DIVIDEND POLICY OF THE SELECTED COMMERCIAL BANKS

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RECOMMENDATION

This is to certify that the Thesis

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DIVIDEND POLICY OF THE SELECTED COMMERCIAL BANKS

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Dividend Policy of the Selected Commercial Banks"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of **Shashi Kanta Mainali** and **Rabindra Bhattarai** of Shanker Dev Campus.

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ABBREVIATIONS

BOK	-	Bank of Kathmandu Limited
CV	-	Coefficient of Variation
DPR	-	Dividend Payout Ratio
DPS	-	Dividend per Share
DY	-	Dividend Yield
EBL	-	Everest Bank Limited
EPS	-	Earning Per Share
EY	-	Earning Yield
HBL	-	Himalayan Bank Limited
MPS	-	Market Price per Share
NIB	-	Nepal Investment Bank Limited
NSBL	-	Nepal SBI Bank Limited
P/E	-	Price Earning Ratio
PE	-	Probable Error
r	-	Coefficient of Correlation
r2	-	Coefficient of Determination
Sb	-	SE of Regression Coefficient
SD	-	Standard Deviation
SEE	-	Standard Error of Estimates

CHAPTER - I
INTRODUCTION

1.2 Background of the Study

The economic growth of Nepal is very low and poor, since it is rich in water resources, Himalayas, low cost manpower etc. The development of an economy of any country is the productive activity of that country, which is the result of investment venture in productive enterprises. It needs a huge amount of funds and environment to establish these enterprises. The existing enterprises and companies need the both short term and long term capital investment for their existence, smooth growth, operation and development with in the economy to be the productive enterprises. Therefore, the required short term and long term capital for the productive enterprises can be procured mainly from security markets (either primary or secondary) and financial institutions. Financial Institutions are such sectors which helps the enterprises from its starting to the end.

Commercial banks are such financial institutions which mainly deal with the activities of trade, commerce, industry and agriculture that seek regular financial and other help from banks for growing and flourishing. The main objective of commercial bank is to mobilize idle resources in particular productive users after collecting them from scattered sources. Commercial banks as financial institutions transfer monetary sources from savers to users. They furnish necessary capital required for savings of the individual and institution. Normally banks play at public money therefore, they should pay more attention whether their money is properly utilized or not and is running at profit or loss. For the existence of the business firm, profit is the basic factor. A business firm becomes unable to provide its facilities in the long run if there is no profit. This profit can be distributed among the owners as dividend.

Dividend policy is the major decision of the firm. Mostly, dividend is paid in cash to its shareholders. Dividend payment reduces the total amount of internal financing.

Consequently, it must be considered in relation to the overall financial decision. "A commercial bank is a dealer of money and substitute for money, such as check or a bill of exchange. It also provides a variety of financial services" *(The Encyclopedia of Britannic; 1985: 600).*

"By a dividend policy, we mean some kind of consistent approach to the distribution versus retention decision rather than making the decision on purely ad - hoc basis from period to period" *(Pearson, Charles and Gordon; 1972:405).*

The dividend payout ratio obviously depends on the way earnings are measured but net earning may not confirm and may not be an approximate measure of the ability of the firm to pay dividend. So, what and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividend.

"The objective of a dividend policy should be to maximize shareholder's return so that the value of their investment is maximized. Shareholders' return consists of two components: dividend and capital gain. Dividend policy has direct influence on these two components of return" (*Pandey; 1999: 744).*

In a capital structure decision, each and every firm can obtain additional fund by issuing new equity and retention of the earnings. So after measuring the firm's profit, there is further problem of what amount of these profits should be distributed in terms of dividend. It is a big financial decision because the firm has to choose one between the distribution of profit to the shareholders or retaining it to finance the business. Different firms adopt different approaches to distribute dividend. In order to maximize the shareholders' wealth, the firm should use a large amount of profit for the payment of dividend. But since the firm's objective is the expansion of its business, the firm retains profit to finance in investment programs.

Dividends are distributed out of profits. The alternative to the payment of dividend is the retention of earnings / profits. The retained earnings constitute an easily accessible important source of financing the investment requirement of firms. There is, thus, a type of reciprocal relationship between retained earnings and cash dividends. The larger the retention, the lesser is the dividend and the smaller the retention, the larger is the dividend. Thus, the alternative uses of net earning dividend and retained earning are competitive and confliction *(Khan and Jain; 1990: 35).*

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

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

1.2 Focus of the Study

Dividend is the major decision which affects the value of firm. So the study is based on dividend policy of the commercial banks in Nepal. There are 28 commercial banks in Nepal but it is not possible to cover all the banks in the study. So the only five commercial banks are chosen which will represent all the commercial banks of Nepal. So the study will analyze the financial statement of the chosen banks and whether the dividend policy followed by them is relevant or not. The selected banks for the study are as follows.

- Bank of Kathmandu (BOK)

- Everest Bank Limited (EBL)
- Himalayan Bank Limited (HBL)
- Nepal Investment Bank Limited (NIB)
- Nepal SBI Bank Limited (NSBL)

1. Bank of Kathmandu Limited

Bank of Kathmandu Limited (BOK) started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning.

The mission of BOK is to offer financial services and becoming the "Bank of Choice" by dedicating to the progress and growth of the institution for the community, customers, employees, supervisors and stockholders by promoting economic growth and becoming a caring corporate citizen, providing excellent customer services by offering personalized quality products and services, inducing modern technologies of banking that adds value to customer service, following strict risk control mechanisms, enhancing shareholders value, providing challenging career and learning opportunities for employees.

2. Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society in the kingdom of Nepal and thereby contributes in the economic development of the country. The bank had come into former operations from 18th October 1994(1st Kartik, 2051 B.S). EBL is a joint venture with Punjab National Bank (PNB), one of the largest commercial banks in India having over 3700 branches and more than 300 foreign correspondents around the globe. PNB has a century old tradition of successful banking and is known for its financial strengths and will laid down modern banking system and procedures. PNB is providing the tough management services to EBL under the technical services agreement signed between the two institutions. EBL, thus, has advantages of the banking expertise and financial strength of its partner, currently with over 20 branches in various parts of the Kingdom of Nepal.

3. Himalayan Bank Limited

Himalayan Bank Limited (HBL) was established in 1993 in joint venture with Habib Bank Limited, one of the largest commercial bank of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. Despite the cut-throat competition in the Nepalese Banking sector, HBL has been able to maintain a lead in the primary banking activities with the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under its credit standing with foreign correspondent banks. Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service.

4. Nepal Investment Bank Limited

Nepal Investment Bank Limited (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank’s Annual General Meeting, Nepal Rastra Bank and Company Registrar’s office.

5. Nepal SBI Bank Limited

Nepal SBI Bank Limited (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employee Provident Fund (EPF) and Agriculture Development Bank Lit (ADBL) through a Memorandum of Understanding signed on 17th July 1992. NSBL commenced operation with effect from July 7, 1993. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public. The services provided by Nepal SBI Bank Limited include deposits, remittances, various types of loan facilities, letter of credit, bank guarantees, retail financing (house loans, vehicle loans and education loan), ATM facility, 365 days banking etc.

1.3 Statement of the Problem

Dividend policy is not straight forward and simple aspect of corporate finance. It is more technical area of finance in the sense that it is a complex one having numerous implications for the firm. But Nepalese Commercial Bank has not satisfactory result about dividend decision. Different government rules and regulations are the main factors. But there is no limit to the identification of the problem about dividend policy that is visible in Nepalese Commercial bank. While keeping this in mind, selected problems of commercial banks with regard to dividend policy are taken as follows.

- What are the prevailing dividend policies of listed banks?
- Are the banks able to pay return to its shareholders?
- Is there any uniformity among the banks in dividend distribution?
- What is the relationship of dividend with earning per share and market price of the share differently in different companies?
- Does the dividend policy affect the market price of the share differently in different companies?

1.4 Objectives of the Study

The main threat to the commercial banks 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. The aim of the study is basically to analyze and evaluate the application of dividend decision in the selected banks and the study focus on the prevalent dividend polices and to suggest the direction of future endeavor on share market in Nepal. It focuses on the dividend practices of commercial banks& finance companies with a view to suggest ways to maximize the shareholders return, i.e. value of their investment is maximized. Besides that, the specific objectives of the study are as follows:

- To examine the dividend polices of listed banks.
- To examine the returns of the commercial banks to its investors.
- To analyze the effect of dividend on share price
- To analyze the relationship between dividends per share (DPS), earning per share (EPS) and market per share (MPS)
- To explore whether dividend practices affect the market price of shares differently in different banks & finance companies or not.
- To examine the relationship of dividend with other financial variables of the selected commercial banks.

1.5 Significance of the Study

Getting more return from the limited source of investment is the essential part for every investor while they seek to invest in different sector on portfolio. Nowadays, people are very much attracted towards investment in share for the purpose of getting higher return. So dividend policy has become an effective way for attracting the large number of new investors, retain present investors and to maintain goodwill and the desired controlling position of the firm. Despite investor's high expectation, there are almost none of the firms adopting clear dividend policy in Nepal. Therefore this study of the divided policy of the selected commercial banks in Nepal may be rewarding.

The study is not only helpful to the researcher but the final outcome of the study will prove to be a valuable tool for various concerned groups like shareholders, banks, finance companies etc. The shareholders will be able to know whether the dividend policy of the company where they invested their money is relevant or not. They will also be able to know the position of the company in the financial market. The banks & finance companies will know the dividend practices followed by other banks. They will also be able to compare their own dividend practices with those of the banks chosen and find out whether they need to improve their dividend policy or not. 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.

It may be useful to government as well for policy making, controlling, supervision and monitoring. Furthermore, students will able to study about dividend policy and will be helpful as they can take it as reference if they are doing the research in the similar topics. As mentioned above, researchers can use it as a reference for their research.

1.6 Limitations of the Study

There are limitations that weaken the generalizations – e.g. inadequate coverage of industries, time constraint, reliability of statistical tools used and other variables. This study is simply for partial fulfillment of the requirement of the Master in Business Studies (M.B.S.). So this study will be limited by the following factors.

- The study is mainly conducted on the secondary data. So the result depends on the reliability of secondary data.
- The study covers a period of five years (i.e. that is 04/05 – 08/09)
- There are many factors that affect dividend decisions and valuation of the firm. However, only those factors related with dividend will be considered in the study.
- Only five commercial banks are taken as sample due to lack of time.

1.7 Plan of the Study

This study will be divided in to five chapters as follows.

Chapter One deals with the subject matter of the study. The outline of the research is presented in the chapter. The whole research will be based on the introduction chapter. It deals with introduction, background of commercial banks, statement of the problem, objectives of the study, limitation of the study and significance of the study.

Chapter Two deals with the review of literature. It includes a discussion on the conceptual framework on dividend policy. It also includes review of various studies (i.e. various books, journals & articles, master's degree thesis etc) related with dividend decision. It also includes major studies relating with dividend decision.

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

Chapter Four is the main part of the study which fulfills the objective of the study by presenting data and analyzing them with the help of various statistical tools as per methodology. In this chapter, descriptive analysis of the gathered data and information using statistical as well as financial tools is carried out. In this chapter, major findings of the study have been conducted based on primary and secondary data.

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

In simple words, dividend refers to a portion of earning, which is distributed to shareholders in return of their investment in share capital. Dividend decision is very important decision of any firm. This is not only important for the shareholders but also for the 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 helps in the growth of the firm. The Dividend policy determines the amount of earnings to be distributed to the shareholders and to be reinvested in the firm. Most Shareholders expect two forms of return from the purchase of common stock. These are capital gain and dividend. 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 dividend. From matured and stable firm, most investors expect regular dividends to be declared and paid on the common stock. Dividend is generally paid in cash. Therefore it reduces the cash balance of the company. There is a reciprocal relationship between retained earning and cash dividends. If retained earning is kept more by the company less will be the dividend and vice versa. It can also be paid in the form of bonus share, right share, etc. Dividend policy affects the financial structure of 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.

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 the portion of retained earnings and remaining 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; 1992:543).*

"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" *(Pandey;1982:296).*

"Dividend is the residue left after meeting all obligations and adjusting for retention of earnings and other provisions. It is a residue since shareholders get dividends only when there exists balance of earnings after paying fixed obligations such as operating expenses, interest, provisions for depreciation, and setting" *(Van Horne; 1993: 327).*

"When we treat dividend policy as strictly a financing decision, the payment of cash dividends is a passive residual" *(Van Horne;1993: 327).*

"Dividend payout of course reduces the amount of earnings retained in the firm and affect the firm's internal financing" *(Sharma; 2001:334).*

"The dividend policy should be optimal which balances the opposing forces and maximizes stock price" *(Thapa and Gautam;2004:1).*

2.1.1 Objectives/ Motives of Dividend declaration

Firms enjoy the funds of other shareholders. Investors also want their funds to be utilized in productive sectors where the return will be higher. The shareholders like to have fair return on their investment. So, 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 has a positive impact on the market price of share. Shareholders are 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 can 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.

2.1.2 Types of Dividends

Corporate firm chooses to make the payment of Dividends in view of its objective, need and policies. Dividend can be paid in various forms.

"The type of dividend that corporations follow is partly a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plans and policies" *(Shrestha; 1980: 670)*.

“Corporations need to follow various types of dividend in view of the objectives and policies, which they implement” *(Thapa and Gautam; 2004: 9).*

Different types of dividends, the firm may choose to pay is 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. So the companies should wisely make decisions regarding payment of cash dividend. The market price of the share drops in most cases by the amount of the cash dividend distributed *(Hastings; 1996: 370).*

Stock Dividend

A stock dividend is a payment in the form of additional share of stock instead of cash. In other words it is the payment of dividend in the form of stock proportionate to their shareholdings. Share is again provided to the shareholders instead of cash as dividend. It is popularly known as bonus share. Payment of stock dividend increases the number of outstanding shares to the company. The bonus shares do not affect the wealth of the shareholders. It is also an indication of higher future profits for the shareholders. The bonus share is also advantageous to the company as it conserves the cash of the company.

"A stock dividend simply is the payment of additional stock to stockholders nothing more than a recapitalization of the company; a stock holder's proportional ownership remains unchanged" *(Van Horne; 1998: 334).*

Stock Split and Reverse Split

Stock split is an accounting action to increase the number of shares outstanding. Stock split increase the number of share and reduces the price of share. Similarly, 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. The equity capital of the company is not changed.

Property Dividend

This dividend is also known as liquidating dividend. This involves a payment of assets/ property in any form other than cash. This form of dividend may be used when there are assets that are no longer necessary in operation of the business or in extraordinary circumstances. Companies owned products and securities of subsidiaries are the examples that have been paid as property dividend.

Bond Dividend

Bond dividend is the dividend which is distributed among the shareholders of the company in the form of bonds. Bond dividends are always interest bearing. These are given when the company is unable to take the burden of interest of loans. The bonds can be long term bonds. Bond dividend helps to postpone the payment of cash. They are issued rarely and are long term enough to fall beyond the current liability group. The stockholders become secured creditors if the bond carries lien on assets.

