CHAPTER I

INTRODUCTION

1.1. Background

Nepal is an under develop country per capital income of US $ 210 and most of the people are under poverty line. Finance, the art and science of managing money, affects the lives of every person and every organization. Finance is concerned with the process, institutions, markets, and instructions involved in the transfer of money among and between individuals, businesses, and governments. Managerial Finance (Which is concerned with the duties of the financial manager in the business firm) is important in all types of businesses including banks and other financial institutions, as well as industrial and retail firms. It is important in government operations, schools, and hospital and highway departments. Capital accumulation plays an important role in accelerating the economic growth of the nation, which in terms is basically determined, among others, by saying and investment propensities.

Generally, the portion of earning after tax, given to the shareholders (investors) by companies for their investment is known as dividend.

Dividend means the returns on the share investment in the form of cash. Dividends are distributed to its existing shareholders in the form of cheque and then can be encashment. The rate of dividend is decided in annual general meeting of the company which can be held annually.

Bonus shares are the annual return on share investment in the form of stock. The Bank may issue bonus share to its shareholder in accordance with the prevailing laws. Prior to issuing the Bonus shares approval of Nepal Rastra Bank shall be required and information to the company Registrar's Office shall be provided as per the Companies Act. The company can issue the bonus shares to increase the share capital. The issued bonus shares can be transferred in the market.

For cash and stock dividend, the shareholders whose name are registered in the shareholder register at the time of distribution of dividends, shall be entitled to the dividends and bonus shares. The eligibility of the cash dividend and bonus shares are entitled up to the book closure date which can be issued by the company prior to before 30 days .In the early 1980's when government permitted to establish the foreign joint venture banks namely Nepal Grindlays Bank limited, Nepal Arab Bank Limited, Himalayan Bank Limited.

"By the study in the dividend and stock dividend practices, we mean some kind of consistent approach to the distribution versus retention decision, rather than making the decision on the purely adhoc basis from period to period"

After identifying so much scopes and importance of financial analysis, decided to do research work on it by giving the example of one of the leading commercial bank, i.e. Standard Chartered Bank. Himalayan Bank, NABIL Bank

OVERVIEW ON STANDARD CHARTERED BANK

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 as Nepal Grindlays Bank under the Company Act 1964. The bank was associate company of Australia and New Zealand Banking Group Limited. The name of the bank was changed to Standard Chartered Bank Nepal Limited on 16th July 2001. Today the Bank is an integral part of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public.

Standard Chartered Group employs almost 60,000 people, representing over 100 nationalities in over 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the America standard chartered Bank Limited was established in 1987 by the distinguished business personalities of Nepal. Besides commercial activities, the Bank also offers industrial and merchant banking. With 15 points of representation and 16 ATMs across the Kingdom and with around 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through a large domestic network. In addition to which the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal.

The bank at present has the eighteen branches, seven branches inside the valley including card center and ten outside the valley in, Naya Baneshwore, Lazimpat, Lalitpur ,Biratnagar, Pokhara, Hetauda, Bhairahawa , Dharan Butwal, Nepalgunj, New Road, Pokhara , UN Counter – Lalitpur BP Koirala Medical College – Dharan, British Gurkhas PPO – Pokhara Manipal Counter – Pokhara. The bank has 16 ATMs. The name of the bank was changed from Nepal Grindlays Bank to Standard Chartered Bank on July 2001.

Standard Chartered Bank's policies extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. To extend more efficient services to its customers, Standard Chartered Bank has been adopting innovative and latest banking technology. This has not only helped the Bank to constantly improve its service level but has also kept it prepared for future adoption of new technology.

OVERVIEW ON NABIL BANK

NABIL, the first foreign joint venture commercial bank of Nepal was established on 11th May 1984 under the Company Act 1964. It started the banking word same year by joint investment of Dubai Bank Ltd and Nepalese promoters authorized capital of the bank was Rs 50 million and paid up capital and issued capital was Rs 30 million at the time of the establishment. Shareholding patterns of the bank is as follows 50% shares owned by Dubai Bank Ltd. 10% share owned by Nepal Industrial Development Corporations (NIDC), 9068% share hold by National Insurance Corporations (NIC), 0.34% share hold by Nepal Stock Exchange Ltd (NSEL) and 30 share hold by the general public.

NABIL provides a full range of commercial banking services through its 19 points of representation across the ki9ngdom and over 170 reputed correspondent banks across the globe.

With the opening of the nine branches, Nabil is now able to reach and service our customers from Mechi to Mahakali through the hills and Terai through online connectivity via VSAT, Radio modems and fiber optics. The name of the bank was change from Nepal Arab bank to Nabil bank.

OVERVIEW ON HIMALAYAN BANK

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Habib Bank Limited, one of the largest commercial bank of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. The bank at present has the five branches in

Kathmandu valley, three branches outside Kathmandu in Birgunj, Bharatpur and Tandi. The bank is also operating a counter in the premise of the Royal Palace. The bank has a very aggressive plan of establishing more branches in different parts of the Kingdom in the near future.

HBL has always been committed to provide a quality service to it's valued customers, with a personal touch. All the customers are treated with utmost courtesy as valued clients. The bank wherever possible offers tailor made facilities to it s clients. It has extended it's services to it's valued customers adopting its latest banking terminology.

1.2. Statement of the Problem*:*

Though Standard Chartered Bank, NABIL bank and Himalayan banks are fairly young in terms of tenure of its operation as compared to commercial banks of other countries, it has been the innovator in introducing many new products such as Any branch Banking, ATM, 365 Days Banking, 24 Hours Banking, Due to their prompt and quality services Standard Chartered Bank, Nabil bank and Himalayan banks have achieved its remarkable success in banking sector and have proved its high status in the eye of public. These banks have been improving its performance from very beginning since its establishment.

The basic objectives of these banks are to uplift the economic activities and strengthen welfare of the general people; to facilitate loan in different sector and to provide the banking services to the country and to its people. Therefore, this study concentrates on its financial soundness, which will enable it to meet its objectives.

Financial performance and conditions are important components of the bank's performance. Strong financial performance and sound financial conditions are critical to a bank's ability to provide necessary services. The essence of the financial soundness of a company lies in balancing its goals, commercial strategy, product market choices and resultant financial needs. This study attempts to evaluate the financial performance of these three banks by using various financial and statistical tools such as financial ratios, income and expenditure statement analysis etc. Ratio analysis is a very useful analytical technique to raise pertinent questions on a number of managerial issues. Many questions relating to the company's overall profitability, liquidity position, long-term solvency, operating efficiency, inter-firm comparison and assets utilization should be answered while assessing the financial condition of the company.

Various issues are to be dealt for the purpose of this study. Some of the various issues but among the important ones are as follow:

- What are the major factors effecting the dividend and bonus share distribution of three banks?

- How far these three banks have been able to meets its current obligation when they become due? This will be helpful to recognize the profit position of the bank.
- What is the strength and weakness of the firm? In other words, whether the earning power and operating efficiency is satisfactory or not.
- How far these three banks are able to meet its short term as well as long-term obligation to its creditor? This will answer the overall profitability of the bank and ensures a reasonable return to its owner and secure optimum utilization of the assets of the firm.
- What is the financial position of the firm in the market? Ratio analysis answers whether the financial position of a firm is improving or deteriorating over the years.

1.3. Objectives of the Stud*y:*

In view of the significant role of the dividend policy, the corporate firm should follow the appropriate dividend policy. This study is benefitted to the shareholders, brokers, managers and concerned authority for making future plans and policies in making financial decisions. Also, it was make the investors aware if the dividend policy beneficial to those parties who are directly involved in the financial decision maker to the commercial banks as well. There are many reasons for making the study.

To study cash and stock dividend practices in commercial banks.

- To analyze the Cash and Stock dividend of the company.
- To examine the market capitalization of cash and stock dividend.
- To analyze the effect of market price per share.
- To study financial performance of commercial banks.
- To suggest and recommend on the basis of major findings.

1.4. Significance of the study:

Financial ratio analysis is a reliable way to understand how a company is performing financially. By applying ratios to an organization's financial statements, managers are able to better evaluate its short and long term financial performance. Equally important, managers can evaluate the financial performance of their competitors in order to further understand their relative performance in the market place.

As the financial services industry becomes more complex, to financial information provided to the directors becomes more difficult to understand. Quality governance is impossible without effective analysis and evaluation of financial information. Directors must possess the ability to understand and oversee risk. This study will certainly help managers & directors to improve their financial performance.

Besides this study will be useful to more people and organization such as:

1. Government
2. Trade Creditors
3. Investors
4. Stock brokers
5. Academicians
6. Policy formulators
7. General Public

1.4. Limitations of the study:

There will be some limitations while undergoing this study. The main limitations of this study will be:

- The study period covers data for only ten fiscal years from 1999/2000 to 2007/2008.
- The study will be done mostly on the basis of secondary data collected.
- As the study needs sufficient money in order to collect required information through various sources, the researcher could not afford it and the time dimension is very limited.
- The study will be done for the partial fulfillment of MBS program of T.U.

