

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Dividend is the portion of net earning or profit, which is distributed to shareholder by a company. In every financial year, the business activities of a company, if the financial statement of it shows the net profit, the board of directors decide to declare dividend to shareholders. The payment of corporate Dividend is at the discretion of the board of director. Most company pay dividend yearly in Nepal. Dividend may be paid in cash, stock or merchandise. Cash dividends are the most common merchandise. Merchandise dividends are the least common. Stockholders is not promised a dividend but he/she groups to expect certain payment on the historical dividend pattern of firm before dividend are paid to common stockholders the claim of all creditors, the government and preferred stockholders must be satisfied.

The policy of the company on the division on its earning or net profit between shareholders as dividend and re -investment in the firm is known as dividend policy. The dividend policy reflects the firm's decision to pay out earning versus retaining them for re-investment in the firm. Any change in dividend policy has both favorable and unfavorable effects on the price of the firm's stock. Higher dividend means higher cash flow to investors, which is good but lower future growth, which is bad. The optimal dividend policy balances this opposing force and maximizes the price of the stock. The dividend policy requires firstly determinations whether a dividend should be paid; secondly it has to determine how much it should be. Because dividend policy affect both long term financing and return to shareholders. All aspect and questions related to payment of dividend are contained in a dividend policy. It includes percentage, timing and method of payment of dividends, Cash dividend and retained earning has a reciprocal

relationship, If retained earning is kept more by the company less will be Cash dividend and vice versa. The management has to choose between distributing profits to shareholders and plugging them back in to the business.

The decision depends up on the objectives of management i.e. wealth maximization, if it will lead maximization of the wealth of the owners. If not, it is better to distribute them to finance investment programs. The relationship between dividend and value of the form should be criterion for making dividend decision (*Panday; 1999:770*).

Dividend policy decision is one of the major decision of financial management because it affect the financial structure the flow of funds of students corporate liquidity and investors attitudes. After the successful completion of fiscal year having successful profits, management decides to declare dividend to shareholders. The important aspect of dividend policy is to determine the amount of earning to be retained in the form. It is therefore wise policy to maintain a balance between shareholders interest with that of corporate growth from internally generated funds. The return to shareholders should be better paid as dividend.

i) Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Ltd (SCBNL) has been in operation in Nepal Since 1987. It was previously operated as Nepal Grindlays Bank Ltd and was owned by ANZ Grindlays Bank, UK. In August 2000, the ownership of ANZ Grindlays Bank was transferred to Standard Chartered Bank Limited (SCBL), Australia since then, Grindlays Bank, Nepal has been managed and owned by SCBL, Astralia and the name has been altered to 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 who has 75%

ownership in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status the largest international Bank currently operating in Nepal .

The banking services range includes trade finance capabilities as well as working capital and medium term loan facilities, remittances, deposit services, credit card and ATM, for international firm, Standard Chartered Bank Nepal Ltd. Specializes in foreign trade, bondong and Remittances services and foreign exchange (www.standardchartered.com.np).

ii) NABIL BANK

The first joint venture bank, Nabil Bank Ltd was established with technical services agreement in the country in 1984 under management of Dubai Bank Ltd. United Arab Emirates. Its ownership structure consists of 50% share from Dubai Bank Ltd., 20% share from financial institution of Nepal and rest 30% share from the general public. Its initial paid up capital was 30 million.

At present, its capital structure consist with authorized capital 100 Million, issued capital 50 million and paid up capital 49.2 Million. 50% of the share is in the name of foreign partner NB International, Ireland.

1.2 Statement of the Problem

It is fact that various organizations are running in Nepal but some of them are paying dividend regularly. Joint venture banks have sufficient earning and are capable for payment of dividend. Dividend is not being distributed by these banks on the basis of profit. Sometime, they pay low or high dividend in relation to profit. Dividend decision is an important pact of financial management. Generally, MPS of is affected by the rate of dividend distributed by the company. It is the crucial decision for the management to distribute it's profit in different sector. Therefore it is great challenge a company to distribute it's profit. There is no specify policy of management of earning in Nepalese organization. The

commercial banks are also still in confusion that which types of dividend policy will make positive impact on MPS and investors are unknown about the practice of dividend policy of commercial banks.

In this regard, there are no specific rules and regulations for payment of dividend in the country. It is a type of problem to the investors or shareholder for making decision on their long term investment.

Thus there are many dimensions to be considered on dividend theories, policy and practices and still many questions unanswered and rose by the dividend policy. The study seeks to answer such following questions.

1. What type of dividend policies and practices are being adopted by the banks?
2. Why Banks with similar profit range have different dividend payment decision?
3. Is there any relation of dividend with EPS and MPS of the company?
4. What are the major types of dividend followed by the commercial banks of Nepal

1.3 Objective of Study

The main objective of this study is to compare dividend policy between Nabil Bank limited and Standard chartered Bank limited. The Specific Objectives of the Study are as follows:

1. To see the dividend practices of selected banks.
2. To examine the relationship between dividend and market price of stock.
3. To examine the relationship between dividend and earnings.
4. To examine the relationship between dividend and stock price.

1.4 Signification of the Study

Being dividend is one of the crucial factors; dividend policy decision is one of the most important decision. The study may deliver crucial information for those respective institutions taken as simple since the study in dividend policy decision

of these companies are made. The result of the dividend payment decrease if the internal financing. Sometimes the firm would be unable to invest in good opportunity. It may be barrier for the growth of organization, investors happy and maintain goodwill of the organization.

Dividend policy has one if the effective ways to attract new investors. To keep present to the economic development most of investors are interested to invest in banks. This study would provide crucial information for the investors, academicians, students stakeholders and organization as well. It would be of much help to establish clear concept about the return resulting from investing in the stock.

The Main Signification of this Study has been given below:

- This study will assist to formulate dividend policy to the policy makers while marketing their dividend policy. They will be able to know the reasons for inconstant fluctuation of dividend distribution in Nepal.
- This study will be a matter of interest for academicians, students and invest. They will be able to understand the current dividend practices in Nepal
- This research might have the clear conception over their investment. They will be able to distinct the right investment among all investment opportunities.

1.5 Limitation of the Study

Notwithstanding the analysis performed and generalization drawn regarding the influence of dividend of a company and variation in its market price of stocks, there is constant place for arguing about its accuracy and reliability. There are couples of limitations, which weakness the generalization, eg; inadequate coverage of industries time period taken reliability of statistical tools used and other variables, which are not included in the study.

This has following Limitations

1. Only two banks will be selected out of 25 commercial Banks.
2. This study will cover five years period of date.
3. The Primary information will not be taken in to consideration for the study.
4. Only cash dividend will be analyzing among various forms of dividend.
5. There will be time and resource constraints.

1.6 Research Methodology

Research methodology is a systematic way to solve research problem. A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used.

Nature and Sources of Data

This stud is mainly based on secondary data. Secondary data are used to analyze the dividend policy of banks. The supplementary data and information are obtained from the financial statement and annual reports of listed companies of concerned companies.

Population and Sample

There are twenty Five numbers of commercial Banks in Nepal, out of them two are selected for companies purpose, namely Nabil Bank Limited and Standard chartered Bank.

1.7 Organization of the Study

This study has been organized in five chapters; Introduction Review of the Literature, Research Methodology. Presentation and Analysis and Summary, Conclusion and Recommendation. A brief detail of each chapter has been defined below:

Chapter - I: Introduction

The first chapter deals with the subject matter of the consisting of general background of the study, statement of the problem, objective of study, limitation of the study and organization of the study.

Chapter - II: Review of Literature

In the second chapter, the relevant and various studies have been reviewed. This chapter also describes a chronological presentation of conceptual setting in the subject matter of the study.

Chapter - III: Research Methodology

The third chapter explains about the research methodology which is evaluate the divided policy of these bank banks. It consists of research design, sources of data. Population and sample, data analysis tools. The chapter also present the results relating to dividend.

Chapter - IV: Data Presentation and Analysis

The fourth chapter deals with the presentation and analysis of relevant data and information through a define course of research design. The chapter also present the results relating to dividend.

Chapter - V: Summary, Conclusion and Recommendations

The last chapter is concerned with the summery of the study. Various conclusions, suggestion and recommendations for improving the future performance have been drawn from the study.

Finally an extensive bibliography and appendices are presented at the end of the chapter.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Introduction

Dividend of policy of great importance because it affects the financial structure, the flow of funds, Corporate liquidity and investors attitude. Thus it is one of crucial decision and firm attempts to maximize the value of firms common stock by means of this decision. Due to its rapidly increasing importance, many thoughts provoking ideas in this area are upcoming which needs to be reviewed. This chapter highlights upon the literature that are concerned to this subject. Similarly, what others have said done or written etc. About the dividend policy are also reviewed, which provides useful input in this study. The review of literature is divided into parts viz: one is conceptual framework and other one is review of different studies.

2.1.1 Conceptual Framework

Dividend policy plays a vital role for maximization of the wealth and the growth of the company. Shareholders always expect a higher return on their investment. Dividend is that portion of the net earning dividend by the company among the shareholders as return for their money invested or in other words dividend is a periodic payment made to the shareholders to compensate them for the use of and risk to their made by a corporation to its shareholders out of its net earning or profit for the year.

Dividend policy means some kind of consistent about the distribution versus retention decision. In other word, the policy for a company on the decision about the allocation of its profit between distribution to shareholders as dividend and retention for the investment is known as dividend policy. All aspects and question related to payment of dividend contains in a dividend policy.

The dividend policy adopted by the firm should be such that it strikes a proper balance between the financing decision and investment decision. There is reciprocal relationship between the retained earnings and cash dividend. If retained earnings are kept more by the company less will be dividend and vice versa. It is in the sense that the firm has to choose between distribution of profit to shareholders and plugging them back into the business. The decision depends upon the ability to achieve the objective of wealth maximization. The firm will use the net profit for reinvestment. If reinvestment leads to maximization of the wealth of the shareholders, if not, it is better to distribute them to the shareholders.

"How much it is desirable to pay dividend is always a controversial topic. Because owners expect higher dividend from company but company ensure toward setting aside funds for maximization of the overall shareholders wealth financial management is therefore concerned with the activities of corporation that affect the well being of stockholders. That well-being can be partially measured is the market value of stock" (*William; 1980:1*).

The shareholders expect, at some point a distribution of the firm's earnings in the form of dividend. This expectation takes priority over the desire to retain earnings to finance expansion and growth. Thus shareholders expectation can be fulfilled through either capital gain or dividends. "Since dividends would be more attractive to shareholder, one might think that there would be a tendency for corporations to increase distribution of dividend. But one might equally pressure that gross dividends would be reduced somewhat, with an increase in net after tax dividends still available to stockholders and increase in retained earnings for the corporation." So the firm should maintain a policy between distribution of dividends and retained earnings (*Thorpe; 1994:90-91*).

Dividend are generally paid in cash, therefore it reduces the cash balances of the company "The dividend policy must be formulated with the basic objective of maximizing the wealth of the firm's owners and providing for the sufficient financing. These objectives are not mutually exclusive but rather interrelated".

2.1.2 Types of Dividend

Generally, dividend is paid in cash to shareholders when companies are incapable to pay cash dividend they can use different forms of dividend payment for satisfying their shareholders. The forms of dividend depend upon various matters related with their objectives and polices. "The type matter of attitude of directors and partly a matter of the various circumstance and financial constrains that bound corporate plan and policy" (*Shrestha; 1980: 670*).

2.1.2.1 Cash Dividend

Cash dividend is a portion of earning in cash to the shareholders in proportion to their shareholding. Both total assets and net worth of the company decrease at time of the payment of cash dividend. Company has to maintain required level of cash for distribution of cash dividend, otherwise it may be difficult and fund must be borrowed for the purpose. Incase of stable dividend policy, cash arrangement will not be difficult. A cash budget should be prepared for coming year and required cash may be borrowed for distribution of cash dividend in time. When unstable dividend policy is followed it is difficult to manage cash for payment of dividend in the from of cash. "The market price of the stock drops in most cases by the amount of cash dividend distributed" (*Gautam & Thapa; 2060:258*).

2.1.2.2 Stock Dividend

Stock dividend or Bonus share represents a distribution of share in addition to he cash dividend to the existing shareholders. A stock dividend occurs when the Board of Directors authorizes of the company are transferred to the capital stock

account which does not effect in the assets and liability of the company. Stock dividend is simply a means of re-capitalizing earning by making the shareholders feel that they are getting something of value. Under stock dividend each stockholders receives additional shares of stock but the proportionate holdings of each remains the same. This has the effect of increasing the number of outstanding share of the company which ultimately results the decrease in EPS. Due to decrease in EPS the market price of the share also decrease compared to the stock price before issuing stock dividend. There is no change in the proportionate ownership of the company after issuing stock dividend or bonus share.

There is no change in the proportionate ownership of the company after issuing stock dividend or bonus share. Major joint venture of Nepal have followed the practice of paying along with cash dividend in order to meet their capital adequacy ratio as per the directive of Nepal Rastra Bank.

2.1.2.3 Stock Split

Numbers of stock may be increased or decreased under the stock split and there is no change in capital accounts. In a two for one split, stockholders receives two shares for each one previously held. Upon split of the share, the book value of the share also changes. Company normally splits the shares for decrease in the price of the share and to attract for small inventors. Such type may increase the price of the due to increase in demand of the share. Sometimes, stock split usually reversed for occasions when the company wishes to achieve a substantial change in the market price per share. "When the market price per share of the company may adopt reverse split which may increase the market price per share and helps to maintain efficient situation of the company. The reduction of the number of outstanding share by increasing per share per value is reverse split" (*Pandey; 1993:650*).

2.1.2.4 Stock Repurchase

When companies are unable to utilize its resources for profitable area, they can utilize such type of funds on purchases of own shares. It may help to increase in profitability and company can distribute dividend for its shareholders. A company's repurchase of its own stock can be serve as a tax advantage over substitute for dividend payment. Corporate share repurchase often viewed as an alternative from of dividend policy. "A repurchase is a sign that manage who process as insider knowledge of the firm, are convinced that their stock is worth than its current price" (*Paul and Davi 1986:33*).

In the developed capital market, it is allowed to repurchase the stock, Whereas Nepalese Company Act, 1997 section 47 has prohibited to companies in purchasing of its own shares.

2.1.2.5 Bond Dividend

Bond dividend is distributed to its shareholders in form of bond, Bond dividend assists to postpone the payment of cash. In other words the company declares dividend in the form its own of its own bond with a view to avoid cash outflows for the time being. The bond may be long term or short based on the requirement of the fund in the organization. Theses are issued when companies want to avoid interest of the loans.

2.1.2.6 Scrip Dividend

When earning of the company justify dividends but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of scrip. Company issues and distributes shorts-term transferable promissory notes, which may be interest bearing or not. It is justified only when company has really earned profit and has only wait for the conversation of the other current assets into cash in the course of operation. This type of dividend does

not change the total number of stock but it issues promissory not in the proportion of share hold by the shareholders. It is replacement of the cash dividend for short period. The Company wants to maintain an establish dividend record without paying out cash immediately.

2.1.2.7 Property Dividend

Property dividend is a type of dividend in which the payment is made to the shareholders with assets of property other than cash. This form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business. Company's own products and the securities of subsidiaries are the example that has been paid as property dividend. A stockholders cannot be compelled to take the property distributable to his on account of dividend; if stockholders refuse to take property dividend, the company may return in it trust for him or possibly sell it for his benefit (*Gestberg; 1996: 405*). He does not have to option to receive equivalent amount of cash in lieu of a property divided. Perception value of property dividend cannot be as same cash dividend therefore it is very least applied means to dividend. In Nepal, there is no tradition of paying property dividend.

2.1.3 Types of Dividend Polices

The dividend amount payment out of profit, but from past and present, is guided by dividend policy the firm follows. Generally, dividend can be categories as conservative, liberal, moderate and progressive dividend policy. Whatever the dividend policy followed by the corporate firm, it is the concept that resolves the apparent conflict by finding optional dividend payout that balance the need of shareholders for their current incomes and expected future growth of the corporate firms so as to maximize the value of the firm. The optional dividend policy is the dividend policy that sticks a balance between current and future growth and

maximizes the firm's stocks price. We can simply group them into following categories.

