CHAPTER-I

INTRODUCTION

1.1 General Background of the study

The liberalization policy of Nepal Government, foreign investors and internal investors were attracted to invest in Nepal in joint venture especially in banking business. This initiated the establishment of EBL in 1984; Standard Chartered Bank Ltd. 1985 establishment of commercial banks contributes significantly in the formation and mobilization internal capital and development efforts. They furnish necessary capital needed for trade and commerce of mobilization the dispersed saving of the individuals and institutions. The increase in the opening of the joint venture Bank (JVBs) caught a dramatic way after the liberalization and market oriented economic policy. Thought, JVBs are enjoying liberalization, Nepal Rastra Bank (NRB) has been managing them through its directives and guidelines.One of the major reasons for which public are interested to invest money on the shares of banks or other institutions is for dividend. Normally, business running at profit is capable to pay it. The amount which is distributed as dividend should be adequate to meet the normal expectation of shareholders. Dividend refers to that portion of earnings of a firm that is distributed to the shareholders in return to their investment in the shares. It is important decision of financial management.By a dividend we mean some kind of consistent approach to the distribution versus retention decision, rather than making the decision on the purely ad hoc basis from period to period. It is thus rewarding to have clear understanding on the specifics dividend policy by the participants of the capital market.

There is no any uniformity in the dividend distribution practiced in Nepal among the different corporations. The government is unable to received dividends from the public enterprises as documented in past several years budget speeches and economic surveys published by Nepal government, Ministry of Finance. Recently joint venture banks and some other public limited companies have shown new trend of paying dividend to shareholders there is also growing practice of paying bonus shares among some corporation of Nepal. Stock split is another aspect of dividend policy which is popular in the developed capital market but this aspect is almost neglected in the capital market of

Nepal. An alternative form of dividend is share repurchase. If a firm has excess cash and insufficient profitable investment opportunities to justify the use of these funds, it is in the shareholder's interests to distribute the funds. The distributions can be accomplished either by the repurchase of share or by paying the funds out in increased dividends. It is thus share repurchase is often viewed as an alternative to paying dividends. However, Nepal Company Act, 2053(1996), section 47 has prohibited company from purchasing its own shares.

Some companies may pay whole earnings as dividend at the beginning to create good image in financial sector but later they may change their policy and announce a certain percentage of dividend payout term. The decision to keep some portion of earnings and to pay some portion of earnings as dividend is known as dividend policy. The dividend payout ratio may be different but the common dividend payout ratio in 40% different studies reveal. It seems that the actual owners of the corporation are not treated rightly by not giving sufficient dividend."Although the actual owners of the company are shareholders, they are paid low dividends in some companies whereas in some companies the dividend is not announced. But recently the trend of payment of dividend is increasing."

Dividend policy is one of the major decisions of financial management because it affects the financial structure, the flow of funds, corporate liquidity and investor"s attitudes. After the successful completion of fiscal year having sufficient profit management decide to declare dividend to shareholders. The important aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. It also determines the forms of dividend.

According to law, dividend should be declared out of the net profit. Usually dividend is paid annually, semi annually, quarterly, or monthly. In Nepal, dividend is paid annually. Some company may pay whole earnings as dividend to create good image in the market at the beginning but later they may change their policy and announce certain percentage of dividend payout term but usually dividend payout ratio seems to be 40%, in Nepal.

The research work will look into all relevant factors of dividend and dividend policy of commercial banks of EBK and KBL.These banks are selected for thesis writhing as the size of profit and dividends are comparatively high. They are running smoothly and cover sufficient period of the study.

1.2 Profile of Sample Banks

Everest Bank Limited (EBL)

Everest Bank Limited was registered on November 17, 1992 and come into operation on October 18, 1994 with an objective of extending professionalized and efficient banking services to various segments of the society. Today the bank has grown to become one of the leading banks in Nepal.

Panjab National Bank (PNB) joined hands with EBL as a Joint Venture in 1997 and turned it around to a highly profitable bank. There has been no looking back since then. PNB provides top management support under the Technical Service Agreement. PNB joint venture partner of EBL one of the largest nationalized bank in India having 114 years of banking history, holds 20% equity.

Everest Bank has recognized the value of offerings a complete range of services and has 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, vehicles loan, Loan against share, loan against life insurance policy and loan for professional. The bank is providing customer friendly services through a network of 22 branches.

Everest Bank Limited was the first bank to introduce Any Branch Banking System (ABBS) in Nepal. All the branches of the bank are connected with ABBS which enables the customers to do all their transactions from any branches other than where they have their account. Everest Bank has introduced the Mobile Vehicle Banking System to see the segment deprives of proper banking facilities through Birtamod branch, which is the first of its kind.

The bank has committed to provide excellent professional services & improve its position as a leader in the field of financial related services, use latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments. The bank was bestowed with the “NICCI Excellence award” twice in 1999 and 2003 by Nepal India chamber of commerce for its spectacular performance under finance sector and the bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London.

Table: 1.1
Present Share Capital of EBL

Share Capital	Amount in NRS.
Authorized Capital	2,00,00,00,000
Issued Capital	1,28,14,06,500
Paid up Capital	1,27,96,09,490
Proposed Bonus Share	11,19,60,949

Source: Annual Report of EBl 2010/11

Table: 1.2
Detail of Share Ownership

Owners	Amount in %
General Publics	68
Panjab National Bank	20
Others Institutions	12
Total	100

Source: Annual Report of EBL 2010/11

Kumari Bank Limited (KBL)

Kumari Bank Limited is a well-established commercial bank. Its promoters represent a group of highly reputed Nepalese. Managed by experienced and dynamic professionals, Kumari Bank's competitive banking services have become a hall-mark amongst its ever increasing customer base.

In the review period, capital management of the Bank has been quite satisfactory. The core and supplementary capital of the Bank at the end of F/Y 2010/11 were Rs. 2.20 billion and Rs. 25.15 million, taking the total capital to Rs. 2.45 billion. The Bank has been able to maintain Capital Adequacy Ratio at 13.76% at the yearend against the statutory requirement of 10% by the Central Bank (Nepal Rastra Bank).

The Bank continues to provide innovative and modern banking products and services leveraged by the latest available technological know-how to enable our valued customers to have the competitive edge. The bank's products and services cover the whole range of banking requirements of our customers, from retail banking, SME banking to corporate

banking. The Bank since its inception has been providing IT based solutions like internet banking, SMS banking and globally accepted electronic VISA debit cards.

To cater to the ever increasing Nepalese Diasporas across the world, the Bank has launched its own e-remittance platform Kumari Remit, and has received immense reception from remitters. Apart from Kumari Remit, the Bank in F/Y 2009/10 introduced Kumari Mobile Cash, a revolutionary service that uses mobile phones to provide access to financial services. The first of its kind in Nepal, this service pioneers the "mobile wallet" concept, which allows users to store cash balances in their mobile phones. Users are then able to deposit and withdraw cash from their mobile phones, and use the stored cash value to remit to anyone, anytime, anywhere, with the push of a few buttons. Even in days to come, the Bank will continue to embrace the latest technological innovations to provide value addition to its customers.

Acting as a conduit to the economic activities of the country and to cater to the needs of customers, the Bank has given continuity to expanding branches across the country. In F/Y 2010/11, the Bank added 10 more branches, making the total number of branches 28. The Bank has also added more Automated Teller Machine (ATMs) in the review period. By the end of F/Y 2010/11, the Bank has a total of 33 ATMs.

Table: 1.3

Present Share Capital of KBL

Share Capital	**Amount in NRS.**
Authorized Capital	1,60,00,00,000
Issued Capital	1,48,50,00,000
Paid up Capital	1,48,50,00,000
Proposed Bonus Share	11,88,00,000

Source: Annual Report of KBL 2010/11

Table: 1.4

Detail of Share Ownership

Owners	**Amount in %**
General Publics	97.94
Others Institutions	2.06
Foreign ownership	-
Total	100

Source: Annual Report of KBL 2067/68

1.3 Statement of the Problem

Commercial banks collect lots of deposits where as in the other hand investment opportunities are comparatively very low. Such condition may cause the highly liquid market and can impact the condition of whole country negatively. Due to high competition of financial environment, banks seems to be ready to grant much more loan, advance and other facilities against their client's insufficient deposit. Lack of sound investment policy is another reason for a commercial bank not to properly utilizing its deposit that is making loan and advance or lending for a profitable project. If the funds are wrongly invested without thinking any financial risk, business risk and other related fact, the bank cannot obtain profitable return as well as it should sometimes lose its principal. In this way to answer different questions of credit policy on commercial banks with comparative analysis is necessary for the study the investment policy on selected commercial banks measuring comparing and analytic are as follows:

The followings are the research questions that have been examined for the purpose of this study.

1. Are share prices affected by dividend per share in the sample banks?
2. Should the sample banks have uniformity in dividend distribution?
3. Are the sample banks guided by the specific dividend policy?
4. Is there any consistency between dividend per share and dividend payout ratio in the sample banks?
5. Does the Dividend Policy affect DPS, EPS, DPR, PE Ratio and MVPS in stated commercial banks?

1.4 Objectives of the study

The basic objective of the study is to make comparative analysis of dividend policy of selected banks. But the specific objective are as follows.

1. To identify dividend policy of selected Banks.
2. To analyze the relationship of financial indicators such DPS, EPS and DPR, EPR and Market Value Per Share(MVPS) Per Share.
3. To explore if there is any uniformity among DPS, EPS and DPR on the two sample commercial banks.
4. Find out the impact of dividend on share prices.

1.5 Significance of the Study

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 impact on the firm's stock price and company's whole profitability. This research report will help to make a decision about whether to change the dividend policy. Nepalese financial institutes have already experienced the practice of dividend distribution. As such, it is felt significant to study the policy regarding dividend concerned with financial institution. Dividend policy decision is one of the most important decisions in every organization. This study is expected to fill the research gap and add to the inputs to financial literature relating to the dividend policy.

This study will keep very important place in Nepalese commercial banking sector. The main strategy of every commercial bank is to establish the better lending position which directly impact on the financial performances of an organization.

Besides, it helps to build positive attitude and perception or customer that helps to make the organizational success in term of better transaction better turnover and better profitability.

Most of the earlier researchers focused on financial performance of bank but few researchers focused on credit policy of bank. From view point of bank, loan is most important and sincere area. As it is being well known fact that commercial banks can affect the economic condition of the whole country the effort is made to highlight the investment policy of banks expecting that the study can be a bridge to gap between

deposit and investment successful formulation and effective implementation of investment policy.

1.6 Limitations of the Study

This study tries to evaluate the dividend policy of commercial banks of Nepal. This research explain and analysis the subject matter with the help of well known or already established analytical methods and technique therefore as conclusion oriented research it doesn't much concern with fundamental and decision oriented research.

1. This study covers the study period of 8 years from 2060/061 to 2067/068.
2. Only two commercial banks listed in Nepal stock Exchange are taken as Sample.
3. The main focus is given to the quantitative aspects, qualitative factors are not carried out.
4. There are many factors those affect decision and valuation of the firm. However, only those factors related to dividend have been considered in this study.
5. Data related to cash dividend are analyzed and interpreted.
6. Only secondary data are analyzed to interpret the results emerging from decision, so the result depends on the reliability and accuracy of secondary data.

1.7 Organization of the Study

The study has been organized into five chapters, the titles of each of these chapters are as follows.

Chapter I: Introduction

This chapter contains the introductory part of the study. As already mentioned, this chapter describes the major issues to be investigated along with the general background, brief profiles of the sample banks, statement of problem, objectives, significance of the study and finally limitation of the study.

Chapter II: Review of Literature

This chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies in general.

Chapter III: Research Methodology

This chapter describes the research methodology employed in the study. This chapter deals with the research design, source of data, methods of analysis, analysis of financial indicators and variables, test of hypothesis, definition of statistical tools etc.

Chapter IV: Presentation and Analysis of Data

This Chapter deals with the presentation and analysis of data to analyze quantitative factors on dividend policy using statistical tools and techniques. This chapter also includes the major findings.

Chapter V: Summary, Conclusion and Recommendation

This Chapter states summary, conclusion and recommendations, compares them with other empirical evidence to the extent possible and provides some suggestions.

Similarly, at the front part of the study table of contents, recommendation sheet, viva voice sheet, acknowledgement, list of table and figure and abbreviation are presented and bibliography and appendices are presented at the end of the study.

CHAPTER-II

CONCEPUTAL FRAME WORK AND REVIEW OF LITERATURE

This chapter reviews the literature related with the research topic, with more focus on the Analysis of Dividend Policy of Nepalese Commercial Banks. In this regard, an insight would be put on the theories, then on the researches conducted outside and inside the country. Furthermore, the theoretical undeplinning of the concepts used during the analysis and the theories behind the share pricing would also be explained. While preparing this thesis, the researcher reviewed various magazines, journals, books, reports, etc and collected materials from different sources. The review of literature has been divided into categories namely conceptual framework, theories related to the topic and review of articles, books and master's level thesis.

2.1 Conceptual Framework

2.1.1 Meaning & Definition of Bank

The word bank is used in the sense of a commercial bank. A Bank is an institution which deals with money and credit generally, bank accepts deposits from business institutions and individuals, which is mobilized into productive sectors mainlybusiness and consumer lending. At present context, bank is not only confined toaccepting deposits and disbursing loan. Nowadays, most of the bank may be engagedin different types of functions such as remittance, exchange currency, joint venture,underwriting, bank guarantee and discounting bills etc.

Bank is a financial intermediary because of accepting deposits and granting loans.Banks are the most important sources of short- term working capital for business. Inmodern banking system, when businesses and consumers must make payments forpurchases of goods and services, more often they use bank provided cheques, credit ordebit cards, or electronic accounts connected to a computer network.In fact, a modern bank performs such a variety of functions that it is difficult to give aprecise and general definition of a bank. Some important definitions for the banksgiven by different personalities are as follows.

According to U.S law, "Any institution offering deposits subject to withdrawal on demand and making banks of a commercial or business matter is a bank."

According to Walker Leaf, “A bank is an institution or individual who is always ready to receive money on deposited to be returned against the cheques of their depositors.”

According to Kenley, “A bank is a established which makes to individual such advances of money as may be required and safety made and to which individuals entrusted money when not required by for use.”

Banks main purpose is to support the economic growth, agriculture growth,commercial growth of the country. So we can say Bank is a financials institution offering deposits subjects to withdrawal on demand and making loans of a commercial or business nature.

2.1.2 Commercial Banks in Nepal

Commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them (banks) for growing and flourishing. The main objective of commercial banks is to mobilize idle resources in particular productive uses after collecting them from scattered sources. Thus, commercial banks as a financial institution, transfers monitory sources from savers to users. Commercial banks contribute significantly in the formulation and mobilization of internal capital and development efforts; they furnish necessary capital required for trade and commerce in mobilizing the dispersed saving of the individuals and institution. Commercial banks are being the means of enlistment of society. The function of commercial banks are in many ways such as accepting deposits, provide interest in the formulation of capital, granting loan which helps to remove the deficiency of capital performing agency functions which make the life easier and they also play an important role in credit creation.

A commercial bank is a dealer in money and in substitutes for money, such as cherub or bill of exchange. It also provides a variety of financial services. In Nepalese context, “Commercial bank as one, which exchange money, deposits money, accepts deposits, grants loans and performs commercial banking function*.”(Commercial Bank Act 2063 B.S)*

Commercial banks are very important for the development of national economy. They accept public saving as deposits and advance them as loans to the persons, business organizations and government when they required. The development of commercial banks is in increasing trend after the restoration of democracy in 1990A.D. The first

commercial bank is Nepal Bank Limited that was established in 30 Kartik 1994 B.S (1937 A.D.). And the second is RBB established in 10/10/2022 B.S.

After a long period of establishment of these two banks, NABIL Bank is the first commercial bank from the private sector. This is the first joint venture bank of Nepal also. There after many other joint venture and non joint venture banks were set up under the Commercial Bank Act, 2063 and Company Act, 2063.

Now, Thirty-Two Commercial banks are operating in the country. The door is opened now for the establishment of commercial banks with newpolicy relating to commercial bank issued by Nepal Rastra Bank considering that banking of entrance is not favorable in the liberal and market oriented economic environment and to create the competitive environment. Thus, it is expected that the numbers of commercial banks will be increased in future. According to new policy issued by NRB, the paid up capital of new opening commercial bank at national level must be Rs. 2000 million.

If the newly opened bank is joint venture with foreign bank or financial institution, it is permitted to open new commercial banks with head office at Kathmandu valley contracting years management with 67% investment of foreign such institution, the ratio of ownership of share will be 7:3 between founder and public respectively. *(NRB Directives, 2067/068)*

There are many functions of commercial banks and the principal functions are as follows.

- To accept deposit
- To provide loans and advances
- To create credits
- To perform agency function
- To carry out utility functions.

The commercial bank and banker has its own right and duties. The rights are mentioned point-wise as follows.

- Banker enjoys a general lien over customer's securities in his possession.
- He has an implied right to change a reasonable commission for his service andinterest upon loans.
- He has the right of set-off like any other debtors.

- He has the right to appropriate payment as per the rules laid down in Clayton's case.
- Banker need not seek out the creditor to make the payment. It is the creditor who should demand payment.

Similarly, the duties of banker are as follows.

- To receive his customer's money and cheques and other instruments for collection.
- To repay the customer's deposit on the presentation of customer's mandate known as the cheque.
- To maintain secrecy in respect of customer's account and affairs.
- To give a reasonable notice before closing a customer's account.

2.1.3 Meaning and Concept of Security Market

Security market is the place where people buy and sell financial instruments. These financial instruments may be in the form of governments bonds, corporate bonds or debentures, ordinary shares, preference shares, etc. So far security market is concern; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers and all the agencies and institutions that assist the sale and resale of corporate securities. Although security market is concern in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of securities. Securities market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. In order to allocate capital efficiently to maintain higher degree of liquidity in securities, the security market should be efficient enough in price shares solely by economic considerations based on publicly available information.

An efficient market is one where current price of shares gives the best estimate of its true worth. Thus security market is a place where shares of listed companies are traded or transferred from one to another a fare price through the organized brokerage system. The major function of security market is a competitive price thereby, importing future market ability and liquidity. It is a medium through which scattered savings and scarce resources are transferred to productive areas that ultimately help in the economic development and industrializations of the nation.

The stock exchange market or stock market is one of the forms of secondary market. It is a major component of secondary market and also a medium through which corporate

sector mobilize funds to finance the productivity projects by issuing share in the market. It is a place shares of listed companies are transferred from one hand to another at a fair price through the organized brokerage firms. The stock exchange is a financial market, which probably has a great glamour and is perhaps the least understood more over security market exists in order to bring together buyer and seller of the securities to facilitate the exchange of asset. Hence it creates and enhances liquidity in the securities. Hence in tradition of listing the stock of public companies in the stock exchange for which they must meet exchange requirement to such factors as size of company number of years in business earning records, numbers of shares outstanding and the market value. The listed companies receive certain amount of free advertisement publicity and the status being listed enhances their reputation. The stock exchange market provides at least economic functions which are as follows.

- Security exchange facilitates the investment process by providing a market place to conduct efficient and relatively less expensive transaction. The investors thus assure that they would have place to see securities.
- Securities prices are more stable because of the operation of the securities market. They improve liquidity by providing continuous market that makes a more frequent by smaller price change.
- The investor is capable of handling continuous testing the value of securities. The records of securities transaction help investor to make a judgment about value and prospects of companies. Those prospects are judged favorably the investors, which leads to higher value and facilitate new financing and growth.

In the capital market, all firms operate in order to generate earnings. Stockholders supply equity capital hoping to share in these earnings either directly or indirectly. If, for example, a firm plays out a portion of its earning to the shareholders in the form of dividend, the shareholder directly share the earning. If, instead of paying dividend, the firm retains the earning to exploit other growth opportunities, the shareholders can expect to be benefited indirectly through future increase in price of stock. Thus shareholder wealth can be increased through either dividend or capital gains.

2.1.4 Concept of Dividend

The term Dividend is defined as a return from investment in equity shares. The profit made but the firm which is distributed to the shareholders termed as dividend. Every firm after making profit either retain the money for further investment or distribute it among the shareholders. The firm should decide whether to keep the money as retained earnings or pay the dividend. It may be in cash, share and combination of both. The dividend policy is the policy followed by the firm regarding the dividend versus retention decision. Dividend policy of different organization may same or different, but the policy followed by the firm should be suitable for both the shareholders as well as the firm itself.

Infact, dividend is the portion of the net earnings, which is distributed to the shareholders by a company. After successfully completing the business activities of a company, if the financial statement shows the net profit, the board of directors decides to declare dividend to the shareholders. Therefore, the payment of corporate dividend is at the discretion of BOD. The policy of a company in the division of its profit between to shareholders as dividend retention for its investment is known as dividend policy. Dividend policy determines the decision of earning between payment to shareholders and re-investment in the firm. one of the most. Dividend policy refers to the issue of how much of the total profit a firm should pay to its stockholders and how much to retain for investment so that the combine present and future benefits maximize the wealth of stock holders. There is a reciprocal relationship between retained earnings and cash dividends. If retained earnings are kept more by the company less will be dividend and vice versa. Dividend decision is one of the major decisions of managerial finance. It is in the sense that the firm has to choose between distributing profits to shareholder and return back in to the business. The decision depends up on the objective of the management for wealth maximization and profit maximization. The firm will use the net profit for paying dividends to the shareholders if the payment will lead to maximization of the wealth of the owners it not, it is better to retain them to finance investment programs. The relationship between dividend and value of the firm should therefore, be the criterion for decision making.