1.6. Research Methodology:

Every research should follow the systematic research methodology to solve the research problem. The research methodology is a wider concept. The research methodology considers the logic behind the methods used in the context of research study and explains why a particular method or technique is used. It highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why hypothesis has been formulated.

To answer the above question I have the following research methodology to achieve the objectives of the study:

1.6.1 Research Design:

A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. A research design is the specification of methods and procedures for acquiring the information needed. It is overall operational pattern of framework of the project that stipulates what information is to be collected from which sources by what procedure. If it is a good design, it will ensure that the information obtained is relevant to research questions and that is was collected by objectives and economical procedures.

Since the main objectives of this study is to determine the financial performance of the bank, all the indicators that shows the financial position of the bank were calculated using data obtained from the five year end internally generated accounting records maintained by individuals Himalayan Bank Limited. The study is designed as to give a clear picture of the bank's financial status with the help of available data and with some useful suggestions and recommendation.

1.6.2 Data Collection Procedure:

This research work used most of the primary and secondary source of data. The financial data included in this study report were for the fiscal year 1999/2000 to 2007/2008. The source of primary data is Questionnaire method to the financial manager, Investors and the stock brokers. This represented the most recent data available at the time of research work. The supplementary data and information will be obtained from various sources like annual reports and financial statement of the bank, official records, monthly bulletins of bank, various published and unpublished periodicals, magazines, and all available reports and materials of Nepal Rastra Bank (NRB) on commercial banks. Besides bank officials of various departments will directly be approached to gains required relevant information.

1.6.3 Processing of data:

The various data obtained for this study will be presented in various required tables, diagrams and charts with supporting details interpretations of such tables, diagrams and charts.

1.6.4 Population and Sample:

There are seventeen listed companies in the banking sector for the population study. Among them three samples have been chosen for the description of the bonus shares and the cash dividend distribution. They are Standard Chartered Bank, Nabil Bank and Himalayan bank.

CHAPTER II

REVIEW OF LITERATURE

The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contribution has made and to receive some ideas for developing a research design. Many commercial organizations need sufficient amount of funds. They can obtain money through various external sources. One of the sources is the issuance of the common stock representing equity, or an ownership position a corporation. Like interest bearing fund issuance of the common stock bears the cash dividend and the stock dividend as well. A transaction in short-term debt instruments or marketable securities takes place in the money market whereas long-term securities stock and bonds, are traded in the capital market. Some portion has to be paid for using the fund. For e.g., fixed amount interest is paid for the deposits, loan, just like that some portion of dividend, cash or stock is paid for the common shares. The persons who invest in the common stock are known as the shareholders of the company. So investment in common stock bears much risk than in any other alternatives. (Sharpe, 2004:457)

In fact, only few companies paid dividend in Nepal. There is also growing practice of paying stock dividend among some Nepalese companies. When the firms need to retain a high percentage of earnings, they issue stock dividends, so that the shareholders of the firms are content. Thus, previous studies cannot be ignored as they provide the foundation to the present study.

However, Nepalese company's act 1997 Sec (47) has prohibited company from purchasing it's own share. It states that no company shall purchase it's w shares or supply loans against the security of it's own shares.

Review of Previous Thesis

Nabaraj Adhikari" Corporate Dividend Practices in Nepal" has the following objectives.

- To analyze the properties of portfolios formed on the dividend.
- To examine the relationship between dividend and stock prices.
- To survey the opinions of financial executives on corporate dividend practices.

The main findings on his research work, based on secondary data were as follows.

It is observed that there are differences in financial position of high dividend paying and low dividend paying companies. Other things remaining the same, the financial portion of high dividend paying companies is comparatively better than of low paying companies.

Robin Bhatta (1995) carried out a study on the assessment of the performance of listed companies in Nepal. The basis objectives of this study were performance of listed companies. He has taken 10 listed companies as sample based on secondary data. By using different statistical tools like ratio analysis, beta coefficient and portfolio to analyze the dividend yield, liquidity, leverage, risk and return, etc. he concluded that capital market to run efficiently requires continues flow of information and there is serious deficiency of such information in the market, investors are depressed in the market by rules and regulations and bureaucratic set up of the companies.

R.S Pradhan (1989),"Stock Market Behavior in Small Capital Market." A case of Nepal, the Nepalese management reviews. The study was based on pooled cross sectional data of 17 companies whose stocks are listed in stock exchange centre and traded in the stock market. The results revealed by study are as follows.

- Stock with larger market value to book value has longer P/E ratios and lower dividends.
- Stock paying higher dividend have higher liquidity, lower leverage, higher earnings, higher turnover and higher coverage's.

T.U. Professor Dr Radhe Shyam Pradhan conducted a comprehensive study on stock marketer behavior in a small capital market. The various ratios relating to dividend and market price share were shown by Mr. Pradhan. In these study seventeen enterprises data were collected, since 1986 to 1990. The major findings are as follows.

- Stock with higher ration of DPS and MPPS have lower leverage ratio.
- There is positive relationship between the ratio of DPS and MPPS and interest coverage's.

2.1 Conceptual Framework

This chapter deals with the review relating to the topic roles of cash dividend and the stock dividend in the organization in more detail and descriptive manner. For this study, various books, journals and articles and some previous thesis reports related with this topic had been reviewed. These studies are presented below. A firm fulfills its financial needs using different sources of financing. These sources of financing may be short term and long term. All of the items on the liabilities side of the firm's balance sheet, excluding current liabilities are sources of capital. The dividend is thus paid to the shareholders after gaining the profit from the firm. It is the interest charge to the shareholders for using their huge investment. It involves the decision to pay our earnings versus retaining them for reinvestment in the firm. Any change in the dividend policy has both favorable and unfavorable effect on the firm's stock price. Higher the dividend means higher the immediate cash flows to the investors, which is good, but lower future growth, which is bad. The dividend policy should be optimal which balances the opposing forces and maximizes stock price. Management should try to maintain regular dividends. For regular dividend, the firm will have sufficient earnings. Management will set a lower regular dividend rate than firms with the same average earnings but less volatility. Management may also declared extra dividends in years when earnings are high and funds are available. **"Capital Structure Management Rishi Raj Gautam and Kiran Thapa"**

2.1.1 Dividend

Dividend, in the normal use of the word, refers to that portion of earnings that is paid to equity shareholders. Dividend policy thus implies the broad policy or guidelines that management lays down and follows with respect to sharing of corporate earnings, that is, the amount or percentage of profits to be appropriated to the shareholders. The management of a business has three choices with respect to net income. Firstly, income may be distributed in part or whole to the owners of the business. Secondly, earnings may be retained in the business for any use the management may decide on in the future. Thirdly, income may be retained for one or more specific purposes, and designated as reserves for these ends. Almost the income generated is then paid to the shareholders of the company in the form of cash or the shares which are discussed below.

In fact only few firms paid dividend in Nepal. There is also growing practice of paying stock dividend among some Nepalese companies. When the firms need to retain a high percentage of earnings, they issue stock dividends, so that the shareholders of the firms are content. Manager strongly agrees that stock dividend have a positive psychological impact on the investment for receiving them. The question raised how much dividend to be distributed and how to reinvest? A closer look in to this matter calls for consideration of man related aspects including the availability of the present and the future opportunities, regulations and the shareholder's expectation.

2.1.2 Types of dividend:

According to the changing needs of the corporations, dividend is being distributed in several forms. They are as follows.

2.1.2.1 Interim dividend:

Generally dividend is declared in the last of the financial year. This is called regular dividend. Many times the directors can declare the dividend before the end of the financial year. This is called interim dividend.

2.1.2.2 Bond dividend:

Companies can give dividend in the form of bonds. These bonds can be long term bonds. These are given when the companies unable to take the burden of interest of loans. Sometimes certificates of dividends are given on which interest is big paid. They are also called as c\script dividend. Script dividends are of short-term nature which is able in six months.

2.1.2.3 Composite dividend:

If the dividend is paid partly in the form of cash and partly in the form of property, then the dividend said to be composite dividend.

2.1.2.4 Optional dividend:

Instead of giving composite dividend company can give option to its shareholders to take the dividend in cash or in property.

2.1.2.5 Special dividend:

When directors of the company do not want to change dividend separately when the companies have good cash and reserves. This dividend is given within the regular dividend but separately.

2.1.2.6 Cash dividend:

Cash dividend is the dividend which is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both total assets and net worth of the company decrease as cash and earnings decrease. The market price of the share drops in most cases by the amount of the cash dividend distributed.

2.1.2.7 Stock dividend:

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding shares of the firm’s stock. Although stock dividends of not have a real value, firms pay stock dividend as a replacement for a supplement to cash dividend. Under stock dividend, stockholders receive additional shares of the company in the lieu of cash dividends.

Rupees transferred from retained earnings = Number of shares * Percentage of stock dividend * Market price of the stock.

