

**DIVIDEND POLICY ON FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS IN NEPAL**
(With Reference to NIMBL and NABIL)

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RECOMMENDATION

This is to Certify that the Thesis

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Entitled

**DIVENDED POLICY ON FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS IN NEPAL
(With Reference to NIMBL and NABIL)**

has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of

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VIVA-VOCE COMMITTEE

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**DIVENDED POLICY ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NEPAL**” (With Reference to NIMBL and NABIL)” submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies (M.B.S.) under the supervision of Arun Neupane of Shanker Dev Campus, T. U.

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ABBREVIATIONS

ASBN	: Accounting Standard Board Nepal
BAFIA	: Bank and Financial Institution Act. 2063
B/S	: Balance Sheet
C.V.	: Coefficient of Variation
DPR	: Dividend Payout Ratio
DPS	: Dividend Per Share
DY	: Dividend Yield
EPS	: Earning Per Share
GAAP	: Generally Accepted Accounting Principles
ICAN	: Institute of Chartered Accountants of Nepal
i.e	: That is
MPS	: Market Price Per Share
MVPS	: Market Value Per Share
NABIL	: Nabil Bank Ltd.
NEPSE	: Nepal Stock Exchange
NFRS	: Nepal Financial Reporting Standard
NIB	: Nepal Investment Mega Bank Ltd.
NPAT	: Net Profit after Taxes
NRB	: Nepal Rashtra Bank
NW	: Net Worth
PE	: Probable Error
P/E Ratio	: Price Earnings Ratio
ROE	: Return on Shareholders' Equity
<i>r</i>	: Correlation Coefficient
S.D.	: Standard Deviation
SEBON	: Securities Exchange Board of Nepal
SEE	: Standard Error
TU	: Tribhuvan University

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The banking sector is of paramount importance in the contemporary economic landscape. One of the most probable institutions for economic development is commercial banks. Commercial banks are primarily involved in the activities of agriculture, industry, commerce, and trade. It serves as a critical component of economic development by providing financial and technical support, as well as serving as a bridge to national and international trade. The primary objective of a commercial bank is to mobilize idle resources in particular productive consumers after collecting them from a variety of sources. As a financial institution, commercial banks transfer monetary resources from savers to consumers. They provide the essential capital necessary for the savings of both the individual and the institution.

Profitability is the fundamental indicator of the existence of a business entity. If there is no profit, a business organization is unable to maintain its facilities in the long term. The proprietors may receive a dividend from this profit. After earning a profit, each organization either retains the funds for future investments or distributes them among its shareholders. The dividend is the portion of net profit that is distributed to shareholders. The individuals who invest in the business anticipate a return on their investment. In essence, equity shareholders receive dividends as compensation. It should be sufficient to satisfy the typical expectations of shareholders. Therefore, the appropriate and sufficient policy should be implemented to distribute dividends.

A company distributes dividends to its shareholders. Typically, the term "profit" is used to describe the proceeds that are left over after taxes are paid by a company. It is either distributed as a dividend or retained as Retained Earnings for future reinvestment. Dividend Policy is the practice of retaining a portion of income and distributing a portion as a dividend. The majority of companies retain a portion of their earnings and distribute the remaining portion as a dividend.

"Dividend policy is a critical decision in financial management, as it influences the financial structure of the organization." Financial management is therefore concerned

with the activities of the company that impact the well-being of shareholders. The market value of stock is a more precise measure of that wellbeing than the dividend received. "By dividend policy, we refer to a consistent approach to the decision between distribution and retention, as opposed to making the decision on a purely ad hoc basis from one period to the next" (Pearson, et.al, 1972:405). The dividend policy encompasses all pertinent aspects and inquiries regarding dividend payments. This is a significant decision made by the firm, as it determines the percentage of earnings that will be distributed to shareholders and the percentage that will be retained in the firm for potential development. Consequently, it is prudent to strike a balance between the interests of shareholders and the growth of the corporation through internally generated funds.

The shareholders receive a direct benefit from their investment when the company distributes a portion of its earnings to them in the form of dividends. The shareholders can anticipate future earnings if the firm retains the funds for internal development instead of paying dividends. Consequently, shareholders may enhance their wealth through either capital gains or current dividends. Nevertheless, it is imperative that each organization make a significant decision regarding the distribution of dividends or the retention of business assets. Dividend policy is a critical financial decision for every firm, as it determines the dividends to be distributed and impacts the financial structure of the organization. All firms have their own dividend policy.

The firm's dividend policy is influenced by a variety of factors, including the desire of shareholders, legal regulations, liquidity positions, profit rate, debt repayment obligations, debt contract restrictions, earnings stability, and shareholders' tax positions. Therefore, it is imperative that each organization evaluate the aforementioned factors prior to declaring a dividend and adhere to the appropriate dividend policy.

In the industrial sector, there are a variety of dividends. However, in Nepal, dividends are primarily distributed in the form of cash, stock, or a combination of both in the form of bonus shares. In general, the policy of dividends is contingent upon the external environment. Consequently, the majority of Nepalese organizations have a policy of providing a minimum dividend with additional dividends based on future expansion needs and earnings. In this context, the dividend payout ratio is a critical factor in determining the stock price. Details regarding this matter will be provided in the subsequent section of the thesis.

The concept of banking was established in England through the efforts of ancient goldsmiths, who possessed the most robust secure values for the storage of valuable goods, including gold, silver, and diamonds. Goldsmith issued receipts to depositors for their deposits. At that time, it was discovered that deposits with goldsmiths could be used as currency. Eventually, it was discovered that not all of the money that had been deposited was withdrawn at once. Consequently, they began to lose interest in the public. This was the method by which the bank was established. In 1157 A.D., Venice established the first modern finance institution, which subsequently expanded worldwide. The TejarathAdda was established in Nepal under the prime ministership of Ranodeep Singh to provide loans. The Nepal Bank Limited was the first banking institution to be established in 1994 B.S. under the Nepal Bank Act 1993. The establishment of foreign joint venture banks was permitted by the government in the mid-1980s. Subsequently, a new trend in dividend distribution emerged.

Two pioneer banks were selected for the purpose of this thesis writing from a total of 27 commercial banks in Nepal. These two institutions, Nepal Investment Mega Bank Ltd. (NIMBL) and Nabil Bank Ltd. (Nabil), serve as the most prominent illustrations for this investigation. Currently, these two institutions offer the most competitive, stable, and high dividend returns in the market.

1.2 Profile of Sample Banks

1.2.1 Nabil Bank Ltd. (Nabil)

Nabil Bank Limited was established in July 1984 (2041-03-29) as a first private sector commercial bank of nation. Initially it was established in the name of Nepal Arab Bank Ltd. Nabil was incorporated with the objects of extending international standard modern banking services to various sector of the society. Now, till the date the bank is operating as a pioneer & as a successful bank of Nepal. Currently it has 74 branches & 131 (116 till FY 2077/78) ATM's all over country. It has hold Nabil Investment Banking Ltd. as subsidiary co. and Nadep Microfinance Ltd. as associate co. as well.

The Capital structure of Nabil as Equity Shareholders

NB International Ltd.	50%
Rastriya Beema Sansthan	9.67%
General Public	30%
Others (Promoters)	10.33%

1.2.2 Nepal Investment Mega Bank Ltd. (NIMBL)

Nepal Investment Mega Bank Ltd. (NIMBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIMBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world.

Later, in 2002 a group of Nepalese companies comprising of bankers, professionals, industrialists and businessmen acquired the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd., and accordingly the name of the Bank also changed to Nepal Investment Mega Bank Ltd. Currently they have 78 Branches, 9 revenue counters, 109 ATM outlets as well as one subsidiary co. naming NIMBL Ace capital Ltd.

At present the Bank's shareholding pattern is as follows:

Promoters	69%
General Public	31%

1.3 Statement of the Problem

The organization's shareholders receive dividends as compensation for their investments. Dividends are distributed exclusively to shareholders of the entity. Therefore, it is a critical component of the process of planning for dividend distribution and assessing the challenges associated with dividend planning. The decision to distribute dividends is a critical and contentious aspect of managerial finance. Nevertheless, the dividend decision of commercial banks in Nepal has not yielded any satisfactory results. The primary factors that influence and react to dividend decisions are various government rules and regulations. However, there is no restriction on the identification of the dividend policy issue that is evident in Nepalese commercial banks. In light of this, we address specific issues related to the dividend policy of commercial banks. There are only a handful of commercial banks in Nepal, including sample banks, that have the financial resources to distribute substantial dividends. However, they are not adhering to dividend policies that are explicitly defined. Additionally, the following are the objectives of the investigation:

- Is there any uniformity among commercial banks in dividend distribution?

- What is the relationship between dividend with earning per share, market price of share, dividend per share, returns on equity & dividend yield of the company?
- What are the prevailing practices of the sample banks regarding their dividend policies?

1.4 Objectives of the Study

The main objective of dividend policy is to maximize return of shareholders equity. This study is to analyses prevailing practices of Nepalese listed commercial banks regarding dividend. Some other specific and measurable objectives of this study are as follows:

- To study the dividend practices adopted by Nabil bank & Nepal Investment Mega Bank Ltd. of Nepal.
- To analyze the relationship of dividend with EPS, ROE, DPS, MPS & dividend yield.
- To analyze the relationship between the values of stock and dividend policy of sample banks.

1.5 Significance of the Study

The distribution of a high dividend is not feasible for all banks, despite the high expectations of equity shareholders as investors or ultimate owners of the firm. Despite their ability to generate substantial profits, banks are unable to authorize an increase in dividends. Even if investors are dissatisfied, each organization maintains its own dividend policies. In comparison, our sample banks have employed both high and moderate dividend practices over the past few years. They appear to be the most superior of the 27 commercial institutions in Nepal. These two banks, Nabil and NIMBL, are not only superior in dividend declaration but also in paid-up capital, reserve fund, highest free profit (as per NFRS), highest turnover, and market capitalization. Consequently, the research conducted in these two banks on the topic of "Dividend Policy" is of great significance in understanding the general commercial bank dividend policy and practices in Nepal.

Additionally, this investigation of Nepal's two commercial banks' contradictory policies may prove advantageous. The following are additional implications of the

investigation. This study will be very helpful for the further researcher to find more details on the same topic.

- It will be very useful to the concerned people like shareholders, general public, bank authority and policy makers as well as all concerned parties.
- It may be useful to government for policy making, controlling, and supervision and monitoring.
- It covers the partial fulfillment of M.B.S.

1.6 Limitation of the Study

This study is to fulfill the requirement of Master Degree in Business Studies (MBS). It cannot cover all dimensions of the subject matter & resources. This study will be limited by the following factors.

- The study is mainly conducted on the secondary data. So, the result depends on the reliability of secondary data.
- The study covers a period of five fiscal data. 2075/76 to 2079/80).
- Only two commercial banks are taken as sample.
- This study covers only dividend related factors.
- The data available in the internet, websites and published annual report is assumed to be correct and true.

1.7 Organization of the Study

This study has been organized into five chapters. Which are as follows.

Chapter I: Introduction

This chapter deals with the subject matter of the study consisting introducing, the problems and objectives of the study, significance of the study, limitation of the study.

Chapter II: Review of Literature

It includes a discussion on the conceptual framework on dividend policy. It also includes major studies relating with dividend decision & review of further studies.

Chapter III: Research Methodology

Explain the Research Methodology used to evaluate dividend practices of commercial banks in Nepal. It consists of research design, source of data, population and sample of research as well as analysis of statistical tools and financial tools.

Chapter IV: Presentation & Analysis of Data

Deals with analysis and presentation of data and information through a definite course of research methodology and major findings.

Chapter V: Summary, conclusion and recommendation

This final chapter deals with the summary & conclusion of the study & give appropriate recommendations for improvement in the subject matter as necessity.

The bibliography & appendices are given thereafter.

CHAPTER II

REVIEW OF LITERATURE

This research aims to analyze on dividend policy & practices of commercial banks in Nepal. Nabil Bank & NIMBL bank represents the selected area for the study in this subject. For this purpose, various previous & related literatures are reviewed for broad conceptual framework on the dividend policy. It has analyzed, what previous research had defined? What are the results? And what conclusions were they given? These and all related attempt have been made as possible as relevant to support & developing a research design.

2.1 Conceptual Framework

2.1.1 Concept of Dividend and Dividend Policy

The dividend is the return on investment for genuine investors, specifically equity shareholders of the company. Therefore, the dividend is the most motivating factor for share investors. The company's total earnings are allocated to dividend shareholders and retained for future reinvestment. The dividend pertains to the distributions to shareholders, while the dividend policy addresses the total profit of firms, which is divided into dividends and retained earnings. Therefore, the dividend policy should be the most effective in light of these two factors. In layman's terms, a dividend is a portion of the earnings that is distributed to shareholders as compensation for their investment in share capital. Dividend Policy is a tool that is used to determine the optimal allocation of profits between the quantity to be retained in the firm and dividend payments. This pertains to the percentage of earnings that should be distributed to shareholders. The internal financing of the organization is influenced by the dividend payout, which decreases the quantity of earnings that are retained in the business.

The dividend policy, which is defined as the percentage of dividend (D/P ratio), should be designed to optimize the wealth of its owners and the organization's internal development in the long term. It is one of the most significant sources of financing for the firm in terms of obtaining funds to undertake investment. Conversely, dividends are advantageous for shareholders because they tend to augment their current wealth.

In general, dividends are distributed in cash. Consequently, stockholders receive a portion of the earnings in currency. The quantity of earnings retained in the firm is, of course, reduced by the dividend payout, which also impacts the internal financing of the firm.

