

# **CHAPTER- I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Every firm after making profit either retain the money for further investment or distribute it among the shareholders. The profit made by the firm, which is distributed to the shareholders is termed as dividend. The firm should decide whether to keep the money as retained earnings or pay the dividend. The dividend policy is the policy followed by the firm regarding the dividend versus retention decision.

It is not necessary that all business organization follow the same dividend policy. Dividend policy of different organization may be same or different. But, the policy followed by the firm should be suitable for both the shareholders as well as the firm itself. The dividend and retained earning have reciprocal relationship. If the dividend is paid, retained earning decreases while if the profit is retained shareholders wealth is minimized.

Nepal is developing country with very low per capital income. Nepal could not develop its trade foreign business; technology and industry so on until now. In this situation, banking plays significant role in the economics development of a country. It is a resource for the economic development, which maintains the self-confidence of various segments of society and extends credit to the people. Commercial bank are those financial institutions mainly dealing with activities of trade, commerce, industry and agriculture that seek regular financial and other help from banks for growing and flourishing. The main objective of commercial bank is to mobilize idle resources in particular productivity users after collecting them from scattered sources, Commercial bank as financial institution transfer monetary sources from saver to users. They furnish necessary capital required for savings of the individual and institution. Normally banks play at public money therefore, they should pay more attention

whether their money is properly utilized or not and running at profit or loss for the existence of business firm profit is the basic factor. A business firm becomes unable to provide its facilities in the long- run if there is no profit. This profit can be distributed among the owners as dividend.

The major decision of the firm is its dividend policy. A major decision of financial management is the dividend decision in the sense that the firm has to choose between distributing the profit to the shareholders and ploughing them back in to business. So the importance aspect of dividend policy is to determine the amount of earnings to be distributed in the in the form of dividend.

Every firm after making profit either retains the money for further investment or distributes it among the shareholders. The profit made by the firm, which is distributed, to the shareholders as dividend. The people who invest money in the business expect return from investment, the firm that is running in profit is capable to pay dividend so the most importance thing to attract the people to invest in business is dividend. It should be adequate to meet the normal expectation of shareholders.

Dividend policy is one of the major decisions of financial management because it affects the financial structure of the firm. Financial management is therefore concerned with the activities of corporation that affect the wellbeing of shareholders. That well being can be partially measured by the dividend received, but a more accurate measured is the market value of stock. By the dividend policy we mean some kind of consistent approach to the distribution versus retention decision rather than making the decision on the purely adhoc basis from period to period. (*Pearson, et.al, 1972:405*)

All aspects and question related to payment of dividend are contained in the dividend policy. It is a major decision of the firm under which it is determined that what percentage of the earnings of the firm is distributed to its shareholders and what of the earnings is retained in the firm which is desirous for the growth of the firm. It is therefore, a wise policy to maintain a balance

between shareholders interest with that of corporate growth from internally generated funds.

Banks play the very important role in the economic development of the country. Banks are the financial institution, which mobilizes idle savings of people into productive sectors. Banks help to connect the savers and users through the monetary resources. The money is carried from savers to users by banks. The idle savings of the people are transferred to the industries, trades and commerce. The savers are benefited in the form of interest. At the same time, trade commerce and industries are also benefited by money for business.

Capital market is place where financial aims and obligations are bought and sold that have maturity period more than one year. Nepalese capital market has not efficient communication network even today. In Nepal, Nepalese investors have heavily made investment of newly established companies especially in the financial sector. It is hoped that Nepalese capital market will be moving towards efficiently in the days to come. It has made capital market less efficient and efficiency in results the risk. Even though, it is hoped that Nepalese capital market will be moving towards efficiency in the days to come. In capital market all firms operate in order to generate earning, shareholders make investment in equity capital with expectation of making earning either directly in the form of dividend or indirectly in the form of capital gains in future. The sole objective of every business is maximizing the shareholders wealth. Financial management is the heart of management and the company makes the numbers of decisions smoothly. The common stock represents ownership in a company. The common stocks are the permanent and vital sources of capital since they do not have maturity date. For the capital contributed by the shareholders by punching common stock, they are entitled to dividends. The amount or rate of dividend fixed by the company's board of directors, most of investors are wise to invest their saving funds in stocks with the expectation of future cash inflow as dividend and maximization of value of their holding in

the market. The dividend and value of the firms are link with the earning power of the firm, which ultimately affects the market price of shares.

The concept of the banking has developed in England with the effort of ancient goldsmiths who possessed strongest safe values where valuable good such as gold, silver and diamonds could be kept safely. Depositors obtained receipts from goldsmith for their deposit. At that time, it was found that no deposited money was withdrawn at once. Hence, they started bending on interest to people. In this way bank was originated. The first modern banking institution was established in Venice in 1157 A.D. and spread all over world. In Nepal under the prime minister ship of Ranodeep Singh, “the Tejarath Adda” was established to give loan from there. The first banking institution was established in 1994 B.S. in the name of “The Nepal Bank Limited” under Nepal bank Act 1993.

Government permitted the establishment of joint venture banks in 1980’s. When three banks namely Nepal Grindlays bank Ltd., Nepal Arab Bank Ltd. and Nepal Indosuez bank Ltd (Now Nepal Investment Bank Ltd.) was established. Now Nepal has experienced the dramatic increase in Joint venture banks. Banks have attracted people to invest their money by providing various facilities. Many people and organizations are benefited through the commercial banks through loans provided for housing, vehicles; education etc. commercial banks have also attracted customers through their various saving schemes. Last but not the least; people invest in the banks for the dividend.

## **1.2 A Brief Profile of Sample Banks**

### **NABIL Bank Limited**

NABIL Bank Limited is the first foreign joint venture bank of Nepal, established in partnership with Dubai Bank Limited in Dubai and operations in 12 July 1984. The bank had initiated its business with authorized capital of Rs. 60 million and paid up capital of mere Rs. 30 million. NB International (foreign partner) holds 50% of share capital of the bank, NIDC holds 10%, Nepal Stock Exchange holds 0.33%, Rastriya Beema Sasthan holds 9.67% and the general public holds 30%. NABIL bank is one of the leading joint venture

banks of Nepal. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telebanking system.

### **Standard Chartered Bank Nepal Limited (SCBNL)**

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1600 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs around 70,000 people, representing over 125 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth, as the world increasingly becomes one market. With 17 points of representation, 21 ATMs across the

country and with more than 375 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal. Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Wholesale and Consumer banking, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, and government.

### **Everest Bank Limited (EBL)**

As a policy of Government to open the banking sector for private and foreign participation starting from mid eighties, Everest Bank Limited was established in 1993 under company Act 1964 with an objective of carrying out commercial banking activities under the commercial bank act 1974. United Bank of India Ltd under technical services agreement signed between it and Nepali promoters was managing the bank from the very beginning till November 1996. Later on, it handed over the management to Punjab National Bank Ltd, India. It was composed by which holds 20% equity on the bank's share capital, Nepalese promoters 50% and general public 30% hold the balance equity of the bank. The bank has got an authorized capital Rs 400,000,000 issued capital Rs 264,000,000 and paid up capital Rs 220,858,600. Presently the Bank has 35 branches. Head office is in Lazimpat. The main aim of EBL is to extend professional banking service to various section of the society and they are of contribution in the economic development of the country.

### **Nepal Industrial and Commercial (NIC) Bank Limited**

Nepal Industrial & Commercial (NIC) Bank Limited commenced its operation on 21 July 1998 from Biratnagar. The Bank was promoted by some of the prominent business houses of the country. The current shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public. NIC Bank has over 34,000 shareholders. The shares of

the Bank are actively traded in Nepal Stock Exchange with current market capitalization of about Rs. 10,493 million.

The Bank has grown rapidly with 24 branches throughout the country while several branches are planned to be opened this year. All branches are interconnected through V-Sat and are capable of providing real time on-line transactions. The Bank is the first commercial Bank in Nepal to have received ISO 9001:2000 certification for quality management system. Furthermore, NIC Bank became the first Bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted /confirmed by more than 200 banks worldwide. To add to these achievements, the Bank has also been awarded the "Bank of the Year 2007-Nepal" by the world-renowned financial publication of The Financial Times, U.K.-The Banker. This is the fruit of the Bank's outstanding performance backed by belief and support of its customers towards the Bank. The Bank is run by professionals and believes in the highest standards of corporate governance. The Board of Directors of the Bank is supported by a management team, which comprises of young, enthusiastic professionals. The Bank has successfully embarked on a multi-pronged strategy of consolidation, administrative streamlining, human resource up-skilling, strategic cost management, focused non-performing assets management, balance sheet and treasury management and controlled asset growth, in tandem with strengthening the credit culture as well as strategic marketing and sales.

### **Bank of Kathmandu Limited (BOK)**

Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks, which is entirely managed by Nepalese professionals and owned by the general public. BOK started its operation in 12 March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. The current shareholding pattern of the Bank constitutes the Nepalese promoters, general public hold

97.70% and financial institutions hold 2.07%, and some companies are holding 0.23%. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning. The few objectives of the bank are to contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas, to use the latest banking technology to provide better, reliable and efficient services at a reasonable cost, to facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies. To contribute to the overall social development of Nepal.

### **1.3 Statement of Problems**

Dividend decision is a crucial as well as controversial area of managerial finance. Corporate dividend policy is not clearly understood by a large segment of the financial community. Dividend, the most inspiring factor for the investment on shares of the company is thus desirable for the stockholders point of view. However, commercial bank in Nepal has no satisfactory result about dividend decision. Different government rules and regulations are the main factors that act and react in the banking operations. But there is no limit to the identification of the problem about dividend policy that is visible Nepalese commercial bank. While keeping this in mind selected problem of commercial bank with regard to dividend policy are taken.

There may be proper matching in dividend policy and earning in the banks. Earnings of the firms are taken financing source. When the firms retain its earning it will decreasing leverage ratio, expanding activities and increasing profit in succeeding years. Whereas, if the firm pays dividend, it may need to raise capital through capital market, which reduce ownership control of the existing shareholders. In this condition, the firm takes loan or raised debentures. It will affect on risk characteristics of the firm. In Nepal, there are few companies, specially joint venture banks have sufficient earning and are

capable to pay dividend. Besides, the above matter following are the problem of the study:

- What are the prevailing practices of the sample banks regarding their dividend policies?
- Are the sample banks able to pay appropriate dividend?
- What is the relationship between dividend with earning per share, market price of share, dividend payout ratio and net profit of the company?
- Is there any uniformity among the five banks in dividend distribution?

#### **1.4 Objectives of the Study**

The main objective of the dividend policy should be to maximize return on shareholders' equity. The aim of the study is to analysis and evaluate the application of dividend decision in the selected banks and the study focus on the prevalent dividend polices and to suggest the direction of future endeavor or share market in Nepal. Besides, that the overall objectives of the study are as follows:

- To examine whether, the commercial banks are following the suitable dividend policy or not.
- To analyze and evaluate the application of dividend decision in the selected banks.
- To analyze the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, DY, P/E ratio and net profit of sample banks.

#### **1.5 Significance of the Study**

Due to excess liquidity and lack of investment opportunities in the capital market, nowadays people are very much interested and attracted to invest in shares for getting higher returns. When any new company issues (floats) shares through capital markets, very big congregation gathers to apply for owner's certificate. It reveals that people have expectation on higher return for investing

in shares. Therefore, the dividend decision is one of the most important decisions of financial management. It is an effective tool (way) to attract new investors, maintain present investors and controlling position of the firm. Having lack of adequate knowledge, the people are haphazardly investing in shares. It shows that there is an extreme necessity to establish clear conception about the return that yields from investing in securities.

In the Nepalese perspective, we find that there exist almost none of the companies adopting consistent dividend policy. There may be many reasons behind it. But there is not sufficient study conducted in this regard. So, I have made this humble attempt to contribute to this aspect. Therefore, considering all these facts, the study is undertaken which will help to meet deficiency of the literature relating to dividend decision and factors affecting the dividend policy. So the study of dividend policy is of considerable importance.

I believe that so many persons and parties such as shareholders, management of banks, financial institutions, general public (depositors, prospective customers, investors etc.) and other policy making bodies which are concerned with banking business will be benefited from this study. It is also believed that it will provide valuable inputs for future research scholars.

### **1.6 Limitations of the Study**

Dividend is the most important topic in financial management. There are several aspects of decision that should be undertaken by financial manager to achieve the management goal. Area of financial management decision is dividend decision, investing decision and financing decision. Among these, three major decision part of managerial finance only dividend decision and its effect on market price of share. This study will interpret and analyzed practice of dividend decision and its relationship with earning per share, market price per share etc. This study is only a partial fulfillment of MBS program. Therefore, this study will limited by following factors:

- The study is mainly conducted on the secondary data. So the result depends on the reliability of secondary data.

- The data of only five fiscal years are taken for the studies.
- Only five banks are taken as sample for studies because of the time factor.
- Many factors affect the dividend decision and valuation of the firms. However, only those factors related to dividend would be considered in this study.

## **1.7 Organization of the Study**

This study comprises of five chapters. Given below are the headings under which the entire study has been categorized as follows:

### **Chapter-I : Introductions**

The first chapter deals with the subject matter consisting introduction, focus of the study, statement of the problem, objectives of the study, and significance of the study and chapter scheme of the study.

### **Chapter-II: Review of Literature**

The second chapter deals with review of literature that includes the conceptual framework, factors influencing dividend policy, review of major studies, review of journals and articles in Nepalese perspective and review of thesis.

### **Chapter-III: Research Methodology**

The third chapter describes research methodology employed in the study. It includes introduction, research design, and sources of data, population and sample, method of analysis, tools defined about certain financial indicators and statistical tools used.

#### **Chapter-IV : Presentation and Analysis of Data**

The fourth chapter deals with analysis of financial indicator variables, analysis of means, standard deviation, correlation matrix and simple regression analysis.

#### **Chapter-V : Summary, Conclusion and Recommendations:**

The fifth chapter consists of main findings, issues and gaps, future guidelines alongside summary, conclusion and recommendations. The bibliography and appendix are incorporate at the end of the study.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

The introduction part of this study has been presented in the first chapter. In this chapter, an attempt has been made to review the various relevant literatures in relation to support the study to receive some ideas for developing a research design. This chapter emphasizes on the literatures that are concerned with this connection. Therefore, in this chapter, conceptual frameworks given by different authors and intellectuals on this area, books, journals, research works, and previous thesis related to dividend and dividend policies and practices are reviewed. Moreover, rules regarding to dividend policy are reviewed and an attempt has been made to present them properly.

#### **2.1 Conceptual Framework**

##### **2.1.1 Dividend and Divined Policy**

In simple words, dividend refers to a portion of earning, which is distributed to shareholders in return of their investment in share capital. In other word, the process of paying at “what’s left” to shareholders is called dividend policy. Dividend policy of a firm is one of the third major decision making areas of financial management. It is regarded as a tool to determine the appropriate allocation of profits between dividend payments and the amount to be retained in the firm. It deals with how much should pay to shareholders from the earnings. Dividend payout reduces the amount of earnings retained in the business, which affects the internal financing of the firm.

"Dividend policy can be define as percentage of dividend (D/P ratio), should be one, which maximize the wealth of its owners in the “long run.” Dividend policy becomes a problem especially on public limited companies. A firm’s dividend policy has the effect of dividend, its net earnings in to two parts; retained earnings and dividend. The retained earning provides funds to finance the firm’s long-term growth. It is one of the most significant sources of financing for the firm in terms of raising funds to undertake investment. On the

other hand, dividends are desirable from the shareholders point of view, as it tends to increase their current wealth. Dividends are generally paid in cash. Therefore, the percentage of earnings is paid in cash to stockholders. Dividend payout of course reduces the amount of earnings retained in the firm and affect the firm is internal financing". (*Sharma, 2001:334*)

"Dividend policy involves the decision to payout verses retaining them for reinvestment in the firm. Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividends means higher the immediate cash flows to investors, which is good, but lower future growth which is bad. The dividend policy should be optimal which balances the opposing forces and maximizes stock price. Management should try to maintain regular dividend. For regular dividend, the firm will have sufficient earnings. Management will set a lower regular dividend rate than firms with the same average earnings but less volatility. Management may also declared extra dividends in years when earnings are high and funds are available". (*Thapa and Gautam, 2008:336*)

If the company pays the earning as a dividend, they are beneficial directly and if company retains in the business to finance the business opportunities they are benefited indirectly through the investment of market price of share i.e. capital gain. In both of the case, shareholders get benefit. But, how much should be retained in business in not a simple question. Since dividends would be more attractive to shareholder, one might not hesitate to say that dividends weight more than retention in the perception of the shareholders. But one might equally pressure that gross dividend would be reduced somewhat with an increase in net after tax dividend. Because tax dividend still a major decision of financial manager available to shareholders so it would be wise, policy to maintain balance between shareholders interest with that of corporate growth from initially generated fund. Therefore, in conclusion it can be said that dividend decision is a major decision of financial management.

Thus, this study aims to focus on all the relevant factors, prevailing practice and policies of selected banks regarding dividend, dividend policy and their payment.

### **2.1.2 Major Forms of Dividend**

Cash dividend is the most popular form of dividend. Bank and corporation need to follow various types of dividend in view of the objective and policies which they implement. “The type of dividend that bank and corporation follow is partly a matter of attitude of directors and partly a matter of a various circumstances and financial constraints that bound corporation dividend is being distributed in several forms, e.g. cash dividend, stock dividend, script dividend, property dividend and bond dividend.

Dividend is the periodic payment made to stockholders to compensate them for their wealth and investment funds. Dividends are pro-rata distributions to shareholders retained earnings. They can be in the form of cash, stock or property. Generally, corporation can only declare dividends out of earnings, although some states laws and corporate agreements permit to declaration of dividends from sources other than earnings. (*Hawkins; 1997: 650*).