2.1.2.6 Cash Dividend:

The large majority of dividends are payable in cash. These dividends are recommended by the board of directors and paid to the equity shareholders. It is paid out from the year's net profit and the rest is appropriated to the reserves and the surplus account. It is declared in the annual general meeting of the board of directors and distributed after the closing of the accounts to the shareholders. The records of meeting are noted by the company secretary. When dividends are paid to the stockholders the firm's cash is reduced. A firm may decrease its dividend payout and use the retained funds to expand its capacity, to pay off some to its debt or to increase investment. In this way, the firm's dividend policy is closely related with the firm's investment and financing decisions.

The dividend payment procedures of a corporate firm can be outlined as follows:

Declaration date: the board of directors of the company announces that a specified amount of dividends will be paid to the stockholders. It is paid to those stockholders who will be in the company's record at some particular future date. The date at which directors meet and announce dividend is called declaration date. Generally, the dividend is announced as a percentage on the par value of the stock. However, in some cases, it can be the absolute amount as Rs 2 dividend per share.

- **Record date**:

Along with the dividend announcement, the board of directors also specifies a date of the record. The company prepares a list of stockholders from the stock transfer book at the close of business on the date of record. All the shareholders of the record date are entitled to receive dividends as declared by the board.

- **Ex-dividend date**:

The date when the right to the dividend leaves the stock for new owner is called ex-dividend date. For example, it stock is bought on or after September 11, the new stockholder in not entitled to receive dividend. As a result of this, we normally expect that stock price will decline exactly by the amount of dividend per share on the ex-dividend date.

- **Payment date**:

The board of directors also specifies the date on which the payment of dividend is actually made. This is called the payment date. on this date, the company actually pays the dividend to All the shareholders of the date of record.

2.1.2.7 Stock dividend:

A stock dividend simply refers to the dividends paid to the existing stockholders in the form of additional shares of common stock. Unlike cash dividends it does not result into the cash outflows. The purpose of stock dividends is to conserve cash in the firm, so that it can be used in new projects. It involves simply a book keeping transfer from retained earnings to the capital stock accounts. The stock dividend does not effect the equity position of shareholders; rather it represents a recapitalization of a company which takes place in the form of transfer of certain amount from the firm's retained earnings to capital stock account. Stock dividend generally has no economic significance as it only results into change in capitalization keeping total equity position constant. Stock dividend simply results into an increase in outstanding shares of common stock.

The stock dividend occurs when the board of directors authorizes a distribution of bonus shares to existing shareholders. This has effect of increasing the number of shares of the firm. For example, if a shareholder owns 100 shares of equity at a time when the firm distributes a 5 percent stock dividend, the shareholder will receive 5 additional shares.

Rupees transferred from retained earnings = Number of shares outstanding * Percentage of stock dividend * Market price of stock

2.1.3 Dividend payout schemes:

In general, firms can pay dividends using either residual dividend policy or stale dividend policy. Dividends are increased along with the increase in the earnings. Once the dividends reach at an increased level, the firms try to maintain them at that level.

2.1.3.1 Residual dividend policy:

This policy suggests that a firm should retain its earnings as long as it has investment opportunities that promise higher rate of return that the shareholder's required rate of return. In other words, under residual dividend policy a firm pays dividend only after the meeting its investment need at desired debt-equity ratio. This policy is based on the assumption that (i) firm wishes ti minimize the need of external equity, and (ii) firm wishes to maintain its current capital structure.

Amount of dividend =Net income –Equity Capital component of new project

2.1.3.2 Stability of dividend:

The common stock holders generally prefer a stable dividend income on their investments. The term "stability" here refers to the consistency in the stream of dividend payment. Although many firms prefer stability n dividend payment, different types of dividend payment behaviors are found in practice. They are discussed below.

2.1.3.3 Stable dividend per share:

Under stable dividend per share, a constant Rs per share dividend is paid. This policy may be stated as Rs 2 dividend per share or Rs 3 per share and so on. This fixed amount of dividend per share is paid on an annual basis irrespective of earnings for the year. The earning may fluctuate from year to year but dividends per share remain stable.

2.1.3.4 Constant payout ratio:

Payout refers to the ration of dividends per share to the earnings per share. Under this policy a firm tries to maintain constant dividend payout ratio over the years.

2.1.3.5 Low regular dividend plus extras:

The firm applying this policy determines a minimum constant dividends plus some extra amount of dividends depending upon the earnings. The minimum limit of dividend per share is fixed and additional dividend is paid over the regular low dividends in the years of relatively high earnings. As soon as the earnings decline to normal level, the firm cuts its extra dividend and pays only the normal or minimum dividend.

2.1.4 Firm's dividend policy:

2.1.4.1 Short term dividend policy:

Dividend policy, like all business decisions, can be optimized only in terms of objectives that the financial management of the company is trying to achieve. The objective of financial management should be to maximize the market value of shares of the existing equity shareholders or more simply to maximize the net present worth (NPW) of the company. This objective provides a rational guide for running a business and for efficient allocation fl resources of society. This objective is a guide to financial decisions for all transactions not involving transfer of assets between the corporate entity and the shareholders. For these external transactions like maximization of the firm's NPW naturally results in the maximization of the shareholders wealth.

2.1.4.2 Long term dividend policy:

The dividend payout ratio of a firm depends upon the way earnings are measured. For ease of theoretical exposition, one uses accounting net earnings but assumes that these earnings conform to the true economic earnings of the firm. In practice, net earnings may not so conform, as a result, they may be an appropriate measure of the ability of the firm to pay dividends, and certain writers argue that cash flow, the sum of earnings and depreciation, is a better measure of the capacity of a firm to pay dividends.

2.1.5 Theory of dividend:

2.1.5.1 Relevant theory:

A number of arguments have been advanced in support of the contrary position namely the dividends are relevant under conditions of uncertainty. In other words, the investor is not indifferent as to how the earning stream is split between dividends and retained earnings. These arguments are examined under conditions of uncertainty but keeping intact MM and other assumptions no transactions or floatation cost, the absence of taxes, and is given fixed policy of the firm.

Resolution of uncertainty

Informational content of dividends

Preference for current income

Sale of stock at lower price

Market imperfections

2.1.5.2 Irrelevant Theory:

The most comprehensive argument for the irrelevance of dividends is given by Miller and Modigliani. They assert that, given the investment decision of the firm, the dividend payout ratio is merely detail. It does not affect the wealth of shareholders. MM argues that the value of the firm is determined solely by the earning power on the firm's assets or its investment policy and that the manner in which the earnings stream is split between dividends and retained earnings do not affect the value. The critical assumptions of MM are:

Perfect capital markets in which all investors are rational. Information is available to all at no cost; transactions are instantaneous and without cost; securities are infinitely divisible; and no investor is large enough to affect the market price of a security.

An absence of flotation costs on securities issued by the firm.

A world of no taxes.

A given investment policy for the firm, not subject to change.

Perfect certainty by every investor as to future investments and profits of the firm. MM drop this assumption later.

2.1.8 Aspects of stock dividend:

They are discussed below.

2.1.8 .1 To conserve cash:

The stock dividend allows the firm to declare a dividend without using up cash that may be needed for operations or expansion. Rather than seek additional external financing the firm can retain its funds that would otherwise be distributed to shareholders

2.1.8 .2 To indicate higher future profits:

Normally a stock dividend is an indication of higher future profits. If the profits do not rise, the firm would experience a dilution of earnings as a result of the additional shares outstanding. Since a dilution of earnings is not desirable, stock dividends are usually declared only by board of directors who expect rise in earnings to offset the additional shares.

2.1.8 .3 To raise future dividends:

If the regular cash dividends is continued after an extra stock dividends is declared, the shareholders will receive an increase in cash dividends in the future. For example, a firm may declare Re 1 regular dividend and a 5 percent extra stock dividend. A shareholder with 100 shares will receive

Rs 100 and 5 additional shares. If the firm continues its Re1 dividend. This investor would receive Rs 105, an increase of Rs 5 in the next period.

2.1.8 .4 To have positive psychological value:

Because of the positive aspects of stock dividends, the dividend declaration is usually received positively buy the market. This tends to encourage investment in the stock thus supporting or raising its market price. Instead of experiencing a drop in value after a stock dividend, the price may actually rise.

To retain proportional ownership for shareholders:

Management may also declared extra dividends in years when earnings are high and funds are available. “Capital Structure Management Rishi Raj Gautam and Kiran Thapa “

The stock dividend differs from an issue of a new equity. If the existing shareholders do not have the funds to purchase a new equity, their proportion of the ownership in the firm will decline as new investors purchase shares. This is a voided b a stock dividend which is, in effect, nothing more than a recapitalization of the firm.

“Investment Management Security Analysis and Portfolio Management V K Bhalla”

Deciding how much to pay to the shareholders by the way of dividend and how much to retain in the business is dividend decision. It is an important decision as it affects the value of the firm. It presents the basic concepts and procedures essential for making dividend decision. It begins with the meaning of dividend and proceeds to dividend payment procedures, factors affecting dividend policy and types of dividend payout schemes. Finally, it is highlighted to the significance of the stock dividend, stock split, re4vese stock split and stock repurchase in the firm.

