

CHAPTER –I

INTRODUCTION

1.1 GENERAL BACKGROUND OF THE STUDY

Dividend refers to the portion of earning made by the firm that is distributed to shareholders as return of investment in shares. Every investor invest in common stock of a bank with the expectation to get higher return and equally participate in management Therefore management cannot thing the successful operation without meeting the expectation of common shareholder. Dividend can be distributed in various forms and every organization can set their own dividend policy according to their stake holder's expectation. Numbers of dividend policy exists in current market situation and management can choose/adopt any of the policies to meet the market expectations.

Dividend is the final results of any organization and it largely depends upon the profitability of that bank. Therefore higher dividend is the factor of higher profit and efficient management we can say that the organization earning high profit can distribute high dividend as return to their shareholder and vice versa.

Generally dividend is distributed after meeting all obligations of company such as interest to depositors, operating expenses and tax etc and retaining certain portion for future expansion of as a part of their dividend policy. It is clear that no organization can pay dividend without getting profit. In other words the portion of profit distributed to shareholders after deducting the retained amount in business is known as dividend. When a company pays out a portion of its earning to shareholders in the form of a dividend, the shareholders benefit directly. If instead of paying dividends, the firm retains the funds to exploit other growth opportunities, the shareholders can expect to benefit indirectly through future increases in the price of their stock. Thus shareholder wealth can be increased through either dividends or capital gains. The policy of a company on the division of its profits between dividend and retention is known as dividend policy. All aspects and questions related to payment of dividend are contained in a dividend policy. In any company one vital question arises that how much should be distributed as dividend or how much should be retained in business. Since every firm has their own dividend policy determining the

dividends to be distributed, dividend policy is one of the most important financial decisions for any company, which affects the financial structure of a firm.

There are various factor, which affects dividend policy of firm like desire of shareholders, legal rules, liquidity position, profit rate, need of repay debt, restrictions of debt contracts, stability of earning, tax position of shareholders etc. therefore every company should consider the above factor before declaring dividend and should choose the best dividend policy which satisfy their stockholders.

So far dividend policy in context of Nepal is concerned; there is no major difference between Nepal and other country. Major exercise held by management is more or less same. In Nepal there is not well practice of preference dividend. Hayatt Regency Hotel is only organization who has raised their fund by issuing preference shares. There are lots of private limited companies who are providing dividend according to their dividend policy. Due to the small size of market we do not have big industries who manufacture goods in large scale. Besides this, we have a common practice of importing goods from abroad and sell them in the market. So, all these activities are running in small scale, they do not need to raise fund by means of common stock so they do not have any problem of dividend policy. Some large scale manufacturing organizations are providing dividend according to their earnings.

So, we can see that in manufacturing company dividend policy is less in practice. As stated above most of the goods are imported from abroad, which needs the service of bank. So, as the volume of import is increasing day by day. New banks are being opened and there is a cut throat competition between financial institutions to grasp the business. So, we can see that public limited companies are being opened and they are raising their capital by issuing common stock and naturally there is competition on dividend payouts too.

In Nepal, Dividends are paid in cash, stock and both cash and stock and capitalization of earning as an increment in paid up value of share. Dividend policy generally depends upon external environment so most of the organization in Nepal has policy to provide a costar minimum plus extra dividends depending upon earning and future expansion needs. Furthermore, it depends on NRB rules and regulations. For example NRB has just issued directives stating that paid up

capital of any bank should be 1000 million by B.S.2060 so most of the banks have began to provide stock dividend to the shareholders to increase paid up capital.

So, we can see that financial institutions are very much conscious about dividend decision and hence it is highly affected by NRB rules and regulations. So, we have a situational dividend policy in Nepal which is directed towards the long run sustainability of the firm.

1.2 FOCUS OF THE STUDY

A country's prosperity largely depends upon the economic activities of that country and the financial institutions play a vital role to smoothen the economic activities. In contest of Nepal, Commercial banks are the pioneer and market dominant in respect of trade of capital market and security instruments. In the light of this statement we can say that the successful operation of commercial banks is inevitable for the economic development of Nepal in present scenario but The current political scenario is instable and security has been the major issue of country which has compelled the lots of manufacturing company to close down there business. This is not good sign for banks because most of manufacturing concern utilize bank loan to finance their current assets as well as for their expansion project. If the situation persists the borrower would not be able to repay their loan and interest in time which obviously decrease the profitability of banks and creates problem to de clear dividend. Recent example of Nepal Bangladesh Bank can be taken as an example. Nepal Rastra Bank has taken over the management of the bank and the bank did not declare dividend since 2003.

Nowadays commercial banks have a great challenge due to adverse situation of country in the one hand they have to make profit out of adverse economic situation and in the other hand they have to secure the return of investor by providing reasonable return every year. Therefore Dividend policy has been major financial decision, which affects the value of the firm. Every rational investor does not invest in stock without knowing the dividend policy of the firm. This study is mainly focused on the dividend behavior of nine commercial banks listed in NEPSE.

In Nepalese context, most of the investors are investing in the stock without the knowledge of company's performance and policies. This is due to the lack of availability of research about these banks' performances. In this study we have tried to find out the appropriate Dividend

policy of these banks and their performances regarding the dividend payment. It is believed that this study will be useful to those investors who are interested to have knowledge about the performances of listed banks.

1.3 THE STATEMENT OF PROBLEM

The Dividend decision is a critical decision that affects the liquidity position, capital structure, growth, and value of the firm. It deals with how much to pay to shareholders from earnings. Dividend payout reduces the amount of earnings retained in the business, which affects the internal financing of the firm. It is still confusing whether Dividend payment affects the value of the firm or not.

Different financial experts have introduced the Dividend payment models which present their view towards Dividend payment. Among them, MM model tells that Dividends are irrelevant to the value of the firm. It believes that earnings should be retained only for getting benefit from investment opportunities. If there is no investment opportunity, all the earnings should be distributed as dividend.

James Walter had propounded relevant theory of dividend. He proposed a model for share valuation. According to him, the Dividend policy of the firm affects the value of the shares. His model supports that Dividends are relevant. He argues that the choice of Dividend policies almost always affect the value of an Enterprise. The Investment policy of a firm cannot be separated from its Dividend policy; according to him both are interlinked which is just opposite to Modigliani and Miller approach. Walter's model shows clearly the importance of the relationship between the return on a firm's investment or its internal rate of return (r) and its cost of capital or the required rate of return (k) in determining the Dividend policy. As long as the internal rate greater than the cost of capital, the share price will be enhanced by retention and will vary inversely with dividend payment. In this way Walter's model is also known as "Optimal Theory of Dividend".

Likewise other Financial Experts have their own view toward Dividend payment such as stable dividend policy, Constant payout ratio, Low regular plus extras. So, different experts view but none of these are completely satisfactory.

In Nepalese context, after the establishment of Nepal Stock Exchange Limited, it has brought new atmosphere in the nation's capital market. But there still very slow growth in exchange of securities due to various factors like lack of Brokers, lack of knowledge about capital market among the investors etc. However the activities in capital market in recent years have taken momentum and symptoms of growth.

Different banks have adopted different policies and Dividends are paid in different forms such as cash dividend, stock dividend etc. Nowadays stock dividend is being more popular in Nepal especially in banking sector. But there is no rigid rule for Dividend payment because few Banks are generating profit and they are focusing toward reinvestment opportunities.

1.4 OBJECTIVE OF THE STUDY

As sighted earlier the main threat to the commercial bank of Nepal is to earn sufficient profit to ensure the reasonable Dividend to their stockholders. Dividend decision is a managerial perspective and each firm adopts dividend policy as per their portfolio, stake holder's requirements and their expansion opportunity. This study has aimed to have deep insights about the dividend policy of nine listed commercial banks of Nepal. The main objectives of the study are as under:

-) To examine the dividend policies of listed banks.
-) To analyze the relationship between dividends per share (DPS), earning per share (EPS) and marker per share (MPS).
-) To analyze the effect of dividend on share price
-) To provide suggestions to the listed banks for the improvement of their dividend policies on the basis of findings.

1.5 SIGNIFICANCE OF THE STUDY

The main objective of the study is to examine the dividend policy of listed commercial banks and establish relationship between DPS, EPS and MPS. In context of Nepal investor are still compel to invest in without any proper analysis of company due to lack of information and policies adopted by such companies .This study is significant to those rational investor who wants to invest their money as per their require trade off of risk and return likewise management of commercial banks can also analysis the dividend policy adopted by other banks and adopt the optimal policy in their company.

Actually Dividend policy is an effective way to attract new investors, retain present investors and to maintain goodwill and the desired controlling position of the firm. In Nepal, the earning capacity of people is very low as a result they can hardly save the money to invest in profitable sector. This research will help them to choose profitable bank, which will provide higher return on their investment. Actually the return of investment in share is dividend provided by the Commercial Banks. So, this study will help them to choose better bank for investment. This research will also be useful to management to point out the loopholes and suggest the remedies about the appropriate dividend policy and also for stockbrokers, financial agencies, policy makers and other interested person.

1.6 RESEARCH QUESTIONS

This study is manly prepared to analyze the dividend practices in Nepal. In the research it is tried to get the answer of the following questions:

- I. What are the prevailing dividend policies of the listed banks?
- II. What is the impact of dividend policy on share price of the stock?
- III. Are all listed commercial bank adopting same dividend policy?
- IV. Is there any relationship between dividend per share (DPS), Earning Per share (EPS) and Market price per share (MPS)?
- V. Is there any consistency in DPS and DPR of listed banks?

1.7 LIMITATION OF THE STUDY

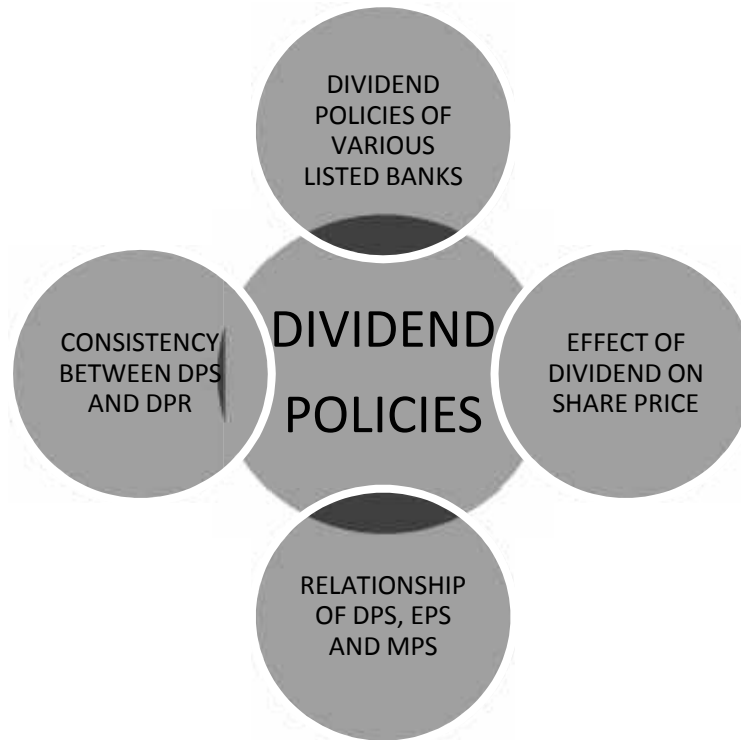
The study focuses the sensitive part of the Bank which resultants the management a little bit hesitation to come up with open view regarding the Dividend policy and payment procedure. Therefore the study has been conducted on the basis of annual reports of selected banks, published and unpublished material, and NRB publications. Therefore the strength of findings will largely depends upon the correctness of input information. Since the study has been conducted by developing assuming about various factors it has following limitations:

- a. The analysis is limited only to the nine listed commercial banks of Nepal and real situation of other commercial banks may be different.
- b. The analysis covers the time duration of only five years 2005 to 2010.
- c. Only cash dividend is considered for analysis.

All Data are taken from Secondary source (website) depends on the accuracy of Information provided by the website used. The commercial banks need to maintain certain level of cash reserve ratio as per NRB directives. Since, NRB believes that maintaining this reserve fulfills the liquidity need of the banks and in fact banks do maintain this reserve, liquidity ratios are not calculated.

1.8 CONCEPTUAL FRAMEWORK OF THE STUDY

The conceptual framework deals with the model of dividend and dividend policies. It gives a brief overlook into the particulars of this study:



1.9 CHAPTER SCHEME

This study is been divided into five different chapters. The titles of these chapters are as follows.

- Chapter One** - Introduction
- Chapter Two** - Review of Literature
- Chapter Three** - Research Methodology
- Chapter Four** - Presentation and Analysis of Data
- Chapter Five** - Conclusion and Recommendations.

Chapter One contains the introductory part of the study which includes the general background, statement of problems, objective of the study and significance of the study.

Chapter Two mainly focuses on the theories about Dividend policy, types of Dividend, types of Dividend policy, factors affecting Dividend policy and impacts of Dividend policy.

Chapter Three describes the Research methodology used to conduct the research. This chapter also contains the sample selection, Data collection procedure, the model of analysis, definition of financial variable and statistical tools and limitation of the methodology.

Chapter Four is the main part of the study which presents and analyzes data to find out the appropriate Dividend policy of the listed Banks.

Chapter Five includes the major findings and conclusion of the study. This chapter deals with the summery and conclusion of the study and gives recommendations for improvement in the Dividend behavior of the listed Banks.

CHAPTER –II

REVIEW OF LITERATURE

2.1 CONCEPTUAL FRAMEWORK

Dividend decision is not only important for the shareholders but also firm's internal growth. Dividends are desirable from shareholder's point of view as it helps to increase their current wealth. It is desirable from company's point of view, as it will help growth of the firm. The Dividend policy determines the amount of earnings to be distributed to shareholders and reinvested in the firm. There is a reciprocal relationship between retained earning and cash dividends. If retained earning is kept more by the company less will be dividend and vice versa.

Dividend is a portion of earnings which is distributed to shareholders in return of their investment in share capital. Most Shareholders expect two forms of return from the purchases of common stock. These are capital gain and Dividends. Capital gain may be defined as the profit resulting from the sale of common stock. The shareholders expect an increase in the market value of common stock over time. The shareholders expect, at some point, a distribution of the firm's earnings in the form of a Dividend. From mature and stable firm, most investors expect regular dividends to be declared and paid on the common stock. Conceptually speaking, the difference between Dividend and Dividend policy is only of degree but not of kind itself.

The Dividend policy affects the over-all financing decisions of the firm. Dividend implies to the portion of earnings that is paid to the shareholders while dividend policy refers to the guidelines that management uses in establishing portion of retained earnings that is paid to the shareholders in the form of dividend (*Mathur, 1979: .297*).

