

CHAPTER I

INTRODUCTION

1.1 Background of the study

Banking plays vital role in the economic development of the country. The objective of commercial banks is to mobilize idle resources used in most profitable sector. Commercial banks contribute significant and mobilization of internal capital.

The importance of banks is highly appreciated, it needs proper attention to run successfully normally banks play at public money therefore banks should play more attention whether their money is properly utilized or not and running at profit or loss. If there is profit, the business firm can provide facilities in the long run, the profit which can be distributed among the owners as dividend.

Public are interested to invest money on the shares of the banks for dividend if the form is distributed dividend, the investor are more interested in invest.

Dividend policy determines the division of earning between payments to the shareholders and reinvest in the firm. Earning of the firm, what proportion paid to shareholders and what proportion is reinvested to the firm. Dividend is distributed out of profit; the alternative payment of dividend is the retention of profit. The significant internal sources are retain earning of financing corporate growth.

The relationship between retained earnings and cash dividend are vice versa. The joint venture banks are permitted to establish in 1980's the name of three banks (Nepal Grindlays bank limited, Nepal Arab banks now Investment bank limited) were establish. Nowadays banks are providing more facilities to attract for investing for housing, Vehicles, Education, Share holders etc. Commercial banks have attracted to customers giving various saving scheme. People want to invest for dividend in the bank. In

general, banks are those financial institutions that perform the widest range of financial functions of any business firm in the economy.

1.1.1 Brief Introduction Of selected Banks

1.1.1.1 Investment Bank Limited

Nepal Investment Bank Limited was established on 21st January 1986 as the third joint venture bank under company Act 1964. Ownership pattern of the bank was 50% equity owned by Banque Agrikol Indosurez Paris, 15% equity owned by National Insurance Corporation, 15% equity owned by Rastriya Banijya Bank (NBB) and 20% equity share was issued to general public. Later on, Banque Agrikol Indosurez Paris handles the management and ownership of the bank to Nepalese private sector. Currently, the bank is 100% under Nepalese ownership. The bank has authorized capital Rs 2000 million, issued capital Rs 1203.9144 million, paid-up capital Rs 1203.9144 million. After Banque Agrikol Indosurez Paris handle management to Nepalese private sector the name of the bank is changed Nepal Investment Bank Limited.

(Source: Annual Report of Nepal Investment Bank Limited)

1.1.1.2 Nepal Arab Bank Limited

NABIL Bank Limited, the first joint venture commercial bank has commenced its operation on July 1984 under company act 1964. Dubai Bank Limited was the initial foreign joint venture partner with 50% equity investment. The ownership of Dubai Bank Limited was later transfer to Emirates Bank International Limited, Which is currently managing NABIL in accordance with joint- venture technical service agreement between Nepalese Promoters and Dubai Bank Limited. It has Rs 1600 million authorized capital; Rs 144.9124 million issued capital and Paid- up Capital Rs 144.9124 million. The main objectives o the bank is to collect deposit

and provide loans to agriculture, commerce and industries and to provide the modern banking service to the people. Currently, NABIL is one of the leading commercial bank of the country.

(Source: Annual Report of Nepal Arab Bank Limited)

1.1.1.3 Himalayan Bank Limited

Himalayan Bank Limited was established on 18th January 1993 under company act 1964. This bank was established by distinguished business personalities of Nepal. HBL has Partnership with Employee's Provident Fund and Habib Bank Limited. HBL is one of the largest and leading commercial bank of Nepal with maximum shareholding by the Nepalese private sector and commanded by Nepalese chief executives. This is the only bank with minority foreign joint venture. Shareholding pattern of the bank 155 share owned by Nepalese private sector promoters, 20% share owned by Habib Bank Limited, 14% share owned by Employee's Provident Fund and 15% share issued to general public. The bank has authorized capital Rs 3000 million, issued and paid-up capital Rs 1600 million. All the commercial bank selected for study is the leading banks of the country. Under study, individual Analysis of these banks is conducted and on the basis of these sample banks inference is drawn for banking sector as whole.

(Source: Annual report of Himalayan Bank limited)

1.2 Focus of the Study

Economic development of a country largely depends upon the effective mobilization of its internal resources. Banks and other financial institution play pivotal role in financial and other services primarily to commercial services occasionally to industrial and agricultural sectors.

There is no uniformity in the dividend pattern of Nepal among the different corporations. The government is unable to receive dividend from the public enterprises as documented in the past several years budget speeches and economic surveys published by HMG, Ministry of finance. Recently, jointly

venture banks and some other public limited companies have some new trend to pay dividend to the shareholders. There is also growing practice of paying bonus shares among some corporation of Nepal. Stock split is another aspect almost neglected in the capital market of Nepal. An alternative form of dividend policy is share repurchase. If a firm has excess cash and insufficient profitable investment opportunities to justify the use of these funds, it will be in the shareholders' interest to distribute the funds. The distribution can be accomplished either by the repurchase of share or by paying the funds out in increased dividend. It is thus the repurchase of corporate share is often viewed as an alternative to paying dividend. However, Nepal Company's act 2053, section 47 has prohibited company from purchasing its own shares. Thus provision is against the theory of finance.

In each and every firm, dividend policy is taken as a financial decision that affects the firm. An investor should invest in the stock of any company knowing the dividend policy of the firm. The main focus of this research will be valuable to the investor to know about dividend policy of selected commercial banks comparatively. So this research may be helpful for those investors who want to know the productivity of the commercial banks for their better investment. This study also helps to the management for corrective action.

Stability or regularity of dividends is considered as a desirable policy by the management of the companies. Most of the shareholders also prefer stable dividend have a positive impact on the market price of shares. By stability we mean maintaining its position in relation to a trend lives preferably one that is upward sloping.

Investors are interested in investing their funds in the share of public limited companies. This trend plays a significant role for the development and expansion of the capital market. And it will continue only when dividend patterned is directed to the interest of shareholders. There is no uniformity in the dividend patterned of Nepalese corporations. This research focuses a new trend of paying dividend to shareholders shown by different commercial banks and some public limited companies.

1.3 Statement of the Problems

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

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

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

It is because, among the various reasons, the government rules and regulations, ownership patterns, attitude of management, forms of management may be the partial causes of such a situation. In practice, every firm follows some kinds of dividend policy and there is no unique dividend policy which is appropriate (suitable) for all the firms. So they follow

different policies. In general, it is assumed that there is relationship between dividend and stock price but the relation in underdeveloped country like Nepal is not yet known. So the relation between dividend and stock prices established by much finance scholars needs to be tested in the context of Nepal.

In the Nepalese context, the companies listed in NEPSE are not seen so serious regarding dividend decision, since most of them do not have any consistent and obvious (clear cut) policy on dividend distribution. In connection to Nepalese public enterprises, M.K. Shrestha remarks that dividend is still considered as the unintended strategy or the non payable obligation at a time when Nepalese government is not in a position to impose the public limited companies to pay a minimum rate of dividend on the equity capital contributed. Some Nepalese acts like Nepal Company Act 2053, Nepal Commercial Bank Act 2031 and other regulating acts are still silent's regarding dividend distribution; so different companies are adopting different dividend decision inconsistently. There is a common trend of deciding the dividend by the management of companies instead of by shareholders meeting. In the context of Nepalese capital market, the commercial banks provide low rate of interest on deposits. So the people are attracted to invest money in shares for greater benefits. In Nepal, very few companies have adopted dividend policies. There are different form of dividend payment such as cash dividend, stock dividend and bonus share etc. Among different form of dividend policy, stock dividend is the most popular one. But also dividend policy is not clearly understood by a large segment of financial community.

Different research has been made in this area seeking to establish the irrelevance of dividend on shareholders Millar and Modigliani's work the following question: how can investor get benefit from a dividend when it is not in effect, paid rupee for rupee out of the value of the share?

Besides the number of research study has been made to lead the development of the behavior models associated with the name Linter(1956), Darling(1957), and Britain(1966) and other attempting to categories explain and measure the different types of observed different practice. The study

seems to provide useful guidelines in handling the complicated decision problem.

Every firm follows different forms of dividend policy based on their strategy for the company. It is assumed that there is direct relationship between the dividend and stock price. But while considering the firms of underdeveloped countries like Nepal, it is very difficult to match the relationship between dividend and stock price. There is no uniformity in the distribution of dividend of commercial banks. Similarly there is no any relationship between dividend distributed and share price. Due to political instability and many other factors almost of the firms are not able to pay the dividend to their shareholders. The commercial banks especially joint venture banks pay low dividend while earning is high and sometime they pay high when earning is low.

It has been known that all banks have sufficient earning but they are not distributing the dividend in equal proportion. They have not followed the consistency in dividend policy and dividend policy has not been found to be uniformity of dividend payout ratio in these sample banks.

This study raises some issues to be examined which are stated below:

- a. Whether there is uniformity of dividend distribution or not.
- b. Whether changing dividend policy or payout ratio increase the value of stock or not.
- c. What is the relationship of dividend per share with earning per share, dividend per share with market price per share, earning per share with market price per share?
- d. What are the prevailing practices of the banks regarding their dividends?

1.4 Objectives of the Study

The objectives of a dividend decision should be to maximize the shareholder's return so that the value of his investment is maximized. This study is primarily undertaken to focus on the prevalent dividend policies and practices of commercial banks with a view to suggest some appropriate

dividend strategy and direction of future endeavors for the overall healthier development of the share market and also the possible impact of such endeavors in share market in Nepal. In this regard, the specific objectives of the study are:

- a. To identify the dividend policies of different companies and find out whether the followed policy is appropriate.
- b. To highlight dividend practices of the banks.
- c. To analyze the relationship of DPS with EPS, DPS with MPS and EPS with MPS.
- d. To provide a practical suggestion and possible guidelines to overcome various issues and gapes based on the findings of the analysis.

1.5 Significance of the Study

People want to invest where the returns more; So that the dividend should be effective to attract new investors and existing investors to make happy and to maintain goodwill of the Companies and banks.

The significance of the study more as follows:

- The study will useful for shareholders, banks, finance companies, researchers, students and teachers.
- It will be useful for policy making, controlling and supervision and monitoring.
- The study will be helpful for during further research and to get more details in same topic.
- It presents study devoted to assist the prevailing dividend policy adopted by Nepalese listed companies.
- It provides important guideline to policy maker and setting in management.
- It will be counseling to investor its stocks and to teach making decision rationally.

1.6 Limitation of the Study

Dividend measures the banks and companies goodwill and rank of the banks and companies. Dividend is the most important topics in financial management to achieve the management goal. Investment, Capital structure,

liquidity, leverage, dividend and others are area of financial management. Dividend is most important tools of financial management. Basically the research is done for partial fulfillment of MBS (Master in Business Studies). In addition, there are so many limitations, which weather the generalization, e.g. time taking, unreliability of statistical tools. Besides these, the following are the main limitations of the study:

The limitations are as follows:

- The study covers relevant date, time and information for 6 years. (2004/05, 2005/06, 2006/07, 2007/08, 2008/09 & 2009/10)
- This study is as interpretation.
- Analysis and interpretation has been done on the basis of providing secondary date and conclusion is strictly depending upon the reliability of secondary date and information of selected banks.
- The study covers only three major commercial banks. Theses the analysis and conclusion may not be applicable to remaining commercial banks in Nepal. Time and financial construction is the major portion of the study. The report has to submit with in time period. There are many others organizations distribution the dividend to the share holders but selected only commercial banks.

1.7 Organization of the Study

This study has been organized in to five chapters; they are:

Chapter 1: Introduction of study

This chapter consists of general background of the study with the reference to the existing economic and political scenario. This chapter comprises of focus of study, significance, and objective of the study, statement of problem, a research hypothesis, a brief introduction to the sample listed companies and the limitation of the study.

Chapter 2: Review of Literature

This chapter reviews the relevant previous studies made on the dividend policy. It includes the conceptual framework on dividend. The second part of the chapter consists of review of books, journals, previous study, research paper and reviews of unpublished various research studies.

Chapter 3: Research Methodology

The third chapter deals with the research methodology used in the study under this heading research design. Population and sample, sampling methods, sources of data methods of data, tools for analysis are used

Chapter 4: Presentation and analysis of data

This chapter is concerned with the presentation and analysis of data. This chapter consists of analysis, interpretation and major findings of the study. This is the most important part of the study.

Chapter 5: Summary, Conclusions and Recommendation

This chapter involves the summary, conclusions and recommendations of the study and concludes the reports with the major recommendation and suggestion to the investors listed commercial banks and government about the dividend policy.

CHAPTER II

REVIEW OF LITERATURE

In this topic, the review of different sources of literature such as books, Journals, research papers and various published & Unpublished studies regarding dividend policy from P.G. Campus Library and T.U. Library. Some studies are taken from the related websites. It has been expected the review will help to make the research more effective. The Chapter is divided into Two Parts:

- Conceptual Framework
- Review of Related Major Studies

2.1 Conceptual Framework

2.1.1 Meaning of Dividend Policy

Dividend is the periodic payment made to stock holders to compensate them for their wealth. They can be in the form of cash, stock of property, generally corporation only declare, dividends out of earnings although some states Laws and corporate agreements permit to declaration of dividends from sources other than earnings (Hawkins, 1997:650).

Dividend is a part of earning which is paid to the shareholders according to invest major the decisions the financial management are distributing the profit to shareholders and investment in the business. Dividend refers to the part of earnings made by the firm that is distributed to the shareholders as return of their investment over equality share whether those earnings were generated in the current period or in previous. In other words, it is the rewards to shareholder for bearing the risk of uncertainty (Ghimire, 2002:8).

The objective of the dividend policy should be maximizing the shareholder's return so that value of his investment is maximized (Pandey, 1995:16).

What and how it is desirable to pay dividend is always a controversial topic because shareholder expect higher dividend from corporation but corporations ensure towards setting aside funds for maximizing the overall shareholder's wealth (Shrestha, 1980:640) By the dividend policy we mean some kind of consistent approach to the distribution versus retention

decision, rather than making the decision on the purely ad-hoc basis from period (Shrestha, 1980:640).

The objective of a dividend policy should be to maximize the shareholder's return so that value of his investment is maximized" (Pandey, 1995:739).

2.1.2 Theories of Dividend

There are two Fundamental Theories of Dividend

A. Residual Theory

Residual theory of dividend suggests that the first priority should be given to the profitable investment opportunities (Gitmen; 1988:616). If there are any profitable opportunities, the firm invests in those and then only the residual (remaining) amount of earnings (if any) would be distributed to the shareholders. Under this theory the firm first determines the optimum level of investment opportunity schedule (IOS) and weighted average cost of capital (WACCA). Using the optimum capital structure proportion, the firm estimates the total equity-financing requirement to undertake the investment opportunities. Since the cost of internal equity (retained earnings), K_r , is less than the cost of new common stock, K_e , retained earnings would be used to meet the equity financing requirement. If retained earnings are not sufficient to meet the requirement, new common stocks are to be sold. Any retained earnings left this would be distributed as dividend (Bhattacharai, 2002:19-20).

