Chapter 1

1.1 Background of the study-

Nepal, with an area of 147,181 square km and around 23.2m populations, lies in the lap of Himalayas between the two giant neighbors, China and India. These two countries have been linked with Nepal from the time immemorial by geographical, cultural, economic and social ties.

The Nepalese economy is quite dynamic with favorable economic indicators, viz., stable raises strong balance of payments position and average annual economic growth of more than 4% during the decade of the 1990's. These descriptions however hide the fact that Nepal is an LDC with widespread poverty and a gross national capita income of US $240 in fiscal year 2004/2005, with the country ranking 136 out of 177 countries in the United Nation Development Program's human development index.

The country's macroeconomic policies have been guided to facilitate integration with global economy Nepal Rastra Bank, the Central Bank of Nepal has played an important role by ensuring domestic financial stability for facilitating macroeconomic development.
It was established in the year 1956 under Nepal Rastra Bank Act 1955, to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial institution to presently having one hundred and ninety eight.

Within a period of two an half decades, the Nepalese financial system has grown significantly both in terms of business volume and the size of assets and market. This period saw a number of financial institutions coming into existence with varied nature of operations and offering a wide range of financial services. Since the 2nd half of the1980's [1]significant achievement has been made in the Nepalese financial system. The primary objective of initiating different reform measures was to enhance efficiency in financial services.

Like most of the developing countries, Nepal has a special characteristic of bank dominated financial system. As the domestic capital and stock markets are at the initial stage of development, the banking system largely dominates the entire financial sector. The commercial banks have leading shares in total assets / liabilities (86.7%) and branch network in the financial sector. That's

why the commercial banks are the major players in the system and occupies a majority of shares in the financial sector. It is of a critical importance for private sector development, to ensure that national savings would be mobilized and intermediated at competitive interest rates to meet the private sectors financing needs, as its role in the economy progressively expands. Nepal's financial sector is in a critical stage due to various external and internal macro economic situations. The main problem of the current situation has been inefficiency, inadequate financial discipline, as well as political and other influences in leading decisions.

To accelerate economic activities toward growth, encourage proficient banking service, economic development, industrialization and growth of nation, three joint venture banks, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited, were came into existence in 2041, 2042, 2043 respectively. Similarly when the democratically elected government adopted the liberal and market oriented economic policy. The number of joint venture banks has increased dramatically. Joint venture banks are established by joining different forces and ability to achieve common goal with each of the partners. They are efficient and effective monetary financial institutions in modern banking fields than other old type banks in Nepalese context. D.P Gupta has defined the joint venture as "A joint venture is the joining of forces between two or more enterprises for the purposes of carrying out specific operation (industrial or commercial investment production or trade").

In our context, the bank or financial companies work with the objective of developing economy. These companies operate to generate earnings. The shareholders or public money is invested in different sector. After such investment the profit generated from it is distributed among the shareholders. The shareholders always expect to get rewarded out of their investment in return. Such sharing or distribution to those who provided equity to the institutions is referred as dividend. It is the distribution of the portion of earnings made by the firm out of the entire earnings to the shareholders as the return to their investment. But all the earnings are not distributed as dividend but the portion of the net earning is retained in the firm which is termed as retained earning, which is used as internal financing for the expansion of the company's dividend policy therefore plays a crucial role to determine the division of earnings between payment to stockholders and reinvestment in the firm. It is one of the major decisions of financial management because it affects the value of the firm as well as overall financing decision like financial structure, the flow of funds, corporate liquidity and investor's attitudes. It is the work of management to adopt the appropriate dividend policy and also determines the forms of dividend. Under this policy, it is determined that what percent of the earnings of the firm is distributed to the

shareholders and what percent of earnings is retained in the firm which is desirous for the growth of the firm. Retained earnings are one of the most significant sources of funds for financing corporate growth, but dividend constitutes the cash flows that accrue to stockholders.

The issue of how much a company should pay its stockholders, as dividend is one that has concerned managers for a longtime. It has often been pointed out that a company that arises its dividend often experiences an increase in its stock price and that a company that lowers its dividend has a falling stock price. These consequences suggest that dividend do matter in affecting stock price. It is therefore, a wise policy to maintain a balance between dividend declaration and profit retention.

In Nepal, only few companies are able to pay dividend. The government is unable to receive dividend from most of the public enterprises as documented in past several years' budget speech and economic survey published by HMG, Ministry of Finance. It is because they are unable to generate earnings due to number of causes beyond their control and a question of dividend is really a ticklish problem. Some corporations are unable to minimize the losses through the better utilization of capital. Some corporations are following a balanced policy dividend declaration and profit retention. According to the study made by management consultants and company, "it is found that the government never received a dividend more than 1.07%aggregate net worth. It is, thus, obvious that neither corporations are capable of generation sufficient earnings for dividend payment nor the government is expecting dividends since it has been observed that dividend payment is practically a crucial problem of the corporations."

But after the establishment of joint venture banks, they have shown new trend of paying dividend to shareholders that has brought new hope for productive mobilization of funds. So dividend policy is assumed as the major decision of financial management. Among foreign joint venture banks, Nepal Arab Bank Limited has been able to pay token dividend of Rs. 5 per share, while other two banks Nepal Investment Bank Limited has given dividend of 20% and 15% in the years 2003 and 2004. Standard chartered Bank Nepal Limited has given signal to pay dividend in the near future. But the appreciation in the market value of shares of these joint venture banks has, without any doubt; provide adequate sense of protection to shareholders.

Thus, among the several commercial banks operating in Nepal, this study aims to focus on prevailing practices and policies of the commercial banks namely Nepal Investment Bank Limited and Standard chartered Bank Nepal Limited.

1.2 Focus of the study-

Finance is composed of three functions; investment, financing and dividend. All those having even little knowledge about finance are interested in investment. When the matter arises regarding investment, the stock market arises regarding investment; the stock market definitely drags the attention of every body. In Nepalese context, stock market is assumed at least understood but widely discussed in society. People think investment of stock market is like ever-winning game without knowing the reality. However, investment is ever followed by risk. Therefore an investor must think about risk before making an investment.

By now the number of commercial banks has reached 25 and few more are in the pipeline. The rapid increase in the number of banks shows that many investors have found the banking business very attractive. People are more interested to invest in share expecting greater return. In this case dividend policy plays a vital role in attracting potential investor. Therefore this study will mainly focus on whether the sample banks are paying dividend uniformly or not. The study will also draw its attention on the impacts of value of stock on dividend and finally the relationship of dividend policy with various financial indicators like Earning per share (EPS), Dividend per share (DPS), Market value per share (MPS), and Dividend payout ratio (DPR) etc.

Dividend is one of the major reasons for which public are interested to invest money on the shares of bank or other institution. It refers to the portion of earning that is distributed to the shareholders in return to investment in the shares. Normally, that business, which is running at profit, is capable to pay dividend. The amount that is distributed as dividend should be adequate to meet the normal expectations of shareholders. Dividend can be paid in cash, shares and securities or a composition of these.

In Nepal, only few companies are able t o pay dividend. The government is unable to receive dividend from most to the public enterprises as document in past several years' budget speech and economic survey published by HMG, Ministry of Finance.

Thus, among the several commercial bank operating in Nepal, this study aims to focus on prevailing practice and policies of two joint venture commercial

banks namely Nepal Investment Bank Limited and Standard chartered Bank Nepal Limited regarding payments of dividend.

1.3 Statement of Problem-

Small investors have already suffered much from the investment in equity shares. Investment in government securities also has become a low yield investment portfolio. As such degree of risk has gone up in each of the investment areas. In such a situation an investor has to take much precaution in deciding investment portfolios. Global and national economic slowdown has swallowed many investment opportunities.

Nepalese commercial banks and public enterprises listed in NEPSE have not been following appropriate dividend policy. There is not any consistency and clear-cut policy on distribution of dividend. There is no limit in identification of the problems about dividend policy and practices that are occurring in the different listed companies. This present research is intended to address the following research question.

a.) How is dividend pattern of NIBL and SCNBL?
b.) What is the effect of dividend decision on stock price?
c.) How is the effect of dividend decision on liquidity position of the selected banks?

1.4 Objectives of the study-

The study has been done with a motive:

1. To highlight the dividend practice of the selected banks.

2. To identify the type of dividend policy being followed by the banks.

3. To find the relationship between dividend per share with various important variables such as earning per share, net profit, net worth and stock prices.

4. To provide suggestions and possible guidelines to overcome various problems on the basis of findings.

5. To analyze whether the dividend issuance attract the investors or not.

1.5 Importance of the study-

Basically this study is important for the respective management or owners of the selected banks, assisting them to implement the appropriate dividend policy. This will also be helpful to the shareholders in identifying the productivity of their investment and justify the rationality of their investment decision. Similarly the study will also be beneficial to the policy makers. The major findings of the study may be useful in the formulation of the policy regarding dividend. Finally this study has expected that it would be fruitful to financial analysts, financial agencies, stockbrokers, potential investors, government, researchers, customers and all other interested individuals as well as organizations. It will be a matter of interest for the academicians, students and investors. They will be able to understand the current dividend related practices in Nepal. It might also shade light to the investors on where to invest. They might be able to identify the correct investment from all the investment opportunities in front of them.

1.6 Limitations of the study-

This study is conducted considering some limitations, which affects the result and conclusions to some extent.

1. The study is confined to fiscal years 2002 to 2009.

2. This is a comparative study. So only two banks are selected for the study. Comparison with only one of the contemporary firms will not present the clear position of any firm.

3. This thesis has been prepared on the basis of the published secondary data to the two banks which has been manipulated with. Therefore it may not be hundred percent reliable.

4. Financial statements i.e. income statement (P/L a/c) and Balance Sheet are the only available sources of information.

5. The data related only to cash dividend are analyzed and interpreted.

6. Only the dividend policy cannot establish the position of the banks. Other monetary factors like marketing, goodwill etc. play major deciding factor for the overall status of any firm.

1.7 Organization of the study-

In these study only five chapters has been included which are as follows:

Chapter 1: Introduction

This chapter deals with the background of the study, focus of the study, statement of problem, objective of the study, limitation of the study and organization of the study.

Chapter 2: Review of literature

This chapter includes conceptual framework, theoretical review and review of related studies.

Chapter 3: Research Methodology

This chapter covers research design, population and sample sources and nature and sources of data, data gathering procedure, methods of analysis of data, analytical tools etc.

Chapter 4: Presentation and analysis of data

This chapter includes presentation and analysis of the data that has been gathered. It helps to draw conclusion using various methods mentioned in research methodology.

Chapter 5: Summary, conclusion and recommendation

This is the final chapter that concludes the research with necessary suggestions and recommendations.

Appendix and bibliography has been presented in the last part of the study.

Chapter- 2

Review of Literature

For the purpose of this research, it is viewed necessary to review literatures of the concerned area, which will help me to get clear ideas, opinions, and other concepts, which provide very useful inputs in this research work. This chapter emphasizes about the literatures such as books, journals, research paper and other studies related to dividend policy. This chapter is dividend into two parts as conceptual framework and review of previous studies on the relevant field.

2.1 Conceptual Framework-

Dividend decision is an integral part of financial management decisions. It is in the sense that the firm has to choose between distributing the profits to the shareholders and reinvesting it to finance the business. The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders in return to their investment and the amount to be retained in the firm. It affects the financial structure, the flow of funds, corporate liquidity and investor's attitudes. It is relevant for all surrounding that mobilizes funds in terms of return and investment. Thus, it is one of the central decision area related to policies seeking to maximize the value of firm's common stock.

"Dividends refer to that portion of retained earnings that is paid to stockholders while dividend policy refers to the policy or guidelines that management uses in establishing the portion of retained earnings that is paid in dividends".
(Mather: 1979: 297)

The policy of a company in the division of its profits between distribution of shareholders as dividend and retention for its investment is known as dividend policy. All aspects and questions related to payment of dividend are contained in dividend policy. Generally, dividends are paid in the form of cash, which reduces the cash balance of the company. There is a reciprocal relationship between retained earnings and cash dividends. If retained earnings are kept more by the company, less will be the dividend and vice-versa. The decision depends upon the objective of the management for wealth maximization.

What and how much it is desirable to pay dividend is always a matter of dispute because shareholders expect higher dividend from corporations, as it tends to increase their current wealth whereas retention of earning is

desirable for the growth of firm. These two objectives of the dividend policy are always in conflict. There is not yet consensus on whether the firms should follow certain pattern to distribute dividend and retained earnings. However, there are different decision models developed to analyze the situation and reach decision. These decisions models are conflicting and consider the different aspects of the firm. One school of thought argues that dividend payment has no impact on valuation of a firm whereas other theories of dividend decision argues dividend to the active variables in valuation of firm. These different models on the relationship between dividend and the value of the firm will be discussed later on in this chapter in detail.

2.1.1 Concept of Dividend-

The various concepts of dividend defined in various books of finance are discussed below-

1. Residual concept-

   Dividend is the residue left after meeting all obligations and adjusting for retention of earnings and other provisions. It is residue since shareholders get dividends only when there exists balance of earnings after paying fixed obligations such as operating expenses, interest, provisions for depreciation, and setting aside reserves for future contingencies.

   So, dividend policy is totally passive in nature "when we treat dividend policy as strictly a financing decision, the payment of cash dividends is a passive residual."

   (Van Horne: 1993; 327)

2. Discretionary concept-

   When the board of directors declares the amount of dividend, it is known as discretionary dividend. According to the concept, dividend payment is one of directors' decisions and so they use discretion in declaration of dividend. Corporations' charter vested powers to board of directors and it is up to their discretion that determines what and how much to pay by way of dividends stockholders.

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

   (Cooke and Bomeli; 1967: 180)

   Even in the context of Nepalese corporations, the payment of dividends purely vested in the board of directors of corporations, and it (the power to declare dividend to the board of directors) is also insisted by

the corporate acts. These are not any legal rights to demand any part of profit in the form of dividends by the ordinary shareholders because profits are the property of the corporations and not of individual shareholders.

3. Liability concept-

Dividend once declared by the board of directors becomes a liability of the corporation. "When the board of directors of a solvent corporation declares a cash dividend, the amount declared becomes an obligation to pay."(Kent: 1967: 589). If the directors avoid payment of dividend after declaration, the shareholders would have a right to take action against the directors to force payment. The dividends declared are treated as liabilities in the balance sheet if the shareholders do not come to claim in time.

4. Pro-Rata distribution concept-

A dividend is a pro-rata distribution of cash, other assets, promises to pay, or addition stock to the shareholders of a corporation chargeable against its surplus accounts, or (for certain liquidating dividends only) against its capital stock accounts. The pro-rata distribution refers all shares of outstanding stock, or all shares of a given class, participate equally in whatever is distributed. Thus, under this concept all shareholders enjoy equal rights according to their proportionate shareholders on the profits or gains distributed by the corporations.

2.1.2 Conflicting Theories on Dividends-

Basically, there are two schools of thought on dividend policy, which have been expressed in the theoretical literature of finance. One school, associated with Myron Gordon and John Linter, among others, holds the capital gains expected to result from earnings retention are riskier than are dividend expectations. It also holds that investors give more emphasis to the present dividend more than future capital gain. Investors are not indifferent between current dividend and retention of earnings with the prospects of future dividends and retention of earnings with the prospects of the future dividends. Capital gain and both accordingly, these theorists suggest that the earnings of a firm with a low payout ratio are typically capitalized at the higher rates than the earnings of a high payout firm, other things held constant.

Another school of thought, associated with Merton Miller and Franco Modigliani, holds that investors are basically indifferent to return of earnings with the prospects of future dividends and capital gain. When firms raise or

lower the dividends, their stock prices tend to raise or fall in like manner. They argue that, given the investment decision of the firm, the value of firm is determined safely by the firms earning power and that the manner in which the earning split between dividends and retained earnings does not affect the value of firm. In other words, when an investment decision of the firm is given, dividend decisions, the split of earnings between dividends and retained earnings, is of no significance in determining the value of firm.

2.1.3 Types of Dividend (Forms of Dividend)-

Though cash dividend is assumed as the most popular form of dividend, co-operation need to follow a various types of dividend in view of the objective of the objectives and the policies, which they implement. In Nepalese context, "the type of dividend that corporations follow is partly of a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plans and polices". (Shrestha; 1980; 670). According to changing needs of corporations, dividend is being distributed in several forms viz, cash dividend, stock dividend (bonus share issue), script dividend, property dividend, optional dividend and bond dividend. But in Nepal and India only two types of dividend namely cash dividend and stock dividend are being practiced.

1 Cash dividend-
Cash dividend is one form of dividend, which is distributed to shareholder in cash out of earnings of company.

2 Stock Dividend-
A stock dividend represents a distribution of shares in addition to the existing shareholders. This has the effect of increasing the number of outstanding shares of the company.

3 Scrip dividends-
A scrip dividend is issued when company has been suffering from the cash problem and does not permit the cash dividend, but has earned profit. A dividend paid in promissory notes is called a scrip dividend. Scrip is a form of promissory notes promising to pay the holder at specified later date.

4 Property dividends-
It is also known by the name of liquidating dividends. It involves a payment of assets\property in any form other than cash.

5 Optional dividends-
The optional dividend is, in fact, not a kind of dividend but simply a choice of dividend given to the shareholders to accept either cash or stock dividend.

6 Bond dividends-
This type of dividend is distributed to the shareholders in the form of bond. It helps to postpone the payment of cash. In other words, company declares dividend in the form of its own bond with a view to avoid cash outflows. They are issued rarely. They are long-term enough to fall beyond the current liability group. The stockholders become secured creditors if the bond carries lien on assets. However, this is not practiced in Nepalese corporations.

2.1.4 Residual Theory of Dividends-

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

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

According to this concept, dividend policy is totally passive in nature. When we treat dividend policy as strictly a financing decision, the payment of cash dividend is a passive residual.

2.1.5 Stability of dividends-

Stability of dividends means regularity in paying some dividend annually, even though the amount of dividend may fluctuate from year to year and may not be related with earnings. Stability or regularity of dividends is considered as a desirable policy by the management of most companies. Shareholders also generally prefer stable dividends because all other things being of the

same, stable dividends may have a positive impact on the market price of the share.

"By Stability" we mean maintaining its position in relation to a dividend trend line, preferably one that is upward slopping. In other words, the term dividend stability refers to the consistency or lack of variability in the stream of dividends, in more precise term; it means that a certain minimum amount of dividend is paid out.

Three distinct forms of such stability may be distinguished.
1 Constant dividend per share:
According to this form of stable dividend policy, a company follows a policy of paying a certain fixed amount per share as dividend. The fixed dividend amount would be paid year after year, irrespective fluctuation in the earnings. Investors who have dividends as the only source of their income prefer the constant dividend policy.

2 Constant payout ratio:
Constant or target payout ratio is a form of stable dividend policy followed by some companies. The term payout ratio refers to the ratio of dividend to earnings or the percentage share of earnings used to pay dividend. With constant\ target payout ratio, affirm pays a constant percentage of net earnings as dividend to the shareholders. In other words, a stable dividend payout ratio implies that the percentage of earnings paid out each year is fixed. Accordingly, amount of dividend will fluctuate in direct proportion to earnings and are likely to be highly volatile in the wake of wide fluctuations in the earnings of the company.

3 Stable rupee dividend plus extra dividend
A policy of paying a low regular dividend plus a year-end extra in good years is a compromise between the previous two policies. Under this policy, a firm usually pays fixed dividend to the shareholders and in years of marked prosperity additional or extra dividend is paid over and above the regular dividend. As soon as normal conditions return, the firm cuts the extra dividend and pays the normal dividend per share.

2.1.6 Factors influencing dividend policy-

Dividend policy, One of the major decisions of managerial finance determines that what percentage of the earnings of the firm is distributed to its shareholders and what percentage of the earnings is retained in the firm, which is desirous for the growth of the firm. Dividends are desirable to its

shareholders because it tends to increase their current wealth whereas retained earnings are desirable for the firm to exploit investment opportunities as the internal source of financing. So, in order to develop a long-term dividend policy, the directors should aim at bringing a balance between the desire of shareholders and the needs of the company. The firm's decision regarding the amount of earnings to be distributed as dividends depends on a number of factors. The factors, which restrict the firm's ability to declare and pay dividends, are discussed below:

1 Legal restrictions:

a) The surplus rule:

According to surplus rule, dividend should be paid out of surplus. If there is no surplus or profits, dividend cannot be legally declared.

b) The insolvency rule:

The insolvency rule states that dividends cannot de paid if company is insolvent or if a payment would result in insolvency. (i.e., when liabilities exceed assets.)

c) Capital Impairment rule:

According to this rule, dividend should not be paid if a firm's capital has been impaired or if dividend payment will cause capital to become impaired. It means dividends should not be paid out of paid-up capital.