Dividend refers to that portion of a firm's net earning which is paid out to the shareholders (*Khan. and Jain, 1992: P. 543*).

Dividend is generally paid in cash. Therefore it reduces the cash balance of the company. Dividend policy affects the financial structure the flow of funds, corporate liquidity, and investors' attitudes. Thus, it is one of the central decision area related to policies seeking to maximize the value of firm's common stock.

Dividend policy of the firm, thus, affects both the long term financing and the wealth of shareholders. As a result, the firm's decision to pay Dividends may be shaped by two possible view points (*Pande, .1982: 296*).

If the firm increases the retained earnings, shareholder's dividend decreases and the market price of the share increased. Thus, dividend decision is always a matter of dispute.

2.2 OBJECTIVES / MOTIVES OF DIVIDEND DECLARATION

Firms enjoy the funds of others shareholders as investors want their funds to be utilized in productive sectors so that the returns from there will enough to compensate the shareholders. The shareholders like to have fair return on their investment. Dividend is one of widely used means of providing returns to shareholders. The firms declare and provide dividend for following motives:

Increase Market Price of Share

Dividend scheme followed by the firm greatly affects the market price of share. Stable Dividend policy have a positive impact on the market price of share shareholders will likely to pay a premium for a stock with a relatively assured minimum stable Dividend. The price of shares with stable Dividend is higher than that with fluctuating Dividend. No firms or shareholders would like to have lower share prices. Hence, one of the motives of providing Dividend is to maintain or increase the market value of shares.

To Provide Fair Return to Shareholders

Shareholders are the owner of the firms. The firms must compensate them in return for the use of their fund. The return paid by the firm is said to be fair, if it is higher than the return that could be earned if the investment were made anywhere else. This motive is also concerned with the market price of share. It is the shareholders who pay extra amount for shares and thereby increase the share price. If the firm is able to meet shareholders' expectation, the price of shares of such firm will never decline. Hence to provide fair return to shareholders must be one of the motives of providing Dividend.

To Be Competitive in the Market

There are various firms which are producing/providing similar products and/or services. Only those firms could sustain in the market which can compete other firms of similar nature. Similarly, the competition compels the firms to pay dividend to shareholders. Non-payment of dividend may have negative impact on share price and reputation of a firm, if its competitive firms are providing dividend to their shareholders. Hence, the firms pay dividend to be competitive in the market.

In addition to the above three motives, the firms could have several reasons of providing dividend. The firm prefers to pay dividend if it has enough fund and no investment opportunities. The firms pay dividend to foster its reputation in the market.

2.3 DIVIDEND

Dividend is the periodic payment made to stockholders to compensate them for their wealth and investment funds. Dividends are pro rata distributions of retained earning to shareholders. They can be in the form of cash, stock or property. Generally, corporation can only declare Dividends out of earnings, although they might declare Dividends from sources other than earnings. In fact, Dividend is the portion of the net earnings, which is distributed to shareholders by a company. After successfully completing the business activities of a company, if its financial statements show the net profit, the Board of Directors (BOD) decides to declare Dividend to stockholders. Therefore, the payment of corporate Dividend is at the direction of the BOD.

The funds a firm can be use due to lack of investment opportunities should better be paid as Dividends. Viewed thus, Dividend is left over earnings prospective after exhausting all investment opportunities. So it is a case of financing decision, in which dividend payment may range from 0 to 100 percent depending of investment programs of corporate firms. Evidently, Dividend decision impacts on shareholders' wealth either through their current income in the form of Dividend or though future capital gain from appreciation in market price of stocks. There may be effect on market value of stocks either paying Dividend or with holding the earnings for financing growth.

2.4 TYPES OF DIVIDENDS:

Corporate firm chooses to make the payment of Dividends in view of its objective, need and policies. Different Dividends the firm may choose to pay are briefly explained below:

Cash Dividend:

Cash dividend is proportion of earning paid in cash to the shareholders in proportion to their shareholdings. The cash account and the reserve account of a Company reduce thereby reducing the total assets and the net worth of the company. The market price of share drops in most case by the amount of cash dividend distributed. The firm has to maintain adequate balance of cash for the payment of cash dividend otherwise funds to be borrowed for this purpose may be difficult. Cash planning is useful for the company paying stable dividend.

Stock Dividend:

A stock dividend is a payment in the form of additional share of stock instead of cash. In other word it is the payment of dividend in the form of stock proportionate to their shareholdings. It is popularly known as bonus share. Payment of stock dividend increases the number of outstanding shares to the company.

Stock Split and Reverse Split:

Stock split is an accounting action to increase the number of shares outstanding. Reverse split decreases the number of shares outstanding. Both affect only the par value and the number of outstanding shares and change the capital structure of the company.

Property Dividend:

Property dividend, in extra ordinary circumstances, is paid other than cash such as corporate firm's own product or securities of subsidiaries.

Bond Dividend:

Company declares dividend in form of fits own bond with a view to avoid cash out flows.

In general, the form of dividends popular in Nepal is cash and stock dividends.

2.5 DIVIDEND POLICY:

Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retain earnings are one of the most significant sources of fund for fund for financing corporate group, but Dividends constitute the cash flow accrue to stockholders.

The third major decision of the firm is its Dividend policy, the percentage of earnings it pays in cash to its stockholders. Dividend payout, of course, reduce the amount of earnings retain in the firm and affect the total amount of internal financing. The Dividend payout ratio obviously depends on the way earnings are measured for ease of exposition, we use account net earnings but assume that these earnings can form true economic earnings. In practice, net earnings may not conform and may not be an appropriate measure of the ability of the firm to pay Dividends (*Horne 2000:..305*).

Dividend Policy refers to the issue of how much of the total profit a firm should pay to its stockholders and how much to retain for investment so that the combined present and future benefits maximize the wealth of stockholders. The Dividend Policy however not only specifies the amount of dividend, but also form of Dividend Payment procedure etc.

In general, Dividend Policy is concerned with the following matters:

-) Amount of Dividend to be paid - the Policy outlines the basis to determine the amount of Dividend to be paid.
-) Form of Dividend - Cash Dividend / Stock Dividend
-) Payment Procedure
-) Stock repurchases and stock splits

2.6 TYPES OF DIVIDEND POLICY

The Dividend amount payment out of profit, both from past and present, is guided by Dividend Policy the firm follows. Generally, Dividend Policy can be categorized as conservative, liberal, moderate and progressive Dividend Policy. Whatever the Dividend Policy followed by corporate

firm, it is the concept that resolves the apparent conflict by finding optimal Dividend payout that balance the need of the shareholders for their current income and expected future growth of the corporate firms so as to maximize the value of the firm. Within the framework of types of Dividend Policy mentioned above, the corporate firm may choose to follow any of the dividend policy mentioned below:

2.6.1. REGULAR AND STABLE DIVIDEND POLICY

Regular and stable Dividend Policy is mostly used by most of the corporate firms, is based on maintaining fix annual cash Dividend rate for several years in a row, increasing it only when future earnings look sufficiently strong and permanent to support a new higher level of Dividends. In essence, Dividends are flat for a while, they then move up in step fashion with the permanent increase in earnings. Irrespective of fluctuations in earnings, Dividend per share remains relatively stable unless payout ratio drops below minimum of earning per share. The corporate firms that adopt regular and stable Dividend Policy regard the payment of Dividend is an important variable in the stock valuation process.

2.6.2. REGULAR PLUS EXTRA DIVIDEND POLICY

The policy refers to the combination of regular Dividend with the payment of additional Dividends whenever earnings are significantly high to warrant it. Under this policy, low level of Dividend rate is set first and then extra Dividend in the time of final announcement of annual Dividend. The policy is undertaken to give the shareholders the impression of corporate firms' intention of paying regular Dividends. Corporate firm pursuing this policy emphasizes on need to pay regular Dividends and at the same time need to retain earnings to meet long-term financial requirement.

2.6.3. FIXED PAYOUT POLICY:

Corporate firms following fixed payout policy establish fix percentage of profits that will be paid out each year as dividends. Dividend Payout Ratio (DPR) relatively remains constant and may increase with the increase in profit. Dividend per share fluctuates from year to year while it may lead to erratic market prices for the corporate firms' stocks.

2.6.4. EARNING BASED DIVIDEND POLICY:

Corporate firms following this policy pay dividend based on a constant payout ratio so long as level of earnings remain stable resulting constant dividend per share. Corporate firm's increased the payout ratio if earning increase is found permanent and thus increase the dividend per share. This policy is undertaken by the corporate firm with the objective of giving impression to the shareholders that they are paid more dividends as earnings increases.

2.7 FACTORS INFLUENCING DIVIDEND POLICY:

Other than allocation of current earnings, Dividend Policy of the corporate firm is also concerned with the legal provisions relation to payment of Dividends, liquidity, control, stability of Dividend payout, such as stock Dividends and stock splits, stock repurchase and administrative considerations (Horne Van James C, 2000 :P.494). In other words, dividend policy is affected by number of factors. The factors affecting the extent to pay out dividends instead of retaining earnings are briefly outlined below:

2.7.1. LEGAL RULE:

The legal rules provide the framework within which dividend policy can be formulated. Legal rules emphasize three rules (*Weston and Copeland 1992: 659*)

a. The net profit rule:

The net profit rule provides the payment of Dividend from past and present earnings only.

b. The capital impairment rule:

This rule prohibits the payment of liquidating Dividend would mean distributing dividend from investment rather than the earnings.

c. The insolvency rule:

This rule prohibits the payment of Dividend while the firm in insolvent condition where liabilities are greater than assets.

2.7.2. LIQUIDITY POSITION:

As payment of Cash Dividends involves paying out cash, the liquidity position must be strong enough to pay the Dividend announced. If liquidity position is weak, the firm may not be able to pay Cash Dividend even if there is profit. In such situation, the firm may select not to pay Cash Dividend.

2.7.3. DEBT REPAYMENT AND RESTRICTION OF DEBT CONTRACT:

The Dividend Policy of the corporate firm using debt is also affected by decision to repay debt on or before maturity, generally require more retention of earnings lowering the Dividend rate. Some time long term debt contract may specify certain restrictions such as payment as Dividend from profits only after signing debt contract and requiring maintaining to desired level of not working capital. These restrictions certainly affect Dividend Policy.

2.7.4. ASSETS EXPANSION THROUGH INTERNALLY GENERATED FUND:

Corporate firm's policy to finance assets expansion from retained earnings in order to reduce the financing cost necessarily lowers the Dividend payment and affects the Dividend Policy.

2.7.5. EARNING RATE AND ITS STABILITY:

Dividend Policy followed by corporate firm to a greater extent depends on rate of earnings and its stability in several years. Corporate firm, if earnings are high and stable, would likely to gradually increase the percentage of earnings for Dividend payment and at the same time retaining substantial amount of earnings for reinvestment within the firm.

2.7.6. ACCESS TO THE CAPITAL MARKET:

A large and well-established corporate firm with a record of continuous profitability for several years and stability in earnings has easy access to capital market and other sources of external financing. Such firm may follow moderate, progressive or liberal dividend policy. On the other hand, corporate firms with lower rate and fluctuating earnings may not enjoy such facility and thus has to stick on conservative Dividend Policy retaining more earnings to finance its operation.

2.7.7. CONTROL:

Raising additional funds by issuing new stocks tend to dilute the control of dominant group of shareholders while raising debt increases risk. So as a matter of policy, if the corporate firms desire to maintain control and not to increase the risk, such firms have to expand only to the extent of their internal earnings that necessitates going for low Dividend payout.

2.7.8. TAXES ON EARNINGS:

Tax required to pay at higher rate on corporate earnings also is supposed to affect Dividend policy and lower the DPR as tax payment involves cash outflow leaving smaller amount of profit for Dividend payment by the firm.

2.7.9. CLIENTELE EFFECTS:

If corporate firm is closely held, majority of shareholders will be of higher tax bracket. Such corporate firm would like to retain more out of earning. But if corporate firm is widely held, majority of shareholders will be of small tax brackets. Then such corporate firm would like to consider paying more Dividends to their shareholders. It follows that Dividend Policy followed by the corporate firm also determine the types of shareholders which have the effect on Dividend Policy of the corporate firm, known as clientele effects on Dividend Policy.

2.8 IMPACTS OF DIVIDEND POLICY:

Dividend Policy followed by the corporate firm in terms of target payout ratio affects cash flows. With the increase in payout ratio, Dividend rises to cause major cash outflows in the form of Cash Dividends to the shareholders leaving fewer funds for reinvestment in the firm. On the other hand, with the low payout ratio more funds will be available for reinvesting in the firm, to affect the growth of the firm.

Dividend Policy decision of a firm also impacts on the firm's financing decision by not distributing Dividend and increasing the retained earnings. Retained earnings are a source of internal financing. It is also true that as payment of Dividend affects cash flows of the firm, only the firm, which has adequate liquidity, can pay the Dividends to its owners. As such Dividend

payment also has been looked as firm's strong liquidity. On the one hand distributing Dividend is a tangible evidence of the firm's ability to generate adequate liquidity.

Dividend decision is a critical decision thereby affecting its cash position, capital structure growth and value. When Dividend is paid it increases the value of common stock also. When a corporate firm adopts a policy of paying out more dividends, Dividend will increase and tend to increase the price of the stock. However, more Cash Dividend is paid, less money will be available for reinvestment as a result an expected growth rate will be lowered which will depress the price of the stock. Thus change in Dividend Policy has two opposing effects. If Dividend is increased it may affect favorably on the price and unfavorably on growth and expansion and vice versa. That is why Dividend Policy is only subject of financing policy because amount of earnings it retains will impact on its needs for externally raised capital. In financial literature the study of impacts of Dividend Policy still has occupied its importance as no such consistent results has been arrived yet. Besides, Dividend Policy decision has not been given importance compared to investment and financing decision in financial management practice.

2.9 LEGAL RULES REGARDING DIVIDEND:

Human is governed by natural rules and human works are governed by their rules and regulations. Companies are approved by constitutional provision of the country. Company's decisions are based on their rules and regulations. But in Nepalese context, companies do not have any rules and regulation regarding Dividend Policy. There are some provision regarding Dividend in the Company Ordinance, 2062 (2006). These provisions may be seen as under:

Section 2 (q) states that bonus share mean a share issued as an additional share to the shareholders by capitalizing saving earned from profit or reserve fund and also includes a circumstances where paid up value of the shares is increased by capitalizing the said surplus and reserve fund (*"Companies Ordinance 2062",2006*).

Section 179 Bonus shares (1) may be issued by a company to its shareholders out of the amount available for the distribution of dividends after adopting a special resolution to this effect in the general meeting. Sub-section (2) the Company shall have to inform the office before issuing bonus shares under sub-section. (1)

Section 182: Dividend as follows.