2.1.3.1 Stable Dividend Policy

When a firm constantly pay a fixed amount of dividends and maintains it for all times to come regardless of fluctuations in the level of its earnings, it is said to have pursued a relatively stable dividend policy. In such a policy stockholders are assured of fixed dividend per share. During the period of prosperity the firm withholders all extraordinary income of the business to use them to maintain dividend during lean years. Stability of dividend policy does not mean stagnation in dividend payout ratio. In fact slow but steady change is the prime feature of a stable dividend policy. When the company's earning tend to rise regularly and the management feels satisfied than increased earning are sustainable, permanent dividend per share is increased. Likewise, dividend will not be allowed to decline in corresponding with a fell in business earning until it is felt that the firm will not be able to recover from the setback.

2.1.3.2 Policy of Regular Plus Extra Dividend

The policy refers to the combination of regular dividend with the payment of additional dividend whenever earnings are signification high to warrant it. Companies followings regular dividend policy pay out dividend constantly to stockholders at constant rate and do change the payout ratio unless it is believed that change in earnings are permanent. When profit of the company swell, the management may decide to distribute a part of the increased earning as extra dividend instead of enhancing the regular dividend payout ratio.

2.1.3.3 Policy to Pay Irregular Dividend

Company following this policy does not pay out a fixed amount of divided per share. Instead, dividend per share is varied in correspondences with change in

level of earnings. Larger earnings mean higher dividend and vice-versa. This policy is based on the management belief that stockholders are entitled to dividend only when earnings and liquidity position of the firm warrants. Generally, this is adopted by firms with unstable earnings.

2.1.3.4 Fixed Payout Policy

Corporate firms establish fixed payout policy in which fix percentage of profits will be paid out each year as dividend. Dividend payout Ratio relatively remains constant and may increase with the increase in profit while dividend per share fluctuates from year to year.

2.1.3.5 Policy of No Immediate Dividend

In this policy, management of company may declare no dividend despite large earnings of the company. This policy is usually purposed when the firm is a new and rapidly growing concern which needs a large amount of funds to finance its expansion programs, when the firms access to capital market is difficult or when availability of funds is costlier, when shareholders have agreed to accept higher return in future or they have strong preference for long-term capital gains as opposed to short term dividend income. Policy of no immediate dividend should be followed by issues of bonus shares so that the company's capital increase and amount of reserves and surplus reduced.

2.1.4 Factors Influencing Dividend Policy

Formulating a policy regarding determination of amount of dividends to be paid out to the stockholders requires careful consideration of a myriad that come to bear upon dividend policy. It should be noted that although the factors may affect the payment of dividends, there is no necessary relationship between these factors and actual dividend policy (*Weston & Copeland; 1992: 628*).

The factors affecting the extent to pay out dividends instead of retaining earnings are briefly outlined below:

2.1.4.1 Legal Rules

The legal rules provide the framework within which dividend policy can be formulated. Legal rules emphasize three rules (*Weston & Copland; 1992:629*).

a) The net Profit Rule

The net profit rule provides the payment of dividend from past and present earnings only.

b) The Capital Important Rule

This rule prohibits the payment of liquidating dividend (i.e. payment of dividend out of capital). Liquidating dividend would mean distributing dividend from investment rather than earnings.

c) The Insolvency Rule

This rule prohibits the payment of dividend while the firm is insolvent condition where liabilities are greater than assets.

2.1.4.2 Investment Opportunities and Stockholders Preferences

Appropriate Dividend policy of a firm is one that is designed in the light of company's investment opportunities and stockholders' preference. If the company has host of profitable investment opportunity in hand and the stockholders have preference long-time gains, the management has no alternative but to retain entirely or sizeable portion of its earnings to finance the investment projects. However, the management will be in dilemma if the company has a number of potential investment proposals requiring plenty of funds and at the same time its stockholders have strong preference for divided income. In such a situation the

finance manager must balance the net preference of stockholders against the different cost of retained earnings and net stock before deciding about deciding about the size of dividends to be distributed.

2.1.4.3 Growth Rate(Rate of Assets Expansion)

A rapidly growing concern will have regular needs of long-term funds to seize upon favorable opportunities and for that purpose it may find it expedient to finance a greater part of its expansion. Such a decision will mean that dividend must be kept at a minimum. But a company, which does not need additional funds for expansion or for replacement of assets, may distribute a high portion of its earnings.

2.1.4.4 Liquidity Position

Even if a firm has a record of earnings, it may not be able to pay cash dividends because of its liquidity position, Indeed, a growing firm, even a very profitable one, typically has a pressing need for funds. In such a situation the firm may elect not pay cash dividends.

2.1.4.5 Debt Repayment & Restriction on Debt Contract

The dividend policy of corporate firm using debt is also affected by decision to repay debt on or before maturity which generally requires more retention of earnings, lowering the dividend rate. In case a company is indebted with long-term debt, the provisions of debt agreements greatly influence dividend payments. There may be an agreement with lenders which may either prevent the payment of dividend entirely or limit the amount of dividend to be paid or disallow payment of dividend until certain conditions are fulfilled.

2.1.4.6 Stability of Earnings

Dividend policy followed by corporate firm to a greater extent depends on rate of earnings and its stability in several years. Corporate firm with high and stable earnings are expected to gradually increase the percentage of earnings for dividend payment. Similarly, a firm that has relatively low and fluctuating earnings is less likely to pay out a higher percentage of dividends.

2.1.4.7 Control

Control is also an important factor that influence the pattern of income distribution. The issues of additional common stocks for procuring funds dilutes control of the dominant group in that company while raising risk. In view of this, the payments owners' desire to maintain control dictates the policy of withholding dividend payment to build up funds for growth and other purposes.

2.1.4.8 Access to Capital Market

A large well establish corporate firm with a record of profitability and stability of earning has easy access to capital markets and another forms of financing. Such firms are more likely to have higher percentage of dividend payout. Out the contrary, a small, new or venturesome firm, however is riskier for potential. Its ability to raise equity or debt funds form capital markets is restricted, and hence it must retain more earnings to finance its operations.

2.1.4.9 Ownership Structure

In a closely held company with a few but wealthy stockholders, the management will always retain larger share of profits so as to reduce tax liability of stockholders. But if a firm comprises a few wealthy stockholders and others in middle income group. It is difficult to take a define stand because of conflicting interest of the owners. The former may prefer low dividend payout rate whereas the latter is very likely to favor relatively high dividend payout rate. The dividend

policy in such a company may be a compromise between a low and high payment-an intermediate payout ratio. However, the stockholders of large, widely held corporation might prefer a high dividend payout.

2.1.5 Review of Dividend Theories

The classic work of John Bull William in 1938 led to the development of dividend theory. Importance of this work was felt only in 1958 and afterwards when Modigliani and Miller published their first article on the evaluation of dividend policy and capital structure of the firm. Since then number of conflicting dividend theories have evolved. There is still conflicting thoughts coming in financial as regards to effect of divided policy in firm's equity value.

The study of dividend policy & practice and related theories on it occupies an important place in the theory corporate finance. Broadly speaking, these theories can be grouped into two categories, viz, theories relating to relevance of dividend decision. The former set of theories with which James E Walter, Myron Gordon, John Linter Richardson are associated, hold that there is a direct relationship between dividend polices of the firm and the market valuation of its earnings since the investors are not neutral as to how the earning stream is split between dividends and retention.

Irrelevance approach of dividend decision was propounded Franco Modigliani. According to this scholars dividend decision is irrelevant and it does not in any way affect share values as investors are basically indifferent to returns in the form of dividends or capital gains.

The major theories of dividend have been explained in following sections:

2.1.5.1 Dividend Irrelevance Theory

Dividend policy is considered irrelevant if investment decision is independent of financing decision. As long as is faced with investment projects having returns exceeding those that are required, the firm will use earnings and increase the equity base that will support to finance these projects. If the firm has earnings left after financing all acceptable investment opportunities these earnings would then be distributed to shareholders in the form of cash dividend. If not there, there will be no dividends. Viewed in this way, dividend is treated as a passive residual decision. In such case, dividend payout fluctuates depending on the available positive NPV of investment opportunities.

Van Horn (2003) states that the treatment of dividend policy as a passive residual is determined solely by the availability of acceptable investment proposals. If there are no proposals that are profitable, the investor is indifferent between dividends and retention by the firm. If the investment opportunities promise a return greater than their required rate of return, the investor is happy to have the company retain earnings. Contrarily, if the return is less than the required return, the investor prefers dividends (*Van, Horne; 2001: 456*).

2.1.5.2 Modigliani Millers Model (M-M's Model)

Modigliani & Miller (1962) developed a theory for the irrelevance of dividend which is the most comprehensive and logical. According to them, dividend policy does not affect the value of the firm and is, therefore, of no relevance. They are of the view that the sum of the discounted value per share after dividend is equal to the market value per share before dividend is paid. It is the earning potential and investment policy of the firm, rather than its pattern of distribution of earnings, that affects the value of the firm.

M-M approach is based on some assumption like existence of perfect capital market where all investor are rational. Information is available to all at no cost; there are no transaction costs and floatation costs. There are no such investor as could alone influence market value of share. There does not exist taxes. Firms investor policy is well planned and is fixed for all the time to come. There is no uncertainly as to future investments and of the firm.

The crux of the M-M argument is that shareholders do not necessarily depend on dividends for obtaining cash. They can get cash by devising "home made dividend" from arbitrage process without any dilution in their wealth. According to M-M, the effect of dividend payments on shareholders wealth is offset exactly by the other means of financing. M-M suggests that the sum of the market value per share after financing and dividends paid is equal to the market value per share before the payment of dividends. The stocks decline in market price because of external financing offsets exactly by the payment of the dividend. Thus a stockholders is said to be indifferent between dividends and the retained and subsequent capital gains.

MM view that the market price of share at the beginning of a period as equal to the present value of the dividend paid at the end of the capital plus the market price at the end of the period. Thus

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

Where,

P1= Market price of share at the end of the year

D1= Dividend paid at the end of the year

Po= Price of a share at the beginning of the year

K= Cost of capital

The value of the firm (V) if no new financing exist can be written as:

$$V = np_0 = \frac{n(D_1 + P_1)}{1 + K} \dots\dots\dots (2)$$

Where,

n = number of shares outstanding

if the firm sells 'm' number of new shares at time 1 at a price of P1, the value of the firm at time 0 will be,

$$nP_0 = \frac{nD_1 + (n+m)P_1 - mP_1}{1 + K} \dots\dots\dots (3)$$

Thus the total value of the firm as per equation 3 is equal to the capitalized value of dividends to be received during the period plus the value of the number of shares outstanding at the end of the period less the value of the newly issued shares.

A firm can finance its investment programme either by ploughing back its earning or by issue of new shares or both. Thus, total amount of new shares that the firm will issue to finance its investment will be:

$$mP_1 = I - (X - nD_1) \dots\dots\dots (4)$$

where,

mP_1 = Total amount of funds raised by issued of the new shares to finance investment projects

I = Total new investment during period 1

X = New profits

If equation (4) is substituted in equation (3), we find the following equation:

$$nP_0 = \frac{(n+m)P_1 - I + X}{1+K} \dots\dots\dots (5)$$

Thus the value of firm is unaffected by dividend policy. Because it is possible to restate the value of the firm in equation (5) without dividends, D which shows that dividends have no value of the firm when external financing is used MM conclude that the current value of firm is independent of its current dividend decisions. What is gained by stockholders in increase dividends is offsets exactly by the decline in the terminal value of their stock (*Weston & Copeland; 1992: 632*).

2.1.5.3 Dividend Relevance Theory

The conclusion derived by MM are quite consistent and appealing but assumptions on which they are based are not well-founded and realistic (*Ramcharan, 2001:53*). MM's hypothesis, therefore lacks, practicality and have been criticized widely. Shareholders are not indifferent to dividends and capital gains and dividend does influence the value of firm. James E. Walter Myron Gordon and John Linter have conducted major studies to support relevancy of dividend which are explained below.

2.1.5.4 Walter's Model

Walter's Model (1966) one of the earlier theoretical models, clearly indicates that the choice of appropriate dividend policy almost always affects the value of firm. He has studied the significance of the relationship between the firm's internal rate of return, r (i.e. actual capitalization rate) and its cost of capital, k (i.e. normal capitalization rate) in determining such dividend policy as will maximize the wealth of the stockholders (*Srivastava; 1984:281*).

Walter's model is based on the some assumption like the firm finance its entire investment by means of retained earnings. New equity stock or debenture is not issued to raise funds. Internal rate of return (r) and cost of capital (k) of the firm remain constant. The firms earning are either distributed as dividend or reinvested internally. Beginning earnings and dividend if the firm never change. The firm has a very or infinite life.

The formula used by Walter to determine the market price per share is

$$P = \frac{D + \left(\frac{r}{k}\right)(E - D)}{k} \dots\dots\dots (6)$$

Where,

P = market price per share

D = Dividend per share

E = Earning per share

R = Internal rate of return (Actual capitalization rate)

K = Cost of capital (Normal capitalization rate)

Walter's model seeks to measure the effect of dividend on common stock by comparing actual and normal capitalization rate. Walter considered firm as growth firm if r/k is greater than 1. Such firms must reinvest retained earnings to finance investments. Larger the firms retain higher the value of the firm. Optimum dividend payout ratio for such a firm will be Zero. Normal firms whose r/k=1 For such firm dividend policy will have no effect on the market value per share. Firms whose r/k is less than 1 are regarded as declining firms. In such firm market value of the firm will tend to be maximum when does not retain earnings at all (i.e. pays out all earning as dividends).

2.1.5.5 Gordon's Model

Another popular model analyzing between dividend policy and valuation of firm is developed by Gordon (1962). According to this model, a corporation's share price dependent of the dividend rate. The Gordon's Model is based on the some unrealistic assumptions (*Srivastava; 1984: 284*). it assumes the firm to be an all equity firm and absence of leverage in its capitalization. There is no outside financing and corporate growth is expected to derive form retained earnings. The internal rate of return, (r) of the firm remains constant.

The capitalization rate, k for the firm remains constant regardless of change in risk completion of the firm. The firm derives its earnings in perpetuity. There does not exit corporate taxes. Retention ratio, b, once decided will remain unchanged under all the circumstances.

Based on the assumptions, Grordon developed following model to determine market value of share:

$$P_o = \frac{EPS (1-b)}{K-br} \dots\dots\dots (7)$$

Where,

P_o = Price of Share

EPS_t = Expected earning per share at time t

b= Retention ratio

(1-b)= Percentage of earnings distributed as dividend

$EPS_t (1-b)$ = Expected dividend per share at time t

Br= Growth rate (i.e. rate of return on investment of an all equity firm)

K= Cost of Capital

Equation (7) shows relationship between expected earnings (EPS_t), dividend policy (b), internal rate of return (r), and cost of capital (k) in determination of value of the share. It shows that value of share is equal to the current dividend by the amount by which the rate of return that the investors require exceeds the expected growth in the dividend.

The market value of share (P_0), increases with the increase in retention ratio (b) for firms with growth opportunities (i.e. $r > k$). The market value of the share increases with the payout ratio ($1-b$) for declining firms with $r < k$. The market value of share is not affected by dividend policy for normal firms whose $r = k$.

Gordon in his study concluded that dividend policy of a firm affects its value. Investors are not indifferent between current dividends and retention of earnings. Investors value the present dividend more than future capital gain. As such an increase in dividend payout ratio leads to increase in the stock prices. However, Gordon's model though theoretically sound is too bounded by the unrealistic assumptions, which has decreased its practical value in real financial world.

2.1.5.6 Linter's Model

Linter (1956) in the mid- 1950' s conducted a classic series of interviews with corporate managers about their dividend policies. His description of how dividends are determined can be summarized in four "Stylized facts" (*Myers, 2000: 50-54*).

The first fact is that the firms have long run target payout ratios. Mature companies with stable earnings generally pay out a high proportion of earnings, growing companies have low payout. The second fact is that Managers focus more on dividend changes than on absolute levels. Thus, paying Rs. 50 dividend is an important financial decision if last year's dividend was Rs. 10, but no big deal if

last year's dividend was Rs. 50. The third fact is dividend changes follow shifts in long-run, sustainable earnings. Managers "Smooth" dividends. Transitory earnings changes are unlikely to affect dividend changes that might have to be reversed. They are particularly worried about having to rescind a dividend increase.

