CHAPTER - I

INTRODUCTION

1.1 Background of the study:

Every firm after making profit either retain the money for further investment or distribute it among the shareholders. The profit made by the firm, which is distributed to the shareholders is termed as dividend. The firm should decide whether to keep the money as retained earning or pay the dividend. The dividend policy is the policy followed by the firm regarding the dividend versus retention decision.

It is not necessary that all business organization follow the same dividend policy. Dividend policy of different organization may be same or different. But, the policy followed by the firm should be suitable for both the shareholders as well as the firm itself. The dividend and retained earning have reciprocal relationship. If the dividend is paid, retained earning decreases while if the profit is retained shareholders wealth is minimized.

Nepal is developing country with very low per capital income. Nepal could not develop its trade foreign business; technology and industry so on until now. In this situation, banking plays significant role in the economics development of a country. It is a resource for the economic development, which maintains the self-confidence of various segments of society and extends credit to the people. Commercial bank are those financial institutions mainly dealing with activities of trade, commerce, industry and agriculture that seek regular financial and other help from banks for growing and flourishing. The main objective of commercial bank is to mobilize idle resources in particular productivity users after collecting them from scattered sources, Commercial bank as financial institution transfer monetary sources from saver to users. They furnish necessary capital required for savings of the individual and institution. Normally banks play at public money therefore, they should pay more attention

whether their money is properly utilized or not and running at profit or loss for the existence of business firm profit is the basic factor. A business firm becomes unable to provide its facilities in the long- run if there is no profit. This profit can be distributed among the owners as dividend.

The major decision of the firm is its dividend policy. A major decision of financial management is the dividend decision in the sense that the form has to choose between distributing the profit to the shareholders and ploughing them back in to business. So the importance aspect of dividend policy is to determine the amount of earnings to be distributed in the in the form of dividend.

Every firm after making profit either retains the money for further investment or distributes it among the shareholders. The profit made by the firm, which is distributed, to the shareholders as dividend. The people who invest money in the business expect return from investment, the firm that is running in profit is capable to pay dividend so the most importance thing to attract the people to invest in business is dividend. It should be adequate to meet the normal expectation of shareholders.

Dividend policy is one of the major decisions of financial management because it affects the financial structure of the firm. Financial management is therefore concerned with the activities of corporation that affect the wellbeing of shareholders. That well being can be partially measured by the dividend received, but a more accurate measured is the market value of stock. By the dividend policy 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. (Pearson, et.al, 1972:405).

All aspects and question related to payment of dividend are contained in the dividend policy. It is a major decision of the firm under which it is determined that what percentage of the earnings of the firm is distributed to its shareholders and what of the earnings is retained in the firm which is desirous for the growth of the firm. It is therefore, a wise policy to maintain a balance

between shareholders interest with that of corporate growth from internally generated funds.

Banks play the very important role in the economic development of the country. Banks are the financial institution, which mobilizes idle savings of people into productive sectors. Banks help to connect the savers and users through the monetary resources. The money is carried from savers to users by banks. The idle savings of the people are transferred to the industries, trades and commerce. The savers are benefited in the form of interest. At the same time, trade commerce and industries are also benefited by money for business.

Capital market is place where financial aims and obligations are brought and sold that have maturity period more than one year. Nepalese capital market has not efficient communication network even today. In Nepal, Nepalese investors have heavily made investment of newly established companies especially in the financial sector. It is hoped that Nepalese capital market will be moving towards efficiently in the days to come. It has made capital market less efficient and efficiency in results the risk. Even though, it is hoped that Nepalese capital market will be moving towards efficiency in the days to come. In capital market all firms operate in order to generate earning, shareholders make investment in equity capital with expectation of making earning either directly in the form of dividend or indirectly in the form of capital gains in future. The sole objective of every business is maximizing the shareholders wealth. Financial management is the heart of management and the company makes the numbers of decisions smoothly. The common stock represents ownership in a company. The common stocks are the permanent and vital sources of capital since they do not have maturity date. For the capital contributed by the shareholders by punching common stock, they are entitled to dividends. The amount or rate of dividend fixed by the company's board of directors, most of investors are wise to invest their saving funds in stocks with the expectation of future cash inflow as dividend and maximization of value of their holding in

the market. The dividend and value of the firms are link with the earning power of the firm, which ultimately affects the market price of shares.

The concept of the banking has developed in England with the effort of ancient goldsmiths who possessed strongest safe values where valuable good such as gold, silver and diamonds could be kept safely. Depositors obtained receipts from goldsmith for their deposit. At that time, it was found that no deposited money was withdrawn at once. Hence, they started bending on interest to people. In this way bank was originated. The first modern banking institution was established in Venice in 1157 A.D. and spread all over world. In Nepal under the prime minister ship of Ranodeep Singh, "the Tejarath Adda" was established to give loan from there. The first banking institution was established in 1994 B.S. in the name of "The Nepal Bank Limited" under Nepal bank Act 1993.

Government permitted the establishment of joint venture banks in 1980's. When three banks namely Nepal Grindlays bank Ltd., Nepal Arab Bank Ltd. and Nepal Indosuez bank Ltd (Now Nepal Investment Bank Ltd.) was established. Now Nepal has experienced the dramatic increase in Joint venture banks. Banks have attracted people to invest their money by providing various facilities. Many people and organizations are benefited through the commercial banks through loans provided for housing, vehicles; education etc. commercial banks have also attracted customers through their various saving schemes. Last but not the least; people invest in the banks for the dividend.

1.2 Statement of Problem:

Dividend decision is a crucial as well as controversial area of managerial finance. Corporate dividend policy is not clearly understood by a large segment of the financial community. Dividend, the most inspiring factor for the investment on shares of the company is thus desirable for the stockholders point of view. However, commercial bank in Nepal has no satisfactory result about dividend decision. Different government rules and regulations are the

main factors that act and react in the banking operations. But there is no limit to the identification of the problem about dividend policy that is visible Nepalese commercial bank. While keeping this in mind selected problem of commercial bank with regard to dividend policy are taken.

There may be proper matching in dividend policy and earning in the banks. Earnings of the firms are taken financing source. When the firms retain its earning it will decreasing leverage ratio, expanding activities and increasing profit in succeeding years. Where as, if the firm pays dividend, it may need to raise capital through capital market, which reduce ownership control of the existing shareholders. In this condition, the firm takes loan or raised debentures. It will affect on risk characteristics of the firm. In Nepal, there are few companies, specially joint venture banks have sufficient earning and are capable to pay dividend. Besides, the above matter following are the problem of the study:

- What are the prevailing practices of the sample banks regarding their dividend policies?
- Are the sample banks able to pay appropriate dividend or attribute to pay dividend?
- What is the relationship between dividend with earning per share, market price of share, dividend payout ratio and net profit of the company?
- Is it possible to increase the value of stock by changing dividend policy or payout ratio?
- Is there any uniformity among the five banks in dividend distribution?

1.3 Objectives of the Study:

The main objective of the dividend policy should be to maximize return on shareholders equity. The aim of the study is to analysis and evaluate the application of dividend decision in the selected banks and the study focus on the prevalent dividend polices and to suggest the direction of future endeavor

or share market in Nepal. Besides, that the overall objectives of the study are as follows:

- To examine whether, the commercial banks are following the suitable dividend policy or not.
- To analyze and evaluate the application of dividend decision in the selected banks.
- To analyze the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, DY, P/E ratio and net profit of sample banks.
- To provide the useful workable suggestion that can be implemented easily and possible guideline to overcome from various issues and gaps based on finding of the analysis.

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. Therefore, 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. In capital market, basically, the return can be earned in the following two ways:

(i) By means of dividend

(ii) By capital gains i.e., increase in share price.

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. So, I have

made this humble attempt to contribute to this aspect. Therefore, considering all these facts, the study is undertaken which will help to meet deficiency of the literature relating to dividend decision and factors affecting the dividend policy. So the study of dividend policy is of considerable importance.

I believe that 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 business will be benefited from this study. It is also believed that it will provide valuable inputs for future research scholars.

1.5 Limitation of the study:

Dividend is the most important topic in financial management. There are several aspects of decision that should be undertaken by financial manager to achieve the management goal. Area of financial management decision is dividend decision, investing decision and financing decision. Among these, three major decision part of managerial finance only dividend decision and its effect on market price of share. This study will interpret and analyzed practice of dividend decision and its relationship with earning per share, market price per share etc. This study is only a partial fulfillment of MBS program. Therefore, this study will limited by following factors:

- The study is mainly conducted on the secondary data. So the result depends on the reliability of secondary data.
- The data of only five fiscal years are taken for the studies.
- Only five banks are taken as sample for studies because of the time factor.
- There are many factors that affect the dividend decision and valuation of the firms. However, only those factors related to dividend would be considered in this study.

1.6 Organization of the Study:

This study comprises of five chapters. Given below are the headings under which the entire study has been categorized as follows:

Chapter 1 – Introduction
Chapter 2 – Review of Literature
Chapter 3 – Research Methodology
Chapter 4 – Data Presentation and Analysis
Chapter 5 – Summary, Conclusion and Recommendations

The first chapter deals with the subject matter consisting introduction, focus of the study, statement of the problem, objectives of the study, and significance of the study and chapter scheme of the study.

The second chapter deals with review of literature that includes the conceptual framework, factors influencing dividend policy, review of major studies, review of journals and articles in Nepalese perspective and review of thesis.

The third chapter describes research methodology employed in the study. It includes introduction, research design, and sources of data, population and sample, method of analysis, tools defined about certain financial indicators and statistical tools used.

The fourth chapter deals with analysis of financial indicator variables, analysis of means, standard deviation, correlation matrix and simple regression analysis.

The fifth chapter consists of main findings, issues and gaps, future guidelines alongside summary, conclusion and recommendations. The bibliography and appendix are incorporate at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

The introduction part of this study has been presented in the first chapter. In this chapter, an attempt has been made to review the various relevant literatures in relation to support the study to receive some ideas for developing a research design.

This research aims to analyze the dividend policy of commercial banks and its effect on market price of shares especially NABIL Bank Limited, Standard Chartered Bank Nepal Limited, Everest Bank Limited, Nepal Industrial and Commercial Bank and Bank of Kathmandu. For this purpose, it is helpful to review related literatures in this concerned area, which will help to get clear ideas, opinions and other concepts. 'What others have said? What others have done? And what others have written?' all these and other related questions are reviewed, which has provided useful inputs in this research work. This chapter emphasizes on the literatures that are concerned with this connection. Therefore, in this chapter, conceptual frameworks given by different authors and intellectuals on this area, books, journals, research works, and previous thesis related to dividend policies and practices are reviewed. Moreover, rules regarding to dividend policy are reviewed and an attempt has been made to present them properly.

2.1 Conceptual Framework

In simple words, dividend refers to a portion of earning, which is distributed to shareholders in return of their investment in share capital. In other word, the process of paying at “what’s left” to shareholders is called dividend policy. Dividend policy of a firm is one of the third major decision making areas of financial management. It is regarded as a tool to determine the appropriate allocation of profits between dividend payments and the amount to be retained in the firm. It deals with how much should pay to shareholders from the

earnings. Dividend payout reduces the amount of earnings retained in the business, which affects the internal financing of the firm.

Dividend policy can be define as percentage of dividend (D/P ratio), should be one, which maximize the wealth of its owners in the "long run." Dividend policy becomes a problem especially on public limited companies. A firm's dividend policy has the effect of dividend, its net earnings in to two parts; retained earnings and dividend. The retained earning provides funds to finance the firm's long-term growth. It is one of the most significant sources of financing for the firm in terms of raising funds to undertake investment. On the other hand, dividends are desirable from the shareholders point of view, as it tends to increase their current wealth. Dividends are generally paid in cash. Therefore, the percentage of earnings is paid in cash to stockholders. Dividend payout of course reduces the amount of earnings retained in the firm and affect the firm is internal financing (Sharma, 2001:334).

Dividend policy involves the decision to payout verses retaining them for reinvestment in the firm. Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividends means higher the immediate cash flows to 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 dividend. 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. (Thapa and Gautam, 2008:336).

If the company pays the earning as a dividend, they are beneficial directly and if company retains in the business to finance the business opportunities they are benefited indirectly through the investment of market price of share i.e. capital gain. In both of the case, shareholders get benefit. But, how much should be

retained in business in not a simple question. Since dividends would be more attractive to shareholder, one might not hesitate to say that dividends weight more than retention in the perception of the shareholders. But one might equally pressure that gross dividend would be reduced somewhat with an increase in net after tax dividend. Because tax dividend still a major decision of financial manager available to shareholders so it would be wise, policy to maintain balance between shareholders interest with that of corporate growth from initially generated fund. Therefore, in conclusion it can be said that dividend decision is a major decision of financial management.

Thus, this study aims to focus on all the relevant factors, prevailing practice and policies of selected banks regarding dividend, dividend policy and their payment.

2.1.1 Major Forms of Dividend

Corporations need to follow various types of dividend in view of the objectives and policies, which they implement. In Nepalese context, most of the corporations are paying cash and stock dividend (Bonus Shares). The types of dividend that corporations follow are partly a matter of various circumstances and financial constraints that bound corporate plans and policies (Thapa and Gautam, 2004:9.5). According to changing needs to corporations, dividend is distributed in several forms. They are as follows:

i. Cash Dividend: Cash dividend is the dividend, which is distributed to the shareholders in cash out of earnings of the company. When cash dividend is distributed, both total assets and net worth of the company decrease as cash by the amount of cash dividend distributed.

ii. Stock Dividend (Bonus Shares): If additional shares are issued to existing shareholders instead of cash dividend is known as stock dividend. “A stock dividend simply is the payment of additional stock to stockholders nothing more than a recapitalization of the company; a stockholders proportional ownership remains unchanged.” (Van Horne, 1998:334). It is also called bonus

share. This has the effect of increasing the number of outstanding shares of the company. The declaration of the stock dividend will increase the paid up share capital but reduces the reserves and surplus of the firm. It does not affect the ownership of the company.

iii. Property Dividend: If payments are made in the form of property or assets rather than cash, it is called property dividend. Whenever the firms have assets that are no necessary in the operations of the business, this method of paying dividend may be used. This method of paying dividend is rarely used.

iv. Bond Dividend: Bond dividend is a dividend that is distributed to the shareholders in form of bond. When the company generates more profit for a long time, it is better to issue bonds. These are given when the company firms unable to take the burden of interest of loan. In other words, corporation declares dividend in form of its own bond with a view to avoid cash outflows. If is issued for existing shareholders.

v. Interim Dividend: Generally, dividend is declared in the last of the financial year. This is called regular dividend. If dividend is declare before the end of the financial year that is called interim dividend.

vi. Special Dividend: When directors of the company do not want to change the dividend separately and the companies have good cash and reserves, this dividend but separately.

2.1.2 Theories of Dividend

Residual Theory of Dividend

Residual dividend policy is based on the premise that investors prefer to have a firm retain and reinvest earnings rather than pay them out in dividends if the rate of return the firm can earn on reinvested earnings exceeds the rate of return investors can obtain for themselves on the other investments of comparable risk. This theory states that profit should be used first in all profitable investment plans, which reflect equal or higher rate of return. Further, it is less

expensive for the firm to use retained earnings than is to issue new common stock.

Dividends = Net income (Target equity ratio× Total capital budget) (Gautam and Thapa, 2008:9.1).

Stability of Dividend

Stability or regularity of dividend is considered as a desirable policy by the management of most companies in practice. Stability of dividend refers to the amount paid out regularly. Though amount of dividend may fluctuate from year to year and may not be related with earning. Shareholders also generally favor this policy and value stable dividends higher than fluctuating ones. All other things being the same, stable dividends have a positive impact on the market price of the share (Sharma, 2001:338-339).

There are some reasons to believe that a stable dividend policy does lead to higher stock prices. First investors can be expected to value more highly dividends that they are surer of receiving since fluctuating dividends are riskier than stable ones. Accordingly, the same average amount of dividend received under a fluctuating dividend policy is likely to have a higher discount factor applied to it than is applied to dividends under a stable dividend policy. This means that a company with a stable dividend will behave a lower required rate of return or cost of equity capital than one whose dividend fluctuated. Second many stockholders live on income received in the form of dividends. These stockholders are greatly inconvenienced by fluctuating dividends and they will likely to pay a premium for a stock with a relatively assured minimum dollar dividend. These stockholders are greatly inconvenienced by fluctuating dividends and they will likely to pay a premium for a stock with a relatively assured minimum dollar dividend. Third from the stand point of both the corporation and its stockholder is the requirement of legal listing. Even though most firms seem to have a policy of paying stable cash dividends, this is not the

only policy. The three distinct forms of such stability of dividend payments are as follows:

1) Constant Payout Ratio: The ratio of dividend to earnings is known as payout ratio. Paying a fixed percentage of net earning every year is called constant payout ratio. With this policy, the amount of dividend will fluctuate in direct proportion to earning. It ensures that dividends are paid when profits are earned and avoided when it incurs losses. Management generally adopts this type of policy since it is directly related to the company's ability to pay dividend.

2) Stable Cash amount per share: This payout scheme is called constant dividend per share or dividend rate. According to this policy, a company pays a fixed a rupee dividend in each period. This policy is generally preferred by those persons and institutions that depend upon the dividend income to meet their living and operating expenses. This policy does not imply that the dividend per share will never increase. When the company reaches new level of earnings and expects to maintain it, the annual dividends per share may be increased. It is easy to follow when earning is stable. If the earning pattern of a company shows wide fluctuations, it is difficult to maintain such policy.

3) Low Regular Dividend plus extras dividend: Low regular dividend per share plus extra dividend is a compromise between the first two. According to this policy, the low regular dividend can usually be maintained even when earnings decline and extra dividend can be paid when excess funds are available. It gives the firm flexibility but it leaves investors somewhat uncertain about what their dividend income will be. This policy may be the best policy, if the firm's earning is quite volatile.

2.1.3 Forms of Dividends

The usual practice is to pay dividends in cash. Different companies follow different types of dividend policy. Corporations need to follow different types of dividend due to the objectives and policies, which they implement. According to various circumstances and changing needs of corporations

dividend is being distributed not only in cash but also in different forms of dividend they are; scrip dividend, stock dividend and property dividend.

"The type of dividend that corporations follow is partly of 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; 352)

Cash Dividend

When a dividend is distributed in cash to the shareholder out of the company is called cash dividend. "'When cash dividend is paid both the total assets and the net worth of the company arc reduce. The market price of the share drops in most cases by the amount of the cash dividend distributed." (Pandey, 1999; 782) When cash dividend is paid the cash bank account and the total assets of the company is automatically reduced. So, the company needs to have enough cash and sufficient balance for the payment of cash dividend. If it docs not have enough balance arrangement should be made to borrow fund, which is difficult to company.

Stock Dividend

Distribution of additional shares to the existing shareholder as dividend is known as a stock dividend. This has the effect of increasing the number of outstanding shares of the company. The shares are distributed proportionately. Arms pay stock dividend as replacement for a supplement to cash dividend. The declaration of the stock dividends will increase the paid-up share capital and the reserves and surplus of the company.

Property Dividend

When dividend is paid in terms of assets or property to the stockholders is higher than cash it said to be property dividend. Whenever the firms have assets that are no longer necessary in the operations of the business, this type of dividend may lie used. For Examples Company's own products and the securities of subsidiaries that have been paid as property dividend.

Scrip Dividend

That type of dividend, which is paid in promissory notes, is called scrip dividend. In this method of dividend, company issues and distribute to the shareholders transferable [promissory notes which may interest be bearing or not. "Scrip dividends are those paid in the company's promises to pay instead of cash." (Encyclopedia America, 1997).

"Scrip dividends are justified only when the company has really earned profit and have only to wait for the conversion of other current assets into cash in the course of operation". (Gautam. 1998; 365).

2.1.4 Factors affecting Dividend policy

The financial manager must understand the various conflicting factors, which influence the dividend policy before deciding allocation of its company's earnings to dividend and retained earnings. Many considerations that may affect a firm's decision its dividend are as follows. (Sharma, 2001:336-337).

(i) 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.

(ii) Legal Rules: The dividend policy of the firm has to evolve with the legal framework and restrictions. Certain legal rules may limit amount of dividends that a firm may pay. These legal constraints fall into categories. First statutory restrictions may prevent a company from paying dividends. While specific limitations vary by state, generally a company may not pay dividend.

a. If the firm's liabilities exceed its assets, this provision is known as "The Insolvency Rule".

b. If the amount of dividend exceeds the accumulated profits (retained earnings), this legal provision is known as "The Net Profit Rule" and

c. If dividend is proposed form 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. Legal rules are significant in what they provide the framework within which dividend policies can be formulated.

(iii) Liquidity position: The cash or liquidity position of the firm influences its ability to pay dividend. 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. Greater the cash position and over all liquidity of a company shows its ability to pay dividend.