Interim Dividend

Generally dividend is declared in the last of the financial year. This is called regular dividend. If the dividend is declared before the end of the financial year, it is called interim dividend.

Composite Dividend

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

Optional Dividend

Instead of giving composite dividend company can give option to its shareholders to take the dividend in cash or in property. The optional dividend is, in fact, not a kind of dividend but simply a choice of dividend given to the shareholders to accept either cash or stock dividend. "If the two are very nearly the same, as it often the case, the cash option may be a convenience to the small shareholder, who thus avoids the case and expense of selling either whole or fraction of shares he does not wish to keep" *(Waring; 1931: 404).*

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

2.1.3 Dividend Policy

Dividend Policy refers to the issue of how much of the total profit a firm should be paid 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.

“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)*.

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

2.1.4 Types of Dividend Policy

The Dividend amount paid out of profit, both from past and present, is guided by the 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:

Regular and Stable Dividend Policy

Regular and stable Dividend Policy is mostly used by most of the corporate firms. It is based on maintaining fix annual cash dividend for several years. It can be changed only when future earning looks sufficiently strong and permanent to support a new higher level of Dividends. 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.

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. Under this policy, low level of dividend is set first and then extra dividend in the time of final announcement of annual dividend is paid. 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.

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.

Earning Based Dividend Policy

Corporate firms following this policy pay dividend based on a constant payout ratio as long as level of earnings remain stable resulting constant dividend per share. Corporate firm's increase the payout ratio if increase in earning 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.

2.1.5 Factors affecting Dividend Policy

There are various factors that affect dividend policy. Some factors have positive impact on dividend policy and some have negative impact. “The financial manager must understand the various conflicting factors which influence the dividend policy before deciding allocation of its company’s earnings to dividend and retained earnings. Many considerations that may affect a firm’s decision its dividend are as follows” *(Sharma; 2001: 336-337).*

Legal Rules

The dividend policy of the firm has to evolve with the legal framework and restrictions. Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. Second specific limitations, which is vary by state. Generally a corporation may not pay a dividend at following conditions:

a. If the firms liabilities exceed its assets.
b. If the amount of the dividend exceeds the accumulated profits or retained earnings.
c. If the dividend is being paid from capital invested in the firm.

The second type of legal restriction is unique to each firm and results from the restriction in debt and preferred stock contracts.

Liquidity Position

The cash or liquidity portion of the firm influences its ability to pay dividends. When the retained earning of the company is invested in assets then the company will not be in the position to pay dividend. So the greater the overall liquidity of the company, the greater will be the ability to pay the dividend.

Desire of Shareholders

Shareholders may be interested either in dividend incomes or capital gains. Wealthy shareholder in a high income tax bracket may be interested in capital gains as against current dividends. A retired and old person, whose source of income is dividend, would like to get regular dividend. In a corporation with relatively few stockholders, management may be able to set dividends according to the preferences of its stockholders. For example, assume that the majority of a firm's stockholders are in high marginal tax brackets. They probably favor a policy of high earning retention, resulting in eventual price appreciation, over a high payment policy. But in a large corporation whose shares are widely held, it is nearly impossible for a financial manager to take individual shareholders' preferences into account when setting dividend policy.

Need to Repay Debt

When the company has to repay debt, then it can do nothing but retain the earning instead of paying the dividend. After issuing the debt capital, it must be refunded in maturity in order to retire debt, for this retention of earning is essential. So in such a case, company cannot pay the dividend to the shareholders.

Restrictions in Debt Contracts

Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loans agreement and only when net working capital is above a specified precedence over common stock dividend.

Asset Expansion

When the firm is growing very rapidly, there is the need if expansion of fixed assets for which fund is required. In such a case the firm prefers to retain earning rather then paying. The growing firm needs large amount for further expansion then paying the dividend. So growth firms have low payout rations.

Profit Rate

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

Stability of Earning

The firm which has stable earning is able to pay higher rate of dividend then those firms which do not have stable earning. The firm with stable earning has approximately the same earning next year too. So they can have high payout ratio. But other firms are not able to predict the next year’s earning so they prefer to have low payout ratio and retain more amount for coming year.

Tax Position of Stockholders

The tax position of stockholders also affects dividend policy. Corporations owned by largely taxpayers in high income tax brackets tend toward lower dividend payout where as corporations owned by small investors tend higher dividend payout.

Control

The existing controlling group wanting to continue their position wants to retain more profit paying fewer dividends. If the company raises additional fund selling new common stock, the chances of diluting the control position will increase. Similarly on the other sides increasing loan amount also increase the risk of existing shareholders because of these a company can retain more profit paying less dividend.

Access to the Capital Markets

A firm's access to capital markets will be influenced by the age & size of the firm. Therefore a large well established firm with record of profitability and stability of earning has easy access to capital markets and other forms of external financing. Easy accessibility to the capital market provides flexibility to the management in paying dividend as well as in meeting the corporate obligation. Thus a fast growing firm having tight liquidity position will not face any difficulty in paying dividends if it has access to the capital market.

2.2 Review of Related International Studies

Linter's Study (1956)

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

$$D^*_t = P.EPS_t$$

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

Where,

D^*_t = Desired Dividend

EPS_t = Earnings per Share

P=Targeted payout Ratio

a=Constant related to dividend growth

b=Adjustment factor relating to previous period's dividend and desired level of dividend (b>1)

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

Modigliani and Miller's Study (1961)

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

Professor Modigliani and Miller hold that investors are indifferent to dividend and capital gains so dividends have no effect on the wealth of stakeholders. According to them it is the investment policy of the firm which increases earnings of firm and there by value of the firm. The manner in which earnings are divided into dividends and retained earnings does not affect this value.

The assumptions of this study are as follows:

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

Modigliani and Miller provided following model to prove their theory *(Niraula; 2003: 25-26)*.

Market Value of Share

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

Symbolically,

$$P0 = \frac{D1 \, \Gamma \, P1}{1 \, \Gamma \, Ke} \text{ --------------------------- (i)}$$

Where,

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

D1=Dividend per share at the end of the period.

P1= Market price per share at the end of the period

Ke=Cost of Equity capital

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

$$\text{nP0} = \frac{n(D1 \Gamma P1)}{1 \Gamma Ke}$$ **--------------------------------------** (ii)

Where,

n=No of outstanding shares.

New Shares

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

$$\text{nP1} = \frac{nD1 \Gamma P1(N \Gamma M)\, Z MP1}{1 \Gamma Ke}$$ **------------------------------** (iii)

Where,

N=No. of shares at the beginning

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

Total Number of Shares

A firm can pay dividends and raise funds to undertake the optimum investment policy. If the firm finances all investment opportunities either by issue of new equity of retained earnings, the total number of new shares can be computed on the following way:

MP1=I-(E- n D1) **----------------------------** (iv)

Where,

MP1= Amount obtained from the sale of new shares.

I = Amount required for new investment during the period.

E = Total earnings during the period.

E - = Total dividend paid.

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

$$\text{nP0} = \frac{NP1 \Gamma P1(N \Gamma M)\, Z I \Gamma E\, Z ND1}{1 \Gamma Ke}$$

A firm which pays dividends will have to raise funds externally to finance its investment plans. MM's argue that dividend policy does not affect the wealth of shareholder, implies that when the firm pays dividends, its advantage is offset by external financing. This means that the terminal value of the share at the first period if the holding period is one year declines when the dividends are paid, the wealth of the shareholders- dividends + terminal price unchanged. As a result the present value per share after dividend and external financing is equal to the present value per share before the payment of dividends. Thus the shareholders are indifferent between payment of dividends and retention of earnings *(Gautam and Thapa; 2004:9.8-9.9).*

Gordon's Model (1962)

Myron J. Gordon conducted a research in 1962 regarding the interesting approach relating the market value of the firm to dividend policy. He holds that investors have a strong preference for present dividends to future capital gains under the condition of uncertainty.

This is relevant theory similar to the Walter's model. In this study, he explained that "the investors prefer present dividend rather than future capital gains." According to him market value of a share is equal to the present value of an infinite stream of dividends to be received by the shareholders.

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

1. The firm is an all-equity firm.
2. No external financing is available consequently retained earnings would be used to finance any expansion.
3. The internal rate of return (r) of the firm is constant. This ignores the diminishing marginal efficiency of investment.
4. The appropriate discount rate (k) for the firm remains constant. Thus Gordon's model also ignores the effect of a change in the firm's risk class and its effect on k.
5. The firm and its stream of earnings are perpetual.
6. The corporate taxes do not exist.
7. The retention ratio (b) once decided upon is constant. Thus the growth rate g= r, is constant forever.

8. K > br =g. If this condition is not fulfilled, we cannot get meaning value for the share.

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

$$P0 = \frac{P1}{(1 \Gamma KE)} + \frac{P2}{(1 \Gamma kE)2} + \text{------} + \frac{Pn}{(1 \Gamma Ke)n}$$

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

$$P0 = \frac{EPS(1 \mathrm{Z} b)}{(Ke \mathrm{Z} br)}$$

Where,

P = Market price per share

EPS = Earning Per Share

b = Retention ratio

Ke = Cost of capital

1-b = Payout Ratio

br = Growth rate

According to this model following facts are revealed

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

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

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

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

Van Horne and Mc- Doland's Study (1971)

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

First model was:

$P0 / E0= a0 + a1 (g)+a2(D0 / E0)+a3(lev)+u$

Where,

P0 / E0=Closing market price in 1968 dividend by average EPS for 1967 and 1968.

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

D0/E0=Dividend payout measured by cash dividend in 1968 dividend by earnings in 1968

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

u = error term

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

Where,

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

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

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

$P0 / E0 = a0 + a1 (g) + a2(D0 / E0) + a3(lev) + a4(or) + u$

Where,

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

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

By using different methodology, they compared the results obtained for firms which both pay dividends and engage in new equity financing with other firms in an industry sample. They concluded that for electric utility firm in 1968, share value is not adversely affected by the new equity financing in the presence of cash dividend, except for those firms in the highest new issue group and it makes new equity a more costly form of financing than the retention of earnings.

Deepak Chawla and G. Srinivasan's Study (1987)

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

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

1. Price function,

Pt = [Dt . Rt . (P/E)t-1]

2. Dividend supply function

Dt = [Et, Dt-1 , (P/E)t-1]

3. Identify

Et = Dt + Rt

Where,

P = Market price per share

D = Dividend per share.

R= retained earnings per share

E=Earning per share

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

t = Subscript for time

They used two stage least square technique of estimation and in case of chemical industry they found the estimated co-efficient have the correct sign and co-coefficient of determination of all the equations was very high. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry they found sign for retained earnings in negative. Finally they concluded that dividend hypothesis holds well in the chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry.

Walter's Study (1996)

Professor James E. Walter conducted a research in 1966 regarding dividend policies and a stock price argues that the choice of dividend affects the value of the firm. According to him, firm's cost of capital an internal rate of return are the determining factors that decide upon the dividend policy. The main point which he emphasized is that there is a significance relationship between the internal rate of investment project and market rate demanded by the investor. This study emphasized that dividend policy can be used to maximize the wealth position of stockholders. Walter's model is based on the following assumptions *(Panday; 1975:741)*.

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

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

$$= \frac{DIV + r(EPS - DIV)/K}{K}$$

Here,

P = Market price per share.

DIV = Dividend per share

EPS = Earnings per share

R = Internal rate of return (average)

K = Cost of capital or Capitalization rate

In Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return, r and its cost of capital; k. Walter's view on the optimum dividend payout ratio can be summarized as follows:

Growth Firms: Firm having r > k may be referred as growth firm the optimum payout ratio for a growth firm is zero. The market value per share (P) increases as payout ratio declines when r > k.

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

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

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

2.3 Review of Journals and Articles

In this regard there are very few articles published in Nepal in this subject. The two major studies are reviewed as follows:

Shrestha (1981) has published an article, *"Public Enterprises: Have They Dividend Paying Ability?"* which gives short glimpse of the dividend performance of some public enterprise of that time in Nepal.

Dr. Shrestha has highlighted following issues in his article:

HMG expects two things from the public enterprises:(i) They should be in a position to pay minimum dividend and (ii) The public enterprises should be self supporting in financial matters in future years to come but none of these two objectives are achieved by the public enterprises.

One reason for this efficiency is caused by excessive government interference in day-to-day affairs. On the other hand, high-ranking officials of HMG appointed on directors of

Board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and Lead Corporation to face losses. Losing corporations are therefore not in position to pay dividend.

Another reason is the lack of self criticism and self-consciousness. The lack of favorable leaders is one of the biggest constraints to institution building. Moreover corporate leader like managers of corporations have not been able to identify themselves regarding what they can contribute as manager of corporations. So HMG must be in a position to drop a financial target in corporate investment by imposing financial obligation.

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

The improvements suggested are as follows:

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

7. Identification of corporation objectives in corporation Act, company Act or special character so as to clarify the public enterprise managers regarding their financial obligation to dividend to HMG.

Pradhan (1993) has published an article, *"A Comprehensive Study on Stock Market Behavior in a Small Capital Market: A Case Study of Nepal"* based on the data collected from 17 enterprises form 1986-1990.

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

The employed equation was:
V=b0+b1LIQ+b2LEV+b3EARN+b4TURN+b5COV+U1

Where,
The dependent variable V chosen for the study has been specified as under:-
Market equity (ME)-Market Value of equity to its book value (MV/BV)
Price Earnings ratio (P/E)
Dividend per share to market price per share (DPS/MPS)
Dividend per share to earnings per share (DPS/EPS)
LIQ = Current Ratio (CR) or Quick Ratio (QR)
LEV = Long-time debt to total assets (LTD/TA) or Long-term debt to total capitalization (LTD/TC)
EARN = Return on assets that is earning before tax to total assets (EBT/TA) or earning before tax to net worth (EBT/NW)
TURN = Fixed assets turnover that is sales to average fixed assets (S/FA) or total assets turnover that is sales to average total assets (S/TA)
COV = Interest coverage ratio that is earning before tax to interest.
U1 = Error term.

Some findings of his study among others were as follows:

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

2.4 Review of Previous Thesis

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

Katwal (2001), has carried out a research on "*A Comparative Study Of Dividend Policy in Commercial Bank*" in 2001. The main objectives of this study are:

1. To study the current practices of dividend policy in commercial banks.
2. To find out the impact of dividend on share prices.
3. To analyze the relationship of financials indicators.
4. To examine if there is any uniformity among DPS, EPS and DPR on the six sample banks.

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

The major findings of this study are:

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

The most important decision is that no specific dividend payment strategy is followed by these banks. Payment of cash dividend and stock dividend are made without wise managerial decision due to unstable and adequate dividend and unequal payout ratio.

