

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Bank, a financial institution is playing a vital role in the economic development of the country. the function of banks are not only accepting deposit and granting loans but also including wide range of service to the different stratum of society , to facilitate the growth of trade commerce industry and agriculture of the nation economy. in the absence and in sufficiency of banking and financial facilities the growth of the economic development becomes slow.

Commercial bank are the financial institution which deals in accepting deposits from person and institutions ,provide interest formulate capitals and grant loan against securities that help to remove the deficiency of capital. they contribute significantly in the formation and mobilization of internal capital an developmental effort . they also furnish necessary working capital according to the requirement for trade commerce industry and to the agricultural sector . They also per from agency function to make life easier and play an important role in credit creation . Besides they also provide technical and administrative assistance to industries, traders and business enterprises

A Commercial bank is one which exchange money deposits money, accept deposits, grant loan and perform commercial banking functional and which is not a bank meant for corporation , agriculture, industries for such specific purpose(NEPAL Commercial ACT 2031 B.S)

Shareholder as return of investment. In other words, dividend is the earning or profit distributed to the shareholders by a company. It may be

in a different forms share dividends, cash dividend and securities or a combination of these. Generally there are two types of share: preference share and equity share. Dividend paid to preference share is referred as a preference dividend and almost it is fixed and payable before the payment of equity dividend but there is full of choice about the rate of equity dividend.

Dividend policy, an internal part of the firm financing decisions, refers that policy of accompany on the division of its profit between dividend and retention. It is one of the measure decision of the financial management because it affect value of the firm as well as overall financing decision like financial structure, the flow of funds, corporate liquidity and investors attitudes.

It is no necessary that all business organization follow the same dividend policy .Dividend policy of different organization may be same or different but the policy followed by the firm should be suitable for the both shareholder as well as firm itself having given over all dividend implication among the companies and financial institutions, this study is more specific in assessing the comparative study of dividend policy between Nabil bank and Everest bank Ltd.

1.1.1 Nabil Bank Ltd

Nabil Bank Ltd which was earlier known as Nepal Arab Bank ltd is the first foreign joint venture commercial bank incorporated in Nepal. It was established in 1984; with the joint investment of Dubai Bank Ltd (50%).The remaining 50% was shared by Nepalese promoters (financial institution) and general public. However share owned by Dubai Bank Ltd has been transferred to Emirates Bank International Ltd. UAE and later sold to National Bank Ltd. Bangladesh. At present National bank ltd

venture agreement (Technical service agreement between NABIL and National Bank Ltd. Bangladesh). The total number of branches reached up to 48 on April 2011. The initial paid of capital of the bank was only Rs 30m and it has seen increased gradually and reached to Rs 3834.8 in mid April 2010. Meanwhile the total capital found of the bank has been found to be Rs. 4238.9milion in mid April 2010. The total deposit collected in the year 2066/67 was Rs 33013milion the net profit of the bank for the year 2009/10 reaches 1139milion comparing to that year Rs 1031milion. It declares dividends of Rs 40 comparing to Rs 30 last years.

1.1.2 Everest Bank Limited

Everest Bank Limited started its operation in 1994 with the view and objective of expanding and efficient banking services to various segment of the society. The bank is providing customer friendly services through its Branch Network .All the branches of the bank are connected through Any Branch Banking System, which enables customers for operational transaction from any branches.

Its joint venture partner is the largest nationalized bank in India (20% equity).

1.2 Statement of the Problem

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

Dividend is desirable for the shareholders, which inspire them for the further investment on companies share. But it is found that there is no satisfactory result about dividend decisions of commercial Banks in Nepal. Likewise, there is no proper relationship between dividends quoted market price of share, dividend distribution does not match with the earning of commercial bank. There is no limit to identification of the problem about dividend practice that is visible in the commercial bank of Nepal.

To sum up this study deals with the following issues

-) What are the implications of the dividends on market price of share?
-) What are the factor affecting dividend and valuation of the firm?
-) What is the relationship between the factors and affecting dividend and valuation of the firms?
-) Whether the problem is attitude to pay the dividend or the ability to pay the dividend?
-) Whether changing dividend policy or payout ratio increase the value of stock or not?

