

INTRODUCTION

1.1 Background of the Study

The fundamental question of what determines a firm's choice structure is joint venture banks. Generally, Management follows a policy of paying no immediate dividend in the beginning of its life, as it requires funds for growth and expansion in case, when the outside funds are costlier or when the access to capital market is difficult for the company and shareholders are ready to wait for dividend for some time, this policy is justified, provided the company is growing fast and it requires, a good deal of amount for expansion. But such a policy is not justified dividend. This depends upon the policy which is adopted by joint venture banks in Nepal. The main objective of commercial banks is to mobilize idle resource in the most profitable sector after collecting them from scattered sources and earning more and more profit in every transaction. Commercial banks as a financial institution transfer monetary source from sever to users Commercial banks contribute significantly in the formation and mobilization of internal capital and development efforts. Especially commercial banks provide different facilities to the people engaged in many ways such as accepting deposit, providing interest, granting loan that helps to remove the deficiency of capital performing agency functions and they also play an impotent role in credit creation. When the economy is in boom banks increase interest rate which reduces the probability to inflation and in case of depression, they reduce interest rate so that people are interested in investment since the importance of banks is highly appreciated, it needs proper attention to run successfully. Normally banks play at public money therefore, banks should pay more attention whether the money is properly or not and running at profit or loss the existence of profit to any business

firm is the basic factor if there is no profit a business firm becomes unable provide its facilities in the long run. The profit that can be distributed among the owners is dividend.

The concept of banking has been developed from the ancient history with efforts of ancient goldsmith. In Nepal, The Tejarath Adda may be regarded as the father of modern banking institution. However the concept of modern banking institution in Nepal was introduced as the first commercial bank named The Nepal Bank Limited established in 1994B.S. under Nepal bank Act. 1993 B.S. Before that mostly the unorganized market of the private moneylenders met the credit needs to the people for commercial and other purpose.

When the government in the early 1980's, permitted to establish the foreign joint venture banks, three joint venture banks namely Nepal Arab Bank Ltd. (Now NABIL Bank), Nepal Grindlays Bank Ltd. (now Standard Chartered Bank Ltd.) and Nepal Indosuez Bank Ltd. (now Nepal Investment Bank Ltd.) were established. The concept of banking has been developed from the ancient history with the effort of ancient goldsmiths. In Nepal, The Tejarath Adda may be regarded as the father of modern banking institution. However the concept of modern banking institution in Nepal was introduced as the first commercial bank named the Nepal Bank Limited established in 1994B.S. under Nepal Bank Act 1993 B.S. after the democracy, democratically elected government adopted the liberal and market oriented economic policy, the member of joint venture Bank (JVBS) has increased dramatically. Most of the public enterprises, in our country are operating in loss that is either due to inefficiency in proper management or of having suffered from over corruption. In such enterprises the problems are not distribution of dividend rather minimization of losses through better utilization of capital. When a company pays dividend regularly at a fixed rate,

and maintain it for a considerably long time to follow regular or stable dividend policy stable dividend policy means a policy of paying a minimum amount of dividend every year regularly not only that the dividend must be regularly paid but the dividend must be stable it may be fixed amount per share or a fixed percentage of net profits or it may be total fixed amount of dividend or all the share. We can see only few enterprises paying proper dividend to the investors. But after establishment of joint venture companies, there is new trend for distributing dividend to the share holders that has brought new hopes for productive mobilization of found. So, dividend policy is major decision of the firm. Generally dividend pays in cash to the share holders. Dividend payment reduces the total amount of internal financing. By a dividend we mean some kind of consistent approach to the distributions versus retention decision rather than making the decision on the purely adhoc basic from period to period. (Person and Jordon: 1972). So what and how much it is describable to pay dividend is always controversial topic because share holders always expect higher dividend, but the firm ensures towards setting aside funds from maximizing the share holders wealth.

“A commercial bank is dealer in money and in substitutes for money, such as Cheque or Bill of Exchange. It also provides a variety of financial services.” (Britannica: 1985).

“Ordinary banking business consist of changing cash or bank deposits and bank deposit for cash transaction bank deposits from one person to corporation to another diving bank deposits in exchange for bill of business men to repay”(Jaayers : 1987).

In global perspective joint Ventures are the modes of trading through partnership among nations and also from of negotiations between various groups of industries and trades to achieve mutual exchange of goods and services for sharing comparative

advantages. “A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation industrial or commercial investment, production or trade,” (Gupta,1984). Firms paying regular dividends would continue with its payout ratio but when the earnings exceed the normal level, the directors would pay extra dividend in addition to the regular dividend. But it would be named ‘extra dividend’ as should not give an impression that the company has changed rate of regular dividend, this should give an impression to shareholders that the company has given extra dividend because it has earned extra profits and would not be repeated when the business earnings become normal.

“This issue of how much a company should pay its stockholder as dividends is that has concerned managers for a long time. It has often been pointed out that a company that raises its dividends often experiences an increase in its stock price and that a company that lowers its dividends has a falling stock price. This seems to suggest that dividends do matter, in that they affect stock price. But this casual relationship has been refuted by several researchers on the grounds that dividends do not affect stock price (Rao, 1992). There are again corporate laws that bind limitations on the distribution of dividends as corporation have to keep reserves for the protection of creditors overall interest with that of corporate growth from internally generated funds. The return to shareholders should be better paid as dividends, since shareholders have investment opportunities to employ elsewhere.

“The objective of a dividend policy should be to maximize shareholders return so that the value of his investment is maximized. Shareholders return consists of two components: dividend and capital gain. Dividend policy has direct influence on these two components of return. (Pandey , 1999).

In a capital structure decision each every firm can obtain additional funds by issuing new equity and retention of earning. So after measuring the firms profit there is further problem of how much these profit should be distributed in term of dividend. It is big financial decision because the firm has to choose either distribution the profit to the shareholders or reinvesting it to finance the business. Generally the firm's objective is to expansion of its business, the firm retains profit to finance in investment program.

According to Khan and Jain, "Dividends are distributed out of the profits; the alternative to the payment of dividend is the retention of earning /profit. The retained earnings constitute an easily accessible important source of financing the investment requirements of the firms. There are thus types of reciprocal relationship between retained earnings and cash dividends. Larger the retention lesser dividends, smaller the retention larger dividends. Thus, the alternative uses of the net earning dividends and retained earnings are competitive and conflicting." (Khan and Jain, 1992).

There is conceptual conflict about the dividend policy i.e. whether it should pay in cash or retain in company for the purpose of long term financing i.e. international financing. Each of these alternative has own impact while deciding dividend policy. If the investor couldn't get cash dividend, they would think their investment worthless. Similarly, on the other hand, management desires to retain all the earning for internal financing which is essential for corporate growth. Company rather paying out to the shareholder's. The dividend will affect long term financing, net profit, market price per share, book value per share and earnings per share.

In Neal we can find very small number of corporation that is paying regular dividends, and other corporation is not stable in the payment of dividends. There are

still some companies not having the practice of paying dividends in their historical background.

We find that most of the joint venture banks have practiced in paying dividend. They all like to pay more attention for paying appropriate dividend to the shareholders. “but the appreciation in the market value of share of these joint venture banks have, without any doubt, provided adequate sense of protection to shareholders”.(Shrestha : 1992).

This research work will look in to all relevant factors of dividend regarding dividend policy of Nepal Arab Bank Limited and Everest Bank Limited. These banks are selected to show the differences in policy adopted by them considering size of the profit and dividend. The study shows overall in implication of dividend of joint venture banks. It is also more specific in application of dividend policy in joint venture banks.

1.2 Statement of the Problem

Generally the company managed their fond from issue of shares. People are attracted to invest in shares for the purpose of getting returns. The dividend policy has become an effective way to attract new investors to keep present investors happy and to maintain good will of the company. Dividend the most inspiring factor for the investment on share of the company and similar to commercial banks is thus desirable from the stock holder's point of view. However commercial bank in Nepal has no satisfactory result about dividend decision. Dividend decision however is crucial as well as controversial area of financial management. It is partly due to the various government rules and regulations acting and reacting in the banking operation. But there is no limit to the identification of the problem about dividend policy that is

visible in Nepalese commercial bank. While keeping this in mind selected problems of commercial bank with regard to dividend policy are taken.

The capital market of Nepal is just in the way of development. Yet investors are investing in new companies without having the perspective analysis of those companies. General investors are yet unknown about the relationship between dividend and market price of share. In Nepal joint venture commercial banks have been distributing regular and satisfactory dividend. Nowadays cash and stock dividend is being more popular in banking and financial sector of Nepal. Dividend distribution is not matching with the earnings of the commercial banks, here specially joint venture banks have sufficient earnings and are capable to pay dividend. But they are not following appropriate dividend policies. Generally in Nepal, when the companies earn big earnings pay retain more and when they do not have good figure of earnings company announces high dividend to protect their image in capital market. There is no any rigid rule for dividend payment. The above facts inspire to study what are the factors that affect the dividend decision and valuation of the shares. Following are the major problems that have been identified for the purpose of the study.

1. Is there any consistency between dividend policy followed by the two banks (NB bank and Everest bank)?
2. What is the relationship between dividend with earnings per share, market price of share, book value of share, net profit and net worth of the two banks?
3. Are share prices affected by dividend per share and by changing dividend policy?
4. Is there any uniformity between the two banks in dividend distribution?

1.3 Objective of the Study

The objective of the dividend decision should be to maximize the shareholders return so that the value of investment is maximized. The aim of the study is basically to analyze and evaluate the application of dividend decision in the selected banks. The study is an attempt to make overall review regarding dividend policy pf joint venture banks. To be more precise the overall objective of the study are:

-) to study the current practice of dividend policy in joint venture commercial banks.
-) to analyze the relationship between dividends per share with various important variables such as market price of the stock, earning per share, net profit, and net worth.
-) to provide the possible suggestion and recommendation on the basis of the study.

1.4 Significance of the Study

Nowadays investors are attracted to invest in shares for the purpose of getting greater return getting more from the limited source of investment is the essential part for every investor. Therefore, dividend policy has become an effective way for attracting the large number of investor to keep present investors happy and to maintain goodwill of the firm.

While investing in shares the investor foregoes opportunity income that he could have earned. Actually, in capital the return can be earned by means of dividend and by capital gains. In our country, most of the companies are not adopting the appropriate dividend policy, and so it seems very important for our perspective. Significance of the study is as follows

1. This study will be useful to the concerned people like shareholders, management and policy makers.
2. It may be useful to government for policy making, controlling, and supervision and monitoring.
3. This study will be very helpful for the further researcher to find more details on the same topic.
4. It covers the partial fulfillment of MBS.

1.5 Limitations of the Study

In financial management, the most important topic is dividend. There is several aspect of decision that should be undertaken by financial to achieve the management goal. Investment, capital structure, liquidity, leverage, dividend and so on others are areas of financial management decision. Dividend only is selected in this study to make more specific. Here the study interprets and analyzes the dividend distribution practices relationship with different variables every study has its own limitation. Following are the limitation of this study.

- a. This research covers the study of two joint venture commercial banks (Nepal Arab Bank Limited & Everest Bank Limited).
- b. This study covers the period for five years beginning from 2005\2006 to 2009\2010.
- c. This study is based on secondary data collected from banks so the result depends on the reliability of the secondary data.
- d. Out of numerous affecting factors only those factors with dividend policy are considered.
- e. The study focuses on dividend aspects of joint venture commercial banks.

1.6 Organization of the Study

First Chapter contains the introductory part of the study. It includes background of the study, statement of the problem, significance of the study, objectives of the study, limitation of the study and at last organization of the study.

Second Chapter deals with review of literature. It includes a discussion on the theoretical review on dividend policy, review of the related studies and Research gap.

Third Chapter describes the research methodology employed in the study. It contains research design, sources of data, population and sample, Method of Analysis, statistical tools and financial tools.

Fourth Chapter deals with the presentation and analysis of all the relevant collected data information through a definite course of research methodology and major findings of the study.

Fifth Chapter deals summary, conclusion and recommendation of the study. The bibliography and exhibits are incorporated at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Theoretical Review

Dividend is the return distributed by the firm in terms of cash, share and other form of the earning (income) to its shareholders for their investment in share capital. Dividend is generally distributed in preferred and common share. The objectives of a dividend policy should be to maximize the common shareholders returns so that value of their investment is maximized. Return consists of two components. Dividend and capital gain. Dividend policy has a direct influence on these two components of return so dividend policy of a firm is yet another crucial area of financial management the important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and amount to be retained in the firm. Retained earnings are the most significant internal sources of financing of the growth of the firm on the other hand, dividends may be considered desirable from shareholders point of view as they tend to increase their current wealth. All aspects and questions related to payment of dividends are contained in a dividend policy. (Horne: 1994).

The importance of dividend has been increasing day by day nowadays. In this context, the impact of dividend in maximizing the wealth of shareholders should be analyzed very closely. Hence, under this heading, the conceptual framework of dividend policy given by different authors shall be presented after thoroughly reviewing various books related to financial management, universities theses, journals and magazines, newspapers, websites and so on. Dividend policy must be formulated with keeping the basic objectives in mind of maximizing the wealth of the firms owners. These objectives are not mutually exclusive but rather interrelated. (William H. 1973).

2.1.1 Theories of Dividend

Different scholars have advanced different dividend theories. Some scholars consider the dividend decision to be relevant. In this regard, these relevant and irrelevant theories have been explained in details.

i) Residual Theory of Dividend

“One school of thought i.e. the residual theory of dividends suggest that the dividend paid by a firm should be viewed as a residual amount left after all acceptable investment opportunities have been undertaken” (Ibid, 537), dividend policy can be viewed as one of a firm's investment decisions. A firm that behaves in this manner is said to believe in the residual theory of dividends. According to this theory, dividend policy is a residual from investment policy. Whether or not a company pays dividends depends on its investment policy.