1. Except in the following circumstances, the dividend shall be distributed to the shareholders within 45 days of the decision made to provide the Dividend:
 - a. If any law prohibits the distribution of Dividend.
 - b. If the right to receive Dividend is subject to any dispute.
 - c. If, without the fault on the part of the company, the Dividend cannot be distributed within the above- mentioned time-limit due to any god's act.
2. A company wholly or partly owned by His Majesty's government shall distribute Dividend only with prior approval of HMG and HMG may issue necessary directives in relation to distribution of such Dividend.
3. If Dividend is not paid stipulated in sub section (1) the same shall be paid together with the interest at the rate as prescribed.
4. The shareholders in whose name the share is registered in the shareholder registers the time of declaration of the dividend or his successor shall be entitled for the payment of the Dividend.
5. A company shall not pay or distribute Dividend except from profit allocated for the purpose.

A company shall eliminate pre-incorporation expenses, deduct the amount depreciation as per the accounting standard prescribed by competent authority under the law enforced and allocate any amount to be allocated or paid out of profit under the law enforced and eliminate the accumulated loss of the preceding years before the payment or distribution of Dividend out of the profit in a particular year.

Provided that a company which is required to transfer any amount out of the profit to certain reserve fund under the law in force, Dividend shall not be reserve fund.

In Company Act of India, there are some provisions regarding Dividends.

- Dividend should be paid only out of profit available after providing for depreciation as per rules and after transferring 10 percent or more of profits to reserve.
- Unpaid Dividend should be transferred to 'unpaid Dividend Account' with 7days of the expiry of 42 days of dividend declarations. If not, the company shall pay an interest of 12 percent per annum.
- Any unpaid Dividend declared before enforcement of this Act should also be transferred to the 'Unpaid Dividend Account' within six month from the commencement of this Act.
- Dividend remained unpaid or unclaimed for 3 years from the date of transfer to 'Unpaid Dividend Account' must be transferred to the general reserve account of the central Government. The claimants still apply to the government.
- On transfer of the unpaid dividend to the general account the company must also furnish a statement in the prescribed form setting forth the nature of sums, the names and addresses of the concerned persons the amount to which each is entitled and the nature of his claim there to.

2.10 REVIEW OF MAJOR STUDIES.

2.10.1. REVIEW OF MAJOR INTERNATIONAL STUDIES.

There are so many studies made by different persons and institution for Dividend Policy and stock price. There are two opinions regarding to Dividend payout and Market price of share. The first point of views is Dividends are irrelevant and the amount of Dividend payment does not affect the market value of the share. The other is Dividends are relevant and the amount of Dividend paid affect the market price of the shares. Always a critical and confused question has arose, whether Dividend Policy affect the market value of the shares or not. To put light in these matter different studies made by different international scholars and researcher should be over viewed. This study draws heavily from these studies to carry it out.

Franco Modigliani and Merton Miller first propounded the major argument indicating that dividends are irrelevant in 1961. It is popularly known as M-M approach. It is sometimes termed as "Dividend Irrelevance Model".

Through an article "Dividend Policy, growth and valuation of shares they advocated that Dividend Policy does not affect the value of the firm i.e. dividend policy has no effect on the share price of the firm. The M-M approach focuses the irrelevant effect of dividend policy in the firm valuation arguing that, the value of the firm is determined only by its basis earnings power and its business risk, thus, the value of the firm depends on the income firm it assets and not on how this income is split between dividend and retain earnings.

The M - M approach of irrelevance Dividend based on the following critical assumptions.

-) Perfect capital market in which all investors are rational. Information available to all at no cost, instantaneous transaction without costs, infinitely divisible securities and no investor large enough to affect the market price of the security.
-) There is no transaction cost. The securities can be purchased and sold without payment any commission or brokerage etc.
-) Taxes do not exist.
-) A given investment policy for the firm, no subject to change.
-) Perfect certainty by every investor as to future investment and profits of the firm
(But M-M dropped this assumption later)

M-M had tried to prove their theory by different models. Of those some are explained below.

Market value / price of share

The market value of share at the beginning of the period is equal to the present value of dividend paid at the end of the period plus at the market price at the end of the period i.e.

$$P_0 = \frac{D_1 + P_1}{1 + Ke} \dots\dots\dots (1)$$

Where,

P₀ = Market price at the beginning (zero period)

D_1 = Dividend per share to be received at the end of the period

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

K_e = Cost of equity capital (assumed constant)

No external financing

Assuming that the firm does not resort to any external financing, the market value of the firm can be computed as follows:

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

Where,

n = Number of equity shares at zero period.

New shares

Assuming that the retain earning is not sufficient to finance the investment needs of the funds, in that case issuing new shares is the other alternative. Say (n) is the number of newly issued equity share at the price of (P_1).

$$NPo = \frac{nD_1 + (n+ n) P_1 - nP_1}{1+K_e} \dots\dots\dots(iii)$$

Where,

n = No. of equity shares at the end of the years.

n = No. of shares at the beginning

Total number of shares

The issuing of new stock is determined by the amount of investment in period 1 not financed by retained earnings. The total numbers of new shares can be found out by the following way.

$$nP_1 = I - (E - nD_1)$$

or $nP_1 = I - E + nD_1 \dots\dots\dots(vi)$

Where,

nP_1 = The amount obtained from the sale of new shares to finance capital budget

I = Total new investment required

E = Earning of the firm during the period.

nD_1 = Total dividend paid

$(E-nD_1)$ = Retained earning

Conclusion,

By substituting the value of nP_1 from equation (IV) to the equation (III),

We find,

$$nPo = \frac{nD_1 + (n + n)P_1 - (1 - E + nD_1)}{1 + Ke}$$

or, $nPo = \frac{nD_1 + (n + n)P_1 - I + E - nD_1}{1 + Ke}$

or, $nPo = \frac{(n + n)P_1 - I + E}{1 + Ke} \dots\dots\dots(v)$

In such a way, M-M approach concludes its result, that there is no any role of dividend (D_1) in the above equation. So M-M conclude that dividend policy is irrelevant and Dividend Policy has no effect on the shares price.

Gordon M. (1962) in his study “The investment, Financing and Valuation of Corporation” (Homewood III, Richard Irwin, 1962) concluded that Dividend Policy of a firm affects its value.

In this model, he pleaded that investors are not indifferent between current dividends and

retention of earnings. The conclusion of this study is that investors value the present Dividend more than future capital gain. His argument insisted that an increase in Dividend payout ratio leads to increase in the stock prices for the reason that investors consider the Dividend yield (D_1 / P_0) is less risky than the expected capital gain.

Hence, investors required rate of return increases as the amount of Dividend decreases. This means there is a positive relationship between the amount of Dividend and the stock prices.

Gordon's Model is based on the following assumptions:

-) The firm is an all equity firm.
-) No external financing is available
-) Internal rate of return, (r) appropriate discount rate (k) are constant.
-) The firm and its stream of earnings are perpetual.
-) The corporate taxes do not exist.
-) The retention ratio (b) once decided upon is Constant. Thus, the growth rate $g = br$, is constant forever.
-) The discount rate is greater than growth rate, $k > br = g$

Based on the above assumptions, Gordon provided the following formula (which is a simplified version of the original formula) to determine the market value of a share.

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

Where,

- P = Price of share
- E = Earning per share
- b = Retention ratio or percentage of earning retained
- 1-b = Dividend payment ratio i.e. percentage of earning distributed as dividend.
- E (1-b) = Dividend per share
- K = Capitalization rate or cost of capital

br = Growth rate in r , i.e., rate of return on investment of an all equity firm.

According to his model, the following facts are revealed.

1. $r > k$ (Growth Firm)

In the case of growth firm, share price tends to decline in correspondence with increase in payout ratio or decreases in retention ratio, i.e. high Dividend corresponding to earnings leads to decrease in share prices. Therefore Dividends and stock prices are negatively correlated in growth firm.

2. $r = k$ (Normal firm)

In the case of normal firm, share value remains constant regardless of changes in Dividend Policies. It means Dividend and stock prices are free from each other in normal firm.

3. $r = k$ (declining firm)

In the case of declining firm, share price tend to rise in correspondence with rise in Dividend payout ratio. It means Dividend and stock prices are positively correlated with each other in a decline firm.

In conclusion:

-) Investors give more value to the current Dividend than the future capital gain.
-) Investors pose those views because they do not want to bear the future uncertainty rather than enjoying the current earnings (dividend)
-) Payment of more Dividends increases the market value of the share (i.e. investors find more Dividend yield)

James E. Walter has propounded a model for share valuation. According to his journal of Finance published in March 1966 entitled “Dividend Policy and Common Stock Prices” the Dividend Policy of the firm affects the value of the shares. His model supports that dividends are relevant. He argues that the choice of dividend polices almost always affect the value of an enterprise. The investment policy of affirm cannot be separated from its dividend policy; according to him both are interlinked which is just opposite to Modigliani and Miller approach.

Walter's model shows clearly the importance of the relationship between the return on a firm's investment or its internal rate of return (r) and its cost of capital or the required rate of return (k) in determining the dividend policy. As long as the internal rate greater than the cost of capital, the share price will be enhanced by retention and will vary inversely with dividend payment. In this way Walter's model's in also known as "optimal theory of dividend". The basic assumptions of the Walter's model are as follows.

-) The firm finances all investment through retained earning. The external sources if funds like debt or new equity capital are not used.
-) Firm's internal rate of return (r) and cost of capital (k) are constant.
-) All earnings are either distributed as dividend or reinvested internally.
-) There is no change in value of earning per share (E) and dividend per share (D). The value of 'E' and 'D' remain constant, although there may be change in the model for determining the result.
-) The firm has a perpetual or infinite life.

Based on above assumptions, formula determining to find the market price per share is as follows.

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

or,

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

Where,

P = Market price per share

DPS = Dividend per share

EPS = Earning per share

- r = Firm's internal rate of return
 k = Firm's cost of capital or capitalization rate.

Walter's model shows that there are three probable conditions of the firm for comparing the relationship between 'r' and 'k'

1. $r > k$ (Growth Firm)

If the internal rate of return is greater than cost of capital, it is better to retain earnings. These are able to reinvest earnings at a rate r , which is higher than the rate expected by shareholders (k). They will be maximizing the value per share, if they follow a policy of retaining all earnings for internal investment. The market value per share increases by decreasing the dividend in such a condition. The market value for share will be the maximum at zero dividends.

2. $r = k$ (Normal Firm)

If internal rate of return is equal to cost of capital to dividend payout does not affect the value of share. Such an enterprise can be called as a normal firm. Whether the earnings are retained or distributed, it is a matter of indifference for a normal firm. The market price of share will remain constant for all dividend payout ratios from zero to hundred. There is no optimum dividend policy for such firm. The market value per share is not affected by the payout ratio when $r=k$.

3. $r < k$ (Declining firm)

If internal rate of return (r) is less than cost of capital (k), it indicates that the shareholders can earn a higher return by investing elsewhere. In such case for maximizing the value of shares dividend also should be maximized. By distributing the entire earnings as Dividend, the value of the shares will be at optimum value. The Dividend payout ratio would give an optimum Dividend Policy. The market value per share increases as payout ratio increases when $r < k$.

Conclusion:

- ($r > k$) = Dividends are negatively correlated with stock price.
- ($r = k$) = Dividend is indifferent to variation in the market price of the share.
- ($r < k$) = Dividends are positively correlated with stock price.

Horne V. and Donald Mc. conducted a more comprehensive study on dividend policy and new equity financing. Their Journal on Finance, titled "Dividend policy and new equity financing" Vol. XXVI 26, published in 1971, investigated the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They used a well-known valuation model, i.e. cross section regression model, during the year-end 1968 to perform the empirical test. The required data were collected from 86 electric utility firms included on the COMPUSTAT utility data tape and firms in the electronics and electronic component industries as listed on the COMPUSTAT industrial data tape. They tested two regression models for the utilities industries.

First Model was, where,

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + u_1$$

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

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

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

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

U = Error term

Second Model was

$$Po/Eo = a_0 + a_1 (g) + a_2 (Do/Eo) + a_3 (Lev) + a_4 (Fa) + a_5 (Fb) + a_6 (Fc) + a_7 (Fd) + u.$$

Where,

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

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

Again, they tested the following regression equation for electronic components industry.

$$Po/Eo = a_0 + a_1 (g) + a_2 (Do/Eo) + a_3 (Lev) + a_4 (OR) + u$$

Where,

Lev = Financial-risk, measured by long-term debt plus preferred stock dividend by net worth as 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 these models of methodology, they compared the result obtained for the firm, which both pay dividends and engage in new equity financing with other firms in an industry sample. They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividends, except for those in the highest new issue group and it made new equity a more costly form of financing than the retention of earnings. They also indicated that the payment of dividends through excessive equity financing reduces share prices. For electronics, electronic-components industry, a significant relationship between new equity financing and value was not demonstrated.

Regarding the behavioral aspects of dividend policy in the American context of 28 companies in 1956 Linter made an important study. His study was related to partial adjustment model with respect to dividend patterns of American Companies. The author concluded that a major portion of dividend of a firm could be expressed in the following way.

$$DIV^*_t = pEPS_t \dots\dots\dots (i)$$

$$\text{And, } DIV_t - DIV_{t-1} = a + b(DIV^*_t - DIV_{t-1}) + e_1 \dots\dots\dots (ii)$$

$$\text{or, } DIV_t = a + bDIV^*_t + (a+b)DIV_{t-1} + e_1 \dots\dots\dots (iii)$$

Where,

DIV^*_t = Firms desired Payment

EPS = Earnings

P = Targeted pay-out ratio

A= constant relating to dividend growth

B = Adjustment factor relating to the previous periods dividend and desired level or dividend where $b < 1$.

The major findings of this study were as follows:

-) Firms generally think in terms of proportion of earning to be paid.
-) Investment requirements are not considered for modifying the patterns of dividend behavior.
-) Firms generally have target payout ratios in view while determining change in dividend rate or dividend per share.

Friend and Puckett's(1964) conducted a study on the relationship between dividend and stock price running regression analysis on the date of 110 firms from five industries in the year 1956 and 1958. These five industries were chemicals, electric utilities, electronics, food and steel.

These industries were selected to permit a distinction made between the results for the growth and non growth industries and to prove a basic for comparison with results by author for earlier years. They also considered cyclical and non - cyclical industries which they covered. The study period covered a boom year for the economy when stock price leveled off after risk (1956) and a somewhat depressed year for the economy when stock prices however rise strongly (1958).

