CHAPTER – I
INTRODUCTION

1.1 Background of the Study

"Dividend policy for business organization is a very important decision, which depends upon the long-term and short-term strategy of a firm. Dividend policy of a firm is an effect of dividing its net earning into two parts: the retained earnings and dividend payment." *(Pandey; 1999: 770)* Business firms use the retained earnings to provide funds to the firm for long-term growth; we call it as internal financing source also. "Dividend is that portion of earning, which is paid to the common stock holders, is a return on their investment. By a dividend policy we mean some kind of consistent approaches to the distribution versus retention decision rather than making the decision on the purely ad hoc basis from period to period." *(Pearson, William & Gordon; 1972: 405)*

Likewise, dividend policy must be considered in relation to the overall financing decision. In practice, net earnings always may not be appropriate measure of the ability of the firm to pay dividend, that's why, what and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividend but companies ensure towards setting aside funds for maximizing the shareholders' wealth.

When a company pays out a portion of it's earnings to the shareholders in the form of dividend, the shareholders are directly benefited. If company is hopeful to exploit other growth opportunities, the firm can avoid for paying cash dividends. In this condition, shareholders consider their future growth of their stock instead of getting cash dividend. On the other hand, the firm has to pay enough dividends to satisfy investors. If they are paid higher dividends, the market price of the stock also rises. This means of maximizing the shareholder's wealth. Thus shareholders' wealth (return) can be increased through either dividends or capital gains. As the division and retention are

considered as dividend policy, all aspects and questions related to the payment of dividends are contained in dividend policy.

“Financial institutions have definitely contributed and played a gigantic role for domestic resource mobilization and economic development to build up the confidence of the businessmen for promoting their business and industrialists for encouraging opening new business venture. It maintains confidence for various segments and extends credit to people.” *(Hastings; 1996: 72)*

The banking concepts and activities started in Nepal only after the establishment of Nepal Bank Limited in 1937. A central bank (Nepal Rastra Bank) was established to regulate the banking activities and, declare & implement monetary policy of the nation. Then after, it was realized that the commercial bank has its own role and contribution in the economic development. It is the source of economic development; it maintains economic confidence of various segments and extends credit to people. So, another commercial bank, Rastriya Banijya Bank was established on 1966.

Capital market plays an important role in the economics development of a nation. But, in Nepal, the capital market is very small and developing slowly with disorganized. The Nepalese companies (especially government enterprises) have not been able to generate sufficient as compared to the organizations that are established and operated on public sector. Hence the government is not receiving dividends from public enterprises for several years.

In the global perspective, joint ventures are the modes of trading through partnership among the nations and also a form of negotiation between various groups of industries and traders to achieve competitive advantages. Nepal's reform efforts in the financial sectors, begun in 1980's, when Nepal Rastra Bank eased entry restrictions and amendment of the Commercial Bank Act

1974. As a result, three banks namely, NABIL Bank Ltd, Nepal Investment Bank Ltd. and Standard Chartered Bank Nepal Ltd. came into operation prior to 1990s. In 1992, Nepal Rastra Bank adopted liberal outlook in permitting commercial banks to open. Then after, the financial liberalization really took place. Many more banks came into operation making the total number of the commercial banks to twenty five.

Dividend practice in public corporations is still having problem for taking dividend policy. Thus, here neither corporation are able to generate sufficient earnings for dividend payment nor is the government expecting dividends, since it has been observed that dividend payment is practically a crucial problem of the public corporations. Corporation like Nepal Oil Corporation and Nepal Electricity Authority are not distributing earnings as dividend but total effort is focused on minimization of losing through better utilization of capital. Noticeable matter is that this shifting aim of public corporation is failed to minimize the losses.

The joint venture banks in Nepal have brought new hope for productive mobilization of funds according to their new trends of dividend.

Although, twenty eight commercial banks are in operation in the nation; only twenty one commercial banks are listed in security board, on the Nepal Stock Exchange. Out of which only five commercial banks have been taken as sample. They are as follows:

a. Standard Chartered Bank Nepal Ltd.
b. Nepal Arab Bank Ltd.
c. Everest Bank Ltd
d. Bank of Kathmandu Ltd.
e. Himalayan Bank Ltd.

1.1.1 Profile of the Selected Banks

a) Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987. The Bank is an integral part of Standard Chartered Group having an ownership of 75% and the balance owned by the Nepalese public. The Bank is the largest international bank currently operating in Nepal.

With 17 points of representation, 21 ATMs and more than 375 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal. Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Wholesale and Consumer banking. The Bank has been the pioneer in introducing 'customer focused' products and services and aspires to continue to be a leader in introducing new products in delivering superior services. Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's values.

b) Nabil Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 40 points of representation across the nation and over 170 reputed correspondent banks across the globe.

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

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

c) Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. Moreover, EBL was one of the first bank to introduce Any Branch Banking System (ABBS) in Nepal.

In addition, EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society. EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK.

d) Bank of Kathmandu Limited

Bank of Kathmandu started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to

facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning.

The bank targets to contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive area, to use the latest banking technology to provide better, reliable and efficient services at a reasonable cost, to facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies and to contribute to the overall social development of Nepal. Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

e) Himalayan Bank Limited

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits. Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like ‘Any Branch Banking Facility’, Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card,

International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'.

1.2 Statements of the Problem

Dividend is desirable for the shareholders, which inspires them for the further investment on company's shares. But it is found that there is no satisfactory result about dividend decision of commercial banks in Nepal. Likewise, dividend distribution does not match with the earnings of the commercial banks, there does not exist a proper relationship between dividend and quoted market price of share. Similarly, commercial banks with lower returns record stable (rigid) price of share and banks making sound returns do not rigid in share price.

Dividend, the most inspiring factor for the investment on shares of the corporation, is an important aspect of financial management because the dividend policy determines the division of earnings between payment to stockholders and reinvestment in the firm to exploit growth opportunities. It affects the value of firm as well as overall financing decision such as financial structure, the flow of funds, corporate liquidity and investors' satisfaction.

The dividend decision, however, is still a crucial as well as controversial area of managerial finance. There is no consensus among the financial scholars on this subject matter and its relation with stock price. Some financial scholars say that stock prices are least influenced by dividend per share while some others believe that its relevance to the stock prices is quite significant. The idea of relevance is vague as well. It is rather hard to define whether dividend per share has positive effect or its effect is negative one.

Thus for the study, the following research problems have been raised;

a) What is the situation of earning and dividend distribution of commercial banks of Nepal?
b) What impacts do DPS and DPR and have on the MPS of the bank?
c) Does the dividend yield and the joint effect of DPS and EPS changes the MPS?
d) What will be the trend of DPS, DPR and MPS of the commercial banks in forthcoming years?

1.3 Objective of the Study

The study primarily focuses on the dividend practices of commercial banks with a view to suggest ways to maximize the shareholders return, i.e. value of their investment is maximized. Followings are the specific objectives of the study.

a) To analyze the earnings and the dividend distribution of the commercial banks.
b) To examine the impact of DPS on MPS, and the effect of dividend payout ratio on the MPS, and the joint effect of EPS and DPS on MPS.
c) To evaluate the relationship of dividend yield on DPS, EPS and MPS of the corresponding bank.
d) To estimate the value of DPS, MPS and DPR for the forthcoming two fiscal years.

1.4 Significance of the Study

Due to excess liquidity and lack of investment opportunities in the capital market, nowadays people are very much interested and attracted to invest in shares for getting higher returns. When any new company issues (floats) shares through capital markets, very big congregation gathers to apply for owner's certificate. It reveals that people have expectation on higher return for investing in shares. So the dividend decision is one of the most important decisions of financial management. It is an effective tool (way) to attract new investors, maintain present investors and controlling position of the firm.

Having lack of adequate knowledge, the people are haphazardly investing in shares. It shows that there is an extreme necessity to establish clear conception about the return that yields from investing in securities. In the Nepalese perspective, we find that there exist almost none of the companies adopting consistent dividend policy. There may be many reasons behind it. But there is not sufficient study conducted in this regard. Therefore, considering all these facts, the study is undertaken which will help to meet deficiency of the literature relating to dividend practice and price of stock. So this study is of considerable importance.

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

1.5 Limitations of the Study

The limitations of the study are as follows:

a) The accuracy of secondary data depends on the reliability of the annual reports of the concerned banks.
b) The study is focused only on dividend practice, earning and price of stock only and does not cover the other financial aspects.
c) Only five banks are taken as samples to fulfill the objectives of the study.
d) This study covers five fiscal year period only, i.e. from 2004/05 to 2008/09.
e) Limited time and resources are also constraints.

1.6 Chapter Scheme

The study has been organized into five chapters;

Chapter – I: Introduction

It consists of background of the study, statement of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter – II: Review of Literature

It includes a discussion on the conceptual framework on dividend and its practices. It also reviews the major studies relating with dividend decision of several authors/researchers and from the several books, journals and article, and thesis.

Chapter – III: Research Methodology

It explains the research methodology used to evaluate dividend practices of commercial banks in Nepal. It consists of research design, population and sample, source of data collection, method of analysis financial tools and statistical tools used in the analysis.

Chapter – IV: Data Presentation and Analysis

Chapter four fulfills the objective of the study by presenting data and analyzing them with the help of various statistical tools as per methodology. It is concluded with the findings of the study.

Chapter –V: Summary, Conclusion and Recommendations

It states summary, conclusion and recommendation of the study based on the data presentation and its analysis using the tools used in the analysis.

Besides these chapters, **Bibliography** and **Appendix** are also included at the end of the study.

CHAPTER - II
REVIEW OF LITERATURE

2.1 Conceptual Framework

Dividend decision is an integral part of financial management decision. It is in the sense that the firm has to choose between distributing the profits to the shareholders and reinvesting it to finance the business. “The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders in return to their investment and the amount to be retained in the firm. It affects the financial structure, the flow of funds, corporate liquidity and investor's attitudes. It is a matter of interest for all the stakeholders. Thus, it is one of the central decision area related to policies seeking to maximize the value of firm's common stock.” *(Rao; 1992: 43)*

“Dividends refer to that portion of retained earnings that is paid to stockholders while dividend policy refers to the policy or guidelines that management uses in establishing the portion of retained earnings that is to be paid in dividends.” *(Mathur; 1979: 297)*

“The policy of a company in the allocation of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. All aspects and questions related to payment of dividend are contained in a dividend policy. Generally, dividends are paid in the form of cash, which reduces the cash balance of the company. There is a reciprocal relationship between retained earnings and cash dividends. If retained earning is kept more by the company, less will be the dividend and vice-versa. The decision depends upon the objective of the management for wealth maximization.” *(Gitman; 1994: 94)*

What and how much is desirable to pay dividend, is always a matter of dispute because shareholders expect higher dividend from company, as it tends to

increase their current wealth whereas retention of earning is desirable for the growth of firm. These two objectives of the dividend policy are always in conflict. There is not yet consensus on whether the firms should follow certain pattern to distribute dividend and retain earnings. However, there is different decision models developed to analyze the situation and reach a decision. These decision models are conflicting and consider the different aspects of the firm. One school of thought argues that dividend payment has no impact on valuation of a firm whereas other theories of dividend decision argues dividend to be active variable in valuation of firm. These different models on the relationship between dividend and the value of the firm will be discussed later on in this chapter in detail.

2.1.1 Concept of Dividend

The various concepts of dividend, defined in various books of finance, are discussed below:

(a) Discretionary concept

"When the board of directors declares the amount of dividend, it is known as discretionary dividend. According to this concept, dividend payment is one of directors' decisions and so they use discretion in declaration of dividend. Corporations' charter vested powers to board of directors and it is up to their discretion that determines what and how much to pay by way of dividends to stockholders." *(Weston & Copeland; 1986: 123)*

"The power to declare dividends is lodged in the board of directors of the corporation. At a meeting of the board, in accordance with the charter and corporate by-laws, the board passes a resolution declaring the amount of dividend, the period which it covers, the payable date, and the record date of ownership." *(Gilbert & Edwin; 1967:180)*

Even in the context of Nepalese corporations, the decision regarding the payment of dividend is purely vested in the board of directors of corporation, and it is also insisted by the corporate acts. There are not any legal rights to demand any part of profit in the form of dividends by the ordinary shareholders because profits are the property of the corporations and not of individual shareholders.

(b) Pro-Rata distribution concept

"A dividend is a pro-rata distribution of cash, other assets, promises to pay, or additional stock to the shareholders of a corporation chargeable against its surplus accounts or (for certain liquidating dividends only) against its capital stock accounts." *(Gilbert & Edwin; 1967:180)*

The pro-rata distribution refers to proportionate share of all outstanding stock, or all shares of a given class, which participate equally in whatever is distributed. Thus, under this concept, all shareholders enjoy equal right on the profit distributed by the corporations, according to their proportion of shares.

(c) Residual concept

"Dividend is the residue left after meeting all obligations and adjusting for retention of earnings and other provisions. It is a residue since shareholders get dividends only when there exists balance of earnings after paying fixed obligations such as operating expenses, interest, provisions for depreciation, and setting.

Under this concept, dividend policy is a residual firm investment policy and dividends are paid only after financing all investment opportunities. So, dividend policy is totally passive in nature. "When we treat dividend policy as strictly a financing decision, the payment of cash dividends is a passive residual." *(Van Horne; 1993: 327)*

(d) Liability Concept

"Dividend once declared by the board of directors, becomes a liability of the corporation. When the board of directors of a solvent corporation declares cash dividend, the amount declared becomes an obligation to pay. If the directors avoid payment of dividend after declaration, the shareholders would have a right to take action against the directors to force payment. The dividends declared are treated as liabilities in the balance sheet if the shareholders do not come to claim in time." *(Pandey, 1991: 701)*

2.1.2 Types of Dividend

Though cash dividend is assumed to be the most popular form of dividend, corporation needs to follow various types of dividend according to the objectives and policies, which they implement. "The type of dividend that corporations follow is partly a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plans and policies." *(Shrestha; 1980: 70)*

According to the changing needs of corporations, dividend is being distributed in several forms viz. cash dividend, stock dividend (bonus share issue), scrip dividend, property dividend, optional dividend and bond dividend. But in Nepal and India only two types of dividend namely cash dividend and stock dividend are being practiced.

i. Cash Dividend

"Cash dividend is the form of dividend, which is distributed to shareholders in cash out of earnings of company. The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed." *(Hastings; 1996: 370)* So the companies should wisely make decisions regarding payment of cash dividend.

ii. Stock Dividend / Bonus Share

"A stock dividend represents the distribution of shares in addition to the cash dividend to the existing shareholders. This has the effect of increment in the number of outstanding shares of the company. The declaration of the bonus shares will increase the paid-up share capital and reduce the reserve and surplus of the company. The total net worth is not affected by the bonus issue. In fact, it represents nothing more than re-capitalization of the owners' equity portion, i.e., the reserve and surplus. It is simply an accounting transfer from retained earning to capital stock." *(Gilbert and Edwin; 1967: 192)*

iii. Scrip Dividend

"A scrip dividend is issued when company has been suffering from the cash problem and does not permit the cash dividend, but has earned profit. A dividend paid in promissory notes is called a scrip dividend. Scrip is a form of promissory notes promising to pay the holder at specified later date. Under this form of dividend, company issues and distributes transferable promissory notes to shareholders, which may be interest bearing or non - interest bearing. The use of scrip dividends is desirable only when corporations have really earned profit and have only to wait for the conversion of other current assets into cash. Therefore, in order to overcome the temporary shortage of cash, sometimes company uses scrip dividends." *(Van Horne; 1993: 343)*

iv. Property Dividend

"It is also known by the name of liquidating dividends. It involves a payment of assets/property in any form other than cash. Such form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Companies own products and the securities of subsidiaries are the examples that have been paid as property dividend." *(Hastings; 1996: 375)*

v. Optional Dividend

The optional dividend is, in fact, not a kind of dividend but simply a choice of dividend given to the shareholders to accept either cash or stock dividend. But the shareholders consider the comparative value of stock dividend with the amount of optional cash. “If the two are very nearly the same, as it often the case, the cash option may be a convenience to the small shareholder, who thus avoids the case and expense of selling either whole or fraction of shares he does not wish to keep.” *(Waring; 1931: 404)*

vi. Bond Dividend

“This type of dividend is distributed to the shareholders in the form of bond. It helps to postpone the payment of cash. In other words, company declares dividend in the form of its own bond with a view to avoid cash outflows. They are issued rarely. They are long term enough to fall beyond the current liability group. The stockholders become secured creditors if the bond carries lien on assets.” *(Gitman; 1994: 552)*

2.1.3 Residual Theory of Dividends

“The residual dividend policy suggests that dividend paid by the firm should be viewed as a residual amount left after all acceptable investment opportunities have been undertaken.” *(Gitman; 1994: 537)*