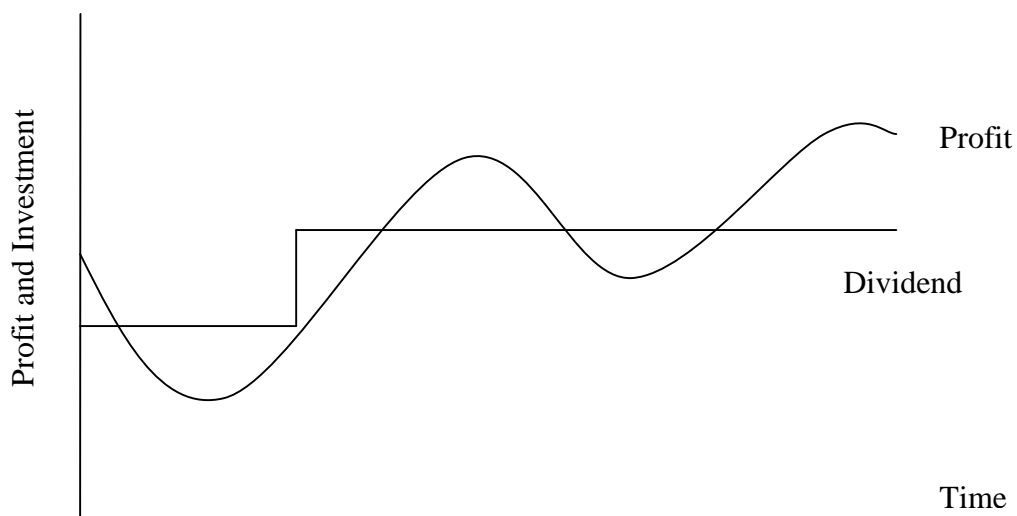
“The starting point in this theory is that investor prefers to have the firm ratios and reinvested earning exceeds than them out in dividends if the return on reinvested earning over the rate of return the investor can obtain on other investments of comparable risk” (Weston and Brigham:), The dividend under residual dividend policy equals the amount left over from earning, then no dividends are paid and new share are sold to cover any equity investment not covers by identity. If there is no any investment opportunity then cent percent earning are opportunities then cent percent earnings are distributed to shareholders. Dividend is therefore merely a residual remaining after all equity investment needs are fulfilled.

As long as there are investment project with returns exceeding those than those are required, the firm retains the earning to invest in such profitable projects rather than paying dividend. When the firm has the opportunity of investing in profitable

project at first, it uses internally generated funds, as externally generated funds are comparatively expensive due to floating costs. Although the residual theory of dividends appears to make further analysis of dividend policy unnecessary, it is indeed not clear that dividends are solely a means of disbursing excess funds (R.K.S. 1992).

Dividend policy is influenced by (i) the company investment opportunities and (ii) the availability of internally generated capital. According to this concept dividend policy is totally passive in nature when we treat dividend as strictly a financing decision, the payment of cash dividend is a passive residual. (Van Horn: 2000).

Fig 2.1 Residual dividend Policy



Source: Pradhan (1992)

ii) Stability of Dividends

Dividend stability refers to the consistency or lack of variability in stream of dividend in other words, stability of dividend means regularity in paying dividend even though the amount of dividend may fluctuates from year to year by stability we mean maintaining a position in relation to a dividend trend line, preferable one

that is up ward sloping (Ibid) most of the shareholders also prefer stable dividends because all other things being the same stable dividends have a positive impact on the market price of the shares.

The major types of dividend policies established under dividend stability are:

- (i) Constant payout ratio.
- (ii) Constant dividend per share
- (iii) Stable rupee dividend plus extra dividend

-According to this form of dividend policy, the fixed percentage of earning is paid as dividends. The dividend fluctuates proportionately to the volatility of earnings. Constant payout ratio reflects the ability of firms to pay dividend and policy to retain profits.

The firms pay certain amount per share constantly as dividend per share, fluctuation in the earnings does not affect the dividend payment. But when the firm maintains higher level of earnings. The amount of dividend is also increased.

Under this policy a sum of amount is paid regularly as dividend. In the boom period extra dividend is paid over and above the regularly as dividend. And if the normal condition returns the firm cuts extra dividend per share and pays the regular dividend only.

2.1.2 Forms of Dividend

Cash Dividend

The portion of net earnings, which are distributed to stockholders as cash in proportion to their shares of the company, is called cash dividend. It is the most important form of dividend. Generally stockholders have strong preference for cash dividend. Both the total assets and net worth of the company are reduced when the cash dividend is distributed.

Stock Dividend

In the forms of dividends, the firm issue additional shares of its own stock to the stockholders in proportion to the number of shares held in lieu cash dividends. The payment of stock dividends neither affects cash and earning position of the firm nor is ownership of stockholders changed.

Bond Dividend

Bond dividend by its name is a dividend that distributed to its shareholders in form of a bond. Bond dividend helps to postpone of cash. In other words, company declares dividend in the form of its own bond with a view to avoid cash outflows.

Property Dividend

In property dividend, the company pays dividend in the forms of assets other than cash. Generally, assets, which are superfluous for the company, are distributed as dividend to the stockholders. Sometimes the company uses its product to pay dividends; securities of the subsidiary company owned by the company may also take from of property dividends. It is distributed in extraordinary circumstances.

Scrip Dividend

Scrip dividend means payment of dividend in scrip or promissory notes. Sometimes the company needs cash generated by business earning to meet business requirement because of temporary shortage of cash in such cases the company may issue the scrip or notes promising to pay dividend at the future date. The scrip usually bears a definite date of maturity. Scrip may be interest bearing or not interest bearing.

2.1.3 Regularity of Dividend

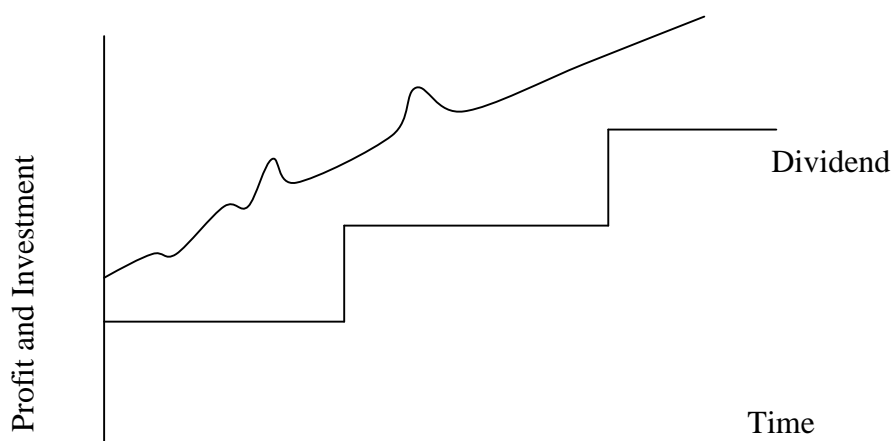
Regularity or stability of dividend is considered as a desirable policy by the management of companies. Most of the shareholders also prefer regular dividends

because all other things the same, regular dividends have a positive impact on the market price of the share by stability we mean maintaining its position in relation to a trend line preferable on that is upward sloping. (Van Horn: 1999) in other word the dividend regularity refers to consistence or lack of variability in stream of dividend. Three of the more commonly dividend policies are as follows:

Constant Dividend per share

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

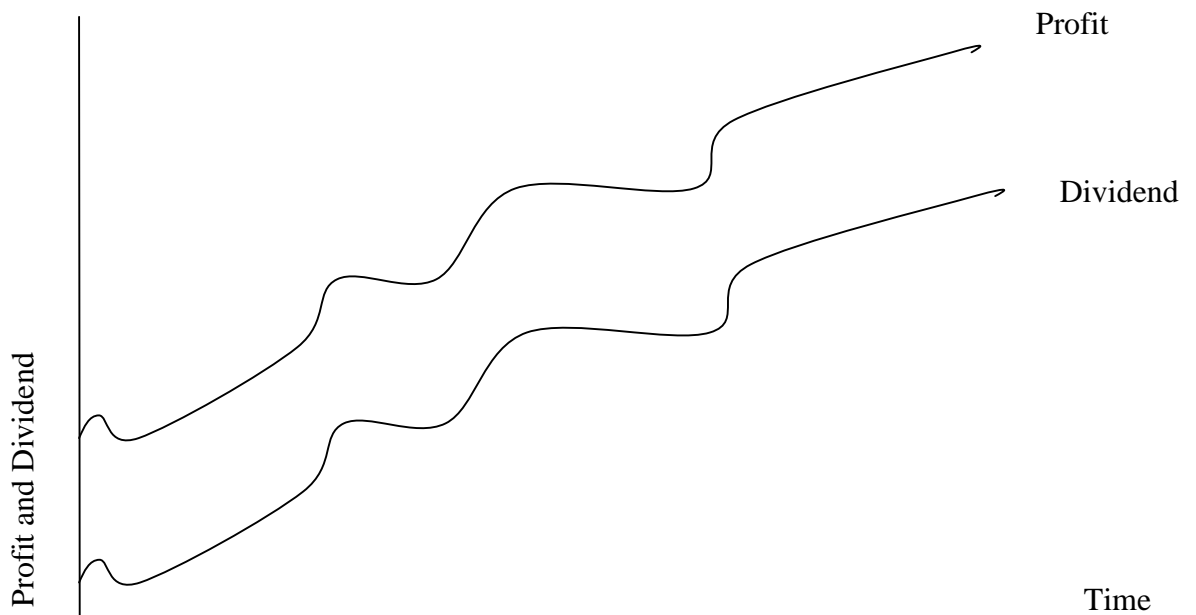
Fig 2.2 Constant Dividend Per share



Source: Pradhan (1992)

Constant pay- Out Ratio

The ratio of dividend to earning is known as payout ratio when fixed percentage of earning is paid as dividend in each year/period, the policy is called constant payout ratio since earning fluctuates, and following this policy necessarily means that the amount of dividend will fluctuate. It ensures that dividend are paid when profit are earned, and avoided when it incurs losses.

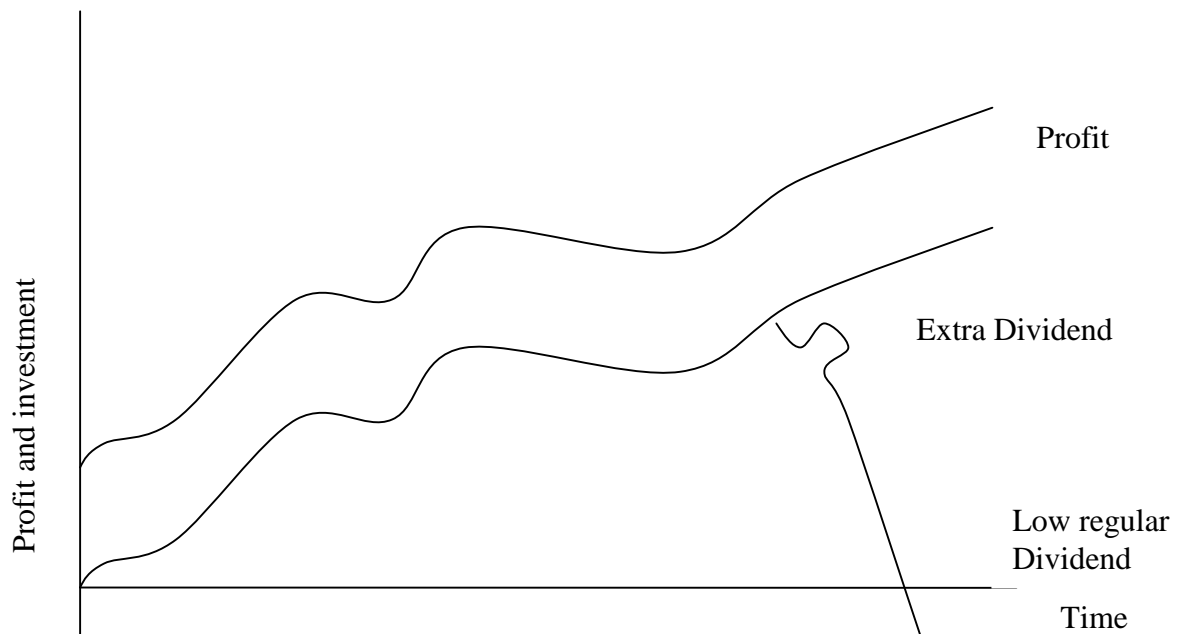


Source: Pradhan (1992)

Constant Low Dividend plus Extra

The constant low dividend plus extra policy is a compromise between the first two. It gives the firm flexibility, but it leaves investor somewhat uncertain about what their dividend income will be if firms earning are quite volatile, however, this policy may be the best policy.

Fig. 2.4: Low Regular plus Extra Dividend



Source: Pradhan (1992)

2.1.4 Factor Affecting Dividend Policy

Dividend decision is the major decision of financial management. Although it is the major decision of financial management, there are so many factors, which can affect the dividend policy of a company are as follows:

Legal rules : The legal rules provides that must be paid from earning either from the current year's earnings or from past years earning as reflected in the balance sheet account retained earnings. If there is no earning, then dividends cannot be paid. In this connection, we normally come across three rules:

- (i) The net profit rules (ii) The capital impairment rule, and (iii) The insolvency rule.
- The net profit rule suggests that dividends can be paid from earning only. The capital impairment rule states that dividend cannot be paid from capital. It protects creditors by forbidding the payment of dividends from capital the insolvency rule states that

dividend cannot be paid if the company is insolvent. Insolvency is usually defined in the bankruptcy sense. It is the situation where liabilities exceeding assets.

Liquidity Position: Liquidity position of a firm also affects the dividend policy. If the liquidity position of the firm is strong and has already invested sufficient amount in required assets, then the company can declare cash dividend. If the firm has not sufficient cash on hand and growing from needs more cash. In this situation the firm cannot declare cash dividend and all the profit retained in the firm.

Need to Repay Debt: The debt position of a firm affect the dividend policy of it. The firm has debt capital as well as equity capital in capital structure, in the ending point of maturity date capital, it is necessary to earn required capital for the repayment of debt. It means, if company wants to retire debts, it must keep the whole earning in the business and dividend is collapsed.

Rate of Assets Expansion: if the firm is rapidly growing concern, it needs more funds for financing expansion. It is necessary to retain the firm whole earnings in the business to fulfill the future needs for funds and cannot declare the dividend to shareholders.

Profit Rate: if the company profit rate is high, it indicate that the firms earning per share is high,. Then the company retains a few funds and its dividend rate is automatically high. Because dividend per share is depend on earning per share.

Stability of Earnings: A firm that has relatively stable earning is often able to predict approximately what future earnings will be is. Such a firm is therefore more likely to payout higher percentage of its earning than is a firm with fluctuating earnings.

Access to the Capital Market: if the company can easily enter in the capital market, it can easily collect capital this types of company is called established company and they have paid more dividends.

Ownership Control: for many firms, and certain large ones maintaining the controlling vote is very important. These owners would prefer the use of debt and retained profits to finance new investments rather than issue new stock. As a result dividend payout will be reduced.

