100 = 1.26$
2008/09	$\frac{35}{4899} \times 100 = 0.71$	$\frac{50}{6010} \times 100 = 0.83$	$\frac{2.11}{1900} \times 100 = 0.11$	$\frac{7.37}{1825} \times 100 = 0.40$	$\frac{30}{2455} \times 100 = 1.22$	$\frac{12}{1760} \times 100 = 0.68$
2009/10	$\frac{30}{2384} \times 100 = 1.26$	$\frac{55}{3279} \times 100 = 1.68$	$\frac{5}{741} \times 100 = 0.67$	$\frac{15}{840} \times 100 = 1.78$	$\frac{30}{1630} \times 100 = 1.84$	$\frac{11.84}{816} \times 100 = 1.45$
2010/11	$\frac{30}{1252} \times 100 = 2.40$	$\frac{50}{1800} \times 100 = 2.78$	$\frac{5}{565} \times 100 = 0.88$	$\frac{16.75}{570} \times 100 = 2.94$	$\frac{50}{1094} \times 100 = 4.57$	$\frac{16.84}{575} \times 100 = 2.93$
2011/12	$\frac{40}{1355} \times 100 = 2.95$	$\frac{45}{1799} \times 100 = 2.50$	$\frac{5}{635} \times 100 = 0.79$	$\frac{21.32}{628} \times 100 = 3.39$	$\frac{1.58}{1033} \times 100 = 0.15$	$\frac{13.42}{653} \times 100 = 2.06$

Source : Annual Report of Sample Banks Provided by the SEBON

MPS of Sample Bank

Banks Year	NABIL	SCBNL	SBI	BOK	EBL	HBL
2007/08	5275	6830	1511	2350	3132	1980
2008/09	4899	6010	1900	1825	2455	1760
2009/10	2384	3279	741	840	1630	816
2010/11	1252	1800	565	570	1094	575
2011/12	1355	1799	635	628	1033	653

Source : Annual Report of Sample Banks provided by the SEBON.

P/E Ratio of Sample Banks

Banks Year	NABIL	SCBNL	SBI	BOK	EBL	HBL
2007/08	45.53	51.77	53.34	39.21	34.11	31.56
2008/09	43.19	54.64	52.52	33.37	24.55	28.43
2009/10	28.45	42.23	31.28	19.50	16.27	25.66
2010/11	17.72	25.90	22.74	12.81	13.15	12.87
2011/12	16.21	24.78	27.69	16.58	11.67	13.54

Source : Annual Report of Sample Banks Provided by the SEBON

Appendix - II

Year	EPS of SCBNL (x)	$x - \bar{x}$	$f(x - \bar{x})^2$
2007/08	131.92	39.59	1567.3681
2008/09	109.99	17.66	311.8756
2009/10	77.65	-14.68	215.5024
2010/11	69.51	-22.82	520.7524
2011/12	72.60	-19.73	389.2729
	$\sum x = 461.67$		$\sum (x - \bar{x})^2 = 3004.7714$

$$\bar{x} = \frac{\sum x}{n} = \frac{461.67}{5}$$

$$= 92.33$$

$$S.D. = \sqrt{\frac{\sum (x - \bar{x})^2}{n}} = \sqrt{\frac{3004.7714}{5}} = 24.51\%$$

$$C.V. = \frac{\text{Standard Deviation}}{\bar{x}} \times 100 = \frac{24.51}{92.33} \times 100$$

$$= 26.55\%$$

Year	EPS of NABIL (x)	$x - \bar{X}$	$f_x \cdot (x - \bar{X})^2$
2007/08	115.86	22.39	501.3121
2008/09	113.44	19.97	398.8009
2009/10	83.81	-9.66	93.3156
2010/11	70.67	-22.80	519.84
2011/12	83.57	-9.9	98.01
	$\sum x = 467.35$		$\sum (x - \bar{X})^2 = 1611.2786$

$$\bar{X} = \frac{\sum x}{n} = \frac{467.35}{5} = 93.47$$

$$= 93.47$$

$$S.D. = \sqrt{\frac{\sum f_x (x - \bar{X})^2}{n}} = \sqrt{\frac{1611.2786}{5}} = 17.95\%$$

$$C.V. = \frac{\text{Standard Deviation}}{\bar{X}} \times 100 = \frac{17.95}{93.47} \times 100$$

$$= 19.20\%$$

Note: Mean $\bar{X}$, standard deviation (S.D.) and coefficient of variation (C.V) of EPS, DPS, MPS, DPR, DY and P/E ratio of all the Sample Bank are computed using the above model, Result of the computation are as follows.

