

# **DIVIDEND POLICY OF COMMERCIAL BANKS IN NEPAL**

**(Special Reference to Standard Chartered Bank, Himalayan Bank and Everest Bank  
Limited)**

**By**

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*(M.B.S)*

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## **RECOMMENDATION**

This is to certify that the Thesis

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Entitled:

## **DIVIDEND POLICY OF COMMERCIAL BANKS IN NEPAL**

**(Special Reference to Standard Chartered Bank, Himalayan Bank and Everest Bank  
Limited)**

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

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**(Special Reference to Standard Chartered Bank, Himalayan Bank and Everest Bank Limited)**

And found the thesis to be original work of the student and written in according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Master's Degree in Business Studies (M.B.S.).

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## DECLARATION

I hereby declare that the work reported in this thesis entitled **Dividend Policy of Commercial Banks in Nepal (Special Reference to Standard Chartered Bank, Himalayan Bank and Everest Bank Limited)** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for Master's Degree of Business Study (MBS) under the supervision of Shree Bhadra Neupane and Rabindra Bhattarai lecturer of Shanker Dev campus.

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Moreover, it is needless to say that to error is human and I am also no exception, so I apologize for any errors and mistakes committed in this thesis work.

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## **LIST OF CONTENTS**

**Recommendation**

**Viva- voce sheet**

**Declaration**

**Acknowledgement**

**Table of Contents**

**List of Tables**

**List of Figures**

**Abbreviations**

| <b>CHAPTER-I: INTRODUCTION</b>                    | <b>Page</b> |
|---|-------------|
| <b>No.</b>  |             |
| 1.1 BACKGROUND OF THE STUDY                       | 1           |
| 1.2 STATEMENT OF THE PROBLEM                      | 5           |
| 1.3 Objectives of the Study                       | 7           |
| 1.4 Significance of the Study                     | 7           |
| 1.5 Limitations of the Study                      | 7           |
| 1.6 Organization of the Study                     | 8           |
| <br><b>CHAPTER-II: REVIEW OF LITERATURE</b>       |             |
| 2.1 CONCEPTUAL FRAMEWORK                          | 9           |
| 2.1.1 Meaning of Dividend                         | 9           |
| 2.1.2 Types of Dividend                           | 13          |
| 2.1.2.1 Types of Dividend Policy                  | 16          |
| 2.1.2.2 Residual Theory of Dividend               | 16          |
| 2.1.2.3 Dividend Stability                        | 17          |
| 2.1.3 Factors Influencing Dividend Policy         | 19          |
| 2.1.4 Rules Regarding Dividend Practices in Nepal | 23          |
| 2.2 REVIEW OF MAJOR RELATED STUDIES               | 24          |
| 2.3 Review of Thesis                              | 36          |
| <br><b>CHAPTER-III: RESEARCH METHODOLOGY</b>      |             |
| 3.1 Research Design                               | 42          |

|     |                       |    |
|-----|-----------------------|----|
| 3.2 | Population and Sample | 42 |
| 3.3 | Sources of Data       | 42 |
| 3.4 | Method of Analysis    | 43 |
| 3.5 | Data Analysis Tools   | 43 |

## **CHAPTER-IV: PRESENTATION AND ANALYSIS OF DATE**

|         |   |    |
|---------|---|----|
| 4.1     | Presentation and Analysis of Secondary Data   | 49 |
| 4.1.1   | Analysis of Financial Indicators of Sample Banks  | 49 |
| 4.1.1.1 | Earning per share (EPS) Analysis  | 49 |
| 4.1.1.2 | Dividend payout share Analysis  | 51 |
| 4.1.1.3 | Analysis of EPS and DPS   | 52 |
| 4.1.1.4 | Dividend payout Ratio Analysis  | 55 |
| 4.1.1.5 | Retained Earning Analysis   | 57 |
| 4.1.1.6 | Market Value per Share Analysis   | 59 |
| 4.1.1.7 | Dividend Yield Ratio Analysis   | 60 |
| 4.1.1.8 | Price Earning Ratio Analysis  | 61 |
| 4.1.2   | Correlation Analysis  | 63 |
| 4.1.2.1 | Correlation between EPS and DPS   | 63 |
| 4.1.2.2 | Correlation between EPS and MVPS  | 64 |
| 4.1.2.3 | Correlation between D/P ratio and MVPS  | 65 |
| 4.1.2.4 | Correlation between DPS (last year's dividend ( $D_{t-1}$ )<br>and MVPS of Related banks. | 66 |
| 4.1.3   | Regression Analysis   | 66 |
| 4.1.3.1 | Market Value per Share (MVPS) on Earning per Share (EPS)                                  | 67 |
| 4.1.3.2 | Market Value per Share (MVPS) On DPS (last year<br>Dividend per Share                     | 68 |
| 4.1.3.3 | Dividend per Share (DPS) on Earning per Share (EPS)                                       | 69 |
| 4.1.3.4 | Multiple Regression Analysis  | 69 |
| 4.2     | Presentation and Analysis of Primary Data   | 71 |
| 4.2.1   | Preference of Divined Option  | 71 |
| 4.2.2   | Factors considered by the investors while selecting the<br>Financial Institution          | 72 |
| 4.2.3   | Factors to be considered while adopting dividend policy                                   | 73 |
| 4.2.4   | Reason of investing in the share capital  | 74 |

|        |  |    |
|--------|--|----|
| 4.2.5  | Received Cash or Stock Dividend                      | 75 |
| 4.2.6  | Suggestions if there is no cash to pay cash dividend | 76 |
| 4.2.7  | Major motive of cash dividend by the banks           | 77 |
| 4.2.8  | Effectiveness of Cash Dividend by the banks          | 78 |
| 4.2.9  | Sector wise Payment of Dividend                      | 79 |
| 4.2.10 | Suggestion having no cash to pay                     | 80 |
| 4.2.11 | Suggestions for the change in policy                 | 81 |
| 4.3    | Major Findings                                       | 82 |

## **CHAPTER-V: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

|     |                 |    |
|-----|-----------------|----|
| 5.1 |                 | Su |
|     | mmary           | 87 |
| 5.2 | Conclusion      | 88 |
| 5.3 | Recommendations | 89 |

### **Bibliography**

### **Appendix**



## LIST OF TABLES

|             |  |    |
|-------------|--|----|
| Table 4.1   | Earning Per Share  | 50 |
| Table: 4.2  | Dividends Per Share  | 51 |
| Table 4.3   | Analysis of EPS and DPS of SCBNL   | 53 |
| Table 4.4   | Analysis of EPS and DPS of HBL   | 54 |
| Table 4.5   | Analysis of EPS and DPS of EBL   | 55 |
| Table 4.6   | Dividend Payout Ratio  | 56 |
| Table 4.7   | Retained Earning Analysis  | 57 |
| Table: 4.8  | Market Value Per Share   | 59 |
| Table: 4.9  | Dividend Yield Ratios  | 60 |
| Table: 4.10 | Price Earning Ratio  | 62 |
| Table 4.11  | Correlation between EPS and DPS  | 63 |
| Table 4.12  | Correlation between EPS and MVPS   | 64 |
| Table 4.13  | Correlation between D/P ratio and MVPS   | 65 |
| Table 4.14  | Correlation between DPS (last year's dividend ( $D_{t-1}$ )<br>and MVPS of related banks.          | 66 |
| Table 4.15  | Simple Regression equation of MVPS on EPS  | 67 |
| Table 4.16  | simple Regression equations of MVPS on $D_{t-1}$   | 68 |
| Table 4.17  | Simple Regression equation of DPS on EPS   | 69 |
| Table 4.18  | Calculated multiple regression and coefficient of determination analysis<br>of MPS on EPS and DPS; | 70 |
| Table 4.19  | Preference of Dividend Option  | 71 |
| Table 4.20  | Factors considered by the investors while selecting the<br>Financial Institution                   | 72 |
| Table 4.21  | Factors to be considered while adopting dividend policy  | 73 |
| Table 4.22  | Reason of investing in the share capital   | 74 |
| Table 4.23  | Received Cash or Stock Dividend  | 75 |
| Table 4.24  | Suggestions if there is no cash to pay cash dividend   | 76 |
| Table 4.25  | Major motive of cash dividend by the banks   | 77 |
| Table 4.26  | Effectiveness of Cash Dividend by the banks  | 78 |
| Table 4.27  | Sector wise Payment of Dividend  | 79 |

|            |                                      |    |
|------------|--------------------------------------|----|
| Table 2.28 | Suggestion having no cash to pay     | 80 |
| Table 4.29 | Suggestions for the change in policy | 81 |

## **LIST OF FIGURES**

|             |  |    |
|-------------|--|----|
| Figure 4.1  | Earnings per Share   | 50 |
| Figure 4.2  | Dividends per Share  | 52 |
| Figure 4.3  | Dividend Payout Ratios   | 56 |
| Figure 4.4  | Retained Earning Analysis  | 58 |
| Figure 4.5  | Market value per share analysis  | 59 |
| Figure 4.6  | Dividend Yield Ratios  | 61 |
| Figure 4.7  | Price Earning Ratio  | 62 |
| Figure 4.8  | Preference of Dividend Option  | 72 |
| Figure 4.9  | Factors considered by the investors while selecting the<br>Financial Institution | 73 |
| Figure 4.10 | Factors to be considered while adopting dividend policy                          | 74 |
| Figure 4.11 | Reason of investing in the share capital   | 75 |
| Figure 4.12 | Received Cash or Stock Dividend  | 76 |
| Figure 4.13 | Suggestions if there is no cash to pay cash dividend                             | 77 |
| Figure 4.14 | Major motive of cash dividend by the banks                                       | 78 |
| Figure 4.15 | Cash Dividend by the banks   | 79 |
| Figure 4.16 | Sector wise Payment of Dividend  | 80 |
| Figure 4.17 | Suggestion having no cash to pay   | 81 |
| Figure 4.18 | Suggestion if there is change the policy that is responsible                     | 82 |

## **ABBREVIATIONS**

|          |   |                                       |
|----------|---|---------------------------------------|
| \$       | : | Dollar                                |
| &        | : | and                                   |
| ANOVA    | : | Analysis of Variance                  |
| BOK      | : | Bank of Kathmandu                     |
| C.V.     | : | Covariance                            |
| d.f.     | : | Degree of freedom                     |
| DPR      | : | Dividend Payout Ratio                 |
| DPS      | : | Dividend per Share                    |
| DYR      | : | Dividend Yield Ratio                  |
| EBL      | : | Everest Bank Limited                  |
| EPS      | : | Earning Per Share                     |
| GON      | : | Government of Nepal                   |
| HBL      | : | Himalayan Bank Limited                |
| i.e.     | : | That is                               |
| JVBs     | : | Joint Venture Banks                   |
| JVCB     | : | Joint Venture Commercial Banks        |
| MVPS     | : | Market Value per Share                |
| NEPSE    | : | Nepal Stock Exchange                  |
| NPV      | : | Net Present Value                     |
| NRB      | : | Nepal Rastra Bank                     |
| PE Ratio | : | Price Earnings Ratio                  |
| PE       | : | Probable Error                        |
| Rs.      | : | Rupees                                |
| S.D.     | : | Standard Deviation                    |
| SCBNL    | : | Standard Chartered Bank Nepal Limited |
| SEBON    | : | Security Board of Nepal               |

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

A Company is established with the capital which is invested by promoters and general shareholders. The shareholders are the real owner of company. The shareholders invest their money in company expecting adequate return. Dividend is the return that the shareholders receive on their investment. A company that earns a profit can decide either of three ways: pay that profit out to the shareholders, reinvest it in the business through expansion, debt reduction or share repurchase, or both. When a portion of the profit is paid out to the shareholders, the payment is known as dividend. Dividends are paid in cash or stock or combination of both. Dividend refers to the portion of net earning which is distributed to shareholders. In other words, dividend is the part of company's profit distributed to shareholders. The word 'dividend' literally means that which may or is to be dividend. In relation to an enterprise it refers to the return that a shareholder gets from the enterprise, out of its profits, on her/his shareholding. It is that part of the profits of the enterprise which is distributed amongst shareholders. Since business enterprises are formed to earn profits, every such enterprise has an implied power to declare and pay dividends, and this power is not required to express by the memorandum or article of association. However, the mode of distribution is regulated by the Company Act. Dividend is a reward to the shareholders of enterprises for their investment and risk bearing. It is paid in cash out of profits after the depreciation and tax requirements have been met. In addition to cash dividend, an enterprise may also issue stock dividends (bonus shares) to its existing shareholders by means of capitalization of its free reserves. The amount of dividend paid to the shareholders depends upon the type of dividend policy pursued by an enterprise. Dividend policy refers to some kind of consistent approach to the decision involving distribution versus retention of the profits rather than making the decision on a purely ad-hoc basis from year to year (Hunt, Williams and Donaldson (1971)). More recently, Brealey and Myers (2003) defined dividend policy as the trade-off between retaining earnings on the one hand and paying out cash and issuing new shares on the other. It is concerned with the question of 'when' and 'how much' dividend should be paid. Dividend policy decision is one of the three basic decisions of an enterprise; the other two being investment and financing. All the three decisions are interrelated and should be taken

jointly so that an optimal combination of these decisions can be arrived for the maximization of owner's wealth, the main objective of corporate finance.

Generally there are two types of shares - common stock and preferred stock. Common stock popularly known as equity which is generally issued before and after the incorporation of company. Common stockholders are the real owner of the company and such that have certain rights and privileges. These rights and privileges of common stockholders are established by the term of the charter and the laws of the state which is the company registered. These rights may be grouped as collective rights and specific rights. The collective rights usually given to the common stockholder are: (i) The right to amend the charter, (ii). The right to adopt and amend by laws, (iii).The right to elect the directors, (iv). The right to authorize the sale of fixed assets. (v). the right to enter into mergers, (vi). The right to change the amount of authorizes common stock, (vii). The right to issue preferred stock, debentures, bonds and other securities. Common stockholders also have some specific rights as individual owners. Some specific rights are: (i). the right to vote, (ii). The right to sell their stock certificates, (iii). The right to inspect the corporate books, and (iv).The right to share residual income and assets, (v).Preemptive right, (vi) Voting right etc.

Preferred stock is also called preference share, represents the long term source of financing. It occupies an intermediate position between long-term debt and common stock. In the event of liquidation, a preferred stockholder's claim on assets comes after that of creditors but before that of common stockholders. Similarly, while distributing income preferred stock dividend is distributed after payment of interest but before distribution of common stock dividend.

Preferred stock is a type of security that has the features of both fixed income bonds and equity securities. So, it is known as hybrid security. Preferred stock provides the specific dividend and that is paid before dividends paid to common stockholders. Preferred stockholders have no voting rights. Dividend in preferred stock is fixed. Preferred stock also have par value. Preferred stock may have call provision and sinking fund provision. Generally preferred stock dividend is cumulative. When market interest rate decreases significantly, company can redeem existing debt (or preferred stock) by issuing new debt (or preferred stock). The activity is known as refunding. Thus, refunding is the process of replacing existing bond or preferred stock with new less costly debt or preferred stock. On

the other hand, nonpayment of preference dividends does not force the company into bankruptcy and dividend is paid out of after tax profit. Often, preferred stocks carry credit rating much like those of bonds and preferred stocks are often callable.

The company earns profit from its activities and the earned profit should be distributed to its shareholders considering the funds required for its development and diversification. In order to finance its development and diversification the required fund will be retained and the rest of the fund can be distributed. The policy of a company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. In this case the company should make decision regarding the payment of dividend as cash dividend and stock dividend; secondly it has to determine how much it should be. All aspects and questions related to payment of dividend are contained in a dividend policy. The percentage, timing and method of payment of dividends are included in dividend and stability of dividend.

There is a reciprocal relationship between retained earnings and cash dividends. It retains more earnings by the company less will be dividend and vice versa. It is in the sense that the firm has to choose between distributing profits to shareholders and plugging them back into the business. The decision depends upon the objective of the management for wealth maximization. The firm will use the net profit for paying dividend to the shareholders if the payment will lead to maximization of the wealth of the owners. If not it is better to retain them to finance investment program. The relationship between dividend and value of the firm should therefore be the criteria for decision making.

As a result of the liberalization policy of Government of Nepal, foreign investors and internal investors were attracted to invest in Nepal in joint venture especially in banking business. Establishment of commercial banks contributes significantly in the formation and mobilization internal capital and development efforts. They furnish necessary capital needed for trade and commerce of mobilization the dispersed saving of the individuals and institutions. The increase in the opening of the joint venture bank (JVBs) caught a dramatic way after the liberalization and market oriented economic policy. Though, JVBs are enjoying liberalization, Nepal Rastra Bank (NRB) has been managing them through its directives and guidelines.

One of the main reasons for which public are interested to invest money (as the shares) in banks or other institutions to get dividend. Normally, business running at profit is capable to pay it. The amount which is distributed as dividend should be adequate to meet the normal expectation of shareholders.

There is no uniformity in the dividend distribution practices in Nepal among the different companies. Recently joint venture banks and some other public limited companies have shown new trend of paying dividend to shareholders. There is also growing practice of paying bonus shares among some companies of Nepal. Stock split is another aspect of dividend policy which is popular in the developed capital market but this aspect is almost neglected in the capital market of Nepal. The effect of stock split is an increase in the number of shares outstanding and in reduction in the par or stated, value of the shares. The total net worth of the firm remains unchanged. The stock split does not involve any cash payment, only additional certificates representing new shares. In the case of stock split, each old share is split into a number of new shares with a reduced par value, leaving the total equity capital unchanged. In the case of a stock dividend, a number of new shares are received for each share owned. The new shares have the same par value as the old shares. Likewise, a stock split in which a firm's number of shares outstanding is reduced is called reverse split. The effect of reverse split is a decrease in the number of shares outstanding and an increase in the par, or stated, value of the shares. The total net worth of the firm remains unchanged. Reverse split is used to stop the market price per share below a certain level. An alternative form of dividend is share repurchase. In a stock repurchase, the company pays cash to repurchase shares from its stockholders. These shares are usually kept in the company's treasury and then resold if or when the company needs money. Stock repurchased by the issuing firm is called treasury stock or acquired stock. Firms also repurchase their stock if the price is low. Stock repurchases may be used for employee stock options. It reduces the possibility of being taken over by another firm. Stock repurchases are also used to retire the stocks. If a firm has excess cash and insufficient profitable investment opportunities to justify the use of these funds, it is in the shareholders' interests to distribute the funds. The distributions can be accomplished either by the repurchase of shares or by paying the funds out in increased dividends. It is thus share repurchase is often viewed as an alternative to paying dividends.



Some companies may pay whole earnings as dividend at the beginning to create good image in financial sector but later they may change their policy and announce a certain percentage of dividend payout term. The decision to keep some portion of earnings and to pay some portion of earnings as dividend is known as dividend policy.

“Although the actual owners of the company are shareholders, they are paid low dividends in some companies whereas in some companies the dividend is not announced. But recently the trend of payment of dividend is increasing”. (*Adhikari; 1992:189*)

Dividend policy is one of the major decisions of financial management because it affects the financial structure, the flow of funds, corporate liquidity and investors' attitudes. After the successful completion of fiscal year having sufficient profit management decide to declare dividend to shareholders. The important aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. It also determines the forms of dividend.

Having given overall dividend implication among companies and financial institutions, this study is more specific in assessing the dividend policy and practices of Joint Venture Commercial Banks of Nepal. In this study, Standard Chartered Bank Nepal, Everest Bank Limited and Himalayan Bank Limited are taken as sample among the Joint Venture Commercial Banks of Nepal.

## **1.2 Statement of the Problem**

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

The dividend decision, however, is still a crucial as well as controversial area of managerial finance. There is no consensus among the financial scholars on this subject matter and its relation with stock price. Some financial scholars say that stock prices are least influenced by dividend per share while some others believe that its relevance to the stock prices is quite significant.

Dividend behavior in Nepalese companies is relatively a recent phenomenon. There are various empirical studies on the corporate dividends in the capital market other than Nepal. A study made by H. K. Baker, G. E. Farrelly, and Richard B. Edema in America by surveying the opinions of financial official officers of 562 New York Exchange firms. This study revealed that the major determinates of dividend policy in order of their importance are: anticipated level of a firm's future earnings, pattern of past dividend, availability of cash and concern about maintaining or decreasing stock price. (*Baker, et. al.2007*).

A study on Stock market behavior in a small capital market in Nepal (*Pradhan, 2008*) attempted to verify the above mentioned results. It mainly indicated that stock paying higher dividend have higher liquidity, lower leverage, higher earnings, higher turnover and higher coverage. Another such attempt was made by the study on 'Dividend and Stock Prices' which revealed that the relationship between dividend per share and stock price is positive and dividend per share affects the share price variedly in different sector. However pertinent question arises as to what extend these finding are still relevant in the present day context.

In Nepal, only a small number of companies are paying regular dividend and other companies are not stable in the payment of dividends. There are still some companies not having the practice of paying dividends in their historical background. Thus, there is not smooth practice of dividend payments in Nepal. The expectation of shareholders has yet to be met by paying regular dividends. It is in the sense that the study devoted to dividend behavior in Nepal may help to develop capital market in one way or another.

This Study deals with the following issues:

- ) What are the dividend policies in Nepalese Joint Venture Commercial banks?
- ) What is the trend of dividend payout behavior in Nepalese Joint Venture Commercial banks?
- ) What relationship does exist between dividend per share and other financial indicators such as earnings per share, retained earning per share and market price per share, dividend payout ratio, and dividend yield ratio?
- ) What are the factors that affect the dividend policies of Nepalese Joint Venture Commercial Banks?

### **1.3 Objectives of the Study**

The basic objective of the study is to analyze the dividend policy of Nepalese joint venture commercial banks. The specific objectives of the study have been the following:

- ) To examine dividend policy and practices in Nepalese Commercial banks.
- ) To examine the relationship between earnings, dividends, retained earnings and market price of stocks, dividend payout ratio, dividend yield ratio.
- ) To analyze the effect of dividend in share price.

### **1.4 Significance of the Study**

The finding of this research will be of worth to the shareholders to see the dividend policy of the three joint venture commercial banks in comparison. Then it will also be benefited by the management to point out the loopholes and suggest the remedies about the appropriate dividend policy.

Similarly, this research will also be beneficial to the policy makers from the comparative study of dividend policy. They can get important findings which are useful in policy making about dividend policy formulation.

Finally, the dividend policies of the joint venture banks are of great interest to the several outsiders. They are customers, financial agencies, stock brokers, interested person and scholars. It is believed that except those, other banks will be benefited with this study.

### **1.5 Limitations of the Study**

A research is a compact study investigating the subject matter for solving perceived research problems. Each and every study has its own limitations. No study can be free from constraints, such as economic resources, time etc. And this study is not an exception. Therefore, the following are the main limitations of the study.

1. The study is mainly based on the secondary data.
2. The methodology used in the study may not help draw premise conclusion of study.
3. The study covers only three joint venture commercial bank of Nepal.
4. The study conforms only to the financial aspects of the company.
5. The study acknowledges only seven years data. So the conclusion may not be hundred percent exactly.

In addition, there are couples of limitations, which weaken the generalization e.g. time constraint, reliability of statistical tools. Thus, while using the findings of the study one should be careful and use the same judiciously be considering the various limitations.

## **1.6 Organization of the Study**

The study has been organized into five chapters; each chapter deals some important factors of dividend behavior. The titles of each of these chapters are listed below:

### **Chapter – I: Introduction**

This is the introduction chapter of the study. This chapter includes general background, statement of the problems, objectives of the study, importance of the study and limitations of the study and organization of the study.

### **Chapter – II: Review of Literature**

This chapter is the review of literature deals with conceptual framework of the dividend policy. In this part research history of dividend policy will present in brief. Review of major studies will be also presented.

### **Chapter - III Research Methodology**

This chapter contains the research methodology. This chapter deals with research design, sources of data, data collection techniques data processing and data analysis tools.

### **Chapter - IV Presentation and Data Analysis**

This chapter deals with the presentation and analysis and major findings of the study on dividend.

### **Chapter –V Summary, Conclusion and Recommendation**

This is the last chapter states the summaries, conclusions of the whole study and recommendations. It also offers several avenues for future research. The exhibits and bibliography are incorporated at the end of the study.

## CHAPTER-II

### REVIEW OF LITERATURE

Dividend policy affects the financial structure, the flow of fund, corporate liquidity requirement and investors attitude. Thus, it is one of crucial decision and firm attempts to maximize the value of firm's common stocks by means of dividend decision. Due to its increasing importance, many thoughts, provoking ideas in this area are upcoming which needs to review. This chapter highlights upon the literature that are concerned to this subject. Similarly, what others have said or written etc. about the dividend policy are reviewed, which provides useful input in this study. The review of literature is divided into two parts one is conceptual framework and other one is review of different studies.

#### 2.1 Conceptual Framework

##### 2.1.1 Meaning of Dividend:

Every investor invests their money to buy shares of firm with the hope of sharing profit earned by firm since they want to receive maximum returns on their investment. It depends upon management policy that how much total profit to distribute as dividend and how much to retain in the business. But this is fact that all the profit made by firms actually belong to stockholders. Whether profit are distributed in the form of dividend or reinvested in the business, benefits go to shareholders directly or indirectly.

"Dividend decision can't be taken in isolation as well as in vacant, rather various factors like investment opportunities, financing decisions, shareholders expectation, and legal provisions is to be taken into consideration so that it maximizes the value of the firm or shareholders' wealth. There are two sources of financing in an existing firm." (*Gitman; 2004:27*)

- a. Internal source (i.e. retained earnings),
- b. External source of financing (i.e. external share, debenture)

But the retention of net profit widely effected by the dividend policy. If the firms adopt sound dividend policy, then less funds will be available. On the contrary, if the firms adopt tight dividend policy then excess fund will be available for financing. So, internal sources of financing and external sources of financing affect the company's capital structure.

Therefore controversial question arise of taking dividend decision for the financial manager.

In the course of retaining the portion of earning, how much of earnings to be retained to exploit growth opportunities of firm and how much earnings to be paid to the shareholders for their contribution in capital structure, to be decided. This is the difficult question in dividend policy.

"Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financing corporate growth, but dividends constitute the cash flows that accrue to stockholders". (*Pandey; 2005:47*)

"Many variables influence dividends, however for example, a firm cash flows and investment needs may be too volatile for it to set a very high regular dividend. Yet, it may desire a high dividend payout to distribute funds not necessary for reinvestment. In such a case, the directors can set a relatively low regular dividend – low enough that it can be maintained even in low profit years or in years when a considerable amount of reinvestment is needed-and supplement it with an extra dividend in years when excess funds are available". (*Weston and Brigham; 1996:147*)

“Commercial banks are organized as a joint stock company system, primarily for the purpose of earning profit. They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the United States where a bank's operations are confined to a single office or to a few branches within a strictly limited area”. (*Shekher and Sheker; 2007:167*)

"In corporate finance, dividends represent a distribution of the book surplus, accompanied by a distribution of assets, or by a change in the form of equities, or an increase in the liabilities of the corporation. The corporate form of business organization entails separation between ownership and control of a company. The shareholders entrust their money to corporate Managers in expectation of a return on their capital. Dividend policies are determined by the board of directors. But they have to take into consideration of a number

of factors in determining their dividend policies and variations there in". (*Gilbert and Edwin; 2007:175*)

There are some legal considerations to distribute dividend to shareholders. The Board of Directors of company has to take the decision about dividend on the considerations various facts except concerned legal provisions. Except legal considerations, the various principles underlying the policies of dividend distribution are as follows:

**a. Type of Industry**

The nature of the business conducted by a company has an influence upon its dividend policy. Industries that are characterized by stability of earnings may formulate a more consistent policy as to dividends than those having an uneven flow of income. For instance, public utilities are in much better position to adopt a relatively fixed dividend rate than the industrial concerns.

