Dividend Policy of Commercial Banks in Nepal

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RECOMMENDATION

This is certify that the thesis

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Dividend policy of commercial banks in Nepal has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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DECLARATION

I hereby declare that the work reported in the thesis entitled "**Dividend policy of commercial banks in Nepal"** submitted to Office of Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial Fulfillment of the requirement of the Master Degree in Business Studies (M.B.S.) Under the guidance and supervision of **Prof. Mrs. Snehalata Kafle and Mr. Govinda Bahadur Thapa** of Shanker Dev Campus.

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ABBREVIATIONS

EBL = Everest Bank Limited

DPS = Dividend per Share

DY = Dividend Yield

HBL = Himalayan Bank Limited

MVPS = Market Value per Share

NEPSE= Nepal Stock Exchange Ltd

NWPS= Net worth per Share

NIBL = Nepal Investment Bank Limited

SEBON=Security Board of Nepal

MPS = Market price per share

Ltd = Limited

Co. = Company

F/Y = Fiscal Year

NRB = Nepal Rastra bank

T.U. = Tribhuvan University

CHAPTER - I
INTRODUCTION

1.1 General Background of Study

The policy of a company on the division of its profits between distribution to its shareholders as dividend and retention for its investment is known as dividend policy. Corporate firms have many functions and one of the vital functions is dividend policy. Most of the companies pay dividend to their shareholders annually in Nepal. Dividend may be paid in cash, stock. Cash dividends as well as bonus dividends are commonly used of our country.

Bonus share refers to free shares of stock that are extended to the current shareholders of a company, without the need for the shareholder to actually purchase the additional shares, or incur any type of fees to cover the acceptance of the shares. In most cases, the extension of a bonus share or shares is based on the current number of shares in the possession of the shareholder. When a company determines to extend bonus shares to shareholders who meet the qualifications required to receive a bonus share, this is referred to as a bonus issue.

The dividend decision depends on board of director dividend pay out or not. Dividend may be paid cash, shares, and securities. All related subject matter depends on dividend policy. Dividend policy covers the percentage of payment, duration of payment and the methods of payment of dividends. The cash dividend paid out and retained earning have a reciprocal relationship. The management has to choose between distributing profits to the shareholders and plugging them back into the business. The decision depends on objectives of managements. The firm will have a larger portion of earning as retained earning if this will lead to maximization of the wealth of the owners.

There is a lack of information sharing between the management of Nepalese corporate firms. The general shareholders of Nepal are not aware of the company they have invested and are also not aware of any retained earnings and dividend paid to them. The government monitoring power is weak to the benefit of the investors. Although some commercial banks and other limited

companies have started a new trend of distributing dividend to the shareholders recently.

Bank play vital role in economic development of a country. If there are in sufficient bank and other financial institutions the economic growth is inadequate. The main objectives of commercial bank are to earn profit by proper mobilization of resources. NRB Monitoring power also increase in the context of increasing financial institution.

But Present study focus on dividend practices of commercial banks in Nepal. Now, issue of bonus share is increasing trend. But there is some misunderstanding on shareholder dividend policies. This study covers dividend policy of selected commercial bank and effects on EPS, DPS, MVPS and NWPS. Under the study researcher selected 3 commercial banks of dividend policy in Nepal in terms of EPS, DPS, MVPS, NWPS and DY.

1.2 Brief Profile of the Sample Bank

i. Himalayan Bank Limited

Himalayan bank ltd a commercial bank with the Habib bank ltd. of Pakistan was incorporated in 1992. It is the first commercial bank of Nepal with maximum shareholder by Nepalese public. 20% of share is owned by Habib Bank Limited, Pakistan, 14 % of share by Other Licensed Institution, 51 % by Nepalese investors and 15% share by general public. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under its credit standing with foreign correspondent banks, HBL lead the banking sector of Nepal.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software which has helped the Bank to provide services like ‘Any Branch Banking Facility’, Internet Banking and SMS Banking. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software - Himal Remit TM. By deputing its own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf

region, HBL is the biggest inward remittance handling Bank in Nepal. Besides this the bank provide following various facilities:

- Various deposit facilities for the public namely, saving, current fixed, etc.
- Dealing with transaction of foreign exchange.
- Serving as agent of correspondent on behalf of client.
- Issuing letter of credit, drafts, traveler's cheque etc.
- Remittance of funds.
- Collection and payment of cheque, promissory notes, drafts.
- Keeping valuable in safe custody called lockers etc.

ii. Everest Bank Limited

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. Currently 80% of share is owned by Nepalese investors, 15 % of share by Other Licensed Institution, 15% by Insurance Companies, 50 % by other investors and 20% share by general public. Punjab National Bank (PNB), joint venture partner of the bank (holding 20% equity in the bank) is the largest nationalized bank in India having 113 years of banking history.

The bank has been conferred with "Bank of the Year 2006, Nepal" by the banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector. Recognizing the value of offerings a complete range of services, the bank have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals.

EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.

iii. Nepal Investment Bank Limited

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. It was the second joint venture bank established in Nepal. After 50% share holding by Credit Agricole Indosuez was by a group of companies comprising of bankers, professionals, industrialists and businessmen the name of the bank has been changed to Nepal Investment Bank Ltd. At present, 80% of share is owned by Nepalese investors, 15 % of share by Other Licensed Institution, 15% by Insurance Companies, 50 % by other investors and 20% share by general public.

The bank has extended its banking hours and keeps the bank open for 365 days. NIBL is also the first bank to introduce Visa Electronic Debit Card in Nepal and the first non-government bank to launch “loan against Gold and Silver.” For the first time in the country, NIBL has formed consortium of banks and financial institutions for issuance and acquiring of Visa products. The scheme allows member bank’s cardholders to use other bank’s ATMs at a very subsidized rate. NIBL has tied up with ARY Speed – UAE and Doha Bank – Qatar to increase our market share in remittance business. It has appointed 40 remittance disbursement agents all over Nepal for speedy distribution of remittances. The bank has started a concept of “15 Minute Banking” for the convenience of all its valued customers. The bank constantly interacts with existing and potential customers and gets feedback and suggestions to provide quality services to its customers.

1.3 Focus of the Study

Dividend policy is one of the important decisions which play vital role in financial sector. Dividend policy as a major function of any corporate firms. Investor invests their capital on the base of dividend policy. This study is mainly focused on the dividend practices on three sample banks. In Nepalese context, most of the investors are investing in the stock without knowledge of the firm's performance. This is due to lack of availability of research about the firm's performance. In this study, it is tried to find out the appropriate dividends polices of sample banks and their performances regarding dividend payment. This study is fruitful who involvement in share market is actively or not.

1.3 Statement of Problem

Nepalese capital market is infant stage. One of the main sectors of financial sector is capital market where stocks and bonds are traded. Among all, the stock market is most active and is of great concern to the business firms the ultimate objective of the firm is to maximize the stockholder's wealth. Efficient capital market implied that the abilities of securities are to reflect all relevant information in its prices. If the capital market is efficient, the current price is fully reflect available information and there is no efficiencies have been accumulating recently but investors should learn as fully and carefully as possible about the actual investment world. Political, economic social and technological factors affect capital market .General investor are supplied wrong information and may also lead them to wrong decision.

Such practices ignore the impact of bonus share on earning per share (EPS), dividend per share (DPS) and market price per share (MPS). It may finally affect the small shareholders and the value maximization objectives seem never to be achieved.

Dividend decision is a crucial as well as controversial area of managerial finance. Corporate dividend policy is not clearly understood by large segment of the financial institution. Dividend is the most crucial factor in investors to invest their capital. Commercial bank has not satisfactory results about dividend decision. Different dividend rules and regulations are the main factors effects banking operations. But there is no limit to the identification of the problem about

dividend policy that is visible in Nepalese commercial banks. While keeping this in mind selected problem of commercial banks with regard to divined policy are taken.

There may be proper matching in dividend policy and earning in the banks. Earnings of the firm are taken as financing source. When the firm retains its earning it will decreasing leverage ratio, expanding activities and increasing profit in succeeding years. If the firms pay dividends, it may need to raise capital through capital market which reduces ownership control of the existing shareholders. In this conditions the firms takes loan or raise debentures. In Nepal there are only a few companies, especially joint venture banks have sufficient earning is capable to pay dividend. But they are not following clearly defined dividend policies. While earning is low they pay high dividend and sometime when earning is high they pay low dividend. Besides above matters following are the purpose of the study.

1. What are existing practices of the sample banks regarding their dividend policies?
2. What is the relationship between dividend per share with earning per share, market value per share and net worth of company?
3. What are the effects on MVPS due to EPS and DPS?
4. Is their significance difference between mean of DPS, DPR, and dividend yield of sample banks?
5. Is their uniformity in dividend distribution?
6. What should be recommended for the Nepalese corporate banks?

1.4 Objective of Study

The major objectives of this study are to asses the existing practices of Nepalese listed commercial banks regarding dividend. The specific objectives are:

1) To analyze the existing dividend practices of sample banks in terms of DPS, DPR, and DY.
2) To find out the effect on market value per share due to DPS and EPS,
3) To analyze the relationship of dividend with earning per share Net worth per share market value per share of sample commercial banks.

4) To find out significance difference between mean of DPS, DPR, and DY of sample Commercial banks.

1.5 Significance of Study

The study is to point out the existing Dividend policy and its overall impact on MVPS on Nepalese commercial banks. People are very attracted to invest in securities market getting high return. So dividend policy has become an effective way for attracting the large number of investors and maintaining goodwill of the company. Investors have not sufficient knowledge on securities market and entire dividend policy. This study is fruitful for those investors. This study will be very helpful for the further researcher to find more details on same topic. It will be very useful to the concerned people like shareholders, managers and policymakers. It will be helpful NRB for monitoring banking intuition as well as government also be benefited. It covers the partial fulfillment of the requirement for the degree of Master of Business Studies

1.6 Limitation of Study

Every study has its own limitations. The present study has following limitations.

1. The study is conducted mainly on secondary pooled data such as annual reports of selected banks, other related journals, and magazines, books internets, etc. So the results depend on reliability of source of data.
2. The study is limited to only 5 years. The study covers the period of 2004/2005 to 2008/2009.
3. Only three commercial banks are taken as sample due to lack of time.
4. This study covers only dividend policy of selected banks.

1.7 Organization of Study

The study has been organized into 5 chapters,

Chapter I: Introduction

Chapter II: Review of Literature

Chapter III: Research Methodology

Chapter IV: Presentation and Analysis of Data

Chapter V: Summary, Conclusions and Recommendations

The first chapter introduction includes general background of study, focus of study statement of problem, objectives of study, significance of study, limitation of study and organization of study.

The second chapter review of literature includes conceptual review and previous researchers in this field. It includes review of major studies relating with dividend decision.

The third chapter research methodology includes research design, population and sample size, source of data, data collection procedure and data analysis tools.

The fourth chapter data presentation and analyze and interprets the collected data using various financial and statistical tools and technique. It also analyzes and interpreted the data by using figures and tables. It includes major findings of studies.

The fifth chapter summarizes the whole study draws the conclusion and forwarded recommendation.

CHAPTER - II
REVIEW OF LITERATURE

2.1 Introduction

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusion and deficiency may be known and further research can be conducted. It is an integral and mandatory process in research works (Joshi, 107). For this research study the literature survey will be done by consulting libraries, various journals, articles textbooks and other contemporary materials in this study.

2.2 Conceptual Framework

Dividend decision is not only important for the shareholders but also firm's internal growth. Dividends are desirable from shareholder's point of view as it help to increase their current worth. It is desirable from company's point of view too, as it will help growth of firm. The dividend policy determines the amount of earning to be distributed to shareholders and to reinvest in the firm. Dividend is a portion of earnings which is distributed to shareholders in return of their investment in share capital. The dividend policy affects the overall financing decisions of the firm. Dividend implies to the portion of earning that is paid to the shareholders while dividend policy refers to the guidelines that management uses in establishing portion of retained earning that is paid to the shareholders in the form of dividend. Dividend policy covers two portion bonus share issue and cash dividends.

Bonus share refers to free share stock that are extended to the current shareholders of a company, without need for the shareholders actually purchase the additional shares. An issue of bonus share represents distribution of shares in addition to the cash dividend to the existing shareholders. This has the effects of increasing the number of outstanding share of the company. The declaration of bonus share will increase the paid up share capital and reduce the reserve and surplus of the company (Pandey, 1959; 706). The total net worth is not affected by bonus issue.

When company need to expansion to its business then bonus issue is useful for corporate firms. Bonus issue control company's cash flow. Bonus issue is the source of reinvestment of corporate firms. The issue bonus share does not affect the wealth of shareholders. The earning per share and market price per share will fall proportionately to the bonus issue.

Dividend policy affects log term effects on corporate firms. If the firm increases the retained earning, shareholders dividend decreases and the market price of the share is increases. Thus the dividend decision is always matter of dispute (Pandey, 1982; 296)

It may emphases here that the market value of the share may improve as a result of the bonus issue if it is followed by increased dividends in the immediate future. If the dividends do not increase, it is likely that the market price may fall.

A stock dividend is paid in additional shares of stock instead of cash, and simply involves the transfer of earned surplus to the capital stock account (Western and Brigham, 1971; 286)

Theoretically it is not a thing of value of the shareholders unless cash dividend per share remains unchanged or are increased. Stock dividend may serve to keep the market price per share in a popular trading range. A more effective device for reducing market price per share is stock split. But stock dividend and stock split appear to how informational or singling affects. When other things are held constant share price tends to rise around the time of announcement, consistent with the positive signal (Horn, 2000; 328).

Dividend policy involves the decision to pay out earning versus retaining them for reinvestment in the firm. Any change in dividend policy has both favorable and unfavorable effects of the firm's stock price. Higher the dividends means higher the immediate cash follows to investors which is good. In the other hand lower future growth. The dividend policy should be balanced opposing forces and maximize price (Thapa and Gautam, 2004; 1)

The purpose of bonus share issue is maintaining management control existing shareholders. Bonus share issue minimizes flotation cost. It protects the existing shareholders from dilution of their wealth position and increase the share capital.

Dividend policy can be defined as percentage of dividend which maximizes the wealth of the shareholders in long term. Dividend policy becomes a problem

especially on the public limited companies. A firm's dividend policy has a effects of dividing in net profit in to two parts one is retained earning and dividend. Dividend also divided into two parts i.e. bonus issue and cash dividend

Bonus share announcement is one of the important decisions of the financial management. Before determine issue of bonus Share Company must study its impact on earning per share and stock price. Bonus share is one type of dividend forms. Bonus share may be issued in addition to cash dividend. Issue of bonus share conserves cash where as cash dividend flow out the cash.

Dividend policy is a financial decision which affects the shareholders value maximization and immediate purpose. Dividend in fact is the portion of the net earning, which is distributed to shareholders by a company. After successfully completing the business activities of a company, if its financial statement shows the net profit, the board of directors decides to declare dividend to stockholders. Therefore the payment of corporate dividend is at the decision of board of directors.

2.3 Forms of Dividend

According to changing needs of corporate firms, dividend can be distributed in several forms. A corporation according to its policies objectives and situation distribute different kinds of dividend to its stockholders. The type of dividend that corporation follow is partly of matter of attitude of directors and partly relevant economic and financial factor. Dividend refers to the distributed earning to the ordinary shareholders of the firm in return to their investment. Normally, a investor expect to have return on his/her investment in the forms of dividend and capital gain.

Shareholders are the residual claimer to the earning of the company. Directors must retain some earnings, whether or not profitable investment opportunities exist, to maintain the company as a sound and solvent enterprise.

Thus depending on the needs to finance their investment opportunities, companies may follow different dividend policies. Mature companies that have few investment opportunities may generally have high pay out ratios. Shareholders of such companies would be more interested in dividends, as they obtain return on their investments, than the company. The share price of such

companies is very sensitive to dividend changes. On the other hand, growth companies may have low pay out ratios. Sometimes, the growth company retains most of its earning and declare bonus share to satisfy the dividend requirements of shareholders.

It is clear that the corporation distribute different types of dividend to its shareholders on the return of their investment. On the concentration of firm's policies objectives and circumstances the following types of dividends are provided.

(I) **Cash Dividend:** cash dividend is the dividend, which is distributed to the shareholders in cash out of earnings of the company. When cash dividend is distributed both total assets and net worth of the company decrease as cash and earnings decreases. The market price of share drops in most cases by the amount of the cash dividend distributed. Most company pay cash dividend in sufficient liquidity conditions.

(II) **Stock Dividends:** A stock dividend occurs when the board of directors authorizes a distribution of common stock of existing shareholders. Stock dividend increases the number of outstanding shares of the firms stock. Stock dividend requires an accounting entry transfer from the retained earnings account to the common stock and paid in capital accounts. There is no cash involve in stock divided. Net worth remains unchanged, and the number of shares is increased.

(III) **Interim Dividend:** Generally dividend is declared in the last of the financial year. This is called regular dividend. Many times directors can declare the dividend before the end of the financial years. This is called interim dividend.

(IV) **Property Dividend:** Instead of cash dividend can be given in the form of property. Whenever, the assets which are not used in the operation of the business or in extra ordinary circumstances distribute to the shareholders who are the actual owners of the company.

(V) **Bond Dividend:** Company can distribute its own bond to the shareholders on the name of bond dividend. It helps the company to postpone the payment of cash.

(VI) **Scrip Dividend:** If the company's share has been successfully trading on the stock market for a long time and the price has become very high the company may make a scrip issue. Scrip dividend as similar as bonus share issue. Under this method of dividend, company issue transferable promissory notes which may be interest bearing or not to the shareholders.

(VII) **Composite Dividend:** If the dividend is paid partly in the form of cash and partly in the form of property, then dividend said to be composite dividend.

In the context of Nepal, only cash and stock dividend are mostly practiced.

2.4 Bonus Share and Stock Split

Bonus share and stock split are same in the case of outstanding shares but it is different in their accounting treatment.

In case of bonus share, the balance of the reserve and surplus account decrease due to a transfer to the equity capital and the share premium accounts. The par value per share remains unaffected. In the other hand share split, the balance of the equity accounts does not change, but the par value per share changes. The earning per share will be diluted and the market price per share will fall proportionately with a share split. But the total value of the holdings of a share holder remains unaffected with a share split.