B. Wealth Maximization Theory

Larger dividend is announced and distributed to shareholders under this theory in order to maximize their wealth. This theory is generally adopted by the newly established and declining companies to upkeep its image and retain the shareholder's positive attitude towards the company's stock (Bhattacharai, 2002:20).

2.1.3 Forms of Dividend

The usual practice is to pay dividends in cash. Other options for distributing earnings are also available to the company, which are follows:

a. Cash Dividend

Cash dividend is the dividend paid in cash. It is the most popular and widely used form of dividend all over the world. Everyone likes to collect their return in cash rather than non cash means. So, cash dividend is not only a way to distribute earnings, but also a way to improve perception of the capital market (Niroula; 2003:12). A company should have enough cash in its bank account when cash dividends are declared. If the company does not have enough bank balance at the time of paying cash dividend, arrangement should be made to borrow funds. When the company follows a stable dividend policy, it should prepare a cash budget for the coming period to indicate the necessary funds which would be needed to meet the regular dividend payments of the company. It is relatively difficult to make cash planning in anticipation of dividend needs when an unstable dividend policy is followed (Pandey, 1995:775). The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed (Hastings, 1996:370).

b. Bonus Shares

An issue of bonus shares represents a distribution of shares in lieu of or in addition to the cash dividend (also known as stock dividend) to the existing shareholders. This has the effect of increasing the number of outstanding shares of the company. The shares are distributed proportionately. Thus, a shareholder retains his proportionate ownership of the company. The declaration of the bonus shares will increase the equity share capital and reduce the reserves and surpluses (retained earnings) of the company. The total net worth is not affected by the bonus issue. In fact, a bonus issue represents a recapitalization of the owners' equity portion, i.e., the reserves and surpluses (Pandey, 1995:775-776).

c. Scrip Dividend

When earnings of the company justify dividends, but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of scrip or notes promising to pay the dividend within the specified future period of time (maturity). In this method of dividend, company issues and distribute to shareholders transferable

promissory notes which may be interest bearing or not. Scrip dividends are justified only when the company has really earned profit and have only to wait for the conversion of other current assets into cash in the course of operation.

d. Property Dividend

If the company pays the dividend in the form of property or assets rather than cash, it is known as property dividend. When the company has unnecessary or useless assets for the operation of the business, it is distributed to the shareholders as property dividends. In some cases, the company pays subsidiary company's shares as dividend. Property dividends are least used practice and only used when extra ordinary circumstances exist. Similarly the payment of dividend as subsidiary company's shares in place of cash dividend could result the negative impact as the shareholders may feel the shares that are paid to them are of less value therefore they are paid (Niroula, 2003:15).

e. Bond Dividend

If dividends are paid in the form of bond, promising that it will mature in the future date, it is known as bond dividend. Similar to scrip dividend the intention and purpose of bond dividend is to postpone the dividend payment for sometime but it has more obligations. Bond dividend carries relatively longer maturity period than that of scrip dividend (Niroula, 2003:15).

2.1.4 Dividend Policy

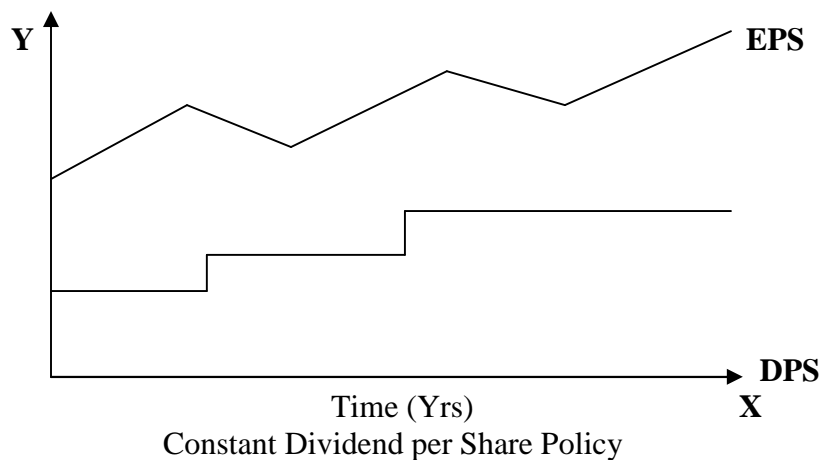
The policy, which decides on how much of the earnings a firm should retain for reinvestment and how much it should pay to shareholders, as dividend is known as

dividend policy. It is the third major decision of a firm, which aims at maximization of shareholders wealth. Dividend policy determines the division of earnings between reinvestment in the firm and payments to shareholders. Retained earnings are one of the significant for financing corporate growth, but dividends refer to the cash flow that accrues to shareholders (Weston and Copeland, 1991:657). Stability or regularity of dividends is considered as a desirable policy by the management of companies. Three of the more commonly used dividend policies are:

i. Constant Dividend Policy

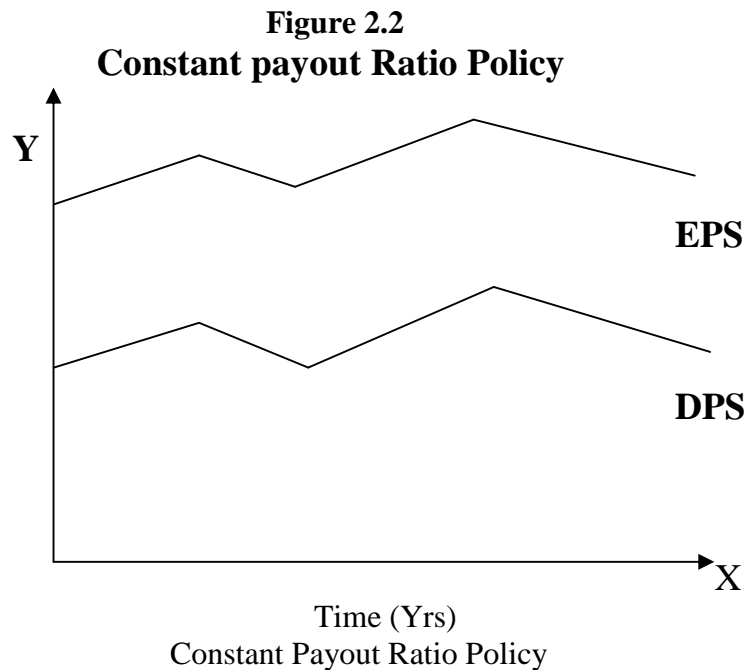
Constant dividend policy is based on the payment of affixed Rupees. dividend in each year/period. A number of companies follow the policy of paying fixed amount per share as dividend every year, without considering the fluctuation in the earning of the company. The policy does not imply that the dividend per share of dividend rate will never be increased. When the company reaches new level of earnings and expects to maintain it the annual dividend per share may be increased investors who have dividends as the only source of their income prefer the constant dividend policy.

Figure 2.1
Constant Dividend per share Policy



ii. Constant Payout Ratio

The ratio dividend to earning is known as payout ratio. When fixed percentage of earnings is paid as dividend in every year, the policy is called constant payout ratio. Since earning fluctuates, following this policy necessarily means that the Rs. Amount of dividend will fluctuate. It ensures that dividends are paid when profits are earned and avoided when it incurs losses, regardless of the desire of the share holders.



iii. Low Regular Dividend plus Extras

The low regular dividend plus extras policy is a compromise between the first two. It gives the firm flexibility, but it leaves investors somewhat uncertain about what their dividend income will be. If a firm's earnings are quite volatile, however, this policy may be best policy

2.1.5 Factors Influencing Dividend Policy

Many considerations may affect a firm's decision about its dividends. Some of the more general considerations are given subsequently (Gautam and Thapa; 2003:251-253):

i. Legal Rules

A firm may be legally restricted from declaring and paying dividends. Such legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. Generally, a corporation may not pay a dividend (i) if the firm's liabilities exceed its assets, (ii) if the amount of the dividend exceeds the accumulated profits (retained earnings), and (ii)

if the dividend is being paid from capital invested in the firm. The second type of legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts.

ii. Liquidity Position

The cash or liquidity position of the firm influences its ability to pay dividends. A firm may have adequate retained earnings, but if they are invested in fixed assets, cash may not be available to make dividend payment. Thus, the company must have adequate cash available as well as retained earnings to pay dividends.

iii. Need to Repay Debt

Debt can be used as a source of financing but it should be refunded at maturity by replacing it with another form of security, or it can make provisions for paying off the debts. If the decision is to retire the debt, it will require the retention of earnings rather than pay dividend.

iv. Restrictions in Debt Contracts

Debt contract may restrict a firm to pay cash dividend. Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above a specified amount. Also, preferred dividends take precedence over common stock dividends.

v. Rate of Assets Expansion

The more rapidly growing firm requires more funds for expansion of assets. The greater the future need of funds, the more parts of profit retained into firm rather than pay dividend. A firm with more investment opportunities will pay a lower fraction of its earnings as dividends than a stable firm.

vi. Profit Rate

The expected rate of return on assets determines of paying out earnings in the form of dividends to stock-holders or using retained earnings to acquire assets for the firm. A high rate of profit on new assets makes it desirable to retain earnings rather than to pay them out if the investor will earn less on them.

vii. Stability of Earnings

It is easy to predict approximately future earnings if the firm's earnings is stable. The more stable the income stream, higher the dividend payout ratio, than the firm with fluctuating earnings. The firm with stable earnings is more confident of maintaining a higher payout ratio but the unstable firm is not certain for future earnings, so it is likely to retain a high proportion of current earnings.

viii. Access to Capital Market

A large, well-established firm with a record of profitability and stability of earnings has easy access to capital market and other forms of external financing but small, new firm is riskier for potential investors. A firm which can issue new stock or bonds at low cost (such as underwriting commissions) will be more likely to have a high dividend payout ratio. But the small and new firm must retain more earnings to finance its operation.

ix. Control

Dividend policy may be strongly influenced by shareholders' or management's control objectives. If shareholders want to control the firm to their own control they retain the earnings, uses to repurchase the stock or uses to acquire assets rather than issue shares. Finance through issuing additional common stock dilutes the control of the dominant group in that firm and selling debt increasing the risks of fluctuating earnings of the firm.

x. Tax Position of Stockholders

The tax position of Stockholders also affects dividends policy. If a firm has a large percentage of wealthy stock holders who are in a high tax bracket, it may decide to payout a lower percentage of its earnings to allow the owners to delay the payment of taxes until they sell the stock but who needs dividend income will prefer higher payout of earnings.

xi. Desire of Shareholders

Shareholder may be interested either in dividend incomes or capital gains. Wealthy shareholders 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.

2.1.6 Legal Provision Regarding Dividend Practice in Nepal

Company ordinance, 2005 makes some legal provision for dividend payment in Nepal. These provisions may be seemed as under:

Section 182: Dividends and Subsections of this section are as follows:

Subsection 1: Except in the following circumstances, dividend shall be disbursed to the shareholders within 45 days from the date of resolution approving the payment of dividend.

-) If any law has prohibited the disbursement of dividends.
-) If the right to receive the dividend is subject to any disputed
-) If the dividends cannot be disbursed within the said period due to any event beyond the control of the company or any other reasons.

Subsection 2: A company wholly or partly owned by His Majesty Government shall distribute dividend only with prior approval of His Majesty Government and His Majesty Government may issue necessary directives in relation to distribution of such dividend.

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

Subsection 4: The shareholder in whose name the share is registered in the shareholder register at the time of declaration of the dividend or his successor shall be entitled for the payment of the dividend.

Subsection 5: A company shall not pay or distribute dividend except from profits allocated for the purpose.

Subsection 6: A company shall eliminate pre incorporation expenses deduct the amount of depreciation as per the accounting standard prescribed by the competent authority under the law in force and allocate any amount to be allocated or paid out of profit under the law in force and eliminate the accumulated loss of the preceding years before the payment or distribution of dividend out of the profit in a particular year. Provided that a company which is required to transfer any amount out of the profit to certain reserve fund under the law in force dividend shall not be distributed unless such amount is transferred to reserve fund.

Subsection 7: Subject to the provisions made in this section the board of directors of company may distribute interim dividend out of the profit of previous year in the following conditions.

If there is provision in the articles of association on the distribution of interim dividend, if the board of directors has approved the annual financial statement certified by the auditor for the relevant financial year on which interim dividend shall be distributed out of the profit.

Subsection 8: A company shall not make payment or distribute any benefit in cash or kind to its shareholders except in the form of dividend approved by the general meeting.

Subsection 9: The dividend which remains unclaimed for more than five years after its declaration shall be transferred to investors Protection fund established under section 183.

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

Subsection 11: A company shall create a separate account for depositing the amount of dividend within 45 days of its declaration and shall distribute the dividend from such amount for any other purpose.

2.2 Review of Related Studies

2.2.1 Review of Major International studies

Walter's Study

The Model was developed by Professor James E. Walter .He conducted a study on dividend and stock prices. The argument advanced by professor water is for considerable interest in the literature of finance. He said that the choice of dividend polices almost always affect the value of the enterprise. He emphasized in this model is relationship between the internal rate of return r , and its cost of capital k , determining the dividend policy that will maximize the wealth of shareholder. Walter's model is based m following assumption.

-) The firm finances all investment through retained earnings; that is debt or new equity is not issued.
-) The firm's internal rate of return, r and its cost of capital, k, are Constant.
-) All earnings are either distributed as dividends or reinvested internally immediately.
-) Beginning earnings and dividends never change. The values of the earnings per share, EPS, and the dividend per share, DPS, may be changed in the model to determine results, but any given values of EPS/DPS are assumed to remain constant forever in determining a given value.
-) The firm has a very long or infinite life.

Walter's formula to determine the market price per share is as follows:

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

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

Where,

- P = Market price per share
- DPS = 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 > k

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, increase as payout ratio declines when $r > k$.