They used Dividends , retained earnings and price earnings ratios as independent variables in their regression model of price function. They used supply function, i.e. dividend function also. In their Dividend function, earnings , last year's dividends and price earnings are independent variables. They quoted that the Dividend supply function (equation) was developed by adding to the vast type of relationship developed by Linter.

Symbolically , their price function and Dividend supply function are ,

$$\text{Price function : } p_t = a + bD_t + CR_t + d(E/P)_{t-1}$$

Where,

P_t = per share price at a time t

D_t = Dividends at time t

R_t = retained earning at time t

$(E/P)_t$ = legged earnings price ratio

$$\text{Dividend Supply function } D_t = e + fE_t + gD_{t-1} + d(E/P)_{t-1}$$

Where

E_t = Earnings Per Share at time t

D_{t-1} = Last year Dividend

Their study was based on the following assumptions:

-) Dividend does react to year to year fluctuation in earnings.
-) Price doesn't contain speculative in earnings.
-) Earnings fluctuation may not sum zero over the sample.

Their regression results based on the equation of $p_t = a + bD_t + CR_t$ shows the customary strong Dividend and relatively weak retained earnings effect in three of the five industries. i.e. chemicals, foods, and steels. Again they tested other regressions equation by adding lagged. Earning price ratio to above equation and resulted the following equation $p_t = a + bD_t + CR_t + d(E/P)_{t-1}$. They found the following results . They found that more than 80% of the variation in the stock prices could be explained by three independent variables. dividend have a predominant influence on the stock prices in the same three out of five industries but they found the differences between the dividend and retained earnings coefficient are not quite so marked as in the first set of regression. They also found that the Dividends and retained earnings coefficient are closer to each other for all industries in both years except for steels in 1956, and the correlation are higher again expect for steels.

They also calculated Dividend supply equation, i.e. $D_t + fE_t + gD_{t-1} + h(E/P)_{t-1}$ and the derived price equation for four industries groups in 1958. In their derived price equation it seems that there was no significant Changes from those obtained from the single equation approach as explained above. They argued that the stock price or more accurately the price earnings ratio doesn't seem to have a significant effect on dividend payout. On the other hand, they noted that the retained earnings effect is increased relatively in three of the four cases tested. further, they argued that their result suggest price effects on dividend supply are probably not a serious source of bias in customary derivation of dividend and retain earnings effect on stock price, through such a bias mind be marked in the distribution effect on short run income movements are sufficiently great.

Further , They used lagged price as a variable instead of lagged earnings price retain and showed that more than 90% of variation and retain earnings received greater relative weight than dividend in the most of the cases. They only expectations were steels and food in 1958.They considered chemicals, electronic and utilities, as growth industries, in these groups and retains earnings effect was longer than the dividend effect for both years covered. For other two industries , namely food and steel , there was no significant systematic difference between the retained earnings and dividend coefficient. Similarly , they tested the regression equation of $P_t = a + bD_t + eR_t$ by using normalized earning again. They obtain normalized retain earning by subtracting dividends from normalized earning. That normalized procedure was based on the period 1950-1961.Again they added the price year's normalized earnings price variable and they compared the results. Comparing the result , they found that there was significant role of normalized earning and retain earning but effect of normalized price earning ratio was constant. When examined the later equation, they found that the different between dividend and retain earning coefficient disappeared Finally they concluded that management might be able to increase prices somewhat by rising dividends in foods, and steel industries.

They conducted more detailed examination of chemical samples. That examination disclosed that the results obtained largely reflected the undue regression weightily given the three firms with price deviating most from the average price in the sample of 20 firms and retains earnings as price determinate.

Finally, Friend and Puckett concluded that, it is possible that management might be able , at least in some measure, to increase stock prices in none growth industries by raising dividends and in growth industries by greater retention, i.e. low dividend.

2.10.2 REVIEW OF MAJOR NATIONAL STUDIES:

There are a few studies in Nepal which have looked into corporate dividend behavior. Some studies are made which are going to be reviewed here.

Pradhan, Dr Radhe (1992), had conducted a study on “market behavior of stock in Nepal” in his study he took the sample of 17 enterprises covering the years between 1986 to 1990. The objectives of his study were to assess the stock market behavior in Nepal, to examine the relationship of market equity, market value to book value, price-earning, and dividend with liquidity, profitability, leverage, assets turnover, and interest coverage.

After his study he found that higher earning enables the organization higher dividend payments and higher dividend payments increases the Market price per share

Gautam, R. R. (1996), had conducted a study entitled ““Dividend Policy in Commercial Banks” A Comparative Study of; NGBL, NIBL, and NABIL.” He examined impact of dividend on share price and concluded that Average EPS of all concerned Banks is satisfactory whereas DPS is not satisfactory. Likewise none of the bank exhibits constant DPR and Correlation between DPS and EPS of all concerned bank is fairly positively. But it is fairly safe to say that the relationship is not significant.

His analysis of coefficient of correlation between current ratio and DPS suggest that the relationship is positive in NIBL and NABIL where as it is negative in NGBL the interesting thing in his finding is that issue of bonus share has not significant impact on EPS, MPS and DPS

Timilsena ,Sadakar . (1997) had conducted a study entitled "Dividends and stock price an empirical study"; he used multiple regression models of three independent variables. Besides this he also tried to highlight the relationship between stock price and other independent variables separate simple linear regression equations. The sectors chosen for the study were manufacturing and trading sector and banking & insurance sector. Mr. Timilsena chose 16 enterprises as sample and his study covers the data from 1990 to 1994 for analysis.

The main objectives of this study was to test the relationship between dividend per share and stock price, to determine the impact of dividend policy on stock prices and identify whether it is possible to increase the market value of the stock changing dividend policy or payment ratio.

After his study he found out that there is positive correlation between dividend per share and stock price of the sample companies and dividend affects the stock price. Likewise, dividend policy or dividend per share might help to increase the market price of the share because there is negative relationship between stock prices and lagged earning price ratio.

In Adhikari, N. (1999), had conducted a research entitled “Corporate Dividend Practices in Nepal” The study had covered the period of 1990 to 1996 with the total observation of 47 firms in financial sector and 30 in non-financial sector. His main objectives of the study was to examine the relationship between dividend and stock price, analyses the properties of portfolio forms on dividends and to survey the opinion of financial executives on corporate dividend practices.

After research he found that Stock with large ratio of dividend per share to book value per share has higher liquidity, Stock with large ratio of dividend per share to book value per share has higher profitability. Likewise there is Positive relationship between the ratio of dividend per share to book value per share and turnover ratio.

There is positive relationship between the ratio of dividend per share to the book value per share and interest coverage ratio and There is positive relationship between dividend payout ratio and current ratio whereas the negative relationship between dividend payout and quick ratio likewise there is negative relationship between dividend payout and the earnings before tax to net worth and there is positive relationship between dividend payout and interest coverage ratio.

Manandhar, Dr. K.D. (2000), a research of had published in Management Dynamics entitled to “Preliminary test of Lagged structure of Dividend” Dr. Manandhar, had tried to test whether Nepalese Corporate firms consider the lagged earning and dividend paid to pay the dividend in current year. To carry out the test he had considered 17 corporate companies as samples and set different hypothesis.

After this study Dr. Manandhar found that there is significant relationship between change in dividend policy in terms of DPS and change in lagged earning and there is a positive relationship between change in lagged consecutive earning and DPS.

In addition to this there is relationship between distributed lagged profit and dividend when change in lagged consecutive earning is greater than zero, in 65% case, change in DPS and increase in EPS has resulted to the increase in dividend payment in 66.66% of the cases while decrease in EPS resulted in decrease in dividend payment. Likewise Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share.

Katawal, Y. B. (2002), had conducted a research entitled “A Comparative study of Dividend Policy in Commercial Bank”. The main objective of the study was to examine the impact of dividend on share prices and find out the relationship between DPS, EPS, DPR, PE ratio, Liquidity ratio and Profitability ratio on MVPS. In addition to this the study aimed to examine if there is any uniformity among DPS, EPS and DPR on six sample joint venture banks. Main conclusion of the study are Sample banks have got sufficient earning but some of the banks are paying high dividend and other are paying low dividend, DPS is not relatively more stable then DPR, MPS is attracted by dividend and also dividend policy is not clearly defined.

Kharel, S. (2006), a research of had published entitled to “Dividend Policy of Commercial Banks” She had tried to test the prevailing dividend practices of sample banks. There seems instability and inconsistency in dividend payment by the banks, every year EPS and MPS highly

fluctuation. The CV of EPS has highly ranged. Similarly MPS are also fluctuating; Government has not clear policy towards dividend and to improve the efficiency of the companies.

Chand, S. B. (2006), had conducted a study entitled “Relevant theory of Dividend with reference to some listed commercial banks” His main objective of this study was critical analysis of some important theories representing the contradiction of relevancy of dividend theory, relationship between dividend and stock market price, factors affecting dividend policy and provide information to the future researchers and also analyze the relevant theory of dividend with reference to some commercial banks.

Gautam, S. (2006), had conducted a study entitled to “Dividend policy and practices in commercial Banks” the main objectives of her study was to examine the dividend policy of listed bank and analyze the relationship between EPS,DPS, PE Ratio, Earning Yield Dividend Yield and MPS and analyze the factor affecting dividend policy.

He concluded that market price of share is affected by the dividend policy therefore market price of high dividend paying company is higher than the other company likewise he also found that commercial banks has not clear.

2.10.3. THE INFORMATIONAL CONTENT OF DIVIDENDS

It has often been pointed out that a company that raises its dividends often experiences an increase in its stock price and that a company that lowers its dividends has a falling stock price. This seems to suggest that dividends do matter, in that they affect stock price. This causal relationship has been refuted by several researchers on the grounds that dividends per se do not affect stock prices; rather, it is the informational content of dividends that affects stock prices. Since management may have greater insight than the rest of the market as to the level of present

and future earning power, they may use dividend payments as the medium through which their expectations are conveyed. R. Richardson Pettist, 1976 : 86

2.11 RESEARCH GAP

There are hundreds of researches related to banking sector a lot of study covers the dividend policy of commercial bank. Going through the research related to dividend policy of commercial banks I found that most of them are either studying the dividend policy of very few banks or say their sample size is very small or they covers the data related to few years back. Hence this study has been carried out to fill the gap by taking reference of almost half of commercial banks in Nepal and latest dividend policy of commercial banks. This research will be helpful to understand some aspects of dividend policy of commercial banks of Nepal and provides present scenario of dividend payments.

CHAPTER –III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps to adopt by a researcher in studying the problem with certain objectives. It describes the method and process applied in the entire aspect of the study. In this chapter, the research design, data collection procedure and procedures concerning analysis of data are described thoroughly. Analysis is conducted by using appropriate financial and statistical tools and the findings are presented in a systematic way.

3.1 RESEARCH DESIGN

This research is based on secondary data. It is simply an analytical and descriptive research. It covers the five years data from 2005 to 2009. The collected data are analyzed by using financial as well as statistical tools such as profitability ratios, arithmetic mean, standard deviation etc.

3.2 POPULATION AND SAMPLE

Population refers to the entire group people, events or things of interest that a researcher wishes to investigate. As this study is about Dividend policy of commercial banks, all commercial banks of Nepal are taken into account as population. Out of the total population, following 9 commercial banks are selected as samples for this study by using judgmental sampling method.

The selected sample banks are:

- 1) Bank of Katmandu
- 2) Everest Bank Limited
- 3) Himalayan Bank Limited
- 4) Nabil Bank Limited
- 5) Kumari Bank Limited
- 6) Nepal Investment Bank Limited
- 7) Nepal Industrial and Commercial Bank Limited
- 8) Nepal SBI Bank Limited
- 9) Nepal Standard Chartered Bank Limited

3.3 DATA COLLECTION PROCEDURE

All the analysis is based on secondary data. The secondary data sources are the publications of Nepal Rastra Bank, annual reports of the respective banks, Trading Report published by Nepal Stock Exchange and Economic survey. Besides this related web sites of all listed banks and Nepal Stock Exchange are also used for data collection.

3.4 METHOD OF ANALYSIS

Specific financial and statistical tools are used in this research. The analysis of data is done according to pattern of data available. The calculated results are tabulated under different heading for ease of reading, and then they are compared with each other to interpret results.

The financial tools used are the ratios related to earning per share, dividend per share , return on equity, dividend yield, dividend payout ratio and the market price per share. The statistical tools

that are used are arithmetic mean, standard deviation, coefficient of correlation, coefficient of determination, regression equation, and trend analysis.

We have also analyzed the trends regarding earnings, dividends and market prices to forecast the earning, dividends and market prices for the next year, i.e. 2011 we have also compared cash dividend with the stock price and the profit to find the relationship among them.

3.5 DATA ANALYSIS TOOLS:

3.5.1 FINANCIAL TOOLS USED FOR ANALYSIS

To evaluate the financial position and performance of any firm ratio is used as a key tool of financial analysis. “Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account”. Financial analysis is the use of financial statements to analyze a company’s financial position and performance and to assess future financial performance.

1. Earning per share (EPS)

EPS is calculated to know the earning capacity and to make comparison between concerned banks. EPS is helpful to know the return on investment to the stock holders. Dividend decision largely depends upon the earning of the bank therefore analysis of EPS provides understanding about the possible dividend to the investor.

It is defined as the result received by dividing net profit after taxes by no. of common stock outstanding.

$$\text{EPS X} \frac{\text{Net Profit after Taxes}}{\text{Number of common stock outstanding}}$$

2. Dividend per share (DPS)

Dividend is the amount investor receives as a return on their investment therefore DPS has significant impact in market price of share. It is the part of earning distributed to the shareholders. DPS is the major determinant of the share price in the market .High DPS tends to increase the price of share and vice versa.

Analysis of DPS gives a deep understanding of dividend policy of bank and investor can chose their type of investment portfolio. As we know the dividend earning of investor needs to pay tax and every investor has their own tax bracket. Therefore analysis of DPS gives information of future cash flow to shareholder and they can choose the banks of their own interest to invest.

DPS is calculated by dividend with total number of share outstanding.

$$\text{DPS X} \frac{\text{Total Dividend}}{\text{Number of common stock outstanding}}$$

4. Return on Shareholder's Equity (ROE)

ROE tells us the earning power on shareholder's book investment. This ratio is frequently used to compare two or more companies as it considers the utilization of assets, profitability, and the equity multiplier associated with the use of debt.

$$\text{ROE X } \frac{\text{Net profit after tax}}{\text{Net worth (shareholder's equity)}}$$

5. Dividend Yield

Dividend yield shows the return of investor in relation to current market price of share Dividend yield. Since DPS is only the amount per share distributed to stockholders. It cannot show the actual return of those shareholders, who has purchased the share from market in higher price than the book value. Therefore analysis of DY is important. It is the result obtained by dividing DPS by MVPS.