Ghimire (2002), has conducted a research on the topic, "*Dividend Policy of Listed Companies with ref. to Banks, Finance and Insurance Companies*". The main objectives of his study are:

1. To identify the dividend policy of different sample companies.
2. To identify the regularity of divided distribution of different listed companies.
3. To identify the relationship between dividend policy and other financial indicators.
4. To find out whether dividend policy affect the value of the firm or not.
5. To analyze the relationship between DPS and MPS.
6. To provide suggestion for the improvement of sample companies dividend policy on the basis of findings.

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

The major findings:

1. The average dividend per share of the banks is satisfactory compared to finance and insurance companies.

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

Dhungel (2004), has conducted a study on "*Dividend Policy of the Commercial Banks in Nepal*". The main objectives of his research are:

1. To study whether the commercial banks are following the suitable dividend policy or not.
2. To study whether the dividend policy affects the value of the firm or not.
3. To compare the dividend policy followed by different commercial banks chosen.
4. To study the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, Net worth, Net profit and book value of share.

Major findings are:

1. None of the sample banks are following suitable dividend policy except SCBNL.
2. The regression analysis of DPS on MPS shows that increase in MPS leads to decrease in DPS in all the sample banks except SCBNL.
3. There is positive relationship between EPS and MPS in all the banks except in case of SBIBC.
4. Change in dividend per share affects the value of share differently in different banks.

Budathoki (2006), has carried out a research on *"Dividend Policy of the Commercial Banks In Nepal."* The main objectives of her research are:

1. To highlight the dividend practices of commercial banks.
2. To compare the dividend policy followed by different commercial banks chosen.

Major findings are:

1. There is not fixed consistency between financial variable i.e. EPS, MPS, DPS, DPR, P/E Ratio, EY and DY.
2. Dividend practices of all sample banks are neither stable nor constantly growing. Haphazard way of distribution in growing trend is observed.
3. Changes in DPS affect the market price per share differently in different banks.

Shrestha (2006), has made a study with the title "*Effect of Dividend Policy on Market Price of the Stock of Nepalese Commercial Banks*" taking data through 2057-2061. The main objectives are:

1. To find out the impact of dividend policy on market price of stock.
2. To analyze the variables such as profit, retained earning, growth rate and other relevant variables to show relationship between the value and other ingredients affecting it.
3. To analyze if there is any uniformity among DPS, EPS, MPS and DPR in the sample firms and the relation between them.

Major findings are:

1. Market price per share of every financial institution has fluctuating nature as indicated by standard deviation.
2. There is positive relationship between MPS and DPS and MPS and EPS in case of NSBIL, SCBL, HBL, NBBL, NBL and BOKL.
3. Most of the financial institutions stock prices are highly depend in fluctuations of EPS.
4. The customary strong EPS and relatively week lagged DPS effect in DPS in all firms.
5. There is greater influence of DPS rather than EPS to MPS in all the sample firms observed.

Kharel (2006), conducted her studies on "*Dividend Policy of Commercial Banks with respect to Nepal Arab Bank Ltd., Himalayan Bank Ltd and Bank of Kathmandu. Ltd.*" based on the data collected for the years from 2000/01 to 2004/05. The main objectives are:

1. To analyze the prevailing dividend practices of sample banks.
2. To analyze and evaluate the application of dividend decision in the selected banks.
3. To analyze the relationship of dividend with earning per share, net worth, net profit, market price and book value per share.

Major findings are:

1. DPS of the commercial banks in average shows that there is no regularity in dividend payment.
2. Banks should pay proper attention to enhance their percent of cash dividend on paid up value.
3. From the regression analysis it can be conclude that a chance in DPS affects the share price differently in different banks.
4. Payment ratio affects stock price differently in different banks.

Yadav (2007), conducted a study on, "*Dividend Policy and its impact on market price of stock*". The main objectives of the research are:

1. To analyze the dividend policy followed by Finance companies.
2. To compare the dividend paid by Annapurna Finance Company Ltd. and Butwal Finance Ltd.
3. To examine the relationship between DPS with EPS, MPS and BPS.
4. To predict DPS in future years.

The major findings of Yadav are as follows;

1. The shareholders of AFCL enjoyed higher DPS than those of BFL. AFCL made more EPS than BFL. However, DPR of BFL is higher than DPR of AFCL, which indicates that BFL has concentrated on attracting new shareholders by distributing more portion of its earning while AFCL focused on retaining earning for internal financing.

2. There is high positive relationship between DPS and EPS of AFCL and the relationship is statistically significant. However, the relationship between DPS and EPS of BFL is positive but the relationship is insignificant.
3. The correlations coefficient indicates that MPS increases with the increase in DPS of each bank and the relationship is positively significant.
4. The regression analysis indicates that the MPS of both banks are highly dependent on the DPS and EPS of corresponding banks.
5. The trend analysis depicts that the DPS of AFCL in the fiscal year 2005/06 and 2006/07 will be Rs.12.76 and Rs.14.85 respectively, whereas the DPS of BFL will be Rs.9.82 and Rs.10.15 in the fiscal year 2005/06 and 2006/07 respectively.

Khatiwada (2008), conducted a study on *"A comparative study of Dividend policy in Nepal Investment Bank Ltd. and Standard Chartered Bank Ltd."* The main objectives of the study are as follows:

1. To identify the dividend policy in SCBNL and NIBL.
2. To examine the relationship between earning and dividend distribution.
3. To evaluate the impact of dividend on share price.
4. To examine the relationship of DPS with other financial indicators.

The major findings of Khatiwada are presented below:

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

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

Maharjan (2009), has made study on *"Dividend policy of listed commercial banks"* based on the data of five years. The main objectives of the study are listed below:

1. To analyze the dividend policy of the listed commercial banks.
2. To find out the impact of the dividend policy in the market.
3. To study the relationship of dividend policy with different other financial indicators.

Major findings of Maharjan's study are as follows:

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

Research Gap

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

So far the Nepalese studies are concerned some studies like Pradhan's, Manandhar's can be considered as landmark in the field of dividend policy. But many more changes appear in the market in short time period also. In Nepalese capital market also many changes are seen in last few years. So it is necessary to carry out a fresh study related to dividend pattern of commercial banks of Nepal.

This is a distinct study form the previous studies in terms of sample, size and methodology used. The study has covered only five commercial banks. Latest five years data have been analyzed with due consideration of EPS, DPS, DPR and MPS. In order to assess the impact of dividend on market price of share available information from concerned banks were reviewed and analyzed. Regression analysis has been done taking market price of share (MPS) other variables like DPS, EPS and D/P ratio. Trend analysis of MPS, DPS and EPS is also done which helps to predict the future of the banks. So it is believed that this study is quite different.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research is the process of a systematic and in depth study or search of any particular topic, subject or of investigation backed by the collection, presentation and interpretation of relevant details or data. Research methodology is a way to solve the research problem systematically. This is the steps, guidelines and tools used in the research by the researcher. It considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc. Really, it is one of the most important parts of the research which provides outlines of the research and also present method and process of entire research.

3.2 Research Design

Research design is a plan, structure and strategy of investigation. It is conceived so as to obtain answers to research questions and to control variance. The main objective of this research work is to evaluate the dividend policy of five commercial banks. First of all, information and data are collected from different sources. Among them the important information and data are selected. Then these data are arranged in useful manner. After that, data are analyzed by using appropriate financial and descriptive and analytical tools. In analysis part, interpretation and comments are also made wherever necessary.

3.3 Population and Sample Selection

Population refers to the entire group of people, events or things of interest that a researcher wishes to investigate. As this study is about Dividend policy of commercial banks, all 28 Commercial banks of Nepal are taken into account as population. Out of the total population i.e. 28 banks, 5 commercial banks are taken for this study. These five banks are the samples selected by using judgmental sample methods for this research. The selected sample banks are:

- Bank Of Kathmandu (BOK)
- Everest Bank Limited (EBL)
- Himalayan Bank Limited (HBL)
- Nepal Investment Bank Limited (NIB)
- Nepal SBI Bank Limited (NSBL)

3.4 Nature and Sources of Data

The researcher can use two methods of data collection i.e. Primary and Secondary data. Primary data are the data collected directly from the site. It can be called as first hand data. Those data are very reliable if researcher can reach the correct destination with required tools. Secondary data are second hand data collected from different other sources such as magazines, newspapers, journals, second persons, etc. Here both the primary and secondary data are used for the study. The study is based on both primary and secondary data. The primary data are collected from the site. With the list of questionnaire, commercial banks its shareholders and other related personals are visited and data are collected from there. Some data are again collected from the respective commercial bank's annual reports especially from profit and loss accounts, balance sheet and other publications made by the banks, which are the secondary data. Likewise, some other related information is gathered from related banks and related agencies like Nepal Rastra Bank, Nepal Stock Exchange Limited. Various data and information are also collected from the journals, periodical bulletins, magazines, newspapers and internet.

3.5 Data Processing Techniques

After the necessary data has been collected, relevant facts and figure have to be tabulated under the different headings. Such tables and formats are to be interpreted and explained as required. Different tools and techniques are used to interpret and explain the data. Scientific calculator and simple microcomputer has been used to compute data.

3.6 Tools of Analysis

Various statistical and financial tools are used in this study. Wide varieties of methodology have been applied according to the reliability and consistency of data. Before using the analytical tools to compare the result, the data containing in the financial statements have been grouped and rearranged so as to make comparison easy. For the purpose of analysis the data of five years were taken as sample from 04/05 to 08/09. The data are analyzed financially and statistically. The calculated results are also tabulated under different heading for ease of reading, and then they are compared with each other to interpret results. The financial tools used here are ratios related to earning per share, dividend per share, 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.

3.6.1 Financial Tools

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.

Earning Per Share (EPS)

Earning per share refers the rupee amount earned per share of common stock outstanding. EPS is one of the most important financial indicators, which measures the earning capacity of a firm. It measures the profit available to the ordinary shareholders on a per share basis. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa. In other words, higher earning per share denotes the strength and lower earning per share indicates the weakness of the banks. EPS is calculated by dividing net income available to the common stockholders by the total number of common shares outstanding.

$$\text{Earning per Share} = \frac{\text{Net Profit after Taxes}}{\text{Number of Common Stock Outstanding}}$$

Dividend Per Share (DPS)

Dividend per share indicates the rupee earnings actually distributed to common stockholders per share held by them. It measures the dividend distributed to each equity shareholders. The DPS simply shows the portion of earning distributed to the shareholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the bank, which consequently helps to increase the market value of the shares. And it also works as the indicator of better performance of the bank management. It is defined as the result received by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding.

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

Dividend Payout Ratio (D/P Ratio)

It is the portion of the earning used for the payment of dividend. The dividend payout ratio is the earnings paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve for the growth of the banks. In other words, the amount of dividend that a bank pays depends upon the earning capacity of the bank. Higher earning enhances the ability to pay more dividends and vice versa. There is a reciprocal relationship between dividends and retained earnings, the higher the dividend payout ratio, the lower will be the retained earnings and hence the capacity of internal financing of the firm is checked. It is calculated to indicate the percentage of the profit that is distributed as dividend. This ratio is calculated by dividing dividend per share by the earning per share. It is the percentage of profit i.e. distributed as dividend. It is calculated as follows:

$$\text{D/P ratio} = \frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$$

Market Price Per Share (MPS)

It reflects per unit price of the share traded in the market. MPS is determined according to the demand and supply of share in the market. If there is high demand it leads to the increase in MPS and if there is low demand it leads to decrease in MPS. MPS also indicates the performance of the firm. Firm with high MPS are regarded better and are thought to be in good financial position.

Price Earning Ratio (P/E Ratio)/ Earning Multiplier

Price- earning ratio is also called the earnings multiplier. Price- earning ratio is the ratio of market price per share to earning per share. In other words, this represents the amount which the investors are willing to pay for each rupee of the firm's earnings. It reflects the price currently paid by the market for each rupees of currently reported earning per share. The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. This is important to compare the market share prices of different stocks given their earning per share. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm's future. This ratio is computed by dividing Market per share by Earning per share. Thus,

$$\text{P/E Ratio} = \frac{\text{Market Per Share (MPS)}}{\text{Earning Per Share (EPS)}}$$

Earning Yield (EY)

Earning yield is the percentage of earning per share to market price per share in the stock market. In other words, it is a financial ratio relating to earning per share to the market share price at a particular time. It measures the earning in relation to market value of the share. It gives some idea that of how much an investor is earning for his money. The share with higher earnings yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market. It is calculated as:

$$\text{Earning Yield} = \frac{\text{Earning Per Share (EPS)}}{\text{Market Per Share (MPS)}}$$

Dividend Yield (DY)

Dividend yield is a percentage of dividends per share on market price per share. It measures the dividend in relation to market value of share. So, dividend yield is the

dividend received by the investors as a percentage of market prices per share in the stock market.

This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share. The share with higher dividend yields is worth buying. Thus the price of higher dividend yields increases sharply in the market. Dividend has important guidance to commit funds for the buying shares in the secondary market. This ratio is calculated by dividing dividend per share by market price of the stock. Thus

DY Ratio = $\frac{\text{Dividend Per Share}}{\text{Market Price Per Share}}$

3.6.2 Statistical Tools

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

Mean ($\overline{X}$ **)**

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:

No. of values

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

Standard Deviation (S.D.)

The measurement of the scatterness 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. In simple term high SD means very less similarity in the values and low SD means high similarity among the values. SD gives the accurate result between the values only if their mean are same. In case of different mean, SD cannot be the accurate result. 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

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

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 X be the arithmetic mean and the standard deviation of the distribution, then the C.V. is defined as,

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\bar{X}} \times 100\%$$

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

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 positive and negative relationship between two casually related sets of figures. 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 indicating 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 with each other are drawn out. In practical life, the possibility of obtaining either perfect positive or perfect negative correlation is very rare.

$$\text{Coefficient of Correlation (r)} = \frac{Cov(XY)}{\sigma_x \sigma_y}$$

$$r = \frac{\sum (x - \bar{x})(y - \bar{y})}{(n-1)\sigma_x \sigma_y}$$

or ,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}}$$

Where,

σ_x ,σ_y are the standard deviation of the distributions of X and Y values respectively.

Cov (X, Y) = Co variation of X, Y value

$$= \frac{\sum (x - \bar{x})(y - \bar{y})}{(n-1)}$$

Coefficient of Determination (r2)

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 r2 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 r2 will lie somewhere between these two extremes of 1 and 0. One should remember that r2 close to one indicates a strong correlation between two variables and r2 near to zero means there is little correlation.

$$\text{Coefficient of Determination } (R^2) = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

$$\text{Or, } R^2 = \frac{1 - \text{Unexplained Variation}}{\text{Total Variation}}$$

Regression Analysis

Regression analysis is the development of the statistical model that can be used to predict the values of variable. There are two types of variable in regression analysis. The variable whose value is to be predicted is called dependent variable and the variable which is used for prediction is called independent variable. The dependent variable is based upon the value of independent variable.

The simple linear regression analysis would be

$$Y = a + bX$$

Where,

Y is the dependent variable

X is the independent variable

Yi is the predicted value for observation I and X1 is the value of X for observation I.

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

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

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.