2 Bond indentures:

Debt contracts generally restrict dividend payments to earning generated after the loan was granted. Also, debt contracts often stipulate that no dividends can be paid unless the current ratio, the times interest- earned ratio and other safety ratios exceed stated minimums.

3 Possibility of accelerating or delaying projects:

The ability to accelerate or postpone project will permit more flexibility in a firm's dividend policy.

4 Alternative sources of capital:

i) Cost of selling new stock

If a firm needs to finance a given level of investment, it can obtain equity by retaining earnings or by selling new common stock. If flotation costs are high, making it much better to finance through retention than through sale of new common stock. On the other hand, if these costs are low, dividend policy will be less important. Flotation costs differ among firms. For example, they are generally higher for small firms. Hence, the importance of these costs, and

consequently, the degree of flexibility in setting a dividend policy, varies among firms.

ii) Ability to substitute debt for equity

A firm can finance a given level of investment with either debt or equity. As we have seen, if flotation costs are low, a more flexible dividend policy may be followed because equity can be raised by retaining earnings or by selling new stock. A similar situation holds for debt policy. If the firm is willing to adjust its debt ratio, it can maintain a constant dollar amount of dividend by using a variable debt ratio.

5 Need to repay debt:

When a firm has sold debt to finance expansion or to substitute for other forms of financing, it is faced with two alternatives. It can refund the debt at maturity by replacing it with another form of security, or it can make provisions for paying off the debt. If the decision is to retire the debt, this will generally require for retention of earnings

6 Access to the capital market:

All the firms do not have equal access to capital markets. A firm, which has not sufficient liquidity, can pay dividends, if it is able to raise debt or equity in the capital market. A firm, which is larger, well, established and has a record of profitability, will not find much difficulty in rising of funds in the capital. Easy accessibility to the capital market provides flexibility to the management in paying dividends as well as in meeting the corporate obligations.

7 Rate of assets expansion:

The more rapids the rate at which the firm is growing, the greater its need for financing assets expansion. The greater the future need for funds, the more likely the firm is to retain earnings rather than pay them out. If a firm seeks to raise funds externally, natural sources are the present shareholders, who already know the company. But if earnings are paid out as dividend and are subjected to high personal income tax rates, only a portion of them will be available for re-investment.

8 Internal investment opportunity:

It is apparent that opportunities to invest are a major consideration in setting dividend policy. Other considerations aside, when the firm has opportunities to earn returns greater than those available to

shareholders outside the firm, retention and re investment are appropriate.

9 Financial needs of the company:
It is another consideration, which also influences on the establishment of an appropriate dividend policy. Mature companies that have few investment opportunities may generally have high payout ratios,. On the other hand, growth companies may have low payout ratios. They are continuously in need of funds to finance their fast growing fixed assets. The distribution of earnings will reduce the funds of the company.

10 Profit rate:
The rate of return on assets determines the relative attractiveness of paying out earnings in the form of dividends to stockholders (who will use them elsewhere) or using them in the present enterprise.

11 Tax position of the corporations:
It is another factor, which affects the firm's dividend decision. Possible penalties for excess accumulation of retained earnings may induce higher payout ratios.

12 Stockholders' expectations:
In case of wide –held company, the number of shareholders is very large and they may have conflicting interests and diverse desires regarding dividends and capital gains. Therefore, it is not easy to reconcile these conflicting interests of the various shareholders group by adopting a dividend policy, which equally satisfies all shareholders. Generally, the company should adopt a dividend policy, which serves the purpose of the dominating group. But, it does not totally neglect the desires of other groups. In closely- held company, the body of shareholders is small and homogeneous group, so management usually knows the expectations of its shareholders and may adopt a dividend policy, which satisfies all shareholders. If most of the shareholders are in high tax brackets and have a preference for capital gains to current dividend incomes the company can establish a low dividend payout or no dividends and retains the earnings within the company.

13 Tax of stockholders:
The tax position of the corporation's owners greatly influences the desire for dividends. For example, a corporation closely held by a few taxpayers in high income tax brackets is likely to pay a relatively low dividend. The owners are interested in taking their income in the form

of capital gains rather than as dividends, which are subject to higher personal income tax rates. However, the stockholders of a large widely held corporation might be interested in a high dividend payout.

14 Stability of earnings:
A firm that has relatively stable earnings is often able to predict approximately what its future earnings will be. Such a firm is therefore more likely to payout a higher percentage of its earning than is a firm with fluctuating earnings will be realized, so it is likely to retain a high proportion of sufficient earnings. A lower dividend will be easier to maintain if earnings fall off in the future.

15 Control:
The objective of maintaining control over the company by the existing management group or the body of shareholders can be an important variable in influencing the company's dividend policy. When a company pays large dividends, its cash position is affected. As a result, the company will have to issue new shares to raise funds to finance its investment programmers. The control of the existing shareholders will be diluted if they don not want or cannot buy additional shares. Under these circumstances, the payment of dividends may be withheld and earnings may be retained to finance the firm's investment opportunities.

16 Liquidity:
The liquidity of a company is a prime consideration in many dividends decision. Although a firm may have sufficient retained earnings to declare dividend, but they are invested in physical assets cash may not available to make dividend payments. Thus, the company must have adequate cash available as well as retained earning to pay dividends.
As dividends represent cash outflow, the greater the cash position and overall liquidity of a company, the greater its ability to pay a dividend and vice-versa. A company that is growing and profitable may not be liquid, for its funds may go into fixed assets and permanent current assets.

17 Inflation:
In an indirect way, inflation costs act as a constraint paying dividends; our accounting system is based on historical costs. Depreciation is charged on the basis of original costs which assets were acquired. As a result, with raising prices funds saved on account of depreciation may be inadequate to replace obsolete equipment. Those firms have to rely

upon retained earnings as a source of funds to make up the shortfall. This aspect becomes all the more important if the assets are to be placed in the near future. Consequently, their dividend payout tends to be low during periods of inflation.

2.1.7 Legal provisions regarding dividend practices-

There are no clear-cut legal provisions regarding dividend policy in Nepal. The responsibility to undertake required actions to protect shareholder's interest is given to Nepal Stock Exchange, which is stated on the Security Exchange Act 2007. But this organization is not so able to protect shareholders interest since interest and attitude of the board of directors that plays dominant role in management of public limited companies and they are generally in majority who are nominated by government.

According to Corporation Act, corporations must set aside a certain part of profit as reserves before the declaration of dividend. Moreover, corporations have to separate the tax provisions prior to dividend declaration.

Likewise, Commercial Bank Act 2007 has also made some provisions for distributing dividend. Section 18 of this act states about the restrictions for dividend distribution. According to this section 18, before providing the whole expenses by the bank for preliminary expenses, loss incurred in last year, capital reserve, risk beard fund reserve fund, the bank shall not declare and distribute the dividend to shareholders.

Similarly, company Act 2007 makes some legal provisions regarding dividend distributions, which are discussed below.

According to this act, board of directors can fix dividend payout rate hut such rate should be proposed first for the discussion and approval in the annual general meeting of shareholders, the general meeting can reduce the rate determined by board of directors but cannot increase. Likewise, some other legal provisions are:

Dividends and sub- sections of this section are as follows:

1) Expect in the following circumstances, dividend shall be distributed among the shareholders within 45 days from the date of decision to distribute them.
    A) In case any law forbids, the distribution of dividends.
    B) Incase the right on dividend is disputed.
    C) In case dividends cannot be distributed within the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the pan of the company.
2) In case, if dividends are not distributed within the time limit mentioned in subsection (1), this shall be done by adding interest at the prescribed rate.
3) Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

The above indicates that Nepalese law prohibits repurchase of stock, which is against the theory of finance. But the reason for this kind of provision is still unknown.

Similarly, following are the HMG's decision regarding dividend payment by the government corporations dated June 14, 1998.

1) Dividend should be paid in profitable years. Even though there are cumulative losses, dividend is to be paid if cash flow is sufficient to distribute dividend.
2) In case of unaudited accounts, interim dividend should be paid on the basis of provisional financial statement.
3) Dividend rate will not be less than the interest rate on the fixed deposit of commercial bank of government owned. Incase of insufficiency of profit amount to distribute dividend in above mentioned rate, concerned corporation should send proposal of new distribution rate to the Finance Ministry through liaison ministry and should do what so ever decision is given there of.
4) Those corporations operating in monopoly situation should repay all amounts of profits to the government except the amount of bonus, tax and the amount needed to expand and develop the business. The amount separated for the expansion and development of business will not be more than 20% of profit of the year and this amount will not be more than total paid up capital. The amount so separated should be paid as dividend if it is not used within 3 years.
5) Decision regarding distribution of annual net profit shall not be made without prior acceptance of Finance Ministry. All incentives, except those to be paid by law, shall not be distributed unless the amount of dividend is not paid to government.
6) Concerned BOD and top management will be held responsible for implementation of these dividend policies.
7) Ministry of Finance will make necessary arrangements regarding fixation of dividend percentage coordinating all concerned corporations and ministries.

2.2 Review Of Major Studies-

In this section, an attempt has been made to review of the major studies concerning dividends and stock prices and management views on dividend policy. This study draws heavily from these studies to carry it out.

2.2.1 Walter's Study (1996)-

James E. Walter conducted a study on dividend and stock prices. He proposed a model for share valuation. According to him, the dividend policy

of the firm affects the value of the shares. So, the dividends are relevant. He argues that the choice of dividend policies always affect the value of enterprise.

His study shows clearly the importance of the relationship between internal rate of return (R) and its cost of capital (K) in determining the dividend policy. The assumptions are as follows

i) The firm finances all investment through retained earning. The external funds (i.e. debt, new equity) are not used for new investment.
ii) All earnings on the firm's investment (R) and the cost of capital (K) are constant.
iii) All earnings are either distributed as dividend or reinvested internally.
iv) The values of ESP and DSP are assumed to remain constant forever in determining given value.
v) The firm has a perpetual or infinite life.

Based on these above assumptions, Walter has given following formula of valuation of equity share.

P= DSP\ ke +r\ke (EPS –DPS)

Or, P= DSP\ke +r\ke (ESP-DPS)

Where,

P= market value of an equity share
(Market value per share)

DPS= Dividend per Share

EPS= Earning per Share

r = the rate of return on the firm's investment.

ke = cost of capital\ capitalization rate.

According to Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return (r) and its cost of capital (K). Walter referred different dividend policy for different types of the firm, which can be summarized as follows.

Growth Firm (r > K)

Growth firms are those firms, which expand rapidly. Because of ample investment opportunities yielding return (r) is higher than the opportunity cost of capital (k). So, firms having r > k is referred as growth firms which are able to reinvest earnings at a rate, which is higher than the rate expected by shareholders. They will maximize the value per share if they follow a policy of retained all earnings for internal investment. Thus, the correlation between dividend and stock price is negative, and the optimum payout ratio

for a growth firm is zero. The market value per share (P), increases, as payout ratio declines when r>k.

Normal Firm (r=k)

If the internal rate of return is equal to cost of capital, the dividend payout does not affect the value of share, i.e. dividends are indifferent from stock prices. In other words, there is no role of dividends on stock prices. Such a firm can be called as a normal firm. Whether the earnings are retained to distribute as dividend, it is a matter of indifference for a normal firm. The market price of share will remain constant for different dividend payout ratio from zero to 100. Thus, there is no unique optimum payout ratio for a normal firm. One dividend policy is good as other and the market value per share is not affected by the payout ratio when r= K.

Declining Firm(r<K)

IF the internal rate of return (P) is less than cost of capital (K), it indicates that the shareholders can earn a higher return by investing elsewhere. In such case for maximizing the value of shares, dividend also should be maximized. By distributing the entire earning as dividend, the value of share will be at optimum value. In other words, the market value per share of declining firm with r<K will be maximum when it does not retain earnings at all. The relation between dividends and stock price is positive. The optimum payout ratio for declining firm is 100% and the market value per share increases as payout ratio increases when r<K.

Criticism of Walter's Model

i) NO external financing:

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

ii) Constant rate of return (r) and opportunity cost of capital (K):

This model assumes that rate of return (r) and opportunity cost of capital or discount rate (K) is constant. In fact, rate of return (P) changes with increase and decrease of investment i.e., r decreases as more investment occurs and cost of capital (K) changes directly with the risk borne by the firms.

2.2.2 Myron J. Gordon's Study (1962)-

Myron Gordon has developed another popular and important model relating the stock valuation using the dividend capitalization approach. Gordon concludes that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. He explains that investors are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. The conclusion of this study is that investors have a strong preference for present dividends to future capital gains under the condition of uncertainty. It is assumed that current dividend is less risky than the expected capital gain. His argument stresses that an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield (D1\P0) is less risky than the expected capital gain.

Gordon's model is also described as "a bird in hand argument". It supports the arguments, which is popularly known as a bird in hand is worth two in the bush. What is available at present is preferable than what may be available in the future. That is to say current dividends are considered certain and risk less, so rational investors as compared to deferred dividend prefer it in future. The future is uncertain. The investors would naturally like to avoid uncertainty. So the current dividends are given more weight than expected future dividend by the investors. So the value per share increases if dividend payout ratio is increasing. This means there exists positive relationship between the amount of dividend and stock prices.

Basic assumptions of this model are as follows.

i) The firm uses equity capital only.
ii) Internal rate of return (r) and cost of capital (ke) are constant.
iii) The firm and its stream of earning are perpetual.
iv) There are no taxes on corporate income.
v) The retention ratio (b) once decided upon is constant., the growth rate, (g=br) is constant forever.
vi) 'Ke' must be greater than (g =br) to get meaningful value.
vii) The source of financing for new investment is only retained earning. No external financing is available.

Gordon's model is also known as Growth Model. The formula for finding out the market value per share, proposed by Gordon is given below.

P=E (1-b)\ke-br=E (1-b)\ke-g

Where,

P=price of share\market value per share

E=earning per share

B=retention ratio\percentage of retained earning

1-b=dividend payout ratio (i.e., percentage of earning distributed as dividend)

Ke=capitalization rate\cost of capital.
Br=g or growth rate in r, (i.e., rate of return on investment of an all equity firm)

1st case: growth Firms (r>k)
In the case of growth firm, the value of a share will increase as the retention ratio (b) increases and the value of a share will decrease as the retention ratio (b) decreases i.e. high dividend corresponding to earnings leads to decrease in share prices and low dividend corresponding to earning leads to increase in shares prices. So, dividends and stock prices are negatively correlated in growth firm i.e., r>k firm.

2nd case: Normal Firms(r=k)
Dividend payout ratio does not affect the value of share in normal firm. In other words, share value remains constant regardless of changes in dividend policies. It means dividend and stock price are free from each other in normal firm i.e., r=k firm.

3rd case: Decline Firms(r<k)
Incase of declining firms, share price tends to enhance with increase in payout ratio, 1-b, or decrease in retention ratio, b. so, dividends and stock prices are positively correlated with each other in decline firm i.e., r<k firm.

2.2.3 Modigliani and Miller Study (1961)-

The most comprehensive arguments supporting the irrelevance of Modigliani and Miller propound dividend in 1961. This is popularly known as MM approach. It is sometimes termed as Dividend Irrelevance Model.
According to MM, dividend policy of a firm is irrelevant, as it does not affect the wealth of shareholders. They argue that the value of the firm depends on the earning power of the firm's assets or its investment policy. Thus, when the investment policy is given, the dividend decision –splitting the earnings into packages of retentions and dividend does not influence the value of equity shares. In other words, the division of earnings between dividend and retained earning is irrelevant from shareholders viewpoint.
In general, the argument supporting the irrelevance if dividend valuation is that dividend policy of the firm is a part of its financing decisions. As a part of the financing decision of the firm, the dividend policy of the firm is a residual decision and dividends are passive residual.
The MM approach of irrelevance dividend is based on the following critical assumptions:

1) The firms operate in perfect capital market where all investors are rational. Information is freely available to all. Securities are

infinitely divisible and no investor is large enough to influence the market price of securities.

2) There are no flotation costs. The securities can be purchased and sold without payment of any commission or brokerage etc.
3) Taxes do not exist.
4) The firm has a definite (fixed) investment policy, which is not subject to change.
5) Risk of uncertainty does not exist. Investors are also able to forecast future prices and dividends with certainty, and one discount rate is appropriate for all securities and all time periods. Thus r=k=kt for all time.

MM provide the proof in support of their argument in the following manner.

Step-one,
The market price of a share of the firm in the beginning the period is equal to the present value of dividends paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,
P0=D1+P1\1+Ke…(1)
Where,
P0= current market price of a share (market price at the beginning or at the zero period.)
Ke= the cost of equity capital (assumed constant)
D1= the dividend per share to be received at the end of the period one.
P1=the market price of the share at the end of the period one.

Step-two,
Multiply both sides of equation (1) by the number of share outstanding (n) to obtain the total value of the firm if no new financing exists.
Np0=n (D1+P1)\ 1+ke…. (2)
Where,
N= no. of outstanding shares at zero period.

Step-three,
If the firm issues (sells) number of new shares (m) to finance the new investment needs of the fund at price of P1, the value of the firm at time zero will be:
Np0={n (D1+P1)+(mp1-mp1)}\1+ke
Np0={nD1+nP1+mp1-mp1}\1+ke…(3)

Where,
N=no. of shares at the beginning (no. of outstanding shares at zero period.)
M=no. of equity shares issued at the end of the period.

Step-four,
If the investment proposals of a firm in a given period of time can be financed either of retained earning or issuance of new shares or both. Thus, the amount of new issued will be,
Mpi=1-(E-nDi)
Or, mp1 rJ_E+nDi…. (4)
Where,
I=investment needs
E=earning available.
Step-five,
By substituting the value of mpi from equation (4) to equation (3), we get,
Np0=nD1+(n+m) p1-I+E-nD1\1+ke
Or, np0= nD1+np1+mp1-I+E-nD1\1+ke
Or, np0= p1 (n+m)-I+E\1+ke…(5)

Step-six,
Conclusion: since dividend does not appear directly in expression and E, I, (n+m) p1 and ke are assumed to be independent of dividend.
In other words, MM conclude that dividend policy is irrelevant and dividend policy has no effect in the value of the firm. A firm that pays dividends will have to raise funds externally to finance its investment plans. MM hold that when the firm pays dividends, external financing offsets its advantage.

It does not seem so relevant to apply MM approach in Nepalese Context because when we apply this approach, the assumptions supposed by MM are significantly deviated. In Nepal, we are unable to find the rational investors as well as perfect capital market, which are considered by MM. It does not seem so sound to neglect the flotation cost, transaction cost and tax effect on capital gain as neglected by MM, Arbitrage arguments as explained by MM applies only when there are very sensitive investors and which are lacking in Nepal.

2.2.4 Deepak Chawala and G. Srinivasan study (1975)-

They studied the impact of dividend and retention on share price. They selected 12 chemicals and 13 sugar companies and estimated cross-sectional relationship for the years 1969 and 1973. They collected the required data from the official directory of Bombay stock exchange. They used two stages least square technique for estimation. They also used lagged, earnings price ratio instead of lagged price earnings ratio, i.e. P\E (t-1)

The following were the prime objectives for their study.

(i) To test the hypothesis of dividend and retained earnings.

(ii) To estimate a model to explain share price, dividend and retained earnings relationship.

(iii) To examine the structural changes in estimated relations over time.

In order to achieve (attain) these objectives, they used simultaneous equation model as developed by Friend and Puckett (1964). The following was the model in its unspecified form.

1. Price function,
   P1=f [Dt, Rt, P\E (t-1)]
2. Dividend supply function,
   Dt=f [Et, D (t-1), P\E (t-1)]
3. Identity,
   E= D\R
   Where,
   P= market price per share
   D= dividend per share
   R= retained earning per share
   E= earning per share (D+R)
   P\E= deviation from the sample,
   (Average of price earning ratio)
   t= subscript of time.

It was found, from the result of their two stages least square estimation, that the estimated coefficients had the correct sign and the coefficients of determination of all the equations were very high in case of chemical industry. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry, they found that the sign for retained earnings is negative in both years and left for further analysis of sugar industry. It was observed that the coefficient of dividend was very high as compared to retained earnings for chemical industry. They found that coefficient of dividend was significant at one percent level in both years whereas coefficient of retained earnings was significant at ten percent level in 1969 and one percent level in 1973.Finally,

they concluded that dividend hypothesis holds good in the chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry. They also stressed that the impact of dividend is more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings.

