DIVIDEND POLICY EFFECT ON STOCK PRICE OF COMMERCIAL BANKS IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

by

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "DIVIDEND POLICY EFFECT ON STOCK PRICE OF COMMERCIAL BANKS IN NEPAL"**.** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Mr. Praveen Rai has defended research proposal entitled "**DIVIDEND POLICY EFFECT ON STOCK PRICE OF COMMERCIAL BANKS IN NEPAL"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Jhabindra Pokhrel and submit the thesis for evaluation and vice-voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled "**DIVIDEND POLICY EFFECT ON STOCK PRICE OF COMMERCIAL BANKS IN NEPAL"** presented by Mr Praveen Rai for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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Perfection is anything can hardly be thought of knowing the universal fact "Human is Error", I Have taken utmost care to avoid errors, but I know they are inescapable, so I shall be obliged if they are forgiven.

Praveen Rai

Shankar Dev Campus

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ABBREVIATIONS

B.S.	: Bikram Sambat
BFI	: Bank and Financial Insitutions
BVPS	: Book Value per Share
CEO	: Chief Executive Officer
CV	: Coefficient of variation
DPR	: Dividend Payout Ratio
DPS	: Dividend Per Share
DY	: Dividend Yield
EBL	: Everest Bank Limited
EPS	: Earning Per Share
F/Y	: Fiscal Year
GBIME	: Global IME Bank Ltd.
GDP	: Gross Domestic Product
HBL	: Himalayan Bank Ltd.
i.e.	: That is
KBL	: Kumari Bank Ltd.
LTD.	: Limited
MBVR	: Market Book Value Ratio
MPS	: Market Price Per Share
N	: Number of Observation
NABIL	: Nabil Bank Ltd.
NBL	: Nepal Bank Ltd
NEPSE	: Nepal Stock Exchange Limited
NIBL	: Nepal Investment Bank Ltd.
NPL	: Non-Performing loan
NICA	: NIC Asia Bank Ltd.
NRB	: Nepal Rastra Bank
NMB	: NMB Bank Ltd.
P/E Ratio	: Price Earnings Ratio
PCBL	: Prime Commercial Bank Limited
ROA	: Return on Assets

ROE	: Return on Equity
ROE	: Return on Equity
SBL	: Sanima Bank Ltd.
SCB	: Standard Chartered Bank Ltd.
SD	: Standard Deviation
SEBON	: Security Board of Nepal
T.U.	: Tribhuvan University
T-Bill	: Treasury Bill

ABSTRACT

This research examines the relationship between investments and the financial performance of commercial banks in Nepal .With its pivotal role in promoting capital formation and maintaining economic growth, the equity market has emerged as a crucial marketplace. Because they guarantee the flow of resources to the most profitable investment opportunity, they are crucial for economic growth. Therefore, this study identifies and analyzes the factors affecting stock price of Nepalese commercial banks in Nepal. The study was conducted using secondary data and information gathered from Nepal Rastra Bank's bank supervision report and the annual reports of a few selected commercial banks. A descriptive and informal comparative research design was used for the study. Twelve commercial banks—NABIL, NMB, EBL, HBL, SCB, GIBL, NICA, NIBL, PCBL, NBL, KBL, and SBL were chosen for the study between 2012/13 and 2021/22. MPS is regarded as a dependent variable for the purposes of the study, whereas firm-specific variables (EPS, DPS, BVPS, DPR, and SIZE) are regarded as independent variables. A positive and significant relationship with each of the previously mentioned independent variables was found through the use of different modules in the analysis. My result was verified as accurate and true among them. Thus, the main finding of this study is that company-specific and macroeconomic factors influence the market prices of Nepalese commercial banks. Company-specific factors such as earnings per share (EPS), book value per share (BVPS), divided per share (DPS) and size play an important role in stock price determination. Dividend per share has been found to be the most significant factor influencing share prices among these. This implies that the stock price will increase in proportion to the dividend per share. Because of this, when investing in the share market, Nepalese investors are cautious about dividends.

Keywords: Market Price Per Share (MPS), Earning Per Share (EPS), Dividend Per Share (DPS), Book Value Per Share (BVPS), Dividend Payout Ratio (DPR), SIZE

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The term 'dividend' has been defined under Section 2(35) of the Companies Act, 2063 (Nepal). According to the generally accepted definition, "dividend" refers to the profit of a company that is not retained in the business and is distributed among shareholders in proportion to the amount paid-up on the shares held by them (Thapa, 2020). Dividends are typically payable for a financial year after the final accounts are prepared and the amount of distributable profits is available. Final dividends are payable only if they are declared by the company at its annual general meeting based on the recommendation of the Board of Directors. However, dividends may also be paid by the Board of Directors between two annual general meetings without formal declaration at an annual general meeting (Brigham, 2014).

The dividend decision is considered one of the most crucial decisions in modern corporate finance as it influences both investing and financing decisions within a company. The surplus profits of a concern can either be distributed as dividends to the shareholders or retained in the business for further expansion activities. The goal of any financial decision is to optimize the value of shareholders, however the impact of dividend policy on this objective remains an unresolved and contentious problem in corporate finance. (Thapa, 2020).

Nepal, being a least developed country with lower per-capita income, has witnessed significant reforms in its financial sector; this encompasses the deregulation of interest rates, the creation of a regulatory structure, and the establishment of a government securities market. Additionally, the emphasis is on the private sector's participation in the financial industry, which is expected to play a crucial role in the country's economic development (Bhattarai, 2016).

In a capital market, companies aim to generate earnings, and shareholders provide equity capital with the expectation of directly or indirectly sharing in these earnings. Dividends, when paid out by a company to shareholders, provide a direct benefit. Alternatively, investors may reap indirect gains in the form of possible increases in stock price if the company decides to keep the money for potential future growth prospects. Therefore,

shareholders' wealth can be enhanced through dividends or capital gains. The dividend policy of a company refers to its approach in dividing profits between dividends and retained earnings, encompassing all related aspects and questions. While the long-term objective is wealth maximization, ensuring sufficient funds for investment takes precedence. Financing growth is considered a secondary objective of the dividend policy, necessitating a company to forecast future funding requirements and determine available retained earnings after dividend payments (Pradhan, 2009).

Dividend refers to the portion of a company's net earnings that is distributed to shareholders, serving as a signal of management's assessment of the company's performance and future prospects. Enhancing dividend practices becomes crucial in addressing the issue of asymmetric information between management and investors in newly established Nepalese companies. Dividend policy involves determining the allocation of earnings between dividend payments and retention. Dividends are typically declared by the board of directors on a monthly, semi-annual, or annual basis. The banking industry in Nepal has gained significant public trust, offering a wide range of services to meet the needs of individuals in various sectors. Although the dividend payout ratio may vary, studies indicate that the common dividend payout ratio is around 40%. Considering these factors, it can be argued that the rightful owners of the companies may not be adequately treated if sufficient and reasonable dividends are not provided (Thapa, 2020).

One of the main factors attracting the public's interest in investing in bank or other institution shares is their dividend. In exchange for the shareholders' investment in shares, it refers to the portion of earnings that is given to them. Typically, a profitable business has the ability to distribute dividends. It is imperative that the dividend amount be sufficient to satisfy the customary anticipations of the shareholders. A dividend may be paid in securities, cash, or a combination of these. The relationship between cash dividends and retained earnings is reciprocal. Accordingly, the total amount of internal financing is decreased by cash dividend payout. This section looks at three different problems. We consider two commonly used measures of how much a firm pays in dividends, the dividend payout ratio and the dividend yield, after first discussing how firms decide how much to pay in dividends and how those dividends actually get paid to the stockholders. We then examine some empirical data regarding the actions of firms in determining and adjusting dividends. The choice of dividends is very important in finance

theory. Nonetheless, dividend choice remains a critical and contentious component of managerial finance. It is a more technical area of finance because it is intricate and has wide-ranging effects on the company. Dividend policy may have an impact on a number of areas, including the company's financial structure, cash flow, stock prices, investor satisfaction, and growth.

1.2 Problem Statement

The concept of dividend policy remains complex and often misunderstood within the financial community. Over the past 45 years, extensive research has been conducted in this field, resulting in the development of valuation models aimed at demonstrating the lack of significance of dividend payout on market prices. The influential work of Miller and Modigliani (1961) raises a pertinent question: How can investors derive any benefit from a dividend when it essentially comes out of the value of their market prices on a rupee-for-rupee basis? This query challenges traditional assumptions and prompts a deeper examination of the relationship between dividends and market valuation.

The topic of dividend policy has been extensively researched in the field of finance, yet the impact of dividend policy on share prices remains a subject of debate among managers, policymakers, and researchers. The relationship between dividend payments and share prices lacks a conclusive result, further highlighting the complexity of this aspect of corporate finance. Without a clear understanding of how dividends affect value, management is limited in its ability to enhance shareholder wealth. Therefore, it becomes essential for management to comprehend the influence of dividend policy on the market price of shares.

Investors engage in stock investments for various reasons. Some seek long-term growth by investing in low-priced stocks of new companies with the expectation of substantial share price growth in the future. In well-established firms, stockholders anticipate stable stock growth over the long run (Smith, 1988). Stock price reactions to earnings announcements typically occur within an average period of 8 to 54 days (Graves and Mendenhall, 1992).

While shareholders expect dividends, they are not guaranteed. Common stockholders are considered true owners of a business, receiving whatever remains after the company is wound up (Higgins, 1995). Publicly owned stock refers to common stock owned by a broad group of unrelated or institutional investors, while closely owned stock denotes all

common stock owned by a small group of investors. Privately owned stock refers to a situation where all stock is owned by a single person. Stock can also be classified into authorized shares, outstanding shares, treasury stock, and issued stock based on limitations (Naveed, M., & Ramzan, M. (2018)).

A study conducted on Dutch investors revealed a strong preference for receiving dividends, even if it meant receiving stock dividends instead of no dividends at all. This preference was driven by the lower costs associated with cashing in dividends compared to selling shares (Lintner, J. (1956)). Dividends serve as the only cash payment directly received by stockholders and form the foundation for the valuation of common stocks (Jung, 2005). The decline in the information content of dividends can be attributed to the rise in holdings by institutional investors who are more knowledgeable and well-informed and use their advanced insights to buy stocks ahead of dividend increases (Amihud and Li, 2005). Another study examined the interplay between diversification payout policy and firm value, finding that factors leading to diversification also made it more likely for a firm to pay dividends (Mackey and Barney, 2005). The dividend decision remains a fundamental and contentious aspect of managerial finance. The impact of dividend policy on a company's market value has been a subject of ongoing debate. However, a definitive conclusion regarding the relationship between dividend payments and share prices has yet to be reached.

Earnings also serve as a source of financing for firms. Retained earnings have significant implications, such as a decreased leverage ratio, expanded activities, and increased profits in subsequent years. Conversely, when a company pays dividends, it may need to raise capital through the capital market, which is subject to ownership control. If the firm takes out loans or issues debentures, it will impact the risk characteristics of the company. Consequently, dividend theories, policies, and practices encompass multiple dimensions that must be considered.