“Fundamentals of Corporate finance Rajan B Poudel, Keshar J Baral, Rishi R Gautam, Surya B Rana”

2.2 Review of related studies

2.2.1 Book Review

Book related to Dividend and stock dividend

Corporate Finance as a part of economic was emerged as a distinct field of study in early 1990’s, finance is basically concerned with the management of (a(investing funds in assets and (b) determining the best mix of financing and dividend is related to company’s overall valuation. It was primarily a descriptive study limited to the procurement of the funds and the external analysis of the firm. Mainly shareholder and the creditor who influence the business organization value the firm. Management may also declared extra dividends in years when earnings are high and funds are available. “Capital Structure Management Rishi Raj Gautam and Kiran Thapa “

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“Fundamentals of Corporate finance Rajan B Poudel, Keshar J Baral, Rishi R Gautam, Surya B Rana”

Review the provision of Dividend Policy under the Nepalese company Act

There is nothing stated in Nepal Company Act 2021 B.S regarding dividend policy. The responsibility to under takes required actions to protect shareholders interest given to stock exchange center by then securities exchange Act 1983 A.D. However, this organization is not competent enough to protect shareholders interest since attitude of the board of director’s plays dominant role in the management to public limited companies. In many cases, a firm can pay long-term debt in debentures and preferred stock agreement contain resigned to protect senior claim holders from massive withdrawals residual owners. In Nepal regarding dividend policy, Nepalese Company Act

2053 B.S with the first corrective 059/03/24 determined the following rules and regulations.

Company had to provide dividend to the shareholders. According to the rules under this company act 2053 B.S Company has allowed paying dividend against the amount, which is remaining to pay as a share price. According to company act 20532 B.S at section 42(5), company couldn't pay dividend against the unclear capital. If the company is not clear about dividend in nominal value. According to this act, dividend is being paid in the term of cheque within 45 days, without special cause, company shouldn't pay interest against the dividend. But if company could not able to ay dividend until; 45 days, since declaration date of dividend, company have to pay interest against the dividend.

2.2.2 Nepalese perspective Book Review

In Nepalese context, few of the companies that have actively traded stock. Research in this field shows that the most important reason to retention of earnings, in trading and non-trading sectors separately. The reasons to retain earnings in trading sector is the reluctance to dilute control from selling stock to outsiders where as in non-trading sector there is difficult to convince outsiders about the profitable investment while raising funds.

TU, Professor Dr Radhe Shyam Pradhan conducted comprehensive study on the stock market behavior in a small market. The various ratios relating to dividend and the market price share were shown by Dr Pradhan. In these study seventeen enterprises data were collected since 1986- 1990. They are

- Stock with higher ration of DPS and MPPS have lower leverage ratio.
- Stock with larger ratio of DPS and MPPS have higher liquidity position of stocks paying lower dividend is also more variable as compared to stock paying higher dividends.
- There is a positive relationship between the ratio of DPS and MPPS.

Mr. M K Shrestha has conducted a study to deal with policies and the financial performance of some companies in Nepal. A book entitled “shareholders democracy and the annual general meeting feedback” contains a paper presented by Dr Shrestha on the occasion of annual general meeting of Nepal Arab Bank Limited. He has raised the following issues.

- The cost push inflation at exorbitant rate has made the shareholder to expect higher return firm their investment.
- The bank had paid stock dividend and the cash dividend to satisfy the needs of the shareholders and refinance the growth of the firm. But the dividend growth is not equal to the growth rate of earnings.

He has also written an article about public enterprises published in the book “PRAKASHAN” March 1981. It gives short glimpse of the dividend performance of some public enterprises to that time in Nepal. Dr Shrestha has highlighted those in the article.

2.3 Review of Financial Journals

2.3.1 Walter James E.S Study

The arguments advanced by professor Walter is a considerable interest in the literature of finance. Walter holds that the choice of dividend policies almost always affects the value of the enterprises. The main point that he emphasized is that there is significant relationship between the internal rate of return on the investment projects and market rate demanded by the investors. As long as internal rate of return (IRR) is greater than the market rate, the stock price will be enhanced by retentions and will vary inversely with on that dividend policy which can be used to maximize the wealth position of the stockholders.

2.3.2 G.Mc Donald and J.C Van Horne Study

Mc Donald and Van Horne conducted a more comprehensive study on dividend policy and new equity financing. The purpose of the study was to investigate the combined effect of dividend policy and new equity financing. On the market value of the firms common stocks. Several empirical tests were performed on two industries, using a well-known valuation model, i.e., cross section, regression model, the study coverage 86 electric utility firms and 39 firms in the electronic and d electronic component. Industries as listed on the "COMPUSTAT" industrial data type.

2.3.3 Modigilani and Miller's Study

Modigilani and Miller (M-M) provides the most comprehensive argument for the irrelevance theory of dividends. In 1961 on the business journal of "Dividend Policy Growth and Valuation of Share". According to M-M, dividend policy of a firm is irrelevant, as it does not affect the wealth of the shareholders. They hold that the value of the firm depends on the earnings power of the firm's investment policy.

Nab Raj Adhikari's Thesis: The study on the topic of "Corporate Dividend Practices in Nepal" has the following specific objectives

- To analyze the properties of portfolios formed a dividend.
- To examine the relationship between dividend and stock prices.
- To survey the opinions of financial executives on corporate dividend practices.

CHAPTER III

RESEARCH METHODOLOGY

A systematic study needs to follow a proper methodology to achieve pre-determined objective. Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in vies. Research methodology describes the methods and process, which has been applied in the entire aspect of the study. So, in this study, research methodology has been paid due attention to achieve the objective of the study.

3.1 Research Design

Research design is a series of stages or tasks in planning or conducting a study. It is consideration, which enter into making decision regarding what, where, when, how much, by what means constitute a plan of study design. Research design specifies the methods, procedures and strategies for acquiring the information needed which guide to sufficient way of analyzing and evaluating the study.

In this study, mainly secondary data are collected. Ten years time series data from fiscal year 1999/2000 to 2007/2008 of Standard Chartered Bank Nepal Ltd, Himalayan Bank and Nabil bank Ltd are taken for analysis by the help of financial and statistical tools.

3.2 Population and Sample

The total number of listed banks in Nepal is in number of ----. Out of these, three banks are selected to analyze its dividend policy and it's management. The annual financial report is the population of this study. It is quite difficult to adopt the whole population in this study. Sample of the 10 years financial statements are taken for the study. The sample of the study comprises financial statements viz. balance sheet and profit and loss of SCB, HBL, and NBL.

The following three commercial banks are taken by judgment sampling method in this study.

S No	Name of bank	Address	Established date
1	Standard Chartered Bank	Naya Baneshwor, Kathmandu	1987
2	Himalayan Bank Ltd	Thamel, Kathmandu	1984
3	Nabil Bank Ltd	Kamladi, Kathmandu	1992

3.3 Sources of Data:

This study is based on the secondary data. To analyze the management of dividend policy on various key variables like, composition of profit, turnover position, liquidity position, investment policy, retained earnings, cash conversion cycle and so on. Secondary data are taken into consideration for the analytical purpose; the annual reports published by the relative enterprise were collected from the fiscal year 1998/1999 to 2007/2008.

The supplementary data and performance obtained from unpublished official records of company's booklets, journals, etc.

3.4 Methods of data analysis:

Methods of data analysis are the raw data processing technique to find out the result for making decision. Financial tools as well as statistical tools are used in the method of data analysis.

3.4.1 Financial Tools:

Financial tools are used to find the financial indicators, which basically represent ration analysis. In this study the following financial indicators tools are used which are described below:

3.4.1.1 Computation of Dividend

3.4.1.2 Composition of share capital

3.4.1.3 Earnings per share

3.4.1.4 Profitability position

3.4.1.5 Liquidity position

3.4.1.6 Measurement of Risk

3.4.1.7 MVPS and BVPS

The rations used to analyze the above aspects are described below.

3.4.1.1 Computation of Dividend:

Dividend is an important cash inflow for the common stockholder. So in order to calculate holding period rate of return calculation of the dividend is an important task. In this research paper stock dividend is converted into cash dividend. The model used to convert stock dividend into cash dividend is as follows.

Stock dividend = (%of stock dividend) * (MPS after stock dividend)

Total Cash dividend = (%of cash dividend * paid up value) * (%of stock dividend * MPS after stock dividend)

$$\text{Dividend Yield} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

3.4.1.2 Composition of share capital

The composition of the share capital is maintained in such a way it is dividend into the promoter's and the public share capital. Generally, the composition of the share capital is more in promoter shares. In the case of SCB, the percentage of the promoter shares is 75% and the public percentage is of 25%. The promoters are standard chartered Grindlays Australia, Standard chartered, London. But in other cases there are no group promoters.

3.4.1.3 Earning per share:

Earning per share is calculated by dividing the net profit after taxes by number of common stock share outstanding. It is calculated to know the earning per capacity and to make comparison between concerned companies.