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

- If $r < PE$ than it is insignificant or there is no evidence of correlation.
- If $r > 6PE$ than, it is significant.
- If $PE < r < 6PE$ than, nothing can be concluded.

Standard Error of Estimate (SEE)

The standard error of estimate measures the variability around the line of regression. It also measures the accuracy of the estimated figures. The lesser the value of SEE of estimate the better is the model fitted. If standard error of estimate is Zero then there is no variation about the line and the correlation will be perfect.

T- statistics

To test the validity of our assumption, if sample size is less than or equal to 30 ‘t’test is used. For applying ‘t’ test in the context of small sample ,first ‘t’ value is calculated and compared with the table value of ‘t’ at a certain level of significant for given degree of freedom. If the calculated value of ‘t’ exceeds the table value we know that the difference is significant at 5% level. But if ‘t’ value is less than the concerning table value of the ‘t’ the different is not treated as significant.

Trend Analysis

The Arrangement of Statistical data chronologically (according to occurrence of time) is known as time series and the statistical analysis of this chronological variation 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 Varible

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

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 financial as well as statistical tools are used for the comparison of the financial indicators. Also the correlation and regression analysis of the sample firm is calculated 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 Market Price Per Share (MPS)

(in Rs.)

NAME	BOK	EBL	HBL	NIB	NSBL	Average
04/05	430.00	870.00	920.00	800.00	335.00	671.00
05/06	850.00	1379.00	1100.00	1260.00	612.00	1040.20
06/07	1375.00	2430.00	1740.00	1729.00	1176.00	1690.00
07/08	2350.00	3132.00	1980.00	2450.00	1511.00	2284.60
08/09	1825.00	2455.00	1760.00	1388.00	1900.00	1865.6
Average	1366.00	2053.20	1500.00	1525.4	1106.8	
SD	761.80	911.28	461.52	614.79	639.89	
CV(%)	55.77	44.38	30.76	40.30	57.81	

(Source: Annual report of respective banks and Appendix II)

The table 4.1 shows the market price of the listed five commercial banks from FY04/05 to 08/09. According to the table highest average market price is of EBL and lowest of NSBL. BOK, HBL and NIB are also performing very well.

BOK has average MPS Rs 1366.00 which shows it is performing well. Its standard deviation is 761.80 and CV is 55.77%. According to the table MPS of BOK is fluctuating as it has 55.77% CV.

EBL has average MPS of Rs 2053.20 which is the highest among 5 banks. Its standard deviation is 911.28. CV of EBL is 44.38% which means that there is not so high variation in MPS. Price of share is increasing continuously.

HBL has average MPS of Rs 1500.00. Its SD is 461.52 and CV is 30.76%. MPS is increasing continuously in all the five years. Fluctuation in MPS of HBL is 3076% which is lowest among these five commercial banks.

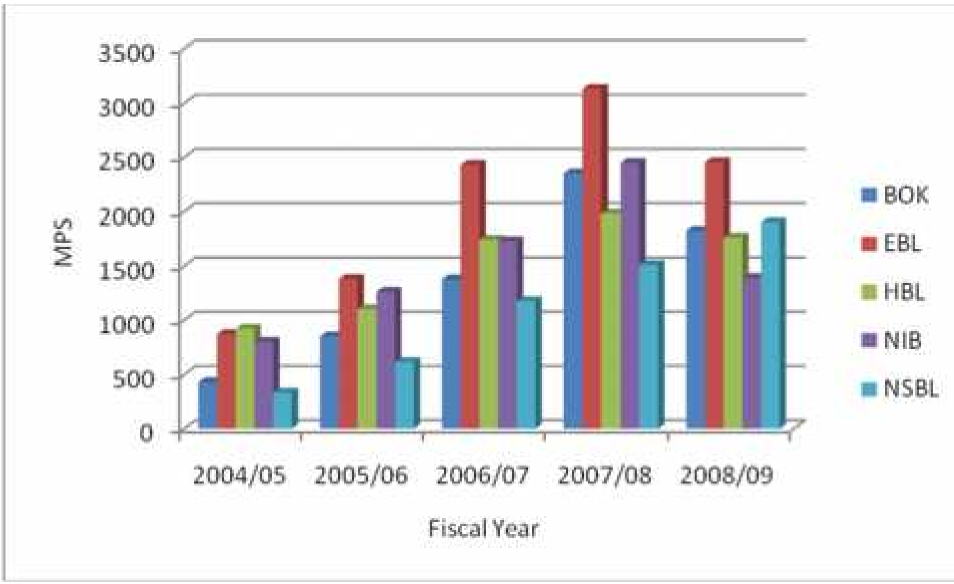
Market price of the share of NIB is increasing continuously for the four years but in the fifth year 08/09 it has decreased. Average MPS is Rs 1525.4. Standard Deviation of NIB is 614.79. Its CV is 40.30%.

NSBL has lowest MPS Rs 1106.80. Market Price per Share is in increasing trend. Fluctuation of MPS is the highest among the above mentioned five commercial banks i.e. 57.81% and SD is 639.89.

According to the table performance of EBL is very good. All the above five commercial banks are continuously increasing its MPS; it means that in the market, share of these banks are traded well.

Figure 4.1

Analysis of Market Price Per Share (MPS)



4.2 Earning Per Share (EPS)

Normally the performance and achievement of business organization are measured in terms of earning capacity to generate earning. Higher earning shows the higher strength while lower earning shows weaker strength of business organization. So higher the EPS better the position is seen in stock market.

Table 4.2

Analysis of Earning Per Share (EPS)

(in Rs.)

NAME	BOK	EBL	HBL	NIB	NSBL	Average
04/05	30.10	54.22	47.91	39.50	13.29	37.00
05/06	43.67	62.78	59.24	59.35	18.27	48.66
06/07	43.50	78.42	60.66	62.57	39.35	56.90
07/08	59.94	91.82	62.74	57.87	28.33	60.14
08/09	54.68	99.99	61.90	37.42	36.18	58.03
Average	46.38	77.45	58.49	51.34	27.08	
SD	11.55	19.17	6.06	11.90	11.21	
CV(%)	24.90	24.75	10.36	23.18	41.40	

(Source: Annual report of respective banks and Appendix II)

The table 4.2 shows the earning per share of the five listed banks from the year 04/05 to 08/09. From the above table it is clear that EBL has the highest EPS of Rs. 77.45 where as NSBL has the lowest EPS of Rs. 27.08 only.

BOK has average EPS of Rs. 46.38 and its SD is 11.55 and CV is 24.90%. There is not more fluctuation in EPS of BOK. EPS of BOK is increasing continuously but the in year 08/09 it has decreased to Rs. 54.68.

The average EPS of EBL is Rs.77.45. Its SD is 19.17 and CV is 24.75%. EPS of EBL is in growing trend in these five years. There is not more fluctuation in EPS of EBL. Average of EPS is the highest among these five banks.

The average EPS of HBL is Rs.58.49 which is in 2nd position. Its SD is 6.06 and the coefficient of variation is 10.36%. CV indicates the fluctuation in EPS, which means only 10.36% variation is there in EPS of HBL.

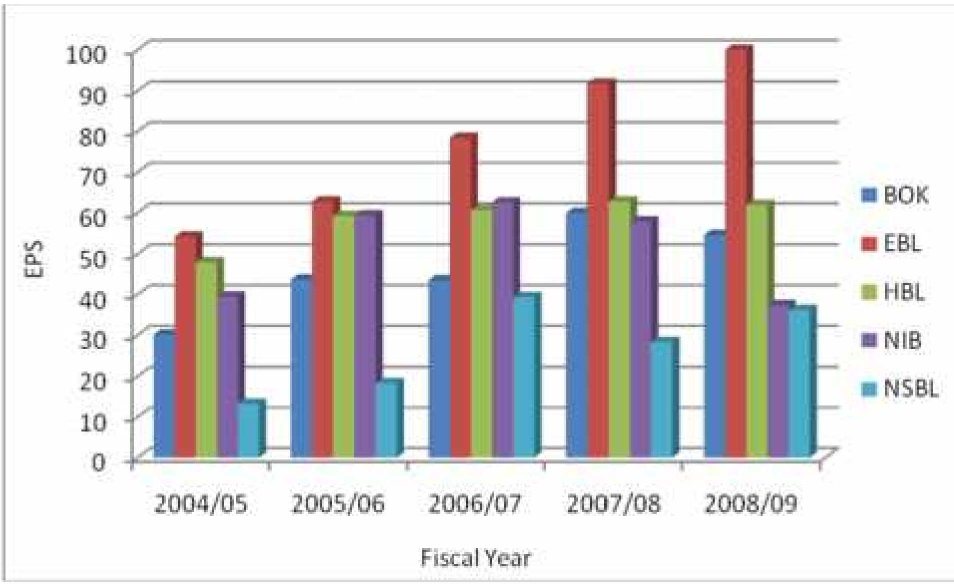
NIB has average EPS is Rs.51.34. Its SD is 11.90 and its CV is 23.18%. It indicates 23.18% fluctuation in EPS which means there is not more fluctuation in EPS of NIB. In FY 08/09 EPS has decreased but before that it has increased regularly.

The average EPS of NSBL is Rs.27.08, its SD is 11.21 and CV is 41.40% which indicates that there is 41.40% fluctuation in EPS of the bank. EPS of NSBL is increasing in FY 04/05 to 06/07 then after in year 07/08 it has decreased to 28.33. But in FY 08/09 it has again increased.

With out 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 from10.36% to 41.40%.This implies that there is high fluctuation in the EPS of these banks which demonstrates that performance is not consistent and satisfactory.

Figure 4.2

Analysis of Earning Per Share (EPS)



4.3 Dividend Per Share (DPS)

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

Table 4.3

Analysis of Dividend Per Share (DPS)

(in Rs.)

NAME	BOK	EBL	HBL	NIB	NSBL	Average
04/05	5.00	-	11.58	12.50	-	5.82
05/06	10.00	25.00	30.00	20.00	5.00	18.00
06/07	15.00	10.00	15.00	5.00	12.59	11.52
07/08	18.00	20.00	25.00	7.5	-	14.10
08/09	20.00	30.00	12.00	20.00	2.11	16.82
Average	13.6	17.00	18.72	13.00	3.94	
SD	6.11	12.04	8.31	6.94	2.52	
CV(%)	44.92	70.82	44.39	53.38	63.95	

(Source: Annual report of respective banks and Appendix II)

The table 4.3 shows the dividend per share of five listed commercial banks from the year 04/05 to 08/09. It is clear to see that average DPS of HBL is the highest, i.e. Rs.18.72. NSBL has the lowest of average dividend per share of Rs 3.94.

BOK has a moderate dividend per share of Rs.13.6 in average; it has SD of 6.11 which shows that there is a chance to decrease in dividend payment by 6.11. CV of BOK is 44.92% i.e. it has high fluctuation in EPS.

In the FY 04/05 EBL has not paid any dividend to its shareholders. Distribution of dividend of EBL is highly fluctuating. It has average DPS Rs.17.00 and SD of 12.04. Its CV is 70.82% which is highest among the above five commercial banks.

HBL has Rs.18.72 of average DPS. Its SD is 8.31 and it is fluctuated by 44.39%. There is very inconsistency in the DPS of HBL.

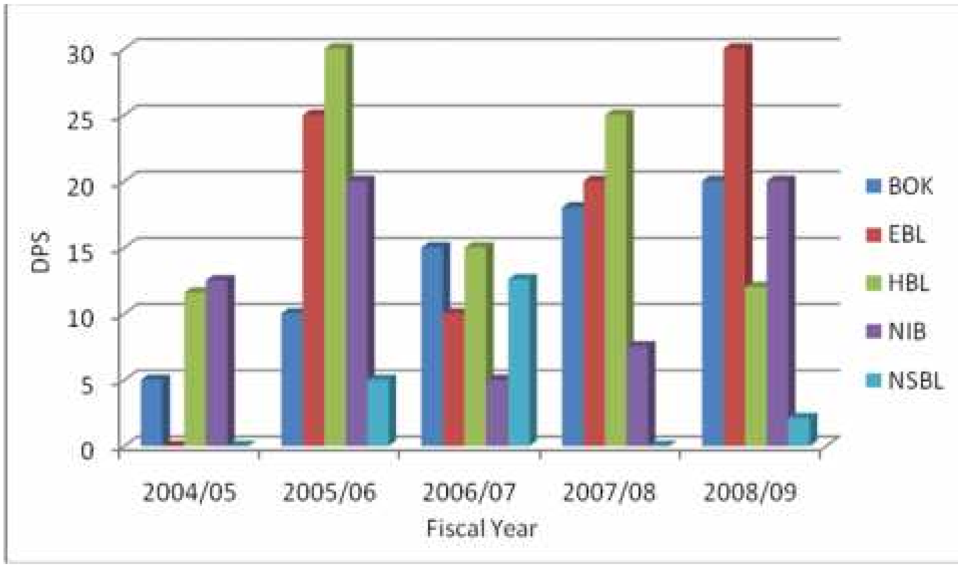
NIB has average DPS of Rs.13.00. It has 6.94 SD and CV is 53.38%. There is high fluctuation in DPS of NIB which is reflected in its CV i.e. 53.38%.

NSBL has lowest average DPS Rs 3.94. It has not paid dividend in FY 04/05 and 07/08. In comparison to dividend of above five years it has paid highest dividend in FY 06/07, i.e. Rs.12.59. Its SD is 2.52. Its CV is 63.95% which means its DPS is highly inconsistent.

In an average all the above listed banks except NSBL are providing good dividend to its shareholders. Investors invest their money and want maximum return from it so DPS is also one the indicator of evaluating the return.

Figure 4.3

Analysis of Dividend Per Share (DPS)



4.4 Dividend Payout Ratio (DPR)

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 Dividend Payout Ratio (DPR)

NAME	BOK	EBL	HBL	NIB	NSBL	Average
04/05	16.61	-	24.17	31.65	-	14.49
05/06	22.90	39.82	50.64	33.70	27.37	34.89
06/07	34.48	12.75	24.73	7.99	31.99	22.39
07/08	30.03	21.78	39.85	12.96	-	20.92
08/09	36.57	30.00	19.39	53.45	5.83	29.05
Average	28.12	20.87	31.76	27.95	13.04	
SD	8.29	15.37	13.06	18.17	15.46	
CV(%)	29.48	73.65	41.12	65.00	118.56	

(Source: Annual report of respective banks and Appendix II)

The table 4.4 shows the dividend pay-out ratio (DPR) of five listed commercial banks.

During the period of study, BOK has an average DPR of 28.12%. The standard deviation of the DPR is 8.29. The C.V. of 29.48% has shown a less consistent behavior of dividend payment by BOK.

Everest Bank Ltd. has an average DPR of 20.87% during the period of study. It means that it generally pays 20.87% of its earning to its shareholders in form of dividend. The standard deviation of DPR is 15.37 whereas the coefficient of variation of 73.65% the fluctuating nature of DPR of EBL.