The decision to distribute dividends or retain them for future reinvestment in the company is known as dividend policy. The firm's stock price is influenced by both favorable and unfavorable adjustments in dividend policy. The immediate financial flows to investors are increased by a higher dividend, which is beneficial. However, the future growth is reduced, which is unfavorable. The dividend policy should be optimal in order to maximize the stock price and balance the opposing forces.

The long-term financial and wealth of the shareholders are consequently influenced by the firm's dividend policy. Consequently, the firm's determination to distribute dividends may be influenced by two potential perspectives.

The decision to distribute dividends or retain them for future reinvestment in the company is known as dividend policy. The firm's stock price is influenced by both favorable and unfavorable changes in dividend policy. The immediate cash flows to investors are increased by higher dividends, which is beneficial. However, the future growth is reduced, which is detrimental. The optimal dividend policy is one that optimizes the stock price by balancing the opposing forces.

Ultimately, the dividend is directly profitable and retains earnings for shareholders in the long term. In both scenarios, shareholders receive a benefit. Given that dividends would be more appealing to shareholders, it would be reasonable to assert that dividends are more significant than retention in the eyes of shareholders. Maintaining a balance between the interests of shareholders and the need for corporate growth from the initial capital generation would be a prudent policy. Therefore, this is a significant financial decision for the firm and its management. Consequently, the objective of this investigation is to concentrate on all pertinent factors, current practices, and policies of specific institutions with respect to dividends, dividend policies, and their payment.

2.1.2 Types (Forms) of Dividend

Corporations must adhere to a variety of dividend categories in accordance with their objectives and policies. In the Nepalese context, the majority of corporations are issuing cash dividends and stock dividends (Bonus Shares). The types of dividends that corporations follow are partially determined by the financial constraints and

circumstances that influenced corporate plans and policies (Thapa and Gautam, 2004,55). Dividends are distributed in a variety of ways to accommodate the evolving requirements of corporations. The following are as follows:

i. Cash Dividend: The cash dividend is the portion of the company's earnings that is distributed to shareholders in cash. As a result of the distribution of a cash dividend, the company's total assets and net worth decrease by the quantity of cash that was distributed. This is the most prevalent type of dividend.

ii. Stock Dividend Bonus Shares): Stock dividends are defined as the issuance of additional shares to existing shareholders in a proportional manner, as opposed to a cash dividend. "A stock dividend is essentially a recapitalization of the company, in which additional stock is distributed to stockholders; the proportional ownership of a stockholder remains unaltered." (Van Horne, 1998, p. 176). Additionally, it is referred to as an incentive share. This yields an increase in the company's outstanding shares. In the event that the stock dividend is declared, the paid-up share capital will increase, while the firm's reserves and surplus will decrease.

iii. Property Dividend: A property dividend is a type of payment that is made in the form of property or assets, rather than currency. This method of paying dividends may be implemented by firms in the event that they possess assets that are no longer required for business operations or in exceptional circumstances. Therefore, this form of dividend payment is seldom implemented.

iv. Bond Dividend: A bond dividend is a dividend that is distributed to shareholders in the form of a bond. It is advantageous for the organization to issue bonds when it generates substantial profits over an extended period. When the company is unable to bear the interest burden of a loan, these are granted. To put it differently, corporations proclaim dividends in the form of their own bonds in order to prevent cash outflows. If the issuance is intended for current shareholders.

v. Interim Dividend: Typically, the dividend is declared at the conclusion of the fiscal year. This is referred to as a regular dividend. An interim dividend is a dividend that is declared prior to the conclusion of the financial year.

vi. Special Dividend: This dividend is paid separately when the company's directors do not wish to modify the dividend individually and the company has sufficient cash and reserves.

2.1.3 Motives of Dividend Declaration

The declaration of a dividend is directly advantageous to shareholders. However, it is a substantial concern for the organization's growth and development. The primary objective of dividend declaration is to generate returns for investors. The following are additional motivations or objectives for dividend declaration.

i. To ensure that investors receive a fair return

Every organization depends on investment. No enterprise can exist without investment. The ultimate proprietors in any organization are its shareholders. The primary and primary objective of dividend declaration is to provide returns to these investors or shareholders.

ii. To maintain a competitive edge in the market

Firms that are capable of competing with other firms are the only ones that can last in the market. The firms are compelled to distribute dividends to their shareholders due to the competition. Therefore, it is crucial to maintain a consistent investment in order to operate a business and to attract investors from the secondary market, dividends are a critical factor. Consequently, in a competitive market, dividends are one of the most significant factors for firms.

iii. To establish the source of funding

Investors are prepared to make additional or new investments in the same enterprises as a result of the consistent and high dividends they receive. The consistent and increased dividend payout demonstrates the stability and robust financial position of the company, which in turn encourages investors to consider additional sources of funding.

In addition, there are numerous other motivations or objectives for dividends. In the current economic climate, it is impossible to envision a fundamental investment without dividends.

2.1.4 Theories of Dividend

i. Dividend Residual Theory

The residual dividend policy is predicated on the assumption that investors prefer to have a firm retain and reinvest earnings rather than distribute them in dividends if the rate of return the firm can earn on reinvested earnings in the future exceeds the rate of return investors can obtain for themselves on other investments of comparable risk. This theory posits that profit should be prioritized in all profitable investment plans

that exhibit an equal or higher rate of return. Additionally, it is less costly for the organization to utilize retained earnings than to issue new common stock.

ii. The bird-in-the-hand theory of dividends

The bird-in-the-hand theory of dividends adopts a fundamentally distinct perspective. In particular, this theory posits that investors are not indifferent between an equivalent quantity of capital gains in the future and dividends today. They would rather receive a dividend that is more predictable today than a capital gain that is more uncertain tomorrow.

According to the bird-in-the-hand theory, investors discount the anticipated capital gain yield at a higher rate than the dividend yield. Consequently, organizations that implement a high dividend payout (and consequently, a low expected capital gain yield) may provide stockholders who prioritize a high current payout with a lower total rate of return than those that adhere to a low dividend payout. A higher stock price is the consequence of a lower required return for firms that align with the high current payout pattern that bird-in-the-hand investors seek.

III. The tax preference theory of dividends

According to the tax preference theory, certain investors prioritize long-term capital gains over current dividend yields and will pay a premium for a company's stock if it allocates its earnings to capital-appreciating projects rather than to dividends. This preference is rooted in the time value of money and taxes, as stock price appreciation is taxed more favorably than dividend income.

2.1.5 Stability of Dividend

In practice, the management of the majority of companies regards the stability or regularity of their dividends as a desirable policy. The regular payment of dividends is referred to as dividend stability. Although the quantity of dividends may vary from year to year and may not be directly correlated with earnings. Additionally, this policy is generally favored by shareholders, who prioritize stable dividends over those that fluctuate. The market price of the share is positively influenced by consistent dividends, provided that all other factors remain constant (Sharma, 2001). There are several reasons to believe that a consistent dividend policy does result in increased stock prices. Initially, it is reasonable to anticipate that investors will place a higher value on dividends that they are more confident in receiving, as dependable dividends are less risky than those that fluctuate. Consequently, the average amount of dividends

received under a fluctuating dividend policy is likely to be subject to a larger discount factor than those under a stable dividend policy. This implies that a company with a consistent dividend will exhibit a lower required rate of return or cost of equity capital than one whose dividend fluctuates. Second, a significant number of stockholders rely on the income they receive in the form of dividends to sustain their lifestyle. These proprietors are significantly inconvenienced by the fluctuation of dividends and are likely to pay a premium for a stock that offers a relatively predictable minimum dollar dividend. These stockholders are significantly inconvenienced by the fluctuation of dividends and are likely to pay a premium for a stock that offers a relatively predictable minimum dollar dividend. The requirement of legal listing is the third factor from the perspective of both the corporation and its stockholders.

Despite the fact that the majority of companies appear to have a policy of paying consistent financial dividends, this is not the only policy. The three distinct varieties of such stability in dividend payments are as follows:

A consistent payout ratio

The payout ratio is the ratio of dividends to earnings. Paying a consistent percentage of net earnings annually is referred to as a constant payout ratio. The dividend amount will fluctuate in direct proportion to earnings under this policy. It guarantees that distributions are distributed when profits are generated and avoided when losses occur. This policy is typically implemented by management due to its direct correlation with the organization's dividend payment capacity.

b) Consistent Dividend Per Share

The dividend rate or constant dividend per share is the name of this payout scheme. A company is required to distribute a fixed rupee dividend each period in accordance with this policy. This policy is generally preferred by individuals and institutions that rely on dividend income to cover their living and operating expenses. This policy does not suggest that the dividend per share will never increase. The annual dividends per share may be increased when the company achieves a new level of earnings and anticipates maintaining it. When earnings are consistent, it is effortless to adhere to. It is challenging to uphold such a policy when a company's earnings pattern exhibits significant fluctuations.

c) Extra dividend in addition to low regular dividend

A compromise between the first two is achieved by combining a low regular dividend per share with an additional dividend. This policy typically allows for the preservation of a modest regular dividend in the event of a decline in earnings, as well as the payment of an additional dividend when there is an excess of funds. It provides the firm with flexibility, but it leaves investors with a degree of uncertainty regarding their dividend income.

2.1.6 Conflicting Theories on Dividends

Two fundamental schools of thought on dividend policy have been articulated in the theoretical literature of finance under this conflicting theory on dividends. The initial school of thought posits that the value of a company can be influenced by the preferences of investors in relation to dividend policy. Theorists of this school of thought include Walter, John Linter, and Myron Gordon. According to these theorists, the required rate of return for investors increases as the dividend payout is diminished, as investors are more accustomed to receiving dividend payments than income from capital gains that are thought to be the result of retained earnings. These theorists propose that the earnings of a firm with a low payment ratio are typically capitalized at a higher rate than the earnings of a high payout firm.

The alternative school, which is associated with Professor Metro Miller and Franco Modigliani, maintains that investors are indifferent to capital gains and dividends, and as a result, dividends have no impact on the prosperity of shareholders. They contend that the firm's value is contingent upon the income generated by its assets, rather than the distribution of this income between retained earnings and dividends. It is their belief that the firm's value is contingent upon its earnings, which are contingent upon its investment policy and dividend. The value of the firm is not influenced by the division of earnings into retained earnings and dividend earnings.

2.1.7 Meaning of Dividend Policy

Dividends are the portion of a company's profits that are distributed to its shareholders. It is the compensation that shareholders receive for their expenditures in the company's shares. Investors are motivated to optimize their wealth and generate the highest possible return on their investments. On the other hand, a company must allocate funds to support its long-term expansion. The division of earnings between payment to shareholders and retaining fund is determined by the dividend policy.

If the majority of a company's earnings are distributed as dividends, it will be forced to rely on external resources, such as the issuance of new shares or debt, to meet its business needs and expand. Consequently, the long-term financing and shareholder wealth are both influenced by a company's dividend policy. Consequently, the firm must determine the payment of dividends in a manner that ensures the equitable distribution of retained earnings and distributed profits. Therefore, the dividend policy is the procedure for allocating the firm's net profit.

2.1.8 Types of Dividend Policy

a) Stable and Consistent Dividend Policy

Most companies are implementing a consistent and consistent dividend policy. This policy is predicated on the preservation of the remedy. The dividend rate will be maintained for an extended period of time and will only be increased or decreased if future earnings expectations are consistent and higher. The dividends have remained consistent for several years, despite the fact that the firms' profits fluctuate. Therefore, this approach is not affected by fluctuations in earnings when it comes to dividend payout. Unless the payout ratio falls below the minimum of earning per share, the dividend per share remains relatively consistent. These corporations implement this policy because they consider dividend payments to be a critical factor in the stock market.

b) Regular plus Extra Dividend Policy

This policy encompasses the combination of a standard dividend and an additional payment when the earnings are exceedingly high. This policy establishes a low dividend level on a regular basis and also announces an additional dividend at the conclusion. This policy is intended to convey to shareholders that the company intends to distribute dividends on a consistent basis. Corporate entities that pursue this policy prioritize the necessity of providing investors with consistent returns and preserving their earnings in order to satisfy their long-term financial obligations.

2.1.9 Factors affecting Dividend policy

A company's dividend policy may be influenced by a variety of factors. In addition to the allocation of earnings, the firm's dividend policy is also concerned with the legal provisions that govern the payment of dividends, liquidity, control, and stability of dividend payouts, including administrative considerations, stock repurchases, and dividend and stock splits (Van Horne, 2000, 446). Therefore, there are numerous

financial, managerial, and legal factors that must be taken into account when formulating a dividend policy.

a) Legal Regulations

The firm's dividend policy must adapt to the legal framework and constraints. A company may be unable to pay dividends due to specific legal constraints. They are as follows:

a. Capital Improvement Rule: A firm should not pay a dividend if its capital has been impaired or if the payment of a dividend will cause capital to be impaired. It implies that dividends should not be paid from the capital that has been paid.

b. The Surplus Rule: The dividend should be paid exclusively from the surplus. A dividend cannot be legally declared in the absence of a profit or surplus.

c. The Insolvency Rule: The dividend cannot be paid or declared if the company is insolvent or if payment would result in insolvency, according to the insolvency rule.

The framework within which dividend policies can be formulated is significantly influenced by legal rules. Nepal Rashtra Bank (NRB) has implemented a new regulation/directive for commercial banks in Nepal, which mandates the declaration of dividends in accordance with the Nepal Financial Reporting Standard (NFRS). This regulation/directive is effective as of July 16, 2018.