**b. Age of a Corporation**

Instant related to the type of industry, the age of a company goes far to determine the dividend policy."Newly established enterprises require much of their earnings for plant improvement and expansion, while companies which have attained a longer earning experience can formulate a clear-cut dividend programmed and may even be liberal in the distribution of earnings". (*Mathur; 2000:56*)

**c. Extent of Share Distribution**

A closely held company is likely to get the acquiescence of the shareholders for the suspension of dividend or following a conservative dividend policy. But a company with a large number of shareholders and also with shareholders widely distributed would face a great difficulty in securing such asset. "Reduction in dividends can be effected but not ordinarily with the hearty Co-operation of the shareholders". (*Mathur; 2007:67*)

**d. Need for Additional Capital**

The company retained part of their earnings for strengthening their financial position. The extent to which the profits are ploughed back into the business has got a conditioning influence on the dividend policy. The income may be conserved for meeting the increased requirement of working capital or for future expansion. Small companies possessing no

other alternatives to raise finance for their growth have to depend upon this source. The source of financing to raise of fund by financing short term loan long term loan or by issuing shares and debentures etc.

#### **e. Trade Cycle**

With the cyclic variation in the business, the earnings, demand for capital investment and money market conditions also vary from stage to stage. The dividend policy is adjusted in accordance with the business oscillations. During the boom, prudent corporate management creates good reserves for facing the crisis which follows the inflationary period. Higher rates of dividend are used as a tool for marketing the securities, otherwise depressed market. The dull years become easier to be weathered and financial solvency to be maintained more successfully if the adequate reserves have been built up through conservation of earnings.

#### **f. Change in Government Policies**

With the variation in the fiscal, industrial, labor, control and other government policies the earning capacity of the different enterprises is affected favorably or adversely. The dividend policy has to be modified accordingly. Sometimes government limits the rate of dividend declared by concerns in a particular industry or in all the spheres of business activity. In a capitalistic society such a step taken by Government leads to wasteful expenditure by the business unit besides discouragement of capital formation.

#### **g. Taxation Policy**

Management may decide retaining earnings as opposed to paid out as dividends. The process of paying at 'what's left' to shareholders is called dividend policy. High taxation is said to be the cause of lowering the earnings of the corporations and, consequently, their rates of dividend. Some recent studies have shown that the rates of dividend may not be affected by high rates of taxes because the incidence may be shifted to consumers. This is claimed to be the case in respect of some Indian companies where the indices of taxes and the rates of dividend move in similar directions to show that the dividend distribution was not adversely affected by the alleged high rates of taxes. The tax preference theory recognizes that there are three tax-related reasons for believing that investors might prefer a low dividend payout to a high payout: i. capital gains are taxed at a low rate, whereas dividend income is taxed at a high rate. ii. Taxes are not paid on capital gains until the



stock is sold. iii. If a stock is held by someone until he/she dies, no capital gains tax is due at all- the beneficiaries who receive the stock can use the stock's value on the death day their cost basis and thus escape the capital gains tax. If the tax preference theory is correct, the firm should set a low payout if it is to maximize its stock price. Therefore, the theories are in total conflict with one another. If the tax preference theory is correct, then as the firm pays more and more (and retains less and less), investors would perceive the firm to be getting riskier; hence  $K_s$  would increase.

“Corporate taxes affect dividends, both directly and indirectly – directly, in as much as they reduce the residual profits after tax available for shareholders, and indirectly, as the distribution of dividends beyond a certain limit is itself subject to tax. For instance dividends beyond 10 percent of the paid-up capital are subject to 7.5 percent by way of dividend tax”. (*Ross;2004:123*)

After examining the various factors which determine the dividend policy of the companies, we may study the importance of stability in the rate of dividend. The regularity of dividend payment and the stability of its rate are the two main objectives made at by the corporate management. They are accepted as desirable for the corporation's credit standing and for the welfare of shareholders. High earnings may be used to pay extra dividends but such dividend distributions should be designated as 'extra' and care should be taken to avoid the impression that the regular dividend is being increased. A stable dividend policy should not be taken to mean an inflexible or rigid policy. On the other hand, it entails the payment of a fair rate of return, taking into account the normal growth of the business and the gradual impact of external events. A stable dividend records makes future financing easier. It not only enhances the credit standing of the company but also stabilizes market value of the securities outstanding. The confidence of shareholders in the corporate management is also strengthened.

### **2.1.2 Types of Dividend**

The firm uses different types of dividend to the shareholders to implement their objectives and policies. Before distribute the dividend, they first ensure that what is the current situation of the firm? What is the growth rate of the firm? How much dividend will need to meet the expectation of the shareholders? “The type of dividend that corporation follow is partly a matter of attitude of directors and partly a matter of a various circumstances and

financial constraints that bound corporate plans and policies” (*Shrestha, 2009*) some of the major types of dividends are as follows.

#### **a. Cash Dividend**

The portion of earnings paid in cash to the investors in the proportion of their share is called cash dividend. In other words, cash dividend is the dividend, which is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both total assets and net worth of the company decreases as cash and earning decreases. The market price of share decreases drops in most of the case by the amount of the cash dividend distributed. Most of the firms pay dividend in cash. The cash account and reserve account of company will be reduced when cash dividend is paid. Both the total assets and net worth of the company are reduced when the cash dividend is distributed. The company has to maintain required level of cash for distribution of cash dividend, otherwise it may be difficult and fund must be borrowed for this purpose. When the company follows stable dividend policy, they use to prepare cash budget to indicate necessary funds which would be needed to meet regular dividend payment of company. When unstable dividend policy is followed, it is difficult to manage cash.

In the context of Nepal, Cash dividend is the most popular form of dividend so it is very popular in commercial banks and other firms. However it depends upon the earning of firm, management decision, Government policy, Nepal Rastra Bank policy and other various internal and external factors.

#### **b. Stock Dividends**

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding shareholders. If additional shares are issued to existing shareholders instead of cash dividend, it is known as stock dividend. Stock dividend is only the paying stock equaling to the dividend that is to be received by shareholders. In stock dividend, additional shares are issued to existing shareholders instead of cash dividend. A stock dividend represents a distribution of shares in lieu of cash dividend.

A stock dividend is paid in additional shares of stock instead of in cash and simply involves a book-keeping transfer from retained earnings to the capital stock account. Firm

pays stock dividend instead of cash dividend. It represents nothing more than a bookkeeping shift within the share holders' equity account on the firm's balance sheet, a shareholder's proportional ownership in the firm remains unchanged. It is simply the payment of additional shares of common stock to shareholders. Stock dividend increases the number of shares as a result; EPS, DPS and market price of share of company decrease. Accounting authorities make a distinction between small-percentage stock dividends and large-percentage stock dividends.

#### **i. Small-Percentage Stock Dividends**

If a stock dividend represents an increase of less than 10 percent of the previously outstanding common stock, it is referred to as a small-percentage stock dividend. Accounting for this type of stock dividend entails transferring an amount from retained earnings to common stock and additional paid-in capital.

#### **ii. Large-Percentage Stock Dividends**

Large-percentage stock dividends (typically 20 percent or higher of previously outstanding common stock) Must be accounted for differently while small-percentage stock dividends are not expected to have much effect on the market value per share of stock, large-percentage stock dividends are expected to materially reduce the market price per share of stock. In the case of large percentage stock dividends, therefore, conservatism argues for reclassifying an amount limited to the par value of additional shares rather than an amount related to the pre-stock dividend market value of the stock.

The effects of stock dividend are as follows.

- i. Firm's assets or liabilities are same, it doesn't change
- ii. It doesn't affect the shareholders proportional ownership.
- iii. Theoretically it is valueless to shareholders.

#### **c. Bond Dividend**

"It is a kind of dividend in which stockholders receive bond. It is distributed only that condition when the company declares dividend in the form of its own bond. Bond dividend helps to postpone the payment of cash. These are given when the firms are unable to take the burden of interest of loans". (*Van Horne; 2002:189*)

#### **d. Property Dividend**

"Property dividend is a kind of dividend which is given in the form of property instead of cash. This method is rarely used in practical. Company is own products and securities of subsidiaries are the examples that have been paid as property dividend". (*Van Horne; 2002:189*)

#### **e. Interim Dividend**

"Generally dividends are declared in the end of the financial year. This is called regular dividend. But when management declares dividend before the end of financial years, it is called interim dividend". (*Van Horne; 2002:189*)

#### **f. Script Dividend**

"Script dividend is a form of promissory note promising to pay the holder at a specified later date. The script may be interest bearing or not. Issuing of this note indicates that the company has shortage of cash to distribute as a dividend. This type of dividend is very unpopular to use". (*Van Horne; 2002:189*)

#### **2.1.2.1 Types of Dividend Policy:**

The dividend paid out of profit by company, is guided by dividend policy that is followed by company. Generally, dividend policy can be categories as conservative, liberal, moderate and progressive dividend policy. Whatever dividend policy followed by the corporate firm, it is the concept that resolves the apparent conflict by finding optional dividend payout that balance the need of shareholders for their current incomes and expected future growth of the firm so as to maximize the value of firm. The optional dividend policy is the dividend policy that sticks a balance between current and future growth and maximizes the firm's stock price.

#### **2.1.2.2 Residual Theory of Dividend**

This theory assumes that external sources of finance are not available or even if it is available, the same cannot be used due to its excessive cost. Accordingly, how much dividend a company should distribute will be depended on how much investment opportunities it has available at present. If there are positive NPV projects available then instead paying dividends to shareholders, the same can be used in financing the positive projects. In the case, shareholders wealth is maximized by reducing dividend or not paying

dividend at all. Shareholders will be compensated for this reduction on nil dividends now by a gain in the form of higher dividend in the future.

Dividends are thus residual payment in the sense that this is paid provide sufficient earnings are retained in the company to finance new investments. Thus residual theory treats dividends as a passive decision which is completely depended on how much amount or whether company employs earnings is in financing profitable projects. Thus the dividend will vary from year to year. But such fluctuations in dividend have no effect on shareholders as they are compensated of present loss, if any, of dividend by future capital gain.

### **2.1.2.3 Dividend Stability**

The major aspect of the dividend policy of a firm is the stability of dividends. Stability of dividend payments is an attractive feature to many investors. The investors favor a stable dividend as much as they do the payment of dividends (D/P ratio). By stability we mean maintaining the position of the firm's dividend payments in relation to a trend line.

“Preferably one that is upward sloping. All other things being the same, a share of stock may command a higher price if it pays at a fixed percentage of earnings. The term dividend stability refers to the consistency or lack of variability in the stream of dividends”  
(*Van Horne; 2002:190*)

In more precise terms it means that a certain minimum amount of dividend is paid out regularly. The stability of dividends can be any of the following three forms.

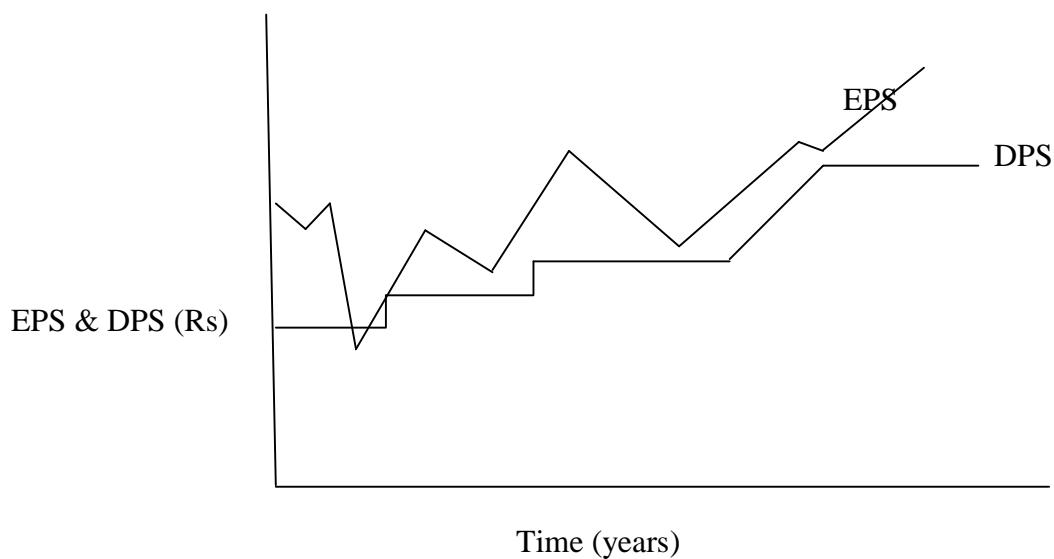
#### **i. Stable Dividend Per Share**

According to this form of stable dividend policy, a company follows a policy of paying a certain fixed amount per share as dividend. For instance, on a share of face value of Rs. 10, a firm may pay a fixed amount of, say, Rs. 2.50 as dividend. This amount would be paid year after year, irrespective of the level of earnings. In other words, fluctuations in earnings would not affect the dividend payment. In fact, when a company follows such a dividend policy, it will pay dividends to the shareholders even when it suffers losses. It should be clearly noted that a stable dividend policy in terms of a fixed amount of dividend per share does not mean that the amount of dividend is fixed for all times to come. The

dividends per share are increased over the years when the earnings of the firm increase and it is expected that the new level of earnings can be maintained.

The relationship between the earnings per share (EPS) and dividends per share (DPS) with a constant dividend policy per share is shown in Figure 2.1

**Figure: 2.1**  
**Stable dividend per share (In Rupees)**



*(Source: R.B. Paudel, K.J. Baral, R.R. Gautam, S.B. Rana; 2007:500)*

It can, thus, be seen that while the earnings may fluctuate from year to year, the dividend per share is constant. To be able to pursue such a policy, a firm whose earnings are not stable would have to make provisions in years when earnings are higher for payment of dividends in lean years.

## **ii. Constant Payout Ratio**

Another form of stable dividend policy is constant/target payout ratio. The term payout ratio refers, as already mentioned, to the ratio of dividend to earnings or the percentage share of earnings used to pay dividend. A stable dividend payout ratio implies that the percentage of earnings paid out each year is fixed. Accordingly, dividends would fluctuate proportionately with earnings and are likely to be highly volatile in the wake of wide fluctuations in the earnings of the company. As a result, when the earnings of a firm decline substantially or there is a loss in a given period, the dividends, according to the

target payout ratios, would be low or nil. To illustrate, if a firm has a policy of 50% target payout ratios, its dividends will range between Rs. 5 and zero per share on the assumption that the earnings per share are Rs. 10 per share and zero (or loss) per share respectively. The relationship between the earnings per share (EPS) and dividend per share (DPS) under the policy of constant payout ratio is shown in Figure 2.2

**Figure: 2.2**  
**Constant Payout Ratio**



*(Source: R.B. Paudel, K.J. Baral, R.R. Gautam, S.B. Rana; 2007:501)*

### iii. Low Regular plus Extra

Under this policy, both dividend policy (constant dividend per share and constant dividend payout ratio) are included. Under this policy, a firm usually pays a constant dividend to the shareholders and when profits of the firm swell, additional or extra dividend is paid over and above the regular dividend. In normal condition the firm cuts the extra dividend and pays normal dividend per share. Generally this type of policy is mostly followed by those companies whose stockholders prefer at least a certain account of regular dividends.

### 2.1.3. Factors Influencing Dividend Policy

Dividend decision is the critical decision for the management. Various factors should be considered while taking dividend decision. Following factors influenced in dividend policy decision directly or indirectly.

## **a. Legal Rules**

The legal rules are important in establishing the legal boundaries within which a firm's finalized dividend policy can operate. These rules have to do with capital impairment, insolvency and undue retention of earnings.

### **i. Capital Impairment Rule**

Some states define capital as the total par value of the common stock. If a firm's shareholders' equity consists of \$4 million in common stock (at par), \$3 million in additional paid-in capital and \$2 million in Retained earnings, total capital would be \$4 million. This company could not pay a cash dividend totaling more than \$5 million without impairing capital (i.e., reducing shareholders equity below \$4 million).

Other states define capital to include not only the total par value of the common stock but also the additional paid in capital. Under such state statutes, dividends can be paid only to the extent of retained earnings. Notice, we did not say that dividends can be paid 'Out of retained earnings'. A Company pays dividends 'Out of cash', while incurring a corresponding reduction in the retained earnings account.

### **ii. Insolvency Rule**

Some states prohibit the payment of cash dividends if the company is insolvent. Insolvency is defined either in a legal sense, as total liabilities of a company exceeding its assets 'at a fair valuation' or, in an 'equitable' (technical) sense, as the firm's inability to pay its creditors as obligations come due. As the firm's ability to pay its obligations is dependent on its liquidity rather than on its capital, the equitable (technical) insolvency restriction gives creditors a good deal of protection. When cash is limited, a company is restricted from favoring shareholders to the detriment of creditors.

### **iii. Undue Retention of Earnings Rule**

The Internal Revenue code prohibits the undue retention of earnings. Although undue retention is vaguely defined, it is usually thought to mean retention significantly in excess of the present and future investment needs of the company. The purpose of the law is to prevent companies from retaining earnings for the sake of avoiding taxes.



**b. Liquidity Position of company**

Profits held as retained earnings are generally invested in assets required for the conduct of the business, retained/earnings from preceding years are already invested in plant and equipment, inventories, and other assets; they are not held as cash. Thus, even if a firm has a record of earnings, it may not be able to pay cash dividends because of its liquidity position. Indeed, a growing firm, even a very profitable one, typically has a pressing need for funds, in such a situation the firm may elect not to pay cash dividends.

**c. Need to Repay Debt**

When a firm has issued debt to finance expansion or to substitute for other forms of financing, it is faced with two alternatives. It can refund the debt at maturity by replacing it with another form of security, or it can make provisions for paying off the debt. If the decision is to retire the debt, this will generally require the retention of earnings.

**d. Restrictions in Debt Contracts**

Debt contracts, particularly when long-term debt is involved, frequently restrict a firm's ability to pay cash dividends such restrictions, which are designed to protect the position of the lender, usually state that (1) future dividends can be paid only out of earnings generated after the signing of the loan agreement (that is, they cannot be paid out of past retained earnings) and (2) that dividends cannot be paid when net working capital (current assets minus current liabilities) is below a specified amount. Similarly, preferred stock agreements generally state that no cash dividends can be paid on the common stock until all accrued preferred dividends have been paid.

**e. Stability of Earnings**

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

**f. Profit Rate**

The expected rate of return on assets determines the relative attractiveness of paying out earnings in the form of dividends to stockholders (who will use them elsewhere) or using them in the present enterprise.

**g. Rate of Asset Expansion**

The more rapidly a firm is growing, the greater its needs for financing asset expansion. The greater the future need for funds, the more likely the firm is to retain earnings rather than pay them out. If a firm seeks to raise funds externally, natural sources are the present shareholders, who already know the company. But if earnings are paid out as dividends and are subjected to high personal income tax rates, only a portion of them will be available for investment.

**h. Access to the Capital Markets**

A large, well established firm with a record of profitability and stability of earnings has easy access to capital markets and other forms of external financing. A small, new, or venturesome firm, however, is riskier for potential investors. Its ability to raise equity or debt funds from capital markets is restricted, and it must return more earnings to finance its operations. A well established firm is thus likely to have a higher dividend payout rate than is a new or small firm.

**i. Control**

Another important variable is the effect of alternative sources of financing on the control situation of the firm. As a matter of policy, some corporations expand only to the extent of their internal earnings. This policy is defended on the ground that raising funds by selling additional common stock dilutes the control of the dormant group in that company. At the same time, selling debt increases the risks of fluctuating earnings to the present owners of the company. Reliance on internal financing in order to maintain control reduces the dividend payout.

**j. Inflation**

“In an indirect way inflation can act as a constraint on paying dividends. Our accounting system is based on historical costs. Depreciation is charged on the basis of original cost at

which assets were acquired as a result, when prices rise, funds saved on account of depreciation would not be Adequate to replace assets or to maintain the capital intact and preserve the earning power of the fine earning would be retained" (*Wilson and George; 1982:203*)

### **2.1.3.1 Rules Regarding Dividend Practices in Nepal**

In Nepal company act always has some legal provisions for dividend payment. Nepal Company Act 2063 has some provisions about payment of dividend of company. Those provisions are mentioned as below:

Section 2 (Q) states that bonus share (stock dividend) means share issued in the form of additional shares to share holders by capitalizing the surplus from the reserve fund or the profit of the company. The term also indicates an increase in the paid up values of the shares after capitalizing surplus or reserve funds.

Section 61 has prohibited company from purchasing, its own share. This section states that no company shall purchase its own shares or supply loans against the security of its own shares.

Section 179 is about bonus share bonus. Under subsection (1) of this section, this may be done only according to a special resolution passed by the general Meeting.

Subsection (2) of same section states that the company must inform the office of company registrar before issuing bonus shares.

Section 182 is about dividends and sub section of this section as follows:-

Sub section (1) states that except in the following circumstances, dividends shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

) In case of any law forbids the distribution of dividends.

) In case of the right to dividend is disputed.

) In case of dividend cannot be distributed within the time limit mentioned above owing, the circumstances beyond any one's control and without any fault on the part of the company.

Sub section (3) in case dividends are not distributed with the time limit, mentioned in sub section (1) this will be done by adding interest at the prescribed rate sub section (3) states only the person whose have stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

Sub section (4) states that dividend will be paid to the registered shareholders in the book of the company at the time of decision of the dividend or right holders as per the law.

Subsection (5) states that dividend can be paid to shareholders after deducting depreciation, payments/ provisions as per the law and all the loss of previous years. Dividend can be distributed without reserves or provisions as per existing law.

## 2.2 Review of Major Related Studies

### Linter's Study (1959)

Linter (1959) made an important study on corporate dividend policy in the American context. He made fifteen readily observably factors and characteristics that appeared reflect or Might be expected to have on important beaming on dividend payments and policy (Linter,1959). Then, he reviewed the available information on over 600 listed, will established companies and selected 28 for dividend investigation.

### The Objectives of the Study were;

- ) To identify occasions change in dividends might well have been under active consideration.
- ) To determine the factors which existed must actively into dividend decision. Different views were collected with regard to occasion companies' responsible official including presidents, financial vice presidents, treasurers, controllers and directors.

He concluded that a Major portion of dividend of a firm could be expressed in following equations.

$$\text{Div}^*t = P \text{EPS}_t \dots\dots\dots (i)$$

$$\text{And } \text{DIV}_t - \text{DIV}_{t-1} = a + b (\text{DIV}_1 - \text{DIV}_{t-1}) + e_q$$

Where

Div\* =Firm's desired pay: lent

P EPS<sub>t</sub> = Earnings

$p$  = targeted payout ratio

$a$  = constant relating to dividend growth

$b$  = Adjustment factor and new desired level of dividends were  $b < 1$ .

The Major findings of this study were;

- ) Firm's generally think in terms of proportion of earnings to be payout.
- ) Investment opportunities, liquidity position, funds flow are not considered for modifying the pattern of dividend.
- ) Firms generally have target payout ratio in view which determining change in dividends per share.

### **Modigliani and Miller's Study (1976)**

The most comprehensive argument in support of the irrelevance of dividends is provided by the MM hypothesis. MM maintain that dividend policy has no effect on the share prices of the firm and is the investment policy through which the firm can increase its earnings and thereby the value of the firm. Given the investment decision of the firm, the dividend decision splitting the earnings into packages of retentions and dividends is a matter of detail and does not matter. "Under conditions of perfect capital Markets, rational investors, absence of the discrimination between dividend income and capital appreciation, given the firm's investment policy, its dividend policy may have no influence on the market price of the shares" (Modigliani & Miller; 1976:209).

The MM hypothesis of irrelevance of dividends is based on the following critical assumptions.

- a. Perfect capital Markets in which all investors are rational. Information is available to all free of cost, there are no transaction costs; securities are infinitely divisible; no investor is large enough to influence the market price of securities; there are no flotation costs.
- b. There are no taxes; alternatively there are no differences in tax rates applicable to capital gains and dividends.
- c. A firm has given investment policy which does not change. The operational implication of this assumption is that financing of new investments out of retained earnings will not change the business risk composition of the firm and, therefore, no change in the required rate of return.

d. There is perfect certainty by every investor as to future investments and profits of the firm. In other words, investors are able to forecast future prices and dividends with certainty.) But this assumption is dropped by MM later. Modigliani and Miller provide the proof in support of their argument in the following manner.

### Step 1

The Market price of a share in the beginning of the period is equal to the present value of dividends paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,

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

Where,

- $P_0$  = The prevailing market price of a share
- $K_e$  = The cost of equity capital.
- $D_1$  = The dividend to be received at the end of period one
- $P_1$  = The market price of a share at the end of period one.

### Step 2

Assuming no external financing, the total capitalized value of the firm would be simply the number of shares (n) times the price of each share ( $P_0$ ).

Thus we take,

$$nP_0 = \frac{1}{(1 + k_e)} (nD_1 + nP_1)$$

Where,

- n = No. of equity share at zero period

### Step 3

If the firm's internal sources of financing its investment opportunities fall short of the funds required, and A, is the number of new shares issued at the end of year 1 at price of P, then.

Symbolically,

$$nP_0 = \frac{1}{(1 + k_e)} [nD_1 + (n + n)P_1 - nP_1]$$

Where,

$n$  = The number of shares outstanding at the beginning of the period.

$n$  = The change in the number of shares outstanding during the period.

Equation of step 3 implies that the total value of the firm is the capitalized value of the dividends to be received during the period plus the value of the number of shares outstanding at the end of the period, considering any newly issued shares, less the value of the newly issued shares. Thus, in effect, equation of step 3 is equivalent of equation of step

#### Step 4

If the firm were to finance all investment proposals, the total amount of new shares issued would be given by the following equation.

$${}_n P_1 = I - (E - nD_1)$$

Or, 
$${}_n P_1 = I - E + nD_1$$

Where,

${}_n P_1$  = The amount obtained from the sale of new shares to finance capital budget.

$I$  = The total amount requirement of capital budget.

$E$  = Earnings of the firm during the period.

$nD_1$  = Total dividends paid.

$(E - nD_1)$  = Retained earnings.

#### Step 5

If we substitute equation of step 4 in to equation of step 3, we derive equation of step 5.

$$nP_0 = \frac{nD_1 + (n + n) p_1 - 1 + E - nD_1}{(1 + ke)}$$

There is a positive  $nD_1$  and negative  $nD_1$ .

Therefore,  $nD_1$  cancels. We then have,

$$nP_0 = \frac{(n + n) p_1 - 1 + E}{(1 + ke)}$$

#### Step 6

Since dividends are not found in above equation. So Modigliani and Miller conclude that dividends do not count and that dividend policy had no effect on the share price. In this way, according to Modigliani and Miller study, It seems that under conditions of perfect capital markets, rational investors, absence of tax discrimination between dividend income

and capital appreciation, given the firm's investment policy, its dividend policy may have no influence on the market price of the shares.