Average DPR of NIB from FY 04/05 to 08/09 is 27.95. Its SD is 18.17 and CV is 65.00%. There is the moderate fluctuating nature of DPR of NIB.

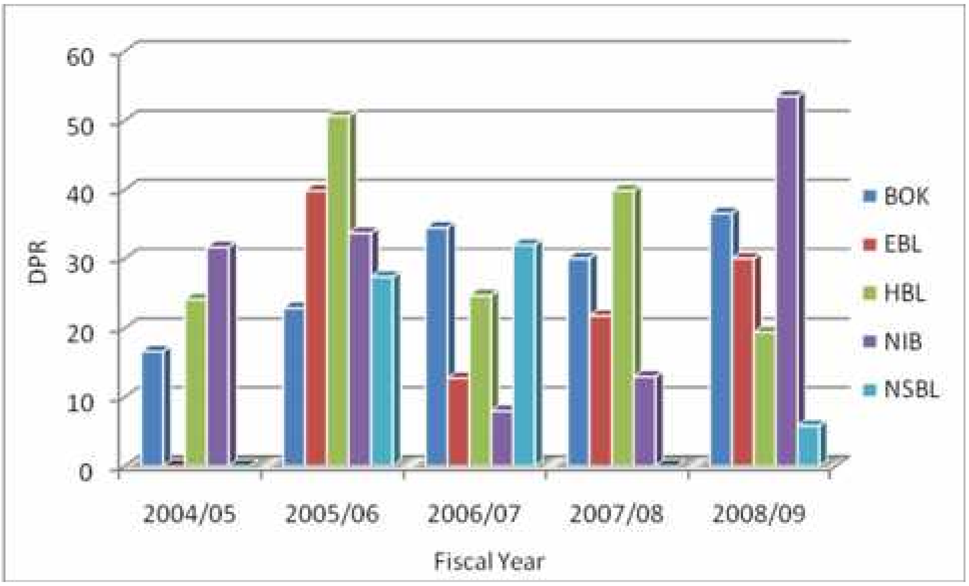
The average DPR of HBL is 31.76. It means that HBL generally pays 31.76% of its total earning as dividend to its shareholders. The standard deviation of DPR is 13.06. The coefficient of variation is 41.12%, which indicates that there is more variable in its DPR over the years. HBL has more fluctuation in its DPR, it has not maintained consistency in its DPR.

An average DPR of 13.04% of NSBL indicates that it generally pays out 13.04% of its earning as dividend. NSBL has fluctuating trend in its dividend payment. The standard deviation is 15.46 and coefficient of variation is 118.56%. The C. V. indicates that the DPR of NSBL highly fluctuated during the period of study.

The above calculation shows that HBL has the highest average DPR of 31.76 where as NSBL has the lowest average DPR of 13.04. From the above data it is clear that BOK and HBL are paying high dividend to its shareholders. But all other banks have retained most of its earning for future investment. If the DPR is high, company can retain only less amount and vive-versa.

Figure 4.4

Analysis of Dividend Payout Ratio (DPR)



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 more matured industries pay out high portion of their earnings and have a relatively high dividend yield.

Table 4.5

Analysis of Dividend Yield (DY)

NAME	BOK	EBL	HBL	NIB	NSBL	Average
04/05	1.16	-	1.26	1.56	-	0.80
05/06	1.18	1.81	2.73	1.59	0.82	1.63
06/07	1.09	.041	0.86	0.29	1.07	0.67
07/08	0.77	0.64	1.26	0.31	-	0.60
08/09	1.09	1.22	0.68	1.44	0.11	0.91
Average	1.06	0.74	1.36	1.04	0.4	
SD	0.17	0.78	0.81	0.68	0.51	
CV(%)	16.04	105.41	59.55	65.38	127.5	

(Source: Annual report of respective banks and Appendix II)

The table 4.5 shows the dividend yield of listed commercial banks for the period of five year.

The DY BOK ranges between 1.18% and 0.77% during the period of study. During this period, the average DY is 1.06%. The standard deviation of DY of BOK under the period of study is 0.17. The C.V. of 16.04% indicates that the fluctuation of in DY of BOK is the more stable.

The average DY of EBL, during this period of study, is 0.74%. The Standard deviation of DY is 0.78 whereas the coefficient of variation is 105.41%. The C.V indicates a high fluctuation in the DY of the bank.

HBL within the period of study has an average DY of 1.36% ranging between 2.73% and 0.68%. It has fluctuating trend in DY. The standard deviation is 0.81 and the fluctuation of 59.55% in the DY, shown by the coefficient of variation.

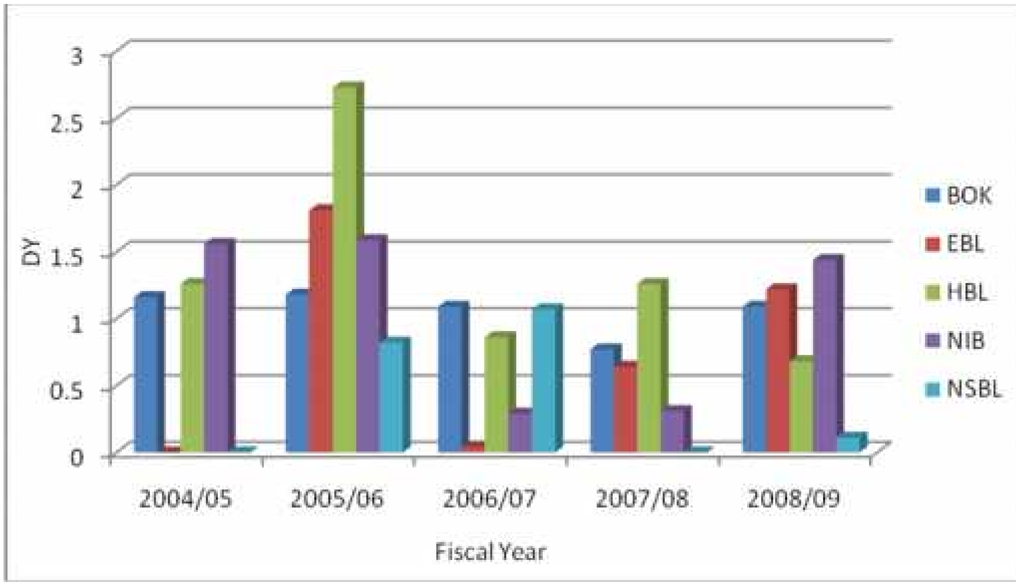
NIB has an average DY of 1.04% with standard deviation 0.68. The DY ranges between 1.59% and 0.29%. The coefficient of variation shows that there is a fluctuation of 65.38% in DY of NIB.

During the period of study, Nepal SBI Bank Ltd. (NSBL) has an average DY of 0.40% with a standard deviation of 0.51. The DY ranges between 1.07% and 0.11%. The coefficient of variation shows that there is a fluctuation of 127.50% in DY of NSBL. NSBL is not in better position in respect of DY. NSBL has lowest dividend yield in comparison to other banks.

From the above data and calculation, it can be said that the average DY of HBL is the highest and that of NSBL is the lowest. The standard deviation of HBL is the highest and BOK is the lowest. The coefficient of variation of these banks shows a high level of fluctuation in the DY. In comparison, NSBL has the less consistent DY among the selected banks.

Figure 4.5

Analysis of Dividend Yield (DY)



4.6 Earning Yield (EY)

Earning Yield is a financial ratio relating to earning per share to the market share price at a particular time. It measures the earning in relation to market value of the share. It gives some idea that of how much an investor is earning for his money.

Table 4.6

Analysis of Earning Yield (EY)

NAME	BOK	EBL	HBL	NIB	NSBL	Average
04/05	7.00	6.23	5.21	4.94	3.97	5.47
05/06	5.14	4.55	5.39	4.71	2.99	4.56
06/07	3.16	3.23	3.49	3.62	3.35	3.37
07/08	2.55	2.93	3.17	2.36	1.87	2.58
08/09	3.00	4.07	3.52	2.70	1.90	3.04
Average	4.17	4.20	4.16	3.67	2.82	
SD	1.87	1.31	1.05	1.16	0.92	
CV(%)	44.84	31.00	25.24	31.61	32.62	

(Source: Annual report of respective banks and Appendix II)

The average of EY of 4.17% with the standard deviation of 1.87 is seen for Bank of Kathmandu (BOK). The highest and the lowest EY are 7.00% and 2.55% respectively. The coefficient of variation is 44.84% during the period of study which shows that it is less consistent.

The average EY of EBL during the period of study is 4.20%. It is within the range of 6.23 and 2.93. The standard deviation of EY is 1.31 whereas the coefficient of variation is 31.00%. The coefficient of variation in EY of EBL indicates there is moderate fluctuation during this period.

HBL has an average 4.16%. The standard deviation is 1.05 and coefficient of variation is 25.24%. The C.V indicates that it has more homogeneity.

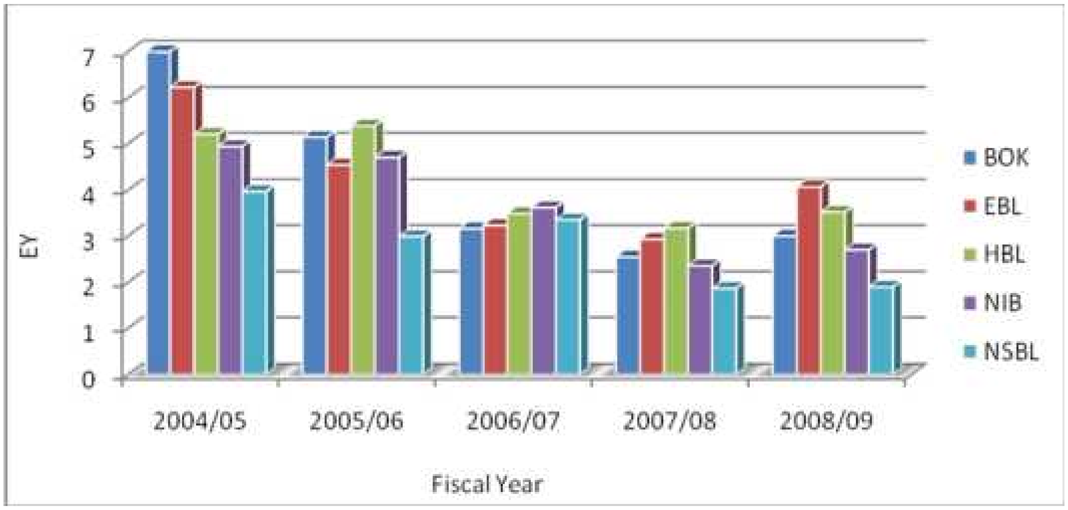
The average EY of NIB is 3.67% noted during the period of study. The standard deviation of the EY is 1.16. The C.V of 31.61% indicating that there is a less consistent in the EY of NIB.

Nepal SBI Bank Ltd (NSBL) has an average EY of 2.82%. The standard deviation is 0.92 and coefficient of variation is 32.62%. The C.V indicates that the EY of NSBL is less homogeneous.

From the above calculation, EBL has the highest average EY and NSBL has the lowest. The C.V. indicates that among the selected banks, BOK have the less consistency in its earning yield where as the earning yield of HBL has more homogeneous.

Figure 4.6

Analysis of Earning Yield (EY)



4.7 Price Earning Ratio (P/E)

Price Earning Ratio represents the amount which the investors are willing to pay for each rupee of the firm's earnings. It reflects the price currently paid by the market for each rupees of currently reported earning per share. The P/E ratio measures investor's expectation and market appraisal of the performance of the firm.

Table 4.7
Analysis of Price Earning Ratio (P/E)

NAME	BOK	EBL	HBL	NIB	NSBL	Average
04/05	14.29	16.04	19.20	20.25	25.21	19.00
05/06	19.46	21.97	18.57	21.23	33.49	22.94
06/07	31.61	30.99	28.69	27.63	29.89	29.76
07/08	39.21	34.11	31.56	42.33	53.34	40.11
08/09	33.37	24.55	28.43	37.10	52.52	35.19
Average	27.59	25.53	25.29	29.71	38.89	
SD	10.34	7.20	5.98	9.74	13.15	
CV(%)	37.48	28.00	23.65	32.78	33.81	

(Source: Annual report of respective banks and Appendix II)

BOK has an average P/E ratio of 27.59. The standard deviation is 10.34 and coefficient of variation is 37.48%. The CV indicates that P/E ratio of BOK is less homogeneous.

An average P/E Ratio of 25.53 has been noted during the period of study for EBL. The standard deviation of the P/E Ratio is 7.20. The C.V of 28.00% indicates that there is more consistent in the P/E Ratio of EBL.

HBL has an average P/E ratio 25.29. The Standard deviation is 5.98 and coefficient of variation is 23.65%. The CV indicates that P/E ratio of HBL is more homogeneous.

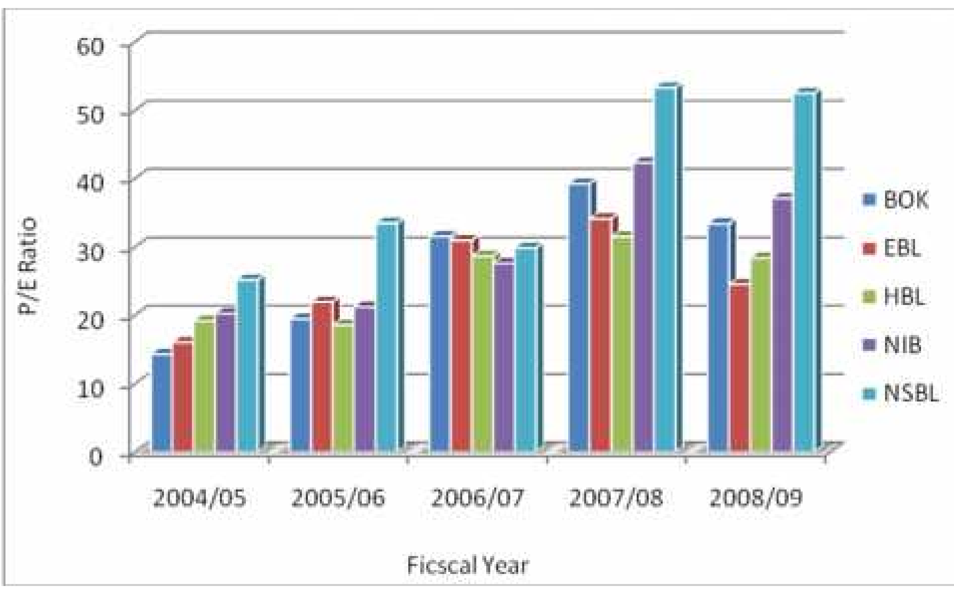
NIB has an average P/E ratio 29.71, ranging between 42.33 and 20.25. The S. D. is 9.74 and C.V. is 32.78%.