Using a questionnaire administered to a Dutch investor panel, a study was conducted to find out why specific investors desired dividends (Lintner, J. (1956)). According to the study's analysis, investors strongly preferred to receive dividends. In the event that the company was unable to pay cash dividends, stock dividends were preferred over no dividends at all. Because it was less expensive to cash in dividends than it was to sell shares, he discovered that investors desired dividends in part. Dividends are the only cash

payment a stockholder receives directly from the firm and these are the foundation of valuation for common stocks (Jung, 2005).

The increase in holdings by more knowledgeable and sophisticated institutional investors was one factor contributing to a decrease in the information content of dividends. Institutional investors purchased before dividend increases by taking advantage of their superior knowledge (Amihud and Li, 2005). In conjunction with the firm's decision to diversify, a study on the payout policy of diversification and the firm's value looked at dividends and stock repurchases. The results showed that the same factors that led to the firm's decision to diversify also increased the likelihood that it would pay a dividend (Mackey and Barney, 2005). According to Zhang's (2005) research, there exists a relationship between the dividend and cash holding policies of a firm and the corporate governance mechanisms at the firm and national levels. These policies also have an impact on the value of the firm. Businesses that paid out dividends were worth more. Furthermore, peer pressure was a strong motivator for raising one's own game (Kostyuk, 2006).

In addition, a company which changes dividend policy is expected to experience upward or downward trends in share returns (Gunasekarage et al., 2006). The share prices for the initiating firms continued to rise even after the initial public offering. An investigation into the connection between the dividend payment that is currently being made and the potential growth in earnings at the company level was conducted. Zhou and Ruland (2006) discovered a robust positive correlation between the present dividend payout and the growth of future earnings. The relationship between a company's dividend policy and the financial incentives received by directors was examined by the authors using a sample of 1818 firms from 1990 to 1996. They discovered that companies with higher levels of managerial ownership had higher dividend payments and increases. Put differently, it was less likely to reduce dividends in companies where paying out cash was inappropriate (Kubo and Saito, 2006).

Considerations related to dividends that were dependable in assessing the firm's worth were looked at. According to the findings, growth firms' dividend yields were noticeably lower than those of non-growth firms. It revealed that adjustments to dividend policy contributed to the explanation of firm stock returns, particularly for growing firms (Foong et al. 2007,). The intricate connection between "dividends, managerial incentives, and

firm value" was investigated using a dividend signaling model. The author thought that dividends had two roles. Dividends affected the company's capacity to invest in a new project as well as serving as a signal of current income (Fairchild, 2008).

The likelihood that the firm's value will increase in the future decreased exponentially with an increase in leverage and increased with a rise in profitability, according to a study on the impact of the firm's past dividend policy, leverage, and profitability (Ghosh, 2008). Malaysian companies' dividend policies were influenced by their shareholders, and those with a high percentage of the largest shareholding paid out larger dividends (Ramli, 2010).

Manandhar (1998) discovered that while earnings per share, price-earnings ratio, and dividend yield had negative effects on market capitalization, dividend per share and return on equity had positive effects in the context of Nepal. Additionally, a positive correlation between market capitalization and dividends was discovered. In Nepal, dividend payments are given greater weight than retained earnings. The typical high dividends effect and the very low retained earnings effect demonstrated Nepalese investors' preference for dividend payments. The study's conclusions imply that the Nepalese stock market has not yet begun to acknowledge the significance of retained earnings (Pradhan, 2003). Companies with high dividend payouts and those with low payouts exhibit varying financial standings. Research shows a positive link between dividend payments and stock prices. Additionally, the impact of dividends is stronger than that of retained earnings, as noted by Chhetri (2008).

Dividends are rising in step with the overall economic pattern, however listed businesses' information disclosure rules are inadequate. The fundamental purpose of distributing stock dividends is to strengthen the company's equity capital basis. In Nepal, the release of stock dividends is the most preferred business event (Adhikari, 2009). Dividend per share is a key driver of the MPS of banking and non-banking enterprises. Furthermore, it was discovered that retained earnings per share have less of an impact on stock prices than dividends per share. The analysis found that retained EPS and dividends have an impact on stock prices in both the banking and non-banking industries (Joshi, 2011).

To sum up, this study deals with the following issues in the context of Nepal.

a) What is the composition and trend of earnings per share, dividend payout ratio, and dividend per share, market price of share return on equity, after-tax profit, liquidity, leverage, growth and size? How have these factors evolved over time?
b) Does dividend have any effect to the stock price?
c) Which is the most influencing factor in determining the share price?
d) Does the market value of a share appear to be significantly influenced by the dividend policy?

1.3 Objective of the Study

This study's primary goal is to investigate how dividend policies affect share prices in the Nepali context. The following are the study's specific goals.

a) To examine the structure and pattern of earnings per share, dividend payout ratio, and dividend per share, market price of share return on equity, after-tax profit, liquidity, growth and size.
b) To analyze the relationship between firm specific variables such as earning per share, dividend per share, price earnings ratio, book value per share, return on assets and size
c) To analyze the effect of firm specific variables such as earning per share, dividend per share, book value per share, dividend payout ratio and size.

1.4 Rationale of the Study

The study focuses on the factors influencing the share price of commercial banks, so it is especially relevant to investors, managers, bankers, stock analysts, brokers, government officials, academicians, students, and any other stakeholders interested in understanding the factors influencing the share price of commercial banks.

This study seeks to investigate the relationship between the market price of shares (MPS) of Nepalese commercial banks and key financial indicators such as earnings per share (EPS), dividend per share (DPS), book value per share (BVPS), dividend payout ratio (DPR), return on assets (ROA), size, inflation, and money supply among others. The relationship is intended to demonstrate the current state of Nepalese Commercial Banks in terms of the determinant of Share Price. These insights could help potential investors make smarter investing selections. In a similar vein, this study provides data regarding share price positioning within the share industry. Additionally, comparing specific banks

can be facilitated by using the industry average for numerous financial variables. This information is meant to be useful to the particular bank's managers. This study gives various facts on the Nepalese Commercial Banks' share market. Furthermore, this study is important not just for the banking sector, but also for Nepal's non-financial corporate sector. It is advantageous to investors, decision-makers, and researchers.

1.5 Limitations of the study

This study seeks to increase awareness and fill the knowledge gap regarding the factors influencing the share price of Nepalese commercial banks, and there are some elements where this issue is subject to a numbers of questions. This research aims to investigate the factors influencing the share price of Nepalese commercial banks in Nepal. The following are the study's significant limitations:

- The study and the result derived will be based on three sample banks.
- The study use EPS, DPS, DPR, BVPS, SIZE as a bank specific variable to determine the share price. But there are other firm specific variables such as real interest, earnings volatility, T-bill rate, ownership structure, investment opportunities, profitability of the firm etc which the study does not included.
- The research did not encompass other financial institutions such as development and finance companies that are listed in the Nepal Stock Exchange (NEPSE). Additionally, the study did not conduct a comparative analysis by segregating the sample based on factors such as size, earnings, book-to-market ratio, leverage, and dividend payout ratios.
- Only secondary data are used as the basis for this investigation. This study overlooks investor and shareholder perceptions of the stock market, which are important factors in determining share prices.

CHAPTER II

LITERATURE REVIEW

This chapter provides theoretical and the conceptual framework of the study and deals with review of empirical studies associated with dividend policy effect on stock price. It is the act of analyzing as well as critically finding the similarities and differences in the previous related studies. It also entails about the major findings as well as reviewing the tools and techniques used by the previous studies on behavior of dividend policy effect on stock price.

2.1 Theoretical Review

Modigliani and Miller 1961 article titled "Dividend Policy, Growth, and the Valuation of Shares," introduced the Dividend Irrelevance Theory, suggesting that, under certain assumptions such as perfect capital markets and no taxes, a firm's dividend policy does not affect its overall valuation. They argued that investors can replicate their desired cash flows through homemade dividends, rendering the choice between dividends and capital gains irrelevant. The theory highlighted that issuing new equity to pay dividends is costlier than retaining earnings due to flotation costs and dilution of existing shareholders. While their work laid the foundation for understanding dividend policy, subsequent research has expanded on their findings, considering real-world complexities and factors like taxes, agency costs, signaling effects, and investor preferences to further explore the impact of dividend policy on stock prices and firm value.

Linter (1956) and Gordon (1959) presented the 'Bird-in-the-Hand' argument, suggesting that shareholders generally prefer receiving dividends over capital gains. This preference stems from the idea that shareholders value the certainty of receiving an assured dividend payment in the present rather than leaving the same amount invested in assets with uncertain future values. Since current dividends are considered a more reliable form of return compared to capital gains, shareholders tend to favor dividends. As a result, dividend policy plays an important part in assessing the market worth of a firm. As it influences investor perceptions and preferences, thereby impacting the attractiveness of the company's shares in the market.

The percentage of profits distributed to shareholders and reinvested in the company, usually on a periodic basis, is determined by the dividend policy. It is fundamental to

corporate finance because it highlights the competing interests of shareholders and management, as well as between one group of shareholders and another. One of the unsolved mysteries of corporate finance theory is the dividend policy, which has remained a divisive topic since the early stages of corporate development. A long-standing puzzle in finance is the payment of dividends in the face of adverse personal taxation (Mosley and Singer, 2008).

Van Horne and McDonald conducted a comprehensive study in 1968 of 86 electric utility firms and 39 electronics and electric component industries using a cross-sectional regression model to investigate the combined effect of dividend policy and new equity financing decisions on the market value of common stock. Their findings revealed that the market price of shares was not significantly affected by new equity financing in the presence of cash dividends, except for those in the highest new issue group, implying that new equity was not a major determinant of share value when cash dividends were present. However, the study highlighted that new equity financing could be a more costly form of financing compared to retaining earnings for dividend payments. Additionally, excessive reliance on equity financing to pay dividends was found to reduce the market price of shares, indicating potential market skepticism towards such practices. The study provided valuable insights into the interplay between dividend policy and new equity financing, shedding light on their impact on the market value of firms in the electric utility and electronics sectors.

Good corporate governance practices are valuable for a company as it implying that the company is able to raise funds from capital market with attractive terms. By distributing dividend, it able to attract investors and indirectly increase the company share price. This sort of company could easily raise funds through new share issuance for expansion which then would increase profits and increase share price. Dividend policy is thus an important part of the firm's long run financing strategies. The definition of dividend policy has expanded to cover decisions like whether to distribute cash through share repurchases or through dividends that are specifically designated as opposed to regular dividends (Naveed, M., and Ramzan, M., 2018).

The distribution of profits between payments to stockholders and internal reinvestment is determined by the company's dividend policy. Dividends are the cash flows that go to stockholders. However, one of the main funding sources for corporate expansion is

retained earnings. (1990) Western & Copland As a result, the dividend payment lowers the company's retained earnings and has an impact on all internal financing. The choice will depend on the management's goal of maximizing wealth. Thus, it is crucial to preserve a balance between the interests of the shareholders and the internal financing-driven corporate growth. e. quantity kept. "Financial Management is therefore concerned with the activities of the corporation that affect the well-being of stockholders. That well-being can be partially measured by the dividend received, but more accurate measure is the market value of stock." (Dean,1973).