Bonus issue is similar with stock splits from the economic point of view, though there is some difference from the accounting point of view. In a stock split there is no change in the total account or surplus.

2.5 Bonus Share Vs New Share Issue

The bonus share differs from an issue of a new equity. If a firm needs to finance it can also obtain fund by selling new shares. To sell new share in markets a company must be bear flotation costs. If a company is concerned about maintaining control and flotation costs are high, it might be reluctant to sell new common stock. Thus to save the flotation cost and to avoid the difficulties in rising external equity a company exercise rising the additional capital from internal sources. A company can use bonus share as a less expensive

alternative source of capital. It minimizes flotation cost and control management by existing shareholder.

2.6 Bonus Share Vs Cash Dividend

The bonus share issue are share issued free of charge to share holder. The size of the issue reflects the improved value of the company's assets. They may sometimes be issued instead of dividends. The distribution of stock dividend in various circumstances becomes an effective method of conveying of the shareholders an assurance about the profitable reinvestment of the retained profits. But there is no obligation on the management to insure that the reinvestment of past accumulated profits and reserve. Therefore most investors express serious doubts about the retained profits being taken at their face value or being invested in sufficiently remunerative schemes.

Most companies pay dividends in cash. Sometimes cash dividend may be supplemented by bonus issue. A company should have enough cash in its bank account when cash dividends declared. The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus both the total assets and net worth of the company are reduced when the cash dividends distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed.

One seems to be left with the conclusion that these companies which retain a relatively high proportion of profit select relatively unprofitable investments. The present result therefore seems to lend some weak support to the view that institutional or fiscal arrangement which limit dividends are relatively inefficient method of increasing investments.

These are the reasons that the market assigns several times more weight to dividends than to retained income. But if management is able to assure convey to the shareholders about one profitable reinvestment of the retained profit.

2.7 Residual Theory of Dividends

The residual theory of dividends suggests that dividend paid by firm should be viewed as residual amounts or left after all acceptable investment opportunities have been undertaken. This theory states that profit should be used first in all

profitable investment plans, which reflects equal or higher rate of return than investor's opportunities rate of return. If the firm has earning left after paying fixed obligation and financing all acceptable investment opportunities, these earning would then be distributed to shareholders in form of dividend. If not there would no dividend.

Thus dividend policy depends on company investment opportunities and the availability of internally generated capital. Where the dividend paid only after acceptable investments have been financed. According to this concept, dividend policy is totally passive in nature. The treatment of dividend policy as a residual determinant solely by the availability of acceptable investment proposals implies that dividends are irrelevant; the investor is indifferent between dividends and retention by the firm (Horne, 1997; 318).

2.8 Stability Theory of Dividend

Stability theory of dividends explains that regularity in paying some dividend annually, even though the amount of dividend may fluctuate from year to year and may not be related with earnings.

Regularity of dividends considered as desirable policy by the management of most companies. Shareholders also generally prefer regular dividends because all other things are same regular dividend may have a positive impact on the market price of the share.

Residual reserve criterion

Pre-bonus reserve – (pre- bonus paid up capital ×Bonus ratio) ≥0.4 (1+Bonus ratio) × pre bonus capital

200-(160+bonus ratio) ≥0.4 (1+bonus ratio) × 160

200-(160× bonus ratio) ≥64+64×bonus ratio

136 ≥224 bonus ratio

17 ≥28 bonus ratio

Or 17:28 Bonus ratio, it means existing shareholder holding 28 shares acquire 17 extra shares.

Profitability criterion

0.3 three year average PBT≥0.1 (1 +bonus ratio) *pre bonus paid up capital

0.3*100≥0.1 (1+bonus ratio) 160

30≥16+16 bo0nus ratio

14≥16 bonus ratio

7:8 bonus ratios

It is clear that 7:8 is greater than 17:28. Therefore the company will be allowed declare bonus issue in the ratio of 17:28.

The increased paid up capital and residual reserve will be:–

	Rs
Paid up share capital [160+160*17/28]	257.14
Reserve [200-160*17/28]	102.86
	360.00

After computation of profitability and residual reserve criterion, lesser bonus ratio will be allowed to declare bonus issue to the company. There is no change in total equity.

2.9 Some other Conflicting Reasons between Bonus share and Cash Dividend.

(I) **Liquidity position:** A company issue bonus share when it has sufficient cash. To conserve the outflow of cash it can issue bonus shares to shareholders and that may also present from dissatisfaction of shareholders.

(II) **Degree of accumulated retained earnings:** Having good opportunities and high tax investors a company do not want to distribute cash dividend and also want to keep share price within the popular trading range than it must issue bonus share.

(III) **Legal requirement or desire to increase paid up capital:** If a company wants to increase its paid up capital or to meet legal requirement, it can take any among three main alternative decisions. If the company has healthy liquidity position and earning, it will be better to issue bonus share rather than other alternatives.

Stocks Repurchase

Stock repurchase is a method, in which a firm buys back shares of its own stock, thereby decreasing shares outstanding, increasing EPS, and often increasing the price of the stock.

Share price for repurchase or the equilibrium price is calculated from the following equation;

Repurchase price (P) = $\frac{S \times pc}{S - n}$

Where,

S= total number of share outstanding

Pc= current market price per share

N=number of shares to be represented

In stock repurchase reduce the no of outstanding shares. Share repurchase has inverse objective than the bonus share issue. The company can repurchase its outstanding share through a fixed price self-tender offer.

Repurchasing of share is considering as the part of dividend policy. If firm have excess cash and insufficient profitable investment opportunities to justify the use of these funds. The firm has to alternatives to distribute cash whether repurchase of shares or increase dividends. These two alternatives should make no difference to shareholders. Theoretically in the absence of personal income taxes with repurchase fewer shares remain outstanding and earning per share (EPS) and ultimately, dividend per share (DPS) rise. As the result, the market price per share (MPS) rises as well.

2.10 Important Events and Dates in the Dividend payment procedure are as follows:

- **Board Resolution:** Under company act 2063 a public company should all formal meeting of board of directors at least 6 times with in a financial year. The bonus share decision is the right of the board of directors. Therefore the board of directors brings a special resolution for bonus issue.
- **Shareholder Approval:** The resolution of board of directors to distribute the bonus share has to be approval by the shareholders in annual general

meeting. There is a very low chance that the resolution of the board of directors is disapproved by shareholder.

- **Declaration Date:** This is the day on which the board of directors declares the dividend. At this time they set the amount of the dividend to be paid the holder of record date and payment of date.
- **Holder- of- Record Date:** The bonus share is payable to shareholders whose names appear in the register of members as on the holder of record date. This is the date the company opens the ownership books to determine who will receive the bonus share. If shareholders sells share before the record date, the buyer of shares will receive bonus shares. If shareholders sell shares after the record date, the seller of the shares will receive bonus shares.
- **Ex- Dividend Date:** This days is four days prior to the record date .Share purchased the after the ex-dividend date are not entitled to the dividend .The dividend is attached to the stock until the Ex-dividend date (four business days before the holders of record date), after which date it stays with the seller.
- **Bonus Share Payment:** Once a bonus share declaration has been made along with book close date for share transaction, company has to distribute bonus share within certain period to the shareholders.

2.11 Factors Affecting Dividend Policy

Dividend policy is the major financial decision of management. Which determines the percentage of earnings of the firm is distributed its shareholders and what percentage of earnings retained in the firm which is decision for the growth of the firm. Dividends are desirable to its shareholders because it tends to increase current wealth whereas retained earnings are desirable for the firm to the exploit investment opportunities as the internal sources of financing. So in order to develop a long term dividend policy, the directors should at bring a balance between desire of shareholders and the needs of company the company. The firm's decision regarding the amount of earnings to be distributed as dividend depends on the number of factors. The factors which affect the firm's ability to declare and pay dividends are discussed below.

i. Legal Rules

The legal rules are important in establishing the legal boundaries with in which a firms finalized the dividend policy can operate. The legal rules provide the framework within which dividend policy can be formulated. Certain legal rules may limit the amount of dividends that a firm may pay. These legal constraints fall into two categories. First, Statutory restrictions may prevent a company firm paying dividends, while specific limitation differ by state policy.

Generally a corporation may not pay dividend in following situations;

- Firm's liabilities exceed its assets.
- Amount of dividend exceeds the accumulated profits
- Dividend is paid from capital invested in the firm.

ii. Liquidity Position

The liquidity position of company is a prime position of company prime consideration in dividend decision. Because dividend represents a cash outflow, the greater the cash flow and overall liquidity position of the company, the greater its ability to pay a dividend. A company that is growing and profitable may not liquid because its fund may go into the fixed assets and permanent working capital. Because the management of such a company usually desired to maintain some liquidity reduce to give its financial flexibility and protection against uncertainty. It may be hesitant to risk this position to pay a large dividend.

iii. Debt repayment and Restriction on Debt Contract

The dividend policy of corporate firm using debt is also affected by the decision to repay debt on or before maturity, generally require more retention of earnings lowering the dividend rate. Sometimes long term debt contract may specify certain restriction such as payment of dividend from profit only after signing debt contract and requiring maintaining to desired level of net working capital. These restrictions certainly affect dividend policy. When a firm has sold debt to finance expansion or to substitute for other firms of financing, it is faced with two alternatives. It can refund the debt at maturity by replacing it with another form of security, or it can may

provisions for paying debt. If the decision is to retire the debt, this will generally require for the retention of earnings.

iv. Access to Capital Markets

All firms do not have equal access to capital market. A large established firm with record of profitability and stability earning has easy access to capital markets and other firms of external financing. Easy accessibility to the capital market provides flexibility top the management in paying dividend as well as in meeting the corporate obligation. Thus the fast growing firm having tight liquidity position will not face may difficulty in paying dividends if it has access to the capital market.

v. Tax Position of Stakeholder

Because of difference among investor's tax rate, certain investor preference for dividend versus capital gain have been observed in the market. Corporation owned by largely tax payers in high income tax brackets tend toward lower dividend payout where as corporations owned by small investors tend toward higher dividend pay out.

vi. Control

Control of management is very important for many small firms. These owners would prefer the use of debt and retained profits to finance new investments rather than issue stock. As a result dividend payout will be reduced.

vii. Rate of Assets Expansion

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

2.12 Procedural Aspects of Dividend Policy

There is no clear cut legal provision regarding dividend policy in Nepal. The responsibility to undertake required actions to protect shareholders interest is given to Nepal stock exchange which is stated on the security Exchange 1983. But this organization is not so able to protect shareholder's interest since and attitude of the board of directors that plays dominant role in management of public limited companies and they are generally in majority who are nominated by government.

According to corporation acts must set a certain part of profit as reserve before the declaration of dividend. Moreover corporations have to separate the tax provisions prior to dividend declaration.

Likewise commercial bank act 2031 has also made some provisions for distributing dividend. Section 18 of these states about the restriction for the dividend distribution. According this section 18, before providing the hole expenses by the bank for preliminary expenses, loss incurred in last year, capital reserve, risk beard fund reserve fund, the bank shall not declare and distribute the dividend to shareholders.

Similarly company act 2006 makes some legal provisions regarding dividend distribution.

Section 2 (q) states that bonus share mean share issued in the form of additional share to shareholders by capitalizing the saving earned from the profits or the reserve fund of a company, The term also denotes an increasing capitalizing surplus and reserve funds.

As per section 179 of the act, company should inform the prior to issue of bonus share. The company must be in profit for the past 3 years as per the adjusted financial statements.

Section 179 (1) states that a company may by adopting a special resolution in the general meeting , issue bonus shares to its shareholders, out of the amount available for the distribution as dividend.

Sub – section (2) states that where a company has to issue bonus shares pursuant to sub – section (1), the company shall give information to the office before issuing such shares.

Section 182 (1) states that except dividend shall be distributed to the shareholders within 45 days of the decision made provide dividend except in following circumstances;

- If any law prohibits the distribution of dividend;
- If the right to receive dividend is subject to any dispute;
- If in a circumstances beyond control of the company or for any reason, dividend cannot be distributed within the said time limit.

Sub section (2) a company fully or partly owned by the Government of Nepal may distribute divided only after obtaining prior approval of the government of Nepal and the Government of Nepal may give necessary directive on the matter of dividend to be distributed by such company.

Sub – section (3) in event of failure of distribute a dividend within the time limit as referred to in sub – section (1), The dividend shall be distributed together with the interest thereon as such rate as may be prescribed.

Section 83 of company act states that the board of directors is required to bring a special resolution for consent and approved by ¾ of its shareholders present an annual general meeting of the company. The bank should obtain a prior approval of NRB before the AGM.

Free reserve should not be less then 50% of paid up capital of the company after issue of bonus share. This provision is not applicable in case such issuance is as per the guidelines of the regulatory body.

Sub – section (4) states the person whose name is maintained in the shareholder register at the time of declaration of a dividend.

Sub _ section (5) a company shall not pay or distribute a dividend any other manner except out of the amount of profits set aside for the distribution of dividend.

Sub – section (7) subjects to the various provisions contained in this section, the board of directors of any company may, in the following circumstances, distribute interim dividend out of the profits for the previous year;

Where the articles of association contain a provision on the distribution of interim dividend;

Where the annual financial statements for the financial year out of profits of which year interim dividend is to be distributed has already been certified by the auditors and approved by the board of directors.

Sub – section (9) the amount of dividend not claimed by any shareholder even after the expiry of a period of five years after the date of resolution adopted by the company in its general meeting to distribute dividend shall be credited in the investor protection fund to be established under section 183.

2.13 Dividend Policy Theory and Their Empirical Tests

Corporate dividend policy has captured the interest of economists of this century and over the last five year decades has been the subject of intensive theoretical modeling and empirical examination. A number of conflicting theoretical models lacking strong define current attempts to explain corporate dividend behavior. The purpose of this paper is to examine the academic efforts to model dividend policy and to test the empirical validity and significance of the paradigms they fashion.

Theoretical and empirical models of corporate dividend policy of late better separate into a different classification. In this classification, the qualifying principle is the nature of the market structure and underlying rationale of the investor. Accordingly, recently models are broadly segregated, based on their rationale, into models formulated in states with full information, models, in states with information asymmetries and models using behavioral principles. A provision in the corporate charter that gives common holders right to purchase pro-rate basis new issue of common stocks. In most cases the price paid is slightly lower that active market value and is undertaken to avoid dilution of control.

2.14 Review of Previous Studies

2.14.1 Review of Empirical Studies

Linter's Study (1956) made an important study on corporate dividend policy in the American context. He made 15 readily observable factors and characterizes that appear reflect or might be expected to have on important happiness on dividend payment and policy (Linter, 1956;97-113). Then he reviewed the

available information on over 600 listed, will established companies and selected 28 for dividend investigation.

The objectives of study were:

a) To identify occasions when a change in dividends might well have been under active consideration even though no change was made.

b) To determine the factors which existed must actively into dividend decision. Different views were collected with regard to Occasion Company's responsible official including presidents, financial vice presidents, treasures, controllers and directors.

He concluded that a major portion of dividend of a firm could be expressed in following equations.

Div*t = P EPSt……. (1)

And DIVt- DIVt- 1 = a+b (DIV1- DIVt- 1) + eq……..(2)

Where

Div* = Firm's desired dividend
P EPSt = Earnings
P = targeted payout ratio
a= constant relating to dividend growth
b= Adjustment factor and new desired level of dividends were b< 1

The major finding of this study was;

- Firm's generally thinks in term of proportion of earning to be payout.
- Investment opportunities, liquidity positions, funds flow are not considered for modifying the pattern of dividend.
- Firms generally have target payout ratio in view which determining change in dividends per share.

Walter (1966) conducted a study on dividend and stock prices. He proposed the model for share valuation. From his study, the dividend policy of a firm cannot be looked aside from investment policy (Walter, 29-41). According to him, the dividend policy of the firm affects the value of the share. So the dividends are

relevant. He argues that the choice of the dividends policies always affect the value enterprise.

His study shows clearly the importance of relationship between internal rate of return(R) and its cost of capital (k) in determining the dividend policy.

The assumption of the Walter's model is as follows:

a) The firm finances all investment through retained earning. The external funds are not used for new investment
b) All earning on the firm's investment (R) and cost of capital (k) are constant
c) All earnings are either distributed as dividend or reinvested internally.
d) The values of EPS and DPS assumed to remain constant forever in determining a given value.
e) The firm has a perpetual or infinite life.

Based on this assumption, Walter has given following formula of valuation of equity share.

$$P = DPS/ke + r/ke(EPS- DPS)/ke$$

Or,

$$P = DPS+ r/ke (EPS-DPS)/ke$$

Where,

P = Market value of an equity share (market price per share)
DPS = Dividend per Share
EPS = Earning Per Share
R = Rate of return on the firm's investment
K = cost of capital / capitalization rate

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

Growth Firm (r >k)

When the firm is able to earn a return on investment exceeding the required rate of return (i.e. r>ke). The value of shares is inversely related to the d/p ratio. If a firm has adequate profitable investment opportunities, it will be able to earn more than what the investors expect so that r>k. Such firms may be called growth firms. For growth firms, the firms should plug back the entire earnings within the firm. The market value of shares will be maximized as a result.

Normal Firm (r = k)

The market value of shares constant irrespective of D/P ratio. It is a matter of indifference whether earnings are retained or distributed. This is so because for all D/P ratios. Market price of share will remain constant for such firms; there is no optimum dividend policy (D/ P ratio). In other words, the market price of shares is not affected by the D/P ratio. Whether the firm retains the profits or distributes dividends is a matter of indifference. This is a hypothetical situation.

Declining Firm (r<k)

When the firm does not have large size sample profitable, investment opportunities (when r<ke). The value of shares is positively correlated. If a firm does not have profitable investment opportunities (when r<ke), the shareholders will be better – off if earning are paid out of them so as to enable then to earn a higher return by using the funds elsewhere. In such a case, the market price of shares will be maximized by the distribution of the entire earnings as dividends.

Shrestha and Manandhar (1998) Management dynamics, II conducted can empirical study on bonus share issues practices in Nepalese corporate firms. The study is focus on reality on prevailing practices among Nepalese corporate firms regarding the issue of bonus shares. In Nepalese context, issue of bonus share is not good pattern and not perfect capital market, the study fulfills the research gap and adds inputs to financial literatures relatively to this topic.