Nepal SBI Bank Ltd. (NSBL) has an average P/E ratio of 38.89, ranging between 53.34 and 25.21 during the period of study. The standard deviation of 13.15 and the fluctuation of 33.81% in the P/E ratio are seen during this period which indicates the moderate fluctuating nature in P/E ratio for NSBL.

From the above calculation, NSBL has the highest average P/E Ratio and HBL has the lowest. The C.V indicates that among the banks under study during the period, HBL has the less consistency in P/E ratio whereas the P/E ratio of NSBL is more stable.

Figure 4.7

Analysis of Price Earning Ratio (P/E)



4.8 Correlation Analysis

The correlation analysis is a technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number which indicates to what extent two variables are related with each other. 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. Here we have calculated the relationship between EPS and MPS, MPS and DPS and EPS and DPS.

4.8.1 Correlation between EPS and MPS

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

Table 4.8
Correlation Coefficient between EPS and MPS

Banks	r	r2	PE	6PE	Remarks
BOK	0.96	0.92	0.024	0.14	Significant
EBL	0.89	0.79	0.063	0.38	Significant
HBL	0.83	0.69	0.93	0.56	Insignificant
NIB	0.57	0.32	0.20	1.23	Undefined
NSBL	0.82	0.67	0.10	0.6	Significant

(Source: Appendix III)

The Table 4.8 helps to depict the relationship between Earning Per Share (EPS) and Market Price Per Share (DPS) of above five commercial banks. The correlation coefficient (r) between EPS and MPS of all the banks are positive which indicates the positive relationship between EPS and MPS. It means that the MPS increases with the increase in EPS. Four banks namely BOK, EBL, HBL and NSBL are highly positive and for NIB the correlation is 0.57 which shows it's positive but there is not so high relationship.

PE measures the reliability of the observed correlation coefficient. The relationship between the EPS and MPS of BOK, EBL and NSBL is significant as the value of 'r' is greater than 6PE. Similarly in the case of HBL, r is smaller than PE. So, the relationship is insignificant which indicates there no evidence of correlation. PE of NIB is undefined as PE<r<6PE and nothing can be concluded about the relationship between EPS and MPS.

4.8.2 Correlation Coefficient between MPS and DPS

The correlation coefficient between MPS and DPS is as follows:

Table 4.9
Correlation Coefficient between MPS and DPS

Banks	r	r2	PE	6PE	Remarks
BOK	0.92	0.85	0.05	0.27	Significant
EBL	0.47	0.22	0.23	1.41	Undefined
HBL	0.00023	0.00	0.30	1.81	Insignificant
NIB	-0.58	0.34	0.20	1.20	Insignificant
NSBL	0.005	0.00	0.30	1.81	Insignificant

(Source: Appendix III)

Table 4.9 presents the correlation coefficient between MPS and DPS of listed five banks. BOK, EBL, HBL and NSBL have positive correlation. It means when there is increase in DPS; it also leads to increase in the MPS and vice-versa. Among these BOK has the highest degree of positive relation and EBL and NSBL has very low degree of positive relationship. The correlation of NIB is negative which indicates the inverse relationship between MPS and DPS of these two banks. NIB has issued right share due to which the Market Price of the Share decreased but as the bank's DPR is high, its DPS increased. So there seemed the negative relationship between the MPS and DPS of NIB.

Probable error of the MPS and DPS of HBL, NIB and NSBL is insignificant as r<PE but for BOK it is significant. PE in the correlation of the EBL cannot be defined.

4.8.3 Correlation Coefficient between EPS and DPS

The correlation coefficient between EPS and DPS is as follows:

Table 4.10

Correlation Coefficient between EPS and DPS

Banks	r	r2	PE	6PE	Remarks
BOK	0.92	0.85	0.05	0.27	Significant
EBL	0.66	0.43	0.17	1.03	Undefined
HBL	0.39	0.15	0.26	1.56	Undefined
NIB	-0.49	0.24	0.23	1.38	Insignificant
NSBL	0.55	0.30	0.21	1.26	Undefined

(Source: Appendix III)

According to the above table 4.10, BOK has high degree of positive correlation between EPS and DPS. In case of EBL, HBL and NSBL correlation is 0.66, 0.39 and 0.55, which is also positive but it's not so high. For these four banks when their EPS increases; their DPS also increases. But as the correlation of NIB is negative, the value of DPS decreases as the value of EPS increases and vice-versa. Due to the issuance of right share EPS of the bank decreased but bank tried to provide good return to the investors and increased its

DPR which lead to the increase in DPS. So, when EPS of NIB decreased, its DPS increased and the correlation between the two became slightly negative.

According to the above table the PE of EBL, HBL and NSBL is undefined. So, the error in the correlation can not be concluded. But for BOK it's significant and for NIB it's insignificant.

4.9 Simple Liner Regression Analysis

The regression analysis is used in determining the strength of relationship between two variables.

4.9.1 Regression Analysis between EPS and MPS

To describe the average relationship between EPS and MPS, we have performed the regression analysis of all the five banks. In this analysis, we have assumed MPS as depended variable and EPS as the independent. The summary of the regression analysis is presented in the table below.

Table 4.11

Regression Analysis between EPS and MPS

Banks	Intercept (a)	Slope(b)	SEE	Sb	T value	Remarks
BOK	-1569.26	63.29	247.97	10.73	5.90	Significant
EBL	-1228.19	42.37	476.83	12.44	3.40	Significant
HBL	-2196.57	63.20	297.36	24.53	2.57	Insignificant
NIB	12.86	29.46	583.07	24.50	1.20	Insignificant
NSBL	-3010.78	-152.03	4114.82	183.53	0.83	Insignificant

(Source: Appendix IV)

From this analysis we have found the slopes (b) of four banks BOK, EBL, HBL and NIB are positive. It means when there is one unit change in EPS it leads to 63.29, 42.37, 63.20 and 29.46 changes in MPS of BOK, EBL, HBL and NIB respectively. This data shows the positive relationship between EPS and MPS. Relationship between EPS and MPS of NSBL is negative. Intercept (a) is the average value of MPS when its EPS is equal to zero. According to the above data, intercept of all the banks except NIB are found to be negative.

Also, the calculated value of t (5.90) of BOK is higher than the tabulated value of t (2.78) at 5% level of significance and 4 Degree of freedom, which indicates that the result is statistically significant. Similarly for EBL also it is significant. For rest of the banks HBL, NIB and NSBL it is insignificant.

4.9.2 Regression Analysis between DPS and EPS

Regression Analysis of DPS and EPS is calculated in the table below. We have taken the data of the above five banks where EPS is taken as independent variable and DPS as dependent variable.

Table 4.12

Regression Analysis between DPS and EPS

Banks	Intercept (a)	Slope(b)	SEE	Sb	T value	Remarks
BOK	-8.66	0.48	2.89	0.1251	3.84	Significant
EBL	-14.75	0.41	10.50	0.27	1.52	Insignificant
HBL	-12.87	0.54	8.83	0.73	0.74	Insignificant
NIB	27.37	-0.28	7.02	-0.012	2.33	Insignificant
NSBL	-3.10	0.26	5.05	0.23	1.13	Insignificant

(Source: Appendix IV)

According to the above table 4.12, slope (b) of BOK, EBL, HBL and NSBL are positive which indicates that when there is increase in EPS it also leads to the increase in DPS. There is positive relationship between EPS and DPS of these banks but in case of NIB there is negative relationship. When one unit of EPS increases it leads to 0.28 unit decrease in DPS of NIB.

The test of t-statistics helps to conclude that relationship between DPS and EPS of BOK is significant as its calculated t-value is higher that the tabulated t-value (2.78) at 5% level of significance on 4 degree of freedom. In case of other banks it is insignificant.

4.9.3 Regression Analysis between DPS and MPS

MPS is taken as dependent variable and DPS as independent variable. In this basis regression analysis of MPS and DPS is calculated and it is presented in the table below.

Table 4.13

Regression Analysis between DPS and MPS

Banks	Intercept (a)	Slope(b)	SEE	Sb	T value	Remarks
BOK	-200.58	115.19	337.43	27.61	4.17	Significant
EBL	1451.06	35.42	929.89	38.62	0.92	Insignificant
HBL	1499.76	0.013	532.91	32.06	0.0004	Insignificant
NIB	2144.72	-47.64	598.60	43.13	1.10	Insignificant
NSBL	1104.24	0.65	738.87	146.60	0.004	Insignificant

(Source: Appendix IV)

The above table 4.13 shows that the slope of NIB is negative which defines when there is one unit increase/decrease in the MPS; it leads to the 47.64 units decrease/increase in the DPS of the banks respectively. But the positive relationship between MPS and DPS of BOK, EBL, HBL and NSBL shows the increase in DPS when MPS increases and vice-versa. Intercept (a) is the average value of DPS when MPS is equal to zero. Intercept of BOK is found to be negative; other four commercial banks have their intercept.

The calculated t-value of relationship between DPS and MPS is lower that the tabulated t-value (2.78) at 5% level of significance on 4 degree of freedom for EBL, HBL, NIB and NSBL and is found to be insignificant. But for EBL it is significant.

4.10 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.

4.10.1 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 of the share.

Table 4.14

Trend Analysis of MPS

(in Rs.)

			Forecasted MPS				
NAME	**a**	**b**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**
BOK	1366	429	2653.00	3082.00	3511.00	3940.00	4369.00
EBL	2053.2	492.3	3530.10	4022.40	4514.70	5007.00	5499.00
HBL	1500	256	2268.00	2524.00	2780.00	3036.00	3292.00
NIB	1525.4	236.6	2235.20	2471.80	2708.40	2945.00	3181.00
NSBL	1106.8	402.9	2315.50	2718.40	3121.30	3524.20	3927.10

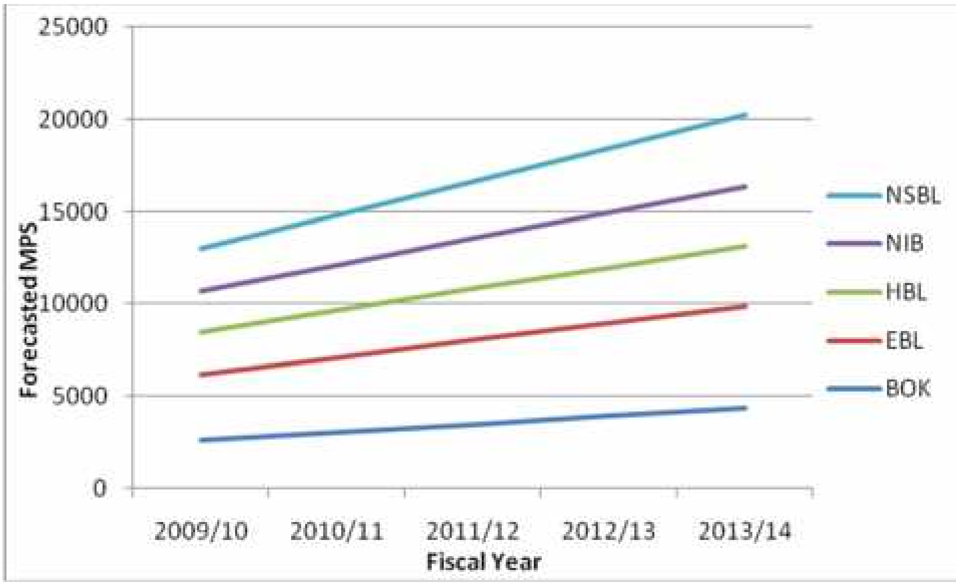
(Source: Appendix V)

Table 4.12 shows the trend analysis of the MPS of the five commercial banks for the three years ahead. According the above table MPS of all the commercial banks are found to be increasing. We have here forecasted the MPS of year 09/10, 10/11, 11/12, 12/13 and 13/14. As usual EBL is expected to have highest MPS. Similarly all other banks like BOK, EBL, HBL whose MPS was fluctuating before are also expected to increase their MPS in future due to their increasing rate of MPS.

The following figure also shows the trend analysis of MPS in more descriptive form.

Figure 4.8

Trend Analysis of MPS



4.10.2 Trend Analysis of EPS

Trend analysis helps to forecast the future. Here EPS of the five banks are forecasted with the help of trend analysis. Future EPS of the banks is shown in the table below.

Table 4.15

Trend Analysis of EPS

(in Rs.)

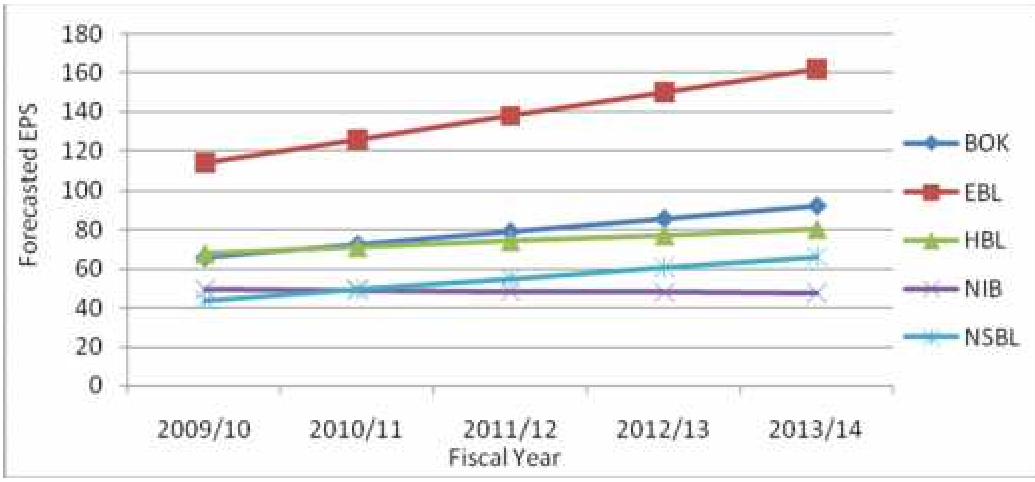
			Forecasted EPS				
NAME	**a**	**b**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**
BOK	46.38	6.543	66.00	72.55	79.09	85.62	92.16
EBL	77.45	12.058	113.62	125.68	137.74	149.80	161.85
HBL	58.49	3.148	67.93	71.08	74.23	77.38	80.52
NIB	51.34	-0.564	49.65	49.08	48.52	47.95	47.39
NSBL	27.08	5.584	43.83	49.42	55.00	60.58	66.16

(Source: Appendix V)

As MPS, EPS of all the banks are also increasing in year 09/10, 10/11, 11/12, 12/13 and 13/14 except of NIB. NIB’s EPS from the previous years is decreasing and in future also it seems to be decreased. Earning Per Share of other banks are expected to increase in future also. It shows good future of the shareholders in earning good return in their investment. Almost all the banks have fluctuating EPS previously but now it may increase continuously.

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

Figure 4.9
Trend Analysis of EPS



4.10.3 Trend Analysis of DPS

Future Dividend Per Share of the listed commercial banks are forecasted with the help of trend analysis. Summary of the forecasted DPS of the coming five years 09/10, 10/11, 11/12, 12/13 and 13/14 is given below.