(iv) Need to Repay Debt: The need to repay debt also influences ability of cash flow to pay dividend. When a firm issues debt capital, it must be refunded in maturity in order to retire debt, retention of earning is essential. So the dividend policy is affected by retained earnings.

(v) Restriction on loan Agreement: Restriction on loan agreement directly affects on dividend policy of a firm. Such restrictions are designed to protect the position of lender and preference shareholders. Restrictions on debt contracts may specify that dividend may be paid out of earning generated after signing the loan amount agreement and only when net working capital is above a specified amount certain amount of earning to reinvest as well.

(vi) Rate of Assets Expansion: The more rapidly a firm is growing greater its need for financing assets expansion. The greater the future need for fund, there is more likely to retain earnings rather than pay them out consequently shareholders will get minimum dividend.

(vii) Profit Rate: The rate of return on assets determines the relative attractiveness of paying out earning in the form of dividend to stockholder. If other things remain same high profit rates is the indicator of high dividend payout.

(viii) Access to the Capital Market: All firms do not have equal access to the capital market. A large well-established firm with record of profitability and stability of earning has easy access to capital markets and other forms of external financing. Easy accessibility to the capital market provides flexibility to the management in paying dividend as well as in meeting the corporate obligation. Thus, a fast growing firm having tight liquidity position will not face any difficulty in paying dividends if it has access to the capital market.

(ix) Control: For many small firms and certain large ones, maintain the controlling vote is very important. These owners would prefer the use of debt and retained profit to finance new investments rather than issue new stock. As a result dividend payout will be reduced.

(x) Tax Position of Stock Holder: Because of difference among investors tax rate, certain investor preference for dividend versus capital gain have been observed in the market. Corporations owned by large taxpayers in high income tax brackets tend toward lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

(xi) Stability in Earning: A firm that has a stable earnings trend will generally pay larger portion of its earnings as dividend. The unstable firm is not certain that in subsequent years the hoped for earning will be resized. Therefore, it is likely to retain a high proportion of current earnings.

(xii) Desire of shareholders: Shareholder may be interested either in dividend incomes or in capital gains. Wealthy shareholder in a high income tax bracket may be interested 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 closely held company, management usually knows the desires of shareholders. Therefore, 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.

2.1.5 Rules regarding Dividend practices

There is nothing stated in Nepal company Act 2021 regarding dividend practice. According to the security exchange Act 1983, Nepal stock exchange limited is the single body to safe guard the investor's interest. But this organization is not so able to safe guard the investor's interest since interest and attitude of board of directors play dominant role in management of public limited companies and they are generally in majority who are nominated of public limited companies. And they are generally in majority who are nominated by government in 1997, Nepal company Act 2001 has been amended company ordinance 2005 has made some legal provision for dividend payment; these provision are as follows:

Section 179 (1): Bonus shares may be issued by a company to its shareholders out of the amount available for the distribution of this affect in the general meeting.

Sub-section (2): The Company shall inform the office before issuing bonus shares under sub-section (1).

Section 182 (1): Except in the following circumstances the dividend shall be distributed to the shareholders within 45 days from the date of resolution approving the payment of dividend.

a. If any low has prohibited the disbursement of dividends.

b. If the right to receive the dividend is subject to any dispute.

c. If the dividends cannot be disbursed within the said period due to any event beyond the control of the company or any other reason.

Sub-section (2): A company wholly or partially owned His Majesty's Government shall distribute dividend only with prior approval of His Majesty's Government and His Majesty's Government may issue necessary directives in relation to distribution of such dividend.

Sub-section (3): If dividend is not paid within the period stipulated in sub section (1) the same shall be paid together with interest at the rate as prescribed.

Sub-section (4): The shareholder in whose name share is registered in the shareholder at time of deceleration of the dividend or his successor shall be entitled for the payment of the dividend.

Sub-section (5): A company shall not pay or distribute dividend except from profits allocated for the purpose.

Sub-section (6): A company shall eliminate pre-incorporation expenses, deduct the amount of depreciation as per the accounting standard prescribed by the competent authority under the law in force and allocate any amount to be allocated or paid out of profit. Under the law in force and eliminate the accumulated loss in the preceding years before the payment or distribution of dividend out of the profit in a particular years to certain reserves fund under the law in force, dividend shall not be distributed, unless such amount is transferred to reserve fund.

Sub-section (7): Subject to the provisions made in this section that the board of directors of company may distribute interim dividend out of the profit of previous years in the following conditions:-

a. If there is provision in the articles of association on the distribution of interim dividend.

b. If the board directors has approved the annual financial statement certified by the auditor for the relevant financial years on which interim dividend shall be distributed out of the net profit.

Sub-section (8): A company shall not make payment or distribute any benefit in cash or other to its shareholders except in the form of dividend approved by the general meeting.

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

Sub-section (10): The company shall while unclaimed dividend pursuant to subsection(9) in the fund established under section 183, published a notice in a national daily newspaper giving at least one month notice to collect the unclaimed dividend at least one month to the expiry of period as mentioned in sub-section (9):

Sub-section (11): The Company shall create a separate account for depositing the amount of dividend with in forty-five days of its deceleration, shall distribute the dividend form such account, and shall not utilize such amount for any other purpose.

2.2 Review of Related studies

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

2.2.1 Linter's study (1956)

Linter conducted a study in 1956, which is focused in the behavioral aspect of dividend policy. He investigated dividend pattern of 28 different companies of America and found that firms generally predetermines the desired payout and tries to achieve it and rarely considers other factors. The model developed from his research is as follows

$D^* t = P.EPSt$

$D_t - D_t\text{-}1 = a + b (D^* t - D_t - 1) + e$

Where,

$D^* t$ = Desired Dividend

EPSt = Earnings per Share

P = Targeted payout Ratio

A = Constant related to dividend growth

B = Adjustment factor relating to previous periods dividend and desired level of dividend (b>1)

Major findings of the study are as follows

Firm generally prefer desired proportion of earning to be paid as dividend. Investment opportunities are not considered for modifying the pattern of dividend behavior. Firms generally have target payout ratios in view while determining change in dividend per share.

2.2.2 Modigliani and Miller's Study (1961)

The most comprehensive argument for the irrelevance of dividend has been made by Frano Modigliani and Metro-Miller in 1961 A.D. They argue that value of the firm depends on the income produced by this assists, not on how this income is split between dividends and retained earnings and here growth.

Professor Modigliani and Miller hold that investors are indifferent to dividend and capital gains so dividends have no effect on the wealth of stakeholders. According to them, it is the investment policy of the firm, which increases earnings of firm and there by value of the firm. The manner in which earnings are divided into dividends and retained earnings does not affect this value. The assumption made by them goes such as (Gautam and Thapa, 2008:9.8-9.9).

a. Perfect capital market in which all investors are rational.
b. An absence of flotation costs on securities issued by the firm.
c. A world of no taxes.
d. A given investment policy for the firm not subject to change.
e. Perfect certainty by every investor as to future investments and profits of the firm. (MM drop this assumption later).

Modigliani and Miller provided following model to prove their theory (Niroala, 2003:25-26).

Market value of share: The market value of a share at the beginning of the period is equal to the value of dividend paid at the end of period.

Symbolically,

$$Po = \frac{D_1 + P_1}{1 + Ke} \text{ ……..(i)}$$

Where,

P0= Market price of share at the beginning of the period.

D_1=Dividend per share at the end of the period.

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

Ke=Cost of Equity capital

If no new external financing exists, the market value of firm can be computed by multiplying both sides by the no of the outstanding shares as follows:

$$nPo = \frac{n(D_1 + P_1)}{1 + Ke} \text{ ……. (ii)}$$

Where,

n = No of outstanding shares.

New shares

If retained earnings are not sufficient to finance the investment opportunities, issuing new shares is the other alternative. Assuming that *n* is the number of newly issued equity share at the price of P1, the value of firm at time 0 will be:

$$nP_1 = \frac{nD_1 + P_1(n + m) - mP_1}{1 + Ke} \text{ …… (iii)}$$

Where,

N=No. of shares at the beginning

M= No of shares issued at the end of the period.

Total number of shares

A firm can pay dividends and raise funds to undertake the optimum investment policy. If the firm finances all investment opportunities either by issue of new

equity of retained earnings, the total number of new shares can be computed on the following way:

$MP_1 = I- (E-n D_1)$ …….. (iv)

Where,

MP_1 = Amount obtained from the sale of new shares.

I = Amount required for new investment during the period.

E = Total earnings during the period.

$E - nD_1$ = Total dividend paid.

Substituting the value of *MP1* of the equation (iv) to equation (iii) we get,

$$nPo \text{ X} \frac{nP_1 \Gamma P_1(n \Gamma m) \text{Z} I \Gamma E \text{Z} nD_1}{1 \Gamma Ke}$$

A firm, which pays dividends, will have to raise funds externally to finance its investment plans. MM argues that dividend policy does not affect the wealth of shareholder, implies that when the firm pays dividends, its advantage is offset by external financing. This means that the terminal value of the share at the first period if the holding period is one year declines when the dividends are paid, the wealth of the shareholders- dividends + terminal price unchanged. As a result, the present value per share after dividend and external financing is equal to the present value per share before the payment of dividends. Thus, the shareholders are indifferent between payment of dividends and retention of earnings (Gautam and Thapa, 2008:9.8-9.9).

2.2.3 Gordon's Model (1962)

Myron J. Gordon conducted a research in 1962 regarding the interesting approach relating the market value of the firm to dividend policy. He holds that investors have a strong preference for present dividends to future capital gains under the condition of uncertainty. This is relevant theory similar to the Walter's model. In this study, he explained, "the investors prefer present dividend rather than future capital gains." According to him, market value of a

share is equal to the present value an infinite stream of dividends to be received by the shareholders.

Gordon's model is based on the following assumptions. (Pandey, 1995; 745-746)

1. The firm is an all-equity firm with the new investment proposals being financed solely by the retained earnings.
2. No external financing is available consequently; retained earnings would be used to finance any expansion.
3. The internal rate of return (r) of the firm is constant. This ignores the diminishing marginal efficiency of investment.
4. The appropriate discount rate (k) for the firm remains constant. Thus Gordon's model also ignores the effect of a change in the firms risk class and its effect on k.
5. The firm and its stream of earnings are perpetual.
6. The corporate taxes do not exist.
7. The retention ratio (b) once decided upon is constant. Thus the growth rate g= r, is constant forever.
8. K > br =g. If this condition is not fulfilled, we cannot get meaning value for the share.

According to Gordon's dividend capitalization model, the market value of the share is equal to the present value of an infinite stream of dividends to be received by the share.

Thus,

$$Po\ \mathrm{X}\frac{P_1}{(1\,\Gamma\,K)}\,\Gamma\frac{P_2}{(1\,\Gamma\,K)^2}\,\Gamma\ldots\Gamma\frac{Pn}{(1\,\Gamma\,K)^n}$$

Gordon has further developed the following equation for the computation of market value of stock.

$$Po\ \mathrm{X}\frac{EPS(1\,\mathrm{Z}b)}{(Ke\,\mathrm{Z}br)}$$

Where,

P = Market price per share

EPS = Earning Per Share

b = Retention ratio

K_e = Cost of capital

1-b = Payout Ratio

br = Growth rate

According to this model following facts are revealed

Growth Firm: In case of growth firm i.e. $r > K_e$, share price tends to decline in corresponding with increase in payout ratio or decrease in retention ratio i.e. b. Therefore, dividend and stock price are negatively correlated in growth firm.

Normal Firm: Firms having $r = K_e$ are referred as normal firm. In case of normal firm share price, remain constant regardless of change in dividend policies.

Declining Firm: In case of declining firm i.e. $r < K_e$, show price tends to rise in correspondence with raise in dividend payout ratio. It shows that dividend and stock prices are positively correlated with each other in a decline firm.

In this way Walter's conclusion about dividend policy are similar to the conclusion of Gordon's model. This is due to similarities in assumptions, but the assumptions of this model are far from the reality. Therefore, their models are called relevance theory in the literature of finance.

2.2.4 Walter's Study (1963)

Professor James E. Walter conducted a research in 1963 regarding dividend policies and a stock price argues that the choice of dividend affects the value of the firm. According to him, firm's cost of capital an internal rate of return are the determining factors that decide upon the dividend policy. The main point

that he emphasized is that there is a significance relationship between the internal rate of investment project and market rate demanded by the investor. This study emphasized that dividend policy can be used to maximize the wealth position of stockholders. Walter's model is based on the following assumptions (Panday, 1975:741).

1. The firm finances all investment through retained earnings. That is debt or new equity is not issued.
2. The firm's internal rate of return (r) and cost of capital (k) are constant.
3. All earnings are either distributed as dividends or reinvested internally immediately.
4. Beginning earnings and dividends never change. The values of the earnings per share (EPS) and dividend per share (DPS) may changed in the model to determine results, but any given values EPS and DPS are assumed to remain constant forever in determining a given values.
5. The firm has a very long or infinite life. Walter's formula for determining the

$$\mathbf{P} = \frac{DIV}{K} \Gamma \frac{r(EPS \, Z DIV)/K}{K}$$

$$= \frac{DIV \, \Gamma \, r(EPS \, Z DIV)/K}{K}$$

Here,

P = Market price per share.

DIV = Dividend per share

EPS = Earnings per share

R = Internal rate of return (average)

K = Cost of capital or Capitalization rate

In 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's view on the optimum dividend payout ratio can be summarized as follows: **Growth Firms:** Firm having r > k may be referred as growth firm the optimum

payout ratio for a growth firm is zero. The market value per share (P) increases as payout ratio declines when r > k.

Normal Firms: Firm having r=k may be referred as normal firm. There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as other. The market value per share is not affected by the payout ratio when r = k.

Declining Firms: Firm having r < k may be referred as declining firm. The optimum payout ratio for a declining firm is 100%. Market value per share (P) increases as payout ratio increases when r < K.

Thus, according to Walter, when the firm is in growth stage, then dividends are negatively correlated with stock price. In the declining firm, dividends are positively correlated with stock price; there is no relationship between dividend and stock prices in the normal firm. Thus, dividend policy is a financing decision when dividend policy is treated as a financing decision the payment of cash dividend is a passive residual (Solomon, Ezra: 1963, 139-140).

2.2.5 Van Horne and Mc- Donald's study (1971)

Van Horne and Mc-Donald conducted a more comprehensive study in dividend policy and new equity financing. The main objective of the study is to highlight the combined effect of dividend policy and new equality financing decision on the market value of the firm's common stocks. For the purpose of study two industries viz.86 electric utility firms included on the computing utility database and 39 firms in the electronics and their electric component industries listed on the computing industrial data tape in 1968 were selected. They employee-regression model for electric utilities and one regression model for electronic components industry (Chitrakar, 2004:23-24).

First model was:

$$P_0 / E_0 = a_0 + a_1 (g) + a_2(D0 / E_0) + a_3(lev) + u$$

Where,

P_0 / E_0 = Closing market price in 1968 dividend by average EPS for 1967 and 1968.

G = Expected growth rate measured by the compound annual rate of growth per share for 1960 and through 1968

D_0 / E_0 = Dividend payout measured by cash dividend in 1968 dividend by earnings in 1968

Lev = Financial risk, measured by interest charges dividend by the difference of operating revenue and operating expenses.

u = error term

$P_0 / E_0 = a_0 + a_1 (g) + a_2(D0 / E_0) + a_3(lev) + a_4(Fa) + a_5(Fb) + a_6(Fc) + a_7(Fd) + u$

Where,

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

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

Again, they tested the following equation for electronics components industry.

$P_0 / E_0 = a_0 + a_1 (g) + a_2(D_0 / E_0) + a_3(lev) + a_4(or) + u$

Where,

Lev = Financial leverage measured by long-term debt plus preferred stock dividend bye net worth of the end of 1968.

Or = operating risk, measured by the standard error for the regression of operating earnings per share on time for 1960 through 1968 and rest are as in first model above. By using different methodology, they compared the results obtained for firms, which both pay dividends and engage in new equity financing with other firms in an industry sample. They concluded that for electric utility firm in 1968, share value is not adversely affected by the new equity financing in the presence of cash dividend, except for those firms in the highest new issue group and it makes new equity a more costly form of financing than the retention of earnings.

2.2.6 Deepak Chawla and G.Srinivasan's study (1987)

Chawla and Srinivasan studied the impact of dividend and retention on share price. They took 18 chemical and 13 sugar companies and estimated cross section relationship for the year 1969 and 1973. The required were collected from the official directory of Bombay stock exchange. The basic objectives of the study were (chawla and Srinivasan, 1984, 137-140).

- To estimate a model to explain share price, dividend and retained earning relationship.
- To test the divided, retained earning hypothesis.
- To examine the structural changes in the estimated relations overtime.

1. Price function,

$P_t = [D_t . R_t . (P/E)_{t-1}]$

2. Dividend supply function

$D_t = [E_t, D_{t-1}, (P/E)_{t-1}]$

3. Identify

$E_t = D_t + R_t$

Where,

P = Market price per share

D = Dividend per share.

R = retained earnings per share

E = Earning per share

P/E = Deviation from the sample average of price earnings ratio

t = Subscript for time

They use two-stage least square technique of estimation and in case of chemical industry they found the estimated, co-efficient had the correct sign and co-coefficient of determination of all the equations was very high. It implies that the stock price and dividend supply variation can be explained by their independent variables. However, in case of sugar industry, they found sign for retained earnings in negative. 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.

2.3 Review of Journals and Articles

In this regard, there are very few articles published in Nepal under this subsection. The two major studies are review as follows:

Shrestha's Study (1981)

One article, ***"Public enterprises: Have they divided paying ability?"*** Was publish in 1981 by professor ***Dr. Manohar Krishna Shrestha*** that gives short glimpse of the dividend performance of some public enterprise of that time in Nepal.

Dr. Shrestha has highlighted following issues in his article:

- Government expects two things from the public enterprises:(i) They should be in a position to pay minimum dividend and (ii) The public enterprises should be self supporting in financial matters in future years to come but none of these two objectives are achieved by the public enterprises.
- One reason for this efficiency is cause by excessive government interference in day-to-day affairs. On the other hand, high-ranking officials of government appointed on directors of Board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and Lead Corporation to face losses. Losing corporations are therefore not in position to pay dividend to government.
- Another reason is the lack of self-criticism and self-consciousness. The lack of favorable leaders is one of the biggest constraints to institution building moreover corporate leadership comes managers of corporations have not been able to identify themselves regarding what they can contribute as manager of corporations. Therefore, HMG must be in a position to drop a financial target in corporate investment by imposing financial obligation.

- The article point out irony of government biasness that government has not allowed banks to follow an independent dividend policy and government is focus to have pressurized on dividend payment in case of Nepal Bank Ltd, regardless of profit. However, it has let off Rastrya Bajijya Bank from dividend obligation in spite of considerable profit.

The improvements suggested are as follows:

1. Adopt a criteria-guided policy to drain resources from corporations through the medium of dividend payment.
2. Realization by managers about the cost of equity and dividend obligations. If HMG wants to tap resources through dividend the following criteria should be followed.
3. Circulating the information to all the public enterprises about the minimum rate of dividend.
4. Proper evaluation of public enterprises in term of capability of paying dividend should be made through corporation coordination committee.
5. Imposition of fixed rate of dividend by government to financially sound public enterprises.
6. Specifying performance criteria such as profit target in terms of emphasis, priorities, timing and plans. Developing a strategic plan, this is not just a statement of corporation aspiration but must be done to convert the aspiration into reality.
7. Identification of corporation objectives in corporation Act, company Act or special character to clarify the public enterprise managers regarding their financial obligation to dividend to government.

Shrestha's Study (1992)

"Shareholder's democracy and annual meeting feedback" this is written by Shrestha. This book deals with the policies and financial performance of some financial companies in Nepal. Shrestha presented a paper on fifth annual meeting of Nepal Arab Bank Ltd. He opined that the shareholder's have

common views on the problems and constraints of the shareholders, which are as follows:

- The cost - push inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
- Multiple decreases in purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
- Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholders purchasing power by raising dividend payout ratio based on both earnings and cost theory.
- Indo - Nepal trade and transit deadlock has become a sort of economic warfare putting rise in the cost of living index to a considerable extent. This is one of the reasons, which made shareholders to expect higher demand for satisfactory dividend.
- The waiting of live years with peanut dividend in previous year is equally a strong enforceable reason of the bank's shareholders to expect handsome dividend already assured and committed in various report of the earlier annual general meeting.
- One way to encourage risk - taking ability and performance is to have proper risk- return trade off by bank's management board in a way that higher return must be the investment rule for higher risk takers that comprise bank's shareholders.