Dividend policy is a firm’s policy in which dividend is paid only after all acceptable investments have been financed. So, payment of dividend depends on its investment policy. In other words, the firms use earnings to finance the investment opportunities having good returns. If the firm has earnings left after financing all acceptable investment opportunities these earnings would then be distributed to shareholders in the form of dividend. If not, there would be no dividends. Further, “the internally generated funds (i.e. retained earnings) are comparatively cheaper than the funds obtained from external sources (i.e. issuing new shares). It is because the retained earning or internally generated

fund does not imply any flotation cost as in the external sources by selling equity shares." *(Van Horne; 1993: 327)*

2.1.4 Stability of dividends

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

Stability or regularity of dividends is considered as a desirable policy by the management of most companies. Shareholders also generally prefer stable dividends because all other things being the same, stable dividends may have a positive impact on the market price of the share." *(Sinkey; 1988: 45)*

Three distinct forms of such stability may be distinguished.

a. Constant dividend per share

"According to this form of stable dividend policy, a company follows a policy of paying a certain fixed amount per share as dividend. The fixed dividend amount would be paid year after year, irrespective of fluctuation in the earnings." *(Bearly & Myers; 1988: 51)*

b. Constant Payout Ratio

"Constant/target payout ratio is a form of stable dividend policy followed by some companies. The term payout ratio refers to the ratio of dividend to earnings or the percentage share of earnings used to pay dividend. With constant/target payout ratio, a firm pays a constant percentage of net earnings as dividend to the shareholders." *(Bearly & Myers; 1988: 51)*

c. Stable rupee dividend plus extra dividend

"A policy of paying a low regular dividend plus a year end extra amount in good years is a compromise between the previous two policies. Under this

policy, a firm usually pays fixed dividend to the shareholders and in years of marked prosperity, additional or extra dividend is paid over and above the regular dividend. As normal conditions return, the firm cuts the extra dividend and pays the normal dividend per share." *(Bearly & Myers; 1988: 52)*

2.1.5 Factors affecting Dividend Policy

Many considerations may affect a firm's decision about its dividends, some of them are unique to that company, and some of the more general considerations are given subsequently. They are as follows:

a. Size of the earnings

"A firm that has high level of earning will generally pay a larger portion of its earnings in dividends. If the size of earnings is small, a smaller amount of the profits may be distributed to shareholders. Thus, size of earnings affects the dividend policy of the firm." *(Dean; 1999: 67)*

b. Liquidity Position

"The cash or liquidity position of the firm influences its ability to pay dividends. A firm may have sufficient retained earnings, but if they are invested in fixed assets, cash may not be available to make dividend payment. Thus, the company must have adequate cash available as well as retained earning to pay dividends." *(Dean; 1999: 68)*

c. Legal rules

"Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. While specific limitations vary be state, generally a corporation may not pay a dividend (i) if the firms' liabilities exceed its assets, this provision is known as 'The insolvency Rate', (ii) if the amount of the dividend exceeds the accumulated profits (retained earnings), this legal provision is known as 'The Net Profit Rule', and (iii) if the dividend

is proposed from capital invested in the firm. This provision is also known as 'The Capital Impairment Rule.' The second type of legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts." *(Dean; 1999: 68)*

d. Desire of shareholders

"Shareholders may be interested either in dividend incomes or capital gains. Wealthy shareholder in a high income tax bracket may be interest in capital gains as against current dividends. A retired and old person, whose source of income is dividend, would like to get regular dividend. In a closely held company, management usually knows the desires of shareholders. So, they can easily adopt a dividend policy that satisfies all shareholders. But in a widely held company, number of shareholders is very large and they have diverse desires regarding dividends and capital gains. Some shareholders want cash dividends, while other prefer bonus share." *(Dean; 1999: 70)*

e. Need to Repay Debt

"The need to repay debt also influences the availability of cash flow to pay dividend." *(Dean; 1999: 70)*

f. Restrictions in debt Contracts

"Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above a specified amount. Also, preferred dividends take precedence to common stock dividends." *(Dean; 1999: 71)*

g. Rate of Asset Expansion

"A high rate of asset expansion creates a need retain funds rather than to pay dividends." *(Dean; 1999: 71)*

h. Profit Rate

"A high rate of profit on net worth makes it desirable to retained earnings rather than to pay them out if the investor will earn less on them." *(Dean; 1999: 71)*

i. Stability of Earning

"A firm that has a stable earnings trend will generally pay a larger portion of its earning sin dividends. If earnings fluctuate significantly, a larger amount of the profits may be retained to ensure that enough money is available for investment projects when needed." *(Dean; 1999: 72)*

j. Tax Position of Shareholders

"The tax position of stockholders also affects dividend policy. Corporations owned largely by taxpayers in high income tax brackets tend toward lower dividend payout where as corporations owned by small investors tend toward higher dividend payout." *(Dean; 1999: 72)*

k. Control

"For many small firms, and certain large ones, maintaining the controlling vote is very important. These owners would prefer the use of debt and retained profits to finance new investments rather than issue new stock. As a result dividend payout will be reduced." *(Dean; 1999: 73)*

l. Access to the Capital Markets

"A firm's access to capital markets will be influenced by the age and size of the firm, therefore a well-established firm is likely to have higher payout ration than a smaller, newer firm." *(Dean; 1999: 73)*

2.2 Review of Major International Studies

In this section, an attempt has been made to review of the major studies concerning dividends and stock prices and management views on dividend policy.

Lintner (1956), in his study, *"Corporate Dividend Policy in the American Context"*, investigated a partial adjustment model by testing the dividend patterns of 28 companies. Lintner stated that dividends are 'sticky' in the sense that they are slow to change and lay behind shifts in earnings by one, or more periods. Further, dividend is a function of earnings of that year, existing dividend rate, target payout ratio and speed of adjustment. The followings were the basic objectives of the study.

a. To identify occasions when a change in dividends might well have been under active consideration even though no change was made.
b. To determine the factors existing most actively into dividends.

He concluded that a major portion of a firm's dividend could be expressed in the following manner.

$$DIV_t^* = P\ EPS_t \text{ ----------(1)}$$

and $$DIV_t - DIV_{t-1} = a+b\ (DIV_t^*-DIV_{t-1}) +e_t \text{ ----------(2)}$$

Adding DIVt-1 on both sides of equation (2)

$$DIV_t = a+b\ DIV_t^* +(1-b)\ DIV_{t-1} +e_t \text{ ----------(3)}$$

Where,

DIV_t^*= Firm's desired payment

EPS_t= earnings

P= Targeted payout ratio

a = constant relating to dividend growth

b = adjustment factor relating to the previous period's dividend and new desired level of dividends where, $b < 1$.

The major findings of this study were as follows:

a. Firms generally think in terms of proportion of earnings to be paid out.
b. In order to modify the pattern of dividend, investment opportunities, liquidity position, funds flows are not considered.

Firms generally have target pay out ratios in view while determining change in divided rate or dividend per share.

Modigliani and Miller (1961), in their study, *"Dividend Policy, Growth and Valuation of Share"*, stated that dividend policy of a firm is irrelevant as it does not affect the wealth of the shareholders. The value of the firm depends on the earning power of the firm's assets or its investment policy. Thus, when the investment policy is given, the dividend decision - splitting the earnings into packages of retentions and dividends does not influence the value of equity shares. In other words, the division of earnings between dividend and retained earning is irrelevant from shareholders viewpoint.

In general, the argument supporting the irrelevance of dividend valuation is that dividend policy of the firm is a part of its financing decisions. As a part of the financing decision of the firm, the dividend policy of the firm is a residual decision and dividends are passive residual.

The MM approach of irrelevance dividend is based on the following critical assumptions:

a. The firms operate in perfect capital market where all investors are rational. Information is freely available to all. Securities are infinitely divisible and no investor is large enough to influence the market price of securities.
b. There are no flotation costs. The securities can be purchased and sold without payment of any commission or brokerage etc.
c. Taxes do not exist.

d. The firm has a definite (fixed) investment policy, which is not subject to change.
e. Risk of uncertainty does not exist. Investors are also able to forecast future prices and dividends with certainty, and one discount rate is appropriate for all securities and all time periods. Thus r = k = kt for all time.

M-M provide the proof in support of their argument in the following manner.

Step-one

The market price of a share of the firm in the beginning the period is equal to the present value of dividends 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 = Current market price of a share (market price at the beginning or at the Zero period.)

K_e = the cost of equity capital (Assumed constant)

D_1= the dividend per share to be received at the end of the period one.

P_1 = the market price of the share at the end of the period one.

Step-two

Multiply both sides of equation (1) by the number of shares outstanding (n) to obtain the total value of the firm if no new financing exists.

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

Where,

n = no. of outstanding shares at zero period.

Step-three

If the firm issues (sells) number of new shares (m) to finance the new investment needs of the fund at a price of P_1, the value of the firm at time zero will be:

$$np_c = \frac{n(D_1 + P_1) + (nP_1 - mP_1)}{1 + K_e} \text{.....(2)}$$

$$np_c = \frac{nD_1 + P_1 + nP_1 - mP_1}{1 + K_e} \text{.....(3)}$$

Where,

n = no. of shares at the beginning (no. of outstanding shares at zero period.)

m= no. of equity shares issued at the end of the period.

Step-four

The investment proposals of a firm, in a given period of time can be financed, either by retained earning or the issuance of new shares or both. Thus the amount of new issued will be:

$mp_1 = I – (E – nD_1)$

Or, $mp_1 = I – E + nD_1$ ……. (4)

Where,

I = Investment needs

E = Earning available.

Step-five

By substituting the value of mp_1 from equation (4) to equation (3), we get,

$$np_o = \frac{nD_1 + (n+m)p_1 - I + E - nD_1}{1 + K_e}$$

$$np_o = \frac{p_1(n+m) - I + E}{1 + K_e} \text{.....(5)}$$

Step-six

Conclusions: Since dividend does not appear directly in expression and E, I, (n+m) p1 and ke are assumed to be independent of dividend.

In other words, MM concludes that dividend policy is irrelevant and dividend policy has no effect in the value of the firm. A firm that pays dividends will have to raise funds externally to finance its investment plans. MM hold that when the firm pays dividends, external financing offsets its advantage.

Gordon (1962), in his study, *"The Stock Valuation using the Dividend Capitalization Approach",* stated that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. The investors are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. Further, the investors have a strong preference for present dividends to future capital gains under the condition of uncertainty. It is assumed that current dividend is less risky than the expected capital gain. Also, an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield (D_1/P_o) is less risky than the expected capital gain.

Basic assumptions of this model are as follows:

a. The firm uses equity capital only.
b. Internal rate of return (r) and cost of capital (k_e) are constant.
c. The firm and its stream of earnings are perpetual.
d. There are no taxes on corporate income.
e. The retention ratio (b) once decided upon is constant. Thus the growth rate, ($g= b_r$) is constant forever.
f. K_e' must be greater than g ($=b_r$) to get meaningful value.
g. The source of financing for new investment is only retained earning. No external financing is available.

Gordon's model is also known as Growth Model. The formula for finding out the market value per share, proposed by Gordon is given below.

$$P = \frac{E(1-b)}{ke-br} = \frac{E(1-b)}{ke-g}$$

Where,

P= Price of share / market value per share

E= Earning per share

b= Retention ratio / percentage of retained earning

1-b= Dividend payout ratio (i.e., percentage of earning distributed As dividend)

ke= Capitalization rate / cost of capital

br= g or growth rate in r, (i.e., rate of return on investment of an All equity firm)

Friend and Puckett (1964), in their study, *"Dividend and Stock Price"*, used the regression analysis on the data of 110 firms from five industry samples, viz., chemicals (n=20), electronics (n=20), electric utilities (n=25), foods (n=25), and steels (n=20), in each of two years, 1956 and 1958. The industries were selected to permit a distinction to be made between the results for growth and non-growth industries and to provide a basis for comparison with results by other authors for earlier years. Both cyclical and non-cyclical industries were covered. The periods covered include a boom year for the economy when stock prices leveled off after a substantial rise (1956) and a somewhat depressed year for the economy when stock prices, however, rose strongly (1958).

They used two-regression model of price function and dividend supply function. In price function, dividends, retained earnings & price earnings ratio are independent variables, whereas, earnings, last year's dividends and price earning ratio are independent variables in dividend supply function.

Symbolically, their price function and dividend supply function can be written as:

Price function; $P_t=a+b\ D_t+c\ R_t+ d\ (E/P)\ t-1$

Where,

P_t = Per share price at time t

D_t = Dividends at time t

R_t = Retained earnings at time t

(E/P) t-1 = Lagged earnings price ratio

And, Dividend supply function;

$D_t= e + f\ E_t + g\ D\ t-1 + h\ (E/P)\ t-1$

Where,

E_t = Earnings per share at time t

P t-1= Last year dividend

The followings were the basic assumptions of their study:

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

Friend and Puckett concluded that dividends have a predominant influence on stock prices in the same three out of five industries but the differences between the dividends and retained earnings coefficients were not quite so marked as in the first set of regressions. The dividends and retained earnings coefficients were closer to each other for all industries in both years except for steels in 1956, and the correlations are higher, again except for steels.

At last, Friend and Puckett found a conclusion 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. smaller (lower) dividends.

Walter (1966), in his study, *"Dividend Policy and Common Stock Price"*, proposed a model for share valuation. He stated that the dividend policy of the firm affects the value of the shares. So, the dividends are relevant. Also, the choice of dividend policies always affects the value of enterprise.

The assumptions of the Walter's model are as follows:

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

Based on these above assumptions, Walter has given following formula of valuation of equity share.

$$P = \frac{DPS}{K_e} + \frac{r/k_e\,(EPS\text{-}DPS)}{K_e}$$

Where,

P = market value of an equity share (Market price per share)

DPS = Dividend per Share

EPS = Earning Per Share

r = The rate of return on the firm's investment.

k_e = cost of capital / capitalization rate

According to Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return (r) and its cost of capital (k). Walter referred different dividend policy for different types of the firm which can be summarized as follows. (Walter; 1966: 29-41)

Van Horne and Mc-Donald (1971), in their study, *"Dividend policy and New Equity Financing"*, investigated the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks.

Empirical tests are performed with year end 1968 cross sections for two industries, using a well-known valuation model. For there investigation, they employed two samples of firms viz. the 86 electric utilities in the continental U.S. which are included on the COMPUSTAT utility data tape; and 39 companies in the electronics and electric component industries as listed on the COMPUSTAT industrial data tape in 1968.

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, except for those firms in the highest new issue group and it made new equity a more costly form of financing than the retention of earnings.

They also indicated that the "Cost" disadvantages of new equity issues relatives to retained earnings widens as relatively large amounts of new equity are raised, so that the payment of dividends through excessive equity financing reduces share prices. For forms in the electronics-electronic component industry, a significant relationship between new equity financing and value was not demonstrated.

Chawla and Srinivasan (1987), in their study, *"Impact of Dividend And Retention on Share Price"*, selected 18 chemicals and 13 sugar companies and estimated cross-sectional relationship for the years 1969 and 1973. They collected the required data from the official directory of Bombay stock exchange. They used two stages least square technique for estimation. They also used lagged, earnings price ratio instead of lagged price earnings ratio, i.e. $P/E_{(t-1)}$.

The followings were the prime objectives of their study.

a. To test the hypothesis of dividend and retained earnings.
b. To estimate a model to explain share price, dividend and retained earnings relationship.
c. To examine the structural changes in estimated relations over time.

In order to achieve (attain) these objectives, they used simultaneous equation model as developed by Friend and Puckett (1964). The following was the model in its unspecified form.

a. Price function

   $P_t = f [D_t, R_t, P/E_{(t-1)}]$

b. Dividend supply function

   $D_t = f [E_t, D(_t-1), P/E (_t-1)]$

c. Identity,

   $E_t = D_t + R_t$

It was found, from the result of their two stages least square estimation, that the estimated coefficients had the correct sign and the coefficients of determination of all the equations were very high in case of chemical industry. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry, they found that the sign for retained earnings is negative in both years and left for further analysis of sugar industry.

Finally, they concluded that dividend hypothesis holds well in the chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry. They also stressed that the impact of dividend is more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings.

2.3 Review of Journals and Articles

Azhagaiah & Sabari (2008), in their article, *"The Impact of Dividend Policy on Shareholders' Wealth"*, have attempted to evaluate the relationship between the dividend policy and the shareholders' wealth. First the average wealth of investors (shareholders) is compared between the dividend paying and non-paying companies. The company which paid dividend for three years or >3 years is treated as dividend paying company, otherwise non-paying company. And it is found that there is significant difference in average market value relative to book value of equity between dividend payers and non-payers of (organic and inorganic) chemical companies.

