CHAPTER -ONE

1. Introduction

1.1 General background of the study

Banking industry has stood as the most vulnerable yet the most profitable sector in Nepalese economy. The banking sector performs with much lesser difficulty in spite of increasing economic downturn and political instability in the nation. The clear picture is reflected in Nepal Stock Exchange, where 90% of stock traded is that of financial sector of which majority shares are hold by commercial banks. With more number of commercial banks carting to the same market, it has given rise to the intense competition.

Commercial banks and financial institution are playing vital roles in the economic development of the country. The main objective of a commercial banks and financial institution is to earn maximum profit by proper mobilization of resources in a particular productive sector after collecting them from scattered sources.

Banks and financial institutions are playing vital role in the economic development of the country. Banks and financial intuitions are not outcome of the economic development but they are the causes for it. They are the means to uplift the society because they provide different facilities to the people engaged in the trade, commerce and industry. Commercial banks and financial institution function in many different ways such as accepting deposits and providing interests, granting loan that help to remove the deficiency of capital performing agency functions which make life easier, and they also play role in credit creation. Dividend policy is a key to success of commercial banks and financial institutions.

It is a major financial decision. “Dividend policy determines the division of earnings between payment to shareholders and reinvestment in the firm.” J.fred and E. Scopenand, Thomas ‘Managerial Finance’ the drydn press pp657.

Retained earnings is one of the most significant internal source of fund for financing corporate growth, but dividend is the position of earning which is paid to the stockholders as a return to their investment. So it may be called distribution versus retention decision. Dividend payment reduces the total amount of internal financing. Therefore it is a matter of analysis and interpretation that what and how much it is desirable to pay dividend but firms want setting aside funds for maximizing the shareholders wealth.

The concept evolved from the commerce and bank actually denotes commercial bank. All commercial bank and financial institutions are established to generate earnings. People invest their money in equity shares for two types of economic gain: capital gain and revenue gain. When a company pays out a portion of its earnings, shareholders are benefited directly. On the other hand, instead of paying higher dividend, the firm retains some portions of earning as internal source of fund to grab the other opportunities of financing profitable investment which either constraints growth or requires the firm to find other sources of financing. In this situation price of stock increases and shareholder are benefited indirectly i.e. capital gain.

In this way, shareholders wealth can be maximized through either dividend or capital gain. There are many reasons for not paying higher dividend. As a result dividend policy is controversial. If investor couldn’t get, they would think their investment are worthless. The long run objectives can be achieved by maintaining adequate funds for reinvestment.

The history of commercial banks in Nepal is not so old. The first commercial banks and the first bank of Nepal started since 1994 BS in the name of Nepal bank Limited in 1955 under Nepal Rastra Bank Act 1955. As per the need of changing economic circumstances in Nepal, Commercial Bank Act has been introduced in 1974 AD. This act has helped to emerge number of commercial banks with a view to maintain the economic interest and comfort of the public in general, facilitate to provide loan for agriculture, industry and trade, make available banking services to the country and people.(Commercial Bank Act 2031)

It is even more essential in regard to the development of banking system and the regulation of financial activities in the kingdom. Again in 2022 BS Rastriya Banijya Bank Ltd. was established under Rastriya Banijya Bank Act 2021. Agriculture Development Bank also has been allowed to serve commercial functions since 2041 BS.

Nepal Rastra Bank entry registration with an amendment to the Commercial Bank Act 1974 AD. In the early of 1980s, when the government permitted to establish the foreign joint venture bank, three JVBs named as Nepal Arab Bank Ltd(Nabil Bank Ltd) , Nepal Grenlays Bank Ltd (Standard Chartered Bank Ltd) & Nepal Indo Swez Bank Ltd. (Nepal Investment Bank Ltd.) were established in 1984, 1985 & 1986 respectively. At present there are 31 commercial banks in operation. They are as follows.

* Nepal Bank Ltd

* Rastriya Banijya Bank Ltd

* Nabil Bank Ltd

* Agriculture Development Bank Ltd

* Nepal Investment Bank Ltd

* Standard Chartered Bank Nepal Ltd

* Himalayan Bank Ltd

* Nepal SBI Bank Ltd

* Nepal Bangladesh Bank Ltd

* Everest Bank Ltd

* Bank of Kathmanu Ltd

* Nepal Credit and Commerce Bank Ltd

* Lumbini Bank Ltd

* NIC Asia Nepal Ltd

* Machhapuchchhre Bank Ltd

* Kumari Bank Ltd

* Laxmi Bank Ltd

* Siddhartha Bank Ltd

* Global IME Bank Ltd

* Citizen Bank international Ltd

* Grand Bank Nepal Ltd

* NMB Bank Ltd

* Kist Bank Ltd

* Prime Commercial Bank Ltd

* Mega Bank Nepal Ltd

* Sunrise Bank Ltd

* Janata Bank Nepal Ltd

* Commerz And Trust Bank Nepal Ltd

* Civil Bank Ltd

* Century Commercial Bank Ltd

* Sanima Bank Ltd

The following banks have been selected for the study of dividend policy.

1) Nabil Bank Ltd

Nabil Bank Ltd, the first foreign joint venture bank of Nepal, started its operation in july 1984. It was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Passing its objectives, the banks provide a full range of commercial banking services across the kingdom and over 170 reputed corresponding banks across the globes. NABIL Bank has been pioneer in introducing many innovative products and marketing concept in the domestic sector. It represents a milestone in the banking history of Nepal as it has started an era of modern banking with customer satisfaction measured as a focal objective while doing business. One of the primary operations of the bank includes day to day operation. The bank is fully operated with modern technology which includes ATMs, credit cards, state of art, world renowned software from Infosys Technology system, internal banking system and telebanking.

2) Bank of Kathmandu

Bank of Kathmandu Ltd becomes a prominent name in Nepalese banking sector. Bank of Kathmandu started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights.

BOK has aim to facilitate the nation's economy and to become a significant contributor to the economic development of Nepal by distinguishing the bank as an efficient, competitive, safe & top quality financial institutions.

Bank of Kathmandu has today become a landmark in the Nepalese banking sector by being among the few commercials banks which is entirely managed by Nepalese professionals and owned by the general public.

3) Nepal Investment Bank Ltd:

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of Bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office on date.

Commercial banks are established for mobilizing public, private and internal financial resources and analyzing them into productive sector as short term loan and long term loan in different commercial activities.

This policy has given more emphasis to the private sector and institutional investor to invest in Nepal, as encouraging factor of sustainable growth. The new policy has already resulted that the establishment of commercials bank and financial institution is in encouraging trend.

This research work looks into all the relevant factors of dividend policy and this is more specific in ascending the dividend policy of commercial bank in Nepal.

1.2 Focus of the study

The main focus of the study is to highlights the dividend policy as a major financial decision of commercial banks and financial institutions. This study is to examine the dividend practice of commercial banks from different angles. Commercial banks have no satisfactory result about dividend decision. So this study is undertaken for comparative study of dividend policy adopted by them and to suggest the direction for growth of commercial banks to concerned parties.

1.3 Statement of the problems

Dividend is the most inspiring factors for the investment in share of financial institution. Dividend policy of commercial bank is not matching with the earnings. There is no proper relationship between dividend and quoted market price of share exists. Earnings of firm are taken as financial resources. When the firm retains earnings it will result in decreasing leverage ratio, expanding activities and increasing profit in succeeding years. Whereas if the firm pays dividends, it may need to raise capital through capital market, which reduce ownership control of the existing shareholders. In the later case, another way to raise capital is through debenture or new issue, which ultimately affects the risk of the firm. However dividend is most important for the attraction of investors and reflects firms healthy position in the market.

1.4 Objective of the study

The specific goal of this study is to evaluate and compare the dividend policy of selected commercial banks. The main objective of the dividend policy is maximizing return on shareholders' equity so the value of investment is maximized. Stock market provides funds for economic activities, expecting returns as dividend or appreciation of stock, price. The suitable and successive advice will be recommended on the basis of the findings from the study to the concerned authorities for their further enhancement. The specific goals of this study are mentioned as below.

*To analyze the dividend policies followed by the commercial bank in Nepal.

* To analyze the relationship of dividend with various important variables such as EPS, NP, NW & MVPS.

*To assess the legal provisions of dividend policies.

* To recommend the appropriate suggestions and possible guideline to take corrective actions based on the findings of the study.

1.5 Significance of the study

The Nepalese economy is not as such as state of that where anyone can feel proud by their heart. As a matter of fact the recent economic recession due to security problem and unstable political situation, commercial bank and capital market are also not able to get rid of such influences. Shrinking investment opportunities due to economic recession, the Nepalese investors are drawing back their hands from the investment sectors.

The study of "Dividend Policy: A special reference to the commercial Banks" is an indispensable subject matter in today's context because objectives behind investment in stock is to grand greater dividend and attract new investor to relative present investors and maintain goodwill of the company.

While investing in share, the investor forgoes opportunity income that he could have earned. The income of capital market is second from two types of gain (a) revenue gain i.e. dividend and b) capital gain i.e. appreciation in stock price. The study is a matter of great concern to identify the difficulty relating to dividend decision and factor effecting dividend policy.

Thus the significance of study of dividend policy are as follows:

* This study is helpful in further research in this context.
* This study is useful to make clear conception towards dividend to related investors and company's management.
* This study must be useful to government for policymaking controlling and supervisions and monitoring.
* This study covers a partial requirement of MBS.

1.6 Limitation of the study

Dividend is a major decision of financial management. There are several aspect of decision that are undertaken in financial management to achieve the organizational goal such as investment decision, capital structure management, liquidity management, leverages dividend policy etc. Only dividend policy is selected in this study to make more specific. This study interprets, analyzes and compares the dividend behavior and practice of related commercial banks.

This study is conducted for partial requirement of MBS program. So this study is limited by following factors.

* only some samples are taken for the study, may not match with the whole population.
* dividend is very much related with historical data, the whole data has been extracted from annual reports and websites of the concerned companies and http://www.nrb.org.np etc
* There are so many factors that affect dividend decision and valuation of the firm. However, only those factors which are related with dividend will be concerned in this study.
* The effect of economic recession due to security problem and unstable political situation which are the most important factors for the analysis of economic activities have not been taken to consideration for the purpose of the study.

1.7 Organization of the study

The study has been organized into five chapters as prescribed in the format to cover partial fulfillment of MBS program. The title of chapters is as follows:

Chapter one: Introduction

Chapter two: Review of Literature

Chapter three: Research Methodology

Chapter four: Presentation and Analysis of Data

Chapter five: Summary, Conclusion & Recommendation

The rationale behind this kind of organization is to follow a simple research methodology approach. The contents of each of the chapters of this study are briefly mentioned here.

The beginning introduction chapter deals with the subject matter of the study consisting statements of problems, objectives, significance, limitation & chapter plan of this study.

The second chapter explains conceptual review forms of dividend, types of dividend, factors affecting dividend policy and past findings of the related studies.

The third chapters covers the research methodology containing research design, sources of data , population and sample, statistical and financial tools and techniques of data analysis.

The fourth chapter deals with presentation and analysis of relevant data in different forms by using financial and statistical tools.

Ultimately the fifth chapter throws light with the summary, conclusion and recommendation of the study, it states the main findings, issues and suggestive framework of the study.

CHAPTER -TWO

2. Review of literature

Review of literature is related with the conceptual framework. It is necessary to know about the related facts and major issues. Every study is very much related with the past findings and it shouldn't be ignored. It provides basis to the present study.

2.1 Concept/Theoretical framework

Once companies make profit they must decide on what to do with profit . They could payout the profit to the owners the firm in the form of dividend. "ones the company decides whether to pay dividend, they may established a somewhat permanent dividend policy, which may in turn impact on investors and perception of the company in the financial market. What they decide depends on the situation of the company new and in the future. It also depends on the preference of investors and potential investors. (http://www.studyfinancial.com).

All aspects and questions, which are related to the payment of dividend, are contained in dividend policy. There is an inverse relationship between retained earnings and cash dividends. When retained earnings increases, the dividend will decrease and vice versa. Dividend decision is a major financial decision because of determines the amount to reinvest within the organization.