Most shareholders accept two forms of return from the purchase of common stock. These are capital gains and dividends. Capital gain may be defined as the market value of the common stock over time. The shareholders expect, at some point, a distribution of the

firm's earning in the form of a dividend. Form mature and stable corporations, most investors expect regular dividends to be declared and paid on the common stock. This expectation takes priority over the desire to retain earnings to finance expansion and growth. So, shareholders expectation can be fulfilled through either capital gains or dividends. "Financial management is therefore concerned with the activities of corporation that affect the well being of stockholders that well being can be partially measured by dividends received but a more accurate measure is the market value of stock." "Since dividends would be more attractive to stockholder, one might think that there would be tendency for corporations to increase distribution of dividends. But one might equally pressure that gross dividend would be reduced somewhat, with an increase in net after tax dividends still available to stockholders and increase in retained earnings for the corporation.

Basically in the planned economy, commercial bank not only provides economic resource but also provides and assists with technical know-how. They in other hands also do not discriminate the investment areas and organization whether the organization is public, joint venture, private sector or government. All these sectors are equally subsumed into the production plans which bank finance.

Not only in the highly developed industrial an non-industrial economics of the world where in a way the commercial and industrial activities are paralyzed in the absence of banks keeping their doors open , even in the developing countries most economic activities, particularly in the economy,s organized sector, are bank based (Sinkey; 1988 12-14).

2.1.5 Types or Major Forms of Dividends

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

Dividend is the periodic payment made to stockholders to compensate them for their wealth and investment funds. Dividends are pro-rata distributions to shareholders retained

earnings. They can be in the form of cash, stock or property. Generally, corporation can only declare dividends out of earnings, although some states laws and corporate agreements permit to declaration of dividends from sources other than earnings. (Hawkins; 1997: 650).

1. **Cash Dividend**:- The portion of net earnings, which are distributed to the shareholder as cash in proportion to their shares of the company is called cash dividend. If the company does not have sufficient cash at the time of dividend payment, company seeks to arrange funds, which will be managed by borrowing. Cash dividend is major form of dividend, which is distributed to shareholders in cash out of the company's profit. Generally, stockholders have strong performance for cash dividend.

   When cash dividend is paid then the total assets of the company is automatically reduced. So, the company needs to have enough cash and sufficient balance for the payment of cash dividend. If it does not have enough balance, arrangement should be made to borrow funds, which is difficult for the company. When the company follows stable dividend policy, they use to prepare cash budget to indicate the necessary funds which would be needed to meet regular dividend payment of the company.

   Most Companies pay dividend in cash. Cash dividend is that which is distributed to the shareholders in cash out of the earnings of the company. "Both total assets and net worth of company are reduced when cash dividend is distributed. The market price of share drops in most cases by amount of cash dividend distributed." (Gupta; 2009: 403-405)

2. **Stock Dividend**:- A stock dividend is the payment of existing owners of a dividend in is the firm of stock although stock dividends don't have a real value, firms pay stock dividend as a replacement for a supplement to cash dividend. If the declare dividend is provide in the form of share instead of paying in cash, the dividend is said to be stock dividend. From the providence of stock dividend and the dividend the current market price of shares decrease but it doesn't have any impact in the wealth of shareholders. "A stock dividend simply is the payment of additional stock to stockholders nothing more than a recapitalization of the company a stockholders proportional ownership remains unchanged." Stock

Dividend: A payment of additional shares of stock to share holders often used in place of or in additional to cash dividend (Van Horne; 2000: 328). Stock dividend is known as bonus shares too. An issue of bonus share represents a distribution of shares in addition to the cash dividend (known as stock dividend in U.S.A.) the existing shareholders (Pandey; 1995: 705).

The effects of the issue of the stock dividends are summarized below.

- Increase in number of outstanding shares
- Transfers retained earning balance to capital
- Does any changes in net worth and par value of the company
- Does not affect the shareholders proportional ownership and
- Theoretically it is not a thing of value to shareholders

Stock split is the increment of the number of shares outstanding through a proportional reduction in the par value of the stock. When stock splits occur, shareholders receive large number of shares for the old shares they have. The effects of stock split are given below;

- It increases the number of outstanding shares
- Reduces the par value and price of the shares
- Does not change the proportional ownership of the stock holders
- It neither changes the capital account nor the net worth and
- Theoretically, it is not a thing of value to stockholders

Stock dividend and stock split do not change the assets of the firm. In both cases, proportional increases in shares, no changes in net worth, not a thing of value to stockholders are the same features.

Difference between stock dividend and stock split

- Use of retain earning
- Change in capital account, but if company declares more than twenty percent of stock dividend then there is no differences between stock dividend and stock splits because only paid up value of stock dividend is transferred from retain earning to capital account

3. **Property Dividend**:- If the declare dividend is provide in the form of property (assets) instead of cash, the dividend is said to be property dividend. This form of

dividend may be followed when there are assets that are no longer necessary in operation of the business or in extra ordinary circumstance. Company's own products and securities of subsidiaries are the examples that have been paid as property dividend. (Shah; 2009:403)

4. **Scrip Dividend**:- When company has been suffering from the cash problem but has earned profit, scrip dividend is paid (issued). Scrip is a form of promissory note promising to pay then holder at specified later date. Under this type of dividend company issues and distributes to shareholders transferable promissory notes which may be interest bearing or not. Scrip dividend means payment of dividend in scrip or promissory notes. Because of temporary cash shortage, sometimes the firm needs cash generated by business earnings to meet the different requirements. For those requisites, scrip dividend is issued promising the payment will be made in future.

   This type of dividend does not change the total numbers of the stock but issued promissory note in the proportion of share held by the stockholders. Scrip dividend has relatively low psychological value in the stockholder's perception than other forms of the dividends.

5. **Bond Dividend**:- Bond dividend by its name is a dividend that is distributed to shareholders in forms of a bond. In other words, company declares dividend in forms of as own bond with a view to avoid cash outflows. Bond dividend helps to postpone the payment of cash. Though there are different forms of dividends, in general, the form of dividend popular in Nepal are cash and stock dividend. The form of dividend chosen for this study is cash dividend. Bonds used to pay carry interest and it means that the company assumes the fixed obligation of interest payment annually and principal amount of bond at maturity date. Bond dividend posses the following characteristics:

- Bond dividends are the means to dividend postponement for a while but more it is obligation.
- It couldn't bring back the psychological value as the cash dividend,
- Bond and scrip dividend are same, only the difference between these are maturity time i.e. scrip has relatively less maturity time than bond dividend.

2.1.6 Dividend Policies or Theories of Dividends

2.1.6.1 Residual Theory of Dividend

Residual dividend policy assumes that external sources of finance are not available or even if it is available, the same cannot be used due to its excessive cost. Under the residual theory of dividend, company make their investment decision then payout any remaining funds as cash dividend, residual theory of dividend suggest that only residual earnings should be distributed as dividend, which is left accepting all the profitable investment opportunities, when depends upon the investment policy of the firm. According to this theory, if there exists a balance of earning after paying fixed obligation and investment opportunities and if the firm has investment opportunities with higher return than required, then the firm will invest the earnings to the project, and if there are only earning left accepting on the investment opportunities then it will be distributed to stockholders as cash dividend.

When the firm has opportunity of investment in profitable sector at first, they prefer the internally generated funds (retained earnings) rather than the externally generated funds, which is comparatively expensive due to the flotation cost and others. So the amount of dividend fluctuates time to time in keeping with availability of acceptable dividend opportunities of the firm. “Although, the residual theory of dividend appears to make further analysis the dividend policy unnecessary, it is not clear that dividends are solely a means of disbursing excess funds”

If the earning is more than financing needed by equity then the funds more than needed is distributed as dividend, if equity is less than financing needed by equity or equal to it, then distribute no dividend. So this theory assumes dividend policy is totally passive in nature. The amount of dividend is calculated as follows;

$$D_t = \text{Max. } (E_t - I_t \text{ or } 0)$$

Where,

D_t = dividend paid in year t

E_t = earning in year t

I_t = portion of investment in year t to be financed by equity

In calculation, we can say the residual theory of dividend prefers use of internal funds in investment and increased value of shareholders assets through capital gain of equity.

2.1.6.2 Stability of Dividend

Stability or regularity of dividends is considered as desirable policy by the management of most companies. Most of the shareholders also prefer stable dividends because all other things being the same, stable dividends have a positive impact on the market price of share. The term dividend stability refers to the consistency or lack of variability in the stream of dividend. "By stability, we mean maintaining a position in relation to a dividend trend line, preferably one that is upward sloping." More precisely, stability of dividends refers to the amounts paid out regularly. distinct forms of such stability may be distinguished. (Koirala; 2006: 304-306)

a. **Constant Dividend Per Share**:- Constant dividend policy is based on the payment of a fixed rupees dividend in each year (period). A number of companies follow the policy of paying a fixed amount per share as dividend every year, irrespective of fluctuations in earnings. This policy imply when the dividend per share will be increased. When company reaches new levels of earnings and expects to maintain it, the annual dividend per share may be increased. It is easy to follow this policy when earnings are stable. If earnings pattern of a company shows wide fluctuations, it is difficult to maintain such policy. "The dividend policy of paying a constant amount of dividend per year treats common shareholders somewhat like preference shareholders without giving any consideration to investment opportunities within the firm and the opportunities are available to shareholders." This policy is generally preferred by those persons and institutions that depend up on the dividend income to meet their living and operating expenses. This policy is believed to be the one that affects stock piece favorably. (Sapkota; 2007: 306)
b. **Constant Pay-out Ratio**:- The ratio of divided to earnings is known as pay-out ratio. The policy to distribute a certain percentage of profit in every period is called constant pay-out ratio. With this policy the amount of dividend will fluctuate indirect proportion to earnings. It is related to the company's ability to pay dividends. If company incurs losses no dividend shall be paid regardless of shareholders.
c. **Low Regular Plus Extra Dividend**:- The low regular plus extra dividend policy extra dividend policy is compromise between the first two. Under this policy, a firm usually pays a constant dividend to shareholders and when small, additional

or extra dividend is paid over and above the regular dividend. "This type of dividend policy enables a company to pay constant amount of dividend regularly without a default and allows a great of flexibility for supplementing the income of shareholders only when company's earnings are higher than the usual, without committing itself to make larger payments as a part of the future dividend." Generally this type of policy is mostly followed by those companies whose stockholder prefers at least a certain amount of regular dividends.

d. **The Residual Theory of Dividend**:- Dividend policy can be viewed as one of a firm's investment decisions. A firm that behaves in this manner is said to be believe in the residual theory of dividends. According to this theory,Dividend policy is a residual from investment policy. Whether or not a company pays dividends depends on its investment policy. It assumes that the internally generated funds are comparatively cheaper than the funds obtained from external sources. The theory is based on the premise that investors prefer to have the firm retain and reinvested earnings exceeds the rate of return the investor could, himself, obtain on other investments of comparable risk. The dividend under a residual dividend policy equals the amount left over from earnings, no dividends are paid. If there is no any investment opportunity, then cent percent earrings are distributed to shareholders. Dividend is therefore merely a residual remaining after all equity investment needs are fulfilled."

   "Although the residual theory of dividends appears to make future analysis of dividend policy unnecessary, it is indeed cot clear that dividends are solely a means of disbursing excess funds." It would therefore be imprudent to conclude that there are no other implications of dividend policy and so this study shall take a closer look at the relationship between dividends and value. (Van Horne; 2000: 305)

2.1.7 Procedures of Dividend Payment

Dividends are paid in different time periods such as quarterly, semiannually and annually. In Nepal, dividends are paid annually. Payment procedures tell how these dividends are paid to the stockholders. In other words, payment procedures are the steps of dividend payment. Dividends are not paid immediately after the announcement. So many problems may arise on payment of dividend. One major problem is that, who will obtain the

dividend of stock sold after announcement of dividend. Like this, company need time to obtain information about transfer of ownership share. Therefore, systematic procedures specify the ruse on given conditions. The actual payment procedures are as follows:

1. **Declaration Date**: - Declaration date is the date on which directors of the company declare the dividend. In Nepal, declaration date is the date on which general annual meeting held. On declaration date, amount of dividend per share, holders of record date and payment date are mentioned. After the declaration of dividends total amount of dividend is transferred to dividend payable account from retained earnings account.
2. **Holder of Period Date**: - It is the date after which new owners of shares may not qualify to receive dividends. In other words, company makes the list of shareholders as a owner on that date. Only those shareholders get dividend that are listed. Therefore, it is a threshold date after which obtained ownership is not able to get dividend.
3. **Ex-Dividend Date**: - There are so many brokers in the market. No one can exchange stock directly. Exchange of stock through brokers is necessary. The association of share brokers set a time, which is four business day before the holders of record date. After that the holders not able to receive the dividend called ex dividend date.
4. **Payment Date**: - The Company declares the date in which it pays dividend to its shareholders is called payment date.

   But in Nepal, company act 2063, section 140, sub-section 3 describes that, "Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it." This indicates that only declaration and payment date take meaning in payment procedures.

2.1.8 Factors Influencing Dividend Policy

Firm's dividend decision is affecting by various factors. Therefore while making a dividend decision; many factors are to be considered. In this sub-section, an attempt has been made to discuss the factors, which generally influence the dividend policy of the firm. Some of these factors are trying to mention below.

a. **Legal Restriction**: - All the companies are bounded by certain legal restriction for dividend payment. These constraints are:

- Company can pay dividend from the earning of current year or past year.
- Company cannot pay dividend by the liabilities of the company exceed assets.
- Dividend cannot be paid if the amount of dividend to be distributed exceeds net profit.
- Dividend cannot be paid from the capital invested in the firm.

b. Liquidity Position: - Liquidity position (availability of cash) of the firm is an important consideration for dividend payment. Although a firm can have adequate earning to declare dividend but it may not have sufficient cash to pay. The dividend payment means cash outflow. Generally, growing firm faces the problem of liquidity even though it makes good profit but it needs funds for its expansion, so they cannot declare dividend.

c. Investment Opportunities: - The dividend policy is also influenced by the financial needs of the company. If any profitable project found, company invests its earning to that project rather than paying dividend. "A growing firm gives precedence to the retention of earnings over the payment of dividend in order to finance its expanding objectives. But the firm having stable earnings trends will prefer to pay larger portion of its earnings as dividend." When the investment opportunities arise in frequently, company follows a policy of paying dividend and raises external funds, when the investment opportunities occur.

d. Access to Capital Market: - Although a company has insufficient cash, it will able to pay dividend if it raise fund in capital market. They can generate fund from the capital provides flexibility to the management in paying dividend as well in meeting corporate obligation. Thus, greater the ability of the fund to raise funds in the capital market, the greater will be its ability to pay dividends even it is not liquid.

e. Control: - If the company pay access cash dividend, there will be the shortage of fund to finance investment opportunities, which affects the control position of existing stockholders. So they are not desirable to distribute the earning as dividend, which prevents them to lose the control position to the company.

f. Inflation: - During the period of inflation, the company should retain high percentage of earnings because of inadequate funds generation from depreciation to replace absolute equipment.

g. **Earning Stability: -** A company with stable earning pays more dividends in prospects of continuity of the earnings in the future. But a company having fluctuating earnings pays fewer dividends to face its future financial difficulties.

h. **Growth Prospects: -** A rapidly growing firm usually has a substantial need funds to finance the abundance of attractive investment opportunities. Instead of paying large dividends and then attempting to sell new shares to raise the equity investment capital it needs. This type of firm usually retains larger portions of its earnings and avoids the expense and inconvenience of public stock offering.

i. **Stockholders Preference: -** In a closely held corporation with relatively few stockholders, management may be able to set dividend according to the preferences of its stockholders. For example, assume that the majority of a firm's stockholders are in high marginal tax brackets. They probably favor a policy of high earnings retention, resulting in eventual price appreciation, over a high payout policy.

j. **Restrictive Covenants: -** Restrictive covenants contained in bond indenture, term loans, short-term borrowing agreements, lease contracts and preferred stock agreements affect the dividend decision. These restrictions limit the total amount of dividends a firm can pay.

2.1.9 Legal Provisions Regarding Dividend Practice

In Nepal, the act "*Nepal Company Act-2063"* makes some legal provisions for dividend payments. These provisions may be seen as under:

Section 2 (m): states that a bonus share (stock dividends) means share issued in the form of additional shares to stockholders by capitalizing the surplus from the profits or the reserve fund of a company. The term also denotes an increase in the paid up values of the shares after capitalizing surplus or reserve.

Section 47: has prohibited company from purchasing its own shares. This section states that no company shall purchase its own shares or supply loans against the security of its own shares.

Section 137: Bonus shares and subsection (1) states that the company must inform the before issuing bonus shares under subsection (1), this may be dine only according to a special resolution passed by the general meeting.

Section 140: Dividend and subsection of this section are as follows.

Subsection (1): Except in the following circumstances, dividend shall be distributes among the shareholders within 45 days from the days of decision to distribute them.

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

Subsection (2): In case dividends are not distributed within the tike-limit mentioned in subsection (1), this shall be done by adding interest at the prescribed rate.

Subsection (3): Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitles to it.

The above indicates that Nepalese law prohibits repurchase of stock which is against the theory of finance. The reason for this kind of provision is not known.

2.2 Review of Previous Studies

2.2.1 Review of Books

Van Horne & Mc Donald (1971) *"Dividend Policy and New Equity Financing"*. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They explored same basic aspects of conceptual framework, and empirical tests were performed during year end 1968, for two industries, using a well known valuation model, i.e., a cross- section regression model. The required data were collected from 86 electric utility firms included on the COMPUSTAT utility data tape and 39 firms in the electronics and electronic component industries as listed on the COMPUSTAT industrial data type.

They tested two regression models for utilities industries.

First Model was,

$$P0/E0 = a0 + a1\ (g) + a2\ (D0/E0) + a3(lev) + u^{18}$$

Where,

P0/E0 = Closing market price in 1968, divided by average EPS for

The Second Model was,

P0/E0 = a0+a1 (g)+a2(D0/E0)+a3(lev)+a4(Fa)+a5(Fb)+a6(Fc)+a7(Fd)+ u^{19}

Where,

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

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

Where,

P0/E0 = a0+a1+ (g) +a2(D0/E0)+a3(lev) +a4(OR)+ u^{20}

Lev = Financial risk, measured by long-term debt plus preferred stock dividend by bet worth as of the end of 1968.

OR = Operating risk, measured by the standard error for the regression of per earnings per share on time for 1960 through 1968, and rests are as in first model above.

By using these models, they compared the result obtained for the firms which both pay dividends and engage in new equity financing with other firms in an industry sample. They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividends; expect for those in the lightest new issue group and it made new equity a more costly form of financing than the retention of earning. They also indicated that the payment of dividends through excessive equity financing reduces share prices.

Modigliani & Miller (1961), *"Dividend Policy, Growth &* Valuation of S*hares"* presented a new model of valuation and argued that dividend policy has no effect on the firm's share price. They developed the drastically new idea that dividend policy of a firm is irrelevant, as it does not affect the wealth of shareholders. This article is the most comprehensive argument for the irrelevant of dividend. In the history of finance, firstly, they declared that dividend policy does not affect the value of the firm, i.e., dividend policy has no effect on the share prices of the firm. They argued that the value of the firm depends on the firm's earnings which depend on its

investment policy. Therefore, as per MM theory. A firm's value is independent of dividend policy. MM's Hypothesis of irrelevance is based on following critical assumptions.

- There are no taxes.
- Risk and uncertainty doesn't exist.
- The firm operates in perfect Capital market.
- The firm has a fixed investment policy which is not subject to change.

They provided the proof on support of their argument in the following manner.

Step 1: The market price of a share in the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,

$$P_0 = \frac{D_{1+} P_1}{1+ K_e}$$

Where,

P_0 = Market price at the beginning or at the zero period.

K_e = Cost of equity capital (assume constant).

D_1 = Dividend per share.

P_1 = Market price of the share at the end of the period.

Step 2: Assuming that the firm doesn't resort to any external financing the market value of the firm can be computed as follows.

$$nP_0 = n(D_1 + P_1)$$

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

Where,

n = Number of equity shares at zero period.

Step 3: If the firm's internal sources of financing its investment opportunities fall short of the funds required, and Dn is the number of new shares issued at the end of year 1 at price P1, then,

$$nP_0 = \frac{n\,D_1 + P_1(n + D_n) - D_n\,P_1}{1 + K_e}$$

Where,

n = No. of shares at the beginning

Dn = No. of equity shares issued at the end of the period.

Step 4: If the firm were to finance all investment proposals, the total amount of new shares issued would be given by the following equation,

$$DnP_1 = I - (E - nD_1)$$

Or, $DnP_1 = I - E + nD_1$

Where,

DnP_1 = the amount obtained from the sale of new shares to finance capital budget.

I = The total amount requirement of capital budget,

E= Earning of the firm during the period.

$(E - nD_1)$ = Retained earnings.

Step 5: By substituting the value of DnP_1 from equation of step 4 to equation of

$$nP_0 = \frac{n\,D_1 + P_1(n + D_n) - 1 + E - nD_1}{1 + K_e}$$

$$nP_0 = \frac{P_1(n + D_n) - I + E}{1 + K_e}$$

Myron Gordon (1962) carried out books and concluded that stock price is affected by dividend payout. He developed a model and states that investors are indifferent between retained earnings and current dividend. In his study, supported and

concluded that dividend policy affects the value of shares even in a situation in which the return on investment is equal to the capitalization rate that is ($r = K_e$). It is assumed that investors have a preference for present dividends more than the future capital gain under the condition of uncertainty. This argument stresses that an increase in dividend pay-out ratio leads to increase in stock price for the reason that investors consider the dividend yield is less risky than the expected capital gain. Hence, investors required rate of return increases as the amount of decreases. It is clear that positive relationship between the amount of dividend and stock prices.