2.2.5 Linter's Study (1956)-

Linter made an important study on corporate dividend policy in American Context in 1956. He investigated a partial adjustment model as he tested the dividend patterns of 28 companies. According to John Linter's study, dividends are 'sticky' in the sense that they are slow to change and lay behind shifts in earnings by one, or more periods. According to J. Linter, dividend is a function of earnings of that year, existing dividend rate, target payout ratio and speed of adjustment. The followings were the basic objectives of the study.

I. To identify occasions when a change in dividends might well have been under active consideration even though no change was made.
II. To determine the factors which existed most actively into dividends.

He concluded that a major portion of a firm's dividend could be expressed in the following manner.

$DIVt^*=PEPS$……(1)

And $DIVt-DIVt-1=a+b\ (DIVt^*DIVt-1)+et$……(2)

Adding DIVt-1 on both sides of equation (2)

$DIVt=a+b\ DIVt^* +(1-b)\ DIVt-1+et$…….(3)

Where,

$DIVt^*$= firm's desired payment

EPSt=earnings

P= targeted payout ratio

A= constant relating to dividend growth

B= adjustment factor relating to the previous period's dividend and anew desired level of dividends where, $b<1$.

The major findings of this study were as follows:

I. Firms generally think in term of proportion of earnings to be paid out.
II. In order to modify the pattern of dividend, investment opportunities, Liquidity position, funds flows are not considered.
III. Firms generally have target payout ratios in view while determining change in dividend rate or dividend per share.

2.2.6 Van Horne and Mc-Donald Study (1971)-

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

Empirical tests are performed with year-end 1968 cross sections for two industries, using a well-known valuation model. For there investigation, they employed two samples of firms viz, the 86 electric utilities in the continental US which are included on the COMPUSTAT utility data tape; and 39 companies in the electronics and electric component industries as listed on the COMPUSTAT industrial data tape in 1968.

They performed empirical study by testing two regressions for the electric utilities and one regression model for electronics and electronic components industry. They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividends, except for those firms in the highest new issue group and it made new equity a more costly form of financing than the retention of earnings. They also indicated that the "Cost" disadvantages of new equity issues relatives to retained earnings widens as relatively large amounts of new equity are raised, so that the payment of dividends through excessive equity financing reduces share prices. For forms in the electronics-electronic component industry, a significant relationship between new equity financing and value was not demonstrated.

2.2.7 R. Michael, Richard H.Thales and Kent L.Womack Study (1995) –

R. Michael, Richard H. Thales and Kent L. Womack conducted a study regarding 'Price Reactions to Dividend Initiations and Omissions' in 1995. They investigated the immediate and long-term effects of dividend initiation and omission announcements. They found that the short- runs price impact of dividend omissions was negative and that of initiations was positive. Initiation reactions were about one-half the magnitude of the market reaction to omission announcements. They change in yield, however, was about seven times larger for the omission announcements. They saw that the market reaction to a dividend omission announcement was no greater than to an initiation for a given change yield.

2.2.8 Friend and Puckett study (1964)-

Irwin Friend and Marshall Puckett have conducted a study about the relationship between dividends and stock prices. They used the regression analysis on the data of 110 firms from five industry samples, viz, chemicals (n=20), in each of two years, 1956 and 1958. The industries were selected to permit a distinction to be made between the results for growth and non-growth industries and to provide a basis for comparison with results by other

authors for earlier years. Both cyclical and non-cyclic industries were covered. The periods covered include a boom year for the economy when stock prices leveled off after a substantial rise (1956) and a somewhat depressed year for the economy when stock prices, however, rose strongly (1958).

They used two-regression model of price function and dividend supply function. In price function, dividends, retained earnings and price earnings ratio are independent variables, whereas, earnings, last year's dividends and price earning ratio are independent variables in dividend supply function. Symbolically, their price function and dividend supply function can be written as

Price function; Pt=a+b Dt-cRt+d (E\P)t-1

Where,

Pt=Per share price at time t

Dt=Dividends at time

Rt= Retained earnings at time

(E\P) t-1=Lagged earnings price ratio and,

Dividend supply function;

Dt=e+fFt+gDt-1+h (E\P) t-1

Where,

Et=Earnings per share at time t

Pt-1=last year dividend

The followings were the basic assumptions of their study.

1. Dividends do react to year-to year fluctuations in earnings.
2. Price does not contain speculative components.
3. Earnings fluctuations may not sum zero over the sample.

The regression P, =a+bD+c R1 presents the usual simple linear relationships between average prices and dividends and retained earnings to show with the data. They found the customary strong dividend and relatively weak retained earnings effect in three of five industries i.e., chemicals, foods, and steels.

By adding lagged earnings price ratio to the above equation, they got the following results.

Pt=a+b Dt+cRt+d (E\P) t-1

They tested this equation and found the following results.

Dividends have a predominant influence on stock prices in the same three out of five industries but the differences between the dividends and the retained earnings coefficients were not quite so marked as in the first set of regressions. The dividends and retained earnings coefficients were closer to each other for all industries in both years except for steels in 1956, and the correlations are higher, again except for steels.

They also calculated the dividend supply equation, i.e.,

Dr=C\f E+g D +h (E\P) t-t and derived price equation for four industry groups in1958. He derived price equation show no significant changes from

those obtained from the single equation approach as explained above, reflecting the fact that stock price, or more accurately the price earnings ratio, odes not seem to have a significant effect on dividend payout. On the other hand, they noted that, in three of the four cases tested, the retained earnings effect is increased relatively. Moreover, their result suggested that price effects on dividend supply are probably not a serious source of bias in the customary derivation of dividend and retained earnings effects on stock prices, though such a bias might be masked if the distributing effects of short run income movements are sufficiently great. Further, they used lagged price as a variable instead of lagged earnings price ratio. They found that retained earnings received greater relative weight than dividends in the majority of the cases. The only exceptions were steels and foods in 1958. Chemicals, electronics, and utilities were considered as growth industries and the retained earnings effect was larger than the dividend effect for both years covered. For the other two industries (steels and foods) there no longer seems to be any significant systematic differences between the retained earnings and dividend coefficients.

Similarly, they tested the regression of Pt a+b Dt+C Rt by using normalized earnings again. They obtained normalized retained earnings by subtracting dividends from normalized earnings. The normalization procedure was based on the period 1950-61. Again, they added prior year's normalized earnings 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 earnings ratio was constant. After examining the later equation, they found that the difference between dividend and retained earnings coefficients disappeared. Lastly, they come to know a conclusion that management might be able to increase prices somewhat by raising dividends in foods and steel industries. At last, friend and Puckett found a conclusion that, it is possible that management might be able, a least in some measure, to increase stock prices in non-growth Industries by raising dividends, and in growth industries by greater retention, i.e. smaller (lower) dividends.

2.3 Review of Journals in Nepalese Perspective-

Some related articles relating directly or indirectly with dividend and stock price are published, which are significant in this study, have drawn in this section.

R.S Pradhan (1993) has conducted a study on "Small Market Behavior in a Small Capital Market: A case of Nepal". It is pertinent to put forth here because he has analyzed various ratios related to dividend and market price of shares. The study was based on the pooled- cross sectional data of 17 enterprises covering the year between 1986 to 1990.

The objectives of this study were as follows:

i) To assess the stock market behavior in Nepal.
ii) To examine the relationship of market equity, market value to book value, price earning, and dividends with liquidity, profitability, leverage, assets turnover, and interest coverage's.

Some findings of this study, among others, were as follows:

i) Stocks with larger ratio of dividend per share have higher liquidity. Liquidity position of stocks paying lower dividend is also more variable as compared to stocks paying higher dividends.
ii) Stocks with larger ratio of dividend per share to market price per share have lower leverage ratio of dividend per share to market price per share have lower leverage ratios. So, leverage ratios of stocks paying smaller dividends re also more variable as compared to stocks paying smaller dividends.
iii) Stocks with larger ratio of dividend per share to market price per share also have higher earnings. But these earning ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.
iv) Positive relationship is observed between the ratio of dividend per share to market price per share and turnover ratios. Stocks with larger ratio of dividend per share to market price per share also have higher turnover ratios. Turnover ratios of stocks paying larger dividends are also more variable than that of stocks paying smaller dividends.
v) There is also a positive relationship between the ratio of dividend per share to market price per share and interest coverage's. Stocks with higher ratio of dividend per share to market price per share also have higher interest coverage's. Interest coverage of stocks paying larger dividends is also more variable as compared to stocks paying smaller dividends.
vi) So, in conclusion, it indicates positive relationship of dividend per share to market price per share with liquidity, profitability, and assets turnover and interest coverage's and negative relationship with leverage.

M.K. Shrestha (1981) has written an article about "public Enterprises: Have They Dividend paying Ability?" it gives short glimpse of the dividend performance of some public enterprises of that time in Nepal. Dr. Shrestha has highlighted the following issues in the article.

Nepal Government wants two things from the public enterprises:
They should be in a position to pay minimum dividend & public enterprises should be self-supporting in financial matters in future years to come.
But these both objectives are not achieved by public enterprises.

1. One reason for this inefficiency is caused by excessive governmental interference over daily affairs even though there is provision of government interference only for policy matters. On the other hand, high- ranking officials of Nepal Government appointed as directors of board do nothing but simply show their bureaucratic personalities, Bureaucracy has been the enemy of efficiency and thus led corporation to face losses. Losing corporations are, therefore, not in a position of pay dividends to government.
2. Another reason of this is the lack of self-criticism and self-consciousness. Eastman has pointed out that lack of favorable leadership is one of the biggest constraints to institutions building. Moreover corporate leadership comes, as managers are not ready to have self-criticisms. In fact, all so-called managers of corporations have not been able to identify them regarding what they can contribute as managers of corporations. So, Nepal Government must be in a position to develop a financial target on corporate investment by opposing financial obligation on corporations.
3. The article points out the irony of government biasness that government has not allowed banks to adopt an independent dividend policy and Nepal Government is found to have pressurized on dividend payment in case of Nepal Bank Limited regardless of profit. But, it has allowed Rastriya Bank Limited to be relieved from dividend obligation despite considerable profit.
4. The improvement suggested by authors are
   i.) Adopt-a criteria-guided policy to drain resources from corporations through the medium of dividend payment.
   ii.) Realization by managers about the cost of equity capital and dividend obligation. If Nepal Government wants to tap resources through dividend, the following criteria should be followed.
      a) Proper evaluation of public enterprises interns of capability of paying dividend through corporation coordination committee,
      b) Imposition of fixed rate of dividend by government on financially sound public enterprises,
      c) Circulating the information's about minimum rate of dividend to all public enterprises.
      d) Specifying performance targets in terms of profit, priorities on timings and plans and development of strategic plans that bridges the gap between aspiration and reality.
      e) Identification of corporation objectives in Corporations Act, Company Act or special charters so as to clarity public enterprises managers regarding their financial obligation to pay dividend to Nepal Government.

M.K Shrestha (1992) in his popular article "Shareholders Democracy and Annual General Meeting Feedback" is one of the most important books that deal with the policies and financial performance of some financial companies. In this book, a paper presented by Dr. Shrestha on the occasion of 5th annual general meeting of Nepal Arab Bank Limited (NABIL) is also contained. He opines, on his paper, that the shareholders have common views on the problems and constraints of the shareholders.

Although it is not directly related to my sample banks, I think, it is pertinent to review and present this paper in this study. Among the joint venture banks in Nepal, it is found that NIBL seems to be more conscious for protecting shareholders' interest as evidenced by annual general meeting report. In the 5th annual general meeting of NABIL, the management presented the following points on the problems and constraints of shareholders.

i.) The cost-push inflation at exorbitant rate has made. The shareholders to except higher return from their investment.

ii.) Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend id just a natural economic consequence of it.

iii.) Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholders' purchasing power by raising dividend payout ratio on the basis of both earnings and cost theory.

iv.) Indo- Nepal trade and transit deadlock has become a sort of economic warfare putting rise in the cost of living index to a considerable extent. This is one of the reasons, which made shareholders to expect higher demand for satisfactory dividend.

v.) The waiting of five years with peanut dividend in previous year is equally a strong enforceable reason of the bank's shareholders to except handsome dividend already assured and committed in various reports of the earlier annual general meeting.

vi.) One way to encourage risk-taking ability and preference is to have proper risk-return trade off by bank's management board in a way that higher return must be the investment rule for higher risk-takers that comprise bank's shareholders.

In the years 1992, the bank had paid 60% (40%stock dividend and 20% cash dividend) of its profit as dividend to the shareholders to satisfy their needs and 40% of earnings was retained to refinance for the internal growth of the bank. However, dividend growth rate is not equal to the growth rate of earnings.

R.S. Pradhan (1994) has conducted a study on "Financial Management Practices in Nepal".

The main objective of the study were:
-To survey financial management practice concerning finance function, sources and types of financing debt ratios and debt limits, financing preferences at the margin, tax and distress effects, relationship of enterprise with the banks and dividend policy.
-To examine stock market behavior in Nepal by analyzing the relationship of market equity, market value to book value of equity, price earning and dividends with liquidity, leverage, profitability turnover and interest coverage.
-To find out the degree of consensus among decision makers on the use of selected financial ratios for predicting financial distress
-To determine the major causes, signals and symptoms of financial distress including measures to be adapted to rehabilitation industries under financial distress.

Some conclusions of the study among others were as follows:
-Non-traded sector has a higher dividend, price-earning ratio as compared to traded sector. One of the important reasons to retain earnings for the traded sector is that company does not want to dilute control from selling stocks to outsiders while non-traded sector enterprises retain earnings as to find it hard to convince outsiders about the profitability of investments.
-Larger stocks have larger price earning ratios, larger ratios of market value to book value of equity and smaller dividends. However, price earning ratios and dividends ratios are more variables for smaller stocks whereas market value of equity is more variable for larger stocks.
-Smaller dividends, lower profitability's, lower assets turnover and lower interest coverage for larger stocks may be attributed to the fact that most of larger stocks are at their initial stage of operation.
-Stocks with larger market value to book value of equity have larger price earning ratios are more variable for stocks with smaller market value to book value.
-Stocks paying higher dividends have higher liquidity, lower leverage, higher earnings, and higher turnover and higher interest coverage. However, liquidity and leverage ratios are more variable for stocks paying lower dividends while earnings, assets turnover, and interest coverage are more variable for the stocks paying higher dividends.

2.4 Review of Previous Thesis-
In last few years prior to this thesis, some students of M.B.A. programmed have been found conducting research about the dividend and dividend policy of commercial banks. Some of them, which are supposed to be relevant, have been reviewed and presented in this section.

Shijana Rajbhandari (2001) studied on "Dividend policy: A comparative study between banks and insurance companies". The main objectives of this study are as follows:

a) To examine the relationship between dividend and market price of the stock.
b) To identify the appropriate dividend policy followed by the banks and by insurance companies.
c) To analyze the relation between dividend policy decision on banks and insurance companies.

Dividend policy is one of the most important topics in financial management but only few students have conducted research on dividend policy based on old data. There are many factors, which affect the dividend policy such as: DPS, EPS, DPR, MVPS, Dividend Yield, Liquidity Ratio, Profitability Ratio etc. but they used only a few financial factors among them. Therefore, validity of the result is not worthwhile. Some students haven't used the statistical tools. Therefore validity of the result is not strong.

Ramesh Khatiwada (2001) conducted a study in a topic of "impact of Dividend and Earning Announcement on Shareholder's Return and stock prices in Nepal". He collected the data of six joint venture commercial banks. The study carried out with the following objectives:

- To analyze the impact to earning and dividend announcement on shareholders return.
- To identify the correlation between the return of individual securities with market return. To identify the quality of systematic and unsystematic risk.

The summary of the major findings of the study is as follows:

- Announcement of dividend and earnings do not affect the shareholders' return in average.
- Other bank except Nepal SBI Bank having different dividend rates did not provide significant abnormal return to the shareholders.
- Shareholders realized positive abnormal return from half of the sample banks.

Hari Gharti (2001) conducted a study in a topic of "Bonus Share Announcement and its impact on Stock Price o Nepalese Corporate Firms" by using secondary data of 10 corporate firms.
Objectives of the study are as follows

- To examine the relationship of dividend quantum change and stock price.
- To examine the relation between share price rise and bonus ratio
- To evaluate the relation of bonus share announcement and stock price.
- To point out suggestions to the related bodies.

Major findings of the study are as follows:

- The immediate share price rise after bonus announcement is significant. Bonus share announcement of banking sector is considering positively by the investors but shows reluctant for the non-banking sectors. None of the case has been observed under banking sector that the price decreased immediately after bonus announcement.
- The share price, in most of the case, does not decrease after distribution of bonus share according to bonus ratio as theory says. The reason behind the situation may be that the investors cannot interpret the information and data. There is a great misconception about bonus share that the general investors think that they receive extra\additional share with same value.
- The share price of the non-banking sectors shows inconsistency as compare to the banking sector. Therefore investing on non-banking sector is more risky than the banking sector.
- Long-term effect of bonus share issue, as well as immediate, is significantly positive. In most of the cases the aggregate market valuation of the corporate firm's equity capital increased as the result of bonus issue. 81.2% of the bonus issue cases are recorded different level gain over the base data price, after adjusting of the general market movement in share prices.

Chandra Bhattarai (2002) prepared MBS Thesis entitled "dividend Policy and its Impact on market Price of Stock" with the data taken two commercial banks and two insurance companies. He analyzed the data of five years from 1995 to 2000 using simple and multiple regression equations. The main objectives of study are as follows:

- To study the prevailing practices and efforts made in 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, EPS, MPS and DPR in the sample firms.

Major findings of his study are as follows:
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.

- Most of the Nepalese firm from the very past did not have profit planning investment strategy, which has imbalanced the whole position of the firms. It means there is no consistency even in the earnings.
- The MPS is affected by the financial position and the dividend paid by the firms, in this regards the MPS of the sample firms is seem to be fluctuated. It denotes that Nepalese investors are not treated fairly.
- The lack of financial knowledge and the market inefficiency has affected the market price of the share in all firms.

Sudeep Upadhya (2003) research conducted on the topic of "Dividend Policy and Practice: Comparative study Between Nepal Arab And Nepal Grindlays Bank Limited" Main findings of his study are as follows:

The net profit and DPS are positively correlated in both the banks which means dividend decision of these banks depends of won net profit earned. So, an increase in enterprises profit results in an increase in DPS and vice-versa. But computed growth rates of DPS have not be followed by these banks. This indicates that both the banks have not adopted the table dividend policy.

An analysis of dividend pay out ratio indicates that both banks had adopted conservative dividend policy; through NABIL is paying higher percentage of its earnings as dividend as compared to NBL.

Simple regression analysis of DPS on EPS shows that NABIL has been paying more dividends than NBL. Simple regression analysis of average stock price in DPS shows that beta coefficients are positive in both the banks but beta coefficient in NBL is higher than in NABIL, i.e. if one rupee of DPS is increased in both the banks. NBL's stock price will increase faster than that of NABIL.
In both the banks; DPS, EPS and average stock price have been fluctuating one of the reasons being issuance of bonus share. Bonus share seems to have been distributed arbitrarily ignoring its consequential impact.
To conclude neither government participation in NBL management nor the foreign participation in NABIL management has any significant different in the dividend policy of these Nepalese Commercial Banks.
Based on the fining, the author has presented the above recommendation to improve upon the existing situation.

- There is no clear-cut legal provision concerning dividend payment. Through appropriate legal provision, the government should compel earning as dividend.
- Privately formed shareholder's association is also not able to protect shareholders' interest due to lack of government recognition. So, it is high time that government recognizes the association to enable it to function effectively.
- Dividend payment of the banks has been highly fluctuate this has no positive impact on the market due to the higher degree of risk. So, these banks are advised to follow either static or constantly growing dividend policy. Considering the shareholders' interest and reaction, the predetermined policies should be reviewed in the same context.
- Shareholders should be given an option to choose between stock dividend and cash dividend instead of declaring stock or cash dividend arbitrarily. For this, dividend declaration should be proposed to the annual general meeting of shareholders for approval.
- These net earnings have been increasing over the years EPS and DPS have widely fluctuated due to the issue of bonus shares. So, the impact of bonus share issue of EPS and DPS should be pre-evaluated. Reasons of fluctuation EPS and DPS should be communicated to the shareholders and potential investors.
- There is no consistently in the dividend payment in many cases, for example small amount of dividend has been paid despite sufficient earning without considering risk free rate of return. Further, the price of shares seems to have increase even in the years when dividend was not paid. This state of affairs is confusing in calculating the true implication of dividend payment. A management enterprise plays active role in determining dividend not the shareholders. Shareholders and the investors ought to know how to evaluate the value of shares before investing on them. They should have adequate knowledge about their rights.
- Dividend payment practices of the existing commercial banks of Nepal are inconsistent and irregular. Due to serve competition among existing commercial banks, minor mistakes in dividend decision may land the bank into serious trouble. In other to avoid such situation, it is suggested that dividend decision should be based in facts and related variables. Further, it is to be noted that the optimum dividend policy must be based on the following criteria.