Tax position of Stockholders: The tax position of stockholders to the company also affects the dividend. If the company has shareholders with low tax bracket they want to pay high dividend and the high tax bracket shareholders want to pay low dividend.

2.1.5 Legal Provision Regarding Dividend Practice

In Nepal, the Nepal Company Act 1997 makes some legal provision for dividend payments. These provisions may be seen as under.

Section 2 (m) states that bonus shares (stock dividends) means shares issued in the form of additional shares to shareholders by capitalizing the surplus from the profits or the reserves fund of a company. The term also denotes an increase capitalizing surplus or reserve funds.(Nepal Company Act,1997). Section 47 has prohibited company from purchasing its own shares. This section states that no company shall purchase its own share or supply loan against the security of its own share (ibid)

Section 137 and sub- section (1) state that company must be inform the office before issuing bonus shares under sub- section (1) this may be done only according to a special resolution by the general meeting (Ibid).

Section 140 dividends and sub- section of this section are as follows: (Ibid, 94)

Sub-section :(1):

Except in the following circumstance, dividends are share be distributed among the shareholders within 45 days from the date if decision to distribute them.

- A) In case any law forbids the distribution of dividends.
- B) In case the right to dividend disputed.

C) In case the right dividends cannot be distributed within the time – limit mentioned above owing to circumstances beyond anyone control and without any fault on the part of company.

Sub section (2): in case dividends are not distributed within the time –limit mentioned in sub –section (1), this shall be done by adding interest at the prescribed rate.

Sub – section (3): only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

The above indicate that Nepalese law prohibits repurchase of stock, which is against theory of finance. The reason for this kind of provision is not know the above explanation company act- 1997 is not enough regarding dividend policy. Therefore, it seems reasonable to review the provisions stated about dividend payment in company act of India. (Upadhaya: 1985). The government of India promulgated can ordinance putting some legal rules on payment of dividend on July 6, 1974. The rules were

- The company could not distribute dividend more than 1/3 of its net profit.
- The amount of the total dividend to be paid was limited.
- Preference dividend + amount equal to 12% of the face value of equity share capital.

The above value continued till 5th July 1997. Thereafter, the government under the company act framed certain rules. These rules are:

- companies (Transfer of profit to reserve) Rules 1975
- companies (Declaration of dividend out of Reserve) Rules 1975
- These rules contain following restrictions:
 1. Dividends can be paid only cash out of the profit earned during the financial year after providing for depreciation and after transferring to reserve, such

percentage of profit as prescribed by law. The companies (Transfer to Reserve) Rules, 1975, provides that before dividend declaration a percentage of profit as specified below should be transferred to the reserve of the company.

- a) Where the dividend proposed exceeds 10 Percent but not 12.5 percent of the paid – up capital, the amount to be transferred to the reserve shall not be less than 2.5 percent of the current profit.
- b) Where the dividend proposed exceeds 12.5 % but not 15% of the paid –up capital, the amount to be transferred to reserve shall not be less than 5% of the current profit.
- c) Where the dividend proposed exceeds 15% but not 20% of the paid – up capital, the amount to be transferred to reserve shall not be less than 7.5% of the current year profit and
- d) Where the dividend proposed exceeds 20% of the paid –up capital, the amount to be transferred to reserve shall not be less than 10% of the current year profit.

Due to inadequate or absence of profit in any year, dividend may be paid out of the accumulated profits of previous year. In the context, the following conditions, as stipulated by the companies (Declaration of Dividend out of Reserves) Rules, 1975 have to be satisfied.

- e) the rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in 5 years immediately preceding that year or 10% of its paid – up capital, whichever is lower.

- f) Dividend can be declared from accumulated profit earned in previous year but the amount of dividend shall not exceed $1/10^{\text{th}}$ of the paid – up capital and free reserve.
- g) Dividend can be declared out of reserves. Of amount of dividend drawn from reserves does not reduce the amount of reserves below 15% of the paid –up share capital.

Besides, long debt indenture and preferred stock agreement contain restriction on the maximum common stock dividend a firm can pay that. Such covenants are designed to protect senior claim holders.

2.2 Review of the Related Studies

2.2.1 Review of Books

Dividend policy involves the decision to pay out earning versus retaining them for reinvestment in the firm thus dividend policy has to opposite effect, and optimal dividend policy strikes exactly the balance that investor in the aggregate want between current dividend and future growth and there by maximize the price of the firm's stock. (Brigham and Gapenski: 1985). Any change of dividend policy have both favorable and unfavorable effect on the price of the firm's stock.

Since dividend would be most attracted to shareholders. One might think there would be a tendency for corporation to increase distribution. But one might equal pressure that gross dividend would be reduced somewhat with an increase in net after tax dividends would be reduced somewhat with an increase in net after tax dividends still available to stockholder and an increase in retain for the corporations. (Dan Throop: 1997).

So the firm should maintain between distribution dividend and retained earnings.

In early 1990s corporation finance emerged as a distinct field of study of as a part of economics. (Van Horne, 1998).

Sunity Shrestha in her book portfolio behavior of commercial bank in Nepal stated that the commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sector. The lending policy of commercial bank is based on the profit maximization of the institution as well as the economic enhancement of the country. According to her, different firms adopt different approach to distribute dividend according to their objectives if the firms aim to maximize shareholders wealth then the firms should use large amount of earning for payment of dividend. But if the firms aim to expand its business then the firm should retain profit (earning) to finance it investment program.

A careful study of the relationship between profits after tax and dividends historically demonstrates that dividend change in the aggregate lag behind profit change and that the growth of dividends is much less volatile than the growth of profit after tax. (Moness; 1998).

For beginning of the corporation dividends are not appropriate and are generally not expected by the shareholders. As the firm moves up its life cycle cover, it becomes more appropriate for the firm to being to return cash dividends to its investors. However the cash dividend should initially be small relative to the level of profits. This is to ensure that the firm does not have to cut back its cash dividend finally as the earnings growth rate being to stabilize and there are not profitable investment opportunities, the firms start distributing large percentage of earnings as dividends. Under all circumstances, however, changes in dividend policy should be moderate and result form a definite earning trend.

2.2.2 Review of Financial Journals

I. Van Horne and Mc Donald Study

Van Horne and MC Donald conducted a more 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 the market value of the firm common stocks. They are using a well – known valuation model. i.e. cross section regression model they require data are connected from 86 electric utility firms includes on the COMPUTAT utility data and 39 firms in the electronics and electronic components industries as listed in the COMPUTAT industrial data tape. (Horne and John :1971).

Using the different models or methodology, the comparison was conducted by them regarding those firms, which pay dividends and engage in little equity financing with other firms in an industry sample. And the result was that, for electric utility firm in 1968 share value was not adversely affected by new equity financing in the presence of cash dividends except for those in the highest new issue group and it made new equity a more costly form of financing than the retention of earnings. (Ibid, 517) They also indicate that the payment of dividend through excessive equity financing reduces share prices. For electronic – components industry, a significant relationship between new equity financing and value was not demonstrated.

II. Nil H. Hakansson

Nil H. Hakansson Conducted a comprehensive study regarding to pay or not to pay dividend in 1982 he found that dividend serve no useful role when investors have homogeneous beliefs and time additive and markets exhibit full allocation efficiency when associated with positive cost dividend are under this circumstance, deleterious to efficiency on the other hand dividends are capable of improving welfare

(efficiency) when they are informative provided investors have heterogeneous beliefs utility is not additive or markets are incomplete even in the presence of dead weight cost in this context, the power of informative dividends to serve as a substitute for additional financing markets is particularly notable. (Harkansson: 1982).

In their article found positive relationship between expected before tax return and dividend yields. They discovered that high dividend stocks provide higher expected before tax return than low dividend stock to offset the tax effect. However adding default risk premium variable to the extended capital assets pricing model shows the dividend coefficient is not significantly different from zero to and concluded that the dividend yield measure likely to be correlated with a number economics phenomena thus tax effect on dividend is in unsettled state another study of the relationship between dividend yield and stock return by black and schools indicate that stocks with high payout ratio. So they interpret these finding as consistent with the idea that dividend policy does not matter for common stock prices.

III Modigliani and Miller Study

Modigliani and Miller for the first time in 1961 argued for the irrelevance of dividends. They argue that the value of the firm is not determined by the amount of dividends paid but rather by the earning power of the projects in which the firm invested its money. They claimed that how the firm split its earnings between invested its money. They claimed that how the firm split its earning between dividends and investment had not direct effect on its value. Thus as per MM theory, the firms value is independent of its dividend policy.

Madigliani and Miller built argument on a number of assumptions. The most critical of which are as follows;

- A) The firm operates in perfect market in which all investor are rational, information is available to all at no cost, securities are infinitely divisible and no investor is large enough to affect the market price of a security
- B) The firms are in a world of no taxes.
- C) The firm has a fixed investment policy, not subject to change.
- D) Perfect certainty and risk doesn't exist.

Following are the proof provided by the MM in support of their argument:

Step 1:

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

$$P_0 = \frac{D_1 + P_1}{1 + k_e}$$

Where

P_0 = Current market price or market price at the beginning of the year.

P_1 = Market price at the end of the year.

D_1 = Dividend per share to be recovered.

k_e = Cost of equity capital (assumed to be constant)

Step 2:

Assuming the firm doesn't resort to any external financing, the market value of the firms can be computed by multiplying both sides of above equation by n, no of shares outstanding. Then the total value of the firm is

$$nP_0 = \frac{n(D_1 + P_1)}{1 + k_e}$$

2.2.3 Review of Related Literature Works

There are no more articles published in Nepal related to dividend. However one article by M.K. Shrestha in 1981 gives short glimpse of the dividend performances of

some public enterprises at that time in Nepal. (Shrestha: 1994). Shrestha has highlighted following issues in this articles.

) His Majesty Government of Nepal accepted two things from the public enterprises. They should be in position to pay minimum dividend and financial matters in future to come, but none of these two objectives were achieved by the public enterprises.

) One reason for this inefficiency was caused by excessive governmental interference. On the other hand, high-ranking officials of HMG appointed as director of board did nothing but simply showed their bureaucratic personality. Bureaucracy was the enemy of efficiency and this led corporation were therefore not in a position to pay dividends to government.

) Another reason of this was the lack of self-criticism and self-consciousness. Esman had pointed out that lack of favorable leaders was one of the largest constraints to institution building (Esman: 1967).

The article pointed out the irony of government business. Then the government had not allowed banks to follow an independent dividend policy and HMG was found to have personalized on dividend payment in this case of Nepal Bank Ltd regardless of profit. But it had left off Rastriya Banijya Bank from dividend obligation despite considerable profit.

Need of criteria as suggested by the author were:

- (i) Adopt a criteria guided policy drain resources from corporations through the medium of dividend payment
- (ii) Realization by managers about the cost of equity and dividend objection.

If His majesty government of Nepal wants to tap resources through dividend the following suggestions should be considered.

- (i) Proper evaluation of public enterprise in term of capability of paying dividend should be made through corporation coordination committee.
- (ii) Imposition of fixed rate of dividend by government to financially sound public enterprises.
- (iii) Circulating the information to all the public enterprises about the minimum rate of dividend.
- (iv) Specially performances criteria such as profit target in terms of emphasis priorities timing and plans and developing a strategic plan; which is not just a statement of corporation aspiration, but must be done to convert the aspiration into reality.
- (v) Identification of the corruption objective and corruption act, company act or special chapter so as to clarify the public enterprises managers regarding their financial obligation to pay dividend to the His majesty government of Nepal.

2.2.3 Review of Thesis

These are few thesis that have been written by some students regarding the dividend policy. The researcher has attempted to summarize the objectives, methodologies to achieve those objectives and the major findings of the study.

Mr. Bhattraï concluded that most of the companies were found paying DPS less than that expected by investors. For average, most companies were unclear rating the exception of investors and these by resulting in the low marketability of the shares on the trading floor of the stock exchange. Furthermore the actual percentages of dividends paid were less than the percentage of dividend of investors. Calculated price couldn't reflect the quoted price of share.

In order to improve the dividend policy Bhattraï suggested that the companies should pay proper attention to meet investor's expectation for which the following policies could be followed.

- (a) Listed companies should follow minimum dividend payment (procedures) policy i.e. they should bound to a certain minimum amount of dividend to the investors every year.
 - (b) The listed companies could pay regular dividend.
 - (c) Finally, the companies should also pay extra dividends in the form of interim dividend with regular dividend at the times when they make good earnings.
- (Bhattraï: 1990).

The following objectives are listed below.

- 1) To provide conceptual framework of dividend models.
- 2) To analyze the financial variables affecting the stock values and interpret the dividend paying implication under dividend valuation models.

The major findings of the study are as follows:

-) The earnings per share of all joint venture banks were raised satisfactory.
-) There was correlation between EPS and DPS.
-) Amount of cash dividend had been increasing each year.
-) The PLE ratio, earning yield, dividend yield exposed cyclical behavior.
-) PLE ration was calculated in the smaller proportion.
-) The market values per share of Joint ventures banks stocks in security exchange center were significantly fluctuated and trading on high price.
-) Stock of joint venture banks in Nepal appeared growth stocks since actual capitalization rate (k).

-) Cash dividend per share (CDPS) of joint venture banks was significantly increasing in each year.
-) The annual average growth rates in DPS of NABIL, NISBL and NGBL were recorded as 35 percent, 51.70 percent and 100 percent respectively. (K.C:1991).

The objectives of the study were as follows:

- 1) To highlight dividend practices of banks.
- 2) TO analyze the relationship of dividend with various important variables such as EPS. Net profit, net worth and stock prices.

After analyzing the secondary data of the sampled banks he concluded:-

-) The relationship between DPS with EPS, net profit, net worth and stock and stock price were positive in these sample banks.
-) A change in DPS affected the share prices differently in different banks. (Aryal: 1997).

The major findings of the study are listed below:

-) The company's data showed that there was a positive relationship between dividend per share and stock prices.
-) By changing the dividend per share might have helped to increase the market price of shares.
-) Dividend per share affected the share price variably in different sectors.
-) There was a negative relationship between stock prices and larger earning price ration.
-) The relationship between stock prices and retained earnings per share was not prominent (Timilsena: 1997).

The main objectives of his study were:

- a) To identify the type of dividend followed by the banks.
- b) To examine the impact of dividend on share price.
- c) To identify the relationship between DPS and other financial indicators.
- d) To know the uniformity among DPS, EPS and DPR of the sample companies.