Generally, higher dividend increases the market value of the share and vice versa. Shareholders preferred current dividend to future income so, dividend is considered as an important factor which determines the shareholders' wealth. This is normally true in case of salaried individuals, retired pensioners and others with limited incomes. Dividend has information content and the payment of dividend indicates that the company has a good earning capacity. The wealth of the shareholders is greatly influenced mainly by five variables viz., Growth in Sales, Improvement of Profit Margin, Capital Investment Decisions (both working capital and fixed capital), Capital Structure Decisions, Cost of Capital (Dividend on Equity, Interest on Debt) etc. As far as the dividend paying companies are concerned, there is a significant impact of dividend policy on shareholders' wealth in Organic Chemical Companies. Whereas, as far as the Inorganic Chemical Companies are concerned, the shareholders' wealth is not influenced by the dividend payout.

Miller & Rock (2009), in their article, *"Dividend Policy under Asymmetric Information"*, have stated that finance specialists have long recognized the inability of the standard full information model of the firm's dividend-investment decision to accommodate the now thoroughly documented evidence of dividend-announcement effects that clearly imply asymmetries of

information between the investing public and the firm's decision makers. In the absence of a superior alternative, however, they have continued to use many of the main implications of the full information model, especially its investment optimality criterion, in the hope that any manipulations of announcement effects will prove ephemeral and will be reversed once the truth becomes known.

However such hope may not be warranted once the analysis recognizes the possibility of trading shares (rather than merely ‘owning’ them as in the standard valuation models). When trading is admitted to the model along with asymmetric information, the consistency of the full- information optimum investment and dividend policies can no longer be taken for granted. Inconsistent policies will presumably be eliminated, but elimination may come in any of a number of different ways. One possibility is to keep the assumptions of asymmetric information and the possibility of trading shares and then to seek consistent alternative decision rules for investment dividends. Such rules do exist. They preserve many of the properties of the standard model, and they provide a straightforward rationalization of the observed announcement effects. But, subject to only trivial exceptions, these rules imply levels of investment that are lower and levels of dividends that are higher than under the standard, full information optimum.

Al-Deehani (2010), in her article, *“Determinants of Dividend Policy: The Case of Kuwait”*, has shown that dividend policy does matter and that managers believe they are frequently motivated to pay dividends by factors that belong basically to three groups of determinants. These determinants are of value relevant nature and value-irrelevant nature.

Value relevant determinant is divided into clientele-effect set of motives and signaling set of motives. Further, the respondents from all sectors seem to agree on the importance of the clientele-effect set of motives as a value determinant

of dividend policy. An agreement among the sectors can also be detected on the unimportance of the value-irrelevant set of motives to dividend policy. The signaling group of motives differs significantly in importance as a determinant of dividend policy among the sectors. It seemed important to the food and services sectors and unimportant for the other sectors.

Micah (2010), in her article, *"Dividend Policy, Dividend Initiations, and Governance"*, has stated that corporate governance affects both the willingness of firms to pay dividends and the market reaction to dividend initiation announcements. Firms with characteristics that are thought to proxy for weak internal and external governance (large, insider dominated boards, entrenched managers, and low ownership levels by insiders and important external monitors) are more likely to pay cash out to stockholders in the form of dividends, although there is some evidence that these firms are also less likely to pay cash out to stockholders in the form of stock repurchases. Such firms also experience significantly more positive stock price reactions to dividend initiation announcements.

Taken together, these results suggest that firms use dividend policy to compensate for other characteristics that have the potential to create agency problems between managers and outside equity holders. Dividend policy, therefore, appears to be a substitute for other control mechanisms in the equilibrium monitoring/bonding package chosen by firms, and the market values the anticipated reduction in agency costs resulting from the choice to begin paying dividends. While initiation announcement returns are significantly more positive for firms with weak governance, initiation returns are significantly different from zero (and positive) even for firms that traditional proxies suggest have strong internal and external governance mechanisms. Clearly, something other than an anticipated reduction in agency costs also drives abnormal equity returns around dividend initiation announcements.

2.4 Review of Thesis

Ghimire (2002), in his study, *"Dividend Policy of Listed Companies with Reference to Banks, Finance and Insurance Companies"*, has the main objective to examine the dividend policy of listed companies. The other specific objectives of the study are;

a. To identify the regularity of divided distribution of different listed companies.
b. To identify the relationship between dividend policy and other financial indicators.
c. To find out whether dividend policy affect the value of the firm or not.
d. To analyze the relationship between DPS and MPS.
e. To provide suggestion for the improvement of sample companies dividend policy on the basis of findings.

The major findings of the study are:

a. The average dividend per share of the banks is satisfactory compared to finance and insurance companies.
b. The average earning per share of the bank is also more satisfactory than finance and insurance companies.
c. DPS of the finance companies are more fluctuating in comparison to banks among them HBL has more fluctuation and NGBL being consistent.
d. Dividend yield of the finance and insurance are higher than banks and more consistent too.
e. Banks are following aggressive dividend policy due to higher DPR whereas finance and insurance companies implemented moderate dividend policy.

Adhikari (2003), in his study, *"Corporate Dividend Practices in Nepal"*, has the main objective to analyze the dividend practices in Nepal. The other specific objectives of the study are;

a. To analyze the properties of portfolios formed on dividend.
b. To examine the relationship between dividend and stock prices.
c. To test the impact of earning on dividend distribution.

The major findings of this research are:

a. Financial position of high dividend paying companies is comparatively better than that of low dividend paying companies.
b. Market price of stock of both finance and non finance and non finance sectors are affected by dividends.
c. There is a positive relationship between dividend and stock price
d. There is a negative relationship between dividend payout and earnings before tax to net worth
e. Stocks with larger ratio of DPS to book value per share have higher profitability. These profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

Budhathoki (2006), in his study, *"The study of Dividend Policy of the commercial Banks in Nepal"*, has the main objective to examine the dividend policy in banks. The other specific objectives of the study are;

a. To compare the dividend policy followed by different commercial banks chosen.
b. To analyze the relationship of dividend on other financial indicators.
c. 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 this study are:

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

Karki (2006), in his study, *"A Study on Dividend Policy in Finance Companies"*, has the main objective to examine the dividend policy followed by finance companies. The other specific objectives of the research are;

a. To compare the dividend paid by Annapurna Finance Company Ltd. and Butwal Finance Ltd.
b. To examine the relationship between DPS with EPS, MPS and BPS.
c. To predict DPS in future years.

The major findings of the study are;

a. The shareholders of AFCL enjoyed higher DPS than those of BFL.
b. AFCL made more EPS than BFL. However, DPR of BFL is higher than DPR of AFCL, which indicates that BFL has concentrated on attracting new shareholders by distributing more portion of its earning while AFCL focused on retaining earning for internal financing.
c. There is high positive relationship between DPS and EPS of AFCL and the relationship is statistically significant. However, the relationship between DPS and EPS of BFL is positive but the relationship is insignificant.
d. The correlations coefficient indicates that MPS increases with the increase in DPS of each bank and the relationship is positively significant.

e. The regression analysis indicates that the MPS of both banks is highly dependent on the DPS and EPS of corresponding banks.
f. The trend analysis depicts that the DPS of AFCL in the fiscal year 2005/06 and 2006/07 will be Rs.12.76 and Rs.14.85 respectively, whereas the DPS of BFL will be Rs.9.82 and Rs.10.15 in the fiscal year 2005/06 and 2006/07 respectively.

Khatiwada (2008), in his study, *"A comparative study of Dividend Policy in Nepal Investment Bank Ltd. and Standard Chartered Bank Ltd."*, has the main objective to identify the dividend policy in SCBNL and NIBL. The other specific objectives of the research are;

a. To examine the relationship between earning and dividend distribution.
b. To evaluate the impact of dividend on share price.
c. To examine the relationship of DPS with other financial indicators.

The major findings of the study are;

a. The shareholders of SCBNL received comparatively very high DPS than the shareholders of NIBL. On average, SCBNL paid Rs. 110 DPS, whereas NIBL paid Rs. 14.50 DPS.
b. SCBNL remained more successful than NIBL in generating earning per share. On average, SCBNL earned Rs. 155.84 per share, while NIBL earned only Rs. 50.54.
c. The DPR of SCBNL is also very high compared to that of NIBL. The average DPR of SCBNL is 70.59% and that of NIBL is 28.69%.
d. DPS has high influence on the price rise/fall of share. Both MPS and BPS are highly dependent on the DPS of corresponding banks.
e. The prime objective to invest in bank is to earn dividend. About 78% of the respondents stated that dividend is the most alluring factor in share investment.
f. There exists high correlation between DPS and EPS, DPS and MPS and DPS and BPS of both banks.

Bohara (2009), in his study, *"A Comparative Study of Dividend Policy in Commercial Bank"*, has the main objective to find out the dividend policy in CBs. The other specific objectives of this study are:

a. To find out the impact of dividend on share prices.
b. To analyze the relationship of financials indicators.
c. To examine if there is any uniformity among DPS, EPS and DPR on the six sample banks.

The major findings of this study are:

a. Average EPS and DPS for the period covered by the study of all concerned banks are satisfactory.
b. Analysis of coefficient of variance indicates that there is large fluctuation in EPS and DPS and other are relatively more consistent.
c. The analysis of DPR shows that none of the sample banks have consistent dividend policy.
d. The market value of shares in market in fluctuating in all sample banks.
e. The most important decision is that no specific dividend payment strategy is followed by these banks. Payment of cash dividend and stock dividend are made without wise managerial decision due to unstable and adequate dividend and unequal payout ratio.

2.5 Research Gap

All of the above research focused on the secondary data analysis to examine the dividend distribution pattern in listed companies. However, for the examination of dividend policy, the analysis of primary data is also equally important. Keeping this fact into consideration, the present study embraces both the secondary data and primary data to analyze the dividend practices and its impact on market price. Further, the study uses multiple regression analysis to trace out the joint effect of EPS and DPS on MPS.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

The main objective of this research work is to do the comparative study of dividend practice and price of stock of selected commercial banks. To complete this study, following design and format has been adopted.

First of all, information and data are collected. Both primary and secondary data are collected. The important information and data are selected. Then data are arranged in useful manner. After that, data are analyzed by using appropriate financial and descriptive and analytical tools. In analysis part, interpretation and comments are also made wherever necessary.

3.2 Population and Sample

At present, there are 28 commercial banks, including recently operated Mega Bank Limited, operating in Nepal. However, only 23 commercial banks are listed in NEPSE. Due to limited time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, sampling has been done selecting from population. The samples to be selected are as follows:

(i) Standard Chartered Bank Nepal Limited
(ii) Nepal Arab Bank Limited
(iii) Everest Bank Limited
(iv) Bank of Kathmandu Limited
(v) Himalayan Bank Limited

3.3 Sources of Data

The study is based on both secondary data only. The secondary data are collected mainly from the annual reports of SCBNL, NABIL, EBL, BOK and HBL, especially financial indicators presented by the banks. Besides these, the

circulars and annual reports of NRB, annual reports of SEBON and NEPSE, the official website of the sampled banks has been equally visited for the data collection.

3.4 Period of the study

The study is based on five years financial data of sample banks (i.e., SCBNL, NABIL, EBL, BOK and HBL) from fiscal year 2004/05 to 2008/09.

3.5 Research Tools

To achieve the objectives of the research, the following financial and statistical tools will be used.

3.5.1 Financial Tools

a) Earning Per Share (EPS)

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholders. EPS is computed to know the earnings 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 stock outstanding of banks. Thus,

$$\text{EPS} = \frac{\text{Earning available to common stock holders}}{\text{Number of common stock outstanding}}$$

b) Dividend Per Share (DPS)

Dividend per share indicates the rupee earnings actually distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholders. It is defined as the result received by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus,

$$\text{DPS} = \frac{\text{Total amount of dividend paid to ordinary shareholders}}{\text{Number of ordinary shares outstanding}}$$

c) Dividend Payout Ratio (DPR)

It is the portion of the earning used for the payment of dividend. The dividend payout ratio is the earnings paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. This ratio is calculated by dividing dividend per share by the earning per share. Thus,

$$\text{DPR} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

d) Price-Earning Ratio (P/E Ratio)

Price-earning ratio is also called the earnings multiplier. Price-earning ratio is simply the ratio between market price per share and earning per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings. This ratio is computed by dividing earning per share to market price per share. Thus,

$$\text{P/E Ratio} = \frac{\text{Market price per share}}{\text{Earning per share}}$$

e) Earning yield (EY)

It measures the earning in relation to market value of share. It gives some idea of how much an investor might get for his money. The share with higher earnings yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market. It is calculated as:

$$\text{EY Ratio} = \frac{\text{Earning per share}}{\text{Market price per share}}$$

f) Dividend Yield (DY)

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. It measures the dividend in relation to market value of share. This ratio is calculated by dividing dividend per share by market price of the stock. Thus,

$$\text{DY Ratio} = \frac{\text{Dividend per share}}{\text{Market price per share}}$$

3.5.2 Statistical Tools

a) Arithmetic Mean or Average (}X)

An average is a single value that represents a group of values. It depicts the characteristic of the whole group. It is a representative of the entire mass of homogeneous data, its value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is obtained by dividing the sum of the quantities by the number of items. Thus,

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

Where,

$\sum X$ = sum of the sizes of the items

N= number of items

b) Standard Deviation (S.D.)

It is the most usual measure of dispersion and it represents the square root of the variance of a group of numbers, i.e., the square root of the sum of the squared differences between a group of numbers and their arithmetic mean. Generally, it is denoted by small Greek letter σ (read as sigma) and is obtained as follows.

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

Where,

N = Number of items in the series.

$\overline{X}$ = mean

X = Variable

The standard deviation measures the absolute dispersion or variability of a distribution; the greater the amount of dispersion or variability the greater the standard derivation, for the greater will be the magnitude of the deviations of the values from their mean.

c) Coefficient of Variation (C.V.)

Karl Pearson developed this measurement to measure the relative dispersion. It is used in such problems where we want to compare the variability of two or more series. It is denoted by C.V. and is obtained by dividing the arithmetic mean to standard deviation. Thus,

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

d) Coefficient of Correlation

The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables. It helps us in determining the degree of relationship between to or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two things (variables) are related to what extent variations in one go with the variations in the other.

The value of coefficient of correlation as obtained shall always lie between ± 1, a value of –1 indicating a perfect negative relationship between the variables, of +1 a perfect positive relationship, and of no relationship when correlation coefficient is zero. The zero correlation coefficient means the variables are uncorrected. It is defined by Karl Pearson as:

$$r = \frac{N \sum XY - \sum X \sum Y}{N \sum X^2 - (\sum X)^2 \quad N \sum Y^2 - (\sum Y)^2}$$

e) Regression Analysis

Regression is a statistical method for investing relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of relationship between two (Simple Regression) or more (Multiple regression) variables.

f) Probable Error

The probable error denoted by P.E. is used to measure the reliability and test of significance of correlation coefficient. Significance of relationship has been tested by using the probable error (P.E.) and it is denoted by the following model:

$$\text{Probable Error (P.E.)} = 0.6745X\frac{1-r^2}{\sqrt{n}}$$

Where, r = the value of correlation coefficient

n = number of pairs of observations

if r < P.E., it is insignificant, i.e. there is no evidence of correlation

if r > 6 P.E., it is significant

if P.E. < r < 6 P.E., nothing can be concluded

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Analysis

Under this part of the study, the dividend distribution pattern of the selected commercial banks, and the impact of dividend on the major financial indicators have been analyzed with the aid of statistical tools.

4.1.1 Earning Per Share

Earning per share shows the company's capability of generating profit per share. Higher EPS indicates better performance of the companies and company with net loss will result negative EPS.

Table 4.1

Earning Per Share

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	143.14	105.49	54.22	30.10	47.91
2005/06	175.84	129.21	62.78	43.67	59.24
2006/07	167.37	137.08	78.42	43.50	60.66
2007/08	131.92	108.31	91.82	59.94	62.74
2008/09	109.99	106.76	99.99	54.68	61.90
Mean	**145.65**	**117.37**	**77.45**	**46.38**	**58.49**
S.D.	**23.87**	**13.15**	**17.15**	**10.33**	**5.42**
C.V.%	**16.39**	**11.20**	**22.14**	**22.27**	**9.27**

(Source: Appendix I)

The table 4.1 shows the trend of EPS of the selected sample banks. The EPS of SCBNL has fluctuated during the five year periods. The EPS has ranged from Rs. 109.99 in the fiscal year 2008/09 to Rs. 175.84 in the fiscal year

2005/06. In average, SCBNL has earned Rs. 145.65 per share. Also, the C.V. of 16.39% on the EPS indicates quite inconsistency in the EPS.