*Gordon's Study (1979).*

Another theory which contends that dividends are relevant is the Gordon Model (Gordon, 1979) This Model, which opinions that dividend policy of a firm affects its value, is based on the following assumptions.

- i. The firm is an all equity firm. No external financing is used and investment programs are financed exclusively by retained earnings.
- ii. Internal rate of return(  $r$  ) and appropriate discount rate (  $k_e$  ) are constant.
- iii. The firm and its stream of earning have perpetual life.
- iv. The retention ratio (  $b$  ), once decided upon, is constant.

Thus, the growth rate, ( $g=br$ ) is also constant.

The discount rate is greater than growth rate i.e.  $k_e > br$ .

It can be seen from the assumptions of Gordon's Model that they are similar to those of Walter's Model. As a result, Gordon's Model, like Walter's, contends that divided policy of the firm is relevant and that investors put a positive premium on current incomes/dividends. But Gordon goes one step further and argues that dividend policy affects the value of shares even in a situation in which the return on investment of a firm is equal to the required/capitalization rate, while Walter's approach is of the view that the investors are indifferent between dividends and retention. Crux of Gordon's arguments is a two-fold assumption.

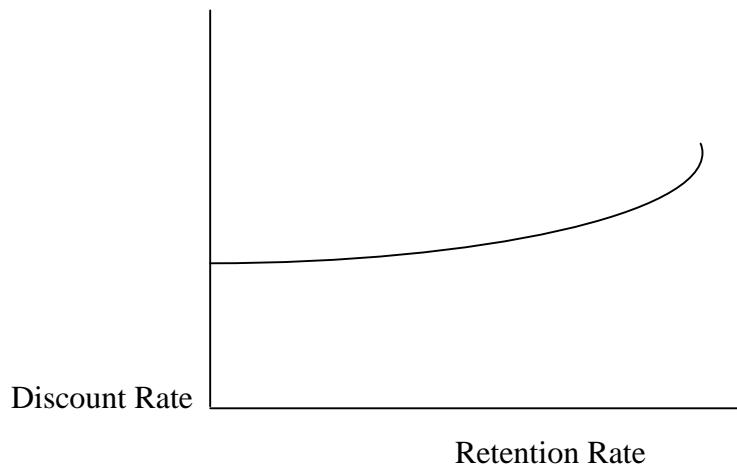
- a. Investors are risk-averse, and
- b. They put a premium on a certain return and discount/penalize uncertain returns.

The investors are rational. Accordingly, they want to avoid risk. The term risk refers to the possibility of not getting a return on investment. The payment of current dividends removes any chance of risk. If, however, the firm retains the earnings (i.e. current dividends are with held), the investors can expect to get a dividend in future. The future dividend is uncertain, both with the respect to the amount as well as timing. The rational investors can reasonably be expected to prefer current dividends, i.e. they would place less importance on it as compared to current dividend. The retained earnings are evaluated by the investors as a risky promise. In case the earnings are retained, therefore, the market price of the shares would be adversely affected. Basing Model on this argument, Gordon argues that the



future is uncertain and the more distant the future, the more uncertain it is likely to be Fig 2.3

**Fig: 2.3**  
**Retention Rate and Discount Rate.**



(Source: Gordon and Sharpe; 1976:345)

If, therefore, current dividends are withheld to retain profits, whether the investor would at all. Receive them later is uncertain. Investors would naturally like to avoid uncertainty. In fact, they would be inclined to pay a higher price for shares on which current dividends are paid. Conversely, they would discount the value of shares of a firm which postpones dividends. The discount rate would vary, as shown in above figure, with the retention rate or the level of retained earnings. The term retention ratio means the percentage of earnings retained. It is the inverse of D/P ratio. The omission of dividends, or payment of low dividends, would lower the value of the shares. According to Gordon, the Market value of a share is equal to the present value of future streams of dividends.)

A simplified version of Gordon's Model can be symbolically expressed as,

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

Where,

P = price of shares

E= Earnings per share

b= Retention ratio or percentage of earnings retained

1-b= D/P ratio, i.e. percentage of earnings distributed as dividends.

K<sub>e</sub> = Capitalization rate/cost of capital.

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

Gordon contends that the dividend decision has a bearing on the market price of the share in situations where  $r > k_e$ , the market price of the share is favorably affected with more retentions. The reverse holds true when  $r < k_e$ , i.e, more retentions lead to decline in market price. Retentions do not affect the market price of the share when  $r = k_e$ .

According to this Model following facts are revealed.

**a. Growth Firm ( $r > k_e$ )**

Share price tends to decline in correspondence with increase in payout ratio or decrease in retention ratio i.e. high dividends corresponding to earning leads to decrease in share price. Therefore, dividends and stock prices are negatively correlated in growth firm.

Negatively correlate in growth firm.

**b. Normal Firm ( $r = k_e$ )**

Share value remains constant regardless of changes in divided policies which mean dividends and stock prices are free from each other.

**c. Declining Firm ( $r < k_e$ )**

Share price tends to rise in correspondence with rise in dividend payout ratio. It means dividend and stock prices are positively correlated with each other in declining firm.

*Walter (1986)*

Walter's study supports the doctrine that dividends are relevant. The investment policy of a firm cannot be separated from its dividend policy and both are, according to Walter, interlinked. The choice of an appropriate dividend policy affects the value of an enterprise (Walter; 1986:280-291)

The key argument in support of the relevance proposition of Walter's model is the relationship between the return on a firm's investment or its internal rate of return ( $r$ ) and its cost of capital or the required rate of return ( $k$ ).

The firm would have an optimum dividend policy which will be determined by the relationship of  $r$  and  $k$ . In other words, if the return on investments exceeds the cost of capital, the firm should retain the earnings, where as it should distribute the earnings to the shareholders in case the required rate of return exceeds the expected return on the firm's investments.

Walter's model are based on following critical assumptions:-

- i. All financing is done through retained earnings external sources of funds like debt or new equity capital are not uses.
- ii. With additional investments undertaken, the firm's business risk does not change. It implies that  $r$  and  $k$  are constant.
- iii. There is no change in the key variables, namely, begin earnings per share,  $E$ , and dividends per share,  $D$ . The values of  $D$  and  $E$  may be changed in the model to determine results, but, any given value of  $E$  and  $D$  are assumed to remain constant in determining a given value.
- iv. The firm has perpetual (or very long) life considering the above assumption; Walter's formula determines the market price per share in the following way.

$$P = \frac{D}{ke - g}$$

Where,

$P$  = The prevailing market price of a share.

$D$  = Dividend per share

$E$  = Earnings per share

$r$  = The rate of return on the firm's investment

The above equation shows that the value of a share is the present value of all dividends plus the present value of all capital gains.

According to Walter's optimum dividend policy dependent on the relationship between the firm's return  $\otimes$  and its cost of capital ( $k$ ). He suggests various types of firm they are:

- i. When the firm is able to earn a return on investment exceeding the required rate of return (i.e.  $r > ke$ ). The value of shares is inversely related to the  $D/P$  ratio. If a firm has adequate profitable investment opportunities, it will be able to earn more than what the investor expect so that  $r > k$ . Such firms may be called growth firms. For growth firms, the firms should plugh back the entire earnings within the firm. The market value of the shares will b e maximized as a result.
- ii. When  $r > ke$ , N when the firm does not have large size sample profitable, investment opportunities, the value of shares are positively correlated. If a firm does not have profitable investment opportunities(when  $r < k$ ), the shareholders will be better-off if earning are paid out to them so as to enable then to earn a higher return by using the funds elsewhere. In such a case, the market price of shares will be maximized by

the distribution of the entire earnings as dividends. a D/p ratio of 100 would give an optimum dividend policy, In other words, as the payout ratio increases, the market.

Where,

- P = Price of equity shares
- D = Initial dividend
- $k_e$  = Cost of equity capital
- g = Expected growth rate of earnings.

To reflect earnings retentions, we have

$$P = \frac{D}{k_e - rb}$$

Where,

- r = Expected rate of return on firm's investments.
- b = Retention rate  $(E - D) / E$

Thus,  $r_b$  measures growth rate in dividends, which is the product of the rate of profitability of retained-earnings (r) and the earnings retention percentage (b). From the above equation, we derive an equation for determining  $k_e$ .

$$k_e = \frac{D}{P} + g$$

Since  $g = \frac{P}{P}$ , we have

$$k_e = \frac{D}{P} + \frac{P}{P}$$

And since  $P = \frac{r}{k_e} (E - D)$

Substituting the value of AP, we have

$$k_e = \frac{D + \frac{r}{k_e} (E - D)}{P}$$

$$\text{or, } P = \frac{D + \frac{r}{k_e} (E - D)}{k_e}$$

Price of the shares also increases. With 100% D/p ratio the value is the highest, while it is the lowest with D/p ratio being zero. When  $r < k_e$ , the firm would be well and wished to distribute the entire earnings to the shareholders.

### **For a situation in which $r = k_e$ (normal firms)**

The market value of shares is constant irrespective of D/P ratio, no optimum dividend policy D/P ratio. It is a matter of indifference whether earnings are retained or distributed. This is so because for all D/P ratios (ranging between zero and 100) market price of shares will remain constant for such firms, there is no optimum dividend policy (D/P ratio). In other words, the market price of shares is not affected by the D/P ratio). Whether the firm retains the profits or distributes dividends is a matter of indifference. This is a hypothetical situation. In real practice, the two values ( $r$  and  $k_e$ ) are different and Walter concludes that dividend policy does matter as a variable maximizing share prices.

### **Holder Langreh and Hexter (2004)**

M.E. Holder, F.W Langreh and Hexter's studied on "Dividend policy determinates an Investigation of the influences of stakeholders on firm" dividend policy by examining the interaction between the dividend and investment policies (Holder, et. al.2004).

### **The Model used in the study was:**

$$D_{pit} = \beta_0 + \beta_1 F_{sit} + \beta_2 LSALES_{it} + \beta_3 IN_{sit} + \beta_4 LCSHR_{it} + \beta_5 FC_{fit} + \beta_6 GROW_{it} + \beta_7 STD_{it} + E_t$$

Where,

$D_{pit}$  = smoothed dividends payout ratio for firm in fiscal year t.

$F_{sit}$  = Measure of the focus of firm i in year t.

$LSALES_{it}$  = Natural log of sales of firm I in year t.

$INS_{it}$  = Residual of insider ownership for firm I in year regressed LSALES

$LCSHR_{it}$  = Residual of Natural log of number of common shareholders for firm I in year regressed on LSALES.

$FC_{fit}$  = Free cash flow for firm I year t.

$GROW_{it}$  = Sales growth of firm I in using prior five years.

$STD$  = Standard deviation of Monthly returns of firm in year t.

They used above Mentioned regression equation as the basis for testing their hypothesis of relationship between the NOC (Net Organizational Capital) of a firm and its dividends payout. They developed Model with data from 477 firms over an eight year period (i.e. 1990-2003) for a total of 3816 observation, and used a pooled time series cross sectional analysis.

**The Major findings of the study were:**

The coefficient of corporate focus on NOC is negative and statistically significant indicating a negative inference on dividend payout ratio.

- J Large firms tend to have higher payout ratios, compared to smaller firms larger firms have easier access to the capital Markets and are therefore less dependent on internal funds. Therefore, they can afford to pay higher dividends.
- J Insider ownership negatively and pay out. Firms with a higher percentage of stock held by insider will have lower agency costs and lower dividend payout ratio.
- J Insider levels of free cash flow have higher agency costs and need higher dividend payout ratios to reduce those agency costs.
- J Dividend payout ratios are lower for higher risk firms.
- J Sales growth is negatively and significantly related to dividend payout ratio. The findings of the above Mentioned studies conducted in developed and big capital Market May or May not applicable in Nepal where capital Market is small and is emerging one as well as may not be directly comparable to that of Nepal. So here, attempts are made to review same Major studies that are being Carried out in Nepal.

**Pandey (1992)**

I.M. Pandey studied on corporate Dividend behavior and Analysis of Dividend policy in practice: Case of CARSEN and TOUBRO. It has been conducted based on the data from 1976 to 1991.

A stable payout ratio results fluctuating dividend per share pattern, which could be a cause of uncertainty for investors. In practice; firms express their dividend policy either in terms of dividend per share or dividend rate. Does this mean that payout ratio is not considered important by firms while determining their dividend policies? Winter in this study conducted in context of U.S.A; found that forms generally think in terms of proportion of earnings to be paid out. Investment requirements are not considered for modifying the pattern of dividend behavior. Thus firms generally have target payout ratios in view while determining change in dividend per share (or dividend rate). Let us assume that a firm has EPS, as the expected earnings per share in the current year and p as the payout ratio. If the firm strictly follows stable payout policy, the expected dividend per share DIV, is:

$$DIV_t = pEPS_t \dots\dots\dots (i)$$

And dividend change (as compared to the dividend per share of the previous year,  $DIV_0$ ) will be:

$$DIV_1 - DIV_0 = pEPS_t - DIV_0 \dots\dots\dots (ii)$$

But in practice, firms do not change the dividend per share (or dividend rate) immediately with change in the earnings per share. Shareholders like a steadily growing dividend per share. Thus the firm change their dividends slowly and gradually even when there are large increases in earnings. This implies that firms have standards regarding the speed with which they attempt to move towards the full adjustment of payout to earnings. Linter has therefore suggested the following to explain the change in dividends of firms in practice.

$$DIV_t - DIV_0 = b (pEPS_t - DIV_0) \dots\dots\dots (iii)$$

Where  $b$  is the speed of adjustment. A conservative company will move slowly towards its target payout.

The implication of equation (iii) are (a) that firms stabilize their dividends in accordance with the level of current earnings and (b) that the change in dividends over time do not correspond exactly with changes in earnings in the immediate time period. In other words, dividend per share depends on the firm's current earnings (EPSI) as well as the dividend per share of the previous year ( $DIV_0$ ): the previous year's dividend per share depends on the year's earnings per share and the dividend per share in the year before.

**Werner Ria Murhadi (2010)** Study on dividend Policy: Antecedent and its impact on share price. This research aims to test dividend signaling theory in an Indonesian capital market. Signaling theory states that dividend policy has information content that can influence to share price. Examination of theory of signaling is related to research phenomena in other countries indicating that by percentage there is degradation of company which is pay dividend and there even exist mentioning this as phenomenon of disappearing dividend. Examination of theory of signaling is also related to the research result showing the existence or inexistence of the influence of dividend policy to share price. Besides, in this research is also conducted by examination of agency theory. This research of agency theory tests the influence of: (1) Free Cash Flow to share price, (2) Structure of Ownership to share price, (3) Structure of ownership to dividend policy. This research also tests life cycle theory, seen influence of cycle of company life to dividend

policy. Companies which enter in growth phase tend not to a lot of dividend, compared to company at matured step.

This research use quantitative approach by using method of path analysis. This research use samples in the form of company allocating dividend for period 1995-2005 which listed on PT Jakarta Stock Exchange. Final samples which are utilized in this research are equal to 1052 year observation. This research also tests sensitivity, widened time of even from 1 day at especial model, becoming 5 and 10 day. Besides test of sensitivity is also conducted changed approach of market model become mean adjusted model in determining expected return.

Research finding indicates that signaling theory still relevant in influencing movement of share price. Besides, research finding also supports agency theory told by Jensen in seeing influence of free cash flow to share price. For the influence of structure of ownership to share price, the result supports entrenchment argument. While influence of structure of ownership to dividend policy found by result which do not support agency theory. Life Cycle theory in this research is obtained by result which is research confirmation before all, where there are influenced of cycle step of company life to dividend policy.

### **2.3 Review of Thesis**

**Budhathoki (2006)** has carried on a research on *"The Study of Dividend Policy of Commercial Banks in Nepal"*. The main objectives of study were:

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

#### **Major findings of this study are:**

- ) The average EPS of banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS.
- ) The average DPS shows that there is no regularity in dividend payment.
- ) The analysis of DPR shows that the DPR of banks is not stable.

**Jha (2007)** has performed a thesis on Dividend Policy: *"A Comparative Study between Banks, Insurance Companies and Financial Institution"* with eight years data relating to dividend policy from 1998/99 to 2005/06. The main objectives of study were:



- ) To highlight dividend practice of bank, insurance and finance companies.
- ) To analyze the relationship of dividend with various important variables.

**Major findings of this study are:**

- ) Government of Nepal, NRB, SEBON and NEPSE should be conscious to discourage market imperfection.
- ) Companies should have long term policy regarding the adoption of suitable dividend policy.
- ) Even if earning has not been increased, the DPS has been widely fluctuated. Distribution of bonus share should be pre-evaluated.

**Bista (2008)** has presented the thesis entitled "*Dividend Policies and Practices in Nepal: A Comparative Studies of Listed Joint Venture Banks and Manufacturing Companies*". He has analyzed the data of three joint venture companies and three manufacturing companies.

The major objectives of the study were:

- ) To examine the relationship between dividend and market price of the stock.
- ) To identify the appropriate dividend policy followed by listed banks and manufacturing companies.
- ) To analyze the similarities and differences of dividend policy decision of banks and manufacturing companies.

**Major findings of this study are:**

- ) The banks and manufacturing companies do not follow any specific dividend policy. DPR are fluctuating over the periods of those selected companies.
- ) MPS do not any specific trend, it fluctuates the future price.
- ) There is not any specific trend of EPS in these companies.
- ) There is huge difference between market value per share and book value per share.

**Kafle (2009)** has presented an MBS thesis entitled "*Dividend Policy of Commercial Banks in Nepal*" with special reference to HBL, EBL and NIBL. The main objectives of this study are as follows:

- ) To study dividend procedures followed by sample banks.
- ) To identify, whether DPS affected by the EPS in sample banks.

- ) To analyze the relationship between DPS with various important variables such as EPS, net profit, net worth and book value per share.

**Major findings of this study are:**

- ) In HBL, DPS trend is increasing even in fiscal year 2004/05, when EPS is decreased. In EBL, EPS is in increasing trend, DPS is also in increasing trend except fiscal year 2004/05.
- ) In NIBL, EPS and DPS both trend is fluctuating. The implications of fluctuating earning per and dividend per share could not make clear to the public.
- ) MPS is much higher than net worth per share in case of EBL. This indicates that the investors either have a optimistic view on the future performance of company or that they are not investigating the performance indicators of the companies in which they are investing properly.
- ) DPS is positively correlated with EPS, net profit, market price per share and net worth in all sample banks. It means the higher EPS, net worth and net profit, higher will be dividend per share and vice versa.

**Dhungel (2009)** has presented an MBS thesis entitled "*A Study on Dividend Policy of Everest Bank Limited and Bank of Kathmandu*". The main objectives of this study are as follows:

- ) To identify what type of dividend policy being followed by selected companies.
- ) To highlight dividend practices of Bank of Kathmandu and Everest Bank Limited.
- ) To analyze the relationship between dividend per share and other important variables such as earning per share, net profit, net worth and stock prices.

**Major findings of this study are:**

- ) EBL has higher earning capacity than BOK and paying more dividend than BOK.
- ) On the basis of DPR, it can be considered that BOK has paid higher portion of its earnings as dividend since average DPR of BOK is higher than that of EBL.
- ) Average dividend yield indicates that BOK is providing more percentage of its market value per share than EBL.
- ) Average earning yield ratio of BOK is greater than that of EBL, which means BOK is more efficient to generate earning on the basis of market price.

- J EBL remained more successful than BOK in satisfying its shareholders through distributing cash and bonus share dividend, generating higher amount of earning per share, maintaining higher market value of its share.

**Silwal (2011)** has presented an MBS thesis entitled "*A Study on Dividend Policy of Commercial Banks in Nepal and It's Effect to Market Price of Share*". He has taken NABIL Bank, Standard Chartered Bank Nepal Limited, Everest Bank Limited, Nepal Industrial and Commerce Bank Limited and Bank of Kathmandu as Sample considering the data period FY 2003/04 to 2009/10. The main objectives of this study are as follows:

- J To examine whether, the commercial banks are following the suitable dividend policy or not.
- J To analyze and evaluate the application of dividend decision on selected banks.
- J To analyze the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, P/E ratio and net profit of sample banks.

**Major findings of this study are:**

- J DPS of sample banks in average shows that there is not regularity in dividend payment.
- J The average highest DPR is 68.57% of SCBNL and lowest is 12.25% of NIC. The analysis of CV of DPR indicates that SCBNL has least fluctuation i.e. 18.02% and NIC has most fluctuation i.e. 147.13% among the sample banks.
- J The study of impact of cash dividend on market price of share revealed that DPS has positive impact on MPS in NABIL, SCBNL and EBL. But negative impact has been found in BOK, NIC and bank pooled average, which indicates the MPS of NIC and BOK is influenced by any other factors.
- J With respect to impact of DPR on valuation of share, negative impact has been found of sample commercial banks. DPR affects the market price of stock differently.
- J The multiple regression analysis of MPS on EPS and DPS, it has been found that there is positive relation between MPS and EPS, but negative between MPS and DPS.
- J The DPS and EPS are positively correlated in sample banks which mean higher the EPs higher will be DPS.

**Kafle (2012)** has presented an MBS thesis entitled on "*Dividend Policy and its Impact on Market Price of Stock of Commercial Banks*" sample of five commercial banks, and the data are taken 2005/06 to 2010/11. The main objectives of this study are:

- J To examine the impact of dividend policy on market price of stock.
- J To explain the prevailing policies and practices regarding dividend in the Nepalese firms with reference to the sample firm.
- J To explore various aspects of dividend policies and practices in Nepalese commercial banks.
- J To analyze if there is any uniformity in DPS EPS MPS and DPR of the sample banks.

**Major findings of this study are:**

- J The SCBL has the highest mean EPS among the banks which is Rs 145.30 and NIC has the lowest, which is Rs 21.68 the same result is seen to be Rs 113.24, Rs22.95, Rs43.23 and Rs73.13 in NIBIL, SBI, BOK and EBL respectively. Most of the firm always seeks to have more earning so that they can sustain efficiently in the competitive capital market. Therefore, earning is the indicator of firms. There is lower consistency in SCBL, SBI, BOK, EBL, and NIC. Indicating C.V. by 15.01%, 41.40%, 27.20% 27.24% and 23.57% respectively than that of NABIL.
- J The SCBL has the highest mean DPS among selected banks where as it is lowest in NIC (i.e. Rs 95 and Rs 2.24). If DPS of any firm is high, it will create positive attitude of its shareholders towards the firm, which is consequently helps to increase the market value of the share. In another words the firm is paying higher dividend implies that it is performing better. Consistency in DPS is also highest in SCBL than that other banks representing (C.V. = 28.99%) which is lower than others.
- J Higher DPR indicates that the firm is paying higher dividend to its shareholders and lower Dividend payout ratio implies that the firm is retaining its profit to profitable investment opportunities. The mean DPR of SCBL, SBI, BOK, EBL and NIC are 62.71%, 10.86% 31.74%, 22.70% and 9.71 respectively. This evidence shows that NIC is retaining more its earning and it might be the consequences of the higher growth opportunities.
- J The SCBL has the highest mean MPS among the selected banks which is Rs4432.17 and NIC has the lowest, which is Rs740. Increase in MPS is the indication of better performance MPS trend over the sample period. Consistency in MPS in SCBL in

higher than that of others as its C.V. (i.e. 43.58%) is smallest as compared to other banks.

- J Correlation between EPS and MPS is positive in SBI, EBL, BOK and NIC and negative correlation between EPS and MPS in SCBL. Similarly correlation between MPS and DPR is positive in SBI and BOK and negative in SCBL, EBL and NIC. Whereas correlation between MPS and DY is positive in SBI and negative in NABIL, SCBL, EBL, BOK and NIC. The correlation between MPS and P/E ratio is positive in SCBL, EBL, BOK and NIC.
- J The regression analysis of MPS on EPS shows that the regression coefficient (n) is positive for SCBL, EBL, BOK and NIC. The coefficient of multiple determination of BOK is highest among sample banks in the regression analysis of MPS on EPS.
- J From the test of hypothesis, it is found null hypothesis of no significant difference of EPS, DPS, MPS, DPR and DY among selected banks are rejected and where as null hypothesis and no significant different of P/E ratio is accepted.

### **Research Gap**

There have been several previous studies in dividend policy and practices of various banks and financial institutions taking consideration of various financial and statistical tools. In this context, previous studies cannot be ignored because they provide the foundation of the present study. The purpose of this study is to the dividend policy and practices in Nepalese commercial banks and receives some new ideas, knowledge and suggestions in relation. It is expected that the uncovered area of past research will be studied in this research. The previous study does not cover the analysis of dividend policy of joint venture commercial banks i.e. similar nature. This study is contains the examine dividend policy and practices in Nepalese Joint Venture Commercial banks, examine the relationship between earnings, dividends, retained earnings and market price of stocks, dividend payout ratio, dividend yield and liquidity ratio and analyze the effect of dividend in share price etc. So this study on dividend policy in the context of Nepalese commercial banks is based on secondary data of three joint venture banks.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

Research methodology describes the method and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. So the purpose of this chapter is to outline the methods and sequential steps adopt in analyzing the problem.

#### **3.1 Research Design**

Research design refers to a series of stage in conducting study. The research design of this study will be more exploratory and analytical, using various phenomena related and influencing the dividend decision and market price of stock. Descriptive and analytical research design is used in this study. The annual reports published by the related banks and the financial statements of banks published by Nepal stock exchange Ltd. were collected from the year 2004/5 to 2010/11 to analyze, interpret and get the conclusion.

#### **3.2 Population and Sample**

There are 32 commercial banks incorporated and doing their transactions in Nepalese Financial Market. Due to constraints of time and resources, out of six joint venture commercial banks only three of these i.e. 50 percent are selected as sample in this study.

Selected sample banks of this study are as follows:

- 1 Standard Chartered Bank Nepal Ltd. (Joint Venture with Standard Chartered Bank Ltd U.K.)
- 2 Himalayan Bank Ltd.(Joint Venture with Habib Bank Ltd. Pakistan)
- 3 Everest Bank Ltd.( Joint Venture with Punjab National Bank, India)

#### **3.3 Sources of Data**

The study is mainly based on secondary data however; some data are collected from primary source. The required data has been collected from the 'Financial Statement of listed companies published by Nepal Stock Exchange Limited' and the annual reports published by concerned banks. For the meaningful research basically secondary and primary data are very important and fundamental thing too. The primary data is collected on the basis of a questionnaire spread over to different financial sectors. The basic purpose

of the distributing the questionnaire was to obtain a knowledge on the various aspects of the dividend policy especially the view point of Academicians, Banking officer, NRB officials, Lecturer and investor as how to they regard the dividend policy in Nepal. For the questionnaire, 50 number of sample is drawn.

### **3.4 Method of Analysis**

Various financial and statistical tools have been used in this study. The analysis of data will be done according to pattern of data available. Financial tools, simple Regression Analysis and Multiple Regression Analysis have been used in the stud. The relationship between different variables related to study topic would be drawn out using financial and statistical tools. The main financial indicators EPS, DPS, D/P Ratio, Retained Earnings, MVPS, DY Ratio and P/E have been used in the study; likewise statistical tools Arithmetic Mean, Standard Deviation, Coefficient of Variation, Simple Regression Analysis, and Multiple Regression Analysis have been used in the study.