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

6. Dividend Pay-out Ratio (DPR)

The percentage of the profit on share that is distributed as dividend is called dividend pay-out ratio (DPR).DPR indicates the dividend policy of the banks and it also informs the investment opportunities held with the company. High DPS indicated low growth rate and vice versa

It is the result obtained by dividing DPS by EPS.

$$\text{DPR X } \frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$$

7. Market Price per Share (MPS)

It reflects per unit price of the share traded in the market. It is calculated by

$$\text{MPS X} \frac{\text{Market Price}}{\text{No. of Common Stock}}$$

3.5.2 STATISTICAL TOOLS USED FOR ANALYSIS

Statistical tools are the mathematical technique used to analysis and interpret of performance. It is used to describe the relationship between variables and interpret the result. Statistic is also used to test the hypothesis that is set to know the information of population.

The research holds various statistical tools, which are defined as follows.

1. Mean (X)

The arithmetic mean or average is the sum of total values to the number of observations in the sample. It represents the entire data which lies almost between the two extremes. For this reason an average is frequently referred to as a measure of central tendency. In this study it is used in data related to dividend of sample banks over five years. It is calculated as:

$$\text{Mean X} \frac{\text{Sum of Total Values}}{\text{No. of values}}$$

2. Standard Deviation (S.D.)

The measurement of the scatterings of the mass of figures in a series about an average is known as dispersion. S.D. is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the

observations. It is calculated for selected dependent and independent variable specified. It is the positive square root of mean squared deviation from the arithmetic mean and is denoted by

$$SD X = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

3. Coefficient of Variation (CV)

CV reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as C.V.

It is used for comparing variability of two distributions. If the \bar{x} be the arithmetic mean and s the standard deviation of the distribution, then the C.V. is defined as,

$$C.V. = (SD/Mean) \times 100\%$$

Less the C.V. more will be the uniformity; consistency and more the C.V. less will be the uniformity and consistency.

4. Coefficient of Correlation (r)

Correlation Analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. Coefficient of Correlation is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its value lies somewhere ranging between -1 to +1. If both variables are constantly changing in the similar direction, the value of coefficient will be +1 indicative of perfect positive correlation. When the value coefficient will be -1 two variables take place in opposite direction. The correlation is said to be perfect negative. In this study, simple coefficient of correlation is used to

examine the relationship of different factors with dividend and other variables. The data regarding dividend over different years are tabulated and their relationship and their relationship with each other are drawn out. In practical life, the possibility of obtaining either perfect positive or perfect negative correlation is very remote.

$$r = \frac{n \sum X_1 X_2 - \sum X_1 \sum X_2}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_2^2 - (\sum X_2)^2}}$$

5. Coefficient of Determination (r^2)

The coefficient of determination is the measure of the degree of linear association or correlation between two or more independent variables. It measures the percentage total variation in dependent variables explained by independent variables. If r^2 has a zero value then, it indicates that there is no correlation which means all the data points in scatter diagram fall exactly on the regression line. If it has the value equal to one then it indicates that there is perfect correlation and as such the regression line is the perfect estimator. But in most of the cases the value of r^2 will lie somewhere between these two extremes of 1 and 0. One should remember that r^2 close to one indicates a strong correlation between two variables and r^2 near to zero means there is little correlation.

6. Regression Analysis

Regression analysis is the development of the statistical model that can be used to predict the values of the dependent variable based upon the values of at least one independent variable.

The simple linear regression analysis would be

$$Y = b_0 + b_1 X_1$$

Where,

Y is the dependent variable

X is the independent variable

Y_i is the predicted value for observation I and X_i is the value of X for observation I.

b_0 is the average value of Y when X equals zero.

b_1 is the expected change in Y per unit change in X

7. Probable Error

The Probable Error (PE) of correlation coefficient is an old measure of testing of reliability of an observed correlation coefficient. The Probable Error of the correlation coefficient is the basis for the interpretation of its value. It is Calculated By

$$PE = 0.6745 \times \frac{1}{\sqrt{n}} r^2$$

Where,

r = The Value of correlation coefficient

n = no of pairs of observation

PE is used in interpretation whether the calculated value of r is significant or not.

If $r < PE$ then it is insignificant or there is no evidence of correlation.

If $r > 6PE$ then, it is significant.

If $PE < r < 6PE$ then, nothing can be concluded.

8. Trend Analysis

The Arrangement of Statistical data chronologically (According to occurrence of time) is known as time series and the statistical analysis of these chronological variations is termed as Trend Analysis. It helps to know the past behavior of data in certain span of time interval. On the basis of these past trends, one can make plan in forthcoming days.

This Least square method is the most popular and widely used mathematical method of measuring trend. This is frequently used for future prediction. There are various types of curves that may be used to describe the given data but in this text, an attempt has been made to discuss only the fitting of linear trend by the least square method.

Let, the equation of Trend Analysis would be,

$$Y = a + bx$$

Where,

Y = the given value of the variable in time series. It is a dependent variable.

a = Intercept of trend line or y-intercept.

b = Slope of Trend Line.

x= Time Variable

CHAPTER – IV PRESENTATION AND ANALYSIS OF DATA

The purpose of this chapter is to carry out secondary data analysis. In this chapter, the relevant data and information regarding dividend policy of commercial banks are presented and analyzed comparatively. The chapter begins with the descriptive analysis of earnings per share, dividend per share, Market price per share, dividend yield, and price earning ratio analysis of the sample banks is done first and then explanatory and hypothetical analysis is followed. The financial as well as statistical tools are used for the comparison of the financial indicators. At the end of this chapter correlation and regression analysis of the sample firm is done and data are presented in a systematic tabulated form.

4.1 MARKET PRICE PER SHARE (MPS)

Market price of share is that value of stock, which can be received by firm or equity holders selling it in capital market. The capital market determines MPS. In this analysis MPS is calculated by taking the average of the highest and the lowest market price of NEPSE Index. The market price per share depicts the perception of the market relating to the performance of a company. MPS is the current price at which the stock is traded.

Table 4.1 Analysis of MPS of Nine Listed Banks

NAME	2005	2006	2007	2008	2009	AVERAGE	SD	CV
BOK	430	850	1375	2350	1825	1366	761.80	55.77
EBL	870	1379	2430	3132	2455	2053.2	911.28	44.38
HBL	920	1100	1740	1980	1760	1500	461.52	30.77
NABIL	1505	2240	5050	5275	4899	3793.8	1778.09	46.87
KBL	369	443	830	1005	700	669.4	264.98	39.58
NIB	800	1260	1729	2450	1388	1525.4	614.79	40.30
NIC	366	496	950	1284	1126	844.4	398.10	47.15
SBI	335	612	1176	1511	1900	1106.8	639.89	57.81
SCBNL	2345	3,775.00	5900	6830	6010	4972	1852.35	37.26
Average	7940	12155	21180	25817	22063			

The table 4.1 shows the market price of nine listed commercial banks for the period of 2005 to 2009. The table shows that SCBNL has highest average MPS and KBL has lowest one. Reviewing the SD and CV HBL has least variability in MPS. BOK falls in third last position in respect of average MPS which is Rs. 1366. Where as it has high SD and CV which shows the high risk of fluctuation in MPS.

EBL falls in third last position in respect of average MPS i.e. Rs. 2053.2. Its SD is Rs.911.28 and CV is 44.38%. The CV of the bank indicates that there is 44.38% chances of fluctuation in MPS.

The average MPS of HBL is Rs. 1500.00 which is in fifth position. Its SD is 461.52 and its CV is 30.77% which indicates there is chance of 30.77% fluctuation on MPS from its average market price per share. It has the lowest fluctuation in terms of MPS amongst other 8 banks.

NABIL bank is in second highest position which has average MPS of Rs.3793.80. Its SD is Rs.1778.09 and its CV is 46.87%. which indicate a 46.87% fluctuation on MPS.

The average MPS of KBL is Rs. 669.4. Its SD is 264.98. Its MPS fluctuates by 39.58% as denoted by its CV. NIB has average MPS is Rs. 1525.4 which is on fourth position. Its SD is Rs. 614.79 and CV is 40.30%.

NIC bank is second last position which has average MPS of Rs. 844.40. Its SD is Rs. 398.10 and CV is 47.15% which indicate 47.15% of fluctuation in MPS. The average MPS of SBI bank is Rs. 1106.80. Its SD is 639.89 and C.V. is 57.81% which indicate the highest CV among other bank. It indicates SBI bank's MPS is highly fluctuating. Its MPS fluctuates from 335 in 2005 to 1900 in 2009.

SCBNL has the highest average MPS among the listed bank which is Rs. 4972.00. Its SD is Rs. 1852.35 and CV is 37.26%. This CV is the second lowest CV showing that the bank has a low fluctuation in MPS. By looking at the 4.1 table we can see the market price of SCBNL, on an average, is best of all the banks being considered. Apart from SCBNL, NABIL and EBL are also performing well in the market. It shows that these banks are able to fulfill market expectations.

In addition, looking at the variations of the market prices the deviations in market price of these banks are the least of all.

4.2. ANALYSIS OF EPS:

Earning per share (EPS) is one of the most important financial indicators, which measure the earning capacity of a firm. It measures the profit available to the ordinary shareholders on a per share basis. EPS is calculated by dividing net income available to the common stockholders by the total number of common shares outstanding.

Table 4.2 Analysis of EPS of Nine Listed Banks.

NAME	2005	2006	2004	2008	2009	AVERAGE	SD	CV
BOK	30.10	43.67	43.50	59.94	54.68	46.38	11.55	24.90
EBL	54.20	62.80	78.42	91.82	99.99	77.45	19.17	24.76
HBL	47.91	59.24	60.66	62.74	61.90	58.49	6.06	10.36
NABIL	105.49	129.21	137.08	108.31	106.76	117.37	14.70	12.53
KBL	17.58	16.59	22.70	16.35	22.04	19.05	3.07	16.13
NIB	39.50	59.35	62.57	57.87	37.42	51.34	11.90	23.19
NIC	22.75	16.10	24.01	25.75	27.83	23.29	4.45	19.10
SBI	13.29	18.27	39.35	28.33	36.18	27.08	11.21	41.39
SCBNL	143.14	175.84	167.37	131.92	109.99	145.65	26.69	18.33
Average	52.66	64.56	70.63	64.78	61.87			

The table 4.2 shows the earning per share of the nine listed banks from the year 2005 to 2009. From the above table it is clear that SCBNL has the highest EPS of Rs. 145.65 where as KBL has the lowest which is 19.05.

BOK has third position in EPS of Rs. 46.38 and its SD is 11.55 and CV is 24.90%. This indicates 24.90% fluctuation in EPS. BOK has high variability in EPS ranging. The average EPS of EBL is Rs.77.45 which is in 3rd position. Its SD is 19.17 and CV is 24.76%. This shows that the fluctuation in its EPS is 24.76%.

The average EPS of HBL is Rs.58.49. Its SD is 6.06 and the coefficient of variation is 10.36%. The CV indicates the fluctuation in EPS is 10.36% which is the lowest.

Average EPS of NABIL bank, 117.37 is in second highest position. Its SD is 14.70 and CV is 12.53% which shows the fluctuation of EPS is low. In the year 2007 NABIL has 137.08 EPS but it decreased to Rs.108.31 in 2008 after which it increased to 106.76 in the year 2009.

KBL has lowest EPS of Rs.19.05. Its SD is Rs.3.07 and it has the third lowest CV among other banks which is 16.13%. It indicates 16.13% fluctuation in EPS. NIB has average EPS is Rs.51.34. Its SD is 11.90 and its CV is 23.19%. It indicates 23.19% fluctuation in EPS. From year 2005 to 2007 EPS of NIB has growing trend but in 2008 and 009 EPS it has decreased.

EPS of NIC is in second last position among other banks. It has average EPS of Rs.23.29. SD is 4.45 and CV is in high position i.e. 19.10%. This indicates high risk and fluctuation of EPS.

The average EPS of SBI is Rs.27.08. its SD is 11.21 and CV is 41.39% which indicates that there is the highest fluctuation of 41.39% in EPS of the bank. From the year 2005 to 2007 it's EPS is in growing trend but in 2008 it has decreased to 28.33.

SCBNL is highest position among other banks. Its average EPS is Rs145.65. its SD is Rs.6.69 and CV is 18.33%/ Which indicate 18.53% fluctuation on EPS of this Bank. Its CV is a higher position among other banks. This indicates high risk. SCBNL EPS has growing trend in 2005 to 2007 but in 2008 and 2009 it has decreased.

The data related to year 2008 shows that the EPS of BOK, EBL, HBL, and NIC have increased than in the previous years. But there is a remarkable decrease In EPS of NABIL, KBL, NIB, SBI and SCBNL. In the final year NIB an SCBNL has shown the previous trend of declining EPS while NABIL, KBL and SBI have recovered. Another decline in this year is of HBL from its 2008 EPS of 62.74 to a slightly lower 61.9 EPS.

Without considering the rate of fluctuation the analysis of EPS cannot be completed for this we can observe the co-efficient of variation (CV). It can be observed that the CV of the banks ranges from 10.36% to 41.39%. This implies that there is high fluctuation in the EPS of these banks which demonstrates the performance is not consistent and satisfactory.

Conclusion

The profitability of a company affects the market price of the stock and the ability of the company to pay dividends. The profitability ratios indicate how well management is using the resources as its disposal to earn a return on the funds invested by shareholders and various other groups.

EPS is one of the measures of profitability of a firm. It measures the profit available to the ordinary shareholders on a per share basis. Analyzing the EPS of all the nine listed commercial banks we found that SCBNL has the highest EPS of all banks in all the five years looking at the average EPS, it is the SCBNL which has the highest EPS of all the banks in all the five years. The average EPS of NIC being the second lowest among these banks indicates that this bank is also not performing well.

4.3. ANALYSIS OF DPS:

Dividend per share (DPS) is that amount, which is paid to common shareholders on a per share basis. DPS shows that what exactly do the ordinary shareholders receive. It is calculated by dividing the dividend to equity shareholders by the total number of equity shares.