B) Management Considerations

The dividend payment policy is influenced by a variety of managerial factors, including:

i) Asset Expansion: The necessity of financing asset expansion is present in the case of a swiftly expanding firm. It is more probable that earnings will be retained for this purpose rather than distributed to shareholders; as a result, shareholders will receive a minimum dividend.

ii) Earnings Stability: A company that maintains a consistent earnings trend will typically distribute a greater percentage of its earnings as dividends. The anticipated earnings of unstable organizations are subject to revision in subsequent years. Therefore, it is probable that a substantial portion of the current earnings will be retained.

iii) Capital Market Accessibility: The capital market is not accessible to all enterprises in an equitable manner. A large, well-established company with a history of profitability and stability in earnings has simple access to capital markets and other

forms of external financing. The management is able to fulfill the corporate obligation and pay dividends with ease due to the easy accessibility of the capital market.

c) Liquidity position: The firm's capacity to distribute dividends is influenced by its cash or liquidity position. The capacity of a company to distribute dividends is demonstrated by its cash position and overall liquidity. Firms that are rapidly expanding and have a limited liquidity position encounter challenges in paying dividends.

d) Expectations of Shareholders

Investors' preferences for dividends over capital gains have been observed in the market due to the disparity in their tax rates. Corporations that are owned by large taxpayers in high-income tax brackets tend to have a lesser dividend payout, whereas corporations that are owned by small investors tend to have a higher dividend payout.

e) Obligation to Repay Debt

The capacity of cash flow to distribute dividends is also influenced by the necessity to repay debt. Retaining earnings is crucial when a company issues debt capital, as it must be refunded at maturity to extinguish the debt. Consequently, retained earnings have an impact on the dividend policy.

F. Dividends that have been paid in the past

A company that has a history of dividend payments will endeavor to maintain this level of consistency in the future. Dividends have the potential to establish a habit. The stock price will decline if the market fails to receive its anticipated dividend. Even if they are operating at a net loss for an interim period, the majority of the firms surveyed stated that they would continue to distribute their current dividends.

g) Profit Rate: The relative attractiveness of handing out earnings in the form of a dividend to stockholders is determined by the rate of return on assets. The indicator of a high dividend payout is high profit rates, provided that other factors remain constant.

h) Inflation

In an indirect manner, inflation also plays a significant role in the decision to distribute dividends. Historical cost serves as the foundation of an accounting system. Depreciation is assessed in accordance with the original cost. In the event of an increase in price, the funds conserved for depreciation would not be sufficient to

replace assets or maintain capital. As a result, the organization may be required to retain a substantial portion of its earnings in order to preserve its capital.

i) Management

The preservation of the controlling vote is of paramount importance to numerous small businesses and specific large enterprises. Rather than issuing new stock, these proprietors would prefer to utilize retained profit and debt to fund new investments. Consequently, the dividend payout will be diminished.

2.1.10 Legal Rules regarding Dividend practices

Humans are subject to the laws of nature, and their actions are regulated by their own rules and regulations. The Company Act 2063 governs and regulates legal entities or corporations, while the BAFIA 2063 and NRB Act 2058 govern and regulate banks and financial institutions. The company's decisions are predicated on its own rules and regulations; however, the Nepal Company Act 2021 does not specify any specifics regarding dividend practices. Nepal Stock Exchange Limited is the sole entity responsible for safeguarding the interests of investors, as stipulated in the Security Exchange Act of 1983. However, this organization is unable to adequately protect the interests of investors due to the fact that the interests and attitudes of the board of directors are the primary factors in the management of public limited companies. Additionally, the board of directors are typically the majority of those who are nominated to lead public limited companies. The Company Ordinance 2062 (2006) contains certain provisions regarding dividends. The provisions in question are as follows:

Section 2 (q) defines a bonus share as an additional share issued to shareholders by capitalizing savings earned for a reserve fund. It also encompasses situations in which the paid-up value of the shares is increased by capitalizing the surplus and reserve fund. ("Company Act 2063)

Bonus shares pursuant to Section 179

Sub-section (1): A company may distribute bonus shares to its shareholders from the amount available for this purpose at the general meeting.

Subsection (2): Prior to issuing incentive shares pursuant to subsection (1), the Company shall notify the office.

Section 182 pertains to dividends.

Sub-section (1): The dividend shall be distributed to the shareholders within 45 days of the resolution sanctioning the payment of the dividend, with the exception of the following circumstances.

- If the disbursement of dividends is prohibited by any law.
- If the right to receive the dividend is in dispute.
- If the dividends cannot be disbursed within the specified period as a result of an event beyond the company's control or any other reason.

Sub-section (2): The distribution of dividends by a company that is wholly or partially owned by the Nepal Government is subject to the prior approval of the Government of Nepal. The Government may issue essential directives regarding the distribution of dividends.

Subsection (3): In the event that the dividend is not paid within the timeframe specified in subsection (1), it will be paid in conjunction with interest at the prescribed rate.

Sub-section (4): The dividend shall be paid to the shareholder or his successor whose name is documented in the shareholder's records at the time of the dividend's declaration.

Sub-section (5): A company is prohibited from paying or distributing dividends unless they are derived from proceeds that have been designated for this purpose.

Sub-section (6): A company is required to eliminate pre-incorporation expenses, deduct the amount of depreciation in accordance with the accounting standard prescribed by the competent authority under the current law, and allocate any amount to be allocated or paid out of profit under the current law. Additionally, the accumulated loss in the preceding years must be eliminated before the payment or distribution of a dividend out of the profit in a particular year to a specific reserve fund under the current law. The dividend will not be distributed unless the amount is transferred to the reserve fund.

Sub-section (7): The board of directors of the company may distribute an interim dividend from the profit of previous years in the following conditions, subject to the provisions specified in this section:-

- If the articles of association contain a provision regarding the distribution of interim dividends.

- If the annual financial statement certified by the auditor for the relevant financial years has been authorized by the board of directors, an interim dividend will be distributed from the net profit.

Sub-section (8): A company is prohibited from providing its shareholders with any form of payment or benefit, whether in currency or otherwise, unless the general meeting has approved a dividend.

Sub-section (9): The investor's protection fund, which is established under section 183, shall receive the dividend that remains unclaimed for more than five years after its declaration.

Sub-section (10): The company shall publish a notice in a national daily newspaper informing the public that the unclaimed dividend in the fund established under section 183 is available for collection at least one month prior to the expiration of the period specified in sub-section (9).

Sub-section (11): The Company shall establish a distinct account for the deposit of the dividend amount within forty-five days of its declaration. The dividend will be distributed from this account, and it will not be used for any other purpose.

2.1.11 Top Three Models of Dividend Policy

In 1996, Professor James E. Walter conducted research on the relationship between dividend policies and stock prices, positing that the value of a company is influenced by the dividend it chooses to pay. He posits that the dividend policy is determined by the firm's internal rate of return and cost of capital. He underscored the significance of the relationship between the internal rate of the investment project and the market rate that the investor demands. This investigation underscored the potential of dividend policy to optimize stockholders' wealth positions.

The following assumptions are the foundation of Walter's model.

- Retained proceeds are the primary source of funding for the organization's investments. This means that no new equity or debt is issued.
- The firm's internal rate of return (r) and cost of capital (k) remain constant.
- All earnings are either promptly reinvested internally or distributed as dividends.
- The beginning earnings and dividends remain constant. The model may alter the values of earnings per share (EPS) and dividend per share (DPS) to ascertain results; however, the values of EPS and DPS are presumed to remain constant indefinitely.

sThe firm has a perpetual or exceptionally long lifespan.

The market price per share is determined by Walter's formula, which is as follows:

$P = \frac{DPS}{r - k}$ or, $P = \frac{DPS}{r - k}$ where, P = Market price per share.

DPS is the dividend per share.

EPS is the earnings per share.

Internal rate of return (average) = r

k = the cost of capital or Capitalization rate

The optimal dividend policy in Walter's model is contingent upon the firm's internal rate of return, r , and its cost of capital, k . The following is a concise summary of Walter's perspective on the optimal dividend payout ratio:

Growth Firms: A growth firm is a company with an r -value greater than k . The optimal payout ratio for a growth firm is zero. When r exceeds k , the market value per share (P) increases as the payout ratio decreases.

Normal Firms: A normal firm is a firm with $r=k$. There is no single optimal distribution ratio for a typical firm. One dividend policy is equivalent to another. When $r = k$, the payout ratio does not influence the market value per share.

Declining Firms: A firm that has a ratio of r to k may be classified as a declining firm. For a company that is experiencing a decline, the optimal payout ratio is 100%. When r is less than K , the market value per share (P) increases as the payout ratio increases. Consequently, Walter posits that dividends are negatively correlated with stock price when the company is in the development stage. Dividends are positively correlated with stock prices in the declining firm, while there is no correlation between dividends and stock prices in the normal firm. Consequently, the payment of a cash dividend is a passive residual when dividend policy is regarded as a financing decision (Solomon, Ezra: 1963).

2.1.12 Gordon's Model (1962):

In 1962, Myron J. Gordon conducted research on the intriguing approach that connects the market value of the firm to dividend policy. He maintains that investors exhibit a strong preference for present dividends over future capital gains in the presence of uncertainty.

This theory is pertinent and comparable to Walter's model. He elucidated in this study that "investors prioritize present dividends over future capital gains." The present value of an infinite stream of dividends that shareholders will receive is equivalent to the market value of a share, according to him.

The following assumptions are the foundation of Gordon's model. (Pandey, 1995)

- The company is entirely owned by equity. • As a result, retained earnings would be utilized to fund any expansion, as external financing is unavailable.
- The firm's internal rate of return (r) is constant. This disregards the decreasing marginal efficacy of investment.

- The firm's appropriate discount rate (k) remains constant. Consequently, Gordon's model also disregards the impact of a change in the firm's risk class on k .
- The company and its earnings persist indefinitely.
- Corporate taxes are nonexistent.
- The retention ratio (b) remains constant once it is established. As a result, the growth rate g is permanent and equal to r .
- k is greater than br and equals g . We are unable to obtain a meaningful value for the share if this condition is not met.

The present value of an infinite succession of dividends that the share will receive is equivalent to the market value of the share, as per Gordon's dividend capitalization model. Consequently, Gordon has further refined the equation for calculating the market value of a stock: $P_0 =$

$P_0 = P =$ Market price per share

EPS is the earnings per share, while b is the retention ratio.

k_e represents the cost of capital.

$1 - b$ equals the payout ratio.

$br =$ Growth rate

The following facts are disclosed by this model:

Firm with Growth Potential: In the case of a growth firm, where $r >$, the share price typically decreases in tandem with an increase in the payout ratio or a decrease in the retention ratio, expressed as b . Consequently, the stock price and dividend are negatively correlated in a growth firm.

Standard Firm: Firms with $r = k_e$ are referred to as "normal firms." In the event of a typical firm, the share price remains constant, irrespective of any modifications to its dividend policies.

In the event of a declining firm, where r is less than k_e , the share price tends to increase in tandem with an increase in the dividend payout ratio. It demonstrates that dividends and stock prices are positively correlated in a company that is experiencing a decline.

In this regard, Walter's conclusions regarding dividend policy are comparable to those of Gordon's model. This is a result of the similarity in assumptions; however, the assumptions of this model are significantly different from reality. Consequently, their models are referred to as relevance theory in the finance literature.

2.1.13 Modigliani and Miller's Study (1961)

Frano Modigliani and Metro-Miller presented the most exhaustive argument for the irrelevance of dividends in 1961 A.D. They contend that the firm's value is contingent upon the income generated by these services, rather than the distribution of this income between retained earnings and dividends, which are subject to growth.

According to Professor Modigliani and Miller, investors are indifferent to capital gains and dividends, which means that dividends have no impact on the fortune of stakeholders. They believe that the firm's investment policy is the factor that increases the firm's earnings and, as a result, its value. This value is not influenced by the distribution of earnings into retained earnings and dividends. They make the following supposition (Gautam and Thapa, 2004).

- An ideal capital market in which all investors are rational.
- The firm's securities are not subject to flotation costs.
- A world in which taxes are not levied.
- The firm's investment policy is predetermined and cannot be altered.
- Each investor has complete confidence in the firm's future investments and profits. (MM will subsequently abandon this assumption).

In order to substantiate their theory, Modigliani and Miller proposed the subsequent paradigm.

Share market value

The value of the dividend paid at the end of the period is equivalent to the market value of a share at the commencement of the period.

P_0 is represented symbolically as ----- (i) In which case, P_0 represents the market price of share at the commencement of the period.

D_1 represents the dividend per share at the conclusion of the period.

P_1 represents the market price per share at the conclusion of the period.

K_e = the cost of equity capital (assumed constant)

Absence of new external financing:

If there is no new external financing, the market value of the firm can be determined by multiplying both sides by the number of outstanding shares, as follows:

$$nP_0 = \text{"-----"} \text{ (ii)}$$

Where, N represents the number of shares that are currently outstanding.

New shares: If retained earnings are insufficient to fund investment opportunities, the other alternative is to issue new shares. Assuming that n is the quantity of newly issued equity shares at the price of P_1 , the value of the firm at time 0 will be as follows: $nP_1 =$ (-----) (iii) In this case, the number of shares at the beginning of the period is denoted by N , while the number of shares issued at the end of the period is denoted by M .

The aggregate quantity of shares

In order to implement the most advantageous investment strategy, an organization may distribute dividends and raise capital. The total number of new shares can be determined by the firm's financing of all investment opportunities through the issuance of new equity or retained earnings through the following method:

$$MP_1 = I - (E - nD_1) \text{ ----- (IV)}$$

Where, MP_1 represents the amount realized from the sale of new shares.

The amount necessary for a new investment during the stated period is denoted as I .

Total earnings for the duration of the period are represented by E .

The total dividend paid is equal to E minus nD_1 .