Normal Firms= k

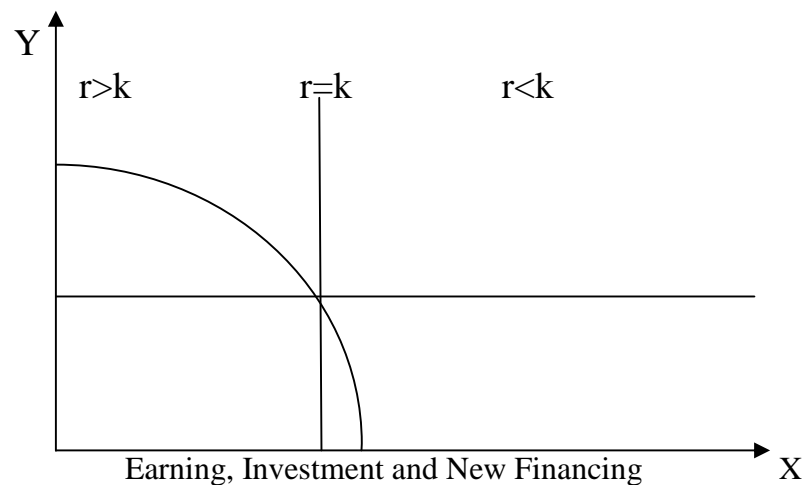
Firm having $r=k$ may be referred as normal firm. There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as the other. The market value per share is not affected by the payout ratio when $r=k$.

Declining Firms $>k$

Firm having $r>k$ may be referred as declining firm. The optimum pay out ratio for a declining firm is 100 per cent. The market value per share, increases as payout ratio increases when $r>k$.

Figure 2.3

Earning, Investment & New Financing under Walter's Model



Thus, in Walter's model, the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rates of return (r) and its cost of capital (k).

The firm should use earnings to finance investments if $r>k$; should distribute all earnings when $r<k$ and would remain indifferent when $r=k$. Thus, dividend policy is treated as a financing decision; the payment of cash dividends is a passive residual (Solomon; 1963:139-140).

Gordon's Study

Myron Gordon is developed very popular explicitly relating the market value of the firm to dividend policy. Myron Gordon made a study on the dividend policy and market price of the stock and concluded that the dividend policy of a firm influences the market value of stock. This is a relevant theory similar to the Walter's model. In the study conducted in

1963, he explained that “the investors prefer present dividend rather than future capital Return and cost (%) gains”. He further explained that the dividend policy has direct relationship with the value of stock even if the internal rate of return is equal to required rate of return. Gordon’s model is based on the following assumptions (Pandey, 1995:745-746).

-) The firm is an all equity firm.
-) No external financing is available. Consequently retained earning would be used to finance any expansion.
-) The internal rate of return, of the firm is constant. This ignores the diminishing marginal efficiency of investment.
-) 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.
-) The firms and its stream of earnings are perpetual.
-) The corporate taxes do no exist.
-) The retention ratio b, once decided upon, is constant. Thus the growth rate, $g = br$, is constant forever.
-) $k > br = g$. If this condition is not fulfilled, we cannot get a meaningful value for the share.

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

Thus:

$$P_0 = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \frac{D_3}{(1+k)^3} + \dots + \frac{D_n}{(1+k)^n}$$

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

$$P = \frac{EPS (1-b)}{K_e - br}$$

Where,

- P = Market Price per share
- EPS = Earning per share
- b = Retention ratio

K_e = Cost of capital
 $1-b$ = Payout ratio
 br = Growth rate

Gordon's relevant theory is a popular theory of dividend. As investors prefer current dividend earnings rather than expected higher future income so as to eliminate the risk associated with future capital gain, Gordon stressed that the higher payout increases the dividend yield and hence increases the value of stock. But the assumptions of this model are also far from the reality.

Modigliani and Miller's Study

According to Modigliani and Miller (M-M), dividend policy of a firm is irrelevant as it doesn't affect the wealth of the shareholder. They argue that the value of the firm depends on the firm's earnings which result from its investment policy. Thus, when investment decision of the firm is given, dividend decision- the split of earnings between dividends and retained earnings- is of no significance in determining the value of the firm. M-M's hypothesis of irrelevance is based on the following assumptions (Pandey, 1995:751-752):

-) The firm operates in perfect capital markets where investors behave rationally, information is freely available to all and transactions and flotation costs do not exist. Perfect capital markets also imply that no investor is large enough to affect the market price of a share.
-) Taxes do not exist; or there are no differences in the tax rates applicable to capital gains and dividends. This means that investors value of rupee of dividend as much as a rupee of capital gains.
-) The firm has a fixed investment policy.
-) Risk of uncertainty does not exist. That is, investors are able to forecast future prices and dividends with certainty, and one discount rate is appropriate for all securities and all time periods. Thus $r=k=kt$ for all t . Modigliani and Miller provided following model to prove their theory (Niroula; 2003:25-26):

Market value of share

The market value of a share at the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period. Symbolically,

$$P_0 = \frac{D + P_1}{(1 + K_e)}$$

Where,

- P₀ = Market price of share at the beginning of the period
- D₁ = Dividend per share at the end of the period
- K_e = Cost of equity capital

No external financing

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

$$nP_0 = \frac{n(D + P_1)}{(1 + k_e)} \dots\dots\dots (ii)$$

Where,

n = Numbers of outstanding shares

New Shares

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

$$nP_0 = \frac{nD + P_1(n + m) - mP_1}{(1 + k_e)} \dots\dots\dots (iii)$$

Where,

- n = No. of shares at the beginning
- m = No. of shares issued at the end of the period

Total Numbers 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 numbers of new shares can be computed on the following way:

$$MP_1 = I - (E - nD_1) \dots \dots \dots (iv)$$

Where,

MP_1 = Amount obtained from the sale of new shares

I = Amount required for new investment during the period

E = Total earnings during the period

$E - nD_1$ = Retained earning

nD_1 = Total dividend paid

Substituting the value of mP_1 of equation (iv) to equation (iii) we get,

$$nP_0 = \frac{nD_1 + P_1(m + n) - I + E - nD_1}{(1 + ke)}$$

A firm which pays dividends will have to raise funds externally to finance its investment plans. M-M's argument, that dividend policy does not affect the wealth of the shareholders, implies that when the firm pays dividends, its advantage is offset by external financing. This means that the terminal value of the share declines when dividends are paid. Thus, the wealth of the shareholders- dividends plus terminal price – remains unchanged. As a result, the present value per share after dividends 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 (Pandey, 1995:753-754).

M-M assert that their hypothesis of dividend irrelevance is not affected if the firm raises external funds by issuing debt instead of shares. When external financing involves debt M-M invoke their indifference hypothesis with respect to leverage (Pandey, 1995:754)

Linter's Study

J.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, firm generally predetermines the desired payout and tries to achieve it and rarely considers other factors. The model developed from his research is as follow: (Pandey, 2002:802)

$$D^*_t = P \cdot EPS_t$$

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

Where,

D_{t^*} = Desired dividend

EPS_t = Earning per share

P = Targeted payout ratio

a = Constant relating to dividend growth

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

Major findings of this study are as follows:

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

Van Horne and Mc-Donald's Study

Van Horne and Me Donald study Van Home and Donald conducted a comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing on market value of the firms common stocks. They are using a well- known valuation model i.e. cross section regression model. The required data are collected from 86 Electric utility Firm's included on the COMPUSTAT utility data tape 39 firms in the Electronics and Electronic- component industries as listed on the COMPUSTAT industrial data type.

By using different models or methodology. They compared the result obtained for, firms which both pay dividends and engage in new equity financing with other firms in an industry sample .They conclude that for electric utility firm in 1986. Share value is not adversely affected by 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 earning .They also indicate that the payment of dividend through excessive equity financing reduce share prices. for electronics, electron (Van Horne, 1971:507-519).

Fried and Puckett's Study

Friend and Puckett (1964) conducted a study on the relationship between dividends and stock prices, by running regression analysis on the data of 110 firms from five industries in the year 1956 and 1958. These five industries were chemicals, electric utilities, electronics, food and steels. These industries were selected to permit a distinction made between the results for growth and non-growth industries and to provide a basis for comparison with results by other authors for earlier years. They also considered cyclical and non-cyclical industries which they covered. The study periods covered a boom year for the economy when stock prices leveled off after a rise (1956) and a somewhat depressed year for the economy when stock prices, however, rose strongly (1958). They used dividends, retained earnings and price earnings ratio as independent variables in their regression model of price function. They used supply function, i.e. dividend function also. In their independent variables. They quoted that price function and dividend supply function are price function:

$$P_t = a + b D_t + c R_t + d (E/P)_{t-1}$$

Where,

- P_t = Per share price at time t
- D_t = Dividends at time t
- R_t = Retained earnings at time t
- $(E/P)_{t-1}$ = Lagged earnings price ratio

Dividend Supply Function:

$$D_t = e = f E_t + g D_{t-1} + h (E/P)_{t-1}$$

Where,

- E_t = Earnings per share at time t
- D_{t-1} = Last year's dividend.

Assumption:

Dividends to react year to year fluctuating in earnings.

-) Price doesn't contain speculative components.
-) Earnings fluctuations may not sum zero over the sample.

There regression results based on the equation of $P_t = a + b D_t + c R_t$ showed the customary strong dividend and relatively weak retained earnings effects in three of the five industries. i.e., chemicals, foods and steel. Again they tested other regression equations by adding lagged earnings price ratio to the above equation and resulted the following equation: $p_t = a + b D_t + c R_t + d(E/P)_{t-1}$. They found the following results: they found that more than 80% of the variation in stock prices can be explained by three independent variables.

Dividends have a predominant influence on the stock prices in the same three out of five industries by they found the differences between the dividends and retained earnings coefficient are not quite so marked as in the first set of regressions. They also found that the dividends and the retained earnings coefficient are closer to each other for all industries in both years for steels in 1956 and the correlation are higher again except for steels.

They also calculated dividends supply equation i.e.

$D_t = e + f E_t + g D_{t-1} + h(E/P)_{t-1}$ and the dividend price equation for four industry groups in 1958. in their derived price equation it seems that there was no significant changes from those obtained from the single equation approach as explained above. They argued that the stock prices or more accurately the price earning ratio does not have a significant effect on dividend payout. On the other hand, they noted that the retained earnings effect is increase relatively in three of the four cases tested. Further, they argued that their result suggests price effect on the dividend supply are not a serious source of bias in the customary derivation of the dividend and retained earnings effects on the stock prices, though such a bias might be marked if the disturbing effect of short run income movements are sufficiently great.

Further, they lagged price as variables instead of lagged earnings price ratio and showed that more than 90% of variation in stock prices can be explained by three independent variables and retained earnings received greater relative weight then dividends in most of the cases. The only exception was steels and foods in 1958. They considered chemicals, electronics and utilities as growth industries, in these groups and the retained earnings effect was

larger than the dividend effect for both years covered. For the other two industries, namely foods and steels. There were no significant systematic difference between the retained earnings and dividend coefficients.

Similarly, they tested the regression equation of $P_t + a + bD_t + cR_t$ by using normalized earnings again. They obtained normalized retained earnings by subtracting dividends from normalized earnings. That normalized procedure was based on the period 1950- 1961. Again they added prior year's normalized earning price variable and they compared the result.

Comparing the result they found that there was significant role of normalized earnings and retained earnings but effects of normalized price earning ratio was constant when they examined the later equation, they found that the difference between dividend and retained earnings coefficients disappeared. Finally they concluded that management might be able to increase prices somewhat by raising dividends in foods and steel industries. They conducted more detailed examination of the chemical sample. That examination disclosed that the result obtained largely reflected the undue regression weighting given the three firms with price deviating most from the average price in the sample of 20 firms and retained earnings as a price determinant.

Finally, Friend and Puckett concluded that, it is possible that management might be able, at least in some measure, to increase stock prices in the non growth industries by raising dividends and in growth industries by greater retention, i.e. low dividends (Fried and Puckett extracted from Chitrakar, 2004: 25-27)

Deepak Chawala and G. Srinivasan's Study

Deepak's section relationship for the year 1969 and 1973. The required were collected from the official directory of Bombay stock exchange. The objective of the study was:

-) To establish the model to explain the share price, dividend and earning
-) To east the dividend, retained earning hypothesis.
-) To examine the structural changes in the estimated relations overtime.
-) To achieve the aforementioned objectives, they used the simultaneous equation model developed by Fried and Puckett

Simultaneous equation model developed by Friend and Puckett in 1964 was employed.

1. Price Function $p_t = F(D_t, R_t, P/E_{t-1})$
2. Dividend Supply Function $D_t = F(E_t, D_{t-1}, P/E_{t-1})$

Where,

P = Market price per share

D = Dividend per share

R = Retained earning per share.

E = Earning per share

P/E = Deviation from sample, Average of price earning ratio

t = Subscript for time.

They used two stage least square techniques for estimation and in case of chemical industry they found the estimated coefficient had the correct sign and coefficient of determination of all the equations were 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 that the sign for retained earning is negative. Finally they conclude that dividend hypothesis holds good in the chemical industry. Both dividend and retained earning significantly explain the variation in share price in chemical industry (Chawala and Shrinivasan, 1987:137-140).

2.2.2 Review of Major National Studies

The early stage of development is Nepalese capital market. There are few studies done in the field of dividend. Due to the lack of information and expertise, no sufficient studies have been carried out in regards to the dividend policy. However, recent developments in the field of capital markets have shown for the future. Some of the studies done in the field of dividend policy and stock prices have been reviewed as follows.

2.2.2.1 Review of Journals and Article

Shrestha (1992) presented a paper on “*Shareholder’s Democracy and Annual General Meeting Feedback*” on fifth annual general meeting of

Nepal Arab Bank Ltd. In his point of view, the common problems and constraints of the shareholders are as follows:

-) The cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
-) Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
-) Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholder's purchasing power by raising dividend payment ratio on the basis of both earnings and cost theory.
-) Indo-Nepal trade and transit deadlock has become a sort of economic welfare putting rise in the cost of living index to a considerable extent. This is the reason, which made shareholders to expect higher demand for satisfactory dividend.
-) The waiting of 5 years with payment of dividend in previous years is equally a strong enforceable reason of the bank's shareholders to
-) Expect handsome dividend already assumed and committed in various reports of the earlier annual general meeting.
-) One way to encourage risk taking ability and preference is to have proper risk return trade off by bank's management board is a way that higher return must be the investment rule for higher risk takers that comprise bank's shareholders.

Pradhan (1986 to 1990) conducted a significant study in the field of "*Dividend Policy in Nepal*". He studied 17 Nepalese Corporate firms covered the period of 1986 to 1990 with the following objectives:

-) To access the stock market behavior in Nepal.
-) To examine the relationship of market equity, market value, price earning and dividend with liquidity, profitability, leverage, assets turnover and interest turnover.

The Conclusion and Findings of his study are as follows:

-) Higher earnings in stock leads to the larger ratio of dividend per share.
-) Stock with larger ratio of dividend per share to market price have lower leverage ratio.

-) Stock with larger ratio of dividend per share to market price has higher liquidity. Positive relationship between the ratio of dividend per share to market price and interest coverage ratio.
-) Dividend per share and market price per share are positively correlated.
-) Positive relationship of dividend payout with liquidity, profitability, assets turnover and interest coverage ratios.