### **3.5 Data Analysis Tools**

#### **A. Financial Tools**

Under the financial tools, the following ratios has been calculated and interpreted:

#### **1. Earnings Per Share (EPS)**

The profitability of common shareholder's investment can be measured in many other ways. The income of per common share can be known from Earning per Share. EPS calculations made over the years indicate whether the banks earning power on per share basis have changed over the period or not. EPS is calculated by dividing the net profit after tax by the total number of common share outstanding.

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{No. of stock outstanding}}$$

#### **2. Dividend Per Share (DPS)**

The DPS indicates the part of earning distributed to the shareholders on per share basis. It is calculated by dividing the total dividend to equity shares by the number of ordinary shares.

$$DPS = \frac{\text{Total Dividend to Equity Shares}}{\text{No. of ordinary shares}}$$

### 3. Dividend Payout Ratio (D/P Ratio)

D/P ratio is percentage of profit that is distributed as dividend. This ratio reflects percentage of profit is distributed as dividend and what percentage of profit is remained as reserve & surplus for the growth of the company. It is calculated by DPS divided by the EPS.

$$D/P \text{ Ratio} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

### 4. Retained Earning(R/E)

Retained earning means the earnings that retained by organization to invest in profitable project. It is calculated by Net Income minus Dividend.

Retained Earning = Net Profit After Tax - Dividend

### 5. Market Values Per Share (MVPS)

Market value per share means to evaluate value of shares in the market. A company's MVPS is defined as the company's assessed market value divided by the total number of shares held by stock owners in the company. The market value simply the price for which a share that company trades on the stock market. In the view point of importance, knowing the MVPS (and market value more broadly) of a business in many situations. This includes situations involving transfer of shares as a result of inheritance or divorce.

$$MVPS = \frac{\text{Dividen per share}}{\text{Dividen Yield Ratio}}$$

### 6. Dividend Yield Ratio (D/Y Ratio)

This ratio shows the relationship between dividend per share and market value per share. It is very useful for the investors. It is calculated by dividing dividend per share by market value per share.

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend per share(DPS)}}{\text{Market value per share(MVPS)}}$$

### 7. Price Earnings Ratio (P/E Ratio)

This ratio reflects the price currently paid by the market for each rupee of current reported earnings per share (EPS). It is also very useful to prospective investors. It is calculated by



dividing the market value share (MVPS) by earning per share.

$$\text{P/E Ratio} = \frac{\text{Market Value Per share}}{\text{Earnings per Share}}$$

## **B. Statistical Tools**

In the present study, certain statistical tools have been used to compare the Figures and draw one meaningful conclusion there from. Short descriptions of the statistical tools have been presented here.

### **1. Mean**

The most popular and widely used measure of representing the entire data by one variable is the arithmetic mean. It is calculated by dividing sum of all items by the total number of items. Mean values of the different variable represent the average value for the study period.

$$\text{Arithmetic Mean } (\bar{X}) = \frac{\sum X}{N}$$

### **2. Standard Deviation**

Dispersion is the degree of the variation of the individual items about a central value.

The standard deviation measures the absolute dispersion. The greater the amount of dispersion greater the standard deviation. The small standard deviations mean a high degree of uniformity of the observation as well as homogeneity of a series and vice-versa. In this study, standard deviation calculated for earning per share, dividend per share, dividend payout ratio, retained earnings, market value per share, dividend yield ratio and price earnings ratio.

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

### **3. Coefficient of Variation**

The coefficient of variation is the relative measure of dispersion, comparable across which is defined as the ratios of the standard deviation to the mean expressed percent.

$$\text{C.V.} = \frac{\text{S.D}}{\bar{X}} \times 100\%$$

#### 4. Correlation Analysis

Correlation analysis is the statistical tools that can be used to describe the degree which one variable is nearly related to another. In the present study simple correlation has been used. Correlation co-efficient between the following financial variables has been calculated and presented in matrix form and thereby interpreted thoroughly.

$$\text{Correlation coefficient (r)} = \frac{n\phi XY Z\phi X\phi Y}{\sqrt{n\phi X^2 Z(\phi X)^2 Z\sqrt{n\phi Y^2 Z(\phi Y)^2}}$$

Simple correlation coefficient

- ) Between Earning Per Share and Dividend Per Share.
- ) Between Earning Per Share and Market Value Per Share.
- ) Between Dividend Payout Ratio and Market Value Per Share.
- ) Between last year dividend per share and Market Value Per Share.

#### 5. Regression Analysis

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under study. Regression analysis helps us to know the relative movement in the variables. Regression analysis of the following variable.-, have been calculated and interpreted.

#### 6. Coefficient of Determination ( $r^2$ )

The coefficient of determination is a measure of the degree of liner association or correlation between two variable one of which happens to be independent and other being dependent variable. In other word r measures the percentage total variation in dependent variables. The coefficient of determination value can have ranging from zero to one. A value or one can occur only if the unexpected variation is zero which simply means that all the data point in the scatters diagram fall exactly on the regression line.

#### 7. Regression Constant (a)

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

## **8. Regression Coefficient (b)**

The regression coefficient of each independent variable indicates the marginal relationship between the variable and value of dependent variable, holding constant the effect of all other independent variables in the regression model. In other words the coefficient describes how change in independent variables affects the values of dependent variables estimative.

### **Simple Regression Analysis**

#### **I. Market Value Per Share on Earning Per Share.**

This analysis enables us to know whether EPS is the influencing factor of market value per share or not. At what extent the EPS affects the MVPS.

$$Y = a + bX$$

Where,

Y = market value per share

a = Regression constant

b = Regression coefficient

X = Earning per share

#### **II. Market Value Per Share on last year Dividend Per Share**

This analysis is examined the market value per share as depended variable on last year dividend per share as independent variable.

$$Y = a + bX$$

Where,

Y = Market value per share

a = Regression constant

b = Regression coefficient

X = Last year Dividend  
per share

#### **III. Dividend per Share (DPS) on Earning per Share (EPS)**

This analysis is examined the dividend per share as depended variable on earning per share as independent variable.

$$Y = a + bX$$

Where,

Y = Dividend per share

a = Regression constant

b = Regression coefficient

X = Earnings per Share

### **Multiple Regression Analysis**

To see the impact of more than one independent variable the multiple regression have been used. It examines the relationship between one dependent variable and more independent variables. The market price of stock depends on more than one variable. So, the results of simple regression analysis are not reliable as far the multiple regression analysis eliminates all the limitations of simple regression analysis. This part of the study is designed to examine the relationship between two independent variables and one dependent variable. The regression results are presented. As, in this study, the pooled average data of the observed banks are used for multiple regression and coefficient of determination analysis.

#### **I. Multiple regression and coefficient of Determination Analysis: MPS on EPS and DPS;**

The model developed for this purpose;

$$y = a + b_1X_1 + b_2X_2$$

Where,

Y = market price per share (Dependent variables)

X<sub>1</sub> = Earnings per share (Independent variables)

X<sub>2</sub> = Dividend per share (Independent variables)

a<sub>1</sub> = Regression Constant

b<sub>1</sub> & b<sub>2</sub> = Coefficient of Net Regression (or simply regression constant)

Multiple Regression and coefficient of determination Analysis: MPS on EPS and DPS.

### **Limitations of Methodology**

- ) The analysis is based on secondary data. However, some questionnaires are also made in this study. Hence, both secondary data and primary tools are used.
- ) Calculation based on only seven years data.

## **CHAPTER-IV**

### **PRESENTATION AND ANALYSIS OF DATA**

#### **4.1 Presentation and Analysis of Secondary Data**

The presentation and analysis of data is the major part of the research study. The analysis of data has been done according to the available data. The analysis includes several tools and techniques such as financial tools and statistical tools and attitude of management towards dividend decision.

In this chapter, collected data and other information on dividend policy and its impact on market price of share of commercial banks are presented. This chapter concentrated in presentation and analysis of data as important financial indicators. This chapter attempts to analyze of Earning per share, Dividend per share, Dividend payout ratio, Retained earning analysis, Market value per share, dividend yield ratio, a Price earnings ratio, Correlation between Financial variables and Regression equations of Financial variables of selected commercial banks. Presentation and analysis of data is the major part of the research study. In order to achieve our objective of the study, we analyze the data with the help of above financial and statistical tools. This chapter will attempt to make a comparison among the concerned banks.

#### **4.1.1 Analysis of Financial Indicators of Sample Banks**

##### **4.1.1.1 Earning per share (EPS) Analysis**

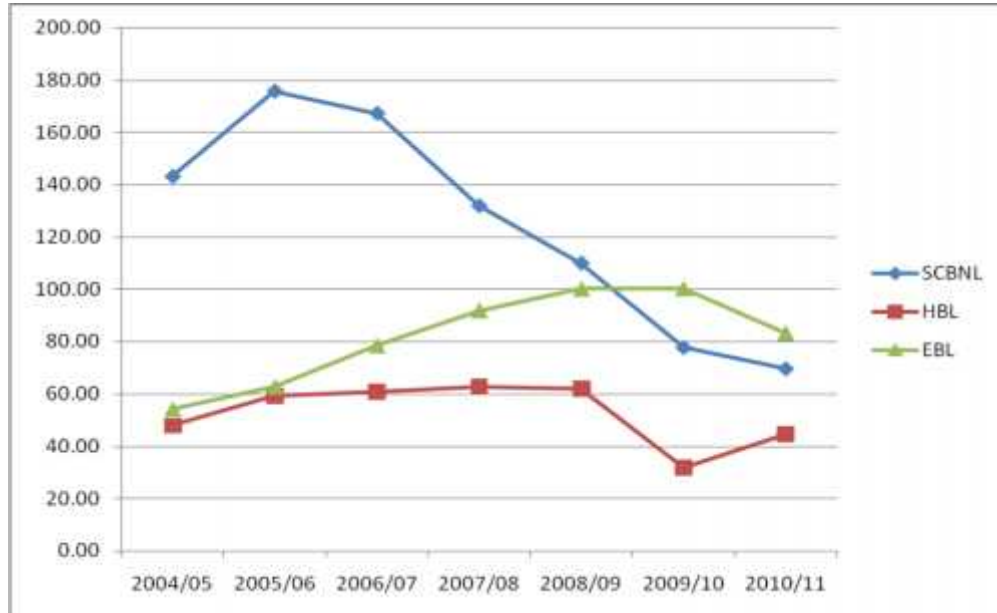
All the business firms always seek to have and more earning so that they could sustain efficiently in the competitive market. The following table shows all the details relating to earning per share of respective banks.

**Table 4.1**  
**Earning Per Share**

| Year    | (In Rs.) |       |        |
|---------|----------|-------|--------|
|         | SCBNL    | HBL   | EBL    |
| 2004/05 | 143.14   | 47.91 | 54.22  |
| 2005/06 | 175.84   | 59.24 | 62.78  |
| 2006/07 | 167.37   | 60.66 | 78.42  |
| 2007/08 | 131.92   | 62.74 | 91.82  |
| 2008/09 | 109.99   | 61.90 | 99.99  |
| 2009/10 | 77.65    | 31.80 | 100.16 |
| 2010/11 | 69.51    | 44.66 | 83.18  |
| Average | 125.06   | 52.70 | 81.51  |
| S.D.    | 41.44    | 11.66 | 17.81  |
| C.V.    | 33.14    | 22.13 | 21.85  |

Source: Annual Report of the concerned banks

**Figure 4.1**  
**Earnings Per Share**



Above table 4.1 and figure 4.1 shows that EPS of the concerned banks from 2004/05 to 2010/11. Normally, the performance and the achievement of business organization are measured in terms of its capital to generate earning. Higher earning shows higher strength while lower earning shows weaker strength of business organization. The table shows that the EPS of SCBNL is higher up to 2008/09 and while EPS of HBL is lower every year. The average EPS of SCBNL is Rs. 125.06 and average EPS of HBL and EBL is Rs. 52.70 and

Rs. 81.51 respectively. The EPS of SCBNL is highly fluctuated but fluctuation of EPS other two banks is lower.

Standard deviation of SCBNL is the highest (i.e.41.44) and HBL is the lowest (i.e.11.66) among three banks for seven years. In same way, CV of SCBNL is 33.14% which is highest and EBL is 21.85% which is the lowest among sample banks.

#### 4.1.1.2 Dividend per Share Analysis

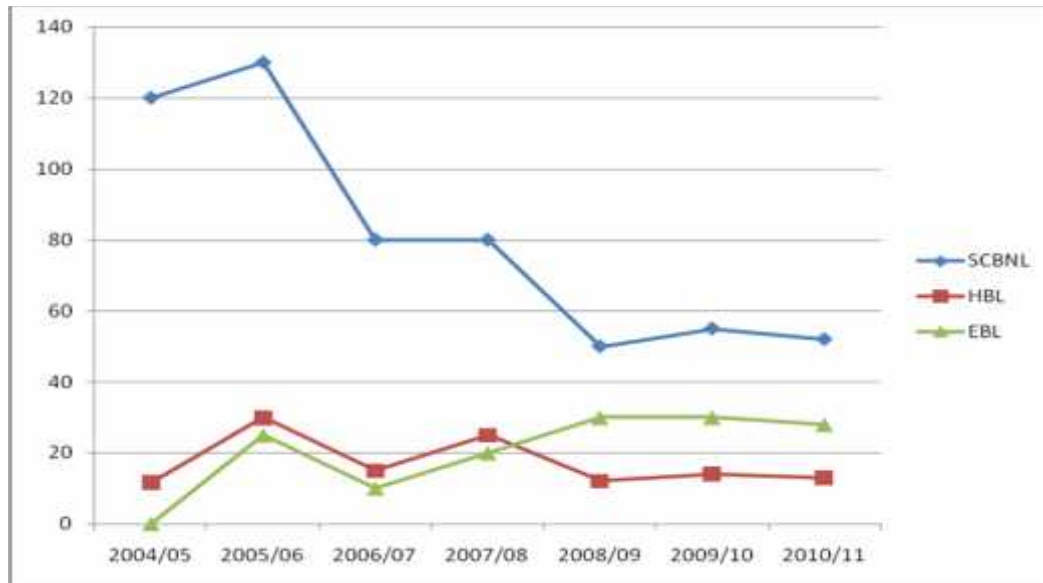
The study topic concerned to the dividend of the banks. It has taken the dividend paid by three sample banks for the seven different fiscal years. So it is very important at this stage to look over the relevant data on dividend for the purpose of this analysis

**Table:4.2**  
**Dividend Per Share**

| (In Rs.) |       |       |       |
|----------|-------|-------|-------|
| Years    | SCBNL | HBL   | EBL   |
| 2004/05  | 120   | 11.58 | 0     |
| 2005/06  | 130   | 30    | 25    |
| 2006/07  | 80    | 15    | 10    |
| 2007/08  | 80    | 25    | 20    |
| 2008/09  | 50    | 12    | 30    |
| 2009/10  | 55    | 14    | 30    |
| 2010/11  | 52    | 13    | 28    |
| Average  | 81.00 | 17.23 | 20.42 |
| S.D.     | 32.66 | 7.26  | 11.46 |
| C.V.     | 40.33 | 42.12 | 56.11 |

Source: Annual Report of the concerned banks

**Figure 4.2**  
**Dividend per Share**



Above table shows the impact on dividend per share of the concerned JVCB from the year 2004/05 to 2010/11. In analysis period, SCBNL has paid the highest and HBL has paid lowest dividend to its shareholders in average. In this period, SCBNL has paid Rs. 81.00 as DPS and HBL has paid Rs. 17.23 DPS in average. Standard deviation of SCBNL is the highest and HBL is the lowest among three banks for seven years. In same way, CV of SCBNL is 40.33% which is lowest and EBL is 56.11% that is highest among sample banks. This shows that DPS of SCBNL is more consistent and stable than other two banks. In same way, DPS of EBL is less consistent and less stable than others.

#### **4.1.1.3 Analysis of EPS and DPS**

All earnings of business are not distributed as dividend. The organization should have to retain the earnings and create different types of funds for future growth and risk management. In this study, how much earnings are distributed by selected JV banks to their shareholders. The following table shows the relationship between earning per share and dividend per share of selected companies.

##### **a) Analysis of EPS and DPS of SCBNL**



**Table 4.3**  
**Analysis of EPS and DPS of SCBNL**

| Year    | EPS    | DPS cash | Stock dividend | Total DPS |
|---------|--------|----------|----------------|-----------|
| 2004/05 | 143.14 | 120.00   | 0.00           | 120.00    |
| 2005/06 | 175.84 | 130.00   | 10.00          | 140.00    |
| 2006/07 | 167.47 | 80.00    | 50.00          | 130.00    |
| 2007/08 | 131.92 | 80.00    | 50.00          | 130.00    |
| 2008/09 | 109.99 | 50.00    | 50.00          | 100.00    |
| 2009/10 | 77.65  | 55.00    | 0.00           | 55.00     |
| 2010/11 | 69.51  | 52.00    | 0.00           | 52.00     |

*Source: Annual Reports of the concerned banks*

Above table 4.3 shows the analysis of EPS and DPS of SCBNL of analysis period. In the year 2004/05 EPS of SCBNL is Rs.143.14 and it gives Rs.120 cash dividend per share and no stock dividend. Likewise, EPS has increased to Rs.175.84 and gives cash dividend of Rs.130 per share and stock dividend 10% in 2005/06. The total dividend per share is Rs. 140. In this fiscal year, EPS of company is increased by 22.84% and DPS also increased by 16.67% consequently in comparison to previous year.

In year 2006/07, the EPS of company is decrease by 4.81% in comparison to previous year. In this year, company has distributed the cash dividend of Rs. 80 and stock dividend of 50%. The total dividend per share is Rs. 130. In this year, DPS has decreased by 38.40% as decreased of EPS.

In same way, company has taken the decision to distribute dividend as per its earnings. There is legal provision to increase the paid up capital of commercial banks up to Rs. 2000 million. So, company has distributed the stock dividend by 50% and cash dividend as per earnings of company in FY 2007/08 and 2008/09 last two fiscal years. Company has distributed the 50% dividend only as per earnings of company in FY 2009/10 and 2010/11.

b) Analysis of EPS and DPS of HBL

**Table 4.4**  
**Analysis of EPS and DPS of HBL**

| Year    | EPS   | DPS<br>cash | Stock<br>dividend | Total DPS |
|---------|-------|-------------|-------------------|-----------|
| 2004/05 | 47.91 | 11.58       | 20.00             | 31.58     |
| 2005/06 | 59.24 | 30.00       | 5.00              | 35.00     |
| 2006/07 | 60.66 | 15.00       | 25.00             | 40.00     |
| 2007/08 | 62.74 | 25.00       | 20.00             | 45.00     |
| 2008/09 | 61.90 | 12.00       | 25.00             | 37.00     |
| 2009/10 | 31.80 | 14.00       | 31.56             | 45.56     |
| 2010/11 | 44.66 | 13.00       | 25.00             | 38.00     |

*Source: Annual Reports of the concerned banks*

Table 4.4 shows the analysis of EPS and DPS of HBL during the period of 2004/05 to 2010/11. In the year 2004/05 EPS of HBL is Rs.47.91 and it gives Rs.11.58 cash dividend per share and 20% of stock dividend (total DPS is Rs. 31.58). Likewise in 2005/06 EPS has increased to Rs.59.24 and gives cash dividend of Rs.30 per share and stock dividend 5%. The total dividend per share is Rs. 35. In this fiscal year, EPS of company is increased by 23.65% and DPS also increased by 10.83% consequently in comparison to previous year. In year 2006/07, the EPS of company is increase by 2.40% in comparison to previous year. In this year, company has distributed the cash dividend of Rs. 15 and stock dividend of 25%. The total dividend per share is Rs. 40. In this year, DPS has increased by 14.29% as increased of EPS.

In same way, company has taken the decision to distribute dividend as per its earnings. There is legal provision to increase the paid up capital of commercial banks up to Rs. 2000 million. So, company has distributed the stock dividend and cash dividend as per earnings of company in last two fiscal years respectively. But percentage change in dividend is decreased by 15.43 in FY 2010/11.

c) Analysis of EPS and DPS of EBL

**Table 4.5**  
**Analysis of EPS and DPS of EBL**

| Year    | EPS    | DPS cash | Stock dividend | Total DPS |
|---------|--------|----------|----------------|-----------|
| 2004/05 | 54.22  | 0.00     | 20.00          | 20.00     |
| 2005/06 | 62.78  | 25.00    | 0.00           | 25.00     |
| 2006/07 | 78.42  | 10.00    | 30.00          | 40.00     |
| 2007/08 | 91.82  | 20.00    | 30.00          | 50.00     |
| 2008/09 | 99.99  | 30.00    | 30.00          | 60.00     |
| 2009/10 | 100.16 | 30.00    | 30.00          | 60.00     |
| 2010/11 | 83.69  | 28.00    | 10.00          | 38.00     |

*Source: Annual Reports of the concerned banks*

The above table 4.5 shows the analysis of EPS and DPS of EBL during the period 2004/05 to 2010/11. In the year 2004/05 EPS of EBL is Rs.54.22 and it gives 20% of stock dividend and no cash dividend. Likewise in 2005/06 EPS has increased by 15.79% and reached to Rs.62.78 and gives cash dividend of Rs.25 per share and no stock dividend. In this fiscal year, EPS of company is increased by 15.79% and DPS also increased by 25% consequently in comparison to previous year.

In year 2006/07, the EPS of company is increase by 24.91% in comparison to previous year and reached to Rs. 78.42. In this year, company has distributed the cash dividend of Rs. 10 and stock dividend of 30%. The total dividend per share is Rs. 40. In this year, DPS has increased by 60% as increased of EPS.

In same way, company has taken the decision to distribute dividend as per its earnings. The company has paid the cash dividend of Rs. 20 and Rs. 30 and stock dividend 30% equally in 2007/08 and 2008/09 respectively. Likewise, the company has paid the cash dividend of Rs. 30 and Rs. 28 and stock dividend 30% and 10% in 2009/10 and 2010/11 respectively. There is legal provision to increase the paid up capital of commercial banks up to Rs. 2000 million. So, company has distributed the stock dividend and cash dividend as per earnings of company in last two fiscal years respectively.

#### **4.1.1.4 Dividend payout Ratio Analysis**

Dividend payout ratio is percentage of profit that is distributed as dividend. This ratio reflects percentage of profit is distributed as dividend and what percentage of profit is

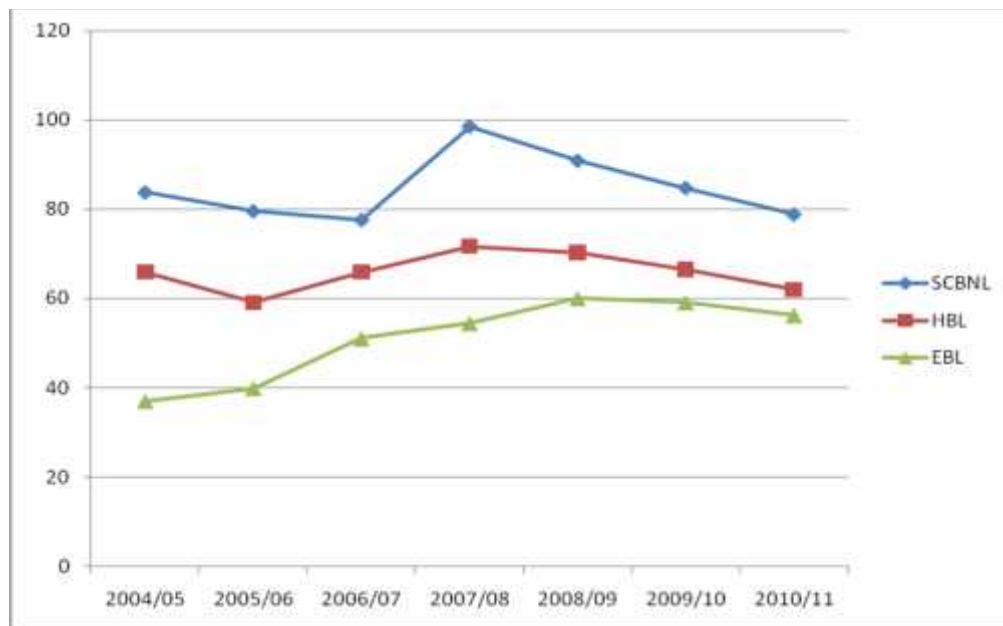
remained as reverse and surplus for the growth of the company. It is calculated by DPS divided by the EPS.

**Table 4.6**  
**Dividend Payout Ratio** (In %)

| Year    | SCBNL | HBL    | EBL    |
|---------|-------|--------|--------|
| 2004/05 | 83.83 | 65.91  | 36.88  |
| 2005/06 | 79.63 | 59.08  | 39.82  |
| 2006/07 | 77.67 | 65.94  | 51     |
| 2007/08 | 98.54 | 71.72  | 54.45  |
| 2008/09 | 90.91 | 70.37  | 60     |
| 2009/10 | 84.82 | 66.56  | 59.14  |
| 2010/11 | 78.91 | 61.93  | 56.24  |
| Average | 84.9  | 65.93  | 51.07  |
| S.D.    | 6.96  | 4.08   | 8.54   |
| C.V.    | 0.082 | 0.0618 | 0.1672 |

*Source: Annual Reports of the concerned bank*

**Figure 4.3**  
**Dividend Payout Ratio**



The table 4.6 shows that the dividend payout ratio of the three sample banks from the year 2004/05 to 2010/11. In the year 2004/05 HBL & EBL have paid 65.91% and 36.88%

respectively. Whereas SCBNL has paid highest present of dividend i.e.83.83%. In year 2005/06, 2006/07, 2007/08 and 2008/09,2010, 2010/11 dividend payout ratio of SCBNL is the highest among the banks that is 79.63%, 77.67%, 98.54% and 90.91%,84.82, 78.91 respectively and D/P ratio of HBL is 59.08%, 65.94%, 71.72% 70.37%, 66.56 and 61.96 respectively. The dividend payout ratio of EBL is lowest among the banks that are 39.88%, 51.00%, 54.45% and 60.00%, 59.14 and 56.24 respectively in the analysis period. The average dividend payout ratio of SCBNL, HBL and EBL are 84.90%, 65.93% and 51.07% respectively. Among them, average dividend payout ratio of SCBNL is highest and EBL is the lowest. After analyzing the average D/P ratio, it can be concluded that SCBNL has paid the highest amount as dividend to its shareholders from its earning and EBL has paid the lowest one among sample banks. The calculation of the coefficient of variation of the D/P ratio of three banks suggests that D/P of HBL is more consistent (i.e. 4.08% deviation) with 6.18% CV. Whereas C.V. of SCBNL and EBL is 8.20% and 16.72% in analysis period.