EPS

EPS	NABIL	SCBNL	SBI	BOK	EBL	HBL
Mean	93.47	92.33	27.32	48.02	92.74	48.21
S.D.	17.95	24.51	4.86	8.07	6.59	12.24
C.V. (%)	19.20	26.55	17.79	16.81	7.11	25.39

DPS

DPS	NABIL	SCBNL	SBI	BOK	EBL	HBL
Mean	39	56	3.42	12.51	26.32	15.82
S.D.	11.14	12.41	2.04	6.88	15.75	4.93
C.V. (%)	28.56	22.16	59.65	54.99	59.84	31.16

DPR

DPR	NABIL	SCBNL	SBI	BOK	EBL	HBL
Mean	41.75	62.17	13.77	29.15	28.72	33.58
S.D.	7.65	9.51	9.07	18.67	18.77	7.36
C.V. (%)	18.32	15.30	65.87	64.05	65.36	21.92

MPS

MPS	NABIL	SCBNL	SBI	BOK	EBL	HBL
Mean	3033	3943.6	1070.4	1242.6	1868	1156.8
S.D.	1727.27	2108.90	535.89	715.23	807.58	591.60
C.V. (%)	56.95	53.48	49.88	57.56	43.23	51.14

DY

DY	NABIL	SCBNL	SBI	BOK	EBL	HBL
Mean	1.69	1.79	0.49	1.72	1.68	1.68
S.D.	0.8414	0.7410	0.3630	1.3176	1.5161	0.7663
C.V. (%)	49.79	41.40	74.08	76.60	90.24	45.61

P/E Ratio

P/E	NABIL	SCBNL	SBI	BOK	EBL	HBL
Mean	30.22	39.86	37.51	24.29	19.95	22.41
S.D.	12.43	12.56	12.88	10.19	8.36	7.75
C.V. (%)	41.13	31.51	34.34	41.95	41.90	34.58

Appendix - III

Calculation of Correlation Coefficient between MPS and DPS of NABIL

Calculated Table of Correlation Coefficient between MPS and DPS

Year	MPS (x)	DPS (Y)	$\bar{x}$	$(X - \bar{x})^2$	$\bar{y}$	$(Y - \bar{y})^2$	$\sum (X - \bar{x})(Y - \bar{y})$
2007/08	5275	60	2242	5026564	21	441	47082
2008/09	4899	35	1866	3481956	-4	16	-7464
2009/10	2384	30	-649	421201	-9	81	5841
2010/11	1252	30	-1781	3171961	-9	81	16029
2011/12	1355	40	-1678	2815684	1	1	-1678
	$\sum X = 15165$	$\sum Y = 195$		$\sum (X - \bar{x})^2 = 14917366$		$\sum (Y - \bar{y})^2 = 620$	$\sum (X - \bar{x})(Y - \bar{y}) = 59810$

$$\bar{X} = \frac{\sum X}{N} = \frac{15165}{5} = 3033$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{195}{5} = 39$$

$$S.D.x = \sqrt{\frac{\sum (X - \bar{x})^2}{n}} = \sqrt{\frac{14917366}{5}} = 1727.27$$

$$S.D.y = \sqrt{\frac{\sum (Y - \bar{y})^2}{n}} = \sqrt{\frac{620}{5}} = 11.44$$

$$\text{COV}(X, Y) = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{N}$$

$$= \frac{59810}{5}$$

$$= 11962$$

$$r = \frac{\text{Cov}(X, Y)}{\sigma_x \sigma_y}$$

$$= \frac{11962}{1727.27 \times 14.41}$$

$$= .62$$

Calculation of Correlation Coefficient between MPS and EPS of NABIL

Calculated Table of Correlation Coefficient between MPS and EPS

Year	MPS (x)	EPS (Y)	$X - \bar{X}$	$(X - \bar{X})^2$	$Y - \bar{Y}$	$(Y - \bar{Y})^2$	$(X - \bar{X})(Y - \bar{Y})$
2007/08	5275	115.86	2242	5026564	22.39	501.3121	50198.38
2008/09	4899	113.44	1866	3481956	19.97	398.8009	37264.02
2009/10	2384	83.81	-649	421201	-9.66	93.3156	6269.34
2010/11	1252	70.67	-1781	3171961	-22.80	519.84	40606.80
2011/12	1355	83.57	-1678	2815684	-9.90	98.01	16701.30
	$\sum X = 15165$	$\sum Y = 467.35$		$\sum (X - \bar{X})^2 = 14917366$		$\sum (Y - \bar{Y})^2 = 1611.2786$	$\sum (X - \bar{X})(Y - \bar{Y}) = 151039.84$

$$\bar{X} = \frac{\sum X}{N} = \frac{15165}{5} = 3033 \quad \bar{Y} = \frac{\sum Y}{N} = \frac{467.35}{5} = 93.47$$

$$S.D.x = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{14917366}{5}} = 1727.27$$

$$S.D.y = \sqrt{\frac{\sum (Y - \bar{Y})^2}{n}} = \sqrt{\frac{1611.2786}{5}} = 17.95$$

$$COV(X, Y) = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{N}$$

$$= \frac{151039.84}{5}$$

$$= 30207.968$$

$$r = \frac{Cov(X, Y)}{\sigma_x \sigma_y}$$

$$= \frac{30207.968}{1727.27 \times 17.95}$$

$$= .97$$

Calculation of Correlation Coefficient between MPS and DPS of SCBNL

Calculated Table of Correlation Coefficient between MPS and DPS

Year	MPS (x)	DPS (Y)	$x - \bar{x}$	$(x - \bar{x})^2$	$Y - \bar{Y}$	$(Y - \bar{Y})^2$	$(x - \bar{x})(Y - \bar{Y})$
2007/08	6830	80	2886.40	8331304.96	24	576	69273.60
2008/09	6010	50	2066.40	4270008.96	-6	36	-12398.40
2009/10	3279	55	-664.60	441693.16	-1	1	664.60