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

3.4.1.4 Profitability Position:

Profitability ratios have calculated to enlighten the end results of business activities that are the sole criterion of the overall efficiency of business concern. The position of the profitability of the company is analyzed with the help of the following ration.

3.4.1.5 Liquidity position

Liquidity ratio measures the firm's ability to meet its current obliging. To find out the firm's liquidity position, the following ratios are computed.

Current ratio (CR)

Current ratio is basis yardstick of measuring liquidity position of the firm. It is determined as follows.

$$CR = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Generally, current ratio of 2:1 (current assets twice-current liabilities) is to be considered satisfactory.

Quick (acid-test) ratio (QR)

Quick ratio is the ratio between quick or liquid assets and current liabilities i.e. it ignores the inclusion of inventories in the current assets and thus is regarded as more liquid than current ratio.

$$QR = \frac{\text{Current assets- Inventories}}{\text{Current liabilities}}$$

Generally, the company with quick ration of 1:1 is considered sound position.

3.4.1.6 Measurement of Risk

The gain or loss from the investment is known as return of that investment or asset. Return will usually have two components. First, you may receive some cash while you own the investment, like dividend. Second, the value of the asset you purchase will often change, like the share price may change in the market, gain from such price appreciation is known as capital gain. Therefore the dividend income and capital gain are two components of total return of investments on stock.

Expected rate of return:

Expected rate of return is simply the average rate of return. The obvious way to calculate the average returns on the different investments is simply to add the timely returns and divide by total number.

Expected return on asset A: $E(\overline{RA}) = \frac{RA}{n}$

In case of probability distribution, the average return is calculated as follows:

Expected return on asset A: $E(\overline{RA}) = \quad p(r)$

$$\uparrow \textit{Expected Return} \Leftrightarrow \uparrow \textit{Expected Risk}$$
$$\downarrow \textit{Expected Return} \Leftrightarrow \downarrow \textit{Expected Risk}$$

Business firms operate and invest in risky environments. Since these risks impact the level of returns from business investments, they directly affect the economic value of both individual investment projects and the firm as a whole. Because of this, the potential risks associated with project investments must be taken into account when making investment decisions.

Total risk =Undiversifiable risk +Diversifiable risk

3.4.1.7 **Market Value Per Share & Book Value Per Share Analysis:**

This ratio reflects to the price of the market are paying for each rupee of currently or reported by the company. It is calculated by dividing the market value per share.

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

3.4.2 Statistical Tools

Statistical tools are used to analyze the relationship between two or more variables and to find how these variables are related. In this study, following statistical tools are used, which are described below;

3.4.2.1 Mean ($\bar{x}$)
3.4.2.2 Standard deviation (sd)

3.4.2.3 . Coefficient of variation (cv)

3.4.2.4 Correlation coefficient (r)

3.4.2.5 Probable error of correlation coefficient

3.4.2.6 Simple regression analysis

3.4.2.7 Test of hypothesis

3.4.2.1 Mean

The most popular and widely used measure of representing the entire data by one value is what most non professionals call and “average” and what the statistician call the arithmetic mean. Its value has obtained by adding together all items and by dividend this total by the number of items. The mean value of ratios of the study period of both the manufacturing companies has calculated to compare their results. The formula used for calculating mean was as follows.

$$\bar{x} = \frac{x_1+x_2+\ldots+x_n}{N} = i=1$$

3.4.2.2 Standard deviation (S.D)

The measurement of the scatter ness of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, indicate greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of the series.

It is positive square root of the average of the square of deviations taken from mean denoted by

If probability distribution

$$\text{standard deviation } (\pm)\, X \sqrt{\quad P(r - \bar{r})^2}$$

$$\pm\, X \sqrt{\frac{(r\, Z \bar{r})^2}{n\, Z 1}}$$

3.4.2.3 .Coefficient of variation

The standard deviation as stated above is an absolute measure of dispersion. The corresponding relative measure is also called as the coefficient of variation. It has used in such problems where we want to compare the variability of two or more than two series. The series for which the coefficient of variation is greater has said to be more variable or conversely less consistent, less stable or less homogeneous and vice versa. In these studies coefficient of variation has used to analyze the variance of average key variable.

The coefficient of variation shows the risk per unit of return, and it provides a more meaningful basis of comparison when the expected returns on two alternatives aren't the same.

$$CV \;\mathrm{X}\; \frac{risk}{return} \;\mathrm{X}\; \frac{\pm}{\bar{r}}$$

Risk = the possibility of something unexpected happening

Or

Risk = the possibility of an unexpected outcome occurring

3.4.2.4 Correlation coefficient:

Two variables are said to have "correlation", when they are so related that the change in the value of one variable is accompanied by the change in the value of other. The measure of correlation called the correlation coefficient summarized in one figures, the degree and direction of movement. Correlation analysis only helps in determining the extent to which the two variables are correlated but it does not tell us about cause and effect relationship. Either correlation can be positive or it can be negative. If both the variables are changing in the same direction, then correlation is said to be positive but when the correlation in the two variables take place in opposite direction, the correlation is termed as negative.

2.2 Diversification

The correlation coefficient between movements in two variable -1 to +1

If two assets with identical expected returns and standard deviations over time.

At a-1 correlation between the two returns the two variable movements are perfectly negatively correlated and it is possible to construct a portfolio of the two assets that completely does away with all firm specific risk. This is because the two returns through time exactly can cancel each other out. You are then let with a portfolio expected value (expected return or mean return) and no variation (standard deviation=0 and you have no risk).

At +1 correlation between the two returns the two variable movements are perfectly positively correlated and it is impossible to achieve any risk reduction through diversification. This is because the two returns through time are exactly the same. You are then left with a portfolio expected value (expected return or mean return) and a portfolio standard deviation that is equal to the standard deviation of each of the two asset returns.

With the correlation coefficient positive but less than +1 there will be some diversification effect as you combine the two assets into a portfolio. The lower the correlation (below +1), the greater is the diversification effect.

Any two randomly chosen assets in the economy would tend to have a correlation coefficient somewhere between +.30 and +.70 although you can identify some asset pairs with negative correlations between their returns. The reason returns tend to be positively correlated is because all firms face the same general economic risks such as the risk of recession and downturns in the business cycle.

If you select any two assets whose correlation is less than +1 there will be a diversification effect when those two assets are combined into a portfolio. This diversification effect will provide a total risk (as measured by standard deviation) that is lower for the portfolio than for the more risky of the two original assets. As you add more assets to the portfolio whose returns are less than perfectly positively correlated with the portfolio returns, more diversification will occur and the total risk will continue to drop. As the number of assets in the portfolio grows, total risk will continue to decrease until most firm specific risk is diversified away and only systematic risk is left.

$$COV_{xy} = \frac{(r_x - \bar{r}_x)(r_y - \bar{r}_y)}{n - 1}$$

3.4.2.5 Probable error of correlation coefficient:

The probable error (PE) is the measure of ascertaining the reliability of the value of Pearsonian coefficient of correlation. PE is worked out as under for Karl Pearson's coefficient of correlation.

Coefficient of correlation:

PE = 0.6745 * $1-r^2$

Where r is sample correlation coefficient and n is the sample size.

The probable error is used to test whether the calculated value of sample correlation coefficient is significant or not. A few rules for the interpretation of the significance of correlation are as follows:

If $r>6$*PE (r), then the value of r is not significant (i.e. insignificant)

If $r<6$*PE (r), then the value of r is significant

In other situations, nothing can be calculated with certainty.

3.4.2.6 Simple regression analysis

Regression analysis is the technique of studying how the variation is one series is related to variation in another series. In other word, regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known values of other variables.

The known value, which is used for prediction, is called independent variable and unknown value that is estimated by known value is called dependent variable. The equation of regression line where the dependent variable y is determined by the independent variable x is

$$Y = a+bX$$

Where,

Y= Dependent variable

A= Y-intercept

B= slope of regression line (it measures the change in Y per unit change in X)

X= Independent Variable

3.4.2.7 Test of hypothesis

Hypothesis is usually considered as the principal instrument in research. A method of statistics, which helps in arriving at the criterion for decision-making, is called test of hypothesis.

Different approach is applied in accordance with the sample size. For small sample i.e, ($n<30$), researcher "t" distribution is used to test whether the taken sample signifies the whole population or not.

To support this study for arriving at decision null hypothesis and alternative hypothesis statement are set and to justify the statement, the formula of test statistic i.e, "t" test is used.

The computed value of "t" is compared to its "t" distribution value. If the computed value of "t" is greater than that of table value, the null hypothesis is rejected and vice-versa.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis and Interpretation of data:

To find the answer of research problem, the collected data are necessary to present and analyze by processing. For the data analysis and interpretation we are taking 10 years old data of 3 different companies Standard Chartered Bank, Nabil Bank and Himalayan bank. The structure of the dividend and the bonus shares distribution has shown in the below table. It is thus calculated from profit of the organization.