The period of study expands over 10 years from 1988 to 1998. The study covers the bonus share issue by the sample corporate firms which had issued the bonus share at least once during the study period. There are total of 36 bonus issues amounting to Rs 951.8 million for the period under study.

They used simple statistical tools to analyze and interpret the data. Used statistical tools are percentage, frequency distribution and average. The main objectives study is:–

1. To study and analyze the frequency of bonus share issue
2. To study and analyze the regularity of bonus share issue.
3. To identify the most popular bonus share issue ratio.
4. To study and analyze the relation of bonus share issue to the size and age of the corporate firms.

One the base of analysis of 12 bonus issuing corporate firms, following finding were observed on the bonus share issue practices in Nepal.

1. The number of bonus issue traded to rise from 1992/1993 and enthusiastic increase in no of bonus share issue in the fiscal year 1994/1995.
2. The most popular bonus ratios prevalent in Nepalese corporate practices are 1:2, 1:1 and 1:5
3. The easiest source is bonus share issue increasing capital equity from reserve and surplus.
4. In preceding year 1:2 ratio dominated other ratio but later years increased 1:5 and 1:4 ratios.
5. Nepalese corporate firms are found depended in internal equity rather than external equity for additional capital
6. There is no consistency in bonus issue ratio observed among Nepalese corporate firms.
7. Though capitalizing retained earning by issuing bonus share is the prevalent practice, the average growth rate in increase in equity capital between the commercial banking group and non banking group differed widely.
8. The large corporate firms are found to issue bonus shares more times than the small size corporate firms.

Gupta (1973) conducted an empirical study on bonus issue in bonus share in India. He studied 496 bonus issues during 1948-1971. It was found that bonus share was issued by companies not necessarily with a view to increasing total dividend distribution. This study attempts to test some popularly held beliefs

about the effect of bonus share issue on dividends and share prices. It examines the practices among Indian companies regarding the making of bonus issues and exploiters interest controversy whether, and to extent, such bonus issue represents real gains to their recipients .It was observed that as many as one-third of the companies issuing bonus shares did not increase total quantum of dividend on the enlarged capital, a significant number of them even reducing the total dividend distribution. Gupta also tested the impact of bonus issues on the same prices. It was found that the speculative price rise which occurred immediately after bonus announcement was frequently based not to so much on a realistic appraisal of the fundamental factors governing profits and dividend as psychology. The price rise at the end of one year from bonus announcement was less universal than the price rise in the period of immediately after such announcements.

The basic objectives of studies were:–

1. It specially examines how far bonus share represent a real addition to the shareholders wealth and income.
2. To study the effect on dividends and share price changes associated with bonus issue.
3. To investigate the characteristic features of bonus issues by the Indian companies.
4. The analysis is intended to remove some of the widely held misconception about bonus issues.

Gupta used simple statistical tools such as percentage, frequency distribution, average and standard deviation to study and analyze the data. The original report was subsequently revised and simplified to make it of wider interest without altering the basic framework and the major conclusion. His study was wide coverage and immense on bonus share. The main findings of studies are:–

1. The great majority of the bonus issues in India are in relatively high ratio of 20% (1:5) and above.
2. The bonus issues are made by Indian companies at irregular interval without any constant policy.
3. The increase in dividend distribution was not quite as universal as is commonly believed and almost one third of the cases showed no

increase in the quantum of dividend distribution following the bonus issue.

4. He concludes that an increase in the quantum of dividend distribution was more universal in the case of lower bonus ratios. Than in the case of higher ratios. And also was more universal among companies with lower nominal dividend rates than among those with higher rates before the bonus issue.
5. There is no systematic relation exists between the bonus ratios on the one hand and the percentage of dividend increase on the other hand.
6. The analysis conclude that the higher bonus ratios were found more often among companies paying high dividend rates, and lower ratios more often among companies paying low dividend rates.
7. The immediate impact of bonus announcements on the share price is almost favorable, because a announcement is usually interpreted as indicating the management's intention to increased the dividend distribution in the immediate future.
8. The author concluded that the dramatic price adjustment that took place from the level immediately after bonus announcement suggested that the immediate price rise was haphazard and not sufficiently discriminating, being carried out too far in some cases and too little in others.
9. The analysis find that the positive correlation between the magnitudes of price rise and the bonus ratio.

2.14.2 Review of Nepalese Studies

There are few articles relating dividend policy bonus issue and impact on share price are published in Nepal. Which are significant in this study, have drawn in this section.

Shrestha (1981) on article, “Public Enterprises; Have they dividend paying ability? was published in 1981 by prof. Dr Monohar Krishna shrestha, which gives shot indication of the dividend performance of some public enterprises of that time in Nepal. Dr shrestha has highlighted following issues in his articles.

> Nepal Government expects two things from the public enterprises one is they should be in a position to pay minimum dividend and the public enterprises should be self – supporting in financial matters in future years to come but non of these two objectives are achieved by public enterprises.
>
> One of reason for this efficiency is caused by excessive government interference in day to day affairs. On the other hand, high ranking officials of NG appointed on directors of board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and this led corporations to faces losses. Losing corporation are therefore not in position to pay dividend to government.
>
> Another reason the lack of self criticism and self consciousness. The lack of favorable leaders is one of the biggest constraints to institution building, moreover, corporate leadership come as managers of corporations have not able to identify themselves regarding what they can contribute as manager of corporations. So Nepal government must be in position to develop a financial target in corporate investment by imposing financial obligation on corporation.
>
> The article point out the irony of government biasness that government has not allowed banks to follows an independent dividend policy and Nepal government is focused to have pressurized on dividend payment in case of Nepal bank ltd. regardless of profit. But it has let

off Rastriya Banijya Bank from dividend obligation in spite of considerable profits.

The improvements suggested by author are:

Adopt a criteria – guided policy to drain resources from corporations through the medium of dividend payment.

Realization by managers about the cost of equity and dividend obligation. If Nepal government wants to tap resources through dividend following criteria should be followed;

a) Circulating the information to all the public enterprises about the minimum rate of dividend.

b) Proper evaluation of public enterprises in term capability of paying dividend should be made through corporation coordination committee.

Imposition of fixed rate of dividend by government to financially sound public enterprises.

Specifying performances Criteria such as profit target in terms of emphasis, priorities, timing and plans and developing a strategic plan, this is not just a statement of corporation aspiration but must be done to covert the aspiration into reality.

Identification of Corporation objectives in corporation act, company act or, special character so as to clarify the public enterprise managers regarding their financial obligation to dividend to Nepal government.

2.15 Review of Previous Thesis:

In this topic many researcher are studies and findings conclusion in previous thesis. Some of relevant thesis are mentioned below.

Bhandari (2004) has conducted a study on *"Dividend Policy and practices in Nepalese Joint venture Banks"* using secondary data. His main objectives and finding are as follows:

The main objectives of his research were as follows:

- To find out impact on share price.

- To study the current practices of dividend policy of joint venture banks.
- To examine if there uniformity among DPS, EPS, DPR, of the three sample joint venture bank.

The major findings are as follows:

- There is positive relationship of dividend with stock prices.
- There is no uniformity of distribution of DPS among sample banks

Budhathokli (2006) carried on a research on "*The study of Dividend policy of the commercial banks in Nepal on may 2006"* using secondary and primary data of her data. Her main objectives and finding are as follows:

The main objectives of the study were;

- To highlight the dividend practices of commercial banks.
- To compare the dividend policy followed by different commercial banks chosen.
- To provide the sample banks with some fruitful suggestion that can be implemented easily and possible guideline to overcome various issues and gaps based on the findings of the analysis.

Some of the major findings of this study are;

- The average EPS of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS.
- The average DPS shows that there is no regularity in dividend payment.
- The analysis of DPR shows that the DPR of the bank is not stable.
- The average market price shows that there is quite high level of fluctuation.

Kuikel (2007) has studied on *"dividend policy and practices of commercial banks in Nepal" taking* the three commercial banks as sample using secondary data. His main objectives and findings are as follows:

The main objectives of study were

- To examine dividend policy and practices in Nepalese commercial banks.
- To analyze the effect of dividend in share price.

Major finding of study are as follows:

- The market price of share of all the banks has been fluctuating. The uncontrolled increase in share price may be due to decrease in bank rate of interest.
- The market value per share has positive impact on EPS in case of all selected sample banks.
- The dividend distribution is irregular in those banks except Nabil Bank Ltd.

Thapa (2008) *entitled "Share price movements of financial institutions after the issue of the right share and bonus shares"* using secondary data of 4 commercial banks. His main objectives and findings are as follows:

The main objectives of study were:

- To know the bonus share issue practices in related corporate firms.
- To analyze why company want to distribute bonus share to its existing shareholders.
- To evaluate the changes in market prices per share after allotment of bonus share and right share.

Findings and conclusions are summaries as follows:

- The share price of all the banks in sample had decreased after the bonus issue. The drop in price is also significant.
- However, this also does not follow the theory completely as the share price had not moved downward up to the theoretical ex-right value expect for EBL. This gives the investor a room for gain from investment in share of such banks for right issue.
- Most of the companies are announcing the bonus share to show the positive impact in investors.
- Bonus share issue all the sample companies seemed to follow the theory as the prices have fallen down immediately after the issue of bonus.
- During the analysis it is found that the share price behavior of some of the companies doesn't follow the theory regarding right and bonus share. One major cause is lack of knowledge about its impact to the secondary market. So SEBON need to organize workshop for the investor, how right share and bonus share affects market price.

Maskey (2008) has studied on "*Dividend Policy of selected Commercial banks in Nepal"* taking the three commercial banks as sample using secondary data. His main objectives and findings are as follows:

The main objectives were as follows:

- To access the prevailing dividend policy adopted by the selected banks.
- To access the impact of dividend on market price per share of selected banks.

Major findings of the study are as follows:

- The study of impact of cash dividend on MVPS revealed that DPS has strong positive impact on MVPS.
- A positive relationship is found between DPS and net profit.
- MVPS and DPS revealed that coefficient of dividend have positive impact on MVPS.

Dhungel(2009) conducted a research on *"a study on dividend policy of Everest Bank Limited and bank of Katmandu limited."* He uses secondary data. His main objectives and findings are as follows:

The main objectives of the study were;

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

Some of the major finding of this study is:

- EPS analysis shows that the average EPS of EBL is greater than the average EPS of BOK.
- DPS analysis shows that the average DPS of EBL is greater than average DPS of BOK.
- The DPR ratios show that BOK provided more than EBL.
- In the analysis of DY the shareholders of BOK enjoyed more dividend percent compared to the shareholders of EBL on the basis of MPS.
- In case of EBL, the correlation of DPS with EPS, MPS, and BVPS is negative and result is also insignificant. In the other hand BOK, The correlation of DPS with EPS and MPS is positive and relationship is significant. But the correlation between DPS and MPs is negative and insignificant.
- In summary EBL remained more successful than BOK in satisfying its shareholders through distributing cash and bonus share dividend.

Bhandari (2009) Conducted *"dividend policy analysis of Commercial banks of Nepal".* She uses primary and secondary data. Statistical as well as financial tools are used and objectives and finding are as follows:

The main objectives the study was;

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

Some main findings are as follows;

- From the primary data, it can be concluded that companies distribute dividend to capture the market.
- The bank should consider mainly the legal consideration while declaring dividend and pay cash dividend to fulfill shareholders expectation.
- The bank should pay dividend only after financing in all investment opportunity.

- The correlation of DPS of NABIL with EPS is positive and significant where as the correlation between of DPS with MPS and BVPS and DPR with MPS is insignificant. This means that DPS increase with the increase in EPS. The correlation of DPS of HBL with EPS, MPS is positive but insignificant. Where as correlation between DPS and BVPS are negative and insignificant. This means that there is no significant relationship of DPS with EPS, MPS, and BVPS of HBL.

2.16 Research Gap

This study shows the current issue, latest information study on financial indicators, data and real picture of share price of financial institutions. To show latest picture of financial indicators researchers covered data of periods from 2004/2005 to 2008/2009 and collect latest information or changes that occur in these periods. Hence this study fulfills the prevailing research gap about the in depth analysis of the dividend policy which is the major concern of stakeholders. This study focuses on informative to perspective investor of secondary market to analysis different. This study also tries to revel the major developments and

changes in the legal aspects and provisions regarding dividend policy the enactment of Companies act 2063. During the review of previous thesis, it is found that no research has been concluded by taking the sample banks, which has been selected in this research. So it is believed that this study will full fill the gap, which had been made by the earlier researcher.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with logic behind it. Thus research methodology is a systematic and organized effort investigates a specific problem that needs a solution (Wolf and Pant, 1999; 203).

Research methods are those methods, which are used by the researcher during the course of studying his/ her problems. The research methodology is wider than those research methods i.e. research method is a part of research methodology. The Research Methodology considers the logic behinds the methods used in the contexts of research study and explains why particular method or technique is used. It also highlights about how the researcher problem has been defined what data have been collected, what particular data method has been adopted, why the hypothesis has been formulated etc (Joshi, 2003; 17).

This section highlights the methodology adopted in the process of present study. It also focuses about sources and limitation of data, which are used in the present study. Research methodology is a way for systematically solving the research problems (kothari.1990; 10). In other words, research methodology indicates the methods and process employed in the entire aspects of the study. It refers to the various subsequently steps to be to be adopted by a researcher in studying a problem with certain objects in a view. So it is the method, steps and guidelines, which are to be followed in analysis and it is a way of presenting the collected data with meaningful analysis.

3.2 Research Design

Research design is a conceptual framework within which a researcher conducted. Research design as plan for the collection and analysis of data. It presents the series of guide posts enable the researcher to progress in the right direction in order to achieve the goal.

In sampling language, planning for research is a research design. It is a purpose full scheme of action purposed to be carried out in a sequence during the process of research. Research designs helps to researcher to enable him to keep track of action and to know whether he was moving the right direction to achieve goal.

Research design is the way to subsequently solve the research problem (Kothari, 1990; 10). It describes method and process applied in the entire aspect of the study. A focuses is given to the nature and source of data, the modal statistical tools used and limitations of the study.

This analysis is based on certain research design keeping on objectives of the study in mind. This research design is guideline studying profound ways for research ability. This study focuses towards the bonus share issue and practices. In this research, research design is used for analytical as well as descriptive methods of collected data. This is the empirical research work, this research work help to understand some of the features of bonus share issue and impact on stock price in Nepalese corporate firms.

3.3 Population and Sample

There are 26 commercial banks whose share is traded actively in stock market. Hence it is not possible to study all of them. Therefore, random sampling technique has been used for selecting sample from population. Under the study researcher selected 3 commercial banks of dividend policy in Nepal in terms of EPS, DPS, MVPS, and DY.

The three sample banks selected in the study are as follows;

- Everest Bank Ltd.
- Himalayan Bank Ltd.
- Investment Bank Ltd.

3.4 Nature and Source of Data

Primary source includes the response of questionnaire, personal interviews of authorized person of concerned corporate firms and resourceful person in the regulatory offices. Secondary source of data includes annual report of security board of Nepal, various publication of Nepal stock exchange. statistical year book of NRB, balance sheet, income statements, profit and loss a/c of concerned corporate firms, previous studies and thesis, articles and daily newspaper. The announcement day is the day of the first public announcement in the NEPSE. to ensure that, this is the first day that the information was became public, the announcement data was confirmed or corrected by reviewing each firms official books closure in the SEBON. The share prices were collected from the official quotations, lists of NEPSE published in the National daily newspaper as well as trading reports of SEBON. For the purpose of analysis of data five years is be taken as sample from the year 2004/05-2008/09.

3.5 Method of Data Analysis

Researcher used to achieve objectives, data is analyzed financial as well as statistical tools. Various financial and statistical tools have been used in this study. Mainly the analysis is be done by using financial tools, regression and correlation analysis.

3.5.1 Financial Tools

Financial tools are those, which help to study the financial strength and weakness of the sample firms. The financial tools used in this study are briefly presented below.

a) Dividend per share:

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

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

It is defined as the result received by devising the total distributed to equity shareholders by the total no of equity shares outstanding.

$$DPS = \frac{\text{Total Dividend}}{\text{No of Common Stock}}$$

b) Dividend Pay Out Ratio (D/P ratio)

It is the portion of earning used for the payment of dividend. The dividend payout ratio is the earning of a firm in a particular year. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. In the other words, the amount of the dividend that a bank pays depends upon the earning capacity of the bank. Higher earning enhances the ability to pay more dividends and vice versa.

D/p ratio is calculated as follows;

$$\text{D/P ratio} = \frac{\text{Dividend Per share}}{\text{Earning Per share}}$$

(c) Dividend Yield (DY)

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

This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share. The share with the higher dividends yield is worth buying. Dividend has important guidance to commit fund for the buying of the share in the secondary market. This ratio is calculated by dividing per share by market price of the stock.

Thus,

$$\text{DY Ratio} = \frac{\text{Dividend Per share}}{\text{Market Price Per share}}$$

Statistical Tools

Statistics are numerical statements of facts capable of analysis and interpretation and science of statistics is the study of the principles and methods used in collection .presentation analysis and interpretation of numerical data in any sphere of inquiry. In the present study, following statistical tools have been used to draw meaningful conclusion.

i) Mean(X)

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

In General X1 + X2+ X3+ ……. + Xn are he given N observation. Then their arithmetic mean, usually denoted by X is given by:

$$\overline{X} = \frac{X_1 + X_2 + X_3 ..... X_n}{N}$$

Or

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

Where,

$\sum x$ = Sum of the size of the items.

N = number of items

ii) Standard Deviation(±)

The Measurement of scatterings of the mass of figures in a series about an average is known as dispersion. Standard deviation is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviations mean a high degree of uniformity of the observation well as homogeneity of a series and vice-versa.

The small standard deviation means the high degree of homogeneity of the observation. It is calculated for selected dependent and independent

variables specified. It is positive square root of mean squared deviation from the arithmetic mean and is denoted by σ and is calculated as follows:

Standard deviation (σ) = $\sqrt{\frac{\sum(X-\overline{X})^2}{N}}$

Where,

N = Number of items in the series

X = variables

iii) Coefficient of Variation (C.V.)