- Optimum retention for excellent expansion and modernization.
- Optimum dividend so that market value per share will increase rapidly i.e. not present value of shareholders' wealth can be maximized.
- Stable or consistency in the payment of dividend.

Chapter-3

RESEARCH METHODOLOGY

3.1 Introduction-

Research methodology is the method, guideline and the steps that are followed in analysis and it is the way of presenting collected data with meaningful analysis. It refers to the various sequential to be adopted by a researcher in studying a problem with certain objects.

3.2 Research Design-

Research design is a plan, structure and strategy to obtain the objectives of the study. The research design is of both descriptive and perspective nature. For analysis, primary data collected from a set of designed questionnaire is used. Along with primary data historical secondary data has been employed to analyze the used variables, which is related to dividend practices of joint ventures banks. The annual reports, financial statements and other relevant materials of the companies will be studied.

3.3 Population and Sample-

At present, there are 25 commercial banks operating in Nepal lout of 161 financial institutions in 2007. Out of various bank functioning in the country, Nepal Investment Bank Limited and Standard Chartered Bank Limited has been chosen as samples to conduct the research due to the time constraint. The population is as follows.

Name of Banks	Established Date	Head office
1. Nepal Bank Limited	11/15/1937	Kathmandu
2. Rastriya Banijya Bank	1/23/1966	Kathmandu
3. Agriculture Development Bank	1/2/1968	Kathmandu
4. NABIL Bank Limited	7/16/1984	Kathmandu
5. Nepal Investment Bank Limited	2/27/1986	Kathmandu
6. Standard Chartered Bank Limited	1/30/1987	Kathmandu
7. Himalayan Bank Limited	1/18/1993	Kathmandu
9. Nepal SBI Bank Limited	7/7/1993	Kathmandu
10.Nepal Bangladesh Bank Limited	6/5/1993	Kathmandu
11. Everest Bank Limited	10/18/1994	Kathmandu
12. Bank of Katmandu Limited	3/12/1995	Kathmandu
13. Nepal Credit And Commerce Bank Limited	10/14/1996	Siddhartha Nagar

14. Lumbini Bank Limited	7/17/1998	Narayangadh
15.Nepal Industrial and Commercial Bank Limited	7/21/1998	Biratnagar
16. Machhapuchhre Bank Limited	10/3/2000	Pokhara, kaski
17. Kumari Bank Limited	4/3/2001	Kathmandu
18. Laxmi Bank Limited	4/3/2002	Birgunj, Parsa
19.Siddartha Bank Limited	12/24/2002	Kathmandu
20. Global Bank limited	1/2/2007	Birgunj, Parsa
21.Citizens Bank International Bank Limited	6/21/2007	Kathmandu
22. Prime Bank Limited	9/24/2007	Kathmandu
23. Sunrise Bank Limited	10/12/2007	Kathmandu
24. Bank of Asia Nepal Limited	10/12/2007	Kathmandu
25. Nepal Development Bank Limited	6/30/1905	Kathmandu
26. NMB Bank Limited	6/30/1905	Kathmandu

(Source: Banking And Financial Statistics, Mid July 2008, NRB)

3.4 Data Collection-

All the data required for the research is collected from primary as well as secondary source, which are related to the dividend policy and obtained from concerned banks. The supplementary information and data regarding to the study are obtained from annual reports of the concerned banks.

3.5 Data Analysis Tools-

The data analysis tools are as follows:

General Analysis.
Correlation Analysis.
Simple Regression Analysis.
DPS Analysis
DPRAnalysis
Dividend Yield Analysis
Earning per share Analysis
Market price of share Analysis
Earning Yield Analysis
Price earning ratio Analysis
Correlation Analysis

It tells us whether variables under study move in the same direction or in reverse direction. Correlation co-efficient between following financial variables has been calculated and analyzed.

3.6 Financial Indicators And variables-

Following are the variables and measures adopted to conduct this research:

1.) Earning per share (EPS):

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholders. It is also identified to measure the profitableness of the shareholders investment. The earning per share simply shows the profitability of the banks by mobilizing their funds and vice-versa. In other words, higher earning per share denotes the strength and lower earning per share indicates the weakness of the banks.

EPS is computed to know how the earnings capacity and to make comparison between concerned banks. This ratio can be computed by dividing the earning available to common shareholders by total number of common stock outstanding of banks.

Thus,

EPS=earning available to common stockholders\number of common stock outstanding

2.) Dividend per share (DPS):

Dividend per share indicates the rupee earnings actually distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholders.

The DPS simply shows the portion of earning distribution to the shareholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the bank, which consequently helps to increase the market value of the shares, and it also works as the indicator of better performance of the bank management.

It is defined as the result received by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus,

DPS= total amount of dividend paid to ordinary shareholders/ number of ordinary shares outstanding.

3.) Dividend payout Ratio (DPR)

It is the portion of the earning used for the payment of dividend. The dividend payout ratio is the earnings paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. In other words, the amount of dividend that a bank pays depends upon the

earning capacity of bank. Higher earning enhances the ability to pay more dividends and vice versa.

There is a reciprocal relationship between dividends and retained earnings. The higher the dividend payout ratio, the lower will be the retained earnings and hence the capacity of internal financing of the firm is checked.

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

Thus,

DPR= Dividend per share/earning per share

And, retention ratio=1- Dividend payout ratio

4.) Price- Earning ratio/ Earnings multiplier (P/E ratio)

Price-earning ratio is called the earnings multiplier. Price-earning ratio is simply the ratio between market price per share and earning per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings.

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

P/E Ratio= Market price per share/Earning per share.

5.) Earning Yield And Dividend Yield (EY and DY Ratio)

The earning yield and dividend yield both are expressed in terms of the market value (price) per share. Earning yield and dividend yield are two important profitability ratios from the point of view of the ordinary shareholders.

Earning Yield (EY)

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

The share with higher earnings yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market. It is calculated as:

EY Ratio= Earning per share/market price per share.

Dividend yield (DY)

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

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

3.7 Statistical Tools Used-

Some major financial and statistical tools have been used to attain the objectives of this study. The pattern of available data is a major determinant to analyze the data. So, analysis of data will be done according to pattern of available data. The result of analysis has been properly tabulated, compared, analyzed and interpreted. In order to analyze the relationship between dividend and other related variables, some financial and statistical tools have been used. In this study, the following statistical tools have been used.

(144- Arithmetic Mean or Average ($\bar{X}$)

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

$$\text{Mean } (\bar{X}) = \frac{X1+X2+X3+\ldots\ldots\ldots+Xn}{N}$$

Or, $\bar{X} = \phi X/N$

Where, ϕX= sum of the sizes of the items

N= number of items

2.) Standard deviation: (S.D)

Karl Pearson in1983 first introduced the concept of standard deviation. It is the most usual measure of dispersion and it represents the square root of the variance of a group of numbers, i.e. the square root of the sum of the squared differences between a group of numbers and their arithmetic mean. In other words, standard deviation is the positive

square root of the arithmetic average of the squares of all the deviations measured from the arithmetic average of the series. It is independent of the position of the origin. Generally, it is denoted by small Greek letter (read as sigma) and is obtained as follows.

Standard Deviation= ϕ $(\overline{X}-X)/ N$

Where,

N= number of items in the series

$\overline{X}$= mean

X= variable

The standard deviation measures the absolute dispersion or variability of a distribution; the greater the amount of dispersion or variability the greater the standard derivation, for the greater will be magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series.

3.) Coefficient of variation (C.V.)

Karl Pearson developed this measurement to measure the relative dispersion. It is used in such problems where we want to compare the variability of two or more series. The series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the contrary, that series (or group) for which the coefficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous. It is denoted by C.V and is obtained by dividing the arithmetic mean to standard deviation. Thus,

Coefficient of variation (C.V)= $S.\overline{D}/X\times100$

S.D.=Standard Deviation

$\overline{X}$= mean

4.) Probable error (P.E):

Probable error is the correlation coefficient denoted by P.E is the measure of testing the reliability of the calculated value of r.

The formula is as follows:

$P.E=0.6745\times1-r^2 / N$

5.) Coefficient of correlation:

According to Richard Levin, correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another.

The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables. It helps us in

determining the degree of relationship between two or more variables. It does not tell us anything about cause and effect relationship. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two things (variables) are related to what extent variations in one go with the variations in the other.

The value of coefficient of correlation as obtained shall lie between –1 to +1, a value of –1 indicating a perfect negative relationship between the variables, of +1 a perfect positive relationship, and of no relationship when correlation coefficient is zero. The zero correlation coefficient means the variables are uncorrected. The algebraic sign of the correlation indicates only the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the coefficient is concerned with the strength, or closeness of the relationship between two variables.

Thus, in this study, the degree of relationship between dividend and other relevant financial indicators such as earning per share, market price per share, current ratio, net profit and net worth is measured by the correlation coefficient, which is denoted by r or ryx (of x and y are two sets). Karl Pearson as defines it:

$r= N\phi XY-\phi X\phi Y/ \{N\phi X^2-(\phi X)^2\}\times\{N\phi Y^2-(\phi Y)^2\}$

Simple Correlation Coefficient.

a.) Between earning per share and market price per share.
b.) Between market price per share and dividend per share of (t-1) year.
c.) Between dividend per share and earning per share.
d.) Between dividend per share and current ratio.

6.) Coefficient of Determination:

The coefficient of determination is the primary way. We can measure the extent, or strength, of the association that exists between two variables, x and y. R^2 measures only the strength of linear relationship between two variables. 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 equals R^2 and the value of R^2lies between zero and unity, the closer to unity, the greater the explanatory power. A value of one can occur only if the unexplained variation is zero, which simply means that all the data points in the scatter diagram fall exactly on the regression line. The R^2 is always a positive number. It cannot tell whether the relationship between the two variables is positive or

negative. The R^2 is defined as the ratio of explained variance to the total variance. Thus,
Coefficient of determination (R^2)= Explained variance/ total variance
Or, R^2= 1-unexplained variance/total variance.

7.) Regression constant (a)

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

8.) Regression coefficient (b):

The regression coefficient of each independent variable shows the relationship between that variable and value of dependent variable, holding constant the effect of all other independent variables in regression model. In other words, the coefficients explain how changes in independent variables affect the values of dependent variables estimate.

9.) Standard Error of Estimate (S.E.E)

Practically, the perfect prediction is not possible with the help of regression equation. To measure the reliability of the estimating equation, statisticians have developed the standard error of estimate. It measures the variability, or scatter of the observed values around the regression line. It also measures the reliability of the estimating equation, indicating the variability of the observed values differ from their predicted values on the regression line.

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

10.) T-statistics:

To test the validity of our assumption, if sample size is less than 30, t- test is used. For applying t-test in the context of small sample, the 't' value is computed first and compared with the table value of 't' at a certain level of significance for given degree of freedom (d.f.). If the computed value of 't' exceeds the table value (say $t_{0.01}$, $t_{0.05}$, $t_{0.10}$)

We infer that the difference is significant at 1%, 5% and 10% level. But if 't' value is less than the concerning table value of 't', the difference is not treated as significant.

Chapter-4

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction-

This chapter consists of presentation and analysis of secondary data and primary data related with different variables using both financial and statistical tools explained in third chapter, Research Methodology. The prime objective of the chapter is to achieve the objectives, which are set in first chapter, Introduction. In order to achieve these objectives, the gathered data are presented, compared and analyzed with the help of different tools. So, it is the focal part of this study, which helps to analyze the comparative dividend decision of joint venture banks and the management's attitudes towards the optimum dividend decision. This study is highly supported by dividend distribution practice of joint venture banks.

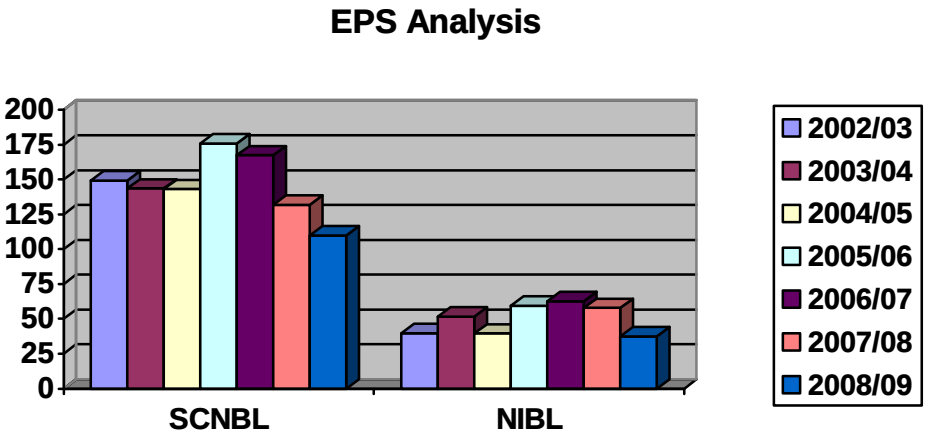
4.1.1 Earning per Share (EPS)-

Table: 1

EPS Analysis

Year	SCNBL	NIBL
2002/03	149.39	39.56
2003/04	143.55	51.7
2004/05	143.14	39.5
2005/06	175.84	59.35
2006/07	167.37	62.57
2007/08	131.92	57.87
2008/09	109.99	37.42
Total	1021.2	347.97
Average	145.8875	49.71
S.D=	18.40265	9.88400
C.V=	0.018021	0.198833

See appendix 1 for details



While observing the above EPS table as presented in Table: 1, we come to know that the EPS of SCNBL has decreased from fiscal year 2002/03 to fiscal year 2004/05. In the fiscal year 2004/05, EPS has decreased to Rs. 143.14. But from the fiscal year 2005/06, EPS has increased and has reached to Rs. 167.37 in fiscal year 2006/07 & again from fiscal year 2007/08, EPS has decreased and reached to Rs. 109.99 in fiscal year 2008/09. The average EPS is Rs.145.88, standard deviation is 18.40, and the coefficient of variation is 1.8%. This coefficient of variation clears that there is 1.8% fluctuation in EPS, which means there is inconsistency in EPS.

The EPS of 2002/03, 2003/04, 2004/05, 2007/08 & 2008/09 are lower than the average EPS of this bank. In order words, thus bank is not able to maintain its average EPS for three years, and EPS of rest two years 2005/06 and 2006/07 are higher than the average EPS.

Similarly, the EPS of NIBL has increased from 2002/03 to 2003/2004. But, in the next fiscal years, the EPS has decreased and then started to increase till it reached to the height of Rs. 62.52 in the fiscal year 2006/07 7 again start to decreased in the fiscal year 2007/08 to 2008/09. The average EPS is Rs.49.71, which is higher than for three fiscal years (2002/03, 2004/05 and 2008/09) and is lower than rest fiscal year that is reviewed. The standard deviation is 9.88, and coefficient of variation is 19.88%, which means there is 19.88% fluctuation in EPS. In an aggregate, EPS of NIBL has recorded more fluctuation trend. But it does not find in case of SCNBL. In an average, EPS of SCNBL is more than two times higher than that of NIBL. Yet, it is more stable in case of SCNBL.

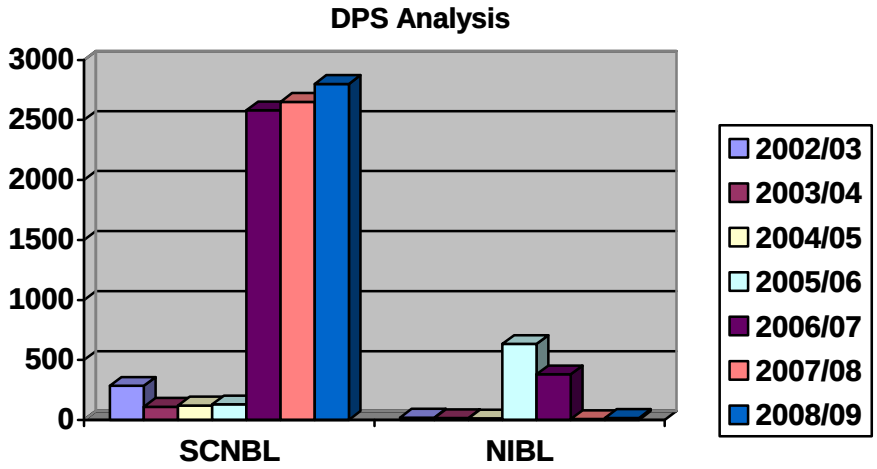
4.1.2 Dividend Per Share (DPS)-

Table: 2

DPS Analysis

Year	SCNBL	NIBL
2002/03	284.5	20
2003/04	110	15
2004/05	120	12.5
2005/06	130	633.1
2006/07	2580	380
2007/08	2650	7.5
2008/09	2800	16
Total	8674.5	1084.1
Average	1239.214	154.871
S.D=	25.39488	14.56434
C.V=	1.503591	1.194541

See Appendix 1 for detail



The dividend per share chart exhibited in table: brings out that SCNBL has paid dividend in every year but was not stable. DPS of SCNBL range from minimum of Rs. 110 in fiscal year 2003/04 to maximum of Rs.2800 in fiscal year 2008/09. The average DPS of this bank is Rs. 1239.21. Which is greater because of stock dividend in fiscal year except in 2002/03 to 2005/06. The standard deviation of DPS is 25.39 and the coefficient of variation is 150.36%. The coefficient of variation of the bank indicates that there is 150.36% fluctuation in dividend per share of the bank.

In case of NIBL also, DPS has ranged between Rs. 7.5 to Rs. 633.1. Similarly, the NIBL has not stable dividend. The DPS of the fiscal year 2002/03, 2003/04, 2004/05, 2007/08 and 2008/09 of the NIBL is less than the

average DPS (Rs. 154.87) and DPS of other two years are higher than the average DPS. The standard deviation and the coefficient of variation of the bank are 14.56 and 119.45% respectively. The coefficient of variation indicates that there is 119.45% fluctuation in the variable of DPS of the bank.

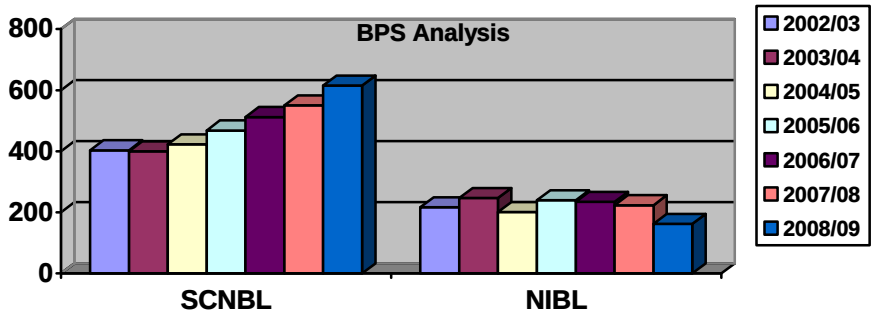
In conclusion, the average dividend per share paid by SCNBL is eight times higher than the average dividend per share of NIBL. So, SCNBL is comparatively more successful to create the positive attitudes of shareholders towards the bank. It consequently helps to increase the market value of shares and helps to indicate the better performance of the bank's management.

4.1.3 Book value per share (BPS)-

Table: 3
BPS Analysis

Year	SCNBL	NIBL
2002/03	403.1547	216.2401
2003/04	399.2466	246.8897
2004/05	422.3824	200.799
2005/06	468.2194	239.5454
2006/07	512.1182	234.3692
2007/08	550.15	223
2008/09	615.28	162
Total	3370.551	1522.843
Average-	481.5073	217.5491
S.D=	67.55435	25.4208
C.V=	0.140297	0.11685

See Appendix I for detail



While observing the above BPS table as presented in table 3, we come to know that the BPS of SCNBL has increased from fiscal year 2002/03 to fiscal year 2008/09. In the fiscal year 2008/09 BPS of SCNBL is highest i.e. Rs. 615.28. The average BPS is Rs. 481.50, standard deviation is 67.55, and the coefficient of variation is 14.02%. This coefficient of variation clears that

there is 14.02% fluctuation in BPS, which means there is inconsistency in BPS.