Linter developed a simple model which is consistent with these facts and explains dividend payments well. If a firm always stuck to its target payout ratio, then the dividend payment in the coming year (DIV) would equal a constant proportion of earnings per share (EPS):

$$\text{DIV}_1 = \text{Target Dividend} \\ \text{Target Ratio} \times \text{EPS}_1$$

The dividend change would equal

$$\text{DIV}_1 - \text{DIV}_0 = \text{Target Change} \\ = \text{Target Ratio} \times \text{EPS}_1 - \text{DIV}_0$$

A firm that always stuck to its target payout ratio would have to change its dividend whenever earnings changed. But the managers in Linter's survey were reluctant to do this. They believe that shareholders prefer a steady progression in dividends. Therefore, even if circumstances appeared to warrant a large increase in their target payment.

Their dividend changes therefore seemed to conform to the following model:

$$\text{DIV}_1 - \text{DIV}_0 = \text{Adjustment Rate} \times \text{Target Change} \\ = \text{Adjustment Rate} \times (\text{Target Ratio} \times \text{EPS}_1 - \text{DIV}_0)$$

The more conservative the company, the more slowly it would move towards its target and therefore, the lower would be its adjustment rate.

Linter's simple model suggest that the dividend depends in part on the firm's current earnings and in part on the dividend for the previous year, which in turn depends on that year's earnings and the dividend in the year before. Therefore, If Linter is current and past earnings which can be demonstrated as :

$$DIV_t = aT(EPS_t) + (1-a) DIV_{t-1}$$

Where,

'a' is the adjustment rate and T is the target payout ratio.

The probability of an increase in the dividend rate should be greatest when current earnings have increased, it should be somewhat less when only the earnings from the previous year have increased, and so on as conformed by Fama and Blahnik (1968).

$$DIV_t = aT(EPS_t) + aT(1-a) (EPS_{t-1}) + aT(1-a)^2 (EPS_{t-2}) + \dots + aT(1-a)^n (EPS_{t-n})$$

Their tests of Linter's model suggest that it provides a fairly good explanation of how companies decide on dividend rate, but it is not the whole story. It is expected that managers take both future prospects as well as past achievement into account when setting dividend payment.

2.1.5.7 Signaling Theory

Cash dividends may be viewed as a signal to investors. Companies with good news about their future profitability will want to tell investors, rather than making a simple announcement, dividends may be increased to add conviction to the statement. When a company has Target payout ratio that is stable over time and it changes this ratio. Investors may believe that management is announcing a change in the expected future profitability of the firm. Van Horne (2003) points out that

signal to the investors is that management and the board of directors truly believes things are better than the stock price reflects. Miller and Rock (1985) suggest that investors draw inferences about the firm's operating cash flows the dividend announcement. The notion is based on asymmetric information.

Dividends speak louder than words. Bhattacharya (1979) developed a dividend signaling model, Which can be used to explain why firms may use dividends for signaling despite the tax disadvantage of doing so. If investors believe that firms that pay dividends per share have higher values, then an unexpected dividends increase will be taken as a favorable signal. Presumably dividends convey information about the value of the firm that can't be fully communicated by other analysis .It is expensive for less successful firms to mimic the signal because they must incur extra costs associated with raising external funds in order to pay the cash dividends.

These finding strongly support the hypothesis that dividends changes contain information about changes in management 's of the future prospects of the firm. Furthermore, dividend announcement contain useful information beyond that already provided by earnings information.

2.1.5.8 Agency Cost Theory

The recognition of potential agency costs associated with the separation of management and ownership is not new, differences in managerial and shareholder priorities have been recognized for more than three centuries. Adam Smith (1937) adjustment the management of early joint companies to be negligence in many of their activities .These problems were especially prevalent in the British EAST Indies company and attempts to monitor managers were largely unsuccessful because of inefficiency and cost associated with shareholder monitoring. One of the mechanism of reducing expropriation of shareholders by agents is high payout.

Modern agency theory seeks to explain corporate capital structure as the result of attempts to minimize the cost associated with the separation of corporate ownership and control. Agency costs are lower in firms with high managerial ownership stakes because of the better alignment of shareholder and manager goals (*Jensen and Meckling, 1976:215*) and in firms with large lock shareholders that are better able to monitor managerial activities.

The second way dividend policy affects agency costs is the reduction of these costs through increased monitoring by capital markets. Large dividend payments reduce funds available for perquisite consumption and investment opportunities and require managers to seek financing in capital markets. The efficient monitoring of capital markets reduces less-than optimal investment activity and excess perquisite consumption and hence reduces the costs associated with ownership and control separation (*Easterbrook, 1984:312*).

2.1.6 Legal Provisions Affecting Dividend Policy in Nepal

Legal provisions and procedures are imposed to make corporate firms follow international accounting standard in maintaining accounts and disturbing profits. Government policy, Company Act, Central Bank's rules & regulations, circulars issued from time to time and contractual restrictions govern not only the amount of dividend that can be legally distributed but also on the procedural aspects of declaring dividend and dividend practices of corporate firms. These policies rules and regulations are subject to change to suit the state of condition in the corporate sector and country's economy.

Certain legal restrictions has been imposed on the declaration of dividend, issue of bonus shares and repurchase of shares. Declaration of dividends is prohibited unless corporate firm is incorporated under company Act or stature transfer necessary amount form net profit to reserves account as required by statutory provisions.

Commercial Act 1972 (2031) section 18 (4th Amendment 2046) has prohibited the distribution of dividend unless the following conditions are met:

- Before writing off preliminary expenses.
- Before making provisions for previous years losses.
- Before maintaining adequate (a) capital fund, (b) provision for loan loss and (c) reserve fund, 20% of the net profit should be appropriated till reserve fund reaches double of paid up capital.

Nepal Company Act, 2006 (2062 B.S.) has made certain provisions on dividend payments. Legal rules and provisions, which seem to affect dividend practice, are mentioned below:

Section 179, subsection 1 allows distribution of bonus shares to shareholders from the distributable profit upon approval of special agendas in shareholder's annual general meeting. Subsection 2 requires information to the concerned authority before issuing bonus shares.

Section 182 of the act has defined distribution of the bonus shares within 45 days from the date of the decision made in annual general meeting except the following issues.

- a. In case any forbids the distribution of dividends.
- b. In case any right to dividend is disputed.
- c. In case dividends can't be distributed within the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

Section 182, subsection 3 states that payment of a certain interest incase of non-payment of the dividend within the specified time period.

Section 182, subsection 4 states that dividend will be paid to the registered shareholders in the book of the company at the time of decision of the dividend or rights holders as per the law.

Section 182, subsection 5 states that dividend can be paid to shareholders after deducting depreciation, payments/provisions as per the law and all the loss of previous years. Dividend can be distributed without reserves or provisions as per the existing law.

Section 182, subsection 7 allows Board of Directors to distribute interim dividend to its shareholders from the profit of earlier financial year in the following cases.

- a. Allows payment of interim dividend incase of provision in the memorandum of the company.
- b. The audited balance sheet approved by the Board of Directors for distribution of dividend of the specified year, dividend can be made to shareholders.

Section 182, subsection 9 allows to transfer the uncollected dividend within 5 years form the date of the decision at the Annual General Meeting to the account of Investors Samrachhan Reserves.

2.2 Review of Past Research

In this section, the summary of major findings and recommendations of previous thesis on the same topic, reviewing journals & articles and the research studies on the same are presented.

2.2.1 Review of Articles and Journals

Ghimire published and article in business age magazine entitled “*Nepal Share Market and Investor’s Prospect*” in which he has pointed out some important

trends of Nepal capital market. He has mentioned many unbalanced factors like political instability, terrorism as the main cause of decreasing trend of share price. He has observed fluctuation in NEPSE index is due to banking sector and declaration of bonus and dividend is the main cause of price change of stock. He has defined Nepalese capital market as lame, weak and perhaps works for vested interest (*Ghimire; 2001: 21*).

The stock market is always subjected to steady inflow of information, much of which will have an effect on the set of anticipations that constitute price of a particular security. Some of the information has a whole market-wide impact such as change in monetary and fiscal policy on security process. Some other information has an influence upon a group of stock price i.e. industry-wide impact. And still some information such as announcement of dividend, bonus shares may have an influence on the price of a particular security i.e. company-wide impact (*King; 1966: 136-190*).

K.C. in the article entitled “*Development of stock market and economic growth in Nepal*” concluded to improve the situation of the country in order for investor to be eager to invest more confidently. He points out that the investors have lost their confidence on the secondary market not only because the existing few listed companies are not performing well but also due to fear of internal unrest that could further deteriorate the economic conditions of the country. He recommended increasing opportunities to invest in the secondary market (*K.C; 2004: SEBO Journal, Vol. 1*).

Thapa in his article “*Managing Banking Risk*” Published in the Kathmandu Post dated March 9, 2003, mentioned that risk management of the banks is not only crucial for optimum trade off between risk and profitability, but is also one of the deciding factors for the overall business investment leading to growth of the

economy. Managing such risks not only needs sheer professionalism at the organizational level but an appropriate environment also needs to be developed. Some of the major environmental problem of Nepalese banking sector is under government intervention in the state-owned banks, relatively weak regulatory frame, bad corporate governance and lack of professionalism. The only solution to mitigate the banking risk is to develop the badly needed commitment, eradication of corrupt environment especially in the disbursement of lending and to formulate prudent and conductive regulatory framework.

Poudel in this study "*Investing in Shares of Commercial Banks in Nepal*". An assessment of Risk and Return Elements" have come up with the conclusion that the risk-return characteristic so not seem to be same for the shares review.

He further added the shares with large standard deviations seem too able to produce higher rates of return. The portion of unsystematic risk is very high with the shares having negative beta coefficient. The risk per unit return, as measured by the coefficient of variance, is less than that of the market as a whole for all the individual shares. Most of the shares fall under the category often defensive stocks, (having beta coefficient less than 1).

Timilsina in his study "*Capital Market Development and stock price behaviour in Nepal*" has come up with the conclusion that the market price of shares depend on EPS as well as on DPS, but DPS is more price sensitive and it will have direct and immediate response in the market. However, market values of shares computed on the basis of EPS are near to the observed market price of equity share reveal that the stock market is not inconsistent. Further, he adds the relationship ups and downs of the stock market those of economic variables. To put his own words, "The upward swings in the economy would suppress the market value of shares".

2.2.2 Review of Other Research Papers

Linter (1956) was the first to investigate the partial-adjustment model of dividends. His behavioral model suggests that the change in dividends is a function of the large dividend payout less the last period's dividend payout multiplied by the speed of an adjustment factor. The target dividend payout is a fraction of the current period's earnings. Linter found that the most important determinant of a company's dividend decisions was a major change in earnings "out of line" with existing dividend rates. Because many managers believe that shareholders prefer a steady stream of dividends. Firms tend to make periodic partial adjustments toward a target payout ratio rather than dramatic changes in payout.

Thus, managers smooth dividends in the short run to avoid frequent changes. Linter tested his propositions and found that the partial adjustment model predicted dividend payment more accurately than "naïve" models. In fact, he found that the model explained 85% of the changes in dividends for his sample of companies.

Modigliani and Miller (1961) advanced the view of dividend policy of their most celebrated study about dividend policy growth and the evaluation of shares, that the value of firm depends solely on its earnings power and is not influenced by the manner in which its earnings are split between dividends and retained earnings. They found that dividend payment is irrelevant. According to them, the investor is indifferent between dividend payment and capital gains.

Fama and Blahnik (1968) examined several other models for explaining dividend behaviour. Their results support Linter's view that managers prefer a stable dividend policy and are reluctant to increase dividends to a level that cannot be sustained. Therefore, these researchers concluded that changes in per share

dividends are largely a function of a target dividend payout based on earnings and the last period's dividend payout.

Baker and Farrelly (1988) reported similar results for dividend achievers, which they defined as companies having an unbroken record of at least ten consecutive years of dividend increases. They also conducted a survey of institutional investors. Their findings showed that these sophisticated investors believe that dividend policy affects stock prices and that in line with Linter's behavioral model, dividend consistency is very important.

Ramacharran (2001) analyzed the variation in dividend yield for 21 emerging markets (including India) for the period 1992-99. His macroeconomic approach using country risk data found evidence for pecking order hypothesis – lower dividends are paid when higher growth is expected. The study also found that political risk factors have no significant impact on dividend payment of firms in emerging markets.

Lee and Ryan (2002) analyzed the dividend signaling-hypothesis and the issue of direction of causality between earnings and dividends – whether earnings caused dividends or vice versa. For a sample of 133 dividend initiations and 165 dividend omission, they found that dividend payment is influenced by recent performance of earnings and free cash flows. They also found evidence of positive negative, earnings growth preceding dividend initiations omissions.

2.2.3 Review of Masters Degree Thesis

Bhattacharai, Bishnu Hari (1996) in his thesis "*Dividend Decision of its Impact on Stock Valuation*" argues that some of the companies has treated dividend as obligation, however majority of them have not done so Market response is also inconsistent to the notions advanced by theories. Shareholders have so high

expectations that market price of shares are significantly higher than net worth. However dividend is paid only in profitable year instability of dividend are the most applied phenomena of Nepalese dividend distribution practices. Cash balance for dividend payment is not adequately maintained by the companies. The companies invested by foreigners are paying dividend more attractively than the companies promoted by indigenous promoters. Though dividends have positive impact on valuation of shares adequate consideration is to be paid for its treatment.

Besides payment of dividend is not adequate and there is also absence of proper dividend policy. Verbal statement committed in prospectors is not materialized and management is left to work its desired way. Government is silent on inefficiency of the companies and no legislation is passed regarding dividend payment. The cause of present conditions and guidelines for improvement is yet to be seriously considered which has overlooked the shareholders expectations. The consequence is that investors have high perception of protection of other interest by joint venture companies established under foreign collaboration. The measures for the improvement of present conditions could be:

1. Sound dividend policy should be formulated and adopted strictly.
2. Shareholder's educating program should be initiated.
3. Revitalizing Nepal stock Exchange or established of another competent body should be done to protect shareholders interest.
4. Due regard is not paid on sound dividend policy.

Hence, companies are not following sound dividend policy as a result companies have not been able to maximize the value of the firm thereby resulting low price and low trading volume.

Gautam, Rishi Raj (1998) in his research work "*Dividend Policy in Commercial Banks*" conducted on NABIL, NIBL, SCBNL concludes that:

1. There is no prominent difference in DPS and Dividend payout ratio of all three banks NABIL, NIBL, SCBNL but there is no uniformity in EPS.
2. None of the three banks NABIL, NIBL, SCBNL has a clearly defined dividend policy.
3. Shareholders in Nepal do not seem to be investing their capital on the basis of financial performance of the financial institution.
4. Market price of the shares does not seem to be more or less dependent upon EPS & DPS.

He had recommended the following issues.

Bank should define their dividend strategy and should follow them without hesitation.

1. Banks need to follow an apparent policy for the Issue of Bonus Shares, at the same time it need clarify the changes in EPS, DPS & MPS due to the issue of bonus share to their existing and potential shareholder.
2. The commercial banks do not have any strategies to attract ordinary small low level investors.
3. Bank should give importance to shareholders and be careful about explaining the advantage & disadvantages of stock dividend and cash dividend to those shareholders who knows less about the matter.

Adhikari, N.R. (1999) in his thesis work “*Corporate Dividend Practice in Nepal*” confine.

1. Stock with higher ratio of dividend per share to book value per share has high liquidity & lower leverage ratios. It shows companies paying higher dividend are reluctant to employ higher degree of leverage in their capital structure.
2. Stock with larger ratio of dividend per share to book value of shares has higher profitability.

3. There is positive relationship between the ration of dividend per share to the book value and turnover ratio, interest coverage ratio.
4. Negative relationship is observed between the dividend payout and quick ratio.
5. There is the relationship between dividends per share to market price per shares.

Thus, the findings conclude that there is difference in financial position of high dividend paying and low dividend paying companies. Other things remaining the same, financial position of high dividend paying companies is comparatively better than that of low dividend paying companies. Besides the market price of shares is affected by the dividend and hence Dividend decision is not considered to be a residual decision by the financial executives of Nepal.

Sharma, Rajesh (2002) in his thesis entitled “*Dividend Theories and Practices*” forwarded the following findings.

1. Dividend procedure followed by the JVB’s in the context of Nepal.
2. Ability and attitude of paying dividend and analysis of variance in the payment of dividend between banks with similar profit range.
3. Major factors affecting dividend policy of JVB’s/legal/aspects/shareholders consideration.
4. Practices of issuing Bonus Shares.

Following major recommendations were made.

1. According to Nepal Company Act 1997, dividend becomes liability of the company, only after once it is declared. There is no binding obligation to declare dividend ever the company achieve high profit target. So, government should make strict rules and regulation to enforce the company to pay dividend in order to protect the interest of the shareholders.