**i. Cash Dividend:** Cash dividend is the dividend, which is distributed to the shareholders in cash out of earnings of the company. When cash dividend is distributed, both total assets and net worth of the company decrease as cash by the amount of cash dividend distributed.

**ii. Stock Dividend (Bonus Shares):** If additional shares are issued to existing shareholders instead of cash dividend is known as stock dividend. “A stock dividend simply is the payment of additional stock to stockholders nothing more than a recapitalization of the company; a stockholders proportional ownership remains unchanged.” (*Van Horne, 1998:334*).

It is also called bonus share. This has the effect of increasing the number of outstanding shares of the company. The declaration of the stock dividend will

increase the paid up share capital but reduces the reserves and surplus of the firm. It does not affect the ownership of the company.

**iii. Property Dividend:** If payments are made in the form of property or assets rather than cash, it is called property dividend. Whenever the firms have assets that are no necessary in the operations of the business, this method of paying dividend may be used. This method of paying dividend is rarely used.

**iv. Bond Dividend:** Bond dividend is a dividend that is distributed to the shareholders in form of bond. When the company generates more profit for a long time, it is better to issue bonds. These are given when the company firms unable to take the burden of interest of loan. In other words, corporation declares dividend in form of its own bond with a view to avoid cash outflows. If is issued for existing shareholders.

**v. Interim Dividend:** Generally, dividend is declared in the last of the financial year. This is called regular dividend. If dividend is declare before the end of the financial year that is called interim dividend.

**vi. Special Dividend:** When directors of the company do not want to change the dividend separately and the companies have good cash and reserves, this dividend but separately.

### **2.1.3 Theories of Dividend**

#### **a. Residual Theory of Dividend**

Residual dividend policy is based on the premise that investors prefer to have a firm retain and reinvest earnings rather than pay them out in dividends if the rate of return the firm can earn on reinvested earnings exceeds the rate of return investors can obtain for themselves on the other investments of comparable risk. This theory states that profit should be used first in all profitable investment plans, which reflect equal or higher rate of return. Further, it is less expensive for the firm to use retained earnings than is to issue new common stock.

Dividends= Net income  $\square$  (Target equity ratio $\times$  Total capital budget). (*Gautam and Thapa, 2008:9.1*)

#### **b. Stability of Dividend**

Stability or regularity of dividend is considered as a desirable policy by the management of most companies in practice. Stability of dividend refers to the amount paid out regularly. Though, amount of dividend may fluctuate from year to year and may not be related with earning. Shareholders also generally favor this policy and value stable dividends higher than fluctuating ones. All other things being the same, stable dividends have a positive impact on the market price of the share. (*Sharma, 2001:338-339*)

There are some reasons to believe that a stable dividend policy does lead to higher stock prices. First investors can be expected to value more highly dividends that they are surer of receiving since fluctuating dividends are riskier than stable ones. Accordingly, the same average amount of dividend received under a fluctuating dividend policy is likely to have a higher discount factor applied to it than is applied to dividends under a stable dividend policy. This means that a company with a stable dividend will behave a lower required rate of return or cost of equity capital than one whose dividend fluctuated. Second many stockholders live on income received in the form of dividends. These stockholders are greatly inconvenienced by fluctuating dividends and they will likely to pay a premium for a stock with a relatively assured minimum dollar dividend. These stockholders are greatly inconvenienced by fluctuating dividends and they will likely to pay a premium for a stock with a relatively assured minimum dollar dividend. Third from the stand point of both the corporation and its stockholder is the requirement of legal listing.

Even though most firms seem to have a policy of paying stable cash dividends, this is not the only policy. The three distinct forms of such stability of dividend payments are as follows:

**1) Constant Payout Ratio:** The ratio of dividend to earnings is known as payout ratio. Paying a fixed percentage of net earning every year is called constant payout ratio. With this policy, the amount of dividend will fluctuate in direct proportion to earning. It ensures that dividends are paid when profits are earned and avoided when it incurs losses. Management generally adopts this

type of policy since it is directly related to the company's ability to pay dividend.

**2) Stable Cash amount per share:** This payout scheme is called constant dividend per share or dividend rate. According to this policy, a company pays a fixed a rupee dividend in each period. This policy is generally preferred by those persons and institutions that depend upon the dividend income to meet their living and operating expenses. This policy does not imply that the dividend per share will never increase. When the company reaches new level of earnings and expects to maintain it, the annual dividends per share may be increased. It is easy to follow when earning is stable. If the earning pattern of a company shows wide fluctuations, it is difficult to maintain such policy.

**3) Low Regular Dividend plus extras dividend:** Low regular dividend per share plus extra dividend is a compromise between the first two. According to this policy, the low regular dividend can usually be maintained even when earnings decline and extra dividend can be paid when excess funds are available. It gives the firm flexibility but it leaves investors somewhat uncertain about what their dividend income will be. This policy may be the best policy, if the firm's earning is quite volatile.

#### **2.1.4 Forms of Dividends**

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

"The type of dividend that corporations follow is partly of a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plans and policies." (*Shrestha, 1980; 352*)

##### **a. Cash Dividend**

When a dividend is distributed in cash to the shareholder out of the company is called cash dividend. "When cash dividend is paid both the total assets and the

net worth of the company are reduced. The market price of the share drops in most cases by the amount of the cash dividend distributed." (Pandey, 1999; 782)

When cash dividend is paid the cash bank account and the total assets of the company is automatically reduced. So, the company needs to have enough cash and sufficient balance for the payment of cash dividend. If it does not have enough balance, arrangement should be made to borrow fund, which is difficult to company.

**b. Stock Dividend**

Distribution of additional shares to the existing shareholder as dividend is known as a stock dividend. This has the effect of increasing the number of outstanding shares of the company. The shares are distributed proportionately. Firms pay stock dividend as replacement for a supplement to cash dividend. The declaration of the stock dividends will increase the paid-up share capital and the reserves and surplus of the company.

**c. Property Dividend**

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

**d. Scrip Dividend**

That type of dividend, which is paid in promissory notes, is called scrip dividend. In this method of dividend, company issues and distribute to the shareholders transferable promissory notes which may interest be bearing or not. "Scrip dividends are those paid in the company's promises to pay instead of cash."(Encyclopedia America, 1997)

"Scrip dividends are justified only when the company has really earned profit and have only to wait for the conversion of other current assets into cash in the course of operation."(Gautam. 1998 ; 365)

**2.1.5 Factors affecting Dividend policy**

The financial manager must understand the various conflicting factors which influence the dividend policy before deciding allocation of its company's earnings to dividend and retained earnings. Many considerations that may affect a firm's decision its dividend are as follows. (*Sharma, 2001:336-337*)

**(i) Size of the earnings:** A firm that has high level of earning will generally pay a larger portion of its earnings in dividends. If the size of earnings is small, a smaller amount of the profits may be distributed to shareholders. Thus, size of earnings affects the dividend policy of the firm.

**(ii) Legal Rules:** The dividend policy of the firm has to evolve with the legal framework and restrictions. Certain legal rules may limit amount of dividends that a firm may pay. These legal constraints fall into categories. First statutory restrictions may prevent a company from paying dividends. While specific limitations vary by state, generally a company may not pay dividend.

a. If the firm's liabilities exceed its assets, this provision is known as "The Insolvency Rule".

b. If the amount of dividend exceeds the accumulated profits (retained earnings), this legal provision is known as "The Net Profit Rule" and

c. If dividend is proposed form capital invested in the firm. This provision is also known as "The Capital Impairment Rule".

The second type of legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts. Legal rules are significant in what they provide the framework within which dividend policies can be formulated.

**(iii) Liquidity position:** The cash or liquidity position of the firm influences its ability to pay dividend. A firm may have sufficient retained earnings, but if they are invested in fixed assets, cash may not be available to make dividend payment. Thus, the company must have adequate cash available as well as retained earnings to pay dividends. Greater the cash position and over all liquidity of a company shows its ability to pay dividend.

**(iv) Need to Repay Debt:** The need to repay debt also influences ability of cash flow to pay dividend. When a firm issues debt capital, it must be refunded

in maturity in order to retire debt, retention of earning is essential. So the dividend policy is affected by retained earnings.

**(v) Restriction on loan Agreement:** Restriction on loan agreement directly affects on dividend policy of a firm. Such restrictions are designed to protect the position of lender and preference shareholders. Restrictions on debt contracts may specify that dividend may be paid out of earning generated after signing the loan amount agreement and only when net working capital is above a specified amount certain amount of earning to reinvest as well.

**(vi) Rate of Assets Expansion:** The more rapidly a firm is growing greater its need for financing assets expansion. The greater the future need for fund, there is more likely to retain earnings rather than pay them out consequently shareholders will get minimum dividend.

**(vii) Profit Rate:** The rate of return on assets determines the relative attractiveness of paying out earning in the form of dividend to stockholder. If other things remain same high profit rates is the indicator of high dividend payout.

**(viii) Access to the Capital Market:** All firms do not have equal access to the capital market. A large well-established firm with record of profitability and stability of earning has easy access to capital markets and other forms of external financing. Easy accessibility to the capital market provides flexibility to the management in paying dividend as well as in meeting the corporate obligation. Thus, a fast growing firm having tight liquidity position will not face any difficulty in paying dividends if it has access to the capital market.

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

**(x) Tax Position of Stock Holder:** Because of difference among investors tax rate, certain investor preference for dividend versus capital gain have been observed in the market. Corporations owned by large taxpayers in high income

tax brackets tend toward lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

**(xi) Stability in Earning:** A firm that has a stable earnings trend will generally pay larger portion of its earnings as dividend. The unstable firm is not certain that in subsequent years the hoped for earning will be resized. Therefore, it is likely to retain a high proportion of current earnings.

**(xii) Desire of shareholders:** Shareholder may be interested either in dividend incomes or in capital gains. Wealthy shareholder in a high income tax bracket may be interested in capital gains as against current dividends. A retired and old person, whose source of income is dividend, would like to get regular dividend. In closely held company, management usually knows the desires of shareholders. Therefore, they can easily adopt a dividend policy that satisfies all shareholders. But in a widely held company, number of shareholders is very large and they have diverse desires regarding dividends and capital gains. Some shareholders want cash dividends, while other prefer bonus share.

### **2.1.6 Review of International studies**

The section is devoted to the review of the major studies in general concerning dividends. Therefore, now the researcher is going to review the various studies conducted in different places by the different experts and authors.

#### **Linter's study (1956)**

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

$$D^* t = P \cdot EPSt$$

$$D_t - D_{t-1} = a + b (D^* t - D_{t-1}) + e$$

Where,

$D^* t$  = Desired Dividend

$EPSt$  = Earnings per Share

$P$  = Targeted payout Ratio

a=Constant related to dividend growth

b=Adjustment factor relating to previous periods dividend and desired level of dividend ( $b > 1$ )

### **Major findings of the study are as follows**

Firm generally prefer desired proportion of earning to be paid as dividend. Investment opportunities are not considered for modifying the pattern of dividend behavior. Firms generally have target payout ratios in view while determining change in dividend per share.

### **Modigliani and Miller's Study (1961)**

The most comprehensive argument for the irrelevance of dividend has been made by Frano Modigliani and Metro-Miller in 1961 A.D. They argue that value of the firm depends on the income produced by this assists, not on how this income is split between dividends and retained earnings and here growth.

Professor Modigliani and Miller hold that investors are indifferent to dividend and capital gains so dividends have no effect on the wealth of stakeholders. According to them, it is the investment policy of the firm, which increases earnings of firm and there by value of the firm. The manner in which earnings are divided into dividends and retained earnings does not affect this value. The assumption made by them goes such. (*Gautam and Thapa, 2008:9.8-9.9*)

- a. Perfect capital market in which all investors are rational.
- b. An absence of flotation costs on securities issued by the firm.
- c. A world of no taxes.
- d. A given investment policy for the firm not subject to change.
- e. Perfect certainty by every investor as to future investments and profits of the firm. (MM drop this assumption later)

Modigliani and Miller provided following model to prove their theory. (*Niroala, 2003:25-26*)

Market value of share

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

Symbolically,

$$P_0 = \frac{D_1 + P_1}{1 + K_e} \dots\dots\dots(i)$$

Where,

P<sub>0</sub>= Market price of share at the beginning of the period.

D<sub>1</sub>=Dividend per share at the end of the period.

P<sub>1</sub>= Market price per share at the end of the period

K<sub>e</sub>=Cost of Equity capital

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

$$nP_0 = \frac{n(D_1 + P_1)}{1 + K_e} \dots\dots\dots(ii)$$

Where,

n=No of outstanding shares.

New shares

If retained earnings are not sufficient to finance the investment opportunities, issuing new shares is the other alternative. Assuming that *n* is the number of newly issued equity share at the price of P<sub>1</sub>, the value of firm at time 0 will be:

$$nP_1 = \frac{nD_1 + P_1(n + m) - mP_1}{1 + K_e} \dots\dots\dots(iii)$$

Where,

N=No. of shares at the beginning

M= No of shares issued at the end of the period.

Total number of shares

A firm can pay dividends and raise funds to undertake the optimum investment policy. If the firm finances all investment opportunities either by issue of new equity of retained earnings, the total number of new shares can be computed on the following way:

$$MP_1 = I - (E - n D_1) \dots\dots\dots(iv)$$

Where,

MP<sub>1</sub>= Amount obtained from the sale of new shares.

I = Amount required for new investment during the period.

E = Total earnings during the period.

$E - nD_1 =$  Total dividend paid.

Substituting the value of  $MPI$  of the equation (iv) to equation (iii) we get,

$$nP_0 = \frac{nP_1 + P_1(n + m) - I + E - nD_1}{1 + Ke}$$

A firm, which pays dividends, will have to raise funds externally to finance its investment plans. MM argues that dividend policy does not affect the wealth of shareholder, implies that when the firm pays dividends, its advantage is offset by external financing. This means that the terminal value of the share at the first period if the holding period is one year declines when the dividends are paid, the wealth of the shareholders- dividends + terminal price unchanged. As a result, the present value per share after dividend and external financing is equal to the present value per share before the payment of dividends. Thus, the shareholders are indifferent between payment of dividends and retention of earnings. (*Gautam and Thapa, 2008:9.8-9.9*)

#### **Gordon's Model (1962)**

Myron J. Gordon conducted a research in 1962 regarding the interesting approach relating the market value of the firm to dividend policy. He holds that investors have a strong preference for present dividends to future capital gains under the condition of uncertainty. This is relevant theory similar to the Walter's model. In this study, he explained, "the investors prefer present dividend rather than future capital gains." According to him, market value of a share is equal to the present value an infinite stream of dividends to be received by the shareholders.

**Gordon's model is based on the following assumptions. (Pandey, 1995; 745-746)**

1. The firm is an all-equity firm with the new investment proposals being financed solely by the retained earnings.
2. No external financing is available consequently; retained earnings would be used to finance any expansion.
3. The internal rate of return ( $r$ ) of the firm is constant. This ignores the diminishing marginal efficiency of investment.

4. The appropriate discount rate (k) for the firm remains constant. Thus Gordon's model also ignores the effect of a change in the firm's risk class and its effect on k.
5. The firm and its stream of earnings are perpetual.
6. The corporate taxes do not exist.
7. The retention ratio (b) once decided upon is constant. Thus the growth rate  $g = r$ , is constant forever.
8.  $K > br = g$ . If this condition is not fulfilled, we cannot get meaning value for the share.

According to Gordon's dividend capitalization model, the market value of the share is equal to the present value of an infinite stream of dividends to be received by the share.

Thus,

$$P_0 = \frac{P_1}{(1+K)} + \frac{P_2}{(1+K)^2} + \dots + \frac{P_n}{(1+K)^n}$$

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

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

Where,

P = Market price per share

EPS = Earning Per Share

b = Retention ratio

$K_e$  = Cost of capital

1-b = Payout Ratio

br = Growth rate

**According to this model following facts are revealed**

Growth Firm: In case of growth firm i.e.  $r > K_e$ , share price tends to decline in corresponding with increase in payout ratio or decrease in retention ratio i.e. b. Therefore, dividend and stock price are negatively correlated in growth firm.

Normal Firm: Firms having  $r = K_e$  are referred as normal firm. In case of normal firm share price, remain constant regardless of change in dividend policies.

Declining Firm: In case of declining firm i.e.  $r < K_e$ , show price tends to rise in correspondence with raise in dividend payout ratio. It shows that dividend and stock prices are positively correlated with each other in a decline firm.

In this way Walter's conclusion about dividend policy are similar to the conclusion of Gordon's model. This is due to similarities in assumptions, but the assumptions of this model are far from the reality. Therefore, their models are called relevance theory in the literature of finance.

### **Walter's Study (1963)**

Professor James E. Walter conducted a research in 1963 regarding dividend policies and a stock price argues that the choice of dividend affects the value of the firm. According to him, firm's cost of capital and internal rate of return are the determining factors that decide upon the dividend policy. The main point that he emphasized is that there is a significance relationship between the internal rate of investment project and market rate demanded by the investor. This study emphasized that dividend policy can be used to maximize the wealth position of stockholders. Walter's model is based on the following assumptions. (*Panday, 1975:741*)

1. The firm finances all investment through retained earnings. That is debt or new equity is not issued.
2. The firm's internal rate of return ( $r$ ) and cost of capital ( $k$ ) are constant.
3. All earnings are either distributed as dividends or reinvested internally immediately.
4. Beginning earnings and dividends never change. The values of the earnings per share (EPS) and dividend per share (DPS) may changed in the model to determine results, but any given values EPS and DPS are assumed to remain constant forever in determining a given values.