Likewise, the EPS of NABIL has increased for the first three years, i.e. Rs. 105.49, Rs. 129.21 and Rs. 137.08 in the fiscal years 2004/05, 2005/06 and 2006/07 respectively. Then, the EPS of NABIL has decreased to Rs. 108.31 in the fiscal year 2007/08 and to Rs. 106.76 in the fiscal year 2008/09. However, in average NABIL has earned Rs. 117.37 per share and the C.V. on such EPS was 11.20%. In contrast, the EPS of EBL has followed increasing trend over the entire period. The EPS is Rs. 54.22, Rs. 62.78, Rs. 78.42, Rs. 91.82 and Rs. 99.99 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, the EPS is Rs. 77.45 and the coefficient of variation was 22.14%.

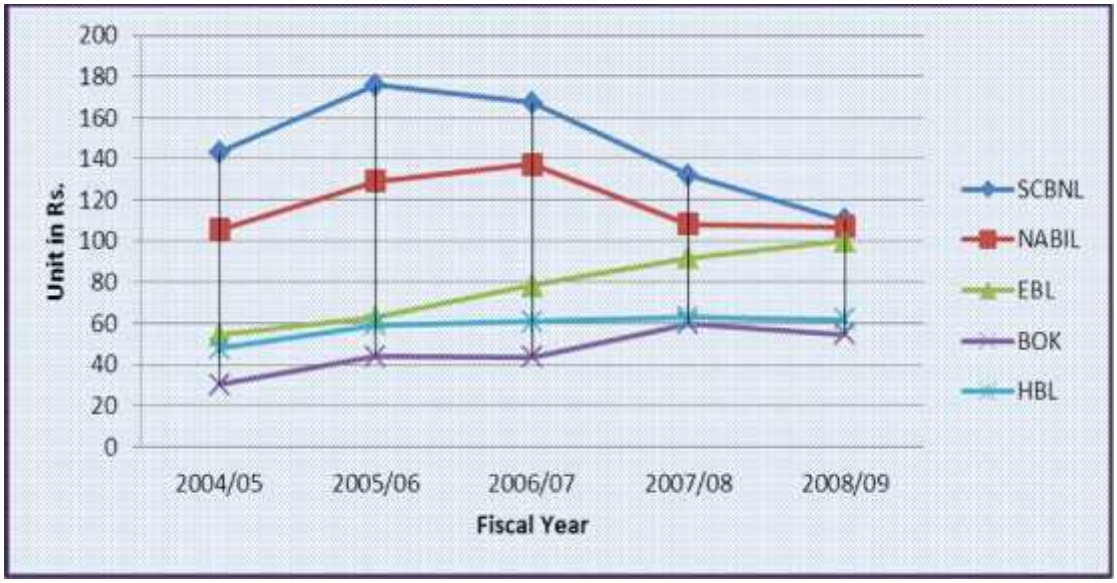
Similarly, the EPS of BOK has fluctuated during the periods. The EPS is Rs. 30.10 and Rs. 43.67 in the fiscal year 2004/05 and 2005/06 respectively, and then it has decreased to Rs. 43.50 in the fiscal year 2005/06, and then it has increased to Rs. 59.94 in the fiscal year 2007/08, and finally it has reached to Rs. 54.68 in the fiscal year 2008/09. In average, BOK has earned Rs. 46.384 per share and the coefficient of variation on such EPS is 22.27%.

Eventually, except the last year 2008/09, the EPS of HBL has been in increasing trend, i.e. Rs. 47.91, Rs. 59.24, Rs. 60.66, Rs. 62.74 and Rs. 61.90 in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. In average, HBL has earned Rs. 58.49 per share and the coefficient of variation on such EPS was 9.27%, which indicates quite uniformity on EPS.

Comparing five banks on the basis of EPS, it can be concluded that SCBNL is the highest profit earning bank than others. However, on the basis of trend on EPS, it can be considered that EBL has good prospect in future as the earning capacity of EBL has increasing trend. The decrease in the EPS of most of the banks could have been resulted due to the global recession, increased competition, uncontrolled expenses and others.

Figure 4.1

Earning Per Share



4.1.2 Dividend Per Share

Dividend per share is the amount of dividend distributed to the shareholders for the single unit of share. Higher the amount of DPS retains the shareholder for long term. Both cash dividend and bonus share dividend distributed to the shareholders of the sampled banks is presented in the Table 4.2.

Table 4.2

Dividend Per Share

Banks	Fiscal Year					Mean	S.D.	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
SCBNL								
CD	120	130	80	80	50	92.00	29.26	31.80
BSD	0	10	50	50	50	32.00	22.27	69.60
TD	**120**	**140**	**130**	**130**	**100**	**124.00**	**13.56**	**10.94**
NABIL								
CD	70	85	100	60	35	70.00	22.14	31.62

BSD	0	0	40	40	50	26.00	21.54	82.85
TD	**70**	**85**	**140**	**100**	**85**	**96.00**	**23.96**	**24.96**
EBL								
CD	0	25	10	20	30	17.00	10.77	63.35
BSD	20	0	30	30	30	22.00	11.66	53.01
TD	**20**	**25**	**40**	**50**	**60**	**39.00**	**14.97**	**38.38**
BOK								
CD	15	18	20	2.11	7.37	12.50	6.74	53.92
BSD	0	30	0	40	40	22.00	18.33	83.32
TD	**15**	**48**	**20**	**42.11**	**47.37**	**34.50**	**14.12**	**40.92**
HBL								
CD	11.58	30	15	25	12	18.72	7.44	39.74
BSD	20	5	25	20	31.56	20.31	8.75	43.10
TD	**31.58**	**35**	**40**	**45**	**43.56**	**39.03**	**5.08**	**13.01**

(Source: Appendix I)

The table 4.2 has depicted the dividend pattern of the sampled banks. The table shows that SCBNL distributed Rs. 120, Rs. 130, Rs. 80, Rs. 80 and Rs. 50 as cash dividend in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Also, the bank has distributed bonus share equivalent to Rs. 10, Rs. 50, Rs. 50 and Rs. 50 in the fiscal year 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, SCBNL has disbursed Rs. 124 per share as dividend; Rs. 92 as cash dividend and

Rs. 32 as bonus share. The coefficient of variation of 10.94% also indicates consistency in the dividend policy.

Similarly, the cash dividend paid by NABIL is Rs. 70, Rs. 85, Rs. 100, Rs. 60 and Rs. 35 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. NABIL disburses bonus share dividend equivalent to Rs. 40 in fiscal year 2006/07 and 2007/08, and Rs. 40 in the fiscal year 2008/09. In average, NABIL has paid Rs. 96 per share as dividend, viz, Rs. 70 per share as cash dividend and Rs. 26 per share as bonus share dividend. Also, the coefficient of variation on dividend payment is 24.96%, indicating inconsistency.

Likewise, EBL has paid Rs. 25, Rs. 10, Rs. 20 and Rs. 30 as cash dividend in the fiscal year 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Also the bonus share dividend equivalent to Rs. 20 is paid in the fiscal year 2004/05, and Rs. 30 is disbursed in the fiscal year 2006/07, 2007/08 and 2008/09 respectively. In average, EBL has paid Rs. 39 as dividend, viz, Rs. 17 per share as cash dividend and Rs. 22 per share as bonus share dividend. The coefficient of variation of 38.38% indicates higher irregularity in the payment of dividend.

In contrast, BOK has paid Rs. 15, Rs. 18, Rs. 20, Rs. 2.11 and Rs. 7.37 as cash dividend in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Also the bank disburses bonus share equivalent to Rs. 30 in the fiscal year 2005/06 and Rs. 40 in the fiscal year 2007/08 and 2008/09 each. In average, BOK has paid Rs. 34.50 as total dividend, viz, Rs. 12.50 as cash dividend and Rs. 22.00 as bonus share dividend. It seems that the bank focused more on distributing bonus share rather than cash as

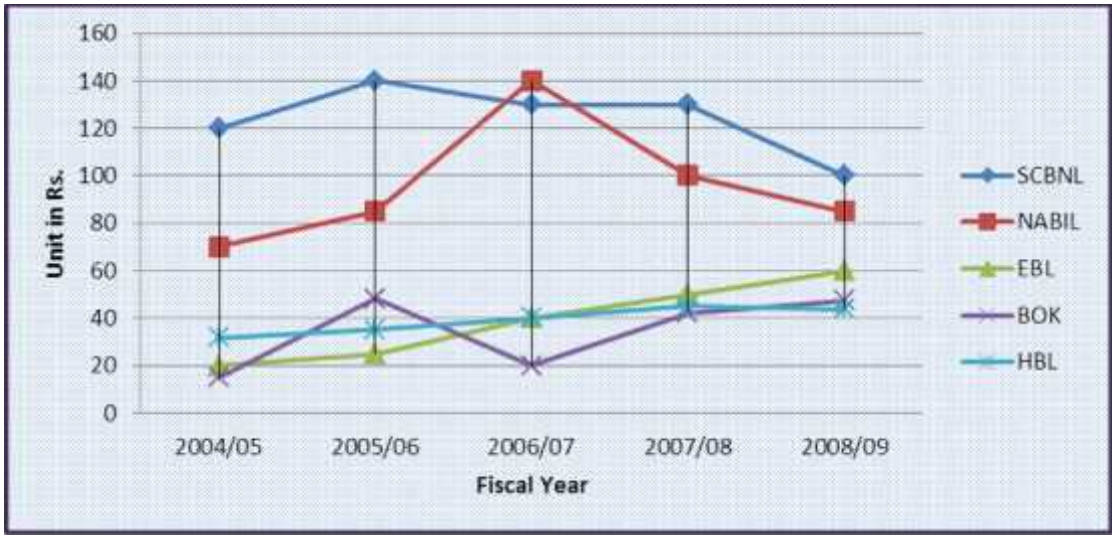
dividend to retain the cash within the bank. However, the coefficient of variation of 40.92% demonstrates that the bank lacks good dividend policy.

Eventually, HBL has paid Rs. 11.58, Rs. 30, Rs. 15, Rs. 25 and Rs. 12 as cash dividend in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The bank also distributes bonus share dividend equivalent to Rs. Rs. 20, Rs. 5, Rs. 25, Rs. 20 and Rs. 31.56 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The higher the average bonus share dividend (Rs. 20.31) than average cash dividend (Rs. 18.72) implies that HBL has focused more on bonus share than cash while making decision on the form of dividend. In average, HBL has paid Rs. 39.03 as dividend for the five year periods and the coefficient of variation on such dividend is 13.01%.

On the basis of DPS, it can be concluded that SCBNL remains more success to retain its existing shareholders and to allure the potential shareholders toward it by distributing higher amount of dividend per share than other banks. Also, there is high uniformity in dividend policy of SCBNL as the coefficient of variation on DPS of SCBNL is lowest compared to that of other banks. Eventually, it can be inferred that SCBNL and NABIL has focused on retention policy in recent years as a result the dividend distribution has decreased, while other banks has focused on enticing the potential investors by increasing dividends each year.

Figure 4.2

Dividend Per Share



4.1.3 Market Price Per Share

Market price per share is the value per share of the organization in the market. The MPS measures the eagerness of the investors to participate in the concerned organization as a shareholder. Highest MPS indicates highest demand of share and vice-versa. The MPS of the five sampled banks is presented in the Table 4.3.

Table 4.3

Market Price Per Share

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	2345	1505	870	430	920
2005/06	3775	2240	1379	850	1100
2006/07	5900	5050	2430	1375	1740
2007/08	6830	5275	3132	2350	1980
2008/09	6010	4899	2455	1825	1760

Mean	**4972**	**3794**	**2053**	**1366**	**1500**
S.D.	**1656.79**	**1590.37**	**815.08**	**681.38**	**412.80**
C.V.%	**33.32**	**41.92**	**39.70**	**49.88**	**27.52**

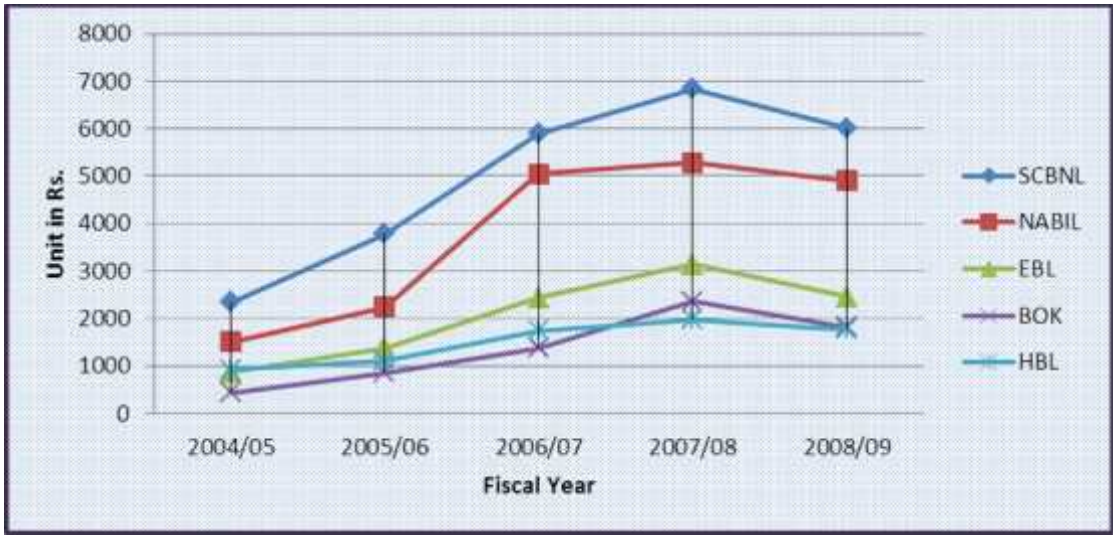
(Source: Appendix I)

The Table 4.3 shows the market price per share of the sampled banks. The table has shown that the MPS of each banks is in increasing trend in the first four years period and then it has decreased in the final year. The MPS of SCBNL has ranged from Rs. 2345 in the fiscal year 2004/05 to Rs. 6830 in the fiscal year 2007/08. Similarly, the MPS of NABIL is Rs. 1505 in the fiscal year 2004/05 and it reaches to Rs. 5275 in the fiscal year 2007/08. Similarly, the MPS of EBL has ranged from Rs. 870 in the fiscal year 2004/05 to Rs. 3132 in the fiscal year 2007/08. Likewise, the MPS of BOK ranges from Rs. 430 in the fiscal year 2003/04 to Rs. 2350 in the fiscal year 2007/08. Also, the MPS of HBL ranges from Rs. 920 in the fiscal year 2003/04 to Rs. 1980 in the fiscal year 2007/08.

On the basis of average MPS of SCBNL (Rs. 4972), NABIL (Rs. 3794), EBL (Rs. 2053), BOK (Rs. 1366) and HBL (Rs. 1500), it can be concluded that the share of SCBNL has highest demand in the secondary market than that of other banks. This might be due to highest earning capacity and highest generosity in paying dividend by the SCBNL. Further, ranking the bank on the basis of highest MPS on each year and average, SCBNL comes into rank 1, NABIL comes into rank 2, EBL comes into rank 3, HBL comes into rank 4 and BOK comes into rank 5. Finally, it can be said that the investors might have been diverted toward other investment, like real estate, in the recent periods and shown less interest in stock transactions, as a result the MPS of observed banks has been decreased in the fiscal year 2008/09.

Figure 4.3

Market Price per Share



4.1.4 Dividend Payout Ratio

Dividend payout ratio measures the percentage of dividend paid out of the net profit after tax. It also clears about the retained earning, since net profit is composed of dividend and retained earning only. Higher dividend payout ratio attracts the shareholders and consequently increases the market price of share. The dividend payout ratio of the sampled banks is presented in the following Table 4.4.

Table 4.4

DPR Analysis

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	83.83	66.36	36.89	49.83	65.92
2005/06	79.62	65.78	39.82	109.92	59.08

2006/07	77.67	102.13	51.01	45.98	65.94
2007/08	98.54	92.33	54.45	70.25	71.72
2008/09	90.92	79.62	60.01	86.63	70.37
Mean	**86.12**	**81.24**	**48.44**	**72.52**	**66.61**
S.D.(±)	**7.70**	**14.30**	**8.77**	**23.76**	**4.43**
C.V.%	**8.94**	**17.60**	**18.10**	**32.76**	**6.64**

(Source: Appendix I)

The Table 4.4 shows the dividend payout ratio of the sampled banks, SCBNL, NABIL, EBL, BOK and HBL. The table showed that the dividend payout ratio of SCBNL in the five consecutive years is 83.83%, 79.62%, 77.67%, 98.54% and 90.92% respectively. Similarly, the dividend payout ratio of NABIL has ranged from 65.78% in the fiscal year 2005/06 to 102.13% in the fiscal year 2006/07. Also, the dividend payout ratio of EBL has ranged from 36.89% in the fiscal year 2004/05 to 60.01% in the fiscal year 2008/09. Likewise, the dividend payout ratio of BOK is highest in the fiscal year 2005/06, i.e. 109.92%, and lowest in the fiscal year 2006/07, i.e. 45.98%. Finally, the dividend payout ratio of HBL has ranged from 59.08% in the fiscal year 2005/06 to 71.72% in the fiscal year 2007/08.