Table 4.16

Trend Analysis of DPS

(in Rs.)

			Forecasted DPS				
NAME	**a**	**b**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**
BOK	13.6	3.8	25.00	28.80	32.60	36.40	40.20
EBL	17	5.5	33.50	39.00	44.50	50.00	55.50
HBL	18.72	-0.416	17.47	17.06	16.64	16.22	15.82
NIB	13	0.25	13.75	14.00	14.25	14.50	14.75
NSBL	3.94	-0.078	3.71	3.63	3.55	3.47	3.39

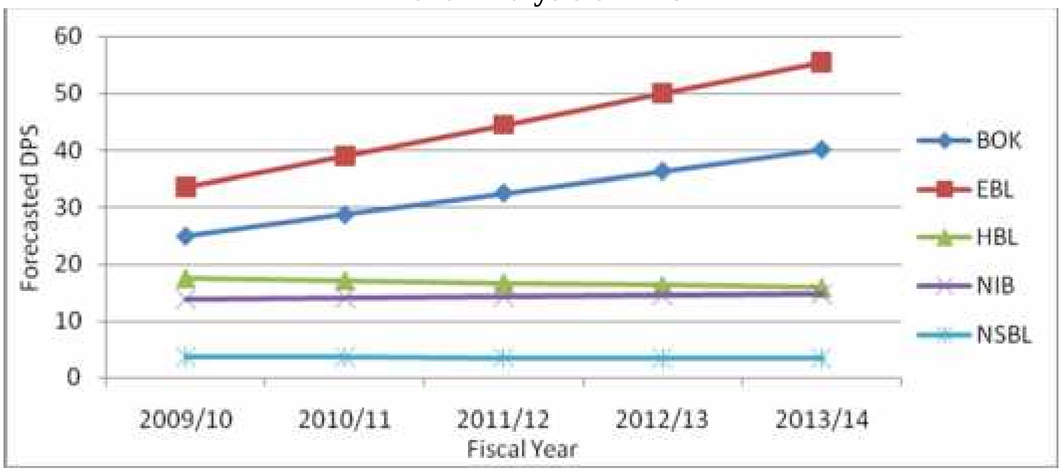
(Source: Appendix V)

DPS of BOK, EBL and NIB are in increasing trend and are expected to increase in future also. NSBL has not paid dividend in 07/08 and now also it is in decreasing trend. Similarly, the DPS of HBL is also decreasing as per our calculation and prediction.

Investors may be glad in future also with the dividend paid by some of these commercial banks but it seems NSBL and HBL's shareholders will not be satisfied with the dividend of their banks.

Figure 4.10 have shown this trend analysis more precisely.

Figure 4.10
Trend Analysis of DPS



4.10.4 Trend Analysis of DPR

Dividend Payout Ratio of the five commercial banks is forecasted here. According to the calculations done in appendix the future forecast of the DPR of the above mentioned banks is shown in the table below.

Table 4.17

Trend Analysis of DPR

			Forecasted DPR				
NAME	**a**	**b**	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**
BOK	28.12	4.705	42.23	46.94	51.64	56.35	61.05
EBL	20.87	4.196	33.45	37.65	41.85	46.04	50.24
HBL	31.76	-2.035	25.65	23.62	21.58	19.55	17.51
NIB	27.95	2.286	34.81	37.09	39.38	41.66	43.95
NSBL	13.04	-1.571	8.33	6.76	5.18	3.62	2.05

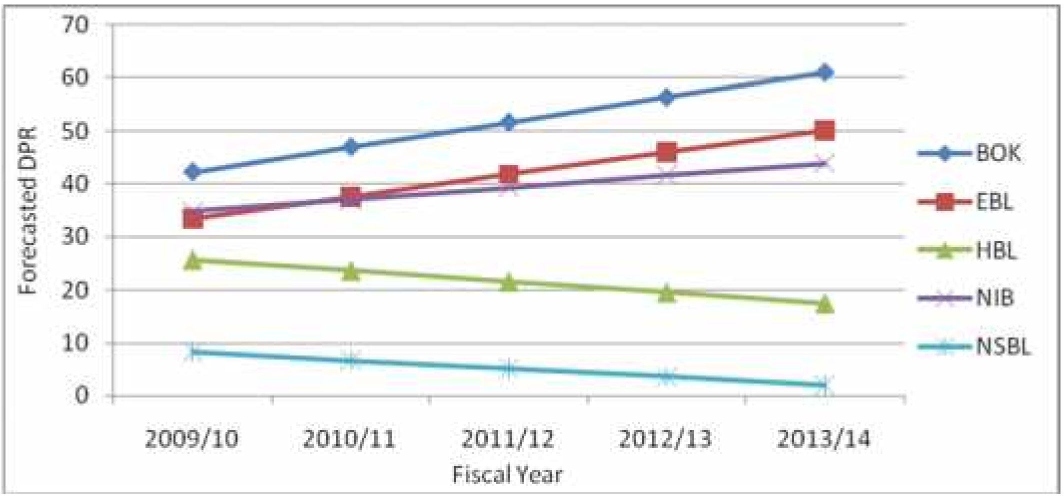
(Source: Appendix V)

Table 4.17 presented above predicts the DPR of the commercial banks for the coming five years, 09/10, 10/11, 11/12, 12/13 and 13/14. DPR of BOK, EBL and NIB are in increasing trend. It will be increasing continuously in the coming years. But HBL and

NSBL will go on distributing fewer dividends to its investors and retain more for the internal use of the bank, as per our calculation. In the previous years also these two banks don't have uniform DPR.

The following figure shows the above table in more descriptive form:

Figure 4.11
Trend Analysis of DPR



4.11 Presentation of Primary Data

Questionnaire for the collection of primary data was distributed to 50 respondents from different fields. After the distribution of list of questionnaires to different respondents, following result is achieved.

In the question no. 1, for the preference of the dividend option, following answer is collected from the respondents.

Table 4.18

Preference of Dividend Option

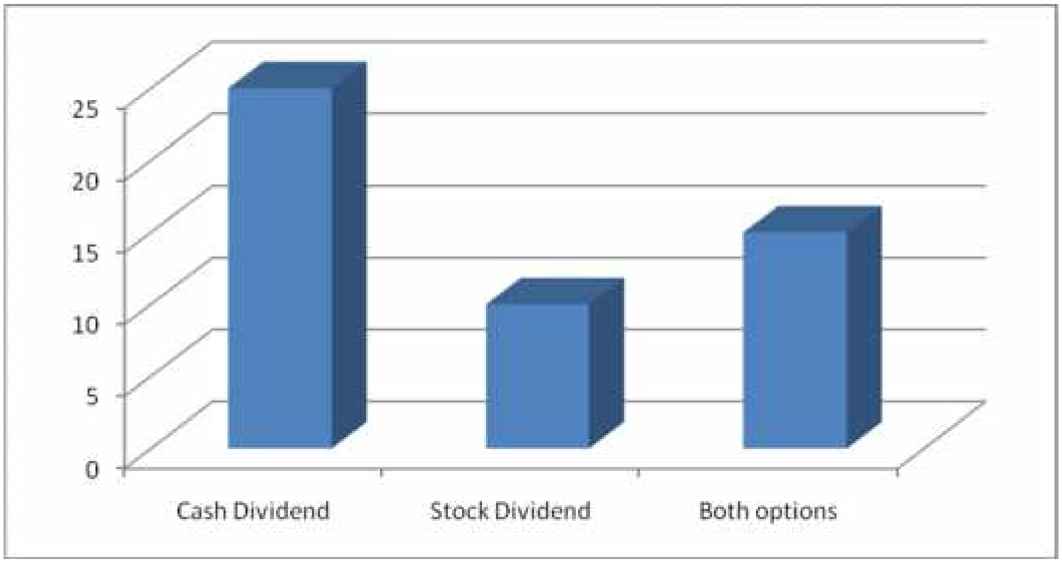
Option	No. of respondent	% of respondent
Cash Dividend	25	50%
Stock Dividend	10	20%
Both options	15	30%

(Source: Field Survey, 2010)

Most of the respondents wished for cash dividend. Among the 50 respondents, 25 i.e. 50% wanted cash dividend and only 10 wanted for stock dividend. Both options were wished by only 15% respondents.

Figure 4.12

Preference of Dividend Option



Factors considered by the investors while selecting the Financial Institution is summarized below.

Table 4.19

Factors considered by the investors

Option	No. of respondent	% of respondent
Market Price	9	18%
Past Dividend Record	35	70%
Sound Financial Position	6	12%

(Source: Field Survey, 2010)

Most of the investors, 70% as per this survey, considered the past dividend recode of the firm while investing in them. Among the 50 respondents, 9 considered market price and 6 considered the sound financial position while investing.

Figure 4.13

Factors Considered by the Investors

The third question, what factors should be considered while adopting dividend policy, is answered as follows.

Table 4.20

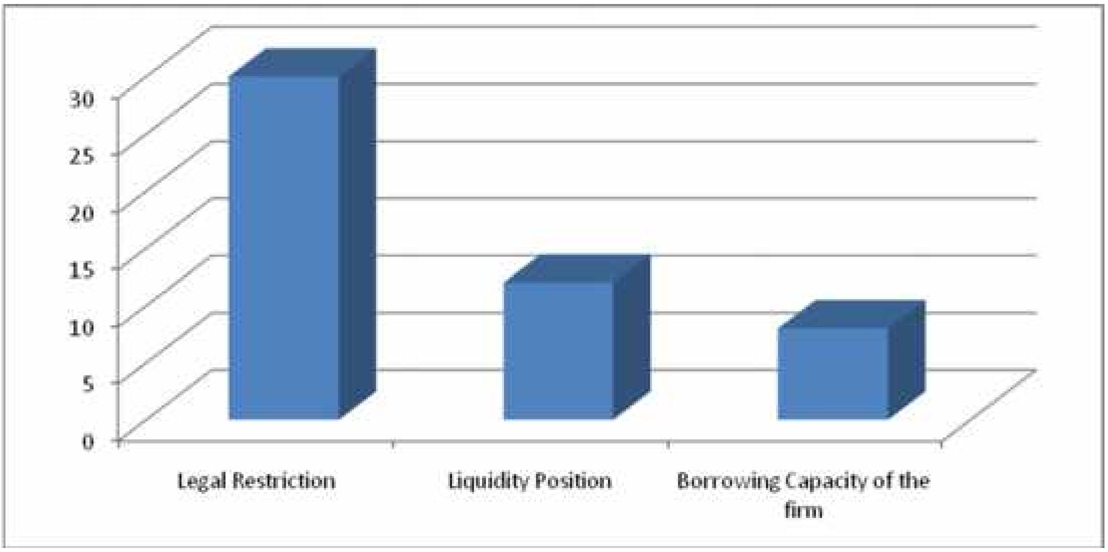
Factors to be considered while adopting dividend policy

Option	No. of respondent	% of respondent
Legal Restriction	30	60%
Liquidity Position	12	24%
Borrowing Capacity of the firm	8	16%

(Source: Field Survey, 2010)

The above table reflects that 60% of the respondents consider the legal restriction to be adopted while declaring the dividend. Similarly, 12 respondents i.e. 24% of them replied liquidity position and 16% replied borrowing capacity of the firm should be considered before declaring the dividend.

Figure 4.14
Factors to be considered while adopting Dividend Policy



In the fourth question the respondents are asked why the do people invest in the share capital. The answer is as follows:

Table 4.21

Reason of investing in the share capital

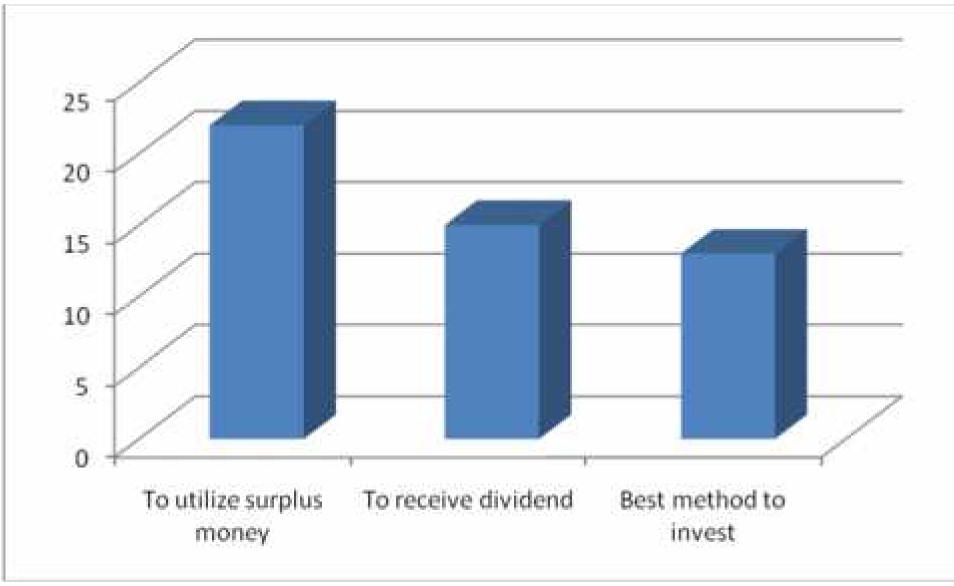
Option	No. of respondent	% of respondent
To utilize surplus money	22	44%
To receive dividend	15	30%
Best method to invest	13	26%

(Source: Field Survey, 2010)

According to the above table, among the 50 respondents, 44% invested to utilize their surplus money. 15 of them invested their money in the share capital in want of dividend and remaining 26% thought it is the best method to invest.

Figure 4.15

Reason of investing in the Share Capital



Whether the investors have received cash or stock dividend till date is asked in the fifth question. The answer can be summarized as follows.

Table 4.22

Received Cash or Stock Dividend

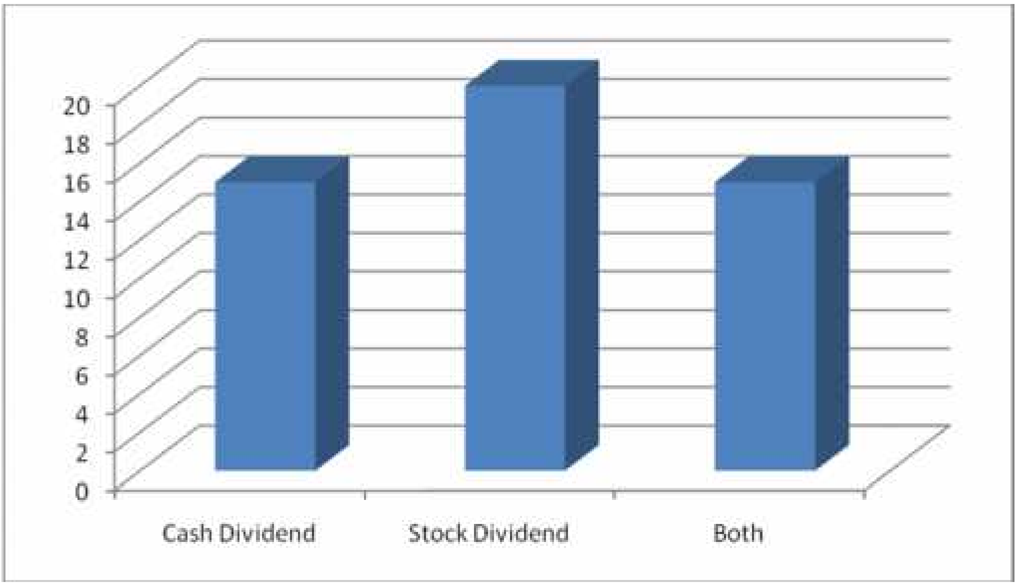
Option	No. of respondent	% of respondent
Cash Dividend	15	30%
Stock Dividend	20	40%
Both	15	30%

(Source: Field survey, 2010)

Among the 50 respondents 15 of them have received cash dividend from the company and 20 of them i.e. 40% have received stock dividend and remaining 30% received both cash and stock dividend.