Coefficient of Variation measures the relative dispersion and denoted by C. V. It is used in such problems where we want to compare the variability of two or more series. The series for which the C. V. is greater is said to be more variables and conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, that series for which the coefficient of the variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous. It is obtained by dividing by the arithmetic mean to standard deviation. Thus

Coefficient of Variation (C.V.) = $\frac{\pm}{\overline{X}} \times 100$

Where,

σ = Standard Deviation

$\overline{X}$ = Mean

CV reflects the relation between standard deviation and mean. The relative measures of dispersion based on the standard deviation are known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as C. V. It is used for comparing variability of two distributions.

iv) Coefficient of correlation (r)

Correlation analysis is the statistical tool that can be used to describe he degree to which one variable is linearly related to another. The co efficient of correlation measures the direction of relationship between two set of

figures. It is the square root of coefficient determination. Correlation can either be negative or positive. If both variables are changing in same direction, then correlation is said to be positive but when the variation in the two variables take place in opposite direction the correlation said to be negative. In this study, coefficient of correlation is calculated between DPS, and EPS DPS and NWPS and DPS and MVPS.

The strength of correlation between the variables can be quantified. This is achieved by calculating the correlation coefficient. The correlation coefficient varies between +1 to -1; with +1 representing perfect positive correlations and -1 representing perfect negative correlation. It is used to determine the relationship exists or not, whether the relationship is significant or not to establish case and effect relation if any. Here correlation analysis is used for identify relationship between DPS and other relevant indicators like EPS, MPS, MVPS.

Correlation is calculated as follows,

$$R = COV \frac{xy}{\pm x \pm y}$$

Or

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

Where

σ_x and σ_y are the standard deviation of the distributions X and Y values respectively.

v) Coefficient of determination (r^2)

The coefficient of determination is a measure of the degree of liner association or correlation between two variables one of which happens to be independent variable. In other words r^2 measures the percentage total variation in dependent variables. The coefficient of determination value can have ranging from 0 to 1.

vi) Probable Error [PE(r)]

The probable error of the coefficient of correlation helps in interpreting its value. It helps to determine the reliability of the value of coefficient. To cross the validity of the result, we can take the help of following formula.

$$\text{P. E. (r)} = \frac{0.675 \times \left(1 - r^2\right)}{\sqrt{n}}$$

Where PE (r) = Probable Error of r

- If the value of r is less than 6 times the probable error [i.e. r<6 P.E. (r)], there is no significant relation between X and Y.
- If the value of r is more than 6 times the probable error [i.e. r>6 P.E. (r)], there is most significant relation between X and Y.

vii) Regression Analysis

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under study. Regression analysis helps us to know the relative movement in the variables. Regression analysis of the following variable have been calculated and interpreted.

Simple Regression analysis

- **Dividend per share on Earning per share**

  This analysis tests dependency of the dividend per share on the earning per share.

  $Y = a + b x$

  Where,
  Y = dividend per share
  a= regression constant
  b= Regression coefficient
  x = Earnings Per share

- **Dividend per Share on Net worth per share**

  This analysis enables us to known whether NWPS is the influencing factor of dividend per share or not. At what extent the NWPS affects DPS.

  $Y= a+ b x$

  Where
  y = dividend per share
  a = regression constant
  b = regression coefficient
  x = Net worth per share

- **Market value per Share on Dividend per Share**

  This analysis tests the dependency of market value per share on dividend per share.

  $Y = a+ b x$

  Where,
  Y = Market value per share
  a = Regression constant
  b = Regression Coefficient
  x = Dividend per Share

Multiple Regression Analysis

The variable dividend depends up on more than two variables and thus, the multiple regression analysis explains it. Here for this study the model has been formulated as model.

$MVPS = a + b_1 DPS + b_2 EPS$

The above model has been formulated considering market value per share is influenced by earning per share and dividend per share.

Where,

MVPS = Market value per Share

DPS = Dividend per Share

EEPS = Earnings per Share

It helps to predict the market price per share on earning per share and dividend per share

- **Regression Constant (a)**

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

- **Regression Coefficient (b1 b2….)**

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

- **Standard Error of Estimate (SEE)**

  With the help of regression equations perfect prediction is practically impossible. The standard error of the estimate measures the accuracy of the estimated figures. It also measures the dispersion about the average line. If standard error of estimates is 0, then the estimating equation to be perfect estimator of the dependent variable. It indicates that the smaller value of SEE of estimate the closer is being the dots to the regression line. Thus with the help of standard error of estimate , it is possible for us to accretion how good and representative the regression line is as a description of the estimate is calculated for selected dependent and independent variables specified in the model, which is presented above.

Test of Hypothesis

Hypothesis is usually considered as the principle instruments in research. It can also be considered as suggested solution of the research problems. Its main function is to suggest new experiments and observations. With the available data decision makers applied the hypothesis testing and give the decision accordingly. It may not be proved absolutely but in practice it is accepted if it has survive critical testing. Usually the Statistical hypothesis is tested at 1% 5% and 10% level of significance.

Quantities statement about the population parameter is called a hypothesis. In other words, it is an assumption that is made about the found valid of verification. The act of verification involves testing validity of such assumption which when undertaken on the basis of sample evidence is called statistical hypothesis or testing of hypothesis. By testing the hypothesis we can find out whether it qualities the acceptance or rejection the hypothesis. The acceptance the hypothesis means there is no any sufficient evidence provided by sample to reject it and does not necessarily implies tat is true. The main goal of testing of hypothesis is to test the characteristics of the hypothesized population parameter and sample statistics is significant or not.

Generally, two complementary hypotheses are set up simultaneously. If one of the hypotheses is accepted other is rejected. The two hypotheses

that are set up in the testing of hypothesis are null hypothesis and alternative hypothesis. In this study, F- test is done to find out the uniformity of DPS , DPR and DY due to the more than two samples.

The hypothesis tests of this research work are:

First Hypothesis

Null hypothesis (Ho)

There is no significant difference in DPS on sample Commercial banks.

Alternatives Hypothesis (H1)

There is significant difference in DPS on sample commercial banks.

Second Hypothesis

Null hypothesis (Ho)

There is no significant difference in DPR on sample commercial banks.

Alternatives Hypothesis (H1)

There is significant difference in DPR on sample commercial banks.

Third Hypothesis

Null hypothesis (Ho)

There is no significant difference in DY on sample commercial banks.

Alternatives Hypothesis (H1)

There is significant difference in DY on sample commercial banks.

‘F’ Statistics (ANOVA Test)

The ratio of two independent chi – square varieties divided by their respective degree of freedom is known as F-statistic and the distribution of F- statistic is called fisher’s F-distribution. The sampling distribution of F-statistic does not involve in population parameters and depends only on the degree of freedom. The range of value of F is from 0 to infinity. The value of cannot be negative since both value of the F ratio are squared values. F test is for testing the linearity of regression. It is for the testing the significance of an observed sample correlation ratio. If the calculated value of F>tabulated value n certain level of significance and given degree of freedom we conclude that there is significantly different. If the calculated value of F< tabulated value n certain level of significance and given degree of freedom we conclude that there is no significant.

CHAPTER - IV
PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of data collected secondary sources in order to fulfill the objective .The researcher has already mentioned that the study has heavily based on secondary data. Secondary source includes official quotation of share prices, publication of SEBON and NEPSE, issue prospects and annual reports of respective companies. To obtain the best result, the data has been analyzed according to research methodology as mentioned as in the third chapter. In this chapter, the effort has been made to analyze the comparative dividend decision of commercial banks in Nepal. In first part analysis dividend payment practices of bank is done. In second part, relationship dividends other with other key variables are done with the help of the statistical tools.

4.2 Analysis of Dividend per Share

Dividend per share indicates the proportion of earning distributed to shareholder in cash on per share basis. Generally the higher DPS creates positive attitude among the shareholders toward the bank, which accordingly helps to increase the market value of share

Stock dividend is the payment in the form of stock proportionate to their holding capacity. It is popularly known as bonus share. Payment of stock dividend increases the number of outstanding share of company. A stock dividend represents a distribution of shares in addition to the cash dividend to the existing shareholders. It has the effect of increasing the number of outstanding shares of company. The declaration of the bonus of shares will increase the paid –up capital and reduce the reserve and surplus of the company.

Table 4.1

Analysis of Dividend per share

Year	EBL (%)	HBL (%)	NIBL (%)
2004/05	20	20	15
2005/06	20	31.5	12.58
2006/07	25	35	55
2007/08	40	30	30
2008/09	50	45	40
Average Mean	31	32.3	30.5
Std. Deviation	11.31	8	15.82
C.V.	0.36	0.25	0.51

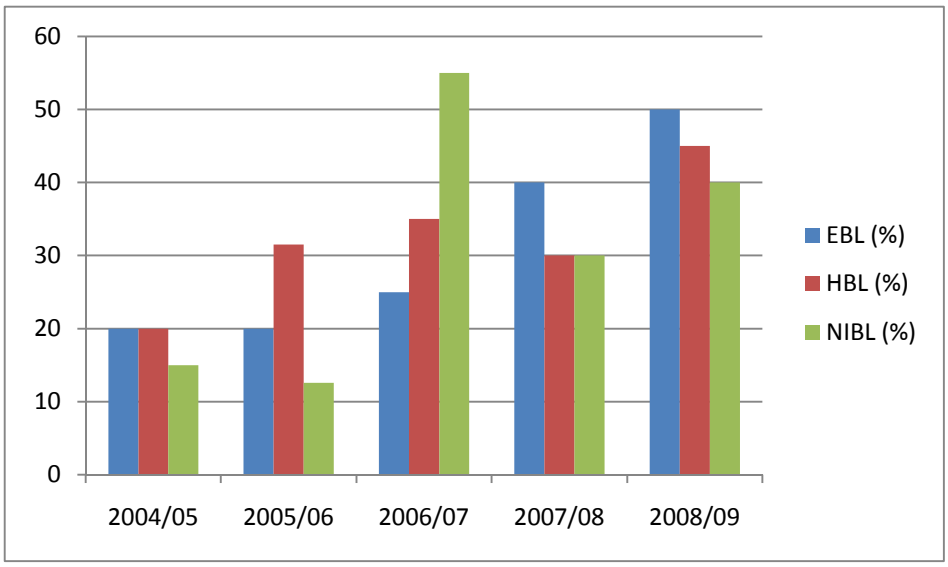
Sources: annual report of SEBON

The above table shows that dividend per share including bonus share from fiscal year 2004/05 to 2008/09. The highest dividend is HBL bank i.e. 32.3 where as average dividend of the EBL and NIBL is 31 And 30.5. In this above analysis HBL dividend per share is better comparatively.

The standard deviation of EBL, HBL and NIBL is 11.31, 8 and 15.82 respectively and C. V. is 0.36, 0.25 and 0.51respectively. In above analysis NIBL C. V. is more fluctuate than other Dividend with stock dividend can be shown in following bar diagram.

Figure 4.1

DPS of EBL, HBL and NIBL



4.3 Analysis of Dividend Payout (D/P Ratio)

The ratio shows the amount of dividend as a percentage of earning available for equity share. The dividend payout ratio obviously depends on earning great the earning more ability of economy to pay dividend. The comparison of payout ratio reflects the management attitudes towards treatment of profit in respect to distribution of dividend and retained earning. Therefore, the comparison between selected banks has been made under.

Table 4.2

Dividend payout ratio (In percent)

Year	EBL (%)	HBL(%)	NIBL (%)
2004/05	53.27	41.74	38.15
2005/06	53.26	65.76	32.01
2006/07	54.58	59.12	92.67
2007/08	69.9	49.45	47.94
2008/09	92.25	71.77	69.12
Average Mean	64.65	57.56	55.97
Std. Deviation	15.15	10.84	22.25
C. V.	0.23	0.19	0.40

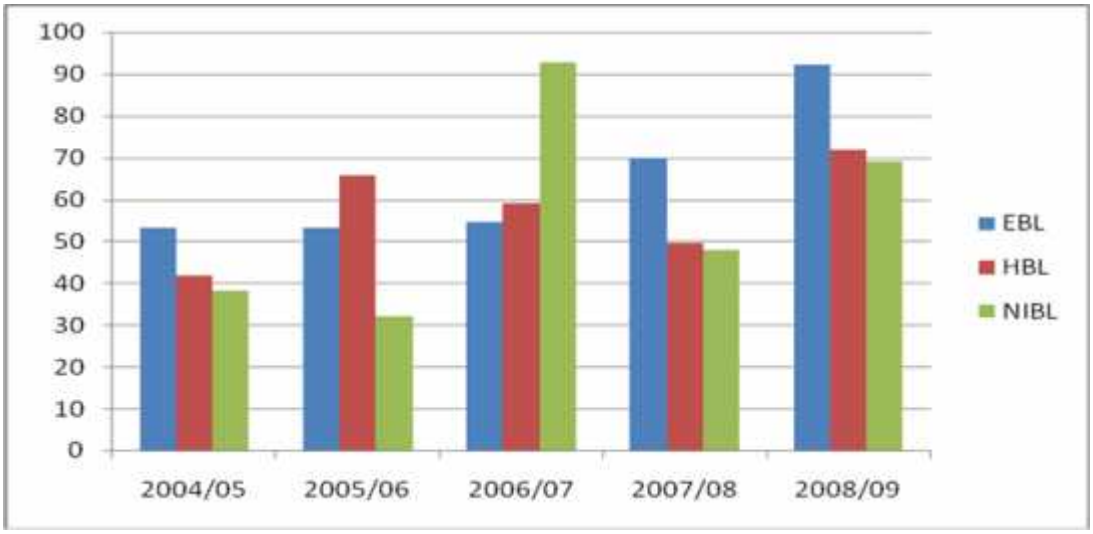
Sources: annual report of SEBON

The above table shows that dividend payout ratio of the banks from the year 2004/05 to 2008/09. The dividend payout ratios of EBL 2004/05-2008/09 are 53.27%, 53.26%, 54.58%, 69.9%, 92.25%, respectively. DPR of HBL is 41.74%, 65.76%, 59.12%, 49.45%, 71.77%. Similarly, DPR of NIBL is 38.15%, 32.01%, 92.67%, 47.94%, 69.12%. The average DPR of EBL is 64.65 which are highest among the sample banks where as average DPR of HBL and NIBL are 57.56 and 55.97% respectively.

The standard deviation of the DPR of EBL, HBL and NIBL are 15.15%, 10.84%, 22.25% respectively. The C. V. of the DPR EBL, HBL and NIBL are 23, 19, and 40% respectively. The C V of 40% shows the highly fluctuation nature of DPR of NIBL. The DPR of Sample Banks in different year are presented in the following bar diagram.

Figure 4.2

Dividend Payout ratio of Sample Banks



4.4 Analysis of Dividend Yield Ratio (DY)

DY for the stock relates the annual dividend to share price. Companies with good growth potential retain a high portion of earning and have a low dividend yield, where as companies in more mature industries pay out high portion of their earning and have a relatively high dividend yield.

Dividend influences highly the market value per share because a change in dividend per share can bring effective change in the market value of the share. Therefore before allocation of the dividend to shareholders, the impact of the

market scenario and fluctuation is to be studied and evaluated for the long run survival of the bank.

Table 4.3

Dividend Yield Ratio (in times)

Year	EBL (%)	HBL (%)	NIBL (%)
2004/05	3	2.38	1.6
2005/06	2.3	3.37	1.62
2006/07	1.81	3.18	3.6
2007/08	1.65	1.7	1.73
2008/09	1.6	2.27	1.67
Average Mean	2	2.6	2
Std. Deviation	.56	.60	0.78
C. V.	0.28	0.23	0.39

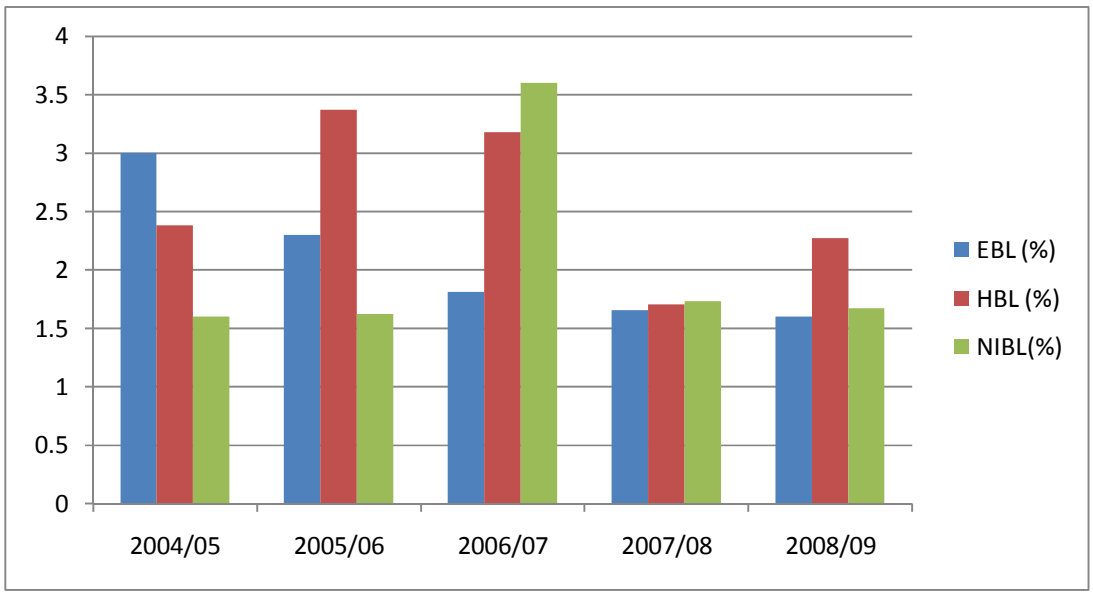
The above table shows that dividend yield ratio of the sample banks from the fiscal year 2004/05 to 2008/09. Dividend yield of EBL are 3%, 2.3%, 1.81%, 1.65%, 1.65%, 1.6% respectively from 2004/05 to 2008/09. It shows that dividend yield ratio is declining form. Similarly dividend yield of HBL are 2.38%, 3.37%, 3.18%1.7%, 2.27%. Similarly DY of NIBL is 1.6%, 1.62%, 3.6%, 1.73% and 1.67%.