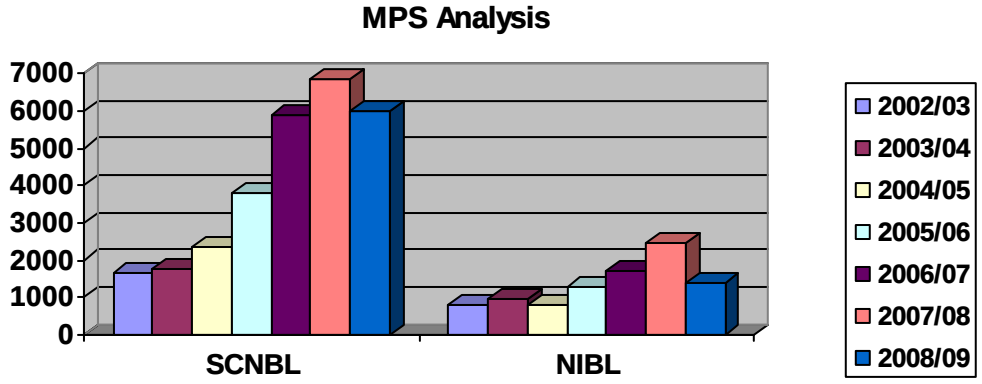
Similarly, BPS of NIBL ranges from Rs. 216.24 in 2002/03 to Rs. 162.00 in 2008/09. Highest BPS of NIBL is Rs. 246.89 in fiscal year 2003/04. The average BPS is Rs. 217.55, which is higher than for three fiscal years (2002/03, 2004/05 and 2008/09) and is lower than rest fiscal year that is reviewed. The standard deviation is 25.42, and coefficient of variation is 11.68%, which means there is 11.68% fluctuation in BPS. In an aggregate, BPS of SCNBL has recorded more fluctuation trend. But it does not find in case of NIBL.

4.1.4 Market Price Per Share (MPS)-

Table: 4
MPS Analysis

Year	SCNBL	NIBL
2002/03	1640	795
2003/04	1745	940
2004/05	2345	800
2005/06	3775	1260
2006/07	5900	1729
2007/08	6830	2450
2008/09	6010	1388
Total	28245	9362
Average	4035	1337.429
S.D=	1601.966	354.8946
C.V=	0.51995	0.32123

See Appendix I for detail



While observing the above MPS table as presented in table 4, we come to know that the MPS of SCNBL has increased from fiscal year 2002/03 to fiscal year 2007/08. In the fiscal year 2007/08 MPS of SCNBL is highest i.e. Rs. 6830. The average MPS is Rs. 4035, standard deviation is 1601.97, and the coefficient of variation is 52%. This coefficient of variation clears that there is 52% fluctuation in MPS, which means there is inconsistency in MPS.

Similarly, the MPS of NIBL ranges from Rs. 795 in 2002/03 to Rs 2450 in 2007/08. Highest MPS of NIBL is Rs. 2450 in fiscal year 2007/08. The average MPS is Rs. 1337.43. The standard deviation is 354.89, and coefficient of variation is 32.12%, which means there is 32.12% fluctuation in MPS. In an aggregate, MPS of SCNBL has recorded more fluctuation trend. But it does not find in case of NIBL.

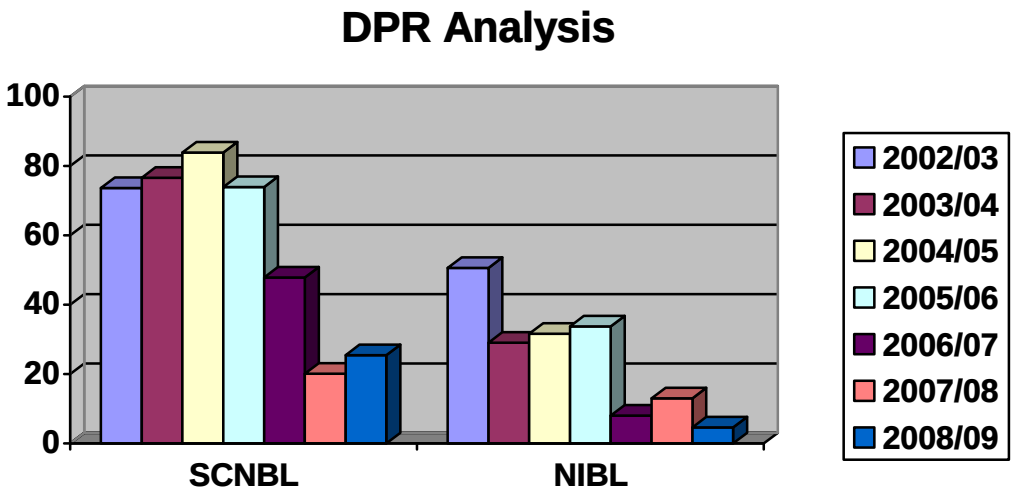
4.1.5 Dividend Payout Ratio (DPR)-

Table: 5

DPR Analysis

Year	SCNBL	NIBL
2002/03	73.67716	50.55612
2003/04	76.62835	29.01354
2004/05	83.83401	31.64557
2005/06	73.93085	33.6984
2006/07	47.79829	8.000
2007/08	20.087	12.96
2008/09	25.4574	4.598
Total	401.4131	170.4716
Average	57.34472	24.35309
S.D=	3.3944	16.5101
C.V=	0.059193	0.677947

See Appendix I for Detail



The above table 5 shows the dividend payout ratio for the banks analyzed. The main objective of this presentation is to show the percentage of dividend payment out of its earnings. The importance of this type of presentation lies in its ability to state the dividend policy of concerned banks more obviously.

Policy	
Conservative Dividend Policy	Less than 20%
Moderate dividend policy	20% to 50%
Aggressive Dividend Policy	More than 50%

According to above table 5, the dividend payout ratio ranges from 73.68% in the fiscal year 2002/03 to 25.46% 2008/09 of SCNBL. It was also found that average DPR of SCNBL was 57.34%, which is Aggressive dividend policy and the DPR of NIBL, was ranged form 50.56% in fiscal year 2002/03 to 4.59% in fiscal year 2008/09 and the average DPR is 24.35% which shows that moderate dividend policy. In the fiscal year 2008/09, lowest payout was 4.59% under conservative policy and in the fiscal year 2002/03; highest payout ratio was 50.56% under aggressive policy of NIBL.

The average DPR of SCNBL is 57.34%, which is far higher than that of NIBL (i.e. 24.35%). It reflects in average, that SCNBL has paid 57.34% and NIBL has paid 24.35% dividend to their shareholders out of their earnings. The standard deviations are 3.39 and 16.51 of SCNBL and NIBL respectively. The coefficient of variation of SCNBL is 5.92%, which indicates 5.92% fluctuation in dividend payout ratio of that bank. The CV of NIBL is 67.79%, which is more than that of SCNBL. A higher CV indicates the greater inconsistency in those variables. So, it indicates that the DPR of SCNBL is more consistent and the DPR of NIBL is more fluctuating.

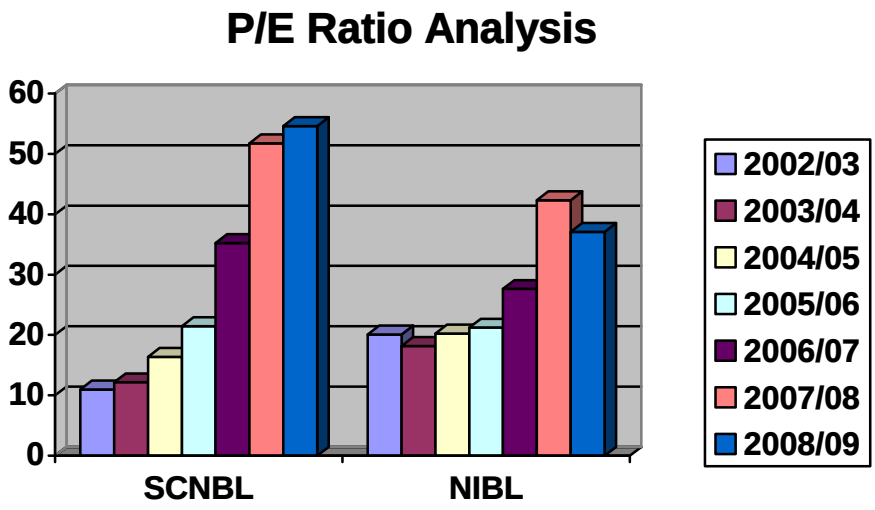
4.1.6 Price Earning Ratio (P/E Ratio)-

Table: 6

P/E Ratio Analysis

Year	SCNBL	NIBL
2002/03	10.98	20.1
2003/04	12.16	18.18
2004/05	16.38	20.25
2005/06	21.47	21.23
2006/07	35.25	27.63
2007/08	51.77	42.34
2008/09	54.64	37.09
Total	202.65	186.82
Average	28.95	26.689
S.D=	14.96928	3.23086
C.V=	0.517074	0.150426

See Appendix I for detail



The above table 6 exhibits the P\E ratio of two banks viz. SCNBL and NIBL. This presentation helps our study by clarifying the relationship between earning per share and market price per share. According to the table, the P\E ratio of SCNBL is in ascending order for reviewed period. Comparatively, the P\E ratio of the last year (2009/2009) is high. The average P\E ratio is 28.95, which is higher than the P\E ratio of the fiscal year 2002/2003 to 2005/06. The standard deviation and the coefficient variation are 8.81 and 45.76% respectively of the SCNBL. The C.V shows that there is greater

inconsistency (i.e. 45.76%) in that variable. Likewise, in case of NIBL, the P/E ratio is in ascending order. In the last year (2008/2009), the P/E ratio is increased and reached to 37.09. The average P/E ratio is 26.69. The standard deviation and coefficient of variation are 3.23 and 15.04% respectively. The C.V indicates that there is 15.04% fluctuation in variable.

So, above analysis helps to the investor expectations about the banks performance and the market appraisal of the bank's performance. The higher the P/E ratio, the better it is for the owner so reveals the average performance of SCBL is better than that of NIBL

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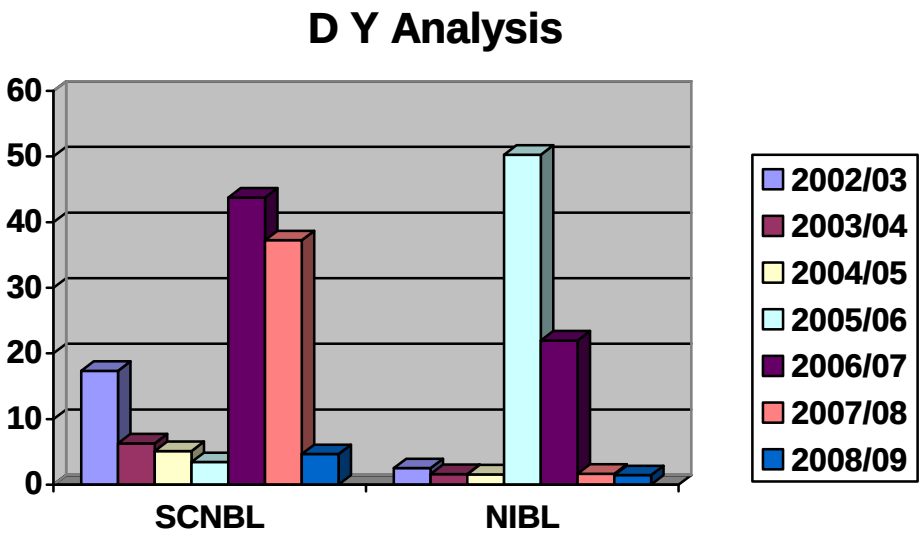
4.1.6.1 Dividend Yield Ratio (DY)-

Table: 7
DY Analysis

Dividend Yield Ratio (DY)		
Year	SCNBL	NIBL
2002/03	17.3476	2.515723
2003/04	6.3037	1.595745
2004/05	5.1173	1.5625
2005/06	3.4437	50.24603
2006/07	43.7288	21.97802
2007/08	37.2362	1.67
2008/09	4.6589	1.44
Total	117.8362	81.00802
Average	16.83374	11.57257
S.D	15.08	19
C.V	99.3	121.97

See Appendix I for detail



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

The above table 7 shows the dividend yield ratio of the concerned banks from the year 2002/03 to 2008/09. It is clearly shown that SCNBL has ranged from minimum 3.44% in fiscal year 2005/06 to maximum of 43.73% in 2006/07 and decreased in next two years with an average of 16.83%. The standard deviation is 15.08% and variation is 99.3%.

Similarly, in case of NIBL also range from 2.52% to 21.97% from fiscal year 2002/03 and 2006/07 and decreased in next two years. The average dividend yield ratio is 11.57%. With standard deviation of 19% and the coefficient of variation is 121.97%, which indicates 121.97% fluctuation in those variables.

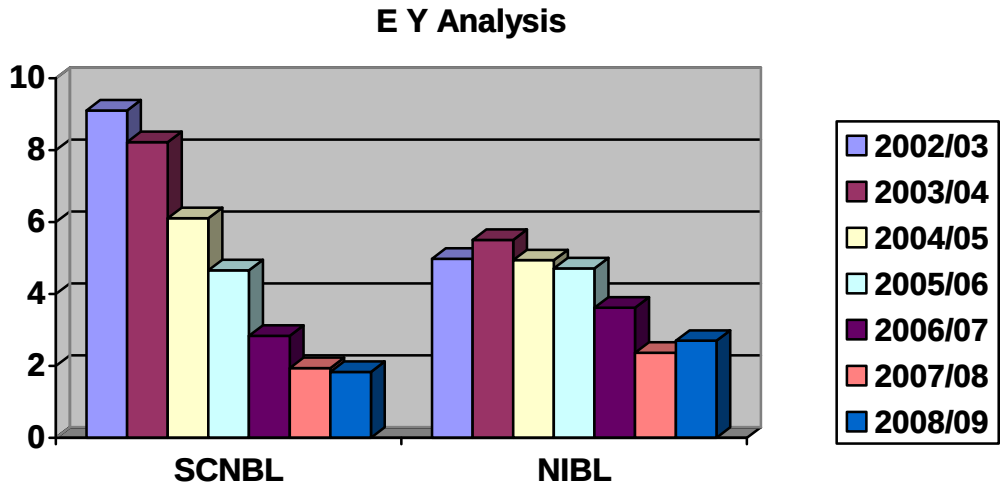
In other words, there is no consistency in the variable. This CV is comparatively higher than CV of the next bank. In aggregate, it seems that NIBL is more efficient than SCNBL for distributing of dividend based on market price of share. But both banks are inefficient for the distribution of dividend based on the market price of the share.

4.1.7 Earning Yield ratio (EY)-

Table: 8
EY analysis

Year	SCNBL	NIBL
2002/03	9.109146	4.976101
2003/04	8.226361	5.5
2004/05	6.104051	4.9375
2005/06	4.658013	4.710317
2006/07	2.83678	3.618855
2007/08	1.9315	2.3620
2008/09	1.8301	2.6959
Total	34.69595	28.80067
Average	4.95656	4.114381
S.D=	0.025368	0.0049425
C.V=	0.511806	0.1040841

See Appendix I for detail



Earning yield ratio highly influences the market value per share because a change in earning per share can bring effective change in the market value of that share.

The above table 8 shows the earning yield ratio of the concerned banks from the year 2002/03 to2008/09. It is clearly shown that SCNBL has ranged from minimum 1.83% in fiscal year 2008/09 to maximum of 9.11% in 2002/03 with an average of 4.96%. The standard deviation is 2.29% and variation is 37.04%.

Similarly, in case of NIBL range from 4.98% to 2.69% from fiscal year 2002/03 to 2008/09. The average earning yield ratio is 4.11% with standard

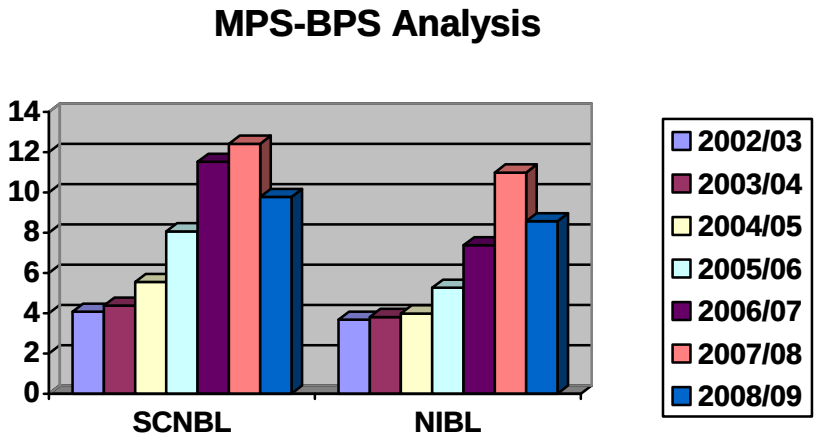
deviation of 0.62% and the coefficient of variation is 13.08%, which indicates 13.08% fluctuation in that variables.
In other words, there is no consistency in the variable. This C.V is comparatively lower than CV of the next bank.

4.1.8 Market value Per Share (MPS) To Book Value Per Share (BPS) ratio-

Table: 9
Analysis of MPS to BVPS ratio

Year	SCNBL	NIBL
2002/03	4.067917	3.676468
2003/04	4.370732	3.807368
2004/05	5.551842	3.984084
2005/06	8.06246	5.259964
2006/07	11.52078	7.377248
2007/08	12.4148	10.98655
2008/09	9.767911	8.567901
Total	55.75644	43.65958
Average	7.965206	6.237083
S.D=	2.784483	1.397492
C.V=	0.414682	0.289874

See Appendix I for detail



Market value per share to book value per share ultimately is the mean to evaluate net present value of share in the market. As per table 9, in both banks, market value per share to book value per share is in increasing order from fiscal year 2002/03 to 2008/09.

The average ratio of SCNBL is 7.96% is higher than average ratio of NIBL (6.24%). So, SCNBL is more efficient in case of average ratio of MPS to BPS. The S.D of SCNBL is 2.78, which is higher than the S.D of NIBL (1.40). The coefficient of variation is 41.47% for SCNBL and the C.V of NIBL is 28.99%. The coefficient of variations of SCNBL is higher than C.V of NIBL.

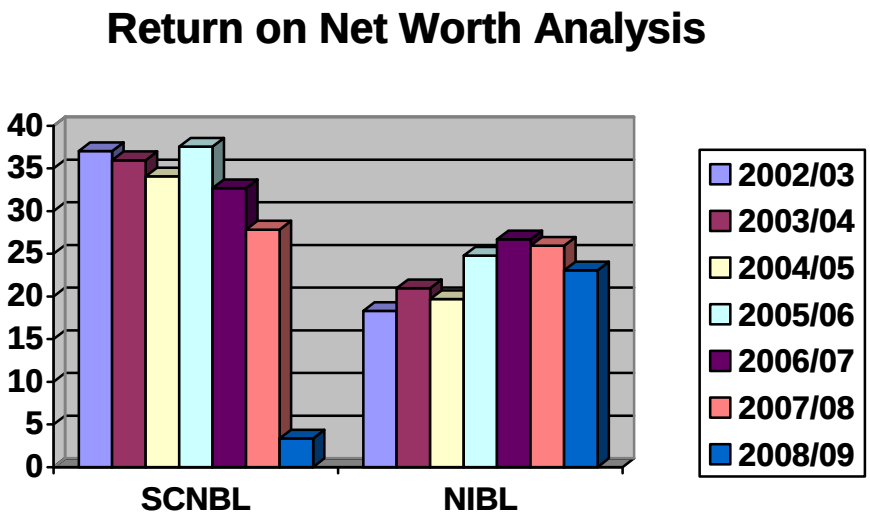
4.1.9 Return on Net Worth-

Table: 10

Analysis of Return on Net Worth (in percent)

Year	SCNBL	NIBL
2002/03	37.0319	18.29442
2003/04	35.95548	20.94115
2004/05	34.07474	19.6706
2005/06	37.55438	24.7652
2006/07	32.68207	26.6968
2007/08	27.83	25.93
2008/09	3.3583	23.05
Total	208.4869	159.3482
Average	29.7838	22.76402
S.D=	0.101345	0.2929211
C.V=	0.340267	1.286773414

See Appendix I for detail



Turning to the analysis of percentage return on net worth exhibited in table 10, it is depicted that the percentage return on net worth of SCNBL has fluctuating trend in reviewed period. It has ranged between 3.36% and 37.55%. The average return on net worth is 29.78%. The S.D is 0.10% and C.V is 0.34%.
Similarly, the percentage return on net worth of NIBL was increasing except in 2004/05. It has ranged between 18.29% and 26.70%. The average return on net worth of this bank is 22.76%. The S.D is 0.29%. The C.V is 1.29%, which is higher than the C.V of SCNBL. So, in aggregate, SCNBL is more efficient than NIBL to mobilize its resources efficiently.