5. The firm has a very long or infinite life. Walter's formula for determining the

$$\begin{aligned} P &= \frac{DIV}{K} + \frac{r(EP\text{S} - DIV) / K}{K} \\ &= \frac{DIV + r(EP\text{S} - DIV) / K}{K} \end{aligned}$$

Here,

P = Market price per share.

DIV = Dividend per share

EP\text{S} = Earnings per share

R = Internal rate of return (average)

K = Cost of capital or Capitalization rate

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

**Growth Firms:** Firm having  $r > k$  may be referred as growth firm the optimum payout ratio for a growth firm is zero. The market value per share (P) increases as payout ratio declines when  $r > k$ .

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

**Declining Firms:** Firm having  $r < k$  may be referred as declining firm. The optimum payout ratio for a declining firm is 100%. Market value per share (P) increases as payout ratio increases when  $r < K$ .

Thus, according to Walter, when the firm is in growth stage, then dividends are negatively correlated with stock price. In the declining firm, dividends are positively correlated with stock price; there is no relationship between dividend and stock prices in the normal firm. Thus, dividend policy is a financing decision when dividend policy is treated as a financing decision the payment of cash dividend is a passive residual. (Solomon, Ezra: 1963, 139-140)

**Van Horne and Mc- Donald's study (1971)**

Van Horne and Mc-Donald conducted a more comprehensive study in dividend policy and new equity financing. The main objective of the study is to highlight the combined effect of dividend policy and new equality financing decision on the market value of the firm's common stocks. For the purpose of study two industries viz.86 electric utility firms included on the computing utility database and 39 firms in the electronics and their electric component industries listed on the computing industrial data tape in 1968 were selected. They employe-regression model for electric utilities and one regression model for electronic components industry. (*Chitrakar, 2004:23-24*)

First model was:

$$P_0 / E_0 = a_0 + a_1 (g) + a_2(D_0 / E_0) + a_3(lev) + u$$

Where,

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

G = Expected growth rate measured by the compound annual rate of growth per share for 1960 and through 1968

$D_0 / E_0$  = Dividend payout measured by cash dividend in 1968 dividend by earnings in 1968

Lev = Financial risk, measured by interest charges dividend by the difference of operating revenue and operating expenses.

u = error term

$$P_0 / E_0 = a_0 + a_1 (g) + a_2(D_0 / E_0) + a_3(lev) + a_4(Fa) + a_5(Fb) + a_6(Fc) + a_7(Fd) + u$$

Where,

Fa, Fb, Fc and Fd are dummy variables corresponding to "new issue ratio" (NIR).

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

Again, they tested the following equation for electronics components industry.

$$P_0 / E_0 = a_0 + a_1 (g) + a_2(D_0 / E_0) + a_3(\text{lev}) + a_4(\text{or}) + u$$

Where,

Lev = Financial leverage measured by long-term debt plus preferred stock dividend by net worth of the end of 1968.

Or = operating risk, measured by the standard error for the regression of operating earnings per share on time for 1960 through 1968 and rest are as in first model above. By using different methodology, they compared the results obtained for firms, which both pay dividends and engage in new equity financing with other firms in an industry sample. They concluded that for electric utility firm in 1968, share value is not adversely affected by the new equity financing in the presence of cash dividend, except for those firms in the highest new issue group and it makes new equity a more costly form of financing than the retention of earnings.

### **Deepak Chawla and G. Srinivasan's study (1987)**

Chawla and Srinivasan studied the impact of dividend and retention on share price. They took 18 chemical and 13 sugar companies and estimated cross section relationship for the year 1969 and 1973. The required were collected from the official directory of Bombay stock exchange. The basic objectives of the study were. (chawla and Srinivasan, 1984, 137-140)

- To estimate a model to explain share price, dividend and retained earning relationship.
- To test the divided, retained earning hypothesis.
- To examine the structural changes in the estimated relations overtime.

1. Price function,

$$P_t = [D_t \cdot R_t \cdot (P/E)_{t-1}]$$

2. Dividend supply function

$$D_t = [E_t, D_{t-1}, (P/E)_{t-1}]$$

3. Identify

$$E_t = D_t + R_t$$

Where,

P = Market price per share

D = Dividend per share.

R= retained earnings per share

E=Earning per share

P/E=Deviation from the sample average of price earnings ratio

t = Subscript for time

They use two-stage least square technique of estimation and in case of chemical industry they found the estimated, co-efficient had the correct sign and co-coefficient of determination of all the equations was very high. It implies that the stock price and dividend supply variation can be explained by their independent variables. However, in case of sugar industry, they found sign for retained earnings in negative. Finally, they concluded that dividend hypothesis holds well in the chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry.

## **2.2 Rules Regarding Dividend Practices**

There is nothing stated in Nepal company Act 2021 regarding dividend practice. According to the security exchange Act 1983, Nepal stock exchange limited is the single body to safe guard the investor's interest. But this organization is not so able to safe guard the investor's interest since interest and attitude of board of directors play dominant role in management of public limited companies and they are generally in majority who are nominated of public limited companies. And they are generally in majority who are nominated by government in 1997, Nepal company Act 2001 has been amended company ordinance 2005 has made some legal provision for dividend payment; these provision are as follows:

**Section 179 (1):** Bonus shares may be issued by a company to its shareholders out of the amount available for the distribution of this affect in the general meeting.

**Sub-section (2):** The Company shall inform the office before issuing bonus shares under sub-section (1).

**Section 182 (1):** Except in the following circumstances the dividend shall be distributed to the shareholders within 45 days from the date of resolution approving the payment of dividend.

- a. If any law has prohibited the disbursement of dividends.
- b. If the right to receive the dividend is subject to any dispute.
- c. If the dividends cannot be disbursed within the said period due to any event beyond the control of the company or any other reason.

**Sub-section (2):** A company wholly or partially owned His Majesty's Government shall distribute dividend only with prior approval of His Majesty's Government and His Majesty's Government may issue necessary directives in relation to distribution of such dividend.

**Sub-section (3):** If dividend is not paid within the period stipulated in sub section (1) the same shall be paid together with interest at the rate as prescribed.

**Sub-section (4):** The shareholder in whose name share is registered in the shareholder at time of declaration of the dividend or his successor shall be entitled for the payment of the dividend.

**Sub-section (5):** A company shall not pay or distribute dividend except from profits allocated for the purpose.

**Sub-section (6):** A company shall eliminate pre-incorporation expenses, deduct the amount of depreciation as per the accounting standard prescribed by the competent authority under the law in force and allocate any amount to be allocated or paid out of profit. Under the law in force and eliminate the accumulated loss in the preceding years before the payment or distribution of dividend out of the profit in a particular year to certain reserves fund under the law in force, dividend shall not be distributed, unless such amount is transferred to reserve fund.

**Sub-section (7):** Subject to the provisions made in this section that the board of directors of company may distribute interim dividend out of the profit of previous years in the following conditions:-

a. If there is provision in the articles of association on the distribution of interim dividend.

b. If the board directors has approved the annual financial statement certified by the auditor for the relevant financial years on which interim dividend shall be distributed out of the net profit.

**Sub-section (8):** A company shall not make payment or distribute any benefit in cash or other to its shareholders except in the form of dividend approved by the general meeting.

**Sub-section (9):** The dividend, which remains unclaimed for more than five years after its declaration shall be transferred to investor's protection fund established under section 183.

**Sub-section (10):** The company shall while unclaimed dividend pursuant to subsection( 9) in the fund established under section 183, published a notice in a national daily newspaper giving at least one month notice to collect the unclaimed dividend at least one month to the expiry of period as mentioned in sub-section (9):

**Sub-section (11):** The Company shall create a separate account for depositing the amount of dividend with in forty-five days of its deceleration, shall distribute the dividend form such account, and shall not utilize such amount for any other purpose.

### **2.3 Review of Journals and Articles**

In this regard, there are very few articles published in Nepal under this subsection. The two major studies are review as follows:

**Shrestha(1981)** in his published article, "*Public Enterprises: Have they Divided Paying Ability?*" gives short glimpse of the dividend performance of some public enterprise of that time in Nepal.

Dr. Shrestha has highlighted following issues in his article:

- Government expects two things from the public enterprises:(i) They should be in a position to pay minimum dividend and (ii) The public enterprises should be self supporting in financial matters in future years

to come but none of these two objectives are achieved by the public enterprises.

- One reason for this efficiency is caused by excessive government interference in day-to-day affairs. On the other hand, high-ranking officials of government appointed as directors of Board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and led corporations to face losses. Losing corporations are therefore not in position to pay dividend to government.
- Another reason is the lack of self-criticism and self-consciousness. The lack of favorable leaders is one of the biggest constraints to institution building moreover corporate leadership comes managers of corporations have not been able to identify themselves regarding what they can contribute as manager of corporations. Therefore, HMG must be in a position to drop a financial target in corporate investment by imposing financial obligation.
- The article points out the irony of government biasness that government has not allowed banks to follow an independent dividend policy and government is focused to have pressurized on dividend payment in case of Nepal Bank Ltd, regardless of profit. However, it has let off Rastrya Bajijya Bank from dividend obligation in spite of considerable profit.

**The improvements suggested are as follows:**

1. Adopt a criteria-guided policy to drain resources from corporations through the medium of dividend payment.
2. Realization by managers about the cost of equity and dividend obligations. If HMG wants to tap resources through dividend the following criteria should be followed.
3. Circulating the information to all the public enterprises about the minimum rate of dividend.
4. Proper evaluation of public enterprises in terms of capability of paying dividend should be made through corporation coordination committee.

5. Imposition of fixed rate of dividend by government to financially sound public enterprises.
6. Specifying performance criteria such as profit target in terms of emphasis, priorities, timing and plans. Developing a strategic plan, this is not just a statement of corporation aspiration but must be done to convert the aspiration into reality.
7. Identification of corporation objectives in corporation Act, company Act or special character to clarify the public enterprise managers regarding their financial obligation to dividend to government.

**Pradhan** (1993) in his published article “*Stock Market Behavior in a Small Capital Market*”, a case study of Nepal was based on the data collected from 17 enterprises form 1986-1990.

**The followings were objectives of the study:-**

- To assess the stock market behavior in Nepal.
- To examine the relationship of market equity. Market value of book value, price earnings and dividend with liquidity, profitability, leverage, assets turnover and interest coverage.

The employed equation was:

$$V=b_0+b_1LIQ+b_2LEV+b_3EARN+b_4TURN+b_5COV+U_1$$

Where,

**The dependent variable V chosen for the study has been specified as under:-**

- Market equity (ME)-Market Value of equity to its book value (MV/BV)
- Price Earnings ratio (P/E)
- Dividend per share to market price per share (DPS/MPS)
- Dividend per share to earnings per share (DPS/EPS)

LIQ = Current Ratio (CR) or Quick Ratio (QR)

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

(LTD/TC)

EARN = Return on assets that is earning before tax to total assets (EBT/TA) or earning before tax to net worth (EBT/NW)

TURN = Fixed assets turnover that is sales to average fixed assets (S/FA) or total assets turnover that is sales to average total assets (S/TA)

COV = Interest coverage ratio that is earning before tax to interest.

U1 = Error term.

**Some findings of his study among others were as follows:**

- Higher the earnings on stocks, larger the ratio of dividend per share to market price per share.
- Dividend per share and market price per share was positively correlated.
- Positive relationship between the dividend per share to market price per share and inters coverage.
- Positive relationship between dividend payout and liquidity.
- Positive relationship between dividend payout and profitability.
- Positive relationship between dividend payout and turn over ratios.
- Positive relationship between dividend payout and interest coverage.
- Liquidity and leverage ratios are more variable for the stock paying lower dividend.
- Earning, assets turnover and interest coverage are more variable for the stock paying higher dividends.

**Manandhar** (2001) in his published research work of “*Bonus Share and Dividend Changes Empirical Analysis in Nepalese Context*”. The analysis covers 35 observations per bonus-divided rate and 29 samples of the Nepalese corporate firms selected from the listed corporate firms in NEPSE. The sample corporate firms include five from banking, three from insurance and finance company and four from manufacturing, trading and airlines.

This study is made to analyze the actual dividends behavior of Nepalese corporate firms after an issue of bonus share. Moreover, there some specific research questions.

- Is quantum of the dividends increase directly related to ratio of bonus issue?
- Is there may any association between dividend rate and bonus issue?
- Does the dividend announcement of the management indicate its intention of increasing future dividend?
- The announcement of bonus share issue has a significant impact in market price of share which ultimately the wealth of the stockholders.
- In over all, corporate management have not found considering its effect on dividend distribution in future as reflected by absence of the systematic playing practice before and after bonus share issue.
- There is no systematic policy of dividend distribution after the issue.
- There is diversity in the increase in dividend rate and the total dividend payment after bonus issue. Which means dividend increase does not follow the bonus share issues in Nepalese corporate firm's dividend behavior.
- The relationship between existing dividend and various ranges of bonus share issue ratio is not found significant in Nepalese corporate firms.

### **2.3.1 Review of Thesis**

Prior to this thesis some students have conducted several thesis work out of them some studies are supported to be relevant for this study have been reviewed in this section.

**Rajbhandari** (2001) conducted a study on *"Dividend Policy: Comparatives Study Between Banks and Insurance Companies."* This study takes in to consideration data of only five years from 1994/95 through 1998/99 six companies are taken as sample. The objectives of her study are:

- To examine the relationship between dividend and market price of the stock.
- To identify appropriate dividend policy followed by the banks and insurance companies.
- To analyze the relationship between dividend policy decision of banks and insurance companies.

This studies found that:

- There is no consistency in dividend payment is found in all sample institutions i.e. NGBL, NIBL, NABIL and EIC which seems to be paying average DPS Rs. 20 every year.
- None of the six samples institution has as clearly defined and appropriate dividend policy.
- The institutions do not seem to follow the optimal dividend policy of paying regular dividend as per the shareholder's expectation and interest.

**Katawal** (2001) conducted a study titled “*A Comparative Study Of Dividend Policy in Commercial Bank*” The main objectives of this study are:

- To study the current practices of dividend policy in commercial banks.
- To find out the impact of dividends on share prices.
- To analyzed the relationship of financials indicators.
- To examined if, there is any uniformity among DPS, EPS and DPR on the six sample banks.

The methodology used in the study includes financial tools such as ratio analysis and statistical tools such as correlation co-efficient and probable error. Secondary data are used for the analysis.

The major findings of this study are:

- Average EPS and DPS for the period covered by the study of all concerned banks are satisfactory.
- Analysis of coefficient of variance indicates that there is large fluctuation in EPS and DPS and other are relatively more consistent.
- The analysis of DPR shows that none of the sample banks has consistent dividend policy.
- The market value of shares in market in fluctuating in all sample banks.

- The most important decision is that no specific dividend payment strategy is followed by these banks. Payment of cash dividend and stock dividend are made without wise managerial decision due to unstable and adequate dividend and unequal payout ratio.

**Bhattarai** (2002) prepared a thesis, entitled on "*Dividend Policy and its Impact on Market Price of Stock*" with the data taken from two commercial banks and two insurance companies in 2002. This study analyzed the data of five years from 1995 -2000 using simple and multiple regression equations. The major findings of the study are as follows:

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

**Thapa** (2003) conducted a study on "*Dividend Policy and Practices, a Comparative Study Between Banks and Insurance Companies in Nepal.*" The data are collected from 1996/97 to 2000/01 of three Banks (NIBL, companies (united insurance company, Everest insurance company and premier insurance company),

The objectives of this study are:

- To study the current practices of dividend policy in joint venture commercial banks and insurance companies.
- To examine the relationship between dividend and mark price of the stock.
- To analyzed the relationship of financial indicators e.g. DPS, EPS, DPR and P/E ratio.

- To analyze the relationship between dividend policy decision of banks and insurance companies.

The analysis is done on the basis of different financial tools, simple regression and correlation analysis. This study found that:

- Amount the major decision of finance, then majority of respondents give the first importance in investing decision, second in financing and finally gave least importance for dividend decision.
- With respect to factors affecting dividend policy of banks and insurance companies of Nepal, most of the respondents gave first priority to current earning, second priority to liquidity and last priority to past dividend.
- The banks and insurance companies are adopting not a fixed and single policy.
- Majority of the company paid the cash dividend.

**Shrestha** (2004) conducted a study titled "*Dividend Policy and its Impact on Stock Price, an Empirical Analysis on Joint Venture Banks of Nepal*". The data are collected for the year 1998/1999 to 2002/2003 in case of Nabil Bank, Standard Chartered Bank Nepal Ltd, Himalayan Bank Ltd and Nepal Investment Bank Ltd.

The objectives of which are as under:

- To examine and evaluate the dividend policy and its impact on stock price of joint venture banks of Nepal.
- To study dividend procedure followed by the joint venture banks in the context of Nepal.
- To find out the relationship of dividend with EPS, MPS, P/E ratio, D/P ratio of sample firm.

This study found that:

- There is not any consistency in dividend policy in the sample banks.
- The MPS is affected by the financial position and the dividend paid by the bank. In this regard, the MPS of the sample banks are seen if be fluctuated.

- Most of the Nepalese banks from the very past have not profit planning and investment strategy which was imbalanced the whole position of the banks.
- All the D/P ratio of the sample banks in many years are founds more than the popular practice.

**Bhadari** (2005) conducted a study on "*Dividend policy and its Impact on Shareholder's Return & Stock Price in Nepal*" which has covered the period of 1999 to 2004 with the total observation of three banks and three finance companies.

The main objectives of study are:

- To study the current practices of dividend policy in joint venture commercial banks and insurance companies.
- To examine the degree of relationship between the individual securities returns and market return.
- To examine the relationship between lagged dividend and market price of the stock.
- To provide some suggestions for the improvement of sample companies' dividend policy based on finding.