Manandhar (2000) entitled “*Bonus Share and dividend change empirical analysis in Nepalese Context*” is studied to test the lagged structure of dividend and different hypothesis on relationship between Dividend Payout Ratio and other financial factors. He finds out his study based on the data taken from 17 Nepalese corporate firms and covered the period of 1987 to 1998. The analysis covers 35 observations per bonus dividend rate and 29 samples of the Nepalese corporate firms selected from the listed corporate firms in NEPSE. The samples corporate firms include 5 from banking, 3 from Insurance and Finance companies and 4 from manufacturing, trading and airlines. The study analyzes the actual dividend behavior of Nepalese corporate firms after an issue of bonus share. The conclusions of his study are as follows:

-) There is significant relationship between change in dividend policy in terms of
 -) DPS and change in lagged earnings.
 -) There is relationship between distributed lagged profits and dividends.
 -) In overall there is a positive relationship between lagged consecutive earnings and dividend per share.
 -) When change in lagged consecutive earnings is greater than zero, in 65% cases, change in DPS.

2.2.2.2 Review of Thesis

Gautam (1996) Presented his master’s research on “*A Comparative Study of Dividend Policy of Commercial Banks*” by using the secondary data of three banks in 1996 has the following objectives:

-) To identify what type of dividend policy is being followed and find out whether the policy followed is appropriate or not.
-) To examine the impact of dividend on share prices.
-) To identify the relationship between DPS and other financial indicators.

-) To know if there is any uniformity among DPS, EPS and DPR of the three sample commercial banks.

Major finding of the study are as follow:

-) Average earning per share and dividend per share of all concerned banks are satisfactory.
-) Analysis indicates the largest fluctuations in earning per share and dividend per share. No banks exhibit constant dividend payout ratio.
-) No commercial banks seen to be guided by cleanly defined dividend strategy in spite of the good earnings and potentials.
-) Shares of the financial institution are actively traded and market prices are increasing.
-) Correlation between DPS and EPS of all sample banks is fairly positive. But it is fairly safe to say that the relationship is not significant.
-) Theoretically, issue of bonus share has equal impact on EPS, MPS, and DPS .But in case of these sample banks, a significant variation in the degree of impact is observed.

Timilsina (1997) conducted his master's research on "*Dividends and Stock Prices: An Empirical Study*" conducted by using the data of 16 enterprises for the period of 1990 to 1994 has the following objectives:

-) To test the relationship between DPS and Stock Prices.
-) To determine the impact of dividend policy on stock prices.
-) To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

To explain the behavior, he used multiple regression models of three independent variables as developed by Friend and Puckett. Further he tried to highlight the relationship between stock price and other independent variables setting separate simple linear regression equations. The findings of the study are as follow:

-) The relationship between DPS and stock prices is positive in the sample companies.
-) DPS affects the share prices variably in different sectors.
-) Changing the dividend policy of dividend per share might help to increase the market price of share.

-) The relationship between stock prices and retained earnings per share is not prominent.
-) The relationship between stock prices and lagged earnings Price ratio is negative.

Adhikari (1997) conducted his master's research on "*Corporate Dividend Practices in Nepal*" using primary as well as secondary data.

The main objectives of research are:

-) Market price of stock of both finance and non finance sectors are affected by dividends.
-) Financial positions of high paying companies are comparatively better than low dividend paying companies.
-) There is a positive relation between dividend and stock price.
-) There is a negative relation between dividend payout and earnings before tax to net worth.
-) Stocks with large ratio of DPS to face value per share have higher profitability.
-) The stock with larger ratio of dividend per share to face value per share has also higher turnover ratio and higher interest.

The main objectives of this research are:

-) To analyze the relationship between dividend and market price of the stocks.
-) To analyze the relationship between dividend policy decision of the bank and Insurance companies.
-) To identify the appropriate dividend policy followed by the banks and insurance companies.

The Major findings are as follows:

-) The average DPS of the sample banks except NABIL and EPS are Satisfactory.
-) The analysis of dividend payout ratio shows that none of the banks and insurance companies have constant payout ratio each year. It is in fluctuating from year to year.

-) The analysis of coefficient of variation shows that there is the largest fluctuation in EPS and DPS. Other companies seem to be relatively more consistent.

Khatriwada (2001) conducted his master's research on "*Impact of Dividend and Earning Announcement on Shareholder's Return and Stock Prices in Nepal*" by the data of six joint venture commercial banks has the following objectives:

-) To analyze the impact of earning and dividend announcement on shareholders return.
-) To identify the correlation between the return of individual securities with market return.
-) To identify the quality of systematic and unsystematic risk.

The summary of the major findings of the study is as follow:

-) Announcement of dividend and earning do not affect the shareholder's return in average.
-) Other banks except Himalayan Bank Limited having different dividend rates did not provide significant abnormal return to the shareholders.
-) Shareholders realized positive abnormal return from half of the sample banks.

Bhattarai (2002) conducted his master's research on "*Dividend Policy and Its Impact on Market Price of Stock*" with the data taken from two commercial banks and two insurance companies, analyzed the data of five years from 1995 to 2000 using simple and multiple regression equations has the following objectives:

-) To study the prevailing practices and efforts made in dividend policy in the Nepalese firms with the help of sample firms.
-) To find out the impact of dividend policy on market price of stock.
-) To analyze if there is any uniformity among DPS, EPS, MPS and DPR in the sample firms.

Major findings of this study are as follows:

-) There is not any consistency in dividend policy in the sample firms. It has indicated the need of dividend strategy as well as the need of proper analysis of the respectively sector of the firms.
-) Most of the Nepalese firm from the very past did not have profit planning and investment strategy, which has imbalanced the whole position of the firms. It means there is no consistency even in the earnings.
-) The MPS is affected by the financial position and the dividend paid by the firms in this regards the MPS of the sample firms is seem to be fluctuated. It denotes that
-) Nepalese investor is not treated fairly.
-) The lack of financial knowledge and the market inefficiency has affected the market price of the share in all the firms.

Budathoki (2006) carried out a research on *“Dividend Policy of the Commercial Banks in Nepal”*

The main objectives of this research are as follows:

-) To highlight the dividend practices of commercial banks.
-) To compare the dividend policy followed by different commercial banks chosen.

The Major findings are as in following:

-) There is not fixed consistency between financial variable i.e. EPS, MPS, DPS, DPR, P/E ratio. E_y and D_y .
-) Dividend practices of all sample banks are neither stable nor constantly growing Haphazard way of distribution in growing trend id observed.
-) Changes in DS affect the market price per share differently in different.

Gurung (2008) carried out a research on *“Dividend Pattern in Nepal a case study of Commercial Banks”* he has taken five years data from” NEPSE”.

The main objectives of this research are as follows.

- To identify the appropriate dividend policy followed by commercial banks that whether commercial banks are guided by an specific dividend or not.

- To examine the relationship between market price of the stock that whether dividend policy affects the stock price of Nepalese Commercial banks or not.

The major findings are as follows:

- Dividend payment isn't consistency of commercial banks.
- Average earning per share seems satisfactory.
- Market price of share is affected by dividend.

Yadav (2009) entitled "*A Comparative Study on Financial Performance Analysis of Commercial Banks of Nepal (With Reference to HBL, NABIL and NIBL)*".

The main objectives of this research are as follows:

The basic objectives of the study are to examine the financial performance of the selected three commercial banks. The objective has been further specified in the following sub objectives:

-) To analyze and compare the liquidity, portability, stability and market value positions among three commercial banks.
-) To analyze and compare solvency ratio such as total capital fund.
-) To analyze the financial strength and weakness of these banks.

The major findings are as follows:

-) The current ratio showed that HBL, NABIL and NIBL maintained 1.07:1, 1.07:1 and 1.09:1 as current ratio and hence none of the banks met the benchmark of 2:1, thus indicating poor liquidity.
-) HBL, NABIL and NIBL maintained 7.18%, 5.67% and 10.65% of the total deposit as cash and bank balance respectively and thus cross the benchmark of keeping the benchmark of keeping 2% of the deposit as cash vault set by NRB.
-) 9.48% of the total deposit of HBL was covered by fixed deposit. Similarly, 18.44% and 24.96% of the total deposit of NABIL and NIBL was occupied by the fixed deposit respectively.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology is a systematic way of solving research problem. Research methodology refers to the overall research process. The study uses secondary data and observed data in analyzed with using appropriate financial and statistical tools.

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample, data collection techniques and analytical tools of the research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is most important tools for advancement of knowledge and accomplishment of purposes.

3.2 Research Design

The research design refers to the conceptual structure within which the research is conducted (Kothari; 1978:22). A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Selltiz, 1962:50). Fed N. Krelings has defined it in his book foundation of Behavioral research as “Research Design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances”. In simple language, its just a planning for a research .It is purposeful scheme of action proposed to be carried out in a sequence during the process of research design helps researcher to enable him to keep track of action and to know whether he was moving in the right direction to achieve his goal.

This study is related to the dividend policy and its impact on the share-price and wealth position of the shareholders. Therefore, the descriptive as well as the analytical approach are adopted here. To make the analysis more effective, financial statements, statistical tools and testing models are also use.

3.3 Source of Data

The study is mainly depending upon the secondary data of the selected companies, whose sources may include the Annual Reports of the corresponding companies under study ,Economic Report published by Nepal Rastra Bank ,the stock price for the whole year listed in the Nepal stock exchange (NEPSE),Economic Survey published from Government of Nepal(NG), Ministry of Finance ,Financial Reports published by NEPSE and Securities Exchange Board, Arthick Aviyan weekly Newspaper, financial and others relevant data regarding the dividend policies and practices of the Banks. Besides this, the data are also collected from various newspapers, magazines booklets and journals published by the concerned governmental and non-governmental organizations.

3.4 Population and Sample

There are more than hundred companies that have shares trading actively in stock market; hence, it does not seem reasonable to study all the companies regarding the study topic. Due to the limited time and resource factors too, it is possible to study all of them; so sampling will be done. There should be no confusion with parameters and size of the companies since the topic is not related to comparison of sizes, but the dividend policy and its effect on market price of shares or simply, the valuation of shares .This study has covered altogether 3 commercial banks as follow:

Himalayan Bank Limited

Nepal Investment Bank Limited, and

Nepal Arab Bank Limited

3.5 Tools and Techniques

Data collected from various sources have been properly organized, analyzed and presented in appropriate tables and formats. Such tables and formats are subjected to interpretation and explanation as necessary. Specific financial tools and statistical tools are used to analyze variables. Mainly, the analysis has been done using following tools and method:

3.5.1 Financial Tools

Financial tools are those, which help to study the financial position of the firms. The financial tools used in the study are as follows:

i. Earnings per Share (EPS)

Earning per Share refers to the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholders investment. It shows the profitability of the companies on a per share basis. The higher earning indicates the better achievements in terms of profitability of the companies by mobilizing their funds and vice versa. EPS is computed by dividing net profit after taxes by the total number of common stocks outstanding. Thus,

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit after Tax}}{\text{No. Of common stock Outstanding}}$$

ii. Dividend per Share (DPS)

Dividend per share indicates the rupee earnings distributed to common stockholders per share held by them. It measures the dividend distributed to each equity shareholder. Generally, higher DPS creates positive attitude to the shareholders toward the company's common stock, which consequently helps to increase the market value of the share. And, it also works as the indicator of better performance of the company management. It is calculated by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus,

$$\text{Dividend per Share (DPS)} = \frac{\text{Total Amt. of div. Paid to Ordinary Shareholder}}{\text{No. of Ordinary Shares Outstanding}}$$

iii. Dividend Payout Ratio (DPR)

It is the proportion of earning paid in the form of dividend. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the companies. The dividend payout ratio of a company depends upon the earnings made by it. Higher earning enhances the ability to pay more dividends and vice versa.

There is an inverse relationship between dividends and retained earnings. The higher the dividend payout ratio, the lower will be the proportion of retained earnings and vice versa. The capacity of internal financing of the firm is checked by the retention ratio. DPR is calculated by dividing DPS by EPS. Thus,

$$\text{Dividend Per Ratio (DPR)} = \frac{\text{Dividend Per Share}}{\text{Earning per Share}}$$

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

Price earning ratio is also called the earnings multiplier. Price earning ratio is the ratio between market price per share and earning per share. In other word, this represents the amount which investors are willing to pay for each rupee of the firms earnings. The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm's future. This ratio is computed by dividing market price per share by earning per share of the firm. Thus,

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

V. 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 price per share at a particular time. It measures the earning in relation to market value of share. It gives some idea of how much an investor is earning for his money. The sharer with higher earning yield is worth buying. It is calculated as:

$$\text{Earning Yield (EY)} = \frac{\text{Earning Per Share}}{\text{Market Price per Share}}$$

VI. 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 increase sharply in the market. Dividend has importance guidance to commit funds for the buying of shares in the secondary market. This ratio is calculated by dividing dividend per share by market price of the share. Thus,

$$\text{Dividend Yield (DY)} = \frac{\text{Dividend per Share}}{\text{Market Price per Share}}$$

VII. Market Price Per Share (MPS) to Book Value per Share (BVS)

This ratio measures the market price per share in the competitive open market with respect to book value per share of the share issuing company. This ratio indicates the price that the market is paying for the share that is reported from the net worth of the company. This is important to compare the market share price of different stocks on the basis of the book value per share. It shows the market price of a stock as a percentage of book value per share and the effect of later on the former. The higher ratios represent to conclude the better performance of the company in terms of market price per share to book value per share. This ratio can be derived by dividing market price per share by book value per share. Thus,

$$\text{MPS to BVS Ratio} = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

VIII. Net Worth per Share

It is a rupee value per share. It is calculated by dividing Book Value of Net Worth (or Net Worth) by total numbers of Shares outstanding. Thus,

$$\text{Net Worth per Share} = \frac{\text{Net Worth}}{\text{No. of shares}}$$

IX. Market Price per Share (MPS)

MPS is that value of stock, which can be obtained by a firm from the sale of a share in the market. MPS is one of the variables, which is affected by DPS of the firm. If the earning per share and dividend per share are high, the market value of the share will also be high. The capital market determines MPS. In this study the market price of share means the rupees value of one share indicated in NEPSE index. Theoretically calculated current price of the share can be derived by using the following formulas:

$$\begin{aligned} P_0 &= \frac{D_1}{(K_a - G)} \\ &= \frac{D_0 (1+G)}{(K_a - G)} \end{aligned}$$

Where,

P_0 = Current market price per share

D_0 = Current dividend per share

- D1 = Expected dividend per share at the end of yr.1
- G = Dividend growth rate
- Ks = Investor's required rate of return
= Risk free rate of return+ Inflation rate + Market risk premium
- a. Present Price=PV of dividends during supernormal growth period + Value of stock price at the end of supernormal growth period discounted back to present.
- b. Price= Dividend/Capitalization rate

3.5.2 Statistical Tools

Besides the financial tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared, analyzed and interpreted. In this study, the following statistical tools are used to analyze the relationship between dividend and other variables.