4.1.1 Structure of dividend & bonus distribution

Following table shows the comparison of the structure of the dividend distribution the three different companies.

Table 4.1: Cash dividend and stock dividend Percentage Distribution:

FY	Dividend (SCB)		Dividend (NABIL)		Dividend (HBL)	
	CDP	SDP	CDP	SDP	CDP	SDP
98/99	80	50	50	0	50	25
99/00	100	0	55	0	50	25
00/01	100	0	40	20	27.50	20
01/02	100	0	30	0	25	10
02/03	110	10	50	0	1.31	23.78
03/04	120	0	65	-	-	20
04/05	120	0	70	-	11.58	20
05/06	130	10	85	-	30	5
06/07	80	50	100	40	15	25
07/08	80	50	60	40	0	30

Source: Annual reports of the bank

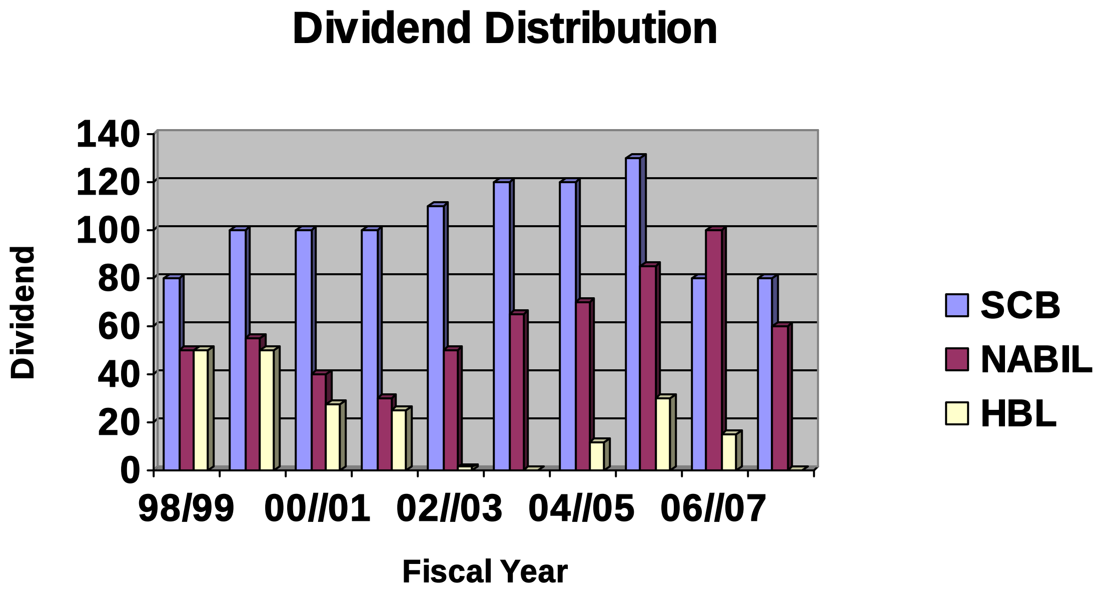

Figure 4.1: Dividend Distribution

Table 4.1 indicates the composition of the cash dividend and stock dividend distribution of three different organizations. Percentage of dividend distribution and bonus share is more in standard chartered bank than Nabil bank and then Himalayan bank.

In the first row it is 110% in SCB while it was 50% in Nabil bank and 1.32 % in Himalayan bank. All are in the increasing trends. Increase in bonus share distribution indicates in the increment in the paid up capital distribution. It is also shown by the graphical representation below

4.1.2 Structure of Share capital Position:

Table 4.2: Structure of Share capital Position:

FY	Total Share capital (SCB)	Total Share capital (Nabil)	Total Share capital (HBL)
98/99	339548800	392796000	1920000
99/00	339548800	392796000	2400000
00/01	339548800	491654400	3000000
01/02	339548800	491654400	3900000
02/03	339548800	491654400	4290000
03/04	374640400	491654400	5362500
04/05	374540400	491654400	6435000
05/06	374640400	491654400	7722000
06/07	413254800	491654400	8108100
07/08	620784000	689216000	8108100

Source: Annual reports of the bank

Table 4.2 indicates the share ownership of the three different organizations. Percentage of share ownership is high in Himalayan bank than Nabil bank and is in third position in Standard Chartered Bank. In the first row of fiscal year 02/03 it is it is n 3395488 shares in SCB, whereas it is 4916544 in Nabil bank and it is 8108100 in the case of HBL.

4.1.3 Structure of Earning per share:

Table 4.3 Structure of Earning per share

FY	EPS (SCB)	EPS (NABIL)	EPS (HBL)
98/99	105.86	67.84	86.07
99/00	115.62	83.79	83.08
00/01	126.88	59.26	93.56
01/02	141.13	55.25	60.26
02/03	149.30	57.66	49.45
03/04	143.55	92.61	49.05
04/05	143.14	105.49	47.91
05/06	175.84	129.21	59.24
06/07	167.37	137.08	60.66
07/08	131.92	108.31	62.99

Source: Annual reports of the bank

Table 4.3 indicates the earning per share paid by the three banks from the year 89/90 to 07/08. In the starting year of the study 98/99 SCB has the highest earnings ie EPS of 115.62. it is in the increasing trend but HBL is declining and getting improved after the year 04/05. It indicates that SCB has the best improving performance among other banks. The bar diagram of EPS of the three banks are given below.

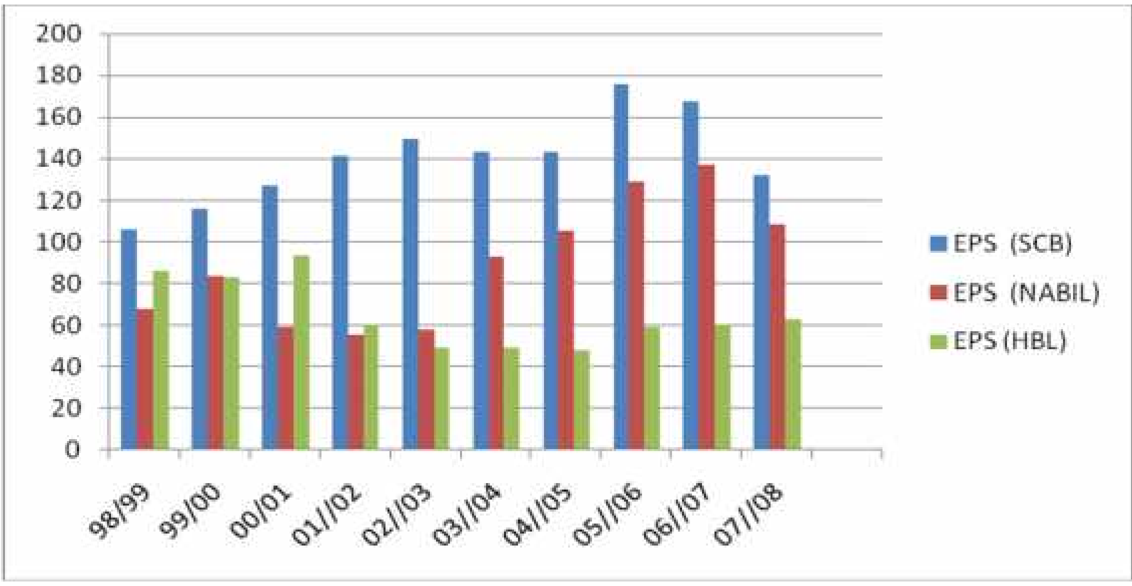

Figure 4.2 Structure of Earning per share

Figure 4.2 indicates the earning per share paid by the three banks from the year 89/90 to 07/08. The blue line indicates the EPS of SCB, red line indicates EPS of NABIL and the green line indicates the EPS of HBL. In the starting year of the study 98/99 SCB has the higher earnings i.e. EPS over 100 digits. It is in the increasing trend but HBL is declining and getting improved after the year 04/05.

4.1.4 Structure of Net Profit Margin:

Table 4.4 Structure of net Profit Margin

FY	Net Profit (Loss) amount (SCB)	Profit (Loss) amount (Nabil)	Profit (Loss) amount (HBL)
98/99	30.36	23.60	32.98
99/00	28.62	25.13	30.77
00/01	25.92	18.50	33.39
01/02	33.12	16.57	28.96
02/03	33.71	29.16	27.51
03/04	33.95	31.92	30.75
04/05	34.01	34.33	32.98
05/06	37.06	35.32	35.16
06/07	34.55	32.16	34.90
07/08	34.94	29.16	35.87
Mean (x)			

Source: Annual reports of the bank

Table 4.4 indicates the total profit of the three banks from the year 89/90 to 07/08. In the starting year of the study 98/99 SCB has the highest earnings ie . it is in the increasing trend but HBL is declining and getting improved after the year 04/05. It indicates that SCB has the best improving performance among other banks. The bar diagram of EPS of the three banks are shown in below.