What and how much it is desirable to pay dividend always a controversial topic because, there are so many reason to pay higher dividend and not paying higher dividends. Shareholders can be benefited from two types of return by investing in the stock i.e. dividend and capital gain shareholder except higher dividend from the firm ensures towards setting asides funds for maximizing the overall shareholders wealth. It is therefore a wise policy to maintain a balance between shareholders interest with that of corporate growth from internally generated funds. It is better to pay dividend when a firm couldn't profitability reinvest earnings.

2.2 Forms of Dividend

According to the changing needs of corporations dividend is being distributed in several forms such as cash dividend, stock dividend, bond dividend, script dividend etc. Although cash dividend is most popular form of dividend, firms need to follow different types of dividend in view of the objective and policies, which they implement. Nepal and India only cash dividend , stock dividend are declared and paid. "The types of dividend that corporation follows is partly of a matter of the various circumstances and financial constraints that bound corporate plan and policies". (shrestha, manohar krishana, financial management theory & practices curricular development, tu 670)

2.2.1 Cash Dividend

Cash dividend is the main form of dividend, which is distributed to the shareholders in cash from the earnings. A company may have earnings but might be shortage of cash in its bank account. A company should have enough cash before declaring cash dividend, needed cash to pay dividend can be forecasted by preparing cash budget. The cash account reserved account as well as total assets and the net worth of the company decreased when cash dividend is decreased and the market price of stock also dropped.

2.2.2 Stock Dividend (bonus share), Stock Split and Reverse Split

A stock dividend is the payment of existing shareholders of a dividend in the form of stock. Stock dividend increases the number of outstanding share of the forms stock. Although stock dividends don't have a real value, firms pay stock dividend as a replacement of a supplement to cash dividend. Stock dividend is beneficial for both to shareholders and the company. In such dividend shareholders don't have to pay income tax and it will increase future gain in both i.e. dividend and capital gain. The bonus shares also beneficial to the company because it conserves the cash. It doesn't affect the proportion of ownership.

A stock dividend simply is the payment of additional stock to share holder's proportional ownership remains unchanged. (Van horn James c, financial mgmt and policy practices hall of Indiap334)

A stock spilt also known as straight stock split is essentially when a company increases the number of shares in case of stock split, a company may double, triple or quadruple the number of shares outstanding. Stock

Split is as same as stock dividend. Shareholders retain the same percentage

Of all outstanding stocks that she or he had before the stock dividend or split.

Reverse split is methods that are used to raises the market price of a firms stock by exchanging shorten number of outstanding shares for new shares of stock.

2.2.3 Bond dividend

Bond dividend is distributed to shareholders in the form of bond. The bond dividend is issued to reserve the cash position of company is not good.

2.2.4 Script dividend

When a company's cash position is weak and does not permit to pay cash as dividend, then it may declare dividend in the form of script. In this dividend, company issue and distribute promissory notes equivalent to dividend which may be interest bearing or not. Script dividend is declared only to wait for the conversion of other current asset into cash in the course of operation.

2.3 Corporate Share Repurchase

Corporate share repurchase is also views as an alternative to pay dividends. "A corporation's repurchase of its own stock can serve as the tax advantage substitute for dividend payment. Repurchase have the effect of raising share price so that share holders can be taxed at the capital gain rate instead of the ordinary dividend rate on cash dividend". (Western J freed and Copland, Thomas: dividend policy managerial finance. The drainer's international edition p682.)

If a firm has excess cash, it may repurchase its own stock leaving fewer shares outstanding and increasing the earnings per share stock repurchase may be an alternative to paying cash dividends. The benefits to the share holders are the same under a cash dividend policy and stock repurchases.

Corporation can repurchases their own shares in two ways: in open market repurchase usually involves gradual programs to back over a period of time. In the tender offer market or via tender offer, the companies specifies number of shares it is offering is in effect of a number of shares actually tendered by shareholders exceed the maximum number specifies by the company. Then purchase s are usually made on prorate basis. Alternatively if the tender offer is under subscribed the firm may decide to cancel the expiration date. Shares tendered during the extension may be purchased on either pro rata or first-come, first served basis.

James C Van Horn quoted that the equilibrium share repurchase price of a company should be:

$$P^* = (s \times p_c)/(s-n)$$

Where,

P*= repurchase price of share

S= total number of share outstanding

Pc= current market price of share

N= number of shares to be repurchased

In Nepal company act 1997 section 47 has prohibited the company from repurchasing its own shares. This section states that no company shall repurchase its own share or supply loans against the security of its own shares. This provision is against the norm of finance.

2.4 Types of dividend policy

The dividend policy can be mainly studied into two categories:

* residual dividend policy

* stable dividend policy

2.4.1 Residual dividend policy

This policy states that profit should be distributed to shareholders in the form of cash dividend only when the firm has earning left over after financing all acceptable investment opportunities. The shareholders get dividend only when there exist balance of earning after paying fixed obligation and financing all acceptable investment opportunities, if doesn't exist balance earning dividend isn't distributed to shareholders.

If the expected rate of return on the reinvestment is higher than what individual investor can realize on their own, it is to promise higher rate of return and then distributed only the left over earning as dividend. This policy ensures that the internally generated funds i.e. retained earnings are comparatively cheaper than the funds are obtained from external sources due to floatation cost.

The residual policy justifies that the dividend decision should follow those acceptable project which;

*profits are in the acceptable projects which rate of return is higher than expected rate of return.

*Reinvestment of profits helps to maintain optimal capital structure.

* And dividend should be paid only when there exist balance of earning after paying fixed obligation and financing all investment opportunities. Thinks residual dividend policy examines the objective of value maximization than present dividend to shareholders.

2.4.2 Stable dividend policy

Stability of dividend is reliable for the company and shareholders also because stable dividend has a positive impact on the market price of share. Stability of dividend means the consistency for lack of variability in the stream of dividends i.e. certain minimum amount of dividend is paid out regularly. Stable dividend policy can be in three forms.

2.4.2.1 Constant dividend policy

This dividend policy is based on the payment of a fixed amount per share as dividend each year. Most companies follow the paying fixed amount per share as dividend every and try to maintain to satisfy investors. Investors who have dividend as the only sources of their income prefer the constant amount of dividend per share.

2.4.2.2 Constant payout ratio

The term constant payout ratio refers to the ratio of dividend to earning. When fixed percentage of earning is distributed as dividend every year that is called constant payout ratio. The amount of dividend increases or decreases proportionately with earning.

2.4.2.3 Low regular plus extra dividend

The low regular plus extra dividend policy is a compromise between the first two policies. Those companies whose shareholders prefer at least certain amount of regular dividend follow this policy. A company fixed a minimum regular dividend to be paid in any case unless is occurred. A total dividend each shareholders receives a fixed regular amount plus a certain percentage of profit.

2.4 Factor affecting dividend policy

The factors affecting dividend policy is one of the main focus of the study. Most of the commercial banks are operating in profit, in such organization, dividend policy play a vital role although all of them are not protecting shareholders rights. Therefore it is very important to describe the factors affecting dividend policy plays a vital role although all of them are not protecting shareholders rights. The factors affecting dividend policy which are given below

2.5.1 Legal Rules

Legal rules are significant to provide the framework within which dividend policies can be formulated. The legal rules provided that dividends must be paid from earnings either from the current year's earnings or from past year's accumulated earnings. There is no any legal rules are in Nepal that makes compulsion a company to pay dividend but there are some rules, which restrict and limit the amount of dividend. Generally there are three rules:

(a) The net profit rule

(b) The capital impairment rule and

(c) The solved rule.

The net profit rule provides that dividends can be paid from past and present earning. The capital impairment rules protect creditors by forbidding the payment dividend from capital. . The rational of there lies in protecting the claims of preference shareholder and creditor on the firm's assets by providing a sufficient equality base while extending credit. Any dividends that impair capital are an illegal and directors are personally held liable for the amount of illegal dividend.

2.5.2 Liquidity position

The liquidity position of firm affects its ability to pay dividend. A firm has a record of earning, it may not able to pay cash dividend because of its liquidity position profit held as retained earnings are generally invested on

Assets required for the context of the business. Thus, the company must have adequate, cash available to pay dividend.

2.5.3 Payment of debt and its Restrictions

Debt contacts particularly when long term debt is borrow, frequent restrict a firm's ability to pay cash dividend. Such restriction, which is designed to protect the position of the leader, usually state that (a) the dividend can be paid only out of earnings generated after the signed of the loan agreement, and (b) the dividend cannot be paid when net working capital (CA-CL) is below a specified amount. Similarly preferred stock agreements generally state that no cash dividends have been paid. These are two alternatives of paying the debt. It can be refunded the debt at maturing by replacing it with other form of security or it can be made provisions for paying off the debt. If the decision is to retire the debt, this will generally require the retention of earning.

2.5.4 Rate and stability of earrings

The rate of earrings determines the relative attractiveness of paying out earning in the form of divided to shareholders using them in present enterprise.

A firm that relatively stable earning is often able to predict approximately what is future earning will be: such a firm is therefore more likely to pay out higher percentage of its earring than a firm with fluctuating earnings. The unstable firm is not certain that in subsequent years they hoped for earning would be realized. So it is likely to retain a high proportion of current earnings. A lower dividend will be easier to maintain if earnings full off in the future.

2.5.5 Access to the capital market

Another factor that can strongly affect dividend policy is the extent to which the firm has access to the capital market. A large well established firm has access to capital market. A large well established firm has easy access to capital market and other forms of financing; it can follow a higher dividend payout ratio. A small new or a company with limited resources is riskier for the potential investors. Its ability to raise equity or debt funds from capital market is restricted and it must retain more earnings to finance the operations.

2.5.6 Growth prospects

Another factor that can affect dividend policy is related to the firm growth prospect. The firm is required to make plans for financing its associated cost together with the need of internal funds would have a significant affects on dividend policy.

2.5.7 Investors preferences

The tax position of firms shareholders greatly affects the desire of dividends. If a firm has a large percentage of owners who are in tax brackets, its dividend policy should seek to have higher retention. Such policy will provide its owners with income in the form of capital gains as against dividend since capital gains are taxed at a lower rate than dividends; they are worth more after taxes the individuals in a high tax bracket. Thus at least up to some extent a firm's payout policy determines the preferences of investors.

2.5.8 Inflation

Inflation is another factor which affects firms dividend decision. During inflation period, price will raise and funds generated from depreciation may be inadequate to replace the equipments. If the assets are to be replaced near future consequently greater profit retention may be required. As a result dividend payout ratio will be low.

2.5.9 Ownership control

Dividend policy may also be strongly influenced by shareholders or management control objectives; management employs dividend policy as an effective instrument to maintain its position of command and control. The owners would prefer the use of debt and retained earnings to finance new investment opportunity rather than issue new stock. As result, dividend payout ratio will be reduced.

2.6 Legal provision regarding dividend practice

Nepal company act 1997 makes some legal provision for dividend payout in Nepal. This provision may be seen as under:

* section 2(m) states that bonus share means share issued in the form of additional shares to shareholder by capitalizing the surplus from the profits or the reserves fund of a company.

* section 47 prohibits company from purchasing its own share. This section states that no company shall purchase its own share or supply loan against the security of its own share.

* section 137 bonus share, and subsection (7) states that the company must inform the officer before issuing bonus share under sub-section(1) this may be done only according to a special resolution passed by the general meeting.

* Section 140: dividend and subsection of this section are as follows:

Sub section (1) : Dividend shall be distributed among shareholders within 45days from the data of decision except in the following circumstances.

- In case any low forbids the distribution of dividends
- In case the right for dividend is disputed.
- In case dividend can't be distributed within the time limit mentioned above owing to circumstances beyond anyone control and without full on the part of the company.

Subsection 2: In case dividends are not distributed within 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 shake be entitled to it.

The above explanation of Nepal Company act 1997 is not enough regarding dividend policy. The present company act cannot regulate the dividend and reserve policies of globalize financial institution- therefore certain rules regarding declaration of dividend and reserve should be formulated and it is demand of time.

It is reasonable to view the Indian company act. There are so many rules have been formulated by Indian government regarding declaration of dividend and the transfer of profit to reserve under company act. Indian company act, reserve & provision act have touched each and every aspect to regulate dividend and fund transfer to reserve.