The standard deviation of DY are .56 .60 and 0.78 respectively. The C V are 28, 23, 39% respectively EBL HBL and NIBL. The CV of DY 39% shows the highly fluctuation of NIBL

The DY of Sample Banks in different year are presented in the following bar diagram.

Figure 4.3

Dividend Yield of Sample Banks



4.5 Correlation Analysis

Financially tools are not sufficiently to analyze the relationship among the various variables; therefore statistical tools are used to analyze the variable more effectively. For this purpose some financial data are used to determine how one variable will affect another variable. Correlation is statistical tools which are used to determine covariance between two or more variables and to measure how a change in one variable affects the other variables.

In this study following relationship has been shown,

1. Correlation between DPS and EPS
2. Correlation between DPS and NWPS
3. Correlation between DPS and MVPS

4.5.1 Correlation between DPS and EPS

Earning per share is one of the influential factors for dividend policy. So correlation between earning per share and dividend per share is explained as follows;

Table 4.4

Correlation between DPS and EPS

Banks	Coefficient of correlation	Relationship	r^2	Probable Error	6* P. E.	Significant/ Insignificant
EBL	0.59	positive	0.35	0.20	1.2	Insignificant
HBL	0.80	positive	0.64	0.11	0.66	Significant
NIBL	0.72	positive	0.52	0.14	0.84	Significant

Source appendix 6,7,8

The above table shows the relationship between DPS and EPS of the three commercial banks. In this analyzing the relationship between dividend per share and earning per share has been found positive in all sample banks. It implies that earning per share affect the dividend per share. The highest positive relationship is observed Himalayan bank ltd which is .80.

The coefficient of determination (r^2) is the square of the correlation coefficient and it measures the apply of association of the two variables. The coefficient of determination between EPS and DPS of EBL is .35 which means that the variation in independent variables (EPS) explains 35% of the variation in dependent variables (DPS). Likewise, the value of r^2 of the HBL and NIBL are.64 and .52 respectively. It means that in the independent explains 64% and 52% in dependent variables (DPS). From the analysis , it has been found that coefficient of determination r^2 between DPS and EPS is highest in HBL and Lowest in EBL.

The Significance of relationship between EPS and DPS is measured by calculating the probable error of the correlation coefficient. From the above table we can conclude that the relationship between EPS and DPS EBL is insignificant because r is smaller than 6 P. E. In the other hand HBL and NIBL are significant since the coefficient of correlation is greater than 6 P. E.

4.5.2 Correlation between DPS and NWPS

The relationship between dividend per share and net worth per share is described as follows:

Table 4.5

Relationship between DPS and NWPS

Banks	Coefficient of correlation	Relationship	r^2	Probable Error	6* P. E.	Significant/ Insignificant
EBL	0.96	positive	0.92	0.03	0.8	Significant
HBL	-0.16	Negative	0.03	0.29	1.74	Insignificant
NIBL	0.35	Positive	0.12	0.26	1.56	Insignificant

Sources appendix 9, 10 11

The result presented above table shows the relationship between DPS and NWPS of the sample banks. From the analysis of the above table shows that relationship of two sample banks has been found positive and HBL has negative.

The coefficient of determination (r^2) between DPS and NWPS of the EBL, HBL and NIBL are 0.92, 0.03, and 0.12

Respectively this means that the variation in independent variables (NWPS) explains 92% of the variation is DPS of EBL, 3% of variation is DPS of HBL and 12% of variation is DPS of NIBL.

From the table we conclude that the relationship between NWPS and DPS of Hal and NIBL are insignificant because the coefficient of correlation is lesser than 6 P. E. The relationship between NWPS and DPS of EBL is significant due to r is greater than 6 P. E.

4.5.3 Correlation between DPS and MVPS

Market value per share is influenced by dividend per share of banks. The relation of dividend per share and market value per share is explained as follows.

Table 4.6

Relation between DPS and MVPS

Banks	Coefficient of correlation	Relationship	r^2	Probable Error	6* P. E.	Significant/ Insignificant
EBL	0.99	positive	0.98	0.01	0.06	Significant
HBL	0.71	Positive	0.50	0.15	0.90	Insignificant
NIBL	0.51	Positive	0.26	0.22	1.32	Insignificant

Source: Appendix 12,13,14

The above table shows that relationship between DPS and MVPS of three sample banks. The coefficient of correlation of the sample banks has been found all positive. The highest r is 0.99 of EBL which is highly correlated.

The coefficient of determination of EBL is .98 which means that 98% of total variation is the value of dependent variables (MVPS). It has been explained by the effect of independent variables (DPS) and remaining is due to other factors. Similarly, the coefficient of determination of HBL and NIBL are .71 and .51 respectively. This means that 71% of HBL and 51% of NIBL of variation in independent variables (DPS).

From the above table we can conclude that the relationship between MVPS and DPS of EBL is significant since the coefficient of correlation (r) is greater than 6 P. E. In the other hand HBL and NIBL are insignificant since r is less than 6 P. E.

4.6 Simple Regression analysis

The regression is used to determine the statistically relationship between two or more variable and to make prediction of one variable on the basis of others. The regression can analyze either in simple regression or multiple regressions. When we take only one independent variable and predict the value of the dependent variable through the appropriate regression line, the analysis is known as simple regression analysis.

4.6.1 Regression of Dividend per share on Earning Per share

This analysis tests dependency of the dividend per share on the earning per share. Dependency of DPS on EPS is shown as follows.

Table 4.7

Regression equation Y= abs

Dividend per share on Earning per share

Banks	Regression constant(a)	Regression coefficient(b)	S.E.E.	S_{ib}	t(0.05,4)	T
EBL	-39.23	1.46	14.29	1.46	2.776	1.6
HBL	-16.87	.8653	74.51	4.54	2.776	.19
NIBL	-43.58	1.368	92.62	5.03	2.776	.27

Source: Appendix 15,16,17

The result presented in the above table gives the major output of simple regression analysis between DPS and EPs of three commercial banks. The above table gives the major output on simple regression analysis between dividends per share as dependent variables of the sample banks. Regression coefficient of EBL , HBL and NIBL are 1.46, .8653, and 1.368 respectively which means if one rupee increase or decrease in EPs , it leads in average increase or decrease in DPS by Rs 1.46, .8653, and 1.368 of EBL, HBL and NIBL respectively.

The regression constant of EBL, HBL, and NIBL are -39.23, -16.87, -43.58 respectively. This indicates that if EPS is zero the DPS will not be paid by the sample banks because regression constant of all sample banks are in negative.

T values for the regression model are 1.6, 0.19, 0 .27 for the EBL HBL and NIBL respectively. This shows that the results of all sample banks statistically not significant at 5% level of significance because the value of calculated t is lower than tabulated value of t.

4.6.2 Regression of Dividend per share on Net Worth per Share

This analysis enables us to know whether NWPS is the influencing factor of dividend per share or not. At what extent the NWPS affects the DPS which is explained below.

Table 4.8

Regression equation Y= abs

Dividend per share on Net Worth per share

Banks	Regression constant(a)	Regression coefficient(b)	S.E.E.	S_{ib}	t(0.05,4)	T
EBL	-50.578	.4132	94.48	1.51	2.776	0.273
HBL	57.50	-0.1026	48.89	1.85	2.776	-0.05
NIBL	-45.66	0.33	94.56	2.577	2.776	0.53

Source appendix 18,19,20

In the analysis of above table gives the major output of simple regression analysis between DPS and NWPS of three commercial banks. Net worth per share is described as independent variable and dividend per share is described as dependent variables. The regression coefficient of the Ebla is .4132 which means if one rupee increase in NWPS, DPS will be increased by Rs 0.4132. Similarly, the regression coefficient of HBL and NIBL are -0.1026 and .33. In this above analysis HBL dividend is not affected by NWPS because its regression coefficient has -0.1026 which is negative.

The regression constant (a) of the EBL HBL and NIBL are -50.578, 57.50 and -45.66. This implies that if NWPS of EBL and NIBL are zero the bank's DPS will be rest -50.57 and -45.66 respectively.

The test of 't' Statistics is concluded that the regression model are 0.273, -.05, 0.53 for the EBL HBL and NIBL respectively. Which shows that the result of all sample banks statistically not significant at 5% level of significance because the value of t is lower than tabulated value of 't'.

4.6.3 Regression of Market Value per Share on Dividend per Share

To find the dependency of market value per share on the dividend per share, this analysis tested. How DPS affects MVPS of sample banks is analyzed below.

Table 4.9

Regression equation Y= a+ bx

Market value per share on Dividend per share

Banks	Regression constant(a)	Regression coefficient(b)	S.E.E.	S_{ib}	t(0.05,4)	T
EBL	-715.23	77.85	4077	151.945	2.776	0.51
HBL	22.61	40	2559	141.79	2.776	0.28
NIBL	844.55	19.37	2113	59.73	2.776	0.324

Source: appendix 21,22,23

The regression coefficient between MVPS as dependent and DPS as independent variable of three sample banks are explained below. The regression coefficient of the EBL HBL and NIBL are 77.85. 40, 19.37 respectively. These imply that if one rupee increase in DPs of the sample banks, Rs 77.85 of the EBL rest, 40 of the HBL and Rs 19.37 0f NIBL increase in MVPS.

The regression constant of EBL is -715.23. It shows that if DPs is Zero MVPS will be -715.23. The regression constant of the HBL and NIBL are 22.61 and 844.55 respectively. It indicates that if the DPS of the sample banks are zero, their market value per share will be Rs 22.61, and 844.55 of HBL and NIBL respectively.

The test of 't' statistics is concluded that there is not significant in any sample banks because the calculated 't' value is smaller than tabulated value

4.7 Multiple Regression Analysis

The regression is used to determine the statistically relationship between two or more variable and to make prediction of one variable on the basis of others. The regression can analyze either in simple regression or multiple regressions. When we take two or more independent variable and predict the value of the dependent variable through the appropriate regression line, the analysis is known as multiple regression analysis.

4.7.1 Regression of Market price per share on DPS and EPS:

To find out dependency of market price per share on the dividend per share and earning per share this analysis is tested. How does affects MPS of sample banks are analyzed below.

Let MPS, DPS and EPS be denoted x1, x2, x3 respectively. Then the multiple regression equation of MPS on DPS and EPS is given by:

Multiple regression equation:

$$X_1 = a+b_1x_2 +b_2x_3$$

$MPS_{EBL} = -2570.96+ (-43.89)\ x_2+ 1.95x_3$

$MPS_{EBL} = -2570.96 -43.89\ DPS_{EBL} + 1.95EPS_{EBL}$

$MPS_{HBL} = 1365.65-1.8x_2 +0.234\ x_3$

$MPS_{HBL} = 1365.65-1.8\ DPS_{HBL} +0.234\ EPS_{HBL}$

$MPS_{NIBL} = 1159 + 0.71x_2 +1.2\ x_3$

$MPS_{NIBL} = 1159+0.71\ DPS_{NIBL} +1.2\ EPS_{NIBL}$

TABLE 4.10

Multiple Regression line of MPS on DPS and EPS

$$X_1 = a+b_1x_2 +b_2x_3$$

Bank	No of Year	Constant(a)	Regression coefficient	
			b_1	b_2
EBL	5	-2570	-43.89	1.95
HBL	5	1365.65	-1.8	0.234
NIBL	5	1159	0.71	1.12

Source: appendix 24

The above table represents the linear relationship between MPS, with DPS and E PS of sample banks. The constant (a) is negative in EBL -2570 and positive in HBL and NIBL 1365.65 and 1159 respectively.

In case of EBL the beta coefficient of DPS and EPS are -43.89 and 1.95 respectively. It indicates that one rupee increase in DPS leads to Rs 43.89

decrease in MPS and one rupee increase in EPS leads to an average about Rs 1.95 increase in MPS.

In case of HBL the beta coefficient of DPS and EPS are -1.8 and 0.234 respectively. It indicates that one rupee increase in DPS leads to Rs 1.8 decrease in MPS and one rupee increase in EPS leads to an average about Rs 0.234 increase in MPS.

In case of NIBL the beta coefficient of DPS and EPS are0.71 and 1.12 respectively. It indicates that one rupee increase in DPS leads to Rs 0.71increase in MPS and one rupee increase in EPS leads to an average about Rs 1.12 increase in MPS. In case of NIBL declaration of dividend increase in MPS.

4.8 Testing Of Hypothesis

Testing of hypothesis is one of the most important aspects of the theory decision making. It consists of decision rules required for drawing probabilistic inference about the population parameters. It often involves deciding at any given point time whether a given population parameter is the same as before or has changed. For the decision making related dividend factor three hypothesis are tested.

4.8.1 First Hypothesis

To find out significance difference between mean of DPS of sample banks, first hypothesis is tested under following ANOVA table.

ANOVA Table

Table 4.11

Source of Variation	Sum of Square (S.S).	Degree of freedom	Mean Sum of Square (M. S.S.)	F- Ratio
Between the samples	SSC =8.51	k-1=3-1=2	MSC= ssc/k-1 8.51/2=4.26	F= MSC/MSE 4.26/191.49= 0.02
With in the Samples(errors)	SSE = 2297.925	n-k= 15-3=12	MSE = see/n-k 2297.925/12= 191.49	
Total	SST = 2306.44	n-1=20-1=19		

Source: appendix 26

From the above table, we get calculated F (2, 12) = 0.02

The tabulated value of F at 5% level of significance for (2, 12) is 3.89

Decision: Since the calculated value of F is lees than tabulated value of the F, it is not significant. Hence, Null hypothesis is accepted and alternative hypothesis (H1) is rejected. It means there is no significance difference in DPS of EBL, HBL and NIBL. It also shows that dividend per share is approximately same in sample banks.

4.8.2 Second Hypothesis

To find out significance difference between mean of DPR of Sample Banks, second hypothesis is tested under following ANOVA table

ANOVA table

Table 4.12

Source of Variation	Sum of Square (S.S).	Degree of freedom	Mean Sum of Square (M. S.S.)	F- Ratio
Between the samples	SSC =213.2491	k-1=3-1=2	MSC= ssc/k-1 213.2491/2= 106.62	F= MSC/MSE 106.62/351.13 .30
With in the Samples(errors)	SSE = 4213.533	n-k= 15-3=12	MSE = see/n-k 4213.533/12= 351.13	
Total	SST = 4426.782	n-1=20-1=19		

Source appendix 27

From above table we get,

Calculated F (2, 12) = .30

The tabulated value of F at 5% level of significance for (2, 12) is 3.89

Decision: Since the calculated value of F is less than tabulated value of the F, it is not significant. Hence null hypothesis is accepted and alternative hypothesis is rejected. It means there is no significance difference in DPR of EBL, HBL and NIBL. It also shows that dividend payout ratio is approximately same in sample banks.

4.8.3 Third Hypothesis

To find out the significance difference between mean of DY of sample banks, third hypothesis is tested under following ANOVA table.

ANOVA Table

Table 4.13

Source of Variation	Sum of Square (S.S).	Degree of freedom	Mean Sum of Square (M. S.S.)	F- Ratio
Between the samples	SSC =0.91	k-1=3-1=2	MSC= ssc/k-1 0.91/2. =0.46	F= MSC/MSE .46/.53 =0.87
With in the Samples(errors)	SSE = 6.3138	n-k= 15-3=12	MSE = see/n-k 6.3138/12 =0.53	
Total	SST = 7.224	n-1=20-1=19		

Source appendix 28

From the above table, we get

Calculated F (2, 12) = 0.87

The tabulated value of F at 5% level of significance for (2, 12) is 3.89

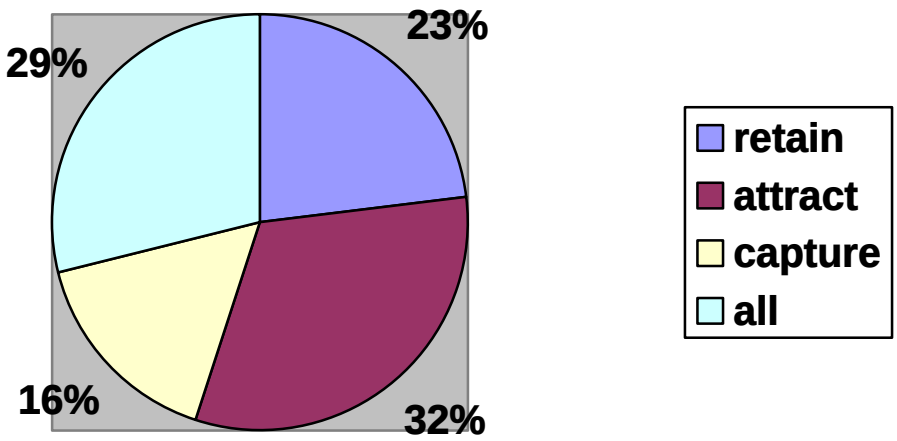
Decision: Since the calculated value of F is less than tabulated value of The F it is not significant. Hence null hypothesis is accepted and alternative hypothesis H1 is rejected. It means there is no significance difference in DY of EBL, HBL and NIBL. It also shows that dividend yield is approximately same in sample banks.

4.9 Presentation and Analysis of Primary Data:

The primary data analysis has been done by distributing questionnaire containing 10 questions. A questionnaire is a formal list of questions designed gathers responses from respondents on a given topic. The questionnaire survey method is used to analyze the dividend policy analysis of commercial banks in Nepal. The primary data has been collected sample banks employees, NEPSE employees, Shareholders and related other office employees.

Reasons for Bank Pay Dividend:

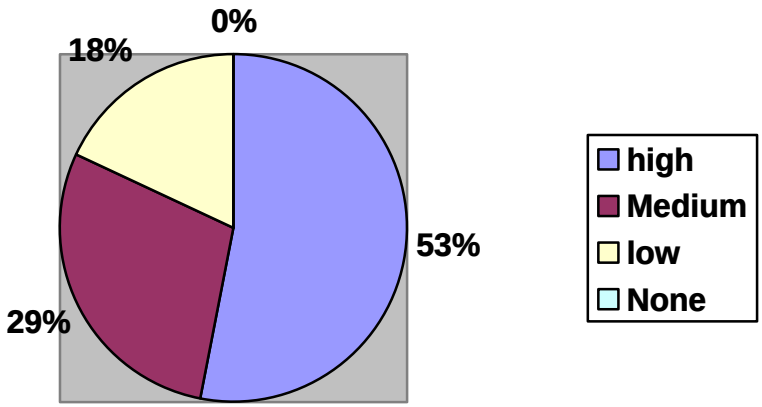
To examine for what reasons the commercial banks are interested to pay the dividend each year, the respondents are on this subject. The responses obtained from them are presented in the below pie chart.(See appendix 1 and 2)



From the above pie chart it is obvious that 32% of respondents replied that bank pay dividend to attract potential market, 29% respondents all the option, 23% 0f respondents to retain existing investors. Hence it can be concluded that bank pay dividend to attract potential investor.