The main conclusions of this study are:

- All the insurance companies have same range of dividend per share during the study period. Moreover, they had not paid dividend for the year ended 2002/03 because of the direction received from Insurance committee about their extended paid up capital.
- The trends of dividend distribution performance of all selected companies have been decreasing.
- There is a volatile practice about distribution of dividend in Nepalese listed companies. They are not adopting a fixed or defined dividend policy.
- Earning position positively related to the dividend decision.
- Liquidity position does not have same impact on dividend decision for all companies.

- The relationship between individual securities return and market return is positive but nominal in Banking and Insurance.

**Dongol** (2006) conducted a study title "*Impact of Dividend Policy on Market Price of Stock.*"

The main objectives of his study are:

- To find out the impact of dividend policy on market prices of stocks.
- To find out if there is any uniformity in DPS, MPS, EPS and DPR of the sample firms.
- To study the prevailing policies and practices regarding dividend in Nepalese firms with reference to the sample firms.
- To find the major factors affective dividend policy of the firm.

This study found that

- EPS of all the sample banks are fluctuating form year to year.
- None of the sample firms have exactly increasing or decreasing trend of MPS throughout the study period.
- The concern about maintaining or increasing the stock price 0 level also influences the dividend policy of the firm and hence that may make impact upon market price of stock.

**Shrestha** (2007) in his research work entitled "*An Analytical Study of Dividend Policy and Practices of Major Joint Venture Banks in Nepal*" The main objectives of this study are:

- To highlight dividend practices of the joint venture banks.
- To analyze the relationship between dividends per share, other financial indicators such as earning per share, P/E ratio, market price of stock and net worth etc.
- To examine whether or not dividend influences share price of the three joint venture commercial banks.

This study concluded that

- There is no individual relationship exit between dividends per share to stock price.

- The correlation between them is also weak and dividend does not directly influence the market price.
- It is expected that the performance of the banking sector will be growing further in the future due to low interest on the deposits.

**Maharjan** (2008) conducted a thesis entitled on “*Dividend Policy of Listed Commercial Banks*” which was presented by Maharjan with the data taken from commercial banks in 2008. This study analyzed the data of five years and concluded as:

- Almost all banks have increasing EPS except NBBL and SCBNL has the highest average EPS and lowest variation in EPS during the review period.
- SCBNL has the highest amount of dividend paid per share while NBBL has paid the least amount. NABIL bank has continuously paid the dividend in the five-year study period while in the case of other banks, there is irregularity in paying dividends.

**Raya** (2008) presented an MBS thesis entitled “*The Study of Dividend Policy of the Commercial Banks in Nepal*”. The main objectives of the study are as follows:

- To study whether, the commercial banks are following the suitable dividend policy or not.
- To compare the dividend policy followed by different commercial banks.
- To study the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, net worth, net profit and book value of share.
- To provide some fruitful suggestion to the sample banks regarding their dividend policy, so that they can follow the better policy if the existing policy is not fruitful enough.

This study concludes that:

- There is a lack of rules and regulations that bind companies to pay dividend every year. Not only the companies do not have dividend

policy but also the government does not have any clear policy towards dividend.

- There seems instability of dividend and inconsistency in dividend payout ratio of the banks.
- Every year EPS and MPS are highly fluctuation. The CV of EPS has ranged from 8.55 to 53.08 percent. Similarly, market prices per share are also fluctuating. This short of fluctuation causes not to win public faith.
- The average dividend yield of banks has ranged from 1.051 percent to 4.59 percent. The highest percent of 4.59 % is also cannot be considered so encouraging figure.
- Shareholders in Nepal are not conscious. Taking the advantage of unconscious shareholders, the company management does not show the commitment promised in prospectors while raising capital. Promoter lures investors mentioning to pay attractive dividends, when company makes profit. However, in reality, most of the companies are deviated from their statement as promise in prospectus.
- Government does not have any clear policies towards dividend and to improve the efficiency of the companies. The number of companies cannot earn enough profit and bureaucrats accused the cause of inefficiency to managers, which is not sound.

**Kafle** (2009) presented thesis entitled on “*Dividend Policy of Commercial Banks in Nepal with special reference to HBL, EBL and NIBL*”. The main objectives of this study are as follows:

- To study dividend procedure followed by the sample banks.
- To identify whether, DPS affected by EPS per share in sample banks.
- To identify price earnings ratio, market value per share to book value per share, Dividend yield ratio of sample banks.
- To analyze the relationship between dividend per share with various important variables such as, earning per share, net profit, net worth and Book value per shares.

- To analysis significant difference in EPS, DPS, PM and NW of HBL, EBL and NIBL.

This study concludes that:

- In HBL DPS trend is increasing even in fiscal year 2007/08, when EPS is decreased, In EBL EPS is in increasing trend, DPS is also in increasing trend expect fiscal year 2007/08.
- In NIBL EPS and DPS both trend is fluctuating. The implications of fluctuating earning per share and dividend per share could not make clear to the public.
- MPS is much higher than net worth per share in the case of EBL. This indicates that the investors either have a very optimistic view on the future performance of the companies or that they are not investigating the performance indicators of the companies in which they are investing properly.
- Dividend per share is positively correlated with earning per share, net profit, market price per share and net worth in case of HBL, EBL and NIBL. It means higher the earning per share, net profit, market price per share and net worth, higher will be the dividend per share and vice-versa.
- The test of hypothesis carried out shows out that there is no significant difference between DPS, EPS, MPS and NW of all three commercial banks.

**Tamang** (2010) presented thesis entitled on “*Dividend Policy of Commercial Banks (With Respect to NIC, NABIL and BOK)*”. The main objectives of this study are as follows:

- To analyzed the prevailing dividend practices of sample banks.
- To analyze and evaluate the application of dividend decision in the selected banks.
- To analyze the relationship of dividend with earning per share, net worth, net profit, market price and book value per share.
- To provide useful suggestions for further improvements.

This study concludes that:

- There is lack of rules and regulations that bind companies to pay dividend every year. Not only the companies do not have dividend policy but also the government does not have any clear policy towards dividend.
- Dividend payout ratio does not show any stability and co-ordination with other variables. These banks do not have any strategic dividend policy.
- There seems instability and consistency in dividend payment by the banks.
- Every year EPS and MPS seem highly fluctuating. The CV of EPS has ranged from 14.21 to 28.33 percent. Similarly, market prices per share are also fluctuating. These short of fluctuation cause no faith from public towards the companies.
- Shareholders in Nepal are not conscious. Taking the advantage of unconscious shareholders, the company management does not show the commitment promised in prospectors" while raising capital. Promoters lure investor mentioning to pay attractive dividends, when company makes profit. However, in reality, most of the companies are deviated from their statement as promised in prospectus.
- Government does not have any clear policy towards dividend and to improve the efficiency of the companies. The number of companies cannot earn enough profit and bureaucrats accused the cause of the efficiency to managers, which is not sound.

**Adhikari** (2011) in his study "*On Corporate Dividend Practice in Nepal*" has the followings objectives:

1. To identify the dividend paid system
2. To examine the condition of corporate dividend declaration policy.
3. To analysis, the Market share in relationship with dividend.

His major study results are:

1. Other things remaining the same, financial position of high dividend paying companies are comparatively better than of two dividends paying companies.
2. Market price of share is affected by dividend.
3. Financial executives of Nepal reject dividend as a residual decision in Nepalese companies.

**Dhungel** (2012) presented thesis entitled on “*A Study on Dividend Policy of Everest Bank Limited and Bank of Kathmandu Limited*” with the data taken from commercial banks in the year 2006/07 to 2010/11. The main objectives of this study are as follows:

- To identify what type of dividend policy is being followed and whether or not they followed policy is appropriate in Bank of Kathmandu and Everest Bank Limited
- To highlight dividend practices of the Bank of Kathmandu and Everest Bank Limited.
- To analyze the relationship between dividend per share with various important variables such as earning per share, net profit, net worth and stock prices.
- To provide a practical suggestion and possible guidelines to overcome various issues and gapes based on the findings of the analysis.

This study concludes that:

- EBL has higher earning capacity than BOK and paying more dividends in Rupees than that of BOK.
- On the basis of DPR, it can be considered that BOK is paying higher portion of its earning as dividend since the average DPR of BOK is higher than that of EBL.
- Average dividend yield indicates that BOK is providing more percentage of its market value per share than EBL.

- Average earning yield ratio of BOK is greater than that of EBL, which means BOK is more efficient to generate earning on the basis of market price.
- Average market value per share to book value per share of EBL is greater than that of BOK. Therefore, there is greater chance of higher capital gain to the shareholders of EBL.
- EBL remained more successful than BOK in satisfying its shareholder through distributing cash and bonus share dividend, generating higher amount of earning per share, maintaining higher market value of its share.
- BOK remained more generous in distributing dividend by providing high dividend payout ratio and keeping good relationship between DPS, EPS and MPS.

### **Research Gap**

There have been many national and international studies in the field of dividend policy to date. Not all concepts and practices of foreign authors' model about dividend practices are use in our Nepalese dividend policy. Those studies have tried to find out the relationship between dividend policy and market price of the stock. However, as the Nepalese capital market is in the early stage of development, the conclusion made by the international studies may not be relevant in the Nepalese context. So it is recommended to devote some efforts and think foreign model dividend practices in Nepalese dividend Policy.

So far the Nepalese studies are concerned some studies like Pradhan's, Manandhar is which can be considered as landmark in the field of dividend policy. However, many more changes have taken place in Nepalese capital market in last few years. Therefore, it is necessary to carry out a fresh study related to dividend policy of commercial banks of Nepal. This is distinct study form previous studies in terms of sample size, nature of the sample firms and methodology used. The study has covered only five commercial banks. Latest five years data have been analyzed with due consideration of EPS, DPS, DPR,

MPS, P/E ratio and DY. Taking in mind for more elaborate and extensive analysis has been made. In order to assess the impact of dividend on market price of share available information from concerned banks were reviewed and analyzed. Regression analysis has been done assuming market price of share as dependent variable and other variables like DPS, EPS and D/P ratio as independent variable. At last testing of hypothesis has been done. Therefore, it is believed that this study is quite different.

## **CHAPTER –III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter is related to the RM employed in the entire aspect of the study. Research methodology refers to the various sequential steps to be adopted by the researchers in studying the problem with certain objectives in views. It is the process of arriving to the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of the fact and figures. It consists of research design, population and sampled source of data, data processing procedure and tools and techniques of data analysis.

#### **3.2 Research Design**

Research Design is plan structure and strategy of investigation conceived to obtain answer to research questions and to control variances (Kothari, 1994:43). Research design is plan for collection and analysis of data. It represents a series of guideposts enable the researcher to progress in the right direction in order to achieve the goal. The purpose of design is to provide answer to research questions and control variance. Some financial and statically tools will be used to examine the facts and descriptive techniques to evaluate the dividend policy of five sample banks and comparing between

themselves. This study aims to find out the relation of dividend policy of five samples companies.

Descriptive research is a fact-finding operation searching for adequate information. It is a type of study, which is generally conducted to assess the opinions, behaviors or characteristics of given population and to describe the situation and events occurring at present. Descriptive research is a process of accumulating facts. Descriptive research studies involve the systematic collection and presentation of data to give a clear picture of particular situation. These studies attempt to obtain a complete and accurate description of a situation.

### **3.3 Population and Sample**

There are 32 commercial banks whose shares are traded actively in stock market. Which are consider the population of the study, but it is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting from population.

All commercial banks are taken as the population where as five commercial banks will be the sample because the financial performance and popularity of these banks are good in the Nepalese financial market. The samples are as follows:

- NABIL Bank Limited.
- Standard Chartered Bank Nepal Limited.
- Everest Bank Limited.
- Nepal Industrial and Commercial Bank Limited.
- Bank of Kathmandu Limited.

### **3.4 Nature and Sources of Data**

The study is mainly based on secondary data. Data relating to Dividend policy of these three banks are directly obtained from concerned banks. Mainly the

study is conducted on the basis of secondary data. The supplementary data and information are obtained from annual report and website of NEPSE, SEBON. Other information sources have been tapped from number of institutions and regulating authorities like Rastra Bank, Security Exchange Board, Ministry of Finance and National Planning commission etc Besides the data have been acquired from the various sources like,

- Annual reports
- [www.nepalstock.com](http://www.nepalstock.com)
- Nepal Stock Exchange Limited
- Security Board of Nepal
- Concerned banks

### **3.5 Data Processing Procedure**

The data analysis tools are applied as simple as possible. Data obtained from the various sources cannot directly be used in their original form. They need to further verified and simplified for the purpose of analysis. Data, information, figures and facts so obtained need to be checked, rechecked, edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful Tables, which have been shown in appendices. Homogeneous data have been sorted in one Table and similarly various Tables have been prepared in understandable manner, odd data are excluded from the Table. Data have been analyzed and interpreted using financial and statistical tools. The detail calculations that cannot be shown in the body part of the report are presented in appendices at the end of the report.

### **3.6 Method of Analysis**

Various financial and statistical tools have been used in this study. The analysis of data will be done according to pattern of data available. Financial tools and

simple regression analysis are used in the analysis. The relationship between different variables related to study topic would be drawn out using financial and statistical tools. The various calculated results obtained through financial and statistical tools are tabulated under different headings; they are compared with each other to interpret the result.

### **3.6.1 Financial Tools**

#### **a) Earning per share (EPS)**

EPS calculations made over the years indicate whether the banks earning power on per share basis have changed over the period or not. EPS is calculated by dividing the net profit after taxes by the total no. of the common shares outstanding.

$$EPS = \frac{\text{Net profit after taxes}}{\text{No. of common shares outstanding}}$$

#### **b) Dividend Per share (DPS)**

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

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

#### **c) Dividend payout Ratio (DPR)**

This shows that what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for growth of the banks. It is calculate by the dividing the DPS by the EPS.

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

#### **d) Market Price of Share (MPS)**

MPS is that value of stock, which can be obtained by a firm from the market. Market value per share is one of the variables, which is affected by the dividend per share and earnings per share of the firm. If the earnings per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing its earning power will be greater than cost of capital. For such firms market value of share will be higher than the book value. If the firm's earning capacity is lower than the cost of capital the MPS will be lower than the book value.

#### **e) Price Earnings Ratio (P/E ratio)**

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

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

#### **f) Dividend yield (DY)**

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

$$\text{Dividend Yield} = \frac{\text{Dividend Per Share (DPS)}}{\text{Market Value Per Share (MVPS)}}$$

### **3.6.2 Statistical Tools Used**

Statistics (as used in sense of data) are numerical statement of facts capable of analysis and interpretation and the science of statistics is a study of the principles and method used in collection, presentation analysis and interpretation of numerical data in any sphere of inquiry. (Elhance, 1994:16) in

the present study, following statistical tools have been used to draw one meaningful conclusion.

**a. Mean or Average ( $\bar{X}$ )**

An average is value, which represents a group of values. It shows the characteristics of the whole group. Generally the average value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is also known as simple average.

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

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

**b) Standard Deviation ( $\sigma$ )**

Karl Pearson introduced the standard deviations concept in 1823. It is by far most important and widely used measure of studying dispersion. Standard deviation is also known as root mean square deviation for the reason that is the square root means of the square deviations from the arithmetic mean, which is denoted by the small Greek letter sigma. "The standard deviation measures the absolute dispersion or variability of the distribution; for the greater the amount of dispersion or variability the greater the standard deviations, for the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as Homogeneity of a series; a large standard deviation means just the opposite." (Gupta; 1991) In this, standard deviation is calculated for selected dependent and independent variables specified in the model presented above.

$$Standard\ deviation(\sigma_x) = \sqrt{\frac{\sum x^2}{n} - \left[\frac{\sum x}{n}\right]^2}$$

$$Standard\ deviation(\sigma_y) = \sqrt{\frac{\sum y^2}{n} - \left[\frac{\sum y}{n}\right]^2}$$

### c) Coefficient of variation (C.V)

It is the measurement of the relative dispersion by Karl Pearson. It is used to compare the variability of two or more series. The series with higher coefficient of variation is said to be more variable, less consistent, less uniform, less stable and less homogeneous. On the contrary the series with less coefficient of variation is said to be less variable, more consistent, more uniform more stable and more homogeneous. It is denoted by C.V and is obtained as

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

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

Where,

$$\sigma = \text{Standard Deviation}$$

$$\bar{X} = \text{Mean}$$

### d) Coefficient of Correlation

Correlation is a statistical tool designed to measure the degree of association between two or more variables. In other words if the changes in one variable affects the changes in other variable, then the variables are said to be co-related when it is used to measure the relationship between two variables, then it is called simple correlation. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study because of the simplicity and suitability for the nature of data. The result of coefficient of correlation is always lying between +1 and -1. The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

Where,

$$r = \text{Correlation coefficient}$$

$$\sum x_1 = \sum (X_1 - \bar{X}_1)$$

$$\sum x_2 = X_2 - \bar{X}_2$$

Under this topic, Karl Pearson's correlation coefficient is used to measure the degree of relationship between the following variables.

The interpretation of calculated value of correlation coefficient by following way.

- If  $r = 0$ , then there is no correlation between variables.
- If  $r > 0$ , then there is positive correlation between variables.
- If  $r < 0$ , then there is negative relation between variables.
- If  $r = +1$ , then there is perfect positive correlation.
- If  $r = -1$ , then there is perfect negative correlation.

#### **e.) Least Square Linear Trend Analysis**

Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms. On the basis of tendencies in the dependent variables in the past periods, the future trend is predicted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variable are repeated in the future or the past events affect the future events significantly. The future trend is forecasted by using the following formula.

$$Y = a + bX$$

where,

$Y$  = the dependent variable ( EPS, MVPS etc.)

$a$  =  $Y$  intercept

$b$  = the slope or the rate of change of  $Y$  per unit change in  $t$

$t$  = the independent variable

so, researcher is going to analyze the trend of dividend per share, earning per share and market value per share with the help of this trend value analysis using least square method. On the basis of past five years and also future value of next 5 year is being forecasted.