By substituting the value of MP_1 from equation (iv) into equation (iii), we obtain the following: $nP_0 =$ A company that distributes dividends will be required to raise funds externally in order to finance its investment strategies. MM contends that the wealth of shareholders is not influenced by dividend policy, which suggests that the firm's advantage is counterbalanced by external financing when dividends are paid. This implies that the terminal value of the share at the beginning of the one-year holding period decreases when the dividends are distributed, while the wealth of the shareholders remains unaffected, which is the sum of the terminal price and the dividends. Consequently, the present value per share following the payment of dividends and external financing is equivalent to the present value per share prior to the payment of dividends. Consequently, shareholders are indifferent to the retention of earnings and the payment of dividends (Gautam and Thapa, 2004).

2.2 Review of Previous Studies

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

2.2.1 Review of Journals/Articles

To this end, Nepal has published a limited number of articles under this subsection. Some of the research is authentic. The following are a few of the most significant studies:

Manandhar (2001) conducted an empirical analysis of "Bonus share and dividend changes in the Nepalese context" using data collected over the eleven-year period from 1987/88 to 1997/98. The data analysis encompasses 35 observations of the pre-bonus dividend rate and 29 observations of the post-bonus dividend rate for 12 samples of Nepalese corporate firms that were selected from the listed corporate firms in NEPSE. Five of the corporate firms in the sample are from the banking sector, three are from the insurance and finance sector, and four are from the manufacturing, trading, and airline sectors. The objective of the investigation is to evaluate the actual dividend behavior of Nepalese corporate entities subsequent to the issuance of incentive shares. Additionally, this investigation poses several specific research inquiries, including whether the quantity of dividends increases is directly proportional to the ratio of bonus issues, whether there is any correlation between the current dividend rate and bonus issues, and whether the management's dividend announcements suggest a desire to increase future dividends. The study's primary conclusions were that the announcement of the bonus share issue had a substantial effect on the market price of the shares, which ultimately impacted the wealth of the stockholders. In conclusion, corporate management has not taken into account the potential impact on dividend distribution in the future, as evidenced by the absence of a systematic dividend payment practice both prior to and following the issuance of incentive shares. After the issue, there is no established policy regarding dividend distribution. The total dividend payment and the increase in dividend rate following the bonus issue exhibit a degree of diversity. This implies that the dividend increase does not correspond to the incentive share issues in the dividend behavior of Nepalese corporate firms. In Nepalese corporate firms, there is no discernible correlation between the current dividend and the various ranges of bonus share issue ratios.

Rajbhandari (2001) has conducted a comparative study of dividend policy between banks and insurance companies, utilizing data obtained from 1994/99. The study involved three joint venture commercial banks and three insurance companies. The primary goals of her research were to investigate the correlation between the market price of the stock and the dividend, to analyze the relationship between the dividend policy decisions of banks and insurance companies, and to determine the most suitable dividend policy for banks and insurance companies. Rajbhandari discovered that the average DPS and all relevant institutions, with the exception of SBL and EPS, appears to be satisfactory. The dividend payout ratio analysis indicates that none of the banks or insurance companies maintains a consistent payout ratio annually. It has been inconsistent from one year to the next. The coefficient of variation analysis indicates that the most significant fluctuations are observed in EPS and DPS. Many other organizations appear to exhibit a higher degree of consistency.

Amidu and Abor (2006) conducted research; this study investigates the factors that influence the dividend payout ratios of publicly traded companies in Ghana. The financial statements of firms listed on the GSE over a six-year period are utilized to conduct the analyses. The regression equation is estimated using the Ordinary Least Squares model. The study's primary conclusions were that there is a positive correlation between dividend payout and profitability, financial flow, and tax. The findings indicate that profitable organizations are inclined to distribute substantial dividends. A company's capacity to distribute dividends is enhanced by its liquidity position. The results also indicate that there are negative correlations between dividend payout and risk, institutional shareholding, growth, and market-to-book value. In the event that firms are experiencing earnings volatility, they may be unable to pay dividends. Consequently, they may pay a reduced or nonexistent dividend. The dividend payout ratio decreases as the institutional holding increases, indicating that firms pay dividends to mitigate the costs associated with agency problems. The results once again indicate that expanding firms require additional funds to support their expansion, and as a result, they would typically retain a greater portion of their earnings by paying a low dividend. Companies with a higher market-to-book value are more likely to offer favorable investment opportunities, which is why they would pay lower dividends. The findings of this investigation generally corroborate the findings of prior empirical investigations. The article's implication is that the

profitability, cash-flow position, growth prospects, and investment opportunities of Ghanaian listed firms influence their decision to implement a dividend payout policy.

The dividend behavior of Indian enterprises was investigated by Pandey and Bhatt (2007). Is the dividend policy of Indian enterprises consistent? What is the impact of the monetary policy restrictions on the firm's dividend payouts? The Lintner (1956) model was employed to evaluate the dividend stability of Indian firms. The GMM estimator was employed, which is most appropriate for a dynamic context and accounts for heterogeneity. Their findings validate the Lintner model in the developing Indian market and demonstrate the dynamic relationship between current dividends as the dependent variable and current earnings and past dividends as the independent variables. Additionally, the results indicate that the Indian firms have higher adjustment factors and lower target payout ratios. This highlights the low smoothing and instability of dividend policies in India. The most notable discovery is that the dividend payout behavior of Indian firms is significantly impacted by the restricted monetary policies; as a result, the payout ratios are reduced by approximately 5-6 percent. The importance of macroeconomic policy variables indicates that MR has an effect on the cost of raising funds and the information asymmetry between lenders and borrowers, which in turn compels companies to decrease their dividend payout. The results of this study indicate that corporate financing decisions are influenced by macroeconomic policies.

2.2.2 Review of Thesis

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

Koirala (2013) has done a thesis entitled *Dividend Policy and It's Practices in Nepal*. With reference to four selected joint venture commercial banks. Major objectives of the study are to Study and highlight the prevailing dividend policy adopted by selected commercial banks, to analyze the relationship of dividend policy with various financial indicators like EPS, MPS, DPR in the sample firms, to analyze the impact of dividend policy on market process of sample banks, to provide fruitful suggestion and recommendation to the chosen banks.

And major findings of the study are MPS of the banks is average fluctuating every year. NABIL has got success to keep the EPS more than average throughout the study period. Whereas EBL, HBL and SBI have less than average throughout the study period, DPS of the commercial banks are also fluctuating every year. NABIL has kept the DPS more than average throughout the study period. All the banks have distributed dividend during the study period, DPR of the commercial banks is also fluctuating every year. DPR of NABIL is more than average throughout the study period, MPS of the selected commercial banks is also in fluctuating trend. The coefficient of variance shows that there is no consistency of MPS.

Bhandari (2014) has performed a thesis on *Corporate Dividend Policy: A Study of Commercial Banks of Nepal*. Dividend policy is the policy used by a company to decide how much it will pay out to shareholders in dividends. Taking financial indicators of 8 commercial banks for the period of 1996/97 to 2006/07, this study attempts to elucidate the dividend practices of commercial banks of Nepal. Abound by controversies and unpredictability, this study concludes that commercial banks of Nepal do not show uniform trend of dividend policy. Dividend policy practiced by commercial banks of Nepal is neither fully explained by residual theory nor stable theory. With the development of financial institutions in Nepal, they need to follow a robust method of dividend policy so that investors can predict stock market and make a rationale investment decision.

Adhikari (2015) has carried out a thesis on *Managers' Views on Dividend Policy of Nepalese Enterprises* and concluded that the growth rate of the enterprise's earnings, patterns of past dividends and availability of investment opportunities are the major determinants of dividend policy. Dividend clientele effect prevails in Nepal. The managers from banking sector and non-banking sector equally view on major aspects of dividend policy. Dividend policy influences the value of the enterprise in Nepal.

Nepal (2016) has prepared a thesis on "Dividend policy and its impact on market price per share of six selected commercial banks" and concluded that there is higher dividend impact on market value of the banks share in most of the banks. Dividend plays an important role to change the market price of stock. The market price per share is affected by the dividend related financial variable, i.e. DPS and DPR. Besides dividend other factors also affected the market price per share, i.e. EPS, DY, P/E Ratio etc. An analysis of the average DPR of the sample banks shows that out of the total income generated 33.72% is distributed as dividend in general if the

individual DPR of the banks are compared to figure. It can also be concluded that the dividend policy of the banks are not stable. There is no strategy of calculating growth in the dividends paid by banks. There are fluctuations in the dividend payment. Even if banks are making profit regularly the dividend payout ratio does not show any stability and coordination with other variables.

Darlami (2017), has done a thesis entitled *A Comparative Study of Dividend Policy of Nabil Bank Ltd. And Standard Chartered Bank Ltd.* and concluded that even if the sample banks have sufficient earnings some banks are paying high dividend and others are paying low dividend. Dividend per share is not more stable than dividend payout ratio. Another conclusion is that market price of share is attracted by dividend. Most of the banks have great fluctuation in coefficient of variation (C.V.) of DPS, EPS, DPR, Dividend Yield, Share Price and PE Ratio. The practices of dividend payment adopted by the banks are not stable. In many cases a small amount of dividend are paid without considering the risk free rate of return. Payment of dividend is neither static nor constantly growing. Such a way of paying dividend could not impress the market positively.

Koirala (2018), has done a thesis on *Dividend policy and its practice in Nepal* and concluded that even if the sample banks have sufficient earnings some banks are paying high dividend and others are paying low dividend. There is lack of rules and regulations that bind companies to pay dividend every year. Even the government does not have any clear policy towards dividend to improve the efficiency of the companies. Every year EPS and MPS highly fluctuate. This sort of fluctuation causes not to win public faith. Most of the banks have high fluctuations in DPS, EPS, Dividend Yield, Share Price and PE Ratio. Payment of dividend is neither static nor constantly growing. Such way of paying dividend could not impress the market positively.

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Bhandari (2022) has performed a thesis on Corporate Dividend Policy: A Study of Commercial Banks of Nepal. Dividend policy is the policy used by a company to decide how much it will pay out to shareholders in dividends. Taking financial indicators of 8 commercial banks for the period of 1996/97 to 2006/07, this study attempts to elucidate the dividend practices of commercial banks of Nepal. Abound by controversies and unpredictability, this study concludes that commercial banks of Nepal do not show uniform trend of dividend policy. Dividend policy practiced by

commercial banks of Nepal is neither fully explained by residual theory nor stable theory. With the development of financial institutions in Nepal, they need to follow a robust method of dividend policy so that investors can predict stock market and make a rationale investment decision.

Adhikari (2023) has carried out a thesis on Managers' Views on Dividend Policy of Nepalese Enterprises and concluded that the growth rate of the enterprise's earnings, patterns of past dividends and availability of investment opportunities are the major determinants of dividend policy. Dividend clientele effect prevails in Nepal. The managers from banking sector and non-banking sector equally view on major aspects of dividend policy. Dividend policy influences the value of the enterprise in Nepal.

2.3 Research Gap

To date, there have been numerous national and international studies conducted in the field of dividend policy. Numerous studies have been conducted by students, experts, and researchers in Nepal on this topic. Some of these studies, such as Pradhan and Manandhar's, are considered to be groundbreaking in the field of dividend policy. However, Nepal's capital market has undergone numerous modifications in recent years. Therefore, it is imperative to conduct a new investigation into the dividend distribution of Nepal's commercial banks. This study may represent a modest advancement in the field of research on this topic. I will endeavor to conduct research that is noteworthy and unique from that of others.

In the context of Nepal, numerous studies have been conducted; it is now imperative to determine whether their conclusions remain legitimate. Many transformations have occurred both within and outside of Nepal. Nepal, like other nations, has implemented a policy of globalization, privatization, and liberalization. Secondary data is the foundation of the majority of research conducted in Nepal. A survey of financial executives is necessary to ascertain more qualitative information regarding dividends that cannot be ascertained through secondary data. This study endeavors to conduct an opinion survey among the financial executives of various commercial banks in Nepal, in addition to analyzing secondary data. Additionally, the financial market in Nepal is undergoing rapid changes, necessitating the updating and validation of the previous studies on dividends.

The methodology employed, the nature of the sample firms, and the samples used in this study are all unique from those of previous research. The investigation

encompassed solely two commercial banks, which is the most desirable among commercial banks. The data from the past ten years has been presented, and the data from the past five years has been analyzed with due consideration of MPS, DPS, EPS, DPR, and Net Worth. The data is elaborated in accordance with our objectives by employing the requisite financial and statistical tools. The available information from the relevant banks was evaluated and analyzed to evaluate the impact of dividends on the market price of shares. This research employs a variety of instruments, including regression analysis, correlation analysis, and ratio analysis. Regression analysis has been conducted with the market price of the share as the dependent variable and other variables, such as DPS, EPS, and D/P ratio, as the independent variables. Finally, the hypothesis was also tested. Therefore, it is presumed that this investigation is quite distinct.

CHAPTER III

RESEARCH METHODOLOGY

Research Methodology is a way to solve the research problems in systematical and technical approach. It refers to the various sequential steps to be adopted by a researcher in studying & analyzing the problems with certain objectives. It describes the method and process applied in the entire aspect of the study. In this chapter the research design, nature of data, data collection procedure, population & sampling and procedure concerning analysis of data are described thoroughly. Analysis is conducted by using appropriate financial and statistical tools and findings are presented in a systematic way. This study aims to evaluate dividend policies & procedures regarding to Nepal Investment Mega Bank & Nabil Bank.

3.1 Research Design

The research design refers to the conceptual structure within which the research is conducted (Kothari, 1978:22). “Research design is the plan, structure & strategy of investigation so as to obtain answers to research question and to control variance.” The research project would not be conducted without clear research design by researcher. The research design is the specification of methods and procedure for acquiring the information needed to structure of solve problems. The analytical as well as descriptive research designs have therefore been included in the present study. For the analytical purpose the annual reports, financial and other relevant materials of the companies will be studied.