2. Dividend, as a matter of reality, should be examined in relation to the net-worth or total capital employed.
3. Shareholders should be conscious to get information from the company in time.
4. Following factors should be considered logically under the dividend policy of an organization.
 - i. Economic and moral consideration
 - ii. Factors affecting the relative welfare of the firm
 - iii. Factors affecting the welfare of the shareholders

Shrestha, Prativa (2005) in his research work “*A Study of Dividend Practices of Commercial Banking Sectors in Nepal*” concludes that

1. To highlight the various aspects of dividend policies and practices of commercial banks in Nepal.
2. To analyze the relationship of dividend with various important variables such as earning per share, net profit, net worth and stock price.
3. To suggest and recommend the appropriate dividend policy to policy makers and executives to overcome various issues and gaps based on the findings of the analysis.

She has recommended the following suggestions.

1. It is compulsory to redefine the legal rules of dividend payment for the smooth development in the banking sectors.
2. Nepalese commercial banks should retain their earnings in case of high internal rate of return than its cost of capital.
3. Most of the high-ranking officials like board of directors and others show their bureaucratic personalities than doing their duties.
4. Fluctuation on payment of Dividend.

Shrestha, Raju Krishna (2006) in his research work “*An Analytical study of Dividend Policy and practices of Major Joint Venture Banks in Nepal*” has forwarded following findings:

1. Nepalese commercial banks had not followed proper dividend policy in relation to their income. At the time of growth stage it would be better to grab investment opportunity by internal financing through high retention of earning and lowering dividend payout ratio. At the time of decline stage, it should consider in paying dividend rather than retain earning because its internal rate of return is lower than the cost of capital.
2. Commercial banking sector in Nepal has no such distinct legal provision concerning dividend policy so the legal rules of dividend payment should be re-defined for smooth development in the banking sector. The minimum cash dividend payout should be fixed based on their income. Government should develop clear guideline and policy regarding banking sectors to improve their efficiency. Such type of rules should be certain for a specified period and government should not excessive interfere in day to day affairs of commercial banking sector.
3. Nepalese commercial banks are facing the growth problem. It is because decisions are made by top executives in terms of their personal interest rather than organizational interest. Due to this the banks are, therefore, not in a position to pay cash dividend. So high ranking officials should focus on organizational interest.
4. At the same time, lack of supportive leadership is one of the biggest constraints to the growth of banking sector. In reality, bank managers have not been able to excel in their works and contribute efficiently as managers of banks. Therefore, it is highly recommended that the bank managers should follow dynamic management and should develop leadership ability.
5. It is found that the Nepalese commercial bank have distributed stock dividend to its shareholders without any pre-plan. During the study period, HBL has distributed stock dividend to its shareholders every year but Nabil bank and SCBNL have distributed only once in several years (2055/56 – 2061/62).

6. Distribution of dividend is highly fluctuating which affects market. So, the dividend payment policy should be constraint on the net profit in the banking sector. As far as possible percentage of distribution of dividend should be based on net profit of the bank. For this, policy should be made by the Board of Directors. There should be given a choice whether to distribute stock dividend or cash dividend to the shareholders. Banks should timely provide necessary information to its shareholders so that they are able to decide for investment.
7. Finally, the banks should entertain the researchers by providing correct information. As far as possible, banks should provide necessary information to researchers in every aspect without hesitation because research work will be helpful to all concerned people at present and in future.

2.3 Research Gap

There have been several researches done in the past regarding dividend policy and practice of various banks and financial institutions taking considerations of various financial and statistical tools. In this thesis, only tow sample banks Nabil and SCBNL were considered out of the total population of 25 commercial banks operating presently in the market. Similarly, only secondary data were considered in mainstream. The study has covered the data of fiscal year 2003/04 to 2007/08 where at the similar latest study was found to be conducted only up to 2003/04 to 2007/08.

Similarly, the trend of MPS and EPS over the study period and forecast of these financial indicators for next three years were predicted which might be one of the differences from the other studies thesis. Other studies referred were found to apply various financial and statistical tools such as: regression analysis, hypothesis whereas only simple trend analysis, correlation analysis, measures of central tendency and dispersion were used in this thesis. Despite of its limitations mentioned above, the study would be able to provide a general overview of the dividend practices and the relationship of dividend with earnings and market price of the sample banks. It finally helps to various stakeholders to be acquainted with the major financial indicators of the leading two banks in the country.

CHAPTER -III

RESEARCH METHODOLOGY

Research Methodology describes the method and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. So the purpose of this chapter is to outline the methods and sequential steps adopt in analyzing the problem with the stated objectives in mind.

3.1 Research Design

Research design refers to a series of stage in conducting a study. The research design of this study will be more exploratory cum analytical using the various phenomena related and influencing the dividend decision and market price of stock. Descriptable and analytical research design is used in this study.

3.2 Population and Sample

The population for this study comprises all the commercial banks listed in Nepal Stock Exchange (NEPSE). At present, there are 26 commercial banks. Two listed commercial banks namely Nabil, Standard Chartered have been selected out of the total population as sample for this study.

3.3 Source of Data

The study based on secondary data. The data required for the study purpose has been collected from various sources. The main sources of data are Nepal stock Exchange (NEPSE) publication, annual reports of the sample banks and Websites of the sample banks and publications of security Board of Nepal (SEBON).

3.4 Data Analysis Tools

Various Financial and statistical tools have been used in this study. Data have been transformed from raw form to meaningful information and presented in tables and figures as per the requirement and results have been interpreted. The collected data have been organized, tabulated, processed and analyzed using various statistical and financial tools as described below.

3.4.1 Financial Tools

considering research objective, to analyze the impact of dividend on various key variables such as earning per share, dividend payout ratio, price earning ratio, dividend yield and earning yield are considered. Following financial indicator tools related to objectives are also considered.

Earning Per Share (EPS)

It is a type of ratio, which refers total earnings available to common shareholders or total number of outstanding common shares. It measures the profit available to the equity shareholders on per share basis. It reflects the earning power of a company. Higher EPS represents greater net profit.

$$\text{EPS} = \frac{\text{Total Earnings Available to Common Shareholders}}{\text{Number of Common Shares Outstanding}}$$

Dividend Per Share (DPS)

Financial sound companies can distribute dividends to its shareholders. Higher DPS attracts investors to invest in share of company and maintains goodwill in the market. It is calculated by dividend net earnings paid to the common shareholders (after payment of preference dividend) by number of common share outstanding.

$$\text{DPS} = \frac{\text{Total Earnings Available to Common Shareholders}}{\text{Number of Common Shares Outstanding}}$$

Dividend Payout Ratio (DPR)

It is the ratio, which measures the relationship between the dividend paid to common shareholders and total earnings of the company after tax. It is calculated by dividing the DPS by the EPS.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

Price Earning Ratio (PER)

This is a type of ratio, which indicates the price currently paid by the market for each rupee of currently reported earning per share. It can be calculated by using the following ratio.

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

Dividend Yield (DY)

It is the ratio of dividend per share to market price per share. It is the return to shareholders in form of dividend in relation to market price of the share. Shareholders can get dividend as a return in relation to market price of the share.

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

Dividend yield is dependent on market value per share. Higher market value leads to decrease in the ratio and vice versa.

Earning Yield (EY)

Earning yield is the most important profitability ratio, which is expressed in terms of market value of share. The earning yield can be defined as the ratio of earning per share to the market value per ordinary share and is calculated as follows.

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

3.4.2 Statistical Tools

Following Statistical tools used in the study are explained briefly in detail.

Simple Arithmetic Mean

Arithmetic mean or simply a mean of a set of observation is the sum of all observations divided by the number of observations. It is also known as the arithmetic average.

$$\text{Arithmetic Mean (Average)} = \frac{\sum X}{n}$$

Standard Deviation (S.D.)

The measurement of the dispersion of the mass of figures is a series about an average is known as dispersion. The standard deviation is an absolute measure of dispersion. The greater the amount of dispersion indicate greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of the series. In this study, standard deviation is calculated for selected dependent and independent variables specifies in the models presented above.

$$\text{S.D. } \sigma = \frac{\sum (X - \bar{X})^2}{n}$$

Coefficient of Variation (C.V.)

We use coefficient of variation as a relative measure of dispersion or as a test for consistency of the given data (ratios) as regards to the variation per unit of average ratio. It is always expressed in percentage and calculated as follows:

$$C.V.= \frac{\text{Avearge (Mean)}}{n} \times 100\%$$

Coefficient of Correlation (r)

Two variable are said to have “correlation”, when they are so related that the change in the value of one variable make the change in the value of other. The measure of correlation called the correlation coefficient summarized in the figure, the degree and direction of movement, correlation analysis only helps in determining the extent to which the two variables are correlated but it does not tell us about cause and effect relationship. Correlation can either be positive or it can be negative. If both the variables are changing in the same direction, then correlation is said to be positive but when two variables take place in opposite direction, the correlation is term as negative. In this study, coefficient of correlation is calculated between stock price and dividend, stock price and price earning ratio (*Bajracharya; 2058: 52*).

It is a kind of statistical tools used for measuring the intensity or magnitude of linear relationship between the two variables. Also known as Pearson correlation coefficient between two variables (say X and Y), denoted by r_{xy} and given by formula:

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the main body of the study i.e. analysis and finding of the collected data. The collected data are tabulate, analyzed, interpreted and presented to meet the objective of the research. And all the calculations are shown in the appendices, where the method of calculation is as mentioned in the research methodology chapter.

4.1 Data Presentation and Analysis

The study is focused on the two Commercial Banks as mentioned in the introduction chapter and their common stock's return are computed in this section. The data and result are tabulated, interpreted and presented in the figure for more simplicity and clarity.

4.1.1 Data presentation and Analysis of Major Financial Indicators of NABIL

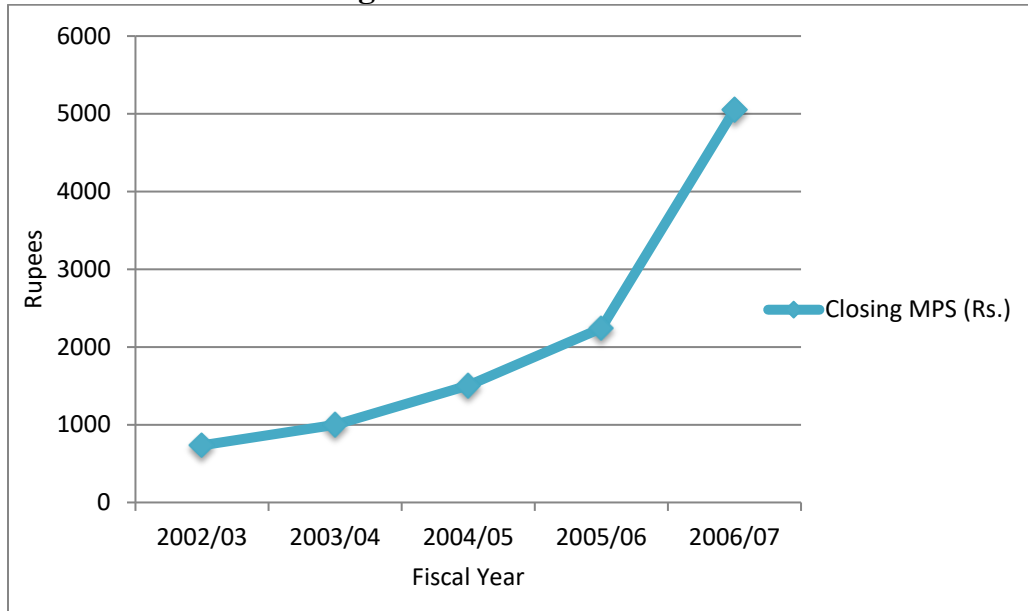
Table 4.1

Major Financial Indicators of NABIL

Fiscal Year	Closing MPS (Rs.)	DPS (Rs.)	Stock Dividend	Total Dividend (Rs.)	EPS
2002/03	735	50	-----	50	84.66
2003/04	1000	65	-----	65	92.61
2004/05	1505	70	-----	70	105.49
2005/06	2240	85	-----	85	129.21
2006/07	5050	100	40%	2120	137.08

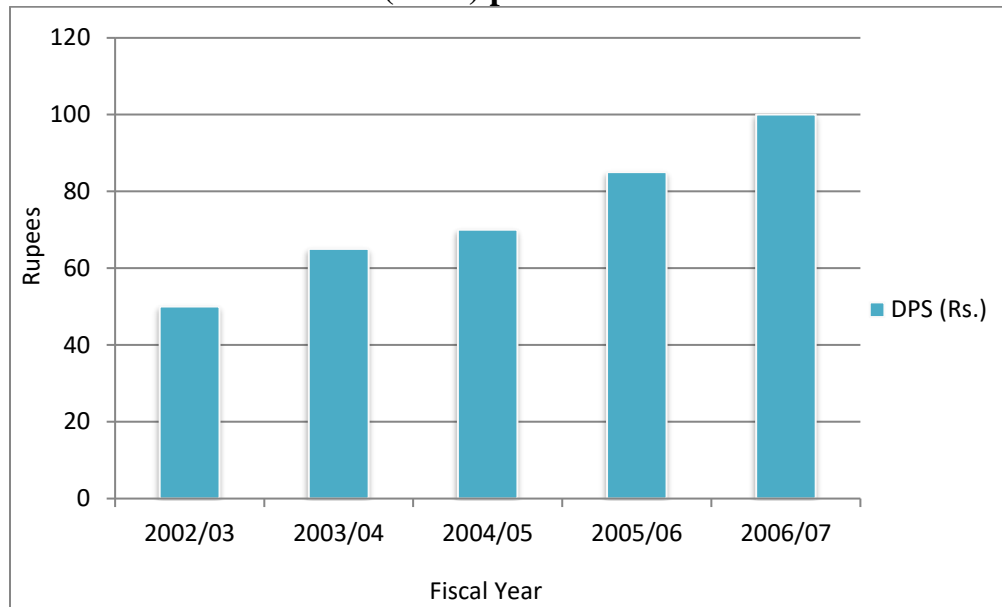
Source: NEPSE & NABIL Bank Annual Report (Appendix -1)

Figure 4.1
Closing MPS Movement of NABIL



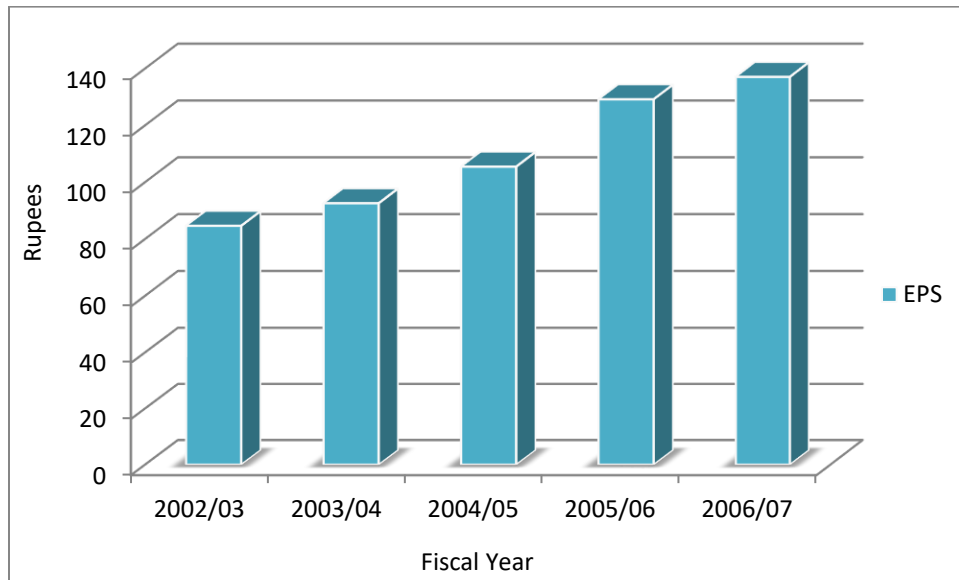
The market price of NABIL was recorded highest in the year 2006/07 while the lowest was recorded in the year 2002/03. During the study period, only 40% stock dividend was provided in the year 2006/07. The value of this stock dividend was valued in the respective closing price of the year. In the other years of the study, only cash dividends were being paid. One of the main reasons for providing such stock dividend along with cash dividend of 100% was due to the provision of NRB to maintain paid up capital to Rs. 2 billion by 2067 B.S. The cash dividends for the bank were found at an increasing trend over the years. The trend of the MPS of the bank over the period of study has been presented in the figure above.