Therefore, one of the key and crucial decision-making areas pertaining to the policies aiming to maximize both the value of the company's common stock and the wealth of the shareholders is the dividend decision. The three main policies are as follows:

- Stable dividend policy
- Constant dividend policy
- Residual dividend policy

Stable Dividend Policy

The simplest and most popular policy is the stable dividend policy. The policy aims to provide annual dividend payouts that are consistent and predictable, which is what most investor's desire. A dividend is given to investors when earnings are higher. A dividend is paid to investors during periods of low earnings. Aligning the dividend policy with the company's long-term growth as opposed to the volatility of quarterly earnings is the aim. The dividend amount and timing can be more assuredly known to the shareholder with this method (Khadka, 2013).

Constant Dividend Policy

The main disadvantage of the stable dividend policy is that investors might not receive a dividend increase during prosperous years. In contrast, a portion of the company's earnings are distributed annually under the constant dividend policy. Investors are exposed to the complete volatility of a company's earnings in this way. Investors receive a sizable dividend when earnings are strong; when earnings are weak, investors might not receive a dividend. The method's main flaw is the dividend's volatility in terms of

earnings. When dividend income is so erratic, planning becomes challenging (Thapa, 2020).

Residual Dividend Policy

Although a residual dividend policy is also very erratic, some investors believe that a company should only have this kind of dividend policy. Under a residual dividend policy, the business distributes what's left over after covering working capital requirements and capital expenditures. Although this strategy is erratic, from the perspective of business operations, it makes the most sense. Investors have little interest in funding a business that uses the requirement to pay dividends to justify mounting debt (VanHorne, 2009).

2.1.1 Forms of Dividend

A dividend policy refers to the approach adopted by a company to determine the amount it will distribute to shareholders as dividend payments. While certain studies and economic reasoning propose that dividend policy may not hold significance in theory, dividends are still considered a crucial source of income by numerous investors. Depending on their objectives and implemented policies, corporations may opt for various types of dividends. The primary categories include cash dividends and stock dividends (Charles, 2009).

a. Cash Dividend

Cash dividends are the earnings that are distributed to investors as cash in accordance with their ownership stake in the business. The most common type of dividend payment is cash. In this case, the company pays out dividends to each shareholder, depositing the funds in each shareholder's bank account based on their investment holdings. Typically, the dividend declaration procedure follows a set procedure. Following the distribution of dividends to shareholders, the company's net worth and total assets both decline by the amount of the cash dividend. In order to pay dividends, the company must maintain a sufficient cash balance. It can be challenging to borrow money for dividend payments in the event that cash balances are insufficient. For a company to continue paying dividends consistently, cash planning must be done on a regular basis. The most common type of dividend in Nepal is cash, which is typically accepted by a large number of businesses, firms, and financial institutions. It can be asserted, nevertheless, that the amount of cash

dividends is contingent upon various factors such as the organization's earnings, management's attitude, market conditions, and the cost of outside financing.

b. Stock Dividends/Bonus Share

A dividend paid out in stock rather than cash is known as a stock dividend. A 10% stock dividend, for instance, would entail giving each shareholder one share of stock for every ten shares they currently held. In the event of a two-for-one stock split, each shareholder would receive an additional share of stock in proportion to the number of shares they currently owned, effectively doubling their total share count. A stock split or dividend results in a decline in earnings per share, book value, and market price, an increase in the number of shares held by each shareholder, and no change in the firm's assets, liabilities, or shareholders' equity (assets less liabilities) (Herbert, 2009).

Since the company does not receive any payment for newly issued shares, a stock split or dividend has no effect on the company's assets. There is some empirical support for the theory that when a stock dividend or split takes place, the total market value of a company's equity rises, despite the fact that these events have no effect on the underlying assets, liabilities, or equity of the business. Some of the joint-venture banks of Nepal have followed the practice of paying stock dividend along with cash dividend (Desai, 2019).

c. Scrip Divided

In situations where a company lacks sufficient available funds to distribute as cash dividends to shareholders but still wishes to provide something of value, it may opt for a scrip dividend. Unlike a stock dividend, which involves the distribution of existing shares, a scrip dividend involves the creation of new shares of ownership that are allocated to shareholders. With a scrip dividend, the company issues additional shares to all shareholders, effectively increasing their ownership stakes in the company. However, no cash is received by shareholders in this case. It's important to note that when a company pays a scrip dividend, the total value of the company remains unchanged, even though the number of shares outstanding increases.(Thakur,2021)

d. Property Dividend

Another term for it is liquidating dividends. It involves giving up property or assets in any way other than cash. When there are assets that are no longer required for the operation of the business or in exceptional circumstances, this type of dividend may be paid out.

Businesses own goods, and one example of property dividends paid is on subsidiary securities. Any business may pay its shareholders any kind of non-monetary dividend. The dividend on issued property would be deducted from the asset's current market value at the time of distribution. Since the asset's market price is predicted to be either higher or lower than its book value, a profit or loss would result, and those figures would be recorded in the books. Businesses might be forced by this interpretation of the distributed asset to purposefully issue the property dividend in order to manipulate the taxable income.

2.1.2 Factors Affecting Dividend Policy

Dividend policy of a company sets the guidelines to be followed while deciding the amount of dividend to be paid out to the shareholders. The company needs to adhere to the dividend policy while deciding the proportion of earnings to be distributed and the frequency of the distribution. There are various types of dividend policies regular, stable, constant and irregular (Habib, Kiani, & Khan (2012). In practice, the financial executives consider the following factors when approaching a dividend decision.

a) 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 pay out a higher percentage of earnings than is a firm with fluctuating earnings. The unstable firm is not certain that in subsequent years the hoped-for earnings will be realized, so it's likely to retain a high proportion of current earnings. In the event that future earnings decline, it will be simpler to keep a larger percentage of a lower dividend. (Thapa, 2020).

b) Liquidity of Funds:

The liquidity position of the firm influences its ability to pay dividends. A firm may have sufficient retained earnings, but if they are invested in fixed assets, cash may not be available to make dividend payment (Gordon, 1959).

c) Past Dividend Rates:

Dividends declared in prior years may be used to determine the dividend rate if the company is already established. Generally speaking, directors must remember the dividend rate that has been previously declared because it is in the best interests of the

company to maintain dividend stability. When a company has paid dividends in the past, it tries to do so again. Dividends can develop a habit. The price of the stock will drop if the market does not receive the anticipated dosage. Despite operating at a net loss for a temporary period, the majority of surveyed firms stated they would continue to pay their current dividends (Farrelly and Edelman 1985).

d) Restrictions in Debt Contracts

Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above a specified amount. Also, preferred dividends take precedence to common stock dividends (Manandhar, 2008).

e) Rate of Asset Expansion

If the rate of assets expansion is high, the firm would retain more earnings into the business thus following a conservative dividend policy. It is because the more rapidly the firm grows, the greater would be its needs for financing assets expansion (Pradhan, 2014).

f) Ability to Borrow

Every company requires finance both for expansion programs as well as for meeting unanticipated expenses. Hence, the companies have to borrow from the market, well established and large firms have better access to the capital market than new and small, firms and hence, they can pay higher rate of dividend. The new companies generally find it difficult to borrow from the market and hence they cannot afford to pay higher rate of dividend (Thapa, 2020).

g) Profit Rate

The firm's profit rate is a significant factor in determining the dividend. The productivity of retained earnings is compared to the alternative return that could be earned elsewhere using the company's internal profitability rate as a base. The relative attractiveness of distributing profits as a dividend to shareholders who will either use them in the current venture or elsewhere is determined by the expected rate of return on assets. Thus, when choosing dividends alternative investment options are also crucial.

h) Tax Position of Stockholders

If the firm is closely held by a few shareholders in high income tax brackets, then it is likely to pay a relatively low dividend. On the other hand, if the firm is very large and its stocks are widely held, the firm might prefer a high dividend payout (Pradhan, 2014).

2.2 Empirical Review

In this part, I have reviewed the major literature, recent studies and prior research conducted by various scholars and explained them in details:

Table 1

Summary of major findings of literature review

Study	Major findings
Miller and Modigliani (1961)	A company's value was determined only by the strength of its earnings, independent of how those earnings were allocated between retained and dividends.
Gordon (1963)	Gordon's argument implies that as a percentage of earning is retained, the needed rate of return increases. Investors would therefore favor current dividends over capital gains.
Uddin (2009)	Dividend paying companies listed on Dhaka Stock Exchange (DSE) showed that investors do not gain value from dividend announcement. Evidence also indicates that dividend payment does not signal any information to the investors.
Lintner, J. (1956)	When companies were unable to distribute cash dividends, investors showed a preference for receiving stock dividends instead of receiving no dividends at all. The reason for this preference was that investors perceived the cost of converting stock dividends into cash as lower compared to the cost of selling shares outright.
Zhou and Ruland (2006)	The correlation between present dividend payments and future earnings growth at the individual firm level. They discovered a considerable positive relationship between the current dividend payout and future earnings growth.

Foong et. al (2007)	According to the findings, growth firms' dividend yields were noticeably lower than those of non-growth firms. It suggested that adjustments to dividend policy contributed to the explanation of firm stock returns, particularly for growing companies.
Fairchild (2008)	The author thought that dividends had two roles. Dividends impacted the company's capacity to invest in a new project as well as serving as a gauge of current income.
Andres et. al (2009)	The results indicated that unexpected changes in dividend announcements evoked a strong market reaction. Similarly, when dividend announcements remained unchanged but contained positive and favorable news, there was also a positive market response.

Miller and Modigliani (1961) proposed that in the presence of market imperfections, such as taxes and transaction costs, dividend policy could have an impact on stock prices. They argued that when markets are imperfect, the way a company distributes its earnings between dividends and retained earnings can influence the value of the firm. On the other hand, they insisted that a company's earnings power is what really determines its total worth rather than the specific allocation of earnings. In other words, they emphasized that the value of a firm is determined by its ability to generate profits, regardless of how those profits are divided between dividends and retained earnings.

As time goes on, investors need a higher required rate of return in order to discount anticipated future dividends. The study suggests that when a higher percentage of earnings are retained, a higher required rate of return is necessary. Hence, investors would favor current dividends over capital gains. With the introduction of dividend relevance theory, Gordon offered an alternative perspective on the dividend policy. The firm's value and share prices are impacted by dividend policy. When it comes to capital gains, investors always favor stable and steady dividend income (Gordon, 1963).

A study based on 137 dividend-paying companies listed on the Dhaka Stock Exchange (DSE) found that dividend announcements did not result in value gains for investors. Shareholders experienced a decline of around 20 percent in value from 30 days prior to the announcement to 30 days after it. The findings support the dividend irrelevancy hypothesis, indicating that dividend payments do not significantly affect a company's

overall value. The evidence also suggests that dividend payments do not provide meaningful information signals to investors (Uddin, 2009).

Using a questionnaire distributed to a panel of Dutch investors, a study was conducted to find out why individual investors desired dividends. According to the study, investors strongly preferred to receive dividends. In the event that the company was unable to pay cash dividends, stock dividends were preferred over no dividends at all. According to the study, investors desired dividends in part because they were less expensive to cash in on than to sell their shares (Lintner, J. (1956)).

In an investigation looking into the relationship between the companies' present dividend payments and its potential for future earnings growth, Zhou and Ruland (2006) discovered a robust positive correlation between the two variables. Another study conducted by Foong et al. (2007) explored dividend-related factors that could be used to assess firm value. The findings showed that growth-oriented companies had notably lower dividend yields compared to non-growth companies. This suggests that variations in dividend policy contributed to explaining stock returns, particularly for growth firms.