Basic assumptions of this model are as follows.

- The internal rate of return (r) and cost of capital (K_e) are constant.
- The firm and its steam of earnings are perpetual.
- The corporate taxes are ignored.
- The firm is an all equity firm (i.e. no debt exits.)
- No external financing is available so retained earnings would be used to finance any expansion.
- The retention ratio (b) once decided upon is constant. Thus growth rate g = b. r. is constant.
- K_e must be greater than g to get meaningful value.

According to Gordon, the market value of share is equal to present values of future streams of dividend. A simplified version of Gordon‟s model can be symbolically expressed as.

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

Where,

P = Price of a share

EPS = Earnings per share

b = Retention ratio.

(l-b) = Dividend pay-out ratio.

K_e = Capitalization rate or cost of capital.

b.r. = Growth rate

According to this model following facts are revealed.

Growth Firm ($r > K_e$): Share price tends to decline in correspondence with increase in pay-out ratio or decrease in retention ratio i.e. high dividends corresponding to earning leads to decrease in share price. Therefore, dividend and stock prices are negatively correlated in growth firm.

Normal Firm ($r = K_e$): Share value remains constant regardless of change in dividend policies which means dividends and stock prices are free from each other.

Declining Firm ($r = K_e$): Share price tends to rise in correspondence with rise in dividend pay-out ratio. It means dividend and stock prices are positively correlated with each other in declining firm.

Friend and Puckett (1964) conducted a study on the *"Relationship Between Dividends and Stock Prices"* by running regression analysis on the data of 110 firms from five industries in the year 1956 to 1958. These five industries were chemical industry, electric utilities, electronics, food and steel industry. These industries were selected to permit a distinction made between the results for growth and non growth industries and to provide a basis for comparison with result by other authors for earlier years. They also considered cyclical and no cyclical industries which they covered. The study periods covered a boom year for the economy when stock prices leveled off after rise (1956) and a somewhat depressed year for the economy when stock prices however rose strongly (1958).

They used dividends, retained earnings and price earnings ratio as independent variables in their regression model of price function. They used supply function i.e. supply function also. In their dividend function, earnings last year's dividend and price earnings ratio is independent variables. They quoted that the dividend supply function was developed by adding to the best type of relationship developed by Linter.

Symbolically, their price function and dividend supply function are,

Price function: $P_t = a + b D_t + C R_t + d (E/P)_{t-1}$

Where,

P_t = Share price at time t

D_t = Dividends at time t

R_t =Retained earnings at time t

$(E/P)_{t-1}$ = Lagged earning price ratio

Dividend Supply functions: $D_t = e + f E_t + g D_{t=1} + h\ (E/P)_{t-1}$

Where,

E_t = Earnings per share at time t

$D_{t=1}$ = Last year dividend

Their study is based on the following assumption,

- Dividends do react to year to year fluctuations in earnings.
- Price does not contain speculative components.
- Earning fluctuations may not sum zero over the sample.

Their regression results based on the equation of $P_1 = a + b D_1 + c R_1$ showed the company's strong dividend and relatively weak retained earnings effect in of the five industries, i.e. chemical, foods, and steel etc. Again, they tested other regression equations by adding lagged earnings price ratio to the above equations and found the following equation:

$$P_t = a + b D_t + C R_t + d\ (E/P)_{t-1}$$

They found the following results: More than 80% of the variation in stock prices can be explained by independent variables. Dividends have a predominant influence on stock prices in the same time out of five industries but they found between the dividends and retained earnings coefficient are not quite so marked as in the first set of regression coefficient are closer to each other for all industries in both year except for steels in 1956, and the correlation are higher again except for steels.

They also calculated dividends supply equation i.e. $D_t = e + f E_t + g D_{t=1} + h(E/P)_{t-1}$ and the dividend price equation for four industry groups in 1958. In their derived price equation it seems that there was no significant changes from those obtained from the single equation approach as explained above. They argued that the stock prices or more accurately the price earnings ratio does not have a significant effect on dividend payout. On the other hand, they noted that the retained earning effect is

increased relatively in of the four cases tested. Further, they argued that their result suggests price effect on dividend supply are not a serious source of bias in the customary derivation of dividend and retained earnings effects on stock prices though such a bias might be marked if the disturbing effect of short run income movements are sufficiently great.

Further, they lagged price as a variable instead of lagged earnings price ratio and showed more than 90% of variation in stock prices can be explained by the independent variables and retained earnings receive greater relative weight then dividends in most of the cases. The only exception was steels and foods in 1958. They considered chemicals, electronics and utilities as growth industries in these groups and the retained earnings effect was larger than the dividend effect for both years covered. For the other two industries namely foods and steels, there were no significant systematic differences between the retained earnings and dividend coefficient.

Similarly, they tested the regression equation of $P_t = a + bD_t + CR_t$ by using normalized earning again. They obtained normalized earnings by subtracting dividends from normalized earnings. That normalized procedures was based on the period 1950 to 1961. Again they added prior year's normalized earning price variable and they compared the results. Comparing the result, they found that there was significant role of normalized price earnings ratio was constant. When they examined the later equation, they found that the difference between dividend and retained earnings coefficient might be able to increase prices somewhat by raising dividends in foods and steels industries.

They conducted more detailed examination of chemical samples. That examination disclosed that the result obtained largely reflected the under regression weighting given the firms with price deviating most from the average price in the sample of twenty firms and retained earnings as a price determinants.

Finally, Friend and Puckett concluded that it is possible that management might be able at least in some measure to increase stock prices in non growth industries by raising dividends and in growth industries by greater retention i.e. low dividends.

2.2.2 Review of Journal and Articles

Pradhan (1992) study on stock market behavior in a small capital market *"A Study of Dividend Policies and Practices of Nepalese Enterprises"* has been conducted based on views of 135 managers on dividend policy of large Nepalese enterprises. A questionnaire was provided to the financial executives of 50 large Nepalese enterprises as identified in the publication of securities boards, Nepal and Nepal Stock Exchange Ltd. out of 50 enterprises. They research on 36 financial sectors and on 14 non finance sectors

The main objective of that study is to examine managements' view on various aspects of dividend policy and practices in Nepal. The major findings on the study are as follows.

- In their ranks for the importance of major decision of finance, respondents give third priority to dividend decision.
- With respect to major motives for paying cash dividend that it is to convey information to shareholders that the company is doing well and is to draw attention from the investment community.
- Dividend decision is not a residual decision.
- Nepalese shareholders are not really indifferent to whether the company pays or does not pay dividend.
- The earnings announcement by the company would help to increase market price of share.
- In Nepal most of the companies do not want to pay dividend.
- Dividend policy is affected by earning availability stock price.

Walter (1996) carried out a study on *"Dividend policy: its Influence on the Value of the Enterprise"* and argues that the choice of dividend policies usually affect the value of firm. Walter argues that dividend policies almost always affect the value of the enterprise. The investment policy of a firm van not is separated from its dividend policy which is just opposite of what MM said. The key argument in support of the relevance proposition of this model is the relationship between the return of firm's investment or its internal rate of return(r) and its cost of capital (k). As long as the

internal rate of return (r) is greater than the Cast of capital (k), the stock price will be enhanced by retention and will very inversely with dividend payout.

Basic assumptions of this model are;

- The firm has perpetual life.
- The value of EPS and DPS are assumed to remain constant forever in determining a given value.
- The firm's internal rate of return(r) and cost of capital (k) are constant.
- The firm distributes its entire earnings or retains it for reinvestment immediately.
- The firm finances all investment through retained earnings, that is debt or new equity is not issued.

Based on above assumption, Walter's formula to determine the market price per share is as follows.

$$P = \frac{DPS}{K} + \frac{r/k\ (EPS-DPS)}{K}$$

Where,

P = Market price per share.

DPS = Dividend per share.

EPS = Earnings per share.

R = Internal rate of return.

K = Cost of capital.

According to Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return and its cost of capital (k). Walter suggested different dividend policy for different types of firm, they are;

Growth Firm (r>k): Growth firms are those firms which he expends rapidly because of ample investment opportunity; cost of capital or expected rate f return of shareholders.This firm will maximize the value per share if they follow a policy of retaining all earning for investment. Thus, the correlation between dividend and stock price is negative such firm optimal dividend pay-out is zero.

Normal Firm (r = k): The firms whose internal rates of return and cost of capital being equal are called normal firms. In such firms whether retains the profit or distributes dividend is matter of indifference. Means, Firm,s dividend pay-out ratio don,t affect share price.

Declining Firm (r < k): In contact of growth firm, if a firm doesn't have profitable investment opportunities, the shareholders will be better off if earnings are paid out to them so as to enable them to earn a higher return hr using the funds elsewhere. In other words id firm's rate of return (r) is less than lost of capital(k) the relation between dividends and stock price is positive, i.e. increase in DPS yields increase in marker price per share. Thus, optimum payout ratio for a declining firm is 100 percent.

Ojha (2000) published an article *"Financial Performance and Common Stock Pricing."* His objectives of this study were to study and examine the difference of financial performance and stock prices, to examine the relationship of dividends and stock price and to explore the signaling effects in stock price and his major findings of his study were Nepalese stock market is in infancy stage. In general it is very new and just started to develop. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging. Corporate firm with long history have relatively stable profitability parameters that the firm established after the economic liberalization of 1990. Older firms have been issuing bonus share more times than the new one. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been highly fluctuating. Due to lack of proper investment opportunity most of the investors have directed their saving towards the secondary stock market. There is significant positive correlation between the dividends paid and stock prices of banking and manufacturing industries. All other have not a perfect correlation between the net worth per share and common stock price.

Timilsina (2001) conducted a research on *"Capital Market Development and Stock Price Behaviors in Nepal."* He published an article with a heading Capital Market. Major Findings of the Study are the coefficient of correlation between earning per share (EPS) and observed market value of share and also between the dividend per

share (DPS) and observed market value of share were computed. Also regressions were run to see the influence of the explanatory variables, EPS and DPS on equity prices. A positive correlation was found to exist between EPS and the market price of the share. The coefficient of correlation between dividend per share and the market price was also computed taking DPS as independent variable and market price as dependent variable. A high degree of positive relationship (r= 0.83) was observed between the two variables.Timilsina concluded that the market price of shares depends on EPS as well as on DPS, but DPS is more prices sensitive and it will have direct and immediate response in the market.

Charles and Christopher (2002), in his article *"Do Banks Provide Financial Slack?"* their main hypothesis is that the banks have the ability to accurately price financial claims thus including a preference for undervalued firms to choose bank debts as their marginal financial source. They refer to this escapes that this information benefit will be weighed against the verity of contracting costs in a firms ultimate financing choice since they expect that these firms are the most likely to be undervalued, these financing are consist dent with the presence of and information. Benefit to bank debt finance. For identify whether the firms weighted these

information benefits of bank finance against other contracting costs they examine the variation. In the sensitivity of the bank loan likelihood to their variables measuring potential under valuation they the find that firms with public debt outstanding tend to exhibit a relatively low sensitivity of bank loan likelihood to these variables. .since they accept that the contracting cost of bank debt information benefits of bank debt against the contracting costs.

The result suggest that for firms with public securities market for the firms to cross the threshold where the information benefits of bank debt finance outweigh the relatives contracting costs. Agricultural projects center has submitted in their report on where "ongoing evaluation of intensive Banking program in (October 1985)" this study has widely covered the whole aspects of IBP. It says due to the wide net work of commercial banks they have now 346 branches at present and the huge amount of ideal funds estimate at Rs.3226 million in 1984/85 lying with them. The investment of commercial banks in the priority sectors areas seems justified. To generate intensive for commercial banks, it has necessary to raise the interest rate which

would sufficiently cover up the cost leading leave some profit margin as well. As the indirect cost of borrowing small loan between two to thousand rupees is six percentages some active measure could be taken to dower this rate to compensate the small borrows for the proposed rise in the rate of interest.

2.2.3 Review of Thesis

Previous studies relating to Nepalese banking sector have been most important and relevant for my study. Some of the earlier studies about the dividend policy have been reviewed. Reference of these studies has become very useful for me to complete this dissertation.

Gautam (2005) carried out a research on *"Dividend Policy in Commercial Banks"* which focuses on the objectives to identify the type of dividend policy that is being adopted and to find out whether the policy.The Main objectives of the study are;

- To examine the impact of dividend on share price.
- To identify the relationship between DPS and other financial indicators.
- To know if there is any uniformity among DPS, EPS and DPR sampled commercial Banks.

The Major findings of the study are as follows.

- There is the largest fluctuation in EPS and DPS,
- The relationship between DPS and EPS is positive; however it is not significant. There may be various other factors beside EPS to affects MPS and the growth rate of dividend is inconsistent.
- It concluded that no sampled commercial banks have followed distinctly defined dividend policy.

Budhathoki (2006) carried on a research on *"The Study of Dividend Policy of the Commercial Banks in Nepal"* on May 2006. The Main objectives of the study are as follows.

- 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.

The Major findings of the study are as follows.

- The average earning per share (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 dividend per share (DPS) shows that there is no regularity in dividend payment.
- The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable.
- The average market price shows that there is quite high level of fluctuation.

Shah (2009) carried out a research on *"Cash Dividend Practice and its Impact on Share Price in Nepal".* It covered 5years period (2004-2008) including commercial banks, manufacturing companies, development banks, insurance companies, and financial institutions and hotels sectors.The Main objectives of the study are as follows.

- Its basic objectives were to evaluate the trend of cash dividend forecasting and payment by the Nepalese financial institution and to see and examine the impact of cash dividend on market price per share.
- To achieve these objectives, the information are interpreted and analyzed by using regression model and hypothesis test.

The Major findings of the study are as follows.

- Commercial banks of Nepal are seen the regular dividend paying financial institution.
- In average 90% companies pay less than 50% cash dividend. The company having good earning only have been paying regular cash dividend.
- The lack of financial knowledge and the market inefficiency has affected the market price of the share in all the firms. But it is theoretically argued.

Timsina (2010) carried out a research on *"A Study on Dividend Policy and Its Impact on Stock Price of Selected Commercial Banks"* concluded that: This study has covered the period of ten years being from 1999 to 2008. there are 26 commercial banks have been listed in NEPSE to date, however only 5 of them have been selected for analysis while conducting this study secondary data have been applied as well as some necessary information for analysis the data has been collected from some financial and managerial experts.Different financial and statistical tools have been applied for analyzing the data.

The major findings mentioned above led this study to conclude that there is notable dividend Impact on market price of the share in most of the banks. In another words dividend pays an important role to change the market price of the shares. Besides this the following conclusions are made:

- There is high degree positive relationship between DPS and EPS in most of the bank.
- There is normal positive relationship between DPS and EPS in most of the banks.
- While comparing the impact of EPS and lagged DPS on DPS, It is found that there is normal positive role of change in EPS to change the DPS but there is nominal or very less role of lagged DPS.CBL is highest of the firms.
- While observing the effect of dependent variable, i.e. DPS and MPS, on its independent variable, i.e. DPS, EPS and lagged DPS it is not sufficient information and meaning that there is a notable role of others, managerial and environmental factors.

Dahal (2011) carried out the research on the topic *"Dividend and stock Price"* the major objective of study was to know about the influence in price caused by dividend policy of the Nepalese commercial banks. The specific objectives of his study were as follows.

- To test the relationship between dividend per share and stock price.
- To determine the impact of dividend policy on stock price.
- To identify whether it is possible to increase the market value of stock by changing dividend policy or payout ratio.

The main findings of his study were as follows.

- The relationship between dividend per share and stock price is positive in the sample companies.
- DPS affects the share price differently in different sector.
- By changing the dividend policy or DPS might help to increase the MPS.
- The relationship between stock prices and retained earnings per share is not important.
- The relationship between stock price and lagged earning price ratio is negative.

2.4 Research Gap

The above studies subject's matters are carried out by different researchers. Since, the weakness and drawbacks are also mentioned there with. The study has covered two commercial banks. Latest eight years have been analyzed with due consideration of EPS, DPS, DPR, YEILD RATIO & MVPS. Taking in mind for more elaborate and extensive analysis, company wise analysis has also been made. All the above studies are conducted with the research title "An Analysis on Dividend Policy of Nepalese Commercial Banks". As to research gap is concerned, there are many changes taken place in the Cash Management of manufacturing Companies process as compared to the last few years. The most of the studies has been considered many more objectives which made their study more complicated but in this research report only four objectives are taken into study. Secondary data are considered in this research. Both financial as well as statistical tools like EPS, DPS, DPR, YEILD RATIO & MVPS mean, standard deviation, coefficient of variance, correlation and probable error are used in this research. Almost all the ratios have been applied to cover the analytical part and fulfill the objective of this study. It involves more recent data of commercial banks for eight years (2060/061 to 2067/068).

CHAPTER-III

RESEARCH METHODOLOGY

The major objective of the study is to find out model of good fit to explain the dividend policy on the sample commercial banks. In other words, research methodology is a way to systematically solve the research problem. A focus is given to the research design, sources of data, population and sample, method of analysis, tools defined about certain financial indicators, test of hypothesis and statistical tools used.

3.1 Research Methodology

Research in common parlance refers to a search for knowledge is composed by means repeatedly or again and again and "search" means to investigate or find. Research methodology is a way to systematically solve the research problem. Research methodology may be defined as "a systematic process that is adopted by the researcher in studying problem with certain objective and view". In other word, research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. It is really a method of critical thinking by defined and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions. Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a brief explanation of research design, nature and sources of data, method of data collection and methods of tools used for analyzing data.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design in the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design has been used. It is the process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study. This

study is carried out by using quantitative analysis method. Mostly, secondary data has been used for analysis; hence, research design of this study is based on descriptive and analytical method.

3.3 Sources of Data

Mainly the study is conducted on the basis of secondary data. The data relating to the dividend policy are obtained from Nepal Stock Exchange. The supplementary data and information are obtained from annual reports of KBL and EBL.

3.4 Population and Sample

There are many banks whose shares are traded activity in stock market; hence it is not possible to study all of them regarding the study topic. Therefore sampling will be done selecting from population. The Sample to be selected are as follows.

1. Everest Bank Limited.
2. Kumari Bank Limited.

3.5 Research Variables

The basic research variables of this study are mainly related with the dividend policy of KBL and EBL. Such variables are earnings per share, dividend per share, book value per share, market value per share, price earnings ratio, dividend payout ratio, earning yield, dividend yield etc.

3.6 Data Analysis Tools

Various financial and statistical tools to be used in this study. The analysis of data will be done according to pattern of data available. Mainly the analysis will be done by using financial tools and simple statistical analysis.

The relationship between different variables related to study topic will be drawn out using financial and statistical tools. The various calculated results obtained through financial and statistical tools are tabulated under different headings. Then, they are compared with each other to interpret the results. In this study simple correlation analysis has been used to study the influences of independent variables (DPS) on a dependent variable (MVPS, EPS). It helps in studying the effect and the magnitude of the effect of a single independent variable on one dependent variable. Similarly, trend analysis has been carried out for the forecast of EPS, DPS, MVPS etc.

3.6.1 Financial Tools: - Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationships between the items of the balance sheet and the profit and loss account.

a. **Earnings Per Share (EPS):-** EPS is calculated to know the earning capacity and to make comparison between concerned banks. EPS in defined as the result received by dividend net profit after taxes by no of common stock outstanding.

$$\text{EPS} = \frac{Net\ Profit\ Afert\ Tax}{No.of\ Common\ Stock\ Outstanding}$$

b. **Dividend per Share (DPS):-** DPS indicates the part of earning distributed to the shareholders on per share basis and calculated by dividing the total dividend to equity shareholders by the total no. of equity shares.

$$\text{DPS} = \frac{Total\ Divident}{No.of\ Common\ Stock\ Outstanding}$$

c. **Dividend Pay-out Ratio (DPR):-** DPR is calculated to indicate percentage of the profit on share that is distributed as dividend.Using following DPR can calculate;

$$\text{DPR} = \frac{Divident\ Per\ Share}{Earning\ Per\ Share}$$

And, Retention Ratio = 1- DPR

d. **Price Earnings Ratio (P/E Ratio):-** PE Ratio reflects the price currently paid by the market for each rupee of currently reported earnings per share. It is calculated dividing the market value per share by earning per share.

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

e. **Earning Yield :-** Earning Yield and Dividend Yield both are expressed in terms of the market value per share. Earning Yield and Dividend yield are two important profitability ratios from the point of view of the ordinary shareholders. The earning yield may define as the ratio of earning per share to the market value per ordinary share and earning yield is calculated as;

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

f. Dividend Yield:- The dividend yield reflects percentage relationship between dividend per share and market value per share. It is calculated through dividing the dividend per share by the market value per share.

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

g. **Market Value per Share to Book Value per Share Ratio:-** This ratio indicates the price the market is paying for the price that is reported from the net worth of the banks or other words it is the price of the outsiders are paying for each rupee reported by the balance sheet of the banks. It is calculated by the dividing the market value per share.

$$\text{MVPS to BVPS} = \frac{Market\ Value\ Per\ Share}{Book\ Value\ Per\ Share}$$

h. **Growth Ratio: -** Growth Ratio is calculated to find out how would the bank is maintaining economic and financial condition. The following formula has been used to calculate growth ratio.

$$D_n = D_0\ (1+g)^{n-1}$$

Where,

D_n = Total amount in nth year.

D_0 = Total amount in beginning year

G = Growth rate of amount

n=Total no. of years during the study period.

To examine and analysis following growth ratio are calculated in this study.

- Growth ratio of DPS.
- Growth ratio of total MVPS.

3.6.2 Statistical Tools:- Statistical tools are used to analyze the relationship between two variables and to find how these variables are related.In this study,following statistical tools are used.

a. **Summary Measures**:- The summary measures such as mean ± standard deviation for summaring the data related to EPS. DPS, BVPS, MVPS etc. has been applied. Mena and standard deviation computed as follows.