1.3 Objectives of the Study

The study of primarily focuses on the dividend policy and practices adopted by the sample bank Nabil Bank and Everest Bank with a view to provide workable suggestion which may be helpful to the formulation of the optimal dividend policy and maximize the stock price and to take some other appropriate dividend strategies. However, the specific objectives of the study are as follows:

-) To explore the dividend practice of the bank.

-) To analyze the relationship between dividend per share and other financial indicators such as earning per share, net profit, net worth and market price of stock.
-) To examine the factors affecting the dividend policy of the bank.

1.4 Limitations of the Study

Study cannot be free from its own limitations. So, the present study has also some limitations. There will be some limitation of the study:

-) Only cash and stock dividend will be considered.
-) Only secondary data will be used.
-) There are many factors that affect dividend decisions. However, the study will be considering EPS, net profit, net worth and stock price.
-) The study focus last five fiscal year data from 2005/06 to 2009/10.

1.5 Significance of the study

A corporate sector is and expanding one but there is information gap between the management of Nepalese companies and the Nepalese investors who are eager to invest in the share of these companies. Some investors are still unwilling to invest in the share. More ever, there investing in the share in the market rumors. So, the layer picture of the corporate dividend behavior can be an effective way to attract new investors along with keeping present investors happy and maintaining reputation of the corporation.

This study will help to meet the deficiency of the literature relating to dividend behaviors. So, the studies of the dividend distribution will considerable significance.

1.6 Organization of the study

The study will be presented according to research structure prescribed by the faculty of management, masters of business studies. The standard of research writing format basically includes five chapters each devoted to some aspect of dividend policy and practice in the commercial banks like Nabil Bank, Everest bank which are as follows.

Chapter I: Introduction

This chapter deals with the subject matter consisting introduction, focus of the study, identification of the problem, importance of the study, objectives of the study, imitation of the study and organization of the study.

Chapter II: Review of Literature

This chapter concerns with literature review that includes a discussion the conceptual frameworks of dividend and review of major studies relating with dividend decision.

Chapter III: Research methodology

This chapter describes the research methodology adopted in carrying out the present research. It deals with research design, source of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical framework's.

Chapter IV: Presentation, Analysis of Data and Major Findings

This chapter concerned with Data Presentation, Analysis and Major findings, it includes the analysis of financial indicators, analysis of mean, standard deviation, coefficient of variation, correlation and regression analysis and major findings.

Chapter V: Summary, Conclusions and Recommendations

This chapter is the final chapter of the research study and concerned with summary, conclusion and recommendation.

CHAPTER- 2

REVIEW OF LITERATURE

2.1 Conceptual Frame work

The policy of a company on the division of its earning between distribution to share holder as dividend and retention for its investment is known as dividend policy. Dividend is a portion of earning which is distributed to shareholders in return of their investment i.e. return in share capital while dividend policy refers to guidelines that the management uses in establishing portion of retained earning that is paid as dividend to shareholders so all aspect and question relating to payment of dividend are contained in a dividend policy. Dividend can be paid by the firm in form of direct cash or additional stock in accordance with the proportionate shareholding.

Dividend decision is one of the crucial decisions of financial management. It is in the sense that the firm has to choose between distributions of profit the shareholder and plugging them back in to the business. Since dividend would be more attractive to shareholders one might think that there would be the tendency for corporations to increase distribution of dividend as it will increase their wealth but the company always ensure towards setting aside the funds for maximizing the overall shareholders wealth financial management is there four concerned with activities of corporation that affects the wellbeing can be partially measured by the dividend received but a more accurate measure is the market value of the stock as market value of the stock in the market shows the actual position of the company among all the competitors but sometimes the management also may can do signaling effect as to so their position strong in the market.