4.1.10 Liquidity Ratio-

The ability of a bank to meet its obligation in short-term is known as liquidity. It reflects the short-term financial strength of the bank to investment opportunities. This is calculated through dividing current assets by current liability.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liability}}$$

Table: 11
Calculation of liquidity Ratio

Year	SCNBL	NIBL
2002/03	0.983188	1.008966
2003/04	0.997024	1.02997
2004/05	0.954694	1.054045
2005/06	1.044421	0.931626
2006/07	0.771557	0.940627
2007/08	2.985994859	0.931626
2008/09	1.914602136	0.940627

See Appendix I for detail

While observing the above current ratio of two concerned banks SCNBL and NIBL respectively, the solvency position of both banks is not good because of the current ratio of both banks are less than 2:1 ratio. The cash may not be available to pay current liabilities. It reflects that the short term financial weakness of the bank to investment opportunities. Comparatively the liquidity position of NIBL is better than SCNBL because of the current ratio of NIBL is higher than current ratio of SCNBL.

4.1.11 Profitability Ratio-

Profitability ratio neither shows the overall efficient of the bank. The relation of returns of the firm to either its income of its equity nor is their asset known as profitability ratio. Under this ratio, we calculate Gross profit margin ratio and net profit margin ratio of the two banks SCNBL and NIBL.

We have,

$$\text{Gross profit margin ratio} = \frac{\text{Gross profit}}{\text{Total income}}$$

$$\text{Net margin ratio} = \frac{\text{Net profit}}{\text{Total income}}$$

Table: 12
Gross Profit Margin

Year	SCNBL	NIBL
2002/03	53.81127	37.96136
2003/04	56.42775	52.89224
2004/05	58.16963	44.24574
2005/06	69.184	56.73525
2006/07	70.14272	58.38647
2007/08	75.154632	52.1715127
2008/09	80.456321	39.8899456
Total	463.3463	342.2825
Average	66.19233	48.8975

See Appendix I for detail

Table: 13
Net profit margin

Year	SCNBL	NIBL
2002/03	33.71451	20.21306
2003/04	34.00868	16.70884
2004/05	34.20749	30.79305
2005/06	46.44859	36.53754
2006/07	44.38876	40.2397
2007/08	59.4867237	53.091
2008/09	69.076868	50.432
Total	321.3316057	248.01519
Average	45.9045151	35.43074143

See Appendix I for detail

The above 12 and 13 depicts the profitability ratio of the two banks SCNBL and NIBL of last five years. Gross profit margins of both banks are not bad: comparatively gross profit margin of SCNBL is higher than NIBL. But the gross profit margin of SCNBL is increasing trend but NIBL gross margin is fluctuation. Comparatively gross profit and net profit of SCNBL is higher than NIBL. It shows that the management of SCNBL is better utilization of total deposits.

4.2 Simple Correlation and Regression-

4.2.1 Earning per Share (EPS) and dividend per Share (DPS)-

Table: 14
Correlation between EPS and DPS

Banks	Coefficient Of Correlation I	Relationship	Coefficient Of Determination (r^2)	P.E	Remarks
SCNBL	0.4271014	Positive	0.18241564	0.24662	Insignificant
NIBL	0.8022053	Positive	0.643533344	0.10753	Significant

See Appendix II for detail

Above table 14 shows that there is direct relationship between earning per share and dividend per share of SCNBL. The correlation coefficient is 0.4271, which shows positive relationship. Coefficient of determination is measure of degree of linear associations or coefficient between two variables. The value of R^2 is 0.1824, which indicates that 18.24% variation is explained in dependent variable DPS due to change in the value of independent variable EPS.
Similarly, in case of NIBL, the correlation coefficient is 0.8022. There also exists high degree of positive relationship between EPS and DPS. Coefficient of determination between EPS and DPS of NIBL is 0.6435, which indicates that the variation in EPS explain 64.35% of the variations in DPS. It shows that change in EPS has great effect on the variation of DPS.

Probable error of correlations coefficient has been calculated to measure that significance of the relationship between EPS and DPS of these banks. Through the correlation coefficient of both banks are positive, DPS of SCNBL is negligibly less affected by the earning. While it affects on NIBL, the data related to SCNBL depict that there is insignificant relationship

between DPS and EPS because r is lesser than 6 P.E corresponding banks. But it is significant for NIBL.

Regression Analysis: Dividend per share (DPS) on Earning Per Share (EPS)

Table: 15
DPS on EPS

Banks	No. Of Observation	Constant (a)	Regression Coefficient (b)	Coefficient Of Determination (r^2)	S.E.E	T Value (cal)
SCNBL	5	152.0749	0.005866	0.182416	1447.672	0.818136
NIBL	5	44.05189	0.030568	0.643533	407.4597	2.327216

See Appendix II for detail

Bi-Variant Regression Result, Y= a+bX
DPS= a+ b. EPS
Note: DPS and EPS denote dividend per share (Dependent variable) and earning per share (independent variable) respectively.

Data and formula used in analysis are exhibited in appendix:

The table 15 depicts the output of simple regression analysis of DPS on EPS of two banks viz. SCNBL and NIBL. In both the banks, beta coefficients are positive. In case of SCNBL, beta coefficient is 0.0058, which indicates that a one- rupee increase in EPS, independent variable leads to an average about Rs. 0.0058 increase in DPS, dependent variable, holding other variables constant. The constant (a) is 152.07, which means that if the EPS is zero, and then the estimated DPS will be Rs. 152.07. The standard error of estimate is 1447.67. The value of R square (R^2) is 0.1824, which indicates that 18.24% variation in DPS is explained by EPS variable. In case of NIBL, the beta coefficient is 0.0305, which indicates a one-rupee increase in EPS leads to an average about Rs. 0.0305 increase in DPS, holding other variables constant. The constant (a) is 44.05. The standard error of estimate is 407.16. The value of R^2 is 0.6435, which indicates that 64.35% variation in DPS is explained by EPS.

Since the calculated t- value of SCNBL is smaller than the tabulated value of t (1.96) at 5% level of significance, so there is not statistically significant. Similarly, the calculated t- value of NIBL is more than the tabulated value of t (1.96) at 5% level of significance, so there is statistically significant.

4.2.2 Dividend Per Share (DPS) and Net Worth (NW)-

Table: 16

Calculation of correlation between DPS and NW

Banks	Coefficient Of Correlation I	Relationship	Coefficient Of determination (r^2)	P.E	Remarks
SCNBL	0.809006448	Positive	0.65449143	0.10422	Significant
NIBL	0.465443935	Positive	0.21663806	0.2363	Insignificant

See Appendix II for detail

The above table no 16 depicts the relationship between dividend per share (DPS) and net worth (NW) of the two concerned banks. Coefficient of correlations between DPS and NW of SCNBL and NIBL are 0.8090 and 0.4654 respectively, between which SCNBL has relatively high (more) degree of correlation coefficient. The R2 between DPS and NW are 0.6545 and 0.2166 of SCNBL and NIBL respectively. It shows that the variation in NW explains only 65.45% variations in the DPS. However, the r2 analysis of NIBL shows that variation in the NW determination explains 21.66% of variation in the DPS. To measure the significance of the relationship between DPS and NW of the two concerned banks, it would be more preferable to calculate probable error of correlation coefficient. The same table depicts that r of NIBL is smaller than the 6P.E. Therefore; the relationship between DPS and NW is insignificant. Similarly r of SCNBL is greater than 6P.E. hence, the relationship is significant.

Regression Analysis: Net worth (NW) on dividend per share (DPS)

Table: 17

Calculation of Regression Analysis: NW on DPS

Banks	No. Of Observation	Constant (a)	Regression Coefficient (b)	Coefficient Of Determination (r^2)	S.E.E	T Value (cal)
SCNBL	5	417.793	0.036023	0.654491	1338.686	2.38387
NIBL	5	221.030	0.030824	0.216638	318.2386	0.91085

See Appendix II for detail

Bi- variant Regress Result: Y= a+bX
NW= a+ b. DPS
Note: NW and DPS denote net worth (dependent variable) and dividend per share (independent variable) respectively.

Data and formula used in analysis are exhibited in appendix:
With respect to the above regression result of net worth (NW) on dividend per share (DPS), beta coefficients are positive in both banks. The beta coefficient is 0.0360 in the context of SCNBL. It indicates that one- rupee increase in DPS leads to an average Rs. 0.0360 increase in net worth. The value of R^2 of SCNBL is 0.6445, which means only 64.45% variation in NW is explained by variation in DPS. Similarly, the beta coefficient of NIBL is 0.0308, which indicates that a one-rupee increase in DPS leads to increase by Rs. 0.0387 in NW. The value of R^2 of NIBL is 0.2166, which means 21.66% variation in NW is explained by variation in DPS.

Since the calculated t- value of SCNBL is greater than the tabulated value of t (1.96) at 5% level of significance, so there is statistically significant. Similarly, the calculated t- value of NIBL is less than the tabulated value of t (1.96) at 5% level of significance, so there is not statistically significant.

4.2.3 Earning Yield (EY) and Dividend Yield (DY)-

Table: 18
Correlation between EY and DY

Banks	Coefficient Of Correlation I	Relationship	Coefficient Of determination (r^2)	P.E	Remarks
SCNBL	-0.51276215	Negative	0.262925026	0.22234	Insignificant
NIBL	-0.41817022	Negative	0.17486634	0.2489	Insignificant

See Appendix II for detail

The above table 18 shows the relationship between earning yield (EY) and dividend yield (DY) of two concerned banks. According to this table, there are –0.5128 correlation coefficients between earning yield and dividend yield in case of SCNBL, which means inverse correlation. There exists negative relationship between the two variables. Coefficient of determination (R^2) indicates that 26.29% variation is explained in dividend yield due to change in the value of earning yield.

The coefficient of correlation between earning yield and dividend yield of NIBL is –0.4182. it means negative relationship between two variables. Coefficient of determination (R^2) indicates that 17.49% variation is explained in dividend yield due to changes in the value of earning yield. Since correlation coefficient I is undoubtedly less than 6P.E. in case of both banks, so we can say that there is not significant relationship between EY and DY.

Regression Analysis: Dividend Yield (DY) on Earning Yield (EY)

Table: 19

Calculation of Regression Analysis: DY on EY

Banks	No. Of Observation	Constant (a)	Regression Coefficient (b)	Coefficient Of Determination (r^2)	S.E.E	T Value (cal)
SCNBL	5	0.073703	-0.07792	0.262925	0.242276	1.03448
NIBL	5	0.049616	-0.01367	0.174866	0.296493	0.79735

See Appendix II for detail

Bi-Variate Regress Result: Y= a+bX

DY= a+ b. EY

Note: DY and EY denote dividend yield (dependent variable) and earning yield (independent variable) respectively.

Data and formula used in analysis are exhibited in appendix:

With respect to the above regression result of DY on EY, beta coefficients are negative in both banks. The beta coefficient is –0.0779 in the context of SCNBL. It indicates that a one-rupee increase in EY leads to an average Rs.0.0779 decrease in DY. The value of R^2 of SCNBL is 0.2629, which means only 26.29% variation in NW is explained by variation in DPS. Similarly, the beta coefficient of NIBL is –0.0137, which indicates that a one-rupee increase in EY leads to decrease by Rs. 0.0137 in DY. The value of R^2 of NIBL is 0.1749, which means 17.49% variation in DY is explained by variation in EY.

Since the calculated t- value of both banks is less than the tabulated value of t (1.96) at 5% level of significance, so, there is not statistically significant.

4.2.4 Earning Per Share (EPS) and Market Price Per Share (MPS)-

Table: 20
Calculation of correlation between EPS and MPS

Banks	Coefficient Of Correlation I	Relationship	Coefficient Of determination (r^2)	P.E	Remarks
SCNBL	0.763467088	Positive	0.582881995	0.12582	Significant
NIBL	0.901873435	Positive	0.813375692	0.05629	Significant

See Appendix II for detail

The correlation between earning per share (EPS) and market price per share (MPS) of two banks are presented in table no. 20. There is 0.7635 and 0.9019 correlation coefficient between EPS and MPS in case of SCNBL and NIBL respectively. It indicates that the positively relationship between the two variables of both banks. The value of is 0.5828, which indicates that EPS of SCNBL explains 58.28% of variations in the MPS, which indicates that MPS increase, as also EPS increase. The value of R^2 is 0.8134, which shows that the EPS of NIBL explains 81.34% of variations in the MPS. It is safe to conclude that the relationship between EPS and MPS of both banks are significant relationship between EPS and MPS because R is greater than 6P.E.

Regression analysis: Market Price Per share on Earning Per Share

Table: 21
Calculation of Regression Analysis MPS on EPS

Banks	No. Of Observation	Constant (a)	Regression Coefficient (b)	Coefficient Of Determination (r^2)	S.E.E	T Value (cal)
SCNBL	5	136.302	0.006347	0.582882	4403.74	2.047489
NIBL	5	23.4281	0.024536	0.813376	1482.79	3.615948

See Appendix II for detail

Bi-Variate Regression Result Y= a+bX
MPS= a+b. EPS
DPS= a+ b. NP
Notes: Market price per share and Earning per Share are represented by MPS and EPS respectively.

Data and formula used in analysis are exhibited in appendix:

With respective to the above regression result of market price per share (MPS) on Earning Per share (EPS), beta coefficients are positive in both concerned banks. The beta coefficient of SCNBL is 0.00637. It indicates that a one-rupee increase in EPS leads to an average about Rs. 0.00637 increase in stock price, holding other variables constant. Hence, we can conclude that MPS of SCNBL depend on EPS. The share price of SCNBL has walked randomly. R^2 is relatively low (0.5828). This indicates that only 58.28% of stock variation can be explained by variation in EPS. The value of constant (a) is relatively high. It means there are other factors that affect MPS. On the other hand, the beta coefficient (b) of NIBL is also positive (0.0245), which indicate that a one-rupee increase in EPS leads to an average increase of Rs. 0.00245 in stock price. The value of R^2 is relatively high 0.8134. This indicates that 81.34% of stock variation can be explained by variation in EPS.

Since the calculated t-value of both banks are greater than the tabulated value of t (1.96) at 5% level of significance, so there is statistically significant.

4.2.5 Dividend Payout Ratio (DPR) and Market Price Share (MPS)-

Table: 22

Calculation of correlation between DPR and MPS

Banks	Coefficient Of Correlation I	Relationship	Coefficient Of determination (r^2)	P.E	Remarks
SCNBL	-0.8580737	Negative	0.736290532	0.07955	Insignificant
NIBL	-0.8243340	Negative	0.679526607	0.09667	Insignificant

See Appendix II for detail

As shown in table no. 22, the correlation coefficient between dividend payout ratio (DPR) and market price per share of SCNBL and NIBL is –0.8580 and –0.8243 respectively, which indicates negative relationship between the two variables. Coefficient of determination (R^2) is 0.7363. This figure indicates that the DPR of SCNBL explains 73.63% of variations in the MPS, which is high. Likewise, according to the same table, it is depicted that the correlation coefficient between DPR and MPS of NIBL is –0.8243, which refers high degree of negative relationship between the two variables. Coefficient of determination R^2 is high 0.6795, which indicates that the variations in DPR explain 67.95% of variations in MPS. Above the table we make conclude

that, the both bank insignificant relationship between DPR and MPS because r is less than 6P.E of both banks.

Regression Analysis: Market Price Per Share (MPS) on dividend payout ratio (DPR)

Table: 23
Calculation of Regression Analysis: MPS on DPR

Banks	No. Of Observation	Constant (a)	Regression Coefficient (b)	Coefficient Of Determination (r^2)	S.E.E	T Value (cal)
SCNBL	5	0.9139	-0.0000656	0.736291	4482.566	2.89416
NIBL	5	0.65434	-0.00032	0.679527	1497.671	2.52213

See Appendix II for detail

Bi-Variate Regression Result: Y=a+bX
MPS= a+b. DPR
Note: MPS and DPR represent market price per share (dividend variable) and dividend payout ratio (independent variable) respectively.

Data and formula used in analysis are exhibited in appendix;

Table no. 23 depict the linear relationship between stock price (MPS) and dividend payout ratio (DPR) of concerned banks. Beta coefficient of both banks is negative hence increase in DPR would reduce MPS.
The value of R^2 of SCNBL is higher 0.7363 than that of NIBL (0.6795). This indicates that only 67.95% in stock price variable is explained by dividend payout variable in NIBL but 73.63% of stock price variation is explained by dividend payout variable in SCNBL.
Since the calculated t- value of both banks is less than the tabulated value of t (1.96) at 5% level of significance, so there is not statistically significant.

4.3 Presentation and Analysis of Primary data-
Appendix-III reveals important information as to outlook of investment decision of investors. In the course of availing first hand data to justify the study on the topic primarily, interviews and questionnaire methods have been made applicable.

Questionnaire measures applied to gather information relevant to the topic is questionnaire method. A number of questions were put up by means of 100 copies of questionnaire including an open-end question. 80% of the questionnaires were collected during study period. The questionnaire so

collected is thus related to find out the opinion of investors on common equity. Their responses have been analyzed as follows:

a.) Sector wise preference on dividend

Regarding the sector of investment the investors are asked whether the investors are interested in which sector they are interested to invest, 87.5% of the investors are interested with banking sector, 3.75% of them are interested with manufacturing and processing, 2.5% wanted to invest in trading sector and remaining 6.25% wanted to invest in other area. From the table 24 it is clear that most of the investors i.e. 87.5% of them are attracting by finance/banking sectors. The data collected in this respect is tabulated in table 24:

Table: 24

Sector wise preference for investment

S.N	Research Variable	No. Of Investors	% Of investors
a.	Bank/Finance/dev. Bank	70	87.5
b.	Manufacturing	3	3.75
c.	Trading	2	2.5
d.	Others	5	6.25
	Total	80	100

(Source: Field survey)

b.) Investors' awareness analysis

When investors are asked whether the investors are aware or not in the Nepalese stock market most of them i.e. 80% said that they are not, only few 5% replied that they are aware about this. Remaini9ng 10% don't know about this and 5% shows no response at all. Regarding the awareness most of investors said that they were not familiar with stock markets, brokers, trading mechanism. The following table-25 tells the fact:

Table: 25

Investor's awareness on stock market

S.N	Research Variable	No. Of Investors	% Of investors
a.	Yes	4	5
b.	NO	64	80
c.	Don't know	8	10
d.	No Response	4	5
	Total	80	100

(Source: Field survey)

c.) Causes of holding the shares:

Investors were asked for their interest on investment motives if they were interested with dividend, social status, marketability and all above, 62.5% said they were attached for dividend, 12.5% interested with marketability and remaining 15% wanted to have above all and rest 10% were interested with social status. The following table-26 shows the purpose of owning the shares of company:

Table: 26

Causes of holding the shares of company

S.N	Research Variable	No. Of Investors	% Of investors
a.	Dividend	50	62.5
b.	Social status	10	12.5
c.	Marketability	8	10
d.	Above all	12	15
	Total	80	100

(Source: Field survey)

d.) Investors' satisfaction analysis on dividend:

Regarding the question whether the investors are satisfied or not with their investment, 60% of the respondents replied they are satisfied. Only 20% of the respondents replied that they are not satisfied. Remaining 20% said they are unknown about this fact. The following table-27 gives the fact that the investors' satisfaction:

Table: 27

Data regarding investor' satisfaction

S.N	Research Variable	No. Of Investors	% Of investors
a.	Yes	48	60
b.	NO	16	20
c.	Don't know	16	20
d.	No Response	-	-
	Total	40	100

(Source: Field survey)

e.) Analysis of open-end opinions of investors:

Only one open-end question is asked to the investors under the study to take their opinions on important aspect of investing in common stock. Thus, in relation to the narrative question number 5 (see

Annex- 1), only 70 questions were duly filled. The core issues of responses are discussed as below:

So far as investors' experiences on investment problem is concerned, it was found quite astonished. Some key experiences, which are considered to be worthy, are cited here. Some investors express their views that due to non-transparent operation and delay in and disseminating the information regarding company's financial status and shares they were in dilemma whether to purchase or sell the shares. Similarly, other blamed that brokers in the secondary market did not provide proper advices to the clients. As a result, they have to bear losses while trading the stocks. The broker purchase shares for their clients on an "execution- only basis" and do not take responsibility for their quality of advises they offer. Therefore, according to them, brokers perform the function in the capital market not for investors' sake but only for reaping their commissions from investors. While some other stated that due to lack of computer aided technology for analyzing the security and very few numbers of security analyst or firms involved in forecasting market trends and future price of shares, they feel difficulty to take right investment decisions on right time. Likewise, it was acknowledge that some of the investors were reluctant to make further investment in the secondary market since they had bitter experience for making transfer of ownership of shares in the register of shareholder was time consuming. According to them, completion of transfer process almost took about three to four months\, so they felt their interest was not protected. That's why, all of the respondents who faced this type of problem laid emphasis to think twice whether or not to investment in shares through secondary markets.