### **f.) Assessment of the Sample Correlation Coefficient**

For this study, t-test for significance of an observed and sample correlation coefficient is used.

#### **Set up Hypothesis**

Null hypothesis ( $H_0$ );  $\rho = 0$  i.e. There is no correlation between the considered variables.

Alternative Hypothesis ( $H_1$ );  $\rho \neq 0$  i.e. There is significant correlation between the considered variables.

Test statistic under  $H_0$ ;

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Where,

r	=	Sample correlation between two variables
$r^2$	=	Sample correlation Coefficient
n	=	No of Pair of observations

**Level of significance:** Level of significance  $\alpha = 5\%$

**Critical Value:** Tabulated or critical value of t at  $\alpha$  % level of significance for (n - 2) degree of freedom obtain from 't' tables.

**Decision:** If calculated 't' is less than or equal to tabulated value of 't' it falls in the accepted region and the null hypothesis is accepted and if calculated 't' is greater than tabulated 't' null hypothesis is rejected.

## **CHAPTER- IV**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter consists presentation and analysis of secondary data related with different variables using both financial and statistical tools explained in the third chapter. The prime objective of this chapter is to achieve the objectives, which are set in the first chapter. In order to achieve these objectives the gathered data are presented, compared and analyzed with the help of different tools. This chapter is divided into five different sections to analysis of dividend payment practices of the selected sample banks, to impact of dividend on market price of share, to analysis of relationship of dividend with other key variables, to test of hypothesis and to find major findings of the study.

#### **4.1 Analysis of Dividend payment Practices of the selected banks**

As already mentioned in the first chapter (in objective of the study), one of the objective of this study is to assess the prevailing practice of the company regarding dividend. In this section, an attempt has been made to analyze the financial indicators that are relevant directly or indirectly to the dividend payments of the banks. This helps to understand the dividend practices of these banks in the absence of complicated information. This analysis includes as

#### 4.1.1 Analysis of Earning per share (EPS)

Normally the performance and achievement of business organization are measured in terms of earning capacity to generate earning. Higher earning shows the higher strength while lower earning shows weaker strength of business organization. EPS is the amount of earning of the share invested in the company. So higher the EPS better the position is seen in stock market. The earnings per share of the bank under study is tabulated as follows.

**Table: 4.1**  
**Earnings per Share (EPS)**

<b>Banks</b> <b>Years</b>	<b>NABIL</b>	<b>SCBNL</b>	<b>EBL</b>	<b>NIC</b>	<b>BOK</b>
<b>2007/08</b>	115.86	131.92	91.82	29.87	59.94
<b>2008/09</b>	113.44	109.99	99.99	37.80	54.68
<b>2009/10</b>	83.81	77.65	100.16	34.30	43.08
<b>2010/11</b>	70.67	69.51	83.18	27.83	44.51
<b>2011/12</b>	83.57	72.60	88.55	25.75	37.88
<b>Average</b>	93.47	92.33	92.74	31.11	48.02
<b>SD</b>	20.07	27.41	7.37	4.89	9.03
<b>C.V (%)</b>	21.47	29.68	7.95	15.74	18.80

Source: Annual reports of commercial banks

**Figure: 4.1**  
**Earnings per Share**

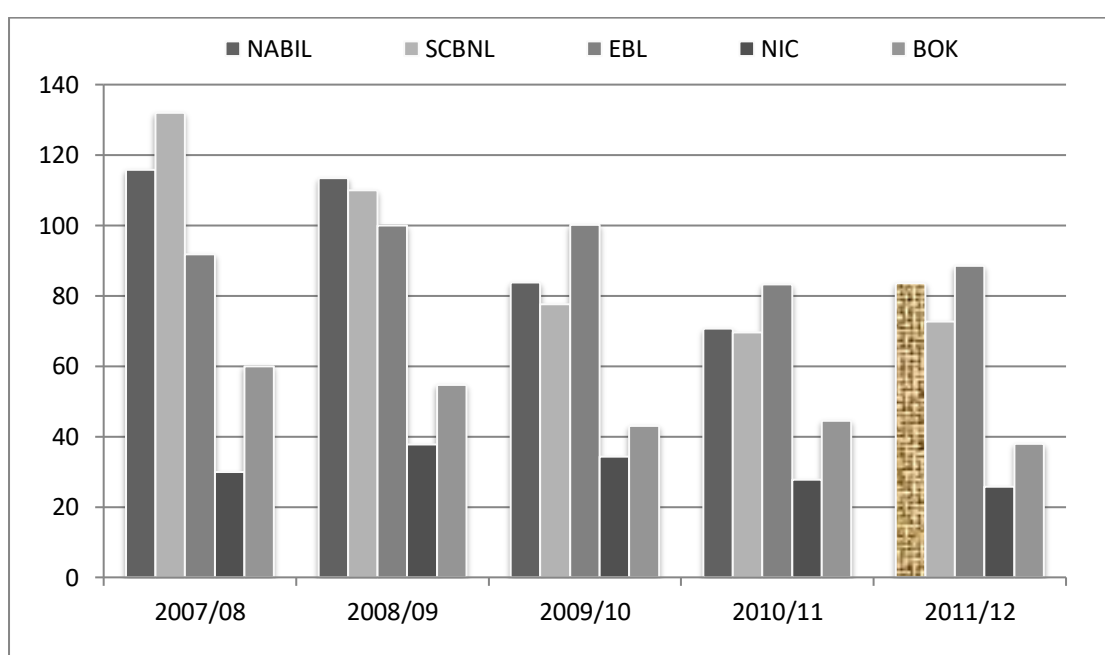


Table 4.1 shows that the average EPS of NABIL is Rs.93.47 during the period of study. The highest EPS is Rs.137.08 and the lowest EPS is Rs.92.61 in the fiscal year 2007/08 & 2010/11 respectively. The standard deviation of the EPS under the period of study is 20.07 and the C.V is 21.47%, which shows the variability in EPS each year.

Standard Chartered Bank Nepal Limited (SCBNL) has the highest EPS of Rs.131.92 in the fiscal year 2007/08 and that of lowest is Rs. 69.51 in the fiscal year 2010/11. An average EPS of the bank is Rs.92.33 during the five-year study period. The standard deviation and the CV are Rs.27.41 and 29.66 % respectively.

Everest Bank Limited (EBL) has the highest EPS of Rs. Rs.100.16 and that of lowest is Rs. 83.18 in the fiscal year 2009/10 and 2010/11 respectively. An average EPS of SCBNL is Rs.92.74, standard deviation is 7.37 and the CV is 7.95% during the period of study.

Nepal Industrial and Commercial Bank Limited (NIC) has the highest EPS of Rs. 37.80 in the fiscal year 2008/09 and that of lowest is Rs. 25.75 in the fiscal year 2011/12. An average EPS of NIC is Rs. 31.11 during the five-year study period. The standard deviation and the CV are Rs. 4.89 and 15.74 % respectively.

Bank of Kathmandu (BOK) has the highest EPS of Rs. Rs.59.94 and that of lowest is Rs. 37.88 in the fiscal year 207/08 and 2011/12 respectively. An average EPS of BOK is Rs.48.02, standard deviation is 9.03 and the CV is 18.80% during the period of study.

Among all the sample banks NABIL has highest average EPS and NIC has lowest average EPS, SCBNL has highest SD and NIC has lowest SD and SCBNL has highest CV & EBL has lowest CV. It indicates that SCBNL has the most inconsistent EPS and EBL has the most consistent EPS.

#### **4.1.2 Analysis of Dividend per Share**

Dividend per share indicates the proportion of earning distributed to owner (shareholders) on per share basics. Generally, the higher DPS creates positive attitude among the shareholders towards bank, which accordingly helps to increase the market value of share. The following table shows the details relating to dividend per share.

**Table 4.2**

**Dividend Per Share of Commercial Banks (In Rs.)**

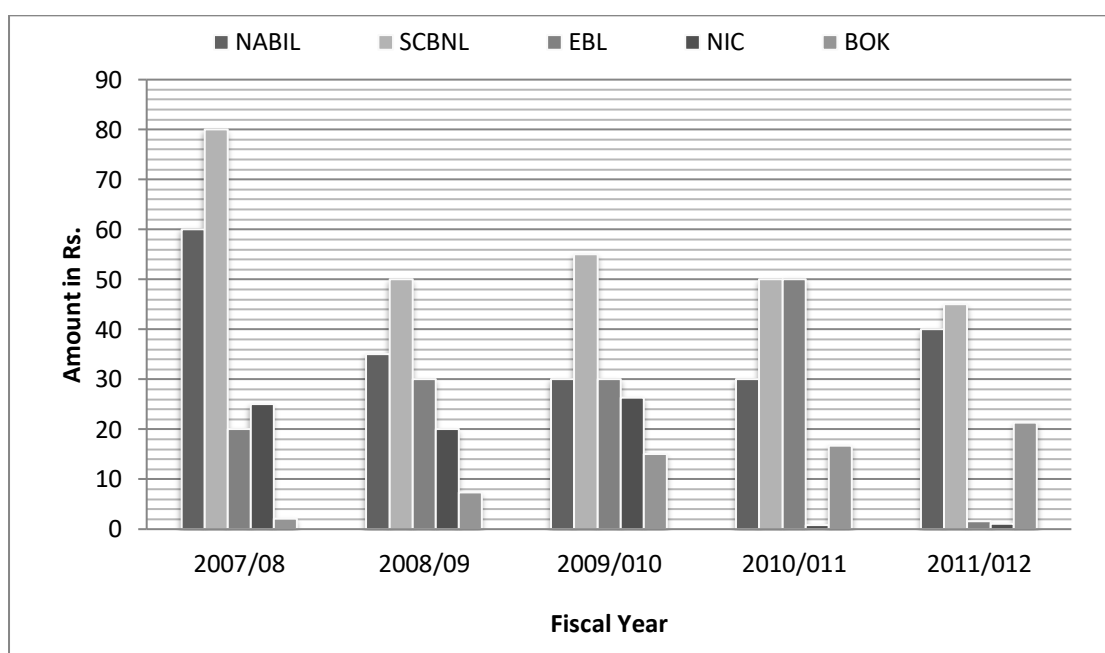
<b>Banks</b> <b>Years</b>	<b>NABIL</b>	<b>SCBNL</b>	<b>EBL</b>	<b>NIC</b>	<b>BOK</b>
<b>2007/08</b>	60	80	20	25	2.11
<b>2008/09</b>	35	50	30	20	7.37
<b>2009/010</b>	30	55	30	26.32	15.00

<b>2010/011</b>	30	50	50	0.79	16.75
<b>2011/012</b>	40	45	1.58	1.05	21.32
<b>Average</b>	39.00	56.00	26.32	14.63	12.51
<b>SD</b>	12.450	13.874	17.606	12.738	7.687
<b>C.V (%)</b>	31.92	24.78	66.90	87.05	61.45

*Source: Annual reports of commercial banks*

**Figure: 4.2**

### Dividend per Share



An Average DPS of NABIL is RS. 39 with S D of Rs. 12.45. The highest and lowest DPS during the period of study are RS.06 and 35 respectively. The CV is 31.92%, which shows that there is low consistency in their dividend per share during the period of study.

SCBNL has average DPS of Rs 56. The highest and lowest DPS during the period study is Rs.80 to Rs. 45 in the fiscal year 2006/07 & 2011/012 respectively. The SD of DPS is Rs. 13.87 and the CV of DPS is 24.78% it indicates, that there is insure consistency in their Dividend per Share of Bank during the study period.

EBL has average DPS of Rs. 26.32. The higher and lowest DPS of EBL is Rs. 50 to 1.58 during the period of study. The SD of DPS is 17.61 and the CV of DPS of the bank is 66.90%. It indicates that there is a very high fluctuation in the DPS of bank during period of the study.

The Average DPS of NIC bank is Rs.14.63 and SD is 17.61. NIC. The highest and lowest DPS of NIC bank is 26.32 to 0.79 during the study period. The CV of DPS is 87.05%. Therefore, it indicates that there is a very high fluctuation in the DPS of bank during the period of the study.

BOK has an average DPS of Rs 12.51 and the highest and lowest DPS of bank is Rs. 21.32 to 2.11 in the fiscal year 2010/011 & 2006/07 respectively. The SD of DPS is 7.69 and the CV of DPS is 61.45%. It indicates that there is high fluctuation in the DPS of bank in the period of study.

Among all the sample banks SCBNL has highest average DPS and BOK has lowest average DPS, EBL has highest SD and BOK has lowest SD and NIC has highest CV & SCBNL has lowest CV. It indicates that NIC has the most inconsistent DPS and SCBNL has the most consistent DPS.

#### **4.1.3 Analysis of Price Earnings Ratio (P/E ratio)**

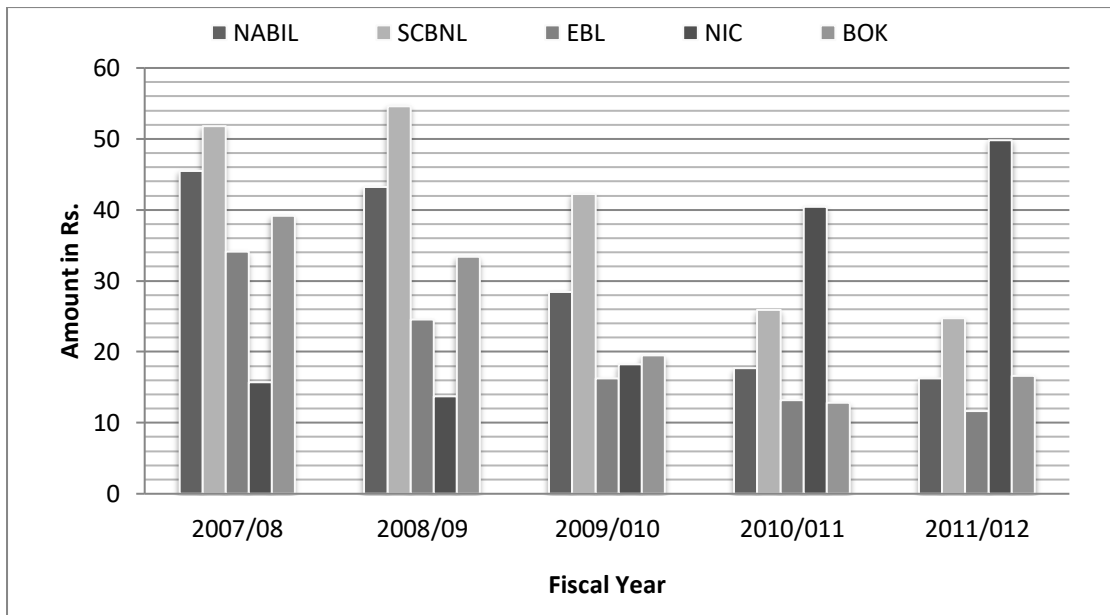
Price-earnings ratio is also called the earnings multiplier. Price- earnings ratio is the ratio between market price per share and earnings per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings. The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm's future. This ratio is computed by dividing earning per share to market price per share.

**Table: 4.3**  
**Price Earnings Ratio (P/E ratio)**

<b>Banks</b> <b>Years</b>	<b>NABIL</b>	<b>SCBNL</b>	<b>EBL</b>	<b>NIC</b>	<b>BOK</b>
<b>2007/08</b>	45.53	51.77	34.11	15.67	39.21
<b>2008/09</b>	43.19	54.64	24.55	13.76	33.37
<b>2009/010</b>	28.45	42.23	16.27	18.25	19.50
<b>2010/011</b>	17.72	25.90	13.15	40.46	12.81
<b>2011/012</b>	16.21	24.78	11.67	49.86	16.58
<b>Average</b>	30.22	39.86	19.95	27.60	24.29
<b>S D</b>	13.768	14.037	9.354	16.448	11.393
<b>C.V (%)</b>	45.56	35.21	46.89	59.60	46.90

*Source: Annual reports of commercial banks*

**Figure: 4.3**  
**Dividend per Share**



The average P/E ratio of NABIL bank during the period of the study is 30.22. It is within the ranging between 45.53 to 16.21. The standard deviation of P/E ratio is 13.77 whereas the coefficient of variation is 45.56, which indicates the bank has the moderate fluctuation in P/E Ratio during the period of the study.

Standard Chartered Bank Nepal Limited (SCBNL) has the average P/E ratio of 39.86. It is ranging 54.64 to 24.78 and the standard deviation is 14.04 during the period of the study. The coefficient of variation (C.V) of P/E ratio is 35.21%, which indicates that the bank has the moderate fluctuation of P/E ratio during study during the period.

Everest Bank Ltd. (EBL) has an average P/E ratio of 19.95 and it is ranging between 34.11 and 11.67. The standard deviation of P/E ratio is 9.35 and the fluctuation (C.V) is 46.89% during the study period, it indicates that the bank has the moderate fluctuation of P/E ratio among the sample banks.

Nepal Industrial and Commercial Bank Limited (NIC) has an average P/E ratio of 27.6 it is ranging 49.86 to 13.76 and the standard deviation is 16.45. The coefficient of variation of P/E ratio is 59.60% during the period of the study, which indicates that the bank has the moderate fluctuation of P/E ratio.

Bank of Kathmandu Limited (BOK) has an average P/E ratio of 24.29 it is ranging 39.21 to 12.81. The SD is 11.39 and the coefficient of variation (CV) is 46.90%, which indicates that the P/E ratio of BOK is moderate fluctuating during the period of the study.

Among all the sample banks SCBNL has highest average P/E ratio and EBL has lowest average P/E ratio, NIC has highest SD and EBL has lowest SD and NIC has highest CV & SCBNL has lowest CV. It indicates that NIC has the most inconsistent P/E ratio and SCBNL has the most consistent P/E ratio.