Effects of Dividend Policy on Market Price Per Share:

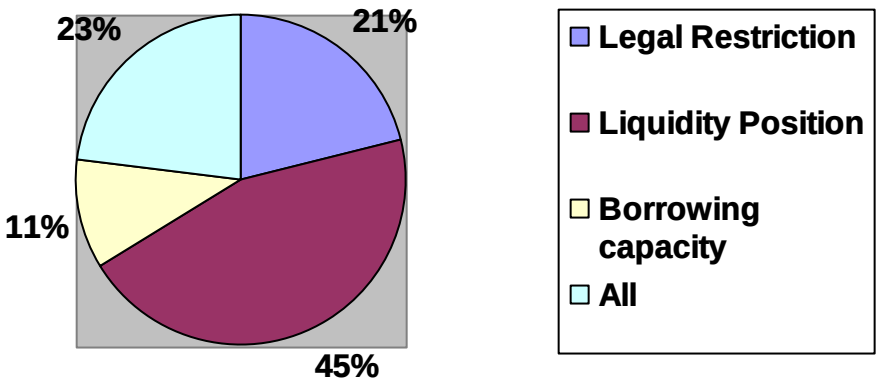
To examine for what is the effects of dividend policy on market price per share of the commercial banks to pay the dividend each year, the respondents are on this subject. The responses obtained from them are presented in the below pie chart.(See appendix 1 and 2)



From the above pie chart it is clear that 53% of respondents replied that market price per share is highly affected by dividend policy, 29% of respondents medium affect and 18% respondents think low affect. Hence it can be concluded that effects of dividend policy is highly on MPS.

Factors should be considered while adopting Dividend Practice:

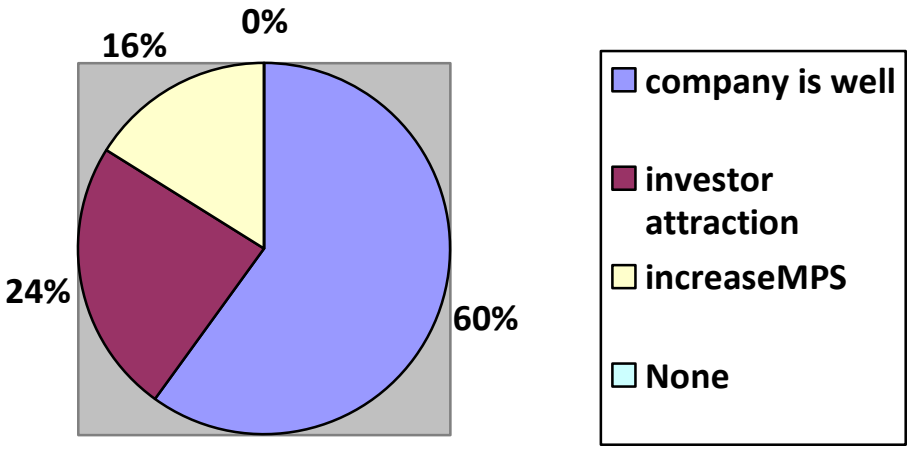
To examine for what factor should be considered while adopting dividend practices of the commercial banks in Nepal, the respondents are on this subject. The responses obtained from them are presented in the below pie chart.(See appendix 1 and 2)



From the above pie chart it is clear that liquidity position is main factor which is 45% of respondents, 21% of respondents are legal restriction. Hence it can be concluded that liquidity position is the main factor adopting dividend practices in Nepalese Commercial banks.

Major Motive of Cash Dividend Distribution:

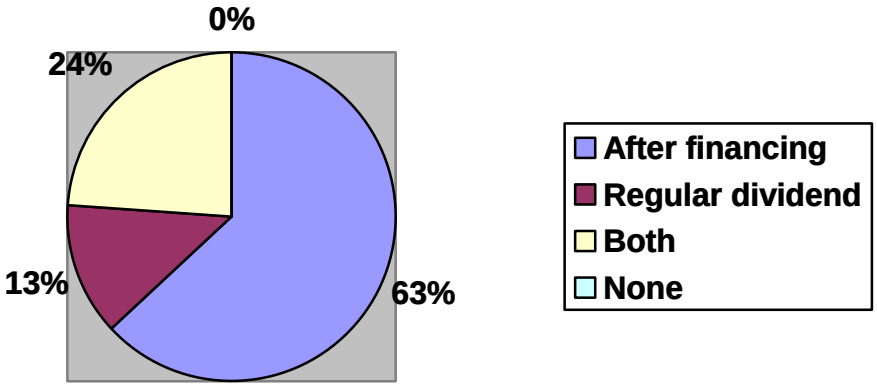
To examine for what is the major motive of cash dividend on dividend policy of the commercial banks, the respondents are on this subject. The responses obtained from them are presented in the below pie chart.(See appendix 1 and 2)



From the above pie chart it is clear that 60% of respondent's major motive of cash dividend is to convey information to shareholders that the company is well. Only 16% respondents replied that increase the market value of firm. Hence it can be conclude that bank major motive of cash dividend is Promotional of their bank.

Dividend Practices Followed by Bank:

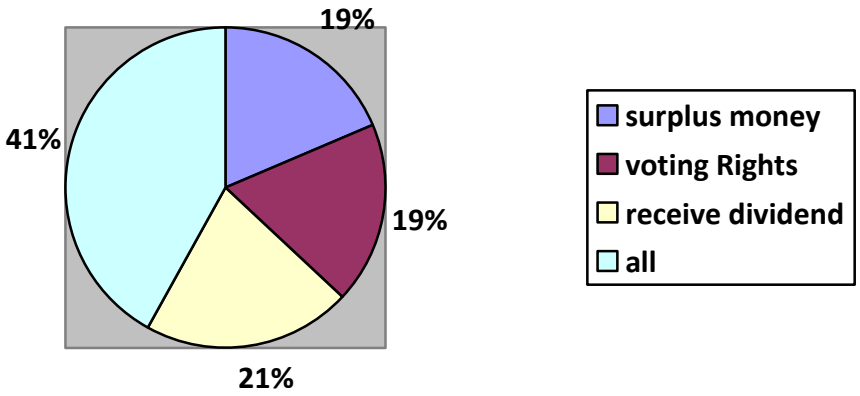
To examine for what dividend policy practices followed by Nepalese commercial bank, the respondents are on this subject. The responses obtained from them are presented in the below pie chart.(See appendix 1 and 2)



From the above pie chart it is clear that dividend practices followed by banks in Nepal is 63% of respondents said that payment of dividend after financing in appropriate investment opportunities, 13% of respondents said regular dividend payment. Hence it can be concluded that dividend practices followed by bank is payment of dividend after financing in appropriate investment opportunities.

Investment in Share Capital:

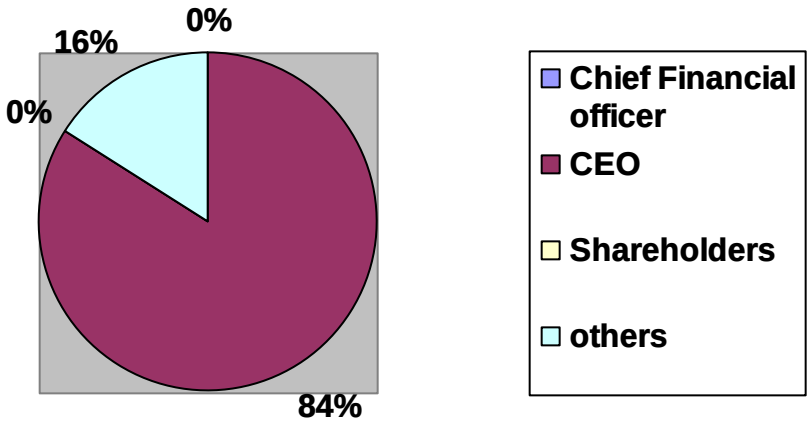
To examine for why do people investment in share capital in Nepalese enterprises, the respondents are on this subject. The responses obtained from them are presented in the below pie chart.(See appendix 1 and 2)



From the above pie chart it is clear that 41% of respondents said that to investment in share capital is utilize the surplus money, to get voting rights and receive dividend .It can be concluded that majority of respondents are indifferent in invest in share capital.

Most Influential in Developing the Dividend Decision:

To examine for who is the most influential in developing the dividend decision ultimately approved by your board of directors, the respondents are on this subject. The responses obtained from them are presented in the below pie chart.(See appendix 1 and 2)

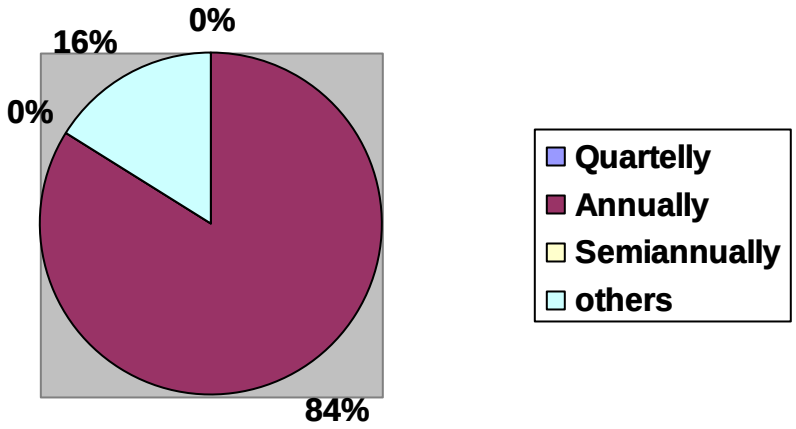


From the above pie chart 84% of respondents replied that CEO is the most influential in developing the dividend decision of commercial bank. 16% of respondents replied that others. Hence it can be concluded that the most influential body is CEO in developing dividend policy.

Bank Re-examine its Dividend Policy:

To examine for how often does generally bank reexamine its dividend policy of Nepalese commercial bank, the respondents are on this subject. The responses

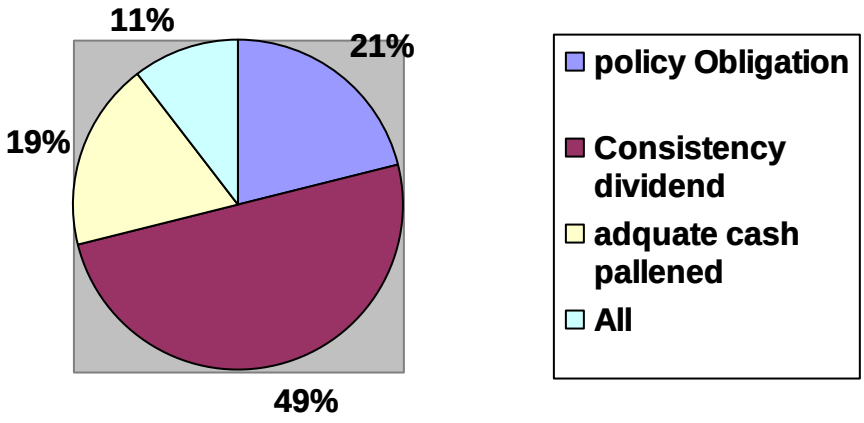
obtained from them are presented in the below pie chart.(See appendix 1 and 2)



From the above pie chart 84% of respondents replied that annually bank re-examines its dividend policy and 16% of respondents replied greater than annually. Hence it can be concluded that bank re- examine its dividend policy annually.

Suggestion for Dividend Policy of Nepalese Enterprises:

To examine for what do you like to suggest with regard to dividend policy in Nepalese enterprises the respondents are on this subject. The responses obtained from them are presented in the below pie chart.(See appendix 1 and 2)



From the above pie chart 50% of respondents suggest with regard dividend policy in Nepalese enterprises is consistency in dividend policy where as 21% of respondents replied that treatment of dividend policy as an obligation. Hence it can be concluded that there is no consistency in dividend policy.

4.10 Major Findings of the Study

The major findings that have drawn from analysis of secondary data and primary data are presented below;

1) There is no regularity in DPS of Sample banks in dividend payment. HBL dividend comparatively better than other two banks. The C. V. of the ranges 24.99% to 51.88% and there is no consistency in dividend payment. HBL C V is more consistency than other bank. In the analysis of three sample banks DPS HBL is better condition.

2) The analysis of dividend payout ratio gives us to find out dividend policy and practices adopted by the sample banks. In our analysis shows that sample banks DPR has not stable. Among the sample banks EBL has the higher DPR 64.45% with moderate fluctuation and HBL DPR is 57.56% with least fluctuation. The NIBL DPR is 55.97% and highest fluctuation in the three sample banks.

3) On the analysis of dividend Yield ratio HBL is also strong than other two banks. The average dividend yield of bank is 2% to 2.6%. In the CV

analysis NIBL 0.33 is more fluctuate than other sample banks 0.28 of EBL and 0.23 of BBL.

4) The relationship between DPS of all sample banks with EPS is positively correlated. Correlation coefficient between DPS and NWPS two sample banks have positive and HBL has negative. Similarly, the correlation of the DPS with MVPS of the all sample banks is also positively correlated.

5) The regression coefficient DPS on EPS of EBL, HBL and NIBL are positive values. Which indicates that DPS is influenced by any factor else than EPS. The coefficient of EBL is high in comparison sample banks. From the regression analysis it can be concluded that a change in EPS affects the DPS differently in different banks.

6) The regression coefficients of DPS on NWPS of two sample banks are positive. HBL regression coefficient is negative. The regression coefficients of the EBL, HBL, and NIBL are 0.4132, -0.1026 and 0.33 respectively.

7) The regression coefficient of MVPS on DPS of the EBL, HBL and NIBL are 77.85, 40, and 19.37 respectively. This means that one rupee increase in DPS of the sample banks, RS 77.85 of the EBL Rs 40 of the HBL and 19.37 of the NIBL increase in MVPS.

8) From the first hypothesis, it can be concluded at the 5% level of significance that the null hypothesis is accepted and alternative hypothesis is rejected. It means that there is not significance difference in mean of EBL, HBL and NIBL.

9) From the second Hypothesis, it can be concluded that at the 5% level of significance that the null hypothesis is accepted and alternative hypothesis is rejected. It means that there is no significance difference in mean of DPR of EBL HBL and NIBL.

10) From the third hypothesis it can be concluded that at the 5% level of significance that null hypothesis is accepted and alternative hypothesis is rejected. It means that there is no significance difference in mean of DY of EBL HBL and NIBL.

11) 32% of respondents replied bank pay dividend to attract potential investor and other remaining replied capture the market and retain existing investors.

12) 53% of total respondents said that dividend policy highly affects the market price per share.

13) 45% of total respondents said that Liquidity position is considerable factor while adopting dividend practices.

14) 60% of total respondents said that to convey information to shareholders that the company is doing well is the major motive of cash dividend in commercial bank.

15) 63% of total respondents said that payment of dividend after financing in appropriate investment opportunities is the dividend practices being followed by the banks in Nepal.

16) 42% of total respondents said that to investment in share capital is utilize the surplus money, to get voting rights and receive dividend.

17) 84% of total respondents said that chief executive officer is the most influential in developing the dividend decision policy.

18) 84% of total respondents said that bank reexamine its dividend policy annually.

19) 50% of total respondents suggest that consistency in dividend policy should be adapted in Nepalese enterprises.

CHAPTER – V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Dividend refers to that portion of firms net earning which is paid out to the shareholders. Dividend serves as simple, comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. The improved corporate dividend practices are thus essential means to solve the problem of asymmetric information between companies and Nepalese's investors who has poured their fund in.

An effective way to attract new investors to invest in shares is paying dividend. Due to division of earnings of a company between dividend payout and retention of earnings, its effect on market price of shares is crucial questions. Thus, a wise policy should be maintained between shareholders interest and corporate growth from internally generated funds. The funds could not be used in case of lack of investment opportunities. Dividend payment to shareholders is taken as best in such a condition, because shareholders have investment opportunities to imply elsewhere. In the changed context of encouraging secondary market, it is time to study influences of other factors on dividend and implication of dividend on market price per shares. The study has tried to cover some such factors. However it is not enough due to some limitation.

The study mainly aims to analyze the existing dividend practices of sample banks. Its specific objectives are: 1) to analyze the existing dividend practices of sample banks in terms of DPS, DPR, and DY. 2) to find out the effect on market value per share due to DPS and EPS, 3) to analyze the relationship of dividend with earning per share Net worth per share market value per share of sample commercial banks. 4) to find out significance difference between mean of DPS, DPR, and DY of sample Commercial banks.

Among 26 commercial banks only three commercial banks Everest bank ltd., Himalayan Bank Ltd., Nepal Investment Bank Ltd. have been taken as sample banks for the study. The study has covered a period of five fiscal years from 2004/2005 to 2008/2009. The study has been conducted on the secondary data

such as annual reports of selected banks. For the analysis of data different financial tools like DPS, DY, DPR, and statistical tools such as mean, standard deviation, correlation coefficient regression and hypothesis have been used.

Most of the things about dividend policy and brief introduction of this study has been presented in first chapter and available literature review as mentioned in second chapter. Research methodology is mentioned in third chapter. All available secondary data are presented and analyzed in fourth chapter. In the fifth chapter summary, conclusion and recommendation is mentioned.

5.2 Conclusion

From the finding of primary data, it can be concluded that commercial banks distribute dividend to attract potential investors. Banks market price per share is highly affected by dividend policy. Liquidity position is important factor while adopting dividend policy. The major motive of cash dividend of commercial bank is to convey information to shareholders that the company is doing well. The dividend practices followed of Nepalese commercial bank is payment of dividend after financing in appropriate investment opportunities. Chief executive officer is the most influential in developing the dividend decision in Nepalese commercial banks. Banks reexamine their dividend policy normally annually. Commercial banks should be consistency in dividend policy in Nepalese enterprises.