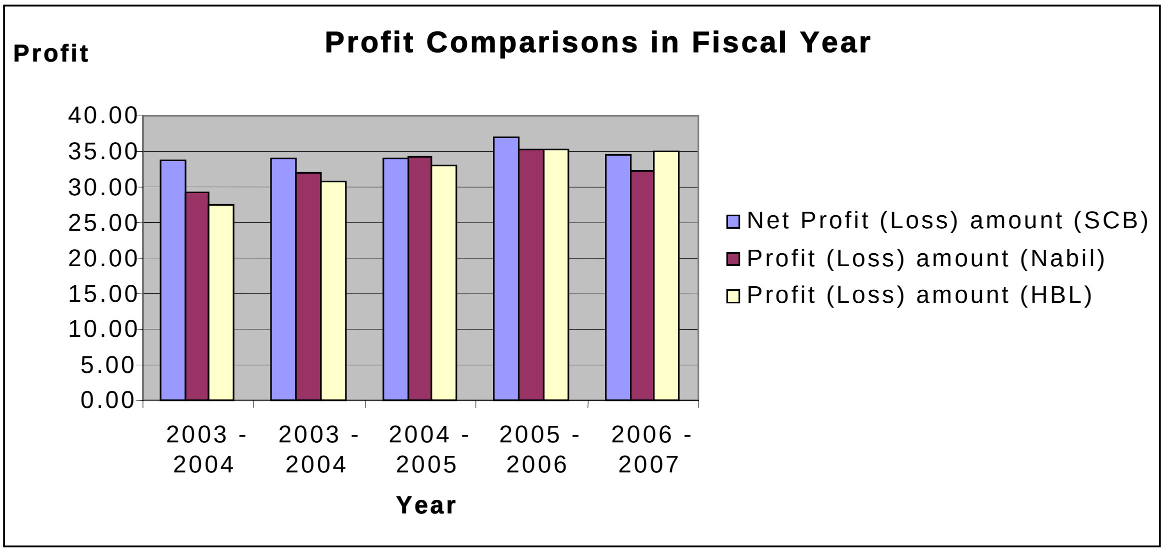

Figure4.3 Profit Comparisons in Fiscal Year

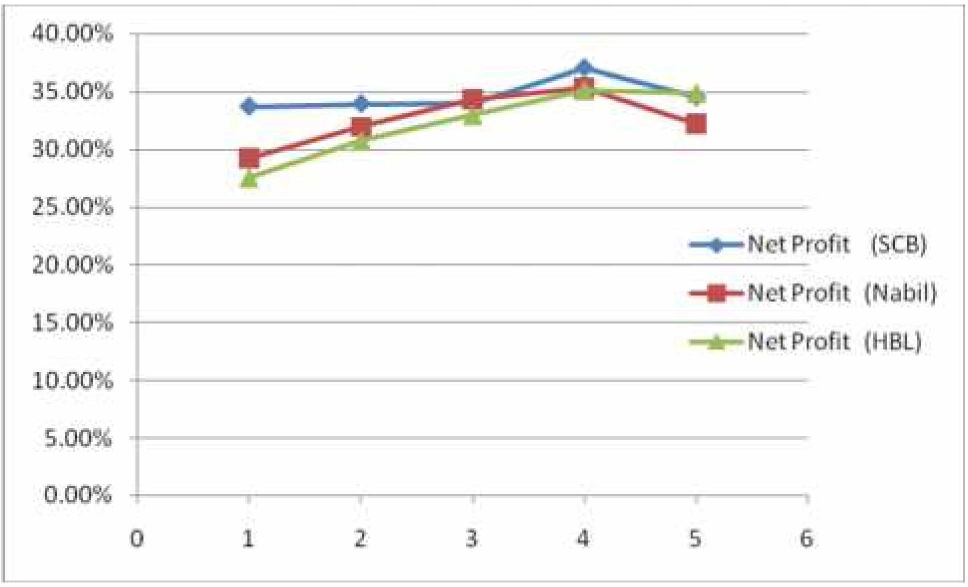

Figure4.4 Profit Comparisons in Fiscal Year

Figure 4.3 and 4.4 indicates the profit comparisons of the three different companies for the various years. The net profit of SCB indicating above 30, that of HBL and NABIL is above 25. In figure 4.4, the line of SCB, NABIL and HBL is intersecting at one point.

4.1.5 Structure of Liquidity Position:

Table 4.5 Structure of Liquidity Position

FY	Liquidity Position Ratio (SCB)	Liquidity Position Ratio (NABIL)	Liquidity Position Ratio (HBL)
98//99	10.63	6.67	0
99//00	10.76	8.52	10.47
00//01	10.76	5.13	11.77
01//02	9.87	6.78	11.69
02//03	9.07	8.51	8.30
03//04	9.46	6.87	8.28
04//05	8.77	3.83	7.86
05//06	6.86	3.26	5.92
06//07	5.46	6.00	5.92
07//08	5.84	8.37	5.98

Source: Annual reports of the bank

Table 4.5 indicates the liquidity position of the three different companies. It is more in NABIL bank than in SCB and than in HBL. It is managed both in the short term and in the long term and medium term basis. It is the policy of the bank to maintain adequate fund at all times and for the currencies.

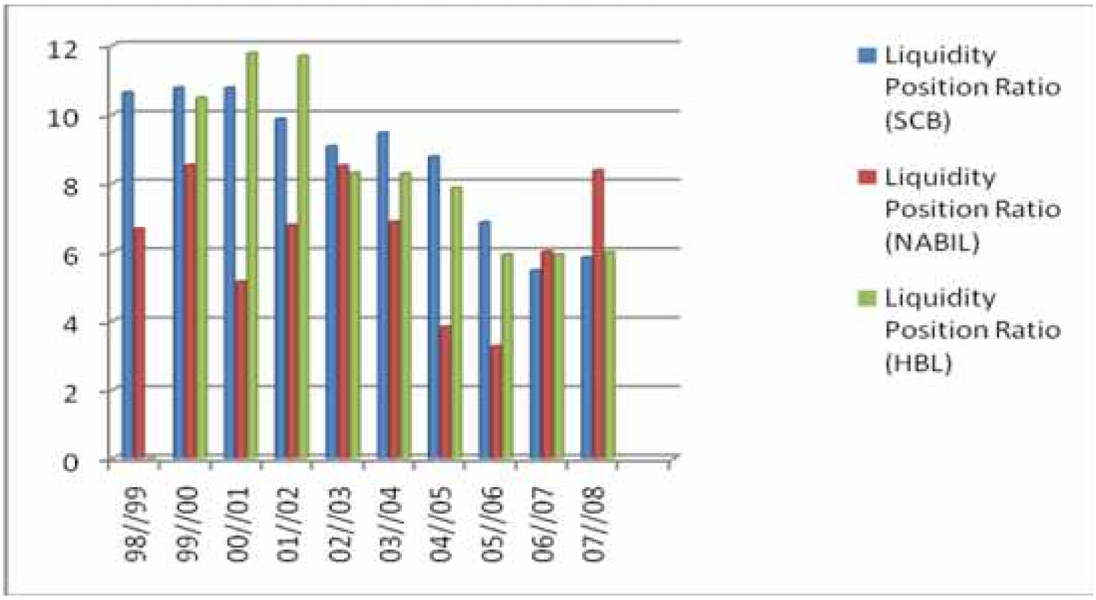

Figure: 4.5 Liquidity of three banks

Figure 4.5 indicates the liquidity position of the three different companies. It is higher in NABIL bank than in SCB and than in HBL. It is managed both in the short term and in the long term and medium term basis. It is the policy of the bank to maintain adequate fund at all times and for the currencies.

4.1.6 Structure of Market Priced per share and book value per share:

Table 4.6: Structure of Market Priced per share and book value per share

FY	Market price per share (SCB)	Book value per share (SCB)	Market price per share (Nabil)	Book value per share (Nabil)	Market price per share (HBL)	Book value per share (HBL)
98/99	1162	282.26	700	224	1000	362.03
99/00	1985	298.88	1400	251	1700	362.70
00/01	2144	327.50	1500	216	1500	399.42
01/02	1575	363.86	700	233	1000	393.34
02/03	1640	403.15	740	267	836	247.81
03/04	1745	1495	1000	301	840	246.93
04/05	2345	1582	1505	337	920	239.59
05/06	3775	1754	2240	381	1100	228.72
06/07	5900	2116	5050	418	1740	264,74
07/08	6830	2492	5,275	354	1800	270.98

Source: Annual reports of the bank

Table 4.6 indicates the Market Priced per share and book value per share of the three different companies. It is more in Nabil bank than in SCB and than in HBL. It is managed both in the short term and in the long term and medium term basis. It is the policy of the bank to maintain adequate fund at all times and for the currencies.