#### 4.1.1.5 Retained Earning Analysis

**Table 4.7**

**Retained Earning Analysis**

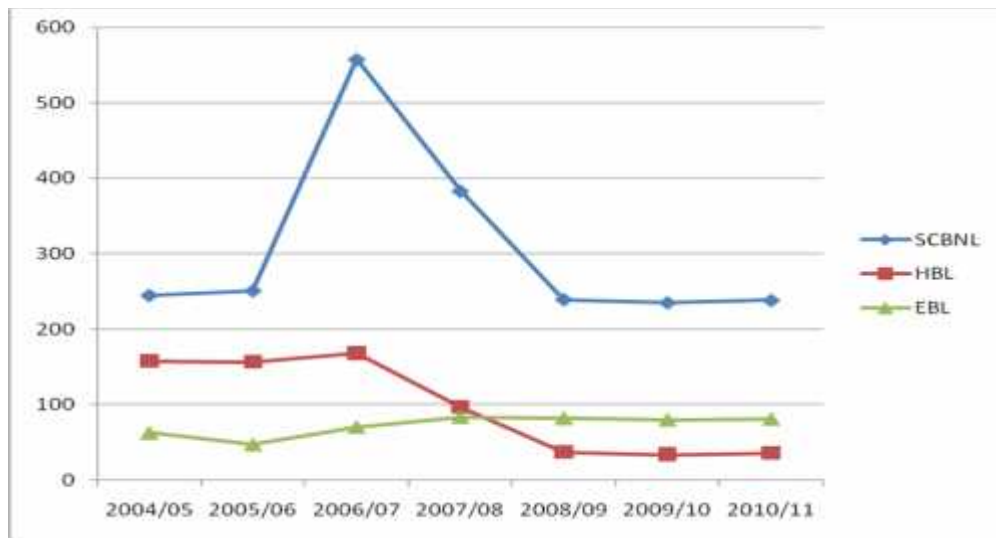
**(In mill.)**

| Year    | SCBNL  | HBL    | EBL    |
|---------|--------|--------|--------|
| 2004/05 | 245.2  | 158.17 | 62.5   |
| 2005/06 | 251.3  | 156.55 | 46.9   |
| 2006/07 | 557.72 | 168.38 | 70.5   |
| 2007/08 | 383.28 | 96.84  | 83.74  |
| 2008/09 | 239.49 | 36.52  | 82.44  |
| 2009/10 | 235.4  | 33.46  | 80.24  |
| 2010/11 | 238.45 | 35.67  | 81.34  |
| Average | 307.14 | 97.94  | 72.52  |
| S.D.    | 113.37 | 58.34  | 12.66  |
| C.V.    | 0.3691 | 0.5957 | 0.1745 |

*Source: Annual Reports of the concerned bank*

**Figure 4.4**  
**Retained Earning Analysis**

**(In mill.)**



Above table shows that the Retained earnings of the concerned banks from the year 2004/05 to 2010/11. Above table and figure show that the retained earning of SCBNL is higher in every year while RE of HBL and EBL are lower respectively.

Retained earning means the earnings that retained by organization to invest in profitable projects. In the year 2004/05 RE of SCBNL, HBL and EBL are Rs. 245.20, 158.17 and 62.50 million respectively. In the year 2005/06, RE of all banks is Rs. 251.30, 156.55 and 46.90 million respectively. In same way, RE of all banks is Rs. 557.72, 168.38 and 70.50 million in 2006/07 and 383.28, 96.84 and 83.74 million in 2007/08. In year 2008/09, RE of all banks is Rs. 239.49, 36.52 and 82.44 million respectively. Likewise, RE of SCBNL, HBL and EBL is Rs. 235.4, 33.46 and 80.24 million in 2009/10 to Rs. 238.45, 35.67 and 81.34 million respectively in 2010/11. The average analysis shows that RE of SCBNL is 307.14m., HBL is 97.94 m. and EBL is 72.52 respectively.

Among them average RE of SCBNL is higher than HBL and EBL. It can be concluded that SCBNL has retained the higher amount as earnings. The standard deviation of SCBNL is highest (i.e.113.37) and EBL is the lowest (i.e.12.66) among three sample banks for seven years. The calculation of the C.V. of the RE of three banks suggests the RE of EBL is more consistent (i.e.12.66 deviation) with 17.45% C.V. Whereas C.V. of SCBNL and HBL are 36.45% and 59.57% respectively. RE of SCBNL is increased up to 2006/07 then it

decreased up to 2008/09 and then remained constant up to 2010/11. The volume of retained earnings is affected by dividend payout ratio of company.

#### 4.1.1.6 Market Value per Share Analysis

**Table:4.8**  
**Market Value Per Share**

| (In Rs.) |         |         |         |
|----------|---------|---------|---------|
| Year     | SCBNL   | HBL     | EBL     |
| 2004/05  | 2345.00 | 920.00  | 870.00  |
| 2005/06  | 3775.00 | 1100.00 | 1379.00 |
| 2006/07  | 5900.00 | 1740.00 | 2430.00 |
| 2007/08  | 6830.00 | 1980.00 | 3132.00 |
| 2008/09  | 6010.00 | 1760.00 | 2455.00 |
| 2009/10  | 3279.00 | 816.00  | 1630.00 |
| 2010/11  | 1800.00 | 575.00  | 1094.00 |
| Average  | 4277.00 | 1270.14 | 1855.71 |
| S.D.     | 1969.41 | 548.58  | 831.45  |
| C.V.     | 46.05   | 43.19   | 44.81   |

source: Annual Report of the concerned banks

**Figure 4.5**  
**Market value per share analysis**

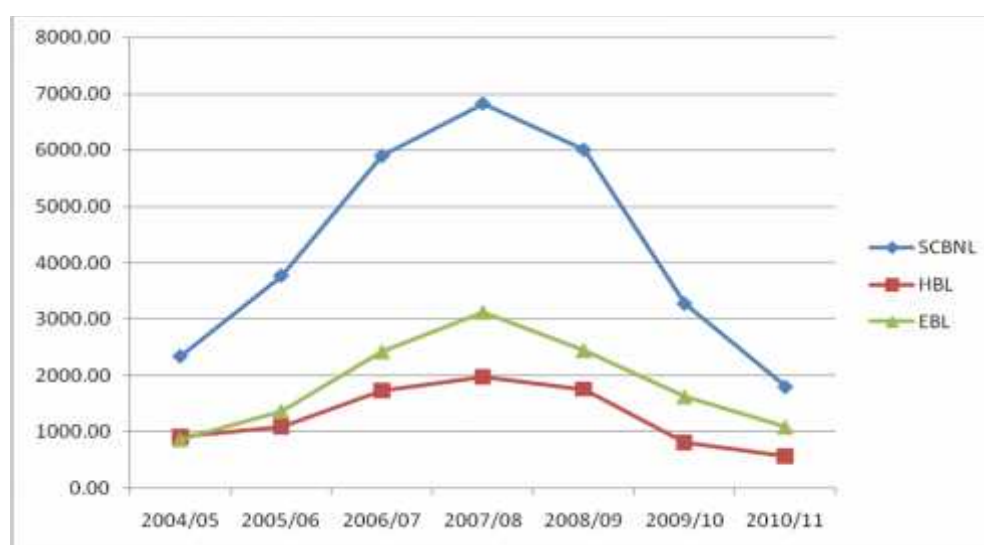


Table 4.8 shows that the market price per share of the concerned banks from the year 2004/05 to 2010/11. Market value per share means to evaluate value of share in the market. In the year 2004/05 MVPS of SCBNL, HBL & EBL are Rs.2345, Rs. 920 and Rs. 870

respectively. In the year 2005/06 MVPS of all banks increases to Rs.3775, Rs. 1100 and Rs. 1379 respectively. In the year 2006/07 MVPS of all bank's are highly increased i.e. SCBNL's Rs.5900, HBL's RS.1740 and EBL's Rs.2430. The MVPS of related banks are increased to 2007/08 and decreased in 2008/09. Likewise, The MVPS of SCBNL, HBL and EBL are decreased in 2009/10 and 2010/11. The average of MVPS SCBNL, HBL and EBL are Rs. 4277.85, Rs. 1270.14 and Rs. 1855.71 in analysis period

The coefficient of variation analysis shows that MVPS of HBL is most consistent among the sample banks i.e. 43.19%. Likewise, C.V. of SCBNL and EBL are 46.05% and 44.81% respectively. MVPS of all banks are increased up to 2007/08 then after decreased up to year 2010/11.

#### 4.1.1.7 Dividend Yield Ratio Analysis

This ratio shows the relationship between dividend per share and market value per share. It is calculated by dividing dividend per share by market value per share. Dividends yield ratio is highly influences by the market value per share. The ratio highly influences the market value per share because change in dividend per share can bring effective change in market value of that share. Therefore, before allocation of a market scenario and price fluctuation it is to be studied and evaluated for the long run survival of the company.

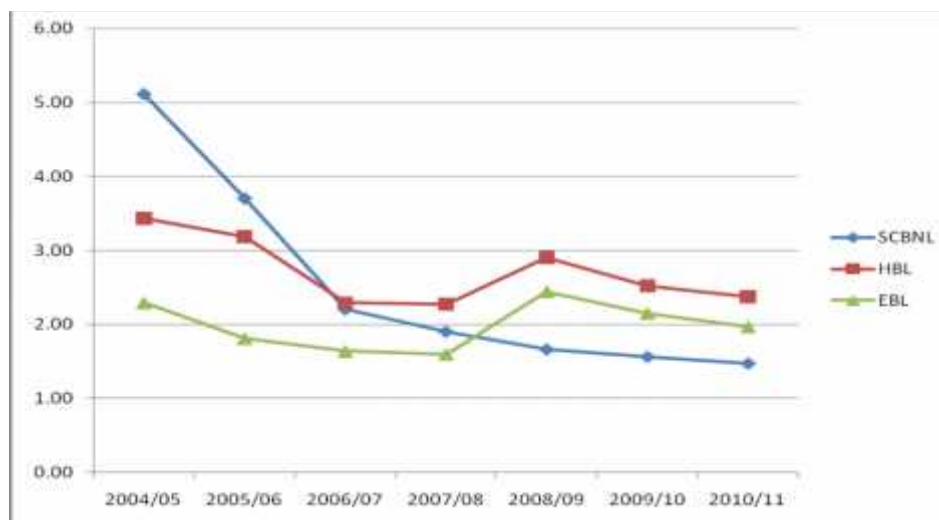
**Table:4.9**  
**Dividend Yield Ratio**

| Year    | (In %) |       |       |
|---------|--------|-------|-------|
|         | SCBNL  | HBL   | EBL   |
| 2004/05 | 5.11   | 3.43  | 2.29  |
| 2005/06 | 3.70   | 3.18  | 1.81  |
| 2006/07 | 2.20   | 2.29  | 1.64  |
| 2007/08 | 1.90   | 2.27  | 1.60  |
| 2008/09 | 1.66   | 2.90  | 2.44  |
| 2009/10 | 1.56   | 2.52  | 2.15  |
| 2010/11 | 1.47   | 2.37  | 1.97  |
| Average | 2.51   | 2.71  | 1.99  |
| S.D.    | 1.38   | 0.46  | 0.32  |
| C.V.    | 54.70  | 17.17 | 16.26 |

*Source: Annual Reports of the concerned bank*



**Figure 4.6**  
**Dividend Yield Ratio**



Above table shows dividend yield analysis for the year 2004/05 to 2010/11. In the year 2004/05 data related to dividend yield of SCBNL, HBL & EBL are 5.11%, 3.43% and 2.29%. In next year's, this ratio is decrease for SCBNL, DY ratio of this bank is 3.70%, 2.20%, 1.90%, 1.66%, 1.56% and 1.47% in analysis period. In same way DY of HBL is decreased till 2007/08 i.e. 3.18%, 2.29%, 2.27%, 2.52% and 2.37% analysis period except increased in 2008/09 i.e. 2.90%. DY of EBL is also decreased till 2007/08 i.e. 1.81%, 1.64% and 1.60% and increased in 2008/09 i.e. 2.44%. In 2009/10 and 2010/11 DY decreased i.e.2.15% and 1.97% respectively.

In average, HBL dividend yield ratio i.e. 2.71% is highest at all and EBL is the lowest i.e.1.99%. The dividend yield ratio of SCBNL is 2.51% in average. The coefficient of variation analysis shows that the DY of EBL has least fluctuation with least CV value of 16.26% while SCBNL has highest CV of 54.70% that shows the highest fluctuation of dividend yield ratio.

#### **4.1.1.8 Price Earning Ratio Analysis**

This ratio reflects the price currently paid by the market for each rupee of current reported earning per share (EPS). It is calculated by dividing the market value share (MVPS) by earning per share. PE ratio is the investor's exception towards the company's financial performance. It gives the knowledge of financial protection towards owner which also indicates the market appraisals of the different banks.

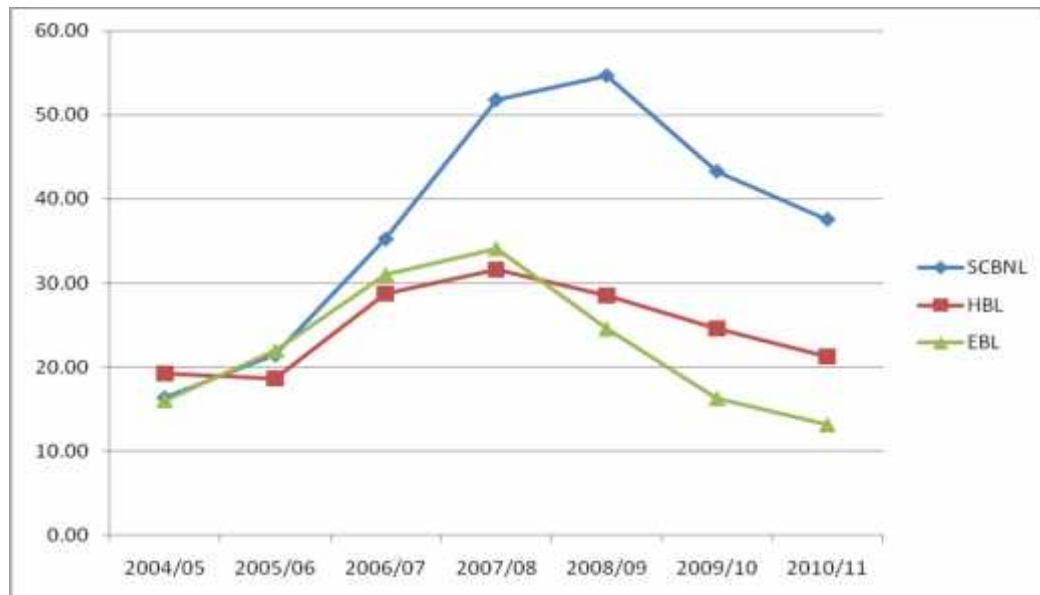
**Table:4.10**  
**Price Earning Ratio**

(In times)

| Year    | SCBNL | HBL   | EBL   |
|---------|-------|-------|-------|
| 2004/05 | 16.38 | 19.20 | 16.05 |
| 2005/06 | 21.47 | 18.57 | 21.97 |
| 2006/07 | 35.23 | 28.68 | 30.99 |
| 2007/08 | 51.77 | 31.56 | 34.11 |
| 2008/09 | 54.64 | 28.43 | 24.55 |
| 2009/10 | 43.27 | 24.54 | 16.27 |
| 2010/11 | 37.56 | 21.20 | 13.15 |
| Average | 37.19 | 24.60 | 22.44 |
| S.D.    | 14.37 | 5.11  | 7.95  |
| C.V.    | 38.63 | 20.79 | 35.42 |

*Source: Annual Reports of the concerned bank*

**Figure 4.7**  
**Price Earning Ratio**



The table 4.10 describes the price earnings ratio of the three sample banks. This study helps us to study the relationship between earning per share and market value per share. In the year 2004/05 and 2005/06, all banks PE ratios are below 25 times. Then PE ratio of selected banks is grown up rapidly. The PE ratio of SCBNL is 35.23, 51.77 and 54.67 times in 2006/07, 2007/08 and 2008/09 respectively. This ratio of HBL is 28.68, 31.56 and

28.43 times and EBL is 30.99, 34.11 and 24.55 times in this period. In year 2009/10 and 2010/11 due to the financial instability P/E ratio is decreased of sample banks. During this period P/E ratio of SCBNL, HBL and EBL are 43.27, 37.56, 24.54, 21.2, 16.27, and 13.15 respectively.

Average PE ratio of SCBNL, HBL & EBL are 37.19 times, 24.6 times and 22.44 times respectively in analysis period.

The coefficient of variation analysis shows that the PE ratio of HBL is least fluctuation i.e. 20.79%. On the other hand C.V. of SCBNL is highest i.e. 38.63%. This shows that PE of SCBNL is highly fluctuated in analysis period.

#### 4.1.2 Correlation Analysis

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to other variables. Its value is limited between the range +1 and -1. Thus, if the variable were perfect correlated, returns on these would move up and down together. The variable of such would be exactly as risky as the individual stocks.

The variable negatively correlated would more perfectly together but in exactly opposite direction. In this audition, risk can be eliminated completely. But perfect negative correlation almost never find in the real world. The correlation between different variables, their coefficients, probable errors and interpretation are presented in following tables.

##### 4.1.2.1 Correlation between EPS and DPS

**Table 4.11**

| Name of Bank | Correlation coefficient (r) | Relationship between variables | Coefficient Determinant (r <sup>2</sup> ) | Probable Error (PE) | Significant/ Insignificant |
|--------------|-----------------------------|--------------------------------|---|---------------------|----------------------------|
| SCBNL        | 0.79                        | positive                       | 0.62                                      | 0.10                | Significant                |
| HBL          | 0.44                        | positive                       | 0.19                                      | 0.21                | Insignificant              |
| EBL          | 0.71                        | positive                       | 0.50                                      | 0.13                | Insignificant              |

*Source: Appendix I*

Table no.4.11 shows the relationship between EPS and DPS of three sample banks. It is observed that correlation coefficient(r) between EPS and DPS of sample banks is positive.

Correlation coefficient of sample banks is all positive which indicates that EPS and DPS of banks are positive correlated.

The coefficient of determinant is more precise measure of strength of the relationship between two variables and trends itself to more precise interpretation because it can be presented as a portion or as a percentage. The coefficient determinant between EPS and DPS of SCBNL is 0.79, which means that the EPS determines 79% of variation in DPS. In same way, EPS determines 44% and 71% variation in DPS of HBL and EBL respectively.

The Probable Error (PE) is used to measure the reliability and test of significance of correlation coefficient. PE is used in interpretation whether the calculated value of  $r$  is significant or not. If  $r < P.E.$ , it is insignificant i.e. there is no evidence of correlation. If  $r > 6 P.E.$ , it is significant. In above table SCBNL bank correlation coefficient is significant and other HBL and EBL banks correlation coefficient is insignificant.

#### 4.1.2.2 Correlation between EPS and MVPS

**Table 4.12**

| Name of Bank | Correlation coefficient (r) | Relationship between variables | Correlation Determinant ( $r^2$ ) | Probable Error (PE) | Significant/ Insignificant |
|--------------|-----------------------------|--------------------------------|-----------------------------------|---------------------|----------------------------|
| SCBNL        | 0.38                        | Positive                       | 0.14                              | 0.22                | Insignificant              |
| HBL          | 0.81                        | Positive                       | 0.65                              | 0.09                | Significant                |
| EBL          | 0.59                        | Positive                       | 0.35                              | 0.16                | Insignificant              |

*Source: Appendix II*

Table 4.12 shows the relationship between EPS and MVPS of three sample banks. It is observed that correlation coefficient( $r$ ) between EPS and MVPS of three banks are positive. Correlation coefficient of SCBNL is 0.38.

Coefficient of determinant is more precise measure of strength of the relationship between two variables and trends itself to more precise interpretation because it can be presented as a portion or as a percentage. The coefficient determinant between EPS and MVPS of SCBNL is 0.38, which means that the EPS determines 38% of variation in MVPS. In same way, EPS determines 815 and 59% variation in MVPS of HBL and EBL respectively.

The Probable Error (PE) is used to measure the reliability and test of significance of correlation coefficient. PE is used in interpretation whether the calculated value of  $r$  is significant or not. If  $r < P.E.$ , it is insignificant i.e. there is no evidence of correlation. If  $r > 6 P.E.$ , it is significant. In above table, correlation coefficient between EPS and MVPS of SCBNL and EBL is 0.38 and 0.59 i.e. coefficient of EPS and MVPS is insignificant. But, other HBL a correlation coefficient between EPS and MVPS is significant.

#### 4.1.2.3 Correlation between D/P ratio and MVPS

**Table 4.13**

| Name of Bank | Correlation coefficient (r) | Relationship between variables | Correlation Determinant ( $r^2$ ) | Probable Error (PE) | Significant/ Insignificant |
|--------------|-----------------------------|--------------------------------|-----------------------------------|---------------------|----------------------------|
| SCBNL        | 0.60                        | positive                       | 0.36                              | 0.16                | Significant                |
| HBL          | 0.69                        | positive                       | 0.47                              | 0.13                | Significant                |
| EBL          | 0.50                        | positive                       | 0.25                              | 0.19                | Significant                |

*Source: Appendix III*

- ) Table 4.13 shows the relationship between D/P ratio and MVPS of three sample banks. It is observed that correlation coefficient( $r$ ) between D/P ratio and MVPS of sample banks is positive. All banks correlation coefficient is more than 0.50 which indicates that D/P ratio and MVPS of banks are correlated. The coefficient of determinant is more precise measure of strength of the relationship between two variables and trends itself to more precise interpretation because it can be presented as a portion or as a percentage.
- ) The coefficient determinant between D/P ratio and MVPS of SCBNL is 0.3706, which means that the D/P ratio determines 37.06% of variation in MVPS. In same way, D/P ratio determines 47 % and 25% variation in MVPS of HBL and EBL respectively.
- ) The Probable Error (PE) is used to measure the reliability and test of significance of correlation coefficient. PE is used in interpretation whether the calculated value of  $r$  is significant or not. If  $r < P.E.$ , it is insignificant i.e. there is no evidence of correlation. If  $r > 6 P.E.$ , it is significant. In above table, correlation coefficient between D/P ratio and MVPS of all banks is less than 6 PE. So, correlation coefficient of D/P ratio and MVPS is insignificant.

**4.1.2.4 Correlation between DPS (last year's dividend ( $D_{t-1}$ ) and MVPS of related banks.**

**Table 4.14**

| Name of Bank | Correlation coefficient (r) | Relationship between variables | Correlation Determinant ( $r^2$ ) | Probable Error (PE) | Significant/ Insignificant |
|--------------|-----------------------------|--------------------------------|-----------------------------------|---------------------|----------------------------|
| SCBNL        | 0.53                        | Positive                       | 0.28                              | 0.18                | Insignificant              |
| HBL          | 0.28                        | Positive                       | 0.08                              | 0.23                | Insignificant              |
| EBL          | 0.62                        | Positive                       | 0.38                              | 0.16                | Insignificant              |

*Source: Appendix IV*

The Probable Error (PE) is used to measure the reliability Table 4.14 shows the relationship between last year dividend and MVPS of three sample banks. It is observed that correlation coefficient(r) between last year dividend and MVPS of sample banks is positive.

The coefficient of determinant is more precise measure of strength of the relationship between two variables and trends itself to more precise interpretation because it can be presented as a portion or as a percentage. The coefficient determinant between last year dividend and MVPS of SCBNL is 0.28, which means that the last year dividend determines 28% of variation in MVPS. In same way, last year dividend determines 8% and 38% variation in MVPS of HBL and EBL respectively.

and test of significance of correlation coefficient. PE is used in interpretation whether the calculated value of r is significant or not. If  $r < P.E.$ , it is insignificant i.e. there is no evidence of correlation. If  $r > 6 P.E.$ , it is significant. In above table, correlation coefficient between last year dividend and MVPS of all banks is less than 6 PE. So, correlation coefficient of last year dividend and MVPS is insignificant.

**4.1.3 Regression Analysis**

The regression is used to determine the statistical relationship between two or more variable and to make predicates of one variable on the basis of the others. The regression can analyze either is simple regression or multiple regressions. When we take only one independent variable and predict the value of he dependent variable through the appropriate regression line the analysis is known as simple regression analysis. If the analysis is

performed by the use of two or more independent variable is known as multiple regression analysis. The availability of the data has been taken for the seven years.

#### 4.1.3.1 Market Value per Share (MVPS) on Earning per Share (EPS)

**Table 4.15**  
**Simple Regression equation of MVPS on EPS**

| <b>Banks</b> | <b>Constant<br/>(a)</b> | <b>Regression<br/>Coefficient<br/>(b)</b> | <b>r</b> | <b>r<sup>2</sup></b> | <b>t-value<br/>(Calculated)</b> |
|--------------|-------------------------|---|----------|----------------------|---------------------------------|
| SCBNL        | 2036.88                 | 17.91                                     | 0.38     | 0.14                 | 0.91                            |
| HBL          | -733.27                 | 38.01                                     | 0.81     | 0.65                 | 3.07                            |
| EBL          | -405.48                 | 27.74                                     | 0.59     | 0.35                 | 1.65                            |

*Source: Appendix II*

Above table 4.15 describes the major output of simple regression analysis between earning per share (EPS) independent variable and market value per share (MVPS) dependent variables of the concerned banks. As for the regression EPS and MVPS in concerned with regression coefficient (beta coefficient) of the SCBNL is 17.91, which indicate that one rupees change in EPS leads to increase in market price of Rs.17.91 holding other variable constant. The correlation coefficient between these two variables of SCBNL is also positive.

The beta coefficient of HBL is 38.01, which indicates that one rupees increase in EPS leads to average of Rs.38.01 increase in market price. Similarly the beta coefficient of EBL is 27.74, which indicates that one rupees increase in EPS leads to average about Rs.27.74 increase in MVPS respectively.

Coefficient of determinations ( $r^2$ ) of SCBNL, HBL and EBL is 0.14, 0.65 and 0.35 respectively. This indicates that 14%, 65% and 35% MVPS variation are explained by variation in EPS.

Since the calculated 't' value of SCBNL and EBL is 0.91 and 1.65 which is lower than tabulated value of 't' i.e. 1.943 for two tailed test at 5% level of significance. So, the result is statistically insignificant at 5% level of significance. Since, the calculated value of 't' of

HBL bank is 3.07 which is greater than the tabulated value of 't' i.e.1.943 at 5% level of significance. So, the result of HBL is also statistically significant at 5% level of significance.

#### 4.1.3.2 Market Value per Share (MVPS) On DPS (last year Dividend per Share ( $D_{(t-1)}$ ))

**Table 4.16**  
Simple Regression equation of MVPS on  $D_{(t-1)}$

| Banks | Constant<br>(a) | Regression<br>Coefficient<br>(b) | r    | r <sup>2</sup> | t-value<br>(Calculated) |
|-------|-----------------|----------------------------------|------|----------------|-------------------------|
| SCBNL | 1449.82         | 27.49                            | 0.53 | 0.28           | 1.41                    |
| HBL   | 30.41           | 87.79                            | 0.28 | 0.08           | 0.66                    |
| EBL   | 503.29          | 32.31                            | 0.62 | 0.38           | 1.75                    |

Source: Appendix IV

Above table 4.16 describes the major output of simple regression analysis between last year dividend per share, the independent variable and market value per share (MVPS) dependent variables of the concerned banks. As for the regression last year dividend per share and MVPS in concerned with regression coefficient (beta coefficient) is positive which indicates the positive correlation is exist between variables. This indicates that one rupees increase in dividend causes Rs. 27.49, Rs. 87.79 and Rs. 32.31 increase in the price of stock of SCBNL, HBL and EBL respectively holding other variable constant.

Coefficient of determinations ( $r^2$ ) of SCBNL, HBL and EBL are 0.28, 0.08 and 0.38 respectively. This indicates that 28%, 8% and 38% MVPS variation are explained by variation in last year dividend per share.

Since the calculated 't' value of SCBNL, HBL and EBL is 1.41, 0.66 and 1.75 respectively. All of them calculated t value of SCBNL and HBL and EBL are lower than tabulated value of 't' i.e. 1.943 at 5% level of significance. So, the result of these two banks is statistically insignificant at 5% level of significance.