#### **4.1.4 Analysis of Market Price of Share (MPS)**

MPS is that value of stock, which can be obtained by a firm from the market. Market values share is one of the variables, which is affected by the dividend per Share and earnings per share of the firm. If the earnings per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing its earning power will be greater than cost of capital. For such firms market value of share will be higher than the book value.

**Table: 4.4**  
**Market Price per Share (MPS)**

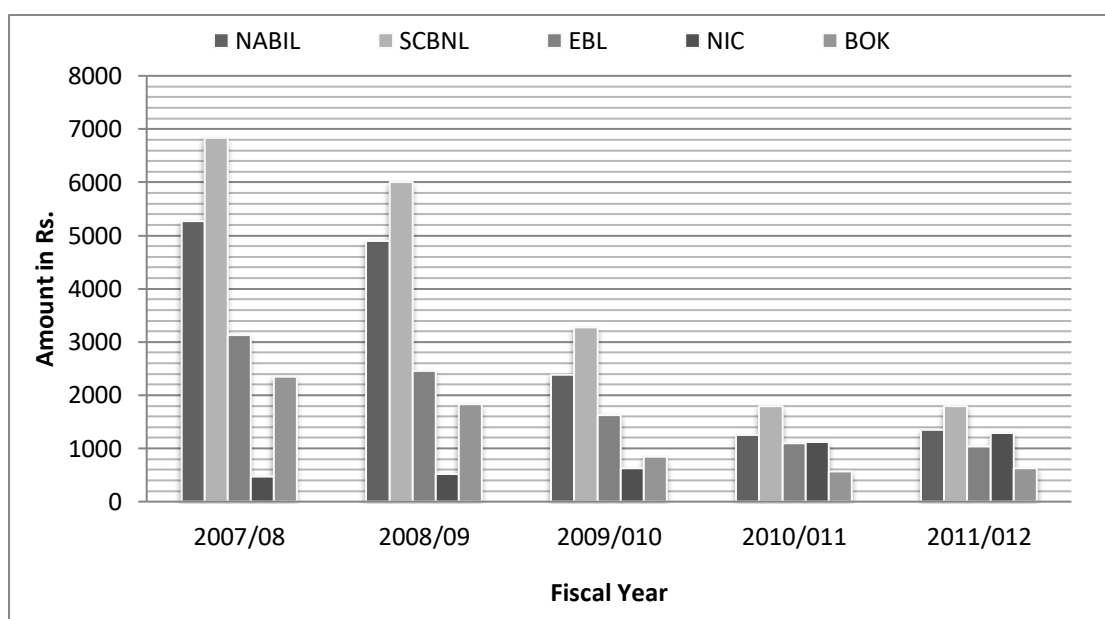
<b>Banks Years</b>	<b>NABIL</b>	<b>SCBNL</b>	<b>EBL</b>	<b>NIC</b>	<b>BOK</b>
<b>2007/08</b>	5275	6830	3132	468	2350
<b>2008/09</b>	4899	6010	2455	520	1825
<b>2009/010</b>	2384	3279	1630	626	840
<b>2010/011</b>	1252	1800	1094	1126	570

<b>2011/012</b>	1355	1799	1033	1284	628
<b>Average</b>	3033.00	3943.60	1868.80	804.80	1242.60
<b>SD</b>	1931.15	2357.82	907.63	373.94	799.65
<b>C.V (%)</b>	63.67	59.79	48.57	46.46	64.35

Source: Annual reports of commercial banks

**Figure: 4.4**

**Market Price Per Share (MPS)**



The MPS of NABIL range between Rs.4899 to Rs. 1252 during the period of study. An average MPS of NABIL is Rs 3033 with SD of Rs 1931.15 and the CV of 63.67%, which indicates that the MPS of NABIL is high fluctuating during the period of the study.

The average MPS of SCBNL within the period of study is Rs. 3943.60 and it is between Rs 6830 to Rs 1799. The SD is Rs. 2357.82 and the CV is 59.79% during the period of study, which shows that there is moderate fluctuation in the MPS of SCBNL.

During the period of study, EBL has an average of MPS of Rs 1868.80 with SD of Rs. 907.63. The CV shows that there is a fluctuation of 48.57% of MPS during the period of study, which is moderate. The highest and lowest MPS of the EBL are Rs 3132 and Rs. 1033 respectively.

The average MPS of NIC is Rs. 804.80 with a SD of Rs. 373.94 and CV of 46.46% during the period of study. The highest and lowest MPS of NIC is Rs. 1284 and Rs. 468 respectively. The CV indicates moderate fluctuation in the MPS of the Bank i.e. 46.46% during the period of the study.

The average of MPS of BOK is Rs. 1242.60 with SD is Rs. 799.65 and CV is 64.35% during this period of study. The lowest and highest MPS of BOK are Rs. 570 to Rs. 2350 respectively. The CV indicates that highest fluctuation of MPS among the sample commercial banks i. e. 64.35%.

Among all the sample banks SCBNL has highest average MPS and NIC has lowest average MPS, SCBNL has highest SD and NIC has lowest SD and BOK has highest CV & NIC has lowest CV. It indicates that BOK has the most inconsistent MPS and NIC has the most consistent MPS.

#### **4.1.5 Analysis of Dividend payout ratio**

The ratio shows the amount of dividend as a percentage of earning available for equity share. The dividend payout ratio obviously depends on earning, greater the earning more ability of company to pay dividend. The comparison of payout ratio reflects the management attitude towards treatment of profit in

respect to distribution of dividend and retained earnings. The following table shows the details relating to dividend payout ratio of sample banks.

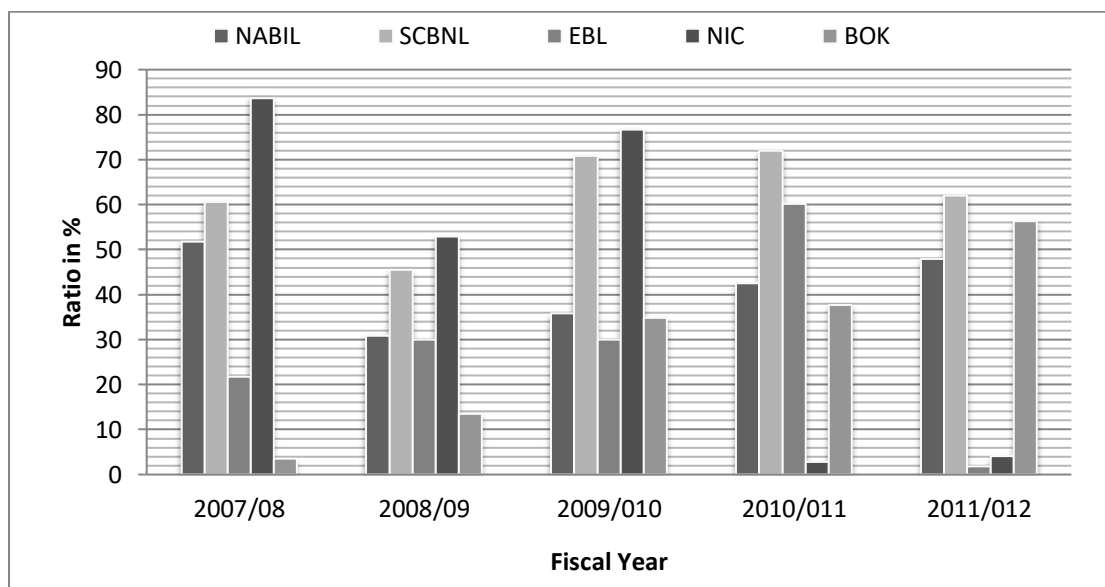
$$\text{Dividend Payout Ratio (DPR)} = \frac{\text{Divident Per Share}}{\text{Earning Per Share}}$$

**Table: 4.5**  
**Dividend Payout Ratio (DPR)**

<b>Banks</b> <b>Years</b>	<b>NABIL</b>	<b>SCBNL</b>	<b>EBL</b>	<b>NIC</b>	<b>BOK</b>
<b>2007/08</b>	51.79	60.64	21.78	83.70	3.52
<b>2008/09</b>	30.85	45.46	30.00	52.91	13.48
<b>2009/010</b>	35.80	70.83	29.95	76.73	34.82
<b>2010/2011</b>	42.45	71.93	60.11	2.84	37.63
<b>2011/012</b>	47.86	61.98	1.78	4.08	56.28
<b>Average</b>	41.75	62.17	28.73	44.05	29.15
<b>SD</b>	8.56	10.63	20.99	38.78	20.87
<b>C.V (%)</b>	20.49	17.10	73.07	88.03	71.61

*Source: Annual reports of commercial banks*

**Figure: 4.5**  
**Dividend Payout Ratio (DPR)**



An Average DPR of NABIL bank is 41.75%. It shows that NABIL generally pays 41.75% of its total earning as dividend to its shareholders. The SD of DPR is 8.56 and the CV is 20.49%, which indicates that there are only about 20.49% fluctuations in the DPR of the bank over the study period. The highest and lowest value of DPR is 51.79% & 30.85% in the fiscal year 2007/08 & 2008/09 respectively.

Standard Chartered Bank Nepal Limited (SCBNL) has an average DPR of 62.17%. It means that SCBNL is generally paying 62.17% of its earning as dividend to its shareholders. The SD of DPR is 10.63% and the CV is 17.10%, which shows the moderate fluctuating in dividend payment behavior. The highest and lowest value of DPR is 71.93% & 45.46% in the fiscal year 2010/11 & 2008/09 respectively.

An average DPR of EBL is 28.73%, it indicates that EBL generally pay out 28.73% of its total earning as dividend to its shareholders. The SD is 20.99% and CV is 73.07%, which indicates that the DPR has high fluctuation in dividend payment behavior during the period of study. The highest and lowest

value of DPR is 60.11% & 1.78% in the fiscal year 2010/011 & 2011/012 respectively.

Nepal Industrial and Commercial Bank (NIC) has an average DPR of 44.05% it mean that NIC is generally paying 44.5% of its earning as dividend to its shareholders. The SD is 38.78% and CV is 88.03% that is indicates that there is high fluctuation in the DPR of NIC, highly inconsistency during the period the period of study. The highest and lowest value of DPR is 83.70% & 4.08% in the fiscal year 2007/08 & 2011/012 respectively.

Bank of Kathmandu (BOK) has an average DPR of 29.15% during the study period. The bank generally pays 44.05% of its total earnings as a dividend. The SD is 38.78 and the CV is 88.03%. Which is indicates that the DPR of BOK is highly fluctuating. The highest and lowest value of DPR is 56.28% & 3.52% in the fiscal year 2011/012 & 2007/08 respectively.

Among all the sample banks SCBNL has highest average DPR and EBL has lowest average DPR, NIC has highest SD and NABIL has lowest SD and NIC has highest CV & SCBNL has lowest CV. It indicates that NIC has the most inconsistent DPR and SCBNL has the most consistent DPR.

#### **4.1.6 Analysis of Dividend Yield Ratio**

Dividend yield ratio is the percentage of dividend per share to market value per share. It is highly influenced by the market value per share and dividend per share because a small change in dividend per share can bring a small change in market value of the share. Therefore, before allocation of fund market scenario and price fluctuation is to be studied and evaluate for the long run survival of company.

$$\text{Dividend Yield} = \frac{\text{Dividend Per Share}}{\text{Market Value Per Share}}$$

**Table: 4.6**

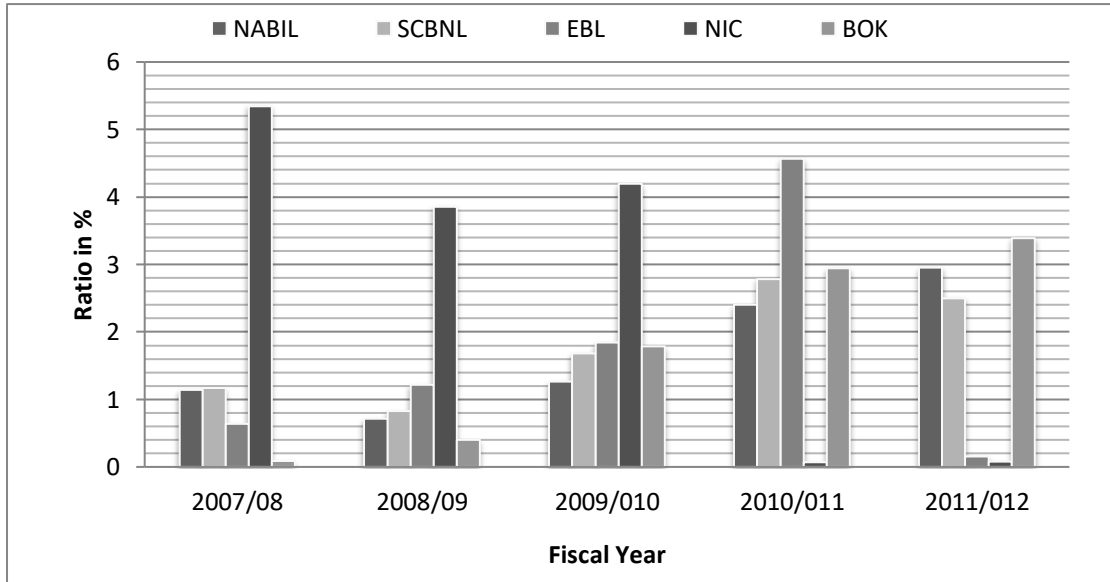
### Dividend Yield Ratio

Banks Years	NABIL	SCBNL	EBL	NIC	BOK
<b>2007/08</b>	1.14	1.17	0.64	5.34	0.09
<b>2008/09</b>	0.71	0.83	1.22	3.85	0.40
<b>2009/010</b>	1.26	1.68	1.84	4.20	1.79
<b>2010/011</b>	2.40	2.78	4.57	0.07	2.94
<b>2011/012</b>	2.95	2.50	0.15	0.08	3.39
<b>Average</b>	1.69	1.79	1.68	2.71	1.72
<b>SD</b>	0.94	0.84	1.73	2.47	1.47
<b>C.V (%)</b>	55.57	46.65	102.83	91.04	85.54

*Source: Annual reports of commercial banks*

**Figure: 4.6**

### Dividend Yield Ratio (DY)



An Average DY of NABIL bank is 1.69%. The SD of DY is 0.94 and the CV is 55.57%, which indicates that there is an about 55.57% fluctuation in the DY of the bank over the study period. The highest and lowest value of DY is 2.95% & 0.71% in the fiscal year 2011/012 & 2008/09 respectively.

Standard Chartered Bank Nepal Limited (SCBNL) has an average DY of 1.79%. The SD of DY is 0.84% and the CV is 46.65%, which shows the moderate fluctuating in DY. The highest and lowest value of DY is 2.78% & 0.83% in the fiscal year 2010/011 & 2008/09 respectively.

An average DY of EBL is 1.68%. The SD is 1.73% and CV is 102.83%, which indicates that the DY has high fluctuation during the period of study. The highest and lowest value of DY is 4.57% & 0.15% in the fiscal year 2010/011 & 2011/012 respectively.

Nepal Industrial and Commercial Bank (NIC) has an average DY of 2.71%. The SD is 2.47% and CV is 91.04% it is indicates that there is high fluctuation in the DY of NIC, highly inconsistency during the period of study. The highest and lowest value of DY is 5.34% & 0.07% in the fiscal year 2007/08 & 2010/011 respectively.

Bank of Kathmandu (BOK) has an average DY of 1.72% during the study period. The SD is 1.47 and the CV is 85.54%. Which is indicates that the DY of BOK is highly fluctuating. The highest and lowest value of DY is 3.39% & 0.09% in the fiscal year 2011/012 & 2007/08 respectively.

Among all the sample banks NIC has highest average DY and EBL has lowest average DY, NIC has highest SD and SCBNL has lowest SD and EBL has highest CV & SCBNL has lowest CV. It indicates that EBL has the most inconsistent DY and SCBNL has the most consistent DY.