Figure 4.2
Dividend (Cash) per share of NABIL



On the basis of above figures of DPS of NABIL, the cash dividend payment was the highest in the last year of the study. The figure revealed above shows only the amount of cash dividend per share of NABIL for the past five years. However, the bank had been found to adopt both cash dividend and stock dividend paying practices. Hence, the cash dividend policy of the bank was at an increasing trend continuously over the years and the stock dividend of 40% had been found to be given only in the year 2006/07 along with cash dividend of 100%. The stock dividend for the year had been valued in the closing MPS of that year in this case because of unavailability of MPS of 2007/08.

Figure 4.3
Earning Per Share of NABIL



The figure portrayed above revealed the EPS of NABIL for the immediate past five years. Likewise the cash dividend per share, the EPS was also at an increasing rate over the years. The bank had the adequate amount of earnings to distribute the shareholders in the form of dividends. However, it had adopted policy of retaining some portion of profits over the years

4.1.2 Data Presentation and Analysis of Major Financial indicators of SCBNL

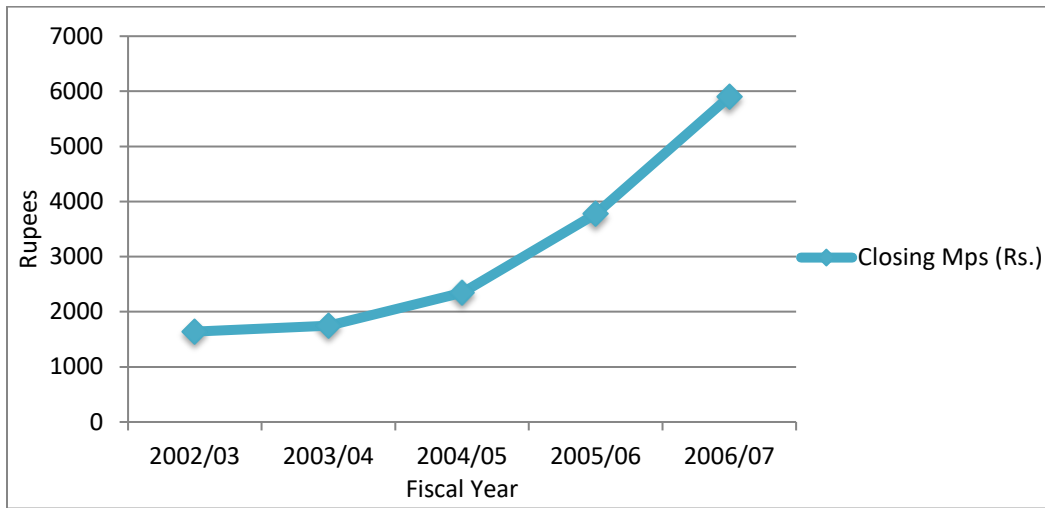
Table 4.2

Major Financial Indicators of SCBNL

Fiscal Year	Closing Mps (Rs.)	DPS (Rs)	Stock Dividend	Total Dividend (Rs.)	Earning Per Share(EPS)
2002/03	1640	110	10%	284.5	149.30
2003/04	1745	110	-	110	143.55
2004/05	2345	120	-	120	143.14
2005/06	3775	130	10	720	175.84
2006/07	5900	80	50	3030	167.37

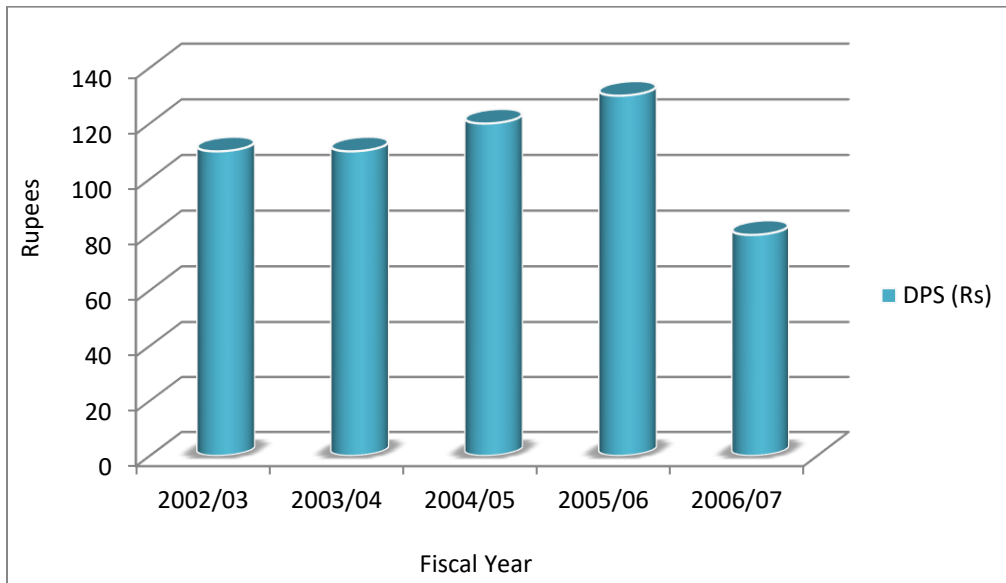
Sources: NEPSE & SCBNL Annual Report (Appendix- 1)

Figure 4.4
Closing MPS Movement of SCBNL



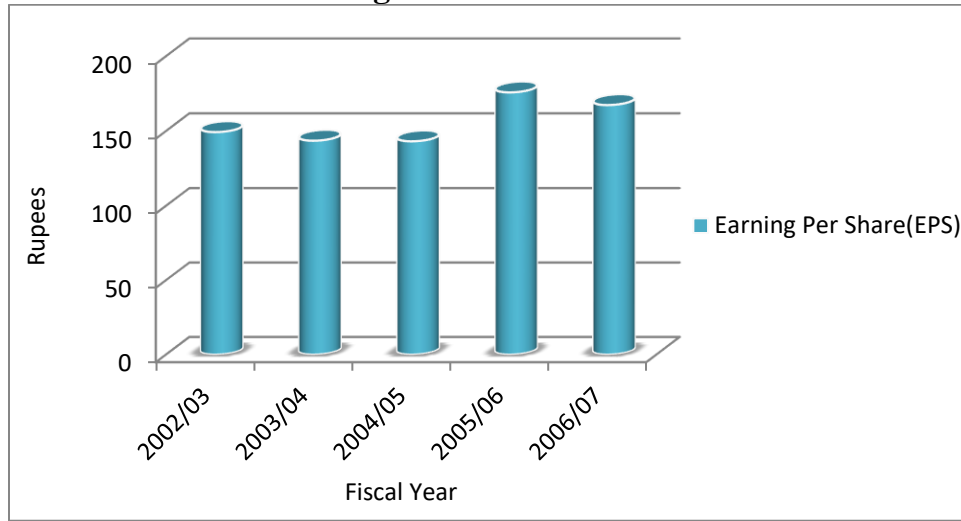
The table depicted above reveals the MPS, EPS, DPS (cash only) and total dividend value of SCBNL for the past five years. As mentioned, the market price share of the banks was recorded highest in the year 2006/07 and while recorded in the year 2002/03. The price of the bank decreased slightly till 2002/3 and started increasing slowly reaching highest in the year 2006/07. Like wise for the NABIL, the trend of the MPS of the SCBNL was also reminded at an increasing rate. The year to year movements of the MPS has presented graphically as shown in the above figure.

Figure 4.5
Dividend (Cash) per Share of SCBNL



The cash dividend per share of SCBNL seemed slightly fluctuating and higher in comparison to the NABIL. The cash dividend was highest in the year 2005/06 and lowest in the year 2006/07. However, in 2006/07 the value of total dividend was highest of all due to 50% stock dividend. The bank had been found to be adopting both the policy of continuous cash dividend and frequent stock dividend practices as revealed in the table 4.2. The amount of the cash dividend was found at 100% or more in all years except in 2006/07, which was just 80%. However, in 2006/07 the value of total dividends was highest of all due to 50% stock dividend valued with the highest MPS of the year. In all cases, the stock dividends were valued at the closing MPS of the following year except for the last year (2006/07) of the study, which was valued at the MPS of the same year, all of which were shown in appendix -1.

Figure 4.6
Earning Per Share of SCBNL



The above figure 4.6 reveals the EPS of SCBNL for the last five years. The EPS was slightly decreased in the year 2003/04 and 2004/05. In the year 2005/06, the bank had been able to record the highest EPS. IN the last year of the study, the EPS again decreased slightly than the previous year.

4.1.3 Comparative Analysis of NABIL and SCBNL

4.1.3.1 Analysis of Sample Banks

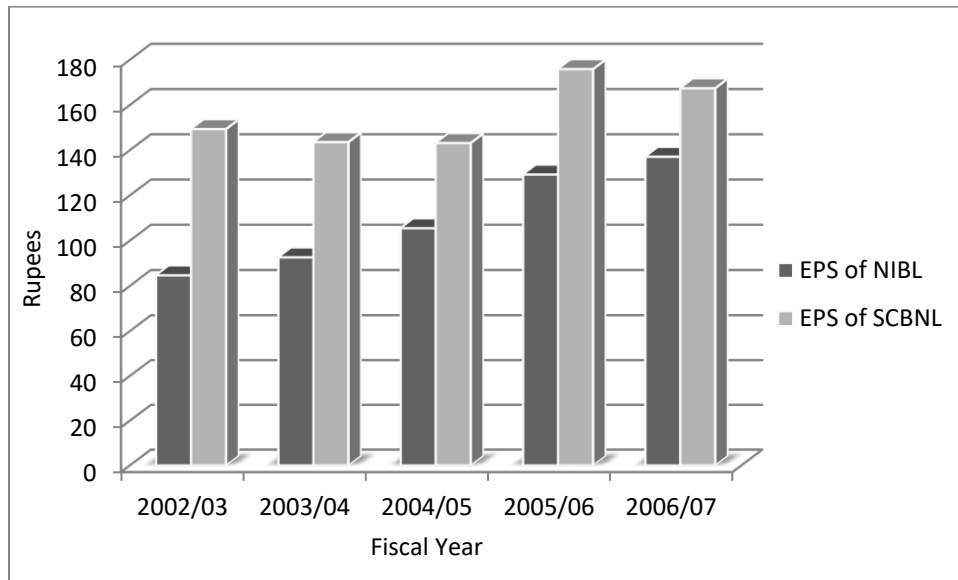
This section deals with the comparative study of EPS, DPS, (Cash Dividend), Retained Earnings and dividend payout ratio of the two sampled commercial banks.

Table 4.3
EPS of NABIL and SCBNL

Fiscal Year	EPS of NIBL	EPS of SCBNL
2002/03	84.66	149.3
2003/04	92.61	143.55
2004/05	105.49	143.14
2005/06	129.21	175.84
2006/07	137.08	167.37
Average	108.81	155.84
S.D.	22.73	14.90
C.V.	20.70	9.56

Source: Appendix-1

Figure 4.7
EPS of Two Banks in Comparison



The average EPS of NABIL over the study period was Rs. 109.81 where as that of SCBNL was Rs. 155.84. The EPS of NABIL had the higher standard deviation than of SCBNL. The coefficient of variations of EPS of NABIL was 20.70% where as that of SCBNL was 9.56%. This shows that SCBNL had higher and more consistent EPS over the study period. As seen in the figure 4.7, The EPS of SCBNL were higher in comparison to the EPS of NABIL over the study period of five years. Though the individual EPS of SCBNL was higher in all the years, the growth rate in EPS of NABIL was consistent and increasing as compared to the SCBNL.

4.1.3.2. Comparative Analysis of DPS (Cash)

Table 4.4

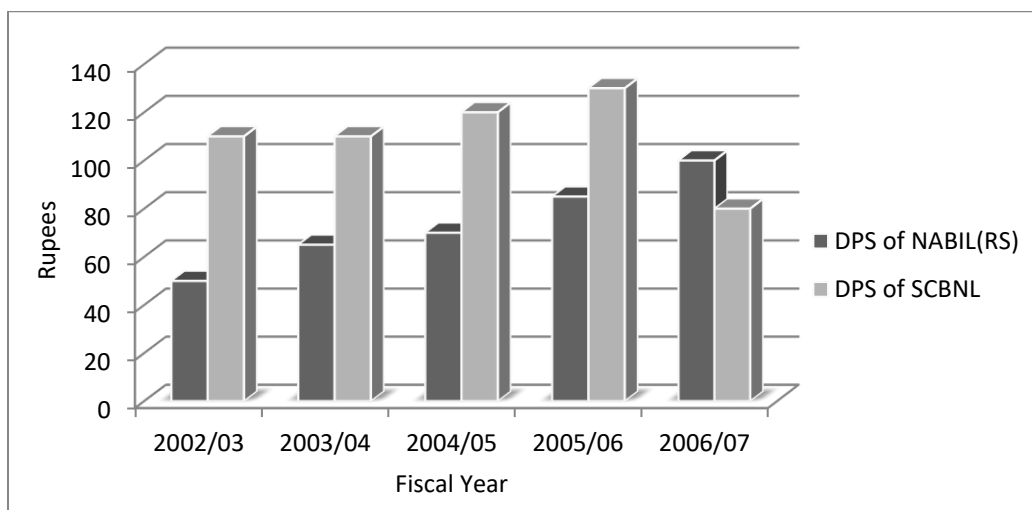
DPS of NABIL and SCBNL

Fiscal Year	DPS of NABIL (RS)	DPS of SCBNL
2002/03	50	110
2003/04	65	110
2004/05	70	120
2005/06	85	130
2006/07	100	80
Average	74	110
S.D.	19.17	18.70
C.V.	25.91	17.01

The average cash DPS of NABIL over the study period was Rs. 74 where as that of SCBNL was Rs. 110. The DPS of NABIL had the higher standard deviation than that of SCBNL. The coefficient of variation of DPS of NABIL was 25.91% where as that of SCBNL was 17.01%. This shows that SCBNL had higher and more consistent DPS over the study period. In other words, SCBNL had been following more stable and regular cash dividend policy out of its earnings as compared to NABIL.

Figure 4.8

DPS (Cash) of two Banks Comparison



As revealed in the figure 4.8 it can be easily noticed that the cash dividends per share of SCBNL over the study period were higher than that of NABIL except in the year 2006/07. However, the cash dividends per share of NABIL were at a constantly increasing rate as compared to SCBNL.

4.1.3.3 Comparative Analysis of Retained Earnings PER Share

Table 4.5

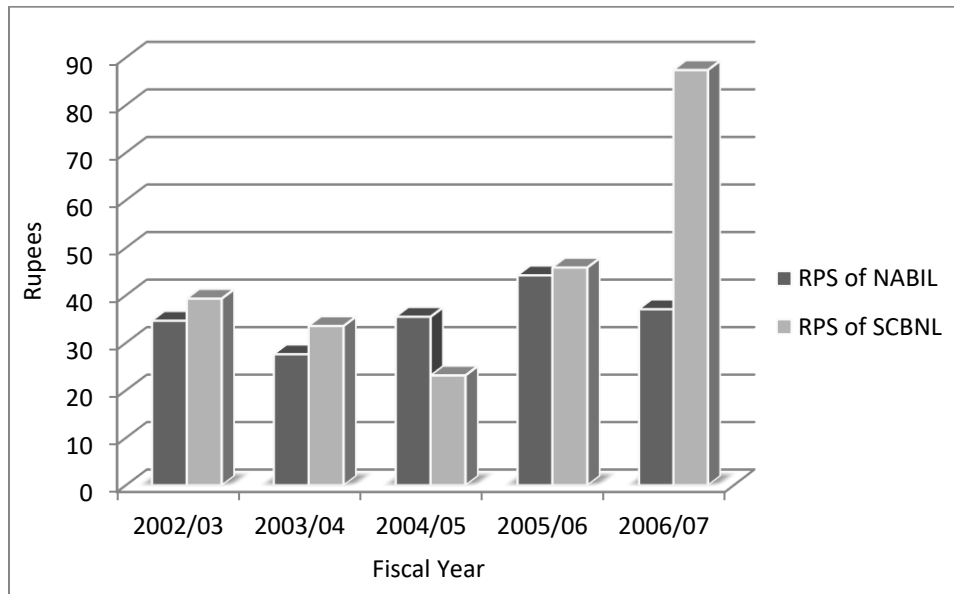
Retained Earnings Per Share of NABIL and SCBNL

Fiscal Year	RPS of NABIL	RPS of SCBNL
2002/03	34.66	39.3
2003/04	27.61	33.55
2004/05	35.49	23.14
2005/06	44.21	45.84
2006/07	37.08	87.37
Average	35.81	45.84
S.D. (Rs)	5.93	24.67
C.V. (%)	16.57	53.81

Source: Appendix-1

Figure 4.9

Retained Earnings per Share of the two Banks in Comparison



The table depicted above indicates the retained earnings per share of NABIL and SCBNL. Below the table is presented the respected data in a bar figure revealing the retained earnings per share of the two with respect to five years of study. The retained earnings presented the respected data in a bar figure revealing the retained earnings per share of the two banks with respect to the five years of study. The retained earnings presented in the table have been calculated by subtracting the cash dividend portion from the respective earnings per share. In the year 2002/03 to 2003/04 the retained earnings per share of NABIL were lower in comparison of the same for SCBNL. And again the amount for NABIL remained lower than that of SCBNL. SCBNL had higher retained earnings per share of Rs.45.84 than Rs.35.81 on average study of past five years. Similarly, the standard deviation of the data was lower in case of NABIL was found to be 16.57% whereas the coefficient of variation of retained earnings per share for SCBNL was obtained as 53.81%. It indicates that the retained per share of NABIL were more consistent than that of SCBNL.