The above mentioned secondary data analysis of major findings give this study to conclude that according to different financial indicators tools of the three sample banks, it shows that average dividend per share of Himalayan bank is higher than other EBL and NIBL. This indicates that HBL is paying higher dividend then other sample banks to its shareholders. On the basis of average dividend pay out ratio, Everest Bank is paying higher portion of dividend of its earning as dividend then other two sample banks. On the basis of Dividend Yield ratio HBL is more efficient than EBL and NIBL for distribution of dividend on the basis of market price per share.

As for the simple regression of dividend per share on earning per share beta coefficient is positive in all sample banks. The positive sign of beta coefficient of earning per share indicates that dividend per share increase with higher per share in sample banks remaining other variable constant. On the basis of

regression analysis dividend per share on Net worth per share two sample banks beta coefficient are positive and HBL beta coefficient is negative. On the basis of regression analysis of market value per share on dividend per share is concerned, beta coefficient is positive, it means that increase in dividend per share results increase in market price per share in sample banks. On the multiple regression analysis regression coefficient b_1 in two sample banks EBL and HBL are negative and NIBL has positive (0.71). It concluded that NIBL has differently affect DPS on MPS to compare two other sample banks. On the other hand regression coefficient b_2 in all sample banks have positive. Hence it concluded that EPS increase the MPS of all sample banks. The relationship between dividends per share with earning per share, market value per share is positive in these sample banks. The relationship between dividend per share and net worth per share of two sample banks are positive and HBL is negative.

The correlation of DPS and EPS of EBL, HBL and NIBL has found 0.59, 0.80 and 0.72 respectively and positive correlation in all sample banks. It implies that earning per share affect the dividend per share. The correlation between DPS and NWPS of EBL, HBL and NIBL has found 0.96, -0.16 and 0.35 respectively and found two banks positive and Himalayan bank found negative. It implies that NWPS affect the dividend per share positively in case of EBL and NIBL. In the other hand HBL the correlation of DPS and NWPS is negative (-0.16) and insignificant. This implies that there is no significant relationship of DPS with NWPS of HBL. The correlation between DPS and MVPS of EBL, HBL and NIBL has found 0.99, 0.71 and 0.51 respectively and positive in all sample banks. It implies that DPS affect MVPS.

On the basis of hypothesis test there is no significance difference between mean of DPS, DPR and DY of sample commercial banks.

5.3 Recommendations

On the basis of major findings of the study following recommendations can be made.

i) Banks Should is paid dividend adopting any appropriate policy. Banks should have their clearly defined dividend policy. Clearly defined dividend policy helps to determine specific policy such as stable dividend or low regular plus extra. What should be the long run dividend payout ratio;

either it is pure residual policy, fixed dividend payout policy should have been clearly explained. This short of policy helps to investors in deciding whether to buy or not the share of particular company. It also helps to build good image stock market. This kind of policy should be passed only one the conscious of shareholders. The tendency of management interference in policy matters should be eliminated.

ii) There is lack of rules binding companies to pay dividend. So the Government of Nepal, SEBON, and NEPSE should act in favor of the investor and should bind through such legal provision so that the profit earning companies should distribute certain of their earning as dividend.

iii) Most of the banks have great fluctuation on dividend per share. Earning per share, dividend yield and dividend payout ratio and share price in terms of coefficient of variation. Such fluctuation increases in risk position of investors. Therefore, company should to stabilize these variables.

iv) Payment of dividend is neither static nor constantly growing. It is highly fluctuating; such way of paying dividend could not impress the market positively. SO, these banks are advised to follow either static or constantly growing dividend policy. It would be better to fix the amount of dividend in the general annual meeting. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.

v) Any organization should be formed by the intellectual shareholders for working in favor of Nepalese investors, which should be recognized by the government. The government should this kind of organization to promote these activates and to protect the interest of investors.

vi) Banks are playing on the public money. So in this regard they are advised to have target rate of earning and target pay out ratio that will help companies to build good image in stock market and investors will be ease in making investment decision.

vii) Each and every company should provide the information regarding their activities and performance, so that investors can analyze the situation and invest their money in the best company.

viii) Companies should have long term vision regarding earning and dividend payment that helps to cope with challenging competitive situation of present world. Companies should define their vision clearly considering their future plans, expansion of business, future economy of country. Considering various internal and external factors, companies should choose whether to adopt stable dividend policy or constant payout ratio or low plus extra or leaving dividend as residual.

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

- Optimum retention is made for excellent expansion and modernization.
- Optimum dividend so that market value per share will increase rapidly i.e. net present value of shareholders wealth can be maximized.

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Appendix 1
Questionnaire

Dear Sir/Madam

This is to bring your kind information that this is an attempt to identify the **dividend policy of Nepalese commercial banks** listed for the partial fulfillment of Thesis required for MBS degree, TU. You are kindly requested to fill up the following Questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

Respondents,

Name : Sex M [ ], F [ ]

Bank/Institution Position (optional)

Please tick the best answers.

1. Why does the bank pay dividend?

a) Retain existing investors b) Attract potential investor
c) Capture the market d) All

2. To what extent does dividend policy affects the market price per share?

a) High b) Medium c) Low d) None

3. What factors should be considered while adopting dividend practice?

a) Legal restriction b) Liquidity position
c) Borrowing capacity of the firm d) All of above

4. What is the major motive of cash dividend in your bank?

a) To convey information to shareholders that the company is doing well.
b) To draw attention from the investment community.
c) To increase the market value of the firm's stock.
d) None of above

5. What is the dividend practices being followed by the banks in Nepal?

a) Payment of dividend after financing in appropriate investment opportunities.
b) Paying regular dividend c) Both of above d) None of above

6. Why do people invest in share capital?

a) To utilize the surplus money b) To get voting Rights
c) To receive dividend d) All of above

7. Who is the most influential in developing the dividend decision ultimately approved by your board of directors?

a)Chief Financial Officer b) Chief Executive Officer d) Shareholders c) Other

8. How often does your firm re-examine its dividend policy?

a) Quarterly b) Annually c) Semi annually d) Others

9. What would you like to suggest with regard to dividend policy in Nepalese Enterprises?

a) Treatment of dividend policy as an obligation.

b) Consistency in dividend policy.

c) Adequately Planned and maintained cash balance policy.

d) All of above

Thank you

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Appendix 2

Results of primary data

Questions	A	B	C	D	Total
1.	9 (23%)	12 (32%)	6 (16%)	11 (29%)	38 (100%)
2.	20 (53%)	11 (29%)	7 (18%)	0	38 (100%)
3.	8 (21%)	17 (45%)	4 (11%)	9 (23%)	38 (100%)
4.	23 (60%)	9 (24%)	6 (16%)	0	38 (100%)
5.	24 (63%)	5 (13%)	9 (24%)	0	38 (100%)
6.	7 (18.5%)	7 (18.5%)	8 (21%)	16 (42%)	38 (100%)
7.	0	32 (84%)	0	6 (16%)	38 (100%)
8.	0	32 (84%)	0	6 (16%)	38 (100%)
9.	8 (21%)	19 (50%)	7 (18.5%)	4 (10.5%)	38 (100%)

Appendix 3

Calculation of Mean, SD and C. V. of DPS of sample banks

Year	EBL(x_1)	HBL(X_2)	NIBL(x_3)	(x_1-x_1~)	(x_1-x_1~)^2	(x_2-x~$_2$)	(x_2-x~$_2$)^2	(x_3-x~$_3$)	(
2004/05	20	20	15	11	121	-12.3	151.29	-15.5	2
2005/06	20	31.5	12.58	11	121	-0.8	0.64	-17.92	3
2006/07	25	35	55	6	36	2.7	7.29	24.5	(
2007/08	40	30	30	9	81	-2.3	5.29	-0.5	(
2008/09	50	45	40	19	361	12.7	161.29	9.5	9
Average ($\bar{x}$)	31	32.3	30.5		640		325.8		1
Std. Deviation (σ)	11.31	8	15.82		128		8.072174		1
C.V.	0.3648	0.2499	0.5188		11.31				

Calculation

Mean of EBL ($\bar{X_1}$) = $\Sigma X_1/N = 31$

Mean of HBL ($\bar{X_2}$) = $\Sigma X_2/N = 32.3$

Mean of NIBL ($\bar{X_3}$) = $\Sigma X_3/N = 30.5$

Standard deviation 0f EBL (σ_1) = $\sqrt{\Sigma(x1\text{-}\bar{x1})/N} = 11.31$

Standard deviation 0f HBL (σ_2) = $\sqrt{\Sigma}(x2-\bar{x2})/N = 8$

Standard deviation 0f NIBL (σ_3) = $\sqrt{\Sigma}(x3-\bar{x3})/N = 15.82$

C. V. of EBL = $\sigma_1/\bar{X_1} = 0.3648$

C. V. of HBL = $\sigma_2/\bar{X_2} = 0.2499$

C. V. of NIBL = $\sigma_3/\bar{X_3} = 0.5188$

Appendix 4

Calculation of Mean SD and C. V. of DPR of Sample banks

Year	EBL	HBL	NIBL	$(X-X_1)$	$(X_1-x_1)^2$	$(X_2-\bar{x_2})$	$(x_2-x_2)^2$	(x_3-X_3)	$(x_3-x_3)^2$
2004/05	53.27	41.74	38.15	-11.384	129.5955	-15.828	250.5256	-17.828	317.8376
2005/06	53.27	65.76	32.01	-11.384	129.5955	8.192	67.10886	-23.968	574.465
2006/07	54.58	59.12	92.67	-10.074	101.4855	1.552	2.408704	36.692	1346.303
2007/08	69.9	49.45	47.94	5.246	27.52052	-8.118	65.90192	-8.038	64.60944
2008/09	92.25	71.77	69.12	27.596	761.5392	14.202	201.6968	13.142	172.7122
Total					1149		587		2475

Mean of EBL($\bar{x_1}$)=$\Sigma x_1/N$=323.27/5=64.65

Mean of HBL($\bar{x_2}$)=$\Sigma x_2/N$=287.84/5=57.56

Mean of NIBL($\bar{x_3}$)=$\Sigma x_3/N$=279.89/5=55.97

Standard Deviation of EBL (σ_1) = $\sqrt{\Sigma}(x1-\bar{x1})^2/N = \sqrt{1149/5} = 15.15$

Standard Deviation of EBL (σ_2) = $\sqrt{\Sigma}(x2-\bar{x2})^2/N = \sqrt{587.64/5} = 10.84$
Standard Deviation of NIBL (σ_3) = $\sqrt{\Sigma}(x3-\bar{x3})^2/N = \sqrt{2475.927/5} = 22.25$

Coefficient of Variation of EBL = $\sigma_1/\bar{x_1} * = 0.23$
Coefficient of Variation of HBL = $\sigma_2/\bar{x_2} * = 0.19$
Coefficient of Variation of NIBL = $\sigma_3/\bar{x_3} * = o.40$

Appendix 5

Calculation of mean SD C. V. of DY of sample banks

Year	EBL (%)	HBL (%)	NIBL(%)	X_1-X_1	$(X_1-x_1)^2$	$X_2-\bar{x}_2$	$(x_2-x_2)^2$	X_3-X_2	$X_3-x_3)^2$
2004/05	3	2.38	1.6	1	1	-0.22	0.0484	-0.4	0.16
2005/06	2.3	3.37	1.62	0.3	0.09	0.77	0.5929	-0.38	0.1444
2006/07	1.8129079	3.18181818	3.60793651	-0.25818	0.066655	0.581818	0.338512	1.607937	2.58546
2007/08	1.64609053	1.70454545	1.735107	-0.42499	0.18062	-0.89545	0.801839	-0.26489	0.070168
	1.59642401			-0.47466	0.225303	-0.33	0.1089	-0.32653	0.106622
	10.3554224				1.562578		1.890551		3.06665
	2.07108449	12.9	10.23		0.312516		0.37811		0.61333
Average Mean	2	2.6	2						
Std. Deviation									
C. V.									

Mean of EBL($\bar{x}_1$)=Σx=1/N=10.35/5=2

Mean of HBL($\bar{x}_2$)=Σx_2/N=12.9/5=2.6

Mean of NIBL($\bar{x}_3$)=Σx_3/N=10.23/5=2

Standard Deviation of EBL (σ_1) = $\sqrt{\Sigma(x_1-\bar{x}_1)^2}$/N =$\sqrt{}$1.56/5= .56

Standard Deviation of EBL (σ_2) = $\sqrt{\Sigma(x_2-\bar{x}_2)^2}$/N =$\sqrt{}$1.89/5= .60

Standard Deviation of NIBL (σ_3) = $\sqrt{\Sigma(x_3-\bar{x}_3)^2}$/N =$\sqrt{}$3.06/5= .78

Appendix 6

Calculation of Correlation between DPS and EPS of EBL

Year	DPS (x)	EPS(Y)	$X- \bar{X}$	$Y-\bar{Y}$	$(x-\bar{x})(Y-\bar{Y})$	$(X- \bar{X})^2$	$(Y-\bar{Y})^2$
2004/05	20	45.58	-11	-2.42	26.62	121	5.8564
2005/06	20	37.54	-11	-10.46	115.06	121	109.4116
2006/07	25	45.81	-6	-2.19	13.14	36	4.7961
2007/08	40	57.22	9	9.22	82.98	81	85.0084
2008/09	50	54.27	19	6.27	119.13	361	39.3129
	155	240.42			356.93	720	244.3854
	31	48				240	62

$\bar{x} = 31$

$\sigma x = 15.49$ $\sigma y = 7.87$

Covariance between DPS and EPs $COV_{xy} = \Sigma(x-x-)(y-Y-)/N = 356.3/5=71.26$

Coefficient of correlation(ρ_{xy})= $COV_{xy}/\sigma_x\sigma_y$ = r=71.26/15.49*7.87= .59

R^2=.35

Probable Error. E.(r)= $0.675\times(1-R^2)/\sqrt{n}$= 0.20

Appendix 7

Calculation of Correlation between DPS and EPS of HBL

Year	DPS (x)	EPS(Y)	$X- \bar{X}$	$Y-\bar{Y}$	$(x-\bar{x})(Y-\bar{Y})$	$(X- \bar{X})^2$	$(Y-\bar{Y})^2$
2004/05	20	49.05	-12.3	-7.75	95.325	151.29	51
2005/06	31.5	47.91	-0.8	-8.89	7.112	0.64	80
2006/07	35	59.24	2.7	2.44	6.588	7.29	6
2007/08	30	60.66	-2.3	3.86	-8.878	5.29	15
2008/09	45	67.24	12.7	10.44	132.588	161.29	110
	161.5	284.1			232.735	325.8	262
	32.3	56.8			46.54	65	52.5

$\bar{x} = 32.3$

$\sigma x=8$ $\sigma y=7.28$

Covariance between DPS and EPs $COV_{xy} = \Sigma(x-x-)(y-Y-)/N = 232.73/5=46.54$

Coefficient of correlation(ρxy)= $COVxy/\sigma x\sigma y$ = r=46.54/8*7.28= .80

R^2=.64

Probable ErrorP. E.(r)= $0.675\times(1-R2)/\sqrt{n}$= 0.11

Appendix 8

Calculation of correlation between DPS and EPS of NIBL

Year	DPS (x)	EPS(Y)	$X- \bar{X}$	$Y-\bar{Y}$	$(x-\bar{x})(Y-\bar{Y})$	$(X- \bar{X})^2$	$(Y-\bar{Y})^2$
2004/05	15	51.7	-15	-2.3	34.5	225	5.29
2005/06	12.58	39.31	-17.42	-14.69	255.8998	303.4564	215.7961
2006/07	55	59.35	25	5.35	133.75	625	28.6225
2007/08	30	62.57	0	8.57	0	0	73.4449
2008/09	40	57.87	10	3.87	38.7	100	14.9769
	152.58	270.8			462.8498	1253.456	338.1304
	30	54			92.96	250.69	67

$\bar{x} = 30$

$\sigma x=15.8 \quad \sigma y=8.18$

Covariance between DPS and EPs $COV_{xy} = \Sigma(x-x-)(y-Y-)/N = 462.84/5=92.96$

Coefficient of correlation(ρxy)= $COVxy/\sigma x\sigma y = r=92.96/15.8*8.18= .72$

$R^2=.52$

Probable Error P. E.(r)= $0.675\times(1-R2)/\sqrt{n}= 0.14$

Appendix 9

Calculation of correlation between DPS and NWPS of EBL

Year	DPS (x)	NWPS(Y)	X- $\bar{X}$	Y-$\bar{Y}$	(x-$\bar{x}$)(Y-$\bar{Y}$)	(X- $\bar{X}$)^2	(Y-$\bar{Y}$)^2
2004/05	20	171	-11	-26	286	121	676
2005/06	20	169	-11	-28	308	121	784
2006/07	25	185	-6	-12	72	36	144
2007/08	40	231	9	34	306	81	1156
2008/09	50	231	19	34	646	361	1156
	155	987			1618	720	3916
	31	197				144	783
	$\bar{x}$ = 31	987				12	28
	σx= 12	σy=28					

Covariance between DPS and NWPS COV_{xy} = Σ(x-x-)(y-Y-)/N = 1618/5=323.6

Coefficient of correlation(ρxy)= COVxy/σxσy = r=323.6/12*28= .96

R^2=.92

Probable Error P. E.(r)= 0.6745*(1-r2)/√n= 0.03

Appendix 10

Calculation of Correlation between DPS and NWPS of HBL

Year	DPS (x)	NWPS(Y)	X- $\bar{X}$	Y-$\bar{Y}$	(x-$\bar{x}$)(Y-$\bar{Y}$)	(X- $\bar{X}$)^2	(Y-$\bar{Y}$)^2
2004/05	20	246.93	-12.3	1.33	-16.359	151.29	1.7689
2005/06	31.5	239.59	-0.8	-6.01	4.808	0.64	36.1201
2006/07	35	228.72	2.7	-16.88	-45.576	7.29	284.9344
2007/08	30	264.74	-2.3	19.14	-44.022	5.29	366.3396
2008/09	45	247.95	12.7	2.35	29.845	161.29	5.5225
	161.5	1227.93			-71.304	325.8	694.6855
	32.3	245.6			-14.68	65	138.9371