I. Arithmetic Mean or Average (X)

An average is the value, which represents a group of values. It depicts the characteristic of the whole group. It is an envoy of the entire mass of homogeneous data. Generally, the average value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is also known as simple average.

In general, $X_1, X_2, X_3, \dots, X_n$ are the given "n" observations. Then their Arithmetic mean, usually denoted by \bar{X} is given by:

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

Or, $\bar{X} = \frac{\sum X}{n}$

Where, $\sum X$ =Sum of the sizes of the items
n=Number of items.

II. Standard Deviation ()

The measurement of the scatter ness of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion of a distribution. The greater the amount of dispersion, the greater the standard deviation will be, i.e. greater will be the magnitude of The deviations of the values from their mean. A small standard deviation

means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just opposite. Standard deviation is denoted by a Greek letter “ σ ” (Sigma) and is calculated as follows:

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

Where,

\bar{X} = Mean

X = Variable

n = Number of items in the series

III. Coefficient of Variation (CV)

The coefficient of variation reflects the relationship between standard deviation and mean. It is the relative measure of dispersion, comparable across, which is defined as the ratios of the standard deviation to the mean expressed in percent (Levin, Richard I. and Rubin, David S.: 1994,p.144). The series with higher coefficient of variation is said to be more variable, less consistent, less stable and less homogenous. On the contrary, the series with less coefficient of variation is said to be less variable, more consistent, more uniform, and more stable and more homogenous. It is denoted by C.V. and is obtained by dividing the standard deviation by arithmetic mean. Thus, in symbol

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

Where,

S.D or σ = Standard Deviation

\bar{X} = Mean

IV Coefficient of Correlation (r)

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. Correlation is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree of relationship between variables (Pant and Chaudhary, 2053:299). It is a tool that can be used to describe the degree to which one

variable is linearly related to another. It describes not only the magnitude of correlation, but also its direction. The coefficient of correlation is a number, which indicated to what extent two variables are related with each other and to what extent variations in one leads to the variations in the other.

The value of coefficient of correlation always lies between 1. A value of -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables are uncorrelated. The closer r is to +1 or -1, the closer the relationship between the variables and closer r is to zero(0), the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the coefficient is concerned with the strength, or closeness of the relationship between two variables. Thus, in this study, the degree of relationship between market price and other relevant financial indicators such as dividend per share, earning per share, dividend payout ratio etc. is measured by the correlation coefficient. The correlation coefficient can be calculated as:

$$r = \frac{\text{Cov}(X, Y)}{s_x s_y}$$

$$r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{(N-1) s_x s_y}$$

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

Where,

s_x s_y are the standard deviation or the distributions of X and Y values respectively.

Cov(X, Y) = Covariance of X, Y value

$$= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{(N-1)}$$

V. Coefficient of Determination (r^2)

The coefficient of determination is the primary way to measure the extent, or strength of the association that exists between two variables, X and Y. It refers to a measure of the total variance in a dependent variable that is explained by its linear relationship to an independent variable. The coefficient of determination is denoted by r^2 and the value lies between zero and unity. The closer the r^2 to unity, the greater the explanatory power. A value of one can occur only if the unexplained variation is zero, which simply means that all the data points in the scatter diagram fall exactly on the regression line. The r^2 is always a positive number. It can't tell whether the relationship between the two variables is positive or negative. The r^2 is defined as the ratio of explained variance to the total variance. Thus,

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

$$r^2 = 1 - \frac{\text{Unexplained Variance}}{\text{Total Variance}}$$

VI. Regression Analysis

The Regression refers to an analysis or a statistical method for determining relationships between the variables by the establishment of an approximate functional relationship between them. It is a statistical device used to estimate or predict the variable or interest from the known values of other variable. In the words of Johnson and Siskin, "The technique of regression analysis is used to determine the statistical relationship between two (or more) variables and to make prediction of one variable on the basis of the other(s). It is considered as a useful tool for determining the strength of relationship between two (Simple Regression) or more (Multiple Regression) variables. It is also used to predict value of one variable from the given value of other variable(s). Simple linear analysis is used to find the relationship between two variables. In this study, the following simple regressions have been analyzed:

a. Market Price per share on Earning per Share

$$Y = a + bX$$

Where,

Y = Market Price per Share

A = Regression Constants

B = Regression coefficient

X = Earning per share

This model has been constructed to examine the relationship between market price per share (dependent variable) and Earning per share (independent variable).

b. Market Price per Share on Dividend per Share

$$Y = a + Bx$$

Where,

Y = Market Price per Share

a=Regression Constant

b=Regression Coefficient

X=Dividend per Share

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend per share (independent variable).

c. Market Price per Share on Dividend Percent

$$Y=a +bX$$

Where,

Y = Market Price per Share

A = Regression Constant

b = Regression Coefficient

X = Dividend Percent

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend percent (independent variable).

d. Market Price per Share on Dividend Payout Ratio

$$Y=a +bX$$

Where,

Y = Market Price per Share

A = Regression Constant

b = Regression Coefficient

X = Dividend Payout Ratio

This model has been constructed to examine the relationship between market price per share (dependent variable) and Dividend payout Ratio (independent variable).

e. Market Price per share on Dividend Yield

$$Y=a + bX$$

Where,

Y = Market Price per Share

A = Regression Constant

B = Regression Coefficient

X = Dividend Yield

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend yield (independent variable). In order to obtain the value of “a” and “b”, we have the following two normal equations:

$$Y= na + bX$$

$$XY= a \quad X+ b \quad X_2$$

Where,

A = Regression Constant

B = Regression Coefficient

N = Number of observation in the sample.

Regression Constant (a)

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

Regression Coefficient (b)

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

VII. Probable error P.E(r)

Probable error of the correlation coefficient denoted by P.E(r) is the measure of testing the reliability of the calculated value of “r”.

- If $r < P.E(r)$, it is insignificant. So, perhaps there is no evidence of correlation.
- If $r > P.E. (r)$, it is significant. The P.E. (r) of correlation coefficients may be used to determine the limits within the population correlation lies. Limits for population correlation coefficient are $r \pm P.E(r)$.

VIII. t-Statistics

To test the validity of our assumption, “if sample sizes less than 30 t-test is used for applying t-test in context of small sample, the t- value is calculated first and compared with the table value of „t“ at a certain level of significance for given degree of freedom. If the calculated value „t“ > table value in certain level of significance and given degree of freedom we conclude the there is significantly value is less than the table value of one conclude that the different is not significant.

CHAPER – IV

PRESENTATION AND ANALYSIS OF DATA

The purpose of this chapter is to carry out secondary data analysis. In this chapter, collected data and other information on dividend policy and its impact on cash dividend in the market of commercial banks are presented. This chapter concentrated in presentation and Analysis of data of important in financial indicators. This chapter attempts to analysis of earning per share, dividend per share, dividend payout ratio, dividend yield ratio, price earning ratio, Market value per share on book value per share, earning yield ratio, correlation between EPS and DPS, Correlation between EPS and MPS and regression equation and hypothesis of selected commercial bank. Presenting and analysis of data is the major part of the research. So that to achieve our objective of the study, we analyze the data with the help of above financial tools. In this chapter will attempts to make a comparison among the concerned banks.

4.1 Analysis of Financial Tools

4.1.1 Analysis Earning Per Share

Earning per share (EPS) is one of the most important financial indicators which measure the earning Capacity of a fir. It measures the profitableness of the shareholders investment on per share baric. It is computed by dividing net profit after taxes by the total number of common stocks outstanding.

Table 4.1
Analysis of Earning Per Share

Year	HBL	NIBL	NABIL	pooled
2004/05	49.05	51.70	92.61	64.45
2005/06	47.91	39.50	105.49	64.30
2006/07	59.24	59.35	129.21	82.60
2007/08	60.66	62.57	137.08	86.77
2008/09	62.74	57.87	108.31	76.69
2009/10	31.80	52.55	78.61	54.32
Mean	51.975	53.92	108.55	71.52
S.D	10.6160	7.4682	20.0029	11.4018
C.V %	20.425	13.8506	18.4273	15.9421

Source: Appendix I & II

In above table 4.1 shows pooled are range standard deviation, sufficient aviator of the HBL, NIBL, and NABIL. From 2004/05 to 2009/10 the performances and the achievement of business organization are measured in terms of its capital to general earnings higher earning shows higher strength while lower earning shows weaker strength of banks. In the year 2004/05 the table shows that EPS of NABIL has highest which amount to RS 92.61 while HBL and NIBL have 49.05 and 51.70 respectively and their pooled average is 64.45 HBL and NIBL have lower EPS than pooled average. It means EPS of NABIL is growing and better conditions than other banks.

In the year 2005/06, again EPS of NABIL has higher, which amount to RS 105.49 while HBC and NIBC have 47.91 and 39.5 respectively and their pooled average is 64.3 the HBL and NIBL have lower EPS than pooled average and NABIL has higher EPS than pooled average EPS of NABIL is growing.

In the year 2006/07 again EPS of NABIL has highest, which amount to Rs 129.21 and EPS of HBL and NIBL have almost same that amount are 59.24 and 59.35 which are lower than their pooled average. The pooled average is 82.6 and NABIL has higher EPS than pooled average condition of bank.

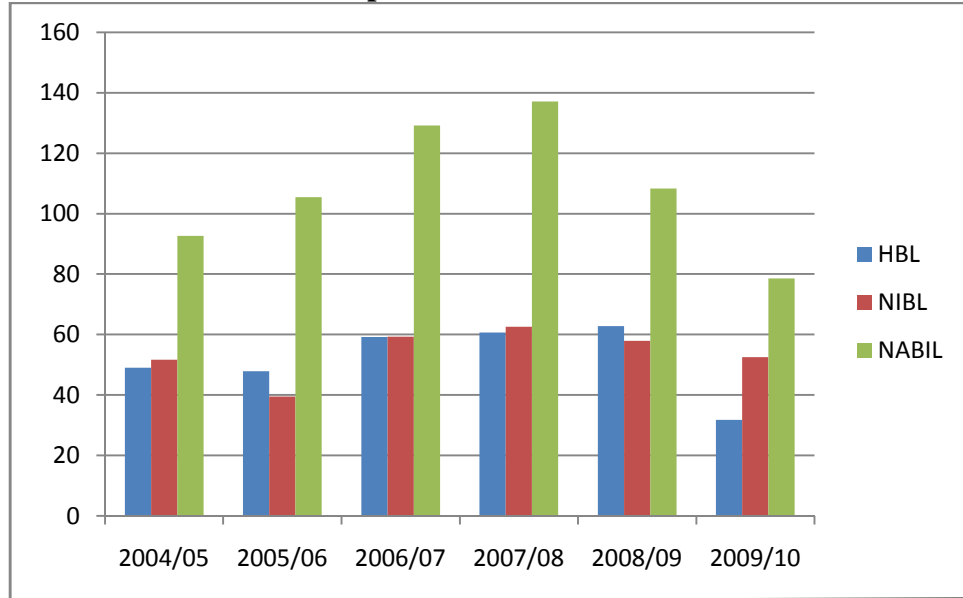
In the year 2007/08, NABIL's has EPS is 137.08 and EPS of HBL and NIBL have 60.66 and 62.57 respectively and their pooled average is 86.77 NABIL has higher EPS and HBL and NIBL have lower EPS.

In the year 2008/09, again NABIL has highest EPS that demount is 108.31 and HBL and NIBL have 60.66 and 62.57 which amount is lower than pooled average. The pooled average is 76.69 NABIL has lower EPS than before year EPS.

In the year 2009/10, again NABIL has highest EPS that demount is 78.61 and HBL and NIBL have 31.80 and 52.55 which amount is lower than pooled average. The pooled average is 54.32 NABIL has lower EPS than before year EPS.

Finally, the average EPS of HBL, NIBL and NABIL are 51.90, 53.92, 108.55 and 71.52 respectively which NABIL has highest average of EPS which is better than other banks and standard division of HBL, NIBL, and NABIL have 10.6160, 7.4682 and 20.0029 respectively, and C.V of HBL, NIBL and NABIL have 20.425, 13.8506 and 18.4273 respectively the HBL has highest C.V which indicates that higher risk and higher return.

Figure 4.1
EPS of Sample Commercial Banks



4.1.2 Dividend per share (DPS)

Dividend per share is another important financial indicator. DPS indicates the proportions of earning distributed to each equity shareholder. Generally the higher DPS creates positive attitude towards the bank which helps to increase the market value of shares. It is calculated by dividing the total dividend distributed to equity shareholders by total number of equality shareholders the dividend per share of the banks under study are stated in the table below.

Table 4.2
Analysis of Dividend per Share

Year	HBL	NIBL	NABIL	Pooled
2004/05	0	15	65	26.67
2005/06	11.58	12.5	70	31.36
2006/07	30	20	85	45.00
2007/08	15	5	100	40.00
2008/09	25	7.5	60	30.83
2009/10	11.84	25	70	35.61
Mean	15.57	14.167	75	34.91
S.D.	9.7445	6.8718	13.5400	6.1285
C.V. %	62.5851	48.5059	18.0534	17.5552

Source: Appendix I

The above table 4.2 Shows the dividend per share of HBL, NIBL and NABIL, with pooled average, standard deviation coefficient of variation from 2008/09.

In the year 2004/2005, Again NABIL has highest DPS that amount is 65 per share and HBL didn't distribute cash dividend NIBL distributed per 15 share cash dividend per share. In this year also NABIL distributed there banks. It is better for the share holder. And their pooled average is 2667 NABIL has better condition than other selected banks.

In the year 2005/06 NABIL highest is has highest DPS is 11-58 NABIL distributed high cash dividend among high banks. It is better for shareholders. The pooled average is 31.36 NABIL has higher pooled average than other selected banks.

In the year 2006/07, the DPS of HBL, NIBL and NABIL have 30.20 and 85 respectively NABIC distributed higher cash dividend among selected bank. It is better for share and HBL distributed cash dividend higher than NIBL, and their pooled average is 45. In this year DPS of NABIL is almost double than pooled average and HBL also can be taken as in the satisfactory level which DPS is higher than NIBL.