2.6.1 Review of major studies in the relevant field

There are various studies have been conducted concerning dividend theory, its affect on market price of share and value of enterprise. Reviews of some major studies are as follows:

MOSGLIANI &MILLERS STUDY (DIVIDEND IRRRELEVENT THEORY)

Under the assumption of homogeneous expectations and perfect market, the miler and Modigliani dividend irrelevancy proportion assets: while dividends relevant, the dividend policy is irrelevant, Modigliani and miller in 1961 for the first time purported a new concept that dividend policy doesn't affect the value of the firm i.e. dividend policy has no effect on the share price of the firm. They gave a logistic that the value of the firm depends on the firms earnings, which depend on its investment policy. Therefore logic was base on the following assumptions.

- The firm operates in perfect capital market in which all investors are rational. Information is available to all free a cost there is no transaction lost securities are infinity divisible, no investor is large enough to in finance the market price of securities and there is no floatation cost.
- The world without taxes.
- The firm has fixed investment policy, which is not subject to change.
- Risk of uncertainty does not exist.

Modigliani & Miller proved this through by following steps:

Step-1 the market price of share in the beginning of the period is equal to the present value of dividend paid at the end of the period i.e.

$$P_o=(D_i + p_iI)/(1+k_e)$$

Where,

P_o= Beginning market price of the share

D_i= Dividend per share to be earned at the end of year

P_i= Market price of share after the end of period

K_e= Cost of equity capital

Step-2 Assuming no external financing, the total capitalized value of the firm could be simply the number shares multiplied by current market of share.

$Np_{o=}\ n(D_i + p_iI)/(1+k_e)$

Where,

N= total number of share outstanding

Step-3

If the firms internal source of invested in new share i.e. Δn is the number of new share issued at the end of year at price p_i the above equation can be expressed as:

Np_o= b[$nD_i+(n+\Delta n)p_i- \Delta p_i$]/ $(1+k_e)$

Where,

N= number of share at beginning

ΔN= Number of shares issued at the end of the period

Step-4 If the firm finances all investment proposals, the total amount of new share issued will be given by the following equation

$\Delta Np_i= 1-(E-nD_i)$

$\Delta Np_i=1-E+nD_i$

Where,

ΔNp_i= The amount obtained from the sales of new shares to finance in new investment

I= Total amount required for investment

E= Earning of the firm during the period.

nD_i= Total dividend paid

($E- nD_i$)=Retained earnings

Atep-5 by substituting the the value of $\Delta\ np_i$ from equation-4 to equation-3, we find,

$Np_o=[\ nD_i+(n+\ \Delta n)-1+E-nD_i]/(1+k_e)$

$Np_o=[p_i\ +(n+\Delta n)-I+E]/(1+k_e)$

By solving the equation the value of the firm do not change after declaring the dividend i.e. there is no effect of dividend policy on the share price.

The Modigliani & Miller approach is based on some critical assumptions that can't be followed in the present situation. The assumptions of free information of perfect capital gain are neglected in this theory. The assumption of this theory isn't applicable in Nepal.

GORDON'S STUDY-1962(bird in hand theory)

Another concept developed by Myron Jordon in1962. This theory assumes that investor gives more emphasis to the present dividend more than future capital gain. So this theory is called bird in hand theory. This model insist that increase in dividend payout ratio tends to increase in the stock price for the reason that investors consider the dividend yields in less risky than the expected capital gain. This model is based on the following assumptions.

*the firm is an all equity firm

*no external financing is available

*internal rate of return (r) and cost of capital (k) are constant

*the corporate tax rate doesn't exist

*the retention rate (b), once decides upon, is constant *cost of capital must be greater than the growth rate

Based on assumption, market value of share can be determined by using following formula.

P*=[k(1-b)]/k-br

Where,

P= market price per share

K= cost of capital

b= Retention ratio

r= Growth rate /Rate of return

by solving above equation, we can find three stages of a firm.

* if the firm is in growth stage, the price will be declining corresponding with increased in payout ratio or decreased in retention ratio..I.e. high dividend payout ratio result to decrease in market price of share. Hence, there is positive relationship between retention ratio and share price in growth firm.

* if the firm is in normal sage , here will be no any change in share price regarding change in payout ratio or decrease in market price of share. Hence there is positive relationship between retention ratio and share price in growth firm.

* if the firm is in declining stage, the share price will rise in correspondence with increase in dividend payout ratio. Hence rise in correspondence, with increase in dividend payout ratio. Hence there is negative relationship between retention ratio and stock price in declining stage.

WALTER'S STUDY (Walters James and E, DIVIDEND POLICY AND COMMON STOCK PRICE, journal of finance 1966pp-29-41)

Walters studied on dividend policy and common stock price in 1966. According to his research, the dividend policy of a firm can't be looked aside from investment policy. He argued that dividend is relevant with stock prices against the theory of Modigliani and Miller's irrelevant theory. The relationship between firms internal rat of return and cost of capital is determining factor to retain profits or distributed dividends. He concludes that as long as the internal rate of returns greater than the cost of capital, the stock price increased by retention and varies with dividend payout ratio:

The assumptions of this theory are:

- The firm finances all investments through retained earnings other than debt and new share issue.
- Consistency of internal rate of return and cost of capital
- The value of earning per share and dividend per share are assumed to be constant.

Walter developed the following formula to calculate market price per share.

$P=[dps + r/k(eps-dps)]/k$

Where,

P= Theoretical market price of share

Dps= Dividend per share

Eps= Earning per share

r= Internal rate of return

k= cost of capital

The firm may have three stages

- If he firms internal rate of return is greater than cost of capital, the firm is growth firm and its stock price is negatively correlated with its dividend with its dividend payout ratio. It mean if the firm has r>k than stock price increases when dividend decreases and vice versa.
- If the firms internal rate of return is equal to its cost of capital, the first is normal firm and its stock price is not affected with its dividend payout ratio, In other words , dividend payout doesn'taffect the value of share weather the firm retains the profit or distributes dividends. It means if the firm has r=k then there is no relationship between stock price and dividend payout ratio.
- If the firms internal rate of return is less than cost of capital, the firm is declining firm and its stock price is positively correlated with its dividend payout ratio. It means if the firm has r<k than stock price increases when dividend payout ratio increases and vice versa.

Walter's assumption of consistency of internal rate of return and cost of capital are not applicable in present situation. Rate of return changes with the policy of investment and cost of capital changes with risk bears by the firm.

VAN HORN AND DONALD'S STUDY

Vane Horn, James and Mc Donald's dividend policy and new equity financing, journal of finance, May (1971, pp507-5191)

Chawla and Srinivash conducted a study on important dividend retention on shale price. The collected the data from Bombay stock exchange of 18 chemicals and 13 sugar companies for the period 1969 to 1973. The main objective of the study were

- To estimate a model to explain share price dividend and retained earning relationship.
- To test the dividend retained earning hypothesis
- To examine the structural change in estimated ratio
- To explain the price behavior of stock

They use following simultaneous equation model as declared by friend and Puckett in 1964.

They use following price behavior of stock declared by friend and Puckett in 1964.

Price function: $p_{t\,=}$ $F[D_{t,}p_{t,}(p/E)^{t}{}_{t-r}]$

Demand supply functioned $=\sigma_{y}[E_{t,}D_{(t-1),}(p/E)^{1}t\text{-}r]$

Identity= $D_{t\,+}P_{t}$

Where,

P= Market price per share

D= Dividend per share

R= Retained earning

E= Earnings per share

$(P/E)^{1}$= Deviation from the sample average of price earnings ratio

T= Subscript for time

They solve the above equation by using least square estimation of dividend and retained earnings in the case of chemical industries are positive and co efficient of all the equations was high.

SHOLOMO BENERTZ, RANI MICHELY AND RICHARD THALM'S STUDY

Dr. Manohar Krishna published an article in 1981 entitled "Public enterprises are neither positive to pay dividend nor self – supporting in financial matters due to interference in day to day affairs by government. HMG/N appoints high ranking officials.

They do nothing but showing their bureaucratic behavior and they are the enemy of efficiency and lead the corporation to face losses. He points out that HMG wants to tap resources through dividend, following criteria should be followed.

- Proper evaluation of public enterprises on capability of paying dividend through corporate co ordination committee.
- Imposition of fixed rate dividend policy by government to financially sound public enterprises.
- Circulating the information to all public enterprises about the minimum rate of dividend.
- Identification of objective in corporation Act, company act so as to clarify public enterprises regarding this financial obligation to pay dividend to HMG.

In another study "Dividend policy in selected public enterprises" he has discussed about streamline dividend policy. He collected the data of 18 public limited companies for the year 1982-83. He analyzed the data of 18 public limited companies for the year 1982-83. He analyzed the data by using different models and concluded that dividend policy constitute one of the most criteria issues of the public limited companies are found to pay negligible dividend to the shareholders in whom HMG/N proved to be potential investors, need and preferences on the one hand and the financing need of the public limited companies to the potential investment opportunities on the other hand. Dividend policy involves many aspects such as selecting the types of dividend to be paid either cash or stock and other forms as well as determining stable or fluctuating or minimum plus extra dividend payment. The application of Walter's and Gordon's dividends models in calculating the stock value of selected public limited companies several both acceptance and fantastic results.

RADHE SHYAM PRADHAN'S STUDY

(Pradhan Radhe shyam "stock market behavior is small capital market: A case study of Nepal" The Nepalese management review, vol ix,no.1, 1993)

Radhe Shyam Pradhan conducted a study on "stock market behavior is small capital market: A case study of Nepal" by collecting data for 17 enterprises for the year 1986 to 1990. The objectives of the study are as follows:

- To study the stock market behavior of Nepal.
- To examine the relationship of market equity, market value to book value, pricing earnings and dividends with liquidity, profitability, leverage, assets turnover, and interest coverage. Some findings of the study are as follows:
- If the eps is high, the ratio of dividend per share to MPS will high.
- Dividend per share & Market price per share are correlated.
- There is positive relationship between dividend payout ratio and interest coverage ratio.

REVIEW OF UNPUBLISHED MASTERS DEGREE THESIS

Prior to these students of master degree have been written some theses which are relevant for this study are as presented below:

ANJANI RAJ BHATTARAI'S STUDY (Bhattarai, Anjani Raj, share market in Nepal: unpublished master degrees thesis. Tu Kritipur, 1990)

- Most of the companies are under rating the expectation of investors and they have by resulting the low market ability of shares on trading floor of stock exchange.
- There is wide gap between actual percentage dividend paid by the companies and expected dividend. Most of them declaring the dividend less than risk free rate of return plus market risk premium.
- Relationship among earning, dividends, and growth rate and expansion programmed do not exit. So the retention policies do not match with the actual financing need of the companies has been realized.
- There is mismatch between the calculated price of share and market price of share. It is clearly shows the over pricing of the shares and market price is guided by technical factors.
- It is necessary to lay down target of dividend.
- Listed company should be bounded to pay minimum rupees of dividend each year.
- If the earnings of the companies are good, extra dividends in the form of interim dividend with regular dividend should be paid by the companies.

Bishnu Hari Bhattarai's study (Bhattarai, Bishnu Hari 'Dividend decision and its impact on stock valuation' unpublished master degree thesis, T.U. Kritipur, Kathmandu, 1996)

A thesis entitled 'Dividend decision and its impact on stock valuation in 1996 was submitted by Bishnu Hari Bhattarai.' He concludes;-

- There is positive relationship between net profit, liquidity and dividend per share, which means higher the net profit then higher the dividend and vice – versa.

- The relationship between market price of shares and stock holders required rate of return is negative and the companies are able to return even equal to risk free rate of return.
- Most of the companies do not adopt stable dividend policy and their dividend payout ratio is not constant.
- There is negative relationship between liquidity position and dividend payment.
- Joint venture banks are showing this interest to pay regular dividend than Nepalese owned companies.

Sudhakar Timilsina's study (Timilsina, sudhakar, "Dividends and stock prices: An empirical study" An unpublished Master degree thesis. T.U. Kritipur)

The main focus of the study is to test relationship between dividend and stock price. Determine the effect of dividend policy on stock price.

The findings of his study are as follows:

- Positive relationship between stock price and dividend per share.
- Changing the dividend policy affects the stock price.
- The relationship between stock price and retained earnings ratio is negative.

Hari Ram Aryal's study (Aryal Hari Ram: 'Dividend policy: comparative study between NABIL and NGBL' An unpublished masters degree thesis, T.U. Kathmandu, 1997)

Comparative study between NABIL and NGBL "His main findings are as follows.

- There is positive relationship between EPS, DPS and MVPS.