The intricate relationship between dividends, management incentives, and firm value was investigated using a dividend signaling model. The study took into account dividends' dual function. Dividends affected the company's capacity to invest in a new project as well as serving as a signal of current income (Fairchild, 2008). Andrés et al. 2009 carried out research to look at the wealth impact of dividend announcements in Germany. The results indicated that the unexpected dividend change announcement caused a significant market reaction. If the dividend announcement contained good and positive news, the market also responded favorably.

The recent studies reviewed in this study are presented in Table 2.

Table 2

Review of recent studies

Study	Major findings
Baker and Powell (2012)	Their findings suggest that dividend policy has an impact on firm value and that Indonesian managers formulate their dividend policies taking into account various dividend theories such as life cycle, signaling, and catering..

Habib, Kiani & Khan, (2012)	Their study's findings demonstrated that while payout ratio, size, and debt had a negative impact on stock prices, dividend yield had a positive effect.
Shchurin& Prunenko(2012)	The study sheds light on the specific characteristics of dividend policy in Russian and Chinese banks, highlighting the importance of balancing dividend payments with development needs and considering the riskiness of these institutions.
Ciarandriver and Grosman (2020)	The study suggests that traditional agency theory, which emphasizes dividends as a tool for managerial discipline, is not strongly supported. Instead, the findings support a narrative of short-term investor pressure on firms, irrespective of their investment opportunities.
Miller & Rock (2021)	The study suggests that alternative decision rules exist that are consistent with asymmetric information and share trading

In their study, Baker and Powell (2012) employed survey methods to gather insights from Indonesian managers regarding factors that influence dividend policy, dividend-related concerns, and reasons for disbursing dividends. The study findings revealed that Indonesian supervisors regard earnings constancy, current earnings level, and anticipated future earnings as the most crucial factors in determining dividend policy. Moreover, the results indicated that dividend policy has an impact on firm value, and Indonesian managers take into account various dividend theories, such as signaling theory, catering theory, and life cycle theory, when formulating their dividend policies.

Cross sectional regression analysis was used in the study to determine how payout ratio and dividend yield affected stock prices. The study's findings demonstrated that while payout ratio, size, and debt had a negative impact on stock prices, dividend yield had a positive effect. According to this study, payout ratio is not as good or significant a determinant of share price volatility in the KSE 100 index as dividend yield is (Habib, Kiani and Khan, 2012).

The study conducted by Shchurina and Prunenko (2019) on the dividend policy of Russian and Chinese banks revealed that a balanced proportion between development investments and dividend payments is crucial. Factors influencing this proportion were identified, and the study emphasized the close association between dividend policy and

the riskiness of banks. The findings highlight the importance of sound dividend policies in ensuring stable growth and increasing the value of banking institutions.

Ciarandriver and Grosman (2020) conducted a study on dividend policy and investor pressure, challenging the prevailing narrative that dividends serve as a means of managerial discipline. They argue that pressure from short-term focused investors, executives, and board members leads firms to return excessive cash through dividends. The study examines three channels of investor influence: takeover threats, shareholder value-oriented corporate governance (measured by director independence and board equity incentives), and trading patterns. The findings indicate that firms adopt higher dividend payouts to deter takeover bids and that companies with a greater focus on shareholder value governance and transient investor ownership tend to have higher dividend payouts. The study suggests that short-term investor pressure plays a significant role in shaping dividend policy, regardless of investment opportunities, casting doubt on the traditional agency theory.

In their article on Dividend Policy under Asymmetric Information, Miller and Rock (2021) argue that the standard full information model fails to account for the evidence of dividend-announcement effects, which implies information asymmetry between the firm's decision-makers and investors. While finance specialists have continued to use implications of the full information model, the authors suggest that the inclusion of share trading and asymmetric information disrupts the consistency of optimal investment and dividend policies. They propose exploring alternative decision rules that are consistent with asymmetric information and share trading, which preserve certain properties of the standard model while providing a rational explanation for observed announcement effects. However, these alternative rules generally imply lower levels of investment and higher levels of dividends compared to the full-information optimum, with only minor exceptions.

There has previously been some research on dividend policy done in Nepal. These can be seen in Table 3.

Table 3

Review of Nepalese studies

Study	Major findings
Adhikari (2009)	The conclusion of this study are that dividends affect the value of the enterprise, the net profits and lagged dividends are the major determinants of dividend policy and there is no group specific importance of the determinants of dividend policy in Nepal.
Joshi (2011)	The study shows that both dividend and retained earnings per share effect stock prices of banking and non-banking sector.
Baral and Shrestha (2017)	The study concluded that the widely accepted Random Walk Hypothesis does not hold true within the context of the Nepalese stock market
Bhattarai (2016)	This study shows that dividend payout ratio has negative and statistically significant whereas The dividend yield, earnings per share, price earnings ratio has positive and significant

According to a study on the relationship between dividend policy and factors that influence it, such as net profits, lagged dividends, revenue growth rate, risk, investment opportunity set, and the number of common stockholders, dividends follow the positive trend in the economy, listed companies have poor information disclosure practices, paying stock dividends primarily serves to increase the enterprise's equity capital base, and stock dividend announcements are the most favored corporate event in Nepal (Adhikari, 2009).

According to a study that looked at the relationship between stock prices and dividends in the context of Nepal, dividends per share are a significant motivator and have a significant impact on the market price per share of both banking and non-banking companies (Joshi, 2011). Additionally, it was determined that retained earnings per share has less of an impact on stock prices than dividends per share. The study demonstrated that stock prices in the banking and non-banking sectors are influenced by both retained earnings per share and dividends.

According to Baral and Shrestha's (2017) research, there is a significant variance in the sampled banks' daily stock prices for the 2017–18 fiscal year. Their performance in the Nepalese stock market is subpar. The majority of the serial coefficients have statistically

insignificant deviations from zero. It shows that there is dependence between the subsequent price changes. As a result, share pricing on the Nepalese stock market is inefficient. The percentage difference between the observed and actual number of runs in the series of price changes is noteworthy, according to the results of the runs test. It is clear that there is no randomness to the subsequent price changes. RWH is therefore not applicable to the Nepalese stock market.

Bhattarai (2016) observed that dividend payout ratio has negative and statistically significant whereas The dividend yield, earnings per share, price earnings ratio has positive and significant to the market price of share of commercial banks. While analyzing so, he has used factors that has affecting the market share price of commercial banks from 2013/ 14 to 2017/18 of Nepalese commercial banks. Suitable sampling technique and the data of macroeconomic variable were unruffled through the economic survey.

2.3 Research Gap

The purpose of this study is to contribute new insights to the field of dividend policy by building upon previous research and gaining ideas, knowledge, and suggestions in this area. Recognizing the importance of continuity in research, the study aims to link with past studies to establish a foundation. Financing decisions, including dividend decisions, are critical for a company's financial well-being.

While previous studies in the context of Nepal exist, it is crucial to determine the current validity of their findings due to changes occurring both within and outside the country. Many prior studies in Nepal rely on secondary data, requiring the collection of qualitative information on dividends that cannot be attained from secondary data alone through the administration of a survey among financial executives. Additionally, the study aims to update and validate earlier findings on dividends in light of the rapid changes occurring in Nepal's financial markets.

CHAPTER III

RESEARCH METHODOLOGY

This chapter outlines the approach utilized for conducting the study. It is organized into five distinct sections. The first section is dedicated to discussing the research design employed in the study. In section two, the focus is on elucidating the details of the population, sample, and sample design. Moving on to section three, it covers the nature and sources of data, as well as the instruments used for data collection. Section four provides a comprehensive description of the method of analysis utilized. Finally, section five presents the research framework and defines the variables involved.

3.1 Research Design

This study utilizes descriptive and causal comparative research designs to investigate stock price behavior in commercial banks within the circumstance of Nepal. To obtain pertinent data on the variables affecting stock prices, the descriptive research design is used, while the causal comparative design aims to establish cause-and-effect relationships. The primary objective is to assess stock price behavior based on financial characteristics and identify performance determinants through financial ratios. The research design provides a structured plan to address fundamental issues concerning factors affecting stock prices of commercial banks in Nepal. Additionally, the study describes key indicators such as MPS, EPS, DPS, BVPS, DPR, and SIZE for 12 banks, covering 120 observations from fiscal years 2013 to 2022. Further methodological aspects are broadly discussed in subsequent sections.

3.2 Population, Sample and Sampling Design

As of 2023-07-23 there are 20 commercial banks operating in Nepal, all of them are considered as population. For this study, 12 commercial banks have been taken covering the period of 2013-22(FY2012/13-2021/22)

A sample design is a specific plan for collecting a sample from a given population. It refers to the technique or procedure that the researcher would use to select items for the sample. This study relies on secondary data gathered from related bank websites, Nepal Rastra Bank, Securities Board of Nepal, and Nepal Stock Exchange.

Table 4

Selection of banks, study period and number of observation

S. No.	Bank	Study Period	Observations
1	Nabil Bank Limited (NABIL)	2013-2022	10
2	Prime Commercial Bank Ltd. (PCBL)	2013-2022	10
3	NMB Bank Ltd. (NMB)	2013-2022	10
4	Everest Bank Ltd. (EBL)	2013-2022	10
5	Himalayan Bank Ltd. (HBL)	2013-2022	10
6	Standard Chartered Bank L. Nepal (SCB)	2013-2022	10
7	Global IME Bank Ltd. (GIBL)	2013-2022	10
8	NIC Asia Bank Ltd. (NICA)	2013-2022	10
9	Nepal Investment Bank Ltd (NIBL)	2013-2022	10
10	Nepal Bank Ltd. (NBL)	2013-2022	10
11	Kumari Bank Ltd.(KBL)	2013-2022	10
12	Sanima Bank Ltd.(SBL)	2013-2022	10
	Total Number of Observation		120

The sample bank's study period and the observation have been presented in Table 4. The study period of this research is 10 years from 2013 to 2022. Total number of observation of this study is 120.

3.3 Nature and Sources of Data

This research relies on secondary data sources to investigate the influences on share prices of commercial banks. The study utilizes secondary data from publicly listed commercial banks, extracting financial performance indicators from their respective financial reports and the annual reports of Nepal Rastra Bank. The data for the dividend policy impact on stock price including MPS, EPS, DPS, DPR, etc. have been collected from annual reports of concerned sampled banks, supervision reports published by Nepal Rastra bank (NRB), Securities Board of Nepal (SEBON), Nepal Stock Exchange

(NEPSE), official websites of concern banks and world bank. For each of the strata essential data have been collected for each year from 2013 to 2022. This study has used panel data to examine the factor affecting the share price of commercial bank.

3.4 Methods of Analysis

The data collected from different sources will be recorded systematically as necessary only useful and related data are grouped as per need of the research work. Data are presented in appropriate forms of tables, graphs, and charts. To analyze the data in this research, some financial and statistical tools are used which are explained here.