What and how much it is desirable to pay total earning dividend is always a controversial topic because retention of earning ensures the growth of firm whereas dividend ensure the growth of firm where as dividend ensure the shareholder satisfaction so the common par dividend policy must be set in a way that it can give maximum satisfaction to shareholders as well it can set aside a maximum funds which can be enough for the growth of the firm.

2.1.1 Forms of dividend

The most popular form of dividend is stock dividend but the corporations follow different types of dividend according to their objectives and the policies they implement. The type of dividend the corporation follows is partly a matter of attitude of directions and partly a matter of the various circumstances and financial constraints that bound corporate plan and policies

According to changing needs of corporation, dividend is being distributed in several forms like cash dividend, stock dividend, bond dividend in Nepal and India cash dividend and stocks dividend is used. The major forms of dividend.

i. Cash Dividend

It is one of the most popular and mostly used forms of dividend. cash dividend refers to the portion of earning, which is distributed to the stockholder in form of cash as return in their investment. It is distributed according to the internal policy of the company so amount may be differing from to. Despite of being one of the popular forms of dividend it is not suitable for the company because it can create liquidity problem in the company as net worth and total assets of the company decrease as a

cash and earning decrease in some cases the market price of the share also decrease by the amount of cash dividend.

Stock Dividend

Stock Dividend is a payment in the form of addition share of stocks instead of cash dividend. The payment of stocks dividend increases the number of outstanding share of the company. The net worth of the company is not affected by it as it is just a replacement for a supplement to cash dividend. Stocks dividend declaration is nothing more than cash. This form of dividend may be followed where there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Companies own products and the services of subsidiaries are the example that has been paid as property dividend.

Bond Dividend

Bond dividend by its name declares dividend that is distributed to share holder in form of bond. Bond dividends helps to postpone the payment of cash. In other words company declares dividends in the form of its own bond with a view to avoid cash outflow.

Scrip Dividend

When earning of the company justify dividends but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of scrips, in this method of dividend company issues and distribute to share holder transferable promissory notes which may be interest bearing or not. Scrip dividend are justified only when the company has really earned profit and have only to wait for conversion of others current aspects in to cash in the course of operation.

2.1.2 Stability of Dividend

Stability of dividend means regularity in paying dividend annually even though the amount of dividend may fluctuate from year to year and may not be related with earning.⁵ So stability of dividend means tendency or regularity in payment of dividend whether or not high income is generated dividend is paid in regular basis. By stability, it means maintaining the position of the firm dividend payment in relation to the trend line, preferably one that is upward sloping. Stability of dividend is not only considered as a desirable policy by the management of companies but also an attractive feature to many investors because all other things being same stable dividend have a positive impact on the market price of the share or it leads to higher stock price. There may be reasons for it, first investors give higher value to dividend which is sure of receiving whether it is high or low amount, they are sure that will get it against fluctuating dividend, where once they are given high amount and next time may be zero also. The amount received under fluctuating dividend policy is likely to have a higher discount factor than a suitable dividend policy. It means that company having stability in dividend will have a lower required rate or return or cost of equity capital than one whose dividend fluctuates.

Second many stock holders live on income received in the form of dividend and they will pay premium for a stock with a relatively assured minimum dollar dividend thirdly from the view point of cooperation and its stock holder stability of dividend is desirable for the requirement of legal listing.

The stability of dividends can take any of following three forms.

i) Constant Dividend per Share

Constant dividend is based on the payment of fixed amount per share as dividend in each year without considering the earning of the company. So fluctuation in the earning does not affect the dividend payment but it really does not mean that dividend rate will not be increased, when the company reaches new level of earning and expects to maintain in the amount of dividend is also increased, most investor who considered dividend the only source of their income prefer this policy. Most company follows this policy, as it is easy to follow.

ii) Constant Pay out Ratio

The term constant ratio refers to the ratio of dividend to earning. Under this policy fixed percentage of earning is paid as dividend in every year so the dividend fluctuates proportionately to the volatility of earning. Dividend are paid when profit earned and dividend is avoid when company are in loss. It reflects the ability of firm to pay dividend and policy to retain profits.

iii) Stable Rupee Dividend plus Extra dividend

Under this policy sum of amount is paid regularly as dividend only it gives the firm flexibility but it gives investor some what uncertain about what their dividend income will be so for the company whose earning is quite volatile it will be a better choice because the small amount of dividend is fixed to reduce the possibility of ever missing a dividend payment of extra dividend when company earns more profit than expenditure.