The major findings, which are as follows:

- a) Sample companies were not found adopting clearly defined dividend policy.
- b) The market price of the share did not seem to more or less dependent on EPS or DPS.
- c) There was no significant relationship between DPS and other financial indicators.
- d) There was no uniformity in EPS but prominent difference in DPS and EPS.

But prominent difference in DSP and DPH.

(Gautam: 1998).

Summary of the findings are as follows:

- a) Other things remaining the same , financial positions of high dividend paying companies were comparatively better than of low dividend paying companies,
- b) Market price of the share was affected by dividend.
- c) Financial executives were found to be reflecting dividend as a residual decision in Nepalese companies.

(Adhikari: 1999).

The study has following objectives:

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

- c) To analyze the relation between dividend policy decision on Banks and insurance companies.

After analyzing the data of the concerned companies, she summarized the major findings as:

-) Average earning per share seemed satisfactory of all sample companies.
-) There was a positive relationship between dividend per share and earning per share.
-) The co-efficient of correlation between earning per share and market price was negative.
-) The relationship between market price per share and dividend was also positive.
-) Dividend payment was not constant of all six sample companies.

The institutions did not seem to follow the optimal dividend policy of paying regular dividends as per shareholders expectation and interest.

(Rajbhandari: 2001).

The major findings of the study were:

-) Average EPS of Yak and Yeti was greater than SHL. It was fluctuating in the present no. of shares.
-) Average dividend per share of the Yak and Yeti was higher than that of SHL.
-) Average M.P.V. to B.V.P. ratio of Y and YHL was higher than that of SHL. It indicated that there was a change of higher capital gain share holder of Y and YHL.

(Kunwar: 2002).

The main objectives of this study were:

- a) To find out the impact DPS on MP of stock.
- b) TO know if there is any relationship between MVPS on dividend policy.

- c) To identify practice of dividend in insurance companies.

After analyzing the secondary data of concerned companies, Mr. Sharma summarized the major findings are:

- a) The EPS of PIC and UIC were relatively lower than that of other companies.
- b) DPS of PIC and UIC also were relatively lower DPS.
- c) Analysis of DPS showed that only NLGIC had equally fluctuating payment of dividend.
- d) The analysis of DPR between all same companies concluded that there was a similarity in payment of dividend decision (Sharma: 2002).

The major findings of the study were as follows:

-) Average earning per share and dividend per share of all concerned banks were satisfactory except of NBBL.
-) SCBL and HBL had paid dividend regularly and consistently whereas NBBL and NABIL had not paid dividend regularly.
-) The analysis showed that HBL, NBBL, and NABIL had insignificant relationship between EPS and DPS, which indicated that EPS was not in account for declaration of dividend.
-) DPR of NBBL did not show any stability in dividend payments indicating that NBBL did not have strategic dividend policy.

(Gurung: 2003).

The major findings of the study were as follows:

-) The analysis of dividend payout ratio showed that none of the banks and insurance companies had constant payout ratio each year.
-) The correlation between EPS and DPS was positive of all the sample banks and insurance companies.

-) With respect of dividend policies, the majority of respondents recommended earning based dividend at a present level.
-) With respect of consistent dividend policy, majority of the companies said that they had consistent dividend policy.
-) Most of the banks were found paying cash and stock dividend but the insurance companies were paying only cash dividend.

(Thapa: 2003).

Research Gap

Dividend decision is a major decision in financial management. Investors are investing in stocks for dividend. The stocks of banks and finance companies are treated heavily in the market but dividend payment seems irregular. NBBL and EBL are the first grade joint venture commercial banks. It is better to compare between the two same grade banks. Therefore the sample banks were selected.

There were various studies in dividend. But to assess the dividend decision associated with the common stock investment, there should be up to date studies in a regular interval. In this aspect this study will provide up to date insight regarding the dividend of common stock joint venture banks in this thesis various current theses were reviewed and coefficient of variation of different variables were presented in single table. That's why it is very easy to compare and analysis. To test the Hypothesis. Variance ratio test were done in this thesis. The variance ratio test method and ways of analysis was not included in previous studies. Overall, in terms of time period, samples, to some extent tools of analysis and ways of analysis this study is different and new from previous studies.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is a systematic way to solve the research problem. It is the method or processes. A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, measuring and definition of statistical tools word. This chapter highlights the research methodology used for the study of dividend policy and practices of joint venture commercial bank used for the study of Nepal.

3.1 Research Design

The research design refers to the conceptual structure with in which the research is conducted. (Kothari: 1984).

The research design is less descriptive but more prescriptive because the historical secondary data have been compiled to analyze the using variables which is related to dividend policy of JVBS

3.2 Sources of Data

The study is conducted on basis of secondary data. The data relating to the dividend policy are directly obtained from concerned banks. The supplementary data and information are obtained from annual reports of concerned banks. Other information sources have been concerned with no-of institutions and regulating authorities like Nepal Rastria Bank, Exchange Board, Ministry of Finance and National Planning commission etc.

3.3 Population and Sample

There are many banks whose share is traded activity in stock exchange. It is not possible to study all of them regarding the study topics. Therefore for sampling will be done selecting from population. The population samples are as follows.

- a) Nepal Arab Bank limited (NABIL Bank)
- b) Standard Chartered Bank
- c) Himalayan Bank Limited
- d) Nepal SBI Bank limited
- e) Everest Bank Limited
- f) NMB bank Limited
- g) NBB bank Limited

The samples to be selected are as follows:

- a) Nepal Arab Bank limited
- b) Everest bank limited

NABIL and EBL both of the banks are the first grade JVBS. It is better to compare between the two same grade banks. The head office of both banks located at same place i.e. NABIL in Kamaladi and EBL in Lazimpat. Therefore to access data and information it is very easy to me. Therefore the sample banks were selected.

3.4 Method of Analysis

Various financial and statistical tools have been used in this study. The study of data will be done according to pattern of data available. Mainly the analysis will be done by using financial tools, simple regression and correlation analysis.

The various calculated results obtained through financial and statistical tools are tabulated under different headings. Then they are compared with each other to interact

the result in this study. Simple regression analysis has been used to study the influences of independent variables on dependent variables. It helps in studying the effect and the magnitude of the effect of single independent variables on one dependent variables. To determine whether the variable of earning per share is related to dividend decision, the following regression model has been applied.

$$y = a + b x_1$$

Where y = dividend per share

a = intercept

b = slope variable or relation

x_1 = earnings per share

This model has been applied to examine the relationship between the EPS and DPS of the banks in the current fix fiscal years from 2062/2063 to 2066/2067. Similarly the following regression has been applied to determine whether the variable of net profit, market price per share and net worth of the company is related to dividend per share.

$$y = a + b x_2$$

Where y = dividend per share

X_2 = net profit of the company

$$y = a + b x_3$$

Where; y = market price per share

X_3 = dividend per share

$$u = a + b x_4$$

Where, y = net worth of the company

x_4 = dividend per share

Hence, in obtaining the regression line, we follow the approach that the sum of all the squared deviation is minimum and on this basic work out of the value of its constants

viz 'a' and 'b' or that is known as the intercept and the relation. To determine the values of 'a' and 'b' the following two normal equation are to be solved simultaneously.

$$y = a + b x$$

$$xy = a x + b x^2$$

Where,

a and b are unknown.

n = Number of observation in the sample.

3.6 Data Analysis Tools

A. Financial Tools

Earnings per Share (EPS)

EPS is defined as ratio of Net profit after tax to number of common stock outstanding. EPS calculation will be helpful to know whether the banks earning power on per share basic have enhanced over the period or not. EPS is one of the factors that affect the dividend policy and stock prices of a firm. It is calculated as:

$$EPS = \frac{\text{Earning available to common share holders}}{\text{Number of common stock outstanding}}$$

Dividend per Share (DPS)

DPS is defined as the ratio of net profit after interest, taxes and performance dividend paid to ordinary shareholders to number of common share holders to number of common share outstanding. It shows the portion of earning distributed to shareholders on each share basic. DPS also affect the market price of stock, but it does not affect the EPS. It is calculated:

$$\text{DPS} \times \frac{\text{Net profit after interest, tax and preference new dividend}}{\text{No of common stock outstanding}}$$

Dividend Payout Ratio

DP ratio reflects what % of profit distributed as dividend and what percent age is retained as reserve and surplus for the growth of the banks. It is calculated as:

$$\text{Dividend payout Ratio} = \frac{\text{Dividned Price per share}}{\text{Earning price per share}}$$

Price Earnings Ratio (P/E ratio)

P/E ratio relates the price currently paid by the market for each rupee of currently reported earnings per share. It is calculated by dividing the market price per share by earning per share, which is as follows.

$$\text{P/E ratio} = \frac{\text{Market Value price per share}}{\text{Earnign Price per share}}$$

Dividend Yield

The dividend yield reflects between the percentages relationships between dividend per share and market value per share. It is educated by dividing the cash dividends per share by the market value per share.

$$\text{Dividend share} = \frac{\text{Dividend Price per share}}{\text{Market Value Price Per share}}$$

Return on Net Worth

Net worth refers to the owners claim in the assets of a bank. It can be fund by subtracting total liabilities from the total assets (excluding intangible assets and accumulated losses). This ration indicates how well the banks have used the resources of the owners. It is calculated:

$$\text{Return on Net Worth} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

B. Statistical Tools

Arithmetic Mean (\bar{X})

Arithmetic mean of a set of observation is the sum of the entire observation divided by the number of observation. It is the sum of total value divided by the number of value.

Symbolically,

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n}$$

Where, $\sum x$ = sum of variable n = No of items

Standard Deviation (σ)

Standard Deviation is defined as the positive square root of mean of the square of the deviations taken from the arithmetic mean.

"The standard deviation measure the absolute dispersion or variability of the distribution, the greater the amount of dispersion or variability the greater the standard deviation; for the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite".

Standard deviation is calculated as:

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$$

(Gupta, 1991).

Coefficient of Variation (C.V.)

Standard deviation is the absolute measure of the dispersion. The relative measure of the dispersion based on the standard deviation is known as the coefficient of standard deviation.

$$\text{Coefficient of S.D.} = \frac{\dagger}{\bar{X}}$$

The coefficient of dispersion based on S.D. multiplied by 100 is known as the coefficient of variation (C.V.) it is calculated as:

$$(\text{C.V.}) = \frac{\dagger}{\bar{X}} \mid 100$$

The coefficient of correlation (r)

“Correlation analysis is the statistical tools that we can use to describe the degree Which one variable B library related to another?” The coefficient of correlation measures the degree of relationship between to sales of the figures in this study simple coefficient of correlation B used to determine the relationship of different factors with dividend and other variables. The data related to dividend over different years are tabulated and their relationship with each other's is drawn out. In this study the coefficient of correlation B calculated to know the relationship dividend per share with earning per share, net profit, market price per share and net worth (Levin and Robin, 1997).

Coefficient of Determination (r^2)

The coefficient of determination is a measure of the degree in linear association or correlation between two variables. One of which happens to be independent and other that being dependent variables. In other words (r^2) measure the percentage total variation in dependent variable explained by independent variables. The coefficient of

determination on value can have ranging from zero to one. A value of one occur only if the unexplained variation is zero which simply means that all the data point in the scatter diagram fall exactly on the regression line.

Regression Constant (a)

The value of constant, which is intercept of the model, indicates the average level of dependent variable when independent variable (s) is (are) zero. In other words, it is better to understand that 'a' (constant) indicates the mean or average effect on the dependent variables if all the variables omitted from the model.

Regression Coefficient (b)

The regression coefficient of each independent variable indicates the marginal relationship between that variable and the value of dependent variable, holding constant the effect of all other independent variables in the regression model.

In other words the coefficient describes how changes in independent variables affect the value of dependent variables estimate.

Standard Error of Estimate (SEE)

With the help of regression perfect prediction is practically impossible. The standard error of estimate is the measure of reliability of the estimating equation indicating the variability of the observed values differs from their predicated values on the regression line. The standard error of estimate measure measures the dispersion about on average line, called the regression line. The smaller the value of SEE, the closer will be the dots to the regression line and the better the line and based on the equation for this line. If SEE is zero, then there is no variation about the line correlation will be perfect. Thus with the help of SEE, it is possible for us to ascertain how well and

representative the regression line as a description of the average relation two series.

$$S.E. X \frac{\uparrow x}{\uparrow y} \sqrt{\frac{1 - Zr^2}{n}}$$

Test of Hypothesis

A hypothesis is a conjectural statement of the relationship between two or more variables. Hypothesis statement between variables. At the same time, they should carry implications for testing the stated relations. The research on this thesis topic strongly holds the hypothesis formulated meet the above mentioned criteria. The hypothesis of this research work is as follows.

1) Ho: There is no significant different between DPS of sample banks.

Hi! There is significant different between DPS of sample banks.

2) Ho! There is no significant different between EPS of sample banks.

Hi! There is significant difference between EPS of sample banks.

3) Ho: There is no significant different between market price per share of the sample banks.

Hi! There is no significant different between market price per share of the sample banks.

t- Statistics

To test the verifiability of our assumption, if the sample size is less than 30 t-tests is used. for applying t-test in the context of small sample, the t value is calculated first and compared table value of t at a certain level of sign: Fiction for given degree of freedom. If the calculated value of t exceeds the table values (say 0.05) we infer that the difference is significant at 5% level but, if t is less than the concerning table value of the t the difference is not treated as significant. In this research work t value is calculated between EPS, DPS and Net Worth.

F-Test

F-test is used to examine the significant of difference between more than two sample means at once and same time. It enables us to test for the significance of the difference between more than two sample means. This technique can be used to conclude whether the regression equation provides significant result or not

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter based on secondary data, regarding dividend policy of the joint ventures banks of Nepal. In order to achieve the objective mention in the first chapter several tools and techniques have been used which are clearly described in 'Research Methodology' now in this chapter the descriptive analysis of earning per share market price per share, dividend payout ratio, price earnings ratio and dividend yield of the respective sample banks is done first which is then followed by explanatory and hypothetical analysis. The comparison of financial indicator of the concern banks is done with the help of statistical tools mention in previous chapter. The data located to the dividend policy are presented in tabulated form and I have taken the data for elaboration, explanation and analysis to come to a conclusion which is explained below.