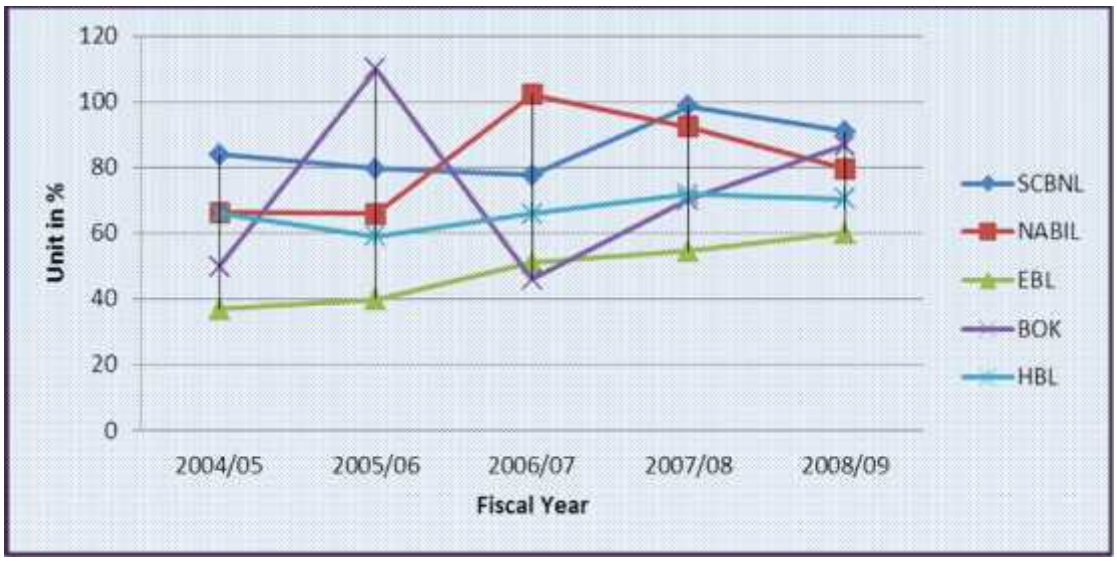
In average, SCBNL, NABIL, EBL, BOK and HBL has distributed 86.12%, 81.24%, 48.44%, 72.52% and 66.61% respectively of the total earnings as dividend to the shareholders of the corresponding banks. Besides these, the coefficient of variations on dividend payout ratio of SCBNL is 8.94%, NABIL is 17.60%, EBL is 18.10%, BOK is 32.76% and HBL is 6.64%.

Although NABIL has distributed 102.13% and BOK has distributed 109.92% of earnings as dividend, the dividend payout ratio of SCBNL is considered best since the average dividend payout ratio of SCBNL is highest compared to that of other banks. Hence, it can be considered that the shareholders of SCBNL are more satisfied than those of other banks, as SCBNL's shareholders has

received more percentage of EPS in the form of dividend. Also, on the basis of highest dividend payout ratio, it can be considered that SCBNL is most matured bank than others. In addition, the lowest C.V. of 6.64% of HBL indicates best uniformity on dividend payout ratio.

Figure 4.4

Dividend Payout Ratio



4.1.5 Price Earning Ratio

Price Earning Ratio is the ratio between market price per share and earning per share. It indicates the payment by the investors in the market for per rupee of earning in the company. The price earning ratio of both banks for the period taken for study is presented in the following Table 4.5.

Table 4.5

Price Earning Ratio

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	16.38	14.27	16.05	14.29	19.20

2005/06	21.47	17.34	21.97	19.46	18.57
2006/07	35.25	36.84	30.99	31.61	28.68
2007/08	51.77	48.70	34.11	39.21	31.56
2008/09	54.64	45.89	24.55	33.38	28.43
Mean	**35.90**	**32.61**	**25.53**	**27.59**	**25.29**
S.D.(±)	**15.45**	**14.30**	**6.43**	**9.25**	**5.35**
C.V.%	**43.02**	**43.87**	**25.20**	**33.52**	**21.14**

(Source: Appendix I)

The table 4.5 depicts the P/E Ratio of sampled banks. The P/E ratio of SCBNL has ranged from 16.38 times in the fiscal year 2004/05 to 54.64 times in the fiscal year 2008/09. The P/E ratio of SCBNL has followed an increasing trend in the five year period. However, SCBNL has maintained an average 35.90 times P/E ratio in the five year period, which indicates that the investors has paid Rs. 35.90 for 1 rupee of earning in average. The standard deviation and coefficient of variation of the same bank in P/E ratio are 15.45 times and 43.02% respectively.

Similarly, the P/E ratio of NABIL has followed increasing trend for the first four consecutive years. The P/E ratio of NABIL ranges from 14.27 times in the fiscal year 2004/05 to 48.70 times in the fiscal year 2007/08. The average P/E ratio of 32.61 times indicates that the shareholders of NABIL has to invest Rs. 32.61 on market to generate Re. 1 as earnings. However, the coefficient of variation of 43.87% depicts higher fluctuation in the P/E ratio.

Likewise, the P/E ratio of EBL has followed increasing trend for the first four fiscal years. The table shows that the P/E ratio of EBL ranges from 16.05 times in the fiscal year 2004/05 to 34.11 times in the fiscal year 2007/08. In average, the P/E ratio of EBL is 25.53 times which tacitly states that the shareholders has invested Rs. 25.53 to gain Re. 1 as earning.

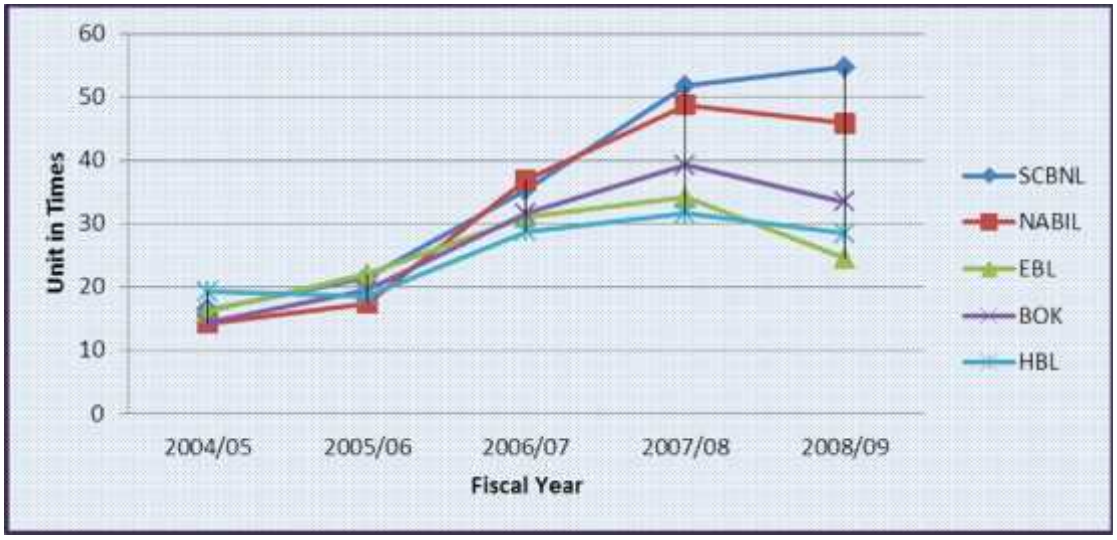
Further, the P/E ratio of BOK is also found to be increasing trend for the first four fiscal years, which ranges from 14.29 times in the fiscal year 2004/05 to 39.21 times in the fiscal year 2007/08. The average P/E ratio of BOK in the five years period is 27.59 times, which implies that the shareholders of BOK has invested Rs. 27.59 in market to achieve Re. 1 as income. Also, the coefficient of variation on the P/E ratio is 33.52%, which indicates higher inconsistency.

However, the P/E ratio of HBL is in fluctuating trend. The P/E ratio of HBL has decreased to 18.57 times in the fiscal year 2005/06 from 19.20 times in the fiscal year 2004/05, then it has increased to 28.69 times in the fiscal year 2006/07, again it has increased to 31.56 times in the fiscal year 2007/08, and finally it has decreased to 28.43 times in the fiscal year 2008/09. In average, the shareholders of HBL has spent Rs. 25.29 to earn Re. 1, as the average P/E ratio of HBL is 25.29 times. Eventually, the coefficient of variation on P/E ratio of HBL is 21.14%, indicating higher inconsistency.

Comparing the P/E ratio of the sampled banks, it can be considered that the investors of EBL has paid least amount and those of SCBNL has paid highest amount to gain 1 rupee of earning.

Figure 4.5

Price Earning Ratio



4.1.6 Earning Yield Ratio

It measures the earning in relation to market value of share. It gives idea on how much an investor might get for his money. The share with higher earnings yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market.

Table 4.6

EY Analysis

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	6.10	7.01	6.23	7.00	5.21
2005/06	4.66	5.77	4.55	5.14	5.39
2006/07	2.84	2.71	3.23	3.16	3.49
2007/08	1.93	2.05	2.93	2.55	3.17
2008/09	1.83	2.18	4.07	3.00	3.52
Mean	**3.47**	**3.94**	**4.20**	**4.17**	**4.15**
S.D.	**1.66**	**2.05**	**1.17**	**1.67**	**0.94**
C.V.%	**47.86**	**51.86**	**27.80**	**40.07**	**22.71**

(Source: Appendix I)

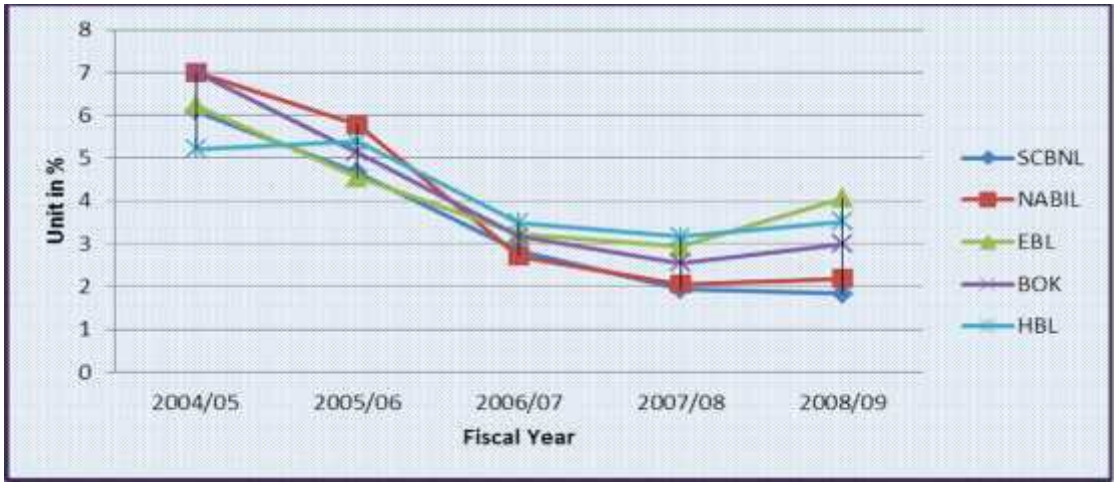
The Table 4.6 exhibits the earning yield ratio of the five sampled banks. The earning yield of SCBNL is 6.10% in the fiscal year 2004/05 and it has decreased to 1.83% in the fiscal year 2008/09. Similarly, the earning yield of NABIL ranges from 7.01% in the fiscal year 2004/05 to 2.05% in the fiscal year 2007/08, EBL decreases from 6.23% in the fiscal year 2004/05 to 2.93% in the fiscal year 2007/08 and BOK ranges from 7.00% in the fiscal year 2004/05 to 2.55% in the fiscal year 2007/08. However, the earning yield of HBL has ranged from 5.39% in the fiscal year 2005/06 to 3.17% in the fiscal year 2007/08. In the final year 2008/09, it seems that the earning yield of each bank has increased compared to that of the previous year.

In average, SCBNL, NABIL, EBL, BOK and HBL has converted 3.47%, 3.94%, 4.20%, 4.17% and 4.15% of the total market price of the corresponding bank into earning per share respectively. The coefficient of variations on earning yield of SCBNL, NABIL, EBL, BOK and HBL are 47.86%, 51.86%, 27.80%, 40.07% and 22.71% respectively.

Comparing four banks on the basis of earning yield, it can be concluded that EBL has remained more successful to efficiently convert its market price per share into earning per share. This might be due to lower growth of MPS of EBL on the comparison of MPS of other banks.

Figure 4.6

Earning Yield



4.1.7 Dividend Yield Ratio

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. The dividend yield ratio of EBL and BOK during the five year period is presented in the following Table 4.7.

Table 4.7

DY Analysis

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	5.12	4.65	2.30	3.49	3.43
2005/06	3.71	3.79	1.81	5.65	3.18
2006/07	2.20	2.77	1.65	1.45	2.30
2007/08	1.90	1.90	1.60	1.79	2.27
2008/09	1.66	1.74	2.44	2.60	2.48
Mean	**2.92**	**2.97**	**1.96**	**3.00**	**2.73**
S.D.	**1.31**	**1.12**	**0.35**	**1.50**	**0.48**
C.V.%	**44.86**	**37.57**	**17.70**	**50.09**	**17.61**

(Source: Appendix I)

The Table 4.7 depicts that the dividend yield ratio of SCBNL, NABIL and EBL is in decreasing trend, whereas the dividend yield ratio of BOK is in fluctuating trend. The dividend yield of SCBNL is 5.12% in the base year 2004/05, which has gradually decreased to 1.66% in the fiscal year 2008/09. Similarly, the dividend yield ratio of NABIL has decreased to 1.74% in the fiscal year 2008/09 from 4.65% in the fiscal year 2004/05 and the dividend yield of EBL has decreased to 1.60% in the fiscal year 2007/08 from 2.30% in the fiscal year 2004/05, and finally it is 2.44% in the fiscal year 2008/09. However, the dividend yield of BOK has increased to 5.65% in the fiscal year 2005/06 from 3.49% in the fiscal year 2004/05 and finally it has decreased to 2.60% in the fiscal year 2008/09. Also, the dividend yield of HBL decreases to 2.27% in the

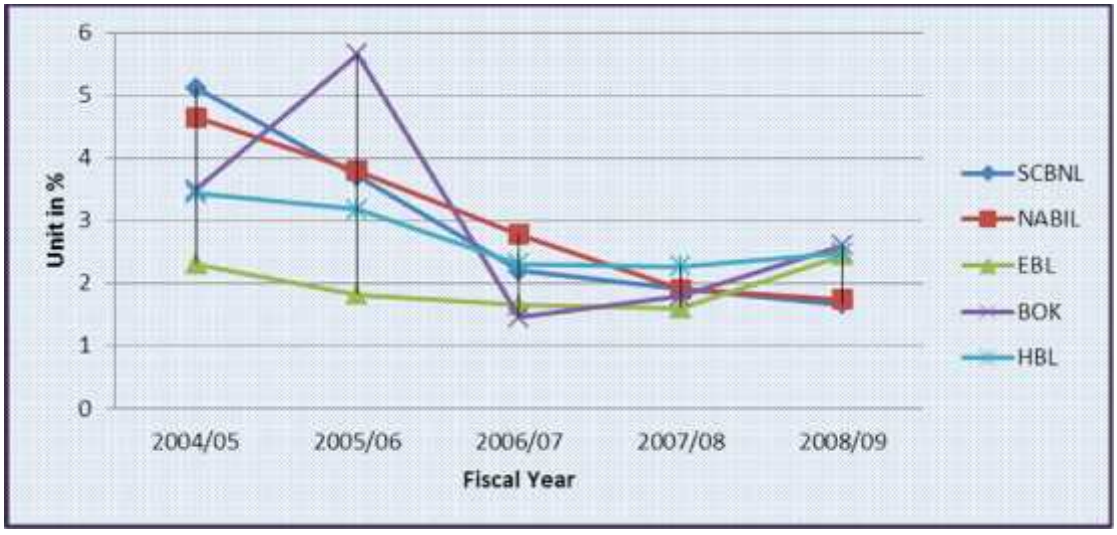
fiscal year 2007/08 from 3.43% in the fiscal year 2004/05 and then slightly increases to 2.48% in the fiscal year 2008/09.