2.1.3 Residual Policy of Dividend

Dividend policy can be viewed as one firm investment decision. According to this theory earning will be distributed to shareholders in the form of cash dividend only when the firm has retained earning left over after financing all acceptable investment opportunities. In other word the shareholders get dividend only when there exist balance of earning after paying fixed obligation and financing all acceptable investment opportunity. If their does not exist any balance dividend will be nil because due to flotation cost occurred in external source of financing internally generated funds are taken as cheaper one.

So, according to Residual policy dividend paid by a firm should be viewed as a residual amount or left amount after all acceptable investment opportunities' have been under taken.

This theory is based on the promise that invest or prefer to have the firm retained and reinvested earning exceeds the rate of return the investor could him self obtain on other investment of compared risk, if equity investment equals earning no dividend are paid and if there is no profitable investment opportunities then all earnings distributed to share holders, so dividend distribution is merely a residual remaining after all equity investment needs are fulfilled.

2.1.4 Factor Affecting the Dividend Policy

To how much extends a firm should pay dividend is always a crucial question because there are different factors which should be taken into consideration to decide whether to pay out dividend instead of retained earning . It is not necessary that there is no relationship between these

factors and actual dividend may affect the payment of dividend policy but they may affect the payment of dividend. The factors are listed below.

i Legal Rules

Legal restriction may be limited the amount of dividend. The legal rules provide that dividend must be paid from earnings either from the current year earnings or from past earnings as reflected in the balance sheet account or retained earnings.

a. The Net profits Rule

The net profits rule provides that dividend can be paid from past and present earnings so according to this rule dividend should be paid only out of surplus, so if there is no profit, dividend cannot be legally declared.

b. The Capital Impairment rule

The capital impairment rule protects creditors by forbidding the payment of dividend from capital because it believes that paying dividend from capital would be distributing the investment in a company rather than earnings.

c. The Insolvency Rule

The insolvency rule provides that corporation cannot pay dividend while insolvent (liabilities exceeding assets) to pay dividend under such condition would mean giving stockholders funds that rightfully belong to creditors.

Legal rules are significant in that they provide the frame work within which dividend policies can be formulated within their boundaries, however financial and economic factors have a major influence on policy.

ii. Liability Position

Profit held as retained earning are generally invested in asset required for the conduct of the business so if retained earning from preceding year are already invested in plant and equipment inventories and other assets then there would no cash available, thus even if a firm has record of earnings it would not be able to pay cash dividend because of its liquidity position indeed a growing and profitable firm if it has a pressing need for funds it may elect not to pay cash dividend.

iii. 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 forms of security, or it can make provision for paying off the debt if the decision is to retire the debt, this will generally requires the retention of earning.

iv. Restrictions in Debt Contracts

Debt contracts particularly when long-term debt is involved frequently restrict a firms ability to pay cash dividend. Such restriction 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 signals of the loan agreement that is they cannot be paid when net working capital (current assets minus current liabilities) is below a specific amount similarly, preferred stock agreements generally states that no cash

dividends can be paid on the common stock until all occurred preferred dividends have been paid.

v. Rate of Assets Expansions

If the firm is rapidly increasing then is a greater need of funds for financing assets expansion, the greater the future needs for the funds the more likely the firm is to retain earning rather to pay off as dividend.

vi. Profit Rate

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

vii. Stability of Earning

A firm that has relatively stable earnings is often able to predict approximately what its future earning will be. Such a firm is therefore more likely to payout a higher percentage of its earning than is a firm with fluctuating earnings. The unstable firm is not sure that in future years the hoped earnings will be realized so it is likely retain a high proportion of current earnings. A lower dividend will be easier to maintain if earning fall off in the future.