#### 4.1.3.3 Dividend per Share (DPS) on Earning per Share (EPS)

Table 4.17

##### Simple Regression equation of DPS on EPS

| Banks | Constant (a) | Regression Coefficient (b) | r    | r <sup>2</sup> | t-value (Calculated) |
|-------|--------------|----------------------------|------|----------------|----------------------|
| SCBNL | 2.65         | 0.63                       | 0.79 | 0.63           | 2.93                 |
| HBL   | 2.74         | 0.27                       | 0.44 | 0.20           | 1.10                 |
| EBL   | -16.73       | 0.46                       | 0.71 | 0.50           | 2.25                 |

Source: Appendix I

Above table 4.17 describes the major output of simple regression analysis between earning per share, the independent variable and dividend per share (DPS) dependent variables of the concerned banks. As for the regression EPS and DPS in concerned with regression coefficient (beta coefficient) is positive which indicates the positive correlation is exist between variables. This indicates that one rupees increase in EPS causes Rs. 0.63, Rs. 0.27 and Rs. 0.46 increase in the DPS of SCBNL, HBL and EBL respectively holding other variables constant. Coefficient of determinations ( $r^2$ ) of SCBNL, HBL and EBL is 0.63, 0.20 and 0.50 respectively. This indicates that 63%, 20% and 50% DPS variation are explained by variation in EPS.

Since the calculated 't' value of SCBNL and EBL is 2.93 and 2.25 which are greater than tabulated value 't' i.e. 1.943 at 5% level of significance. So the result of 't' of SCBNL and EBL is statistically significant at 5% level of significance.

Since the calculated 't' value of HBL is 1.10 which is lower than the tabulated value of 't' i.e. 1.943 for two tailed test at 5% level of significance. So, the result is statistically insignificant at 5% level of significance.

#### 4.1.3.4 Multiple Regression Analysis

To see the impact of more than one independent variable the multiple regression have been used. It examines the relationship between one dependent variable and more independent variables. The market price of stock depends on more than one variable. So, the results of simple regression analysis are not reliable as far the multiple regression analysis eliminates all the limitations of simple regression analysis. This part of the study is designed to

examine the relationship between two independent variables and one dependent variable. The regression results are presented. As, in this study, the pooled average data of the observed banks are used for multiple regression and coefficient of determination analysis.

1. Multiple regression and coefficient of Determination Analysis of MPS on EPS and DPS;

The model developed for this purpose;

$$y = a + b_1X_1 + b_2X_2$$

Where,

Y = market price per share (Dependent variables)

X<sub>1</sub> = Earnings per share (Independent variables)

X<sub>2</sub> = Dividend per share (Independent variables)

a<sub>1</sub> = Regression Constant

b<sub>1</sub> & b<sub>2</sub> = Coefficient of Net Regression (or simply regression constant)

**Multiple Regression and coefficient of determination Analysis of: MPS on EPS and DPS.**

**Table 4.18**

**Calculated multiple regression and coefficient of determination analysis of MPS on EPS and DPS;**

| Bank  | Regression Model   | a        | b <sub>1</sub> | b <sub>2</sub> |
|-------|--|----------|----------------|----------------|
| SCBNL | Y = a+b <sub>1</sub> X <sub>1</sub> +b <sub>2</sub> X <sub>2</sub> | 2234.38  | 64.59          | -74.51         |
| HBL   | Y = a+b <sub>1</sub> X <sub>1</sub> +b <sub>2</sub> X <sub>2</sub> | -707.34  | 40.61          | -9.46          |
| EBL   | Y = a+b <sub>1</sub> X <sub>1</sub> +b <sub>2</sub> X <sub>2</sub> | -1038.51 | 44.99          | -37.84         |

Sources: Appendix- V

The above table 4.18 shows the output of multiple regression analysis between MVPS (Y) and other variables (EPS (X<sub>1</sub>) and DPS (X<sub>2</sub>) of the banks in average. For SCBNL, The regression constant (a) is 2234.38 that indicate that when EPS and DPS equal to zero, then MVPS of the observed banks would be Rs 2234.38. The regression coefficient b<sub>1</sub> for SCBNL is 64.59 and b<sub>2</sub> is -74.51. EPS has positive impact in MPS where as another independent variable DPS has negative impact in MPS of the observed banks in average. Likewise, the regression constant (a) is -707.34 and -1038.51 for HBL and EBL respectively. The regression coefficient b<sub>1</sub> for HBL is -40.61 and b<sub>2</sub> is -9.46 whereas b<sub>1</sub> and b<sub>2</sub> for EBL is 44.99 and -37.84 respectively.

## 4.2 Presentation and Analysis of Primary Data

For the meaningful research basically secondary and primary data are very important and fundamental things too. The primary data is collected on the basis of a questionnaire spread over to different financial sectors. The basic purpose of the distributing the questionnaire was to obtain a knowledge on the various aspects of the dividend policy especially the view point of academicians, Banking officer, NRB officials, lecturer and investor as how to they regard the dividend policy in Nepal Questionnaire for the collection of primary data was distributed to 50 respondents from different fields. After the distribution of list of questionnaires to different respondents, following result is achieved.

### 4.2.1 Preference of Divined Option

In the first question, for the preference of the dividend option, following answer is collected from the respondents.

**Table 4.19**  
**Preference of Dividend Option**

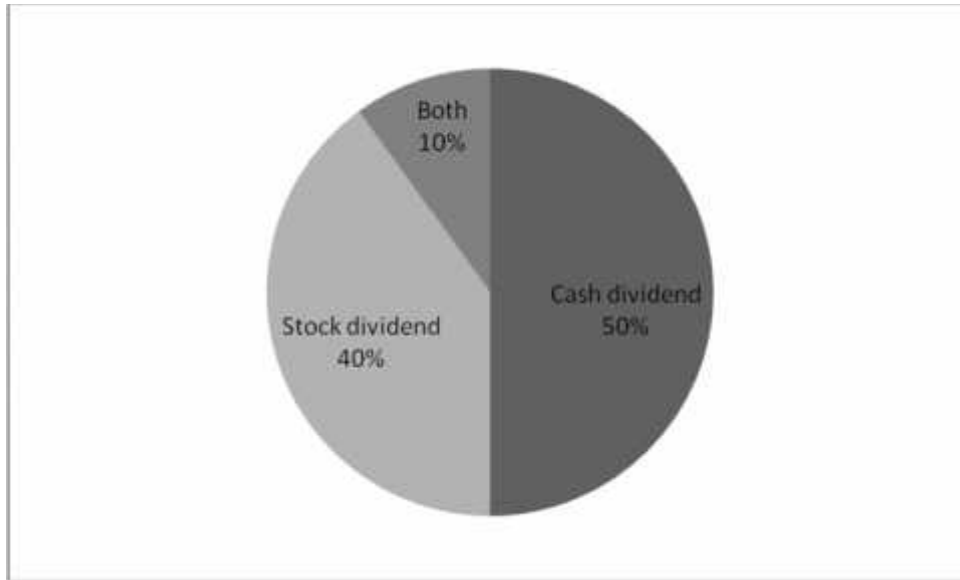
| Option         | No of Respondent | % of respondent |
|----------------|------------------|-----------------|
| Cash dividend  | 25               | 50              |
| Stock dividend | 20               | 40              |
| Both           | 5                | 10              |
| Total          | 50               | 100             |

Source: Field survey August, 2012

Most of the investors, 50% as per this survey, preferred cash dividend. Among the 50 respondents, 40% respondent preferred stock dividend and 10% preferred both i.e. cash dividend and Stock dividend.

The table is presented in the form of pie-chart below (figure 4.11)

**Figure 4.8**  
**Preference of Dividend Option**



In the second question, factors considered by the investors while selecting the Financial Institution are summarized below:

**4.2.2 Factors considered by the investors while selecting the Financial Institution**

**Table 4.20**

**Factors considered by the investors while selecting the Financial Institution**

| Option                   | No of Respondent | % of respondent |
|--------------------------|------------------|-----------------|
| Market Price             | 15               | 30              |
| Past Dividend Record     | 30               | 60              |
| Sound Financial Solution | 5                | 10              |
| Total                    | 50               | 100             |

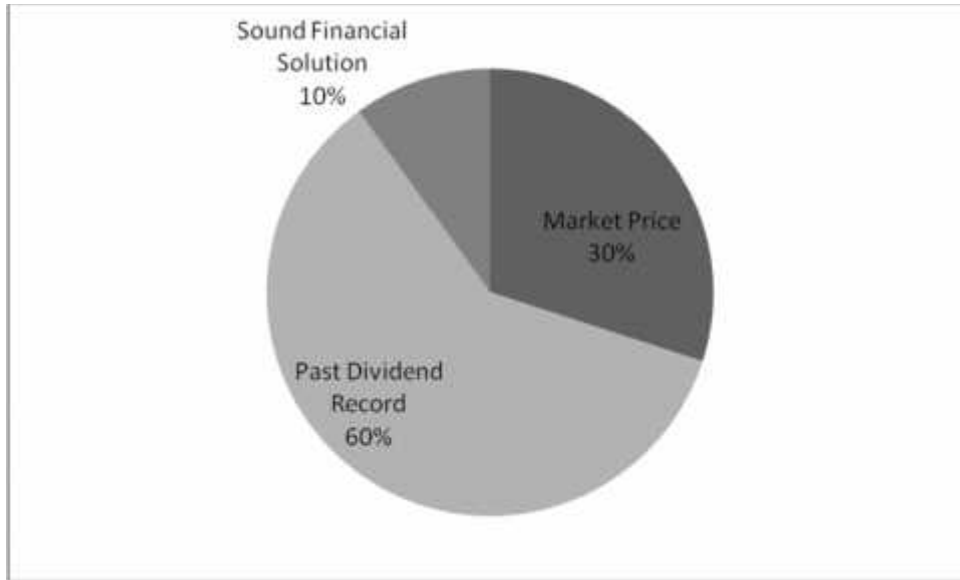
Source: Field survey August, 2012(Appendix-VI)

From the above table Most of the investors, 60% as per this survey, considered the past dividend record of the firm while investing them. Among the 50 respondents, 15 i.e. 30% considered market price and only 5 i.e.10% considered the sound financial position while investing.

The table is presented in the form of pie-chart below (figure 4.12)

**Figure 4.9**

**Factors considered by the investors while selecting the Financial Institution**



**4.2.3 Factors to be considered while adopting dividend policy**

In the third question, what factors should be considered while adopting dividend policy, the answer is as follows:

**Table 4.21**

**Factors to be considered while adopting dividend policy**

| Option                         | No of Respondent | % of respondent |
|--------------------------------|------------------|-----------------|
| Legal Restriction              | 28               | 56              |
| Liquidity position             | 14               | 28              |
| Borrowing Capacity of the firm | 8                | 16              |
| Total                          | 50               | 100             |

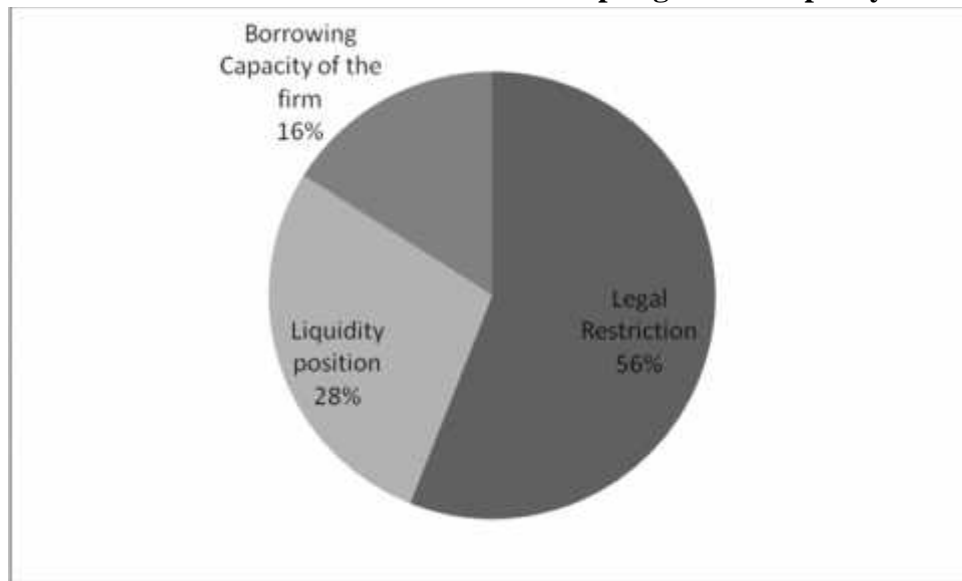
Source: Field survey August, 2012(Appendix)

From the above table, most of the investors i.e. 56% as per this survey, considered the legal restriction of the firm while distributing the dividend policy. Likewise, 28% respondent accepted the liquidity position affect the dividend policy whereas only 16% accepted the borrowing capacity of the firm.

The table is presented in the form of pie-chart below(4.12)

**Figure 4.10**

**Factors to be considered while adopting dividend policy**



**4.2.4 Reason of investing in the share capital**

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

**Table 4.22**

**Reason of investing in the share capital**

| Option                   | No of Respondent | % of respondent |
|--------------------------|------------------|-----------------|
| To utilize surplus money | 25               | 50              |
| To receive dividend      | 16               | 32              |
| Best method to invest    | 9                | 18              |
| Total                    | 50               | 100             |

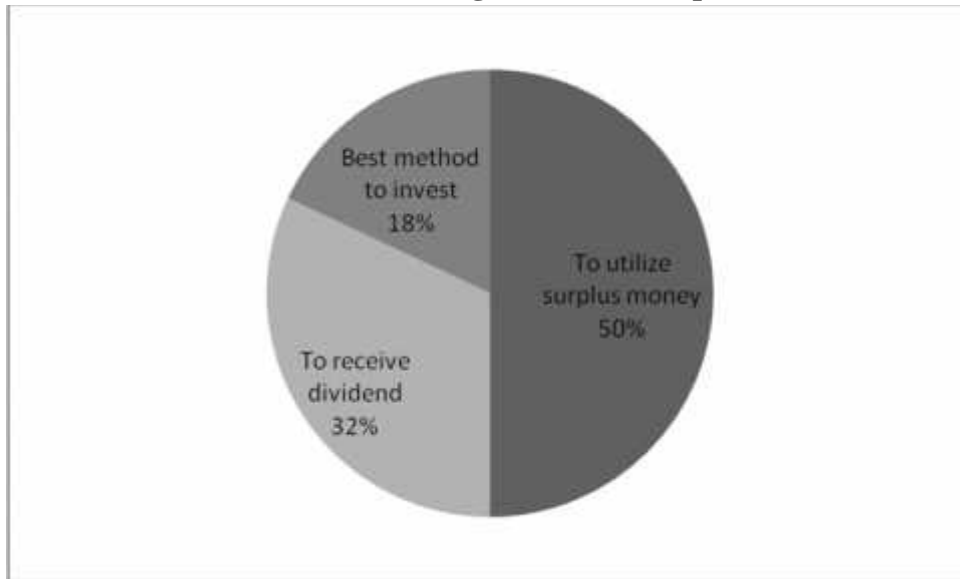
Source: Field survey August, 2012 (Appendix-VI)

According to the above table, among the 50 respondents, 50% invested to utilize their surplus money, 32% invested their money in the share capital to gain dividend and remaining 18% thought it is the best method to invest.

The table is presented in the form of pie-chart below(4.13)

**Figure 4.11**

**Reason of investing in the share capital**



**4.2.5 Received Cash or Stock Dividend**

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

**Table 4.23**

**Cash or Stock Dividend**

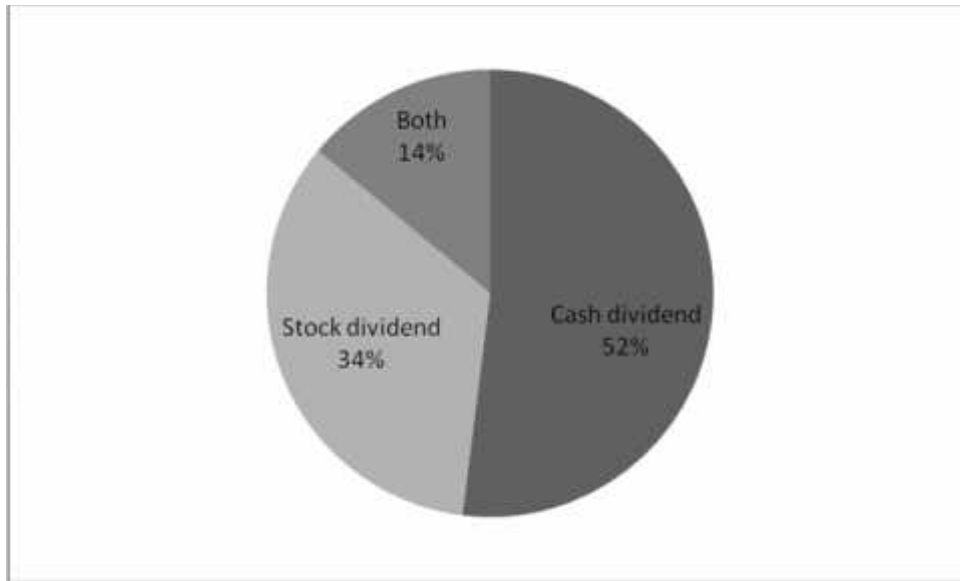
| Option         | No of Respondent | % of respondent |
|----------------|------------------|-----------------|
| Cash dividend  | 26               | 52              |
| Stock dividend | 17               | 34              |
| Both           | 7                | 14              |
| Total          | 50               | 100             |

Source: Field survey August, 2012 (Appendix-VI)

Among the 50 respondents 26 i.e. 52% have received cash dividend from the company, 17 i.e. 34% have received stock dividend and remaining 7 i.e. 14% have received both cash and stock dividend.

The table is presented in the form of pie-chart below(4.13)

**Figure 4.12**  
**Received Cash or Stock Dividend**



**4.2.6 Suggestions if there is no cash to pay cash dividend**

Suggestions to the company if the company does not have cash to pay cash dividend is asked with the respondents in the sixth question, which is answered in the following way by the respondents.

**Table 4.24**  
**Suggestions if there is no cash to pay cash dividend**

| Option             | No of Respondent | % of respondent |
|--------------------|------------------|-----------------|
| Pay next years     | 19               | 38              |
| Pay stock dividend | 29               | 58              |
| Don't pay both     | 2                | 4               |
| Total              | 50               | 100             |

Source: Field survey August, 2012(Appendix-VI)

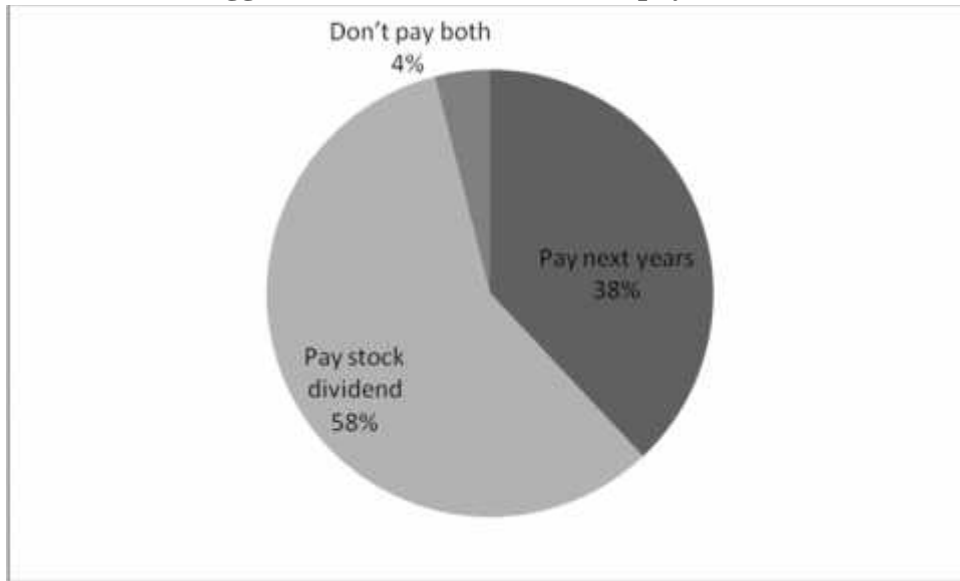
The above table reflects that 38% of the respondents want that the company pays dividend next year, 58% of the respondents want that the company pays stock dividend instead of cash dividend and remaining 2% says not to pay the both this year.

The table is presented in the form of pie-chart below (Figure 4.16)



**Figure 4.13**

**Suggestions if there is no cash to pay cash dividend**



**4.2.7 Major motive of cash dividend by the banks**

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

**Table 4.25**

**Major motive of cash dividend by the banks**

| Option   | No of Respondent | % of respondent |
|--|------------------|-----------------|
| To convey information that the company is doing well | 13               | 26              |
| To draw attention from the investment community      | 25               | 50              |
| To increase the market value of the firm's stock     | 12               | 24              |
| Total  | 50               | 100             |

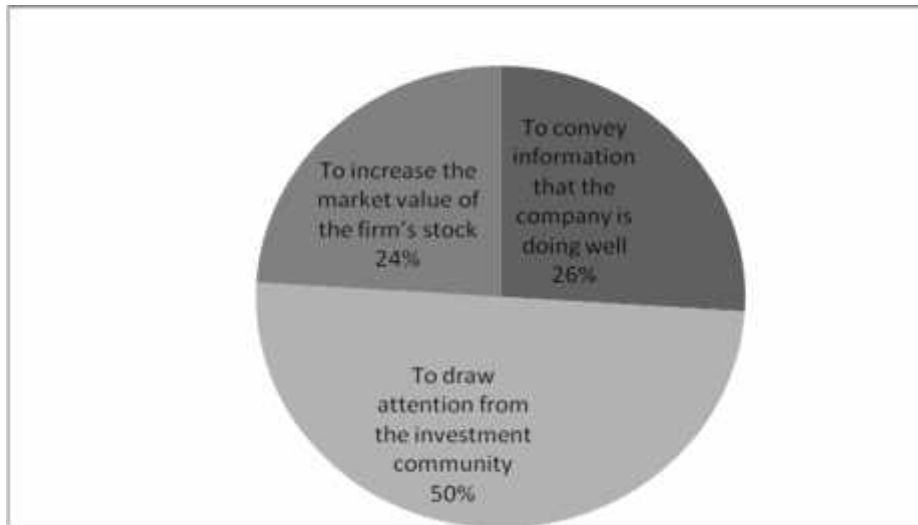
Source: Field survey August, 2012

According to the above table, 26% of the respondents think that the motive of the company to distribute the cash dividend is to convey the information that the company is doing well, 50% among the 50 respondents think company pays dividend to draw the attention of the new investors and in the view of next 24% respondents company pays cash dividend to increase the market.

The table is presented in the form of pie-chart below (Figure 4.17)

**Figure 4.14**

**Major motive of cash dividend by the banks**



**4.2.8 Effectiveness of Cash Dividend by the banks**

Respondents are asked about the cash dividend by the banks in the eighth question. They answered it as follows

**Table No. 4.26**

**Effectiveness of Cash Dividend by the banks**

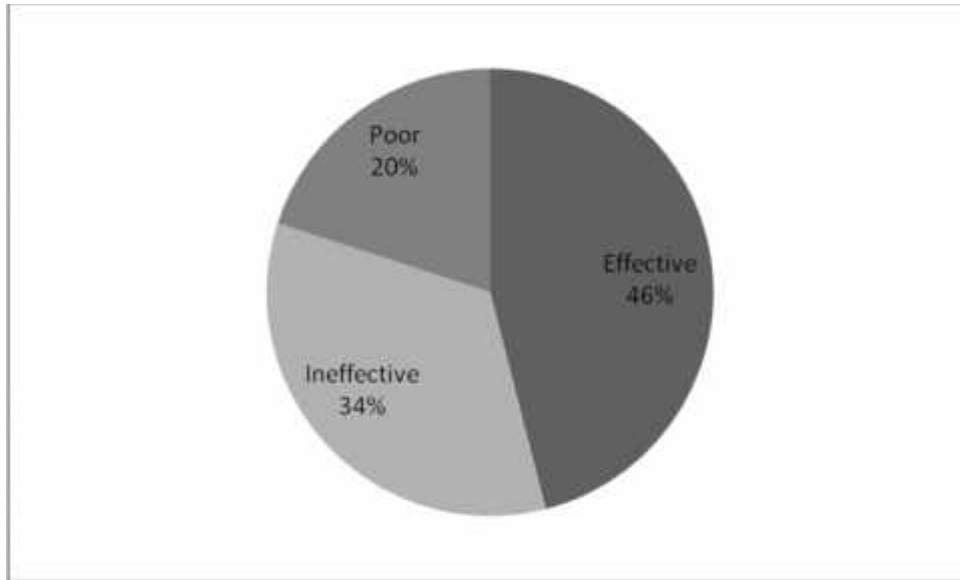
| Option       | No. of Respondent | % of Respondent |
|--------------|-------------------|-----------------|
| Effective    | 23                | 46              |
| Ineffective  | 17                | 34              |
| Poor         | 10                | 20              |
| <b>Total</b> | <b>50</b>         | <b>100</b>      |

(source: Field survey 2012)

The above table reflects that 46% respondents said cash dividend is effective by the banks, 34% respondents said cash dividend is ineffective by the banks and remaining 10% said cash dividend is poor by the banks.

The table is presented in the form of pie-chart (Figure 4.18)

**Figure 4.15**  
**Cash Dividend by the banks**



**4.2.9 Sector wise Payment of Dividend**

Respondents are asked about the dividend payment sector wise in the ninth question. The answer can be summarized as follows:

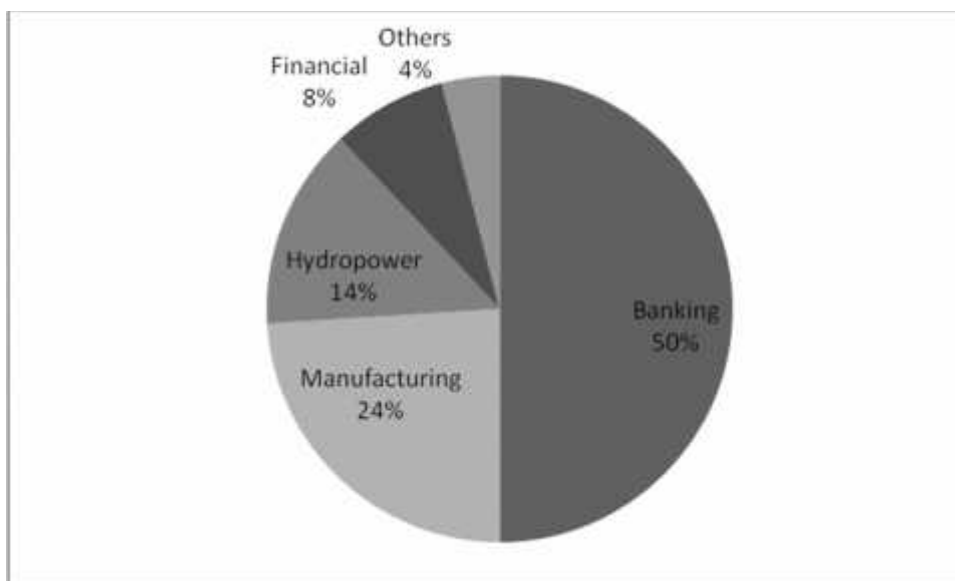
**Table 4.27**  
**Sector wise Payment of Dividend**

| <b>Option</b> | <b>No. of Respondent</b> | <b>% of Respondent</b> |
|---------------|--------------------------|------------------------|
| Banking       | 25                       | 50                     |
| Manufacturing | 12                       | 24                     |
| Hydropower    | 7                        | 14                     |
| Financial     | 4                        | 8                      |
| Others        | 2                        | 4                      |
| <b>Total</b>  | <b>50</b>                | <b>100</b>             |

Source: Field survey August, 2012

According to the table, 50% respondents said banking sectors 24% respondents said manufacturing sector, 14% respondents said hydropower sector, 8% respondents said financial sector and remaining 4% respondents said other sector pay dividend pay mostly.