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

Where,

$\bar{X}$ = Arithmetic Mean

$\sum X$ = Sum of values of all items, and,

N = Number of items

$$\text{Standerd deviation}(\sigma) = \sqrt{\frac{\sum(\mathbf{X}-\bar{\mathbf{x}})^2}{n-1}}$$

Where,

$\boldsymbol{\sigma}$ = Standerd deviation

$\sum(\mathbf{X}-\bar{\mathbf{x}})^2$ = Sum of squares of the deviations measured from arithmetic average.

n = Number of items

b. **Coefficient of Variation(cv)**:- The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk.The larger the coefficient of variation, the greater the risk relative to the average.Mathematically,

$$Cv = \frac{\sigma}{\bar{X}} \times 100$$

Where,

Cv = Cofficient of Variation

$\boldsymbol{\sigma}$ = Standerd Deviation

$\bar{X}$ = Arithmetic Mean

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

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

Where,

r = Correlation coefficient

$\sum x_1 = X_1 - \overline{X}_1$

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

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

1. Coefficient of correlation betweween DPS & EPS.
2. Coefficient of correlation between divident yield & earning yield.
3. Coefficient of correlation betweween DPS & MVPS.

The interpretation of calculated valve of correlation cofficient by following way.

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

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

$$Y = a + bt$$

where,

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

a = Y intercept

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

t = the independent variable

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

e. **Assessment of the Sample Corrlation Cofficient:-** For this study, t-test for significance of an observed and sample correlation cofficient is used.

Set up Hypothesis

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

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

Test statistic under H_0;

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

Where,

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

Level of significance: Level of significance $\propto = 5\%$

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

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

f. **Independent t-test: -** In order to answer whether the average value of DPS, EPS, MVPS, BVPS etc. are significantly different or not between these two sample banks, independent t- test has been applied.

Null hypothesis (H_0); $\mu_1=\mu_2$ i.e. there is no significance difference between the average value of two sample banks.

Alternative Hypothesis (H_1); $\mu_1\neq\mu_2$ i.e. there is significance difference between the average value of two sample banks.

Test statistic under H_0;

$$t = \frac{(\bar{X}_1 - \bar{X}_2)}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

Where,

$\bar{X}_1$ = Sample mean value of X_1 series

$\bar{X}_2$ = Sample mean value of X_2 series

n_1 = No of X_1 series

n_2 = No. of X_2 series

S^2 = $\frac{n_1 s_1^2 + n^2 s_2^2}{n_1 + n_2 - 2}$

s_1^2 = Variance of X_1 series $(\boldsymbol{\sigma}_1)^2$

s_2^2 = Variance of X_2 series $(\boldsymbol{\sigma}_2)^2$

Level of significance: Level of significance $\propto$ = 5%

Critical Value: Tabulated or critical value of t at $\propto$ % level of significance for $(n_1 + n_2 - 2)$ degree of freedom obtain from t tables.

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

For this study some set of null and alternative hypothesis have been formulated and tested.

H_0: There is no significance difference between the average value of DPS of two sample banks.

H_1: There is significance difference between the average value of DPS of two sample banks.

H_0: There is no significance difference between the average value of EPS of two sample banks.

H_1: There is significance difference between the average value of EPS of two sample banks.

H_0: There is no significance difference between the average value of MVPS of two sample banks.

H_1: There is significance difference between the average value of MVPS of two sample banks.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

To find the answer of research problem, the collected data are necessary to present and analyze by processing. This chapter will present the data on table & figure.The main objective of the study is to present data and analyze them with the help of various financial and statistical tools.This chapter consists of analysis and presentation of empirical data.The important variables are very sensitive and taken into consideration,so this chapter will present the analysis of components of Dividend Policy. The major ratios for the study are dividend per share, earning per share, dividend yield, price earnings ratio, dividend payout ratio and market value per share analysis. The variables of the ratios indicated above are also tried to study in details.

4.1 Analysis of Financial Indicators and Variables

4.1.1 Dividend per share Analysis:- Dividend per share indicates the portion of earning distributed in the shareholders on per share basis. It gives financial soundness of the company. Only financially strong companies can distribute dividend. It attracts investors to invest in shares of stock and maintains goodwill. It is an investment in shares of stock and maintains goodwill. It is calculated by dividing the total dividend to equity share holders by the number of ordinary share outstanding.

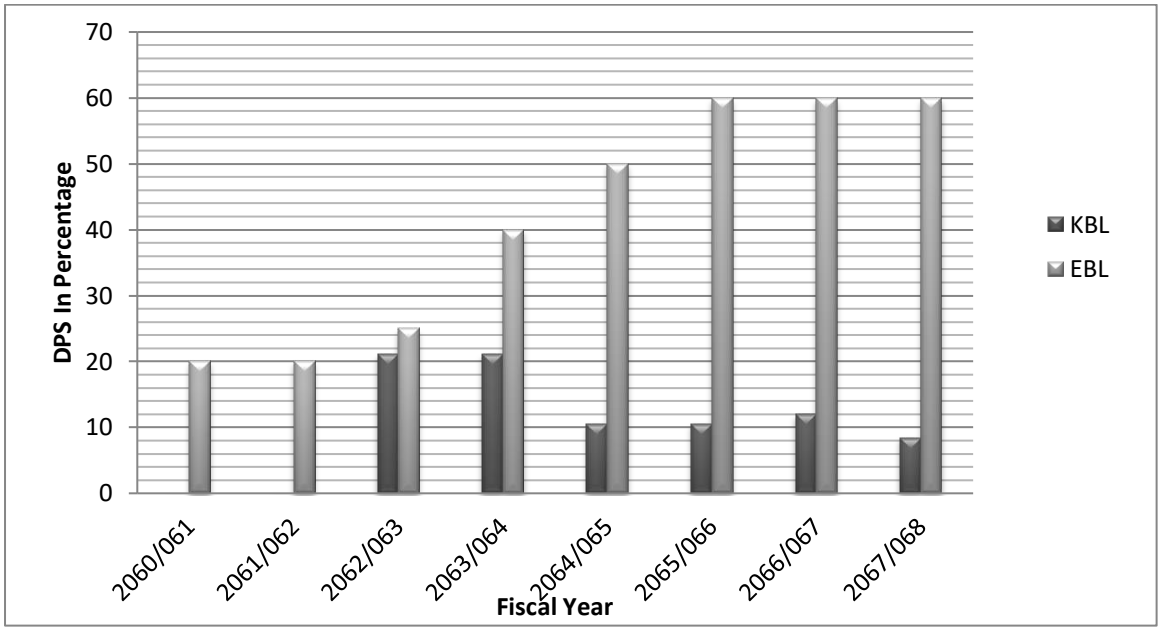
Table: 4.1
Dividend per Share of Sample Banks (In % of Par Value Rs. 100)

Year	KBL			EBL		
	Cash	Share	Total	Cash	Share	Total
2060/061	-	-	-	20	-	20
2061/062	-	-	-	-	20	20
2062/063	1.05	20	21.05	25	-	25
2063/064	1.05	20	21.05	10	30	40
2064/065	0.53	10	10.53	20	30	50
2065/066	0.55	10.03	10.58	30	30	60
2066/067	-	12	12	30	30	60
2067/068	0.44	8	8.44	50	10	60
Mean ± SD			13.942±5.622			41.875±18.114
C.V			40.33			43.26

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068

Table: 4.1

Dividend per Share of Sample Banks



The above table 4.1 shows the impact of dividend on share price of the concerned banks from the year 2060/061 to 2067/068. In the year 2060/061, KBL do not paid any dividend. On the other hand, EBL paid Rs.20 percent cash dividend per share.The trend of DPS of KBL is in fluctuating over the study period and the trend of EBL is increasing.

Comparing to KBL with the average value of 13.94% the EBL is better with the average value of 41.87%. In average EBL adopt the aggressive dividend policy. The Standard Deviations of KBL, and EBL are 5.62 % and 18.11 % respectively, it means KBL has less variability in compare to EBL. The CV of DPS of KBL and EBL is 40.33% and 43.26% respectively which indicate that EBL is more variable than KBL. KBL is more consistent or less variable than EBL.

4.1.2 Earnings per Share (EPS):- Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholders investment. The earnings per share show the profitability of the banks on a per share basis. The higher earning indicates the better achievements in terms of profitability of the banks by mobilizing their funds and vice versa. In other words, the EPS indicates the strength and weakness of the bank.

Earnings per share are computed to know the earning capacity and to make comparison between concerned banks. This ratio can be computed by dividing the earning available to common shareholders by the total number of common stocks outstanding.

Table: 4.2

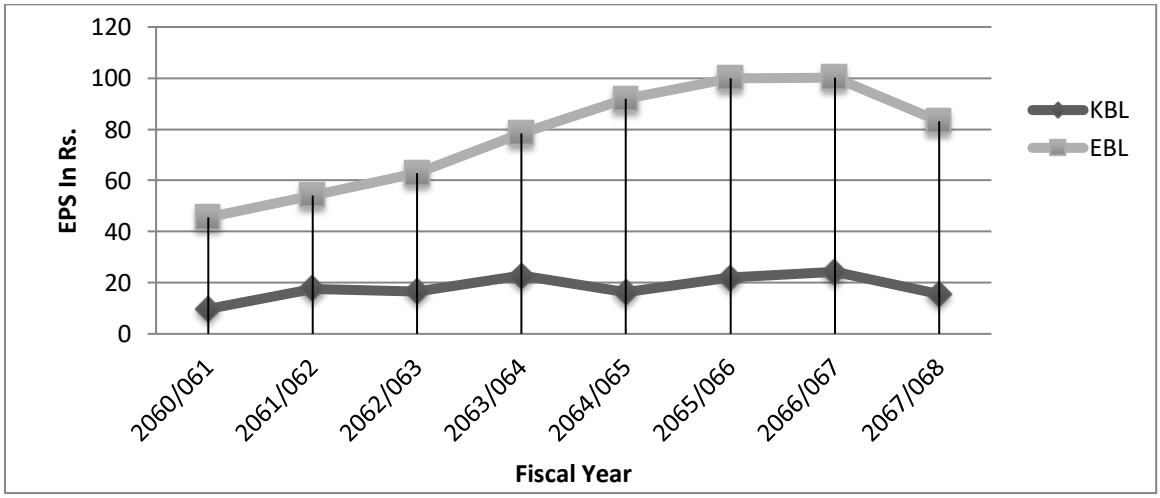
Earnings per Share (EPS In Rs.)

Year	KBL	EBL
2060/061	9.74	45.58
2061/062	17.58	54.2
2062/063	16.59	62.78
2063/064	22.70	78.42
2064/065	16.35	91.82
2065/066	22.04	99.99
2066/067	24.24	100.16
2067/068	15.67	83.18
Mean ± SD	18.114 ± 4.718	77.016 ± 20.819
C.V	26.04	27.03

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068

Table: 4.2

Trend of Earnings per Share of Sample Banks



The above table and figure 4.2 shows the EPS of the concerned banks from 2060/061 to 2067/068.Normally, the performance and the achievement of business organization are

measured in terms of its capacity to generate earning. Higher earnings show higher strength while lower earnings show weaker strength of business organization.

In the fiscal year 2066/067, the table shows that the EPS of KBL and EBL are highest over the study period, which amount to Rs. 24.24 and Rs. 100.16 respectively. The EPS of KBL has fluctuating trend over the study period and it reached to Rs.15.67 in the fiscal year 2067/068. But the EPS of EBL is in increasing trend except the fiscal year 2067/068. In comparisons to KBL, EBL has higher EPS over the study period.

Comparing to KBL with the average value of Rs.18.11 the EBL is better with the average value of Rs.77.06. The Standard Deviations of KBL, and EBL are Rs.4.72 and Rs. 20.82 respectively, it means KBL has less variability in compare to EBL. The CV of EPS of KBL and EBL is 26.04% and 27.03% respectively which indicate that EBL is more variable than KBL. KBL is more consistent or less variable than EBL.

4.1.3 Dividend Payout Ratio (DPR):- DPR is the proportion of earnings paid in the form of dividend. This ratio reflects what percentage of profit is distributed as dividend and what percentage of profit is retained as reserve and surplus for the growth of the company. It is calculated by dividing by EPS.

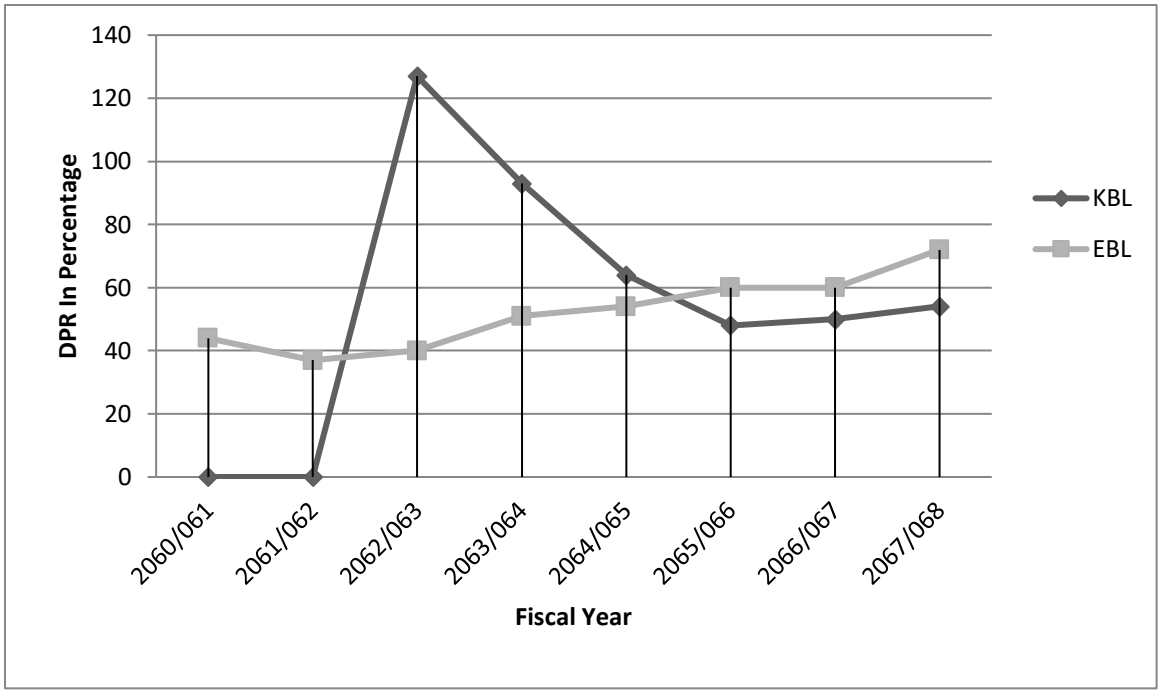
Table: 4.3
Dividend Payout Ratio (DPR in %)

Year	KBL	EBL
2060/061	-	44
2061/062	-	37
2062/063	127	40
2063/064	93	51
2064/065	64	54
2065/066	48	60
2066/067	50	60
2067/068	54	72
Mean ± SD	73 ± 31	52 ± 12
C.V	43.18%	22.65%

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068 and Appendix-I

Figure: 4.3

Trend of Dividend Payout Ratio (DPR in %)



The above table and figure 4.3 shows the dividend payout of the concerned banks from the year 2060/061 to 2067/068. In the year 2062/063, KBL applied aggressive dividend policy and paid dividend 127%, EBL is followed under moderate dividend policy i.e. 40%. In the year 2063/064, KBL applied aggressive dividend policy and paid dividend 93%, EBL is followed under moderate dividend policy i.e. 51%. In the year 2064/065, both the banks are under moderate dividend policy i.e. KBL 64% and EBL 54%, after that in all the fiscal year both the bank adopt the moderate dividend policy.

Dividend Pay Out Ratio of KBL is in decreasing trend except the fiscal year 2067/068 and the ratio of KBL is in increasing trend except the fiscal year 2061/062. Comparing to KBL with the average value of 54% the EBL is better with the average value of 72%.In average both the banks are adopted the moderate dividend policy. The Standard Deviations of KBL, and EBL are 31% and 12% respectively, it means EBL has less variability in compare to KBL. The CV of DPR of KBL and EBL is 43.18% and 22.65% respectively which indicate that KBL is more variable than EBL. EBL is more consistent or less variable than KBL.

4.1.4 Pricing Earning Ratio (P\E Ratio):- P\E ratio indicates the price currently paid by the market for each rupee \ dollar of currently reported earnings per share (EPS). It is also called the earning multiplier. It is the ratio between market price per share and earnings per share. The higher the P\E ratio implies the market share price of a stock given the earning per share and the greater confidence of investors in the firm's future. It is calculated by the dividing market price per share (MPS) by earning per share (EPS). The P\E ratio measures investment's expectation and market appraisal of the performance of the firm.

Table: 4.4

Price Earnings Ratio (P/E Ratio in Times)

Year	KBL	EBL
2060/061	30.29	14.9
2061/062	20.99	16
2062/063	26.71	22
2063/064	36.56	30.99
2064/065	61.47	34.11
2065/066	31.76	24.55
2066/067	19.31	16.27
2067/068	16.98	13.15
Mean ± SD	30.51 ± 14.19	21.50 ± 7.83
C.V	46.52%	36.44%

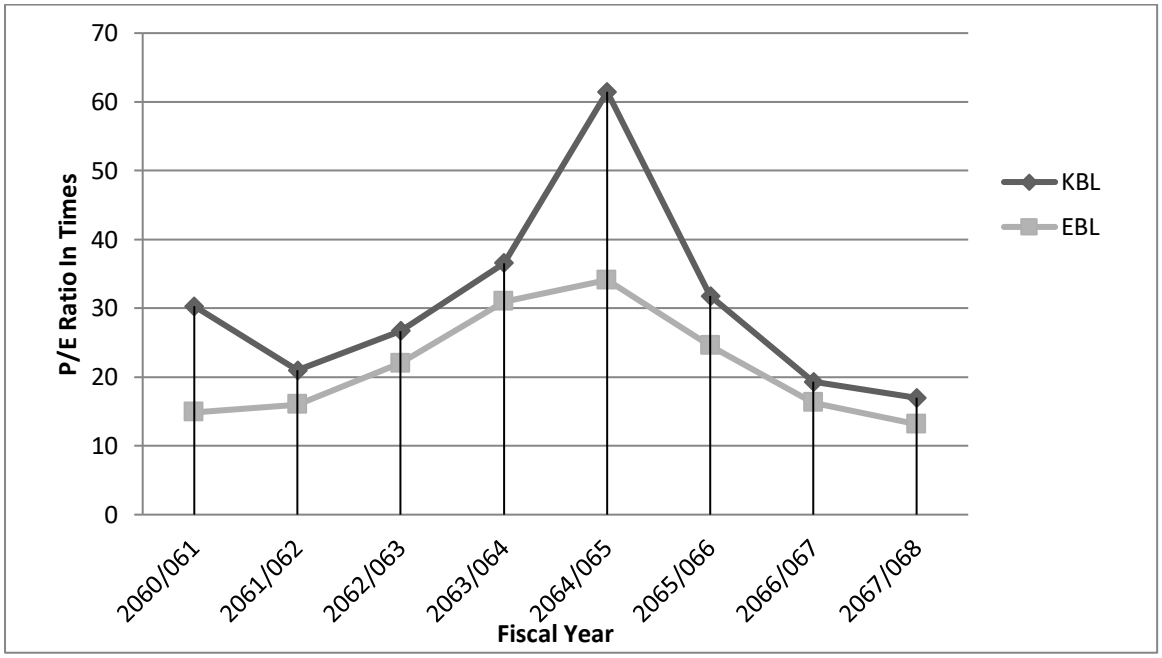
Source: Annual Reports of Sample Banks from 2060/061 to 2067/068

The above table 4.4 depicts the price earnings ratio of the sample banks. This study helps us by classifying the relationship between earning per share and market price per share. In the year 2060/061 both banks PE Ratio are normal, KBL has the highest PE Ratio of 61.47 times and EBL has 34.11 times in the fiscal year 2064/065. In all fiscal year price earnings ratio of KBL is higher than EBL.

Comparing to EBL with the average value of 30.51 times the KBL is better with the average value of 30.51 times. The Standard Deviations of KBL, and EBL are 14.19% and 7.83 times respectively, it means KBL has more variability in compare to EBL. The CV of PE ratio of KBL and EBL is 46.52% and 36.44% respectively which indicate that KBL is more variable than EBL. EBL is more consistent or less variable than KBL.

Figure: 4.4

Trend of Price Earnings Ratio



4.1.5 Dividend Yield (DY):- The dividend yield reflects the percentage relationship between dividend per share and market value per share. It measures the dividend in relation to market value of the investors as a percentage of market prices per share in the stock market. It is calculated by dividing the cash dividend per share (DPS) by the market price per share (MPS). This ratio highly influences the MPS because a small change in DPS can bring effective changes in the market value per share.