Regarding these difficulties, he requested the bank management board to rethink the matters relating to the payment of dividend. At the end of his paper, Shrestha opined that the bank is trying its best to satisfy both he shareholders and employees. As Shrestha, report shows (Third general meeting of NGBL) some of the shareholders thought that bonus way Rs. 2.85 million bonuses was paid to nearly 50 employees, but Rs. 3 million dividend to more than 500 shareholders which is not socially justified from income sharing perspective.

On sixth annual meeting Dr. Shrestha's, report bitterly criticized management board for neglecting shareholder's interest. He expressed that the dividend payout ratio is relatively lower than the seven years average growth rate of earnings.

Pradhan's Study (1993)

Pradhan's conducted on a comprehensive study on ***"Stock market behavior in a small capital market"*** A case study of Nepal was based on the data collected from 17 enterprises form 1986-1990.

The followings were objectives of the study:-

- To assess the stock market behavior in Nepal.
- To examine the relationship of market equity. Market value of book value, price earnings and dividend with liquidity, profitability, leverage, assets turnover and interest coverage.

The employed equation was:

$V = b_0 + b_1LIQ + b_2LEV + b_3EARN + b_4TURN + b_5COV + U_1$

Where,

The dependent variable V chosen for the study has been specified as under:-

- Market equity (ME)-Market Value of equity to its book value (MV/BV)
- Price Earnings ratio (P/E)
- Dividend per share to market price per share (DPS/MPS)
- Dividend per share to earnings per share (DPS/EPS)

LIQ = Current Ratio (CR) or Quick Ratio (QR)

LEV = Long-time debt to total assets (LTD/TA) or Long-term debt to total capitalization

(LTD/TC)

EARN = Return on assets that is earning before tax to total assets (EBT/TA) or earning before tax to net worth (EBT/NW)

TURN = Fixed assets turnover that is sales to average fixed assets (S/FA) or total assets turnover that is sales to average total assets (S/TA)

COV = Interest coverage ratio that is earning before tax to interest.

U_1 = Error term.

Some findings of his study among others were as follows:

- Higher the earnings on stocks, larger the ratio of dividend per share to market price per share.
- Dividend per share and market price per share was positively correlated.
- Positive relationship between the dividend per share to market price per share and inters coverage.
- Positive relationship between dividend payout and liquidity.
- Positive relationship between dividend payout and profitability.
- Positive relationship between dividend payout and turn over ratios.
- Positive relationship between dividend payout and interest coverage.
- Liquidity and leverage ratios are more variable for the stock paying lower dividend.
- Earning, assets turnover and interest coverage are more variable for the stock paying higher dividends.

Kamal Das Manandhar's Study (2001):

Kamal Das Manandhar Study has carried out latest study on the topic of ***"Bonus share and dividend changes empirical analysis in Nepalese context"*** based on the data collected for the years from 1987/88 to 1997/98. The analysis covers 35 observations per bonus-divided rate and 29 samples of the Nepalese corporate firms selected from the listed corporate firms in NEPSE. The sample corporate firms include five from banking, three from insurance and finance company and four from manufacturing, trading and airlines.

This study is made to analyze the actual dividends behavior of Nepalese corporate firms after an issue of bonus share. Moreover, there some specific research questions.

- Is quantum of the dividends increase directly related to ratio of bonus issue?
- Is there may any association between dividend rate and bonus issue?

- Does the dividend announcement of the management indicate its intention of increasing future dividend?
- The announcement of bonus share issue has a significant impact in market price of share which ultimately the wealth of the stockholders.
- In over all, corporate management have not found considering its effect on dividend distribution in future as reflected by absence of the systematic playing practice before and after bonus share issue.
- There is no systematic policy of dividend distribution after the issue.
- There is diversity in the increase in dividend rate and the total dividend payment after bonus issue. Which means dividend increase does not follow the bonus share issues in Nepalese corporate firm's dividend behavior.
- The relationship between existing dividend and various ranges of bonus share issue ratio is not found significant in Nepalese corporate firms.

2.4 Review of Thesis

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

Gautam's Study (1998),

Gautam conducted a study titled ***"Dividend policy Comparative Study on Dividend policy on Grind lays Bank Ltd. Nepal Indosuez Bank Ltd. and Nepal Arab Bank Ltd."*** This study took the data of three joint venture banks from 1992 through 1997. This was a comparative study.

The objectives of his study are:

- To identified the type of dividend followed by the banks.
- To examined the impact of dividend on share price.
- To identified the relationship between DPS and other financial indicators.

- To known the uniformity among DPS, EPS and DPR of the sample banks.
- The analysis is mainly basis on different financial tools, simple and multiple regressions.

Following are the conclusion of this study:

- No clearly defined divided policy is followed by the sample bank.
- The market of the share does not seem to be more or less dependent on EPS or DPS.
- There is no significant relationship between DPS and other financial indicators.
- There is no uniformity in EPS but prominent difference in DPS and DPR.

Rajbhandari's Study (2001)

Rajbhandari (2001) conducted a study titled ***"Dividend Policy: Comparatives study between banks and Insurance Companies."*** This study takes in to consideration data of only five years from 1994/95 through 1998/99 six companies are taken as sample. The objectives of her study are:

- To examine the relationship between dividend and market price of the stock.
- To identify appropriate dividend policy followed by the banks and insurance companies.
- To analyze the relationship between dividend policy decision of banks and insurance companies.

This study found that:

- There is no consistency in dividend payment is found in all sample institutions i.e. NGBL, NIBL, NABIL and EIC which seems to be paying average DPS Rs. 20 every year.

- None of the six samples institution has as clearly defined and appropriate dividend policy.
- The institutions do not seem to follow the optimal dividend policy of paying regular dividend as per the shareholder's expectation and interest.

Katawal's Study (2001)

Katawal conducted a study titled ***"A Comparative Study Of Dividend Policy in Commercial Bank"*** The main objectives of this study are:

- To study the current practices of dividend policy in commercial banks.
- To find out the impact of dividends on share prices.
- To analyzed the relationship of financials indicators.
- To examined if, there is any uniformity among DPS, EPS and DPR on the six sample banks.

The methodology used in the study includes financial tools such as ratio analysis and statistical tools such as correlation co-efficient and probable error. Secondary data are used for the analysis.

The major findings of this study are:

- Average EPS and DPS for the period covered by the study of all concerned banks are satisfactory.
- Analysis of coefficient of variance indicates that there is large fluctuation in EPS and DPS and other are relatively more consistent.
- The analysis of DPR shows that none of the sample banks has consistent dividend policy.
- The market value of shares in market in fluctuating in all sample banks.
- 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.

Bhattarai's Study (2002)

Bhattarai prepared an MBS thesis, entitled ***"Dividend policy and its impact on market price of stock"*** with the data taken from two commercial banks and two insurance companies in 2002. This study analyzed the data of five years form 1955-2000 using simple and multiple regression equations. The major findings of the study are as follows:

- There is not any consistency in divided policy in the sample firms.
- Most of the Nepalese firm from the very past did not have profit planning and investment strategy which has imbalanced the whole position of the firms. It means there is no consistency even in the earnings.
- The MPS is affected by the financial position and dividend paid by the firms. In this regards the MPS of the sample firms is to be seen fluctuated. It denoted that, Nepalese investors are not treated fairly.
- Lack of financial knowledge and market inefficiency has affected the market price of the share in all firms.

Ghimere's Study (2002)

Ghimere conducted a study titled ***"Dividend policy of listed companies with ref. to banks, finance and insurance companies."*** The main objectives of this study are:

- To identify the dividend policy of different sample companies.
- To identify the regularity of divided distribution of different listed companies.
- To identified the relationship between dividend policy and other financial indicators.
- To find out the whether dividend policy affects the value of the firm or not.
- To analyzed the relationship between DPS and MPS.
- To provide suggestion for the improvement of Sample Company's dividend policy based on findings.

The major findings of this study are:

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

Thapa's study (2003),

Thapa (2003) conducted a study on ***"Dividend policy and practices, a comparative study between banks and insurance companies in Nepal."*** The data are collected from 1996 /97 to 2000 /01 of three Banks (NIBL, companies (united insurance company, Everest insurance company and premier insurance company),

The objectives of this study are:

- To study the current practices of dividend policy in joint venture commercial banks and insurance companies.
- To examine the relationship between dividend and mark price of the stock.
- To analyzed the relationship of financial indicators eg. DPS, EPS, DPR and P/E ratio.
- To analyze the relationship between dividend policy decision of banks and insurance companies.

The analysis is done on the basis of different financial tools, simple regression and correlation analysis. This study found that:

- Amount the major decision of finance, then majority of respond ants give the first importance in investing decision, second in financing and finally gave least importance for dividend decision.
- With respect to factors affecting dividend policy of banks and insurance companies of Nepal, most of the respond ants gave first priority to current earning, second priority to liquidity and last priority to past dividend.
- The banks and insurance companies are adopting not a fixed and single policy.
- Majority of the company paid the cash dividend.

Gurung's Study (2003)

Gurung (2003) conducted a study title ***"Dividend Policy of Nepalese listed companies: with reference to Commercial Banks."*** The data are analyzed from 1996/97 to 2000/01 of four joint ventures banks i.e. Standard Chartered Bank Ltd, Himalayan Bank Ltd, Nepal Bangladesh Bank Ltd and Nabil Bank Ltd.
The objectives of this study are:

- To assess prevailing dividend policy adopted by listed companies under the study.
- To study whether or not dividend influences the liquidity position and stock prices of selective companies.
- To examine whether there is significant difference between DPS, EPS and DPR of the selected Companies.
- To identified the relationship between dividend policy and other financial indicators.

This study found that:

- The rules and regulations that bind the companies to pay dividend is lacking. This has caused inconsistency and random walk of dividend payment, which is seen in case of NBBL and Nabil Bank.

- Out of four Banks, only SCBNL and HBL have paid dividend regularly and consistently where as, NBBL and Nabil have not paid dividend regularly.
- The dividend payment trend of these banks is highly fluctuating.

Shrestha Study (2004)

Shrestha (2004) conducted a study titled ***"Dividend Policy and its Impact on Stock Price, an Empirical Analysis on Joint Venture Banks of Nepal".*** The data are collect for the year 1996/1997 to 2000/2001 in case of Nabil Bank, Standard Charted Bank Nepal Ltd, Himalayan Bank Ltd and Nepal Investment Bank Ltd.

The objectives of which are as under:

- To examine and evaluate the dividend policy and its impact on stock price of joint venture banks of Nepal.
- To study dividend procedure followed by the joint venture banks in the contest of Nepal.
- To find out the relationship of dividend with EPS, MPS, P/E ratio, D/P ratio of sample firm.

This study found that:

- There is not any consistency in dividend policy in the sample banks.
- The MPS is affected by the financial position and the dividend paid by the bank. In this regard, the MPS of the sample banks are seen if be fluctuated.
- Most of the Nepalese banks from the very past have not profit planning and investment strategy which was imbalanced the whole position of the banks.
- All the D/P ratio of the sample banks in many years are founds more than the popular practice.

Bhandari's Study (2005)

Bhadari (2005) conducted a study on ***"Dividend policy and its impact on shareholder's return & stock price in Nepal"*** which has covered the period of 1998 to 2003 with the total observation of three banks and three finance companies.

The main objectives of study are:

- To study the current practices of dividend policy in joint venture commercial banks and insurance companies.
- To examine the degree of relationship between the individual securities returns and market return.
- To examine the relationship between lagged dividend and market price of the stock.
- To provide some suggestions for the improvement of sample companies' dividend policy based on finding.

The main conclusions of this study are:

- All the insurance companies have same range of dividend per share during the study period. Moreover, they had not paid dividend for the year ended 2002/03 because of the direction received from Insurance committee about their extended paid up capital.
- The trends of dividend distribution performance of all selected companies have been decreasing.
- There is a volatile practice about distribution of dividend in Nepalese listed companies. They are not adopting a fixed or defined dividend policy.
- Earning position positively related to the dividend decision.
- Liquidity position does not have same impact on dividend decision for all companies.
- The relationship between individual securities return and market return is positive but nominal in Banking and Insurance.

Dongol's Study (2006)

Dongol (2006) conducted a study title ***"Impact of Dividend Policy on Market price of Stock."***

The main objectives of his study are:

- To find out the impact of dividend policy on market prices of stocks.
- To find out if there is any uniformity in DPS, MPS, EPS and DPR of the sample firms.
- To study the prevailing policies and practices regarding dividend in Nepalese firms with reference to the sample firms.
- To find the major factors affective dividend policy of the firm.

This study found that

- EPS of all the sample banks are fluctuating form year to year.
- None of the sample firms have exactly increasing or decreasing trend of MPS through out the study period.
- The concern about maintaining or increasing the stock price 0 level also influences the dividend policy of the firm and hence that may make impact upon market price of stock.

Shrestha's Study (2007)

Shrestha (2007) in his research work entitled ***"An Analytical Study of Dividend Policy and practices of Major Joint Venture Banks in Nepal***" the data are collected for the year 2055/056 to 2061/062.

The main objectives of this study are:

- To highlight dividend practices of the joint venture banks.
- To analyze the relationship between dividends per share, other financial indicators such as earning per share, P/E ratio, market price of stock and net worth etc.
- To examine whether or not dividend influences share price of the three joint venture commercial banks.

This study concluded that

- There is no individual relationship exit between dividends per share to stock price.
- The correlation between them is also weak and dividend does not direct influence the market price.
- It is expected that the performance of the banking sector will be grow further in further due to low interest on the deposits.

Khatiwada's Study (2008)

Khatiwada conducted research on, ***"A comparative study of Dividend policy in Nepal Investment Bank Ltd. and Standard Chartered Bank Ltd."*** The main objectives of the research are:

- To identified the dividend policy in SCBNL and NIBL.
- To examined the relationship between earning and dividend distribution.
- To evaluated the impact of dividend on share price.
- To examined the relationship of DPS with other financial indicators.

Khatiwada presented the following major findings in this study.

- The shareholders of SCBNL received comparatively very high DPS than the shareholders of NIBL. On average, SCBNL paid Rs.110DPS, whereas NIBL paid Rs.14.50 DPS.
- 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.
- 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%.
- DPS has high influence on the price rise/fall of share. Both MPS and BPS are highly dependent on the DPS of corresponding banks.
- 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.

- There exists high correlation between DPS and EPS, DPS and MPS and DPS and BPS of both banks.

Maharjan's study (2008)

An MBS thesis entitled "***Dividend policy of listed commercial banks***" was presented by Marharjan's with the data taken from commercial banks in 2008. This study analyzed the data of five years and concluded as:

- Almost all banks have increasing EPS except NBBL and SCBNL has the highest average EPS and lowest variation in EPS during review period.
- SCBNL have the highest amount of dividend paid per share while NBBL have paid the least amount. NABIL bank has continuously paid the dividend in the five-year study period while in the case of other banks, irregularity in paying dividends.

Raya's Study (2008)

Raya presented an MBS thesis entitled "***The Study of Dividend Policy of the Commercial Banks in Nepal".*** The main objectives of the study are as follows:

- To study whether, the commercial banks are following the suitable dividend policy or not.
- To compare the dividend policy followed by different commercial banks chooses.
- To study the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, net worth, net profit and book value of share.
- To provide some fruitful suggestion to the sample banks chooses regarding their dividend policy, so that they can follow the better policy if the existing policy is not fruitful enough.

This study concludes that:

- There is lack of rules and regulations that bind companies to pay dividend every year. Not only the companies do not have dividend policy but also the government does not have any clear policy towards dividend.
- There seems instability of dividend and inconsistency in dividend payout ratio of the banks.
- Every year EPS and MPS are highly fluctuation. The CV of EPS has ranged from 8.55 to 53.08 percent. Similarly, market prices per share are also fluctuating. This short of fluctuation causes not to win public faith.
- The average dividend yield of banks has ranged from 1.051 percent to 4.59 percent. The highest percent of 4.59 % is also cannot b considered so encouraging figure.
- Shareholders in Nepal are not conscious. Taking the advantage of unconscious shareholders, the company management does not show the commitment promised in prospectors while raising capital. Promoter lures investors mentioning to pay attractive dividends, when company makes profit. However, in reality, most of the companied are deviated from their statement as promise in prospectus.
- Government does not have any clear policies towards dividend and to improve the efficiency of the companies. The number of companies cannot earn enough profit and bureaucrats accused the cause of inefficiency to managers, which is not sound.

Dhungel's Study (2009)

Dhungel presented an MBS thesis entitled "***A Study on Dividend Policy of Everest Bank Limited and Bank of Kathmandu Limited***" with the data taken from commercial banks in 2009. The main objectives of this study are as follows:

- To identify what type of dividend policy is being followed and whether or not the followed policy is appropriate in Bank of Kathmandu and Everest Bank Limited

- To highlight dividend practices of the Bank of Kathmandu and Everest Bank Limited.
- To analyze the relationship between dividend per share with various important variables such as earning per share, net profit, net worth and stock prices.
- To provide a practical suggestion and possible guidelines to overcome various issues and gapes based on the findings of the analysis.

This study concludes that:

- EBL has higher earning capacity than BOK and paying more dividends in Rupees than that of BOK.
- On the basis of DPR, it can be considered that BOK is paying higher portion of its earning as dividend since the average DPR of BOK is higher than that of EBL.
- Average dividend yield indicates that BOK is providing more percentage of its market value per share than EBL.
- Average earning yield ratio of BOK is greater than that of EBL, which means BOK is more efficient to generate earning on the basis of market price.
- Average market value per share to book value per share of EBL is greater than that of EBL. Therefore, there is greater chance of higher capital gain to the shareholders of EBL.
- EBL remained more successful than BOK in satisfying its shareholder through distributing cash and bonus share dividend, generating higher amount of earning per share, maintaining higher market value of its share
- BOK remained more generous in distributing dividend by providing high dividend payout ratio and keeping good relationship between DPS, EPS and MPS.

Kafle's Study (2009)

Kafle presented an MBS thesis entitled "***Dividend Policy of Commercial Banks in Nepal with special reference to HBL, EBL and NIBL".*** The main objectives of this study are as follows:

- To study dividend procedure followed by the sample banks.
- To identify whether, DPS affected by EPS per share in sample banks.
- To identify price Earning ratio, market value per share to book value per share, Dividend yield ratio of sample banks.
- To analyze the relationship between dividend per share with various important variables such as, earning per share, net profit, net worth and Book value per shares.
- To analysis significant difference in EPS, DPS, PM and NW of HBL, EBL and NIBL.

This study concludes that:

- In HBL DPS trend is increasing even in fiscal year 2004/05, when EPS is decreased, In EBL EPS is in increasing trend, DPS is also in increasing trend expect fiscal year 2004/05.
- In NIBL EPS and DPS both trend is fluctuating. The implications of fluctuating earning per share and dividend per share could not make clear to the public.
- MPS is much higher that net worth per share in the case of EBL. This indicates that the investors either have a very optimistic view on the future performance of the companies or that they are not investigating the performance indicators of the companies in which they are investing properly.
- Dividend per share is positively correlated with earning per share, net profit, market price per share and net worth in case of HBL, EBL and NIBL. It means higher the earning per share, net profit, market price per share and net worth, higher will be the dividend per share and vice-versa.

- The test of hypothesis carried out shows out that there is no significant difference between DPS, EPS, MPS and NW of all three commercial banks.

Tamang's Study (2009)

Tamang presented an MBS thesis entitled ***"Dividend Policy of Commercial Banks (With Respect to NIC, NABIL and BOK)"***. The main objectives of this study are as follows:

- To analyzed the prevailing dividend practices of sample banks.
- To analyze and evaluate the application of dividend decision in the selected banks.
- To analyze the relationship of dividend with earning per share, net worth, net profit, market price and book value per share.
- To provide useful suggestions for further improvements.

This study concludes that:

- There is lack of rules and regulations that bind companies to pay dividend every year. Not only the companies do not have dividend policy but also the government does not have any clear policy towards dividend.
- Dividend payout ratio does not show any stability and co-ordination with other variables. These banks do not have any strategic dividend policy.
- There seems instability and consistency in dividend payment by the banks.
- Every year EPS and MPS seem highly fluctuating. The CV of EPS has ranged from 14.21 to 28.33 percent. Similarly, market prices per share are also fluctuating. These short of fluctuation cause no faith from public towards the companies.
- Shareholders in Nepal are not conscious. Taking the advantage of unconscious shareholders, the company management does not show the

commitment promised in prospectors" while raising capital. Promoters lure investor mentioning to pay attractive dividends, when company makes profit. However, in reality, most of the companies are deviated from their statement as promised in prospectus.

- Government does not have any clear policy towards dividend and to improve the efficiency of the companies. The number of companies cannot earn enough profit and bureaucrats accused the cause of the efficiency to managers, which is not sound.