In this way, the fraction of investors seemed to be apprehensive to sell the shares of that company which they bought from primary market. It is so because; Securities Exchange Act 1983 has laid down the provision of compulsory listing of securities before trading on the stock exchange. The shares they possessed are not listed at in the Nepal Stock Exchange (NEPSE). Thus, there perplexity sounds like appropriate.

The views expressed over the solution of trading problems as well as improvement of the confidence of investors to invest in secondary market were more or less similar to one another. All of them laid priority on the access to information so as to know the financial strength of company as well market trend of securities.

Frequently fluctuation of stock market prices, lower quality of professional services and delay in procedures for making transfer of

ownership of shares have caused a great loss to the confidence of investors. Similarly, the settlements of traded shares were not carried out within the given duration. Among other things, some suggested to enshrine special provisions in the act to protect the right of security holders. So for the Acts, making the provision only from the side of company management has enacted i.e.: Company Act and Stock Exchange Act. Instead, the companies themselves are involving the provisions laid down in the Acts from time to time.

Moreover, some prominent suggestions, the investors prescribed to include the confidences of investors for investing in the secondary market are as follows:

- The stock exchange should carry out periodic research and analysis and make public the findings, which they believed would help them to make better investment decisions.
- The securities Board, an apex body for monitoring and regulating the Nepalese Stock Market regulatory regimes up to international standards.
- Current manual method of securities trading should be substituted by computer-based technology, which enhances the pace of trading activities.
- Investors should be provided with investment guidelines.
- The role of market players in the stock market should effective in promoting capital market on the country.

4.4 Major Findings of the Studies-

- Earnings per share analysis shows that the average earning per share is more than three times small in case of NIBL i.e. 49.71 than that of SCNBL (i.e. 145.89). At the same time, C.V. analysis helps us to conclude that it has relatively more consistent earning per share than that of SCNBL.
- As far as dividend per share is concerned, data related to SCNBL shows that the average dividend per share is six times greater (i.e. 1239.21) with more consistency than that of NIBL, which has relatively lower average dividend per share (i.e. 154.87) with more variation. This indicates that SCNBL is able to pay higher average dividend to its shareholders.
- Considering the BPS, SCNBL has higher 481.51 than of NIBL with 217.55. In contrast, NIBL has lower C.V that shows it is more consistent.
- SCNBL has higher MPS than comparing NIBL 4035 to 1337.43. Similarly, SCNBL has higher C.V.

- The data of dividend payout analysis shows that the SCNBL has greater average dividend percent (i.e. 57.34) than NIBL (i.e. 24.35). at the same time C.V. analysis helps us to conclude that NIBL has relatively more inconsistent dividend percent than that of SCNBL.
- The analysis of dividend payout ratio is one of the major studies, which helps us to find out dividend policy and practices adopted by the concerned banks. This analysis shows that the average of both banks applied conservative dividend policy. SCNBL is remarkable here in the sense of its average dividend payout ratio, which ranks higher with more inconsistency with NIBL. Therefore, we can conclude that SCNBL is paying higher percentage of its earnings as dividends than NIBL.
- Price earning ratio analysis shows that the average price- earning ratio of NIBL is higher than SCNBL. SCNBL has lower price earning ratio; but has comparatively more inconsistency of price-earning ratio. Therefore, in this regard average performance of NIBL is better than that of SCNBL.
- The earning yield ratio analysis shows that the average earning yield ratio is higher in SCNBL (i.e. 28.95) than NIBL (i.e. 26.69). at the same time, C.V. analysis helps us to conclude that it has relatively more variation-earning yield than that of SCNBL.
- Based on dividend yield ratio, SCNBL is more efficient with more consistency than NIBL for distribution of dividend based on market price per share.
- Average market value per share to book value per share of SCNBL is greater with relatively less inconsistency than that of NIBL. This shows that there is greater chance of higher capital gain to the shareholders of SCNBL.
- The average return on net worth of SCNBL is higher with less inconsistency than that of NIBL, which reveals that SCNBL has mobilized its resources constantly but SCNBL has failed to do so.
- While observing the current ratio of two concerned bank SCNBL and NIBL respectively. The solvency position of both banks is not good because of the current ratio of both banks are less than 2:1 ratio. The cash may not be available to pay current liabilities. It reflects that the short term financial weakness of the bank to investment opportunities. Comparatively the liquidity position of NIBL is better than SCNBL because of the current ratio of NIBL is higher than current ratio of SCNBL.
- Gross profit margins of both banks are not bad, comparatively Gross profit margin of SCNBL is higher than NIBL. Comparatively, gross and net profit of SCNBL is higher than NIBL. It shows that the

management of SCNBL is better than NIBL. It also shows that the efficiency of SCNBL and better utilization of total deposits.

- In case of both banks, the relationships between dividends per share with earning per share are positive. But the relationship is inconsistent for SCNBL and consistent for NIBL.
- In case of DPS and NW, the relationship is positive for both banks. With significant relationship for SCNB and significant relationship on NIBL.
- The correlation between market price per share with dividend payout ratio is insignificant in case of both concern banks SCNBL and NIBL. And the correlation between market price per share and dividend payout ratio is insignificant in case of both banks.
- The relationship between dividend yield and earning yield is negative and insignificant in case of both banks.
- The relationship between EPS and DPS is positive for bank with significant relationship for NIBL and insignificant for SCNBL.
- As far as the bivariate regression analysis of dividend per share on earning per share is concerned, beta coefficient is positive in both the banks. The positive beta coefficients indicate that dividend per share increases with higher earning per share in both the banks. It shows that is different of financial principle of dividend policy. Hence, dividend per share of both banks does depend earning per share.
- With respect to regression analysis of net worth on dividend per share beta coefficient is positive in both banks. The result of this regression is not statistically at 5% level of significant to NIBL and significant for SCNBL.
- As far as the bivariate regression of market price per share on earning per share is concerned, beta coefficient is positive of both banks SCNBL and NIBL. The positive beta indicates that remaining other variables constant increase in earning per share leads to increase in market price per share. It shows that the both banks depend on earning per share.
- With respect to regression analysis of market price per share on dividend payout ratio, beta coefficient is negative of both banks. Generally when dividend payout ratio is increased that leads increase in market price per share. However, this situation does not exist in case of both banks SCNBL and NIBL. This indicates that market price is influenced by any factor else than dividend payout ratio.
- Financial institutions are the most preferable sector for investment by investor with 87.5% of respondent preferring it.
- Most of the i.e. 80% investor are unaware of secondary market.
- Dividend is the motive for most of i.e.6205% investor.
- With the current level of dividend 605 of investor are satisfied.

Chapter-5
Summary, Conclusions and Recommendation

5.1 Summary-

Dividend policy decision is one of the major decisions of financial management. It is right to say that dividend policy decision affects on the operations prosperity of financial companies because it has the power to influence other two decisions namely capital structure decision and investment decision. Basically an investor has expected two types of return namely capital gain and dividend by investing in equity capital or ordinary share. So, payment of dividend to shareholders is an effective way to attract new investors and maintain present investors to invest and shares. So, it is justified to hold that a clearly defined and effectively managed dividend policy is required in all financial companies to fulfill the shareholders expectations with that of corporate growth from internally generated funds. So, the funds which could not be used due to lack of investment opportunities elsewhere.

This study is mainly focused to access the dividend practice of different banks. It covers some specific objectives mainly to find out the relationship between other financial indicators. Considering time and resource constraints only two commercial banks namely SCNBL and NIBL have been selected as sample banks in my study to fulfill the objective of studying dividend policy decision and other factors related to dividend. The study period covers only last five fiscal years from 2002/03 to 2006/07. The available secondary data and primary data have been analyzed using various financial and statistical tools in this study. So, the reliability of the conclusions of this study is determined on the accuracy of secondary data.

5.2 Conclusions-

i.) Commercial banks represent a strong body of profit earning organization in comparison to the other sectors such as manufacturing, trading etc.

ii.) Instability of dividend and inconsistent payout ratio is the most applied phenomena of Nepalese dividend distribution/ practices. None of the banks are guided by an appropriate dividend policy. This is actually affected the market price and goodwill of all such companies in the long run.

iii.) The shareholders in Nepal don't seem to be investing their capital on the basis of financial performances of the financial institutions as such. The main reason behind this statement is that market price of the shares don't seem to be more or less dependent upon earning per share and dividend per share.

1.) Different financial indicators of both the banks show the following results:

   i.) The average dividend per share of SCNBL is more than NIBL, which means SCNBL is payment higher portion of its earning as dividend.
   ii.) Average earning per share of SCNBL is more than three times greater than NIBL, which means SCNBL is relatively more successful than NIBL.
   iii.) The SCNBL leads NIBL in the sense that it has greater average dividend payout ratio.
   iv.) Average price earning ratio of NIBL is higher than SCNBL, which means NIBL has better performance for enhanced the wealth of shareholders.
   v.) Average market value per share to book value per share of SCNBL is greater than NIBL. So, there is greater chance of higher capital gain to the shareholders of SCNBL.
   vi.) Average dividend yield ratio is higher in NIBL and earning yield of SCNBL is greater than NIBL>

2.) In case of both banks, the relationships between dividends per share with earning per share are positive. But the relationship is inconsistent for SCNBL and consistent for NIBL.
3.) In case of DPS and NW, the relationship is positive for both banks. With significant relationship for SCNBL and insignificant relationship on NIBL.
4.) The correlation between market price per share and dividend payout ratio is insignificant in case of both concern banks SCNBL and NIBL. And the correlation between market price per share and dividend payout ratio is insignificant in case of both banks.
5.) The relationship between dividend yield and earning yield is negative and insignificant in case of both banks.
6.) The relationship between EPS and DPS is positive for both bank with significant relationship for NIBL and insignificant for SCNBL.
7.) There is not uniformity in dividend distribution policy and practice in both the sample banks.

5.3 Recommendations-

Based on major findings and issues and gaps found in cure of this study, some recommendations are explained below hoping that these recommendations will certainly be proved milestone to overcome existing issues in this field.

1.) There is no clear-cut legal provision regarding dividend payments. So, the government should act in favor of investors and should bind through such legal provisions or distinct rules so that the profit earning companies should distribute certain percent of their earning as dividend.
2.) The banks should define their dividend strategy (policy) clearly whether the bank is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends. The clearly defined policy will guide the way on how to follow dividend distribution. The bank should follow them (defined dividend strategy) strictly in normal condition. If there is lack of clearly defined strategy, so many problems or inconveniences will be created to many other organizational sectors especially on the financial sectors.
3.) Banks should provide a chance to their shareholders for their interest. They should try to know whether they (shareholders) prefer to obtain cash dividend or stock dividend or any forms of dividend. So, instead of declaring cash or stock or any forms of dividend, dividend declarations should be proposed to the annual general meeting of shareholders for their approval. Further more, the banks should also be careful about informing the impacts of dividends, the advantages and disadvantages of different forms of dividend to those shareholders or potential investors who know less about the matters.
4.) The payment of dividend is highly fluctuation, which is neither static nor constantly growing. Such inconsistency and irregularity in the dividend payment may create more confusion and miss-conception about that firm. Due to higher degree of risk and uncertainty, such fluctuation cannot impact positively in the firm's market price per share. So these banks are advised to follow either static or constantly growing dividend payment policy. Similarly, according to the changing context and shareholders interest and expectation, the predetermined policies should be reviewed.
5.) The bank should consider the existing conditions and expectations of shareholders while distributing dividends. So, that the distributed dividend should meet the interests of expectations of the shareholders as far as possible.
6.) The bank should consider the existing conditions and expectations of shareholders while distributing dividends. So that the distributed dividend should meet the interests of expectations of the shareholders will not be destroyed even bank cannot pay dividend in some year.
7.) It would be better to fix the amount of dividend in the annual general meeting of shareholders. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.

8.) Banks are playing on the public money. So, in this regard, they are advised to have target rate of return (earnings) and target payout ratio that will help the banks to build good image in stock market and investors will be benefited on making investment decision.

9.) There should be certain program to improve the efficiency and reduce the government interference in daily affair. Similarly, the managers should be able to fulfill their duties and responsibilities and to protect the shareholder's interest but not for operation of company desired by themselves.

10.) It is recommended to the concerned parties that the optimum dividend policy must be based on the following criteria.

    i.) Optimum retentions made for excellent expansion and modernization.

    ii.) Optimum dividend so that market value per share will increase rapidly i.e., net present value of shareholders wealth can be maximized.

    iii.) Stable or consistency in the dividend payment.

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Appendix-I

SCNBL				NIBL			
Year	EPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$	Year	EPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$
2002/03	149.39	-6.468	41.83502	2002/03	39.56	-10.976	120.4723
2003/04	143.55	-12.308	151.4869	2003/04	51.7	1.164	1.354896
2004/05	143.14	-12.718	161.7475	2004/05	39.5	-11.036	121.7933
2005/06	175.84	19.982	399.2803	2005/06	59.35	8.814	77.6866
2006/07	167.37	11.512	132.5261	2006/07	62.57	12.034	144.8172
2007/08	131.92	-13.9675	195.0911	2007/08	57.87	8.16	66.5856
2008/09	109.99	-35.8975	1288.630	2008/09	37.42	-12.29	151.0441
Total	1021.2		2370.598	Total	347.97		683.752
Average	145.887		338.6568	Average	49.71		97.67917
S.D=			18.40265	S.D=			9.88400
C.V=			0.018021	C.V=			0.198833

SCNBL				NIBL			
Year	DPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$	Year	DPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$
2002/03	284.5	-360.4	129888.2	2002/03	20	-192.12	36910.09
2003/04	110	-534.9	286118	2003/04	15	-197.12	38856.29
2004/05	120	-524.9	275520	2004/05	12.5	-199.62	39848.14
2005/06	130	-514.9	265122	2005/06	633.1	420.98	177224.2
2006/07	2580	1935.1	3744612	2006/07	380	167.88	28183.69
2007/08	2650	1410.78	1990317.1	2007/08	7.5	-154.37	23830.4
2008/09	2800	1560.78	2436052.9	2008/09	16	-142.87	20412.1
Total	8674.5		9127630	Total	1084.1		365264.9
Average	1239.21		1303947	Average	158.871		52180.71
S.D=			1141.927	S.D=			228.4352
C.V=			0.921493	C.V=			1.437866

SCNBL				NIBL			
Year	DPR (X)	$X-\bar{X}$	$(X-\bar{X})^2$	Year	DPR (X)	$X-\bar{X}$	$(X-\bar{X})^2$
2002/03	0.73677	0.025033	0.000627	2002/03	0.50556117	0.199734	0.039894
2003/04	0.76628352	0.201901	0.040764	2003/04	0.2901354	-0.01569	0.000246
2004/05	0.83834009	0.273957	0.075052	2004/05	0.3164557	0.010628	0.000113
2005/06	0.73930846	0.174925	0.030599	2005/06	0.33698399	0.031157	0.000971
2006/07	0.47798291	-0.0864	0.007465	2006/07	0.08	-0.22583	0.050998
2007/08	0.20087	-0.37287	0.139036	2007/08	0.1296	-0.17623	0.031057
2008/09	0.254574	-0.31887	0.10168	2008/09	0.04598	-0.25985	0.067522
Total	4.014131		0.395223	Total	1.704716		0.190801
Average	0.573447		0.05646	Average	0.2435309		0.027257
S.D=			0.033944	S.D=			0.165101
C.V=			0.059193	C.V=			0.677947

SCNBL				NIBL			
Year	PE Ratio (X)	$(X-\bar{X})$	$(X-\bar{X})^2$	Year	PE Ratio (X)	$X-\bar{X}$	$(X-\bar{X})^2$
2002/03	10.98	-8.268	68.35982	2002/03	20.1	-1.378	1.898884
2003/04	12.16	-7.088	50.23974	2003/04	18.18	-3.298	10.8768
2004/05	16.38	-2.868	8.225424	2004/05	20.25	-1.228	1.507984
2005/06	21.47	2.222	4.937284	2005/06	21.23	-0.248	0.061504
2006/07	35.25	16.002	256.064	2006/07	27.63	6.152	37.8471
2007/08	51.77	6.3	12.6	2007/08	42.34	15.65	31.3
2008/09	54.64	25.69	51.38	2008/09	37.09	10.4	20.8
Total	202.65		387.8263	Total	186.82		52.19228
Average	28.95		77.56526	Average	26.689		10.43846
S.D=			8.807114	S.D=			3.23086
C.V=			0.45756	C.V=			0.150426

SCNBL				NIBL			
Year	DY Ratio (X)	$(X-\bar{X})$	$(X-\bar{X})^2$	Year	DY Ratio (X)	$(X-\bar{X})$	$(X-\bar{X})^2$
2002/03	0.173476	0.021594	0.000466	2002/03	0.02515723	-0.1306	0.017066
2003/04	0.063037	-0.08885	0.007893	2003/04	0.01595745	-0.1398	0.019555
2004/05	0.051173	-0.10071	0.010142	2004/05	0.015625	-0.1401	0.019648
2005/06	0.034437	-0.11745	0.013793	2005/06	0.50246032	0.34666	0.120176
2006/07	0.437288	0.285406	0.081456	2006/07	0.21978022	0.06398	0.004094
2007/08	0.3723662	0.204028	0.04162	2007/08	1.67	-9.9026	0.9806089
2008/09	0.046589	-0.12175	0.01482	2008/09	1.44	-10.133	1.0266897
Total	1.178366		0.1702	Total	81.00802		2.187838
Average	0.168338		0.021314	Average	11.57257		0.312548
S.D=			0.04601	S.D=			0.55907
C.V=			0.273367	C.V=			0.0483100

SCNBL				NIBL			
Year	BPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$	Year	BPSX (X)	$X-\bar{X}$	$(X-\bar{X})^2$
2002/03	403.154716	-37.8695	1434.102	2002/03	216.240141	-11.3285	128.336
2003/04	399.246584	-41.7777	1745.373	2003/04	246.889699	19.32101	373.3015
2004/05	422.38237	-18.6419	347.5197	2004/05	200.798995	-26.7697	716.6164
2005/06	468.219391	27.19514	739.5757	2005/06	239.545361	11.97667	143.4407
2006/07	512.11819	71.09394	5054.348	2006/07	234.36924	6.800553	46.24752
2007/08	550.15	68.6427	4711.82	2007/08	223	5.4509	29.71231
2008/09	615.28	133.7727	17895.14	2008/09	162	-55.5491	3085.703
Total	3370.551		31927.8	Total	1522.843		4523.357
Average	481.5073		4561.125	Average	217.5491		646.1939
S.D=			67.55435	S.D=			25.4208
C.V=			0.140297	C.V=			0.11685

SCNBL				NIBL			
Year	MPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$	Year	MPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$
2002/03	1640	-1441	2076481	2002/03	795	-309.8	95976.04
2003/04	1745	-1336	1784896	2003/04	940	-164.8	27159.04
2004/05	2345	-736	541696	2004/05	800	-304.8	92903.04
2005/06	3775	694	481636	2005/06	1260	155.2	24087.04
2006/07	5900	2819	7946761	2006/07	1729	624.2	389625.6
2007/08	6830	2795	7812025	2007/08	1930	755.5	402535.7
2008/09	6010	1975	3900625	2008/09	2335	935.7	423525.8
Total	28245		24544120	Total	5524		629750.8
Average	4035		3506302.9	Average			125950.2
S.D=			1601.966	S.D=			354.8946
C.V=			0.464068	C.V=			0.32123