4.1 Data Presentation and Analysis

4.1.1 Presentation and Analysis of E.P.S of NBIL

Table 4.1

Year	Total Earning after tax (M)	Paid Value Rs	Number	Earning/share (Rs)
2005/2006	635.27	100	4.92	129.21
2006/2007	673.96	100	4.92	137.08
2007/2008	746.49	100	6.89	108.31
2008/2009	1031.03	100	9.66	106.76
2009/2010	1139.16	100	14.49	78.61
Average		100		112

(Source: Nepal Stock Exchange 2011)

Normally, earning measured the performance and achievement of the organization high earning shows high strength while lower earning shows weaker strength of the organization because for its growth expansion and diversification.

The above table shows all the details relating to total earning, number of share and earnings per share of NABIL for five consecutive years 2005/2006 to 2009/2010 in the year. 2005/2006 total earning of the NABIL was 635.27 (M) and EPS was Rs 129.21, while original value of one share was Rs 100. There was higher increase in total earning in the year 2006/2007 where earning increase to 673.96 M as a result earning per share has reached to Rs 137.08 in the year 2006/2007 NABIL has the highest EPS in the five consecutive years.

In the 2007/2008 total earning was increased but EPS is decrease the bank gives right share so EPS was decrease. And so on in 2009/2010 in the first two years EPS is greater than average EPS. But in the last these years EPS is lesser than average EPS.

Table 4.2 E.B.L.

Total Earning, Number of Share and Earning per share

Year	Total Earning after tax in Mill	Paid up Value per share in Rs	Number of share in (M)	Earnings per share in Rs
2005/2006	237.3084	100	3.78	62.78
2006/2007	296.4276	100	3.78	78.42
2007/2008	451.2035	100	4.914	91.82
2008/2009	638.7561	100	6.3882	99.99
2009/2010	831.7988	100	8.3047	100.16
Average				86.634

(Source: Nepal/stock Exchange 2011)

The above table 4.2 represents the total earning, number of the share and earnings per share of the Everest Bank Limited (EBL) for five consecutive years (2005/2006 to 2009/2010) in the year 2005/2006 total earning per share was Rs 62.78. It shows that total earning of EBL was lower than (NABIL) in the year (2005/2006) amounting Rs 397.36 (Millions). The EPS was of E.B.L. lower than (NABIL).

In the year 2006/2007, total earning per share was Rs.78.42 EBL has made more earning in 2006/2007 than previous year by Rs.59.1192 Million in the year 2007/2008, total earning per share was Rs.91.82. So the EPS and total earning was increased. In this year 2008/2009 the total earning of the EBL is 638.7561 million that lower than NABIL by Rs 500.12 million in this year total earning EPS of EBL was 99.99 increases in the previous years. EBL was issued bonus and non-redeemable preference share in 2008/2009 in the year 2009/2010, total earning of EBL Rs 831.33 Million and EPS was 100.16 which is the higher than previous by Rs 102.39 Million and Rs 0.01. In this year total earning and EPS of EBL was lower earning than NABIL. Average EPS of EBL was Rs 86.634 which is less than NABIL average EPS Rs 112 by Rs 25.37. In the year 2007/2008, 2008/2009 and 2009/2010 the EPS is greater than average EPS but in the year 2005/2006 and 2006/2007 the EPS is lesser than the average EPS.

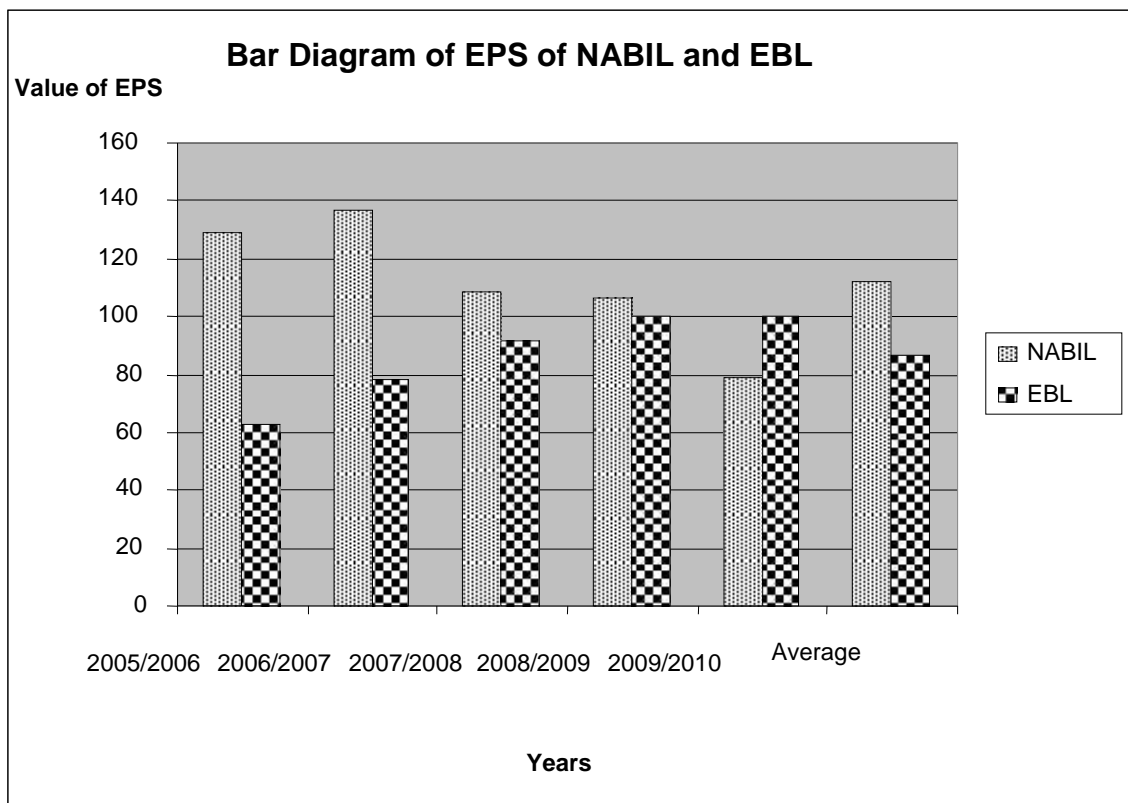


Fig. 4.1 Earnings per share of NABIL and EBL in Bar Diagram

The Bar-Diagram show that in year 2005/2006, 2006/2007, 2007/2008 and 2008/2009 EPS of NABIL is greater than EBL. But in the year 2009/2010 of EPS is greater than NABIL.

Table 4.3

Presentation and Analysis of price Earnings Ratio

This ratio expresses the ratio of Market price per share to earnings per share.

Price Earnings Ratio

Year	NABIL (Times)	EBL(Times)
2005/2006	17.34	21.57
2006/2007	36.84	30.99
2007/2008	48.70	34.11
2008/2009	45.85	24.55
2009/2010	30.33	16.27
Average	35.82	25.58

(Source: Nepal Stock Exchange, [www.nepalstock .com](http://www.nepalstock.com), 2011)

The above table shows that the years to year comparison of P/E ratio of both Banks fluctuating tend. EBL is failure to maintain its average P/E ration (25.58 tomes) four years from 2006/2007 to 2009/2010 similarly, NABIL is failure to maintain it average P/E ratio (35-82 times) in the year 2005/2006. Average P/E ratio of NABIL 35.82 times and that of EBL was 28.58 times it shows that NABIL P/E ratio is higher than EBL.

The above presentation helps for the study by clarifying the relationship between EPS and MPS. So, the analysis helps to judge the investors expectation about the banks performance and also the market appraisal of the bank performance. The higher P/E ratio is better from the owners. Therefore NABIL is better than the EBL.

4.1.2 Presentation and Analysis of D.P.S.

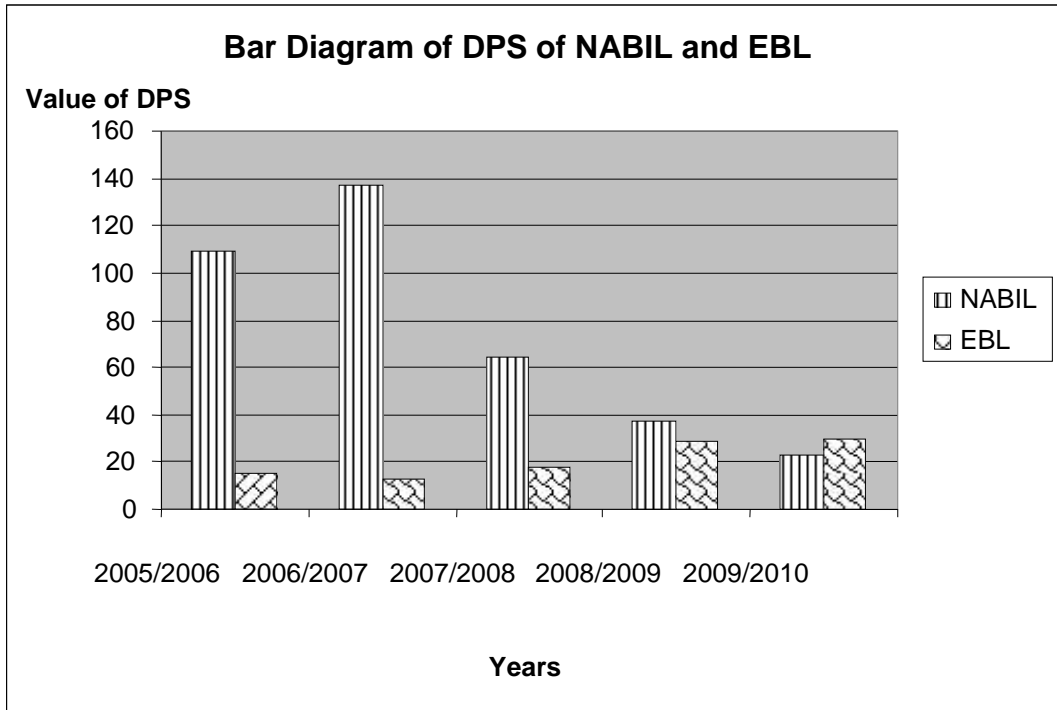
Table: 4.4

Dividend per Share

Year	NABIL	EBL
2005/2006	109	15
2006/2007	137	13
2007/2008	64	18
2008/2009	37	29
2009/2010	23	30
Average	74	21

(Source: Nepal Stock Exchange, www.nepalstock.com, 2011)

For the purpose of my analysis, it is important at this stage to look over the relevant data on dividend. On investigation all the years should be taken. But I have taken dividend per share of five years, which is found to be fluctuation to year. In the year 2005/2006 NABIL has 109 per share as dividend and EBL has paid Rs. 15 per share as dividend in the year 2005/2006 and it is so different. In the year 2006/2007 NABIL has paid Rs 137 and EBL has paid Rs 13 per share. Both Banks have more difference between NABIL bank and EBL bank. In the year 2007/2008 and 2008/2009 dividend paid more than EBL bank but the years in 2009/2010 that has paid more dividend in EBL Bank. It shows that dividend distribution per share of NABIL is Rs 74 and EBL is Rs 21 in the dividend payment year both Banks not maintain in average dividend. In conclusion, due to lack of appropriate dividend policy dividend payment if the Banks is fluctuation. However dividend payment of the NABIL is quite fine in comparison with the EBL in aggregate term average dividend per share paid by NABIL is higher than EBL. Higher dividend per share creates positive attitude of the share holders towards the Banks, which consequently helps to increase the market value of the share. It is the indicator of better performance of the Bank management.



4.1.3 Presentation and Analysis of Dividend Payout Ratio

Earning determines the amount of dividend. The greater the earning the more the ability of Banks to pay dividend. This ratio expresses the amount of dividend as a pores average of earning available per equity shares after meeting all charges the following table shows the dividend payout ratio of two banks from 2005/2006 to 2009/2010.

Table 4.5

Dividend Payout Ratio

Year	NABIL	EBL
2005/2006	85%	25%
2006/2007	100%	10%
2007/2008	60%	20%
2008/2009	35%	30%
2009/2010	30%	30%
Average	62%	23%

The above table shows that average yearly dividend payout ratio of EBL (23%) is lower than that of NABIL (62%). NABIL has dividend payout ratio 85% in the year 2005/2006, 100% in the year 2006/2007, 60% in the year 2007/2008, 35% in the year 2008/2009, 30% in the year 2009/2010 and EBL has paid dividend payout ratio 25% in the year 2005/2006, 10% in the year 2006/2007, 20% in the year 2007/2008, 30% in the year 2008/2009, 30% in the year 2009/2010.

Because of the both market distributes earn dividend in the year NABIL 2005/2006, 2006/2007 and ABL 2005/2006 were able to maintain their average dividend payout ratio.

On the basis of dividend payout ratio it is clear that both Banks were able to follow strategic in the year 2005/2006 to 2006/2007 but other years were not able to follow strategic dividend payout ratio policy. Both Banks were distributing dividend in the years. Thus it is necessary to have a clear cut policy for dividend distribution of the Banks.

4.1.5 Presentation and Analysis of Dividend Yield Ratio

Dividend yield ratio highly influences the market value per share because change in dividend per share can bring effective change in the market value of that share. Therefore, before allocation of dividend to the share holders the impact on the market scenario and the price fluctuation is to be studies and evaluated of the Bank.

Table 4.6

Dividend Yield Ratio

Year	NABIL(times)	EBL(times)
2005/2006	0.05	0.01
2006/2007	0.03	0.008
2007/2008	0.012	0.006
2008/2009	0.016	0.012
2009/2010	0.0096	0.018
Average	0.02032	0.0108

(Source: Nepal Stock Exchange 2011)

Above table shows that the average dividend yield ratio of NABIL is 0.02032 times which is higher than the dividend yield ratio of EBL 0.0108 times. NABIL maintained average dividend yield ratio only 2005/2006 and 2006/2007 and EBL has maintained average dividend yield ratio in 2005/2006.

NABIL failed to maintain company average of 0.02032 times in the year 2007/2008 to 2009/2010. EBL failed to maintain company average of 0.0108 times in the year 2006/2007 to 2009/2010 in the aggregate NABIL is more efficient than EBL for distribution of dividend on the basis of the market price per share.

The relationship between dividend yield ratio and market price per share is positive if there is height dividend yield ratio the market price of the share is also increased so higher high dividend yield ratio is better for the Banks. With high dividend yield ratio NABIL is more successful than EBL for distributing dividend.