2.5 Research Gap

There have been many national and international studies in the field of dividend policy to date. Not all concepts and practices of foreign authors' model about dividend practices are use in our Nepalese dividend policy. Those studies have tried to find out the relationship between dividend policy and market price of the stock. However, as the Nepalese capital market is in the early stage of development, the conclusion made by the international studies may not be relevant in the Nepalese context. So it is recommended to devote some efforts and think foreign model dividend practices in Nepalese dividend Policy.

So far the Nepalese studies are concerned some studies like Pradhan's, Manandhar is which can be considered as landmark in the field of dividend policy. But many more changes have taken place in Nepalese capital market in last few years. Therefore, it is necessary to carry out a fresh study related to dividend policy of commercial banks of Nepal.

This is distinct study form previous studies in terms of sample size, nature of the sample firms and methodology used. This study has covered only five commercial banks. Latest five years data have been analyzed with due consideration of EPS, DPS, DPR, MPS, P/E ratio and DY. Taking in mind for more elaborate and extensive analysis has been made. In order to assess the impact of dividend on market price of share available information from

concerned banks were reviewed and analyzed. Regression analysis has been done assuming market price of share as dependent variable and other variables like DPS, EPS and D/P ratio as independent variable. At last testing of hypothesis has been done. Therefore, it is believed that this study is quite different.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

The chapter is related to the RM employed in the entire aspect of the study. Research methodology refers to the various sequential steps to be adopted by the researchers in studying the problem with certain objectives in views. It is the process of arriving to the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of the fact and figures. It consists of research design, population and sampled source of data, data processing procedure and tools and techniques of data analysis.

3.2 Research Design

Research Design is plan structure and strategy of investigation conceived to obtain answer to research questions and to control variances (Kothari, 1994:43). Research design is plan for collection and analysis of data. It represents a series of guideposts enable the researcher to progress in the right direction in order to achieve the goal. The purpose of design is to provide answer to research questions and control variance. Some financial and statically tools will be used to examine the facts and descriptive techniques to evaluate the dividend policy of five sample banks and comparing between themselves. This study aims to find out the relation of dividend policy of five samples companies.

Descriptive research is a fact-finding operation searching for adequate information. It is a type of study, which is generally conducted to assess the opinions, behaviors or characteristics of given population and to describe the situation and events occurring at present. Descriptive research is a process of accumulating facts. Descriptive research studies involve the systematic collection and presentation of data to give a clear picture of particular situation.

These studies attempt to obtain a complete and accurate description of a situation.

3.3 Population and Sample

There are 27 commercial banks whose shares are traded actively in stock market. Which are consider the population of the study, but it is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting from population.

All commercial banks are taken as the population where as five commercial banks will be the sample because the financial performance and popularity of these banks are good in the Nepalese financial market. The samples are as follows:

1. NABIL Bank Limited.
2. Standard Chartered Bank Nepal Limited.
3. Everest Bank Limited.
4. Nepal Industrial and Commercial Bank Limited.
5. Bank of Kathmandu Limited.

3.4 A Brief Introduction of Sampled Banks

NABIL Bank Limited

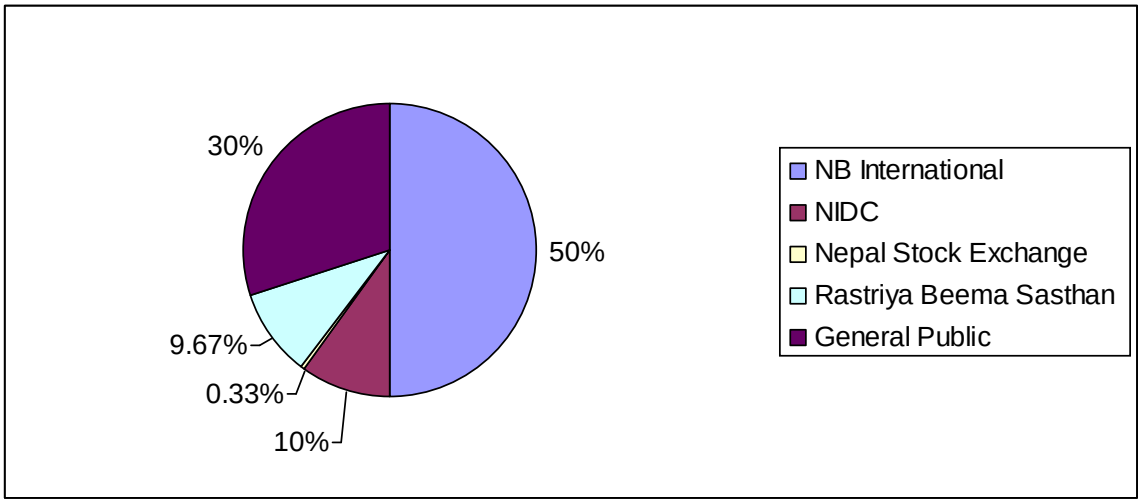
NABIL Bank Limited is the first foreign joint venture bank of Nepal, established in partnership with Dubai Bank Limited in Dubai and operations in 12 July 1984. The bank had initiated its business with authorized capital of Rs. 60 million and paid up capital of mere Rs. 30 million. NB International (foreign partner) holds 50% of share capital of the bank, NIDC holds 10%, Nepal Stock Exchange holds 0.33%, Rastriya Beema Sasthan holds 9.67% and the general public holds 30%. NABIL bank is one of the leading joint venture banks of Nepal. 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 19 points of representation across the kingdom 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, Bangalore, India, Internet banking system and Telebanking system. Presently the Bank has 37 branches.

Figure: 3.1
Ownership structure of NABIL



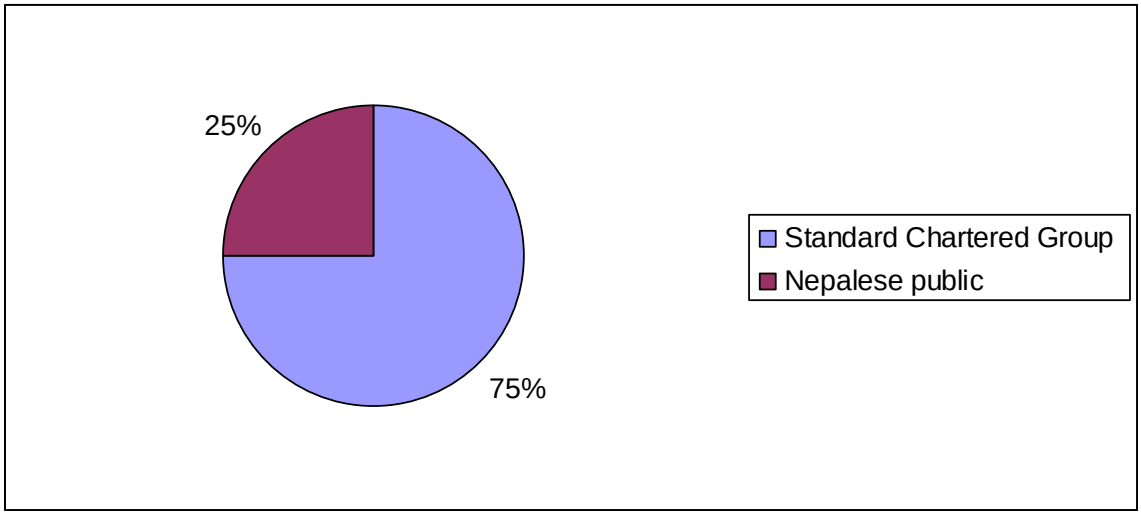
Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1600 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs around 70,000 people, representing over 125 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth, as the world increasingly becomes one market. With 17 points of representation, 21 ATMs across the country and with 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, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, and government. Presently the Bank has 15 branches.

Figure: 3.2

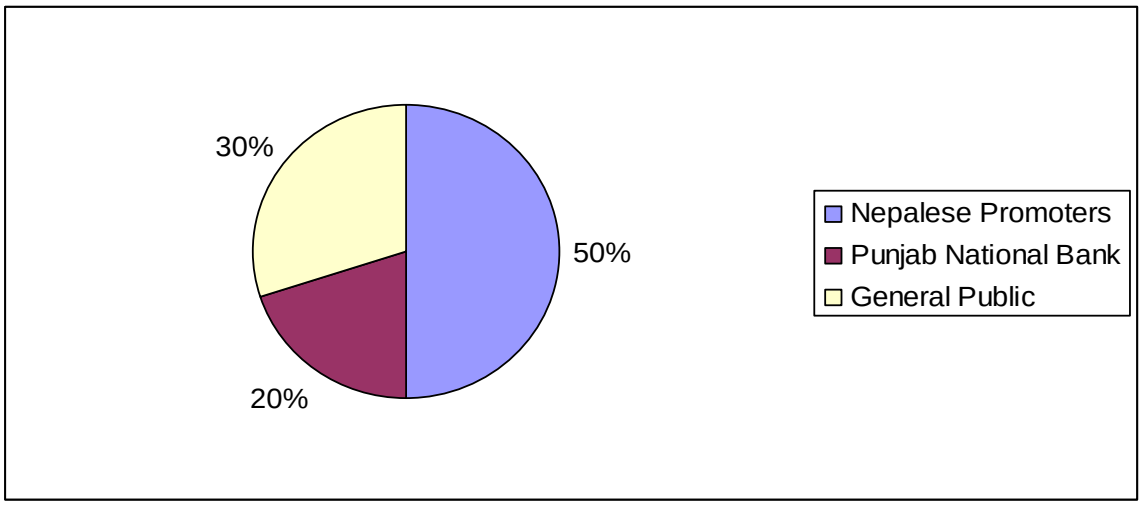
Ownership structure of SCBNL



Everest Bank Limited (EBL)

As a policy of Government to open the banking sector for private and foreign participation starting from mid eighties, Everest Bank Limited was established in 1993 under company Act 1964 with an objective of carrying out commercial banking activities under the commercial bank act 1974. United Bank of India Ltd under technical services agreement signed between it and Nepali promoters was managing the bank from the very beginning till November 1996. Later on, it handed over the management to Punjab National Bank Ltd, India. It was composed by which holds 20% equity on the bank's share capital, Nepalese promoters 50% and general public 30% hold the balance equity of the bank. The bank has got an authorized capital Rs 400,000,000 issued capital Rs 264,000,000 and paid up capital Rs 220,858,600. Presently the Bank has 35 branches. Head office is in Lazimpat. The main aim of EBL is to extend professional banking service to various section of the society and they are of contribution in the economic development of the country.

Fig 3.3
Ownership structure of EBL

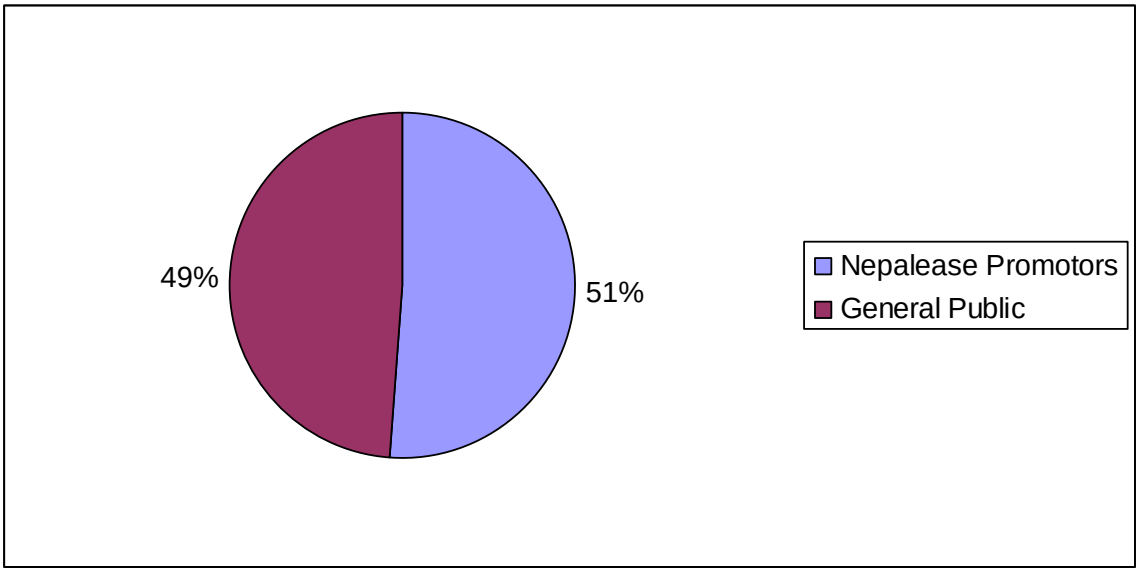


Nepal Industrial and Commercial (NIC) Bank Limited

Nepal Industrial & Commercial (NIC) Bank Limited commenced its operation on 21 July 1998 from Biratnagar. The Bank was promoted by some of the prominent business houses of the country. The current shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public. NIC Bank has over 34,000 shareholders. The shares of the Bank are actively traded in Nepal Stock Exchange with current market capitalization of about Rs. 10,493 million.

The Bank has grown rapidly with 24 branches throughout the country while several branches are planned to be opened this year. All branches are inter-connected through V-Sat and are capable of providing real time on-line transactions. The Bank is the first commercial Bank in Nepal to have received ISO 9001:2000 certification for quality management system. Furthermore, NIC Bank became the first Bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted /confirmed by more than 200 banks worldwide. To add to these achievements, the Bank has also been awarded the "Bank of the Year 2007-Nepal" by the world-renowned financial publication of The Financial Times, U.K.-The Banker. This is the fruit of the Bank's outstanding performance backed by belief and support of its customers towards the Bank. The Bank is run by professionals and believes in the highest standards of corporate governance. The Board of Directors of the Bank is supported by a management team, which comprises of young, enthusiastic professionals. The Bank has successfully embarked on a multi-pronged strategy of consolidation, administrative streamlining, human resource up-skilling, strategic cost management, focused non-performing assets management, balance sheet and treasury management and controlled asset growth, in tandem with strengthening the credit culture as well as strategic marketing and sales.

Fig 3.4
Ownership structure of NIC



Bank of Kathmandu Limited (BOK)

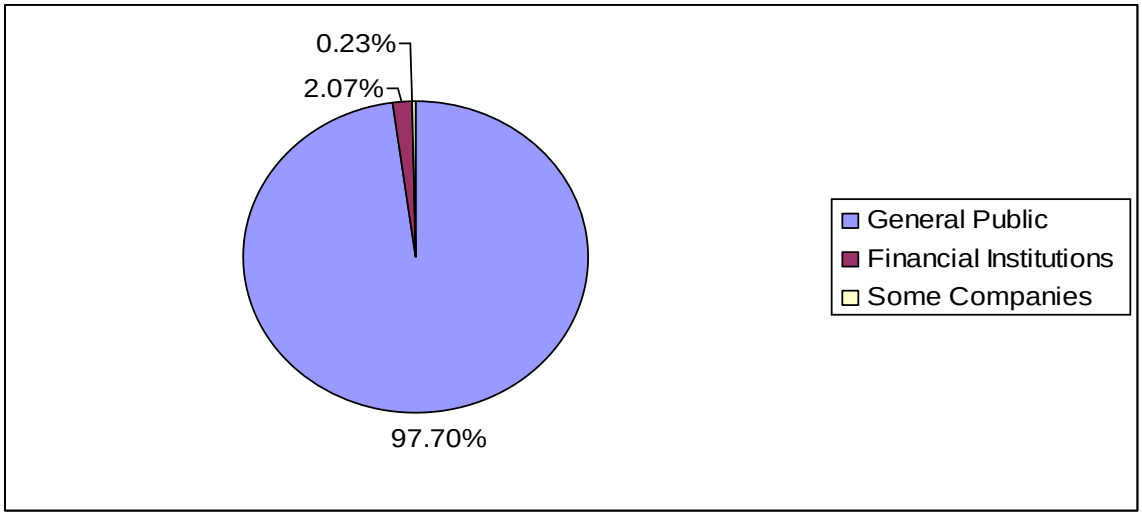
Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks, which is entirely managed by Nepalese professionals and owned by the general public. BOK started its operation in 12 March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. The current shareholding pattern of the Bank constitutes the Nepalese promoters, general public hold 97.70% and financial institutions hold 2.07%, and some companies are holding 0.23%.

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 few objectives of the bank are to contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas, 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. To contribute to the overall social development of Nepal. Presently the Bank has 33 branches.

Fig 3.5

Ownership structure of BOK



3.5 Nature and Sources of Data

The study is mainly based on secondary data. Data relating to Dividend policy of these three banks are directly obtained from concerned banks. Mainly the study is conducted on the basis of secondary data. The supplementary data and information are obtained from annual report and website of NEPSE, SEBON. Other information sources have been tapped from number of institutions and regulating authorities like Rastra Bank, Security Exchange Board, Ministry of Finance and National Planning commission etc Besides the data have been acquired from the various sources like,

- Annual reports
- www.nepalstock.com
- Nepal Stock Exchange Limited
- Security Board of Nepal
- Concerned banks

3.6 Data Processing Procedure

The data analysis tools are applied as simple as possible. Data obtained from the various sources cannot directly be used in their original form. They need to further verified and simplified for the purpose of analysis. Data, information, figures and facts so obtained need to be checked, rechecked, edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful Tables, which have been shown in appendices. Homogeneous data have been sorted in one Table and similarly various Tables have been prepared in understandable manner, odd data are excluded from the Table. Data have been analyzed and interpreted using financial and statical tools. The detail calculations that cannot be shown in the body part of the report are presented in appendices at the end of the report.

3.7 Method of Analysis

Various financial and statistical tools have been used in this study. The analysis of data will be done according to pattern of data available. Financial tools and simple regression analysis are used in the analysis. The relationship between different variables related to study topic would be drawn out using financial and statistical tools. The various calculated results obtained through financial and statistical tools arc tabulated under different headings, they are compared with each other to interpret the result.

3.7.1 Financial Tools

a) Earning Per share (EPS)

EPS calculations made over the years indicate whether the banks earning power on per share basis have changed over the period or not. EPS is calculated by dividing the net profit after taxes by the total no. of the common shares outstanding.

$$EPS\ X \frac{Net\ profit\ after\ taxes}{No.of\ common\ shares\ outsanding}$$

b) Dividend Per share (DPS)

DPS indicates the part of earning distributed to the shareholders on per share basis. It is calculated by dividing the total dividend to equity shareholders by the total no. of equity shares.

$$DPS \text{ X} \frac{Total\ dividend\ \ to\ ordinary\ shareholders}{No.of\ \ ordinary\ shares\ \ outs\tan ding}$$

c) Dividend payout Ratio (DPR)

This shows that what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for growth of the banks. It is calculate by the dividing the DPS by the EPS.

$$DPR \text{ X} \frac{DPS}{EPS}$$

d) Price Earning Ratio (P/E ratio)

This is reflects the price currently paid by the market for each rupee of currently reported earning per share (EPS). It is calculated by dividing the market value per share (MVPS) by earning per share (EPS).

$$P / E \text{ X} \frac{Markrt\ value\ per\ share\ (MVPS)}{Earning\ \ per\ share\ (EPS)}$$

e) Dividend yield (D.Y)

The dividend yield reflects the percentage relationship between dividend per share and market value per share. It is calculated by dividing the cash dividends per share (DPS) by the market value per share (MVPS).

$$Dividend\ \ Yield \text{ X} \frac{Dividend\ Per\ Share\ (DPS)}{Market\ Value\ Per\ Share\ (MVPS)}$$

f) Market Price of Share (MPS):

MPS is that value of stock, which can be obtained by a firm from the market. Market values share is one of the variables, which is affected by the dividend per Share and earning per share of the firm. If the earnings per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing its earning power will be greater than cost of capital. For such firms market value of share will be higher than the book value. If the firm's earning capacity is lower than the cost of capital the MPS will be lower than the book value.