#### **4.1.7 Earning Yield (EY)**

Earning Yield and Dividend Yield both are expressed in terms of the market value per share. Earning Yield and Dividend yield are two important profitability ratios from the point of view of the ordinary shareholders. The

earning yield may define as the ratio of earning per share to the market value per ordinary share and earning yield is calculated as;

$$\text{Earning Yield} = \frac{\text{Earning Per Share}}{\text{Market Value Per Share}}$$

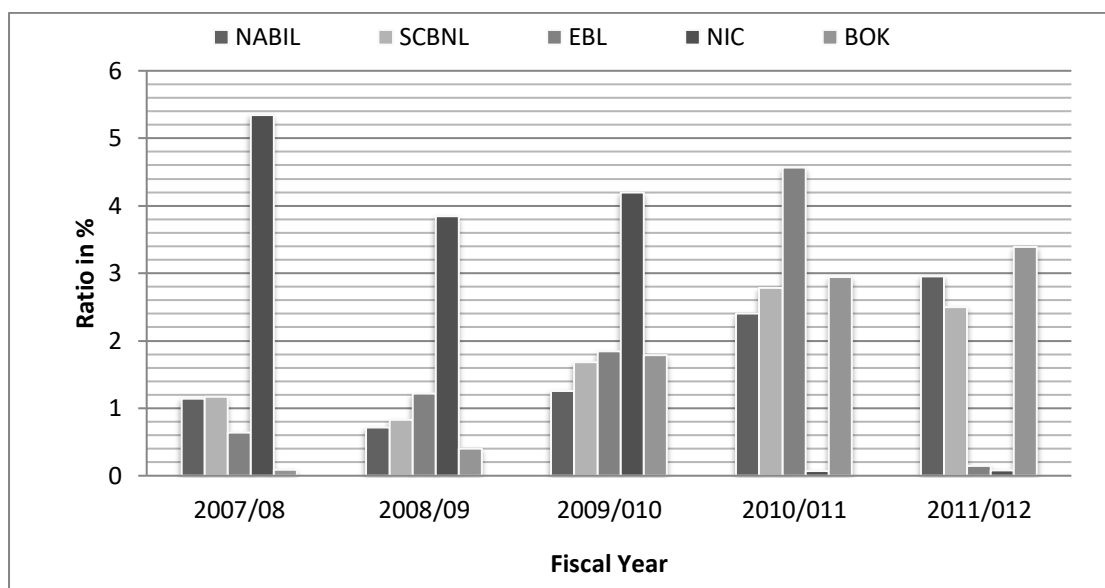
**Table: 4.7**  
**Earning Yield Ratio**

<b>Banks</b> <b>Years</b>	<b>NABIL</b>	<b>SCBNL</b>	<b>EBL</b>	<b>NIC</b>	<b>BOK</b>
<b>2007/08</b>	2.20	1.93	2.93	6.38	2.55
<b>2008/09</b>	2.32	1.83	4.07	7.27	3.00
<b>2009/010</b>	3.52	2.37	6.14	5.48	5.13
<b>2010/2011</b>	5.64	3.86	7.60	2.47	7.81
<b>2011/012</b>	6.17	4.04	8.57	2.01	6.03
<b>Average</b>	3.97	2.81	5.86	4.72	4.90
<b>SD</b>	1.85	1.06	2.36	2.36	2.18
<b>C.V (%)</b>	46.68	37.96	40.21	49.97	44.38

*Source: Annual reports of commercial banks*

**Figure: 4.7**

### Earning Yield Ratio (DY)



An Average EY of NABIL bank is 3.97%. The SD of EY is 1.85 and the CV is 46.68%, which indicates that there is an about 46.68% fluctuation in the EY of the bank over the study period. The highest and lowest value of EY is 6.17% & 2.20% in the fiscal year 2011/012 & 2007/08 respectively.

Standard Chartered Bank Nepal Limited (SCBNL) has an average EY of 2.81%. The SD of EY is 1.06% and the CV is 37.96%, which shows the moderate fluctuating in EY. The highest and lowest value of EY is 4.04% & 1.83% in the fiscal year 2011/012 & 2008/09 respectively.

An average EY of EBL is 5.86%. The SD is 2.36% and CV is 40.21%, which indicates that the EY has high fluctuation during the period of study. The highest and lowest value of EY is 8.57% & 2.93% in the fiscal year 2011/012 & 2007/08 respectively.

Nepal Industrial and Commercial Bank (NIC) has an average EY of 4.72%. The SD is 2.36% and CV is 49.97% it is indicates that there is moderate fluctuation in the EY of NIC.. The highest and lowest value of EY is 6.38% & 2.01% in the fiscal year 2007/08 & 2011/012 respectively.

Bank of Kathmandu (BOK) has an average EY of 4.90% during the study period. The SD is 2.18 and the CV is 44.38%. Which indicates that the EY of BOK is moderately fluctuating. The highest and lowest value of EY is 6.03% & 2.55% in the fiscal year 2011/012 & 2007/08 respectively.

Among all the sample banks EBL has highest average EY and SCBNL has lowest average EY, NIC has highest SD and SCBNL has lowest SD and NIC has highest CV & SCBNL has lowest CV. It indicates that NIC has the most inconsistent EY and SCBNL has the most consistent EY.

## **4.2 Correlation Analysis**

Correlation is a statistical tool design to measure the degree of association between two or more variables. In other words if the changes in one variable affects the changes in other variable, then the variables are said to be co-related when it is used to measure the relationship between two variables, then it is called simple correlation. The coefficient of correlation measures the degree of relationship between two sets of figures. One of the very convenient and useful way of interpreting the value of coefficient of correlation ( $r$ ) between the two variables is coefficient of determination, which is denoted by  $r^2$ . It explains the total variation in dependent variable is explained by independent variable.

The significance of coefficient of correlation ( $r$ ) is tested with the help of 't' test. If calculated 't' is less than or equal to tabulated value of 't' it falls in the accepted region and null hypothesis is accepted or 'r' is not significant of correlation in the population and if calculated 't' is greater than tabulated 't' null hypothesis is rejected or 'r' is significant of correlation in the population.

### **4.2.1 Correlation between DPS & EPS**

Correlation coefficient between DPS & EPS measures the degree of relationship between DPS and EPS. DPS is dependent variable ( $X_1$ ) and EPS is

independent variable ( $X_2$ ). The purpose of computing is to find out the relationship between DPS and EPS is going to same direction or opposite direction.

**Table 4.8**  
**Correlation between DPS and EPS of NABIL**

Factor	Value/Result
Correlation (r)	0.6792
Coefficient of Determination ( $r^2$ )	0.4582
Calculated 't' Value	1.58
Tabulated 't' Value	2.20
Result	Insignificant
Hypothesis	$H_0$ Accepted
Relationship	Moderate Degree of Positive Correlation

*Source: Appendix 11*

Table 4. describes the relationship between DPS and EPS Of NABIL bank during the period of study. The coefficient of correlation (r) between DPS and EPS of NABIL is 0.6792. This figure shows the positive association between DPS and EPS of NABIL bank. It means DPS and EPS both move towards same direction. The coefficient of determination ( $r^2$ ) is 0.4582, it shows the 45.82% of the variation in the dependent variable (i.e. DPS) has been explained by the independent variable (i.e. EPS). The calculated 't' value of NABIL is less than the tabulated value i.e.  $1.58 < 2.20$ , it shows that the relationship between DPS & EPS is insignificant or null hypothesis is accepted.

**Table 4.9**  
**Correlation between DPS and EPS of SCBNL**

Factor	Value/Result
Correlation (r)	0.7973
Coefficient of Determination ( $r^2$ )	0.6358
Calculated 't' Value	2.29

Tabulated 't' Value	2.20
Result	Significant
Hypothesis	H <sub>1</sub> Accepted
Relationship	High Degree of Positive Correlation

*Source: Appendix 12*

Table 4. describes the relationship between DPS and EPS of SCBNL during the period of study. The coefficient of correlation (r) between DPS and EPS of SCBNL is 0.7973. This figure shows the positive association between DPS and EPS of SCBNL. It means DPS and EPS both move towards same direction. The coefficient of determination (r<sup>2</sup>) is 0.6358, it shows the 63.58% of the variation in the dependent variable (i.e. DPS) has been explained by the independent variable (i.e. EPS). The calculated 't' value of SCBNL is greater than the tabulated value i.e. 2.29 > 2.20, it shows that the relationship between DPS & EPS is significant or alternative hypothesis is accepted.

**Table 4.10**

**Correlation between DPS and EPS of EBL**

<b>Factor</b>	<b>Value/Result</b>
Correlation (r)	-0.1212
Coefficient of Determination (r <sup>2</sup> )	0.0147
Calculated 't' Value	0.21
Tabulated 't' Value	2.20
Result	Insignificant
Hypothesis	H <sub>0</sub> Accepted
Relationship	Low Degree of Negative Correlation

*Source: Appendix 13*

Table 4. describes the relationship between DPS and EPS of EBL during the period of study. The coefficient of correlation (r) between DPS and EPS of EBL is -0.1212. This figure shows the negative association between DPS and EPS of EBL. It means DPS and EPS both move towards opposite direction. The coefficient of determination (r<sup>2</sup>) is 0.0147, it shows only 1.47% of the variation in the dependent variable (i.e. DPS) has been explained by the

independent variable (i.e. EPS). The calculated 't' value of EBL is less than the tabulated value i.e.  $0.2 < 2.20$ , it shows that the relationship between DPS & EPS is insignificant or null hypothesis is accepted.

**Table 4.11**  
**Correlation between DPS and EPS of NIC**

Factor	Value/Result
Correlation (r)	0.7155
Coefficient of Determination (r <sup>2</sup> )	0.5119
Calculated 't' Value	1.77
Tabulated 't' Value	2.20
Result	Insignificant
Hypothesis	H <sub>0</sub> Accepted
Relationship	Moderate Degree of positive Correlation

*Source: Appendix 14*

Table 4. describes the relationship between DPS and EPS of NIC during the period of study. The coefficient of correlation (r) between DPS and EPS of NIC is 0.7155. This figure shows the Positive association between DPS and EPS of NIC. It means DPS and EPS both move towards same direction. The coefficient of determination (r<sup>2</sup>) is 0.5119, it shows the 51.19% of the variation in the dependent variable (i.e. DPS) has been explained by the independent variable (i.e. EPS). The calculated 't' value of NIC is less than the tabulated value i.e.  $1.77 < 2.20$ , it shows that the relationship between DPS & EPS is insignificant or null hypothesis is accepted.

**Table 4.12**  
**Correlation between DPS and EPS of BOK**

Factor	Value/Result
Correlation (r)	-0.9897
Coefficient of Determination (r <sup>2</sup> )	0.9794
Calculated 't' Value	11.94
Tabulated 't' Value	2.20
Result	Significant

Hypothesis	H <sub>1</sub> Accepted
Relationship	High Degree of Negative Correlation

*Source: Appendix 15*

Table 4. describes the relationship between DPS and EPS of BOK during the period of study. The coefficient of correlation (r) between DPS and EPS of BOK is -0.9897. This figure shows the negative association between DPS and EPS of BOK. It means DPS and EPS both move towards opposite direction. The coefficient of determination (r<sup>2</sup>) is 0.9794, it shows the 97.94% of the variation in the dependent variable (i.e. DPS) has been explained by the independent variable (i.e. EPS). The calculated ‘t’ value of BOK is greater than the tabulated value i.e. 11.94 > 2.20, it shows that the relationship between DPS & EPS is significant or alternative hypothesis is accepted.

### **4.3 Least Square Linear Trend Analysis**

Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms. On the basis of tendencies in the dependent variables in the past periods, the future trend is predicted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variable are repeated in the future or the past events affect the future events significantly The future trend is forecasted by using the following formula.

$$Y = a + bx$$

where,

Y = the dependent variable ( EPS, MVPS etc.)

a = Y intercept

b = the slope or the rate of change of Y per unit change in x

t = the independent variable

Under this topic, trend analyses of DPS of sample banks are studied during the period. The objective of this topic is to forecast the DPS for the next two years.

The projections are based on the following assumptions;

- The bank will run in the present style.
- Nepal Rastra Bank and the Government of Nepal will not make any amendments in the guidelines for the operation of commercial banks.
- Other all the things also remain constant.

#### 4.3.1 Trend Analysis of DPS

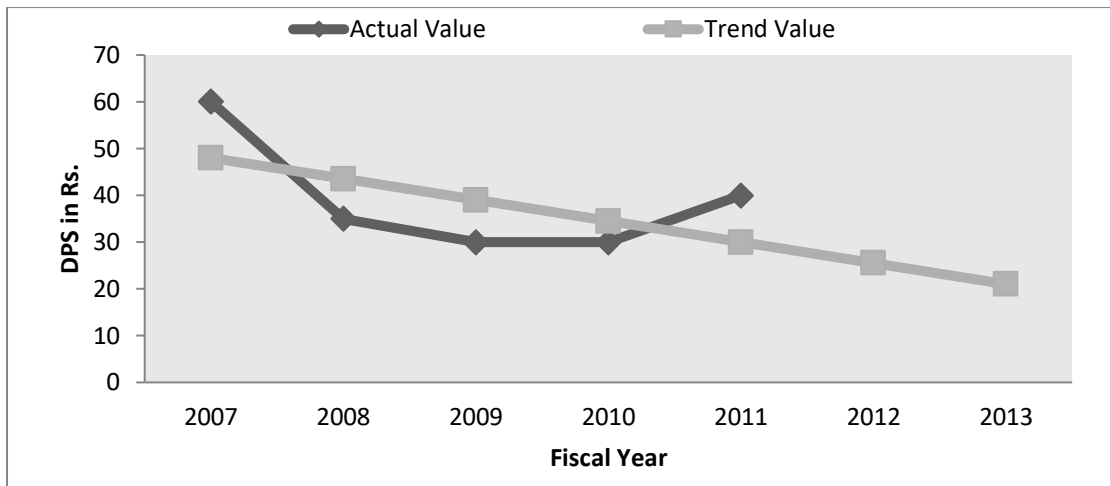
Under this topic, an effort has been made to calculate the trend value of DPS of sample banks with comparatively under five years study period and project the trend for next two years. The following table describes the trend values of DPS of sampled banks for next two years.

**Table: 4.13**  
**Actual & Forecasted Trend Value of DPS of NABIL**

<b>Years</b>	<b>Actual Value</b>	<b>Trend Value</b>
2007	60	48
2008	35	43.5
2009	30	39
2010	30	34.5
2011	40	30
2012	-	25.5
2013	-	21
Mean (a)		39
Intersect (b)		-4.5
Trend Value (Y)		$Y = 39.45X$

*Source: Appendix 1 & 2*

**Figure: 4.8**  
**Actual & Trend Line of DPS of NABIL**



The above table 4.13 and figure 4.8 shows that the trend line of DPS is in decreasing trend of NABIL. 'Y' has shown the trend value of total DPS since the calculated value of 'b' is negative. It is found that the bank's DPS is decreasing with time. If other things remaining the same, it shows that the DPS decreases by Rs. 4.5 Per year and it will be Rs. 25.5 and Rs. 21 in the fiscal year 2012 & 2013.

**Table: 4.14**

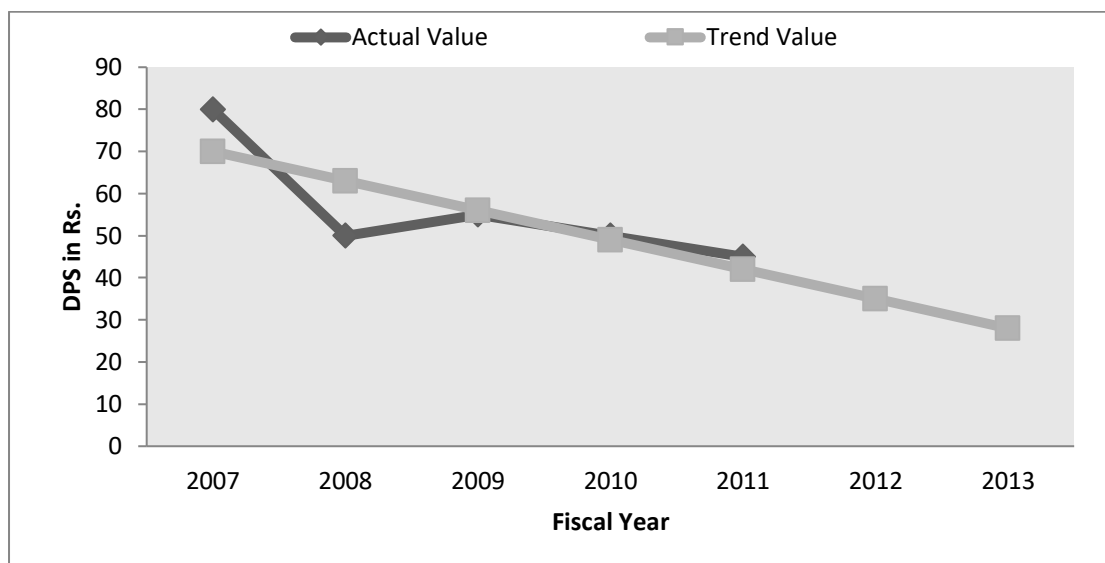
**Actual & Forecasted Trend Value of DPS of SCBNL**

Years	Actual Value	Trend Value
2007	80	70
2008	50	63
2009	55	56
2010	50	49
2011	45	42
2012	-	35
2013	-	28
Mean (a)		57
Intersect (b)		-7
Trend Value (Y)		$Y = 57 - 7X$

Source: Appendix 3 & 4

**Figure: 4.9**

**Actual & Trend Line of DPS of SCBNL**



The above table 4.14 and figure 4.9 shows that the trend line of DPS is in decreasing each year of SCBNL. ‘Y’ has shown the trend value of total DPS since the calculated value of ‘b’ is negative. It is found that the bank’s DPS is decreasing with time. If other things remaining the same, it shows that the DPS decreases by Rs. 7 Per year and it will be Rs. 35 and Rs. 28 in the fiscal year 2012 & 2013.

**Table: 4.15**

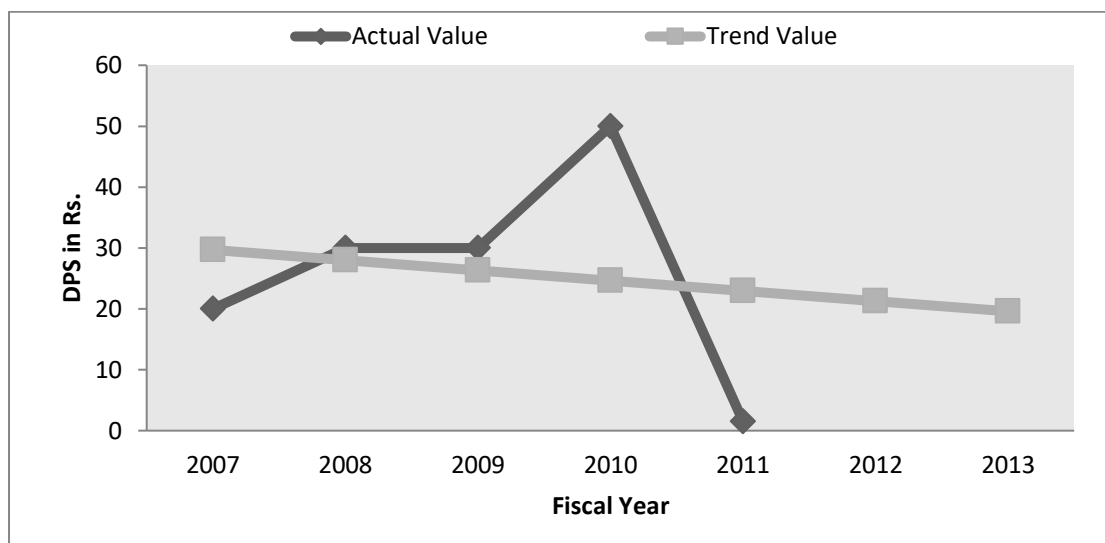
**Actual & Forecasted Trend Value of DPS of EBL**

Years	Actual Value	Trend Value
2007	20	29.68
2008	30	28
2009	30	26.32
2010	50	24.64
2011	1.58	22.96
2012	-	21.28
2013	-	19.6
Mean (a)		26.32
Intersect (b)		-1.68
Trend Value (Y)		$Y = 26.32 - 1.68X$

Source: Appendix 5 & 6

**Figure: 4.10**

**Actual & Trend Line of DPS of EBL**



The above table 4.15 and figure 4.10 shows that the trend line of DPS is in decreasing each year of EBL. ‘Y’ has shown the trend value of total DPS since the calculated value of ‘b’ is negative. It is found that the bank’s DPS is decreasing with time. If other things remaining the same, it shows that the DPS decreases by Rs. 1.68 Per year and it will be Rs. 21.28 and Rs. 19.6 in the fiscal year 2012 & 2013.