Table 4.3 Analysis of DPS of Nine Listed Banks

NAME	2005	2006	2007	2008	2009	AVERAGE	SD	CV
BOK	15.00	273.00	20.00	942.11	737.37	397.50	423.21	106.47
EBL	174.00	25.00	739.00	959.60	30.00	385.52	434.63	112.74
HBL	185.58	85.00	450.00	421.00	567.46	341.81	199.53	58.38
NABIL	70.00	85.00	2120.00	2170.00	2484.50	1385.90	1202.56	86.77
KBL	0.00	89.65	167.05	10.58	70.76	67.61	67.47	99.79
NIB	12.50	466.80	437.25	824.09	20.00	352.13	342.34	97.22
NIC	83.20	50.13	191.05	257.85	169.69	150.38	83.87	55.77
SBI	0.00	5.00	424.19	0.00	70.76	99.99	183.70	183.72
SCBNL	120.00	507.50	3030.00	3495.00	3055.00	2041.50	1593.92	78.08
Average	660.28	1587.08	7578.54	9080.23	7205.54			

The table 4.5 shows the dividend per share of nine listed commercial banks from the year 2005 to 2009. It is clear to see that average DPS of SCBNL is the highest of Rs.2041.50 dividend per share where as KBL has the lowest of average dividend per share of 67.61. BOK has the third

highest dividend per share of Rs.397.50 in average. It has SD of 423.21 and CV of 106.47% which shows that there is a chance to increase or decrease in dividend payment by 106.47%.

The average DPS of EBL is 385.52. Its SD is 434.63 and the CV is the second highest, 112.74%. The DPS is fluctuating each year from 2005 DPS of 174 to 2006 DPS of 25. There are yet fluctuations in the coming years 2007, 2008, 2009 of 739, 959.60, and 30.00 respectively. NABIL bank has the second highest DPS of 1385.90. Its SD is 102.56 and CV is 86.77%. This shows there is a fluctuation in the DPS of 86.77%.

KBL has the lowest DPS of 67.61. Its SD is 67.47 and has a high CV of 99.79%. The DPS increased from 89.65 in 2006 to 167.05 in 2007. It went down in 2008 to 10.58 and increased to 70.76 in 2009. NIB has a moderate EPS of 352.13 and a moderate fluctuation of 97.2%. Its SD is 342.34. It experienced a high rise in the DPS from 12.5 in 2005 to 466.80 in 2006. After increasing till 2008 to 824.09 it has decreased to 20.00 in 2009.

The DPS of NIC is at the third last position with 150.38 average DPS. Its SD and CV are 83.87 and 55.77% respectively. There is the lowest fluctuation of 55.77% in its DPS amongst other banks. SBI has also low average DPS it has Rs.99.99 average DPS from the year 2005-2009. In 2005 and 2008 it has no DPS. SBI has also low average DPS in 2006 of Rs. 5.0 average DPS. In 2007 it has Rs.424.19 DPS and 70.76 DPS in the year 2009. Its SD is Rs. 183.72 which is the highest fluctuation showing that it may not even declare dividend in the future.

The average DPS of SCBNL is Rs.2041.50; which is the highest DPS among nine listed bank. In 2005 it has DPS of Rs.120.00. Its SD is 1593.92 and CV is 78.08% which indicate 78.08% fluctuation on DPS.

From the table we can see that in the five years SCBNL have the highest amount of dividend paid per share while KBL have paid the least amount .NABIL bank has continuously paid the dividend in the five year period while in the case of other banks, we can see that there is an irregularity in paying up the dividends. In the five year interval the highest dividend paid is in year 2008 in which all the banks on aggregate paid a dividend of 7205.54.

4.4. ANALYSIS OF DIVIDEND PAYOUT RATIO

Dividend payout ratio (DPR) indicates the percentage of actual earnings of the bank received by the ordinary shareholders. It is calculated by dividing the dividend per share to ordinary shareholders by the earning per share (EPS).

Table 4.4 Analysis of DPR of Nine Listed Banks

NAME	2002	2006	2004	2008	2009	AVERAGE	SD	CV
BOK	0.50	6.25	0.46	15.72	13.49	7.28	7.13	97.89
EBL	3.21	0.40	9.42	10.45	0.30	4.76	4.89	102.70
HBL	3.87	1.43	7.42	6.71	9.17	5.72	3.06	53.54
NABIL	0.66	0.66	15.47	20.04	23.27	12.02	10.73	89.30
KBL	0.00	5.40	7.36	0.65	3.21	3.32	3.12	93.74
NIB	0.32	7.87	6.99	14.24	0.53	5.99	5.80	96.84
NIC	3.66	3.11	7.96	10.01	6.10	6.17	2.90	47.01
SBI	0.00	0.27	10.78	0.00	1.96	2.60	4.64	178.48
SCBNL	0.84	2.89	18.10	26.49	27.78	15.05	12.77	84.82
AVERAGE	1.45	3.14	9.33	11.59	9.53			

The table 4.6 shows the dividend pay-out ratio (DPR) of nine listed commercial bank. From the above table it is clear that SCB has the highest average DPR of 15.05 where as SBI has the lowest average DPR of 2.60.

BOK has 7.28 average DPR ratio. It is the third highest average DPR among the nine listed banks. The SD is 7.13 while it has a high CV of 97.89 showing high fluctuation in its dividend payment.

EBL has average DPR of 4.76 which is the third lowest DPR ratio. The SD is 4.89 while the CV is 102.70 that show the second highest deviation in the DPR. It's DPR has fluctuated from 3.21 in 2005 to 0.40 in 2006. This rose to 9.42 in 2007 and 10.45 in 2008. Then it decreased to a low 0.30 ratio.

HBL has average DPR of 5.72% which is in fourth position in the group. Its DPR decreased from 3.78 in 2005 to 1.44 in 2006 after which it is in increasing trend. The SD is 3.06 and the CV is second lowest of 53.54% which indicates low risk of getting fewer dividends from past years which shows safety to investor from the earning side.

NABIL has the second highest average DPR among the banks. It has a policy to pay more than 50% of earning its earning as dividend which shows moderate growth opportunity. It has 89.30% CV which is lower than other 5 listed banks and has a SD of 10.73

KBL has the second lowest PE ratio of 3.32%. It has paid dividend to its shareholder only after 2005. After this its dividend has increased to 5.40 in 2006, 7.36 in 2007 and deceased to 0.65 in 2008 and 3.1 in 2009. 93.74% CV show it has great chance not to pay dividend in coming year too which indicates risk to investors.

NIB has moderate 5.99% DPR. Its DPR rose from 0.32 in 2005 to 14.24 in 2008 after which it declined to 0.53 in 2009. 96.84% of CV indicates high risk in dividend payments. Seeing dividend payout ratio of past three years there is positive indication to share holder.

NIC has a high DPR of 6.17. Its dividend has gradually increased from 3.65 to a high 10.01 in 2008 and decreased to 6.10 on 2009. A 47.01% of CV indicates low probability of non receipt of dividend in coming years.

SBI has the lowest DPR of 2.60. It has also the highest fluctuation trend in its dividend payment. In 2005 and 2008 it has not paid any dividend where as in 2007, it has a high DPR of almost 10.78. It's DPR has decreased making around 1.96% in 2009. SBI has 178.48% CV, which shows the highest inconsistency in dividend payment.

SCBNL has higher average DPR of 15.05%. It has paid dividends in each year and all DPR is 2/3 of its earning. High DPR in one hand indicate less future growth and in the other hand it provides positive indications to market.

4.5 DIVIDEND YIELD (DY)

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

Table 4.5 Analysis of DY of Nine Listed Banks

NAME	2002	2006	2004	2008	2009	Average
BOK	0.03	0.32	0.01	0.40	0.40	0.24
EBL	0.20	0.02	0.30	0.31	0.01	0.17
HBL	0.20	0.08	0.26	0.21	0.32	0.21
NABIL	0.05	0.04	0.42	0.41	0.51	0.28
KBL	0.00	0.20	0.20	0.01	0.10	0.10
NIB	0.02	0.37	0.25	0.34	0.01	0.20
NIC	0.23	0.10	0.20	0.20	0.15	0.18
SBI	0.00	0.01	0.36	0.00	0.04	0.08
SCBNL	0.05	0.13	0.51	0.51	0.51	0.33

The table 4.7 shows the dividend yield of listed commercial banks for the period of five year starting from 2005 to 2009. From the above table it is clear that SCBNL has the highest average dividend yield and SBI has the lowest one.

The table shows that BOK has increasing trend in its DY. It started from 0.03 in year 2005 and continuously increased till 2006 reaching 0.32 than after it decreased to 0.01 in 2007 after which it has increasing trend.

EBL has fluctuating trend in its dividend yield. It started from 0.2 in year 2005 and decreased to 0.02 in 2006 than after it has dividend yield of 0.30 and 0.31 in year 2007 and 2008 respectively. After that it decreased reaching 0.40 in year 2009.

HBL has an increasing trend in DY. It started from 0.20 in year 2005 and decreased to 0.08 in 2006 than after which it is increased to 0.26 in 2007. In 2008 it slightly decreased to 0.21 and in 2009 it has a DY of 0.32

NABIL has the second highest DY of 0.28. It has increasing trend in DY it started from 0.05 in 2005 and increased to 0.51 in 2009 which shows a high dividend paid to stockholders.

KBL has the second lowest dividend yield among the listed banks. It has not paid dividend in 2005 and after that its D has ranged from 0.0 in 2006 to 0.10 in 2009 which indicated low return to investor.

NIB has a moderate dividend yield in relation to other banks it has paid a fluctuating dividend from 2005 to 2009. Lower dividend yield of NIBL shows the less return received by the investor of NBL in relation to share price.

NIC and SBI are also not in better position in respect of DY. NIC has paid a low dividend from year 2005 and 2009 and SBI has paid dividend only in year 2006, 2007 and 2009 which shows inconsistency in yield to investor which indicates high risk to investor.

SCBNL has the highest average yield among the bank studied. It started from 0.05 in year 2005 and made highest average DY of 5.51 in 2009. The high DY of SCBNL indicates that the investors of SCBNL are getting better return.

4.6 CORRELATION ANALYSIS

The correlation coefficient shows the relationship between two variables. Its value ranges from -1 for perfect negative correlation up to +1 for perfect positive correlation. To find out the relationship between DPS and MPS and DPS and EPS, We have computed correlation between these two set of variables.

4.6.1 CORRELATION BETWEEN DPS AND MPS

The correlation between DPS and MPS is illustrated in the table below.

Table: 4.6 Correlation Coefficient Between DPS and MPS

Name	Correlation	Relation
BOK	0.8613	High degree of Positive relation
EBL	0.6962	Moderate degree of Positive relation
HBL	0.8578	High degree of Positive relation
NABIL	0.9740	High degree of Positive relation
KBL	0.1713	Low degree of Positive relation
NIB	0.8496	High degree of Positive relation
NIC	0.9287	High degree of Positive relation
SBI	0.1765	Low degree of Positive relation
SCBNL	0.9783	High degree of Positive relation

By analyzing the correlation coefficient between DPS and MPS, we find that DPS and MPS of all the listed banks are positively correlated which indicates a change in dividend payment

resultants a positive change in market price of share. Among these banks, the DPS and MPS of SCBNL and NABIL are highly correlated. And, there is not much correlation between DPS and MPS of KBL and SBI.

4.6.2 CORRELATION BETWEEN DPS AND EPS

Correlation between DPS and EPS is illustrated in the table below.

Table 4.7 Correlation Coefficient Between DPS and EPS

Name	Correlation	Relationship
BOK	0.9135	High degree of Positive relation
EBL	0.3233	Low degree of Positive relation
HBL	0.5791	Moderate degree of Positive relation
NABIL	(0.0574)	Low degree of Negative relation
KBL	0.6892	Moderate degree of Positive relation
NIB	0.8343	High degree of Positive relation
NIC	0.7627	High degree of Positive relation
SBI	0.7044	High degree of Positive relation
SCBNL	(0.4473)	Moderate degree of Negative relation

By analyzing the correlation coefficient between DPS and EPS, we find that DPS and EPS of all banks except NABIL and SCBNL are positively correlated. KBL and SCBNL have moderate negative correlation which indicates earning do not impact the dividend decision of these bank. Among these banks, the DPS and EPS of BOK are highly correlated which shows this bank's dividend decision largely depends upon the earning of the bank.

Conclusion

The correlation coefficient explains the relationship between two variables; whether they are positively related, negatively related, or not related at all. High degree, moderate degree, and low degree are the three categories of correlation.

While analyzing the correlation coefficient between DPS and MPS we found that MPS and DPS of all of the banks are positively correlated. Thus, any increase in cash dividend increase the MPS of all these banks. Also DPS and MPS of BOK, HBL, NABIL, NIB, NIC and SCBNL are highly correlated while the DPS and MPS of EBL are moderately correlated, and there is low degree correlation between DPS and MPS of KBL and SBI bank.

While analyzing the correlation coefficient between DPS and EPS we found that DPS and EPS of all banks are positively correlated except NABIL and SCBNL. Thus, any increase in earnings increases the cash dividends of all these banks except NABIL and SCBNL. Also, DPS and EPS of BOK, NIB and NIC are highly correlated, DPS and EPS of HBL, KBL, SBI and SCBNL are moderately correlated, and there is low degree correlation between DPS and MPS of EBL and NABIL.

4.7 SIMPLE LINER REGRESSION ANALYSIS

The regression analysis is used in determining the strength of relationship between two variables. We have used this analysis to describe the average relationship between DPS and MPS, and DPS and EPS.

4.7.1. SIMPLE REGRESSION ANALYSIS OF DPS AND MPS

To describe the average relationship between DPS and MPS, we have performed the regression analysis of all the nine banks. In this analysis, we have performed the regression analysis

assuming that MPS is depended on cash dividend DPS. The summary of the regression analysis is presented in the table below.

Table 4.8 Simple Regression Analysis of DPS and MPS

Banks	Intercept (b₀)	Slope(b₁)	Coefficient Determination(r²)	Probable Error (PE)
BOK	749.71	1.55	0.74	0.0779
EBL	1490.45	1.46	0.48	0.1554
HBL	821.8	1.98	0.74	0.0797
NABIL	1797.83	1.44	0.95	0.0155
KBL	623.92	0.67	0.03	0.2928
NIB	988.14	1.53	0.72	0.0839
NIC	181.5	4.41	0.86	0.0415
SBI	1045.31	0.61	0.03	0.2922
SCBNL	2650.94	1.14	0.96	0.0129

From the analysis we find that, the slopes (b₁) of all the listed banks are positive. Thus for any increase in DPS, the value of MPS is estimated to increase by an average of their slopes. The intercept (b₀) of these banks are the average prices of MPS when DPS are zero.

The coefficient of Determination (r²) measures the proportion of variation that is explained by the independent variable in the regression model. In the case of SCBNL 96% of the variation in

their MPS is explained by its DPS. In the case of KBL and SBI it has 0% of variation in their MPS is explained by its DPS since the co-efficient of determination of other banks range from 95% to 48%.

4.7.2 SIMPLE REGRESSION ANALYSIS OF DPS AND EPS

To describe the average relationship between DPS and EPS, we have performed the regression analysis of all the nine banks. In this analysis, we have performed the regression analysis assuming that DPS is depended on EPS. The summary of the regression analysis is presented in the table below.