3.7.2 Statistical Tools Used

Statistics (as used in sense of data) are numerical statement of facts capable of analysis and interpretation and the science of statistics is a study of the principles and method used in collection, presentation analysis and interpretation of numerical data in any sphere of inquiry. (Elhance, 1994:16) in the present study, following statistical tools have been used to draw one meaningful conclusion.

a. Mean or Average ($\overline{X}$):

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

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

Or, $\overline{X} = \frac{X}{N}$

b) Standard Deviation (σ):

Karl Pearson introduced the standard deviations concept in 1823. It is by for most important and widely used measure of studying dispersion. Standard

deviation is also known as root mean square deviation for the reason that is the square root means of the square deviations from the arithmetic mean, which is denoted by the small Greek letter sigma. "The standard deviation measures the absolute dispersion or variability of the distribution; for the greater the amount of dispersion or variability the greater the standard deviations, for the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as Homogeneity of a series; a large standard deviation means just the opposite." (Gupta; 1991) In this, standard deviation is calculated for selected dependent and independent variables specified in the model presented above.

$$S\tan dard\ devation\ (\pm_x) \mathrm{X} \sqrt{\frac{x^2}{n} \mathrm{Z} \ \frac{x}{n}^2}$$

$$\text{Standard deviation } (\pm_y) = \sqrt{\frac{y^2}{n} \mathrm{Z} \ \frac{y}{n}^2}$$

c) Coefficient of variation (C.V):

It is the measurement of the relative dispersion by Karl person. It is used to compare the variability of two or more series. The series with higher coefficient of variation is said to be more variable, less consistent, less uniform, less stable and less homogeneous. On the contrary the series with less coefficient of variation is said to be less variable, more consistent, more uniform more stable and more homogenous. It is denoted by C.V and is obtained as

$$C.V \mathrm{X} \frac{S\tan dard\ Devation}{Mean} \mid 100$$

$$C.V \ \mathrm{X} \frac{\pm}{\overline{X}} \mid 100$$

Where,

$\pm$ X*S* tan *dard Devation*

$\overline{X}$ X*Mean*

d) Cross sectional Analysis:

This method is used to determine the position of the bank among the selected banks for the study. Each annual figure will be compared with yearly average carried out summing up figure of each company by dividing by the no. of company.

e) Correlation Analysis:

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another. In the present study, both simple correlation and multiple correlations have been used. Correlation co-efficient between the following financial variables have been calculated and interpreted.

f) Simple correlation coefficient between

- DPS and EPS
- DPS and Net Profit
- DPS and MPS
- DPR and MPS
- Multiple correlation coefficients between EPS, DPS and MPS
- Multiple correlation coefficients between DPR, DPS and MPS

g) Probable Error [PE(r)]:

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

$$P.E(r) \text{X} 0.6745 \mid \frac{1 \text{Z} r^2}{\sqrt{n}}$$

Where;

P. E (r) = Probable error of r.

r = correlation coefficient between X and Y

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

In the present study, probable error has been calculated to determine the reliability of coefficient of EPS and DPS, DPS on Net Profit and DPS and MPS.

h) Regression analysis:

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

i) Simple Regression Analysis:

In this study, simple regression analysis has been used to study the influence of independent variables on dependent variables. It helps in studying the effect and the magnitude of the effect of single independent variables on dependent variables.

Dividend per share on Earning per share

The model: Y= a + b X

Where,

Y = Market price per share

a = Regression constant

b = Regression coefficient

X = Earnings per share

This model enables us to know whether EPS is the influencing factor of dividend per share or not.

j) DPS on Net Profit:

Y = a + b X

Where,

Y = Dividend per share

a = Regression constant

b = Regression coefficient

X = Net Profit

This model indicates the dependency of DPS on Net Profit.

k) Market price per share on Dividend payout Ratio:

Y= a + b X

Where,

Y = Market price per share

a = Regression constant

b = Regression coefficient

X = Dividend Payout ratio

This model has been constructed to examine the relationship between market price per share and Dividend payout ratio.

l) Market price per share on DPS:

Y= a + b X

Where,

Y = Market price per share

a = Regression constant

b = Regression coefficient

X = Dividend per share.

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

m) Multiple Regression Analysis:

Market price of share on Earning per share and dividend per share

$Y = a_1 + b_1 X_1 + b_2 X_2$

Where,

a = Regression constant

b_1 = Regression coefficient of variable 1st

b_2 = Regression coefficient of variable 2nd

X_1=Earning per share

X_2 =Dividend per share

This model helps to predict in what extend EPS and DPS affect market price of share.

Market price of share on Dividend payout ratio and dividend per share

$Y= a_1 + b_1 X_1 + b_2 X_2$

Where,

a = Regression constant

b_1 = Regression coefficient of variable 1st

b_2= Regression coefficient of variable 2nd

X_1=Dividend payout ratio

X_2 =Dividend per share

This model helps to predict in what extend DPR and DPS affect market price of share.

n) Coefficient of Correlations (r):

The correlation of coefficient measures the direction of relationship between two sets of figures. It is the square root of the coefficient of determination. "Correlation Analysis is then statistical tool that can be used to describe the degree to which one variable is linearly related to another."[Levin and Rubin, 1995] Either correlation can be positive or it can be negative. If both variables are changing in the same direction, then correlation is said to be positive but when the variations to the two variables take place in the opposite direction, the correlation is termed as negative. In this study, simple coefficient of correlation is used to determine the relationship of different factors with dividend and

other variables. The data related to dividend over different years are tabulated and their relationship with each other is calculated as under,

$$r = \frac{n \sum XY - \sum X . \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} . \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Where,

n = number of observation in series X and Y

∑X= Sum of observations in series X

∑Y= Sum of observation in series Y

$\sum X^2$= Sum of squared observations in series X

$\sum Y^2$= Sum of squared observations in series Y

∑XY= Sum of the product of observations in series X and Y

The result of correlation coefficient is always lies between –1 & +1

When, r = +1, there is positively perfect correlation between two variables

When, r = -1, there is negatively perfect correlation between two variables

When, r = 0, there is no correlation between two variables or the variables are uncorrelated.

Neither the value of r to +1, closer will be relationship between two variables nor will the value of r to 0 lesser be the relationship between two variables.

Under this study the correlation between the following variables are analyzed.

- Dividend per share and Earning per share
- Dividend payout ratio and Market price per share
- Dividend per share and Market price per share.
- Dividend payout ratio and Net profit

o) Coefficient of Determination (r^2):

The coefficient of determination is the primary way we can measure the extend, or strength of association that exists between two variables. It is the measure of degree of linear association between variables one of which happen to be independent and other being dependent variable. It measures the

percentage total variation in dependent variable explained by independent variables. The coefficient of determination value can be ranging from zero to one. If regression line is perfect estimator, r^2 is zero when there is no correlation. In this study coefficient of determination is calculated to know the degree of correlation of dividend per share with earning per share, net profit, market price per share and net worth.

p) Regression constant (a):

The regression constant (a) which is the intercept of the model represents the average level of dependent variable when independent variable has a value of zero. In other words, it indicates the mean or average effect on dependent variable if all the variables omitted from the model. This term has partial meaning only if a zero value for the independent variable is possible.

q) Regression coefficient (b):

The regression coefficient (b) is a parameter, which indicates the marginal relationship between independent variable values of dependent variable holding constant effect of all other independent variables in the regression model. The coefficient specifies a part of change in the dependent variable regarding part of change in the independent variables.

r) Standard Error of Estimates (S.E.E.):

With the help of regression equation, perfect prediction is practically impossible. Standard Error of Estimate is the measure of reliability of the estimating equation, indicating the variability of the observed points around the regression line, that is the extent to which observed values differs from their predicated values on the regression line. The smaller the value of the standard error of estimate, the closer will be the predicted dots to the regression line. If SEE is zero, than there is no variation about the line and the correlation will be perfect. Thus with the help of SEE, it is possible to ascertain how well and representative the regression line is as description of the average relationship between two variables.

$$S.E.E \times \sqrt{\frac{Y^2 \Sigma a \quad Y \Sigma b \quad XY}{n \Sigma 2}}$$

s) t- Statistics:

To test the validity of our assumption, "if sample size is less than 30, t-test is used. For applying t-test in the context of small sample, the value of "t" is calculated first and compared with the table value of "t" at a constant level of significance for given degree of freedom (Kothary, 1994:143). If the calculated value of "t" is greater than tabulated value in certain level of significance and given degree of freedom we conclude that there is significantly different. If the calculated value is less than the tabulated value, we conclude that the different is not significant

t) Test of hypothesis:

The statement of the relationship between two or more variable is called hypothesis. Hypothesis statement should be able to show the relationship between variables. At the same time, they should carry clear implications for testing the stated relations. The research on thesis strongly holds the hypothesis criteria. In this research work, it has been tried to find whether the independent variables have statistically significant relationship with dependent variable or not. The test is based on the pooled average data of five years of the sample banks. The hypothesis of this research work is as following.

Hypothesis test- I

Null Hypothesis (H_0): $b_1=b_2=0$ (The regression equation of X_1 on X_2 and X_3 is not significant. In other words, there is no relationship between dependent variable X_1 (MPS) and independent variables X_2 (EPS) and X_3 (DPS)

Alternative Hypothesis (H_1): $b_1 \neq b_2 \neq 0$ (i.e. at least on $b_1 \neq 0$). The regression equation of X_1 on X_2 and X_3 is significant. In other words, there is a relationship between dependent variable X_1 (MPS) and independent variable X_2 (EPS) and X_3 (DPS)

Hypothesis test- II

Null Hypothesis (H_0): $b_1=b_2=0$ (i.e. the regression equation of X_1 on X_2 and X_3 is not significant. In other words, there is no relationship between dependent variable X_1 and independent variables X_2 and X_3.

Alternative Hypothesis (H_1): $b_1\neq b_2\neq 0$ (i.e. at least on $b_1\neq 0$). The regression equation of X_1 on X_2 and X_3 is significant. In other words, there is a relationship between dependent variable X_1 and independent variable X_2 and X_3.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

This chapter consists presentation and analysis of secondary data related with different variables using both financial and statistical tools explained in the third chapter. The prime objective of this chapter is to achieve the objectives, which are set in the first chapter. In order to achieve these objectives the gathered data are presented, compared and analyzed with the help of different tools. This chapter is divided into five different sections:

(i) Analysis of dividend payment practices of the selected sample banks.

(ii) Impact of dividend on market price of share.

(iii) Analysis of relationship of dividend with other key variables.

(iv)Test of hypothesis.

(v) Major findings of the study.

4.1 Analysis of Dividend payment Practices of the selected banks

As already mentioned in the first chapter (in objective of the study), one of the objective of this study is to assess the prevailing practice of the company regarding dividend. In this section, an attempt has been made to analyze the financial indicators that are relevant directly or indirectly to the dividend payments of the banks. This helps to understand the dividend practices of these banks in the absence of complicated information. This analysis includes as,

a. Dividend Per Share (DPS)

b. Dividend Payout Ratio (DPR)

c. Dividend yield (DY)

d. Earning per share (EPS)

e. Price Earning Ratio (P/E ratio)

f. Market Price Per Share (MPS)

4.1.1 Analysis of Dividend per share

Dividend per share indicates the proportion of earning distributed to owner (shareholders) on per share basics. Generally, the higher DPS creates positive attitude among the shareholders towards bank, which accordingly helps to increase the market value of share. The following table shows the details relating to dividend per share.

Table 4.1

Dividend per share of Commercial Banks (in Rs.)

Year / Bank	2003/04	2004/05	2005/06	2006/07	2007/08	Ave.	S.D	C.V (%)
NABIL	65.00	70.00	85.00	100.00	60.00	76.00	14.63	19.25
SCBNL	110.00	120.00	130.00	80.00	80.00	104.00	20.59	19.80
EBL	20.00	0.00	25.00	10.00	20.00	15.00	8.94	59.60
NIC	0.00	10.00	0.53	1.05	1.05	2.53	3.76	148.62
BOK	10.00	15.00	18.00	20.00	42.11	21.02	11.07	52.66
Composite Bank Ave.						43.71		
Yearly Average	41.00	43.00	51.71	42.21	40.63			

(Source: Annual reports of commercial banks.)

The Average D.P.S of NABIL is RS. 76 with S.D of Rs. 14.63. The highest and lowest DPS during the period of study are RS.100 and 60 respectively. The CV is 19.25%, which shows that there is inure consistency in their dividend per share, during the period of study. SCBNL has average DPS of Rs 104. The highest and lowest DPS during the period study is RS.130 to Rs. 80. The S.D. DPS is 20.59.

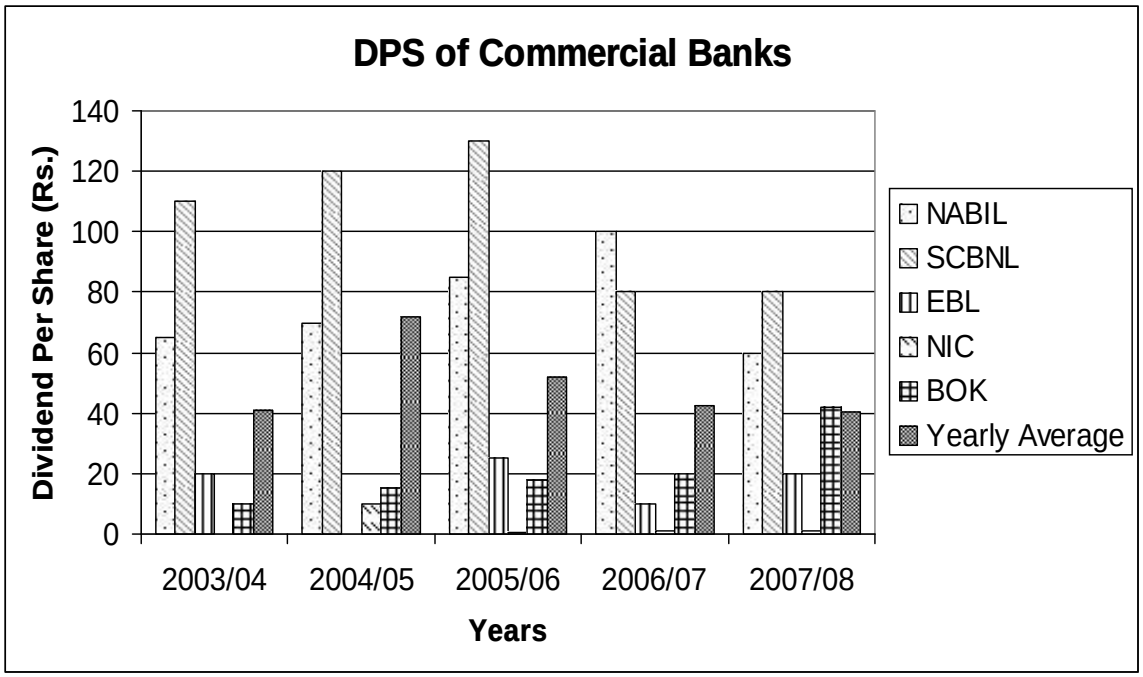
The CV of DPS is 19.80% it indicates, that there is insure consistency in their Dividend per Share of Bank in during the period.

EBL has average DPS of Rs. 15. EBL did not paid cash dividend in the year 2004/05. The higher and lowest DPS of bank is 25 to 10 in the period of study. The S.D of DPS is 15. The C.V of DPS of the bank is 59.60. It indicates that there is a very high fluctuation in the DPS of bank in the period of the study.

The Average DPS of NIC bank is Rs.2.53 and S.D. is 3.76. NIC bank did not paid cash dividend in the year of 2003/04. The higher and lowest DPS of NIC bank is 10 to 0.53. The C.V of DPS is 148.62%. Therefore, it indicates that there is a very high fluctuation in the DPS of bank in the period of the study.

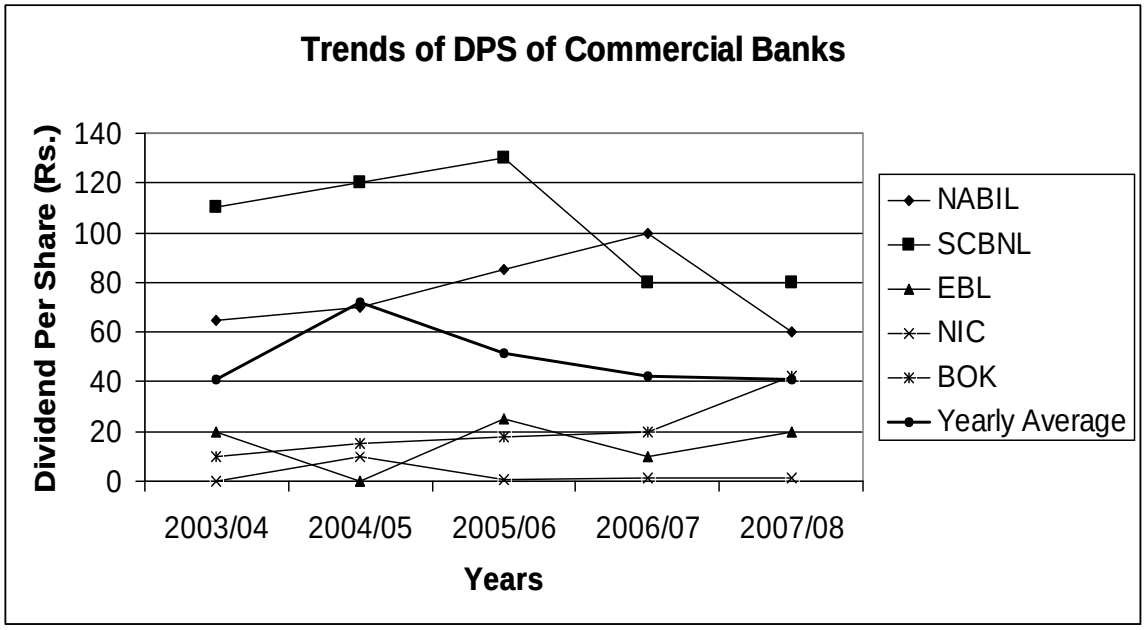
BOK has an average DPS is Rs 21.02, the highest and lowest DPS of bank is 42.11 to10. The S.D. of DPS is 11.07. The C.V of DPS is 52.66%. It indicates that there is it also very high fluctuation in the DPS of bank in the period of study. DPS of the banks with the help of bar diagram and graph as follows:

Figure 4.1 (A)



From the above analysis, It can say that SCBNL has highest average DPS, among all sample banks, during the period of study. The CV indicates that among the banks under study during period, SCBNL and NABIL have the highest consistency in paying dividend whereas the DPS of EBL, NIC and BOK is high fluctuation, from above analysis we can see also that EBL and NIC have not paid cash dividend regularly during the period of the study. The yearly average of NABIL, SCBNL, EBL, NIC and BOK is 41, 43, 51.71, 42.21, and 40.63 respectively.

Figure 4.2 (B)



4.1.2 Analysis of Dividend payout ratio

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

Table 4.2

Dividend Payout Ratio (DPR)

Years / Banks	2003/04	2004/05	2005/06	2006/07	2007/08	Ave.	S.D	C.V (%)
NABIL	70.19	66.36	65.78	72.95	55.4	66.14	35.66	53.92
SCBNL	76.63	83.83	73.93	47.8	60.64	68.57	11.67	17.02
EBL	43.86	0.00	39.81	12.76	21.78	23.64	16.44	69.54
NIC	0.00	43.96	3.29	4.37	4.62	11.25	16.44	146.13
BOK	36.36	33.22	22.90	23.00	0.00	23.10	12.74	55.19
Yearly Average	45.41	45.47	41.14	32.18	28.49			
Composite bank Ave.						38.54		

(Source: Annual reports of commercial banks.)

An Average DPR of NABIL bank is 66.14%. It shows that NABIL generally pays 66.14% of its total earning as dividend to its shareholders. The S.D of DPR is 35.66. The CV is 53.92%, which indicates that there are only about 54% fluctuations in the DPR of the bank over the study period.

Standard Chartered Bank Nepal Limited (SCBNL) has an average DPR of 68.57%. It means that SCBNL is generally paying 68.57% of its earning as dividend to its shareholders**.** The S.D of DPR is 11.67%. The CV of 17.02% points towards moderate in dividend payment behavior.

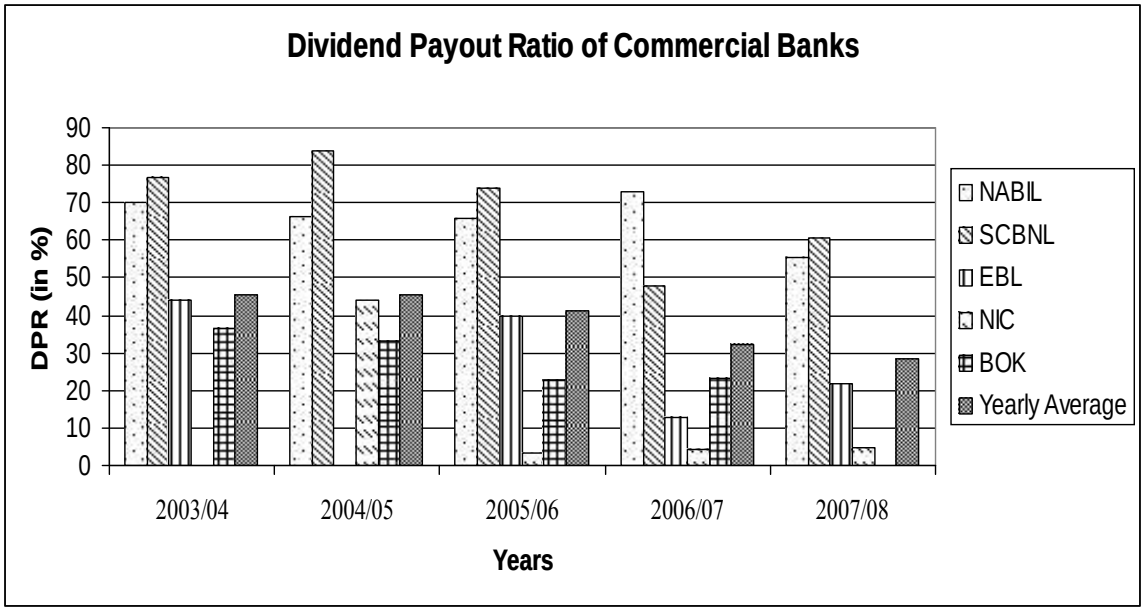
An average DPR of EBL is 23.64%, it indicates that EBL generally pay out 23.64% of its total earning as dividend to its shareholders. The S.D is 16.44% and

C.V. is 69.54. The C.V indicates that the DPR of moderate in dividend payment behavior during the period of study.