- A change in dividend per share affects the share price differently in different banks.
- There is no uniformity of dividend privacy between two banks.

Mr Rabinddra Paudel's Study (Paudel, Rabindra: 'Dividend policy: A case study of different listed finance companies' An Unpublished masters degree thesis. T.U. Kritipur, Kathmandu 1999)

A case study conducted by Rabindra Paudel on 'Dividend policy: A case study of different listed finance companies' concludes

- Financial institutions are adopting dividend policy haphazardly. They have adopted neither stable divided policy nor constant dividend policy.
- Dividend payout ratio affects the market price of share differently in different financial institutions.
- There is positive relationship between earning per share and dividend per share and net worth.
- The capital market in Nepal is in impairing condition but it is not as efficient as required.

A study conduct by Mr.VC Gurung entitled "A financial study of joint venture banks in Nepal: a comparative study of NGBL & NABIL" has pointed out that dividend payout is controversial issue.

He has suggested that divided should be declared by considering the shareholder exception and the investment opportunity of the banks to solve the controversial issue as better as possible.

The research on "On Dividend policy and practice". A comparative study of Nepal Bank Ltd. And Nepal Arab Bank Ltd. Performed by Mr.Upadhaya pointed out that both the banks have maintained highly flustering ratio of dividend payout. So, he has advised there banks management to follow either stable or constantly growing dividend policy. In this regard, he has further suggested reviewing the pre determined policies adopted by the bank ever in the changed context on the basis of share holder interest and reaction. He has suggested in the need to chores an option by the shareholder's between stock dividend and cash dividend arbitrarily. For this he has suggested to purpose this matter (i.e. dividend declaration in the annual general meeting of shareholders for necessary approvals. This study also reveals that exiting commercial banks in Nepal have followed inconsistent and irregular dividend payment practices. Mr. Upadhya has put the pressure to avoid such practices and hence suggested to elected dividend on the basis of facts and related variables.

Dividend decision Is very important topic in financial management. Commercial banks and financial institution both are mushrooming in initial stage. They are providing almost same service to the people successfully. This study is basically conducted to the people successfully. This study is basically conducted to show the dividend policy plays dominant role in developing capital market. This study is different from previous study.

CHAPTER THREE

3. RESEARCH METHODOLOGY

The basis objectives of this study are to analyze and interprets the dividend policy of commercial banks to find out the factors that protect the interest of investors. It also tries to find out the relationship between dividends with MVPS, EAT, EPS and no of commercial banks. To accomplish this objectives the study follows the research methodologies described in this chapter. "Research methodology" is a way to systematically solve the research problems.

The study is an empirical study carried out with the objective to measure the effective of dividends announcement to the stock prices in the context of Nepalese commercial banks. During each research work, to accomplish the objectives effectively specified methods and process should be followed. This chapter is devoted to the research methodology applied in the study to achieve the goal set out. The research describes research design, population and sample sources of data, the model applied specification of variables and statistical tools which used are focused under research methodology.

Basically dividend policy and practices of a corporate firm reflect its management attitudes of rewarding shareholders which can also affect investment policy in the short and long run expected growth in market value, capital structure pattern and liquidity due to such emphasis dividend policy changes the practice time to maximize the value of the firm so that dividend policy has become a matter of interest.

3.2 RESEARCH DESIGN

Research design helps in the analysis of data related to study topic, it is controlling media for the collecting of data and it helps to collect the accurate information is related with dividend policy of commercial banks by using various parameter the effective techniques. On the ground observed infirmities and inefficiencies, an attempt will be made to suggest the reasonable and useful recommendation to the concerned authorities.

It tries to analyze and describe the relationship between dividend policy and stock price including other variables which affect stock price such as operating earnings, MPPS, level of debt financing, retained earnings and yield ratio etc. Hence this empirical study has followed both analytical and descriptive research design.

3.3 NATURE AND SOURCES OF DATA

This is based on secondary data of sample commercial banks. The required data have been extracted from annual reports and financial statements of the firms available in SEBO database and NEPSE database. The secondary data have been collected from the following sources.

- Head office of the respective banks
- Central library of TU
- www.nepalstock.com.np
- Supplementary data and information from Nepal Rastra bank
- Different books, journals & daily newspapers

3.4 Population and Sample

Since mid 1980 when HMG of Nepal adopted economic Liberation police in Nepal, many joint Venture banks where established within a short spine of time. As a result nowadays many joint venture banks are operating in the country.

These are many JVB's whose share are treated actively in the stock master. These exit many commercial banks in Nepal out of which are listed in Nepal Stock Exchanged Limited till 30th November, 2008 for which date on financial indicators are available. There are many commercial banks where shares are traded actively in stock market and have paid dividends for years. As our basic objectives are to study the relationship between dividends announcement and market price of stock of commercial banks in Nepal these all commercial banks are population of our study. But as it doesn't seem reasonable to study all of them, this study concentrates on these companies whose shares are trades and I take these banks data as sample usable data could be obtained for various sectors are as indicated below in table 3.1.

S.N.	Names of listed commercial banks
1	NABIL Bank
2	Bank Of Kathmandu
3	Nepal Investment Bank

3.5 Method Of Data Analysis

The analysis of the joint venture banks data will be done according to pattern of data available. Various financial and statistical tools have been applied to analyze the various regarding the study topic. The analysis will be done by using various financial and statistical tools. The relationship between dividend and different variables as will be compared with each other to interpret.

3.5.1 Tools Defined About Certain Financial Indicator

a) Earnings per Share (EPS)

EPS refers the rupee amount earned per share of common stock outstanding. It means the profitable net of the shareholders investment. EPS is one of the factors that affect the dividend policy and stock price of the net profit after taxes by the total number of share outstanding.

Symbolically,

EPS= Net profit after taxes/ No. of common share outstanding

b) Dividend per Share (DPS)

Dividend per share is the part of earnings distributed to the shareholders as per share basis. It gives the financial soundness of the company, it is the amount calculated by dividing the total dividend with total numbers of share outstanding.

Symbolically,

DPS= Total cash dividend/ Total no. of common share outstanding

c) Retained Earnings per share (REPS)

Out of total earnings by a company a portion is distributed to as dividend to the shareholders and remaining is retained to carry out further investment opportunities. The retained amounts of total earnings are called retained earnings, which affects the growth of company, which is directly related to share price of the company. Retained earnings per share is calculated by dividing total amount of retained by no. of share outstanding or by subtracting dividend per share (DPS) from earning per share (EPS).

REPS= Total amount of retained earnings/Number of common shares outstanding

Or,

REPS= Earnings per share (EPS)- Dividend per share(DPS)

REPS also act as an independent variable in this research model to determine the stock price. Where, earning per share measures the profitableness of the shareholders investment. The earnings per share show the earning which is available for common shareholders. The higher earning indicates the better achievements in terms of profitability of the firm by mobilizing this firm. Earnings per share are calculated by dividing net profit after taxes by number of common share outstanding.

EPS= Earnings per share to shareholders/ Number of common shares outstanding

d) Price Earning Ratio (PER)

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

Symbolically,

PER= MVPS/EPS

e) Dividend payout ratio (DPR)

DPR reflects what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the bank. It is calculated by dividing the DPS by EPS.

Symbolically,

DPR= DPS/EPS

f) Retention Ratio (RR) (b)

A retention ratio is also known as retained earning ratio, retained earnings are also a part of profit that between dividend and retained earnings, so when DPR is higher, retained earnings will be lower. It can be calculated by

Symbolically,

RR=(1-dpr)

g) Market value per share to book value per share ratio (MVPS/BVPS)

This ratio is shows the relationship between MVPS and BVPS. It also shows the market price of the share as a percentage of book value per share and later on the forms.

Symbolically,

MVPS/BVPS= Market price per share/Book value per share

h) Dividend Yield Ratio (DY ratio)

Market value per share is highly influenced by the dividend yield ratio because change in DPS can bring effective change in the MVPS.IT is calculated by dividing Dividend per share by market value per share.

Symbolically,

DY ratio= DPS/MVPS

i) Earning Yield Ratio (EY ratio)

IT may be defined as the ratio as earning per share to the market price at a particular time. Earning yield is an important profitability ratio from the point of view of the ordinary shareholders. Earning yields affected the EPS as the percentage of the stock market.

Symbolically,

EY ratio=EPS/ MPPS

j) Market price per share (MPPS)

Market price per share is valued of stock which can be obtained by a firm from market. Market value per share is one of the variables, which is affected by the dividend per share and earning per share of the firm.

k) Return on Net worth (RONW)

It refers to the owners claim is the assets of the banks. This can be found by subtracting total liabilities from total assets of the banks. This can be found by subtracting total liabilities from total assets and also this is the indicator of banks good financial performance that means it indicates how well these institutions have used the resources of the investors. It so calculated by divide net profit after taxes by net worth.

Symbolically,

RONW=net profit after taxes/net worth

l) Investment

It indicates the amount invested by company in security and debentures. In this study, it has been calculated by adding the investment in government securities a well as shares debentures and others.

3.5.2 Statistical tools used for variables

In this study, besides the financial tools various statistical tools also have been used to analyze. The result of analysis has been properly tabulated, compared and interpreted. Some statistical tools used in the study are described as follows.

Arithmetic Mean($\bar{X}$)

Arithmetic mean is the value, which represents the group of values, the average value lies somewhere in between the two extremes i.e. the largest and smallest items. For the reason an average is frequently referred to as a measure of central tendency, in data related to dividend of sample companies over different years, under this study mean calculated of EPS, DPS, MPPS, earning yield, dividend yields, P/E ratio, RONW and REPS.

Symbolically,

$$\bar{X} = \frac{\in x}{N}$$

STANDARD DEVIATION

Standard deviation is the most important and widely used measures of studying dispersion. Dispersion indicates the extent to which values of a variable differ from the mean. "Dispersion or spread is the degree of the scatter of variation of the variable about a central value". (Brooks & Dick) standard deviation satisfies most of the properties of good measures of dispersion. The greater the magnitude of the deviations of the values from their deviation means a high degree of uniformity of the values from their deviation means the high degree of uniformity of the observations as well as homogeneity of a series, a large standard deviation means just the opposite.

Here, in this research work standard deviation is used to measures the dispersion for various dependent and independent variables, I.e. dividend per share, net profit after tax, market price per share and net worth.

If $x_1, x_2, x_3, \ldots\ldots\ldots\ldots x_n$ is a set of a observation then its standard deviation is given by

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

Where,

σ = standard deviation

X= variables

$\bar{X}$= mean

N= Number of values

Coefficient of variables (CV)

It refers the relation between standard deviation and mean. The relative measures of dispersion based on the standard deviation are known as coefficient of standard deviation. Co efficient of dispersion, based on standard deviation multiplied by 100 is known as CV. It is used for comparing the variables of two or more series. The series for which the co efficient of variables is grater is said to be more variable or conversely less consistent, less uniform, less stable of homogenous. In the same way the series for which the co efficient of variable is less or said to be less variables or more consistence, more uniform, more stable or more homogenous.

CO EFFICIENT OF VARIABLE (CV)=$\frac{\sigma}{X} \times 100\%$

Probable error (PE)

Probable error of the correlation denoted be PE is the measures of testing the reliability of the calculated value of 'r'.

PE= $0.6745 \times \frac{(1-r^2)}{n}$

If the value of the 'r' is less than PE, than there is no evidence of correlation. i.e. value of 'r' is not all the significant. Thus, if the value of 'r' is more than six times, the problem error the coefficient of correlation is practically certain the value of 'r' is significant.

COEFFICIENT OF CORRELATION(R)

The correlation analysis is a statically tool measures the degree of relationship between the variables under consideration. The measures of correlation call correlation co efficient and it refers to the techniques used in measuring the closeness of the relationship between the variable. Correlation can either be positive or it can be negative. IF both variables are changing in the same direction, correlation said to be positive and when the variation in the two variables takes place in opposite direction, the correlations termed as negative. In this research work coefficient of correlation is calculated for degree of relationship between dividend and other relevant financial indicators such as EPS, MPS, current ratio, net profit and net worth.