$\bar{x}$ = 32.3

σx=8 σy=11.78

Covariance between DPS and NWPs COVxy = Σ(x-x-)(y-Y-)/N =-71.03 /5=-14.68

Coefficient of correlation(ρxy)= COVxy/σxσy = r=-14.68/8*11.78= -0.16

R^2=.03

Probable Error P. E.(r)= 0.675×(1-R2)/√n= .29

Appendix 11

Calculation of Correlation between DPS and NWPS of NIBL

Year	DPS (x)	NWPS(Y)	X- $\bar{X}$	Y-$\bar{Y}$	(x-$\bar{x}$)(Y-$\bar{Y}$)	(X- $\bar{X}$)^2	(Y-$\bar{Y}$)^2
2004/05	15	246.88	-15	18.1	-271.5	225	327.61
2005/06	12.58	199.83	-17.42	-28.95	504.309	303.4564	838.1025
2006/07	55	239.67	25	10.89	272.25	625	118.5921
2007/08	30	234.37	0	5.59	0	0	31.2481
2008/09	40	223.17	10	-5.61	-56.1	100	31.4721
	152.58	1143.92			448.959	1253.456	1347.025
	30	228.78			89.79	250.69	269.4

$\bar{x}$ = 30

σx=15.8 σy=16.41

Covariance between DPS and NWPS COVxy = Σ(x-x-)(y-Y-)/N = 448.95/5=89.79

Coefficient of correlation(ρxy)= COVxy/σxσy = r=89.79/15.8*16.41= .35

R^2=.12

Probable Error P. E. (r)= 0.6745×1-r2/√n=0.26

Appendix 12

Calculation of Correlation between DPS and MVPS of EBL

Year	DPS (x)	MVPS(Y)	X- $\bar{X}$	Y-$\bar{Y}$	(x-$\bar{x}$0)(Y-$\bar{Y}$)	(X- $\bar{X}$)^2	(Y-$\bar{Y}$)^2
2004/05	20	680	-11	-1018	11198	121	1036324
2005/06	20	870	-11	-828	9108	121	685584
2006/07	25	1379	-6	-319	1914	36	101761
2007/08	40	2430	9	732	6588	81	535824
2008/09	50	3132	19	1434	27246	361	2056356
	155	8491			56054	720	4415849
	31	1698			11210.8	144	883169.8
	$\bar{x}$ = 31	8491				12	939.77
	σx=12	σy=939.77					

Covariance between DPS and MVPS COV_{xy} = Σ(x-x-)(y-Y-)/N = 56054/5=11210.58

Coefficient of correlation(ρxy)= COVxy/σxσy = r=11210.58/12×939.77= .99

R^2=.98

Probable Error P. E.(r)= 0.675×(1-R2)/√n= 0.01

Appendix 13

Calculation of Correlation between DPS and MVPS of HBL

Year	DPS (x)	MVPS(Y)	$X- \bar{X}$	$Y-\bar{Y}$	$(x-\bar{x})(Y-\bar{Y})$	$(X- \bar{X})^2$	$(Y-\bar{Y})^2$
2004/05	20	840	-12.3	-476	5854.8	151.29	226576
2005/06	31.5	920	-0.8	-396	316.8	0.64	156816
2006/07	35	1100	2.7	-216	-583.2	7.29	46656
2007/08	30	1740	-2.3	424	-975.2	5.29	179776
2008/09	45	1980	12.7	664	8432.8	161.29	440896
	161.5	6580			13046	325.8	1050720
	32.3	1316			2609.2	65	210144

$\bar{x} = 32.3$

$\sigma x=8$ $\sigma y=458.41$

Covariance between DPS and MVPS $COV_{xy} = \Sigma(x-x-)(y-Y-)/N = 13046 /5=26.09$

Coefficient of correlation(ρxy)= $COVxy/\sigma x\sigma y = r=2609.2/8*458.41= .71$

$R^2=.50$

Probable Error P. E.(r)= $0.6745*(1-R2)/\sqrt{n}= .15$

Appendix 14

Calculation of Correlation between DPS and MVPS of NIBL

Year	DPS (x)	MVPS(Y)	$X- \bar{X}$	$Y-\bar{Y}$	$(x-\bar{x})(Y-\bar{Y})$	$(X- \bar{X})^2$	$(Y-\bar{Y})^2$
2004/05	15	940	-15.5	-495.8	7684.9	240.25	245817.6
2005/06	12.58	800	-17.92	-635.8	11393.536	321.1264	404241.6
2006/07	55	1260	24.5	-175.8	-4307.1	600.25	30905.64
2007/08	30	1729	-0.5	293.2	-146.6	0.25	85966.24
2008/09	40	2450	9.5	1014.2	9634.9	90.25	1028602
	152.58	7179			24259.636	1252.126	1795533
	30.5	1435.8			4851.9272	250.69	359106.6

$\bar{x} = 30$

$\sigma x=15.8$ $\sigma y=599.25$

Covariance between DPS and MVPS $COV_{xy} = \Sigma(x-x-)(y-Y-)/N = 24259.63/5=4851.93$

Coefficient of correlation(ρxy)= $COVxy/\sigma x\sigma y = r=4851.93/15.8*599..25= .51$

$R^2=.26$

Probable Error P. E. (r)= $0.6745*$ 1-r2/$\sqrt{n}=0.22$

Appendix 15

Simple regression analysis of dividend per share on Earning per share of EBL

Simple regression analysis of dividend per share on earning per share of EBL

year	EPS(X)	DPS(Y)	XY	X^2	Y^2	$X-\bar{X}$	$(X-\bar{X})^2$
2004/05	45.58	20	911.6	2077.536	400	-2.504	6.270016
2005/06	37.54	20	750.8	1409.252	400	-10.544	111.1759
2006/07	45.81	25	1145.25	2098.556	625	-2.274	5.171076
2007/08	57.22	40	2288.8	3274.128	1600	9.136	83.4665
2008/09	54.27	50	2713.5	2945.233	2500	6.186	38.2666
	240.42	155	7809.95	11804.71	5525		244.3501
	48.084	31					

Regression coefficient (b) = n Σxy-Σx Σy/nx2-(Σx)2 =1.46

1.460732

Regression constant (a)= $\bar{Y}-b\bar{X}$ =-39.2378 -39.2378

Standard Error of Estimate(SEE) = $\sqrt{(\Sigma y^2-a\Sigma y-b\Sigma xy/(n-2)}$=14.29

Standard Error of regression coefficient (Sb) = SEE/$\sqrt{(x-\bar{x})^2}$ =.91

T-value= b/Sb=1.6

Appendix 16

Simple regression analysis of dividend per share on Earning per share of HBL

year	EPS(X)	DPS(Y)	XY	X^2	Y^2	$X-\bar{X}$	$(X-\bar{X})^2$
2004/05	49.05	20	981	2405.903	400	-7.77	60.3729
2005/06	47.91	31.5	1509.165	2295.368	992.25	-8.91	79.3881
2006/07	59.24	35	2073.4	3509.378	1225	2.42	5.8564
2007/08	60.66	30	1819.8	3679.636	900	3.84	14.7456
2008/09	67.24	45	3025.8	4521.218	2025	10.42	108.5764
	284.1	161.5	9409.165	16411.5	5542.25		268.9394
	56.82	32.3					

Regression coefficient (b) = n Σxy-Σx Σy/nΣx2-(Σx)2 =1.46 0.8653

0.865381

Regression constant (a)= $\bar{Y}-b\bar{X}$ = 16.87 -16.87 -16.8709

Standard Error of Estimate(SEE) = $\sqrt{(\Sigma y^2-a\Sigma y-b\Sigma xy/(n-2)}$=14.29 74.51668 5552.736

Standard Error of regression coefficient (Sb) = SEE/$\sqrt{(x-\bar{x})^2}$ = 4.543874

T- value = b/Sb= 0.190432

Appendix 17

Simple regression analysis of dividend per share on earning per share of NIBL

year	EPS(X)	DPS(Y)	XY	X^2	Y^2	$X-\bar{X}$	$(X-\bar{X})^2$
2004/05	51.7	15	775.5	2672.89	225	-2.46	6.0516
2005/06	39.31	12.58	494.5198	1545.276	158.2564	-14.85	220.5225
2006/07	59.35	55	3264.25	3522.423	3025	5.19	26.9361
2007/08	62.57	30	1877.1	3915.005	900	8.41	70.7281
2008/09	57.87	40	2314.8	3348.937	1600	3.71	13.7641
	270.8	152.58	8726.17	15004.53	5908.256		338.0024
	54.16	30.516					

Regression coefficient (b) = n Σxy-Σx Σy/nΣx2-(Σx)2 =1.46 1.3681

1.368147

Regression constant (a)= $\bar{Y}-b\bar{X}$ = -43.5803

Standard Error of Estimate(SEE) = $\sqrt{(\Sigma y^2-a\Sigma y-b\Sigma xy/(n-2)}$= 92.62 92.61845 8578.177

Standard Error of regression coefficient (Sb) = SEE/$\sqrt{(x-\bar{x})^2}$ = 5.037761

T- value = b/Sb= 0.271569

Appendix 18

Simple regression analysis of dividend per share on Net Worth per share of EBL

year	NWPS(X)	DPS(Y)	XY	X^2	Y^2	$X-\bar{X}$	$(X-\bar{X})^2$
2004/05	171	20	3420	29241	400	-26.4	696.96
2005/06	169	20	3380	28561	400	-28.4	806.56
2006/07	185	25	4625	34225	625	-12.4	153.76
2007/08	231	40	9240	53361	1600	33.6	1128.96
2008/09	231	50	11550	53361	2500	33.6	1128.96
	987	155	32215	198749	5525		3915.2
	197.4	31					

Regression coefficient (b) = $n\Sigma xy-\Sigma x\,\Sigma y/n\Sigma x^2-(\Sigma x)^2$ = 0.4132

0.413261

Regression constant (a)= $\bar{Y}-b\bar{X}$ = -50.578

Standard Error of Estimate(SEE) = $\sqrt{(\Sigma y^2-a\Sigma y-b\Sigma xy/(n-2)}$= 92.62 94.48182 8926.815

Standard Error of regression coefficient (Sb) = $SEE/\sqrt{(x-\bar{x})^2}$ = 1.50998

T- value = b/Sb= 0.273686

Appendix 19

Simple regression analysis of dividend per share on Net worth per share of HBL

year	NWPS(X)	DPS(Y)	XY	X^2	Y^2	$X-\bar{X}$	$(X-\bar{X})^2$
2004/05	246.93	20	4938.6	60974.42	400	1.344	1.806336
2005/06	239.59	31.5	7547.085	57403.37	992.25	-5.996	35.95202
2006/07	228.72	35	8005.2	52312.84	1225	-16.866	284.462
2007/08	264.74	30	7942.2	70087.27	900	19.154	366.8757
2008/09	247.95	45	11157.75	61479.2	2025	2.364	5.588496
	1227.93	161.5	39590.84	302257.1	5542.25		694.6845
	245.586	32.3					

Regression coefficient (b) = $n\Sigma xy-\Sigma x\,\Sigma y/n\Sigma x^2-(\Sigma x)^2$ = 0.4132 -0.1026

-0.1026423

Regression constant (a)= $\bar{Y}-b\bar{X}$ = 57.50751

Standard Error of Estimate(SEE) = $\sqrt{(\Sigma y2-a\Sigma y-b\Sigma xy/(n-2)}$= 92.62 48.8942737 -2390.65

Standard Error of regression coefficient (Sb) = $SEE/\sqrt{(x-\bar{x})^2}$ = 1.8550866

T- value = b/Sb= -0.05533

Appendix 20

Simple regression analysis of dividend per share on Net worth per share of NIBL

year	NWPS(X)	DPS(Y)	XY	X^2	Y^2	$X-\bar{X}$	$(X-\bar{X})^2$
2004/05	246.88	15	3703.2	60949.73	225	18.096	327.4652
2005/06	199.83	12.58	2513.861	39932.03	158.2564	-28.954	838.3341
2006/07	239.67	55	13181.85	57441.71	3025	10.886	118.505
2007/08	234.37	30	7031.1	54929.3	900	5.586	31.2034
2008/09	223.17	40	8926.8	49804.85	1600	-5.614	31.517
	1143.92	152.58	35356.81	263057.6	5908.256		1347.025
	228.784	30.516					

Regression coefficient (b) = $n\Sigma xy-\Sigma x\,\Sigma y/n\Sigma x^2-(\Sigma x)^2$ = 1.3681 0.333

0.333289

Regression constant (a)= $\bar{Y}-b\bar{X}$ = -45.6691

Standard Error of Estimate(SEE) = $\sqrt{(\Sigma y^2-a\Sigma y-b\Sigma xy/(n-2)}$= 92.62 94.59614 8948.43

Standard Error of regression coefficient (Sb) = $SEE/\sqrt{(x-\bar{x})^2}$ = 2.577423

T- value = b/Sb= 0.530802

Appendix 21

Simple regression analysis of MVPS on dividend per share of EBL

year	DPS(X)	MVPS(Y)	XY	X^2	Y^2	$X-\bar{X}$	$(X-\bar{X})^2$
2004/05	20	680	13600	400	462400	-11	121
2005/06	20	870	17400	400	756900	-11	121
2006/07	25	1379	34475	625	1901641	-6	36
2007/08	40	2430	97200	1600	5904900	9	81
2008/09	50	3132	156600	2500	9809424	19	361
	155	8491	319275	5525	18835265		720
	31	1698.2					

Regression coefficient (b) = $n\Sigma xy-\Sigma x\,\Sigma y/n\Sigma x^2-(\Sigma x)^2$ = 0.4132 77.85

77.85278

Regression constant (a)= $\bar{Y}-b\bar{X}$ = -715.236

Standard Error of Estimate(SEE) = $\sqrt{(\Sigma y^2-a\Sigma y-b\Sigma xy/(n-2)}$= 92.62 4077.113 16622853

Standard Error of regression coefficient (Sb) = $SEE/\sqrt{(x-\bar{x})^2}$ = 151.945

T- value = b/Sb= 0.512375

Appendix 22

Testing of Hypothesis

Let X_1, X_2, X_3 be the DPS of EBL, HBL, And NIBL respectively						
Year	X_1	X_2	X_3	$(X_1-X_2^-)^2$	$(X_2-X_2^-)^2$	$(X_3-X_3^-)^2$
2004/05	20	20	15	121	151.29	240.7463
2005/06	20	31.5	12.58	121	0.64	321.7001
2006/07	25	35	55	36	7.29	599.4663
2007/08	40	30	30	81	5.29	0.266256
2008/09	50	45	40	361	161.29	89.94626
	155	161.5	152.58	720	325.8	1252.125
	31	32.3	30.516			

Grand mean $X^{--} = x_1^- + x_2^- + x_3^-/3=$ 31.272

SSC = Sum of the Squares of variation between samples

$\sigma=\Sigma nj^-(xj-x^{--})^2$

$n_1(x_1^- - x_1^{--})^2+n_2(x_2^- - x_2^{--})^2+n_3(x_3^- - x_3^{--})^2$

8.51152

SSE= Sum of SQARE of Variation within Samples

$\Sigma(xj-xj^-)^2$

$(x_1-x_1^-)^2+(x_2-x_2^-)^2+(x_3-x_3^-)^2$

2297.925

Appendix 23

Testing of Hypothesis

Let X_1, X_2, X_3 be the DPR of EBL, HBL, and NIBL respectively						
Year	X_1	X_2	X_3	$(X_1-\bar{X_2})^2$	$(X_2-\bar{X_2})^2$	$(X_3-\bar{X_3})^2$
2004/05	53.27	41.74	38.15	129.5499	250.5256	317.8376
2005/06	53.26	65.76	32.01	129.7777	67.10886	574.465
2006/07	54.58	59.12	92.67	101.4452	2.408704	1346.303
2007/08	69.9	49.45	47.94	27.5415	65.90192	64.60944
2008/09	92.25	71.77	69.12	761.6496	201.6968	172.7122
	323.26	287.84	279.89	1149.964	587.6419	2475.927
	64.652	57.568	55.978			

Grand mean $\bar{\bar{X}} = \bar{x_1} + \bar{x_2} + \bar{x_3}/3=$ 59.39933

SSC = Sum of the Squares of variation between samples

$\sigma=\Sigma n\bar{j}(xj-\bar{\bar{x}})2$

$n_1(\bar{x_1}-\bar{\bar{x_1}})+n_2(\bar{x_2}-\bar{\bar{x_2}})+n_3(\bar{x_3}-\bar{\bar{x_3}})$

213.2491

SSE= Sum of Square of Variation within Samples

$\Sigma(xj-\bar{xj})2$

$(x_1-\bar{x_1})^2+(x_2-\bar{x_2})^2+(x_3-\bar{x_3})^2$

4213.533

4426.782

Appendix 24

Testing of Hypothesis

Let X_1, X_2, X_3 be the DY of EBL, HBL, and NIBL respectively						
Year	X_1	X_2	X_3	$(X_1-X_2^-)^2$	$(X_2-X_2^-)^2$	$(X_3-X_3^-)^2$
2004/05	3	2.38	1.6	0.861184	0.04	0.197136
2005/06	2.3	3.37	1.62	0.051984	0.6241	0.179776
2006/07	1.81	3.18	3.6	0.068644	0.36	2.421136
2007/08	1.65	1.7	1.73	0.178084	0.7744	0.098596
2008/09	1.6	2.27	1.67	0.222784	0.0961	0.139876
	10.36	12.9	10.22	1.38268	1.8946	3.03652
	2.072	2.58	2.044			

Grand mean $X^{--} = x_1^- + x_2^- + x_3^-/3=$ 2.232

SSC = Sum of the Squares of variation between samples

$\sigma=\Sigma nj^-(xj-x^{--})2$

$n_1(x_1^--x_1^{--})^2+n_2(x_2^--x_2^{--})^2+n_3(x_3^--x_3^{--})^2$

0.91024

SSE= Sum of Square of Variation within Samples

$\Sigma(xj-xj^-)2$

$(x1-x1^-)2+(x2-x2^-)2+(x3-x3^-)2$

6.3138

7.22404