2010/11	1800	50	-2143.60	4595020.96	-6	36	12861.60
2011/12	1799	45	-214.60	4599303.16	-11	121	23590.60
	$\sum X = 19718$	$\sum Y = 280$		$\sum (X - \bar{X})^2 = 22237337.20$		$\sum (Y - \bar{Y})^2 = 770$	$\sum (X - \bar{X})(Y - \bar{Y}) = 93992$

$$\bar{X} = \frac{\sum X}{N} = \frac{19718}{5} = 3943.60 \qquad \bar{Y} = \frac{\sum Y}{N} = \frac{280}{5} = 56$$

$$S.D.x = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{22237337.20}{5}} = 2108.9$$

$$S.D.y = \sqrt{\frac{\sum (Y - \bar{Y})^2}{n}} = \sqrt{\frac{770}{5}} = 12.41$$

$$\text{COV}(X, Y) = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{N}$$

$$= \frac{93992}{5}$$

$$= 18798.40$$

$$r = \frac{\text{Cov}(X, Y)}{\sigma_x \sigma_y}$$

$$= \frac{18798.40}{2108.90 \times 12.41}$$

$$= .72$$

Calculation of Correlation Coefficient between MPS and EPS of SBI

Calculated Table of Correlation Coefficient between MPS and EPS

Year	MPS (x)	EPS (Y)	$x - \bar{x}$	$(x - \bar{x})^2$	$Y - \bar{Y}$	$(Y - \bar{Y})^2$	$(x - \bar{x})(Y - \bar{Y})$
2007/08	1511	28.33	440.60	194128.36	1.01	1.0201	445.006
2008/09	1900	36.18	829.60	688236.16	8.86	78.4996	7350.256
2009/10	741	23.69	-329.40	108504.36	-3.63	13.1769	1195.722
2010/11	565	24.85	-505.40	255429.16	-2.47	6.1009	1248.338
2011/12	635	22.93	-435.40	189573.16	-4.39	19.2721	1911.406
	$\Sigma X = 5352$	$\Sigma Y = 135.98$		$\Sigma (x - \bar{x})^2 = 1435871.20$		$\Sigma (Y - \bar{Y})^2 = 118.0696$	$\Sigma (x - \bar{x})(Y - \bar{Y}) = 12150.728$

$$\bar{x} = \frac{\Sigma X}{N} = \frac{5352}{5} = 1070.40 \quad \bar{y} = \frac{\Sigma Y}{N} = \frac{135.98}{5} = 27.196$$

$$S.D.x = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}} = \sqrt{\frac{1435871.20}{5}} = 535.89$$

$$S.D.y = \sqrt{\frac{\Sigma (Y - \bar{Y})^2}{n}} = \sqrt{\frac{118.0696}{5}} = 4.86$$

$$\text{COV (X, Y)} = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{N}$$

$$= \frac{12150.728}{5}$$

$$= 2430.1456$$

$$r = \frac{\text{Cov(X, Y)}}{\sigma_x \sigma_y}$$

$$= \frac{2430.1456}{535.89 \mid 4.86}$$

$$= .93$$

Calculated table of correlation coefficient between MPS and DPS and MPS and other financial variables:

NABIL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	2.97	0.62	1	- 0.083	-0.85	0.99
EPS	1	0.67	0.97	-0.02	-0.75	0.95
DPS	0.67	1	0.62	0.72	-0.19	0.56

SCBL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.97	0.72	1	-0.65	-0.93	0.95
EPS	1	0.80	0.97	-0.59	-0.84	0.85
DPS	0.80	1	0.72	-0.003	-0.50	0.57

SBI

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.93	-0.84	1	-0.90	-0.94	0.82
EPS	1	0.64	0.93	-0.73	-0.77	0.72
DPS	0.64	1	-0.84	0.99	0.96	0.81

EBL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.45	-0.07	1	-0.13	-0.84	0.99
EPS	1	-0.12	0.45	-0.26	-0.45	0.34
DPS	-0.12	1	-0.07	0.99	0.94	-0.06

BOK

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.96	-0.97	1	-0.94	-0.94	0.99
EPS	1	-0.99	0.96	-0.99	-0.94	0.93
DPS	-0.99	1	-0.97	0.99	0.97	-0.94

HBL

	EPS	DPS	MPS	DPR	D/Y	P/E
MPS	0.88	0.44	1	-0.33	-0.79	0.89
EPS	1	0.54	0.88	-0.40	-0.50	0.57
DPS	0.54	1	0.44	0.56	0.07	0.31