viii. Access to the capital market

A well established company having high profitability rate and stability in earning has easy access to the capital market and other forms of external financing in comparison to it small firms or new firms however are riskier for potential investors. Its ability to raise equity or debt fund from capital markets is restricted and it must retain more earnings to

finance its operation. A well established firm is thus likely to have a higher dividend payout rate than is a new or small firm.

ix. Control

Another important variable is the effect of alternative source of financing on the control situation of the firm. As a matter of policy some cooperation's expands only the extent of their internal earnings. The policy is defended on the ground that raising funds by selling additional common stock dilutes the control of the dominant group in that company. At the same time, selling debt increases the risk of fluctuating earnings to the present owners of the company payout.

x. Tax Position of the Stockholders

The tax position of a corporations owners generally influences the desire for dividend for example a corporation closely held by a few tax payers owner prefer taking their income in the form of capital gain rather than as a dividend because in capital gain there is low tax compare to cash dividend, so these groups prefer low dividend payout and high retention in the hope of an appreciation in the capital stock of the company.

xi. Tax on Improperly Accumulated Earnings

To prevent wealthy stockholders from using the corporation as an "incorporated pocket book" by which they can avoid high personal income tax rates, tax regulations applicable to corporations provide for a special surtax on improperly accumulated income.

2.1.5 Legal Rules Regarding Dividend Policy

There is nothing stated in Nepal company act,2053 regarding dividend policy. According to corporation act corporation must set a side a certain

part of profit as reserves before the declaration of dividend declaration. There is no one out to protect the shareholders interest in Nepal. According to security exchange act 1983, Nepal stock exchange Ltd .Is the single body to organization is not so able to safe guard the investors interest since interest and attitude of board of directors plays dominant role in the management of public Limit companies and they are generally dividend payment by the government cooperation dated 14th June, 1998.

-) Dividend should be paid in profitable year .though there are commutative losses .Dividend is paid if cash flow is sufficient to distribute divided.
-) In case of unaudited accounts interim dividend should be paid on the basis of provisional financial statement.
-) Dividend rate will not be less than the interest rate on fixed deposit of commercial bank of government, owned. In case of insufficiency of profit amount to distribute dividend in above mentioned rate concerned corporation should send proposal of net distribution rate of finance ministry through liaison ministry and should do what so ever decision is given there of.
-) Those corporation operating in monopoly situation should reply all amounts profits to the government .Except the amount of bonus, take and the amount needed to expand and develop the businesses the amount separated for the expansion and development of business will not be more than 20% of the profit of the year and this amount will not be more then total paid up capital. The amount so separated should all be paid as dividend if it is not use within three years.

-) Decision regarding distribution of annual net profit shall not be made without prior acceptance of finances ministry .All incentives expect those to be paid by low shall not be distributed unless the amount of dividend is not paid to the government.
-) Concerned Board and top management will be held responsible for implementation of these dividend policies.
-) Ministry of finance will make necessary arrangements regarding fixation of dividend percentage coordinating all concerned corporations and ministers.

In company act of India, there are some provisions regarding dividends. They are as follows.

-) Dividend should be paid only out of profit available after providing for depreciation aa per rules and after transferring 10 % or more profits to reserve.
-) Unpaid dividend should be transferred to “Unpaid dividend account” without seven days of expiry of forty two days of dividend declaration. If not the company shall pay on interest at 12% annum.
-) Any unpaid dividend declare before the enforcement of this act should also transfer red to the “Unpaid Dividend Account” within six month from the commencement of this act.
-) Dividend remained unpaid or unclaimed for three years from the date of transfer to general reserve account of the central government . The client may still apply to the government and receive the amount of dividend.

-) On transfer of the un paid dividend to the general account the company must also furnish a statement in the prescribed form setting forth the nature of claims. The names and addresses of the concerned persons, the amount to which each is entitled and the nature of his claim there to.

The provision has guided corporate sector by:

-) Discourage against dividend declaration on the inadequacy of its cash resource.
-) Conserving resources for advancement of business.
-) Accruing payment of declared dividend to its members.
-) Preventing it against any misuse of unclaimed dividends.