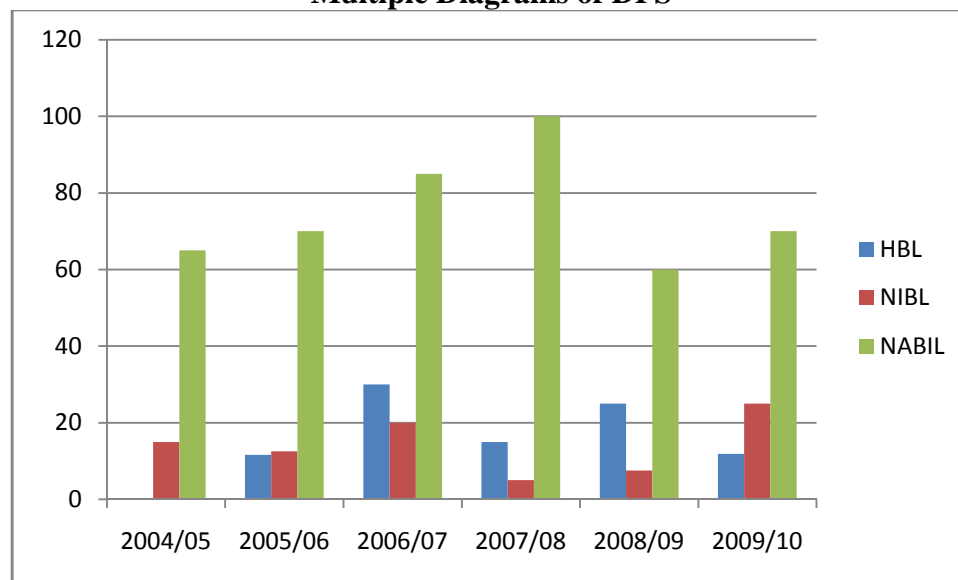
In the year 2007/08 the DPS of HBS, NIBL, have distributed 100% DPS in this year and it is better for shareholders and shareholders believe a lot NIBL distributed lowest DPS and their pooled average is 40% NABIL'S DPS is more than two and half times greater than the pooled average DPS, SO NABIL is the best bank among selected banks.

In the year 2008/09, the DPS of HBL, NABIL have 25, 750, and 60 respectively. Again NABIL distributed for shareholder and the lowest cash dividend is 750.and their pooled average is 30.83, NABIL has higher DPS than pooled average and HBC has lower DPS than pooled average DPS. The best bank is NABIL and HBL also satisfactory.

In the year 2009/10, the DPS of HBL, NABIL have 11.84, 25 and 70 respectively. Again NABIL distributed for shareholder and the lowest cash dividend is 70.and their pooled average is 34.91, NABIL has higher DPS than pooled average and HBC has lower DPS than pooled average DPS. The best bank is NABIL and HBL also satisfactory.

Finally, the average DPS of HBL, NIBL and NABIL 15.57, 10.83 and 75 are respectively. NABIL has highest average of DPS and which is better than other banks and the standard deviation of HBL, NIBL and NABIL have 9.7445, 6.8718 and 13.5400 respectively. It indicates that NIBL and NABIL has lower C.V. than other banks and HBL has higher C.V. Higher C.V. indicates higher risk .In overall years, NABIL is good condition than other selected banks.

Figure 4.2
Multiple Diagrams of DPS



4.1.3 Dividend Pay Out Ratio (DPR)

Dividend payout ratio is the proportion of earning paid in the form of dividend It shows what percentage is retained as reserve and surplus for the growth of the companies. It is calculated by dividing DPS by EPS. The following table shows the DPR of the HBL, NIBL and NABIL.

Table 4.3
Analysis of Dividend Payout Ratio

Year	HBL	NIBL	NABIL	POOLED
2004/05	0	29.01	70.18	33.06
2005/06	24.17	31.65	66.36	40.73
2006/07	50.64	33.69	65.78	50.04
2007/08	24.72	7.99	72.95	35.22
2008/09	39.85	12.96	55.40	36.07
2009/10	37.24	47.57	89.04	57.95
Mean	29.43	27.145	69.95	42.178
S.D.	15.9719	13.2408	10.1180	8.9584
C.V.%	54.2709	48.7781	14.4789	21.2396

Source: Appendix II

The above table 4.3 shows the dividend payout ratios of three sample banks. The table helps to find out the percentage of dividend payout of the total earning made by every bank for every year. Different Categories of D/P ratios are as follows.

Policy DPR

- Conservative less than 20%
- Moderate 20% to 50%
- Aggressive more than 50%

In this table, the comparative study DPR of HBL, NIBL and NABIL for 2004/05 to 2009/10 with their pooled average for each year as well as standard deviation and coefficient of variation.

In 2004/05 HBL has no D/P Ratio and NIBL and NABIL have 29.01 and 70.18 respectively which shows NABIL has followed moderate policy and NABIL has followed again aggressive policy. NABIL has highest D/P Ratio among three banks. It shows that NABIL bank paid dividend to shareholder is good and good condition among three banks.

In 2005/06 NABIL has followed again aggressive dividend policy which DPR is 66.36. HBL and NIBL have 24.17 and 31.65 respectively which shows moderate policy. The average pooled DPR is 40.73 which show moderate dividend policy.

In 2006/07, again NABIL Bank has aggressive dividend policy which has 65.78 but 50.64 and NIBL respectively. HBL shows dividend policy and NIBL shows moderate dividend policy and their pooled average is 50.04 with aggressive dividend policy.

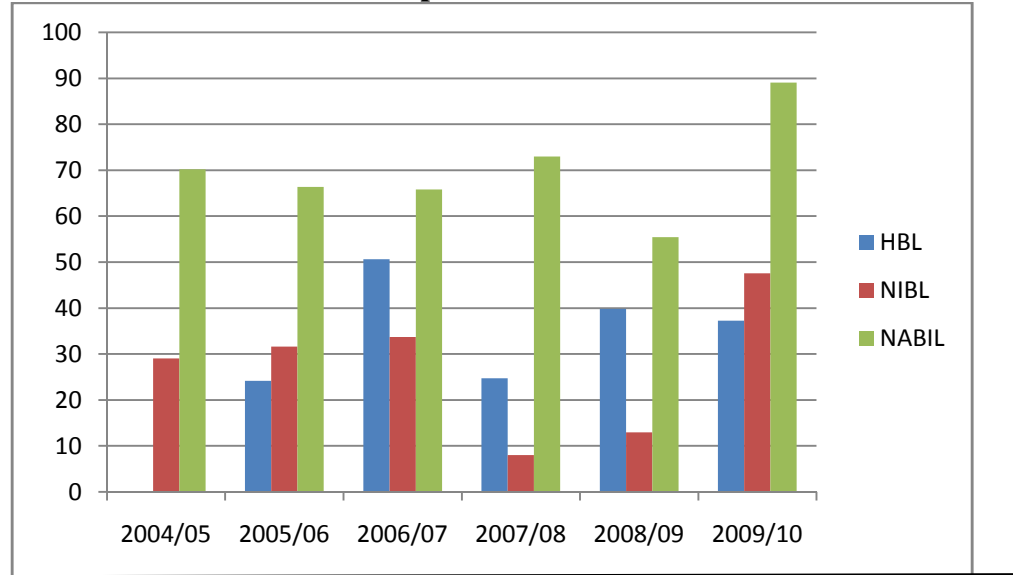
In 2007/08, HBL and NIBL have below 50% which DPR are 24.72 and 7.99 respectively and NABIL has 72.95 DPR which shows better condition than other banks. NABIL has followed aggressive dividend policy.

In 2008/09 HBL and NIBL have below 50% which D/P Ratio are 39.85 and 12.96 respectively. HBL follows moderate dividend policy and NIBL follows conservative dividend policy. NABIL D/P Ratio is 55.40 which follow aggressive dividend policy and their pooled average is 55.40 which follow aggressive dividend policy and their pooled average is 36.07. HBL and NABIL have higher DPR than pooled average which banks are better than HBL.

In 2009/10 HBL and NIBL have below 50% which D/P Ratio are 37.24 and 47.57 respectively. HBL and NIBL follow conservative dividend policy. NABIL D/P Ratio is 89.04 which follow aggressive dividend policy and their pooled average is 89.04 which follow aggressive dividend policy and their pooled average is 57.95. NIBL and NABIL have higher DPR than pooled average which banks are better than NIBL.

In finally, the standard deviations of HBL, NIBL and NABIL have 15.9719, 13.2408 and 10.1280 respectively and the coefficient of variation of HBL is 54.2709%, NIBL is 48.7781% and NABIL is 14.4789%. C.V. of DPR is suggests that DPR of HBL is fluctuating than other two banks. C.V. of NABIL has less C.V. It indicates that less C.V. is better. In overall NIBL Bank is better than other selected banks.

Figure 4.3
DPR of Sample Commercial Banks



4.1.4 Price Earning Ratio

The above table shows P/E Ratio of HBL, NIBL and NABIL. This ratio describes the relationship between EPS and MPS.

Table 4.4
Analysis of P/E Ratio

Year	HBL	NIBL	NABIL	POOLED
2004/05	17.12	18.18	10.8	15.37
2005/06	19.2	20.25	14.27	17.91
2006/07	18.57	21.23	17.34	19.05
2007/08	28.57	27.63	36.84	31.05
2008/09	31.56	42.33	48.70	40.86
2009/10	25.66	13.42	30.33	23.13
Mean	23.44	23.84	26.38	24.56
S.D.	5.4591	9.2786	13.5049	8.8401
C.V.%	23.29	38.9203	51.1940	35.9942

Source: Appendix II

It is better for shareholder and NABIL has lower than pooled average. In 2004/05, The P/E Ratio of HBL, NIBL and NABIL are 17.12, 18.18 and 10.8 respectively. NIBL has highest P/E Ratio than other banks. It shows the

better condition of bank and pooled average is 15.37. HBL and NIBL have higher P/E Ratio than NABIL. NIBL has better condition.

In 2005/06 the P/E Ratio of HBL, NIBL and NABIL are 19.2, 20.25, and 14.27 respectively, Again NIBL has highest P/E Ratio than other among their banks and NABIL has lowest P/E Ratio. NIBL has favorable condition. Their pooled average is 17.91 is the pooled average of HBL, NIBL have higher than pooled average which show better condition.

In 2006/07, the P/E Ratio are 18.57, 21.23 and 17.34 respectively NABIL has lower P/E Ratio and NIBL has highest P/E Ratio. NIBL higher better condition than among their banks and their pooled average is 19.05. NIBL has higher amount than pooled average. It is better for raising market value of share.

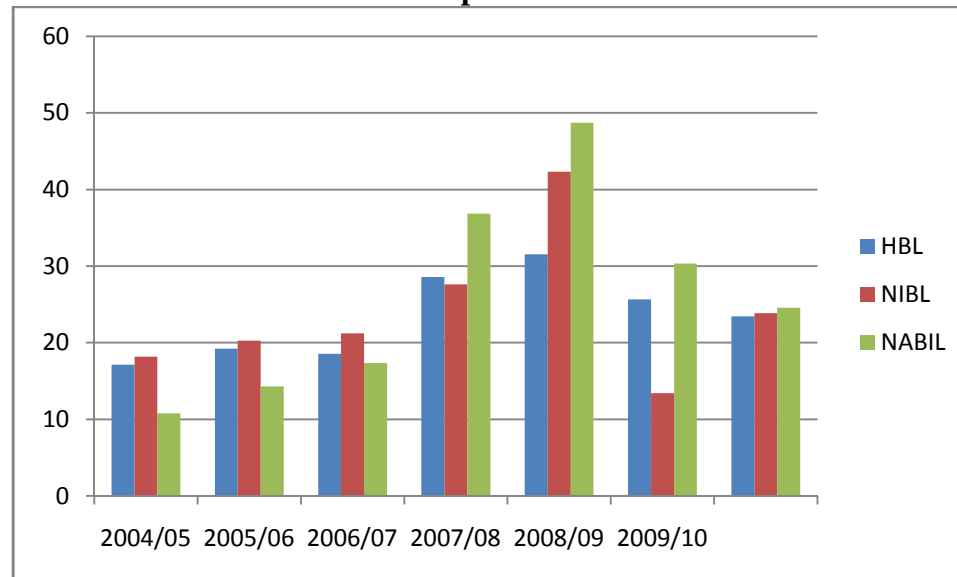
In 2007/08 the P/E Ratio of HBL, NIBL and NABIL are 28.57, 27.63 and 36.84. NABIL has lowest P/E Ratio and NABIL has highest P/E Ratio and their pooled average is 31.05. NABIL has highest P/E Ratio than pooled average. Which is better condition than among selected banks? P/E Ratio is NIBL as lowest P/E Ratio than pooled average.

In 2008/09 the P/E Ratio of HBL, NIBL and NABIL are 31.56, 42.33 and 48.70 NABIL has highest P/E Ratio and HBL has lowest P/E Ratio and their pooled average is 40.86 NABIL has higher than pooled average and HBL has lower pooled average, NABIL is better condition than among three banks.

In 2009/10 the P/E Ratio of HBL, NIBL and NABIL are 25.66, 13.42 and 24.58 respectively. NABIL has highest P/E Ratio and HBL has lowest P/E Ratio and their pooled average is 23.13 NABIL has higher than pooled average and HBL has lower pooled average, NABIL is better condition than among three banks

Finally, the S.D of HBL, NIBL and NABIL has 5.4591, 9.2786 and 13.5049 respectively and the coefficient of variation of HBL is 23.29, NIBL is 38.9203 and NABIL is 51.1940. It indicates that NABIL is fluctuating high HBL is better condition its C.V is low than other selected banks.

Figure 4.4
P/E Ratio of Sample Commercial Bank



4.1.5 Analysis of MVPS/BVPS

The Ratio Analysis between market value per share (net worth) gives the idea on the different between the values of a share i.e. the real value of the share and market value i.e. the price of share will earn if sold. MVPS is the price of share on which share are traded in secondary market. In general, it may be thought that book value per share and market value per share will be about the same value. But the calculation of the ratio gives a slightly different picture, which is shown below in the table.

Table 4.5
Analysis of MVPS/BVPS

Year	HBL	NIBL	NABIL	POOLED
2004/05	3.40	3.32	3.81	3.51
2005/06	3.84	4.46	3.98	4.09
2006/07	4.81	5.88	5.26	5.32
2007/08	6.57	12.08	7.38	7.82
2008/09	7.89	10.98	14.09	11.29
2009/10	3.59	3.71	8.99	5.43
Mean	5.01	6.73	7.25	6.24
S.D.	2.1190	8.4954	3.5664	2.6323
C.V.%	42.2954	51.9384	49.1921	42.185

Source: Appendix III

In table 5 in the year 2004/05, the highest ratio is 3.81 of NABIL and lowest ratio of NIBL is 3.32 and it shows the better condition for share holder and their pooled average is 3.51 than is NABIL has highest ratio than pooled average.