Nepal Industrial and Commercial Bank (NIC) have an average DPR of 11.25% it mean that NIC is generally paying 11.25% of its earning as dividend to its shareholders. NIC bank has not pay dividend during the period of 2003/04.The S.D. is 16.44% and C.V is 146.13% that is indicates that there is 146.13% fluctuation in the DPR of NIC highly inconsistency during the period the period of study.

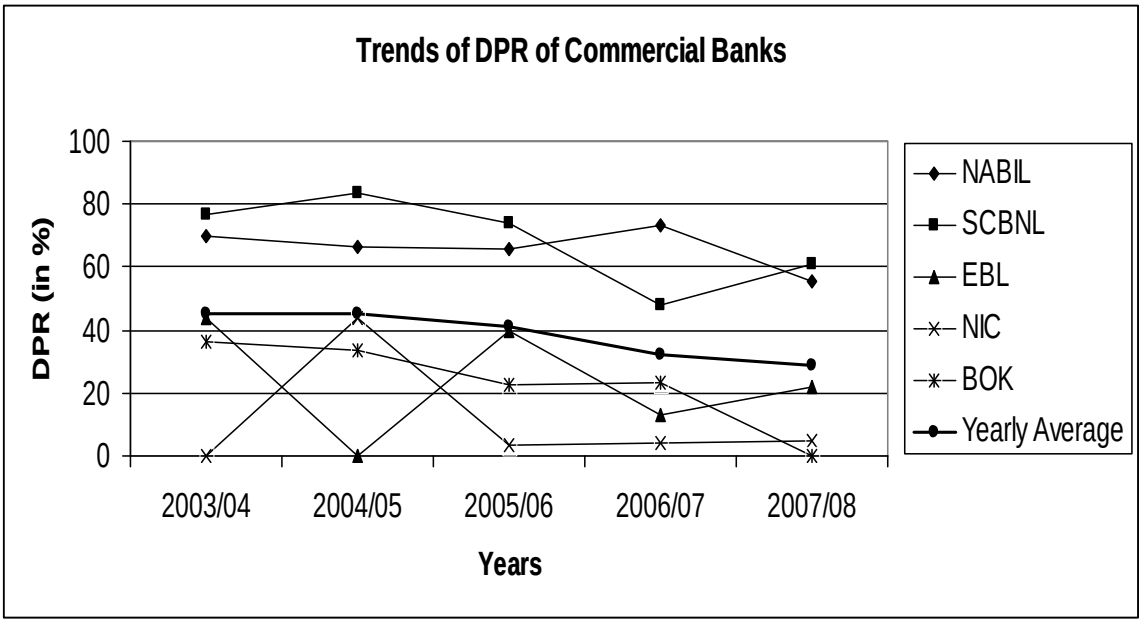
Bank of Kathmandu (BOK) has an average DPR of 23.10% during the study period. The bank generally payout 23.10% of its total earnings as a dividend. BOK has not pay dividend to the shareholders during the period of 2007/08.The S.D is 12.74 and the C.V is 55.19%. Which is indicates that there is 55.19%. The CV indicates that the DPR of BOK moderate in dividend payment behavior during the period of study. It can better present the comparative dividend payout ratio (DPR) of the banks with the help of bar diagram and graph as follows:

Figure 4.2 (A)



The above calculation shows that an average DPR of SCBNL is higher among the all bank and its C.V has the lowest among all banks under study. It shows that SCBNL has the consistent dividend payment. The C.V of EBL, NIC and BOK has more than other two sample bank, NABIL is also little high CV than SCBNL, which is shows that these banks has not consistent dividend payment behavior. Among the all sample banks, NIC and BOK have lowest DPR.

Figure 4.2 (B)



4.1.3 Analysis of Dividend Yield Ratio

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

Table 4.3

Dividend Yield Ratio (in %)

Years / Banks	2003/04	2004/05	2005/06	2006/07	2007/08	Ave.	S.D	C.V (%)
NABIL	6.5	4.65	3.79	1.98	1.14	3.61	1.91	53.06
SCBNL	6.3	5.12	3.44	1.36	1.17	3.48	4.09	117.53
EBL	2.94	0	1.81	4.11	6.39	3.05	2.15	70.49
NIC	0	2.73	0.11	0.11	0.08	0.61	1.06	173.77
BOK	3.39	2.33	1.18	0.73	0	1.53	1.2	78.43
Yearly Average	3.83	2.97	1.66	1.66	1.76			
Composite bank Ave.						2.46		

(Source: Annual reports of commercial banks.)

NABIL bank average DY is 3.61% and ranging 1.14% to 6.5% during the study period. The S.D. of the D.Y. under the period of study is 1.91. The CV of bank is 53.06%, which indicates that the fluctuation of in DY of NABIL is the moderate.

Standard Chartered Bank Nepal Limited (SCBNL) with in the period of study had and average D.Y. of 3.48% and ranging between 1.17% to 6.3%. The S.D is 4.09 whereas C.V. is 117.53%. The C.V. indicates there is fluctuation of 117.53% in the D.Y, which is very high.

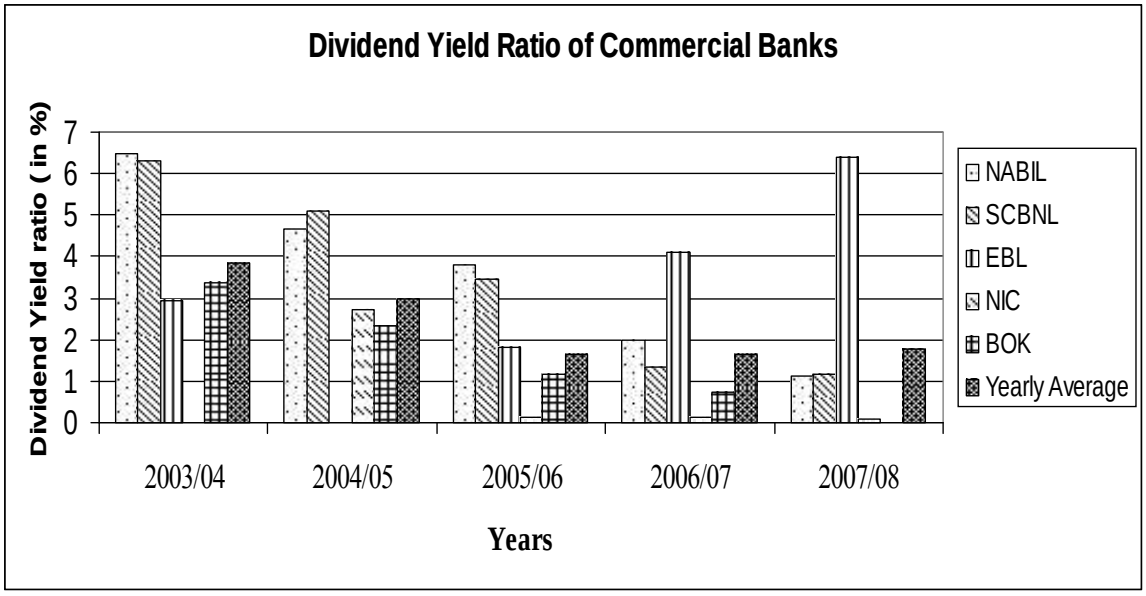
Everest Bank Limited (EBL) has an average D.Y. of 3.05% during the period of the study and S.D is 2.15. The DY is ranging between 0% to 6.39%. The C.V. shows that there is a fluctuation of 70.49% in D.Y of EBL, which indicates that

the fluctuation of in DY of NABIL is the moderate. EBL has not paid dividend in F.Y 2004/05 so in that D.Y is 0%.

Nepal Industrial and Commercial Bank (NIC)with in the period of study had and average D.Y of 0.61% ranging between 0% to 2.73%, NIC has not paid dividend in F.Y. 2003/04 which D.Y. is zero. The S.D is 1.06 whereas CV is 173.77%. The CV indicates there is a fluctuation of 173.77% in the D.Y. This indicates that NIC DY has higher fluctuation among the sample banks.

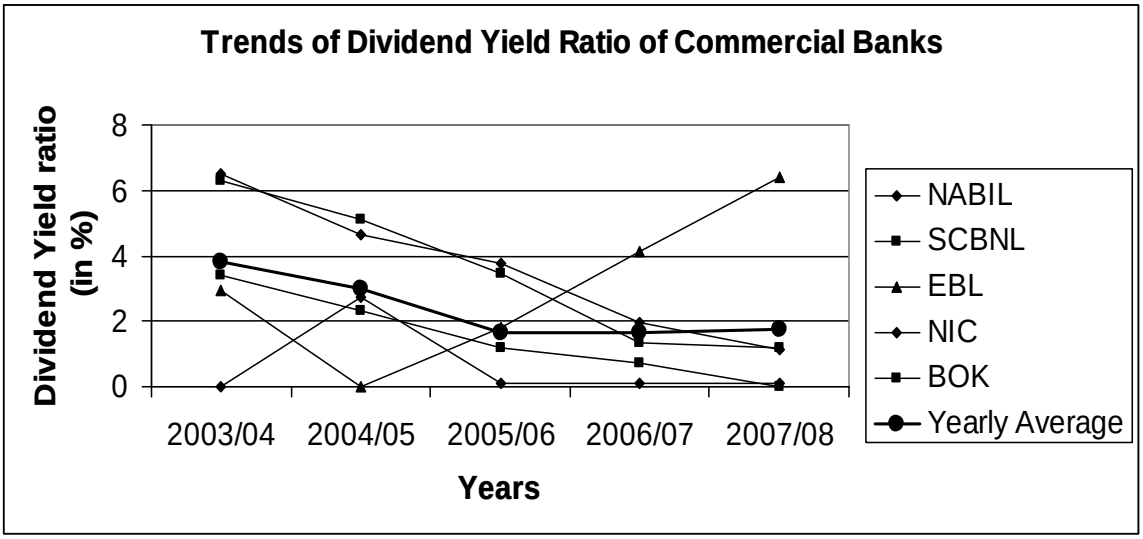
During the period of study, Bank of Kathmandu (BOK) has an average D.Y is 1.53% and SD is 1.2. The DY is ranging between 0% to 3.39%. The C.V shows that there is a fluctuation of 78.43% in DY of BOK, which is moderate. BOK has not paid dividend in F.Y. 2007/08 so in that D.Y is zero during the period of the study. It can better present the comparative dividend yield ratio (DY) of the banks with the help of bar diagram and graph as follows:

Figure 4.3 (A)



From the above data and calculation, it can be seen that the average D.Y of SCBNL is the highest and NIC is the lowest. The D.Y range of the banks under study during the period is between 0% and 6.5%. The CV of these banks shows a high level of fluctuation in D.Y. if compared SBNL has the most consistent D.Y among all sample banks.

Figure 4.3 (B)



4.1.4 Analysis of Earning per share (EPS)

Normally the performance and achievement of business organization are measured in terms of earning capacity to generate earning. Higher earning shows the higher strength while lower earning shows weaker strength of business organization. EPS is the amount of earning of the share invested in the company. So higher the EPS better the position is seen in stock market. The earning per share of the bank under study is tabulated as follows:

Table 4.4

Earning Per Share (EPS)

Years / Banks	2003/04	2004/05	2005/06	2006/07	2007/08	Ave.	S.D	C.V (%)
NABIL	92.61	105.49	129.21	137.08	108.31	114.54	16.28	14.21
SCBNL	143.55	143.14	175.84	167.37	131.92	152.36	16.51	10.84
EBL	45.60	54.20	62.80	78.40	91.82	66.56	16.64	25.00
NIC	13.65	22.75	16.10	24.01	25.75	20.45	4.73	23.13
BOK	30.03	27.13	35.11	38.75	41.89	34.58	23.89	69.09
Yearly Average	65.09	70.54	83.81	89.12	79.94			
Composite Bank Ave.						77.70		

(Source: Annual reports of commercial banks.)

The average EPS of NABIL is Rs.114.54 during the period of study. The highest EPS is Rs.137.08 during the period of 2006/07 and the lowest EPS is Rs.92.61 during the period of 2003/04. The S.D of the EPS under the period of study is 16.28. The C.V. is 14.21% in the EPS of NABIL during the period of study.

Standard Chartered Bank Nepal Limited (SCBNL), the highest EPS of the bank is Rs.175.84 during the period of study 2005/06 and lowest EPS is Rs.131.92 during the period of the study 2007/08. An average EPS of the bank is Rs.152.36. The S.D is 16.51 and the fluctuation is 10.84% of the EPS during this study period, which shows by the C.V. of the Bank.

Everest Bank Limited (EBL), the highest EPS of the bank is Rs.91.82 during the period of study 2007/08 and lowest EPS is Rs.45.60 during the period of the study 2003/04. An average EPS of the bank is Rs.66.56. The S.D is 16.64 and the fluctuation is 25% of the EPS during this study period, which shows by the C.V. of the Bank.

The Average EPS of Nepal Industrial and Commercial Bank Limited (NIC) during the period of study is Rs.20.45. The highest EPS of the bank is Rs.25.75 during the period of study 2007/08 and lowest EPS is Rs.13.65 during the period of the study 2003/04. The S.D is 4.73 and the fluctuation is 23.13% of the EPS during this study period, which shows by the C.V. of the Bank.

The average EPS of Bank of Kathmandu (BOK) is Rs.34.58. The highest EPS of the bank is Rs.41.89 during the period of 2007/08 and lowest EPS of the bank is Rs.27.13 during the period of 2004/05. The S.D of the bank is 23.89 and C.V is 69.09%. Therefore, C.V indicates that there is 69.09% fluctuation in the EPS of bank during the period of study, which is comparatively high among the sample banks.

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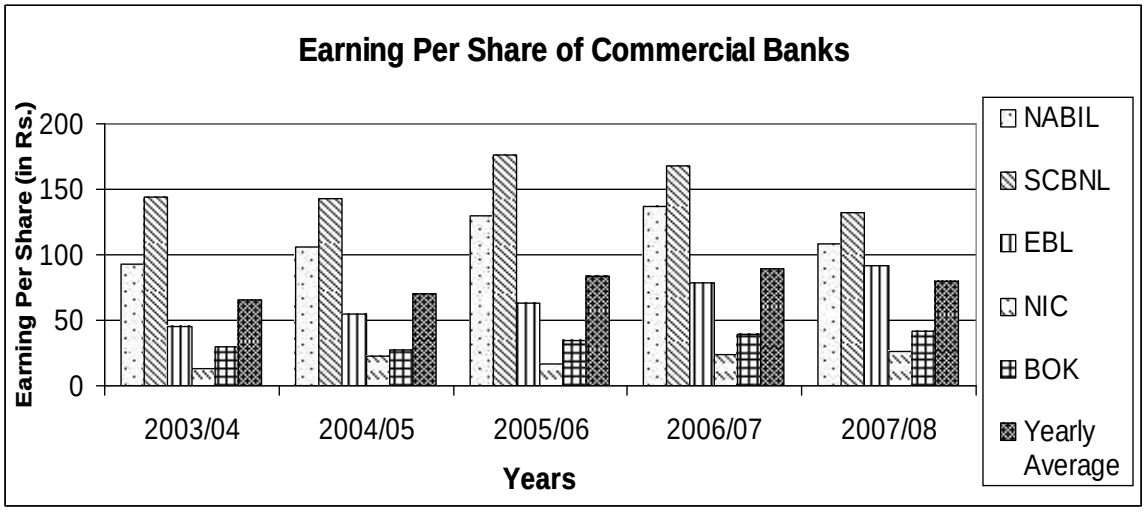
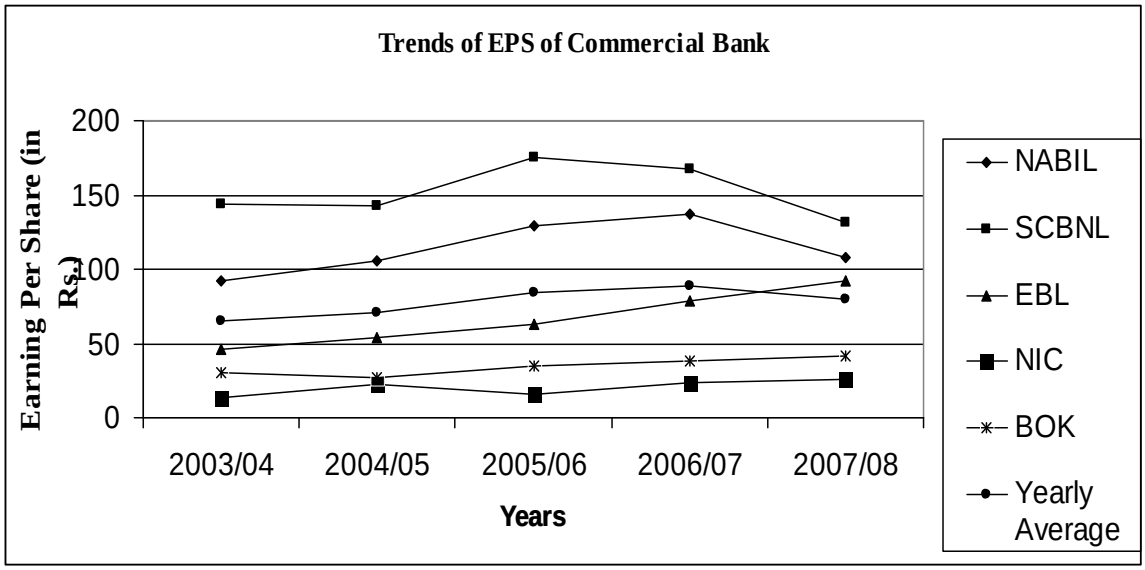
Figure 4.4 (A)



From the above analysis, it can be seen that the average EPS of SCBNL is the highest and NIC is the lowest under the period of study. SCBNL has highest EPS and NIC has lowest EPS among all sample banks. The C.V of BOK is higher among the sample bank, and SCBNL has lowest C.V among the sample banks. It indicates that SCBNL has the most consistent EPS among all sample banks during the period of the study.

Figure 4.4 (B)



4.1.5 Analysis of Price Earning Ratio (P/E ratio)

Price-earning ratio is also called the earnings multiplier; Price- earning ratio is 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. The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm's future. This ratio is computed by dividing earning per share to market price per share. The P/E ratio of the bank under study is tabulated as follows:

Table 4.5

Price Earning Ratio (P/E ratio)

Year / Banks	2003/04	2004/05	2005/06	2006/07	2007/08	Ave.	S.D	C.V (%)
NABIL	10.80	14.27	17.34	36.84	48.70	25.59	14.65	57.25
SCBNL	12.16	16.38	21.47	35.25	51.77	27.41	14.45	52.72
EBL	14.90	16.00	22.00	31.00	34.00	23.58	7.73	32.78
NIC	15.97	16.09	30.81	39.56	49.86	30.46	13.23	43.43
BOK	7.20	14.29	19.06	31.61	39.21	22.27	11.62	52.18
Yearly Average	12.21	15.41	22.14	34.85	44.71			
Composite bank Ave.						25.89		

(Source: Annual reports of commercial banks.)

The average P/E ratio of NABIL bank, during the period of the study is 25.59. It is with in the ranging between 10.80 to 48.70. The standard deviation of P/E ratio is 14.65 whereas the coefficient of variation of 57.25%, which indicates the bank, has the moderate fluctuation in P/E Ratio the period of the study.