4.1.6 Analysis of Means, Standard Deviation and Correlation Coefficients

The dividend practice between NABIL and EBL has been described with the help of financial tools. But more elaborate and the extensive research is considered fruitful to make the analysis more research oriented. Thus dividend payment as followed by NABIL and EBL can better explain through the use of statistical tools to provide meaningful relationship among the various inter-related variables. So, first of all it is useful to determine the degree of correlation between dividend variables that used in the regression analysis and the means and standard deviation of all the variables used in the regression analysis. The means, coefficient of variation, standard deviation and zero order correlation coefficient of NABIL and EBL are presented in the table.

Table 4.7

Means, Coefficient of variation, standard deviation and correlation of Dividend per share with earnings per share Net profit, market price per share And net worth.

Bank	Variables	Cases	Mean	C.V.	S.D.	Correlation				
						DPS	EPS	NP	MPS	NW
NABIL	DPS	5	74	58.16	43.04	1	0.96	- .962	0.14	0.95
	EPS	5	112	18.21	20.4		1			
	NP	5	845.18	23.75	200.39			1		
	MPS	5	3969.8	34.04	353.46				1	
	NW	5	348.4	14.91	51.94					1
EBL	DPS	5	21	33.30	7.12	1	0.066	0.57	-0.011	0.95
	EPS	5	86.63	5.70	4.94		1			
	NP	5	491.1	43.55	213.89			1		
	MPS	5	2205.2	28.58	630.14				1	
	NW	5	1685.6	42.47	7153.79					1

Note:

S.D. = Standard deviation

C.V. = Coefficient of Variation

DPS = Dividend per share

EPS = Earnings per share

NP = Net profit

MPS = Market price per share

NW = Net worth

Above table shows that the average value of dividend per EPS, NP, MPS, of the EBL is lower than NABIL but average value of net worth is higher EBL than NABIL.

Variability of dividend per share net profit, market price per share EBL is 1050 lower than NABIL but variability of net worth of EBL is also higher than NABIL.

The coefficient of variation measures the uniformity or consistency. Higher C.V. lesser uniformity or consistency and lower C.V. greater uniformity. The C.V. DPS, EPS and MPS of NABIL Bank are greater than EBL but the C.V. of N.W and NP of EBL is greater than NABIL.

Above table 4.7 shows that the correlation coefficient of dividend per share, earning per share and net worth is positively correlated with in NABIL, but in case of net profit it seem negative correlation. In NABIL dividend per share is higher negatively correlated with the net-profit. Dividend per share is positively correlated with EPS, MPS and net worth.

And correction coefficient of dividend per share EPS, NP and Net worth is positively correlated with in NBL but in case of MPS it seems negatively correlation in EBL. Dividend per share is highly negatively corrected with MPS; Dividend per share is positively correlated with EPS NP and worth.

In overall, the payment of dividend decision depends upon the net profit after tax and earnings per share on the other hand, the price of the Nepalese stock and net worth of bank depend upon dividend payment. The result suggests the high dividend per share might be able to decrease market price per share and net worth of NABIL but in case of earning per share and high net profit might be able to increase dividend per share. Both of these banks are not follow any particular policy of dividend. They distribute dividend by preferred their earnings after tax. There is not any fixed rule and regulation about dividend policy.

Simple Regression Analysis

Simple regression analysis is used as a tool of determining the strength of relationship between two variables. It is a statistical device by which we can estimate or predict the value of one variable when the value of other variable is known, Regression lines are expressed in term of algebraic relation i.e. $y = a + b x$, where 'y' is a dependent variables and x is independent variables a is the intercept of the model which indicates the average level of dependent variables when independent variables is zero in other words it is better to understand that a (constant) by the indicates the mean or average effect on dependent variable of all the variables omitted from the model.

Likewise, regression coefficient (b) describes how changes in independent variables affect the values of dependent variables. Coefficient of multiples determination (R^2) measures the percentage of total variation in dependent variable explained by the independent variable. But with the help of the regression equation perfect predication is practically impossible. So, standard error of the estimate (SEE) measures the accuracy of the estimated figures to tests the availability of our assumption, If the sample size (n) is less than 30, t-tests is used if the calculated value say (0.03), we infer

that the difference is significant at 5% level of significance. But if 't' is less than the concerning table value the difference is not treated as significant.

Hence for the analysis the usual simple linear relationship between dividend per share and earning per share, dividend per share and net profit, dividend per share and market price share and dividend per share and net worth are taken and analyzed how dividend variable interacts with other variables. This result is either positive or negative. The major output of simple regression model of the sample banks based on the data given below.

Table 4.8

Simple Regression result of Dividend per share on Earning per Share

$$(DPS = a + b EPS)$$

Bank	Sample size	Regression Coefficient				
		a	b	S.E	R ²	t-value
NABIL		73.93	0.00064	0.094	0.9216	0.0068
EBL		16.43	0.052	0.642	0.00936	0.081

For detail calculation see appendix B₂ and C₂

Note: DPS and EPS represent dividend per share and earning per share.

Table value of 't' at 5% level significance for (5+5-2) = 8 degree of freedom is 2.31.

Above regression result shows that beta coefficient (b) is positive in NABIL and EBL. In case of NABIL beta coefficient 0.00064 indicates that one rupee increasing per share leads to an average about rupees 0.00064 increase per share holding other variables constant, while in case of EBL beta coefficient constant 0.052 indicates that once rupees in earning per share leads to an average about rupees 0.052 increase in dividend per share holding other variable constant.

From above analysis it can be said that EBL can be more dividend if one rupees of earning per share is increased in both banks. The value of rupees R^2 of EBL is too small i.e.0.0036, which indicates that 0.9361 of dividend variation is explained by earning variables. In case of NABIL value of R^2 is 0.5216 which indicates that 92.61% of dividend variation explained by earning variable. But this result is not significant that 5% level of significance in both banks because calculated 't' is less than tabulated value of 't' (2.31) at 5% level of significance

Table 4.9

Simple regression results of dividend per share on net profit

(DPS = at BNP)

Bank	Sample size	Regression Coefficient				
		a	b	S.E	R^2	t-value
NABIL	5	234.58	0.19	-0.188	4.84	-1.01
EBL	5	15.04	00.031	0.0036	0.941	8.61

For detail calculation see appendix B₃ and C₃

Note:

DPS and NP represent dividend per share and net profit

Table value of 't' at 5% level of significance for (575.2) =8 degree of freedom is 2.3.

The above table shows regression results of dividend per share on net profit, where beta coefficient (b is positive in NABIL and EBL) in NABIL beta coefficient 0.19 indicates that one rupee increase in net profit leads to average about Rs.0.19 increases in dividend per share holding other variable constant. While in case of EBL, beta coefficient (0.031) indicates that the one rupee increase in net profit leads to the average about the Rs 0.031 increase in dividend per share holding other variables

constant. This analysis shows that NABIL might be able to pay higher dividend than EBL if on Rupee of net profit will increase in both the Banks.

The value of R^2 in NABIL is 4.84, which is higher than that of EBL 0.941. The value of R^2 4.84 in NABIKL indicates that 484% of dividend variation can explain by net profit variable in EBL the value of R^2 0.941 indicates that only 94% of dividend variation can explain by net profit variables. This result is not statically significant at 5% level of significance NABIL Banks because calculated value of 't' is less than tabulated value of 't' at that level.

Table 4.10

Simple Regression result of Market price per share on Dividend per share

(MPS = a + b DPS)

Bank	Sample size	Regression Coefficient				
		a	b	S.E	R^2	t-value
NABIL	5	8674.5	-63.58	13.9	0.0196	-4.57
EBL	5	2441.03	-11.23	39.56	0.000121	-0.28

For detail calculation see appendix B₄ and C₄

Note:

MPS and DPS represent market price per share and dividend per share.

Table value of 't' at 5% level of significance for $(5+5-2) = 8$ degree if freedom is 2.3.

As for the regression of Market price per share on dividend per share beta coefficient (b) is negative in both Banks. In this case of NABIL beta coefficient -63.58 indicates that one rupee in crease in dividend per share leads to average about Rs 63.58 decreases in market price per share holding other variable constant. Likewise in the case of EBL beta 11.23 indicates that one rupee increase in dividend per share leads to average about Rs 11.23 decrease in market price per share remaining other variables

constant from above analysis, it is clear that if one rupee dividend per share will increase in both banks 63.58 and Rs 11.23 might be decrease market price per share of NABIL of EBL respectively. The value of R^2 0.000121 indicates that only 0.01211 of market price per share variation is explained by dividend variables in NABIL the value of the value of R^2 is 0.0196, which indicates v1.361 of market price per share variation is explained by dividend per share. The calculated value of 't' in NABIL and EBL is 0.000121 and 0.0156 respectively, which is less than tabulated value of 't' 2.31. This result is not statistically significant at 5% level of significance.

Table 4.11

Simple regression result on dividend per share (= a + b DPS)

Bank	Sample size	Regression Coefficient				
		a	b	S.E	R^2	t-value
NABIL	5	263.3	1.15	0.169	0.9025	6.805
EBL	5	-3222.1	956.09	13.36	0.1025	77.35

For detail calculation see appendix B₅ and C₅

Note:

NW and DPS represent net worth and dividend per share.

Table value of 't' at 5% level of significance for $(5+5-2) = 8$ degree of freedom is 2.31.

The above table shows simple regression result of net worth on dividend per share. In the regression result beta coefficient (b) in EBL is negative and NABIL it is positive.

In EBL beta coefficient 3222.1 indicates that one rupee increase in dividend per share leads to the average about Rs 3222.1 decrease in net worth holding other variables constant. From the above analysis it is clear that increase in one rupee of dividend per share on the both Banks, result decrease in the net worth by 3222.1 in the NABIL and increase in net worth by Rs 263.3. The value of R^2 NABIL 0.9025 which is smaller

indicates of net worth variation is explained by the DPS variable this result is statistically significant at 5% level of significance because the 't' value of 't' (2.31) at 5% level of significance is higher than tabulated value of 't'. Similarly coefficient of determination (R^2) is quite low in case of dividend per share on the net profit in both Banks. It means regression result have no satisfactory explained dividend variation of net profit, thus result is not significant at 5% level of significance but to 't' value is lower as compare to table value.

By performing the analysis, it seems that earning per share and net profit affects the dividend of differently in different Banks and dividend affects the share price and net worth differently in different Banks which can be clearly seen in above analysis.

4.1.9 Multiple Regression) on Analysis

Market price per and dividend per share depends upon more two variables. The multiple regression analysis is performed to explain it. Here multiple regression analysis is used to examine the relationship of MPS, DPS, and EPS.

Dependent variable market price per share (MPS) on dividend per share (DPS) and earning per share (EPS).

Regression equation:

$$\text{MPS} = a + b_1 \text{DPS} + b_2 \text{EPS}$$

Where, a = constant

$$b_1 \text{DPS} = \text{Dividend per share}$$

$$b_2 \text{EPS} = \text{earning per share}$$

Table 4.12

Bank	Sample size	Constant	Regression Coefficient		R ²	SEE	f	Significance level
			a	b ₁				
NABIL	5	-8721.73	-66.57	157.67	0.892	1510.23	1.186	0.752
EBL	5	-10163.4	67.41	126.48	1.102	-307.32	1.184	1.344

The above table shows that the regression coefficient (b₁) of dividend per share is negative for NABIL and positive for EBL this implies that on rupees increase in DPS of EBL leads to increase MPS by 67.41 and one rupee increase in DPS of NABIL leads to decrease MPS by by Rs 66 57 respectively. Similarly the relationship between EPS and MPS is positive for both Banks. This implies that one rupee increase in EPS leads to increase MPS by R 154.67 and 126.48 in case of NABIL and EBL respectively.

The value of multiple coefficient of determination (R²) of NABIL is 0.0892, which is less than EBL 1.102. This means that 89.2% and 110.2% variation in MPS explained by variation in DPS and EPS of NABIL and EBL. So we conclude that the dependent variable MPS of EBL is highly affected by the independent variables DPS and EPS than the NABIL.

The f-statistic for the regression shows that EBL and NABIL the computed value of f is less than its table value at 5% level of significance. It indicates that the regression equation provide a statically insignificant explanation of variation in MPS caused by the variation in DPS and EPS.

4.1.10 Test of Hypothesis

A hypothesis is a conjectural statement of relationship between two or more variable.

The test of hypothesis discloses the fact whether the difference between the completed statistic and hypothetical parameter is significant.

Due to only two sample variance ratio test is done to find the uniformity.

First Hypothesis test.

) Null hypothesis (H_0): $u_1 = u_2 = u_3$ i.e. There is no different in DPS of NABIL and EBL.

) Alternative hypothesis (H_1): $u_1 \neq u_2 \neq u_3$ i.e. there is significance difference in DPS of NABIL and EBL.

Table 4.13

Dividend per share

Year	NABIL	EBL
2005/2006	105	15
2006/2007	137	13
2007/2008	64	18
2008/2009	37	29
2009/2010	23	30

For detail calculation see appendix E₁

Computation of variance

$$S_1^2 = 21904 \quad S_2^2 = 1764 \quad f = 1242$$

f-f (5,5) and tabulated value of fat 5% level of significance for $V_1 = 4$ and $V_2 = 4$ is 6.39

Since, the calculated value if $f = 12.42$ is greater then the tabulated value of 0.05 (4,4) = 4.39, H_0 is neglected.

Hence, we conclude that the variability of DPS in two Banks is not same i.e. there is significant different in DPS of NABIL and EBL.

Second Hypothesis Test

) Null hypothesis (H_0): $u_1 = u_2 = u_3$ i.e. There is no significant different in EPS of NABIL and EBL.

) Alternative hypothesis (H_2): $u_1 \neq u_2 \neq u_3$ i.e. there is significant different in EPS of NABIL and EBL.

Table 4.14

Earning per share

Year	NABIL	EBL
2005/2006	129.21	62.78
2006/2007	137.08	78.42
2007/2008	108.31	91.82
2008/2009	106.76	99.99
2009/2010	78.61	100.16

For detail calculation see appendix E₂

Computation of variance

$$S_1^2 = 50171.52 \quad S_2^2 = 30022.49 \quad f = 1.67$$

f - f (5,5) and tabulated value of fat 5% level of significance for $V_1 = 4$ and $V_2 = 4$ is 6.39

Since the calculated value of $f = 1.67$ is less than the tabulated value of 0.05 (4, 4) = 6.39 H_0 is accepted. Hence we conclude the variability of earning price per share in the two banks is same.

i.e. if there is no significance different between EPS of NABIL and EBL.

Third Hypothesis Test

) Null hypothesis (H_0): $u_1 = u_2 = u_3$ i.e. There is no significant different in MPS of NABIL and EBL.