Table: 4.5

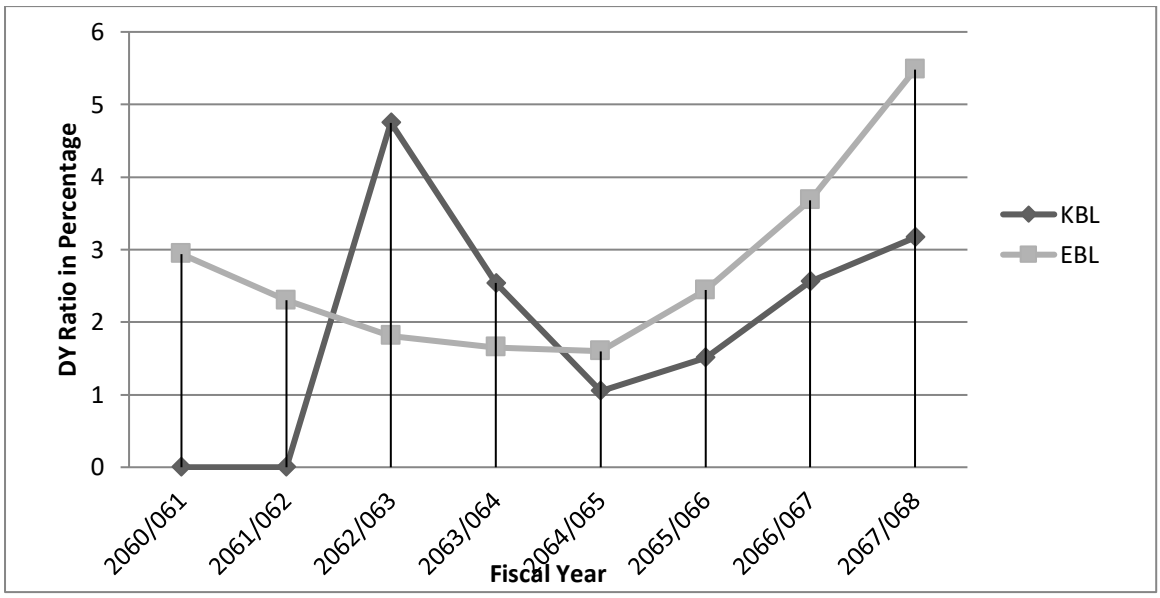
Dividend Yield Ratio (In Percentage)

Year	KBL	EBL
2060/061	-	2.94
2061/062	-	2.30
2062/063	4.75	1.81
2063/064	2.54	1.65
2064/065	1.05	1.6
2065/066	1.51	2.44
2066/067	2.56	3.68
2067/068	3.17	5.48
Mean ± SD	2.597 ± 1.308	2.738 ± 1.315
C.V	50.369	48.025

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068 and Appendix-II

Figure: 4.5

Trend of Dividend Yield Ratio Ratios



The above table and figure shows dividend yield analysis for the year 2060/061 to 2067/068. Dividend yield highly influences 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 dividend to share holders the impact on market scenario and price fluctuation is to be studied and evaluated for the long run survival of the bank.

In the year 2062/063, the data related to dividend yield of KBL 4.75% and EBL 1.81% acquire the shareholders. The highest dividend yield ratio of KBL is 3.17% and EBL is 5.48% in the fiscal year 2067/08. The dividend yield ratio of EBL is greater than KBL in each fiscal year except the fiscal years 2062/063 and 2063/064.

Dividend Yield Ratio of sample Banks are in fluctuating trend over the five year study period. Comparing to KBL with the average value of 2.597% the EBL is better with the average value of 2.738%. The Standard Deviations of KBL, and EBL are 1.305% and 1.315% respectively, it means EBL has more variability in compare to KBL. The CV of DY ratio of KBL and EBL is 50.369% and 48.025% respectively which indicate that KBL is more variable than EBL. KBL is less consistent or more variable than EBL.

4.1.6 Earning Yield (EY):- Earning Yield and Dividend Yield both are expressed in terms of the market value per share. Earning Yield and Dividend yield are two important profitability ratios from the point of view of the ordinary shareholders. The earning yield may define as the ratio of earning per share to the market value per ordinary share.

Table: 4.6

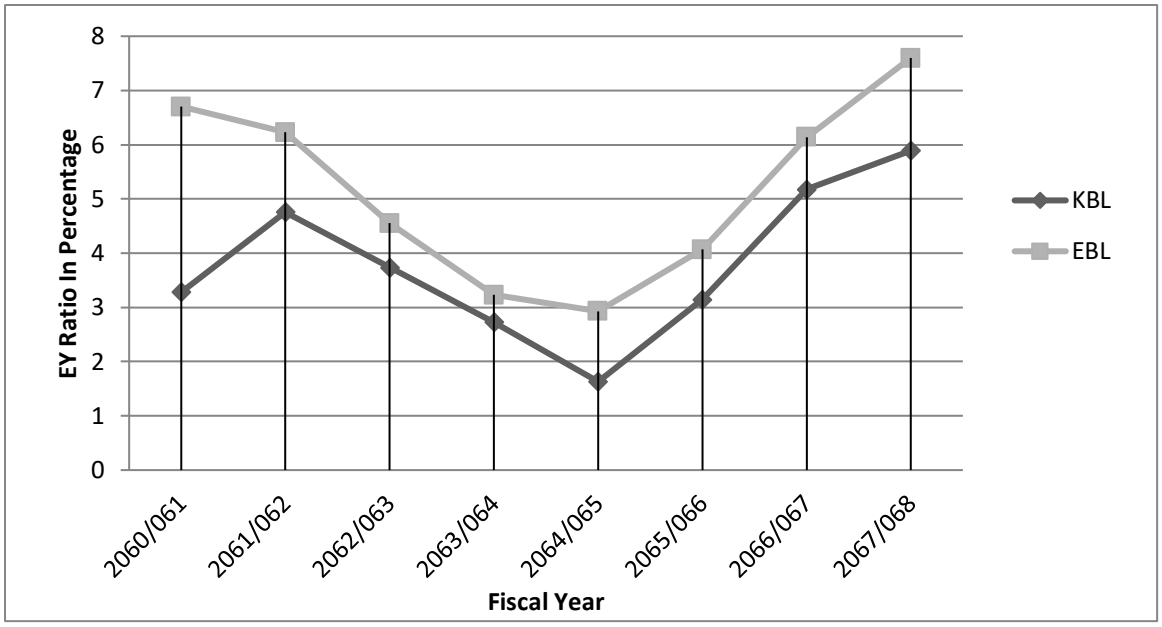
Earning Yield Ratio (In Percentage)

Year	KBL	EBL
2060/061	3.28	6.70
2061/062	4.76	6.23
2062/063	3.74	4.55
2063/064	2.73	3.23
2064/065	1.63	2.93
2065/066	3.15	4.07
2066/067	5.18	6.14
2067/068	5.89	7.60
Mean ± SD	3.80 ± 1.72	5.18 ± 1.72
C.V	36.93	33.19

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068 and Appendix-III

Figure: 4.6

Trend of Earning Yield Ratio of Sample Banks



In above table and figure 4.6, shows the earning yield ratio of KBL and EBL from 2060/061 to 2067/068. Both the banks have fluctuating rate of earning yield ratio. The highest earning yield ratio of KBL is 5.89% and EBL is 7.60% in the fiscal year 2067/08. The earning yield ratio of EBL is greater than KBL in each fiscal year.

Comparing to KBL with the average value of 3.80% the EBL is better with the average value of 5.18%. The Standard Deviations of KBL and EBL are 1.40% and 1.72% respectively, it means EBL has more variability in compare to KBL. The CV of EY ratio of KBL and EBL is 36.93% and 33.19% respectively which indicate that EBL is less variable than KBL. EBL is more consistent or less variable than KBL.

4.1.7 Market Value per Share to Book Value per Share Ratio: - This ratio measures the market situation in the competitive open market with respect to book value per share (BVPS) of the firm. This ratio indicates the price, the market is paying for the share that reported form the banks, or in other words, it is the price of the outsiders, are paying for each rupee reported by the balance sheet of the banks.

Table: 4.7

Market Value per Share to Book Value per Share Ratio (In Times)

Year	KBL	EBL
2060/061	2.97	6.8
2061/062	3.69	8.7
2062/063	4.43	13.79
2063/064	8.3	24.3
2064/065	10.05	31.32
2065/066	7	24.55
2066/067	4.68	16.3
2067/068	2.66	10.94
Mean ± SD	5.47 ± 2.68	17.09 ± 8.75
C.V	49.01%	51.20%

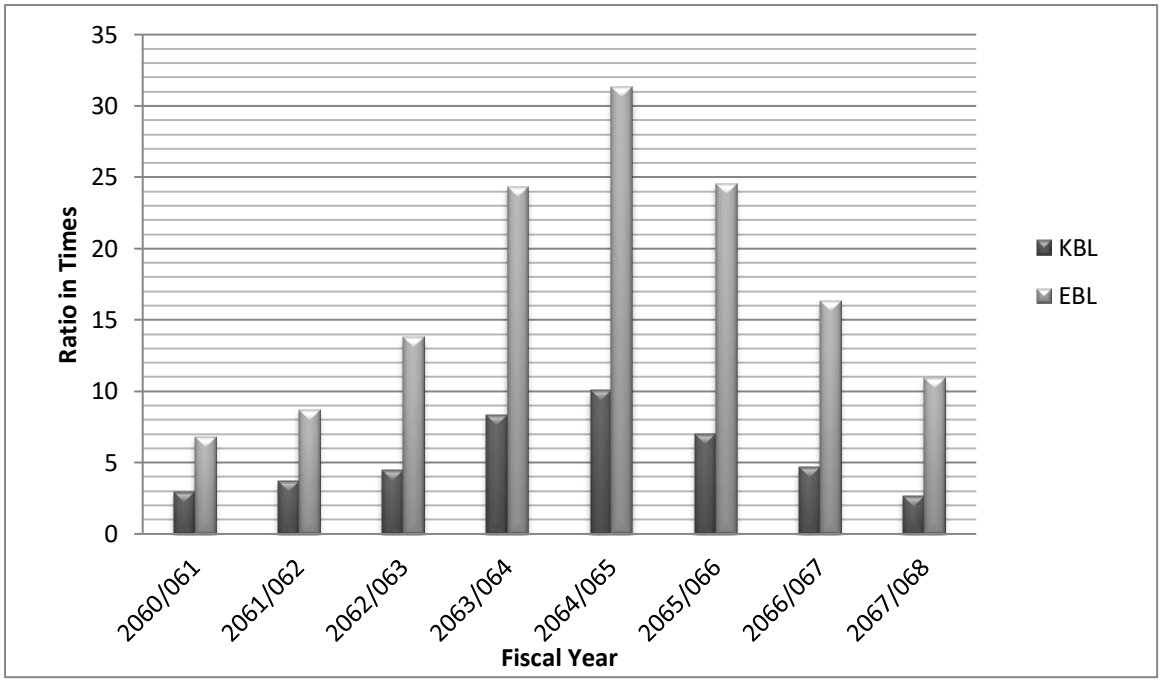
Source: Annual Reports of Sample Banks from 2060/061 to 2067/068 and Appendix-IV

The above table 4.7 shows that both the banks have increasing trend of market value per share to book value per share ratio from the fiscal year 2060/061 to 2064/065 after that the ratio is decreasing up to the year 2067/068. The highest ratio of KBL is 10.05 times and EBL is 31.32 times in the fiscal year 2064/065. The market value per share to book value per share ratio of EBL is greater than KBL in each fiscal year.

Comparing to KBL with the average value of 5.47 times the EBL is better with the average value of 17.09 times. The Standard Deviations of KBL and EBL are 2.68 times and 8.75 times respectively, it means EBL has more variability in compare to KBL. The CV of market value per share to book value per share ratio of KBL and EBL are 49.01% and 51.20% respectively which indicate that KBL is less variable than EBL. KBL is more consistent or less variable than EBL.

Figure: 4.7

Market Value per Share to Book Value per Share Ratio of Sample Banks



4.2 Growth Ratio Analysis

The maintenance of economic and financial condition of a bank is shown by its growth ratio. If the calculated growth ratio of a bank is higher, it indicates the better performance and lower growth ratio indicates the worse performance. The growth ratio is calculated by using following formula:

$$D_n = D_0 (1+g)^{n-1}$$

Where,

D_n = Total amount in the n^{th} year

D_0= Total amount in the beginning year

g = Growth rate

n = Total number of year in the period of study.

Growth Ratio may be calculated for two components in the context of dividend policy of a bank viz. Growth Ration of DPS and Growth Ration of MVPS.

4.2.1 Growth Ratio of DPS of KBL;

$D_n = 8.44\%$

$D_0 = 0$

n = 8 years

g =?

According to formula,

$D_n = D_0 (1+g)^{n-1}$

Or, $8.44 = 0 (1+g)^{8-1}$

Or, $(8.44/ 0) = (1+g)^{7}$

Or, $(8.44)^{1/7} = 1 + g$

Or, $1.356 = 1 + g$

Or, $g = 0.356 = 35.60\%$

4.4.2 Growth Ratio of DPS of EBL;

$D_n = 60\%$

$D_0 = 20\%$

n = 8 years

g =?

According to formula,

$D_n = D_0 (1+g)^{n-1}$

Or, $60 = 20 (1+g)^{8-1}$

Or, $(60 / 20) = (1+g)^{7}$

Or, $(3)^{1/7} = 1 + g$

Or. $1.1699 = 1 + g$

Or, $g = 16.99 = 16.99\%$

From the above analysis, it is found that the growth ratio of DPS of KBL and EBL during the period of study is 35.60% & 16.99%. So, it can be said that KBL and EBL can be maintained the constant dividend payout each year. According to the above calculation the dividend per share of both banks are increasing each year. The growth rate of KBL is greater than EBL.

4.2.3 Growth Ratio of MVPS of KBL;

D_n = Rs. 266

D_0 = Rs. 369

n = 8 years

g =?

According to formula,

$$D_n = D_0 (1+g)^{n-1}$$

$$\text{Or, } 266 = 369 (1+g)^{8-1}$$

$$\text{Or, } (266/ 369) = (1+g)^{7}$$

$$\text{Or, } (0.7208)^{1/7} = 1 + g$$

$$\text{Or, } 0.9543 = 1 + g$$

$$\text{Or, } g = -0.0456 = -4.56\%$$

4.2.4 Growth Ratio of MVPS of EBL;

D_n = Rs. 1094

D_0 = Rs. 680

n = 8 years

g =?

According to formula,

$$D_n = D_0 (1+g)^{n-1}$$

$$\text{Or, } 1094 = 680 (1+g)^{8-1}$$

$$\text{Or, } (1094 / 680) = (1+g)^{7}$$

$$\text{Or, } (1.6088)^{1/7} = 1 + g$$

$$\text{Or. } 1.0702 = 1 + g$$

$$\text{Or, } g = 0.0702 = 7.02\%$$

From the above analysis, it is found that the growth ratio of MVPS of KBL and EBL during the period of study is -4.56% & 7.02%. So, it can be said that KBL cannot be maintained the constant value of share in the market. According to the above calculation the market value per share of KBL is decreasing each year and EBL is increasing slightly.

4.3 Correlation Analysis

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

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

4.3.1 Relationship between DPS & MVPS

Coefficient of correlation measures the degree of relationship between two variables, DPS & MVPS. DPS is independent variable (X_1) and MVPS is dependent variable (X_2). The purpose of computing is to find out the relationship between DPS and MVPS is going to same direction or opposite direction.

Table 4.8

Correlation between DPS and MVPS

Factors	Banks	
	KBL	**EBL**
r	0.4565	0.5191
r^2	0.2084	0.2695
Calculated 't' Value	1.143	1.740
Tabulated 't' Value	2.201	2.201
Remarks	Insignificant	Insignificant
Relationship	Moderate Degree of Positive Correlation	Moderate Degree of Positive Correlation

Source: Appendix-V

From the Table-4.8, the values of coefficient of correlation (r) of KBL and EBL are 0.4565 and 0.5191 respectively which shows that there is a positive correlation between DPS and MVPS, therefore the value of coefficient of determination (r^2) is 0.2084 and 0.2695 which shows that 20.84% and 26.95% of the total variation in dependent variable (MVPS) is explained by independent variable (DPS). The calculated't' value of KBL and EBL are less than the tabulated value i.e. 0.143 < 2.201 and 0.1.740 < 2.201 respectively, therefore it reveals that the relationship between DPS and MVPS is insignificant.The insignificant in the correlation coefficient might be because of the small sample size.

There is positive relationship between DPS and MVPS. It shows that by increasing the DPS, the market value of share can be increased. Therefore both the DPS and MVPS are interrelated. Thus it can be concluded that if the DPS is increase, it increases the MVPS accordingly. In order to generalize the results one should plan for the same study with large sample sizes.

4.3.2 Relationship between DPS & EPS

Correlation coefficient between DPS & EPS measures the degree of relationship between DPS and EPS. DPS is independent variable (X_1) and EPS is dependent variable (X_2). The purpose of computing is to find out the relationship between DPS and EPS is going to same direction or opposite direction.

Table 4.9

Correlation between DPS and EPS

Factors	**Banks**	
	KBL	**EBL**
r	0.5302	0.9440
r^2	0.2811	0.8913
Calculated 't' Value	1.5317	2.8632
Tabulated 't' Value	2.201	2.201
Remarks	Insignificant	Significant
Relationship	Moderate Degree of Positive Correlation	High Degree of Positive Correlation

Source: Appendix VI & VII

The above table describes the relationship between DPS and EPS during the period of study. The coefficient of correlation (r) DPS and EPS are 0.5302 and 0.9440. This figure

shows the positive association between DPS and EPS of both banks. It means DPS and EPS both move towards same direction.

The coefficient of determination (r^2) is 0.2811 and 0.8913 it shows that 28.11% and 89.13% of the variation in the dependent variable (i.e. EPS) has been explained by the independent variable (i.e. DPS).

The calculated't' value of KBL is less than the tabulated value i.e. 1.5317 < 2.201, it show that the relationship between DPS & MVPS is insignificant and the calculated 't' value of EBL is greater than the tabulated value i.e. 2.8632 > 2.201, therefore it reveals that the relationship between DPS and MVPS is insignificant. The insignificant in the correlation coefficient might be because of the small sample size.

4.3.3 Relationship between DPR & PER

Correlation coefficient between DPR and PER measures the degree of relationship between DPR and PER. DPR is independent variable (X_1) and total EPR is dependent variable (X_2). The purpose of computing is to find out the relationship between DPR and PER is going to same direction or opposite direction.

Table 4.10

Correlation between DPR and PER

Factors	Banks	
	KBL	**EBL**
r	0.1954	-0.0611
r^2	0.0381	0.0037
Calculated 't' Value	0.4976	0.1491
Tabulated 't' Value	2.201	2.201
Remarks	Insignificant	Insignificant
Relationship	Low Degree of Positive Correlation	Low Degree of Negative Correlation

Source: Appendix VIII & IX

The above table describes the relationship between DPR and PER during the period of study. The coefficient of correlation (r) between DPR and PER of KBL is 0.1954, it show the low degree of positive correlation between DPE & PER. It means DPR and PER both move towards same direction. The coefficient of correlation (r) between DPR and PER of

EBL is negative (i.e. -0.0611), this figure shows the negative association between DPR and PER of EBL. It means DPR and PER both move towards opposite direction.

The calculated 't' value of KBL and EBL are less than the tabulated value i.e. 0.4976 < 2.201 and 0.1491 < 2.201 respectively, therefore it reveals that the relationship between DPR and PER is insignificant. The insignificant in the correlation coefficient might be because of the small sample size.

4.4 Least Square Linear Trend Analysis

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

$$Y = a + bt$$

where,

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

a = Y intercept

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

t= the independent variable

Under this topic, trend analysis of DPS and MVPS of KBL and EBL are studied during the period of time. The objective of this topic is to forecast the DPS and MVPS for the next five years.

The projections are based on the following assumptions:

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

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

Table: 4.11

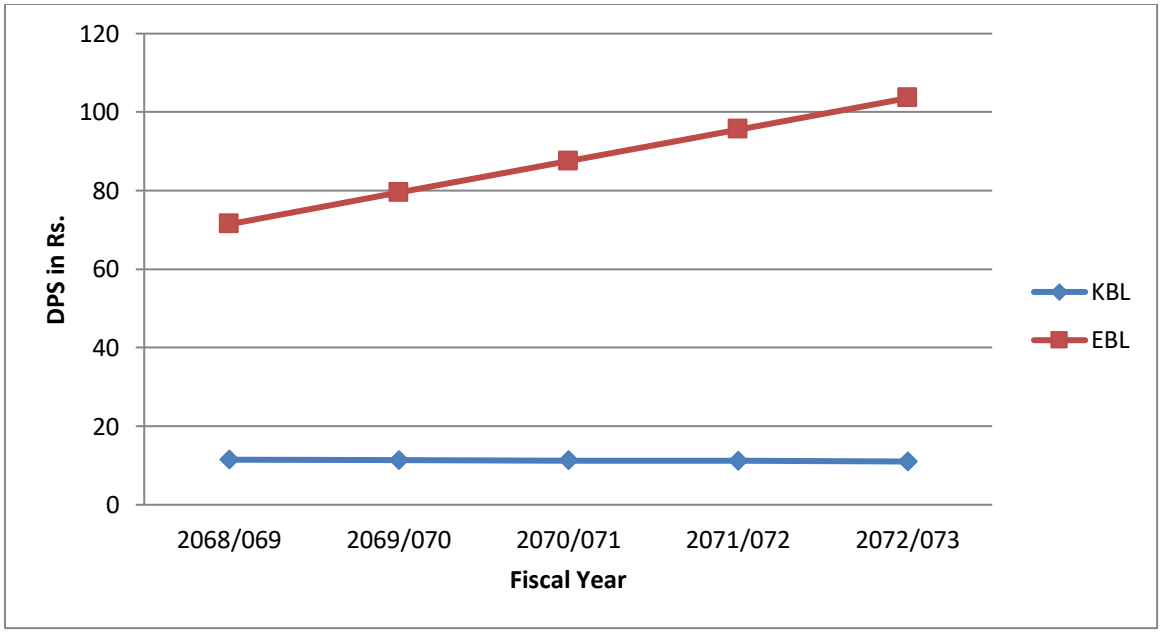
Comparative Trend Analysis of DPS (In Rs.)