2.2 Review of Major Studies in the Relevant Field

2.2.1 Walter's Study

Walter's model is considered as relevant theory of dividend. Walter's had studied about this subject in 1962 where he holds that the choices of dividend policy almost affect the value of the enterprises or in other words a dividend policy cannot be looked aside from investment policy, they both are internal rate of return and cost of capital are determining factors to retain profit or distribute dividends. As long as the internal rate of return exceeds the cost of capital (k) firms should retain all profit. The firm can give more return the investor can earn by investing elsewhere.

Basis assumptions on Walter's models are :

-) The firm finances all investment through retained earnings that is debt & new equity is not issued.
-) The firm's internal rate of return r and k cost of capital are constant.

-) All earnings are distributed as dividends or reinvested internally.
-) There is no change in values of earnings per share and dividend per share.
-) The firm has a very long or infinite life.

Based on the above assumptions, Walter determined the market price per share.

$$P = \frac{\text{Div}}{k} + \frac{\text{Eps} - \text{Dps}}{k - r}$$

$$P = \frac{\text{Div}}{k} + \frac{\text{Dps} + r/k (\text{Eps} - \text{Dps})}{k}$$

Where,

P = market price per share

R = internal rate of return

K = cost of capital

DPS = Dividend per share

EPS = Earnings per share

According to the Walter model, the optimum dividend policy depends on the relationship between the firm's internal rate and cost of capital K. He suggested different dividend policies for different firms based on their growth stage, which is as follows:

Growth firm or $r > k$

Firms having $r < k$ are referred to as growth firms. Growth firms are assumed to have ample profitable investment opportunities. These firms reinvest earnings because they have a higher rate of return than the rate expected by the shareholders. These firms will maximize the value per share if they follow a policy of retaining all earnings for internal investment. Thus, the market value per share (P_0) increases as the payout ratio declines when $r > k$.

Normal firms $r = k$

If the firms have $r = k$ then these firms earn equal to the cost of capital. There is no role of dividend on stock price variation. These firms don't have unlimited investment opportunities with $r > k$. Thus there is unique optimum payout ratio for the normal firms.

Declining Firms $r < k$

When firms don't have any profitable investment opportunities to invest the earning. Such firms would earn on their investment rate of return less than the minimum rate required by investor. These are treated as decline firms. The market value per share of a declining firm with $r < k$ will be maximum when it doesn't retain earning at all. Thus the optimum pay out ratio for declining firm is 100%.

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

Criticism of Walter Model

Walter has assumed that firm is financed all by retained earnings or the investment opportunities of the firm are financed by retained earning so no external sources i.e. debt or equity is used for financing, but this is applicable only to those firms who have financed all capital by equity.

Again he has assumed that (r) and (k) are constant which is real. Rate of return (r) changes with increase and decrease of investment and cost of capital (k) changes with the risk borne by the firm.

2.2.2 Gordon's Study

Gordon's model is similar to Walter's model except it goes one step further and explain that dividend policy affects the values of share even in a situation where the return on investment and require rate of return are equal . He holds that the investors have a strong performance for present dividends to future capital gains under the condition of un certainty. It assumed that current dividends is less risky than the expected capital gain. According to him, market value of share is equal to present value of an infinite of dividends to be received by the share.

His Model is based on the following assumption.

-) The firm is an all equity firm.
-) Internal rate of return (r) and capital (k) are constant.
-) Investor are risk averse.
-) No external financing is available so retained earning would be used to finance for expansion.
-) Discount rate , (k) for the firm remains constant.
-) The corporate taxes do not exit.
-) The firm and its stream of earning are perpetual.
-) The retention ration once decide up on is constant this growing rate $g = br$ is constant.
-) $K > br = g$ to get meaningful value.