In the year 2005/06, the highest ratio is 4.46 for NIBL and the lowest ratio is 3.84 it indicates that NIBL is better condition. Their pooled average is 4.09. NIBL has highest ratio than pooled average. In the year 2006/07, the highest ratio is 5.88 for NIBL and the lowest ratio is 4.81 is indicates that NIBL is better and their pooled average is 5.32. NIBL has higher ratio than pooled average. It is better for share holder.

In the year 2006/07, the highest ratio is 5.88 for NIBL and the lowest ratio is 4.81 it indicates the NIBL is better condition and their pooled average is 5.32 NIBL has higher than pooled average it condition that it is better.

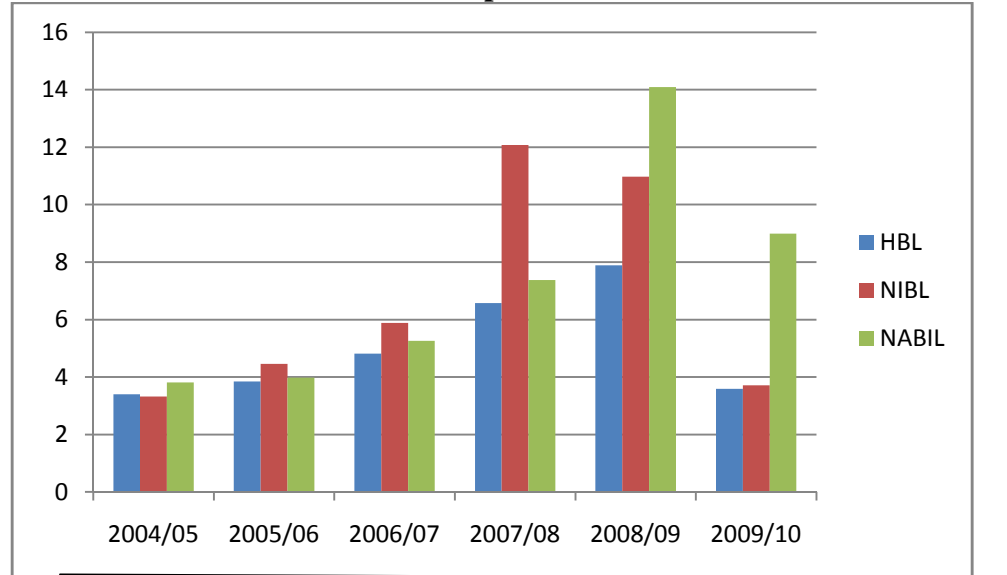
In the year 2007/08, the higher ratio is 7.38 for NIBL and 12.08 and lowest ratio is HBL. NIBL has highest value .It indicates that market value per share is higher than BVPS which is better for shareholders and pooled average is 7.82 .NIBL has higher than pooled average and better condition of banks.

In the year 2008/09, HBL has 7.29, NIBL has 10.98 and NABIL has 14.90. NABIL has highest value .It indicates that higher value is better for shareholders and their pooled average is NABIL's market value per share is higher. Their pooled average that is better for shareholder.

In the year 2009/10, HBL has 3.59, NIBL has 3.71 and NABIL has 8.99. NABIL has highest value .It indicates that higher value is better for shareholders and their pooled average is NABIL's market value per share is higher. Their pooled average that is better for shareholder.

It is always good to have higher MVPS than BVPS .Because in today's open market shareholder maximize wealth than profit maximization .The C.V. of HBL is 42.2954%, NIBL is 51.9384% and NABIL is 49.1921% .C.V. measures risk per unit of assets. It can be observed the C.V. of NABIL is greater than other sample banks greater the than other sample banks greater the C.V. of NABIL is greater the risk. NIBL have less C.V. It is not in risk so MVPS/BVPS in fluctuated in NABIL than other two sample banks.

Figure 4.5
MPVS/BVPS of Sample Commercial Bank



4.1.6 Analysis of Earning Yield

Earning yield means the percentage relationship between EPS and MPS which is one the reliable tools to calculate the real value of the shareholder. It gives an idea of how much an investor might get for his money .The share with higher earning yield is worthiness buying. Earning yield of banks under study is presented in the table below.

Table 4.6
Analysis of Earning Yield Ratio

Year	HBL	NIBL	NABIL	POOLED
2004/05	5.84	5.5	9.26	7.45
2005/06	5.21	4.94	7.00	6.87
2006/07	5.39	4.71	5.77	5.72
2007/08	3.49	3.62	2.71	5.29
2008/09	3.17	2.36	2.053	3.27
2009/10	3.89	7.45	3.29	4.87
Mean	4.498	4.76	5.01	5.57
S.D.	1.0208	1.5747	2.5688	1.3604
C.V.%	22.695	33.082	51.273	24.425

Source: Appendix III

The above table 4.6 shows that the relationship between EPS and MPS the main reason to illustrate the earning yield of the concerned banks helps to calculate the real value of current market value of each share.

In the year 2004/05, the earning yield HBL is 5.84, NIBL is 5.5 and NABIL is 9.26 and which indicates that better condition of the banks and their pooled average is 7.45. NABIL has highest yield than pooled average that is better for investor.

In the year 2005/06, the earning yield HBL is 5.84, NIBL is 5.5 and NABIL is 9.26. NABIL has highest yield and their pooled average is 5.72. NABIL has highest yield than pooled average which indicates that, it is better condition of the banks.

In the year 2006/07, the earning yield HBL is 5.39, NIBL is 4.71 and NABIL is 5.77. NABIL has higher yield and their pooled average is 5.29. HBL and NABIL have higher yield than pooled average and it indicates that good return for shareholder. So the banks have better condition.

In the year 2007/08, the earning yield of HBL, NIBL and NABIL are 3.49, 3.62 and 2.71. the lowest earning yield is 2.71 and highest earning yield is 3.49 and their pooled average is 3.27 which indicates that HBL and NIBL have better for share holder. Shareholder wants to earn more return.

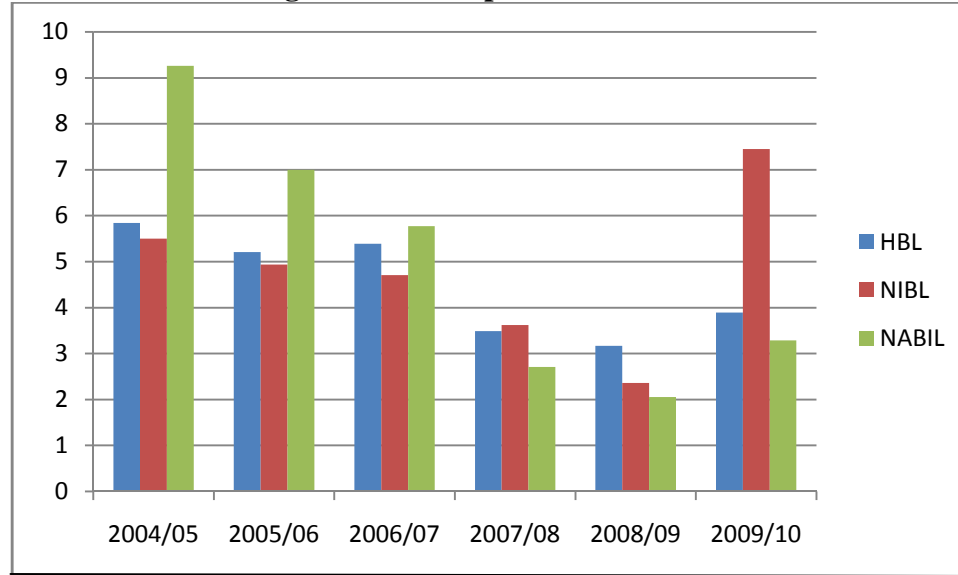
In the year 2008/09, the earning yield of HBL, NIBL and NABIL are 3.17, 2.37 and 2.05 NABIL has lowest earning yield and HBL has highest earning yield it indicates that HBL has better condition to share holders and their pooled average is 2.53 which indication that HBL has better condition for investors.

In the year 2009/10, the earning yield of HBL, NIBL and NABIL are 3.89, 7.45 and 3.29. HBL has lowest earning yield and NABIL has highest earning yield it indicates that HBL has better condition to share holders and their pooled average is 2.53 which indication that HBL has better condition for investors.

The standard deviation of HBL, NIBL and NABIL has 1.0208, 1.5747 and 2.5688 respectively. The C.V. of HBL is 22.695 NIBL is 33.082 and NABIL is 51.273. The CV of NABIL has higher than two sample bank. Higher the

CV is more risky and indicates that there is fluctuation on earning yield of NABIL. HBL is less risky and HBL and NIBL maintain consistency.

Figure 4.6
Earning Yield of Sample Commercial Banks



4.2 Analysis of Statistical Tools

4.2.1 Simple Correlation Analysis

Table 4.7
Simple Correlation between EPS and DPS

Banks	r	Relationship	r ²	Probable error	Remarks
HBL	0.8	Positive	0.64	0.09	Sig.
NIBL	0.4625	Positive	0.21	0.21	Insig.
NABIL	0.93	Positive	0.87	0.035	Insig.

Source: Appendix IV

Correlation Analysis is used to describe the degree of relation between two or more variables. In statistics; it is used in order to depict the covariance between two or more variables. It helps to determine whether a positive or negative relationship exists between two variables and whether the relationship is significant and insignificant. In this study, the correlation analysis is referred to identify the relationship between DPS, EPS, MPS, P/E

Ratio, D/P Ratio, Correlation between DPS and EPS, Correlation between DPS and MPS.

We can calculate correlation coefficient as:
$$r = \frac{\text{Cov}(X, Y)}{s_x s_y}$$

Where, $X = X - \bar{X}$
 $Y = Y - \bar{Y}$

Again probable error of correlation coefficient $P.E(r) = 0.6745 \times \frac{1-r^2}{n}$

If $6P.E(r)$ is greater than “r” then insignificant.
 If $6P.E(r)$ is less than “r” then significant.

The simple correlation coefficient (r) between EPS and DPS of HBL is 0.8044 which indicates that there is aggressive positive relationship correlation between EPS and DPS of HBL. Since r is greater than $6PE(r)$ so we conclude that it is significant. The coefficient of determination (r^2) is 0.6471 which indicates that 64.71% of variation of stock price is affected or determined by the explanatory variable EPS.

The simple correlation coefficient (r) between EPS and DPS of NIBL is 0.4625 which indicates that there is moderate positive correlation coefficient. Since r is less than $6PE(r)$ so we conclude that it is insignificant. The coefficient of determination (r^2) is 0.2139 which indicates that 21.39% of variation of stock price is affected or determined by the variable EPS.

The simple correlation(r) between EPS and DPS of NABIL is 0.93 which indicates that there is aggressive positive correlation coefficient. Since r is greater than $6PE(r)$ so we conclude that it is significant. The coefficient of determination (r^2) is 0.8709 which indicates that 87.09% of variation of stock price is affected or determined by the variable EPS.

Table 4.8
Simple Correlation between EPS and MPS

Banks	r	Relationship	r ²	Probable error	Remarks
HBL	0.95	Positive	0.92	0.02	Sig.
NIBL	0.75	Positive	0.56	0.07	Sig.
NABIL	0.65	Positive	0.43	0.16	Insig.

Source: Appendix IV

The Simple correlation coefficient (r) Between EPS and MPS is 0.9573 which indicates that there is aggressive positive relationship between EPS and MPS of HBL but. Since r is greater than 6.PE(r) so we concluded that it is significant the coefficient of determination (r²) is 0.9164 which indicates that 91.64% of Variation of stock price is affected or determined by the explanatory variable EPS.

The Simple correlation coefficient (r) Between EPS and MPS is 0.75 which indicates that there is aggressive positive relationship between EPS and MPS of HBL but. Since r is greater than 6.PE(r) so we concluded that it is significant the coefficient of determination (r²) is 0.56 which indicates that 56% of variation of stock price is affected or determined by the explanatory variable EPS.

The Simple correlation coefficient (r) Between EPS and MPS is 0.65 which indicates that there is aggressive positive relationship between EPS and MPS of HBL but. Since r is less than 6.PE(r) so we concluded that it is insignificant the coefficient of determination (r²) is 0.1572 which indicates that 15.72%% of variation of stock price is affected or determined by the explanatory variable EPS.

4.3 Regression Analysis

The regression is used to determine the statically relationship between two or more variable and to make perdition of one variable on the basic of the others. The relation between the dependent variable and independent variable. We take only one independent variable and predict the value of dependent variable through the appropriate regression line.

Table 4.9
Simple Regression Analysis of DPS and MPS

BANKS	A	b	S.E(e)	t value
HBL	902.040	24.16	450.43	0.0536
NIBL	7938.41	-495.83	3390.95	- 0.1462
NABIL	-45893.42	677.1092	3075.39	0.2201

Source: Appendix V

The above table shows the relationship between DPS and MPS .The Analysis of above result, the regression constant or intercept coefficient (a) of HBL is 902.040 which show that the average MPS would be Rs 902.040 if the DPS were Zero.

The result shows that the slope of the regression line (b) is 24.16 which indicate that positive correlation between DPS and MPS of HBL. One rupee increase on DPS shows that Rs24.16 increase in the markets price of the stock of the bank. The value of “t” statistic is .0536 and tabulated value so there is insignificant.

The regression constant or intercept coefficient (a) of NIBL is 7938.41 which show that the average MPS would be Rs 7938.41 if the DPS were Zero.

The result shows that the slope of the regression line (b) is -495.83 which indicated that negative correlation exists between DPS and MPS of NIBL Table the value “t” statistics is -.1462 and the tabulated value is 2.131. The “t” value is lower than tabulated value so there is insignificant.

The “t” value is lower than tabulated value so there is insignificant. The regression constant or intercept coefficient (a) of NABIL of -45893.42 which shows that the average MPS would be Rs-45893.42 of the DPS were zero. The slope of the regression line (b) is 677.1092 indicates that positive correlation exists between DPS and MPS of NABIL. The value of “t” statistics is .2201 and the tabulated value is 2.131.

Table 4.10
Simple Regression Analysis of DPS and EPS

BANKS	A	b	S.E(e)	t value
HBL	48.69	0.4446	54.93	0.008
NIBL	35.85	1.08	12.50	0.0864
NABIL	34.28	1.050	8.47	0.1239

Source: Appendix V

The table 4.10 has contained the different indications (see App.....)Helpful to analyze the simple regression between EPS and DPS of HBL,NIBL and NABIL where EPS is independent variable, with and DPS is the dependent variable with the help of their indicators, we can come to the following conclusion .