3.4.1 Statistical Tools

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

Arithmetic mean ($\overline{X}$)

The most popular and widely used measure of representing the entire data by one variable is the arithmetic mean. The arithmetic mean has been used to compute the company wise and individual average calculation for various variables and ratios. Its value can be obtained by adding together all the items and by dividing this total by number of items (Silwal, 2017)

$$Mean(\overline{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$= sum of the variable 'X'

N= No of observation

Standard Deviation S.D (σ)

The concept of standard deviation was first introduced in 1983 by Karl Pearson. "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". The arithmetic average of the squares of all the deviations measured from the arithmetic average of the series is equal to the positive square root of the standard deviation. A distribution's absolute dispersion is measured by the standard deviation. The standard derivation increases with increasing dispersion, i.e.

e. The magnitude of the values' deviations from their mean will be greater. It is denoted by a Greek letter '**σ**' (Sigma) and is calculated as follows:

$$\text{S.D } (\sigma) = \sqrt{\frac{1}{N}\sum(X - \overline{X})^2}$$

Where,

N = Number of observation

X= Expected return of the historical data

Coefficient of Variation (C.V)

The coefficient of variables reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the c.v. It is used for comparing variability of two distributions. Lower value of coefficient of variation is preferable since it denotes the lower degree of dispersion (Silwal, 2017).

$$\text{C.V} = \frac{\sigma}{\overline{X}} \times 100$$

Where, σ = Standard deviation

$\overline{X}$= Arithmetic mean

Correlation of Coefficient (r)

As stated by Richard I. Levin: "The statistical method by which we can characterize the extent to which one variable is linearly related to another is correlation analysis.". The method for determining how closely the variables are related to one another is correlation analysis. It assists us in figuring out how closely two or more variables relate to one another. It explains both the direction and the strength of the correlation. The degree of correlation between market price and other pertinent financial indicators, like dividend payout ratio, earning per share, and so on, is thus examined in this study. The correlation coefficient is used to quantify it. The correlation coefficient can be calculated as:

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

Where,

r = coefficient of correlation

ΣXY= sum of production of two series

ΣX^2 = sum of squared in X series

ΣY^2= sum of squared in Y series

n = number of years

Regression Analysis

Regression is a statistical technique used to establish and quantify the statistical relationship between two or more variables. Its main purpose is to predict or estimate one variable based on the values of other variables. This method is particularly useful when there is a close relationship between the variables being analyzed. By understanding this relationship, knowing the value of one variable allows us to estimate the value of another. For instance, if production and sales have a strong correlation, we can use regression analysis to determine the production quantity needed to reach a given sales level. Finding the average likely change in one variable for a specific amount of change in another variable is the fundamental idea behind regression analysis. This statistical tool plays a significant role in making predictions and estimations based on known data points (Silwal, 2017).

Symbolically it is defined as:

$$\sum e^2{}_1 = \sum(Y - \hat{Y})^2$$

This is called the least square if

$\sum e^2{}_1 = \Sigma(Y - \hat{Y})^2 = 0$ which best fits all the data taking the first derivative of this expression with respect to "a" and "b" gives two equations which are called the normal equations.

i.e. $= \frac{\partial \sum(Y - \hat{Y})^2}{\partial a}$ = minimum and $\frac{\partial \sum(Y - \hat{Y})^2}{\partial b} = 0$ gives,

$\Sigma Y = na + b\Sigma X$

$\sum XY = a\Sigma X + b\Sigma x^2$

3.5 Research Framework and Definition of Variables

3.5.1. Research Framework

The major dependent variable used in this study is market price per share (MPS).The major determinants variables taken in this study are earnings per share, dividend per share, dividend payout ratio, Price earnings ratio etc. are shown in below figure.

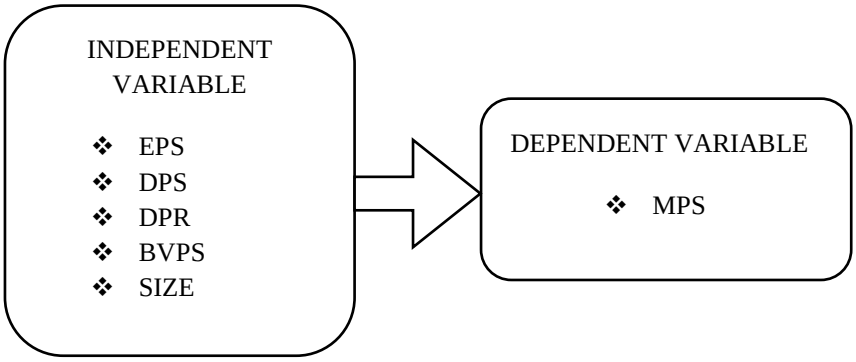

Figure 1 Independent Variables and Dependent Variable

Source: Bhattarai, Y. R. (2016), Baral, & Shrestha A. (2018), Habib, & khan, M.A. (2012)

3.5.2. Definition of Variables

Market Share Price (MPS)

The share price of a company's stock represents the cost of owning one individual share. The interaction between the supply of available shares in the market and the demand from potential buyers determines the share price in publicly traded companies. As a result, the share price is subject to volatility since it heavily relies on the expectations and perceptions of both buyers and sellers. Changes in these expectations and market sentiments can lead to significant fluctuations in the share price over time.

Earnings Per Share (EPS)

Earnings per share, also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. In other words, this is the amount of money each share of stock would receive if all of the profits were distributed to the outstanding shares at the end of the year. EPS is an important indicator for performance of the commercial banks. EPS is expected to increase gradually over the

year if financial market and other economic environment remain favorable which shows the strengths of banks.

Dividend Per Share (DPS)

Dividend per share (DPS) is a significant financial measure that reveals the total amount of declared dividends distributed to shareholders for each outstanding ordinary share issued by a company. This calculation involves summing up all dividends paid throughout the year, including interim dividends but excluding special dividends, and then dividing that total by the number of outstanding ordinary shares. DPS provides valuable insight for investors, offering a clear understanding of the income potential associated with owning a single share. It serves as an essential indicator to assess a company's dividend distribution efficiency and helps investors make informed decisions about their investment based on the company's dividend performance over a specific period.

Dividend Payout Ratio (DPR)

It is the percentage of earnings that is distributed as dividends. The amount of profits distributed to equity holders in a given year from the company's earnings is known as the dividend payout ratio. This ratio displays the portion of profit that is retained as a reserve and surplus for the banks' future expansion and the portion that is distributed as dividends. The profitability of a bank determines its dividend payout ratio. Gaining more money improves one's capacity to distribute more dividends, and vice versa. DPR shows the portion of profit that is retained as a reserve and surplus for the company's expansion, as well as the portion that is distributed as dividends. By dividing the DPS by the EPS, it is computed.

Book Value Per Share (BVPS)

Book value per share is just one of the methods for comparison in valuing of a company. Enterprise value, or firm value, market value, market capitalization, and other methods may be used in different circumstances or compared to one another for contrast. BVPS is financial measure that represents a per share assessment of the minimum value of a company's equity.

Firm Size (S)

Generally, the large companies offer better investment opportunities to investors than the smaller ones. The shares of large companies are actively traded and they provide more liquidity and marketability to the investors. Thus the temptation to buy shares of large companies leads to increase its market price of share. The size of the firm can be measured in several ways, e.g. through turnover, paid-up-capital, capital employed, total assets, net sales, market capitalization etc. In the present study, size is measured in terms of total assets.

CHAPTER IV

RESULTS AND DISCUSSION

This chapter addresses the interpretation, analysis, and presentation of secondary data, aiming to address a range of issues linked to the dividend policy effect on stock prices within the Nepalese Commercial Banks domain. Various statistical models described in chapter three have been used for this purpose. This chapter is divided into two sections. The first section deals with the results that have arrived from evaluation of secondary data. Second section deals with the discussion of the output result with previously assumed hypothesis. Descriptive analysis, correlation analysis and regression analysis has been conducted in order to analyze the relationship among dependent and independent variables.

4.1 Results

4.1.1 Structure and pattern analysis

The trend and movement of Nepalese commercial banks' dependent and independent variables are covered in this section. Dependent variables include market price per share (MPS) and independent variables are earnings per share (EPS), dividend per share (DPS), dividend payout ratio (DPR) book value per share (BVPS), and size (S).

Table 5

Structure and pattern of Market Price per share (MPS) (In Rupees per share)

Symbol	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NABIL	1736.85	2540.89	1910.1	2344.13	1522.84	964.22	800.02	764.78	1538.2	1010.64	1513.27	630.48
PCBL	324.07	582.97	454.86	745.82	421.03	287.11	278.01	255.02	478.94	265.04	409.29	161.42
NMB	251.92	515.17	507.01	809.79	450.8	272.81	304.96	351.61	439.99	261.09	416.52	170.90
EBL	1591.36	2631.1	2120.35	3384.92	1353.12	663.14	665.88	675.01	737.86	438.95	1426.17	998.66
HBL	699.87	941.03	812.89	1500.03	911.34	550.94	552.13	540.13	484.21	299.28	729.19	337.28
SCB	1819.89	2798.84	1942.89	3600.05	2295.14	754.85	681.95	645.06	590.13	396.12	1552.49	1105.65
GBIME	431.85	639.94	478.93	514.99	388.01	290.06	295.03	239.09	440.83	251.33	397.01	129.47
NICA	554.22	970.02	616.97	798.06	445.06	315.95	447.94	552.97	993.91	696.20	639.13	225.50
NIBL	785.4	960.52	704.52	1040.15	770.59	621.18	517.44	430.1	459.8	265.47	655.52	243.81
NBL	170.74	459.05	305.03	469.98	364.05	281.06	336.03	248.99	442.83	268.03	334.58	99.30
KBL	260	536	380	380	327	199	220	186	371	191.00	305.00	114.06
SBL	260	638	555	750	431	324	348	330	485	276.00	439.70	164.64
Mean	740.51	1184.46	899.05	1361.49	806.67	460.36	453.95	434.90	621.90	384.93		
SD	618.94	906.84	673.96	1129.88	617.02	243.06	187.97	195.59	335.46	238.13		

Table 5 indicates that the market price per share varies widely within the individual banks among them SCB price is higher than other in 2016 Rs3600.05 and lowest price is KBL Rs186.00 in 2020. When market price is compared over a period of time for individual banks, it may be seen that market price has increasing trend of the selected commercial banks for period 2013 to 2016 and has decreased thereafter. It seems that there are varies in price of banks in a same year due to their financial conditions and their portfolio. Thus, the variation in market price per share as indicated by SD is lowest for NBL followed by GBIME, KBL, PCBL, SBL, NMB, NICA, NIBL, HBL, NABIL, EBL and SCB.