3.2 Nature and Sources of Data

In this study, data have been gathered especially from the secondary sources, the data of different financial variables related with dividend of sample banks have been collected basically from the “Annual Report” published by Banks. Supplementary data and information are also collected from Nepal Stock Exchange & various investment portals & websites as well. Besides the data have been acquired from the various sources like:

- Nepal Rashtra Bank
- Nepal Stock Exchange Limited

- Security Board of Nepal
- Concerned Banks Annual Reports

3.3 Population and Sample Selection

There are 20 Commercial Banks are operating in Nepal. Due to the limited time and resources factors too, it is not possible to study all of them, By using judgmental sampling method has been done. Among 20 commercial banks these two banks are chosen for the study.

- Nepal Investment Mega Bank Ltd. (NIMBL)
- Nabil Bank Ltd (Nabil)

3.4 Data Collection Procedure

The relevant data have been collected from NRB, Annual Report of concerned banks and Trading Report by Nepal Stock Exchange. Similarly, the required data have also been acquired from various articles, Economic survey, TU Central Library and Shanker Dev Campus Library. Besides above, the indirect and informal talks to concerned field have also been made.

After collecting the necessary data relevant facts and figure have taken and tabulated under the different heading. Such table and formats are subjected to interpretation and explanation as necessary. Scientific calculator and various available techniques have been used to compute data.

3.5 Method of Analysis

Specific financial & statistical tools are used for analyzing. The data has been analyzed according to the pattern of data available. Varieties of methodology have been applied according to the reliability and consistency of data. Before using the analytical tools to compare result, the data containing in the financial statements have been grouped and rearranged so as to make comparison easy.

The financial tools used as ratios related to Earning Per Share, Dividend Per Share, Dividend Payout Ratio, Dividend Yield & Dividend return on paid up capital. The statistical tools used for study as Arithmetic Mean, Standard Deviation, Coefficient of Correlation & Regression equation.

3.6 Data Analysis Tools

The financial and statistical tools have been used for this study described as follows.

3.6.1 Financial Tools

“Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the Balance Sheet & Profit and Loss account.” Financial analysis is the use of financial statements to analyze a company’s financial positions & performances to assess future financial performance.

a. Earnings Per Share (EPS):

EPS is the major financial tools or indicator to know the earning capacity to investors. Dividend declaration largely depends upon EPS. Higher the EPS higher the financially strong the firm itself & high degree of more dividends. It is ratio of net profit after taxes to number of equity shares outstanding.

Earnings per Share (EPS) =

b. Dividend Per Share (DPS):

Dividend is the portion of earning gain by firm distribute to shareholders. Dividend per share is the unit of dividend to each share capital. If higher the dividend the retained earnings are lower or vice-versa. It is significant indicator for ultimate investors of firm.

DPS is defined as the ratio of total dividend to total no. of outstanding common stock.

DPS =

c. Dividend Payout Ratio (D/P Ratio)

The ratio of dividend of the firm to its net income is called Dividend Payout Ratio (DPR).

The total income of firm’s divided to dividend & retained earnings. So, higher the DPR lower the retained & vice-versa. Generally liberal & stable firm with sufficient paid up capital & EPS have higher DPR and new firms & low EPS with under paid up capital has lower or moderate DPR. More the DPR is the indication of prosperous firm.

DPR can obtain by dividing DPS & its EPS. It is calculated as follows:

$$\text{D/P ratio} = \frac{\text{Dividend per share (DPS)}}{\text{Earning per Share (EPS)}}$$

Hence, Retention Ratio = 1-DPR

d. Dividend Yield

Dividend yield shows the return of investor in relation to current market price of share. Since DPS is only the amount per share distributed to shareholders. It cannot show the actual return of secondary shareholders who has purchased shares from secondary market in market price which is higher than book value. Therefore, the analysis of Dividend Yield (DY) is important. It is the result obtained by dividing DPS by MPS (Market price per share)

$$\text{Dividend Yield} =$$

e) Dividend Percentage on Paid up Capital: It is percentage of dividend per share on paid up value of share. It is calculated as:

$$\text{Dividend percentage on Paid} = \frac{\text{Dividend per share}(DPS)}{\text{Paid Value per share}}$$

3.6.2 Statistical Tools

The statistics is a study of the principles and method used in collection, presentation analysis and interpretation of numerical data in any sphere of inquiry. Statistical tools are the mathematical technique used to analysis and interpret of performances. It is used to describe the relationship between variables & interpret the result. Various statistical tools used for the purpose of this study are defined as follows.

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

Mean or Average means simply the ratio of sum of all observation to the total number of observations. An average is a single value that represents a group of values. It depicts the characteristics of whole group. It represents the entire mass of homogeneous data and lies between two extremes i.e. the largest the smallest item.

The Mean or Arithmetic Mean denoted by \bar{X} & calculated as:

Where,

$N = \sum f =$ total frequency

$X =$ mid value for continuous series

b. Standard Deviation (σ)

Standard Deviation (S.D.) is the best measure of variation in the given distribution. It measures scatter, spread and provides idea of homogeneity or heterogeneity of the

distribution. The smaller the value of S.D. the less will be the variability of the given distribution.

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

Where,

N = no. of observations.

\bar{X} = mean value

c. Coefficient of Variation (CV)

The coefficient of Variation is defined as the ratio of standard deviation (σ) to the mean (\bar{X}). The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of variation is the best tool to compare the extent of variability in two or more than two distributions. CV is defined as:

$$\text{C.V.} = (\text{SD}/\text{Mean}) \times 100\%$$

Less the C.V. more will be the uniformity & consistency and more the C.V. less will be the uniformity & consistency.

d) Coefficient of Correlation (r)

Correlation analysis is the statistical tools that can used to describe the degree to which one variable is linearly related to another. Coefficient of Correlation is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its value lies somewhere ranging between -1 to +1. If both variables are constantly changing in the similar direction, the value of coefficient will be +1, indication of perfect positive correlation. When value coefficient will be -1 two variables take place in opposite direction. The correlation is said to be perfect negative. There is no correlation coefficient or zero then the variables are uncorrelated. The possibility of obtaining either perfect positive or perfect negative correlation is very rare.

In this study, simple coefficient of correlation is used to examine the relationship of different factors with dividend and other variables. The degree of relationship between dividend and other relevant financial indicators such as earning per share, market price per share, and net profit is measured by the coefficient of correlation, which is denoted by r or r_y or r_{yx} . It is defined by Karl Persons as:

$$r =$$

e) Regression Analysis

Regression is the statistical tool which is used to estimate or predict the value of dependent variable when the values of two or more independent variables are known. The concept of regression was first introduced by Sr. Francis Gasto. It is a tool of determining the strength of relationship between two variables.

Simple Regression:

The analysis which is used to explain the average relationship between two variables is known as simple regression analysis. For this purpose, the following regression equation can use:

$$Y = a+bx$$

Where,

Y = Dependent variable

a = Regression constant

b = Regression coefficient

x = Independent variable

f) Probable Error

The Probable Error (PE) of correlation coefficient is an old measure of testing reliability of an observed correlation coefficient. The Probable Error of the correlation coefficient is the basis for the interpretation of its value. It is calculated by:

$$PE = 0.6745 X$$

Where,

r = value of correlation coefficient

n = no. of pairs of observation

PE is used in interpretation whether the calculated value of r is significant or not.

If $r < PE$: it is insignificant or there is no evidence of correlation.

If $r > 6PE$; it is significant.

If $PE < r < 6PE$; nothing can be concluded.

The given Financial as well as statistical tools are simply the appropriate for the research of this study.

CHAPTER IV

RESULTS AND DISCUSSION

This chapter deals with the secondary data analysis. In this chapter the relevant data and information regarding dividend policy of the selected banks are presented and analyzed comparatively as per objectives setting on chapter 1. The chapter begins with the descriptive analysis of Earning Per share, Dividend Per share, Market Price per share, Dividend Payout Ratio & Dividend Yield of sample banks and followed the Correlation Coefficient & Regression Analysis simultaneously. The financial & statistical tools (describes in Chapter III) are used for this analytical and comparative measurement of data. All analytical data are present accordingly sequential & systematic tabulated form.

In this section an attempt has been made to analyze the financial indicators that are relevant directly or indirectly to the dividend payments of the banks. This helps to understand the dividend practices of these banks in the absence of complicated information. This analysis includes as:

- Earnings per share
- Dividend per share
- Dividend payout ratio
- Dividend yield

4.1 Dividend Trend of NIMBL& Nabil

Every firm declares dividends each year in form of Cash or Stock (Bonus Share) from their Net Profit. Every firm had a certain dividend practice. According their dividend history there makes certain trend. Same NIMBL& Nabil bank have also a certain Trend in dividend distribution. Here last ten fiscal (F.Y. 2066/67 to F.Y. 2078/79) years' dividend data is analyzed. The data & its distribution pattern is presented below.

Table 4.1*Cash & Stock Dividend on Total Dividend of NIMBL bank.*

Fiscal Year	NIMBL (%)			Nabil Bank (%)		
	Bonus Share	Cash Div.	Total Dividend	Bonus Share	Cash Div.	Total Dividend
2070/71	0	25	25	30	40	70
2071/72	25	25	50	0	30	30
2072/73	25	5	30	20	40	60
2073/74	10	25	35	25	40	65
2074/75	15	25	40	20	45	45
2075/76	33	25	34.74	30	15	48
2076/77	20	22	40	30	18	34
2077/78	15	8.5	19	30	22	34
2078/79	18	5.5	18.5	12	1.76	35.62
2079/80	10.5	3.389	16	12	4.4	38
Total	171.5	183.24	354.74	209	278.84	487.84
Mean	17.15	18.32	35.47	20.90	27.88	48.78
S.D.	9.32	9.88	11.13	10.25	15.70	14.35
C.V. (%)	54.35	53.92	31.38	49.03	56.31	29.42

Source: Annual report of NIMBL and NABIL.

From presented table 4.1 dividend of both bank NIMBL& Nabil for last ten FY from 2066/67 to 2078/79 are given with both Cash & Stock dividend and total dividend as well. Both banks have same practices in dividend declaration. Both banks have cash & stock dividend in each year except in a year or two. Nabil bank has been declared only in year 2067/68 without stock (bonus share) dividend and NIMBL has been declared in year 2066/67 without bonus share.

Both banks have slightly higher the cash dividend than the stock dividend but both have regular stock dividend as well. They are focuses on stock dividend because of capital expansion criteria/ regulation by NRB. NRB has instructed all commercial banks must meet to Paid-Up capital by Rs. 8 arba (Rs. 8 billion) by the end of FY 2078/79. So, it can see that the banks have regular stock dividends as well. (Both sample banks had issued Right Shares also to reach paid up capital.) All banks are forced to capital expansion which can see in the dividend declaration.

From Table 4.1 the average dividend payment of NIMBL is 35.47% where average cash dividend is 18.32 & average stock dividend is 17.15%. In this 10-year period the lowest cash dividend is 1.74% & highest is 25% while the stock dividend is in between the range of 10% to 33%. In average cash dividend is higher but the individual case stock dividend is highest i.e. 33%. But overall dividend distribution is satisfactory. The average standard deviation (S.D.) of NIMBL is 8.91 which is same S.D. as average cash 9.38 & stock S.D. 9.32 where total dividend coefficient of variation (C.V.) is 25.12% (cash C.V. 51.21% & stock C.V. 54.35%). It shows the NIMBL has moderate and less fluctuation in dividend distribution. It is shown in following chart as well.

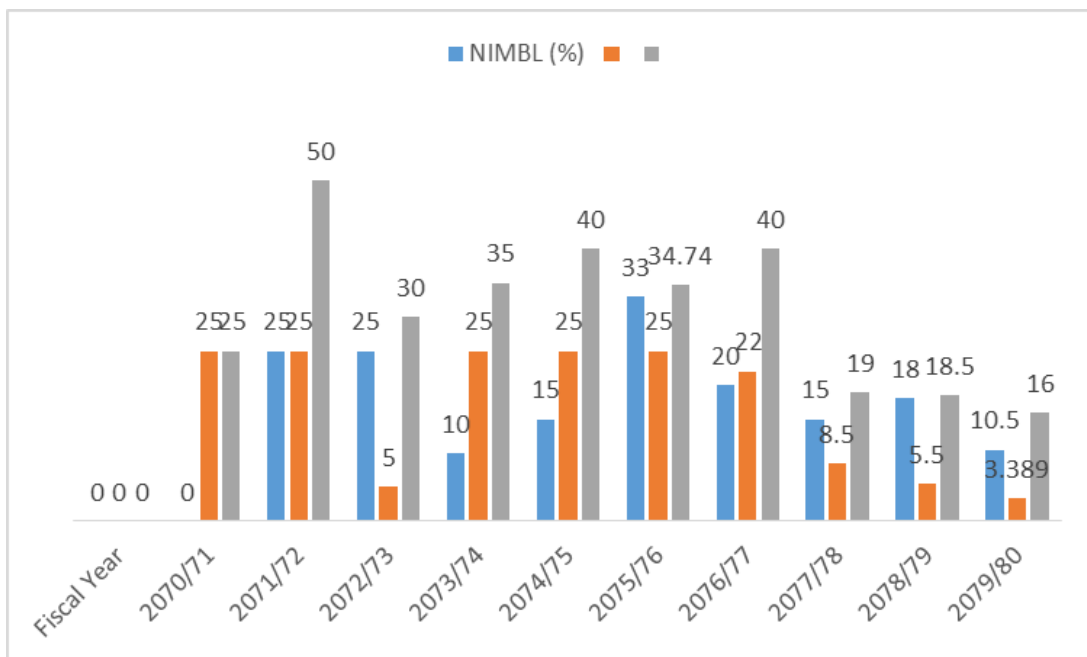


Figure 4.1 Cash & Stock Dividend on Total Dividend of NIMBL bank.