Table 4.9 Simple Regression Analysis of DPS and EPS

Banks	Intercept (b₀)	Slope (b₁)	Coefficient Determination (r²)	Probable Error (PE)
BOK	36.47	0.02	0.83	0.0499
EBL	71.95	0.01	0.10	0.2701
HBL	52.48	0.02	0.34	0.2005
NABIL	118.34	0.00	0.00	0.3007
KBL	16.93	0.03	0.47	0.1584
NIB	41.13	0.03	0.70	0.0917
NIC	17.00	0.04	0.58	0.1262
SBI	22.79	0.04	0.50	0.1520
SCBNL	160.94	(0.01)	0.20	0.2413

From the analysis we find that, the slopes (b_1) of BOK, EBL, HBL, NABIL, KBL, NIB, NIC, and SBI all the banks except SCBNL are positive. Thus for any increase in EPS, the value of DPS is estimated to increase by an average of Rs.0.02, 0.01, 0.02, 0.00, 0.03, 0.03, 0.04 and 0.04 respectively. The intercept (b_0) of these banks are 36.47, 71.95, 52.48, 118.34, 16.93, 41.13, 17.00 and 22.79 respectively.

These values are the average prices of DPS when EPS are zero. Similarly in the case of SCBNL slopes (b_0) are -0.01. These prices represent the average decrease in DPS for any increase in EPS. Their intercept (b_0) are the average prices of DPS when EPS are zero.

4.8 TREND ANALYSIS

Trend analysis is an analysis of financial ratio over time used to determine the pattern of growth. Trend Analysis informs about the future expected values of studied variables. It gives a glimpse of future expected value if the same growth level is achieves. This information is crucial for management to make decision regarding future. This method is widely used in practice. The least square method has been used to measure the trend behavior of these selected banks.

4.8.1 TREND ANALYSIS OF MPS

Trend analysis of MPS shows the pattern of market price per share growth. It may be positive or Negative. Trend helps the investor to estimate its future market value of share and make decision regarding purchase or sale the share decision. Following table No 13 shows the pattern of MPS of listed commercial banks

Table 4.10 Trend Analysis MPS

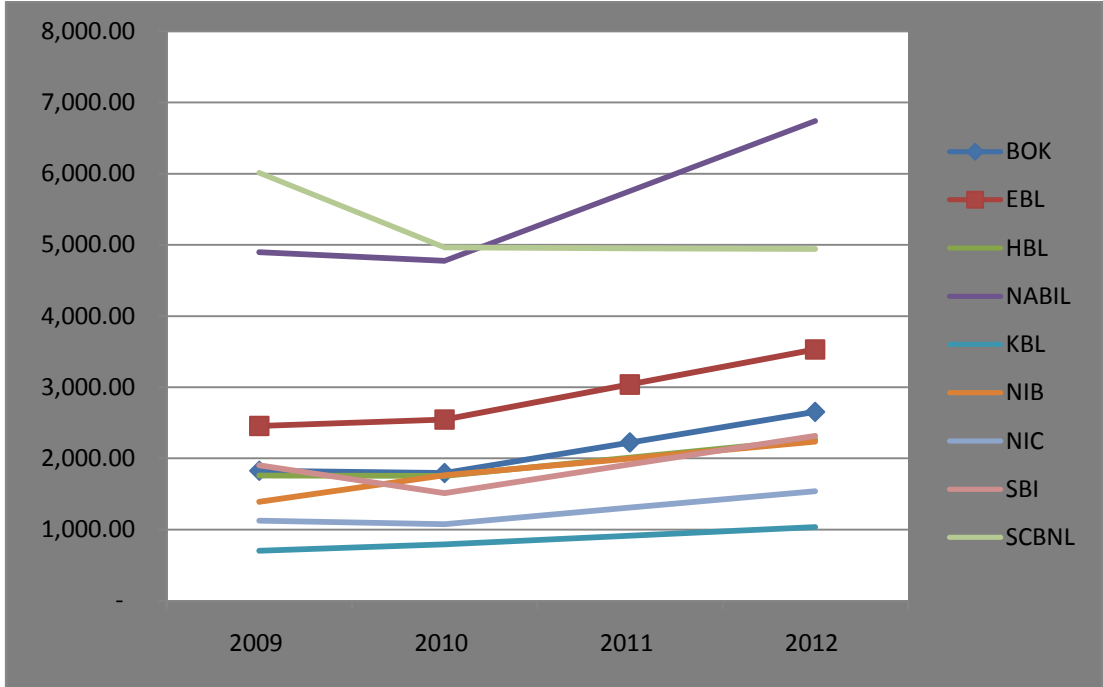
			Actual	Forecasted		
NAME	A	B	2,009	2,010	2,011	2,012
BOK	1,366.00	429.00	1,825.00	1,795.00	2,224.00	2,653.00
EBL	2,053.20	492.30	2,455.00	2,545.50	3,037.80	3,530.10
HBL	1,500.00	256.00	1,760.00	1,756.00	2,012.00	2,268.00
NABIL	3,793.80	982.30	4,899.00	4,776.10	5,758.40	6,740.70
KBL	669.40	122.40	700.00	791.80	914.20	1,036.60
NIB	1,525.40	236.60	1,388.00	1,762.00	1,998.60	2,235.20
NIC	844.40	230.80	1,126.00	1,075.20	1,306.00	1,536.80
SBI	1,106.80	402.90	1,900.00	1,509.70	1,912.60	2,315.50
SCBNL	4,972.00	1,038.50	6,010.00	6,010.50	7,049.00	8,087.50

Table 4.12 shows the trend of MPS of selected commercial banks for coming Three years. It is clear to see that all banks have Increasing trend of MPS which indicates that these banks share will increase in the future.

SCBNL has the highest positive trend. The table shows that if the trend of SCBNL’s share continues it will reach to in the year 2012.

The trend of MPS has been presented to have eagle eye on future trend.

Figure 4.1 Trend of MPS



4.8.2 TREND ANALYSIS OF EPS

Trend analysis of EPS shows the pattern of earning per share. Trend of EPS helps the investor to estimate its future dividend. Following table No 14 shows the pattern of EPS of listed commercial banks:

Table 4.11 Trend Analysis EPS

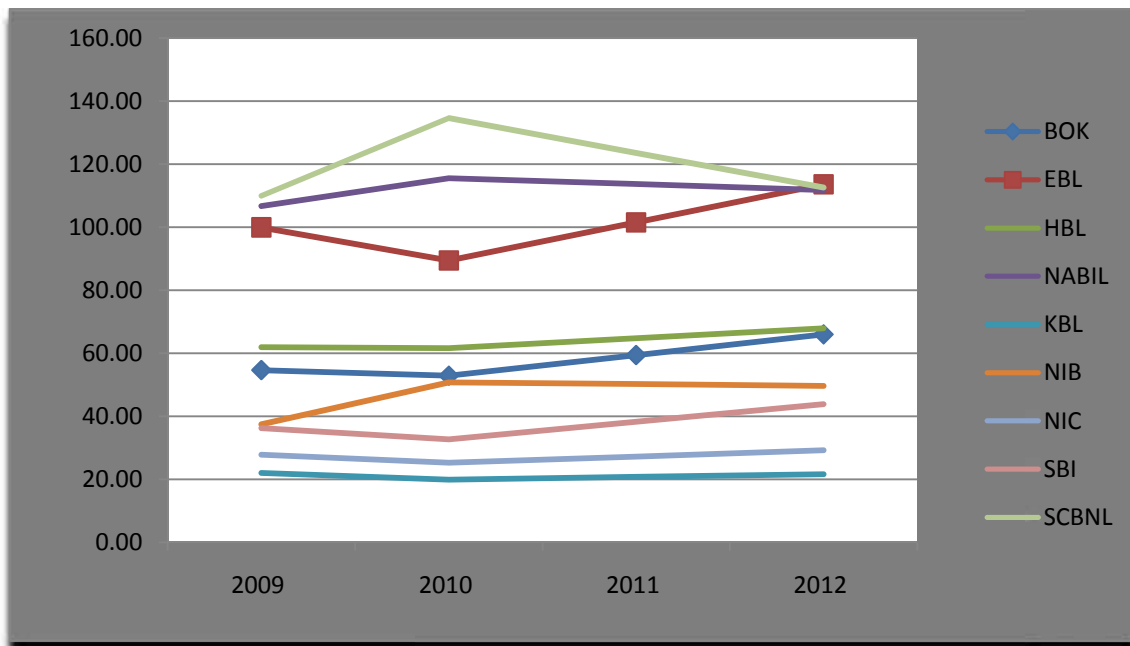
			Actual	Forecasted		
NAME	A	B	2009	2010	2011	2012
BOK	46.38	6.54	54.68	52.92	59.46	66.00
EBL	77.45	12.06	99.99	89.51	101.57	113.63
HBL	58.49	3.15	61.90	61.64	64.79	67.94
NABIL	117.37	(1.84)	106.76	115.53	113.69	111.85
KBL	19.05	0.87	22.04	19.92	20.79	21.66
NIB	51.34	(0.56)	37.42	50.78	50.22	49.66
NIC	23.29	1.98	27.83	25.27	27.25	29.23
SBI	27.08	5.58	36.18	32.66	38.24	43.82
SCBNL	145.65	(11.02)	109.99	134.63	123.61	112.59

Table 4.13 exhibits the future trend of EPS of selected commercial banks for coming Three years. It is clear to see that earning of all banks have in increasing trend except NABIL, NIB and SCBNL

NABIL, NIB and SCBNL show the negative growth in earning per share. If earning of these banks continues the past trend the earning of NABIL is expected to reduce from market price of 106.76 of 2009 to Market Price of 111.85 in 2012. And SCBNL's share may go to 112.59 even. Likewise other banks have positive growth in earning per share and if the trend continues there earning tends to increase.

The trend of EPS have been presented to have eagle eye on future trend

Figure 4.2 Trends of EPS



4.9 MAJOR FINDINGS:

In this segment we analyze various aspects of dividend and summarize the major findings for easy reference

Market price of SCBNL on an average is best of all the banks being considered. Apart from SCBNL, NABIL and HBL are also performing well in the market. It shows that these banks are able to fulfill market expectations.

In addition, looking at the variations of the market prices the deviations in market price of these banks are the least of all.

Almost all Banks have increasing EPS except NIB and SCBNL. Although decreasing, SCBNL still has the highest average EPS and EBL has the lowest variation in EPS during review period. SCBNL have the highest amount of dividend paid per share while KBL have paid the least amount. NIC has continuously paid the dividend in the five year period while in the case of other banks; we can see that there is an irregularity in paying up the dividends. In the five year interval the highest dividend paid is in year 2008 in which all the banks on aggregate paid a dividend of 9080.23. SCBNL has the highest average DPR of 15.05 whereas SBI has the lowest average DPR of 2.60.

) SBI has the widest range of fluctuation trend in DPR. In 2005 and 2008 it has not paid any dividend where as in 2007, it has a high DPR of almost 10.78. It's DPR has decreased making around 1.96% in 2009. It also has 178.48% CV, which shows inconsistency in dividend payment.

Correlation coefficient between DPS and MPS indicates that MPS and DPS of most of the banks are positively correlated. Thus, any increase in cash dividend increases the MPS of all these banks. Likewise DPS and MPS of BOK, HBL, NABIL, NIB, NIC and SCBNL are highly correlated while the DPS and MPS of EBL are moderately correlated, and there is low degree correlation between DPS and MPS of KBL and SBI.

While analyzing the correlation coefficient between DPS and EPS we found that EPS and DPS of all banks are positively correlated except NABIL and SCBNL. Thus, any increase in earnings increases the cash dividends of all these banks except NABIL and SCBNL. In addition to this DPS and EPS of BOK, NIB and NIC are highly correlated; DPS and EPS of HBL, NABIL, KBL, SBI and SCBNL are moderately correlated, and there is low degree correlation between DPS and MPS of EBL.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

Dividend distribution is the very important factor to any organization for effective goal achievement to satisfy the shareholders. Actually, paying dividend to shareholders is an effective way to attract new investors to invest in share. Due to decision of earnings of a company between dividend payout and retention of earning, its effect on market value and shares is a crucial question. So, a wise policy should be maintained between shareholder's interest and corporate growth from internally generated funds. The fund sometimes couldn't be used in case of lack of investment opportunities. In such a situation distribution of dividend distribute to shareholders. It is taken as a best because shareholders have greater investment opportunities to employ elsewhere.

Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. It is a very critical and the third major decision of the firms. Dividends as returns to shareholders are quoted on annual basis. Firms pay dividend in two forms; cash and stock. Various factors such as legal rules, liquidity position, earnings, investment need, and tax position of stockholders influence the dividend policy. Banks can follow different dividend payout schemes depending upon the influencing factors. Cash dividends are widely used form of dividends. Few banks pay stock dividends too. This research mainly aims at analyzing the dividend policies of different listed banks and identifies the regularity of dividend distribution of different listed banks nine banks have been chosen as sample to complete the study.

All Banks have increasing trend in EPS except NIB and SCBNL among them SCBNL has the highest average EPS and a low variation in EPS which secures the interest of investors in terms of regular dividend

Market price of SCBNL is highest among the banks considered. Apart from SCBNL, NABIL, EBL and HBL are also performing well in the market. This shows that these banks are able to fulfill market expectations.

Since Nepalese stock market is not perfect competitive .Share price of stock do not moves as per the risk and return of that share. Therefore it has also found that the correlation coefficient between DPS and MPS of most of the banks are positively correlated. Correlation coefficient between DPS and EPS it has been found that EPS and DPS of all banks are positively correlated except NABIL and SCBNL which obviously proves that the higher earning enables the banks higher dividend and vice versa.

5.2 CONCLUSION

The above mention summery has lead this study to conclude that earning per share of banks are increasing which indicates that banks in Nepal are doing well .

SCBNL has become the top bank in various aspects they are top in utilization of shareholders equity and provide a reasonable return to stockholders likewise NABIL, EBL and HBL are also doing well and one can choose these three banks for comparatively higher return than SCBNL because SCBNL has comparatively low return and low variation in DPS.

Commercial banks of Nepal prefer cash dividend rather than stock dividend because it is easy and low operation cost to distribute likewise they prefer to provide fair return to Shareholders because in they have to retain the market image as well.

Another interesting conclusion is the share price in Nepal affected by various other factors rather than the earnings and dividend of those banks. SCBNL and HBL are the banks whose share price tends to move according to dividend per share and earnings per share otherwise other banks shows unjustifiable trend on stock price.