COEFFICIENT DETERMATION (R^2)

One very convenient and useful way of interpreting the value of coefficient of correlation between two variables is to use square of co efficient, called co efficient of determination. Co efficient of determination measures the degree of linear association or correlation between dependent and independent variables. In other words it measures the total percentage variation in dependent variable explained by independent variables. The co efficient of determination can have value ranging from zero to one. For example an r^2 of 0.55 implies that 55%of the variation in the dependent variable can be explained by the independent variable. It means we are unable to account for 45%of the variation in the dependent variable. In this study. R^2 is calculated for the model prescribed above.

ADJUSTED R^2

Many regression packages produces a variant of the R^2 static, called the adjusted R^2 stastic.The adjusted R^2 controls for the number of independent variables (including the constant term) used to estimate the regression equation. It provides a rough indication of whether adding additional independent variables than increased/decreased the explanatory power of the model.

The adjusted R^2can be decline when additional independent variables, without much explanatory power are added to the regression equation. In this study, co efficient of determination is calculated to know the degree of correlation of dividend per share with earnings per share, net profit, market price per share and net worth.

$$\mathbf{R^2} = \frac{[N\in XY - \in x \in y]}{[N\in x^2 - (\in x)^2][N\in Y^2 - (\in Y)^2]}$$

Regression Analysis

Regression analysis studies the nature of the relationship between the variables. According to Yamane," one of the most frequently used techniques in economic and business research to find a relation between two or more variables that are related casually, is regression analysis. Again regression analysis is that statistical device with the help of which we can estimate the unknown values of one variable from known values of another variables, the closer the relationship between two variables, the greater will be the confidence that may be placed in the estimates the variables, which is used to predict the variable. There may be only one or more than one independent variables which influences in the estimates. The variable which is used to predict the variable. There may be only one or more than one independent variables which influence the dependent variable.

If there exist only one independent variables which influences the dependent variable. If there exists only one independent variable the regression analysis is called simple regression analysis. And regression equation is formed as

$$Y= a+a_1x_{1+}a_2x_2.....a_nx_n$$

In the above regression equation a_1,a_2,....a_n are co efficient, which are defined as follows.

REGRESSION CONSTANT (a)

The term 'a' in the above equation, which is the interpret of the model, is the component of dependent variable that doesn't vary with fluctuation in the independent variables. In another words, it indicates the average level of Dependent variable when independent variables is/are zero.

Where a_2, a_3,.....a_n are regression, co efficient of each independent variables from each unit change in that independent variables in the regression model. In other words the co efficient describes how changes in independent variable affect the value of dependent variables estimate.

STANDARD ERROR OF ESTIMATE (SEE)

The standard error of estimation is a measure which indicates how prices the prediction of depended variable is, based on independent variable. With the help of regression equation perfect predictions practically impossible or there might be in accuracy in prediction. Standard `error of estimate measures the accuracy of the estimated figure. The standard error of estimate is the dame concept as the standard deviation. The standard deviation measures the dispersion about an average, such as mean. The standard error of estimate measures the dispersion about an average line called the regression line.

The standard error of estimate measures of the reliability of the estimating equation, indicating the variability of the observed points around the regression line that is the extent to which observed values differs from these predicted values on the regression line. The smaller the value of standard error of estimate, the closer will be the dots to the regression line and the better the estimates based on the equation for this line. If standard error of estimate is zero, then there is no variation about the line and correlation will be perfect. Thus with the help of standard error of estimate, it is possible for us to ascertain how well and representative the regression line is as a description of the average relationship between two series.

$$\textbf{SEE}=\sqrt{\frac{1-r^2}{n}}\times\frac{\sigma y}{\sigma x}$$

TEST OF HYPOTHESIS

A hypothesis is a conjectural statement of the relationship between two or more variables (Kiplinger 1964). The test of hypothesis discloses the fact weather the difference between the computed statistic and hypothesis is significant or not thus, the hypothesis statement should be able to shows the relationship between variables and they should, at the sometimes carry clear implementation for testing the stated relations. The main objectives of this test are significance regarding the parameter of the population on the basis of sample drawn from population. To test the validity of assumption t –test has been used. If sample size is less than 30, F Test is used. For applying t- test in the content of small sample the‘t’ value is calculated first and compared with tabulated value at certain level of sign facet for given degree of freedom.

If the calculated value of ‘t’ is more than table value (says0.05) the difference is significant at 5%level but if calculated of ‘t’ is less than the concerning table value of ‘t’ difference is not treated as significance.

Overall the hypothesis test of this research work will be concerned towards the dividend policy adopted by the four sampled banks. Hypothesis of this research work will be helpful to check the optional dividend policy and maximize the stock price and to take some other appropriate dividend strategies. The following hypotheses have been formulated against the objectives set through as below.

Hypothesis: 1

Null hypothesis (h_0): There is no significant difference between major key to variables of dividend and sampled banks of Nepal

Hypothesis: 2

Alternative hypothesis (h_1)): There is significant difference between major key variables of dividend and sampled banks of Nepal.

3.7 Graphic Presentation

Graphic presentation is a powerful and effective way highlighting variables. A very common way of presenting data for two variables, which have a relationship, in figure of chart. Not all data can be presented in figures. It works best when the data is continuous. This is a feature of parametric data.

CHAPTER IV

4. DATA ANALYSIS AND PRESENTATION

Dividend policy is a major decision of the firm due to its decision of dividend net earnings into two parts the retained earnings and dividend and its impact upon value of the firm. The study contains different objectives which have already mentioned in the introduction chapters. In order to achieve these objectives, several tools and techniques have been made to analyze the comparative dividend decision of joint venture banks of Nepal and attitudes of management towards the optimum dividend decision. The analysis is highly supposed by the practices of dividend distribution by banks presentation and interpretation of financial statement is done here to determine the meaning of financial data. Some grapes and diagrams are also used to highlight the company's DPS, EPS, NPAT trend over the five years period.

4.1 Analysis of Financial Tools (Indicators)

4.1.1 Earning per share (EPS)

Normally the success and failure of any business organization are measured in term of its capacity to generate earnings. The earnings of any business organization also help to evaluate performance. A high earning shows higher strength while a lower earnings shows seekers strength of business organization. Because the earning of any organization helps for its growth, expansion and diversification. Eps is calculated by dividing the net profit after tax (NPAT) by the total number of share outstanding. EPS is the measurement of good or bad performance of business organization. Higher EPS shows good and lower EPS shows bad performance of business organization. As a result, EPS, the achievement of the institution are measured with the help of its capacity to generate higher earnings per share. So, EPS is most important financial tools of the institution.

The following table shows all the details regarding earning per share, its paid up value and earnings after taxes of sample of joint venture banks of Nepal.

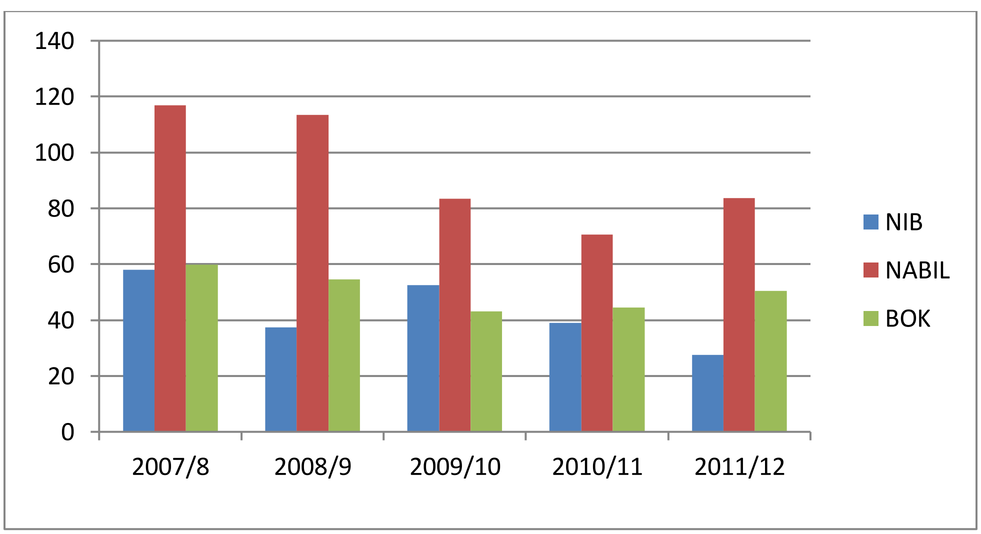
Table no: 1

Data of EPS of selected Bank

Year	**Bank's Name**		
	NIB	NABIL	BOK
2007/8	57.9	115.86	59.94
2008/9	37.4	113.44	54.68
2009/10	52.5	83.44	43.08
2010/11	39.1	70.67	44.51
2011/12	27.6	83.57	50.56
Average	42.58	93.47	50.56

Figure No: 1

(Bar diagram of EPS)



The above mentioned comparative table and figure shows that EPS of selected joint venture banks. The EPS of NABIL decreasing trend up to 2010/11 and then it is increased in 2011/12, where the EPS of the NABIL bank are Rs115.86, 113.44, 83.81, 70.67 & 83.57 for the year of 2007/8, 2008/9, 2009/10, 2010/11 &2011/12 respectively.

The EPS of NIB is in fluctuating trend, where the EPS of the bank are Rs. 57.9, 37.4, 52.5, 39.1&27.6 respectively for the year of 2007/8, 2008/9, 2009/10, 2010/11& 2011/12 respectively.

The EPS of BOK is slightly decreasing trend. The EPS of the banks are Rs. 59.94, 54.08, 43.08, 44.51, 50.56 respectively for the year of 2007/8, 2008/9, 2009/10, 2010/11 & 2011/12 respectively.

4.1.2 DIVIDEND PER SHARE (DPS)

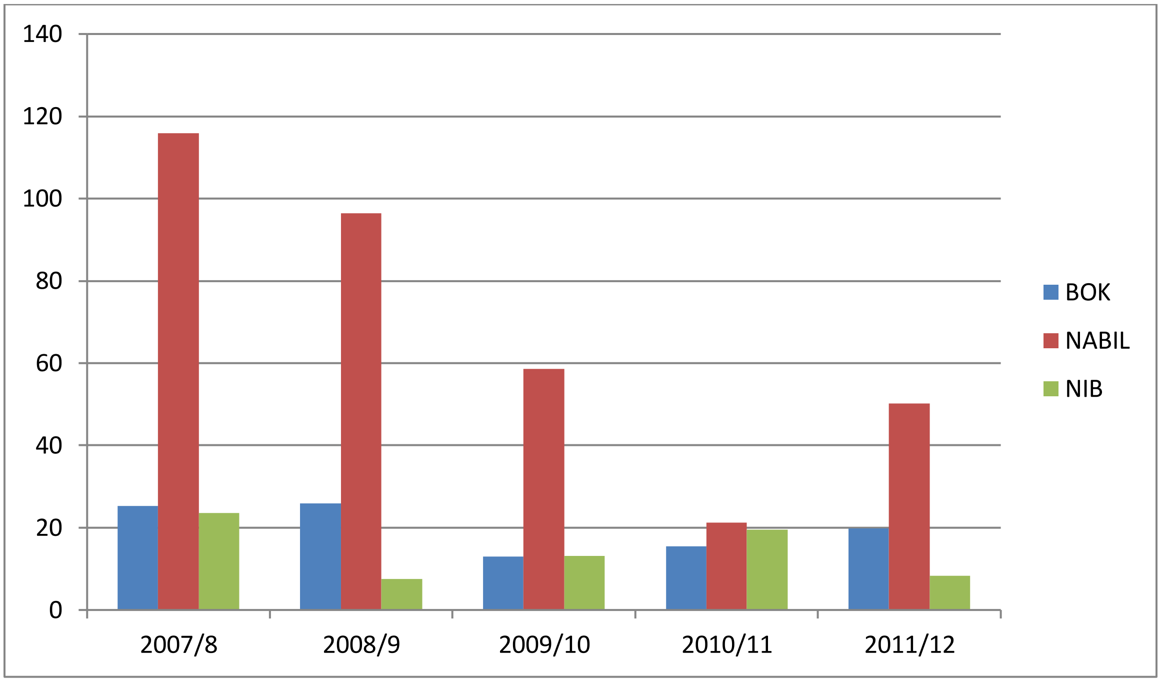
Dividend per share (DPS) indicates the proportion of earnings distributed to the shareholder on per share basis. It is calculated by divided by the total dividend distribution to equity shareholders by the total number of shares outstanding. This is the important stage of this study for the purpose of analysis regarding the dividend. For analysis purpose the data of DPS for the following years have been taken.