4.1.3.4 Comparative Analysis of Dividend Payout and Retention Ratios

Table 4.6

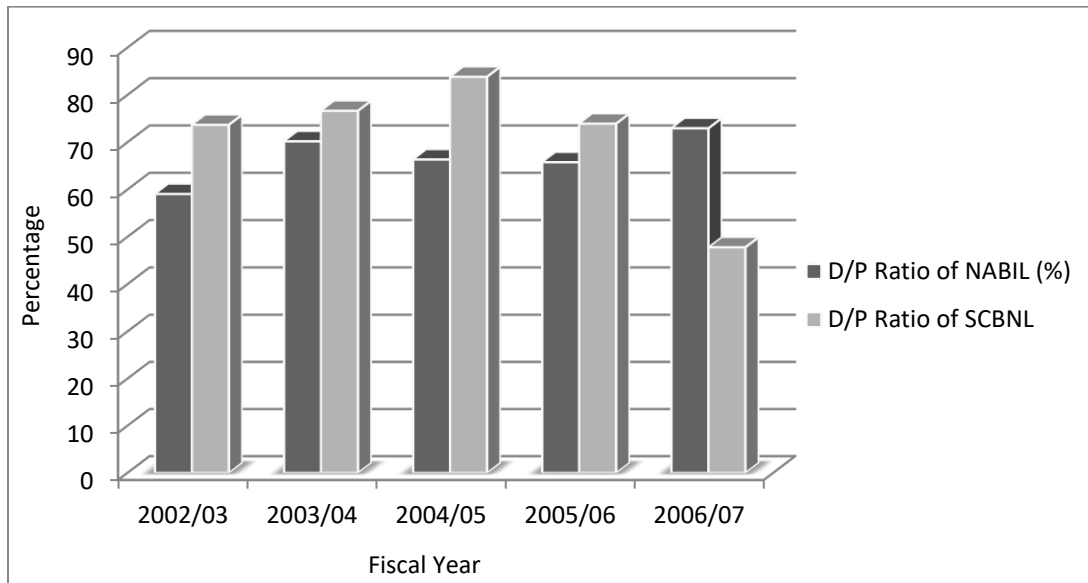
Dividend Payout and Retention Ratios of NABIL and SCBNL

Fiscal Year	D/P Ratio of NABIL (%)	D/P Ratio of SCBNL	Retention Ratio of NABIL (%)	Retention Ratio of SCBNL (%)
2002/03	59.06	73.68	40.94	26.32
2003/04	70.19	76.63	29.81	23.37
2004/05	66.36	83.83	33.64	16.17
2005/06	65.78	73.93	34.22	26.07
2006/07	72.95	47.80	27.05	52.20
Average	66.87	71.17	33.13	28.83
S.D.	5.25	13.69	5.25	13.69
C.V.	7.86	19.24	15.86	47.50

Source: Appendix-I

Figure 4.10

Dividend Payout and Ratio of the Two Banks in Comparison



The table depicted above provides the cash dividend payout ratios and retention ratio for the two banks over the study period. Only the data regarding cash dividend payout ratios were represented in a bar figure with respect to the fiscal years as shown as the figure 4.10. The retained earnings ratios for the banks were calculated by subtracting the percentage of dividend payout ratios from the total 100% (earnings). The dividend payout ratio were higher incase of SCBNL as compared to NABIL in all years except in the latest year 2006/07. SCBNL had higher average dividend payout ratio of 71.17% as compared to that 66.87% of NABIL. Similarly the deviation of the dividend payout ratios of SCBNL and NABIL were 13.69% and 5.25% respectively. The coefficient of Variations of dividend payout ratios of SCBNL and NABIL were 19.24% and 7.86% respectively. It indicates that dividend payout ratio of NABIL were more consistent that of SCBNL. Similarly, the average retention ratios of the banks NABIL and SCBNL were obtained as 33.13% and 28.13% respectively with respective coefficient of variations of 15.86% and 47.50%.

4.1.3.5 Comparative Analysis of Dividend Yield

Table 4.7

Dividend Yield of NABIL and SCBNL

Fiscal Year	NABIL	SCBNL
2002/03	6.80	17.35
2003/04	6.50	6.30
2004/05	4.65	5.12
2005/06	3.79	19.07
2006/07	41.98	51.36

Source: Appendix-3

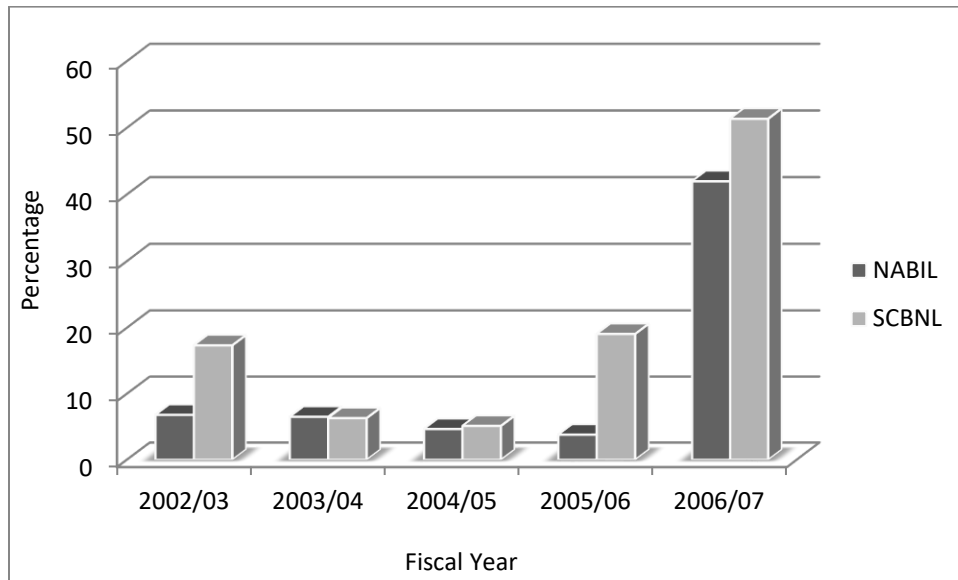
The table above reveals the total dividend yields of the two banks. Here, the total dividend includes the total cash dividend and valuation of stock for the respective years.

The total dividend yields of NABIL were obtained 6.80%, 6.50%, 4.65%, 3.79% and 41.98%. The dividend yield of NABIL was lowest in the year 2005/06 and highest in the year 2006/07. The reason behind dividend yield to be highest was due to valuation of stock dividend.

The total dividend yields of SCBNL 17.35%, 6.30%, 5.12%, 19.07% and 51.36%. The dividend yield of SCBNL was lowest in the year 2004/05 and highest in the year 2006/07. The dividend yields of SCBNL was lowest in the year 2004/05 and highest in the year 2006/07. The dividend yields of the banks were in the two digits because of stock dividend.

Figure 4.11

Dividend Yield of Two Banks in Comparison



On the basis of above figure, it is inherent that the dividend yields of SCBNL in all years were higher than the respective dividend yields of NABIL. In the year 2006/07, the dividend yield for both the banks are quite high because of higher amount of stock dividend for both. In the New year 2002/03 and 2005/06, the dividend yield of SCBNL were too high than that of NABIL because of presence of stock dividend in SCBNL.

4.1.3.6 Comparative Analysis of Earnings of Yield

Table 4.8

Earning Yield of NABIL and SCBNL

Fiscal Year	NABIL	SCBNL
2002/03	11.52	9.10
2003/04	9.26	8.23
2004/05	7.01	6.10
2005/06	5.77	4.66
2006/07	2.71	2.84

Source :Appendix- 3

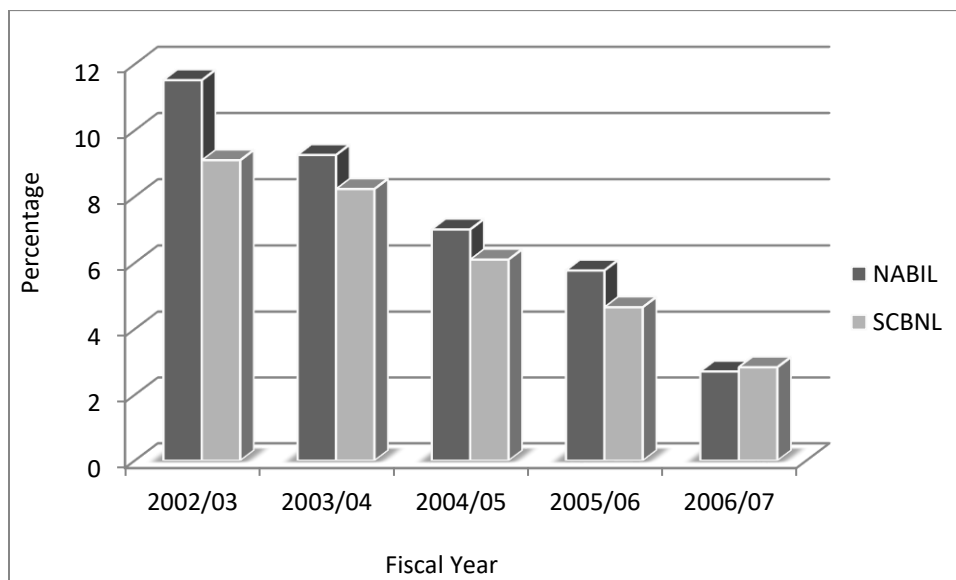
The table depicted above reveals the earnings yield of the two banks. The obtained were plotted in the bar figure as shown above.

The Earnings Yield of NABIL were obtained as 11.52%, 9.26%, 7.01%, 5.77% and 2.71%. The Earnings yield of NABIL was lowest in the year 2006/07 and highest in the year 2002/03. The reason behind the lowest yield in the year 2006/07 was due to excessive higher value of market price.

The Earnings yield of SCBNL are 9.10%, 8.23%, 6.10%, 4.66%, and 2.84%. The earnings Yield of SCBNL was lowest in the year 2006/07 and highest in the year 2001/02. The earnings yield was lowest in the year of the study due to excessive higher market price of share.

Figure 4.12

Earnings Yield of two banks in comparison



On the basis of comparative bar figure showing earnings Yields of NABIL and SCBNL, The year 2002/03 to 2005/06, the earnings yield of NABIL were found higher than that of SCBNL and again in 2006/07, the earnings yield of SCBNL was found slightly higher than that of NABIL. On the observation of the above

figure revealing earnings yields of the two sampled banks, it was found that the earnings yield for both the banks was moving in the same direction. The earnings yields for both the banks were found increasing till the year 2002/03 and then decreasing continuously over the years ahead.

4.1.4 Correlation between Various Financial Indicators

S/n	Correlation between	Correlation Coefficient	Remarks
a)	DPS and EPS of NABIL	$r = + 0.01$	Lower positive relationship
b)	DPS and EPS of SCBNL	$r = + 0.07$	Lower positive relationship
c)	DPS and MPS of NABIL	$r = +0.92$	Highly Positive relationship
d)	DPS and MPS of SCBNL	$r = - 0.58$	Lower Negative relationship
e)	D/P ratios of NABIL and SCBNL	$r = - 0.53$	Lower Negative relationship

Source: Appendix-2

- a) The correlation Coefficient of DPS (Cash dividend) and EPS of NABI was obtained as + 0.01. Indicates that there is Lower degree of positive relationship between cash dividend payment per share for the bank. In other words, it can be started that cash dividend is the function of earnings the bank earns during the year.
- b) Though it is regarded that dividend is paid from the earnings of the banks, the growth rate in dividend for the SCBNL did not seem varying with the growth in earning per share of the bank. It was found just + 0.07, which is very low indicating a lower degree of positive correlation. Though the earning per share for the bank was increasing over the years, the dividend did not seem vary with it proportionately.

- c) The correlation coefficient between cash dividend per share and market price per share of NABIL was obtained as + 0.92 which indicates that there is a high degree of positive relationship between cash dividend and market price per share. The role of both cash and stock dividend seemed positive in forming the market price of the bank.
- d) The correlation coefficient between cash dividend per share and market price per share of SCBNL was obtained as - 0.58, which indicates that there is a degree of negative relationship between cash dividend and market price per share. However, there is a positive role of both cash and stock dividend in shaping the market price per share of the bank to a very extent.
- e) The calculated correlation coefficient of dividend payout ratio of NABIL and SCBNL was obtained as -0.53, which indicates that the dividend paying policy of the two banks are not related to each other. The policy of paying dividend out of the earnings for the two banks did not match to cash other. Instead it was found slightly negative. The banks had adopted their own ways of paying dividends and retaining earnings. There was no similarity in dividend payout ratios of the two banks.

4.1.5 Analysis of EPS and DPS (Cash) with respect to Times Series

In this section the study tried to analyze a relation between EPS and DPS (cash dividend) with respect to time individually, by using least squares method. In this since the number of years is odd, 2004 (ending mid July) is taken as the mid year and deducted from Years (X).

A. NABIL Bank LTD

Calculation of Trend Line of NABIL

Table 4.9

Actual Values and Trend Values of EPS

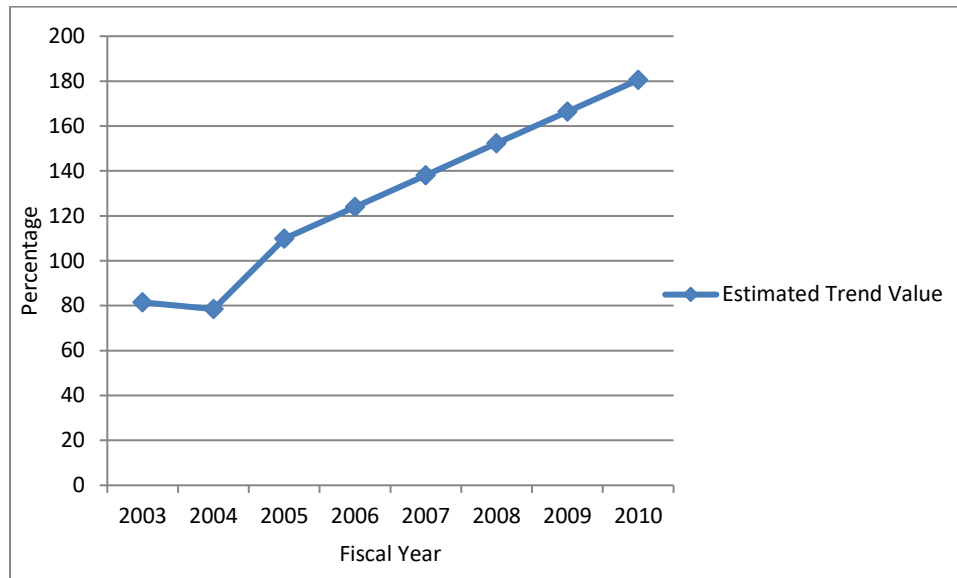
Fiscal Year (x)	Actual EPS (Rs)	Estimated Trend Value YC=109.81+14.14X
2003	84.66	81.53
2004	92.61	78.47
2005	105.49	109.81
2006	129.21	123.95
2007	137.08	138.09
2008	-	152.23
2009	-	166.37
2010	-	180.51

Source: Appendix-4

The table depicted above reveals the earnings per share of NABIL and is calculated trend values with respect to the fiscal years. Both the EPS and calculated trend values of the bank were found at an increasing trends despite small decline in the year 2004. The trend equation of the EPS with respect to the years was obtained as, $Y_c = 109.81 + 14.14X$. The predicted values of EPS for the years 2008, 2009 and 2010 were obtained as 152.23, 166.37 and 180.51. TH EPS of the bank was found at an increasing rate of EPS with respect to years wa calculated as 14.14.