SCNBL				NIBL			
Year	MPS/BPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$	Year	MPS/BPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$
2002/03	4.06791719	-2.64683	7.005702	2002/03	3.67646819	-1.14456	1.310014
2003/04	4.37073245	-2.34401	5.494399	2003/04	3.80736824	-1.01366	1.027503
2004/05	5.55184157	-1.1629	1.352346	2004/05	3.98408369	-0.83694	0.700473
2005/06	8.06245976	1.347714	1.816333	2005/06	5.25996411	0.438938	0.192666
2006/07	11.5207781	4.806032	23.09795	2006/07	7.37724796	2.556222	6.534268
2007/08	12.4148	4.449594	19.79889	2007/08	10.9866	4.44959	22.55744
2008/09	9.767911	1.802705	3.249745	2008/09	8.5679	1.80270	5.432713
Total	55.75644		61.8153	Total	43.6596		37.7550
Average	7.965206		8.83076	Average	6.23708		5.39358
S.D=			2.97171	S.D=			2.32245
C.V=			0.373087	C.V=			0.372362

SCNBL	NIBL

Year	EPS/MPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$	Year	EPS/MPS (X)	$X-\bar{X}$	$(X-\bar{X})^2$
2002/03	0.09109146	0.029223	0.000854	2002/03	0.04976101	0.002275	5.18E-06
2003/04	0.08226361	0.020395	0.000416	2003/04	0.055	0.007514	5.65E-05
2004/05	0.06104051	-0.00083	6.86E-07	2004/05	0.049375	0.001889	3.57E-06
2005/06	0.04658013	-0.01529	0.000234	2005/06	0.04710317	-0.00038	1.46E-07
2006/07	0.0283678	-0.0335	0.001122	2006/07	0.03618855	-0.0113	0.000128
2007/08	0.019315	-0.0302	0.0009	2007/08	0.02362	-0.02386	0.000569
2008/09	0.018301	-0.03126	0.000977	2008/09	0.02659	-0.02089	0.000436
Total	0.34696		0.004504	Total	0.23742773		0.001198
Average	0.0495656		0.000643	Average	0.04748555		0.000171
S.D=			0.025368	S.D=			0.004942
C.V=			0.511806	C.V=			0.104084

SCNBL					
Year	Net profit	Net worth	RONW(X)	$(X-\bar{X})$	$(X-\bar{X})^2$
2002/03	506932087	1368906687	0.370319	0.015722	0.000247176
2003/04	537800124	1495739011	0.3595548	0.004958	0.000025
2004/05	539203887	1582415416	0.3407474	-0.01385	0.0002
2005/06	658755881	1754138777	0.3755438	0.020947	0.000438762
2006/07	691668064	2116353361	0.3268207	-0.02778	0.00077153
2007/08	818921008	2942584000	0.2783	-0.01954	0.000382
2008/09	102511454	3052470000	0.033583	-0.26426	0.069831
Total			1.7729856		2.084869
Average=			0.3545971		0.297838
S.D=					0.101345
C.V=					0.340267

NIBL					
Year	Net profit	Net worth	RONW(X)	$(X-\bar{X})$	$(X-\bar{X})^2$
2002/03	116817659	638542707	0.1829442	-0.03779	0.001428147
2003/04	152670976	729047717	0.2094115	-0.01132	0.000128251
2004/05	232147098	1180173002	0.196706	-0.02403	0.000577457
2005/06	350536413	1415439715	0.247652	0.026916	0.000724452
2006/07	501398853	1878123538	0.266968	0.046232	0.002137367
2007/08	69731516	3907840000	0.2593	0.03166	0.00100234
2008/09	90061907	2686786000	0.2305	0.00286	8.17821E-06
Total			1.593482		0.006006192
Average=			0.22764		0.000858027
S.D=					0.2929211
C.V=					1.286773414

Liquidity Ratio

SCNBL			
Year	CA	CL	CR
2002/03	19223716924	19552433353	0.983188
2003/04	22012333632	22078038048	0.997024
2004/05	20255236528	21216468927	0.954694
2005/06	25027485673	23963033291	1.0444206
2006/07	27838043167	36080336090	0.7715572
2007/08	1764194578	590823046	2.985994859
2008/09	1804930858	942718502	1.914602136

Liquidity Ratio

NIBL			
Year	CA	CL	CR
2002/03	8443916644	8368877877	1.008966
2003/04	12529531742	12164948299	1.02997
2004/05	15540725176	14743890704	1.054045
2005/06	19364397827	20785598082	0.931626
2006/07	24912721223	26485216576	0.940627
2007/08	4232949593	567242931	7.462322334
2008/09	2224115990	792313110	2.807117492

Gross Profit Margin

SCNBL			
Year	Gross profit	Total income	GP margin
2002/03	809107539	150360231	53.81127
2003/04	893820055	158400796	56.42775
2004/05	916912949	157627443	58.16962
2005/06	981200241	141824737	69.18399
2006/07	1092967790	155820553	70.14272
2007/08	170717300	137664500	75.15463
2008/09	209429200	148402000	80.45632
		Total	463.3463
		Average	66.19233

NIBL			
Year	Gross profit	Total income	GP Margin
2002/2003	219390752	577931678	37.96136
2003/2004	483283702	913713859	52.89224
2004/2005	333566256	753894571	44.24574
2005/2006	544310564	959386995	56.73525
2006/2007	727513029	1246030265	58.38647
2007/2008	685234926	1313427368	52.1715127
2008/2009	712364591	1785824923	39.8899456
		Total	342.2825
		Average	48.8975

Net Profit Margin

SCNBL			
Year	Net profit	Total Income	NP Margin
2002/2003	506932087	1503602316	33.714506
2003/2004	538700124	1584007968	34.008675
2004/2005	539203887	1576274432	34.207488
2005/2006	658755881	1418247376	46.448588
2006/2007	691668064	1558205532	44.388757
2007/2008	818921008	1376645000	59.4867237
2008/2009	102511454	1484020000	69.076868
		Total	321.3316057
		Average	45.9045151

NIBL			
Year	Net profit	total income	NP Margin
2002/2003	116817659	577931678	20.21306
2003/2004	152670976	913713859	16.70884
2004/2005	232147098	753894571	30.79305
2005/2006	350536413	959386995	36.53754
2006/2007	501398853	1246030265	40.2397
2007/2008	69731516	1313427368	53.091
2008/2009	90061907	1785824923	50.432
		Total	248.01519
		Average	35.43074143

Appendix-II

SCNBL					
Year	EPS(X)	DPS(Y)	X^2	Y^2	XY
2002/2003	149.39	284.5	22317.372	80940.25	42501.455
2003/2004	143.55	110	20606.603	12100	15790.5
2004/2005	143.14	120	20489.06	14400	17176.8
2005/2006	175.84	130	30919.706	16900	22859.2
2006/2007	167.37	2580	28012.717	6656400	431814.6
2007/2008	131.92	2650	17402.886	7022500	349588
2008/2009	109.99	2800	12097.8	7840000	307972
ϕX	1021.2				
ϕY	8674.5				
ϕXY	1187703				
ϕX^2	151846.1445				
ϕY^2	21643240				
T	137892.17				
b	322855.7835				
r	0.42710144				
r^2	0.18241564				
P.E	0.2466207				
6P.E	1.479724203				
a	152.0749011				
b	0.005866179				
S.E	1447.672249				
t	0.818135759				

NIBL					
Year	EPS(X)	DPS(Y)	X^2	Y^2	XY
2002/2003	39.56	20	1564.9936	400	791.2
2003/2004	51.7	15	2672.89	225	775.5
2004/2005	39.5	12.5	1560.25	156.25	493.75
2005/2006	59.35	633.1	3522.4225	400815.61	37574.485
2006/2007	62.57	380	3915.0049	144400	23776.6
2007/2008	57.87	7.5	3348.9369	56.25	434.025
2008/2009	37.42	16	1400.2564	256	598.72
ϕX	347.97				
ϕY	1084.1				
ϕXY	64444.28				
ϕX^2	17984.7543				
ϕY^2	546309.11				
T	49065.267				
b	61162.98033				
r	0.8022053				
r^2	0.643533344				
P.E	0.107526588				
6P.E	0.645159527				
a	44.05188872				
b	0.030568128				
S.E	407.1596963				
t	2.327216022				

Banks	Coefficient Of Correlation(r)	Relationship	Coefficient of Determination (r^2)	P.E	Remarks
SCNBL	0.42710144	Positive	0.18241564	0.2466207	Insignificant
NIBL	0.8022053	Positive	0.643533344	0.107526588	Significant

Banks	No. Of Observation	Constant (a)	Regression coefficient (b)	Coefficient of Determination (r^2)	SEE	T Value(cal)
SCNBL	5	152.0749	0.005866	0.18241564	1447.672	0.818136
NIBL	5	44.05189	0.030568	0.643533344	407.1597	2.327216

SCNBL					
Year	NW(X)	DPS(Y)	X^2	Y^2	XY
2002/2003	403.1547159	284.5	162533.72	80940.25	114697.52
2003/2004	399.2465842	110	159397.83	12100	43917.124
2004/2005	422.3823699	120	178406.87	14400	50685.884
2005/2006	468.2193912	130	219229.4	16900	60868.521
2006/2007	512.1181896	2580	262265.04	6656400	1321264.9
2007/2008	294.2584000	2650	86588.006	7022500	779784.8
2008/2009	305.2470000	2800	93175.731	7840000	854691.6
ϕX	2804.627				
ϕY	8674.5				
ϕXY	3225910.31				
ϕX^2	1161596.597				
ϕY^2	21643240.25				
T	846756.4032				
b	1046662.12				
r	0.809006448				
r^2	0.654491432				
P.E	0.104221129				
6P.E	0.625326773				
a	417.7933214				
b	0.036022529				
S.E	1338.6857				
t	2.383873466				

NIBL					
Year	NW (X)	DPS(Y)	X^2	Y^2	XY
2002/2003	216.2401411	20	46759.799	400	4324.8028
2003/2004	246.8896994	15	60954.524	225	3703.3455
2004/2005	200.7989948	12.5	40320.236	156.25	2509.9874
2005/2006	239.5453607	633.1	57381.98	400815.61	151656.17
2006/2007	234.3692402	380	54928.941	144400	89060.311
2007/2008	390.7840000	7.5	152712.135	56.25	2930.88
2008/2009	268.6786000	16	72188.1901	256	4298.858
ϕX	1797.306				
ϕY	1084.1				
ϕXY	251254.6149				
ϕX^2	485245.8048				
ϕY^2	546309.11				
T	49476.32596				
b	106299.2173				
r	0.465443935				
r^2	0.216638056				
P.E	0.23629766				
6P.E	1.417785961				
a	221.0302534				
b	0.030824221				
S.E	318.2386135				
t	0.910849801				

Banks	Coefficient Of Correlation(r)	Relationship	Coefficient of Determination (r^2)	P.E	Remarks
SCNBL	0.809006448	Positive	0.654491432	0.10422	Significant
NIBL	0.465443935	Positive	0.216638056	0.2363	Insignificant

Banks	No. Of Observation	Constant (a)	Regression coefficient (b)	Coefficient of Determination (r^2)	SEE	T Value(cal)
SCNBL	5	417.7933	0.036023	0.654491432	1338.686	2.383873
NIBL	5	221.0303	0.030824	0.216638056	318.2386	0.91085

SCNBL					
Year	EY(X)	DY(Y)	X^2	Y^2	XY
2002/2003	0.091091463	0.173476	0.0082977	0.0300939	0.0158022
2003/2004	0.08226361	0.063037	0.0067673	0.0039737	0.0051857
2004/2005	0.061040512	0.051173	0.0037259	0.0026187	0.0031236
2005/2006	0.046580132	0.034437	0.0021697	0.0011859	0.0016041
2006/2007	0.028367797	0.437288	0.0008047	0.1912208	0.0124049
2007/2008	0.019315	0.372362	0.00037307	0.13865346	0.00719217
2008/2009	0.018301	0.046589	0.00033493	0.00217053	0.00085263
ϕX	0.34696				
ϕY	1.178362				
ϕXY	0.046165297				
ϕX^2	0.022473296				
ϕY^2	0.369916994				
T	-0.04431668				
b	0.086427366				
r	-0.51276215				
r^2	0.262925026				
P.E	0.222335401				
6P.E	1.334012404				
a	0.073703076				
b	-0.07791810				
S.E	0.242275538				
t	-1.03447680				

NIBL					
Year	EY(X)	DY(Y)	X^2	Y^2	XY
2002/2003	0.049761006	0.025157	0.0024762	0.0006329	0.0012518
2003/2004	0.055	0.015957	0.003025	0.0002546	0.0008777
2004/2005	0.049375	0.015625	0.0024379	0.0002441	0.0007715
2005/2006	0.047103175	0.50246	0.0022187	0.2524664	0.0236675
2006/2007	0.036188548	0.21978	0.0013096	0.0483033	0.0079535
2007/2008	0.023620	0.0167	0.0005579	0.00027889	0.00039445
2008/2009	0.026959	0.144	0.00072679	0.020736	0.0038821
ϕX	0.288007				
ϕY	0.939679				
ϕXY	0.03879855				
ϕX^2	0.012752092				
ϕY^2	0.32291619				
T	-0.01234152				
b	0.029513154				
r	-0.51276215				
r^2	0.17486634				
P.E	0.248897913				
6P.E	1.493387479				
a	0.049615564				
b	-0.01367183				
S.E	0.296492731				
t	-0.79735475				

Banks	Coefficient Of Correlation(r)	Relationship	Coefficient of Determination (r^2)	P.E	Remarks
SCNBL	-0.51276215	Negative	0.262925026	0.222335401	Insignificant
NIBL	-0.51276215	Negative	0.17486634	0.248897913	Insignificant

Banks	No. Of Observation	Constant (a)	Regression coefficient (b)	Coefficient of Determination (r^2)	SEE	T Value (cal)
SCNBL	5	0.07370	-0.077918	0.262925026	0.242275	-1.03447
NIBL	5	0.04961	-0.013671	0.17486634	0.296492	-0.79735

SCNBL					
Year	EPS(X)	MPS(Y)	X^2	Y^2	XY
2002/2003	149.39	1640	22317.372	2689600	244999.6
2003/2004	143.55	1745	20606.603	3045025	250494.75
2004/2005	143.14	2345	20489.06	5499025	335663.3
2005/2006	175.84	3775	30919.706	14250625	663796
2006/2007	167.37	5900	28012.717	34810000	987483
2007/2008	131.92	2450	17402.8864	6002500	323204
2008/2009	109.99	1388	12097.8001	1926544	152666.12
ϕX	1021.2				
ϕY	19243				
ϕXY	2958307				
ϕX^2	151846.1				
ϕY^2	68223319				
T	407220.8				
b	533383.5685				
r	-0.14878176				
r^2	0.221360112				
P.E	0.171271				
6P.E	1.027625				
a	0.913899573				
b	-0.00006561				
S.E	4482.566119				
t	-2.89415891				

NIBL					
Year	EPS(X)	MPS(Y)	X^2	Y^2	XY
2002/2003	39.56	795	1564.9936	632025	31450.2
2003/2004	51.7	940	2672.89	883600	48598
2004/2005	39.5	800	1560.25	640000	31600
2005/2006	59.35	1260	3522.4225	1587600	74781
2006/2007	62.57	1729	3915.0049	2989441	108183.53
2007/2008	57.87	2450	3348.9369	6002500	141782
2008/2009	37.42	1388	1400.2564	1926544	51939
ϕX	347.97				
ϕY	9362				
ϕXY	488333.2				
ϕX^2	17984.75				
ϕY^2	14661710				
T	77259.33				
b	85665.37944				
r	0.901873434				
r^2	0.813375692				
P.E	0.056294396				
6P.E	0.337766374				
a	23.42810025				
b	0.024536477				
S.E	1482.792457				
t	3.615947509				

Banks	Coefficient Of Correlation(r)	Relationship	Coefficient of Determination (r^2)	P.E	Remarks
SCNBL	0.763467088	Positive	0.582881995	0.125821798	significant
NIBL	0.901873434	Positive	0.813375692	0.056294396	significant

Banks	No. Of Observation	Constant (a)	Regression coefficient (b)	Coefficient of Determination (r^2)	SEE	T Value(cal)
SCNBL	5	136.302215	0.00634722	0.582881995	4403.7401	2.04748853
NIBL	5	23.4281001	0.0245364	0.813375692	1482.7924	3.61594750

SCNBL					
Year	DPR(X)	MPS(Y)	X^2	Y^2	XY
2002/2003	0.736771601	1640	0.5428324	2689600	1208.3054
2003/2004	0.766283525	1745	0.5871904	3045025	1337.1648
2004/2005	0.838340087	2345	0.7028141	5499025	1965.9075
2005/2006	0.739308462	3775	0.546577	14250625	2790.8894
2006/2007	0.477982912	5900	0.2284677	34810000	2820.0992
2007/2008	0.20087	6830	0.2284677	34810000	2820.0992
2008/2009	0.254574	6010	0.04034876	46648900	1371.9421
ϕX	4.014131				
ϕY	28245				
ϕXY	13024.29814				
ϕX^2	2.713038278				
ϕY^2	143063275				
T	-4209.73533				
b	4906.029838				
r	-0.14878176				
r^2	0.221360112				
P.E	0.171271				
6P.E	1.027625				
a	0.913899573				
b	-0.00006561				
S.E	4482.566119				
t	-2.89415891				

NIBL					
Year	DPR(X)	MPS(Y)	X^2	Y^2	XY
2002/2003	0.505561173	795	0.2555921	632025	401.92113
2003/2004	0.290135397	940	0.0841785	883600	272.72727
2004/2005	0.316455696	800	0.1001442	640000	253.16456
2005/2006	0.336983993	1260	0.1135582	1587600	424.59983
2006/2007	0.08	1729	0.0064	2989441	138.32
2007/2008	0.1296	2450	0.01679616	6002500	317.52
2008/2009	0.04598	1388	0.00211416	1926544	63.82024
ϕX	1.704716				
ϕY	9362				
ϕXY	1872.07303				
ϕX^2	0.57878332				
ϕY^2	14661710				
T	-993.284725				
b	1204.954157				
r	-0.82433403				
r^2	0.679526607				
P.E	0.096669379				
6P.E	0.580016277				
a	0.654340017				
b	-0.00031545				
S.E	1497.670624				
t	-2.52213234				

Banks	Coefficient Of Correlation(r)	Relationship	Coefficient of Determination (r^2)	P.E	Remarks
SCNBL	-0.85807373	Negative	0.736290532	0.079546793	Insignificant
NIBL	-0.82433403	Negative	0.679526607	0.096669379	Insignificant

Banks	No. Of Observation	Constant (a)	Regression coefficient (b)	Coefficient of Determination (r^2)	SEE	T Value(cal)
SCNBL	5	0.913899573	-0.000065	0.736290532	4482.566119	-2.894158
NIBL	5	0.654340017	-0.000315	0.679526607	1497.670624	-2.522132

Appendix-III

Dear Respondent,

I have been conducting a research on “Dividend Policy”: A Comparative Study Between Nepal Investment Bank Limited and Standard Chartered Bank Nepal limited”. This questionnaire has been developed and presented before you as apart of this study. The issues raised in this questionnaire are the key problems identified by researcher related to topic during the course of the study.

I humbly request you to fill up at the best of your knowledge. Your kind co-operation in this regard will be off immense value for me.

I shall be highly obliged for your prompt response as far as possible.

Thanking you!

Dhirendra Tamrakar
(Researcher)
Master of Business Studies
Patan Multiple Campus
Patandhoka, Lalitpur

Questionnaire

Q.1) which sector do you prefer for dividend?

a.) [ ] Bank/ Financial Institution b.) [ ] Manufacturing
c.) [ ] Trading d.) [ ] Other

Q.2) Are you aware with Nepalese stock market? (I.e. stock market, brokers and exchange mechanism)

a.) [ ] Yes b.) [ ] No c.) [ ] Do not know

Q.3) what is the motivational factor to hold the share?

a.) [ ] Dividend b.) [ ] Social status
c.) [ ] Marketability d.) [ ] Above all

Q.4) Are you satisfied with the return as dividend from your investment?

a.) [ ] Yes b.) [ ] No c.) [ ] Do not know

Q.5) your experience with the stock market and companies in Nepal?

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