) Alternative hypothesis (H_1): $u_1 \neq u_2 \neq u_3$ i.e. there is significant different in MPS of NABIL and EBL.

Table 4.15

Market per Share

Year	NABIL	EBL
2005/2006	2240	1379
2006/2007	5050	2430
2007/2008	5275	3132
2008/2009	4899	2455
2009/2010	2384	1630

For detail calculation see appendix E₃

Computation of variance

$$S_1^2 = 63078540.84 \quad S_2^2 = 19451628.16 \quad f = 3.243$$

$f = f(5,5)$ and tabulated value of fat 5% level of significance for $V_1 = 4$ and $V_2 = 4$ is 6.39

Since the calculated value of $f = 3.243$ is less than the tabulated value of $f_{0.05}$

$(4, 4) = 6.39$ H_0 is accepted. Hence we conclude the variability of market per share in the two Banks is same.

i.e. there is no significant different in MPS of NABIL and EBL.

4.2 Major Findings of the Study

1. Dividend payment is regular phenomena in JVS. Average earning per share of NABIL is greater than EBL. The analysis of the EPS trend shows that the NABIL profitability of common stock holder's investment is better than EBL.
2. Average DPS of NABIL is higher than EBL i.e. average DPS of NABIL is Rs 74 and that of EBL is Rs 21.
3. On the basis of dividend pay out ratio, NABIL is paying higher percentage of its earning as dividend in comparison with EBL.
4. Average price earning ratio of NABIL is higher than EBL. The higher P/E ratio indicates the favorable condition for the owner. So the performance of NABIL for the last years is better than EBL.
5. The average dividend yield ratio of the NABIL is 0.02030 and EBL is 0.0108 it shows that on the basis of market price NABIL is more efficient than EBL for distribution of dividend.
6. The correlation of DPS with EPS, NP, and NW of NABIL is positive whereas it is negative in case of EBL, DPS is positively correlated with EPS, NP and NW it means higher the EPS, NP, MP and NW higher will be the dividend and per share and vice-versa.
7. The regression analysis of dividend per share on the earning per share shows beta coefficient is positive in NABIL and EBL beta coefficient of EBL is higher than NABIL, which shows that EBL might be able to pay higher dividend per share than NABIL, if one rupee of earning per share is increased in both Banks at the same time. EBL gives Rs.0.52 and NABIL gives 0.00064 dividends per share.

8. The relationship between DPS and EPS of NABIL shows the coefficient of determination (R^2) is 0.9216, which indicates that only 92.16% of the variation of DPS is explained by earning variables. In EBL (R^2) is 0.00936 means 0.936% of dividend variation explained by earning variables. The most is not significant.
9. The regression analysis of dividend per share on net profit shows that beta coefficient is positive (0.19) in NABIL and (0.03) in EBL. In case of NABIL beta coefficient (0.19) indicates that once one rupee increases in dividend per share lead to average about Rs.0.19 increase in net profit and EBL beta coefficient 0.031 indicates that the once rupee increases in dividend per share leads to average about Rs.0.031 increase in net profit holding other variables constant. Coefficient of determination (R^2) in NABIL is 0.484 and EBL it is 0.941 it shows that in NABIL 48.4% and EBL 94% of dividend variation can explained by net profit variables.
10. The regression analysis of MPS on DPS shows that the beta coefficient in both Banks is negative. The coefficient of determination (R^2) is 0.0196 in NABIL and 0.000121 in EBL, which indicates that only 1.96% of NABIL and 0.0121% of the EBL MPS variation is explained by DPS. This result is not significant.
11. The regression result of net worth on dividend per share shows that beta coefficient of determination is positive (1.15) in NABIL and (956.05) in EBL. The coefficient of determination (R^2) is 0.90205 and 0.9025 in NABIL and EBL respectively. It indicates that NABIL 90.25% and in EBL 90.25% of the net worth variation is explained by dividend per share variable. The result is significant.

12. The following multiple regression analysis of dependent variable MPS on DPS and EPS shows that the MPS with DPS is negative in both Banks of NABIL and positive on EBL NABIL and positive on EBL. i.e. increases in DPS causes to increases in DPS decrease in MPS. At the same time there is positive relationship between MPS and EPS which shows increase in EPS leads to increase in MPS in both Banks. The f-statistic for regression is less than its table value at 5% level significance which indicates the equation provide a statically not significant explanation of the variation in MPS of NABIL and in EBL it is not significant.

13. In the test of hypothesis:

-) The variability of MPS and EPS in the two Banks is same i.e. there is no significant different in MPS and EPS of NABIL and EBL (Null hypothesis is accepted).
-) The variability of DPS in the two Banks is not i.e. there is significant different in DPS of NABIL and EBL (Alternative hypothesis is accepted).

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Nepal is an underdeveloped country having very low per capital income and corporate growth rate. The traditional concept of the business and commerce is deep rooted in the people and most of them are aware of modern form commerce. But after restoring of democracy democratically elected government adopted the liberal and market oriented economic policy. As a result various companies are established in different sectors. After 1980 the commercial Joint venture banks were established in Nepal.

Joint venture Banks were established in Nepal. Joint venture Banks mainly concentrating their business in the foreign trade and in financing industry, agriculture and service sectors.

Generally companies managed their fund from issue of share investors investing in stocks to earn dividend. Paying dividend so share holders in an effective way to attract new investors to invest in shares. The firms that are not able to distribute far dividend will not be able to raise to shareholders in an effective further equity capital from capital market. The total earning that a shareholder can gain from share investment may be classified into dividend yield and capital gain yield. The company therefore needs to devices a proper balance between retention and dividend distribution. Due to the decisions for the earning of companies between and pay out and retention of earnings its effects on the market price of shares are crucial questions. It is therefore necessary that a wise policy should be maintained to have a balance between shareholders interest with that of corporate growth from internally generated fund. The funds could not be used without proper investment opportunities

in such a situation dividend payment to shareholders is taken as the best because shareholders want to have investment opportunities to employ else where dividend refers to the distribution of earnings to the shareholders of the company as a return to their investment. Dividend decisions are taken as a major decision made on financial management because the firms has to decide whether distributing the profit to the shareholders or reinvesting it on the business. The dividend may be affected by different factors like earning of the firm, Liquidity position of the firm, net worth etc. Because those factors indicate the financial position of the company. If a firm has good performance in those factors it will be able to provide return in the form of dividend.

The study is mainly focused to access the dividend policy and practices of joint ventures banks of Nepal. Among many commercial joint ventures banks only two commercial joint ventures banks were selected for this study. The specific objectives of this study are:

-) To study the current practices of dividend policy in joint ventures commercial banks.
-) To analyze the relationship between dividend per share with various, important variables such as market price of the stock, earning per share, net profit and net worth.
-) To provide possible suggestions and recommendation on the basis of the study.

For these purposes different disciplines, financial and statistical analysis was alone using various methodologies.

From this study it is found that there is not any consistency in the dividend policy in the sample Banks. It indicates the need of dividend strategy as well as the need of proper analysis of the respective sector of the Banks. Most of the Nepalese firm the

past have not profit planning and investment strategy, which has imbalances the whole position of the firm. It means there is not consistency even in the earnings. The market price per share is affected by the financial position and the dividend paid by the firms. In this regards the market price per share of the sample Banks have seen to be fluctuated. It denoted Nepalese investor is not treated fairly. The lack of financial knowledge and the market inefficiently has affected the market price of the share in all the firms. But it is theoretical agrees.

In Nepal, only a few cited comapnies have paying regular to heir share holders

From this study it is found that there is not any consistency in a dividend policy in the sample banks. it indicates the need of dividend strategy as well as the need of proper analysis of the respective sector of the banks most of the Nepalese firm the past have not profit planning and investment strategy, which has imbalances the whole position of the firm. It means there is not consistency even in the earnings. The market price per share is affected by the financial position and the dividend paid by the firms. In this regards this market price per share of the sample banks have seem to be fluctuated it denotes Nepalese investors are not treated fairly. The lack of financial knowledge and the market inefficiency affected the market price of the share in all the firms out it is the critical ogled in Nepal. Only a few listed companies have paying regular dividend to their shareholders further companies have not been following stable dividend payout policy. On the other hand the dividend payout ratio of listed companies in Nepal has not been able to distribute fair dividend. In this regards never, joint ventures banks are also no exception. The theoretical statements of these further companies have not been following stable dividend payout policy. On the other hand the dividend payout ratio of listed companies in Nepal has not been able to distribute fair dividend. In this regard however, Joint venture Banks are no exception. The

theoretical statement of this study is to study the comparative dividend policy of sampled Banks. Therefore, it is conducted that more or less the dividend policy depends on the earning per share of the firm. The earning per share and dividend per share having the positive relation may also impact on market price of share.

This study mainly based on secondary data. To analyze the secondary data mean, standard deviation, correlation coefficient, simple regression analysis and multiple regression analysis are used to know the financial strength if of the sample Banks. Correlation analysis used to know the degree or relationship between EPS and DPS, MPS and DPS, NP and DPS and DPS and NW.

Simple regression analysis is used to know the dependency of DPS on EPS, DPS on NP, MPS on DPS and NW on DPS of sampled Banks. Similarly multiple regression analysis is applied to know the relationship as well as dependency of MPS, DPS and EPS. Finally, the researcher should like to present the conclusion that he has gained from this study is followed sample recommendations.

The above mentioned major findings help one to conclude that the samples Banks have average earning which can be considered satisfactory but both the Banks are paying dividend regular. The Banks have not clearly defined the appropriate dividend policy.

The insignificant relationship between dividend per share and other financial variables indicate that dividend polices of these Banks are better. From the analysis it is found that the market price of the share is not affected by the variables. There is a vague practice about the distribution of the dividend in Nepalese companies. They are not adopting a fixed or defined dividend policy; instead they are adopting dividend policy according to their requirement in time. The companies do not adequately maintain cash balance for dividend payment. Dividend policy is not disclosed to the share

holders of the organization. As a result the responsible investment is silent in response. The study deals with only two samples for a period of five year from 2005/20006 to 2009/2010. If a large sample is taken for whole the population the result might vary and would be subject for another study, which can be more appropriate.

5.2Conclusions

Dividend policy has evolved and adjusted in response to changing business conditions, market parameters and regulation. Dividend payment is regular phenomena in JVS. Average earning per share of NABIL is greater than EBL. The analysis of the EPS trend shows that the NABIL profitability of common stock holder's investment is better than EBL.

Average DPS of NABIL is higher than EBL i.e. average DPS of NABIL is Rs 74 and that of EBL is Rs 21.

On the basis of dividend payout ratio, NABIL is paying higher percentage of it earning ad dividend in comparison with EBL.

Average price earnings ratio of NABIL is higher than EBL. The higher P/E ratio indicates the favorable condition for the owner. So the performance of NABIL for the last years is better than EBL.

The average dividend yield ratio of the NABIL is 002030 and EBL is 0.0108 it shows that on the basis of market price NBAIL is more efficient than EBL for distribution of dividend.

The correlation of DPS with EPS, MPS, NW of NABIL is positive where as it is negative NP in case of EBL, DPS is EPS, NP and NW is positively correlated it means higher the EPS, NP , MP and NW higher will be the dividend and per share and vice-versa.

The regression analysis of dividend per share on the earning per share shows beta coefficient is positive in NABIL and EBL beta coefficient of EBL is higher than NABIL, which shows that EBL might be able to pay higher dividend per share than NABIL, if one rupee of earning per share is increased in both Banks at the same time. EBL gives Rs.0.52 and NABIL gives 0.00064 dividends per share.

The relationship between DPS and EPS of NABIL shows the coefficient of determination (R^2) is 0.9216, which indicates that only 92.16% of the variation of DPS is explained by earning variables. In EBL (R^2) is 0.00936 means 0.936% of dividend variation explained by earning variables. The most is not significant.

The regression analysis of dividend per share on net profit shows that beta coefficient is positive (0.19) in NABIL and (0.03) in EBL. In case of NABIL beta coefficient (0.19) indicates that once one rupee increases in dividend per share lead to average about Rs.0.19 increase in net profit and EBL beta coefficient 0.031 indicates that the once rupee increases in dividend per share leads to average about Rs.0.031 increase in net profit holding other variables constant. Coefficient of determination (R^2) in NABIL is 4.84 and EBL it is 0.941 it shows that in NABIL 484% and EBL 94% of dividend variation can explained by net profit variables.

The regression analysis of MPS on DPS shows that the beta coefficient in both Banks is negative. The coefficient of determination (R^2) is 0.0196 in NABIL and 0.000121 in EBL, which indicates that only 1.96% of NABIL and 0.0121% of the EBL MPS variation is explained by DPS. This result is not significant.

The regression result of net worth on dividend per share shows that beta coefficient of determination is positive (1.15) in NABIL and (956.05) in EBL. The coefficient of determination (R^2) is 0.90205 and 0.9025 in NABIL and EBL respectively. It

indicates that NABIL 90.25% and in EBL 90.25% of the net worth variation is explained by dividend per share variable. The result is significant.

The following multiple regression analysis of dependent variable MPS on DPS and EPS shows that the MPS with DPS is negative in both Banks of NABIL and positive on EBL NABIL and positive on EBL. i.e. increases in DPS causes to increases in DPS decrease in MPS. At the same time there is positive relationship between MPS and EPS which shows increase in EPS leads to increase in MPS in both Banks. The f-statistic for regression is less than its table value at 5% level significance which indicates the equation provides a statically not significant explanation of the variation in MPS of NABIL and in EBL it is not significant.

In the test of hypothesis:

-) The variability of MPS and EPS in the two Banks is same i.e. there is no significant different in MPS and EPS of NABIL and EBL (Null hypothesis is accepted).
-) The variability of DPS in the two Banks is not i.e. there is significant different in DPS of NABIL and EBL (Alternative hypothesis is accepted).

5.3 Recommendation

1. Earning per share in the both Banks is in fluctuating trend, therefore theses Banks should search fruitful investment opportunities plan for profit maximization.
2. The analysis of dividend per share shows that there is not any consistency of the dividend policy in the sample Banks. Therefore these Banks need to create some how paying reasonable dividend per share every years. It is because higher dividend per share creates positive attitude of the share holders towards Banks, which consequently helps to increase the market value of the shares.

The psychological value of the share holders is also valued as the assets of the firm.