Figure 4.13

Trend Line of Estimated Value of EPS of NABIL



The above figure shows the actual EPS and the trend of the data for the past five years. The estimated trend values showed excessive upward trends as compared to the actual data.

Table 4.10

Actual value and trend values of DPS (cash)

Fiscal Year Ending Mid July	DPS (cash) (Rs.)	Estimated trend values $Y_c = 74 + 12X$
2003	50	50
2004	65	62
2005	70	74
2006	85	86
2007	100	98
2008	-	110
2009	-	122

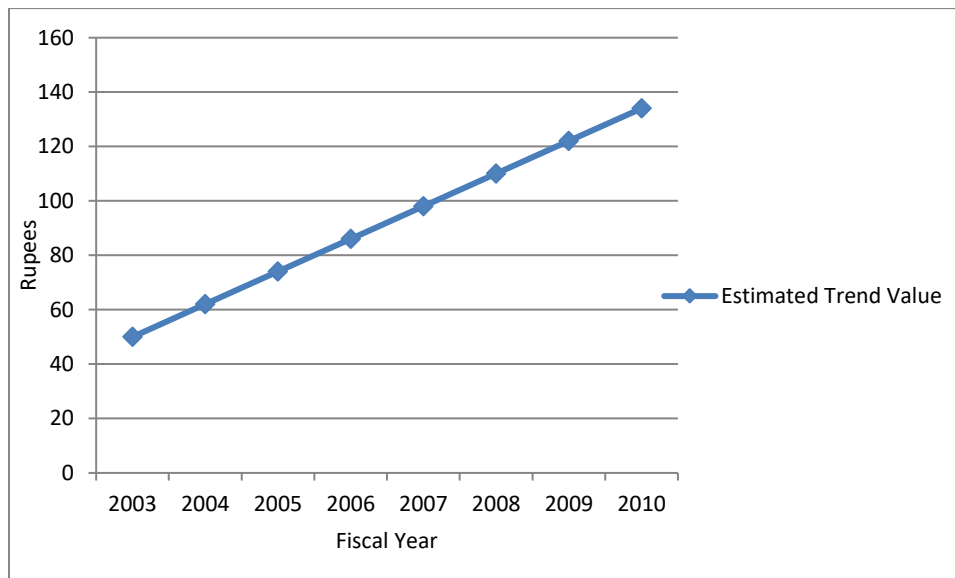
2010	-	134
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Source: Appendix-4

The table depicted above portrays the total cash dividend per share of NABIL with respect to the fiscal years mid July and the calculated trend values of the cash dividend per share. The cash dividend per share of NABIL reminded highest in the year 2007. The cash dividends per share of the bank were found at an increasing trend. The calculated trend values of the cash dividend per share of the NABIL were found at a highly increasing rate over the years. The trend equation of the cash DPS with respect to the years was obtained as, $Y_c = 74 + 12X$. The predicted values of cash dividend per share of NABIL for the years 2008, 2009 and 2010 were obtained as 110, 122 and 134. The cash DPS of the bank was found at an increasing trend. The cash DPS of NABIL was found to be increasing at a rate of 12 times each year.

Figure 4.14

Trend Line of Estimated Values of DPS of NABIL



The above figure reveals the actual values and the trend line of cash dividend per share of NABIL for the past five years. The trend values of the cash DPS of

NABIL were found at an excessive increasing rate that varies directly with the EPS of the bank.

B. Standard Chartered Bank Nepal Ltd.

Calculation of Trend line of SCBNL

Table 4.11
Actual values and Trend values of EPS

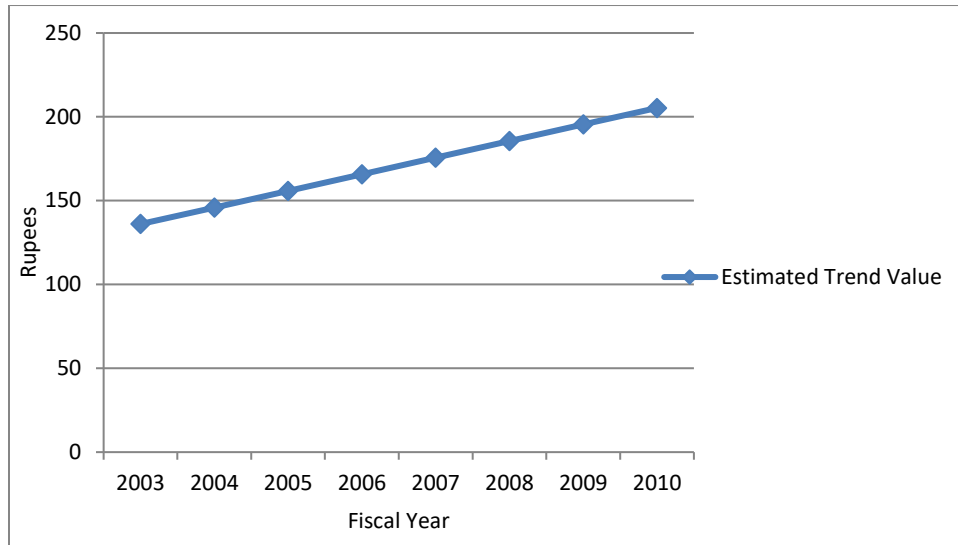
Year	EPS (Rs.)	Estimated Trend Values $Y_c = 155.84 + 9.89X$
2003	149.30	136.06
2004	143.55	145.95
2005	143.14	155.84
2006	175.84	165.73
2007	167.37	175.62
2008	-	185.51
2009	-	195.4
2010	-	205.29

Source: Appendix-4

The EPS of SCBNL reminded highest on the year 2006. The EPS of the bank was found at an increasing trend over the years. Like wise, the calculated trend values of the EPS of the bank also reminded at an increasing trend. in other words, there was positive inclination of EPS with respect to the fiscal years. The trend equation of the EPS with respect to the years was obtained as $Y_c = 155.84 + 9.89x$. The calculated trend values of EPS of SCBNL for the years 2008, 2009 and 2010 were obtained as 185.51, 205.29 respectively. Likewise NABIL, the EPS of SCBNL

was also found at an increasing trend. However, the yearly increasing rate was just 6.67 times which was lower than that of NABIL.

Figure 4.15
Trend Line of Estimated Values of EPS of SCBNL



The above figure shows the actual EPS and the trend line of the data of SCBNL for the past five years. The actual data and estimated trend values both showed an upward trend.

Table 4.12
Actual Value and Trend Values of DPS (Cash)

Fiscal Year	DPS (Cash Dividend)	Estimated Trend Values $Y_c=110+4X$
2003	110	102
2004	110	106
2005	120	110
2006	130	114
2007	80	118

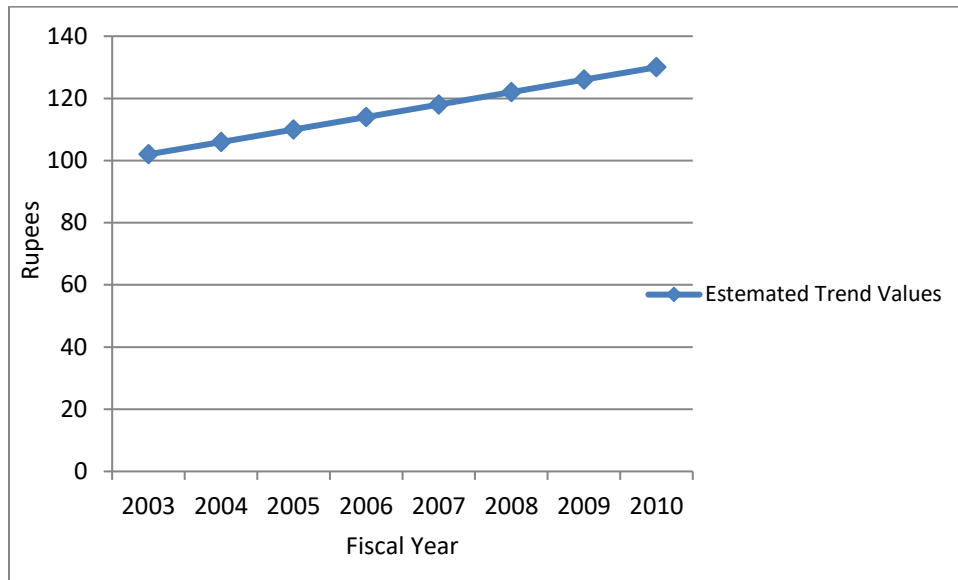
2008	-	122
2009	-	126
2010	-	130

Source: Appendix-4

The table depicted above portrays the total cash dividend per share with respect to the fiscal years ending mid July and the calculated trend values of the cash dividend per share. The cash dividend per share of SCBNL was highest in the year 2006. In the earlier years of study, the bank adopted a constant cash dividend per share. And then the dividend increased till 2006 ending mid July. However, it decreased to Rs. 80 in the year 2007 ending July. However, the trend values of the cash dividend per share of the bank were found to be at a slightly increased trend. The trend equation of the cash DPS of SCBNL with respect to the years was obtained as, $Y_c = 110 + 4x$. The estimated trend values of cash dividend per share of SCBNL for the years 2008, 2009 and 2010 were obtained as 122, 126 and 130. The cash DPS of the bank was also found at a slight increasing trend. The yearly increasing rate of cash DPS of SCBNL was found to be 4 times.

Figure 4.16

Trend Line of Estimated Value of DPS (Cash) of SCBNL



The above figure reveals figure reveals the actual data and trend line of cash DPS of SCBNL with respect to past five years. On observation of the figure, it is inherent that the data shown fluctuating trend with slight inclination over the years.

4.2 Major Findings

Based on the analysis of data and their interpretation, the major findings of the study in relation to the objectives set could be summarized as follows:

- The market prices of both the banks were found at an increasing trend despite several fluctuations in the middle years of the study. However, the market price per share of SCBNL was found higher than that of NABIL in the year 2006/07.
- Both the cash dividend per share and earnings per share of NABIL showed in increasing trend over the years. In case of SCBNL, the earnings per share was found to be at a slightly increasing trend however, the cash dividend

per share was at an increasing trend till 2006/07 due to large amount of stock dividend payment.

- NABIL bank had been found to provide stock dividend of 40% in the year 2006/07 only on study of past five years data. However, SCBNL had been found to provide stock dividend of 10% in 2002/03, again 10% in 2005/06 and 50% in 2006/07 along with cash dividend. Both the banks had been following the dividend practices of paying a regular cash dividend every year and occasional stock dividends.
- The EPS of SCBNL was found to be higher as compared to the EPS of NABIL on an average study of the EPS of the two banks over the past five years. The earnings per share of SCBNL were found to be more consistent in comparison to the earnings per share of NABIL.
- SCBNL again had the higher average cash dividend per share (DPS) of Rs. 110 where as NABIL had an average of Rs.74 cash dividend per share. It shows that SCBNL had been paying higher amount of cash dividend to the stockholders. Likewise the coefficient of variation of cash DPS data of SCBNL was lower than that of NABIL. It indicates that the cash dividend payments of SCBNL were higher and more consistent than that of NABIL.
- Both the banks had adopted the policy of retaining some amount of earnings every year. The average retained earnings per share of SCBNL and NABIL were Rs. 45.84 and Rs. 35.81 respectively. However, the retained earnings per share of NABIL were more consistent than that of SCBNL as the coefficient of variation of retained earnings per share of SCBNL was found more than that of NABIL (as 53.81 % > 16.57).
- The average dividend payout ratios of SCBNL and NABIL over the past five years were obtained as 71.17 % and 66.87% respectively. Similarly, the coefficient of variations of dividend payout ratios of SCBNL and NABIL were found as 19.24% and 7.86% respectively. It indicates that dividend payout ratio of SCBNL was higher than that of NABIL on an average study of past five years. But the dividend payout ratio of NABIL was found more consistent

than SCBNL. Hence, the average retention ratio of NABIL was higher than that of SCBNL.

- There is a high degree of positive correlation between EPS and DPS of NABIL whereas in case of SCBNL, there was a low positive correlation. It shows that the distribution of dividend of NABIL is more consistent with regard to the total earnings as compared to SCBNL.
- The correlation coefficient between cash dividend per share and market price per share of NABIL was obtained as +0.92 whereas the same for SCBNL was obtained as -0.58. It indicates that there was a high degree of positive relationship between cash dividend and market price per share of NABIL but there was a low degree of negative relationship between cash dividend and market price per share of SCBNL.
- The correlation coefficient between dividend payout ratios of NABIL and SCBNL was obtained as -0.53, which indicates that the dividend paying policy of the two banks are not related to each other. The policy of the paying dividend out of the earnings for the two banks did not match with each other.
- From the year 2002/03, the earning yield of NABIL was higher till 2005/06 and remained almost same in the year 2006/07.
- The dividend yield of SCBNL has been found higher than NABIL throughout the study period as the SCBNL had adopted the stable dividend policy despite of change in the total earnings.
- The data of EPS of NABIL showed an increasing trend over the years. The yearly increasing rate of EPS of NABIL with respect to years was obtained as 14.14 times. Likewise NABIL, the EPS of SCBNL was also found at an increasing trend. However, the yearly increasing rate of EPS was just 12 times which was lower than that of NABIL.
- The data of cash DPS of NABIL showed an increasing trend. The yearly increasing rate of cash DPS of NABIL was obtained as 12 times. Similarly, the cash DPS of the SCBNL showed a little increasing trend. The yearly increasing rate of cash DPS of SCBNL was found to be just 4 times.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Commercial banks collect deposits from the public and the largest portion of the deposited money is utilized in disbursing loans and advances. Hence deposit covers a major portion in the Liabilities whereas Loan and Advances cover a major portion in the Assets side of the Balance Sheet.

First joint venture bank namely Nepal Arab Bank Limited (now NABIL) was established with new concept of computerized banking system in 1994 A.D. which was the doorstep to open other joint venture banks. Nepal Grindlays Bank, second joint venture bank was established in 1987. The bank is known presently as Standard Chartered Bank. These are the two leading joint venture banks in Nepal.

There are three majors decision of the financial management. They are: Investment decision, Financing decision, and Dividend decision or redistribution decision. Thus, dividend policy decision is one of the major three decisions of financial management. The policy of a company on the division of its profit between distribution to shareholders as dividend and retention is known as dividend policy.

Generally, dividend is paid in cash to shareholders. When companies are incapable to pay cash dividend they can use different forms of dividend payment for satisfying their shareholders. There may be several types of dividends such as cash dividend, bond dividend, stock dividend, scrip dividend, property dividend etc. But in our context, dividends are of two types: cash dividend and stock dividend or bonus share. Other equally important things to know and consider in the

dividend policy or payment procedures are stock splits, stock repurchase and reserve stock split.

There are several types of dividend policies such as: stable dividend policy, regular plus extra dividend policy, irregular dividend policy, fixed dividend per share policy, no immediate dividend policy, etc. And company may adopt any one or mixed policies out of these.

The major objective of the study is to study the major dividend policies and practices adopted by the two banks. For this, only two commercial banks as mentioned in the study were chosen and however there are various limitations as stated earlier in the introduction chapter. The study has been divided into five major parts as mentioned in the organization of the study.

It is found out during the study that both the banks had been adopting two kinds of dividend practices: cash dividend and stock dividend. There was regularity in cash dividend payment of the banks but the dividend paid was not stable. It was growing in case of NABIL and fluctuating but higher in case of SCBNL. The amount of cash dividend payment of SCBNL was higher than that of NABIL. Both the companies were also retaining some portion of earnings. The earnings per share of SCBNL were also higher than that of NABIL. The stock dividends were being given frequently by SCBNL as compared to NABIL over the study period.

Both the banks MPS were at an increasing trend. Likewise, the total dividend, cash dividend and earnings per share of the two banks were also found at an increasing trend. However, the increasing rate of cash dividend payment was found to be lower in case of SCBNL as compared to NABIL.