4.1.7 Structure of Price Earnings ratio:

Table 4.7 Structure of Price Earnings ratio

FY	Price earning ratio (SCB)	Price earning ratio (Nabil)	Price earning ratio (HBL)
98/99	10.98	10.32	6.66
99/00	17.17	16.71	11.62
00/01	16.90	25.31	20.46
01/02	11.16	12.67	16.03
02/03	10.98	8.74	16.91
03/04	12.16	10.80	17.12
04/05	16.38	14.27	19.20
05/06	21.47	17.34	18.57
06/07	35.25	36.84	28.69
07/08	51.77	48.70	30

Source: Annual reports of the bank

Table 4.7 indicates the earnings per share, market price per share and price earning ratio of the three different organizations. Earning per share indicates the profit return on the one share which is greater in SCB than NABIL and then in HBL which directly influences in the market price of the share that is also higher in SCB than NABIL and in HBL. Price earnings ratio is the ratio between market price per share and the earning per share.

Calculation of Mean, Standard deviation and coefficient of Variation of the return:

FY	Net Profit (Loss) amount (SCB)	Profit (Loss) amount (Nabil)	Profit (Loss) amount (HBL)
98/99	30.36	23.60	32.98
99/00	28.62	25.13	30.77
00/01	25.92	18.50	33.39
01/02	33.12	16.57	28.96
02/03	33.71	29.16	27.51
03/04	33.95	31.92	30.75
04/05	34.01	34.33	32.98
05/06	37.06	35.32	35.16
06/07	34.55	32.16	34.90
07/08	34.94	29.16	35.87
Total	**326.24**	**275.85**	**323.27**
Mean (x)	32.62	27.58	32.32
SD	9.99	37.57	6.88
CV	30.63	136.22	21.92

4.2 Test of hypothesis:

Composition of the return

To test whether there are significant differences in the composition in the return between Standard Chartered Bank, Nabil Bank and Himalayan Bank limited, following null hypothesis and alternative hypothesis are formulated and tested.

H_o: There is no significant difference between in composition of the return between SCB, Nabil and HBL ie, $\mu_1 = \mu_2$. To test the hypothesis, following sub null hypothesis are fitted:

1. There is no significant difference in the return between SCB, Nabil and HBL.
2. There is no significant difference in the distribution of the bonus share between SCB, Nabil and HBL.
3. There is no significant difference in the cash payment of the dividend distribution between SCB, Nabil and HBL.

H_1: There is no significant difference between in composition of the return between SCB, Nabil and HBL ie, $\mu_1 \neq \mu_2$. To test the following sub hypothesis are fitted for this hypothesis.

1. There is significant difference in the return between SCB, Nabil and HBL.

2. There is significant difference in the distribution of the bonus share between SCB, Nabil and HBL

3. There is significant difference in the cash payment of the dividend distribution between SCB, Nabil and HBL.

The following table exhibits the mean value (in percentage of total return) measuring the composition of the share capital of SCB, Nabil and HBL and it's t- value

t- test of the return

	SCB	Nabil	HBL	Calculated t-value	Tabulated t-value	Result
1. Return	32.62	27.58	32.32	1.55	2.23	H_o accepted H_1 rejected

Table shows the t-test for the return. The average ratio of SCB is 32.62. That of Nabil is 27.58 and of HBL is 32.32. The calculated t-value (1.55) is less than the tabulated value (2.23), so null hypothesis is accepted and the alternative hypothesis is rejected.

Major findings

The major empirical findings of the whole study are presented below:

1. Generally the dividend is calculated from the portion of the profit. The data of the dividend percent analysis shows that SCB has the largest dividend percentage (140), at the same time, C.V analysis helps us to conduct that SCB has relatively consistent dividend percent that of three banks able to pay constant dividend to their shareholder.
2. Earnings per share analysis show that the average EPS of SCB is the highest all of the banks. The standard deviation of SCB is 9.99 is the highest all of other three banks. S.D of SCB is highest value. It means that SCB is the most consistent EPS other three banks.
3. The average market value per share to book value per share of SCB is the efficiency and consistent that of other two banks.
4. The average of DPR of SCB and NABIL are 78.34 and 63.87 respectively. It indicates that both banks applied aggressive dividend policy. The average of DPR of HBL and NABIL are 26.36 and 1.01. it indicates that GBL applied moderate dividend policy whereas NABIL applied conservative dividend policy.
5. In the case of HBL, relationship between DPS and the net profit (NP) is negative insignificance. But other three banks have positive relationship between DPS and NP.

CHAPTER V

SUMMARY, CONCLUSIONS & RECOMMENDATION

The chapter presents the summary and the conclusion of this study. Finally it presents recommendations for the future study.

5.1 SUMMARY

Nepal is one of the least developed countries in the world; Nepal launched planned economic development more than four decades ago. Recently it has adopted the path of economic development through liberalization. The capital market institutions are engaged in the mobilization of the savings into the productive investment activities. So to develop the economy of the country an efficient and effective capital market is a vital importance. The basic objectives of the study are the concern of the concept of the procedural aspect of the dividend distribution to the common stockholders.

The second chapter represents the theoretical and research review. In the theoretical aspect, it describes about the previous and the present scale of the dividend distribution, investment policy in the shares and the relevant theory of the dividend concept. The concept of the profitability return and risk used in two ways. Profitability return refers to the firm’s total profit. the gain or loss from the investment is known as return of that investment or asset. Return will usually have two components. First, you may receive some cash while you own the investment, like dividend. Second, the value of the asset you purchase will often change, like the share price may change in the market, gain from such price appreciation is known as capital gain. Therefore the dividend income and capital gain are two components of total return of investments on stock.

Research methodology and presentation of the data deals with the methods of analysis. The study covers the ten years old data from 16 July 1998 to 16 July 2008.Data used for the study purpose are based on the secondary data, primary data and major sources of data are the annual reports, books reviews journal reviews and some individual's personal thesis. Calculation of standard deviation is a appositive relationship between risks varies from investor to investor. A risk aversion is the approach where the investor does not want to bear additional risk and wants the secured and safe and fixed amount of consistent return.

The modern financial management and its offshoot share capital management are abundantly used by corporate sector organization to improve their efficiency. A public sector enterprise also must benefit from the knowledge and competence by applying these techniques in its own organization for its betterment and effectiveness.

5.2 Conclusion:

The following conclusion has been derived from the major of the findings of this study.

1. According to the C.V analysis of the earning per share (EPS), SCB has the most consistent EPS that of the other two banks.
2. From the C.V analysis of dividend per share (DPS), SCB distributes more dividends to their shareholders and has the most consistent distribution of DPS that of the other two banks.
3. From the analysis of the dividend and bonus share computation, it can be concluded that SCB has the most consistent dividend percent and able to pay constant dividend to the common shareholders.
4. From the data of the share capital composition, it can be concluded that SCB has the lower capital investment and can be raised through the issuance of bonus share rather that the issuance of the right share.
5. The analysis of MVPS to BVPS, SCB has the most consistent.
6. We can conclude that NABIL has the highest positively significant relationship between EPS and DPS.

From the above mentioned major findings, this study concludes that the earnings of SCB is the comparatively highest all the banks. It is joint venture bank is popular and has success that government banks and other finance companies. SCB has more EPS and distributes more dividends (DPS) to their shareholders comparison with other banks. The research shows that none of those banks have well divined and appropriate policy regarding dividend payment.

5.3 Recommendations

Based on the major findings of the study, some recommendations are explained below in the study. These recommendations will certainly be proved milestone to overcome existing issues o this field.

1. The bank should define their dividend strategy 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 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.
2. Return constitutes the most important and largest element of the organizations. It directly effects to the element of the cash dividend payment and the bonus share distribution. The payment of the dividend is distributed form the portion of the net profit. It is inconsistency and is highly fluctuating, which is either static or constant growing. Such, inconsistency and irregularity in the dividend payment may create more confusion and misconception about that firm.

3. Bonus indicates the return to the capital investment of the shareholders and also it represents the increment in the share capital of the organizations. The capital can be increased though the issuance of the bonus share and the right issue. If the company is in the position to distribute the bonus, they should not issue rights.
4. Liquidity also largely affects the cash dividend of the shareholders. It also affects the tradeoff between risk and profitability. So, it helps to analyze the ability of the company to meet the current obligation. The enough funds are to be kept so the cash dividend is paid regularly.
5. Testing of the hypothesis is shows that the return of the three different companies is significantly different. But there is significant difference in the liquidity position. Test shows no significant differences in gross profit margin. Return on current assets and the net profit margin between three different companies exist on total assets.
6. All the three companies have excess amount of the share capital investment.
7. The global economic upswing in 2006 whitened clear downturn. The management of the bank is responsible for understanding the nature and the level of the risk taken by the bank and relating the risk to the capital adequacy level. Provision of the bonus has been calculated and provided after the retained earnings of the total profit of the company. Domestic and political and economic climate and the security concerns coupled with scarcity of the fuel and increased food process largely

impact on the business, so recommend having straight line funding process in terms of liquidity.

8. There is no clear cut legal provision regarding dividend payments. So the government should act in favor of the 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 dividends.
9. The bank should consider the existing conditions and expectations of the shareholders while distributing dividends so that the dividend should meet the interests or expectations of the shareholders as far as possible.