The above table shows the relationship between DPS and EPS. The analysis of above result the regression constant or intercept coefficient (a) of HBL is 48.69 which show that the average DPS would be RS 48.69 if the EPS were zero. The slope of the regression line (b) is 0.4446 indicates the one rupee increase in DPS holding other variable constant.

The regression constant or intercept coefficient (a) of NIBL is 35.85 which shows that the average DPS would be RS 35.85 if the EPS were zero. The result shows that the slope of the regression level (b) is 1.08 which indicates that one rupee increase in EPS. There is statically significant of 5% level of significant the value of “t” of NIBL is 0.086 and tabulated value is 1.94 and the tabulated value is grater then calculated value so it is insignificant.

The regression constant or intercept coefficient (a) of NABIL is 34.28 if the EPS were zero which shows that the average DPS would 34.28.If the EPS zero. The slope of regression line (b)is 1.050 indicates that one rupee increase in EPS leads to the average about RS 1.050 increases in DPS holding other variable constant. The value of “t” statistics is 0.1239; the tabulated value is 1.943 so there is insignificant.

4.4 Major Findings

The main findings of research work are summarizing in numeric order:

-) The average earning per share of sample banks` do not seem satisfactory except NABIL has highest earning per share in all consecutive years NIBL has higher C.V than other sample banks which indicates NIBL has higher risk and higher risk give higher return . In the year 2007/08 NABIL has highest EPS.
-) The average dividends per share of banks do not seem satisfactory except NABIL. NABIL paid higher rate of dividend to its shareholder who seem quite satisfactory but in case of HBL and NIBL divided paid to shareholder is quite low. In the year 2004/05, HBL didn't pay dividend. NABIL has paid Rs. 100 dividend per share of highest value in year 2005/ 06.

-) The highest dividend payout ratio is 12.95 in the year 2007/08. The NABIL has more than other sample banks HBL has highest coefficient of variation which indicates that HBL has higher risk. Other sample banks.
-) The highest profit earning ratio is 48.70 in 2007/08 of NABIL that amount is higher than pooled average it indicates that it is better. NABIL has higher C.V than other sample bank. It indicates that it is in risk and NABIL is high.
-) The highest market value per share to book value per share is 14.90 in 2008/09 in analysis year which is greater than pooled average it is better for shareholder and NABIL has highest C.V. it indicates that NABIL has risk but it gives satisfaction to shareholders.
-) NABIL earning yield is higher than other two sample banks and it earns more who earns more gives more satisfaction to the shareholder and investor believes more to NABIL bank. NABIL has higher C.V. Higher C.V. gives higher risky but it gives satisfaction.
-) The simple correlation coefficient (r) between EPS and DPS of HBL is aggressive positive relationship and r is greater than 6. PE. (r) So it is significant and NIBL has moderate positive correlation coefficient and it is insignificant.
-) The simple correlation coefficients (r) between EPS and MPS of HBL, NIBL and NABIL have aggressive positive correlation. HBL has 91.64% variation of stock and r is greater than 6.P. E. (r) so it is significant. NIBL has 55.90% variation of stock and it is significant. NABIL has 15.72% variation r is less than 6.PE (r). So it is insignificant.
-) The regression analysis between DPS and EPS the regression coefficient (b) is positive for HBL, NIBL and NABIL. The regression constant (a) of HBL is 48.69 and DPS would be Rs 48.69 if the EPS is Zero. The slope of the regression line (b) is 0.4446 and indicates that one rupees increase on DPS holding other variable constant.
-) The regression coefficient (b) is 35.85 of NIBL and average DPS would be Rs 35.85 if EPS is Zero. The slope of the regression line (b) is 1.08 which indicates that one rupee increase in EPS and DPS also increase.
-) The regression constant (a) is 34.28 of NABIL and average DPS would be Rs 34.28 if the EPS is Zero. The regression line (b) is 1.050 which indicates that increase in EPS and increase in DPS.

-) The Calculated value of HBL, NIBL and NABIL have .008, 0.0864 and 0.1239 respectively which tabulated value 1.943. tabulated value is greater than calculated value so it is insignificant.
-) The regression analysis of between DPS and MPS .The regression coefficient (b) is 24.16 and shows positive Correlation for HBL Increase in DPS and increase in MPS.
-) The regression constant (a) is 902.04 and show that the average MPS would be Rs 902.04 if the DPS is zero.
-) The regression constant (a) of NIBL is 7938.41 and shows that the average MPs would be Rs 7938.41 if the DPS were zero. The regression line (b) is Rs -45893.42 and it indicates that negative correlation .It means decrease in DPS and decrease in MPS.
-) The regression constant (a) of NABIL is -45893.42 .It shows that MPS would be Rs -45893.42 if DPS is zero. The regression line (b) is 677.1092 and shows the positive regression.
-) The calculated value is 0.0536, -0.1462 and 0.2201 of HBL, NIBL and NABIL respectively. The tabulated value is 1.943 which is higher than calculated value so it is insignificant.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Dividend is very important factor for investor .It plays vital role to show the performance of the banks and for effective goal achievement to satisfy the shareholders and to attract new investors.

Dividend policy determines the division of earning between payments to the shareholders and reinvest in the firm. Dividend policy refers the division of earning between payments to the shareholders and reinvest in the firm .Theory of dividend policy and implementation of dividend payments. Dividend policy involves many aspects such a selecting the type of dividend as well as selecting constant or fluctuating dividend payment and also extra dividend payment, forms of dividend and dividend policy.

After the economic liberalization in Nepal 1984, the Government makes an open market policy in the country and established Commercial banks Joint Venture Banks, financial institutions and insurance Companies and expands their activities and attracts to shareholder to invest.

Distributing dividend is one of effective way to achieve goals of banks and to encourage them to invest in share market .Nepalese financial institutions do not maintain adequately cash balance for dividend payment.

From shareholder point of view, shareholder have always high expectations than market price so company invested by foreigners are paying dividend that is more attractive dividend than the companies promoted by Nepalese promoters Because higher net worth do not give benefit to the foreigner rather than market price of the share they invest their capital for high return most of things about dividend policy defines in first chapter describe national international studies. In and research methodology and second chapter defines presentation and analysis of data.

There are 27 commercial banks in Nepal. Commercial banks I Nepal. Three banks normally HBL , NIBL and NABIL for last five fiscal year2003/04 , to analyze the dividend payment practices of samples banks the main objective

of then research to see the relationship between various financial indicators like earning per share, Dividend per share, dividend payout ratio, market value per share, dividend payout ratio, price earning ratio and use different statically tools to like appropriate decision like arithmetic mean, standard deviation, coefficient of variation, coefficient of correlation regression analysis statistic and Hypothesis.

Nepal has not sufficient rules and regulation to control. The financial institution, commercial banks of Nepal have not satisfactory result of dividend payment the relationship between market price per share and dividend should be nail and meat but not good situation in under developed country. Bank records low return but company in making sound returns. There are few companies to pay dividend to shareholder especially joint venture bank are earning sufficient and able to pay dividend. We know that all banks have sufficient earning but not distribute dividend in equal proportion.

Dividend decision should depend upon NW, EPS and nit earning among sample banks, DPS, EPS and DPR are higher in NABIL it indicates that NABIL has the better performance for enhancing the wealth of shareholder rather than other sample banks. NABIL's EPS, DPS and D/P ratio in higher than pooled average and better for shareholders on the basis of C.V in D/P ratio HBL higher rule than other sample banks in the case of P/E ratio. NABIL"s earning yield in higher it indicates that who earns more, gives satisfaction to shareholder trust more from the public. The correlation between EPS and DPS. NIBL are significant whose 6 P.E in more than coefficient of Correlation and NABIL in insignificant. Positive coefficient indicates increase in EPS and increase in DPS. The correlation between EPS and MPS. All the sample banks have positive correlation with EPS and MPS. It indicates that EPS increase with higher MPS.

similarly the regression analysis of DPS and MPS of HBL , NIBL and NABIL positive correlation between DPS and MPS of NIBL one super increase in market price. NIBL have negative correlation exists between DPS and MPS. Decrease in MPS also decrease DPS and the regression line (b) is positive and it indicates that positive relationship between DPS and MPS.

The solution of capital market of Nepal is improving day by day as a result the capital market efficient with compare to previous year. share price

movement is random this means share price movement doesn't follow any trends in such market cash dividend will more effective than other forms dividends like bonus and sight. But it is reality that capital market of Nepal is still immature

5.2 Conclusions

-) Above mentioned major findings leads this study conclude that earning of sample banks. NABIL is comparatively higher than other sample banks. NABIL is comparatively higher than Other sample banks .The result of this analysis are not strong enough to establish the relationship between dividend policy and dividend practices of Nepalese banks and it shows dividend practices in Nepal.
-) The major finding have also lead to conclude the sample banks are neglecting the major factors like earning position of the firm liquidity position while paying dividend .The study deals with examining and analyzing from 2003/04 to 2008/09 .If take large sample population the result might more accurate and absolute dividend policy maybe more appropriate for further study.
-) The correlation of EPS and DPS shows that positive correlation means higher the EPS higher will be DPS and if it is negative correlated of the sample banks higher EPS means higher will be MPS.
-) By the analysis of Investment activities it is noticed that only few commercial banks have aggressive investment strategy .Most of the commercial banks apply conservative strategy .In spite of this, Commercial banks are pillars of the nation secondary commercial banks are running at profit and providing dividend to shareholders according to their earning. They also achieved the trust of common people which is the great success of their performance. In conclusion NABIL gives better performance to shareholder.

5.3 Recommendations

-) This study is concerned with dividend practices of Nepalese financial Institutions and appropriate to provide a package of suggestion in the

light of major finding and conclusion. These recommendations are explained below.

-) NABIL has highest EPS, DPS, DPR, and P/E Ratio than other selected banks in all consecutive years and gives satisfactory to shareholders. HBL and NIBL also have to increase their efficiency. They have to pay regular dividend to investors.
-) The study of C.V. HBL, NIBL, and NABIL. There has great fluctuation in coefficient of variation of EPS, DPS, DPR, Market price of share and P/E ratio. It should be necessary decrease in fluctuation and consistent in these variables.
-) The Correlation Coefficient between EPS and MPS of HBL, NIBL and NABIL. NABIL, HBL and NABIL are significant. It is better and NABIL is significant.
-) The regression analysis between DPS and EPS the regression coefficient (b) is positive which indicates that one rupee increase in DPS holding other variable constant.
-) The regression analysis between DPS and MPS, the regression coefficient (b) is negative correlation of NIBL which indicates that one rupee decrease in DPS and decrease in MPS.
-) The practices of dividend payment adopted by the banks are not stable. In many cases a small amount of dividend are paid without considering the risk free rate of return. Further the price of share on which the dividend is not on upward trend, this creates the problem to judge the true value of share in the market.
-) Payment of dividend is neither static nor constantly growing. It is highly fluctuating. Such way of paying dividend could not impress the market positively. So these banks are advised to follow either static or constantly growing dividend payment policy. It would be better to fix and declare the amount of dividend in general meeting. This is not important only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survive of bank efficient management and socially acceptable distribution income.
-) Formulation of dividend policy will clearly guide the way on how to follow dividend distribution strategy. The policy should determine whether the company is going to adopt stable dividend policy, constant pay out ratio or low regular plus extra dividends. What should be the long run dividend payout ratio, either it is pure residual policy should have been clearly explained by the dividend policy.

) The legal rule for the treatment of dividend is must for the smooth growth of any enterprise as well as growth of national economy. Some of the companies are in position to pay dividend while considered some case. But some companies are suffering loss and there are efforts to minimize rather than payment of dividend. Therefore, the government should act on favor of investors and behind these companies by distinct rules.

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APPENDIX - I

Analysis of Earning Per Share

Year	HBL	NIBL	NABIL
2004/05	49.05	51.70	92.61
2005/06	47.91	39.50	105.49
2006/07	59.24	59.35	129.21
2007/08	60.66	62.57	137.08
2008/09	62.74	57.87	108.31
2009/10	31.80	52.55	78.61

Analysis of Dividend per Share

Year	HBL	NIBL	NABIL
2004/05	0	15	65
2005/06	11.58	12.5	70
2006/07	30	20	85
2007/08	15	5	100
2008/09	25	7.5	60
2009/10	11.84	25	70

APPENDIX – II

Analysis of Dividend Payout Ratio

Year	HBL	NIBL	NABIL
2004/05	0	29.01	70.18
2005/06	24.17	31.65	66.36
2006/07	50.64	33.69	65.78
2007/08	24.72	7.99	72.95
2008/09	39.85	12.96	55.40
2009/10	37.24	47.57	89.04

Analysis of P/E Ratio

Year	HBL	NIBL	NABIL
2004/05	17.12	18.18	10.8
2005/06	19.2	20.25	14.27
2006/07	18.57	21.23	17.34
2007/08	28.57	27.63	36.84
2008/09	31.56	42.33	48.70

2009/10	25.66	13.42	30.33
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APPENDIX - III

Analysis of MVPS/BVPS

Year	HBL	NIBL	NABIL
2004/05	3.40	3.32	3.81
2005/06	3.84	4.46	3.98
2006/07	4.81	5.88	5.26
2007/08	6.57	12.08	7.38
2008/09	7.89	10.98	14.09
2009/10	3.59	3.71	8.99

Analysis of Earning Yield Ratio

Year	HBL	NIBL	NABIL
2004/05	5.84	5.5	9.26
2005/06	5.21	4.94	7.00
2006/07	5.39	4.71	5.77
2007/08	3.49	3.62	2.71
2008/09	3.17	2.36	2.053

2009/10	3.89	7.45	3.29
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APPENDIX - IV

Simple Correlation between EPS and DPS

Banks	r	Relationship	r ²	Probable error	Remarks
HBL	0.80	Positive	0.64	0.09	Sig.
NIBL	0.4625	Positive	0.21	0.21	Insig.
NABIL	0.93	Positive	0.87	0.035	Insig.

Simple Correlation between EPS and MPS

Banks	r	Relationship	r ²	Probable error	Remarks
HBL	0.95	Positive	0.92	0.02	Sig.
NIBL	0.75	Positive	0.56	0.07	Sig.
NABIL	0.65	Positive	0.43	0.16	Insig.

APPENDIX - V

Simple Regression Analysis of DPS and MPS

BANKS	A	b	S.E(e)	t value
HBL	902.040	24.16	450.43	0.0536
NIBL	7938.41	-495.83	3390.95	- 0.1462
NABIL	-45893.42	677.1092	3075.39	0.2201

Simple Regression Analysis of DPS and EPS

BANKS	A	b	S.E(e)	t value
HBL	48.69	0.4446	54.93	0.008
NIBL	35.85	1.08	12.50	0.0864
NABIL	34.28	1.050	8.47	0.1239