The dividend payout ratios of the two banks was found to be negatively correlated indicating no exact relationship or similarity in paying cash dividend per share out of the earnings per share. In terms of value of total dividend, the total dividend per share of the banks was found to be highly correlated. The total dividend yields of SCBNL were higher as compared to total dividend yields of NABIL. The dividend yields of both the banks were found at an increasing trend. The earning yields of both the banks were found to be decreasing over the years due to excessive increasing MPS of the banks.

5.2 Conclusion

On the basis of the study and major findings it can be concluded that both the banks had not followed any particular dividend policy and practice. The banks had been adopting regular cash dividend and stock dividend practices over the study period. Other forms of dividend practices were not found to adopt by the sampled banks. Both the banks had been using retained earnings as internal source of financing. The earnings per share, dividend per share and market prices of both the banks were increasing over the years and were predicted to increase in the future also. However, the rate of increase in DPS in case of NABIL was higher than SCBNL. SCBNL could be regarded efficient as compared to NABIL from the view point of earnings per share and market price of shares. There were dissimilarities in cash dividend payout ratios. The dividend payout ratios of SCBNL were higher than that of NABIL. The dividend payout ratios of both the banks were less than 100%. The amount of cash dividend per share of SCBNL was higher and more consistent as compared to that of NABIL. The dividend yields of SCBNL were found higher than that of NABIL. The dividend yields of both the banks were at an increasing rate. The earnings yields of both the banks were at a decreasing trend. In brief, it can be concluded that SCBNL has been performing well in comparison to NABIL.

5.3 Recommendations

Based on the major findings of the study, following recommendations have been made:

- The legal provisions regarding payment of dividend should ensure better return to the investors. There should be clear cut policy regarding payment of dividend.
- Banks should define their dividend policy clearly whether the bank is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends etc. The clear policy will guide the way on how to follow dividend distribution.
- The bank should study about the strategy to attract the ordinary people and shareholders so that their interest and expectation will not be killed even the bank can't pay the dividend in some years.
- The retention purposes of the banks should be clearly defined in terms of expansion and growth of the banks and to fulfill other provisions stated by the regulatory authorities.
- As this study is insufficient to cover entire scenario and theoretical as well as practical aspects of dividend policy and practices as regards to consequences brought out by the dividend, it is strongly recommended to extend this study in comprehensive way.

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Appendix-1

1. Major Financial Indicators of NABIL

Fiscal year	Closing MPS	Cash Dividend (%)	Stock Dividend (%) of Next year's Price	Total Dividend = cash dividend + stock dividend (Rs)	Earning per share(EPS)
2002/03	735	50	-	$50+0=50$	84.66
2003/04	1000	65	-	$65+0=65$	92.61
2004/05	1505	70	-	$70+0=70$	105.49
2005/06	2240	85	-	$85+0=85$	129.21
2006/07	5050	100	40	$100+0.40*5050=2120$	137.08

*Value of stock dividend is calculated on that year's closing MPS

2. Major Financial Indicators of SCBNL

Fiscal Year	Closing MPS (Rs)	Cash Dividend (%)	DPS (cash) (Rs)	Stock dividend (% of Next year, price)	Stock dividend =Cash dividend +Stock Dividend (Rs)	Earning per Share
2002/03	1640	110	110	10	$110+0.10*1745=284.5$	149.3
2003/04	1745	110	110	-	$110+0=100$	143.55
2004/05	2345	120	120	-	$120+0=120$	143.14
2005/06	3775	130	130	10	$130+0.10*5900=720$	175.84
2006/07	5900	80	80	50	$80+0.50*5900=3030$	167.37

*Value of Stock dividend is calculated on that year's closing MPS

3. Calculation of Dividend Payout Ratios (D/P Ratio) and Retention Ratios

Dividend Payout Ratios and Retention Ratios of NABIL

Fiscal Year	Cash DPS (RS)	EPS (Rs.)	D/P ratio= (Cash DPS/ EPS)* 100% (%)	Retention ratio =100% - D/P ratio %
2002/03	50	84.66	$(50/84.66)*100=59.06$	40.94
2003/04	65	92.61	$(65/92.61)*100=70.19$	29.81
2004/05	70	105.49	$(70/105.49)*100=66.36$	33.64
2005/06	85	129.21	$(85/129.21)*100=65.78$	34.22
2006/07	100	137.08	$(100/137.08)*100=72.95$	27.05
Average	74	109.81	66.87	33.13
S.D.	19.17	22.73	5.25	5.25
C.V.	25.91	20.70	7.86	15.86

Dividend Payout Ratio and Retention Ratio of SCBNL

Fiscal Year	Cash DPS (Rs.)	EPS(Rs.)	D/P ratio= (Cash DPS/ EPS)* 100% (%)	Retention Ratio =100% - D/P ratio (%))
2002/03	110	149.3	73.68	26.32
2003/04	110	143.55	76.63	23.37
2004/05	120	143.14	83.83	16.17
2005/06	130	175.84	73.93	26.07
2006/07	80	167.37	47.80	52.20
Average	110	155.84	71.17	28.83

S.D	18.70	14.90	13.69	13.69
C.V.	17.01	9.56	19.24	47.50

4. Computation of Retained Earnings per Share

Retention Earnings per Share of NABIL

Fiscal Year	Cash DPS	EPS(Rs)	RPS= EPS-Cash DPS (Rs.)
2002/03	50	84.66	34.66
2003/04	65	92.61	27.61
2004/05	70	105.49	35.49
2005/06	85	129.21	44.21
2006/07	100	137.08	37.08
Average	74	109.81	35.81
S.D.	19.17	22.73	5.93
C.V.(%)	25.91	20.70	16.56

Retained Earnings Per Share of SCBNL

Fiscal Year	Cash DPS(Rs)	EPS (Rs.)	RPS=EPS- Cash DPS(Rs)
2002/03	110	149.3	39.3
2003/04	110	143.55	33.55
2004/05	120	143.14	23.14
2005/06	130	175.84	45.84
2006/07	80	167.37	87.37
Average	110	155.84	45.84
S.D.	18.70	14.90	24.67
C.V.(%)	17.01	9.56	53.81

Appendix-2

Calculation of correlation Coefficient

1. DPS and EPS of NABIL

Fiscal year	DPS (RS)(X)	EPS (Rs.)(Y)	XY	X ²	Y ²
2002/03	50	84.66	4233	2500	7167.32
2003/04	65	92.61	6019.65	4225	8576.61
2004/05	70	105.49	7384.3	4900	11128.14
2005/06	85	129.21	10982.85	7225	16695.22
2006/07	100	137.08	13708	10000	18790.93
Total n=7	$\sum X$ = 370	$\sum Y$ = 549.05	$\sum XY$ = 42327.8	$\sum X^2$ = 28850	$\sum Y^2$ = 62358.22

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{(\{n \sum X^2 - (\sum X)^2\} \times \{n \sum Y^2 - (\sum Y)^2\})}} = +0.01$$

2. DPS and EPS of SCBNL

Fiscal Year	DPS (Rs)(X)	EPS (Rs)(Y)	XY	X ²	Y ²
2002/03	110	149.3	16423	12100	22290.49
2003/04	110	143.55	15790.5	12100	20606.6
2004/05	120	143.14	17176.8	14400	20489.06
2005/06	130	175.84	22859.2	16900	30919.71
2006/07	80	167.37	13389.6	6400	28012.72
Total	$\sum X=550$	$\sum Y$ = 779.2	$\sum XY$ = 85639.1	$\sum X^2$ = 61900	$\sum Y^2=122318.58$

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{\{n \sum X^2 - (\sum X)^2\} \times \{n \sum Y^2 - (\sum Y)^2\}}} = + 0.07$$

3. DPS and MPS of NABIL

Fiscal Year	DPS(Rs.)(X)	Closing MPS(Y)(Rs)	XY	X ²	Y ²
2002/03	50	735	36750	2500	540225
2003/04	65	1000	65000	4225	1000000
2004/05	70	1505	105350	4900	2265025
2005/06	85	2240	190400	7225	5017600
2006/07	100	5050	505000	10000	25502500
Total n=5	$\sum X = 370$	$\sum Y = 10530$	$\sum XY$ = 902500	$\sum X^2 = 28850$	$\sum y^2$ = 34325350

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{\{n \sum X^2 - (\sum X)^2\} \times \{n \sum Y^2 - (\sum Y)^2\}}} = +0.92$$

4. DPS and MPS of SCBNL

Fiscal Year	DPS(Rs.)(X)	Closing MPS(Rs.)(Y)	XY	X ²	Y ²
2002/03	110	1640	180400	12100	2689600
2003/04	110	1745	191950	12100	3045025
2004/05	120	2345	281400	14400	5499025
2005/06	130	3775	490750	16900	14250625

2006/07	80	5900	472000	6400	34810000
Total, n=5	$\sum X = 550$	$\sum Y = 15405$	$\sum XY = 1616500$	$\sum X^2 = 61900$	$\sum Y^2 = 60294275$

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{(\{n \sum X^2 - (\sum X)^2\} \times \{n \sum Y^2 - (\sum Y)^2\})}} = -0.58$$

5. Dividend Payout Ratio of NABIL and SCBNL

Fiscal Year	D/P Ratio of NABIL (X)(%)	D/P Ratio of SCBNL (Y)(%)	XY	X ²	Y ²
2002/03	59.06	73.68	4351.54	3488.08	5428.74
2003/04	70.19	76.63	5378.66	4926.64	5872.16
2004/05	66.36	83.83	5562.96	4403.65	7027.47
2005/06	65.78	73.93	4863.12	4327.01	5465.64
2006/07	72.95	47.80	3487.01	5321.70	2284.84
n=5	$\sum X = 334.34$	$\sum Y = 355.87$	$\sum XY = 23643.29$	$\sum X^2 =$	$\sum Y^2$
Total				22467.08	26078.85

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{(\{n \sum X^2 - (\sum X)^2\} \times \{n \sum Y^2 - (\sum Y)^2\})}} = -0.53$$

6. Retention Ratios of NABIL and SCBNL

Fiscal year	Retention ratio of NABIL (X) %	Retention ratio of SCBNL (Y) (%)	XY	x^2	y^2
2002/03	40.94	26.32	1077.54	1676.08	629.74
2003/04	29.81	23.37	696.66	888.64	546.16
2004/05	33.64	16.17	543.96	1131.65	261.47
2005/06	34.22	26.07	892.12	1171.01	679.64
2006/07	27.05	52.2	1412.01	731.70	2724.84
Total, n=5	$\sum x=165.66$	$\sum y=144.13$	$\sum xy=4622.29$	$\sum x^2=5599.08$	$\sum y^2=4904.85$

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{(\{n \sum X^2 - (\sum X)^2\} \times \{n \sum Y^2 - (\sum Y)^2\})}} = -0.53$$

7. Total dividend of NABIL and SCBNL

Fiscal Year	Total Dividend of NABIL (Rs) (X)	Total dividend of SCBNL (Rs) (Y)	XY	x^2	y^2
2002/03	50	284.5	14225	2500	8094.3
2003/04	65	110	7150	4225	12100
2004/05	70	120	8400	4900	14400
2005/06	85	720	61200	7225	5.8400
2006/07	2120	3030	6423600	4494400	91.80900

n= 5	$\sum X= 2390$	$\sum Y= 4264.5$	$\sum XY = 6514575$	$\sum X^2 = 4513250$	$\sum Y^2= 9806740.3$
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$$r = \frac{n \sum xy - \sum x \cdot \sum y}{\sqrt{((n \sum x^2 - (\sum x)^2) \times (n \sum y^2 - (\sum y)^2))}} = +0.98$$

Appendix-3

Calculation of Dividend Yield and Earnings Yield

NABIL

Fiscal Year	Closing MPS (Rs.)	Total Dividend	Dividend Yield= Total Dividends	Earnings Per Share(EPS)	Earnings Yield= (EPS/MPS)
2002/03	7.35	50	(50/735)100=6.80	84.66	11.52
2003/04	1000	65	6.50	92.61	9.26
2004/05	1505	70	4.65	105.49	7.01
2005/06	2240	85	3.79	129.21	5.77
2006/07	5050	2120	41.98	137.08	2.71

SCBNL

Fiscal year	Closing MPS (RS.)	Total Dividend (Rs.)	Dividend Yield =Total Dividend /MPS (Rs.)	Earnings Share(EPS)	Earnings Yield (EPS/MPS)
2002/03	1640	284.5	284.5/164*100=17.35	149.3	9.10
2003/04	1745	110	6.30	143.55	8.23
2004/05	2345	120	5.12	143.14	6.10
2005/06	3775	720	19.07	175.84	4.66
2006/07	5900	3030	51.36	167.37	2.84

Appendix-4

Computed of Trend Values

1. EPS of NABIL

Fiscal Year(X)	EPS (Y)	X=X-2005	X ²	XY	Trend Value Y _c =109.81+14.14X
2003	84.66	-2	4	-169.32	81.53
2004	92.61	-1	1	-92.61	78.47
2005	105.49	0	0	0	109.81
2006	129.21	1	1	129.21	123.95
2007	137.08	2	4	274.16	138.09
Total, n=5	549.05	0	10	141.44	-

$$a = \frac{\sum Y}{n} = \frac{549.05}{5} = 109.81, \quad \sum X = 0$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{141.44}{10} = 14.144$$

Estimation of Trend Value:

For Year Ending mid July 2008, X= 2008-2005=3

$$Y_c = 109.81 + 14.14 \times 3 = 152.23$$

For Year Ending Mid July 2009, X=2009-2005=4

$$Y_c = 109.81 + 14.14 \times 4 = 166.37$$

For Year Ending Mid July 2010, X=2010-2005=5

$$Y_c = 109.81 + 14.14 \times 5 = 180.51$$

2. DPS of NABIL

Fiscal Year	DPS Cash Dividend	X=X-2005	X ²	XY	Trend Values Y _C =74+12X
2003	50	-2	4	-100	50
2004	65	-1	1	-65	62
2005	70	0	0	0	74
2006	85	1	1	85	86
2007	100	2	4	200	98
Total	370	0	10	120	-

$$a = \frac{\sum Y}{n} = \frac{370}{5} = 74, \text{ Provided that } \sum X=0$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{120}{10} = 12$$

Estimation of Trend Values,

For Year Ending Mid July 2008, X=2008-2005=3

$$Y_c = 74 + 12 \times 3 = 110$$

For Year Ending Mid July 2009, X=2009-2005=4

$$Y_c = 74 + 12 \times 4 = 122$$

For Year Ending Mid July 2010, X= 2010-2005=5

$$Y_c = 74 + 12 \times 5 = 134$$

3. EPS of SCBNL

Year	EPS (Y)	X=x-2005	X ²	XY	Trend Values Y _c =155.84+9.89X
2003	149.30	-2	4	-298.6	136.06
2004	143.55	-1	1	-143.55	145.95
2005	143.14	0	0	0.00	155.84
2006	175.84	1	1	175.84	165.73
2007	167.37	2	4	167.37	175.62
Total	779.2	0	10	98.94	-

$$a = \frac{\sum Y}{n} = \frac{779.2}{5} = 155.84, \quad \text{Provided that } \sum X = 0$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{98.94}{10} = 9.89$$

Estimation of Trend Values;

For Year Ending Mid July 2008, X = 2008-2005=3

$$Y_c = 155.84 + 9.89 \times 3 = 185.51$$

For Year Ending Mid July 2009, X = 2009-2005=4

$$Y_c = 155.84 + 9.89 \times 4 = 195.4$$

For Year Ending Mid July 2010, X = 2010-2005 =5

$$Y_c = 155.84 + 9.89 \times 5 = 205.29$$

4. DPS of SCBNL

Fiscal Year	DPS (Cash Dividend)	X=X-2005	X ²	XY	Y _{c=110+4X}
2003	110	-2	4	-220	102
2004	110	1	1	-110	106
2005	120	0	0	0	110
2006	130	1	1	130	114
2007	80	2	4	160	118
Total	550	0	10	40	

$$a = \frac{\sum Y}{n} = \frac{550}{5} = 110, \sum X = 0$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{40}{10} = 4$$

Estimation of trend Values:

For year ending mid July 2008, X= 2008 – 2005 =3

$$Y_c = 110 + 4 \times 3 = 122$$

For Year ending mid July 2009, X= 2009-2005=4

$$Y_c = 110 + 4 \times 4 = 126$$

For Year Ending mid July 2010, X=2010-2005=5

$$Y_c = 110 + 4 \times 5 = 130$$