**Table: 4.16**

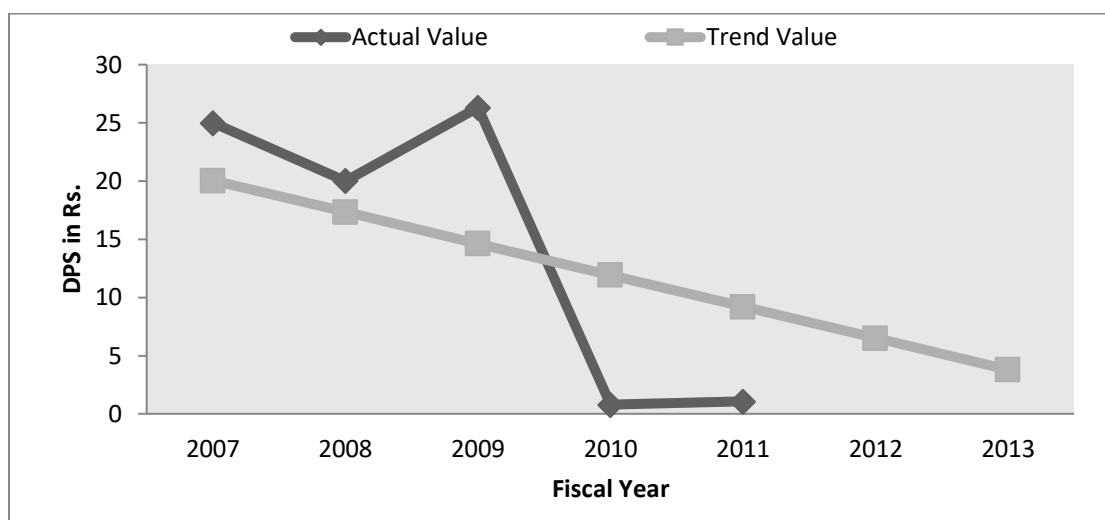
**Actual & Forecasted Trend Value of DPS of NIC**

Years	Actual Value	Trend Value
2007	25	20.05
2008	20	17.34
2009	26.32	14.63
2010	0.79	11.92
2011	1.05	9.21
2012	-	6.5
2013	-	3.79
Mean (a)		14.63
Intersect (b)		-2.71
Trend Value (Y)		$Y = 14.63 - 2.71X$

Source: Appendix 7 & 8

**Figure: 4.11**

**Actual & Trend Line of DPS of NIC**



The above table 4.16 and figure 4.11 shows that the trend line of DPS is in decreasing each year of NIC. ‘Y’ has shown the trend value of total DPS since the calculated value of ‘b’ is negative. It is found that the bank’s DPS is decreasing with time. If other things remaining the same, it shows that the DPS decreases by Rs. 2.71 Per year and it will be Rs. 6.5 and Rs. 3.79 in the fiscal year 2012 & 2013.

**Table: 4.17**

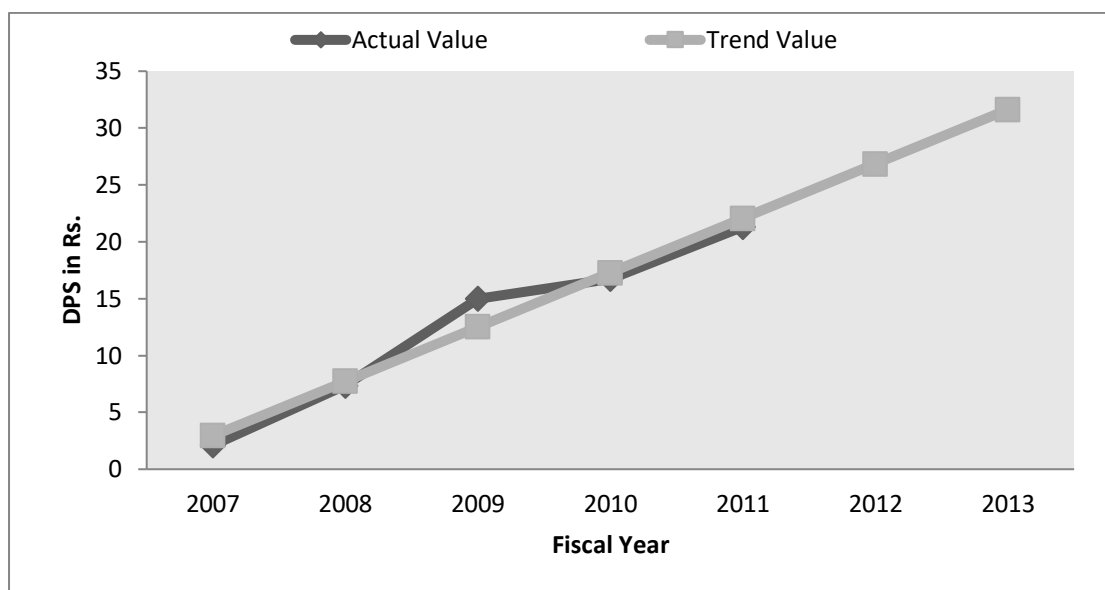
**Actual & Forecasted Trend Value of DPS of BOK**

Years	Actual Value	Trend Value
2007	2.11	2.95
2008	7.37	7.73
2009	15	12.51
2010	16.75	17.29
2011	21.32	22.07
2012	-	26.85
2013	-	31.63
Mean (a)		12.51
Intersect (b)		4.78
Trend Value (Y)		$Y = 12.51 + 4.78X$

Source: Appendix 9 & 10

**Figure: 4.12**

### Actual & Trend Line of DPS of BOK



The above table 4.17 and figure 4.12 shows that the trend line of DPS is in increasing each year of BOK. ‘Y’ has shown the trend value of total DPS since the calculated value of ‘b’ is positive. It is found that the bank’s DPS is increasing with time. If other things remaining the same, it shows that the DPS increases by Rs. 4.78 Per year and it will be Rs. 26.85 and Rs. 31.63 in the fiscal year 2012 & 2013.

#### 4.4 Major Findings

- During the study period, NABIL has highest average EPS of Rs. 93.47 and NIC has lowest average EPS of Rs. 31.11, SCBNL has highest SD of Rs. 27.41 and NIC has lowest SD of Rs. 4.89 and SCBNL has highest CV of 29.68% & EBL has lowest CV of 7.95. It indicates that SCBNL has the most inconsistent EPS and EBL has the most consistent EPS.
- Among all the sample banks, SCBNL has highest average DPS of Rs. 56 and BOK has lowest average DPS of Rs. 12.51, EBL has highest SD of Rs. and BOK has lowest SD of Rs. 7.68 and NIC has highest CV of 87.05% & SCBNL has lowest CV of 24.78%. It indicates that NIC has the most inconsistent DPS and SCBNL has the most consistent DPS.
- During the study period, SCBNL has highest average P/E ratio of 39.86 percentages and EBL has lowest average P/E ratio of 19.95%, NIC has

highest SD of 14.44% and EBL has lowest SD of 9.35% and NIC has highest CV of 59.60% & SCBNL has lowest CV of 35.21%. It indicates that NIC has the most inconsistent P/E ratio and SCBNL has the most consistent P/E ratio.

- Among all the sample banks SCBNL has highest average MPS of Rs. 3033 and NIC has lowest average MPS of Rs. 804.80, SCBNL has highest SD of Rs. 2357.82 and NIC has lowest SD of Rs. 373.94 and BOK has highest CV of. 64.34% & NIC has lowest CV of 46.46%. It indicates that BOK has the most inconsistent MPS and NIC has the most consistent MPS during the study period.
- In case of DPR, SCBNL has highest average DPR of 62.17% and EBL has lowest average DPR of 28.73%, NIC has highest SD of 38.78% and NABIL has lowest SD of 8.56% and NIC has highest CV of 88.03% & SCBNL has lowest CV of 17.10%. It indicates that NIC has the most inconsistent DPR and SCBNL has the most consistent DPR during the study period.
- Among all the sample banks NIC has highest average DY of 2.47% and EBL has lowest average DY of 1.68%, NIC has highest SD of 2.47% and SCBNL has lowest SD of 0.84% and EBL has highest CV of 102.83% & SCBNL has lowest CV of 46.65%. It indicates that EBL has the most inconsistent DY and SCBNL has the most consistent DY during the study period.
- During the study period, EBL has highest average EY of 5.865 and SCBNL has lowest average EY of 2.81%, NIC has highest SD of 2.36% and SCBNL has lowest SD of 1.06% and NIC has highest CV of 49.97% & SCBNL has lowest CV of 37.96%. It indicates that NIC has the most inconsistent EY and SCBNL has the most consistent EY.
- The coefficient of correlation (r) between DPS and EPS of NABIL is 0.6792. The calculated 't' value of NABIL is less than the tabulated value i.e.  $1.58 < 2.20$ , it shows that the relationship between DPS & EPS is insignificant or null hypothesis is accepted.

- The coefficient of correlation (r) between DPS and EPS of SCBNL is 0.7973. The calculated 't' value of SCBNL is greater than the tabulated value i.e.  $2.29 > 2.20$ , it shows that the relationship between DPS & EPS is significant or alternative hypothesis is accepted.
- The coefficient of correlation (r) between DPS and EPS of EBL is - 0.1212. The calculated 't' value of EBL is less than the tabulated value i.e.  $0.2 < 2.20$ , it shows that the relationship between DPS & EPS is insignificant or null hypothesis is accepted.
- The coefficient of correlation (r) between DPS and EPS of NIC is 0.7155. The calculated 't' value of NIC is less than the tabulated value i.e.  $1.77 < 2.20$ , it shows that the relationship between DPS & EPS is insignificant or null hypothesis is accepted.
- The coefficient of correlation (r) between DPS and EPS of BOK is - 0.9897. The calculated 't' value of BOK is greater than the tabulated value i.e.  $11.94 > 2.20$ , it shows that the relationship between DPS & EPS is significant or alternative hypothesis is accepted.
- DPS of NABIL is decreasing with time. If other things remaining the same, it shows that the DPS decreases by Rs. 4.5 Per year and it will be Rs. 25.5 and Rs. 21 in the fiscal year 2012 & 2013.
- DPS of SCBNL is decreasing with time. If other things remaining the same, it shows that the DPS decreases by Rs. 7 Per year and it will be Rs. 35 and Rs. 28 in the fiscal year 2012 & 2013.
- DPS of EBL is decreasing with time. If other things remaining the same, it shows that the DPS decreases by Rs. 1.68 Per year and it will be Rs. 21.28 and Rs. 19.6 in the fiscal year 2012 & 2013.
- If other things remaining the same, DPS of NIC decreases by Rs. 2.71 Per year and it will be Rs. 6.5 and Rs. 3.79 in the fiscal year 2012 & 2013.
- If other things remaining the same, DPS of BOK increases by Rs. 4.78 Per year and it will be Rs. 26.85 and Rs. 31.63 in the fiscal year 2012 & 2013.

## **CHAPTER - FIVE**

### **SUMMARY, CONCLUSION & RECOMMENDATIONS**

#### **5.1 Summary**

Dividend decision of the firm is yet another crucial area of financial management. Dividend refers to the distribution of earning to common stockholders in return to their investment. Paying dividend to shareholders is an effective way to attract new investors to invest in shares. The important aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most significant internal sources of financing for the growth of the firm. Dividend policy refers to the issues of how much of the total profit, a firm should pay to its stockholders and how much to retain for investment so that the combined profit and future benefits maximize the wealth of stockholders.

Dividends are generally paid in cash because it is easy to pay to shareholders. What and how much it is desirable to pay dividend is always a controversial concern. Thus, in order to strike a balance between paying dividend and retained earnings, it is necessary for the firm to adopt and

effective and relevant dividend policy. The firm's directors periodically meet in order to decide whether to pay dividend and to determine the amount and form of dividend payment. Dividend policy means some kind of consistent approach to the distribution versus retention decision. Dividend policy determines the amount of earnings to be retained and payout by the firm. Various questions related to the payment of dividend or retain the earnings are contained in the dividend policy. The dividend policy adopted by the firm should be such that it strikes the proper balance between the financing decision and wealth maximization decision. There is inverse relationship between the retained earnings and cash dividends. When the firm retains earning, providing necessary equity, the amount of dividend decreases which may affect the market price of the stock adversely. This leads to the increase in future earnings per share.

Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividend means the immediate cash flows to investors, which is good but lower future growth is bad. Thus, the dividend policy should be optimal which balances the opposing forces and maximizes the stock price. The dividend policy affects financial structure, the flow of funds, corporate liquidity and investor's attitude; it is related to overall financing decision as dividend payout reduces the amount of retained earnings that are paid to shareholders in return to their investment. So the purpose of this study is to make comparative analysis of dividend policy of selected banks.

To fulfill the research objectives the study is divided into five chapters. In the first chapter, describes the major issues to be investigated along with the general background, brief profiles of the sample banks statement of problem, objectives, significance of the study, limitation of the study and organization of the study. Second chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a

discussion on the conceptual framework and review of the major studies in general. The third chapter describes the research methodology employed in the study. This chapter deals with the research design, source of data, methods of analysis, analysis of financial indicators and variables, test of hypothesis, definition of statistical tools etc. The Fourth Chapter deals with the presentation and analysis of data to indicated quantitative factors on dividend policy using statistical tools and techniques. This chapter also includes the major findings. The Fifth Chapter states summary, conclusion and recommendations, compares them with other empirical evidence to the extent possible and provides some suggestions.

## **5.2 Conclusions**

Dividend decision is one of the major decisions of managerial finance as it directly or indirectly determines the company's profitability. Shareholders wealth can be maximized through dividend or capital gains. When a company pays dividend to the shareholders, then they are benefited directly. If the firm retains the earnings to exploit growth opportunities shareholders can expect to be benefited indirectly through increase in the price of their shares. In other words, it is a right dividend decision, which maintains a balance between shareholders interest with that of corporate growth from internally generated funds. The funds that could not be used due to lack of beneficial investment opportunities should be better paid as dividends.

The above mentioned major findings led this study conclude that the sample banks have got sufficient earnings but SCBNL is paying high dividend and EBL is paying low dividend. Other things remaining the same, dividend per share is not more stable than the dividend payout ratio. That's why dividend per share and other variable have been highly fluctuated. Another interesting conclusion is that market price of share is attracted by dividend. Lastly, the sample banks have not clearly defined dividend policy.

## **5.3 Recommendations**

The recommendation is based on the empirical findings of the study and observation of the EPS with DPS and other variables of sampled commercial banks and the empirical view of its impact of dividend on share price by the financial performance. The following recommendations are made;

- The DPS analysis shows that there is not any consistency of dividend policy in all the sample banks. Therefore, these banks need to create somehow paying reasonable DPS every year, it is because higher DPS creates positive attitude of shareholders & investors as the psychological value of shareholders is also valued as the assets of banks.
- The sample banks have great fluctuation in DPS, EPS, DPR, Dividend Yield, Share Price and PE Ratio. The fluctuations should be controlled and the consistency in the variables has become most necessary.
- The practices of dividend payment adopted by the banks are not stable. In many cases a small amount of dividend are paid without considering the risk free rate of return. Further the price of share on which the dividend is not paid on upward trend, this creates the problem to judge the true value of share in the market. Therefore, the clear policy on payments of DPS should be developed and dividend should be control and stable as to pay and judge properly.
- Payment of dividend is neither static nor constantly growing. It is highly decreasing. Such way of paying dividend could not impress the market positively. So, these banks are advised to follow either static or constantly growing dividend payment policy. It would be better to fix and declare the amount of dividend in general meeting. This is not important only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.
- Banks should have long term visions regarding earning and dividend payment that helps to cope with challenging competitive situation of

present world. Various integral and external factors should be considered before taking decision.

- Formulation of dividend policy will clearly guide the way on how to follow dividend distribution strategy. The policy should be determine whether the banks is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends. When should be the long run dividend payout ratio, either it is pure residual policy, fixed dividend payout policy or smooth residual dividend policy should have been clearly explained by the dividend policy.
- The legal rule for the treatment of dividend is must for the smooth growth of any enterprises as well as growth of national economy. Some of the companies are in position to pay dividend while considered some case. But some companies are suffering loss and there are efforts to minimize rather than payment of dividend. Therefore, the government should act in favor of investors and bind these companies by distinct rules.
- Further studies can be conducted by using others organization as sample, by using other sophisticated tools and techniques, by using other aspects as well.