Table 6

Structure and pattern of Earnings Per Share (EPS) (In Rupees per share)

Symbol	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NABIL	91.03	76.12	57.24	59.27	59.86	51.84	50.57	36.16	33.57	22.86	53.85	20.15
PCBL	18.55	20.97	23.74	30.11	23.21	21.49	23.60	16.10	20.32	14.94	21.30	4.33
NMB	18.02	20.50	25.05	27.78	22.24	21.86	18.79	11.18	16.66	17.92	20.00	4.64
EBL	91.88	86.04	78.04	65.97	32.48	32.78	38.05	29.71	19.91	26.30	50.12	27.32
HBL	34.19	33.10	33.37	43.03	36.15	23.11	32.44	27.60	28.07	18.26	30.93	6.98
SCB	65.70	65.47	57.38	45.96	35.49	27.33	30.39	24.81	16.32	23.92	39.28	18.15
GBIME	16.15	19.57	15.58	22.42	25.51	23.64	26.46	17.99	19.25	20.84	20.74	3.74
NICA	47.41	35.98	25.59	28.31	23.06	16.62	34.22	31.89	28.18	36.45	30.77	8.49
NIBL	46.20	40.70	30.90	29.30	29.30	35.70	26.40	17.00	22.00	20.74	29.82	9.08
NBL	198.53	18.08	7.48	44.59	38.77	39.98	26.99	20.68	23.43	20.29	43.88	55.53
KBL	18.17	18.69	16.24	26.53	13.29	14.54	14.81	12.08	14.20	17.54	16.61	4.10
SBL	15.13	19.28	24.47	32.55	26.31	21.22	28.22	20.18	23.94	18.48	22.98	5.16
Mean	55.08	37.88	32.92	37.99	30.47	27.51	29.25	22.12	22.15	21.55		
SD	53.17	24.51	20.73	13.84	11.71	10.75	9.24	7.94	5.65	5.62		

The Table 6 displays the Earnings Per Share (EPS) for various banks from 2013 to 2022, highlighting trends and performance. Notably, NABIL shows a decreasing trend, peaking in 2013 with an EPS of 91.03, while EBL and NICA exhibit more stable or increasing trends, with EBL peaking in 2013 at 91.88 and NICA peaking in 2022 at 36.45. The mean

EPS across all banks has decreased from 55.08 in 2013 to 21.55 in 2022, indicating an overall decline in bank profitability. Standard deviation figures suggest high variability in EPS among banks in earlier years (SD of 53.17 in 2013) that has decreased over time (SD of 5.62 in 2022). EBL, NABIL, and NBL are notable for their high EPS in specific years, demonstrating strong performance. This analysis underscores the diverse performance trajectories of banks, the declining overall profitability, and the reduction in EPS over the year, illustrating the dynamic nature of the banking sector and the varying financial health of individual institutions.

Table 7

Structure and pattern of dividend per share (DPS) (In Rupees per share)

Symbol	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NABIL	65	65	36.84	45	48	34	34	35.326	38	30	43.12	12.69
PCBL	20	21	19.9	18.16	27	16	16	15	16.63	4	17.37	5.86
NMB	0	21.05	8.42	20	15.79	30	35	16.2	15.8	8.25	17.05	10.33
EBL	60	62	35	73.74	33	20	25	10.53	10.32	20.68	35.03	22.60
HBL	15	21.05	42.11	31.58	26.32	15.79	22	20	26	19.11	23.90	8.14
SCB	50	51.5	44.21	35.09	105.26	17.5	22.5	11.84	13.06	16.51	36.75	28.50
GBIME	15	25	23	16	20	16	25.5	16	13.5	13.6	18.36	4.64
NICA	20	30	41.05	27.37	21.05	10	21.05	20	0	0	19.05	12.87
NIBL	60	65	36.4	62	65	62	27.5	24	19.39	15	43.63	20.98
NBL	0	0	0	0	0	0	25	16	17	12	7.00	9.57
KBL	14.74	34.74	11.58	22.1	12.75	8.5	10.52	14	8.67	12.5	15.01	7.93
SBL	10.53	15.79	21.05	15.79	16	14	21.05	13.6	17.89	10.98	15.67	3.63
Mean	27.52	34.34	26.63	30.57	32.51	20.32	23.76	17.71	16.36	13.55		
SD	24.15	21.53	14.72	20.88	28.52	15.91	6.78	6.69	9.32	7.84		

The Table 7 presents financial data for various companies spanning the years 2013 to 2022, with symbols representing each company (e.g., NABIL, PCBL, NMB). Observing the trends and patterns, NABIL exhibited a decline from 2013 to 2018, followed by an increase in 2019, with subsequent fluctuations. PCBL's values fluctuated, showing a slight upward trend in recent years. NMB experienced fluctuations with notable increases and decreases. Other companies, including EBL, HBL, SCB, GBIME, NICA, NIBL, KBL, and SBL, displayed unique patterns over the years. The mean and standard deviation for each company provide insights into the average values and variability around those averages. Higher standard deviations suggest greater variability, while higher means indicate higher average values. Companies with consistent growth or decline may be discerned, and those with greater variability may pose more risk.

Understanding the broader industry context or specific events during these years can offer additional insights into the observed patterns.

Table 8

Structure and patterns of Dividend payout ratio (DPR) (In Rupees per share)

Symbol	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NABIL	0.714	0.854	0.644	0.759	0.802	0.656	0.672	0.977	1.132	1.312	0.85	0.22
PCBL	1.078	1.001	0.838	0.603	1.163	0.745	0.678	0.932	0.818	0.268	0.81	0.26
NMB	0.000	1.027	0.336	0.720	0.710	1.372	1.863	1.449	0.948	0.460	0.89	0.56
EBL	0.653	0.721	0.448	1.118	1.016	0.610	0.657	0.354	0.518	0.786	0.69	0.24
HBL	0.439	0.636	1.262	0.734	0.728	0.683	0.678	0.725	0.926	1.047	0.79	0.23
SCB	0.761	0.787	0.770	0.763	2.966	0.640	0.740	0.477	0.800	0.690	0.94	0.72
GBIME	0.929	1.277	1.476	0.714	0.784	0.677	0.964	0.889	0.701	0.653	0.91	0.27
NICA	0.422	0.834	1.604	0.967	0.913	0.602	0.615	0.627	0.000	0.000	0.66	0.47
NIBL	1.299	1.597	1.178	2.116	2.218	1.737	1.042	1.412	0.881	0.723	1.42	0.50
NBL	0.000	0.000	0.000	0.000	0.000	0.000	0.926	0.774	0.726	0.591	0.30	0.40
KBL	0.811	1.859	0.713	0.833	0.959	0.585	0.710	1.159	0.611	0.713	0.90	0.38
SBL	0.696	0.819	0.860	0.485	0.608	0.660	0.746	0.674	0.747	0.594	0.69	0.11
Mean	183.57	183.88	183.96	184.04	184.39	184.16	184.35	184.42	184.40	184.41		
SD	0.43	0.42	0.52	0.53	0.85	0.47	0.37	0.36	0.31	0.37		

The Table 8 Structure and patterns of Dividend payout ratio (DPR) shows the data presenting from 2013 to 2022. Observing the trends and patterns of sample bank Dividend payout ratio we found that NIBL bank have the highest DPR in year 2017. NIBL bank consistently shows higher DPR comparing to other banks. Nepal Bank Limited started to distribute dividend from year 2019 in this year bank have 0.926 DPR. NICA dividend payout ratio gradually decreases from year 2015 and came to zero at 2021/22. NICA have not distribute any dividend to their shareholder back this year. However other bank DPR are fluctuate with notable increases and decreases. The mean and standard deviation for each company provide insights into the average values and variability around those averages. Higher standard deviations suggest greater variability, while higher means indicate higher average values.

Table 9:

Structure and pattern of Book Value Per Share (BVP) (In Rupees per share)

Symbol	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NABIL	275.0	251.0	259.0	244.0	270.0	256.0	257.0	256.0	251.0	232.0	255.1	12.2
PCBL	126.1	137.1	138.9	145.8	149.2	139.5	143.8	146.8	148.9	145.9	142.2	7.0
NMB	121.2	140.7	137.4	124.3	168.7	216.9	180.9	150.1	146.7	146.3	153.3	28.7
EBL	291.5	296.3	335.6	320.1	290.0	200.0	218.6	219.6	232.1	241.4	264.5	47.6
HBL	192.0	209.9	208.8	196.1	189.9	174.2	187.7	187.7	188.4	169.7	190.5	12.7
SCB	249.1	249.2	264.6	267.5	296.2	173.8	178.1	188.5	189.2	192.3	224.9	44.9
GBIME	116.2	149.2	146.1	145.1	153.2	152.8	158.4	152.0	154.6	158.6	148.6	12.2
NICA	189.8	210.8	206.9	161.4	151.2	145.3	169.1	177.4	180.8	214.8	180.7	24.7
NIBL	169.0	166.0	155.0	187.0	176.0	234.0	199.0	191.0	198.0	186.0	186.1	22.1
NBL	-932.0	21.0	59.0	104.0	142.4	285.6	298.5	266.2	254.9	246.2	74.6	367.4
KBL	166.0	162.0	138.0	149.0	135.0	131.0	134.9	137.9	136.1	142.8	143.3	12.0
SBL	120.2	127.8	134.5	174.9	131.4	134.8	149.9	145.6	154.1	149.3	142.3	15.8
Mean	90.4	176.7	182.0	184.9	187.8	187.0	189.7	184.9	186.2	185.4		
SD	327.6	72.6	75.6	63.2	61.4	51.4	48.2	43.1	41.2	39.4		

Analyzing the BVP (Book Value per Share) data for Nepalese commercial banks from 2013 to 2022 reveals distinct patterns in the high and low values across the companies. Notably, NMB consistently exhibits higher BVP, with a peak of 216.9 in 2018, showcasing robust book values per share during this period. Conversely, NBL stands out with an exceptionally low BVP, hitting -932.0 in 2013, possibly indicative of financial challenges or unique circumstances that year. Among the relatively stable performers with moderate BVP ranges are PCBL and KBL, maintaining values around 140-150 throughout the years. Overall, the data suggests a diverse landscape, with some banks consistently outperforming others in terms of book value per share, while certain institutions, such as NBL, faced significant fluctuations and challenges during the specified period. The variability in BVP reflects the diverse financial trajectories and strategies employed by these banks, contributing to the dynamic nature of the Nepalese banking sector

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Table 10

Structure and pattern of bank size **(**Rs In Billion.)

Symbol	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Mean	SD
NABIL	73.24	87.28	115.99	127.30	144.02	169.08	201.14	237.68	291.07	419.82	186.66	106.18
PCBL	32.41	38.03	45.80	54.40	77.70	95.04	102.26	152.18	190.54	210.36	99.87	64.16
NMB	25.13	30.61	45.18	75.68	88.81	111.62	135.47	179.45	231.55	255.20	117.87	81.68
EBL	70.45	99.15	99.17	113.89	116.51	144.82	170.78	185.02	211.65	225.38	143.68	52.38
HBL	61.15	73.59	82.80	99.86	107.26	116.46	133.15	155.89	178.49	216.29	122.49	49.07
SCB	45.63	53.32	64.93	65.19	77.41	83.10	93.26	116.44	114.74	123.36	83.74	27.50
GBIME	39.02	60.02	69.19	88.68	117.89	125.85	151.65	273.88	345.42	360.54	163.21	119.46
NICA	45.82	51.50	60.52	80.46	99.27	170.94	220.59	250.59	346.15	358.57	168.44	120.22
NIBL	73.15	86.17	104.35	129.78	155.36	171.89	185.84	203.02	227.93	244.45	158.20	59.07
NBL	70.78	77.98	88.21	103.48	130.23	133.47	171.52	191.16	222.65	260.08	144.95	64.47
KBL	28.22	31.02	37.37	42.41	60.99	82.72	105.31	145.97	189.78	212.11	93.59	67.77
SBL	21.98	29.38	40.30	59.96	70.00	91.82	109.06	126.31	160.75	192.51	90.21	57.03
Mean	48.91	59.84	71.15	86.76	103.79	124.73	148.34	184.80	225.89	256.56		
SD	19.96	24.70	26.78	28.68	30.07	33.72	42.01	49.51	70.48	83.44		

The table 10 outlines the market capitalization trends (in Billion Rs.) for various banks from 2013 to 2022. Nabil consistently stands out with the highest market capitalization, soaring to 419.82 Billion Rs. in 2022. Prime Commercial Bank (PCBL) and NMB Bank also exhibit steady growth, reaching 210.36 Billion Rs. and 255.20 Billion Rs. respectively by 2022. In contrast, Standard Chartered Bank (SCB) and Kumari Bank (KBL) show relatively modest growth. The overall mean market capitalization across all banks rises from 48.91 Billion Rs. in 2013 to 256.56 Billion Rs. in 2022. The increasing standard deviation (SD) reflects growing variations in market capitalization. This data indicates an overall positive trend in market capitalization, with individual banks showcasing diverse performances within the banking sector throughout the specified period.