In average, the dividend yield ratio of SCBNL, NABIL, EBL, BOK and HBL is 2.92%, 2.97%, 1.96%, 3.00% and 2.73% respectively and the coefficient of variation on such dividend yield of the respective banks is 44.86%, 37.57%, 17.70%, 50.09% and 17.61% respectively.

Comparing five banks on the basis of dividend yield, it can be concluded that BOK is more aggressive in paying dividend by considering the market price per share as the dividend yield of BOK is highest compared to that of other banks. Hence, the shareholders of BOK are more satisfied than those of others as the shareholders of BOK have received more percentage of amounts as returns that they have invested in the market while purchasing share.

Figure 4.7

Dividend Yield



4.1.8 Correlation and Regression Analysis

To find the relationship of dividend with other determinants of share price the Karl Pearson's correlation coefficient and regression lines have been analyzed.

4.1.8.1 Dividend per Share and Earning Per Share

4.1.8.1.1 Correlation between DPS and EPS

The correlation coefficient between DPS and EPS as calculated in Appendix III is summarized below.

Table 4.8

Correlation Coefficient between DPS and EPS

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
SCBNL	0.8627	+ ve (Direct)	0.7443	0.0771	0.4628	Significant
NABIL	0.7151	+ ve (Direct)	0.5114	0.1474	0.8844	Insignificant
EBL	0.9968	+ ve (Direct)	0.9936	0.0019	0.1160	Significant
BOK	0.7306	+ ve (Direct)	0.5338	0.1406	0.8437	Insignificant
HBL	0.8630	+ ve (Direct)	0.7447	0.0770	0.4621	Significant

(Source: Appendix III)

The Table 4.8 depicts the relationship between Earning Per Share (EPS) and Dividend Per Share (DPS) of the sample banks. The correlation coefficient (r) between EPS and DPS of SCBNL is 0.8627, which indicates positive relationship between EPS and DPS, meaning DPS increases with the increase in EPS. Further, the higher value of r (0.8627) than the calculated 6 P.E. (0.4628) indicates that there exist significant relationship between DPS and EPS of SCBNL. Similarly, the correlation coefficient between DPS and EPS of NABIL is positive, i.e. 0.7151, which is lower than the 6 P.E. (0.8844), indicating inconsistency in the relationship. Thus, the dividend policy of NABIL depends with other internal and external factors rather than the EPS alone. Also, the coefficient of determination, 0.5114, indicates that 51.14% in the DPS of NABIL is explained by the change in EPS.

Likewise, DPS of EBL has perfect positive relationship with EPS as the correlation coefficient between EPS and DPS is 0.9968. Also, the relationship is statistically significant as the correlation coefficient ‘r’ (0.9968) is greater than the calculated 6 P.E. (0.1160). Further, the coefficient of determination

'r^2' (0.9936) indicates that 995.36% variation in DPS is explained by the change in EPS. Again, the DPS of BOK has direct relationship with the EPS of same bank. As the correlation coefficient 'r' (0.7306) is lower than the calculated 6 P.E. (0.8437), it can be concluded that the relationship between EPS and DPS is statistically insignificant and hence DPS may not increase with the increase in EPS. Eventually, the correlation coefficient of 0.8630 demonstrated that the relationship between EPS and DPS of HBL is highly positive and the coefficient of determination 'r^2' (0.7447) indicates that 74.47% variation in DPS is explained by the variation in EPS. As the correlation coefficient 'r' (0.8630) is greater than the calculated 6 P.E. (0.7447), it can be considered that there exists significant relationship between EPS and DPS and hence the DPS of HBL increases with the increase in EPS.

Comparing five sampled banks, it can be concluded that the DPS is highly influenced by EPS in EBL in the comparison of other banks, as the correlation coefficient 'r' (0.9968) of EBL is greatest than that of other banks.

4.1.8.1.2 Regression Analysis: DPS on EPS

The simple regression equation of DPS on EPS calculated in the Appendix III is:

$DPS_{SCBNL} = 52.60 + 0.49 \times EPS_{SCBNL}$

$DPS_{NABIL} = -56.93 + 1.30 \times EPS_{NABIL}$

$DPS_{EBL} = -28.37 + 0.87 \times EPS_{EBL}$

$DPS_{BOK} = -11.81 + 1.00 \times EPS_{BOK}$

$DPS_{HBL} = -8.24 + 0.81 \times EPS_{HBL}$

Table 4.9

Regression Analysis of DPS on EPS

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)

SCBNL	5	52.60	0.49
NABIL	5	-56.93	1.30
EBL	5	-28.37	0.87
BOK	5	-11.81	1.00
HBL	5	-8.24	0.81

(Source: Appendix III)

The Table 4.9 depicts the output of simple regression analysis of DPS on EPS of the five banks viz. SCBNL, NABIL, EBL, BOK and HBL. In case of SCBNL, beta coefficient is 0.49, which indicates that one rupee increase in EPS leads to an average Re. 0.49 increase in dependent variable DPS, holding the constant (a), 52.60, uniform. Similarly, the beta coefficient of 1.30, 0.87, 1.00 and 0.81 of NABIL, EBL, BOK and HBL respectively indicates that one rupee increase in EPS leads to Rs. 1.30, Rs. 0.87, Rs. 1.00 and Rs. 0.81 increase in dependent variable DPS of NABIL, EBL, BOK and HBL respectively, holding the other variable constant.

Comparing five banks, it can be concluded that NABIL shows most generosity while distributing dividend in case of increase in EPS by the same amount in all banks. In other word, the shareholders of NABIL have received more dividend amount than other bank's shareholders with the increase in EPS by same amount.

4. 1.8.2 Market Price per Share and Dividend per Share

4.1.8.2.1 Correlation between MPS and DPS

The correlation between MPS and DPS and the probable error calculated in Appendix III is summarized in the below Table 4.10.

Table 4.10

Correlation Coefficient between DPS and MPS

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
SCBNL	-0.1499	- ve (Indirect)	0.0225	0.2949	1.7692	Insignificant
NABIL	0.6595	+ ve (Direct)	0.4349	0.1705	1.0227	Insignificant
EBL	0.8624	+ ve (Direct)	0.7437	0.0773	0.4638	Significant
BOK	0.5105	+ ve (Direct)	0.2606	0.2230	1.3382	Insignificant
HBL	0.9744	+ ve (Direct)	0.9495	0.0152	0.0915	Significant

(Source: Appendix III)

The Table 4.10 reveals the relationship between dividend per share (DPS) and market price of stock (MPS). Coefficient of correlation of SCBNL, NABIL, EBL, BOK and HBL is -0.1499, 0.6595, 0.8624, 0.5105 and 0.9744 respectively. The coefficient of correlation between DPS and MPS of SCBNL, NABIL and BOK indicates that there exists no statistically significant relationship, as the correlation coefficient of SCBNL, NABIL and BOK is lower than the calculated 6 P.E. of corresponding bank. Thus, the MPS of the aforementioned banks depends upon the other financial indicators as well, not solely on DPS. However, there is significant relationship between MPS and DPS of EBL, since the value of 'r' (0.8624) is greater than 6 P.E. (0.46383), there is significant relationship between MPS and DPS, which means MPS increases with the increase on DPS. Similarly, there exists significant relationship between MPS and DPS of HBL, since the value of 'r' (0.9744) is greater than the 6 P.E. (0.0915). Further the coefficient of determination indicates that 74.37% and 94.95% variation in DPS of EBL and HBL respectively is explained by the change in EPS.

Comparing five sampled banks, it can be concluded that DPS has highest impact on the MPS of HBL, since the correlation coefficient between DPS and EPS is greatest in HBL compared to that of other banks.

4.1.8.2.2 Regression Analysis: MPS on DPS

Let the dependent variable MPS is denoted by Y and independent variable DPS is denoted by X, then the regression equation of MPS on DPS is given by:

$MPS_{SCBNL} = 7241.74 - 18.30 \times DPS_{SCBNL}$

$MPS_{NABIL} = -408.83 + 43.78 \times DPS_{NABIL}$

$MPS_{EBL} = 221.56 + 46.97 \times DPS_{EBL}$

$MPS_{BOK} = 515.94 + 24.64 \times DPS_{BOK}$

$MPS_{HBL} = -1592.41 + 79.24 \times DPS_{HBL}$

Table 4.11

Regression Analysis of MPS on DPS

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)
SCBNL	5	7241.74	-18.30
NABIL	5	-408.83	43.78
EBL	5	221.56	46.97
BOK	5	515.94	24.64
HBL	5	-1592.41	79.24

(Source: Appendix III)

The Table 4.11 depicts the major output of simple regression analysis of average market price per share (MPS) on dividend per share (DPS) of the concerned banks.

As far as the regression of MPS and DPS is concerned, the regression coefficient of SCBNL, NABIL, EBL, BOK and HBL is -18.30, 43.78, 46.97, 24.64 and 79.24 respectively. It indicates that a one-rupee increase in DPS leads to an average of Rs. 18.30 decrease in MPS of SCBNL, Rs. 43.78

increase in MPS of NABIL, Rs. 46.97 increase in MPS of EBL, Rs. 24.64 increase in MPS of BOK and Rs. 79.24 increase in MPS of HBL, if the other variable remains constant.

Comparing five banks, it can be concluded that even a single rupee change in DPS leads to highest amount of Rs. 79.241 variation in MPS of HBL. Thus, it can be considered that DPS has greatest impact to MPS in HBL than other banks in term of amount.

4.1.8.3 Earning Yield and Dividend Yield

4.1.8.3.1 Correlation between EY and DY

The correlation between DY and EY and the probable error determined in Appendix III is summarized in the below Table 4.12.

Table 4.12

Correlation between EY and DY

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
SCBNL	0.9926	+ve	0.9853	0.0044	0.0266	Significant
NABIL	0.9736	+ve	0.9479	0.0157	0.0942	Significant
EBL	0.6626	+ve	0.4390	0.1692	1.0154	Insignificant
BOK	0.6333	+ve	0.4010	0.1807	1.0840	Insignificant
HBL	0.9679	+ve	0.9369	0.0190	0.1142	Significant

(Source: Appendix III)

The Table 4.12 depicts the relationship between earning yield (EY) and dividend yield (DY) of the concerned banks. According to this table, the correlation coefficients between DY and EY of SCBNL, NABIL, EBL, BOK and HBL is 0.9926, 0.9736, 0.6626, 0.6333 and 0.9679 respectively. Similarly, the coefficient of determination indicates that 98.53%, 94.79%, 43.90%, 40.10% and 1.90% variation in dividend yield of SCBNL, NABIL, EBL, BOK and HBL respectively is explained by the change in earning yield. However, the relationship is statistically insignificant in BOK and EBL, since the value of

'r' of BOK (0.6333) is lower than 6 P.E. (1.0840) and the value of 'r' of EBL (0.6626) is lower than the 6 P.E. (1.0154).

In contrast, there exists significant relationship between earning yield and dividend yield of SCBNL, NABIL and EBL, since the correlation coefficient of the respective banks is greater than the calculated 6 P.E. of the corresponding banks.

Comparing five sampled banks, it can be concluded that earning yield has highest effect on dividend yield in SCBNL than in other banks, since there exists highest perfect correlation between earning yield and dividend yield of SCBNL.

4.1.8.3.2 Regression Analysis: Dividend yield on Earning yield

Let dividend yield be denoted by Y and earning yield be denoted by X, then the regression line of dividend yield on earning yield is given by;

$DY_{SCBNL} = 0.19 + 0.78 \times EY_{SCBNL}$

$DY_{NABIL} = 0.88 + 0.53 \times EY_{NABIL}$

$DY_{EBL} = 1.14 + 0.20 \times EY_{EBL}$

$DY_{BOK} = 0.62 + 0.57 \times EY_{BOK}$

$DY_{HBL} = 0.69 + 0.49 \times EY_{HBL}$

Table 4.13

Regression Analysis of DY on EY

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)
SCBNL	5	0.19	0.78
NABIL	5	0.88	0.53
EBL	5	1.14	0.20
BOK	5	0.62	0.57
HBL	5	0.69	0.49

(Source: Appendix III)

The Table 4.13 depicts the major output of simple regression analysis of Dividend Yield (DY) on Earning Yield (EY) of the concerned banks.

With respect to the above regression result of dividend yield (DY) in earning yield (EY), in case of SCBNL, beta coefficient is 0.78, which means that one rupee increase in earning yield leads to an average of about Rs. 0.78 increase in the dividend yield holding other variable, 0.19, constant. Similarly, the beta coefficient indicates that one rupee increase in earning yield leads to Rs. 0.53, Rs. 0.20, Rs. 0.57 and Rs. 0.49 increase in dividend yield of NABIL, EBL, BOK and HBL respectively, if the other variable of the corresponding banks remain uniform.

Comparing five sampled banks, it can be concluded that earning yield has highest impact on dividend yield of SCBNL than in other banks, since the same amount of increase in earning yield leads to highest (Rs. 0.78) increase in SCBNL.

4.1.8.4 Market Price Per Share and Dividend Payout Ratio

4.1.8.4.1 Correlation between MPS and DPR

Let 'r' be the correlation coefficient between MPS and DPR and P.E. be the probable error.

Table 4.14

Correlation between MPS and DPR

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
SCBNL	0.5335	+ve	0.2846	0.2158	1.2948	Insignificant
NABIL	0.8703	+ve	0.7573	0.0732	0.4392	Significant
EBL	0.8838	+ve	0.7812	0.0660	0.3961	Significant
BOK	0.0734	+ve	0.0054	0.3000	1.8001	Insignificant
HBL	0.7317	+ve	0.5354	0.1401	0.8409	Insignificant

(Source: Appendix III)

As shown in Table 4.14, the correlation coefficient between dividend payout ratio (DPR) and market price per share of SCBNL, NABIL, EBL, BOK and HBL is 0.5335, 0.8703, 0.8838, 0.0734 and 0.7317 respectively, which indicates positive relationship between the two variables. Coefficient of determination (r^2) indicates that 28.46%, 75.73%, 78.12%, 0.54% and 53.54% variations in MPS is explained by DPR. However, the lower the value of 'r' of SCBNL, BOK and HBL with their corresponding calculated 6 P.E. indicates that the change in DPR has nothing to do with the variation in MPS. But in contrast, the change in DPR has positive impact on the change in MPS in case of NABIL and EBL, since the value of 'r' of NABIL and EBL is greater than the corresponding 6 P.E. and hence MPS increases with the increment in DPR.

Comparing five sampled banks on the basis of correlation coefficient between DPR and MPS, it can be concluded that the dividend payout ratio has highest impact on market price per share in EBL than in other banks.

4.1.8.4.2 Regression Analysis: Market Price Per Share (MPS) on Dividend Payout Ratio (DPR)

Let MPS be denoted by Y and DPR be denoted by X, then the regression line of Y on X is given by:

$MPS_{SCBNL} = -4917.18 + 114.84 \times DPR_{SCBNL}$

$MPS_{NABIL} = -4069.50 + 95.79 \times DPR_{NABIL}$

$MPS_{EBL} = -1926.87 + 82.17 \times DPR_{EBL}$

$MPS_{BOK} = 1213.27 + 2.11 \times DPR_{BOK}$

$MPS_{HBL} = -3.047.08 + 68.27 \times DPR_{HBL}$

Table 4.15

Regression Analysis of MPS on DPR

Banks	no. of observation (n)	Constant (a)	regression coefficient (b)
SCBNL	5	-4917.18	114.84
NABIL	5	-4069.50	96.79

EBL	5	-1926.87	82.17
BOK	5	1213.27	2.11
HBL	5	-3047.08	68.27

(Source: Appendix III)

The Table 4.15 depicts the linear relationship between stock price (MPS) and dividend payout ratio (DPR) of concerned banks. The beta coefficient indicates that there exists positive relationship between DPR and MPS of each bank and one percentage increase in DPR leads to Rs. 114.84, Rs. 96.79, Rs. 82.17, Rs. 2.11 and Rs. 68.27 increase in MPS of SCBNL, NABIL, EBL, BOK and HBL respectively, if the other variables of the corresponding bank remain constant.

Comparing five sample banks, it can be considered that even the same percentage increase in dividend payout ratio yield highest rupee increase in MPS of SCBNL (Rs. 114.84) in comparison with the other banks and hence DPR plays most crucial role to upgrade the value of MPS in SCBNL than in other remaining banks.