**Figure 4.16**  
**Sector wise Payment of Dividend**



**4.2.10 Suggestion having no cash to pay**

Respondents are asked about having no cash to pay in the tenth question. They answered it as follows:

**Table 2.28**  
**Suggestion having no cash to pay**

| <b>Option</b>            | <b>No. of Respondent</b> | <b>% of Respondent</b> |
|--------------------------|--------------------------|------------------------|
| Buying share             | 25                       | 50                     |
| Holding share            | 12                       | 24                     |
| To make market portfolio | 7                        | 14                     |
| Others                   | 2                        | 4                      |
| <b>Total</b>             | <b>50</b>                | <b>10</b>              |

The above table shows that 50% respondents suggested buying the share, 24% respondents suggested hold the share, 14% respondents suggested making market portfolio and remaining 2% respondents suggested other if there is no cash to pay cash dividend by the company.

**Figure 4.17**  
**Suggestion having no cash to pay**



**4.2.11 Suggestions for the change in policy**

Respondents are asked about for the change in policy in the eleventh question. They answered it as follows:

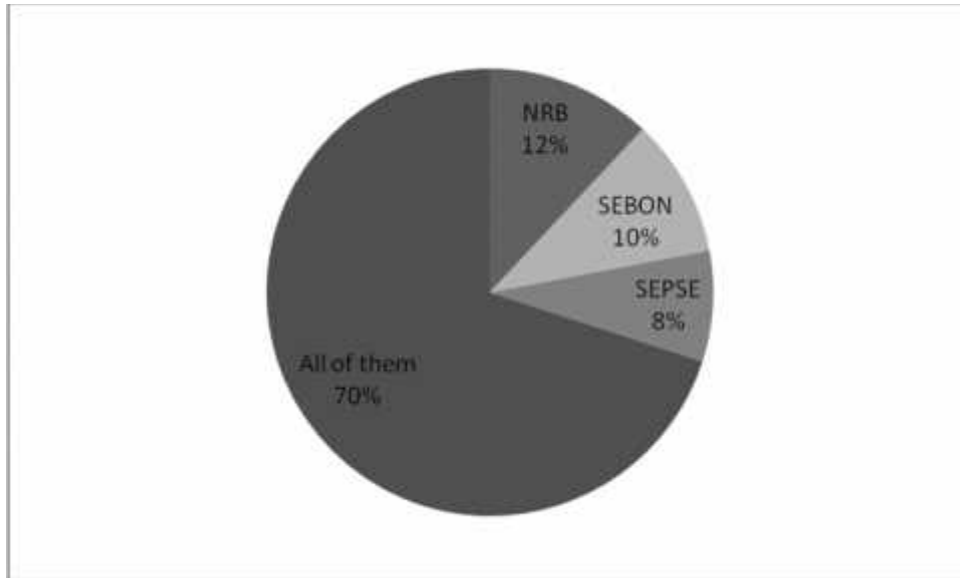
**Table 4.29**  
**Suggestions for the change in policy**

| <b>Option</b> | <b>No. of Respondent</b> | <b>% of Respondent</b> |
|---------------|--------------------------|------------------------|
| NRB           | 6                        | 12                     |
| SEBON         | 5                        | 10                     |
| SEPSE         | 4                        | 8                      |
| All of them   | 35                       | 70                     |
| <b>Total</b>  | <b>50</b>                | <b>100</b>             |

As per above table 12% respondents suggested that NRB is responsible, 10% respondents suggested that SBON is responsible, 8% respondents suggested that SEPSE is responsible and remaining 70% respondents suggested that all of them are responsible to change the policy.

**Figure 4.18**

**Suggestion if there is change the policy that is responsible**



### **4.3 Major Findings**

- ) EPS of SCBNL is higher than other selected banks HBL and EBL. EPS always shows the performance of banks. So, it is concluded that the performance of SCBNL is better than other two banks.
- ) After statistical analysis of EPS, CV of EBL is lowest among three banks i.e. 21.85% and HBL is highest i.e. 33.14%. This shows that EPS of EBL is more consistent and stable than other two banks. In same way, EPS of HBL is less stable than other two banks.
- ) DPS (cash) of SCBNL is highest in analysis period with average of Rs. 81.00 per share. Hence, the DPS of HBL and EBL is lower than SCBNL with average of Rs. 17.23 and Rs. 20.42 per share. Cash dividend of SCBNL is in decreasing trend and other two banks trend is fluctuated.
- ) After statistical analysis of DPS, it is found that C.V of SCBNL is 40.33% which is lowest and EBL is 56.111% that is highest among sample banks. This shows that DPS of SCBNL is more consistent and stable than other two banks. In same way, DPS of EBL is less consistent and less stable than others.
- ) All sample banks has increased or decreased the dividend per share every year as per increased or decreased of earning per share. The percentage of changing in EPS and DPS is consequent.

- J Average dividend payout ratio of SCBNL, HBL and EBL in analysis period is 84.90%, 65.93% and 51.07% respectively. The CV of dividend payout ratio of HBL is lowest and EBL is highest. This analysis indicates that HBL has distributed more amounts of earnings to its shareholders and EBL has distributed the lowest among sample banks. But dividend payout ratio of HBL is most consistent among sample companies.
- J The average shows that the RE of SCBNL is 307.14m, HBL is 59.94m and EBL is 72.52m respectively. Among them average of RE of SCBNL is the higher than the HBL and EBL. It can be concluded that SCBNL has retained higher amount as earnings.
- J After statistical analysis of SCBNL is highest i.e. 133.37 and EBL is the lowest i.e. 12.66 among three sample banks. The calculation of the CV of the RE of three banks suggests the RE of EBL is more consistent (i.e.12.66 deviation) with 17.45% C.V.
- J Statistical analysis the coefficient of variation analysis shows that MVPS of HBL is most consistent among the sample banks i.e. 43.19%. Likewise, C.V. of SCBNL and EBL are 46.05% and 44.81% respectively. MVPS of all banks are increased up to 2007/08 then after decreased up to year 2010/11.
- J Dividend yield ratio of sample banks is not more than 6% in analysis period. Dividend yield ratio of SCBNL is decreased every year with higher increment of market price than earning and dividend per share even though average DYR ratio is highest among sample banks. But DYR of other banks are not so highly fluctuated and in same level.
- J The sample banks have distributed the cash dividend and stock dividend jointly in analysis period. All sample banks have distributed higher percent of cash dividend in early years and gradually decrease in later years. In same way, these banks have increased the stock dividend in later years.
- J Average PE ratio of SCBNL, HBL & EBL are 37.19 times, 24.6 times and 22.44 times respectively in analysis period. The coefficient of variation analysis shows that the PE ratio of HBL is least fluctuation i.e. 20.79%. On the other hand C.V. of SCBNL is highest i.e. 38.63%. This shows that PE of SCBNL is highly fluctuated in analysis period.
- J The coefficient of determinant is more precise measure of strength of the relationship between two variables and trends itself to more precise interpretation because it can be presented as a portion or as a percentage. The coefficient determinant between

EPS and DPS of SCBNL is 0.79, which means that the EPS determines 79% of variation in DPS. In same way, EPS determines 44% and 71% variation in DPS of HBL and EBL respectively.

- J SCBNL bank correlation coefficient is significant and other HBL and EBL banks correlation coefficient is insignificant.
- J The relationship between EPS and MVPS of three sample banks. It is observed that correlation coefficient(r) between EPS and MVPS of three banks are positive. Correlation coefficient of SCBNL is 0.38. The coefficient determinant between EPS and MVPS of SCBNL is 0.38, which means that the EPS determines 38% of variation in MVPS. In same way, EPS determines 815 and 59% variation in MVPS of HBL and EBL respectively.
- J The correlation coefficient between EPS and MVPS of SCBNL and EBL is 0.38 and 0.59 i.e. coefficient of EPS and MVPS is insignificant. But, other HBL a correlation coefficient between EPS and MVPS is significant.
- J The relationship between D/P ratio and MVPS of three sample banks. It is observed that correlation coefficient(r) between D/P ratio and MVPS of sample banks is positive. All banks correlation coefficient is more than 0.50 which indicates that D/P ratio and MVPS of banks are correlated. The coefficient determinant between D/P ratio and MVPS of SCBNL is 0.3706, which means that the D/P ratio determines 37.06% of variation in MVPS.
- J The correlation coefficient between D/P ratio and MVPS of all banks is less than 6 PE. So, correlation coefficient of D/P ratio and MVPS is insignificant.
- J The relationship between last year dividend and MVPS of three sample banks. It is observed that correlation coefficient(r) between last year dividend and MVPS of sample banks is positive. The coefficient determinant between last year dividend and MVPS of SCBNL is 0.28, which means that the last year dividend determines 28% of variation in MVPS.
- J The correlation coefficient between last year dividend and MVPS of all banks is less than 6 PE. So, correlation coefficient of last year dividend and MVPS is insignificant.
- J The regression EPS and MVPS in concerned with regression coefficient (beta coefficient) of the SCBNL is 17.91, which indicate that one rupees change in EPS leads to increase in market price of Rs.17.91 holding other variable constant. The correlation coefficient between these two variables of SCBNL is also positive.



- J The beta coefficient of HBL is 38.01, which indicates that one rupees increase in EPS leads to average of Rs.38.01 increase in market price. Similarly the beta coefficient of EBL is 27.74, which indicates that one rupees increase in EPS leads to average about Rs.27.74 increase in MVPS respectively.
- J Coefficient of determinations ( $r^2$ ) of SCBNL, HBL and EBL is 0.14, 0.65 and 0.35 respectively. This indicates that 14%, 65% and 35% MVPS variation are explained by variation in EPS.
- J For the regression last year dividend per share and MVPS in concerned with regression coefficient (beta coefficient) is positive which indicates the positive correlation is exist between variables. This indicates that one rupees increase in dividend causes Rs. 27.49, Rs. 87.79 and Rs. 32.31 increase in the price of stock of SCBNL, HBL and EBL respectively holding other variable constant.
- J Coefficient of determinations ( $r^2$ ) of SCBNL, HBL and EBL are 0.28, 0.08 and 0.38 respectively. This indicates that 28%, 8% and 38% MVPS variation are explained by variation in last year dividend per share.
- J The calculated 't' value of SCBNL, HBL and EBL is 1.41, 0.66 and 1.75 respectively. All of them calculated t value of SCBNL and HBL and EBL are lower than tabulated value of 't' i.e. 1.943 at 5% level of significance. So, the result of these two banks is statistically insignificant at 5% level of significance.
- J For the regression EPS and DPS in concerned with regression coefficient (beta coefficient) is positive which indicates the positive correlation is exist between variables. This indicates that one rupees increase in EPS causes Rs. 0.63, Rs. 0.27 and Rs. 0.46 increase in the DPS of SCBNL, HBL and EBL respectively holding other variables constant.
- J Coefficient of determinations ( $r^2$ ) of SCBNL, HBL and EBL is 0.63, 0.20 and 0.50 respectively. This indicates that 63%, 20% and 50% DPS variation are explained by variation in EPS.
- J The calculated' value of SCBNL and EBL is 2.93 and 2.25 1.089 which are greater than tabulated value 't' i.e. 1.943 at 5% level of significance. So the result of 't' of SCBNL and EBL is statistically significant at 5% level of significance.
- J Since the calculated 't' value of HBL is 1.10 which is lower than the tabulated value of 't' i.e. 1.943 for two tailed test a t 5% level of significance. So, the result is statistically insignificant at 5% level of significance.

- J The output of multiple regression analysis between MVPS (Y) and other variables (EPS ( $X_1$ ) and DPS ( $X_2$ )) of the banks in average. For SCBNL, The regression constant (a) is 2234.38 that indicate that when EPS and DPS equal to zero, then MVPS of the observed banks would be Rs 2234.38.
- J The regression coefficient  $b_1$  for SCBNL is 64.59 and  $b_2$  is -74.51. EPS has positive impact in MPS where as another independent variable DPS has negative impact in MPS of the observed banks in average. Likewise, the regression constant (a) is -707.34 and -1038.51 for HBL and EBL respectively. The regression coefficient  $b_1$  for HBL is -40.61 and  $b_2$  is -9.46 whereas  $b_1$  and  $b_2$  for EBL is 44.99 and -37.84 respectively.

### **Major Findings of the Primary Data**

The major findings of the primary data are as follows:

- J Most of the investors preferred cash dividend.
- J Majority of the investors considered the past dividend record.
- J Most of the investors considered the legal restriction of the firm while distributing the dividend policy rather than liquidity position and borrowing capacity of the firm.
- J 50% respondent invested to utilize their surplus money, 32% invested their money in the share capital to gain dividend and remaining 18% thought it is the best method to invest.
- J Among the 50 respondents, most respondents have received cash dividend from the company.
- J 58% of the respondents wanted that the company pays stock dividend instead of cash dividend.
- J 50% respondents think company pays dividend to draw the attention of the new investors.
- J Most of the respondents said cash dividend is effective.
- J 50% respondents said banking sectors pay dividend mostly.
- J Among the 50 respondents, most respondents suggested buy the share if there is no cash to pay cash dividend by the company.
- J 70% respondents suggested that NRB, SEBON, and SEPSE are responsible to change the policy.

# CHAPTER-V

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

In this chapter, the summary of the study with conclusions and recommendations on the basis of analysis of data and findings of study have been presented.

### 5.1 Summary

Dividend refers to the portion of net earning which is paid out to shareholders. Hence, dividend is the earning or profit distributed to the shareholders by a company. It may be in cash, shares and securities or a combination of these. Dividend decision is the major financial decision of management because firm has to choose one alternative between distributing earnings to its shareholders or retained the earning for reinvesting in the firm.

Dividend is normally paid in cash to the shareholders. When the company is incapable to pay dividend in cash, different forms of dividend payment models are used to satisfy its shareholders. The different types of dividend such as cash dividend, stock dividend, bond dividend, property dividend, stock split, reverse stock split and stock repurchase are discussed in this study. In same way, different types of dividend policies like stable dividend policy, regular plus extra dividend policy, irregular dividend policy, fixed dividend per share policy, mixed policy etc are briefly discussed in this study.

Dividend policy of firm may be affected by different factors such as earning, liquidity position, net worth, investing opportunities, expectation of shareholders and policies followed by other companies, legal provision of nation etc. Considering all these factors, management has to take the appropriate dividend policy to satisfy existing shareholders with maintaining financial soundness of company.

The main objectives of the study is to study the major dividend policies and practices followed by Nepalese joint venture banks and examine the relationship between earnings, dividends, retained earnings and market price of stocks, dividend payout ratio and dividend yield. Because of various limitations only three joint venture banks are selected as sample for this study.

This study is mainly based on secondary data of selected three joint venture commercial banks. However, some data are collected from primary source. The source of data is the annual reports published by related banks in different fiscal year and data available at site of Nepal Stock Exchange.

Many financial and statistical tools are used to find out appropriate relationship between dividend and other financial variables of banks which helps to make the study reliable and realistic. The relationship between variables is statistically tested at 5% level of significance. This study has been organized into five major parts. The brief introduction, objectives, limitations of study has been mentioned in first chapter. The available related literatures have been reviewed in second chapter. In same way, research methodology is described in third chapter. All available data are presented and analysis with using different financial and statistical tools and summarize the findings of analysis in chapter four. In this final chapter, an attempt has been made to present summary, conclusions and recommendations.

## **5.2 Conclusion**

Above mentioned major findings led this study concludes that the earning of banks is satisfactory in Nepalese context. Among sample banks, SCBNL is in leading position in terms of earning and DPS followed by EBL and HBL in analysis period. It is found that there is no consistency in dividend distribution in sample banks. The research shows that these companies have no defined policy regarding distribution of the dividend payments. However these all companies have distributed certain amount of cash dividend and certain percent of stock dividend in analysis period. Among sample banks, SCBNL has paid the higher dividend than other banks in analysis period. Average price earnings ratio of sample banks seems more than 20 times and dividend yield ratio is less than 3% in average. This indicates that the market price of share seems high considering its earnings and dividend payment. It is found that there is negative and insignificant relationship between earning and market value of SCBNL. This indicates that the price of this company's share is affected by other factors than earning. But other companies' earning and market price of share is positively correlated and relationship between these variables is significant. Though there is positive and significant relationship between market value per share and last year's dividend. From this study, it has been found that the market price of stock is affected by other variables than earnings which indicate the rational behavior of investors.

The EPS and DPS of sample banks are highly correlated. It means the dividend per share of company is increased when the earning of banks is increased. There is significance difference in EPS and DPS of sample banks in analysis period. At last, this study examines and analyses the dividend policy and practices of three joint venture commercial banks for the period of seven years from 2004/05 to 2010/11 due to the limitation of time and other constraint.

### **5.3 Recommendations**

Based on major findings and conclusion drawn, some recommendations are provided below, hoping that these will be helpful to overcome the issues in dividend practices in Nepal.

- ) The bank should consider the existing conditions and expectations of shareholders while distributing dividends so that distributed dividend should meet the expectation of the shareholders as far as possible.
- ) The capital market of Nepal is going down day by day in this time. So, most of the investors are expecting a quick return on their investment rather than long term return. They prefer dividend in form of cash rather than stock. So, cash dividend should be distributed to satisfy the existing stockholders of company.
- ) Nepalese commercial banks have not followed any specific dividend policy till now. BOD has decided to distribute the dividend in any form. This dividend should be accepted by other shareholders. Nepalese commercial banks are not applying specific dividend policy like stable dividend, constant pay out, low regular and extra policy etc. So, there is uncertainty in dividend distribution to general shareholders. To reduce that uncertainty and maintain certain level of MVPS, companies should have declared the particular dividend policy and dividend payout policy for short term and long term.
- ) In Nepalese context, there are only two forms of dividend used in practice i.e. stock dividend and cash dividend. Shareholders have to accept their offer without any hesitation. If shareholder wants to take another form of dividend instead of offered dividend, at this moment company has to provide the opportunity to choose the alternatives. There are other forms of dividend like bond dividend, property dividend, script dividend etc. These forms of dividend can be proposed to the shareholders in annual general meeting for approval, if possible.
- ) In this study, HBL has the highest average dividend yield ratio in analysis period i.e. 2.71%. This indicates that one shareholder who has purchased the share from market

can get only 2.71% return of his investment. But the interest rate of deposits is more than 7% at present in our market. This situation has demotivated the new investors to enter in financial market. So, companies have to increase their performance and have to increase the amount of dividend to maintain the market price of share and not reduce the worth of existing shareholders.

- ) The legal rules for the treatment of dividend are most for the smooth growth of national economy. Some regulating acts are silent on these matters most of the companies are paying dividend less than interest rate paid by commercial banks. In this situation, it is necessary to enact legal rules that bind companies to pay dividend and that regulates and market self- functioning to the stock market for this purpose. GON, NEPSE, SEBON and other concerned parties should do work together.
- ) The directors and managers of companies are selected or appointed to do the work on behalf of shareholders. They should develop certain programs to improve efficiency and reduce the government and concerned authorities' interference in daily operation. So, managers and directors have to fulfill their duties and responsibilities to protect and fulfill the shareholders' interest. They should not operate the organization on the desired of themselves.
- ) It is recommended that optimum dividend policy should be prepared by company based on following criteria which helps to increase the net worth of company, grab the investment opportunity and satisfy the existing shareholders.
  - a. The optimum retention policy should be prepared for expansion and modernization of company.
  - b. The optimum dividend policy should be prepared that will help to increase the market value per share. Then net present value of shareholders wealth can be maximized and prospecting investors are attracted to invest in company.
  - c. The company should adopt the stable or consistency in dividend payment.

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## APPENDIX - I

Calculation of Correlation coefficient, coefficient determinants, P.E., regression coefficient, regression constant and t values between EPS and DPS

### STANDARD CHARTERED BANK NEPAL LIMITED

| Year         | EPS(X)        | DPS(Y)        | XY              | X <sup>2</sup>   | Y <sup>2</sup>  |
|--------------|---------------|---------------|-----------------|------------------|-----------------|
| 2004/05      | 143.14        | 120.00        | 17176.80        | 20489.06         | 14400.00        |
| 2005/06      | 175.84        | 130.00        | 22859.20        | 30919.71         | 16900.00        |
| 2006/07      | 167.37        | 80.00         | 13389.60        | 28012.72         | 6400.00         |
| 2007/08      | 131.92        | 80.00         | 10553.60        | 17402.89         | 6400.00         |
| 2008/09      | 109.99        | 50.00         | 5499.50         | 12097.80         | 2500.00         |
| 2009/10      | 77.65         | 55.00         | 4270.75         | 6029.52          | 3025.00         |
| 2010/11      | 69.51         | 52.00         | 3614.52         | 4831.64          | 2704.00         |
| <b>N = 7</b> | <b>875.42</b> | <b>567.00</b> | <b>77363.97</b> | <b>119783.33</b> | <b>52329.00</b> |

$$\text{Correlation Coefficient, } r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{7 \mid 77363.97 - 875.42 \mid 567}{\sqrt{7 \mid 119783.33 - (875.42)^2} \sqrt{7 \mid 52329 - (567)^2}} = 0.7$$

$$\text{Coefficient of Determinants, } r^2 = (0.7)^2 = 0.62$$

$$\text{Probable Error, P.E.} = 0.6745 \mid \frac{1 - r^2}{\sqrt{n}} = 0.6745 \mid \frac{1 - 0.62}{\sqrt{7}} = 0.10$$

$$\text{Regression coefficient, } b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{7 \mid 77363.97 - 875.42 \mid 567}{7 \mid 119783.33 - (875.42)^2} = 0.63$$

$$\text{Regression constant, } a = \frac{\sum Y - b \sum X}{n} = \frac{567 - 0.63 \mid 875.42}{7} = 2.21$$

$$t\text{-Value, } t = \frac{r \sqrt{n} Z}{\sqrt{1 - r^2}} = \frac{0.79 \sqrt{7} Z}{\sqrt{1 - (0.79)^2}} = 2.90$$

## HIMALAYAN BANK NEPAL LIMITED

| Year         | EPS(X)        | DPS(Y)        | XY             | X <sup>2</sup>  | Y <sup>2</sup> |
|--------------|---------------|---------------|----------------|-----------------|----------------|
| 2004/05      | 47.91         | 11.58         | 554.80         | 2295.37         | 134.10         |
| 2005/06      | 59.24         | 30.00         | 1777.20        | 3509.38         | 900.00         |
| 2006/07      | 60.66         | 15.00         | 909.90         | 3679.64         | 225.00         |
| 2007/08      | 62.74         | 25.00         | 1568.50        | 3936.31         | 625.00         |
| 2008/09      | 61.90         | 12.00         | 742.80         | 3831.61         | 144.00         |
| 2009/10      | 31.80         | 14.00         | 445.20         | 1011.24         | 196.00         |
| 2010/11      | 44.66         | 13.00         | 580.58         | 1994.52         | 169.00         |
| <b>N = 7</b> | <b>368.91</b> | <b>120.58</b> | <b>6578.98</b> | <b>20258.05</b> | <b>2393.10</b> |

$$\text{Correlation Coefficient, } r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{7 \sum XY - \sum X \sum Y}{\sqrt{7 \sum X^2 - (\sum X)^2} \sqrt{7 \sum Y^2 - (\sum Y)^2}} = 0.44$$

$$\text{Coefficient of Determinants, } r^2 = (0.44)^2 = 0.19$$

$$\text{Probable Error, P.E.} = 0.6745 \sqrt{\frac{1 - r^2}{n}} = 0.6745 \sqrt{\frac{1 - 0.19}{7}} = 0.21$$

$$\text{Regression coefficient, } b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{7 \sum XY - \sum X \sum Y}{7 \sum X^2 - (\sum X)^2} = 0.27$$

$$\text{Regression constant, } a = \frac{\sum Y - b \sum X}{n} = \frac{120.58 - 0.27 \times 368.91}{7} = 2.99$$

$$t\text{-Value, } t = \frac{r \sqrt{n}}{\sqrt{1-r^2}} = \frac{0.44 \sqrt{7}}{\sqrt{1-0.44^2}} = 3.99$$

## EVEREST BANK NEPAL LIMITED

| Year         | EPS(X)        | DPS(Y)        | XY              | X <sup>2</sup>  | Y <sup>2</sup> |
|--------------|---------------|---------------|-----------------|-----------------|----------------|
| 2004/05      | 54.22         | 0.00          | 0.00            | 2939.81         | 0.00           |
| 2005/06      | 62.78         | 25.00         | 1569.50         | 3941.33         | 625.00         |
| 2006/07      | 78.42         | 10.00         | 784.20          | 6149.70         | 100.00         |
| 2007/08      | 91.82         | 20.00         | 1836.40         | 8430.91         | 400.00         |
| 2008/09      | 99.99         | 30.00         | 2999.70         | 9998.00         | 900.00         |
| 2009/10      | 100.16        | 30.00         | 3004.80         | 10032.03        | 900.00         |
| 2010/11      | 83.18         | 28.00         | 2329.04         | 6918.91         | 784.00         |
| <b>N = 7</b> | <b>570.57</b> | <b>143.00</b> | <b>12523.64</b> | <b>48410.68</b> | <b>3709.00</b> |

$$\text{Correlation Coefficient, } r = \frac{\sum XY - \frac{\sum X \sum Y}{n}}{\sqrt{\left(\sum X^2 - \frac{(\sum X)^2}{n}\right) \left(\sum Y^2 - \frac{(\sum Y)^2}{n}\right)}}$$

$$r = \frac{7 \times 12523.64 - \frac{570.57 \times 143}{7}}{\sqrt{\left(7 \times 48410.68 - \frac{(570.57)^2}{7}\right) \left(7 \times 3709 - \frac{(143)^2}{7}\right)}} = 0.71$$

$$\text{Coefficient of Determinants, } r^2 = (0.71)^2 = 0.50$$

$$\text{Probable Error, P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.50}{\sqrt{7}} = 0.13$$

$$\text{Regression coefficient, } b = \frac{\sum XY - \frac{\sum X \sum Y}{n}}{\sum X^2 - \frac{(\sum X)^2}{n}}$$

$$= \frac{7 \times 12523.64 - \frac{570.57 \times 143}{7}}{7 \times 48410.68 - \frac{(570.57)^2}{7}} = 0.45$$

$$\text{Regression constant, } a = \frac{\sum Y - b \sum X}{n} = \frac{1432.045 - 570.57}{7} = -16.25$$

$$t\text{-Value, } t = \frac{r \sqrt{n}}{\sqrt{1-r^2}} = \frac{0.71 \sqrt{7}}{\sqrt{1-0.50}} = 2.25$$