Standard Chartered Bank Nepal Limited (SCBNL) has the average P/E ratio is 27.41 it is ranging 12.16 to 51.77 and the standard deviation is 14.45 during the period of the study. The coefficient of variation (C.V) of SCBNL is 52.72%,

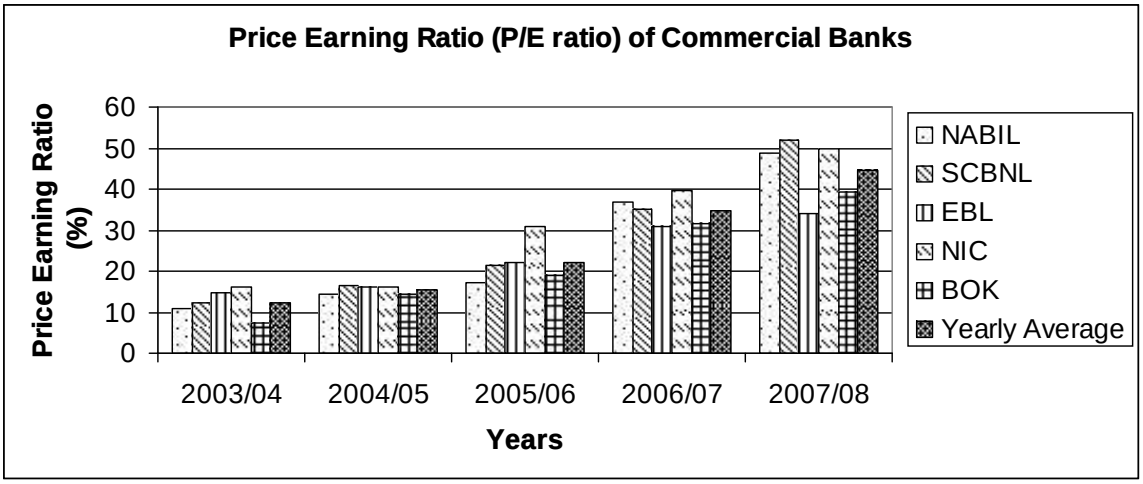
which indicates that the bank has the moderate fluctuation of P/E ratio under study during the period.

Everest Bank Ltd. (EBL) has an average P/E ratio is 23.58 ranging between 14.90 and 34. The standard deviation of P/E ratio is 7.73 and the fluctuation (C.V) is 32.78% in the P/E ratio is seen during this period it indicates that the bank has the lowest fluctuation of P/E ratio among the sample banks.

Nepal Industrial and Commercial Bank Limited (NIC) has an average P/E ratio is 30.46 it is ranging 15.97 to 49.86 and the standard deviation of 13.23. The coefficient of variation of NIC is 43.43% in the P/E ratio seen during this period of the study, which indicates that the bank has the moderate fluctuation of P/E ratio.

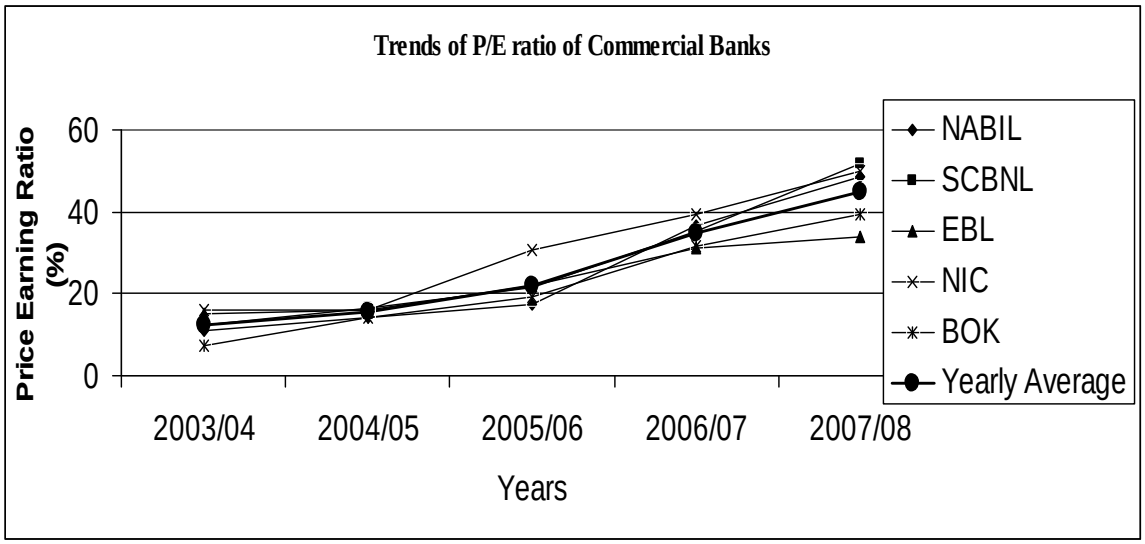
Bank of Kathmandu Limited (BOK) has an average P/E ratio is 22.27 it is ranging 7.20 to 39.21. The S.D. is 11.62 and the coefficient of variation (C.V) is 52.18%. This C.V. indicates that the P/E ratio of BOK is moderate fluctuating during the period of the study. It can better present the comparative P/E ratio of the banks with the help of bar diagram and graph as follows:

Figure 4.5 (A)



From the above calculations, the composite bank average is 25.89, NIC has the highest average P/E ratio, and BOK has the lowest. The C.V. indicates that among the banks under the study period, EBL has the highest consistency in P/E Ratio whereas the P/E Ratio of NABIL is highly fluctuating.

Figure 4.5 (B)



4.1.6 Analysis of Market Price of Share (MPS):

MPS is that value of stock, which can be obtained by a firm from the market. Market values share is one of the variables, which is affected by the dividend per Share and earning per share of the firm. If the earnings per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing its earning power will be greater than cost of capital. For such firms market value of share will be higher than the book value. If the firm's earning capacity is lower than the cost of capital the MPS will be lower than the book value.

Table 4.6

Market Price per Share (MPS) of Commercial Banks

Bank/year	2003/04	2004/05	2005/06	2006/07	2007/08	Ave.	S.D	C.V (%)
NABIL	1000	1505	2240	5050	5275	3014	1799.43	59.70
SCBNL	1745	2345	3775	5900	6830	4119	1970.93	47.85
EBL	680	870	1379	2430	3132	1698.20	939.77	55.34
NIC	218	366	496	950	1284	662.80	395.51	59.67
BOK	295	430	850	1375	2350	1060	746.93	70.47
Yearly Average	787.6	1103.2	1748	3141	3774.2			
Composite bank Ave.						2110.8		

(Source: Annual reports of commercial banks.)

The MPS of NABIL range between Rs.1000 to Rs. 5275 during the period of study. An average MPS of NABIL is Rs 3014 with S.D of Rs 1799.43 and the CV of 59.70%, which is the moderate among the banks under the periods of study.

The average MPS of SCBNL within the period of study is Rs. 4119 ranging between Rs 1745 to Rs 6830. The S.D is 1970.93 and the CV is 47.85% during the period of study, which shows that there is moderate fluctuation in the MPS of SCBNL.

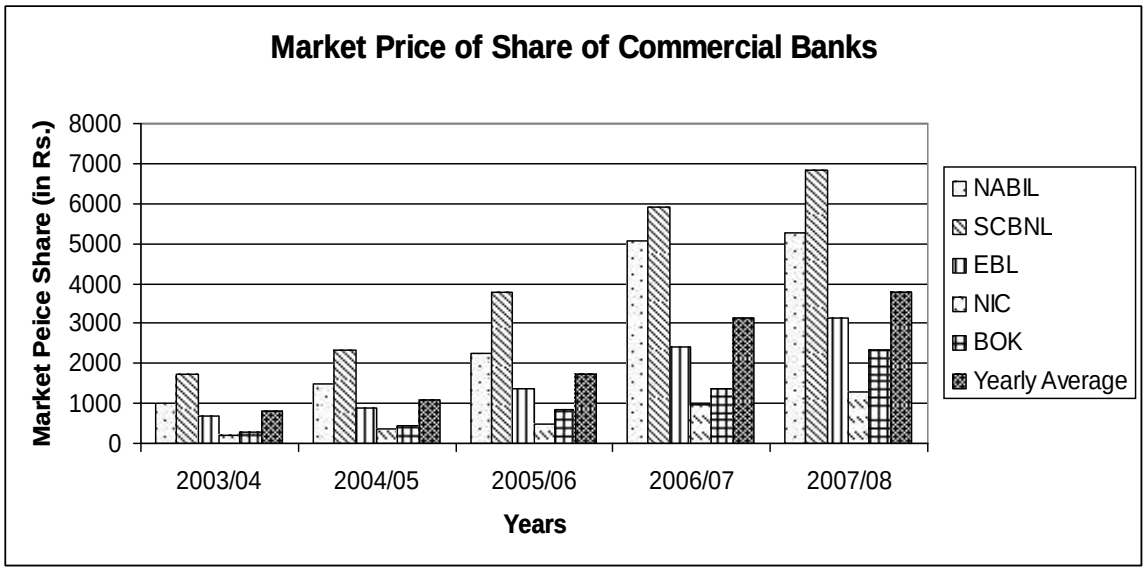
During the period of study, EBL has an average of MPS of Rs 1698 with S.D. of 939.77. The CV shows that there is a fluctuation of 55.34% MPS of EBL during

the period of study, which is moderate. The highest and lowest MPS of the EBL are Rs 3132 and Rs. 680 respectively.

The average MPS of NIC is Rs.662.80 with a S.D. of 395.51 and CV of 59.67% during the period of study. The highest and lowest MPS of NIC is Rs.1284 and Rs. 218 respectively. The CV indicates moderate fluctuation in the MPS of the Bank i.e. 59.67% during the period of the study.

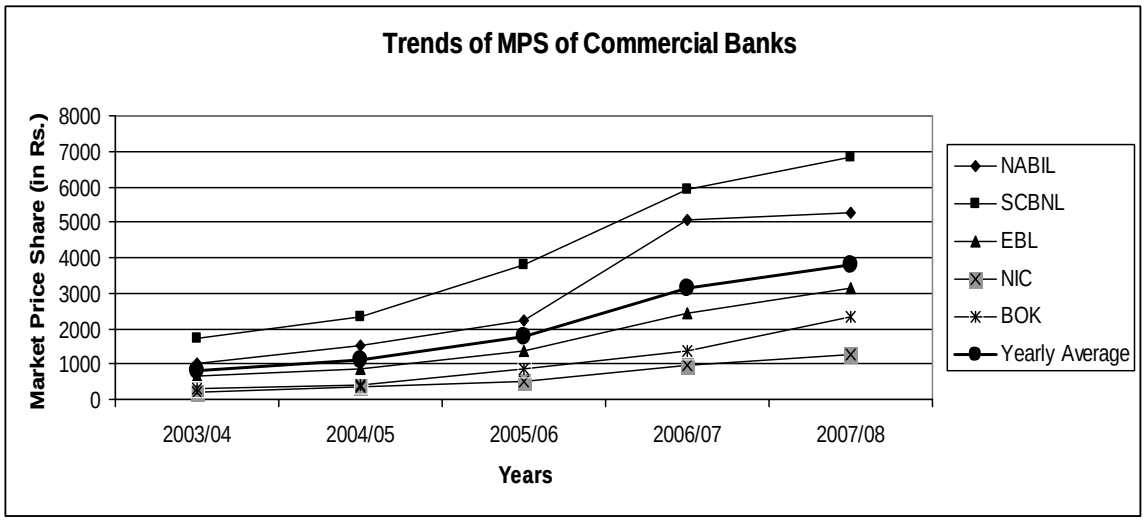
The average of MPS of BOK is Rs.1060 with S.D. is 746.93 and CV is 70.47% during this period of study. The lowest and highest MPS of BOK are Rs.295 to Rs.2350 respectively. The CV indicates that highest fluctuation of MPS among the sample commercial banks. It can better present the comparative MPS of the banks with the help of bar diagram and graph as follows:

Figure 4.6 (A)



From the above data and calculation, it can be seen that the average MPS of SCBNL is the highest and NIC is lowest among the sample banks. The S.D. of SCBNL is the highest and lowest NIC is also lowest. The CV of SCBNL is lowest and BOK is highest than other sample banks where as the MPS of SCBNL in the year 2007/08 Rs. 6830. This is highest among all sample banks during the period of the study.

Figure 4.6 (B)



4.2 Impact of Dividend on Market price of share

Analysis and interpretation of dividend payment practices of the study of the selected companies have been presented in the first chapter. The purpose of the study is not complete yet. The main important analysis is effect of dividend on valuation of share, which is still to be carried out. Therefore, this part of the study is purely devoted in this regard. Based on these sample sizes it is hoped that the study will adequate light on the impact of dividend on stock price.

4.2.1 Impact of cash Dividend on Market price of share

To assess the impact of dividend on market price of stock the simple regression and correlation analysis has been done. The result of the regression analysis has been presented in the following table:

Regression result of market price per share on dividend per share

Table: 4.7

Market Price per Share on Dividend per Share

Banks	a	b	r^2	S.E.E	S_b	t
NABIL	391.24	34.51	0.0787	2229.75	68.17	0.5062
SCBNL	11937.72	-75.18	0.6169	1574.86	34.20	2.20
EBL	1411.25	19.13	0.0331	1192.97	59.65	0.3207
NIC	738.17	-29.79	0.080	489.59	58.58	0.5111
BOK	-303.56	64.87	0.9241	256.06	10.71	6.06
Total/pooled bank ave.	4866.74	-63.05	0.0494	1459.85	159.68	0.3949

(Source: Appendix- C)

The result presented in table clearly shows that the coefficient of dividend is positive in NABIL, EBL and BOK but SCBNL, NIC and total/pooled bank average show negative coefficient. In case of NABIL, the coefficient of dividend is 34.51, which indicate that one-rupee increase in DPS leads on the average Rs 34.51 increase in stock price. In case of BOK, the coefficient of dividend is 64.87, which indicate that one-rupee increase in DPS leads on the average Rs 64.87

increase in stock price. Similarly, EBL the coefficient of dividend is19.13, which indicates that one-rupee increase in DPS, leads on the average Rs 19.13 increase in stock price. Likewise, in case of SCBNL and NIC coefficient of dividend is -75.18 and -29.79 respectively. The coefficient of DPS of SCBNL and NIC indicates that one-rupee increase in DPS will bring Rs 75.18 and Rs 29.79 decrease in MPS of both banks respectively. These banks have to increase the retention ratio in order to increase net worth by paying low dividend. The coefficient of total bank is -63.05, which indicate that one-rupee increase in DPS will bring Rs 65.05 decrease in MPS.

The test of "t" statistics concluded the result is not significant except in NABIL bank in 5% level of significance since the value of "t" calculated is smaller than tabulated value.

The value of r^2 is average in total banks average. The SCBNL and BOK have noted to be 0.6169 and 0.9241. It shows satisfactory level of explanation for the model as a whole on the other hand, the values of r^2 are 0.0787, 0.0331 0.080 0.0494 for NABIL EBL NIC and total bank average. These values of r^2 indicate 7.87%, 3.31%, 8% and 4.94% of variation in the stock price of NABIL, EBL NIC, and total bank average have been explained by the regression model.

As regard the regression model: Y = a +b.X and the above explanation, the conclusion drawn is that the coefficient of dividend is very high in SCBNL as compared to other banks. This indicates that there is positive relationship between dividend and stock price. Dividend has a predominant influence on stock price in SCBNL as compared to others.

4.2.2 Dividend payout ratio and Valuation of share.

Regression result of market price per share on dividend payout ratio.

Regression equation: Y = a +bX

Table 4.8

Market Price per Share on Dividend Payout Ratio

Banks	a	b	r^2	S.E.E	S_b	t
NABIL	9924.31	-104.48	0.1202	2178.47	163.14	0.6404
SCBNL	13018.70	-129.79	0.7119	1364.35	47.62	2073
EBL	1992.05	-12.43	0.0473	1184.23	32.22	0.3858
NIC	741.55	-7	0.0849	488.46	13.29	0.5267
BOK	2377.62	-57.04	0.9469	221.32	7.77	7.34
Total/pooled bank ave.	8488.78	-165.49	0.9910	5416.35	347.15	0.4767

(Source: Appendix- B)

The result presented in above table shows that a coefficient of dividend ratio is negative of all sample banks. NABIL, SCBNL EBL, NIC, BOK and bank pooled average has negative coefficient of DPR i.e. -104.48, -129.79, -12.43, -7, -57.04 and -165.49 respectively which indicates that 1% increase in DPR leads to Rs. 104.48 , Rs.129.79, Rs.12.43, Rs. 7, Rs. 57.04 and Rs 165.49 decrease in stock price.

The value of r^2 is very low of EBL and NIC. This value of r^2 indicates that very low satisfactory level of explained for the model as a whole the value of r^2 in NABIL, SCBNL and BOK is 0.1202, 0.7119 and 0.9469 respectively which indicates that 12.02%, 71.19%, and 94.69% of variation in the stock has been explained by the regression model. The test of "t" statistics concluded the result is not significant difference at 5% level of significance since the value of "t" calculated is smaller than tabulated value.

As regard the regression model: Y = a +b.X and the above explanation, the conclusion drawn is that the coefficient of DPR is negative in total bank as compared to other banks. The effect of DPR on market price of stock has been found negative in all sample banks.

4.2.3 Impact of Market price of share on Earning per share and Dividend per share

Now, the researcher is going to assess the impact of EPS and DPS on market price of share. For this purpose multiple regression and coefficient of determination analysis has been used. The result of regression analysis has been presented in table.

Multiple Regression and Coefficient of Determination Analysis of MPS on EPS and DPS.

Regression equation: $X_{1} = a_1 + b_1X_2 + b_2X_3$

Table 4.9

Market price of share on Earning per share and Dividend per share

a_1	b_1	b_2	$S_{1.23}$	$R^2_{1.23}$
-586.45	123.45	-157.74	807.95	1.08

(Source: Appendix- E & F)

The above table shows the output of multiple regression and coefficient of determination analysis between MPS (X_1) and other independent variables EPS (X_2) and DPS (X_3) of the banks pooled average. The regression constant a_1 is -586.45 indicate that when EPS and DPS are equal to zero then MPS of the observed banks would be Rs -586.45. The regression coefficient b_1 for banks is 123.45 it indicates that one-rupee increase in EPS cause Rs 123.45 increase in MPS. Another regression coefficient b_2 is -157.74 which indicates that unitary increment in DPS causes Rs 157.74 decrease in MPS. Thus, the dependent

variable EPS has positive impact on MPS whereas another independent variable DPS has negative impact on MPS of observed banks in average. The coefficient of multiple determinations $R^2_{1.23}$ is 1.08; it concludes that 108% variation in MPS is explained by variation in EPS and DPS.

4.2.4 Impact of Market price of share on Dividend payout Ratio and Dividend per share

Now assessing impact of DPR and DPS on market price of share. For this purpose multiple regression and coefficient of determination analysis has been used. The result of regression and coefficient of multiple determination analysis has been presented in following table.

Multiple regression and coefficient of multiple determination analysis of MPS on DPR and DPS.

Regression equation: $X_1 = a_1 + b_1X_2 + b_2X_3$

Table 4.10

Market price of share on Dividend payout Ratio and Dividend per share

a_1	b_1	b_2	$S_{1.23}$	$R^2_{1.23}$
8013.24	-167.45	12.60	152.57	0.9931

(Source: Appendix- H & I)

The above table shows the output of multiple regression and coefficient of determination analysis between MPS (X_1) and other independent variables DPR (X_2) and DPS (X_3) of the banks pooled average. The table shows the output of multiple regression analysis between MPS (X_1) and independent variables DPR (X_2) and DPS (X_3) of the pooled bank average. The regression constant a_1 is 8013.24 that indicate when DPR and DPS equal to zero then MPS of the observed banks would be Rs 8013.24. The regression coefficient b_1 for observed banks is -167.45; it indicates one percent increase in DPR causes Rs 167.45 decrease in MPS. Another regression coefficient b_2 is 12.60, which indicates that unitary

increment in DPS causes Rs 12.60 increase in MPS. The independent variable DPR and DPS has negative and positive impact on MPS of the banks in average. As coefficient of determination $R^2_{1.23}$ is 0.9931 indicates 0.9931 variation in MPS is explained by variation in DPR and DPS.

4.3 Analysis of relationship of dividend with other key variables

In this section, an attempt has been made to analyze the relationship between DPS with other key variables. The analysis includes

a. Relationship between DPS and EPS.

b. Relationship between DPR and net profit.

4.3.1 DPS and EPS

The relationship between DPS and EPS has been presented in the table as follows:

Table 4.11

Correlation between DPS and EPS

Banks	r	r^2	P.E	Sig./ Insig.
NABIL	0.8972	0.8050	0.0588	Sig.
SCBNL	0.3186	0.1015	0.2710	Insig.
EBL	0.1480	0.0219	0.2950	Insig.
NIC	0.3382	0.1144	0.2672	Insig.
BOK	0.9393	0.8823	0.0355	Sig.
Total / Pooled bank ave.	0.3584	0.1285	0.2629	Insig.