4.1.8.5 Market Price Per Share, Dividend Per Share & Earning Per Share

4.1.8.5.1 Multiple Correlations between MPS, DPS and EPS

Let correlation between MPS and DPS be denoted by r_{12}, DPS and EPS be denoted by r_{23} and MPS and EPS be denoted by r_{13}. Then the multiple correlation coefficient of MPS on DPS and EPS is given by; *(Appendix IV)*

$$R_{1.23} = \frac{r^2_{12} + r^2_{13} - 2\, r_{12}\, r_{23}\, r_{13}}{1-r^2_{23}}$$

$R_{MPS.DPS\ EPS}$ (SCBNL) = 0.4869

$R_{MPS.DPS\ EPS}$ (NABIL) = 0.8650

$R_{MPS.DPS\ EPS}$ (EBL) = 0.9500

$R_{MPS.DPS\ EPS}$ (BOK) = 0.9992

$R_{MPS.DPS\ EPS}$ (HBL) = 0.9746

Table 4.16

Multiple Correlations between MPS, EPS and DPS

Banks	R	Relationship	R^2	P.E.	6 P.E.	Remarks
SCBNL	0.4869	+ve	0.2371	0.2301	1.3808	Insignificant
NABIL	0.8650	+ve	0.7481	0.0760	0.4558	Significant
EBL	0.9500	+ve	0.9026	0.0294	0.1763	Significant
BOK	0.9992	+ve	0.9985	0.0005	0.0027	Significant
HBL	0.9746	+ve	0.9499	0.0151	0.0906	Significant

(Source: Appendix IV)

The Table 4.16 shows the multiple correlation between market price per share (MPS) and dividend per share (DPS) and earning per share (EPS) of the sampled banks during the year covered for study. The multiple correlation coefficients (R) between MPS, DPS and EPS of SCBNL, NABIL, EBL, BOK and HBL were 0.4869, 0.8650, 0.9500, 0.9992 and 0.9746 respectively, which shows the positive relationship between these variables of all the sampled banks.

The coefficient of multiple determination (R^2) of BOK is 0.9985, which is highest than that of SCBNL (0.2371), NABIL (0.7481), EBL (0.9026) and HBL (0.9499). It shows that, 23.71%, 74.81%, 90.26%, 99.85% and 94.99% variations in dependent variable (MPS) is explained by the variation in independent variables (EPS and DPS) in SCBNL, NABIL, EBL, BOK and HBL respectively. Further, the higher the value of multiple correlation coefficient 'R' than the calculated 6 P.E. of all banks, except SBNL, indicates that there exists significant relationship between the MPS and the joint DPS and EPS. However, the MPS of SCBNL is affected by the other variables mainly than EPS and DPS.

Comparing five sampled banks on the basis of multiple correlation coefficient, it can be concluded that the joint effect of DPS and EPS on MPS is immense in

BOK than in other banks, since BOK had highest value of 'R' than other remaining banks.

4.1.8.5.2 Multiple Regression Equation: MPS on DPS and EPS

Let MPS, DPS and EPS be denoted by X_1, X_2 and X_3 respectively. Then the multiple regression equation of MPS on DPS and EPS is given by;

$MPS_{SCBNL} = 4531.34 + 78.25\ DPS_{SCBNL} - 63.59\ EPS_{SCBNL}$

$MPS_{NABIL} = 7307.63 + 81.78\ DPS_{NABIL} - 96.83\ EPS_{NABIL}$

$MPS_{EBL} = -7520.01 - 221.73\ DPS_{EBL} + 235.37\ EPS_{EBL}$

$MPS_{BOK} = -1802.46 - 19.73\ DPS_{BOK} + 82.99\ EPS_{BOK}$

$MPS_{HBL} = -1518.34 + 82.27\ DPS_{HBL} - 3.29 EPS_{HBL}$

Table 4.17

Multiple Regression Line of MPS on DPS and EPS

Banks	No. of year	Constant (a)	Regression Coefficient (b)	
			b_1	b_2
SCBNL	5	4531.34	78.25	-63.59
NABIL	5	7307.63	81.78	-96.83
EBL	5	-7520.01	-221.73	235.27
BOK	5	-1802.46	-19.73	82.99
HBL	5	-1518.34	82.27	-3.29

(Source: Appendix IV)

The above table represents the linear relationship between MPS, with DPS and EPS of sampled banks. In case of SCBNL, the beta coefficient of DPS and EPS is 78.25 and -63.59 respectively. It indicates that a one rupee increase in DPS leads to Rs. 78.25 increase in MPS, if EPS remains constant, and one rupee increase in EPS leads to an average about Rs. 63.59 decrease in MPS, if DPS remains constant. Similarly, one rupee increase in DPS of NABIL increases Rs. 81.78 increase in MPS, keeping EPS constant, and per rupee increase in EPS increases Rs. 96.83 decrease in MPS, keeping DPS constant.

Likewise, per rupee increase in DPS of EBL yields Rs. 221.73 decrease in MPS, keeping EPS constant, and per rupee increase in EPS leads to Rs. 235.27 increase in MPS, keeping DPS constant. Also, per rupee increase in DPS and EPS of BOK decreases Rs. 19.15 and increases Rs. 82.99 in MPS respectively. Finally, per rupee increase in DPS and EPS of HBL increases Rs. 82.27 and decreases Rs. 29.51 in MPS respectively.

Comparing five sampled banks, it can be concluded that the joint effect of DPS and EPS in MPS was greatest in EBL than in other banks. Further, it has been ascertained that in none of the banks, the effect of these two variables is same, i.e. if DPS has positive impact then EPS has negative impact and vice-versa.

4.1.8.6 Relationship of Dividend Yield on DPS, EPS and MPS

To examine the impact of dividend yield on the major financial indicators, DPS, EPS and MPS, and to test the relationship, the correlation coefficient and the regression analysis, which have been presented in Appendix, are examined.

Table 4.18

Relationship of Dividend Yield on DPS, EPS and MPS

Bank	DPS	EPS	MPS	Favorable
SCBNL	Insignificant	Insignificant	Significant	MPS
NABIL	Insignificant	Insignificant	Significant	MPS
EBL	Insignificant	Insignificant	Insignificant	None
BOK	Insignificant	Insignificant	Insignificant	None
HBL	Significant	Significant	Significant	All

(Source: Appendix – III)

The above table reveals the impact of dividend yield on dividend per share, earning per share and market price per share. The table depicts that dividend yield has insignificant relationship with the dividend per share in SCBNL, although the correlation coefficient between them is 0.2656, and the regression analysis showing 1% increment in dividend yield augments Rs. 2.75 in DPS. This means that the bankers are not interested in considering how much the

investors has paid in market to gain Rs. 1 dividend, while declaring the dividend payment amount per share. Same insignificant situation has been ascertained in the relationship between dividend yield and earning per share in SCBNL, which indicates the ignorance of investors' obsession toward dividend in terms of market price by the bankers in augmenting the earning, by reducing the costs or by increasing the investment in the most productive sectors. However, only the relationship between dividend yield and market price per share of the bank is statistically significant, although negative, as a result 1% increase in dividend yield leads to Rs. 1230.62 decrease in MPS.

Similarly, in NABIL also the dividend yield has no statistical significant relationship with EPS and DPS. Only the relationship between dividend yield and MPS has been justified and thus the correlation between dividend yield and MPS is -0.9396, indicating decrease in MPS as a result of increase in dividend yield and thus MPS decreases by Rs. 1342.70 on 1% increase in dividend yield. In contrast to SCBNL and NABIL, the relationship of dividend yield with MPS, DPS and EPS is statistically insignificant in both EBL and BOK, which implies that dividend yield has no role to fluctuate the major financial indicators, i.e. DPS, MPS and EPS. Surprisingly, the relationship of dividend yield on DPS, EPS and MPS is statistically significant in HBL. The correlation coefficient between dividend yield and DPS is -0.9297, dividend yield and MPS is -0.9844 and dividend yield and MPS is -0.8311, which signals that all the measured financial indicators, MPS, DPS and EPS, decrease with the decrease in dividend yield. Thus, analyzing the effect of dividend yield, it can be concluded that dividend yield has inverse relationship with other financial indicators in most of the banks. The investors might have paid more concerned to other indicators while investing on the share capital of the bank, as a result the impact of dividend yield on MPS is debilitated.

4.1.9 Trend Analysis

The trend analysis aids to predict the future value on the basis of the past years. To know the DPS, MPS and DPR of the concerned banks, the trend analysis has been used.

4.1.9.1 Trend Analysis of DPS

Let Year (X) 1, 2, 3, 4 and 5 denotes fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Then regression line of DPS (Y) on year is given by;

DPS_{SCBNL} = 139 - 5.00 X

DPS_{NABIL} = 82.50 + 4.50 X

DPS_{EBL} = 7.50 + 10.50 X

DPS_{BOK} = 16.84 + 5.89 X

DPS_{HBL} = 28.84 + 3.40 X

Table 4.19

Trend Analysis of DPS

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	120	70	20	15	31.58
2005/06	140	85	25	48	35
2006/07	130	140	40	20	40
2007/08	130	100	50	42.11	45
2008/09	100	85	60	47.37	43.56
2009/10	**109**	**109.50**	**70.50**	**52.15**	**49.22**
2010/11	**104**	**114**	**81.00**	**58.04**	**52.61**

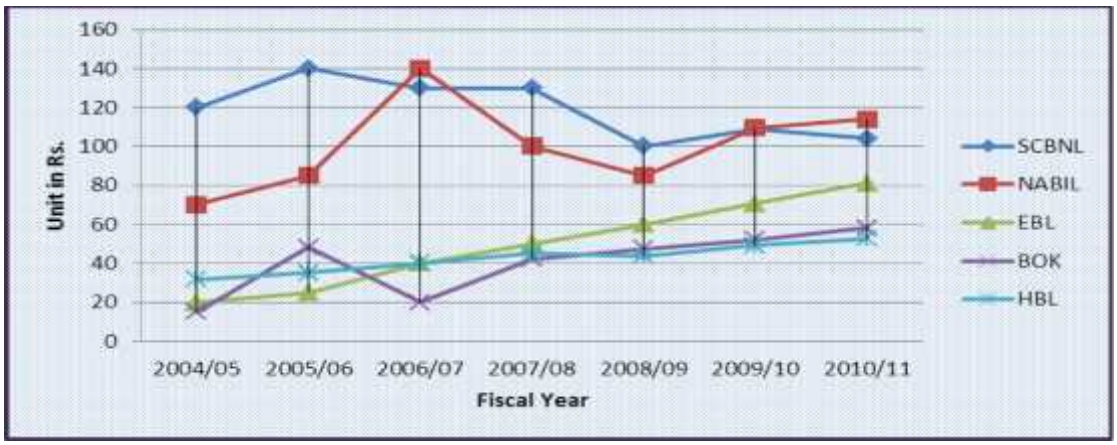
(Source: Appendix V)

The table 4.19 shows the trend DPS of all the sampled banks for the forthcoming two fiscal years. The table depicts that the DPS of SCBNL, NABIL, EBL, BOK and HBL in the fiscal year 2009/10 will be Rs. 109, Rs. 109.50, Rs. 70.50, Rs. 52.15 and Rs. 49.22 respectively and in the fiscal year 2010/11 will be Rs. 104, Rs. 114, Rs. 81, Rs. 58.04 and Rs. 52.61 respectively.

Likewise, the regression line of DPS on year demonstrates that in each year, the value of DPS in SCBNL will decrease by Rs. 5, in NABIL will increase by Rs. 4.50, in EBL will increase by Rs. 10.50, in BOK will increase by Rs. 5.89 and in HBL will increase by Rs. 3.40.

Figure 4.8

Trend Value of DPS



4.1.9.2 Trend Analysis of MPS

Let Year (X) 1, 2, 3, 4 and 5 denotes fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Then regression line of MPS (Y) on year is given by;

MPS_{SCBNL} = 1856.50 + 1038.50 X

MPS_{NABIL} = 846.90 + 982.30 X

MPS_{EBL} = 576.30 + 492.30 X

MPS_{BOK} = 79 + 429 X

MPS_{HBL} = 732 + 256 X

Table 4.20

Trend Analysis of MPS

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	2345	1505	870	430	920
2005/06	3775	2240	1379	850	1100
2006/07	5900	5050	2430	1375	1740
2007/08	6830	5275	3132	2350	1980
2008/09	6010	4899	2455	1825	1760

2009/10	**8088**	**6741**	**3530**	**2653**	**2268**
2010/11	**9126**	**7723**	**4022**	**3082**	**2524**

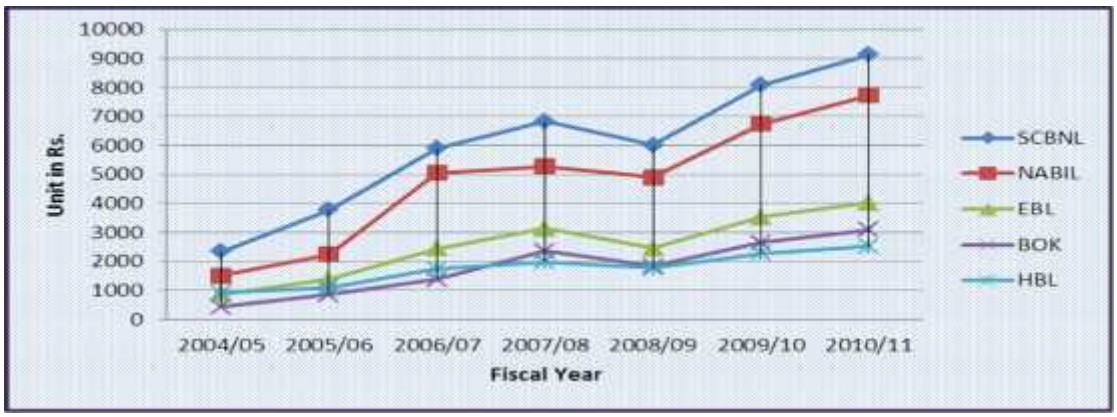
(Source: Appendix V)

The table 4.20 shows that the trend MPS of all the sampled banks follows increasing trend. The table depicts that the estimated MPS of SCBNL, NABIL, EBL, BOK and HBL in the fiscal year 2009/10 will be Rs. 8088, Rs. 6741, Rs. 3530, Rs. 2653 and Rs. 2268 respectively and in 2010/11 will be Rs. 9126, Rs. 7723, Rs. 4022, Rs. 3082 and Rs. 2524 respectively.

Similarly, the regression line of MPS on year delineates that MPS will increase by Rs. 1038.50, Rs. 982.30, Rs. 492.30, Rs. 429 and Rs. 256 per year in SCBNL, NABIL, EBL, BOK and EBL respectively. Eventually, the trend value indicates that eagerness to buy the share of SCBNL will continue remain highest in the future than that of other banks, since the estimated value of MPS of SCBNL is highest.

Figure 4.9

Trend Value of MPS



4.1.9.3 Trend Analysis of DPR

Let X denotes the fiscal year and Y denotes the DPR. Then regression line of DPR (Y) on year is given by;

DPR_{SCBNL} = 76.19 + 3.31 X

DPR_{NABIL} = 65.32 + 5.31 X

DPR_{EBL} = 30.18 + 6.09 X

DPR_{BOK} = 62.34 + 3.39 X

DPR_{HBL} = 60.14 + 2.15 X

Table 4.21

Trend Analysis of DPR

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	83.83	66.36	36.89	49.83	65.92
2005/06	79.62	65.78	39.82	109.92	59.08
2006/07	77.67	102.13	51.01	45.98	65.94
2007/08	98.54	92.33	54.45	70.25	71.72
2008/09	90.92	79.62	60.01	86.63	70.37
2009/10	**96.05**	**97.17**	**66.70**	**82.70**	**73.07**
2010/11	**99.36**	**102.47**	**72.78**	**86.09**	**75.22**

(Source: Appendix V)

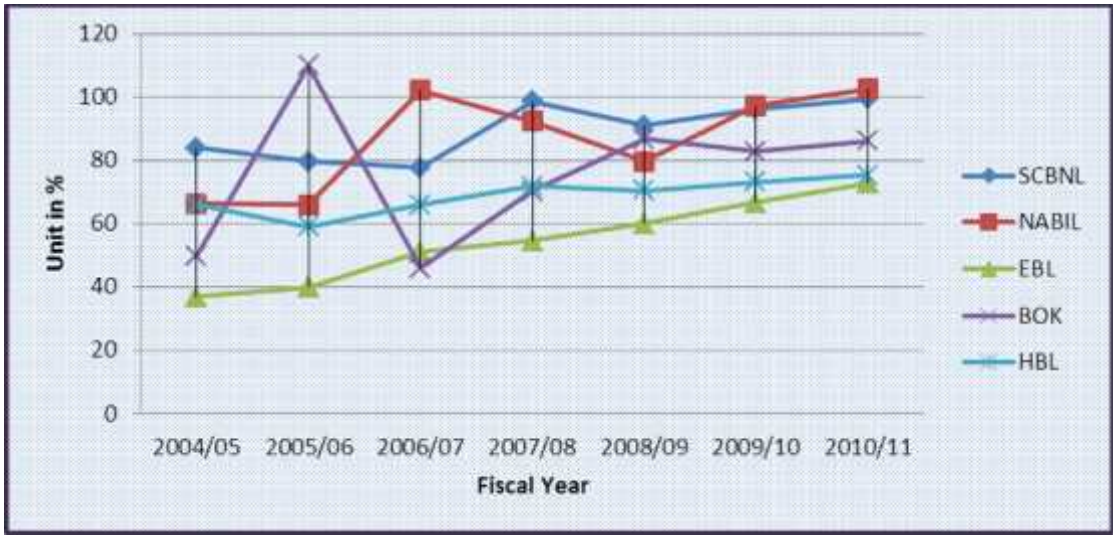
The table 4.21 showed that there was positive relationship between DPR and year of the sampled banks. In each fiscal year the DPR of SCBNL, NABIL, EBL, BOK and HBL increases by the multiple of 3.31 percent, 5.31 percent, 6.09 percent, 3.39 percent and 2.159 percent respectively.