## APPENDIX – II

Calculation of Correlation coefficient, coefficient determinants, P.E., regression coefficient, regression constant and t values between EPS and MVPS

### STANDARD CHASTERED BANK NEPAL LIMITED

| Year       | EPS(X)        | MVPS(Y)         | XY                | X <sup>2</sup>   | Y <sup>2</sup>      |
|------------|---------------|-----------------|-------------------|------------------|---------------------|
| 2004/05    | 143.14        | 2345.00         | 335663.30         | 20489.06         | 5499025.00          |
| 2005/06    | 175.84        | 3775.00         | 663796.00         | 30919.71         | 14250625.00         |
| 2006/07    | 167.37        | 5900.00         | 987483.00         | 28012.72         | 34810000.00         |
| 2007/08    | 131.92        | 6830.00         | 901013.60         | 17402.89         | 46648900.00         |
| 2008/09    | 109.99        | 6010.00         | 661039.90         | 12097.80         | 36120100.00         |
| 2009/10    | 77.65         | 3279.00         | 254614.35         | 6029.52          | 10751841.00         |
| 2010/11    | 69.51         | 1800.00         | 125118.00         | 4831.64          | 3240000.00          |
| <b>N=7</b> | <b>875.42</b> | <b>29939.00</b> | <b>3928728.15</b> | <b>119783.33</b> | <b>151320491.00</b> |

$$\text{Correlation coefficient, } r = \frac{\sum XY - \frac{\sum X \sum Y}{n}}{\sqrt{\left(\sum X^2 - \frac{(\sum X)^2}{n}\right) \left(\sum Y^2 - \frac{(\sum Y)^2}{n}\right)}}$$

$$r = \frac{7 \times 3928728.15 - \frac{875.42 \times 29939}{7}}{\sqrt{\left(119783.33 - \frac{(875.42)^2}{7}\right) \left(151320491 - \frac{(29939)^2}{7}\right)}} = 0.38$$

$$\text{Coefficient Determinants, } r^2 = (0.38)^2 = 0.14$$

$$\text{Probable Error, P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.14}{\sqrt{7}} = 0.22$$

$$\text{Regression coefficient, } b = \frac{\sum XY - \frac{\sum X \sum Y}{n}}{\sum X^2 - \frac{(\sum X)^2}{n}}$$

$$= \frac{7 \mid 3928728.15 \mid 29939}{7 \mid 119783.33 \mid (875.45)^2} = 17.91$$

$$\text{Regression constant, } a = \frac{Y \Sigma b \mid X}{n} = \frac{29939 \mid 875.42}{7} = 2036.88$$

$$t \text{ - value, } t = \frac{r \mid \sqrt{n \Sigma Z^2}}{\sqrt{1 \mid \Sigma r^2}} = \frac{0.38 \mid \sqrt{7 \Sigma Z^2}}{\sqrt{1 \mid 0.14}} = 0.91$$

### HIMALAYN BANK LIMITED

| YEAR       | EPS(X)        | MVPS(Y)        | XY               | X <sup>2</sup>  | Y <sup>2</sup>     |
|------------|---------------|----------------|------------------|-----------------|--------------------|
| 2004/05    | 47.91         | 920.00         | 44077.20         | 2295.37         | 846400.00          |
| 2005/06    | 59.24         | 1100.00        | 65164.00         | 3509.38         | 1210000.00         |
| 2006/07    | 60.66         | 1740.00        | 105548.40        | 3679.64         | 3027600.00         |
| 2007/08    | 62.74         | 1980.00        | 124225.20        | 3936.31         | 3920400.00         |
| 2008/09    | 61.90         | 1760.00        | 108944.00        | 3831.61         | 3097600.00         |
| 2009/10    | 31.80         | 816.00         | 25948.80         | 1011.24         | 665856.00          |
| 2010/11    | 44.66         | 575.00         | 25679.50         | 1994.52         | 330625.00          |
| <b>N=7</b> | <b>368.91</b> | <b>8891.00</b> | <b>499587.10</b> | <b>20258.05</b> | <b>13098481.00</b> |

$$\text{Correlation coefficient, } r = \frac{n \phi XY \mid \phi X \phi Y}{\sqrt{n \phi X^2 \mid \phi X^2} \mid \sqrt{n \phi Y^2 \mid \phi Y^2}}$$

$$r = \frac{7 \mid 499587.10 \mid 8891}{\sqrt{7 \mid 20258.05 \mid (368.91)^2} \mid \sqrt{7 \mid 13098481 \mid (8891)^2}} = 0.81$$

$$\text{Coefficient Determinants } r^2 = (0.81)^2 = 0.65$$

$$\text{Probable Error P.E.} = 0.6745 \mid \frac{1 \mid \Sigma r^2}{\sqrt{n}} = 0.6745 \mid \frac{1 \mid 0.66}{\sqrt{7}} = 0.09$$

$$\text{Regression coefficient, } b = \frac{n \mid XY \mid X \mid Y}{n \mid X^2 \mid \Sigma (X)^2}$$

$$= \frac{7 \mid 499587.10 \text{ Z } 368.91 \mid 8891}{7 \mid 20258.05 \text{ Z } (368.91)^2} = 38.01$$

Regression constant,  $a = \frac{Y \text{ Z } b \text{ X}}{n} = \frac{8891 \text{ Z } 38.01 \mid 368.91}{7} = -733.48$

$$t \text{ - Value, } t = \frac{r \mid \sqrt{n \text{ Z } 2}}{\sqrt{1 \text{ Z } r^2}} = \frac{0.81 \mid \sqrt{7 \text{ Z } 2}}{\sqrt{1 \text{ Z } 0.66}} = 3.07$$

## APPENDEX-II

### EVEREST BANK NEPAL LIMITED

| Year         | EPS(X)        | MVPS(Y)         | XY                | X <sup>2</sup>  | Y <sup>2</sup>     |
|--------------|---------------|-----------------|-------------------|-----------------|--------------------|
| 2004/05      | 54.22         | 870.00          | 47171.40          | 2939.81         | 756900.00          |
| 2005/06      | 62.78         | 1379.00         | 86573.62          | 3941.33         | 1901641.00         |
| 2006/07      | 78.42         | 2430.00         | 190560.60         | 6149.70         | 5904900.00         |
| 2007/08      | 91.82         | 3132.00         | 287580.24         | 8430.91         | 9809424.00         |
| 2008/09      | 99.99         | 2455.00         | 245475.45         | 9998.00         | 6027025.00         |
| 2009/10      | 100.16        | 1630.00         | 163260.80         | 10032.03        | 2656900.00         |
| 2010/11      | 83.18         | 1094.00         | 90998.92          | 6918.91         | 1196836.00         |
| <b>N = 7</b> | <b>570.57</b> | <b>12990.00</b> | <b>1111621.03</b> | <b>48410.68</b> | <b>28253626.00</b> |

$$\text{Correlation coefficient } r = \frac{n\phi XY \ Z\phi X\phi Y}{\sqrt{n\phi X^2 \ Z(\phi X)^2} \ | \ \sqrt{n\phi Y^2 \ Z(\phi Y)^2}}$$

$$r = \frac{7 \ | \ 1111621.03 \ Z570.57 \ | \ 12990}{\sqrt{7 \ | \ 48410.68 \ Z(570.57)^2} \ | \ \sqrt{7 \ | \ 28253626 \ Z(12990)^2}} = 0.59$$

$$\text{Coefficient of Determinants } r^2 = (0.59)^2 = 0.35$$

$$\text{Probable Error P.E.} = 0.6745 \ | \ \frac{1 \ Z r^2}{\sqrt{n}} = 0.6745 \ | \ \frac{1 \ Z 0.35}{\sqrt{7}} = 0.16$$

$$\text{Regression coefficient, } b = \frac{n \ XY \ Z \ X \ Y}{n \ X^2 \ Z( X)^2}$$

$$= \frac{7 \ | \ 1111621.03 \ Z570.57 \ | \ 12990}{7 \ | \ 48410.68 \ Z(570.57)^2} = 27.54$$

$$\text{Regression constant, } a = \frac{Y \ Z b \ X}{n} = \frac{12990 \ Z 27.54 \ | \ 570.57}{7} = -405.48$$

$$t \text{ - Value, } t = \frac{r \ | \ \sqrt{n \ Z 2}}{\sqrt{1 \ Z r^2}} = \frac{0.59 \ | \ \sqrt{7 \ Z 2}}{\sqrt{1 \ Z 0.35}} = 1.65$$



## APPENDIX – III

Calculation of Correlation coefficient, coefficient determinants and P.E. between DPR and MVPS

### STANDARD CHARTERED BANK NEPAL LIMITED

| Year         | DPR(X)        | MVPS(Y)         | XY                | X <sup>2</sup>  | Y <sup>2</sup>      |
|--------------|---------------|-----------------|-------------------|-----------------|---------------------|
| 2004/05      | 83.83         | 2345.00         | 196581.35         | 7027.47         | 5499025.00          |
| 2005/06      | 79.63         | 3775.00         | 300603.25         | 6340.94         | 14250625.00         |
| 2006/07      | 77.67         | 5900.00         | 458253.00         | 6032.63         | 34810000.00         |
| 2007/08      | 98.54         | 6830.00         | 673028.20         | 9710.13         | 46648900.00         |
| 2008/09      | 90.91         | 6010.00         | 546369.10         | 8264.63         | 36120100.00         |
| 2009/10      | 84.82         | 3279.00         | 278124.78         | 7194.43         | 10751841.00         |
| 2010/11      | 78.91         | 1800.00         | 142038.00         | 6226.79         | 3240000.00          |
| <b>N = 7</b> | <b>594.31</b> | <b>29939.00</b> | <b>2594997.68</b> | <b>50797.01</b> | <b>151320491.00</b> |

$$\text{Correlation coefficient } r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{7 \sum XY - \sum X \sum Y}{\sqrt{7 \sum X^2 - (\sum X)^2} \sqrt{7 \sum Y^2 - (\sum Y)^2}} = 0.60$$

$$\text{Coefficient of Determinants } r^2 = (0.60)^2 = 0.36$$

$$\text{Probable Error P.E.} = 0.6745 \sqrt{\frac{1 - r^2}{n}} = 0.6745 \sqrt{\frac{1 - 0.36}{7}} = 0.16$$

$$\text{Regression coefficient, } b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{7 \sum XY - \sum X \sum Y}{7 \sum X^2 - (\sum X)^2} = 156.62$$

$$\text{Regression constant, } a = \frac{\sum Y - b \sum X}{n} = \frac{29939 - 156.62 \sum X}{7} = -29020.50$$

$$t\text{-Value, } t = \frac{r \sqrt{n} Z_2}{\sqrt{1 - r^2}} = \frac{0.60 \sqrt{7} Z_2}{\sqrt{1 - 0.36}} = 1.67$$

### HIMALAYAN BANK NEPAL LIMITED

| Year         | DPR(X)        | MVPS(Y)        | XY               | X <sup>2</sup>  | Y <sup>2</sup>     |
|--------------|---------------|----------------|------------------|-----------------|--------------------|
| 2004/05      | 65.91         | 920.00         | 60637.20         | 4344.13         | 846400.00          |
| 2005/06      | 59.08         | 1100.00        | 64988.00         | 3490.45         | 1210000.00         |
| 2006/07      | 65.94         | 1740.00        | 114735.60        | 4348.08         | 3027600.00         |
| 2007/08      | 71.72         | 1980.00        | 142005.60        | 5143.76         | 3920400.00         |
| 2008/09      | 70.37         | 1760.00        | 123851.20        | 4951.94         | 3097600.00         |
| 2009/10      | 66.56         | 816.00         | 54312.96         | 4430.23         | 665856.00          |
| 2010/11      | 61.93         | 575.00         | 35609.75         | 3835.32         | 330625.00          |
| <b>N = 7</b> | <b>461.51</b> | <b>8891.00</b> | <b>596140.31</b> | <b>30543.91</b> | <b>13098481.00</b> |

$$\text{Correlation coefficient } r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{7 \sum 596140.31 - \sum 461.51 \sum 8891}{\sqrt{7 \sum 30543.91 - (\sum 461.51)^2} \sqrt{7 \sum 13098481 - (\sum 8891)^2}} = 0.69$$

$$\text{Coefficient of Determinants } r^2 = (0.69)^2 = 0.47$$

$$\text{Probable Error P.E.} = 0.6745 \sqrt{\frac{1 - r^2}{n}} = 0.6745 \sqrt{\frac{1 - 0.47}{7}} = 0.13$$

$$\text{Regression coefficient, } b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{7 \sum 596140.31 - \sum 461.51 \sum 8891}{7 \sum 30543.91 - (\sum 461.51)^2} = 85.42$$

$$\text{Regression constant, } a = \frac{\sum Y - b \sum X}{n} = \frac{8891 - 85.42 \sum 461.51}{7} = -4361.78$$

$$t - \text{Value, } t = \frac{r \sqrt{n} \sqrt{Z^2}}{\sqrt{1 - Zr^2}} = \frac{0.69 \sqrt{7} \sqrt{Z^2}}{\sqrt{1 - Z(0.47)}} = 2.11$$

### EVEREST BANK NEPAL LIMITED

| Year         | DPR(X)        | MVPS(Y)         | XY               | X <sup>2</sup>  | Y <sup>2</sup>     |
|--------------|---------------|-----------------|------------------|-----------------|--------------------|
| 2004/05      | 36.88         | 870.00          | 32085.60         | 1360.13         | 756900.00          |
| 2005/06      | 39.82         | 1379.00         | 54911.78         | 1585.63         | 1901641.00         |
| 2006/07      | 51.00         | 2430.00         | 123930.00        | 2601.00         | 5904900.00         |
| 2007/08      | 54.45         | 3132.00         | 170537.40        | 2964.80         | 9809424.00         |
| 2008/09      | 60.00         | 2455.00         | 147300.00        | 3600.00         | 6027025.00         |
| 2009/10      | 59.14         | 1630.00         | 96398.20         | 3497.54         | 2656900.00         |
| 2010/11      | 56.24         | 1094.00         | 61526.56         | 3162.94         | 1196836.00         |
| <b>N = 7</b> | <b>357.53</b> | <b>12990.00</b> | <b>686689.54</b> | <b>18772.05</b> | <b>28253626.00</b> |

$$\text{Correlation coefficient } r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{7 \times 686689.5 - 357.53 \times 12990}{\sqrt{7 \times 18772.05 - (357.53)^2} \sqrt{7 \times 28253626 - (12990)^2}} = 0.50$$

$$\text{Coefficient of Determinants } r^2 = (0.5043)^2 = 0.25$$

$$\text{Probable Error P.E.} = 0.6745 \sqrt{\frac{1 - Zr^2}{n}} = 0.6745 \sqrt{\frac{1 - Z(0.2543)}{7}} = 0.19$$

$$\text{Regression coefficient, } b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{7 \times 686689.5 - 357.53 \times 12990}{7 \times 18772.05 - (357.53)^2} = 45.44$$

$$\text{Regression constant, } a = \frac{\sum Y - b \sum X}{n} = \frac{12990 - 45.44 \times 357.53}{7} = -465.03$$

$$t - \text{Value, } t = \frac{r \sqrt{n} \sqrt{Z^2}}{\sqrt{1 - Zr^2}} = \frac{0.50 \sqrt{7} \sqrt{Z^2}}{\sqrt{1 - Z(0.25)}} = 1.3$$

## APPENDIX – IV

Calculation of Correlation coefficient, coefficient determinants, P.E., regression coefficient, regression constant and t values between Last year DPS (X) and MVPS(Y).

### STANDARD CHARTERED BANK NEPAL LIMITED

| Year         | DPS(Dt-1)(X)  | MVPS(Y)         | XY                | X <sup>2</sup>  | Y <sup>2</sup>      |
|--------------|---------------|-----------------|-------------------|-----------------|---------------------|
| 2004/05      | 120.00        | 2345.00         | 281400.00         | 14400.00        | 5499025.00          |
| 2005/06      | 140.00        | 3775.00         | 528500.00         | 19600.00        | 14250625.00         |
| 2006/07      | 130.00        | 5900.00         | 767000.00         | 16900.00        | 34810000.00         |
| 2007/08      | 130.00        | 6830.00         | 887900.00         | 16900.00        | 46648900.00         |
| 2008/09      | 100.00        | 6010.00         | 601000.00         | 10000.00        | 36120100.00         |
| 2009/10      | 50.00         | 3279.00         | 163950.00         | 2500.00         | 10751841.00         |
| 2010/11      | 50.00         | 1800.00         | 90000.00          | 2500.00         | 3240000.00          |
| <b>N = 7</b> | <b>720.00</b> | <b>29939.00</b> | <b>3319750.00</b> | <b>82800.00</b> | <b>151320491.00</b> |

$$\text{Correlation Coefficient, } r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{7 \sum 3319750 - 720 \sum 29939}{\sqrt{7 \sum 82800 - (720)^2} \sqrt{7 \sum 151320491 - (29939)^2}} = 0.53$$

$$\text{Coefficient of Determinants, } r^2 = (0.53)^2 = 0.28$$

$$\text{Probable Error, P.E.} = 0.6745 \left| \frac{1 - r^2}{\sqrt{n}} \right| = 0.6745 \left| \frac{1 - 0.28}{\sqrt{7}} \right| = 0.18$$

$$\text{Regression coefficient, } b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{7 \sum 3319750 - 720 \sum 29939}{7 \sum 82800 - (720)^2} = 27.49$$

$$\text{Regression constant, } a = \frac{\sum Y - b \sum X}{n} = \frac{29939 - 27.49 \sum 720}{7} = 1449.82$$

$$t\text{-value, } t = \frac{r \sqrt{n Z^2}}{\sqrt{1 Z r^2}} = \frac{0.53 \sqrt{7 Z^2}}{\sqrt{1 Z 0.28}} = 1.41$$

### HIMALAYAN BANK NEPAL LIMITED

| Year         | DPS(Dt-1)(X)  | MVPS(Y)        | XY               | X <sup>2</sup>  | Y <sup>2</sup>     |
|--------------|---------------|----------------|------------------|-----------------|--------------------|
| 2004/05      | 31.58         | 920.00         | 29053.60         | 997.30          | 846400.00          |
| 2005/06      | 35.00         | 1100.00        | 38500.00         | 1225.00         | 1210000.00         |
| 2006/07      | 40.00         | 1740.00        | 69600.00         | 1600.00         | 3027600.00         |
| 2007/08      | 45.00         | 1980.00        | 89100.00         | 2025.00         | 3920400.00         |
| 2008/09      | 37.00         | 1760.00        | 65120.00         | 1369.00         | 3097600.00         |
| 2009/10      | 45.56         | 816.00         | 37176.96         | 2075.71         | 665856.00          |
| 2010/11      | 38.00         | 575.00         | 21850.00         | 1444.00         | 330625.00          |
| <b>N = 7</b> | <b>272.14</b> | <b>8891.00</b> | <b>350400.56</b> | <b>10736.01</b> | <b>13098481.00</b> |

$$\text{Correlation Coefficient, } r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{7 \sum 350400.56 - \sum 272.14 \sum 8891}{\sqrt{7 \sum 10736.01 - (\sum 272.14)^2} \sqrt{7 \sum 13098481 - (\sum 8891)^2}} = 0.28$$

$$\text{Coefficient of Determinants, } r^2 = (0.28)^2 = 0.08$$

$$\text{Probable Error, P.E.} = 0.6745 \sqrt{\frac{1 - r^2}{n}} = 0.6745 \sqrt{\frac{1 - 0.08}{7}} = 0.23$$

$$\text{Regression coefficient, } b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{7 \sum 350400.56 - \sum 272.14 \sum 8891}{7 \sum 10736.01 - (\sum 272.14)^2} = 30.41$$

$$\text{Regression constant, } a = \frac{\sum Y - b \sum X}{n} = \frac{8891 - 30.41 \sum 272.14}{7} = 87.79$$

$$t - \text{Value, } t = \frac{r \sqrt{n} Z_2}{\sqrt{1 - r^2}} = \frac{0.28 \sqrt{7} Z_2}{\sqrt{1 - 0.08}} = 0.66$$

### EVEREST BANK NEPAL LIMITED

| Year         | DPS(Dt-1)(X)  | MVPS(Y)         | XY               | X <sup>2</sup>  | Y <sup>2</sup>     |
|--------------|---------------|-----------------|------------------|-----------------|--------------------|
| 2004/05      | 20            | 870.00          | 17400.00         | 400.00          | 756900.00          |
| 2005/06      | 25            | 1379.00         | 34475.00         | 625.00          | 1901641.00         |
| 2006/07      | 40            | 2430.00         | 97200.00         | 1600.00         | 5904900.00         |
| 2007/08      | 50            | 3132.00         | 156600.00        | 2500.00         | 9809424.00         |
| 2008/09      | 60            | 2455.00         | 147300.00        | 3600.00         | 6027025.00         |
| 2009/10      | 60            | 1630.00         | 97800.00         | 3600.00         | 2656900.00         |
| 2010/11      | 38            | 1094.00         | 41572.00         | 1444.00         | 1196836.00         |
| <b>N = 7</b> | <b>293.00</b> | <b>12990.00</b> | <b>592347.00</b> | <b>13769.00</b> | <b>28253626.00</b> |

$$\text{Correlation Coefficient, } r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{7 \sum 592347 - \sum 293 \sum 12990}{\sqrt{7 \sum 13769 - (\sum 293)^2} \sqrt{7 \sum 28253626 - (\sum 12990)^2}} = 0.62$$

$$\text{Coefficient of Determinants, } r^2 = (0.62)^2 = 0.38$$

$$\text{Probable Error, P.E.} = 0.6745 \sqrt{\frac{1 - r^2}{n}} = 0.6745 \sqrt{\frac{1 - 0.38}{7}} = 0.16$$

$$\text{Regression coefficient, } b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{7 \sum 592347 - \sum 293 \sum 12990}{7 \sum 13769 - (\sum 293)^2} = 32.31$$

$$\text{Regression constant, } a = \frac{\sum Y - b \sum X}{n} = \frac{12990 - 32.31 \sum 293}{7} = 503.29$$

$$t - \text{Value, } t = \frac{r \sqrt{n} Z_2}{\sqrt{1 - r^2}} = \frac{0.62 \sqrt{7} Z_2}{\sqrt{1 - 0.38}} = 1.75$$

## Appendix - V

The pooled average data of the observed banks are used the multiple regression and coefficient of determination analysis;

Multiple regression analysis of MPS on EPS and DPS.

$$y = a + b_1x_1 + b_2x_2$$

Where, Y = MPS (Dependent Variable)

X1 =EPS (1<sup>st</sup> Independent Variable)

X2 = DPS (2<sup>nd</sup> Independent Variable)

a = Regression constant

b1 & b2 Coefficient (i.e. Regression Coefficient)

Calculation of Multiple (Pooled average analysis). Regression of MVPS on EPS and DPS

### STANDARD CHARTERED BANK NEPAL LIMITED

| YEAR    | MVPS(Y) | EPS(X1) | DPS(X2) |
|---------|---------|---------|---------|
| 2004/05 | 2345    | 143.14  | 120     |
| 2005/06 | 3775    | 175.84  | 130     |
| 2006/07 | 5900    | 167.37  | 80      |
| 2007/08 | 6830    | 131.92  | 80      |
| 2008/09 | 6010    | 109.99  | 50      |
| 2009/10 | 3279    | 77.65   | 55      |
| 2010/11 | 1800    | 69.51   | 52      |

Estimation Command:

where, a or c= 2234.38

=====

LS MVPS C EPS DPS

b1= 64.59

b2= -74.51

Estimation Equation:

=====

MVPS = C(1) + C(2)\*EPS + C(3)\*DPS

Substituted Coefficients:

=====

MVPS = 2234.38 + 64.59\*EPS - 74.51\*DPS

### HIMALAYAN BANK LIMITED

| YEAR    | MVPS(Y) | EPS(X1) | DPS(X2) |
|---------|---------|---------|---------|
| 2004/05 | 920     | 47.91   | 11.58   |
| 2005/06 | 1100    | 59.24   | 30      |
| 2006/07 | 1740    | 60.66   | 15      |
| 2007/08 | 1980    | 62.74   | 25      |
| 2008/09 | 1760    | 61.90   | 12      |
| 2009/10 | 816     | 31.80   | 14      |
| 2010/11 | 575     | 44.66   | 13      |

Estimation Command:

=====

LS MVPS C EPS DPS

a or c= -707.34

b1= 40.61

b2= -9.46

Estimation Equation:

=====

$MVPS = C(1) + C(2)*EPS + C(3)*DPS$

Substituted Coefficients:

=====

$MVPS = -707.34 + 40.61*EPS - 9.46*DPS$

### EVERST BANK NEPAL LIMITEED

| YEAR    | MVPS(Y) | EPS(X1) | DPS(X2) |
|---------|---------|---------|---------|
| 2004/05 | 870     | 54.22   | 0       |
| 2005/06 | 1379    | 62.78   | 25      |
| 2006/07 | 2430    | 78.42   | 10      |
| 2007/08 | 3132    | 91.82   | 20      |
| 2008/09 | 2455    | 99.99   | 30      |
| 2009/10 | 1630    | 100.16  | 30      |
| 2010/11 | 1094    | 83.18   | 28      |



Estimation Command:

=====

LS MVPS C EPS DPS

Estimation Equation:

=====

MVPS = C (1) + C (2)\*EPS + C (3)\*DPS

Substituted Coefficients:

=====

MVPS = -1038.51 + 44.99\*EPS - 37.84\*DPS

Where,

a or c= -1038.51

b1= 44.99

b2= -37.84

## Questionnaire

**Dear All,**

The Purpose of this study is to access the dividend policy of Nepalese commercial bank. The information supplied will be used only for the study purpose and high level of secrecy will be strongly maintained. Please read the following statement and circle at the appropriate number that comes to your opinion.

- 1) Which dividend option you would like to prefer?
  - a) Stock dividend
  - b) Cash dividend
  - c) Both Options
  
- 2) What factor you consider the most before buying stock of any Financial Institution?
  - a) Market price
  - b) Past dividend record
  - c) Sound Financial Position
  
- 3) What factors should be considered while adopting dividend policy?
  - a) Legal Restriction
  - b) Liquidity position
  - c) Borrowing capacity of the firm
  
- 4) Why do people invest in share capital?
  - a) To utilize surplus money
  - b) To receive dividend
  - c) This is the best method to invest
  
- 5) Have you received cash dividend or stock dividend till date?
  - a) Cash dividend
  - b) Stock dividend
  - c) Both
  
- 6) What do you suggest if the company has no cash to pay cash dividend?
  - a) Pay next year
  - b) Pay stock dividend
  - c) Don't pay both

- 7) What is the major motive of cash dividend by the banks?
- a) To convey information that the company is doing well
  - b) To draw attention from the investment community
  - c) To increase the market value of the firm's stock
- 8) Is the cash dividend by the banks is effective?
- a) Effective
  - b) Ineffective
  - c) Poor
- 9) In which sectors pay dividend mostly?
- a) Banking
  - b) Manufacturing
  - c) Hydropower
  - d) Financial
  - e) Others
- 10) Suggestions if there is no cash to Pay Cash Dividend by the company
- a) Buying share
  - b) Holding share
  - c) To made market portfolio
  - d) Others
- 11) Suggestions if there is change the policy who is responsible
- a) NRB
  - b) SEBON
  - c) NEPSE
  - d) All of them