Fiscal Year	Banks	
	KBL	EBL
2068/069	11.48	71.42
2069/070	11.36	79.45
2070/071	11.25	87.49
2071/072	11.14	95.52
2072/073	11.02	103.56
Mean (a)	11.95	39.28
Rate of Change (b)	-0.1161	8.035
Trend Equation(Y)	Y = 11.95 – 0.1161t	Y = 39.28 + 8.035t

Source: Appendix X

Table: 4.8

Trend Line of DPS of KBL & EBL



The above table 4.11 and figure 4.8 shows that the trend line of DPS is in decreasing trend of KBL and increasing trend of EBL. 'Y' has shown the trend value of total DPS. Since, the calculated value of 'b' is negative of KBL, it is found that the bank's DPS is

decreasing with time and positive of EBL, it means the bank's DPS is increasing with time. Comparatively the slope of equation of EBL is high and its trend line is sloping upward rapidly. If other things remaining the same, it shows that the DPS decreasing by Rs. 0.1161 and increase by Rs. 8.035 every year of KBL and EBL respectively.

4.4.2 Trend Analysis of MVPS: - Under this topic, an effort has been made to calculate the trend value of MVPS of KBL, and EBL with comparatively under five years study period and project the trend for next five years. The following table describes the trend values of MVPS of sampled banks for five years.

Table: 4.12

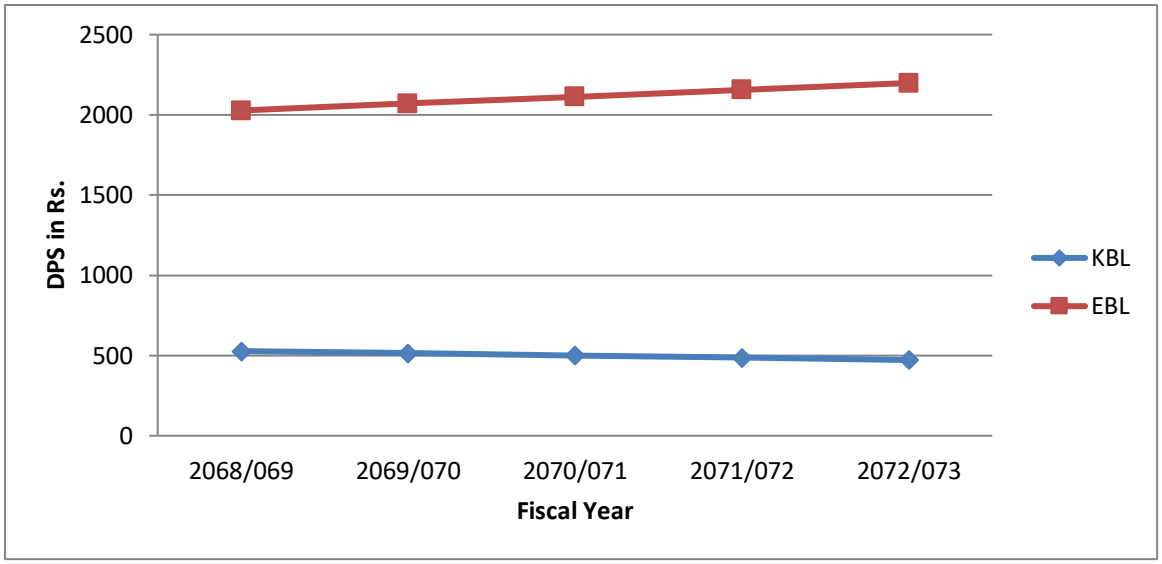
Comparative Trend Analysis of MVPS (In Rs.)

Fiscal Year	Banks	
	KBL	EBL
2068/069	527.44	2026.99
2069/070	513.55	2069.81
2070/071	499.66	2112.62
2071/072	485.77	2155.45
2072/073	471.88	2198.27
Mean (a)	583	1855.71
Rate of Change (b)	-13.89	42.82
Trend Equation(Y)	Y = 583 – 13.89t	Y = 1855.71 – 42.82t

Source: Appendix XI

Table: 4.9

Trend Line of MVPS of KBL & EBL



The above table 4.12 and figure 4.9 shows that the trend line of MVPS is in decreasing trend of KBL and increasing trend of EBL. 'Y' has shown the trend value of MVPS. Since, the calculated value of 'b' is negative of KBL, it is found that the bank's MVPS is decreasing with time and positive of EBL, it means the bank's MVPS is increasing with time. Comparatively the slope of equation of EBL is high and its trend line is sloping upward rapidly. If other things remaining the same, it shows that the MVPS decreasing by Rs. 13.89 and increase by Rs. 42.82 every year of KBL and EBL respectively.

4.5 Independent t-test

In order to test whether the average value of DPS, EPS and MVPS, are significantly different or not between these two sample banks, independent t- test has been applied. For this study some set of null and alternative hypothesis have been formulated and tested.

H_0: There is no significance difference between the average values of DPS of two sample banks.

H_1: There is significance difference between the average values of DPS of two sample banks.

H_0: There is no significance difference between the average values of EPS of two sample banks.

H_1: There is significance difference between the average values of EPS of two sample banks.

H_0: There is no significance difference between the average values of MVPS of two sample banks.

H_1: There is significance difference between the average values of MVPS of two sample banks.

Table: 4.13

Independent t-test (T-Distribution)

Tested Variable	Mean ± SD		Degree Of Freedom	Level Of Significance	Calculated t -Value	Tabulated t - Value	Decision
	KBL	EBL					
DPS of Sample Banks	10.46 ± 8.01	41.88 ± 18.11	(8+8-2)=14	∝=5%	0.561	2.145	H_0 Accepted
EPS of Sample Banks	18.11 ± 4.72	77.02 ± 20.82	(8+8-2)=14	∝=5%	0.905	2.145	H_0 Accepted
MVPS of Sample Banks	547.2 ± 268.2	1708.7 ± 874.8	(8+8-2)=14	∝=5%	0.010	2.145	H_0 Accepted

Source: Appendix XII, XIII and XIV

From the above table 4.13, it is found that the tabulated value of t-distribution is greater then calculated value in each case by considering the test statistic. So, null hypothesis H_0 is accepted and alternative hypothesis H_1 is rejected, it means there is no significant difference between the mean value DPS, EPS and MVPS of sample banks. In other words, both the banks arein the same position with respwct to DPS, EPS and MVPS.

4.6 Major Findings

The major findings of the study derived from the analysis of financial as well as statistical tools of KBL and EBL are as follows.

- The trend of DPS of KBL is in fluctuating over the study period and the trend of EBL is increasing. Comparing to KBL with the average value of 13.942% the EBL is better with the average value of 41.875%. In average EBL adopt the aggressive dividend policy. The Standard Deviations of KBL, and EBL are 5.622 % and 18.114 % respectively, it means KBL has less variability in compare to EBL.
- The EPS of KBL has fluctuating trend over the study period and it reached to Rs.15.67 in the fiscal year 2067/068. But the EPS of EBL is in increasing trend

except the fiscal year 2067/068. In comparisons to KBL, EBL has higher EPS over the study period.

- Comparing to KBL with the average value of 54% the EBL is better with the average value of 72%.In average both the banks are adopted the moderate dividend policy. The Standard Deviations of KBL, and EBL are 31% and 12% respectively, it means EBL has less variability in compare to KBL. The CV of DPR of KBL and EBL is 43.18% and 22.65% respectively which indicate that KBL is more variable than EBL.
- Comparing to EBL with the average value of 30.51 times the KBL is better with the average value of 30.51 times. The Standard Deviations of KBL, and EBL are 14.19% and 7.83 times respectively, it means KBL has more variability in compare to EBL.
- Dividend Yield Ratio of sample Banks are in fluctuating trend over the five year study period. Comparing to KBL with the average value of 2.597% the EBL is better with the average value of 2.738%. The Standard Deviations of KBL, and EBL are 1.305% and 1.315% respectively, it means EBL has more variability in compare to KBL.
- The earning yield ratio of EBL is greater than KBL in each fiscal year. Comparing to KBL with the average value of 3.80% the EBL is better with the average value of 5.18%. The Standard Deviations of KBL and EBL are 1.40% and 1.72% respectively, it means EBL has more variability in compare to KBL.
- The market value per share to book value per share ratio of EBL is greater than KBL in each fiscal year. Comparing to KBL with the average value of 5.47 times the EBL is better with the average value of 17.09 times. The Standard Deviations of KBL and EBL are 2.68 times and 8.75 times respectively, it means EBL has more variability in compare to KBL.
- The growth ratio of DPS of KBL and EBL during the period of study is 35.60% & 16.99%. So, it can be said that KBL and EBL can be maintained the constant dividend payout each year.
- The growth ratio of MVPS of KBL and EBL during the period of study is -4.56% & 7.02%. So, it can be said that KBL cannot be maintained the constant value of share in the market.

- The values of coefficient of correlation (r) of KBL and EBL are 0.4565 and 0.5191 respectively which shows that there is a positive correlation between DPS and MVPS. The calculated 't' value of KBL and EBL are less than the tabulated value i.e. 0.143 < 2.201 and 0.1.740 < 2.201 respectively, therefore it reveals that the relationship between DPS and MVPS is insignificant.
- The coefficient of correlation (r) DPS and EPS 0f KBL and EBL are 0.5302 and 0.9440. This figure shows the positive association between DPS and EPS of both banks. The coefficient of determination (r^2) is 0.2811 and 0.8913 it shows that 28.11% and 89.13% of the variation in the dependent variable (i.e. EPS) has been explained by the independent variable (i.e. DPS).
- The coefficient of correlation (r) between DPR and PER of KBL is 0.1954, it show the low degree of positive correlation between DPE & PER. The coefficient of correlation (r) between DPR and PER of EBL is negative (i.e. -0.0611), this figure shows the negative association between DPR and PER of EBL.
- The trend of DPS is in decreasing trend of KBL and increasing trend of EBL. If other things remaining the same, it shows that the DPS decreasing by Rs. 0.1161 and increase by Rs. 8.035 every year of KBL and EBL respectively.
- The trend line of MVPS is in decreasing trend of KBL and increasing trend of EBL. If other things remaining the same, it shows that the MVPS decreasing by Rs. 13.89 and increase by Rs. 42.82 every year of KBL and EBL respectively.
- By considering the test statistic, null hypothesis H_0 is accepted and alternative hypothesis H_1 is rejected, it means there is no significance difference between the population mean value of DPS, EPS and MVPS of sample banks.

CHAPTER-V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary

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

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

Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividend means the immediate cash flows to investors, which is good but lower future growth is bad. Thus, the dividend policy should be optimal which balances the opposing forces and maximizes the stock price. The dividend policy affects financial structure, the flow of funds, corporate liquidity and investor's attitude; it is

related to overall financing decision as dividend payout reduces the amount of retained earnings that are paid to shareholders in return to their investment. So the purpose of this study is to make comparative analysis of dividend policy of selected banks.. To fulfill the main objectives following specific objectives are formulated.

- To analyze the relationship of financial indicators such DPS, EPS and DPR, PE Ratio, Liquidity Ratio and Profitability Ratio on Market Value Per Share(MVPS) Per Share.
- To explore if there is any uniformity among DPS, EPS and DPR on the two sample commercial banks.
- Find out the impact of dividend on share prices.

To fulfill the research objectives the study is divided into five chapters. In the first chapter, describes the major issues to be investigated along with the general background, brief profiles of the sample banks statement of problem, objectives, significance of the study, limitation of the study and organization of the study. Second chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies in general. The third chapter describes the research methodology employed in the study. This chapter deals with the research design, source of data, methods of analysis, analysis of financial indicators and variables, test of hypothesis, definition of statistical tools etc. The Fourth Chapter deals with the presentation and analysis of data to indicated quantitative factors on dividend policy using statistical tools and techniques. This chapter also includes the major findings. The Fifth Chapter states summary, conclusion and recommendations, compares them with other empirical evidence to the extent possible and provides some suggestions.

5.2 Conclusions

Dividend decision is one of the major decisions of managerial finance as it directly or indirectly determines the company's profitability. Shareholders wealth can be maximized through dividend or capital gains. When a company pays dividend to the shareholders, then they are benefited directly. If the firm retains the earnings to exploit growth opportunities shareholders can expect to be benefited indirectly through increase in the price of their shares. In other words, it is a right dividend decision, which maintains a balance between shareholders interest with that of corporate growth from internally

generated funds. The funds that could not be used due to lack of beneficial investment opportunities should be better paid as dividends.

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

5.3 Recommendations

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

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

of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.

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

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

To find the answer of research problem, the collected data are necessary to present and analyze by processing. This chapter will present the data on table & figure.The main objective of the study is to present data and analyze them with the help of various financial and statistical tools.This chapter consists of analysis and presentation of empirical data.The important variables are very sensitive and taken into consideration,so this chapter will present the analysis of components of Dividend Policy. The major ratios for the study are dividend per share, earning per share, dividend yield, price earnings ratio, dividend payout ratio and market value per share analysis. The variables of the ratios indicated above are also tried to study in details.

4.1 Analysis of Financial Indicators and Variables

4.1.1 Dividend per share Analysis:- Dividend per share indicates the portion of earning distributed in the shareholders on per share basis. It gives financial soundness of the company. Only financially strong companies can distribute dividend. It attracts investors to invest in shares of stock and maintains goodwill. It is an investment in shares of stock and maintains goodwill. It is calculated by dividing the total dividend to equity share holders by the number of ordinary share outstanding.

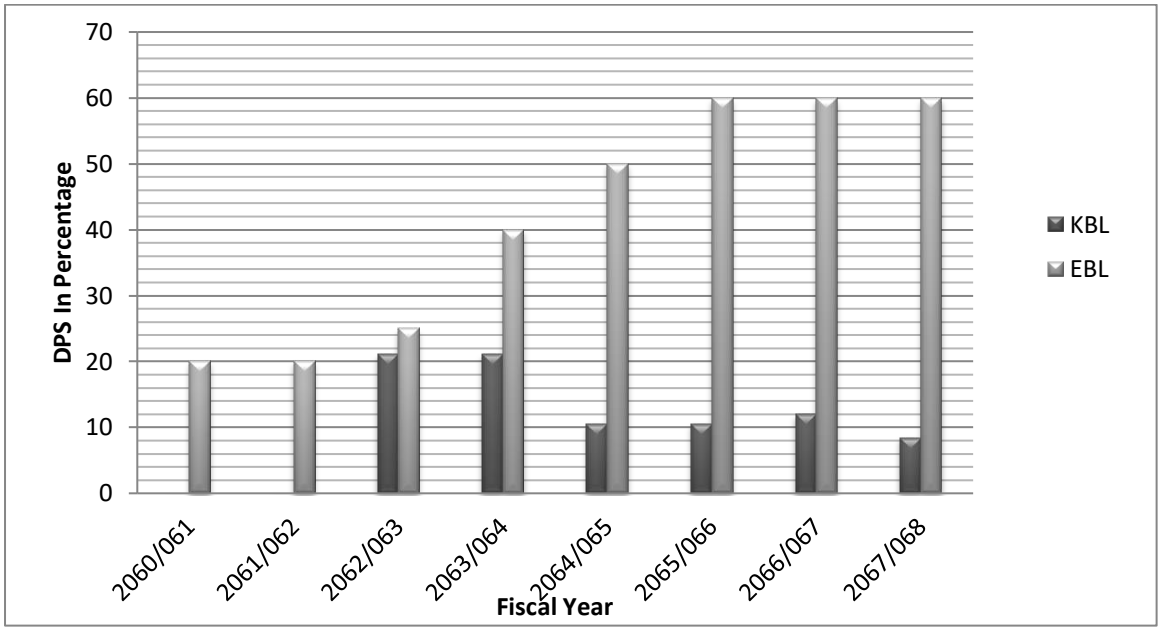
Table: 4.1
Dividend per Share of Sample Banks (In % of Par Value Rs. 100)

Year	KBL			EBL		
	Cash	Share	Total	Cash	Share	Total
2060/061	-	-	-	20	-	20
2061/062	-	-	-	-	20	20
2062/063	1.05	20	21.05	25	-	25
2063/064	1.05	20	21.05	10	30	40
2064/065	0.53	10	10.53	20	30	50
2065/066	0.55	10.03	10.58	30	30	60
2066/067	-	12	12	30	30	60
2067/068	0.44	8	8.44	50	10	60
Mean ± SD			13.942±5.622			41.875±18.114
C.V			40.33			43.26

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068

Table: 4.1

Dividend per Share of Sample Banks



The above table 4.1 shows the impact of dividend on share price of the concerned banks from the year 2060/061 to 2067/068. In the year 2060/061, KBL do not paid any dividend. On the other hand, EBL paid Rs.20 percent cash dividend per share.The trend of DPS of KBL is in fluctuating over the study period and the trend of EBL is increasing.

Comparing to KBL with the average value of 13.94% the EBL is better with the average value of 41.87%. In average EBL adopt the aggressive dividend policy. The Standard Deviations of KBL, and EBL are 5.62 % and 18.11 % respectively, it means KBL has less variability in compare to EBL. The CV of DPS of KBL and EBL is 40.33% and 43.26% respectively which indicate that EBL is more variable than KBL. KBL is more consistent or less variable than EBL.

4.1.2 Earnings per Share (EPS):- Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholders investment. The earnings per share show the profitability of the banks on a per share basis. The higher earning indicates the better achievements in terms of profitability of the banks by mobilizing their funds and vice versa. In other words, the EPS indicates the strength and weakness of the bank.

Earnings per share are computed to know the earning capacity and to make comparison between concerned banks. This ratio can be computed by dividing the earning available to common shareholders by the total number of common stocks outstanding.

Table: 4.2

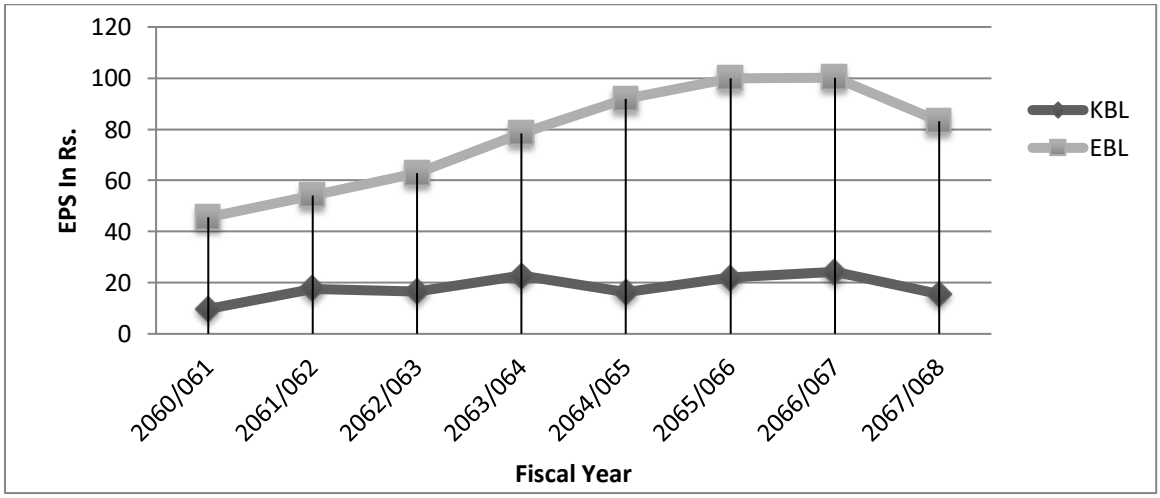
Earnings per Share (EPS In Rs.)

Year	KBL	EBL
2060/061	9.74	45.58
2061/062	17.58	54.2
2062/063	16.59	62.78
2063/064	22.70	78.42
2064/065	16.35	91.82
2065/066	22.04	99.99
2066/067	24.24	100.16
2067/068	15.67	83.18
Mean ± SD	18.114 ± 4.718	77.016 ± 20.819
C.V	26.04	27.03

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068

Table: 4.2

Trend of Earnings per Share of Sample Banks



The above table and figure 4.2 shows the EPS of the concerned banks from 2060/061 to 2067/068.Normally, the performance and the achievement of business organization are

measured in terms of its capacity to generate earning. Higher earnings show higher strength while lower earnings show weaker strength of business organization.

In the fiscal year 2066/067, the table shows that the EPS of KBL and EBL are highest over the study period, which amount to Rs. 24.24 and Rs. 100.16 respectively. The EPS of KBL has fluctuating trend over the study period and it reached to Rs.15.67 in the fiscal year 2067/068. But the EPS of EBL is in increasing trend except the fiscal year 2067/068. In comparisons to KBL, EBL has higher EPS over the study period.

Comparing to KBL with the average value of Rs.18.11 the EBL is better with the average value of Rs.77.06. The Standard Deviations of KBL, and EBL are Rs.4.72 and Rs. 20.82 respectively, it means KBL has less variability in compare to EBL. The CV of EPS of KBL and EBL is 26.04% and 27.03% respectively which indicate that EBL is more variable than KBL. KBL is more consistent or less variable than EBL.

4.1.3 Dividend Payout Ratio (DPR):- DPR is the proportion of earnings paid in the form of dividend. This ratio reflects what percentage of profit is distributed as dividend and what percentage of profit is retained as reserve and surplus for the growth of the company. It is calculated by dividing by EPS.