4.1.2 Descriptive Statistics

Table Descriptive statistics of the independent and dependent variables display the descriptive statistics of the independent and dependent variables in this research, derived from the panel data collected from ten commercial banks in the Nepalese financial market from 2013 to 2022.

Table 11

Descriptive statistics of the independent and dependent variables

	MPS	EPS	DPS	DPR	BVPS	SIZE
Mean	731.65	31.69	24.32	0.81	175.49	131.07
Median	511.00	25.55	20.00	0.74	171.77	112.75
Maximum	3600.05	198.53	105.26	2.96	335.60	419.81
Minimum	170.74	7.48	0.00	0.00	-932.00	21.98
Std. Dev.	662.92	22.62	18.00	0.45	115.81	81.01
Observations	120	120	120	120	120	120

The Table 11 statistics explains that mean values of the Market Price per Share (MPS) is 731.65, indicating a relatively high market valuation of the shares on average. The EPS 31.69 reflects the profitability per share. The mean Dividends per Share (DPS) is 24.32, suggesting that companies tend to distribute a significant portion of their earnings as dividends likewise the average Dividend Payout Ratio (DPR) is 0.81 indicating that 81% of earnings are paid out in dividends. The average Book Value per Share (BVPS) is 175.49, which indicates the net asset value per share. The BVPS ranges from a maximum of 335.60 to a minimum of -932.00 indicating that some firms may have negative book values due to accumulated losses or other factors. Likewise the average firm size (SIZE) 131.07 is higher than the median 112.75 the distribution of company sizes is positively skewed meaning that a few companies with very large sizes that are pulling the mean upwards. The SIZE ranges from 419.81 to 21.98 showing considerable diversity in firm sizes.

Overall, descriptive statistics show that the data has significant variability, with large ranges and standard deviations. These variations highlight the various financial characteristics of the firms under consideration, providing a comprehensive picture of their market dynamics and financial health.

4.1.3 Correlation Analysis

The correlation coefficients display the strength and direction of the linear relationship between the market value of the share and the factors influencing the sample commercial banks' share price.

Table 12

Pearson's correlation coefficients table

Probability	MPS	EPS	DPS	DPR	BVPS	SIZE
MPS	1					

EPS	0.52	1.00				
	(0.00)	-----				
DPS	0.69	0.38	1.00			
	(0.00)	(0.00)	-----			
DPR	0.15	-0.16	0.69	1.00		
	(0.11)	(0.08)	(0.00)	-----		
BVPS	0.38	-0.36	0.39	0.23	1.00	
	(0.00)	(0.00)	(0.00)	(0.01)	-----	
SIZE	-0.15	-0.16	-0.17	-0.08	0.15	1
	(0.11)	(0.08)	(0.07)	(0.41)	(0.11)	-----

**. Correlation is significant at the 0.01. *. Correlation is significant at the 0.05.

The correlation matrix suggests relationships among financial variables in the dataset. Market Price per Share (MPS) exhibits a moderate positive correlation with Earnings per Share (EPS) (r = 0.52) This suggests that as the earnings per share of the banks increase, the market price of their stocks also tends to increase. There is a strong positive and statistically significant relationship between MPS and DPS with a correlation coefficient of 0.69 (p = 0.00) indicating that an increase in dividend per share is associated with a significant increase in the stock's market price. The Dividend Payout Ratio (DPR) has a weak positive correlation with MPS (r = 0.23). BVPS has a moderate positive correlation with MPS (0.38), indicating that higher book values per share match to higher market prices per share. Likewise the relationship between BVPS and EPS is moderately negative with a correlation coefficient of -0.36. This suggests that as earnings per share increase and the book value per share tends to decrease. This inverse relationship could

imply that banks with higher earnings may be distributing a significant portion of their profits as dividends rather than retaining them, which can lower the book value. This relationship is also statistically significant with a p-value of (0.00). There is a moderate positive correlation and weak positive correlation between DPS and DPR. The result shows that correlation between MPS and SIZE is weak and negative i.e.-0.15 and p-value of 0.11denots statistically significant.

4.1.4 Regression Analysis

In coefficient analysis, two or more independent variables are used to estimate the value of dependent variables. Multiple Regression analysis helps to know relative movement in the market price of share would depend on EPS, DPS, DPR, BVPS and SIZE.

Table 13

Regression Analysis Pooled OLS method

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EPS	9.98	3.62	2.48	0.01
DPS	24.73	6.26	3.94	0.00
DPR	-493.75	184.85	-2.67	0.01
BVPS	1.78	0.57	3.16	0.00
SIZE	-0.50	0.44	-1.14	0.25
C	-4.99	199.81	-0.03	0.98
R-squared	0.70			
Adjusted R-squared	0.69			
F-statistic	54.01			
Prob (F-statistic)	0.00			

Table no 13 shows the results of Regression Analysis Pooled OLS regression analysis with the dependent variable being MPS (Market Price per Share) and several independent variables including EPS (Earnings Per Share), DPS (Dividends Per Share), DPR (Dividend Payout Ratio), BVPS (Book Value Per Share), and SIZE. The coefficient of 9.98 for EPS indicates a strong positive relationship with the dependent variable. It denote that one unite increase in EPS leads to one 9.98 unit increase in MPS. This reflects the significant impact of profitability on stock value higher EPS generally signals better company performance boosting investor confidence and demand for the stock. Similarly

value of t-statistic of 2.48 and a p-value of 0.01also denotes relationship is statistically significant.

The study reflect that a strong positive relationship between dividend per share (DPS) and market price per share (MPS) with a coefficient of 24.73 indicating a 1 unit increase in DPS leading to a 24.73 unit increase in MPS. The relationship is statistically significant with a p-value of 0.00 and a standard error of 6.26. The results suggest that an increase in dividends significantly impacts the stock's market price.

The Dividend Payout Ratio has a strong negative relationship with the MPS with a coefficient of -493.75 indicating a decrease of 493.75 units for every one unit increase in DPR. This relationship is statistically significant and has a low probability of occurring by chance. The standard error of 184.85 reflects some variation in the figure while remaining significantly negative.

The R-squared value of 0.70 shows that the model explains 70% of the variability in the dependent variable, indicating a strong relationship between the predictors and the outcome. The Adjusted R-squared of 0.69 slightly adjusts for the number of variables, confirming that the model is well-fitted and not overly complex. Likewise probabilities values represent the probability of observing the estimated coefficient values if the null hypothesis (that the coefficient is zero) is true. Lower probabilities indicate greater evidence against the null hypothesis. For instance a probability of 0.01 for EPS indicates that it is statistically significant at the 1% level. F-statistic values are associated with the overall significance of the regression model. The F-statistic tests whether the overall regression model is statistically significant. A low p-value (such as 0.00) for the Prob. (F-statistic) suggests that the regression model as a whole is statistically significant.

Overall, the regression model appears to have a reasonable explanatory power (as indicated by the R-squared value) and the coefficients of several independent variables (EPS, DPS, DPR, BVPS) are statistically significant in explaining the variation in MPS. However, the SIZE variable does not appear to be statistically significant in this model.

Table 14

Fixed effect model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EPS	6.03	3.90	1.55	0.13
DPS	26.36	6.35	4.15	0.00
DPR	-500.20	179.89	-2.78	0.01
BVPS	1.08	0.61	1.77	0.08
SIZE	-0.15	0.49	-0.30	0.77
C	142.18	223.20	0.64	0.53
R-squared	0.75			
Adjusted R-squared	0.71			
F-statistic	20.045			
Prob (F-statistic)	0.00			

The fixed effect model table shows that the Panel Least Squares regression analysis with Market Price per Share (MPS) as the dependent variable. The analysis covers data from 2013 to 2022, including 10 periods and 12 cross-sections, resulting in a total of 120 observations. The coefficient for Earnings Per Share is 6.03 suggesting that for each unit increase in EPS leads to rise MPS by 6.03 units. However, the relationship between EPS and MPS is not statistically significant with a t-statistic of 1.55 and a p-value of 0.13. This indicates that the impact of EPS on MPS may not be reliably distinguished from zero based on this model.

In contrast Dividends Per Share (DPS) exhibits a strong and statistically significant positive relationship with MPS. The coefficient for DPS is 26.36 meaning a 1-unit increase in DPS corresponds to a 26.36-unit increase in MPS. This result is supported by a t-statistic of 4.15 and a p-value of 0.00 highlighting that higher dividends are associated with a higher market price of the stock but the other hand Dividend Payout Ratio (DPR) shows a significant negative relationship with MPS, with a coefficient of -500.20. This indicates that for each unit increase in DPR, MPS decreases by 500.20 units. The relationship is statistically significant evidenced by a t-statistic of -2.78 and a p-value of 0.01. This suggests that higher dividend payout ratios tend to reduce the market price of the stock. Book Value Per Share (BVPS) shows a positive relationship the p-value of 0.08 indicates that the relationship is marginally significant suggesting that the impact of BVPS on MPS is close to being statistically significant but does not meet the

conventional 0.05 threshold. The SIZE variable has a coefficient of -0.15, indicating a very small negative impact on MPS. For each unit increase in SIZE leads to MPS decreases by 0.15 units. The p-value of 0.77 reveals that SIZE is not statistically significant, suggesting that SIZE does not have a meaningful effect on MPS.

The model, with an R-squared value of 0.75 and an adjusted R-squared of 0.71, is accurate but not overly complicated. The regression's standard error is 349.92, and the F-statistic of 20.045 indicates that at least one predictor has a significant impact on MPS. The model explains a substantial portion of the variance in MPS, indicating its effectiveness in predicting the dependent variable.

Table 15

Random effect model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EPS	8.436	3.53	2.38	0.018
DPS	25.23	6.05	4.16	0.000
DPR	-498.46	177.04	-2.81	0.005
BVPS	1.63	0.55	2.95	0.004
SIZE	-0.37	0.43	-0.86	0.390
C	24.70	196.78	0.12	0.900
R-squared	0.668022			
Adjusted R-squared	0.653461			
F-statistic	45.87916			
Prob(F-statistic)	0.000000			

This Random Effect Model Table 15 show that Dividend Per Share (DPS) has the greatest positive impact on MPS with a significant coefficient of 25.23 ($p = 0.000$) it means that when a company pays out higher dividends per share to its shareholders its stock price tends to increase. This relationship is often observed because dividends are a direct return to shareholders, indicating that the company is profitable and financially stable enough to distribute its earnings. Investors may view higher dividends as a positive signal about the company's health and future prospects, leading to increased demand for the stock, which in turn drives up its market price.