5.3. RECOMMENDATION

This study is basically to analysis the dividend policy of commercial banks therefore various aspects of commercial banks have been scrutinize to come into conclusion. All banks have their own resources structure and in the basis of that resources management try to get optimal result. Various managerial skill as well as other set ups obviously effect the banking progress therefore it is essential to analysis the performance of banks by bringing the common variables of all banks in similar respect and draw conclusion.

This study has tried to find out some real facts about dividend policy and other inter related variables with dividend policy of different commercial banks .Based on the above summery and conclusions following recommendation have been provided.

Dividend policy is the only mirror of management perspective to shareholders return therefore all banks should have to come up with clear view regarding dividend policy .Current uncertain scenario should be eliminated and a proper disclosure in required to strength the Nepalese stock market.

Legal rules relating to dividend policy indeed helps the central banks to protect the interest of depositors but there are still some loopholes in legal rules regarding to dividend declaration therefore NRB should come up with more monitoring tools to strengthen the banking system in country.

Dividend policy means to determine the portion of net profit after tax to be distributed and decide to retain the amount for future growth prospects. But Nepalese banks do not seem to have clear vision regarding dividend declaration neither any capital Budgeting procurers are followed to come up with the retention decision. This increases the confusion of shareholders and they may hesitate to be part of capital market and ultimate effect could be the economic slowdown therefore commercial banks should feel the reality.

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

Each and every company should provide the information regarding their activities and performance, so that investors can analyze the situation and invest their money in the best company. On the other hand, NEPSE should provide all the necessary information regarding the company's activities. The information regarding secondary market and capital market is not duly flash out today. Therefore concerning body should timely provide all the information about this factor.

The activities of Nepal Stock Exchange Ltd. and Security Board of Nepal should be made wide and these organizations should be revitalized equipping them with facilities.

BIBLIOGRAPHY

- Adhikari, Navraj (1999). *Corporate Dividend Practices in Nepal*. Kathmandu: Unpublished Master's Degree Thesis, Central Department of Management, Tribhuvan University.
- Gautam, Rishi Raj (1996). *Dividend Policy in Commercial Banks: A Comparative Study of; NGBL, NIBL, and NABIL*. Kathmandu: Unpublished Master's Degree Thesis, Shanker Dev Campus.
- Khan, M.Y. and Jain, P.K.(1992). *Financial Management Text and Problems*. New Delhi: Tata Mc Graw-Hill Publishing Company Limited.
- Manandhar, Kamal Das (2002). *Corporate Dividend Policy and Practice in Nepal*. Kathmandu: Unpublished Ph. D. Thesis, Tribhuvan University.
- Manandhar, Kamal Das (2000). *Preliminary Test of Lagged Structure of Dividend Management Dynamics*. Kathmandu: Shankar Dev Campus.
- Mathur, Iqbal (1979). *An Introduction to Financial Management*. New York: Macmillan Publishing Company Inc.
- Modigliani, F. and Miller, M. H. (1961). Dividend Policy, Growth and Valuation of Shares. *Journals of Business*. Nepal Rastra Bank.
- Pandey, I.M. (1995). *Financial Management*. New Delhi: Vikas Publishing House Pvt. Ltd.
- Gupta, S. P. (2000), "**Statistical Methods**", New Delhi: Sultan Chand & Sons Publishers.
- Pradhan, Surendra (1992). *Basics of Financial Management*. Katmandu: Education Enterprises Pvt. Ltd.

Pradhan, Radhe Shyam (1993) *Stock Market Behaviour in a Small Capital Market : A case study of Nepal*. Kathmandu: The Nepalese Management Review. Security Board of Nepal

Shrestha, K. (2007) **A Study on Share Price Behaviour in Nepalese Security Market**. (Unpublished Master Degree Thesis). Shanker Dev Campus: Kathmandu

Timilsena, Sadakar (1997). *Dividend and Stock Price: An Empirical Study*. Unpublished Master's Degree Thesis, Central Department of Management, Tribhuvan University.

Van Horne, James C. and Donald, John G. Mc. (1971). Dividend Policy and New Equity Financing. *Journal of Finance*.

Van Horne, James C. (2000). *Financial Management and Policy*. New Delhi: Prentice Hall of India Pvt. Ltd.

Walter, James E. (1966). Dividend Policy and Common Stock Price. *Journal of Finance*.

Weston, J. F. and Copeland (1992). *Managerial Finance*. New York: The Dryden Press.

WEBSITES:

www.nrb.org.np

www.businessweek.com

www.sebonp.com

www.nepalstock.com

Appendix –I

1. Calculation of Standard Deviation

Bank of Katmandu (BOK)

Year	X	$x = (x - \bar{x})$	$(x - \bar{x})^2$
2005	430.00	(936.00)	876,096.00
2006	850.00	(516.00)	266,256.00
2007	1,375.00	9.00	81.00
2008	2,350.00	984.00	968,256.00
2009	1,825.00	459.00	210,681.00
	$\Sigma x = 6,830.00$		$\Sigma (x - \bar{x})^2 = 2321370.00$

$$\bar{x} = 1366.00$$

$$\begin{aligned} \text{Then, Standard Deviation S.D} &= \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}} \\ &= \sqrt{\frac{2321370.00}{5}} \\ &= 761.80214 \end{aligned}$$

2. Calculation of Standard Deviation

Everest Bank Ltd. (EBL)

Year	X	$x = (x - \bar{x})$	$(x - \bar{x})^2$
2005	870.00	(496.00)	246,016.00
2006	1,379.00	13.00	169.00
2007	2,430.00	1,064.00	1,132,096.00
2008	3,132.00	1,766.00	3,118,756.00
2009	2,455.00	1,089.00	1,185,921.00
	$\Sigma x = 10,266.00$		$(\Sigma (x - \bar{x}))^2 = 5,682,958.00$

$$\bar{x} = 2053.20$$

Then , Standard Deviation S.D

$$= \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}}$$

$$= \sqrt{\frac{5,682,958.00}{5}}$$

$$= 1191.947776$$

3. Calculation of Standard Deviation

Himalayan Bank Limited

Year	X	$x = (x - \bar{x})$	$(x - \bar{x})^2$
2005	920.00	(446.00)	

			198,916.00
2006	1,100.00	(266.00)	70,756.00
2007	1,740.00	374.00	139,876.00
2008	1,980.00	614.00	376,996.00
2009	1,760.00	394.00	155,236.00
	$\bar{x}=7500.00$		$(x-\bar{x})^2=$ 941,780.00

$$\bar{x} = 1500.00$$

Then, Standard Deviation S.D

$$= \sqrt{\frac{(x - \bar{x})^2}{n}}$$

$$= \sqrt{\frac{941,780.00}{5}}$$

$$= 485.2267511$$

4. Calculation of Standard Deviation

NABIL Bank Limited

Year	X	$x - \bar{x}$	$(x - \bar{x})^2$
2005	1,505.00	139.00	19,321.00
2006	2,240.00	874.00	763,876.00
2007	5,050.00	3,684.00	13,571,856.00
2008	5,275.00	3,909.00	15,280,281.00
2009	4,899.00	3,533.00	12,482,089.00
	$\Sigma x = 18,969.00$		$\Sigma (x - \bar{x})^2 = 42,117,423.00$

$$\bar{x} = 3793.80$$

Then, Standard Deviation SD

$$= \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}}$$

$$= \sqrt{\frac{42,117,423.00}{5}}$$

$$= 3244.896878$$

5. Calculation of Standard Deviation

Kumari Bank Limited

Year	X	$x - \bar{x}$	$(x - \bar{x})^2$
2005	369.00	(997.00)	994,009.00
2006	443.00	(923.00)	851,929.00
2007	830.00	(536.00)	287,296.00
2008	1,005.00	(361.00)	130,321.00
2009	700.00	(666.00)	443,556.00
	$\Sigma x = 3,347.00$		$\Sigma (x - \bar{x})^2 = 2,707,111.00$

$$\bar{x} = 669.40$$

Then , Standard Deviation S.D

$$= \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}}$$

$$= \sqrt{\frac{2,707,111.00}{5}}$$

$$= 822.665029$$

6. Calculation of Standard Deviation

Nepal Investment Bank Limited

Year	X	$x - \bar{x}$	$(x - \bar{x})^2$
2005	800.00	(566.00)	320,356.00
2006	1,260.00	(106.00)	11,236.00
2007	1,729.00	363.00	131,769.00
2008	2,450.00	1,084.00	1,175,056.00
2009	1,388.00	22.00	484.00
	$\bar{x} = 7,627.00$		$(x - \bar{x})^2 = 1,638,901.00$

$$\bar{x} = 1525.40$$

Then, Standard Deviation S.D

$$= \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

$$= \sqrt{\frac{1,638,901.00}{5}}$$

$$= 640.0978441$$

7. Calculation of Standard Deviation

Nepal Industrial and Commercial Bank Limited

Year	X	$x - (\bar{x})$	$(x - \bar{x})^2$
2005	366.00	(1,000.00)	1,000,000.00
2006	496.00	(870.00)	756,900.00
2007	950.00	(416.00)	173,056.00
2008	1,284.00	(82.00)	6,724.00
2009	1,126.00	(240.00)	57,600.00
	$\Sigma x = 4,222.00$		$\Sigma (x - \bar{x})^2 = 1,994,280.00$

$$\bar{x} = 844.40$$

Then, Standard Deviation S.D

$$= \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}}$$

$$= \sqrt{\frac{1,994,280.00}{5}}$$

$$= 706.0948945$$

8. Calculation of Standard Deviation

Nepal SBI Bank Limited

Year	X	$x - \bar{x}$	$(x - \bar{x})^2$
2005	335.00	(1,031.00)	1,062,961.00
2006	612.00	(754.00)	568,516.00
2007	1,176.00	(190.00)	36,100.00
2008	1,511.00	145.00	21,025.00
2009	1,900.00	534.00	285,156.00
	$\Sigma x =$ 5,534.00		$\Sigma (x - \bar{x})^2 =$ 1,973,758.00

$$\bar{x} = 1106.80$$

Then , Standard Deviation S.D

$$= \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}}$$

$$= \sqrt{\frac{1,973,758.00}{5}}$$

$$= 702.4524895$$

9. Calculation of Standard Deviation

Nepal Standard Chartered Bank Limited

Year	X	$x - \bar{x}$	$(x - \bar{x})^2$
2005	2,345.00	979.00	958,441.00
2006	3,775.00	2,409.00	5,803,281.00
2007	5,900.00	4,534.00	20,557,156.00
2008	6,830.00	5,464.00	29,855,296.00
2009	6,010.00	4,644.00	21,566,736.00
	$\Sigma x = 24,860.00$		$\Sigma (x - \bar{x})^2 = 78,740,910.00$

$$\bar{x} = 4972.00$$

Then, Standard Deviation S.D

$$= \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}}$$

$$= \sqrt{\frac{78,740,910.00}{5}}$$

$$= 4436.803748$$

Appendix II

Calculation of Correlation Coefficient between DPS & MPS

Bank of Kathmandu (BOK)

Calculated table of Correlation Coefficient between DPS & MPS

Year	DPS(X1)	MPS (X2)	X ₁ X ₂	X ₁ ²	X ₂ ²
2005	15	430	6450	225	184900
2006	273	850	232050	74529	722500
2007	20	1375	27500	400	1890625
2008	942.11	2350	2213959	887571.3	5522500
2009	737.37	1825	1345700	543714.5	3330625
	X ₁ = 1987.48	x ₂ = 6830	X ₁ X ₂ = 3825659	X ₁ ² = 1506440	X ₂ ² = 11651150

$$r = \frac{n \sum X_1 X_2 - \sum X_1 \sum X_2}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_2^2 - (\sum X_2)^2}}$$

$$= \frac{5 \times 3825659 - 1987.48 \times 6830}{\sqrt{5 \times 1506440 - (1987.48)^2} \sqrt{5 \times 11651150 - (6830)^2}}$$

$$= \frac{19128295 \text{ Z}13574488}{1892.6498 \mid 3406.8827}$$

$$= \frac{5553807}{6448036}$$

$$r = -0.8613$$

Appendix III

Simple Liner Regression Analysis:

Bank of Kathmandu (BOK)

Simple Linear Regression equation of Y on x is Given by

$$Y = b_0 + b_1 X_1 \dots \dots \dots (i)$$

Y = Dependent

$$Y = nb_0 + b_1 \sum x \dots \dots \dots (ii)$$

$$\sum xy = nb_0 \sum x + b_1 \sum x^2 \dots \dots \dots (iii)$$

Calculation of Simple Liner Regression between MPS& DPS

Year	Y(MPS)	X (DPS)	XY	X ²
2005	430	15	6450	225
2006	850	273	232050	74529
2007	1375	20	27500	400
2008	2350	942.11	2213959	887571.3
2009	1825	737.37	1345700	543714.5
	Y = 6830	X = 1987.48	XY = 3825659	X ² = 1506440

Y = Dependent (MPS)

Putting the Calculated Value On equation (ii) & (iii),

Then , We get

$$6830 X 5b_0 \Gamma 1987.48b_1 \dots\dots\dots(iv) \quad | \quad 8$$

$$\underline{3825659 = 1987.48b_0 + 1506440b_1} \dots\dots\dots(v)$$

Again , Multiply the equation (iv) By 8 And Substract equation (v) from (iv)

Then , We get

$$21820 = 40b_0 + 320b_1$$

$$\underline{3825659 = 1987.48b_0 + 1506440b_1}$$

$$6332.5 = - 130b_1$$

$$: b_1 = - 48.71$$

Putting the Calculated Value of b_1 at equation (v) , than we get

$$15487.5 = 40b_0 + 450 | -48.71$$

$$b_0 = 935.195$$

Appendix-IV

Trend Analysis of MPS

Bank of Kathamndu (BOK)

Year (X)	X= X-A (2004)	Y (M P S)	X ²	XY
----------	---------------	-----------	----------------	----

2002	-2	1270	4	-2540
2003	-1	537.50	1	-537.50
2004	0	247.50	0	0
2005	1	242.50	1	242.50
2006	2	430	4	860
	$\Sigma X = 0$	$\Sigma Y = 2727.5$	$\Sigma X^2 = 10$	$\Sigma XY = -1975$

Here,

$$Y = a + bx \text{ -----i}$$

since, $x = 0, a = \frac{\Sigma y}{n} = \frac{2727.5}{5} = 545.5$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{-1975}{10} = -197.5$$

= (198)

Putting the value of a & b on eqⁿ i we get,

$$Y = a + bx$$

$$= 545.5 - 198x \text{(ii)}$$

Putting the Value of x in equation (ii) than

Now, We get,

$$Y_{2007} = 545.50 - 198X = 348$$

$$Y_{2008} = 545.50 - 198X = 151$$

$$Y_{2009} = 545.50 - 198X = -47$$