(Source: Appendix- A (i))

From the table gives relationship between DPS and EPS. From the analysis of result, the relationship between DPS and EPS has been found positive in all sample banks and pooled bank average. It implies that EPS affects the DPS. The coefficient of determination r^2 between DPS and EPS of NABIL is 0.8050, which

means that the variation in independent variable (EPS) explains 80.50% of variation in DPS. Likewise, the value of r^2 in SCBNL is 0.1015 and r^2 in EBL is 0.0219, r^2 in NIC is 0.1144 and r^2 in BOK is 0.8823, which means that 10.15%, 2.19%, 11.44% and 88.23% of variation in EPS explains by DPS. The r^2 between DPS and EPS of pooled bank average is 0.1285, which means that variation in EPS explains only 12.85% of the variation in DPS. The significance of relationship between EPS and DPS is measured by calculating Probable Error (P.E) of correlation coefficient. From the above, we can conclude that NABIL and BOK are significant but other sample banks and pooled bank average are insignificant.

Regression equation of DPS on EPS

Regression equation: Y = a +b.X

Table 4.12

Regression Line of DPS on EPS

Banks	a	b	r^2	S.E.E	S_b	t
NABIL	-16.3421	0.8062	0.8050	8.34	0.2391	3.519
SCBNL	43.3302	0.3982	0.1015	25.1926	0.7439	5.3529
EBL	9.7085	0.0795	0.0219	11.4196	0.3064	1.3041
NIC	-2.98	0.2695	0.1144	4.56	0.4324	0.6233
BOK	-15.67	0.8961	0.8823	4.92	0.1896	4.73
Total/pooled bank ave.	30.75	0.1674	0.1285	4.57	0.2335	0.7169

(Source: Appendix-A (ii))

The result presented in the table shows that coefficient of EPS in all banks is positive. In case of NABIL, the coefficient of EPS is 0.8062, which indicates that one-rupee increase in EPS lead to Rs 0.8062 rupees increase in DPS. Likewise, the

coefficient of EPS of SCBNL is 0.3982, which indicates that one-rupee increase in EPS leads to Rs 0.3982 rupees increase in DPS. The coefficient of EPS of EBL is 0.0795, which indicates that one-rupee increase in EPS leads to Rs 0.0795 rupees increase in DPS. The coefficient of EPS of NIC is 0.2695, which indicates that one-rupee increase in EPS leads to Rs 0.2695 rupees increase in DPS. The coefficient of EPS of BOK is 0.8961, which indicates that one-rupee increase in EPS leads to Rs 0.8961 rupees increase in DPS. The coefficient of EPS of total bank is 0.1674, which means one-rupee increase in EPS leads to Rs 0.1674 increase in DPS.

T-value for the regression modal is 3.519, 5.3529, 1.3041, 0.6233, 4.73 and 0.7169 for NABIL, SCBNL, EBL, NIC, BOK and total bank average. It shows that the result of EBL, NIC and pooled bank average have no significant difference whereas the "t" value of NABIL, SCBNL and BOK are greater than tabulated value so there is significant difference at 5% level of significance.

4.3.2 Relationship between DPR and Net Profit

The relationship between Dividend payout Ratio and Net Profit has been presented in table.

Table 4.13

Correlation between DPR and Net Profit

Banks	r	r^2	P.E	Sig./ Insig.
NABIL	0.4234	0.1793	0.2475	Insig.
SCBNL	-0.037	0.0014	0.3012	Insig.
EBL	-0.1312	0.0172	0.2964	Insig.
NIC	0.2982	0.0889	0.2749	Insig.
BOK	-0.8823	0.7785	0.0668	Insig.
Total / Pooled bank ave.	-0.9063	0.8214	0.0539	Insig.

(Source: Appendix- D (i))

Form the analysis of correlation coefficient, it is seen that relationship between DPR and net profit is positive except NABIL and NIC. It means increase or decrease in Net Profit does not have positive relationship with DPR.

The value of r^2 of NABIL, SCBNL, EBL, NIC, BOK and Total pooled banks Average is 0.1793, 0.0014, 0.0172, 0.0889, 0.7785 and 0.8214 respectively which means that 17.93%, 0.14%, 1.72%, 8.89%, 77.85% and 82.14% is explained by independent variable (DPR) due to change in value of dependent variable Net Profit for NIC and highest is explained in NABIL.

As far as significance or insignificant relationship is concerned, it is found insignificant for all.

Regression result of Dividend Payout Ratio (DPR) on Net Profit (NP)

Regression equation: Y = a +b.X

Table 4.14

Regression Line of DPR on NP

Banks	a	b	r^2	S.E.E	S_b	t
NABIL	23.41	0.1402	0.1793	2.31	0.1730	0.81
SCBNL	35.13	-0.0033	0.0014	1.143	0.050	0.066
EBL	21.61	-0.0159	0.0172	2.56	0.096	0.2284
NIC	35.23	0.1025	0.0889	39.04	1.0621	0.0965
BOK	43.26	-0.3758	0.7785	28.97	1.0167	0.3696
Total/pooled bank ave.	38.79	-0.26	0.8214	25.10	1.61	0.1615

(Source: Appendix- D (ii))

The result presented in the table shows that coefficient of NP is negative except NABIL and NIC bank. In case of NABIL, the coefficient of NP is 0.1402, which indicates that 1% increase in NP leads to Rs 0.1402 increase in DPR. The "t" value for NABIL is 0.81. The constant "a" is 23.41, which mean that if NP is zero then DPR is 23.41%.

In case of SCBNL, the coefficient of NP is -0.0033, which indicates that 1% increase in NP leads to Rs 0.0033 decrease in DPR. The "t" value for SCBNL is 0.066. The constant "a" is 35.13, which mean that if NP is zero then DPR is 35.13%.

In case of EBL, the coefficient of NP is -0.0159, which indicates that 1% increase in NP leads to Rs 0.0159 decrease in DPR. The "t" value for EBL is 0.2284. The constant "a" is 21.61, which mean that if NP is zero then DPR is 21.61%.

Similarly, in case of NIC, the coefficient of NP is 0.1025, which indicates that 1% increase in NP leads to Rs 0.1025 increase in DPR. The "t" value for NIC is 0.0965. The constant "a" is 35.23, which mean that if NP is zero then DPR is 35.23%.

Similarly, in case of BOK and pooled Bank Average coefficient of NP is -0.3758 and -0.26 respectively indicates that 1% increase in NP leads to Rs 0.3758 and Rs 0.26 decrease in DPR. The "t" value is also not significant at 5% level of level of significance. The constant "a" is 43.26 and 38.79 respectively.

4.4 Test of hypothesis

The part of the study is concerned with test of the relationship between dependent and independent variable whether the independent variables have statistically significant relationship with dependent variable or not. The test is based on the pooled average for the five years of three commercial banks.

Hypothesis test-I

In this test, it has been tried to find whether the independent variable EPS (X_2) and DPS (X_3) have statistically significant relationship with dependent variable MPS (X_1) or not.

Null Hypothesis (H_0): $b_1 = b_2 = 0$ (the regression equation of X_1 on X_2 and X_3 is not significant. In other words there is no relationship between dependent variable X_1 and two independent variables X_2 and X_3)

Alternative Hypothesis (H_1): $b_1 \neq b_2 \neq 0$ (i.e. at least one $b_1 \neq 0$), the regression equation of X_1 on X_2 and X_3 is significant. In other words there a relationship between dependent variable X_1 and two independent variables X_2 and X_3)

Test statistics: Under H_0, test statistics is,

$$F\ \text{Z}ratio\ \text{X}\frac{Mean\ sum\ of\ square\ between\ samples}{Mean\ sum\ of\ square\ within\ sample}$$

Table 4.15

One-way ANOVA

Source of Variation	Sum of square	D.F	Mean sum of square	F- ratio
Between Sample	14012520	3-1 = 2	$=\frac{14012520}{2}$ = 7006260	$=\frac{7006260}{560534.84}$ = 12.50
Within sample	6726418.06	15-3 = 12	$=\frac{6726418.06}{12}$ = 560534.84	
Total	207388938.06	15-1 = 14		

(Source: Appendix- G)

Critical value: The tabulated value of F at 5% level of significance for (2, 12) d.f is 3.89.

Decision: Since calculated value of F is greater than tabulated value F, the Null hypothesis (H_0) is rejected and alternative hypothesis (H_1) accepted. Therefore, we conclude that there is significant difference. In other words there a linear relationship between dependent variable X_1 (MPS) and two independent variables X_2 (EPS) and X_3 (DPS).

Hypothesis test-II

In this test, it has been tried to find whether the independent variable EPS (X_2) and DPR (X_3) have statistically significant relationship with dependent variable MPS (X_1) or not.

Null Hypothesis (H_0): $b_1 = b_2 = 0$ (the regression equation of X_1 on X_2 and X_3 is not significant. In other words there is no relationship between dependent variable X_1 and two independent variables X_2 and X_3)

Alternative Hypothesis (H_1): $b_1 \neq b_2 \neq 0$ (i.e. at least one $b_1 \neq 0$), the regression equation of X_1 on X_2 and X_3 is significant. In other words there a relationship between dependent variable X_1 and two independent variables X_2 and X_3)

Test statistics: Under H_0, test statistics is,

$$F\ Z ratio\ X \frac{Mean\ sum\ of\ square\ between\ samples}{Mean\ sum\ of\ square\ within\ sample}$$

Table 4.16

One-way ANOVA

Source of Variation	Sum of square	D.F	Mean sum of square	F- ratio
Between Sample	14278596.03	3-1 = 2	$=\frac{14278596.03}{2}$ = 7139298.02	$=\frac{7139298.02}{560523.20}$ = 12.74
Within sample	6726278.45	15-3 = 12	$=\frac{6726278.45}{12}$ = 560523.20	
Total	21004874.48	15-1 = 14		

(Source: Appendix- J)

Critical value: the tabulated value of F at 5% level of significance for (2, 12) d.f is 3.89.

Decision: Since calculated value of F is greater than tabulated value of F, the Null hypothesis (H_0) is rejected and alternative hypothesis (H_1) accepted. Therefore, we conclude that there is significant difference. In other words there a linear relationship between dependent variable X_1 (MPS) and two independent variables X_2 (DPR) and X_3 (DPS).

4.5 Major Findings of the study

The major finding of the study are summarize in numeric order:

- DPS of the sample banks in average shows that these are no regularity in dividend payment. SCBNL has highest average DPS i.e. Rs. 104 and NIC has lowest DPS i.e. Rs. 2.53 among sample banks.

- The average highest DPR is 68.57% of SCBNL and lowest is 11.25% of NIC. The analysis of CV of DPR indicates that SCBNL has least fluctuation 17.02% in DPR and NIC has most fluctuation i.e. 146.13% among the sample banks.
- The average DY of the banks under study indicates that average DY is quite low ranging between 0.61 to 3.61%. Among the sample banks, NABIL has highest DY i.e. 3.61% and NIC has lowest DY i.e. 0.61%. Besides that DY being low, there is high fluctuation in the DY ranging from 53.06% to 173.77%.
- The average EPS of the banks under study shows a positive result. However, the C.V indicates there is no consistency of EPS. The C.V of EPS range in between 10.84% to 69.09%. Among the sample banks under SCBNL has the highest average EPS with low fluctuation and NIC has lowest EPS.
- The study of impact of cash dividend on market price of share revealed that DPS has positive impact on MPS in NABIL SCBNL, and EBL. But negative impact has been found in BOK, NIC and bank pooled average, which indicates the MPS of NIC and BOK, is influenced by any other from regression analysis it can be concluded that a change in DPS the share prices differently in different banks.
- With respect to impact of DPR on valuation of share. Negative impact has found of sample commercial banks DPR affects stock price differently.
- The multiple regression analysis of MPS on EPS and DPS, it has been found that there is positive relation between MPS and EPS, but negative between MPS and DPS.
- The multiple regression analysis of MPS on DPR and DPS, it has been found that there is negative relation between MPS and DPR, but positive between MPS and DPS.

- The DPS and EPS are positively correlated in all sample banks which means higher the EPS higher will be DPS. Regression analysis show that 1% increases in EPS leads to 0.8062, 0.3982, 0.0795, 0.2695, 0.8961and 0.1674 increase in DPS of NABIL, SCBNL, EBL. NIC, BOK and average bank pooled average of sample banks.
- A positive relationship is found between DPR and net profit of NABIL and NIC but other sample banks there is negative relationship between DPR and NP. However, we can say with confidence that it is statically insignificant as it is its coefficient is less than 6.P.E(r). It is found negatively correlated with DPR and Net Profit.
- From the hypothesis test, it has been found that the regression equation of dependent variable MPS on two independent variables EPS and DPS is significant like wise, two-regression equation of dependent variable MPS on two independent variables DPR and DPS is also found significant.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

Dividend policy is one of the major decisions of financial management. The dividend policy decision affects on the operation and prosperity of the organization. It influence the two decision of the organization i.e. capital decision and investment decisions. An investor expects two types of return that is capital gain and dividend by investing in equity capital. So payment of dividend to shareholders is an effective way to attract new investors and maintain present investors. It is important to have clearly defined and effectively managed dividend policy to fulfill the shareholders expectations and corporate growth. (Thapa and Gautam, 2008:336).

Dividend is an important tool to attract the new investors. Beside this dividend paying ability reflect the financial position of the organization in the market. Due to the division of earning between dividend payout and retention ratio the market price of the share may also reflected so, it is the crucial decision of the organization. In Nepalese environments after government adopt liberalization and privatization policy, Dividend policy is taking its path, slowly. Every Investor must have knowledge of dividend policy. So they can make better decision before they invest. Only those company pay dividend, which are in profit.

Dividends are payments made to shareholders from a firm's earnings in return to their investment. Thus, dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained or reinvest in the firm. Dividend payment to shareholder is taken as best in such a condition because shareholder have investment opportunities elsewhere. In the changed context of encouraging secondary market, it is time to study influences of other factors on dividend and application of dividend on market price per shares. The study has tried to cover some such factors. However, it is not enough due to some limitations.

This paper attempts to analyze the dividend practices of commercial banks. The study is based on secondary data for a period of 2003/04 to 2007/08. To analyze the dividend payment practices of banks, different financial ratios have been calculated and interpreted. Taking in the mind for more extensive analysis, company wise analysis has also been made.

In order to assess the impact of dividend on MPS, available information from different sectors were reviewed and analyzed. Simple and multiple regression analysis have been done to make the research more reliable. At last, testing of hypothesis has been done.

It is found from the study that bank are paying dividend but there is no consistency in dividend distribution. The research shows that none of the banks have well defined and appropriate dividend policy. They do not seem to follow the optimum dividend policy of paying regular dividend as per the shareholders expectation. It might cause uncertainty among shareholders. A change in dividend per share and payout ratio affects the share prices differently in different banks. The relationship between DPS with EPS and net profit are positive in all banks.

In Nepal, only few listed companies have paying regular dividend to their shareholders. Further companies have not been following stable dividend

policy. On the other hand, the dividend payout ratio of listed companies in Nepal has not been able to distribute fair dividends. The theoretical statement of this study is to study the dividend practices of sample bank therefore, it is concluded that more or less the dividend policy depends on the earning per share of a company: the earning per share and dividend per share having the positive relation may also impact on market price of share. For this argument, there were two multiple regression formed.

The first multiple regression was formed to assess the impact of EPS and DPS on market price of share. It concludes the fact that earning per share has positive impact on MPS where dividend per share has negative impact on MPS. The second multiple regression was formed to assess the impact of DPR and DPS on MPS. From the analysis, it is found that the DPR and DPS have negative and positive impact on MPS of the observed banks in average respectively. From the regression analysis it can be concluded that a change in dividend per share affects the share prices differently in different banks.

The market price of share is affected by the financial position and the dividend paid by the firms. In this regards the MPS of the sample banks is seem to be fluctuated. It denoted Nepalese investors are not treated fairly. The lack of financial knowledge and the market inefficiency has affected the market price of the share in all the sample banks.

Paying dividend to shareholders is an effective way to lure new investors to invest in shares. Due to the division of earnings of company (between dividend payout and retention of earnings), its effect on the market prices of share is a crucial question. It is therefore, necessary that wise policy should be maintained to balance between shareholders interest with that of corporate growth from internally generated funds. Since, shareholders have investment opportunities to employ of investment opportunities could not be used due to lack of investment opportunities should be better paid as dividends. Therefore,

in conclusion, it can be said that the dividend policy should be optimal which balances the opposing forces and maximize stock price.

5.2 Conclusion

In this section, the gaps perceived in this study are presented as conclusions. The issues related to dividend and other relevant factors found while analyzing the variables are also presented here. The study was unable to find exact dividend policy for any one of the five commercial banks studied and basically dividend payout was decide by the board of directors on a year to year basis. This dividend payout decision is probably base on the financial performance of the company in the previous year. Because of lack of dividend policies in any of the companies, the results of the analysis show some very strange behaviors in the financial performance indicate of the companies studied. The analysis performed on the financial data of the five commercial banks chosen has failed to establish a concrete relation between dividends polices and practices in Nepal. There appear to be slight general trends but no set of rules apply to all the companies. Moreover, there was a few surprising results that seemed to defy economic logic. Then, possible causes to perceive this gap will be scrutinized as far as possible. By analyzing the financial and statistical indicators of all the five commercial banks, the following conclusions have been drawn regarding the prevalent dividend payout practices of the public listed companies of Nepal.

Dividend practices of the sample banks are neither stable, nor constantly growing; haphazard way of distribution in growing trend is observed. These banks follow no specific dividend payment strategy. Payment of cash and stock dividend are made without wise managerial decision. There are no legal rules those binding companies to pay dividend when they are running at profit. Not only the companies do not have any clear policy towards dividend decision but also there is no provision in company act. There is lack of rules and regulations that bind companies to pay dividend every year. Not only the companies do not have dividend policy but also the government does not have any clear policy

towards dividend. Dividend payout ratio does not show any stability and co-ordination with other variables. These banks do not have any strategic dividend policy. There seems instability and consistency in dividend payment by the banks. Every year EPS and MPS seem highly fluctuating. The CV of EPS has ranged from 10.84% to 69.09% percent. Similarly, market prices per share are also fluctuating. These short of fluctuation cause no faith from public towards the companies. Shareholders in Nepal are not conscious. Taking the advantage of unconscious shareholders, the company management does not show the commitment promised in prospectors while raising capital. Promoters lure investor mentioning to pay attractive dividends, when company makes profit. However, in reality, most of the companies are deviated from their statement as promised in prospectus. Government does not have any clear policies towards dividend and to improve the efficiency of the companies. The number of companies cannot earn enough profit and bureaucrats accused the cause of the efficiency to managers, which is not sound. The majority of the investors in the capital markets of Nepal are not economically sound in their judgment to invest in share market. A lot of them invest without looking at even the basic financial indicators of the companies where they are investing.

5.3 Recommendations

Considering the major findings and issues found in course of this work, some recommendations are presented below.

(a) It is necessary to enact legal rules that bind. Companies' today dividend the legal rule for the treatment of dividend is most for the smooth growth of the enterprises as well as growth of national economy. For this purpose Nepal Government, NEPSE, SEBON and other concerned parties should work together.

(b) Banks should have long term vision regarding earnings and dividend payments that helps to cope with challenging competitive situation of present

world. Various internal and external factors should be considered before taking decision.

(c) Shareholders should be given option to choose between stock dividend and cash dividend instead of declaring stock or cash arbitrary. For this dividend, deceleration should be proposed to the annual general meeting of shareholders for approval.

(d) All the firms must accept one major fact that EPS is to be considered for determining dividend amount. The analysis shows the condition of not being able to say either significant or insignificant relationship between EPS and DPS in average. It is important to consider earning rather than neglecting it while making dividend decision.

(e) The legal rules and regulation must be in favor of investors to exercise the dividend practice and to protect the shareholders rights.

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

(g) Although the payout ratio of the sample bank is fluctuating from year to year, there is no rational approach in deciding the pay out. The entire firm should analyze the internal rate of return and the cost of capital in deciding DPR, which helps to maximize the shareholder's wealth.

(h) Bank should have target rate of earning and target payout ratio that will help companies to build good image in stock market and investors will be ease on making investment decision.

(i) The government should encourage for the establishment of organization to promote and to protect activities in favor of investors. There are not any other organizations fully devoted to protect investor's interest.

(j) The primary concern of this study is to look into the dividend policies and practices existing in the relatively immature capital markets economy of Nepal and to draw attention to both the opportunities and threats regarding the current practices. Based on the results of this study has come up with recommendation to all of the major players in playground that is the share markets.

(k) Stock brokers should be aware of the performances of the companies whose shares they trade. They should be aware of the prospects of the capital markets, work for the proper growth of the capital market of the country. They should follow ethics and do not influence other. They should think about Information Centre to provide the proper information to the potential investors on investment.

(L) For the new researchers recommended that, they could be used different financial and statistical tools as well as primary and secondary data.