Dividend Trend of NIMBL for last ten Fiscal Years

Again, from Table No. 4.1, the average dividend of Nabil bank is 48.78% where cash dividend S.D. is 27.88% & stock dividend S.D. is 20.90%. The highest dividend of Nabil in this period is 70% in FY 2066/67 as well as in terms of highest in cash & stock dividend at 45% & 30% respectively. The lowest cash dividend is 6.84% in 2074/75 and lowest stock dividend is 0 in year 2067/68. In terms of S.D. & coefficient of variation (C.V.) of Nabil, average S.D. is 15.09 (cash S.D. 12.97 & stock S.D. 10.25 which shows not so volatile in dividend distribution. The C.V. of Nabil bank is 30.93% in overall but in cash C.V. & Stock C.V. is 46.51% & 49.03% which we can say that the dividend distribution in overall case is moderate fluctuation

but in individual case it is quite volatile. This trend is seen in the following chart as well.

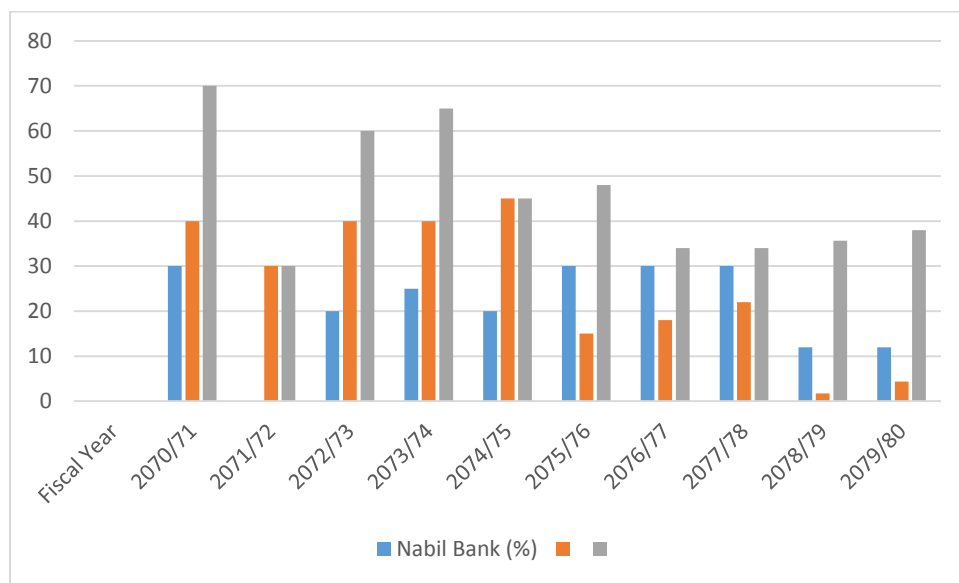


Figure 4.2 Cash & Stock dividend on Total Dividend of Nabil Bank

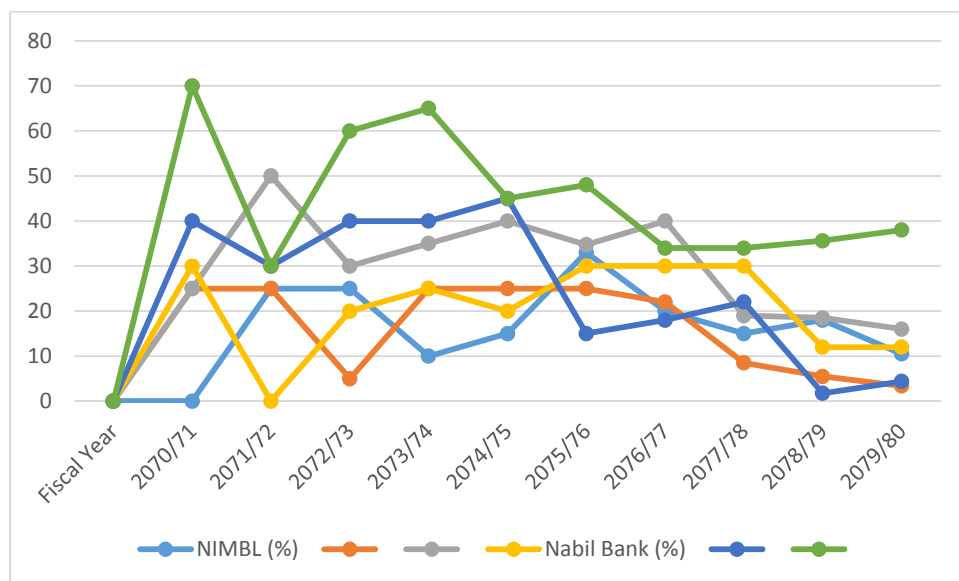


Figure 4.3 Analysis of Dividend of NIMBL & Nabil for last ten FY

From above table 4.1 & figure 4.3, it is clearly that the average dividend distribution of Nabil is quite attractive than NIMBL. Nabil bank has 48.78% average dividend whereas NIMBL has 35.47%. Comparatively NIMBL bank has lower S.D. & C.V. i.e. 8.91 & 25.12% respectively whereas Nabil banks S.D. is 15.09 & C.V. is 30.93%. It seems that the S.D. & C.V. shows the low volatile & more consistency than Nabil's S.D. & C.V. which is moderate in nature. But comparatively NIMBL has more

accuracy & moderate policy in dividend practices than Nabil. But Nabil has higher dividend practices which are much better in terms of returns to shareholders. In general investors are attracting more in higher dividend shares which affects in market price of share.

4.2 Analysis of Earnings Per Share (EPS)

Normally the performance and achievement of business organization are measured in terms of earning capacity to generate earning. Higher earning shows the higher strength while lower earning shows weaker strength of business organization. EPS is the amount of earning of the share invested in the company. So higher the EPS better the position is seen in stock market. Earnings Per Share (EPS) is one of the most important aspects for equity shareholders as it indicates the earning capacity of a firm. The earning per share of the bank under study is tabulated as follows:

Table 4.2

Analysis of EPS

Fiscal Year	NIMBL (%)	Nabil (%)
2075/76	29.3	59.86
2076/77	35.7	51.48
2077/78	26.4	50.57
2078/79	17	36.16
2079/80	22	33.57
Total	151.6	278.78
Mean	30.32	55.76
S.D.	7.11	11.11
C.V. (%)	23.44	19.93

Source: Annual report of NIMBL and NABIL.

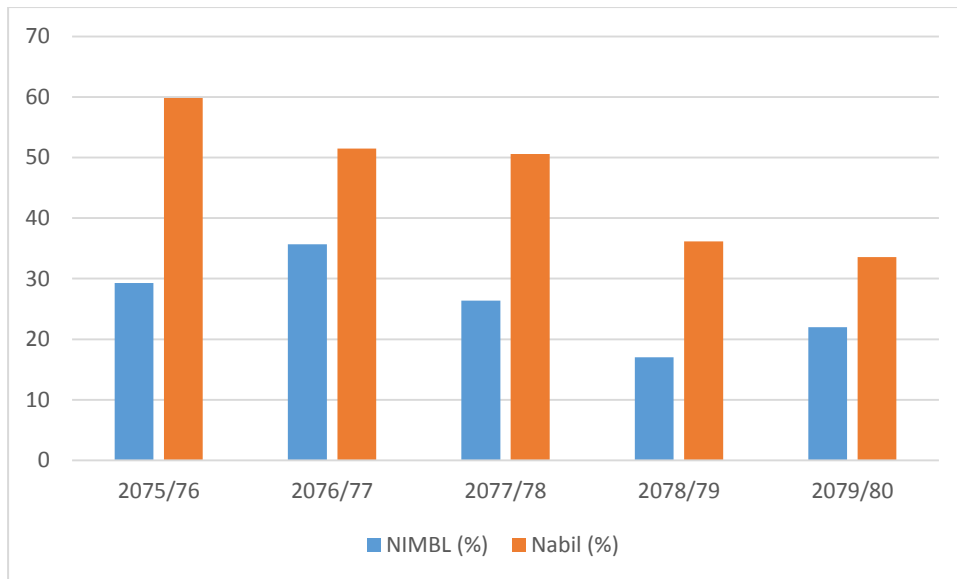


Figure 4.4 Analysis of EPS

Table 4.2 and figure 4.4 shows that the earning per share five years period, NIMBL has lower EPS than Nabil. NIMBL's highest EPS at Rs. 35.7 & lower at Rs.26.4 and average is Rs. 30.32. The highest EPS of Nabil stands at Rs. 59.86 & lower point at Rs. 50.57 and average is Rs. 55.76 which is almost double than NIMBL. Both banks EPS is fluctuated over the period.

Between two banks, standard deviation of NIMBL is 3.42 & Nabil is 4.29 and C.V. of both banks is 11.27% & 7.69%. This shows that the Nabil bank has moderate & more consistent EPS than that of NIMBL Bank.

In Conclusion both banks are satisfactory level but in terms of EPS NIMBL has lower than Nabil because of higher paid up capital. But profitability of both banks have almost equal which is far better than other commercial banks. Standard deviation & CV seems Nabil is better. So, Nabil is comparatively more successful to create a positive attitude of shareholders which helps to increase share value in market. And that helps to indicate the better performance of bank's management.

4.3 Analysis of Dividend Per Share (DPS)

Dividend per share indicates the proportion of earning distributed to owner (shareholder) on per share basics. Generally, the higher DPS creates positive attitude among the shareholders towards bank, which accordingly helps to increase the market value of the share. It is each portion to outstanding share on total dividend.

Table 4.3*Analysis of DPS*

Fiscal Year	NIMBL (%)	Nabil (%)
2075/76	40	45
2076/77	40	48
2077/78	19	34
2078/79	18.5	35.26
2079/80	16	38
Total	133.5	200.26
Mean	26.70	40.05
S.D.	12.19	6.15
C.V. (%)	45.67	15.36

Source: Annual report of NIMBL and NABIL.

The following figure shows the details relating to dividend per share.

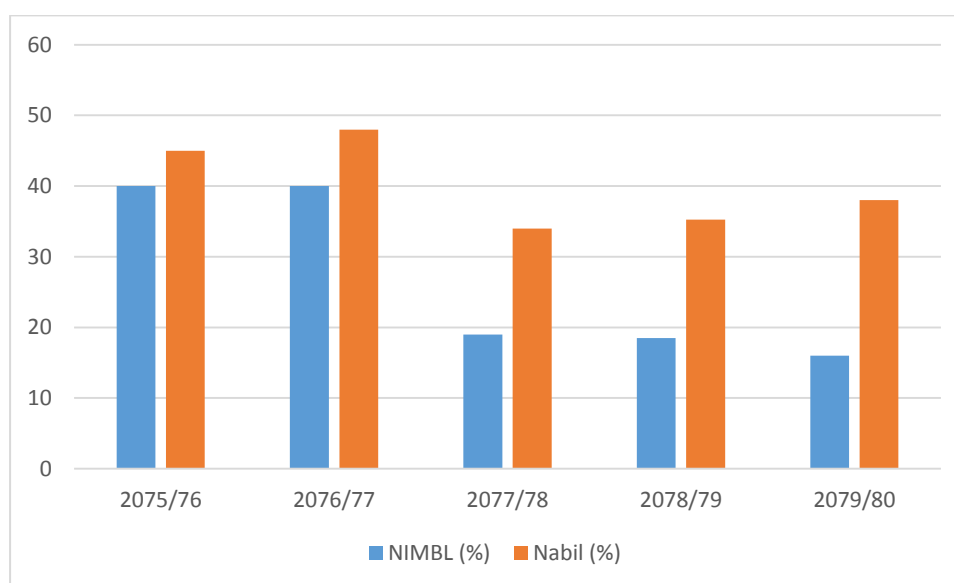
**Figure 4.5 Analysis of DPS**

Table 4.3 and figure 4.5 shows that the Dividend Per Share (DPS) of Nabil bank has topped the NIMBL in earlier 3 years, but in the year 2074/74 NIMBL has better DPS. From figure Nabil has higher DPS than NIMBL but NIMBL has more uniform in DPS trend in first 4 years.

Nabil Bank has higher DPS as highest 48% in year 2076/77 & lowest 34% in year 2077/78 & 2078/79 and average of 39.57%. Whereas NIMBL as average of 34.94% with highest 41% in the year 2075/76 & lowest 19% in the year 2078/79. This show

the DPS of NIMBL is more fluctuating than of Nabil. This can be seen from the result of SD as well as coefficient of variation as well. The S.D. & C.V. of Nabil is 6.52 & 16.48% which means more uniform & least fluctuation. The S.D. & C.V. of NIMBL is 9.25 & 26.47% which is moderate fluctuation. More variable in terms of this analysis.

Comparatively one bank is better but in general the both banks have better performance than other commercial banks on Nepal.

4.4 Dividend Payout Ratio (DPR)

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

Table No. 4.4

Analysis Of DPR

Fiscal Year	NIMBL (%)	Nabil (%)
2075/76	136.5	80.19
2076/77	112.04	68.68
2077/78	71.16	67.24
2078/79	108.82	97.51
2079/80	72.72	113.8
Total	501.24	427.42
Mean	100.25	85.48
S.D.	27.98	19.94
C.V. (%)	27.91	23.32

Source: Annual report of NIMBL and NABIL.

DPR is % of actual earning by ordinary shareholders. In formula form DPS/EPS .