Table no: 2

Data of DPS of Selected Banks

Banks/Year	BOK	NABIL	NIB
2007/08	25.24	115.86	23.63
2008/09	25.90	96.424	7.48
2009/10	12.924	58.67	13.125
2010/11	15.44	21.20	19.55
2011/12	19.876	50.14	8.28
Average	19.876	68.46	14.413

Figure No-2



From the above bar diagram, the DPS of three banks i.e. Nabil, NIB and BOK has been presented. DPS of Nabil bank is in decreasing trend up to year 2010/11 and then it is increase in year 2011/12. The DPS of the NABIL Banks are Rs.115.86, Rs 58.67, Rs. 21.20 and Rs. 50.14 respectively for the year of 2007/08, 2009/10, 2010/11, 2011/12 respectively. Similarly the DPS of the NIB Bank is in fluctuating trend. The DPS are Rs. 23.63, Rs. 7.48, Rs. 13.125, Rs. 19.55 and Rs. 18.28 respectively for the year of 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12. The DPS of BOK are in fluttering trend. The DPS are Rs. 25.24, Rs. 25.90, Rs. 12.924, Rs. 15.4 & Rs. 19.876 respectively for the year of 2007/8, 2008/9, 2009/10, 2010/11, & 2011/12 respectively.

The following table shows the growth in DPS & EPS for the given banks.

Table no.:3

Banks/ Years	**BOK**		**NABIL**		**NBI**	
	EPS	**DPS**	**EPS**	**DPS**	**EPS**	**DPS**
2007/08	37.79%	190.11%	-15.45%	-39.63%	-12.495	-0.42%
2008/09	-8.78%	2.61%	-18.35%	-16.77%	-35.42%	-68.35%
2009/10	-21.21%	-50.1%	-26.12%	-39.15%	40.37%	75.47%
2010/11	3.32%	19.68%	-15.68%	-63.87%	-25.52%	48.85%
2011/12	2.78%	40.575%	18.25%	136.51%	-29.41%	-57.65%

The above table shows the growth rate of DPS and EPS of the given banks. The growth rate of EPS of BOK is 37.79%,-8.78%, -21.21%, 3.32% & 2.78% respectively. Similarly the growth rates of DPS of BOK are 190.11%, 2.61%, -50.1%, 19.68% & 40.575% respectively. The growth rates of EPS of NABIL bank are -15.45%, -18.35%, -26.12%, -15.68% & 18.25% respectively. Similarly the growth rate of DPS is -39.63%, -16.77%, -39.15%, -63.87%, & 136.51% respectively. The growth rate in EPS of NIB bank is -15.45, -35.42%, 40.37%, -25.52% & 29.41%respectively. Similarly the growth rate in DPS are -0.42%, -68.35%, 75.47%, 48.85% &-57.65% respectively.

4.1.3 Dividend Payout Ratio

This ratio shows the amount of dividend as a percentage of earning available for equity shares. These dividend payout ratios obviously depend on earning, so greater the earnings more the ability of financial institution. Payout as dividend as a percentage of earnings available for common shares after meeting all charges of the company. Dividend payout ratio is calculated by dividing dividend per share by earning per share .

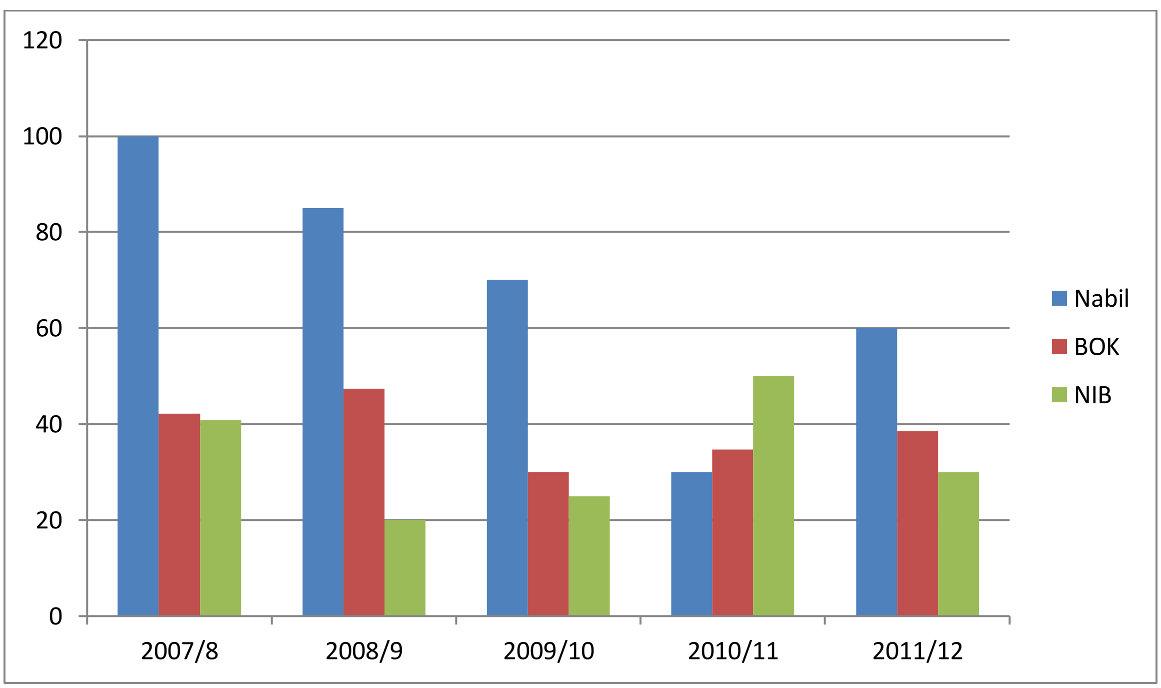
Following table shows the dividend payout ratio of sample joint venture banks.

Table No- 4

Banks / Year	NABIL	BOK	NIB
2007/08	100%	42.11%	40.8%
2008/09	85	47.37	20
2009/10	70	30	25
2010/11	30	34.75	50
2011/12	60	38.56	30

The following bar diagram shows the dividend payout ratio of the following banks in the given year.

Figure No-3



From the above bar diagram we can see that the DPR of NABIL bank is higher than the other banks. But it is in decreasing trend. Similarly the DPR of BOK & NIB banks are in fluctuating trend for the given years of 2007/8, 2008/9, 2009/10, 2010/11 & 2011/12 respectively. For NABIL bank the highest dividend payout ratio is 100% in the year of 2007/8 and lowest is 30% in the year of 2010/11. For BOK the highest dividend payout ratio is 47.37% in the year of 2008/9 and lowest dividend payout ratio is 30% in the year of 2010/11.

For BOK the highest dividend payout ratio is 47.37% in the year of 2008/9 and lowest dividend payout ratio is 30% in the year of 2009/10. Similarly for Nib bank the highest dividend payout ratio is 50%for the year of 2010/11 and the lowest dividend ratio is 20% for the year of 2008/9respectively.

4.1.4 Price Earnings Ratio

PER reflect the price, which is currently paid by the market for each rupee of currently reported earnings per share. Price earnings ratio helps to judge the investors expectations about the performance of the company. P/E could be calculated by dividing market value per share by earning per share. Higher the price earning ratio, it is better for owners. Following table shows P/E ratio of sample banks.

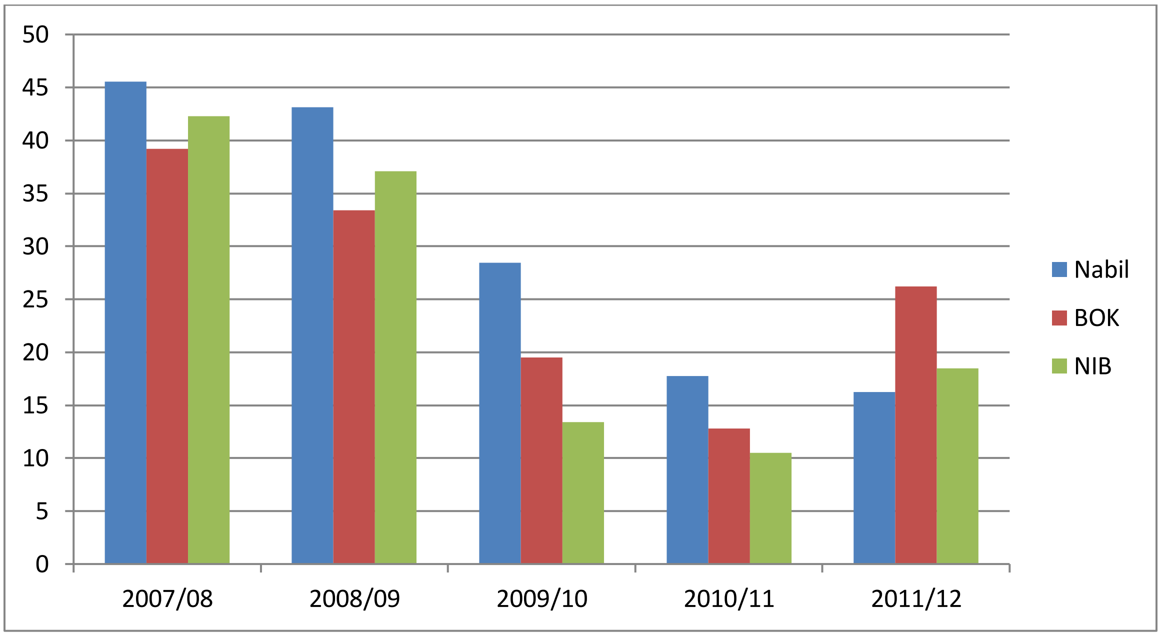
Table No-5

	Nabil	BOK	NIB
2007/8	45.53	39.21	42.3
2008/9	43.1	33.37	37.1
2009/10	28.45	19.5	13.4

2010/11	17.72	12.81	10.5
2011/12	16.21	26.22	18.5
Average	**30.202**	**26.22**	**24.36**

The following bar diagram shows the price earning ratio of the following banks in the given year.

Figure No-4



From the above bar diagram we can say that the P/E ratio of the different banks for the different financial year. The P/E ratio of NABIL bank is in decreasing trend. They are 45.53 times, 43.10, 28.45, 17.72 & 16.21 times respectively. The P/E ratio of bank of Kathmandu is in decreasing trend up to 2010/11. But in the year of 2011/12 it is increased. The ratios are 39.21, 33.37, 19.5, 12.81, and 26.22 respectively. The P/E ratios of NIB bank are also in decreasing trend up to the year of 2010/11 and in the last year it is increased. They are 42.3 times, 37.1, 13.4, 10.5 and 18.5 times respectively. NABIL bank has the highest P/E ratio of 45.53in the year of 2007/08and lowest P/E ratio of 16.21 in the year of 2011/12. BOK has the highest P/E ratio of 39.21in the year of2007/08 and the lowest ratio of 12.81 in the year of 2010/11. Similarly NIB bank has highest P/E ratio of 42.3 in the year of 2007/8 and the lowest P/E ratio of 10.5 in the year of 2010/11 respectively.

4.1.5 MARKET VALUE PER SHARE TO BOOK VALUE PER SHARE

This ratio indicates the prices that the market is paying for the share that is reported from the net worth of the banks. In other words it is the price the outside is for each rupees reported by the balance sheet of the company. Market value per share to book value per share ultimately evaluates the net present value of shares in the market. Following table shows the market value per share to book value per share of sample banks from the year 2oo3/4 to 2011/12 respectively.