3. The fluctuation in dividend payment may create uncertainty among stockholders. So it is recommended that the banks should maintain constant dividend payout policy to satisfy stockholders and also to good image in stock market.
4. Formulation of dividend policy will clearly guides the way on following dividend distribution. The policy should determine whether the company is going to adopt stable dividend policy and or constant payout ration. What should be the run dividend payout ratio, either it is pure residual dividend policy or steady dividend policy or earning based dividend policy or fixed plus extra dividend policy should be clearly explained by the companies.
5. The bank should be also considering the liquidity position before making dividend decision.
6. The analysis clearly shows the insignificance relationship between MP and influencing the variables through this study reaches to the point that the investment in the stock of these banks is in ascending increasing trend. It means the investors of these sampled banks are making investment without considering the banks performances. This shows that the investors are not rational. So they should understand the market condition and financial performances of banks.
7. The choice should be given to shareholders whether they prefer dividend or cash dividend. They should be well informed that issue of stock dividend and depresses market value per share and earning per share because issue of stock dividend will increase number of share. Issue of cash dividend increased both market value per share and EPS but it does not increase the number of shares.

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APPENDIX - A

For calculation, following statistical formula is used

$$1) \quad t_x = X \sqrt{\frac{\sum \phi x^2}{n} - \frac{(\sum \phi x)^2}{n^2}}$$

$$2) \quad t_y = X \sqrt{\frac{\sum \phi y^2}{n} - \frac{(\sum \phi y)^2}{n^2}}$$

$$3) \quad r = X \frac{\sum \phi xy - \frac{(\sum \phi x)(\sum \phi y)}{n}}{\sqrt{\sum \phi x^2 - \frac{(\sum \phi x)^2}{n}} \sqrt{\sum \phi y^2 - \frac{(\sum \phi y)^2}{n}}}$$

$$4) \quad S.E. = X \frac{t_x}{t_y} \sqrt{\frac{1 - r^2}{n}}$$

$$5) \quad t = X \frac{b}{S.E.}$$

$$6) \quad F = X \frac{S_1^2}{S_2^2} \text{ if } S_1^2 > S_2^2$$

$$\text{Or } F = X \frac{S_2^2}{S_1^2} \text{ if } S_2^2 > S_1^2$$

$$7) \quad S_1^2 = X \frac{1}{x_1} \sum \phi x_1^2 - \frac{(\sum \phi x_1)^2}{n}$$

$$8) \quad S_2^2 = X \frac{1}{x_2} \sum \phi x_2^2 - \frac{(\sum \phi x_2)^2}{n}$$

APPENDIX-B

NABIL Bank Limited

Nepal Arab Bank limited is a joint-venture Bank which was established in 1984 under the company Act.1964 with objectives of carrying out commercial Banking activities under the commercial Bank Act 1974. Dubai National Bank of Dubai Limited under technical services agreement signed between it and Nepalese promoters was managing the Bank from the every beginning till November 1996. Later on it handed over the management to Dubai National Bank Limited of Dubai it was composed by 50% equity in the National Bank Limited Dubai. Nepalese promoters 20% and general public 30%. The Bank has got an authorized capital Rs.12, 50,000,000 is issued capital Rs.200000000 and paid up capital 1030467300.

The main aim of the Bank is to external professional Banking services to various section of the society in the Nepal and they are of the society in the Nepal and they are of contributing in the economic development of the country.

Nabil Bank Limited

B₁

Year	D.P.S.	E.P.S.	Net Profit in (Million)	Market Price per share closing	Net worth in (Million)	Number of shares in (M)
2005/2006	109	129.21	635.71	2240	381	4.92
2006/2007	137	137.08	674.43	5050	418	4.92
2007/2008	64	108.31	746.26	5275	354	6.85
2008/2009	37	106.76	1031.30	4855	324	9.66
2009/2010	23	78.61	1139.06	2384	265	14.45

NABIL

Appendix B₂

Variable use in Analysis

Year	X (EPS)	Y (DPS)
2005/2006	129.21	109
2006/2007	137.08	137
2007/2008	108.31	64
2008/2009	106.76	37
2009/2010	78.61	23

Result $n = 5$

$$a = 7393$$

$$x = 559.97$$

$$b = 0.00064$$

$$y = 370$$

$$xy = 45542.88$$

$$\dagger_x = 20.4$$

$$x^2 = 6475441$$

$$\dagger_y = 43.04$$

$$y^2 = 36644$$

$$r = 0.96$$

$$\bar{X} = 112$$

$$\bar{Y} = 74$$

Simple regression result of $DPS = 73.93 + 0.0064 \text{ EPS}$

Where,

DPS = Dividend per share

EPS = Earning per share

Then,

Coefficient of determination $R^2 = 0.9216$

Standard Error (S.E.) = 0.094

t-value = $b/S.E. = 0.00064/0.094$

$$= 0.0068$$

NABIL

Appendix B₃

Variable use in Analysis

Year	X (Net Profit)	Y (DPS)
2005/2006	635.27	109
2006/2007	673.96	137
2007/2008	746.49	64
2008/2009	1031.03	37
2009/2010	1139.16	23

Result n = 5

$$a = 234.58$$

$$x = 4225.51$$

$$b = 0.00064$$

$$y = 370$$

$$xy = 273701.1$$

$$\dagger_x = 200.39$$

$$x^2 = 3775745.73$$

$$\dagger_y = 43.04$$

$$y^2 = 36638$$

$$r = -0.962$$

$$\bar{X} = 74$$

$$\bar{Y} = 845.18$$

Simple regression result of DPS = at NP

Where,

DPS = Dividend per share

NP = Net profit (M)

Then,

Coefficient of determination $R^2 = 0.925$

Standard Error (S.E.) = 0.188

t-value = -1.01

NABIL

Appendix B₄

Variable use in Analysis

Year	X (Net Profit)	Y (DPS)
2005/2006	109	2240
2006/2007	137	5050
2007/2008	64	5275
2008/2009	37	4899
2009/2010	23	2384

Result $n = 5$ $a = 8674052$

$x = 370$ $b = -63.58$

$y = 370$

$xy = 879705$ $\dagger_x = 48.04$

$x^2 = 36644$ $\dagger_y = 43.04$

$y^2 = 88029382$ $r = 0.14$

$\bar{X} = 74$

$\bar{Y} = 3969.6$

Simple regression result of $MPS = a + b \text{ DPS}$

Where,

DPS = Dividend per share

MPS = Market price per share

Then,

Coefficient of determination $R^2 = 0.0196$

Standard Error (S.E.) = 13.9

t- value = -4.57

NABIL

Appendix B₅

Variable use in Analysis

Year	X (DPS)	Y (Net worth)
2005/2006	109	381
2006/2007	137	418
2007/2008	64	354
2008/2009	37	324
2009/2010	23	265

Result $n = 5$ $a = 263.3$

$x = 370$ $b = 1.15$

$y = 1742$

$xy = 133534$ $\dagger_x = 43.04$

$x^2 = 3664$ $\dagger_y = 51.94$

$y^2 = 620402$ $r = 0.95$

$\bar{X} = 74$

$\bar{Y} = 384.4$

Simple regression result of $\text{New} = a + b \text{ DPS}$

Where,

DPS = Dividend per share

NW = Net Worth

Then,

Coefficient of determination $R^2 = 0.5025$

Standard Error (S.E.) = 0.163

t- value = 6.805

APPENDIX- C

Everest Banks Limited

Everest Bank Limited is a joint venture Banks which is established in 1993 under the company Act.1964 with objectives of carrying out commercial Banking activities under the commercial Bank Act.1974 United Bank of India Limited under technical services agreements signed between it and Nepalese promoters was managing the

Bank from the very beginning till November later on it handed over the management to Punjab National Bank Limited, India. It was composed by 20% equity on the Punjab national Bank Limited India Nepalese Promoters 68%, General Public 12% the Banks has got an Authorized capital Rs.1250000000 issued capital Rs.1030467300 and paid up capital Rs.200000000.

The main aim of the Bank is to extend professional Banking Service to various section of the society in the Nepal and they are of contributing in the Economics development of the country.

EBL

Appendix C₁

Variable use in Analysis

Year	D.P.S.	E.P.S.	Net Profit in (Million)	Market Price per share closing	Net worth in (Million)	Number of shares in (M)
2005/2006	15	62.78	237.31	1379	8228	3.78
2006/2007	13	78.42	296.43	2430	10615	3.78
2007/2008	18	91.82	450.84	3132	15812	4.91
2008/2009	29	99.99	638.94	2455	22054	6.39

2009/2010	30	120.16	831.33	1630	2757	8.30
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EBL
Appendix C₂
Variable use in Analysis

Year	X (EPS)	Y (DPS)
2005/2006	62.78	15
2006/2007	78.42	13
2007/2008	91.82	18
2008/2009	99.99	25
2009/2010	120.16	30

Result n = 5

a = 16.43

$$\begin{aligned}
 x &= 433.15 & b &= 0.052 \\
 y &= 105 \\
 xy &= 9118.43 & \dagger_x &= 4.34 \\
 x^2 &= 37951.96 & \dagger_y &= 7.12 \\
 y^2 &= 2459 & r &= 0.066 \\
 \bar{X} &= 86.63 \\
 \bar{Y} &= 21
 \end{aligned}$$

Simple regression result of $DPS = a + b \text{ EPS}$

$$DPS = 16.43 + 0.052 \text{EPS}$$

Where,

DPS = Dividend per share

EPS = Earning per share

Then,

Coefficient of determination $R^2 = 0.00436$

Standard Error (S.E.) = 0.642

t- value = 0.081

EBL

Appendix C₃

Variable use in Analysis

Year	X (Net Profit)	Y (DPS)
2005/2006	237.31	15
2006/2007	296.43	13
2007/2008	431.20	18
2008/2009	638.76	29
2009/2010	831.79	30

Result $n = 5$ $a = 15.05$

$x = 2455.49$ $b = 0.031$

$y = 105$

$$\begin{aligned} xy &= 59006.58 & \dagger_x &= 213.89 \\ x^2 &= 1447657.16 & \dagger_y &= 7.12 \\ y^2 &= 2453 & r &= 0.97 \\ \bar{X} &= 491.09 & t &= 8.61 \\ \bar{Y} &= 21 \end{aligned}$$

Simple regression result of $DPS = a + b NP$

$$DPS = 15.04 + 0.031 NP$$

Where,

DPS = Dividend per share

NP = Net profit (M)

Then,

Coefficient of determination $R^2 = 0.941$

Standard Error (S.E.) = 0.0036

t-value = 6.1016

EBL

Appendix C₄

Variable use in Analysis

Year	X (DPS)	Y (MPS)
2005/2006	15	1349
2006/2007	13	2430
2007/2008	18	3132
2008/2009	29	2455
2009/2010	30	1630

Result n = 5

a = 2441.03

x = 105

b = -11.23

y = 11026

xy = 228746

$\dagger_x = 7.12$

$$x^2 = 36644 \qquad \dagger_y = 630.14$$

$$y^2 = 2459 \qquad r = -0.011$$

$$\bar{X} = 21$$

$$\bar{Y} = 2205.2$$

Simple regression result of $MPS = a + b \text{ DPS}$

Where,

DPS = Dividend per share

MPS = Market price per share

Then,

Coefficient of determination $R^2 = 0.000121$

Standard Error (S.E.) = 39.5

t- value = -0.28

EBL

Appendix C₅

Variable use in analysis

Year	X (DPS)	Y (Net worth)
2005/2006	15	8228
2006/2007	13	10615
2007/2008	18	13812
2008/2009	29	22054
2009/2010	30	27571

Result n = 5

$$a = -32221$$

$$x = 105$$

$$b = 1.15$$

$$y = 84280$$

$$xy = 2012727$$

$$\dagger_x = 7.12$$

$$x^2 = 2439$$

$$\dagger_y = 630.14$$

$$y^2 = 1676936510$$

$$r = 0.95$$

$$\bar{X} = 21$$

$$\bar{Y} = 1685.6$$

Simple regression result of New = a + b DPS

Where,

DPS = Dividend per share

NW = Net Worth

Then,

Coefficient of determination $R^2 = 0.9025$

Standard Error (S.E.) = 12.36

t- value = 77.35

Hypothesis Test

Appendix – E₁

Computation of variance

Dividend per share

Year	NABIL (X ₁)	EBL (X ₂)	X ₁ ²	X ₂ ²
2005/2006	109	15	11881	225
2006/2007	137	13	18769*	169
2007/2008	64	18	4096	324
2008/2009	37	29	1363	841
2009/2010	23	30	529	900

Result,

$$n = 5 \quad S_1^2 = 21904$$

$$X_1 = 370 \quad S_2^2 = 1764$$

$$X_1^2 = 36638$$

$$X_2 = 105 \quad f = 12.42$$

$$X_2^2 = 2553$$

$$\bar{X}_1 = 74$$

$$\bar{X}_2 = 21$$

Table value = 6.39

Hypothesis Test

Appendix – E₂

Computation of variance

Earning per share

Year	NABIL (X ₁)	EBL (X ₂)	X ₁ ²	X ₂ ²
2005/2006	129.21	62.78	16635.2	3941.33
2006/2007	137.08	78.42	18730.93	6143.69
2007/2008	108.31	91.82	11731.06	8430.91
2008/2009	106.76	99.99	11337.69	9998
2009/2010	78.61	100.16	6173.53	10032

Result,

$$\begin{aligned}n &= 5 & S_1^2 &= 50171.52 \\X_1 &= 559.37 & S_2^2 &= 30022.49 \\X_1^2 &= 64608.35 & & \\X_2 &= 433.17 & f &= 1.67 \\X_2^2 &= 38545.53 & & \\\bar{X}_1 &= 111.39 & & \\\bar{X}_2 &= 86.63 & & \end{aligned}$$

Table value = 6.39

Hypothesis Test

Appendix – E₃

Computation of variance

(Market price per share)

Year	NABIL (X ₁)	EBL (X ₂)	X ₁ ²	X ₂ ²
2005/2006	2240	1379	5017600	1901641
2006/2007	2050	2430	25502500	5904900
2007/2008	5275	3132	27825625	9803424
2008/2009	4899	2455	2400201	6027025
2009/2010	2384	1630	5683456	2656920

Result,

$$n = 5 \quad S_1^2 = 63078540.84$$

$$X_1 = 19848 \quad S_2^2 = 19451628.16$$

$$X_1^2 = 88029382$$

$$X_2 = 11026 \quad f = 3.243$$

$$X_2 = 11026$$

$$X_2^2 = 26233890$$

$$\bar{X}_1 = 3963.6$$

$$\bar{X}_2 = 2205.2$$

Table value = 6.39