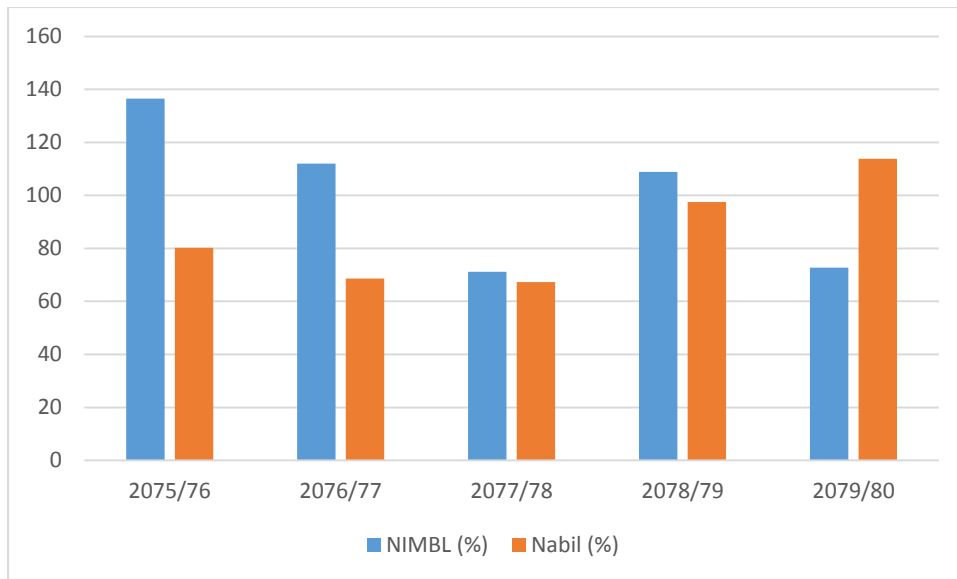


Figure 4.6 Analysis of DPR

Table 4.4 and figure 4.6 show that the dividend payout ratio (DPR) analysis, it can clearly see that the DPR of NIMBL is higher than Nabil. NIMBL has highest DP ratio at 139.93% in 2075/76 & lowest is at 71.97% in 2078/79 which is good as an average of 114.55%. Whereas the Nabil bank's DP ratio is 80.19% at highest point in year 2076/77 & 64.36% in year 2074/75 with average of 71.28%. Both banks have satisfactory DP ratio but NIMBL has better DP ratio.

In terms of S.D. & C.V. NIMBL has 27.16 & 23.71% respectively and Nabil bank has 6.56 & 9.20%. NIMBL has moderate in terms of S.D. & C.V. which is not so fluctuate and more variables. Nabil bank has even better result that has very sound & so consistency in this category of dividend policy with very low risk.

4.5 Dividend Yield Ratio

Dividend yield ratio is the percentage of dividend per share to market value per share. It is highly influenced by the market value per share and dividend per share because a small change in dividend per share can bring a small change in market value of the share. Therefore, before allocation of fund market scenario and price fluctuation is to be studied and evaluated for the long run survival of company. The dividend yields of the banks under study are presented in the table given below:

Table No. 4.5

Analysis of Dividend Yield

Fiscal Year	NIMBL (%)	Nabil (%)
2075/76	5.19	3.93
2076/77	6.44	5.38
2077/78	3.66	6.32
2078/79	4.29	4.73
2079/80	3.47	2.47
Total	23.05	22.83
Mean	4.61	4.57
S.D.	1.22	1.46
C.V. (%)	26.54	32.05

Source: Annual report of NIMBL and NABIL.

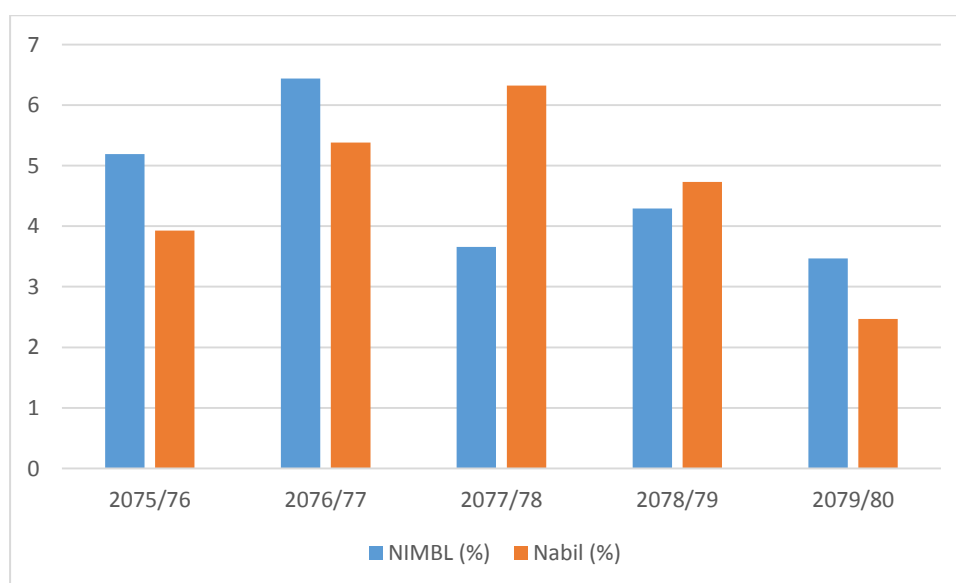
**Figure 4.7 Analysis of Dividend Yield**

Table 4.5 and figure 4.7 shows that the average yield of NIMBL is 4.93 which has been maintained by the bank which is slightly increased in the year 2076/77 & 2077/78. The maximum dividend yield is 6.44% in FY 2076/77. The S.D. of DY is 1.11 whereas C.V. is 22.89%. The C.V. indicates low fluctuate of DY & seems

moderate and satisfactory. That means investors are can expect moderate return on their market value of share.

Similarly, average yield of NABIL is 2.99 which has been maintained by the bank comparatively than NIMBL. The maximum Dividend Yield (DY) is 4.25% in FY 2078/79. The S.D of DY is 1.05 whereas C.V is 34.99%. The C.V. indicates a low fluctuation of DY in the bank. From the analysis of these figures DY of the bank does not seem risky. It shows that investor have good return in investment in these shares.

Finally, DY of the above banks is satisfactory. But DY shows that investors have not got reasonable return on their market value of share. The above data figures are presenting the described facts as above.

4.6 Correlation Analysis

The Correlation Coefficient shows the relationship between two variables. The value range for correlation from +1 to -1. The value +1 indicated perfect positive correlation & -1 indicates perfect negative correlation. The value range for interpretation (Karl Pearsons') is as follows:

- i) If $r = +1$ or -1 : Perfectly positive or negative correlation between variables.
- ii) If $r = 0$: there is no correlation between the variables.
- iii) If r lies between 0.700 to 0.999, there is high degree of correlation.
- iv) If r lies between 0.500 to 0.699, there is moderate degree of correlation.
- v) If r lies between 0.001 to 0.499, there is low degree of correlation.

And the + & - sign indicate for positive & negative degree of correlation. In this section variables between DPS & MPS and DPS & EPS are calculated so that how these variables are related in each other. Therefore, the correlation between these two set of factors are tabulated.

4.6.1 Correlation between Dividend Per Share (DPS) and Earning Per Share (EPS)

The relationship between DPS and EPS has been presented in table.

Table 4.6*Correlation between DPS and EPS*

Bank	Correlation of Coefficient (r)	Coefficient of Determination (r^2)	Probable Error (P.E.)	6xP.E.	Sign./Insign.
NIMBL	0.1643	0.0270	0.29	1.74	Insignificant
Nabil	0.9534	0.9090	0.03	0.18	Significant

(Source: Appendix-III)

From the table 4.6.1 gives relationship between DPS and EPS. From the analysis of result, the relationship between DPS and EPS has been found positive in both sample banks. In this analysis EPS is independent variable & DPS is dependent variable. The correlation coefficient (r) between these two variables is to justify that EPS significantly used as dividend in proper way or not. It implies that EPS affects the DPS. The 'r' value of NIMBL & Nabil 0.164 & 0.953 respectively that depicts there is low degree of positive relation between Earning & dividend of NIMBL bank. Similarly there is high degree of positive correlation or relation between earning & dividend of Nabil bank.

The coefficient of determination between DPS and EPS of NIMBL is 0.027 & NABIL is 0.9090. Coefficient of determination is measures the degree of linear association or correlation between two variables. This means that the variation in independent variable (EPS) of NIMBL explains merely 2.7% of variation in dependent variable, DPS. Likewise the value of r^2 in Nabil 0.909 which indicates that 90.9% variation is explains in dependent variable DPS due to change in independent variable EPS.

The significance of relationship between EPS and DPS is measured by calculating Probable Error (P.E) of correlation coefficient. From the above table, we can conclude that NIMBL has insignificant relationship between DPS & EPS and Nabil bank has significant relationship between DPS & EPS.

4.6.2 Correlation between Dividend Per Share (DPS) and Market Price Per Share (MPS)

The relationship between DPS and MPS has been presented in table.

Table 4.7

Correlation between DPS and MPS

Bank	Correlation of Coefficient (r)	Coefficient of Determination ()	Probable Error (P.E.)	6xP.E.	Sign./Insign.
NIMBL	0.4689	0.2199	0.24	1.44	Insignificant
Nabil	0.1643	0.0270	0.29	1.74	Insignificant

(Source: Appendix-III)

From the table no. 4.6.2, the relationship between independent variable MPS & dependent variable DPS of the NIMBL& Nabil is shown. The coefficient of correlation (r) between DPS & MPS of NIMBL is 0.4689 & of Nabil is 0.1643. Both are positive in relation and both banks have low degree of correlation of coefficient that is 'r'.

The coefficient of determination between DPS & MPS of NIMBL is 0.2199 which means 21.99% DPS determines from the variation in MPS. It means the effect is lower of MPS of DPS. Similarly the coefficient of determination between these two variables is 0.027. Which means there is very low effect in variation i.e. 2.7% of DPS which is explained by independent variable MPS.

Again from the table the value of correlation coefficient (r) is less than 6xP.E. in both case of NIMBL& Nabil. The 'r' of NIMBL is lesser than 6xP.E. i.e. 1.44 which means the relationship between the MPS & DPS of NIMBL is insignificant. And the Nabil bank's 'r' is also lesser than that of 6xP.E. i.e. 1.74. That is highly insignificant between these two variables MPS & DPS.

4.7 Simple Regression Analysis

The simple regression analysis is used in determining the strength of relationship between two variables. (More than two variables is determined the strength of relationship from multiple regression analysis). It is a statistical device by which we can estimate or predict the one variable when the value of other variable is known. Regression lines are expressed in terms of algebraic relation i.e. $Y = a + bX$. Where Y

is dependent variable & X is independent variable, 'a' is constant or Y-intercept & 'b' is the slope of regression line or regression coefficient 'Y' on 'X'. It is a measure of average change in dependent variable 'Y' corresponding to a unit change in independent variable 'X'. Standard Error of Estimate (S.E.E.) measures the accuracy of the estimate figure. We have used this analysis to describe the average relationship between DPS & EPS and DPS & MPS.

4.7.1 Simple Regression Analysis of Dividend Per Share (DPS) on Earning Per Share (EPS)

Regression equation $Y = a + b X$

Regression result of Dividend Per Share on Earning Per Share: $DPS = a + b EPS$

Table 4.8

Dividend Per share on Earning Per share

Bank	Constant (a)	Regression Coefficient (b)	Coefficient of Determination (r ²)	Standard Error of Estimate (S.E.E.)
NIB	36.37	0.08	0.027	1.66
Nabil	0.48	-0.04	0.91	35.93

(Source: Appendix-III)

The above table shows the output of simple regression analysis of DPS & EPS of two banks i.e. NIMBL and Nabil bank. From table the beta coefficient of NIMBL is positive which 0.08 is. It means one rupee increase in earning per share leads to the average about Rs.0.08 increases in dividend per share holding other variable remain constant. The constant is 36.37, which means that if EPS is zero then estimated DPS will be 36.37. The standard error of estimate is 1.66. The value of r^2 is 0.027 which indicates that only 2.7% variation in dividend per share is explained by earning per share.

In the case of Nabil the beta coefficient is -0.04 that means one rupee increase in earning per share leads to the Rs. 0.04 decrease in dividend per share if other variable are remain constant. The constant value is 0.48 for this case standard error of estimate is 35.93. The value of r^2 is 0.91, that means there is 91% of variation in dividend per share is explained by earning per share & only remaining 19% is due to other variables.

4.7.2 Simple Regression Analysis of Dividend Per Share (DPS) on Market Price Per Share (MPS)

Regression equation $Y = a + b X$

Regression result of Dividend Per Share on Market Price Per Share: $DPS = a + b MPS$

Table 4.9

Dividend Per share on Market Price Per share

Bank	Constant (a)	Regression Coefficient (b)	Coefficient of Determination (r ²)	Standard Error of Estimate (S.E.E.)
NIB	-1.24	0.00	0.2199	29.75
Nabil	-2.10	0.00	0.0270	36.72

(Source: Appendix-III)

The report present in the table shows that the coefficient dividend in NIMBL& Nabil bank as well is 0. There are no changes in dividend if there is change in market price of the banks. It shows that there is no relation between the dividend per share & market price per share in this situation. The constant value for NIMBL is negative 1.24 that means if the MPS is zero then the estimated DPS will be negative by Rs. 1.24. The coefficient of determination is 0.22 & S.E.E. is 29.75. The 22% which indicates that 22% variation in dividend per share is explained by Market price per share in NIMBL banks share.

Again from table Nabil banks constant value also negative by 2.10. that means if the MPS is zero then the estimated DPS will be Rs. -2.10. The coefficient of determination is .027, which indicate that the value of r² is only 2.7%, that means there is only 2.7% of variation in dividend per share is explained by market price per share & remaining 97.3% is due to change in other variables. S.E.E. of Nabil in this parameter is 36.72.

4.8 Major Findings

The subsequent findings can be summarized from the aforementioned analysis.