Figure 4.16

Received Cash or Stock Dividend



Suggestions to the company if the company does not have cash to pay cash dividend is asked with the respondents in question no 6, which is answered in the following way by the respondents.

Table 4.23

Suggestions if there is no cash to pay cash dividend

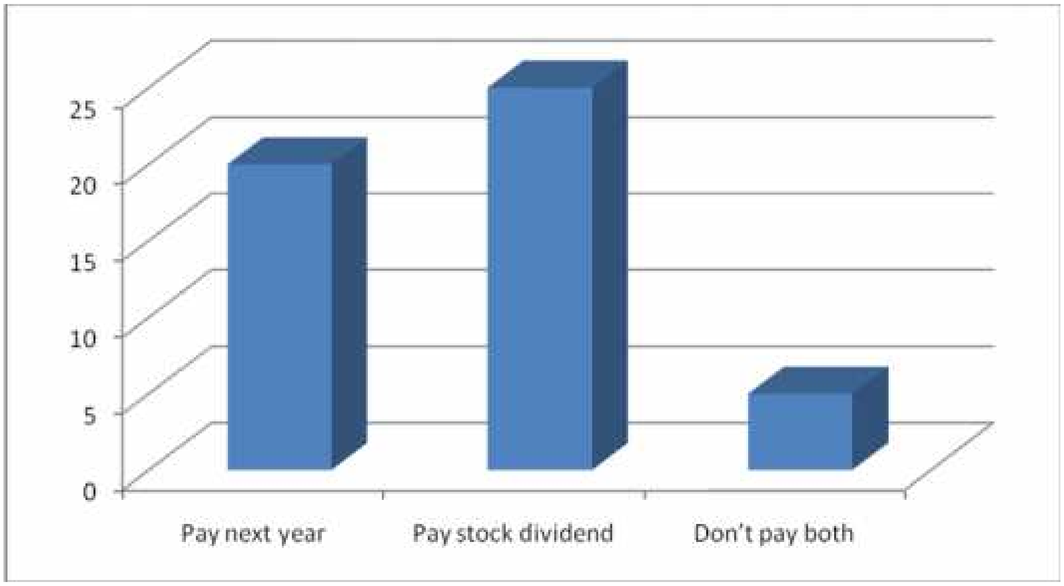
Option	No. of respondent	% of respondent
Pay next year	20	40%
Pay stock dividend	25	50%
Don't pay both	5	10%

(Source: Field Survey, 2010)

The above table reflects that 40% of the respondents want the company to pay dividend next year. 25 of the respondents want the company to pay stock dividend instead of cash dividend and remaining 10% says not to pay the both this year.

Figure 4.17

Suggestions if there is no cash to Pay Cash Dividend



Respondents are asked about the major motives of cash dividend by the banks in the seventh question. They have answered it as follows:

Table 4.24

Motives of cash dividend

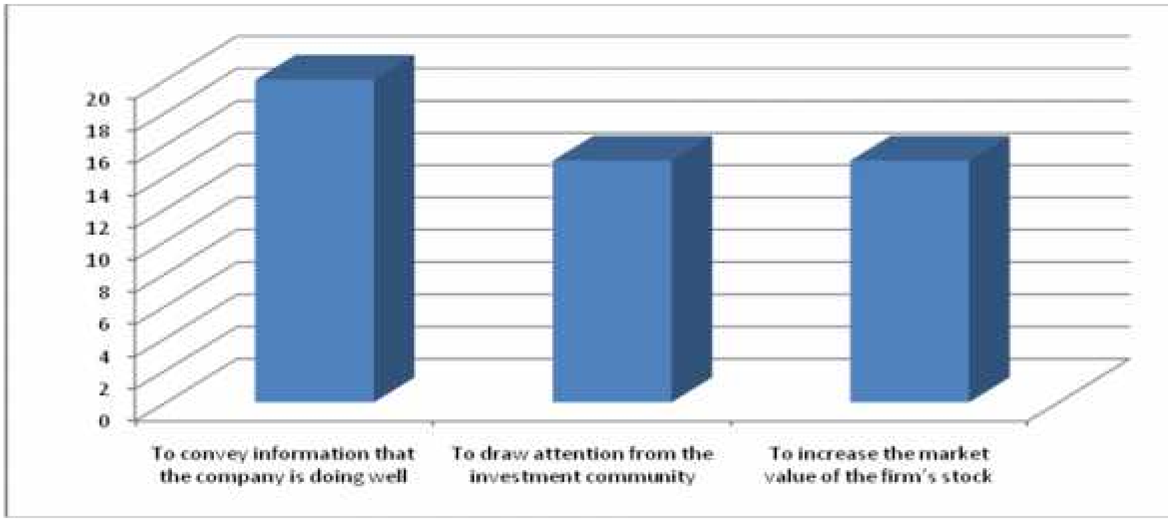
Option	No. of respondent	% of respondent
To convey information that the company is doing well	20	40%
To draw attention from the investment community	15	30%
To increase the market value of the firm's stock	15	30%

(Source: Field Survey, 2010)

According to the above table, 40% of the respondents think that the motive of the company to distribute the cash dividend is to convey the information that the company is doing well. 15 among the 50 respondents think company pays dividend to draw the attention of the new investors. In the view of next 30% respondents, company pays cash dividend to increase the market value of the stock.

Figure 4.18

Motives of Cash Dividend



4.12 Major Findings of the Study

The major findings of the study are listed below:

- Market Price Per Share (MPS) of these five listed banks is now in increasing trend. EBL is now in highest position in case of MPS. Banks are now able to get better reputation in the market due to their increasing MPS.
- Earning Per Share (EPS) is the total earning earned in a share. EBL has good EPS along with consistency in it. Similarly HBL is also able to earn good return with consistency in it. Some fluctuations are seen in the EPS of the listed commercial banks which may effect in the image of the firm.
- Dividend Per Share (DPS) is highly fluctuating in every commercial banks. HBL distributed Rs 18.72 as dividend in average which is the highest among these five banks. But its fluctuation is also 44.39%. NSBL and EBL have not been able to distribute dividend in some years. It shows inconsistency in their dividend which is not marked good.
- Dividend Payout Ratio (DPR) is the ratio paid to the shareholders after retaining by the firms for further investment. None of the above banks are providing high dividend. Most of the earnings are retained by themselves as retained earning. HBL has previously paid highest DPR i.e. 31.76% in average.
- Positive relationship is found between the EPS and MPS of the all above listed commercial banks. These are highly correlated and any change in EPS leads to the

positive change in MPS also. But the relationship between MPS and DPS and also EPS and DPS is negative for NIB. All others are positive for all banks.

- Trend of MPS for future five years is in increasing state. Similarly in case of EPS also it is increasing for all except NIB. DPS of HBL is decreasing but for other four banks have increasing trend. DPR of HBL and NSBL is also predicted to decrease.

4.13 Major Findings of the Primary Data

The major findings of the primary data are as follows:

- 50% of the investors have invested their money in the firms in want of regular cash return. 20% want stock dividend and 30% want both the options i.e. cash as well as stock dividend.
- Among the 50 respondents, 35 investors evaluate the past dividend record of the firms before investing in them. 18% analyze the market price and 12% compare the sound financial position of the company before investing.
- According to the primary data collected it is found that most of the firms (60%) consider the legal restrictions while adopting the dividend policy. Liquidity position of the firm and borrowing capacity of the firm is also to be considered while adopting the dividend policy according to the respondents.
- About 44% of the investors are investing their money in share capital to utilize their money. Some of them invest it in want of dividend. Few of the i.e. 26% people think investing in the share capital is the best method to invest.
- In case the firm does not have sufficient cash to pay dividend, investors want the company to distribute the stock dividend instead of cash dividend. Some of them also want the company to pay the cash dividend next year.
- According to the survey, 40% of the shareholders have received stock dividend. Cash dividend and both the stock as well as cash dividend is also received by most of them.
- According to the survey, maximum investors think that firms pay cash dividend to convey the information that the company is doing well. Dividend is paid to attract more new investors or also to increase the market value their stock in the view of others.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

In this chapter, three major aspects of the study are discussed. In the beginning all the findings have been summarized and some conclusions have been drawn up based on findings. Then, the gaps found and factors that caused those gaps are also presented. This chapter is very important in the following senses:

a. It shows a glance of the study what was observed during research.
b. It concludes the findings in an understandable form
c. It provides some suggestion to the concerned authority as well as practitioner and academicians. The recommendation is presented in this chapter considering the major findings and gaps found there too.

5.1 Summary

Dividend is the return earned by the shareholders from their investment in the firm. Thus investors also determine the performance of the firms from the dividend provided by them. So every firm has to determine its dividend payout ratio in an effective way. This dividend distribution is very important factor to any organization for its effective goal achievement and to satisfy its shareholders. Good dividend is an effective way of attracting new investors. Market value of the share is also affected by the dividend decision of the company. How much amount is to be retained in the company is also determined after the dividend decision is made. It means total sum of the earning is divided into dividend for the shareholders and retained earning for the company itself.

So, dividend policy is an important policy for any firm as it determines the return for shareholders and also the earning for firm itself. The fund retained by the firm sometimes couldn't be used in case of lack of investment opportunities. In such a situation, distribution of dividend to the shareholders is taken as wise decision as shareholders can have greater investment opportunities to employ elsewhere.

Dividends as returns to shareholders are paid on annual basis. Firms pay dividend in two ways: - 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 dividend is the widely used form of dividend payment. 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. Here five banks have been chosen as sample to complete the study. The study is based on secondary data for a period of 04/05 to 08/09. To analyze the dividend payment practices of banks, different ratios have been calculated and interpreted.

Instability of dividend and inconsistent dividend payout ratio are the mostly seen in Nepalese commercial banks and financial companies. In case of Nepal, only the banks and finance companies operating under Joint Venture are paying dividend more attractively than the banks and finance companies promoted by indigenous promoters.
But we can say no companies have been able to follow the stable dividend policy. This study is mainly based on the study of the dividend practices of sampled banks. The dividend payout ratio of the companies in Nepal is also not fair. There is no any consistency in the dividend payment. Hence it is concluded that more or less the dividend policy depends on the earning per share of a company. The earning per share and dividend per share having the positive relation may also impact on the market price of share.

5.2 Conclusion

The thesis includes both primary as well as secondary data. But the presentation and calculation part is mainly based on the secondary data. According to the analysis of the data presented above it can be concluded that banks are performing well. Among them EBL is showing better performance. MPS of EBL is also increasing regularly and has highest average MPS. All other banks also have good MPS and are doing well as they are successful in increasing the share value and also better reputation in the marker due to it. EPS of all these banks are also high and increasing which encourages the new investors to invest in it and also the existing investors are motivated. All five banks are consistently earning good return. EBL has good EPS every year than that of other four banks. But the distribution of dividend by these commercial banks is not regular and also not consistent. EBL has not paid the dividend in FY 04/05. Only BOK is increasing its DPS every year. All others have fluctuations in DPS. Shareholders of NSBL could not enjoy the dividend in two years and in other years also it is very less. Looking at the DPS of the banks it can be said that investors may not be satisfied with the dividend they are getting from their respective banks. It seems banks are retaining most of their earnings for their own investment and paying only few percentage of earning as dividend to their shareholders. This DPR is also not consistent for any of the above listed banks.

The correlation between EPS and MPS of all banks are positive. Similarly relationship between EPS and DPS and also MPS and DPS is positive for BOK, EBL, HBL and NSBL. But only in case of NIB this relationship is negative. PE of these correlation is also calculated to test whether the calculated value of r is significant of not.

Finally on the basis of the secondary data, it can be concluded that EBL is more successful in gaining good position in the market than other banks. But HBL’s data is seen more consistent than any other banks. Other banks have also shown satisfactory performance. Although MPS of all banks is growing, none of them have consistency in DPS and DPR. So share holders many not be satisfied with them.

Every bank has its own dividend practices. Such different policies have different kinds of effect. It means each banks and financial institutions do not have similar effect in its Market Prices of Share from their dividend practices. MPS of all banks are increasing but their DPS is highly fluctuating. So it proves that other many qualitative and quantitative factors also play a great role in the determination of marker price of share. DPS is determined on the basis of EPS. EPS of the firm is divided into DPS and Retained Earning, so if the firm wants to retain capital the DPS will be decreased instead of good earning of the firm. Thus it can be concluded that DPS only is not the determining factor of the share price. Banks may provide bonus share, it leads to decrease in share price and dividend payout ratio will not be good, but in the market the reputation and image of that bank will be high.

5.3 Recommendations

This study is basically for the analyses of the dividend policy of different commercial banks. So, various aspects of the commercial banks have to be studied to come into the conclusion. All banks have their own resources and on the basis of those resources management try to get the optimal result. 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 hoping that these recommendations will be proved as a milestone to overcome the existing issues in this field.

- Shareholders should be given an opportunity to choose between the cash dividend, stock dividend and any other forms of dividend. So dividend declaration should be presented to the annual general meeting of shareholders for their approval. For this, banks first of all should make the investors well known about the advantages and disadvantages of different forms of dividends through different media.
- There are no any clear legal provisions about the payment of dividends in our country. So the government should act in favor of the investors. Legal rules should be made in order to protect the rights of the shareholders.
- 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.
- The information regarding the secondary market and the capital market is not flashed out. So the concerning body should timely provide all the information about this factor.
- The payment of dividend is highly fluctuating. There are no any consistencies in the dividend distribution which creates confusions and miss conceptions about the firm among the investors.

- The government should encourage the establishment of organization to promote and to protect activities in favor of investors. Government should reduce the interference in the daily affairs of the organizations.
- Dividend policy of banks is not defined. They should define their dividend strategy clearly whether they are adopting stable dividend policy, constant payout ratio or low regular plus extra dividend policy.
- Bank should have target rate of earning and target payout ratio that will help companies to build good image in stock market and investors can also make good investment decision.
- Banks need to start some awareness program to make the investors known about the share price and dividend. It helps the banks to increase their investors and the image of the bank will also be increased.

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