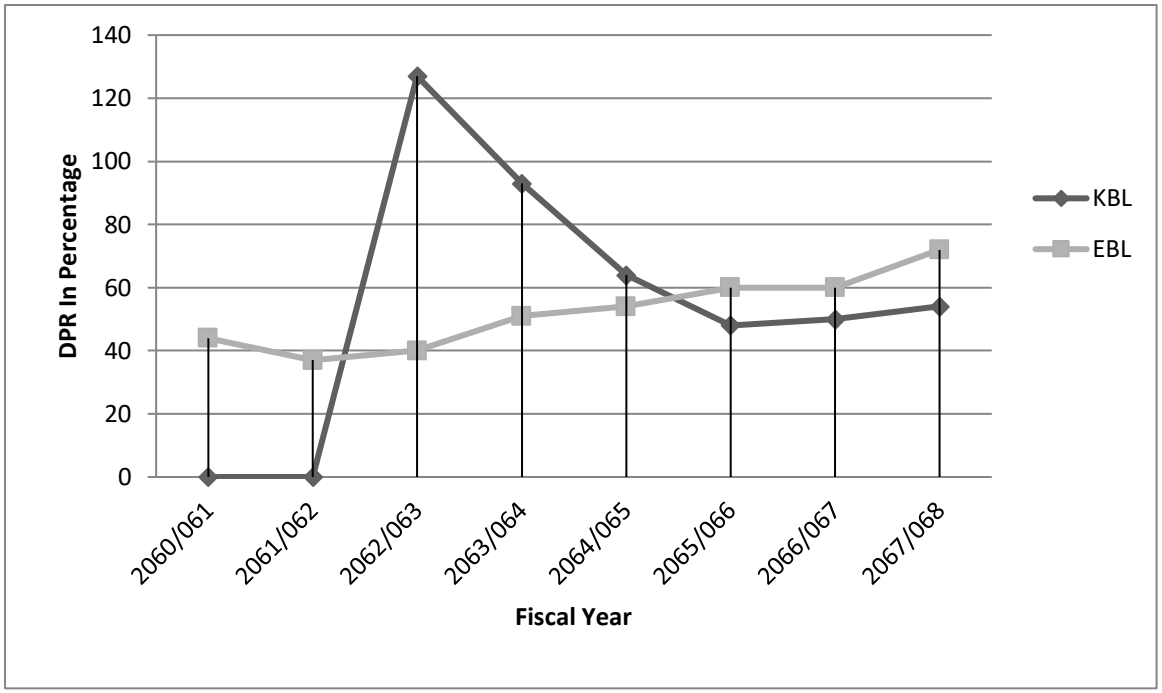
Table: 4.3
Dividend Payout Ratio (DPR in %)

Year	KBL	EBL
2060/061	-	44
2061/062	-	37
2062/063	127	40
2063/064	93	51
2064/065	64	54
2065/066	48	60
2066/067	50	60
2067/068	54	72
Mean ± SD	73 ± 31	52 ± 12
C.V	43.18%	22.65%

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068 and Appendix-I

Figure: 4.3

Trend of Dividend Payout Ratio (DPR in %)



The above table and figure 4.3 shows the dividend payout of the concerned banks from the year 2060/061 to 2067/068. In the year 2062/063, KBL applied aggressive dividend policy and paid dividend 127%, EBL is followed under moderate dividend policy i.e. 40%. In the year 2063/064, KBL applied aggressive dividend policy and paid dividend 93%, EBL is followed under moderate dividend policy i.e. 51%. In the year 2064/065, both the banks are under moderate dividend policy i.e. KBL 64% and EBL 54%, after that in all the fiscal year both the bank adopt the moderate dividend policy.

Dividend Pay Out Ratio of KBL is in decreasing trend except the fiscal year 2067/068 and the ratio of KBL is in increasing trend except the fiscal year 2061/062. Comparing to KBL with the average value of 54% the EBL is better with the average value of 72%.In average both the banks are adopted the moderate dividend policy. The Standard Deviations of KBL, and EBL are 31% and 12% respectively, it means EBL has less variability in compare to KBL. The CV of DPR of KBL and EBL is 43.18% and 22.65% respectively which indicate that KBL is more variable than EBL. EBL is more consistent or less variable than KBL.

4.1.4 Pricing Earning Ratio (P\E Ratio):- P\E ratio indicates the price currently paid by the market for each rupee \ dollar of currently reported earnings per share (EPS). It is also called the earning multiplier. It is the ratio between market price per share and earnings per share. The higher the P\E ratio implies the market share price of a stock given the earning per share and the greater confidence of investors in the firm's future. It is calculated by the dividing market price per share (MPS) by earning per share (EPS). The P\E ratio measures investment's expectation and market appraisal of the performance of the firm.

Table: 4.4

Price Earnings Ratio (P/E Ratio in Times)

Year	KBL	EBL
2060/061	30.29	14.9
2061/062	20.99	16
2062/063	26.71	22
2063/064	36.56	30.99
2064/065	61.47	34.11
2065/066	31.76	24.55
2066/067	19.31	16.27
2067/068	16.98	13.15
Mean ± SD	30.51 ± 14.19	21.50 ± 7.83
C.V	46.52%	36.44%

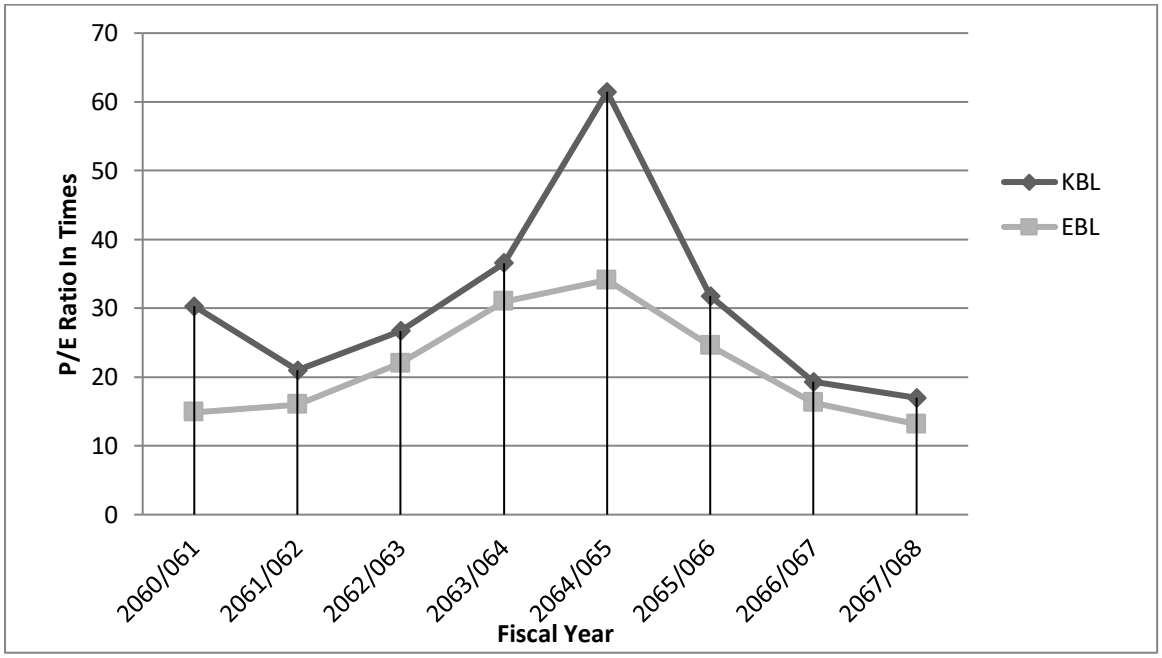
Source: Annual Reports of Sample Banks from 2060/061 to 2067/068

The above table 4.4 depicts the price earnings ratio of the sample banks. This study helps us by classifying the relationship between earning per share and market price per share. In the year 2060/061 both banks PE Ratio are normal, KBL has the highest PE Ratio of 61.47 times and EBL has 34.11 times in the fiscal year 2064/065. In all fiscal year price earnings ratio of KBL is higher than EBL.

Comparing to EBL with the average value of 30.51 times the KBL is better with the average value of 30.51 times. The Standard Deviations of KBL, and EBL are 14.19% and 7.83 times respectively, it means KBL has more variability in compare to EBL. The CV of PE ratio of KBL and EBL is 46.52% and 36.44% respectively which indicate that KBL is more variable than EBL. EBL is more consistent or less variable than KBL.

Figure: 4.4

Trend of Price Earnings Ratio



4.1.5 Dividend Yield (DY):- The dividend yield reflects the percentage relationship between dividend per share and market value per share. It measures the dividend in relation to market value of the investors as a percentage of market prices per share in the stock market. It is calculated by dividing the cash dividend per share (DPS) by the market price per share (MPS). This ratio highly influences the MPS because a small change in DPS can bring effective changes in the market value per share.

Table: 4.5

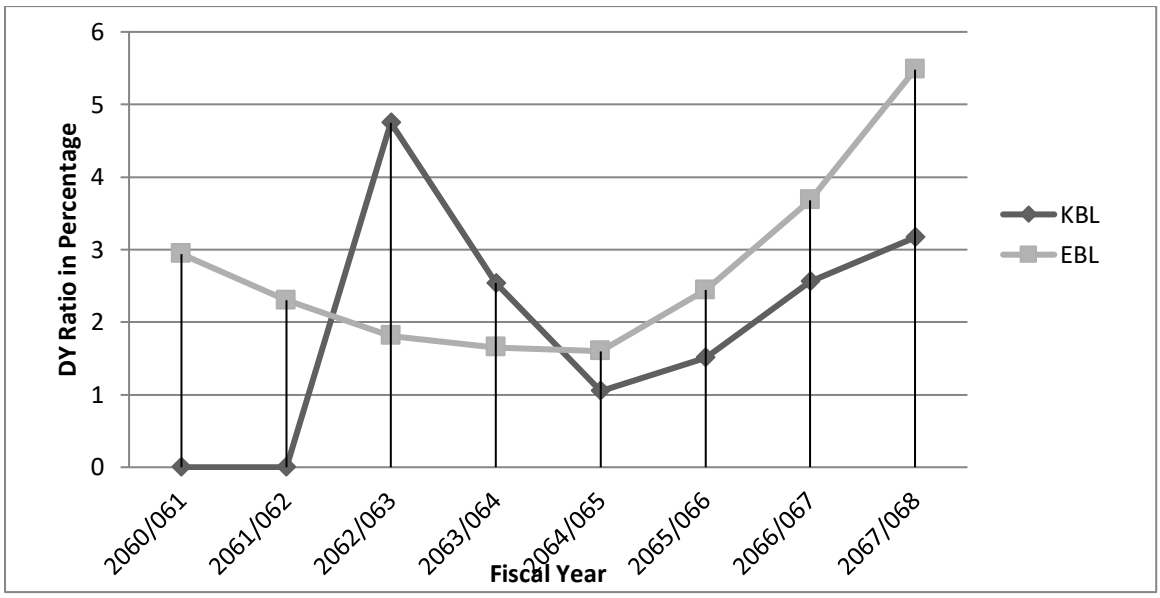
Dividend Yield Ratio (In Percentage)

Year	KBL	EBL
2060/061	-	2.94
2061/062	-	2.30
2062/063	4.75	1.81
2063/064	2.54	1.65
2064/065	1.05	1.6
2065/066	1.51	2.44
2066/067	2.56	3.68
2067/068	3.17	5.48
Mean ± SD	2.597 ± 1.308	2.738 ± 1.315
C.V	50.369	48.025

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068 and Appendix-II

Figure: 4.5

Trend of Dividend Yield Ratio Ratios



The above table and figure shows dividend yield analysis for the year 2060/061 to 2067/068. Dividend yield highly influences 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 dividend to share holders the impact on market scenario and price fluctuation is to be studied and evaluated for the long run survival of the bank.

In the year 2062/063, the data related to dividend yield of KBL 4.75% and EBL 1.81% acquire the shareholders. The highest dividend yield ratio of KBL is 3.17% and EBL is 5.48% in the fiscal year 2067/08. The dividend yield ratio of EBL is greater than KBL in each fiscal year except the fiscal years 2062/063 and 2063/064.

Dividend Yield Ratio of sample Banks are in fluctuating trend over the five year study period. Comparing to KBL with the average value of 2.597% the EBL is better with the average value of 2.738%. The Standard Deviations of KBL, and EBL are 1.305% and 1.315% respectively, it means EBL has more variability in compare to KBL. The CV of DY ratio of KBL and EBL is 50.369% and 48.025% respectively which indicate that KBL is more variable than EBL. KBL is less consistent or more variable than EBL.

4.1.6 Earning Yield (EY):- Earning Yield and Dividend Yield both are expressed in terms of the market value per share. Earning Yield and Dividend yield are two important profitability ratios from the point of view of the ordinary shareholders. The earning yield may define as the ratio of earning per share to the market value per ordinary share.

Table: 4.6

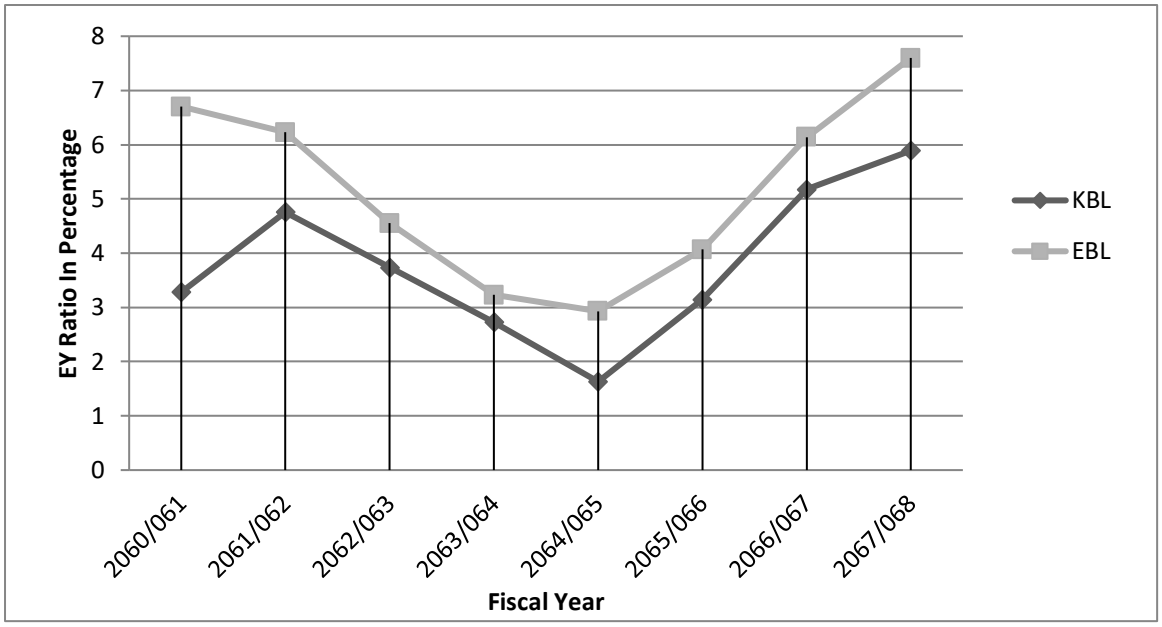
Earning Yield Ratio (In Percentage)

Year	KBL	EBL
2060/061	3.28	6.70
2061/062	4.76	6.23
2062/063	3.74	4.55
2063/064	2.73	3.23
2064/065	1.63	2.93
2065/066	3.15	4.07
2066/067	5.18	6.14
2067/068	5.89	7.60
Mean ± SD	3.80 ± 1.72	5.18 ± 1.72
C.V	36.93	33.19

Source: Annual Reports of Sample Banks from 2060/061 to 2067/068 and Appendix-III

Figure: 4.6

Trend of Earning Yield Ratio of Sample Banks



In above table and figure 4.6, shows the earning yield ratio of KBL and EBL from 2060/061 to 2067/068. Both the banks have fluctuating rate of earning yield ratio. The highest earning yield ratio of KBL is 5.89% and EBL is 7.60% in the fiscal year 2067/08. The earning yield ratio of EBL is greater than KBL in each fiscal year.

Comparing to KBL with the average value of 3.80% the EBL is better with the average value of 5.18%. The Standard Deviations of KBL and EBL are 1.40% and 1.72% respectively, it means EBL has more variability in compare to KBL. The CV of EY ratio of KBL and EBL is 36.93% and 33.19% respectively which indicate that EBL is less variable than KBL. EBL is more consistent or less variable than KBL.

4.1.7 Market Value per Share to Book Value per Share Ratio: - This ratio measures the market situation in the competitive open market with respect to book value per share (BVPS) of the firm. This ratio indicates the price, the market is paying for the share that reported form the banks, or in other words, it is the price of the outsiders, are paying for each rupee reported by the balance sheet of the banks.

Table: 4.7

Market Value per Share to Book Value per Share Ratio (In Times)

Year	KBL	EBL
2060/061	2.97	6.8
2061/062	3.69	8.7
2062/063	4.43	13.79
2063/064	8.3	24.3
2064/065	10.05	31.32
2065/066	7	24.55
2066/067	4.68	16.3
2067/068	2.66	10.94
Mean ± SD	5.47 ± 2.68	17.09 ± 8.75
C.V	49.01%	51.20%

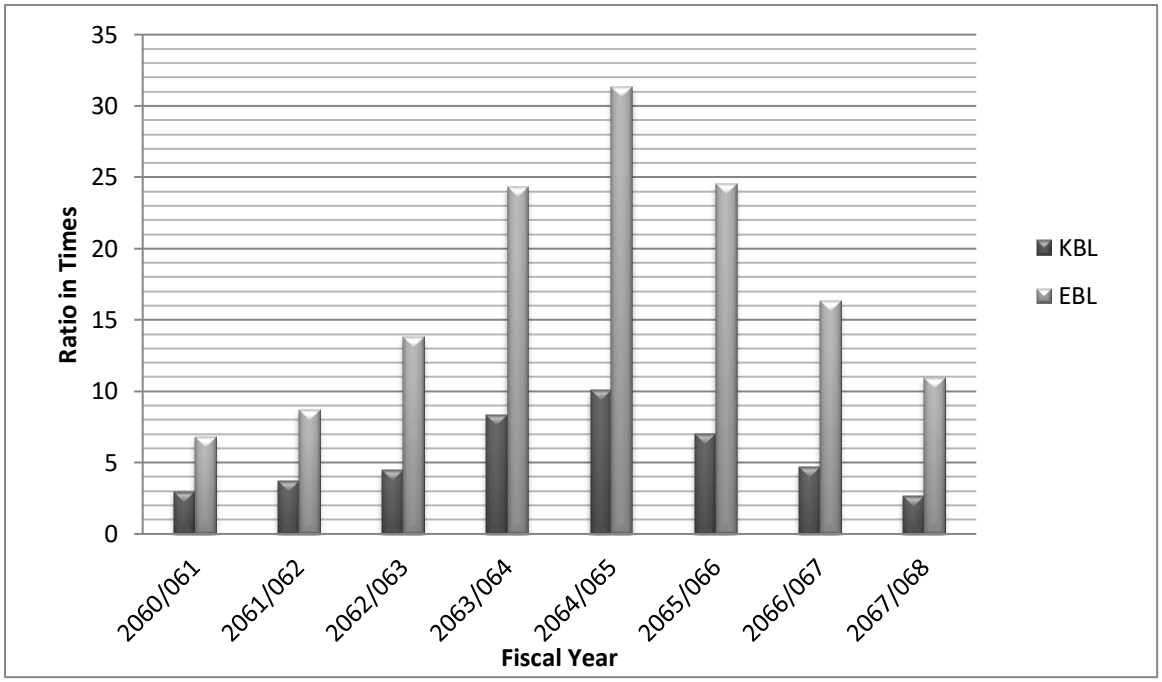
Source: Annual Reports of Sample Banks from 2060/061 to 2067/068 and Appendix-IV

The above table 4.7 shows that both the banks have increasing trend of market value per share to book value per share ratio from the fiscal year 2060/061 to 2064/065 after that the ratio is decreasing up to the year 2067/068. The highest ratio of KBL is 10.05 times and EBL is 31.32 times in the fiscal year 2064/065. The market value per share to book value per share ratio of EBL is greater than KBL in each fiscal year.

Comparing to KBL with the average value of 5.47 times the EBL is better with the average value of 17.09 times. The Standard Deviations of KBL and EBL are 2.68 times and 8.75 times respectively, it means EBL has more variability in compare to KBL. The CV of market value per share to book value per share ratio of KBL and EBL are 49.01% and 51.20% respectively which indicate that KBL is less variable than EBL. KBL is more consistent or less variable than EBL.

Figure: 4.7

Market Value per Share to Book Value per Share Ratio of Sample Banks



4.2 Growth Ratio Analysis

The maintenance of economic and financial condition of a bank is shown by its growth ratio. If the calculated growth ratio of a bank is higher, it indicates the better performance and lower growth ratio indicates the worse performance. The growth ratio is calculated by using following formula:

$$D_n = D_0 (1+g)^{n-1}$$

Where,

D_n = Total amount in the n^{th} year

D_0= Total amount in the beginning year

g = Growth rate

n = Total number of year in the period of study.

Growth Ratio may be calculated for two components in the context of dividend policy of a bank viz. Growth Ration of DPS and Growth Ration of MVPS.

4.2.1 Growth Ratio of DPS of KBL;

$D_n = 8.44\%$

$D_0 = 0$

n = 8 years

g =?

According to formula,

$$D_n = D_0 (1+g)^{n-1}$$

$$\text{Or, } 8.44 = 0 (1+g)^{8-1}$$

$$\text{Or, } (8.44/ 0) = (1+g)^{7}$$

$$\text{Or, } (8.44)^{1/7} = 1 + g$$

$$\text{Or, } 1.356 = 1 + g$$

$$\text{Or, } g = 0.356 = 35.60\%$$

4.4.2 Growth Ratio of DPS of EBL;

$D_n = 60\%$

$D_0 = 20\%$

n = 8 years

g =?