Earnings Per Share and Book Value Per Share also have a positive influence on MPS, with coefficients of 8.436 and ($p = 0.018$) and 1.63 ($p = 0.004$) respectively implying that

higher earnings and book value contribute to higher stock prices. In contrast, the Dividend Payout Ratio (DPR) has a significant negative impact on MPS, with a coefficient of -498.46 (p = 0.005), implying higher payout ratios may reduce stock attractiveness. The Firm Size has a coefficient of -0.37 (p = 0.390) and has no significant effect on MPS additionally the constant term is meaningless. According to the analysis, higher dividends, earnings, and book value per share all have a positive impact on stock prices, indicating financial strength and stability that attract investors. On the other hand, a high dividend payout ratio has a negative impact on stock prices because it may indicate decreased reinvestment in the company and the possibility of future development issues.

Table 16

Likelihood Ratio Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.048652	(11,103)	0.0309
Cross-section Chi-square	23.742838	11	0.0139

Both the Cross-Section F Test and the Cross-Section Chi-Square Test indicate the importance of including fixed effects in the panel data model. With p-values of 0.0309 and 0.0139, respectively, both tests reject the null hypothesis, suggesting that the inclusion of fixed effects significantly improves the model fit. Therefore, to capture the unique characteristics of each cross-sectional unit that remain constant over time, and to enhance the accuracy and reliability of the estimates, fixed effects should be incorporated into the model.

Table 17

Fixed Vs Random Effect

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.065104	5	0.0734

The Hausman Test is used to decide between fixed effects and random effects models in panel data analysis. It tests the null hypothesis that the unique errors (random effects) are uncorrelated with the repressors, implying that the random effects model is appropriate. In this case, the Chi-Square statistic is 10.065104 with 5 degrees of freedom, resulting in a p-value of 0.0734. Since the p-value is greater than the conventional significance level

of 0.05, we fail to reject the null hypothesis. This suggests that the random effects model is suitable for this data.

4.2 Discussion

Based on the data analysis conducted in this study, several insights can be drawn. Over the 10-year period examined, the data exhibit significant volatility, reflecting fluctuations in the bank's financial performance and its market price at different points in time. The study employed trend analysis, regression analysis, and correlation analysis, utilizing secondary data. The findings indicate that the MPS of commercial banks is positively correlated with independent variables such as EPS, DPS, BVPS, DPR and Size.

In terms of EPS, the results indicated a positive relationship with share price across all analyses and models. EPS demonstrated a positive and significant relationship with MPS indicating a significant relationship between EPS and share price. This finding is consistent with previous research by Natasha Robbetze (2017).

As regard to DPS, the results showed positive relation with share price across all the analysis and models. DPS showed positive and significant relationship with MPS. Thus the result shows that there is significance relationship between DPS and share price. This relationship is consistent with the previous studies of Shafai (2012).

Correlation analysis showed that MPS has weak positive relation with DPR which is statistically significant at the 1% level of significance, meaning that an increase in his DPR for the stock will increase the bank's MPS. This result contradicts the results of Dhakal and Shah (2018), who also found a positive association between MPS and DPR concluding that market price of stock increases when company pays higher dividend.

The results revealed a positive relationship between Book Value per Share (BVPS) and share price across all analyses and models. BVPS demonstrated a strong and significant correlation with the Market Price of Stock (MPS). This finding aligns with the conclusions of previous studies, such as those by Stephen and Okoro (2014).

Similarly, there is a weak and negative relationship between MPS and bank size which is not significant in the population.

CHAPTER V

SUMMARY AND CONCLUSIONS

This chapter highlights the study's key findings and provides a brief overview of the entire research. Furthermore, a distinct section of this chapter discusses the main conclusions, which are followed by some implications and suggestions regarding the factors influencing the share price. The chapter concludes with a discussion of the potential for further research in the same area.

5.1 Summary

The primary goal of the research project is to examine the variables influencing Nepal's commercial banks' share prices. To answer this question, several literatures with the subject of dividend policy and dividend variables have been discussed. One of the three key choices made by financial management is the dividend policy. The part of the company's net earnings that is distributed to shareholders as compensation for their investments is referred to as the dividend. Because it encourages capital formation and increases economic growth, the stock market is essential to economic development. This market securities trading helps savers and capital users by transferring wealth, sharing risk, and pooling funds. Money can move from reserves to the most profitable investments to generate economic activity. Investors consider the share prices of companies when deciding which shares to purchase. According to theories, there is a correlation between shifts in financial fundamental variables and shifts in share prices (Nisa and Nishat, 2011).

A study conducted explored the impact of foreign direct investment (FDI), exchange rates, interest rates, and inflation on the performance of stock markets in three South Asian countries: Pakistan, India, and Sri Lanka. The regression analysis results indicated significant positive effects of both FDI and exchange rates on stock market performance in South Asia. Conversely, interest rates were found to have a significant negative impact, while the impact of inflation was negative but statistically insignificant. These findings suggest that FDI and exchange rates play vital roles in enhancing stock market performance in South Asian countries, while interest rates may exert a dampening effect. Further research is needed to investigate deeper into the relationship between inflation and stock market performance in the region (Aurangzeb, 2012).

The specific objectives of the study are: (a) what is the structure and pattern of MPS, EPS, DPS, DPR, BVPS and Size Nepalese commercial banks? How have they evolved over time? (b) What are the composition and trends of Nepalese commercial banks' money supply, inflation, and GDP? How they have changed over the time period? (c) Does dividend have any effect to the stock price? (d)How does size and return on assets of a firm affect share price? (e)Which variable account most in determining the share price? (f) To provide the suggestion based on the research finding.

This study is based on secondary data. Secondary data is based on historical data. Data for different variables MPS, EPS, DPS, DPR, BVPS and Size are taken from Annual Bank Supervision Report Published by Nepal Rastrya Bank (NRB), annual reports of the respective banks, Securities Exchange Board of Nepal (SEBON), Nepal Stock Exchange (NEPSE), official websites of concern banks and various economic survey published by Ministry of Finance, Government of Nepal, World Bank. Essential data has been collected for each year from 2013-2022. The source and availability of the data have been verified. This study has taken only 12 commercial banks for the study period of 10 years.

5.2 Conclusion

The major conclusion of this study is that Nepalese commercial bank's market price is highly influence by the firm specific and macro-economic variables. Firm specific variables like earnings per share, divided per share, book value per share, return on assets and size are the major determining stock price in context of commercial bank in Nepal. Among the variable dividend per share is found to be the most important determining variable that affects the share price. It means larger the dividend per share higher would be the stock price. In economies like India and Nepal, dividends often carry greater weight for investors compared to earnings, possibly due to the stability they offer and cultural inclinations toward regular returns. Conversely, in developed markets such as the US, earnings tend to hold more sway, reflecting a focus on growth prospects and capital appreciation. Understanding these distinctions is crucial for investors to tailor their strategies effectively, considering factors like economic conditions, regulatory frameworks, and investor preferences in each market.

The analysis of data from Nepalese commercial banks offers insightful conclusions about the country's banking landscape. Firstly, there is considerable diversity observed in market dynamics, with significant variations in market price per share, earnings per share,

dividend per share, and book value per share across the banks under study. This diversity reflects differing financial performances and investor sentiments within Nepal's banking industry, likely influenced by various factors such as business strategies and economic conditions. However, the studies have concluded that there is a significant positive relationship between EPS and share price of commercial banks. Baral and Pradhan (2020) and Mausam (2019) both found a significant relationship between these variables in their research on Nepalese banks.

Such differences suggest varying levels of profitability, dividend distribution policies, and assets quality among the studied institutions. Understanding these nuances is crucial for investors in assessing the risk and return profiles of different banks and making informed investment decisions in the Nepalese banking sector.

5.3 Implications

After analyzing stock market price behaviors using various literature, relevant data, and financial tools and techniques, the following implications can be outlined.

1. The lack of clear legal guidelines for dividend payments highlights the need for the government and Nepal Rastra Bank to prioritize the creation of a comprehensive regulatory framework. Such a framework would enhance transparency, align dividend distribution practices with stakeholder expectations, and contribute to a more stable banking environment.
2. Commercial banks should develop a long-term strategy for their dividend policies, choosing between stable dividends, constant payout ratios, or a mix of regular and extra dividends. This recommendation aims to support the sustained growth of Nepal's banking industry.
3. Banks that exhibit high variability in Earnings per Share (EPS) and Dividend per Share (DPS) warrant closer monitoring. Investors and regulators should exercise caution with these stocks, as their greater fluctuation rates suggest potentially higher risk.
4. Banks with lower performance metrics should be the target of strategic development policies. This could involve management restructuring, enhancing operational efficiency, or implementing other initiatives aimed at improving their financial indicators.

5. The dividend payment schedule is inconsistent. The dividend is not increasing or decreasing. This may create misconception about the organization regarding its financial position. Due to high degree of risk and uncertainty, the market price per share may be adversely affected. So, the commercial banks should follow either static or growing dividend payment policy based on its earning capacity
6. Despite rising net earnings, dividend per share (DPS) has fluctuated significantly due to bonus share issuances. The effect of bonus shares on DPS must be assessed beforehand, and shareholders should be informed about the reasons behind dividend fluctuations.
7. Making the right dividend decisions is critical for banks, as even minor errors can lead to serious crises. Therefore, it's advisable to adopt optimal dividend strategies based on key criteria: ensuring optimal retention to facilitate robust expansion and modernization while considering anticipated risks; providing optimal dividends to meet shareholders' expectations for maximum returns and wealth enhancement through increased market share prices or net present value; and maintaining stability and consistency in dividend payments to instill confidence and trust among shareholders and stakeholders.

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ABSTRACT This research examines the relationship between investments and the financial performance of commercial banks in Nepal .With its pivotal role in promoting capital formation and maintaining economic growth, the equity market has emerged as a crucial marketplace. Because they guarantee the flow of resources to the most profitable investment opportunity, they are crucial for economic growth. Therefore, this study identifies and analyzes the factors affecting stock price of Nepalese commercial banks in Nepal. The study was conducted using secondary data and information gathered from Nepal Rastra Bank's bank supervision report and the annual reports of a few selected commercial banks. A descriptive and informal comparative research design was used for the study. Twelve commercial banks—NABIL, NMB, EBL, HBL, SCB, GIBL, NICA, NIBL, PCBL, NBL, KBL, and SBL were chosen for the study between 2012/13 and 2021/22. MPS is regarded as a dependent variable for the purposes of the study, whereas firm-specific variables (EPS, DPS, BVPS, DPR, and SIZE) are regarded as independent variables. A positive and significant relationship with each of the previously mentioned independent variables was found through the use of different modules in the analysis. My result was verified as accurate and true among them. Thus, the main finding of this study is that company-specific and macroeconomic factors influence the market prices of Nepalese commercial banks. Company-specific factors such as earnings per share (EPS), book value per share (BVPS), divided per share (DPS) and size play an important role in stock price determination. Dividend per share has been found to be the most significant factor influencing share prices among these. This implies that the stock price will increase in proportion to the dividend per share. Because of this, when investing in the share market, Nepalese investors are cautious about dividends. Keywords: Market Price Per Share (MPS), Earning Per Share (EPS), Dividend Per Share (DPS), Book Value Per Share (BVPS), Dividend Payout Ratio (DPR), SIZE CHAPTER I INTRODUCTION 1.1 Background of the Study The term 'dividend'