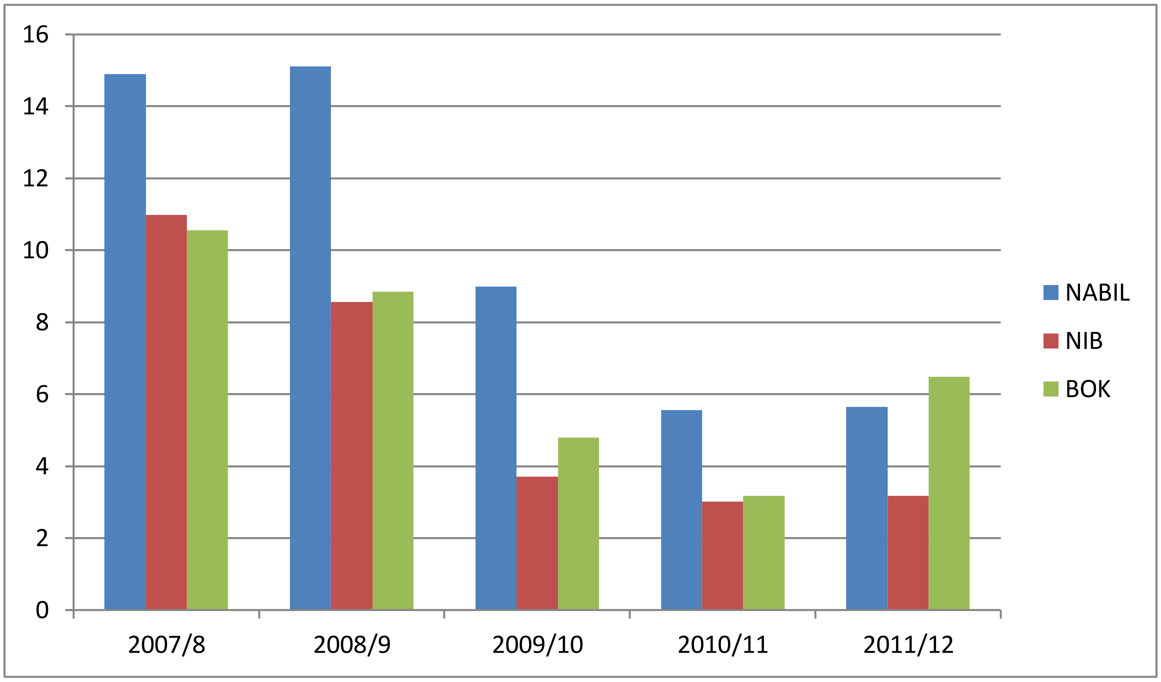
Table no.-6

MARKET VALUE PER SHARE TO BOOK VALUE PER SHARE OF SAMPLE BANKS

	NABIL	NIB	BOK
2007/08	14.9	10.9	10.56
2008/09	15.12	8.57	8.85
2009/10	9	3.71	4.79
2010/11	5.56	3.01	3.18
2011/12	5.64	3.17	6.845

The following bar diagram shows the market value per share to book value per share

Figure.No.-5



The above bar diagram represent the MVPS to BVPS ratio of the given banks. NABIL bank has 14.9, 15.12, 9, 5.56 and 5.64 times of MVPS to BVPS ratio for the years of 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly NIB bank has 10.99, 8.57, 3.71, 3.01, and 3.17 times of MVPS to BVPs ratios respectively.NABILbank has the highest ratio of 15.12 times in the year of 2008/09 and lowest ratio of 5.56 times in the year of 2010/11 respectively.

NIB has the highest ratio of 10.99 for the year of 2007/08 and lowest ratio of 3.01 for the year of 2010/11. Similarly BOK has the highest ratio of 10.56 in the year of 2007/ 08 and lowest ratio of 3.18 In the year of 2010/11 respectively.

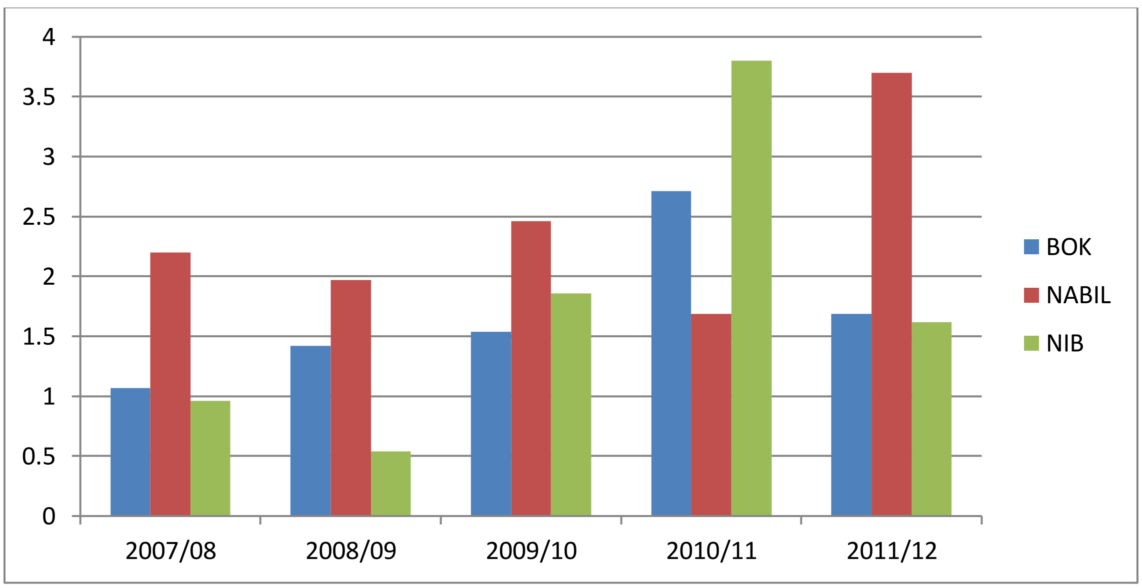
4.1.6 Dividend Yield Ratio

This ratio highly influences the market value per share because a small change in the dividend per share can bring effective change in market value of the share. Therefore before allocation of the dividend to stockholders, the impact of market scenario and price fluctuation has to analyzed and evaluated for the long run survival of the institutions. Following table and graph shows DY Ratio of sample banks.

Table no-7

	BOK	NABIL	NIB
2007/08	1.07%	2.2%	0.96%
2008/09	1.42%	1.97%	0.54%
2009/10	1.54%	2.46%	1.86%
2010/11	2.71%	1.69%	3.8%
2011/12	1.685%	3.7%	1.62%

Figure No-6



From the above bar diagram we can compare the position of dividend yield ratio of the given banks. For BOK the DY ratio is decreased at first, and from the year of 2009/10 it starts to increase. The ratio are 1.07, 1.42, 1.54, 2.71 & respectively. For NABIL bank DY ratios are in fluctuating trend. The ratios are 2.2, 1.97, 2.46, 1.69 & 3.7 respectively. For NIB bank the DY ratio are in fluctuating trend. The ratios are 0.96, 0.54, 1.86, 3.8 & 1.62 respectively. The highest Dy ratio for BOK is 2.71% and lowest Dy ratio is 1.07%.For NABIL bank the highest DY ratio is 3.7% and the lowest DY ratio is 1.69%. For NIB bank the highest Dy ratio is 3.8% and the lowest DY ratio is 0.54%respectively.

4.1.7 RETURN ON NET WORTH (RONW)

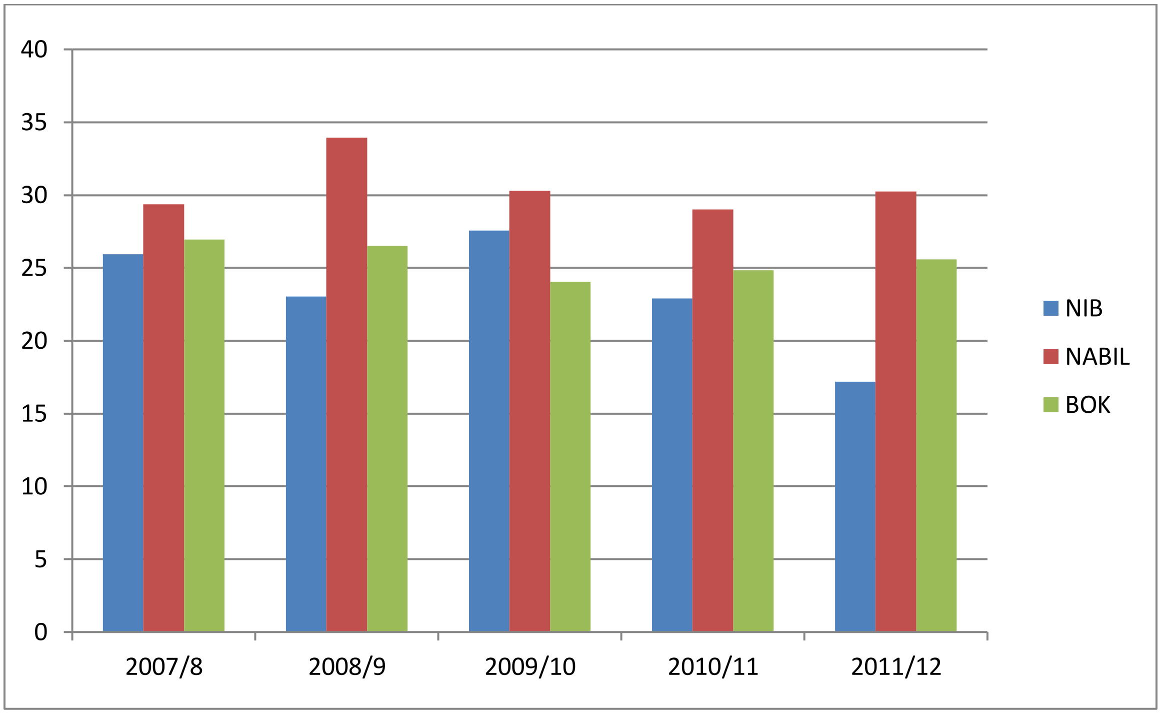
It refers to the owners claim in the assets of financial institution. This can be, found and also is the indicator of company's good financial performance. This ratio indicates how will the financial institution has used the resources of the owners. The table below shows RONW (%) of the sample banks.

Table no. 8

	NIB	NABIL	BOK
2007/8	25.94	29.35	26.94
2008/9	23.04	33.93	26.51
2009/10	27.58	30.27	24.04
2010/11	22.9	29.02	24.85
2011/12	17.18	30.25	25.585

The above data has been expressed by the following bar diagram.

Figure No-7



From the above bar diagram we can analyze the position of return on net worth of the given banks. For NIB bank the return on net worth are 25.94, 23.04, 27.58, 22.9 and 17.18 for the year of 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The highest RONW for the bank is 27.58% for the year of 2011/12 respectively. For NABIL bank the return on net worth are 29.35%, 33.93%, 30.27%, 29.02%and 30.25% for the year of 2007/08, 2008/09, 2009/10,2010/11 and 2011/12 respectively. The highest RONW is 33.93%for the year of 2008/09 and the lowest RONW is 29.02%for the year of 2010/11 respectively.

For BOK the returns on net worths are 26.94%, 26.51%, 24.04%, 24.85%and28.585% respectively for the year of 2007/08, 2008/09, 2009/10, 2010/11, and 2011/12 respectively. The highest RONW for the bank is 26.94%for the year of 2007/08 and the lowest return on net worth is 24.04%for the year of 2009/10 respectively.

4.1.8 ANALYSIS OF STATISTICAL TOOLS

Financial tools are not sufficient to describe the relationship among the various interrelated variables. So statistical tools utilized to make the analysis more research oriented. For this purpose some financial data are used to determine how one variable is related to another variable. So, it is better to determine degree of correlation between dividend per share and earning per share, dividend per share and profit after tax, dividend per share and net worth, dividend per share and average market price per share. Similarly means and standard deviation of all the variables, t-values, co efficient of determination and probable error too are determine for the purpose of analysis.

The following table shows the relationship between DPS and EPS of all the sample banks.

Table no.9

		BOK	NABIL	NIB
MEAN($\bar{X}$)		50.55	93.47	42.9
S.D.(σ_X)		6.285	17.95	10.92
C.V.(X)		12.433	19.2	25.45
MEAN ($\bar{Y}$)		19.876	68.46	14.413
S.D.(σ_Y)		5.16	33.76	6.3
C.V.(Y)		25.96	49.3	43.71
a		-19.52	-103.526	-0.88943
b		0.7795	1.84	0.35687
r_{xy}		0.9497	0.9813	0.8783
r^2		0.9019	0.9629	0.7714
P.E		1.23%	0.5%	0.5704%
SEE		0.1149	0.6194	0.1233
T_{value}		5.25	8.82	3.184
N		5	5	5

Where,

X= EPS

Y= DPS

R_{xy}=simple correlation

The above table shows that relationship between EPS and DPS of NABIL, BOK and NIB banks. In conclusion, as a whole relationship between DPS with EPS of all the selected banks are positive and also EPS affect DPS. Therefore, DPS depends upon EPS.

The following table shows the relationship between DPS and MPPS .