According to formula,

$$D_n = D_0 (1+g)^{n-1}$$

$$\text{Or, } 60 = 20 (1+g)^{8-1}$$

$$\text{Or, } (60 / 20) = (1+g)^{7}$$

$$\text{Or, } (3)^{1/7} = 1 + g$$

$$\text{Or. } 1.1699 = 1 + g$$

$$\text{Or, } g = 16.99 = 16.99\%$$

From the above analysis, it is found that the growth ratio of DPS of KBL and EBL during the period of study is 35.60% & 16.99%. So, it can be said that KBL and EBL can be maintained the constant dividend payout each year. According to the above calculation the dividend per share of both banks are increasing each year. The growth rate of KBL is greater than EBL.

4.2.3 Growth Ratio of MVPS of KBL;

D_n = Rs. 266

D_0 = Rs. 369

n = 8 years

g =?

According to formula,

$$D_n = D_0 (1+g)^{n-1}$$

$$\text{Or, } 266 = 369 (1+g)^{8-1}$$

$$\text{Or, } (266/ 369) = (1+g)^{7}$$

$$\text{Or, } (0.7208)^{1/7} = 1 + g$$

$$\text{Or, } 0.9543 = 1 + g$$

$$\text{Or, } g = -0.0456 = -4.56\%$$

4.2.4 Growth Ratio of MVPS of EBL;

D_n = Rs. 1094

D_0 = Rs. 680

n = 8 years

g =?

According to formula,

$$D_n = D_0 (1+g)^{n-1}$$

$$\text{Or, } 1094 = 680 (1+g)^{8-1}$$

$$\text{Or, } (1094 / 680) = (1+g)^{7}$$

$$\text{Or, } (1.6088)^{1/7} = 1 + g$$

$$\text{Or. } 1.0702 = 1 + g$$

$$\text{Or, } g = 0.0702 = 7.02\%$$

From the above analysis, it is found that the growth ratio of MVPS of KBL and EBL during the period of study is -4.56% & 7.02%. So, it can be said that KBL cannot be maintained the constant value of share in the market. According to the above calculation the market value per share of KBL is decreasing each year and EBL is increasing slightly.

4.3 Correlation Analysis

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

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

4.3.1 Relationship between DPS & MVPS

Coefficient of correlation measures the degree of relationship between two variables, DPS & MVPS. DPS is independent variable (X_1) and MVPS is dependent variable (X_2). The purpose of computing is to find out the relationship between DPS and MVPS is going to same direction or opposite direction.

Table 4.8

Correlation between DPS and MVPS

Factors	Banks	
	KBL	**EBL**
r	0.4565	0.5191
r^2	0.2084	0.2695
Calculated 't' Value	1.143	1.740
Tabulated 't' Value	2.201	2.201
Remarks	Insignificant	Insignificant
Relationship	Moderate Degree of Positive Correlation	Moderate Degree of Positive Correlation

Source: Appendix-V

From the Table-4.8, the values of coefficient of correlation (r) of KBL and EBL are 0.4565 and 0.5191 respectively which shows that there is a positive correlation between DPS and MVPS, therefore the value of coefficient of determination (r^2) is 0.2084 and 0.2695 which shows that 20.84% and 26.95% of the total variation in dependent variable (MVPS) is explained by independent variable (DPS). The calculated't' value of KBL and EBL are less than the tabulated value i.e. 0.143 < 2.201 and 0.1.740 < 2.201 respectively, therefore it reveals that the relationship between DPS and MVPS is insignificant.The insignificant in the correlation coefficient might be because of the small sample size.

There is positive relationship between DPS and MVPS. It shows that by increasing the DPS, the market value of share can be increased. Therefore both the DPS and MVPS are interrelated. Thus it can be concluded that if the DPS is increase, it increases the MVPS accordingly. In order to generalize the results one should plan for the same study with large sample sizes.

4.3.2 Relationship between DPS & EPS

Correlation coefficient between DPS & EPS measures the degree of relationship between DPS and EPS. DPS is independent variable (X_1) and EPS is dependent variable (X_2). The purpose of computing is to find out the relationship between DPS and EPS is going to same direction or opposite direction.

Table 4.9

Correlation between DPS and EPS

Factors	**Banks**	
	KBL	**EBL**
r	0.5302	0.9440
r^2	0.2811	0.8913
Calculated 't' Value	1.5317	2.8632
Tabulated 't' Value	2.201	2.201
Remarks	Insignificant	Significant
Relationship	Moderate Degree of Positive Correlation	High Degree of Positive Correlation

Source: Appendix VI & VII

The above table describes the relationship between DPS and EPS during the period of study. The coefficient of correlation (r) DPS and EPS are 0.5302 and 0.9440. This figure

shows the positive association between DPS and EPS of both banks. It means DPS and EPS both move towards same direction.

The coefficient of determination (r^2) is 0.2811 and 0.8913 it shows that 28.11% and 89.13% of the variation in the dependent variable (i.e. EPS) has been explained by the independent variable (i.e. DPS).

The calculated't' value of KBL is less than the tabulated value i.e. 1.5317 < 2.201, it show that the relationship between DPS & MVPS is insignificant and the calculated 't' value of EBL is greater than the tabulated value i.e. 2.8632 > 2.201, therefore it reveals that the relationship between DPS and MVPS is insignificant. The insignificant in the correlation coefficient might be because of the small sample size.

4.3.3 Relationship between DPR & PER

Correlation coefficient between DPR and PER measures the degree of relationship between DPR and PER. DPR is independent variable (X_1) and total EPR is dependent variable (X_2). The purpose of computing is to find out the relationship between DPR and PER is going to same direction or opposite direction.

Table 4.10

Correlation between DPR and PER

Factors	Banks	
	KBL	**EBL**
r	0.1954	-0.0611
r^2	0.0381	0.0037
Calculated 't' Value	0.4976	0.1491
Tabulated 't' Value	2.201	2.201
Remarks	Insignificant	Insignificant
Relationship	Low Degree of Positive Correlation	Low Degree of Negative Correlation

Source: Appendix VIII & IX

The above table describes the relationship between DPR and PER during the period of study. The coefficient of correlation (r) between DPR and PER of KBL is 0.1954, it show the low degree of positive correlation between DPE & PER. It means DPR and PER both move towards same direction. The coefficient of correlation (r) between DPR and PER of

EBL is negative (i.e. -0.0611), this figure shows the negative association between DPR and PER of EBL. It means DPR and PER both move towards opposite direction.

The calculated 't' value of KBL and EBL are less than the tabulated value i.e. 0.4976 < 2.201 and 0.1491 < 2.201 respectively, therefore it reveals that the relationship between DPR and PER is insignificant. The insignificant in the correlation coefficient might be because of the small sample size.

4.4 Least Square Linear Trend Analysis

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

$$Y = a + bt$$

where,

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

a = Y intercept

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

t= the independent variable

Under this topic, trend analysis of DPS and MVPS of KBL and EBL are studied during the period of time. The objective of this topic is to forecast the DPS and MVPS for the next five years.

The projections are based on the following assumptions:

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

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

Table: 4.11

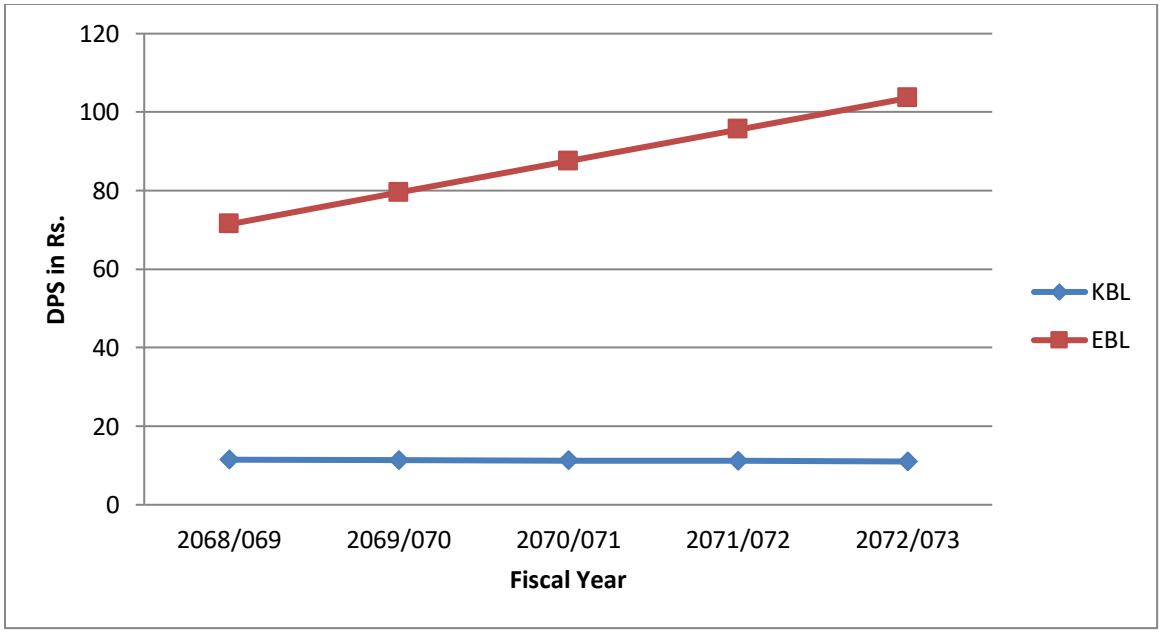
Comparative Trend Analysis of DPS (In Rs.)

Fiscal Year	Banks	
	KBL	EBL
2068/069	11.48	71.42
2069/070	11.36	79.45
2070/071	11.25	87.49
2071/072	11.14	95.52
2072/073	11.02	103.56
Mean (a)	11.95	39.28
Rate of Change (b)	-0.1161	8.035
Trend Equation(Y)	Y = 11.95 – 0.1161t	Y = 39.28 + 8.035t

Source: Appendix X

Table: 4.8

Trend Line of DPS of KBL & EBL



The above table 4.11 and figure 4.8 shows that the trend line of DPS is in decreasing trend of KBL and increasing trend of EBL. 'Y' has shown the trend value of total DPS. Since, the calculated value of 'b' is negative of KBL, it is found that the bank's DPS is

decreasing with time and positive of EBL, it means the bank's DPS is increasing with time. Comparatively the slope of equation of EBL is high and its trend line is sloping upward rapidly. If other things remaining the same, it shows that the DPS decreasing by Rs. 0.1161 and increase by Rs. 8.035 every year of KBL and EBL respectively.

4.4.2 Trend Analysis of MVPS: - Under this topic, an effort has been made to calculate the trend value of MVPS of KBL, and EBL with comparatively under five years study period and project the trend for next five years. The following table describes the trend values of MVPS of sampled banks for five years.

Table: 4.12

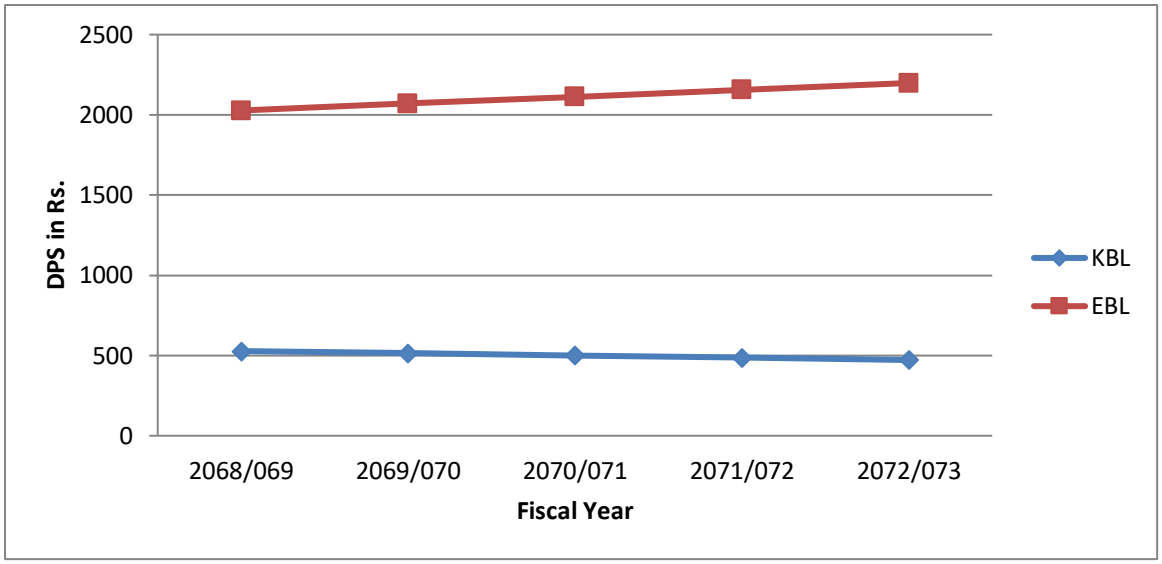
Comparative Trend Analysis of MVPS (In Rs.)

Fiscal Year	Banks	
	KBL	EBL
2068/069	527.44	2026.99
2069/070	513.55	2069.81
2070/071	499.66	2112.62
2071/072	485.77	2155.45
2072/073	471.88	2198.27
Mean (a)	583	1855.71
Rate of Change (b)	-13.89	42.82
Trend Equation(Y)	Y = 583 – 13.89t	Y = 1855.71 – 42.82t

Source: Appendix XI

Table: 4.9

Trend Line of MVPS of KBL & EBL



The above table 4.12 and figure 4.9 shows that the trend line of MVPS is in decreasing trend of KBL and increasing trend of EBL. 'Y' has shown the trend value of MVPS. Since, the calculated value of 'b' is negative of KBL, it is found that the bank's MVPS is decreasing with time and positive of EBL, it means the bank's MVPS is increasing with time. Comparatively the slope of equation of EBL is high and its trend line is sloping upward rapidly. If other things remaining the same, it shows that the MVPS decreasing by Rs. 13.89 and increase by Rs. 42.82 every year of KBL and EBL respectively.

4.5 Independent t-test

In order to test whether the average value of DPS, EPS and MVPS, are significantly different or not between these two sample banks, independent t- test has been applied. For this study some set of null and alternative hypothesis have been formulated and tested.

H_0: There is no significance difference between the average values of DPS of two sample banks.

H_1: There is significance difference between the average values of DPS of two sample banks.

H_0: There is no significance difference between the average values of EPS of two sample banks.

H_1: There is significance difference between the average values of EPS of two sample banks.

H_0: There is no significance difference between the average values of MVPS of two sample banks.

H_1: There is significance difference between the average values of MVPS of two sample banks.

Table: 4.13

Independent t-test (T-Distribution)

Tested Variable	Mean ± SD		Degree Of Freedom	Level Of Significance	Calculated t -Value	Tabulated t - Value	Decision
	KBL	EBL					
DPS of Sample Banks	10.46 ± 8.01	41.88 ± 18.11	(8+8-2)=14	∝=5%	0.561	2.145	H_0 Accepted
EPS of Sample Banks	18.11 ± 4.72	77.02 ± 20.82	(8+8-2)=14	∝=5%	0.905	2.145	H_0 Accepted
MVPS of Sample Banks	547.2 ± 268.2	1708.7 ± 874.8	(8+8-2)=14	∝=5%	0.010	2.145	H_0 Accepted

Source: Appendix XII, XIII and XIV

From the above table 4.13, it is found that the tabulated value of t-distribution is greater then calculated value in each case by considering the test statistic. So, null hypothesis H_0 is accepted and alternative hypothesis H_1 is rejected, it means there is no significant difference between the mean value DPS, EPS and MVPS of sample banks. In other words, both the banks arein the same position with respwct to DPS, EPS and MVPS.

4.6 Major Findings

The major findings of the study derived from the analysis of financial as well as statistical tools of KBL and EBL are as follows.

- The trend of DPS of KBL is in fluctuating over the study period and the trend of EBL is increasing. Comparing to KBL with the average value of 13.942% the EBL is better with the average value of 41.875%. In average EBL adopt the aggressive dividend policy. The Standard Deviations of KBL, and EBL are 5.622 % and 18.114 % respectively, it means KBL has less variability in compare to EBL.
- The EPS of KBL has fluctuating trend over the study period and it reached to Rs.15.67 in the fiscal year 2067/068. But the EPS of EBL is in increasing trend

except the fiscal year 2067/068. In comparisons to KBL, EBL has higher EPS over the study period.

- Comparing to KBL with the average value of 54% the EBL is better with the average value of 72%.In average both the banks are adopted the moderate dividend policy. The Standard Deviations of KBL, and EBL are 31% and 12% respectively, it means EBL has less variability in compare to KBL. The CV of DPR of KBL and EBL is 43.18% and 22.65% respectively which indicate that KBL is more variable than EBL.
- Comparing to EBL with the average value of 30.51 times the KBL is better with the average value of 30.51 times. The Standard Deviations of KBL, and EBL are 14.19% and 7.83 times respectively, it means KBL has more variability in compare to EBL.
- Dividend Yield Ratio of sample Banks are in fluctuating trend over the five year study period. Comparing to KBL with the average value of 2.597% the EBL is better with the average value of 2.738%. The Standard Deviations of KBL, and EBL are 1.305% and 1.315% respectively, it means EBL has more variability in compare to KBL.
- The earning yield ratio of EBL is greater than KBL in each fiscal year. Comparing to KBL with the average value of 3.80% the EBL is better with the average value of 5.18%. The Standard Deviations of KBL and EBL are 1.40% and 1.72% respectively, it means EBL has more variability in compare to KBL.
- The market value per share to book value per share ratio of EBL is greater than KBL in each fiscal year. Comparing to KBL with the average value of 5.47 times the EBL is better with the average value of 17.09 times. The Standard Deviations of KBL and EBL are 2.68 times and 8.75 times respectively, it means EBL has more variability in compare to KBL.
- The growth ratio of DPS of KBL and EBL during the period of study is 35.60% & 16.99%. So, it can be said that KBL and EBL can be maintained the constant dividend payout each year.
- The growth ratio of MVPS of KBL and EBL during the period of study is -4.56% & 7.02%. So, it can be said that KBL cannot be maintained the constant value of share in the market.

- The values of coefficient of correlation (r) of KBL and EBL are 0.4565 and 0.5191 respectively which shows that there is a positive correlation between DPS and MVPS. The calculated 't' value of KBL and EBL are less than the tabulated value i.e. 0.143 < 2.201 and 0.1.740 < 2.201 respectively, therefore it reveals that the relationship between DPS and MVPS is insignificant.
- The coefficient of correlation (r) DPS and EPS 0f KBL and EBL are 0.5302 and 0.9440. This figure shows the positive association between DPS and EPS of both banks. The coefficient of determination (r^2) is 0.2811 and 0.8913 it shows that 28.11% and 89.13% of the variation in the dependent variable (i.e. EPS) has been explained by the independent variable (i.e. DPS).
- The coefficient of correlation (r) between DPR and PER of KBL is 0.1954, it show the low degree of positive correlation between DPE & PER. The coefficient of correlation (r) between DPR and PER of EBL is negative (i.e. -0.0611), this figure shows the negative association between DPR and PER of EBL.
- The trend of DPS is in decreasing trend of KBL and increasing trend of EBL. If other things remaining the same, it shows that the DPS decreasing by Rs. 0.1161 and increase by Rs. 8.035 every year of KBL and EBL respectively.
- The trend line of MVPS is in decreasing trend of KBL and increasing trend of EBL. If other things remaining the same, it shows that the MVPS decreasing by Rs. 13.89 and increase by Rs. 42.82 every year of KBL and EBL respectively.
- By considering the test statistic, null hypothesis H_0 is accepted and alternative hypothesis H_1 is rejected, it means there is no significance difference between the population mean value of DPS, EPS and MVPS of sample banks.

CHAPTER-V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary

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

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

Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividend means the immediate cash flows to investors, which is good but lower future growth is bad. Thus, the dividend policy should be optimal which balances the opposing forces and maximizes the stock price. The dividend policy affects financial structure, the flow of funds, corporate liquidity and investor's attitude; it is

related to overall financing decision as dividend payout reduces the amount of retained earnings that are paid to shareholders in return to their investment. So the purpose of this study is to make comparative analysis of dividend policy of selected banks.. To fulfill the main objectives following specific objectives are formulated.

- To analyze the relationship of financial indicators such DPS, EPS and DPR, PE Ratio, Liquidity Ratio and Profitability Ratio on Market Value Per Share(MVPS) Per Share.
- To explore if there is any uniformity among DPS, EPS and DPR on the two sample commercial banks.
- Find out the impact of dividend on share prices.

To fulfill the research objectives the study is divided into five chapters. In the first chapter, describes the major issues to be investigated along with the general background, brief profiles of the sample banks statement of problem, objectives, significance of the study, limitation of the study and organization of the study. Second chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies in general. The third chapter describes the research methodology employed in the study. This chapter deals with the research design, source of data, methods of analysis, analysis of financial indicators and variables, test of hypothesis, definition of statistical tools etc. The Fourth Chapter deals with the presentation and analysis of data to indicated quantitative factors on dividend policy using statistical tools and techniques. This chapter also includes the major findings. The Fifth Chapter states summary, conclusion and recommendations, compares them with other empirical evidence to the extent possible and provides some suggestions.

5.2 Conclusions

Dividend decision is one of the major decisions of managerial finance as it directly or indirectly determines the company's profitability. Shareholders wealth can be maximized through dividend or capital gains. When a company pays dividend to the shareholders, then they are benefited directly. If the firm retains the earnings to exploit growth opportunities shareholders can expect to be benefited indirectly through increase in the price of their shares. In other words, it is a right dividend decision, which maintains a balance between shareholders interest with that of corporate growth from internally

generated funds. The funds that could not be used due to lack of beneficial investment opportunities should be better paid as dividends.

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

5.3 Recommendations

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

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

of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.

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