- Nabil Bank's average dividend distribution exceeds that of NIMBL. Nabil's average dividend over the past decade is 53.88%, while NIMBL's average dividend is 35.57%. Throughout the duration of the observation, both institutions prioritize both types of dividends.

- Nabil's dividend distribution is significantly greater than that of NIMBL; however, the report indicates that NIMBL has a more consistent performance. The average dividend distribution of both institutions over the course of a decade is significantly higher than that of their competitors.
- Both institutions exhibit moderate fluctuations in EPS throughout the research period. Nabil's earnings per share (EPS) are significantly higher than those of NIMBL. NIMBL's EPS is 33.18%, while Nabil's EPS is 61.62%. It appears that the EPS and dividend declaration trends of both banks are consistent.
- In terms of EPS, the NIMBL has a superior DPS compared to the Nabil. However, Nabil's DPS is superior in the aggregate. That is 45.77% higher than NIMBL's 39.14%.
- The two institutions exhibit a significant inverse relationship and a significant gap in relation to other factors, including EPS, DPS, and MPS. Nabil has a superior reputation in terms of these criteria; however, NIMBL is significantly superior to Nabil in terms of Dividend Payout Ratio. NIMBL controls 119.81% of the DPR, while Nabil controls 73.76%.
- Both institutions are relatively weak in terms of Dividend Yield (DY) in comparison to other variables. In comparison to the general commercial banks, both institutions exhibit superior EPS, DPS, MPS, and DPR. However, NIMBL and Nabil Bank exhibit subpar dividend yields, with 4.93% and 2.65%, respectively. • Both banks exhibit a positive correlation between DPS and EPS and DPS and MPS.
- The relationship between DPS and EPS and DPS and MPS is negligible for NIMBL bank. However, Nabil Bank's results are inconsistent; there is a substantial correlation between DPS and EPS, but there is a negligible correlation between DPS and MPS.
- NIMBL's beta coefficient is positive in regression analysis, while Nabil's beta coefficient is negative in the analysis of dividend per share on earnings per share. However, Nabil Bank may be able to offer a greater dividend per share (DPS) if the earning per share rises by one rupee simultaneously.
- The beta coefficient of both institutions is zero in the simple regression analysis of dividend per share on market price per share.
- Both institutions have not established a predetermined or consistent dividend policy. They have received a standard dividend; however, there is no specific dividend policy. The phenomenon remains obscure to all parties involved and related to the Bank as a result of the absence of a sustainable strategic dividend policy.

4.6 Discussion

Ghimire's (2002) investigation The impact of dividends on the stock price of the Nepalese stock market has been observed, and it has been determined that the Nepalese financial sector is motivated by DPS, which is significant enough to increase the market price per share of banking institutes. The research demonstrates that the fluctuations in share price are significantly influenced by earnings and dividends. Nevertheless, the dividend's influence is significantly greater than that of the retained earnings.

Adhikari (2008) has The earnings and market price of a company's shares are influenced by its dividend decision. A company should implement policies that ensure a harmonious equilibrium between shareholder interests and corporate expansion through the use of internally generated funds. The fund that is unable to be utilized should be distributed as a dividend due to the absence of opportunities. In the fluctuating market of today, it is evident that the dividend and the market price of the share are influenced by other factors.

Koirala (2009) found a positive correlation between DPS and EPS for two banks and a negative correlation for the other two banks when analyzing the regression of DPS on EPS. If the other variables remain constant, a one rupee increase in EPS results in a one rupee increase in the DPS beta value, as indicated by the positive beta coefficient. We are unable to definitively assert that an increase in EPS leads to an increase in DPS for all banks, as uniform results were not derived from this analysis. The dividend payout decisions made by banks are influenced by a variety of other factors.

Bhandari (2012) has It is evident that the financial positions of financial institutions that pay high dividends and those that pay low dividends differ. The market price of the share is influenced by dividend decisions, which are contingent upon the company's earnings per share. The financial executives of Nepal deny the dividend as a residual decision in Nepalese companies.

In Darlami (2015), the distribution of dividends among Nepalese corporations is uncertain and unclear. The shareholders have a high expectation that the market price of the shares will be substantially higher than the net worth, while the decision to distribute dividends should be based on the net total earnings and the earnings per

share. Similarly, the market price of stock and net worth should be contingent upon the decision to distribute dividends, which are only paid during profitable years. The most prevalent practices of Nepalese corporations are the vulnerability to dividend payments. The joint venture companies and commercial companies are more likely to pay dividends than the companies promoted by indigenous promoters.

CHAPTER V

SUMMARY, CONCLUSION AND IMPLICATION

This chapter focuses on summarizing the study held with the conclusions and some recommendations on the basis of findings. Three major aspect of the study are discussed in this chapter. At the beginning summary and conclusion has been drawn up based on findings. The gaps found and the factors to cause those gaps are also presented. This chapter is very important in the sense that:

5.1 Summary

In exchange for their investment, shareholders receive dividends from a company's earnings. Dividend policy is the process of determining the proportion of earnings to be distributed to shareholders and the proportion to be retained or reinvested in the company. In this scenario, the dividend payment to the shareholder is considered the most advantageous option, as the shareholder has other investment opportunities. The time has come to investigate the impact of other factors on dividends and the application of dividends on market prices per share in the altered context of promoting the secondary market. Some of these factors have been attempted to be addressed in the study. Nevertheless, it is inadequate as a result of certain constraints.

The objective of this paper is to examine the dividend policies of commercial banks. The research is predicated on secondary data from 2075/76 to 2079/80. In order to evaluate the dividend payment practices of banks, various financial ratios have been computed and interpreted. In order to conduct a more thorough analysis, a company-specific analysis has also been applied. The impact of dividends on MPS was evaluated by reviewing and analyzing available data from various sectors. In order to enhance the reliability of the research, simple and multiple regression analyses were implemented. Finally, the hypothesis has been tested. The study indicates that banks are paying dividends; however, there is no consistency in the distribution of dividends. The research indicates that none of the banks have a dividend policy that is both well-defined and appropriate. They do not appear to adhere to the optimal dividend policy of paying a consistent dividend in accordance with the expectations of

the shareholders. It has the potential to generate uncertainty among shareholders. The impact of a change in dividend per share and payout ratio on share prices varies among various institutions. In all banks, the correlation between DPS and EPS, net profit, and net worth is positive.

There are only a handful of listed companies in Nepal that distribute dividends to their shareholders on a consistent basis. Additional organizations have failed to implement consistent dividend policies. Conversely, listed companies in Nepal have been unable to disseminate equitable dividends due to their inadequate dividend payout ratios. The theoretical premise of this investigation is to investigate the dividend practices of the sample bank. Consequently, it can be inferred that the dividend policy is largely contingent upon the earnings per share of a company. The market price of a share may also be influenced by the positive correlation between earnings per share and dividend per share. Two multiple regressions were conducted for this argument.

The initial multiple regression was developed to evaluate the influence of EPS and DPS on the market price of shares. It is concluded that the impact of earning per share on MPS is positive, whereas the impact of dividend per share is negative. In order to evaluate the influence of DPR and DPS on MPS, the second multiple regression formulation was implemented. According to the analysis, the average MPS of the observed institutions is negatively and positively influenced by the DPR and DPS, respectively. It can be inferred from the regression analysis that the share prices of various banks are influenced differentially by a change in dividend per share. The financial position and dividends paid by the firms influence the market price of shares. The MPS of the sample banks appear to be fluctuating in this regard. It indicated that Nepalese investors are not treated equitably. The market price of the share in all of the sample banks has been influenced by the market inefficiency and the lack of financial knowledge. This is an effective strategy for attracting new investors to invest in shares by paying dividends to shareholders. The impact of the company's earnings division (between dividend payout and retention of earnings) on the market prices of shares is a critical issue. Consequently, it is imperative to maintain a prudent policy that strikes a balance between the interests of shareholders and the development of the corporation through the use of internally generated funds. Shareholders should be compensated in the form of dividends, as they have investment opportunities that are not being utilized due to a scarcity of investment

opportunities. Therefore, it can be concluded that the dividend policy should be optimal in order to optimize the stock price and balance the opposing forces.

5.2 Conclusion

In this section, the gaps perceived in this study are presented as conclusions. The issues related to dividend and other relevant factors found while analyzing the variables are also presented here. Then, possible causes to perceive this gap will be scrutinized as far as possible.

- The research shows that none of the banks have well defined and appropriate dividend policy. They don't seem to follow the optimum dividend policy of paying regular dividend as per the shareholders expectation. It might cause uncertainty among shareholders. A change in dividend per share and payout ratio affects the share prices differently in different banks. The relationship between DPS with EPS, net profit and net worth are positive in all banks.
- For this argument, there were two multiple regression formed. The first multiple regression was formed to assess the impact of EPS and DPS on market price of share. It concludes the fact that earning per share has positive impact on MPS where dividend per share has negative impact on MPS. The second multiple regression was formed to assess the impact of DPR and DPS on MPS. From the analysis, it is found that the DPR and DPS have negative and positive impact on MPS of the observed banks in average respectively. From the regression analysis it can be concluded that a change in dividend per share affects the share prices differently in different banks. The market price of share is affected by the financial position and the dividend paid by the firms. In this regards the MPS of the sample banks is seem to be fluctuated. It denoted Nepalese investors are not treated fairly.
- Paying dividend to shareholders is an effective way to lure new investors to invest in shares. Due to the division of earnings of company (between dividend payout and retention of earnings) its effect on the market prices of share is a crucial question. It is therefore, necessary that wise policy should be maintained to balance between shareholders interest with that of corporate

growth from internally generated funds. Shareholders in Nepal are not conscious.

5.3 Recommendation

The following implications are presented in light of the significant findings and issues that were identified during the course of this research.

- Banks should maintain a long-term perspective on dividend payments and earnings in order to navigate the tough competitive environment of the present day. Prior to making a decision, it is imperative to evaluate a variety of internal and external factors. Rather than arbitrarily declaring a stock or cash dividend, shareholders should be afforded the opportunity to select between the two.
- Deceleration should be proposed to the annual general meeting of shareholders for approval in order to receive this dividend. One significant fact that all firms must acknowledge is that the dividend amount is to be determined by EPS.
- The analysis demonstrates the inability to determine whether the relationship between EPS and DPS is significant or insignificant on average. When making a decision regarding dividends, it is crucial to take into account the potential earnings rather than disregarding them. Investors should be able to evaluate the situation and allocate their funds to the most promising companies by obtaining information about the activities and performance of each organization. Despite the fact that the payout ratio of the sample bank varies from year to year, there is no rational method for determining the payout.
- The internal rate of return and the cost of capital should be analyzed by the entire firm in order to determine the dividend payout ratio (DPR), which is instrumental in maximizing stockholder wealth. The establishment of a target rate of earnings and target payout ratio by the bank will facilitate the development of a positive image in the stock market and facilitate the decision-making process for investors.
- It is recommended that new researchers utilize a variety of financial and statistical instruments, as well as primary and secondary data. The primary objective of this study is to examine the dividend policies and practices that are currently in place in the relatively young capital markets economy of

Nepal, and to identify both the opportunities and challenges associated with these practices. The results of this study have led to a recommendation for all of the main players in the share markets.

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APPENDIX

a) Correlation and regression between DPS and EPS of NIMBL

Correlation

(In

Rs)

X(DPS)	Y(EPS)	X²	Y²	XY
36.40	30.9	1324.96	954.81	1124.76
62.00	29.3	3844	858.49	1816.6
65.00	29.28	4225	857.318	1903.2
62.00	35.70	3844	1274.49	2213.4
27.50	26.40	756.25	696.96	726
252.9	151.58	13994.21	4642.068	7783.96

We have,

$$= 0.6226$$

We have regression equation X on Y is given by: $X = a + bY$

$$\Sigma X = na + b\Sigma Y \dots\dots(i)$$

$$\Sigma XY = a\Sigma Y + b\Sigma Y^2 \dots (ii)$$

From normal equation I and II

$$258.4 = 5a + 174.7b \dots (iii)$$

$$9324.86 = 174a + 6366b \dots (iv)$$

From equation iii and iv

$$a = 12.153, b = 1.131$$

Calculation of Standard Error of Estimation

$$P.E = 0.6745 \times$$

$$= 0.185$$

$$6PE = 1.11$$

SEE

$$= 13.286$$

Correlation and regression between DPS and EPS of NABIL

b) **Calculation of correlation and regression between DPS and EPS of NABIL**

(In Rs)

X(DPS)	Y(EPS)	X²	Y²	XY
36.84	57.24	1225	6090.242	2731.4
45	59.27	5437.588	1626.50	2973.93
48	59.86	5586.06	1054.95	2427.55
34	51.84	400	1074.52	655.6
34	50.57	625	1447.80	951.25
228.48	221.68	13273.65	11294.03	9739.73

We have,

$$= 0.39$$

We have regression equation X on Y is given by: $X = a + bY$

$$\Sigma X = na + b\Sigma Y \dots\dots(i)$$

$$\Sigma XY = a\Sigma Y + b\Sigma Y^2 \dots (ii)$$

From normal equation I and II

$$262.32 = 5a + 410.48b \dots (iii)$$

$$21239.7 = 410.48a + 34128.2b \dots (iv)$$

From equation iii and iv

$$a = 108.995, b = -0.68$$

$$P.E = 0.6745 \times$$

$$= 0.2567$$

$$6PE = 1.5402$$

SEE

$$= 19.476$$

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CHAPTER I INTRODUCTION 1.1 Background of the Study The banking sector is critical in today's economic landscape, particularly commercial banks, which significantly contribute to economic development. These banks are involved in various activities, including agriculture, industry, commerce, and trade, and they play a vital role by providing financial and technical support and facilitating national and international trade. The primary