The table showed that the estimated dividend payout ratio of SCBNL, NABIL, EBL, BOK and HBL will be 96.05%, 97.17%, 66.70%, 82.70% and 73.07% respectively in the fiscal year 2009/10 and will be 99.36%, 102.47%, 72.78%, 86.09% and 75.22% respectively in the fiscal year 2010/11.

On the basis of estimated DPR, it can be concluded that NABIL will to adopt the highest DPR policy than other sampled banks in order to fascinate the potential and existing investors toward it.

Figure 4.10

Trend Value of DPR



4.2 Major Findings of the Study

On the basis of the analysis of data, the following major findings have been found.

- EPS analysis shows that the SCBNL has made highest profit in the five years profit. The average EPS of SCBNL, NABIL, EBL, BOK and HBL is Rs. 145.65, Rs. 117.37, Rs. 77.45, Rs. 46.38 and Rs. 58.49 respectively. Also, the EPS of HBL is highly consistent (9.27%) than that of other banks.
- SCBNL has distributed highest DPS than other banks. The average distribution of dividend in the five year periods of SCBNL, NABIL, EBL, BOK and HBL is Rs. 124, Rs. 96, Rs. 39, Rs. 34.50 and Rs. 39.03 respectively. In average, SCBNL and NABIL has given more focus on distributing cash dividend while the other three remaining banks have focused on distributing bonus share dividend.
- The MPS of SCBNL has always remained highest in the periods taken for study. Next to SCBNL, NABIL's MPS is highest. Similarly, EBL's MPS is higher than that of BOK and HBL, whereas BOK's MPS is least than that of other banks. The average MPS of SCBNL, NABIL, EBL, BOK and HBL is Rs. 4972, Rs. 3794, Rs. 2053, Rs. 1366 and Rs. 1500 respectively.

- The DPR ratio shows that the dividend policy scheme of SCBNL is far better than that of other sampled banks. However, the consistency in dividend payout ratio of HBL (6.64%) is highest. In average, SCBNL provided 86.12%, NABIL has provided 81.24%, EBL has provided 48.44%, BOK has provided 72.51% and HBL has provided 66.61% of the total earnings of the respective banks.
- The P/E ratio shows that the difference between MPS and EPS of SCBNL is highest than other banks. In average, the shareholders has invested 35.90 times, 32.61 times, 25.53 times, 27.59 times and 25.29 times more amount than the par value of share of SCBNL, NABIL, EBL, BOK and HBL respectively. This clearly demonstrates that the investors are more interested to possess the share of SCBNL.
- The dividend yield ratio shows that BOK has paid highest percentage of market price as dividend. 2.92%, 2.97%, 1.96%, 3.00% and 2.73% of the average market price is provided as dividend by SCBNL, NABIL, EBL, BOK and HBL respectively. Hence the shareholders of BOK has enjoyed more divided percent compared to the shareholders of other banks on the basis of MPS.
- In case of SCBNL, the correlation of MPS with DPS, and MPS with DPR is insignificant, while the correlation between DPS with EPS, EY and DY is significant. In case of NABIL, the correlation between DPS and EPS, and MPS and DPS is insignificant, while the correlation between EY and DY, and MPS and DPR is significant. Similarly, there exists significant relationship between, DPS and EPS, DPS and MPS, and MPS and DPR of EBL, and insignificant relationship between EY and DY of EBL.
- Likewise, the relationship between DPS and EPS, DPS and MPS, MPS and DPR of EBL, and EY and DY of BOK is insignificant. While there exists significant relationship between DPS and EPS, DPS and MPS, and EY and DY of HBL, and insignificant relationship between DPR and MPS.

- But, the multiple correlation between MPS on DPS and EPS of SCBNL, NABIL, EBL, BOK and HBL was 0.4869, 0.8650, 0.9500, 0.9992 and 0.9746 respectively and the relationship is statistically significant, except in SCBNL.
- Similarly, the dividend yield as paltry effect on MPS, DPS and EPS of the observed banks. In addition, the dividend yield has negative relationship with the MPS of the bank.
- The estimated DPS of SCNBL, NABIL, EBL, BOK and HBL for the fiscal year 2009/10 will be Rs. 109, Rs. 109.50, Rs. 70.50, Rs. 52.15 and Rs. 49.22 respectively and in the fiscal year 2010/11 will be Rs. 104, Rs. 114, Rs. 81, Rs. 58.04 and Rs. 52.61 respectively.
- The estimated MPS of SCNBL, NABIL, EBL, BOK and HBL for the fiscal year 2008/09 will be Rs. 8088, Rs. 6741, Rs. 3530, Rs. 2653 and Rs. 2268 respectively and in 2010/11 will be Rs. 9126, Rs. 7723, Rs. 4022, Rs. 3082 and Rs. 2524 respectively.
- Also, the estimated dividend payout ratio of SCBNL, NABIL, EBL, BOK and HBL will be 96.05%, 97.17%, 66.70%, 82.70% and 73.07% respectively in the fiscal year 2009/10 and will be 99.36%, 102.47%, 72.78%, 86.09% and 75.22% respectively in the fiscal year 2010/11.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Dividend policies are the regulations and guidelines that companies develop and implement as the means of arranging to make dividend payments to shareholders. Establishing a specific dividend policy is to the advantage of both the company and the shareholder. In order to make sure the policy is workable, a company should develop a viable policy and then run this policy through a number of test scenarios in order to determine what impact the dividend policy would have on the operation of the business.

In many cases, companies choose to explicitly state the provisions within the dividend policy. This is definitely to the advantage of the shareholder, as a well defined policy makes it much easier to project the amount of payout profits generated for the period under consideration and thus be able to determine the size of the dividends that will be issued. When the dividend policy is well defined and documented, it is easy for the shareholder to obtain a written copy and thus be fully informed as to how the policy works. However, there are cases where the dividend policy is not so well documented. When this is the case, investors sometimes base their assumptions on upcoming dividend payments on what has occurred in the past. While less systematic, it is still possible to project a more or less accurate estimate of what the dividend payout will actually be.

In cases where the dividend policy is not specifically defined, investors often look at the history to spot any trends that emerged in the past. If the dividend payments have been more or less constant for the last several years, and there has been no loss in business volume, it is reasonable to assume the payments will still be in the same general range as before. However, if the dividend history is more volatile, the shareholder may attempt to identify what factors

led to the up and down movement of the dividends and determine if any of those factors are relevant to the current dividend period.

In both expressed and implied dividend policy procedures, it is less common for the dividends to be increased. Part of the reason for that is companies tend to look closely at retained earnings and want to make sure the increased level of earnings will be sustained over the long term. Once this upward trend is deemed to be more or less permanent, the company may choose to increase dividends.

Far more common is the practice of reducing dividends. This usually takes place because there is a decrease in the company's business volume that is not anticipated to be recaptured in the foreseeable future. At other times, the decrease may be due to the need to retain more cash on hand for capital expenses. In both these scenarios, companies tend to notify the shareholders in advance that these factors exist and a chance in dividends will take place in order to meet the challenge to remain profitable.

Considering all these facts, the present study has been conducted to ascertain the dividend practices adopted in Nepalese commercial banks. For the study, only five commercial banks; namely SCBNL, NABIL, EBL, HBL and BOK, are taken as sample for the study. The study has revealed that SCBNL is the greater dividend distributing bank, as the average dividend distribution of SCBNL is Rs. 124, NABIL is Rs. 96, EBL is Rs. 39, BOK is Rs. 34.50 and HBL is Rs. 39.03. In addition, the study has revolved in the impact of dividend payout ratio on market price per share, and the effect of dividend yield on DPS, MPS and, EPS of the corresponding bank. Finally, the trend value of DPS, MPS and DPR for the forthcoming two fiscal years have been executed.

5.2 Conclusion

Excerpting the analysis of the study, it can be concluded that SCBNL is the highest profit making bank in most of the fiscal years in terms of per share, i.e. in EPS. Moreover, the EPS of most of the observed banks have increased for the first four fiscal years and then it has decreased in the final year, except in EBL where the EPS continues to increase in the final year as well. The decrease in EPS in the fiscal year 2008/09 might be due to global recession and increased competition.

Unlike EPS, the dividend distribution practice of all the observed commercial banks has been found to be irregular. This directly indicates the commercial bank lacks sound dividend policy and retention policy. Nonetheless, among the five commercial banks, the dividend distribution pattern of SCBNL is most enticing, since the dividend payout ratio of SCBNL is highest in comparison to that of other banks. Moreover alike EPS, the MPS of all the commercial banks has decreased in the final year, which enlightens that the MPS might have been affected by the EPS and DPS of the bank. Besides these, BOK is more aggressive in paying dividend by considering the market price per share as the dividend yield of BOK is highest compared to that of other banks.

The statistical analysis clarifies that increase in EPS does not always guarantees increase in MPS, because EPS has significant relationship with MPS only in three observed banks. Moreover, the impact of DPS on MPS is also low in aggregate, as DPS has insignificant relationship with MPS in four banks and significant relationship in EBL and HBL only, and dividend payout ratio has significant relationship with MPS in NABIL and EBL only. Further it can be inferred that the dividend yield of SCBNL, NABIL and HBL is somewhat affected by the earning yield of such banks. However, the joint effect of DPS and EPS has been germane to change the MPS in most of the banks, except in SCBNL. Eventually, it can be concluded that the fluctuation in MPS is not limited to the single determinant; rather it has been affected by the

various internal financial indicators and macroeconomic indicators like inflation, GDP growth, per capita income and others.

On the basis of trend analysis, it can be considered that, except SCBNL all the other observed banks will continuously disburse more dividend in forthcoming years as well. Among these five commercial banks, NABIL will show the most generosity in distributing dividend. However, the crave on investors to be the part of SCBNL will be continuously high in future as well, as a result the SCBNL's MPS will be greatest in future. Consequently each bank takes its onus to the investors and thus will increase the dividend payout ratio in the future. The shareholders of NABIL will be most satisfied by the greatest dividend payout ratio that the bank will be adopting in future.

5.3 Recommendations

To enhance the dividend practices of the commercial banks of the country, the following recommendations have been presented;

- Banks are playing on the public money. So in this regard, they are advised to have target rate of return (earnings) and target payout ratio that will help the banks to build good image in stock market and investors will be benefited on making investment decision.
- It would be better to fix the amount of dividend in the annual general meeting of shareholders. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.
- The bank should consider the existing conditions and expectations of shareholders while distributing dividends so that the distributed dividend should meet the interests or expectations of the shareholders as far as possible.
- The bank should study about the strategy to attract the ordinary or small or low level investors so that the interest or the expectation of

shareholders will not be destroyed even the bank can't pay the dividend in some year.

- The banks should define their dividend strategy (policy) clearly whether the bank is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends. The clearly defined policy will guide the way on how to follow dividend distribution. The bank should follow them (defined dividend strategy) strictly in normal condition. If there is lack of clearly defined dividend strategy, so many problems or inconveniences will be created to many other organizational sectors especially on the financial sectors.
- There should be certain program to improve the efficiency and reduce the government interference in daily affair. Similarly, the managers should be able to fulfill their duties and responsibilities and to protect the shareholder's interest but not for operation of company desired by themselves.
- There is no clear-cut legal provision regarding dividend payments. So the government should act in favor of investors and should bind through such legal provisions or distinct rules so that the profit earning companies should distribute certain percent of their earnings as dividend.
- Banks should provide a chance to their shareholders for their interest. They should try to know whether they (shareholders) prefer to obtain cash dividend or stock dividend or any forms of dividend. So, instead of declaring cash or stock or any forms of dividend, dividend declaration should be proposed to the annual general meeting of shareholders for their approval. Furthermore, the banks should also be careful about informing the impacts of dividends, the advantages and disadvantages of different forms of dividend to those shareholders or potential investors who know less about the matters.

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APPENDIX - I

a) Calculation of Mean, S.D. and C.V. of SCBNL

Year	EPS X	DPS Y	MPS Z	x = X-X	y = Y-Y	z = Z-Z	x^2	y^2	z^2
2004/05	143.14	120	2345	-2.51	-4.00	-2627.00	6	16	690112
2005/06	175.84	140	3775	30.19	16.00	-1197.00	911	256	143280
2006/07	167.37	130	5900	21.72	6.00	928.00	472	36	861184
2007/08	131.92	130	6830	-13.73	6.00	1858.00	189	36	345216
2008/09	109.99	100	6010	-35.66	-24.00	1038.00	1272	576	107744
Total	**728.26**	**620.00**	**24860**				**2850**	**920**	**1372473**

i) Calculation of Mean

For EPS For DPS

Mean $X = \sum X/5 = 145.65$ $Y = \sum Y/5 = 124.00$

For MPS

Mean $Z = \sum Z/5 = 4972$

ii) Calculation of Standard Deviation (б)

For EPS For DPS

$$б_x \quad \frac{\sum x^2}{N} \quad \frac{2850}{5} \qquad б_y \quad \frac{\sum y^2}{N} \quad \frac{920}{5}$$

23.87 13.56

For MPS

$$б_z \quad \frac{\sum z^2}{N} \quad \frac{13724730}{5}$$

1656.79

iii) Calculation of Coefficient of Variation (C.V.)

For EPS For DPS

$$C.V.x \quad \frac{бx}{X} \quad \frac{23.87}{145.65} \qquad C.V.x \quad \frac{бy}{Y} \quad \frac{13.56}{124.00}$$

16.39 10.94

For MPS

C.V.z	бx	1656.79
	Z	4972.00
	33.32	

Note: i) Same Process has been adopted to calculate the mean, standard deviation and coefficient of variation of other variables.
ii) Data have extracted from the annual report of SCBNL

b) Calculation of Mean, S.D. and C.V. of NABIL

Year	EPS X	DPS Y	MPS Z	$x = X-\bar{X}$	$y = Y-\bar{Y}$	$z = Z-\bar{Z}$	x^2	y^2	z^2
2004/05	105.49	70	1505	-11.88	-26.00	-2288.80	141	676	523860
2005/06	129.21	85	2240	11.84	-11.00	-1553.80	140	121	241429
2006/07	137.08	140	5050	19.71	44.00	1256.20	388	1936	157803
2007/08	108.31	100	5275	-9.06	4.00	1481.20	82	16	219395
2008/09	106.76	85	4899	-10.61	-11.00	1105.20	113	121	122146
Total	**586.85**	**480.00**	**18969**				**864**	**2870**	**126463**

i) Calculation of Mean

For EPS For DPS

Mean $\bar{X} = \sum X/5 = 117.37$ $\bar{Y} = \sum Y/5 = 96.00$

For MPS

Mean $\bar{Z} = \sum Z/5 = 3794$

ii) Calculation of Standard Deviation (б)

For EPS For DPS

$$б_x = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{864}{5}} = 13.15 \qquad б_y = \sqrt{\frac{\sum y^2}{N}} = \sqrt{\frac{2870}{5}} = 23.96$$

For MPS

$$б_z = \sqrt{\frac{\sum z^2}{N}} = \sqrt{\frac{12646359}{5}} = 1590.37$$

iii) Calculation of Coefficient of Variation (C.V.)

For EPS For DPS

$$C.V.x = \frac{бx}{\bar{X}} = \frac{13.15}{117.37} \qquad C.V.x = \frac{бy}{\bar{Y}} = \frac{23.96}{96.00}$$

	11.20		24.96

For MPS

C.V.z	бx	1590.37
	Z	3793.80
	41.92	

Note: i) Same Process has been adopted to calculate the mean, standard deviation and coefficient of variation of other variables.
ii) Data have extracted from the annual report of NABIL