Table no. 10

	BOK	**NABIL**	**NIB**
MEAN($\bar{X}$)	19.876	68.4588	14.413
S.D.(σ_X)	5.16	33.745	6.3
C.V.(X)	25.96	49.29	43.71
MEAN ($\bar{Y}$)	1396.25	3033	1113.8
S.D.(σ_Y)	645.84	1727.27	741.57
C.V.(Y)	14.63	56.95	66.58
a	-21277.91	-2317.6	-275.035
b	1140.79	10.45	58.195
r_{xy}	0.9231	0.9598	0.9211
r^2	0.8521	0.9291	0.8484
P.E.	1.995%	1.063%	2.045%
SEE	125.16	20.32	20.496
T_{value}	4.15	5.91	4.09
N	5	5	5

Where,

X= DPS

Y= MPPS

R_{xy}=simple correlation

In conclusion, as a whole relationship between DPS and MPPS of all the selected banks are positive and also DPS affect the MPPS. Therefore MPPS depend upon DPS.

The following table shows the relationship between DPS and NPAT

Table no-11

BANKS	BOK	NABIL	NIB
MEAN($\bar{X}$)	19.875	68.46	14.413
S.D.(σ_X)	5.16	33.745	6.3
C.V.(X)	25.96	49.29	43.71
MEAN ($\bar{Y}$)	484.4	1247.88	1015.814
S.D.(σ_Y)	78.5	304.06	63.81
C.V.(Y)	16.21	24.37	62.82
a	264.57	738.58	-4083.38
b	-11.06	6.84	353.79
r_{xy}	0.4369	0.1536	-0.8928
r^2	0.1909	0.0234	0.7971
P.E	0.16182	0.19532	0.04058
SEE	6.12	3.9816	2.04
T_{value}	4.16	3.182	3.43
N	5	5	5

Where,

X= DPS Y= NPAT

R_{xy} = Simple correlation

The following table shows the relationship between EPS and MPPS

Table No-12

	BOK	NABIL	NIB
MEAN($\bar{X}$)	50.55	93.47	42.9
S.D.(σ_X)	6.285	17.95	10.92
C.V.(X)	12.433	19.2	25.45
MEAN ($\bar{Y}$)	1396.25	3033	1113.8
S.D.(σ_Y)	204.24	1727.27	741.57
C.V.(Y)	14.63	56.95	66.58
a	1396.6	-5723.2696	-765.644
b	-0.00693	93.68	43.81
r_{xy}	0.9932	0.738	0.7897
r^2	0.9864	0.5446	0.6236
P.E	0.0018	0.09108	-0.07528
SEE	53.592	29.04	18.63
T_{value}	14.75	3.182	3.182
N	5	5	5

Where, X= EPS Y= MPPS R_{xy} = Simple correlation

In conclusion , as a whole relationship between EPS and MPPS of all the selected banks are positive and also EPS affect the MPPS. Therefore MPPS depend upon EPS.

Chapter- Five

5. Summary, conclusion And Recommendations

A brief describing regarding dividend policy of commercial banks has been already presented in the first chapter. In the second chapter, conceptual review with theories, ideas, legal rules and research finding have been presented. Reached methodology has been described and analyzed in the fourth chapter.

In this chapter, an attempt has been made to present the major findings, issues and gaps. Summary & conclusion and recommendation for the future guidelines. These findings will certainly show the guideline, it will help to take the decision and also show the comparative position of the CBs. The summery is only based on this research. This can be helpful for the upcoming research in this subject matter.

5.1 The major finding of the study:

The major findings of the study are highlighted as following.

- The average EPS of NABIL is the highest among the sample CBs. This Bank has much earning power and utilizing its capacity to generate EPS. The EPS of other two banks are lower than NABIL's EPS and they are in fluctuating trend.
- The average DPS of NABIL is the highest. So NABIL is paying the highest percentage of its earning as dividend to shareholder.
- The average EATs of NABIL is the highest among the entire sampled CBS during study period. All the banks has paid regular cash dividend during the study period.

- The average price- earnings ratio of NABIL bank is the highest among sampled CBs. It indicates that MPPS of NABIL bank is greater when we compare with its earning. So the shareholders of this bank are benefiting capital gain more than the revenue gain. It shows that the investors have higher expectation about the banks performance and its market appraisal.
- The average MVPS and BVPS of NABIL is the highest and shareholders of NABIL get higher capital gain but shareholders of other banks get lower capital gain. Due to the highest BVPS and MVPS of NABIL, MVPS to BVPS ratio is the highest. NABIL bank is able to get higher capital gain even after declaring regular cash dividend.
- On the basis of the average DPR, NABIL is more efficient than other sampled CBs for distribution on the basis of MVPS.
- The average RONW of NABIL is the highest. RONW is the ratio of return on total capital employed. If higher amount is kept aside from profit for reinvestment than the bank has no opportunity for reinvestment then RONW declare NABIL has reinvestment its retained earnings at the most.
- S.D. regarding DPS and EPS of Bok is the lowest that shows the higher degree of uniformity. [There is positive correlation between EPS and DPS for all the sampled commercial banks on the basis of regression amylases of DPS with EPS, the beta coefficient (b) is positive of the entire sampled bank. It indicates the 1 percent increase in EPS leads to the average increase Rs. 1.84 in DPS of NABIL Rs. 0.7795 of BOK and Rs. 0.3567 of NIB bank.

- S.D. of MPPS of Bok is the lowest which shows the more uniformity and S.D of MPPS of NABIL is the highest which shows the more variability. The corelations between DPS with MPPs of all the banks are positive. The beta coefficient of all the sampled CBs is positive. It indicates that 1% increase in DPS leads to Rs 1140.79 for Bok, Rs.10.45 for NABIL and Rs. 58.195 rupee increase in MPPS.
- The correlation between EPS with MPPS is positive for all the sampled CBs. The beta coefficient of NABIL and NIB are positive but Bok is negative. Which indicate 1% increase in EPs leads to Rs. 0.00693 decrease in MPPS.
- The S.D. of NPAT of NIB is lowest, which indicates the more uniformity than other banks. But the S.D. of NPAT of NABIL is highest, which indicate the more variability. The co-efficient of correction between DPs with NPAs of Bok and NABIL is positive. The beta coefficient of NABIL and NIB bank is positive but Bok is negative which indicate 1% increase in DPS leads to Rs. 6.84 increase in NPAT of NABIL. Rs. 353.79 increase in NPAT of NIB and Rs. 11.00 decrease in NPAT of BOk.
- By the analysis coefficient of variation of sampled CBs

- CV regarding EPS, BOk is more consistent and NIB is less consistent.
- CV regarding DPS, BOk is more consistent and NABIL is less consistent.
- CV regarding EAT, BOk is more consistent and NIB is less consistent.
- CV regarding MPPS, BOk is more consistent and NABIL is less consistent
- CN regarding NPAT, BOK is more consistent and NIB is less consistent.

5.2 Issue and Gaps

ON the basis of findings of the study, some issue and gaps have been extracting. The issues and gaps related to dividend and other relevant factors founded while, analyzing the variable are as follow.

- There is no legal rule binding the banks to pay dividend when they are running in profit. In Nepal company act 1997, there is a provision to restrict the payment of dividend. There is no clear providing regarding dividend policy in Nepal.
- There is no long term vision regarding earning and dividend payout ratio the banks have. They don't have their clearly defined policy in these regards. Some banks have not paid dividend at all or paid very small amount without considering the risk free rate of return (r). Management of the banks has while right to decide about the dividend instead of collective opinion of shareholder.
- The banks have no target EPS and payout ratio. There is huge flotation, in EPS and DPS due to issuance of bonus share despite increase in EAT.
- There is no Specific dividend payment strategy is seemed to be followed by the banks. Declaration of cash dividend and stock dividend are made without analyzing its impact.
- There is no any attention that carries out the activities to promote and protect shareholders interest. Government is also not paying the alternation on this matter. The activities of capital market are also very limited.

5.3 Summary and conclusion.

There are many reasons for paying higher dividend and there are many reasons for not paying higher dividend. As a result, Dividend policies have been controversial. Dividend policy decides about the division of earnings between dividend payment and retained earnings. When the banks retain its earnings; it will result decreasing leverage ratio and increasing profit. But when the banks doesn't have reinvestment opportunity is less than risk free rate, it decrease EPS and market price of share. In such situation, dividend payment to shareholder is taken as the best because shareholders might have investment opportunities to invest elsewhere when the banks pays dividend, the cash balance, reserve amount as well as the total assets and net worth of the bank decrease and the market price also drop. If the bank pays higher dividend, it may need to raise capital though capital market that reduce ownership control of existing shareholders. The way to raise capital through debenture or new issue, which ultimately affects the risk of the firm. Therefore, a wise policy should be maintained between shareholders interest and cooperate growth from internally generated funds.

At the first stage, different theoretical concept of dividend policy analyzed. M and M hypothesis asserts that dividend policy doesn't affect the share policy of the firm. The value of the firm depends on the earning of the firm. Gorden's Bird in the hand theory insist that dividend payout ratio leads to increase in the stock price became dividend yield is less risky. At the second stage, different financial indicators tools have been used to analyze the variable. On the basis of financial analysis of sampled CBs during study period, NABIL is pioneer of the average EAT. NABIL is able to earn the highest EPS and also the average Dps, Dps and DYR of

NABIL is highest. The average P/E ratio of NABIL is the highest. NABIL is pioneer RONW. The pace of growth and utilization of capacity of NABIL is very good.

At the third stage, different statistical tools have been used and summarized the data to interpret the result. From the major findings of the study following conclusion are drawn.

- The entire sampled CBs have issued bonus share to increase the paid up capital.
- DPS is directly related with EPS. Higher the EPS, higher the DPS and vice versa.
- DPR of NABIL is good, but other sampled CBS have neither followed stable dividend policy nor residual dividend policy.
- RONW is also directly related with DPS. It is seen that higher the DPS, higher the RONW and vice versa.
- DPS is also positively related with MPPS. It is seen that higher the DPS, higher the MPPS and vice versa.

5.4 Recommendations

Although this study is concern with dividend policy: a special reference to commercial banks, it may be appropriate to provide suggestion for the future guidelines as well as other origination in Nepal. The suggestions are as follows:

5.4.1 Attachment of legal rules:

The legal rules should be clear about dividend policy and reserve and provision for smooth growth to financial instructions as well as national economy. There is a lack of rules binding firms to pay dividend or create reserve or provision. Some regulating act is silent on these matters. Some forms are in position to pay dividend but they don't pay dividend. Some forms pay dividend less than risk free rate of return interest rate paid by the commercial banks.

5.4.2 Clearly Define Dividend Policy:

Company should have their clearly defined dividend policy. Clearly defined dividend policy helps to determine the specific policy i.e. stable dividend or residual dividend or low regular plans extra dividend policy. This is important not only for shareholder's point of view for adequate return but also to generate stable and increasing market value per share for long term survival of banks, efficient management and socially acceptable distribution of income. Companies can clearly define their dividends policy discussing in AQM among shareholders on democratic manner.

5.4.3 Banks should have target rate of return i.e. profit planning and payout prices.

The function of EAT, EPS and DPR of the banks seems very high. The high function shows that they are not going in targeted way. In this situation, banks are advised to fix their target rate of earning, payout ratio. This will help to build a good image in costumers and shareholders and stock market.

5.4.4 Banks should have long-term vision:

Banks should have longs term vision regarding earning, dividend and investment that help to cope with challenging competitive situation of present world. Banks should define their long-term vision clearly, considering their future plans, expansion in business, and future economy of the country.

5.4.5 Collective opinion from investors:

Collective opinion should be taken from shareholders weather they preferred stock dividend or cash dividend. Issue of cash dividend increase MVPs and EPS. But issue of stock dividend decreases MVPS and EPS. Therefore, all the financial are suggested to decide about it after collective opinion from shareholder.

5.4.6 Shareholder's expectation and growth requirement of the banks:

Dividend should be declared by considering the shareholders expectations and the investment opportunities and growth requirement of the banks to solve the controversial issue as better as possible.

5.4.7 Dividend equalization Fund should be created by the banks:

Dividends equalization fund should be created from keeping aside some amount from profit to stabilize the payment of dividend to shareholders. And some of lower earnings dividend payout ratio should be maintained from these Funds.

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