Based on above assumption , the formula advance by him is as follows

$$P_0 = \frac{EPS (1-b)}{Ke-br}$$

Where,

- P_0 = Price of a share
- EPS = earning per share
- B = retention ratio

K_e = Capitalization rate

B or g = growth rate

$1 - b$ = dividend payout ratio

In case of growth firms, firms with $r > k$, Share price tends to enhance with increase in retention ratio, b or decrease in payout ratio, $1 - b$. In case of normal firms share price tends constant regardless of changes in retention ratio b and payout share $1 - b$. In case of declining firms share prices tends to enhance with increase in payout ratio $1 - b$ or decrease retention ratio b and payout share $1 - b$. In case of decline firms share prices tends to enhance with increase in payout ratio $1 - b$ decrease retention ratio b .

2.3 Review of Studies in Nepalese Perspective

2.3.1 Review of Articles

2.31.1 Manohar Krishna Shrestha

One articles “ Public enterprises : have they dividend paying ability?” was published in 1981 by Dr. M.K. Shrestha, which gives short glimpses of the dividend performance of some public enterprises of that time in Nepal.

Dr. Shrestha has highlighted following issue in the articles :

HMG expects two things from the public enterprises : (i) They should be in a positive to pay dividend (ii) Public enterprises should be self-supported in financial matters in future years to come, but no of these two objective are achieved by public enterprises.

One reason for this inefficiency is caused by excessive government interfere in day to day affairs .nothing other hand , high ranking officials of HMG appointed as directors of Board do nothing but simply shows

their bureaucratic personalities . Bureaucracy has been the enemy of efficiency and thus led corporation to face losses . Losing corporations are therefore not in a position of pay dividend to government. Another reason is the lack of self –criticism

And self –consciousness. Semen has pointed out that lack of favorable leadership is one biggest constraint to institutional building.

The article point irony about government biasness that government has not allowed banks to follow an independent dividend policy and HMG is found to pressurize dividend payments in case of Nepal bank Ltd , from dividend obligation in spite of considerable profit.

Need of criteria suggested by author :

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

HMG if it wants to tap resources through dividend , following g criteria should be followed.

- (i) Proper evaluation of public enterprises on capability of paying dividend through corporate co- ordination committee.
- (ii) Imposition of fixed rate of dividend by government to sound financially sound public enterprises.
- (iii) Circulating the information to all public enterprises about the Minimum rate of dividend.

- (iv) Specifying performance criteria such as a profit target in terms of emphasis, priorities timing and plans and developing a strategic plan which is not just to must a statement of corporation aspiration but must be done to make those aspiration to reality.
- (v) Identification objective in corporations act, company act or special characters so as to clarify public enterprises managers, regarding their financial obligation to pay dividend to HMG.

Dr. Shrestha has conducted a study to on policy and financial performance of some companies in Nepal (Shrestha Mk “ shareholder democracy and annual general meeting feedback .” Contains paper presented by Dr. sherestha on the occasion of fifth annual meeting of Nepal Arab Bank Ltd. On his article Sherstha has raised the following issues.

-) The cost push initiation at exorbitant rate has made the shareholder to expect higher return from investment.
-) Multiple decrease in the purchasing power of Nepalese currency to the extent that higher return by way to dividend is just a natural economic consequence of it.
-) Indo – Nepal trade and transit dead lock has become a short of economic welfare putting rise in the cost of living index to considerable to expect higher dividend.
-) Erosion in the purchasing power of the Nepalese currency to the extent that higher by way of dividend is just a natural economic consequence it.

-) The waiting of five years with peanut dividend in previous year is equally a strong enforced reason of the banks shareholders to expect handsome dividend already assured and committed in various reports of earlier annual general meeting.
-) One way to encourage risk taking and preference is to have proper risk return trade off by bank management in a way that higher must be the investment rule for higher risk that compromises bank's share holders.

Mr. Shrestha suggested bank management to re think the matter related to payment of dividend in the prevalence of these conditions.

2.3.1.2 Radhe S . Pradhan

Pradhan conducted a comprehensive study on stock market behavior in small capital market (Pradhan R.S “ Stock Market Behaviour in a small market : A case of Nepal “ The Nepalese Management review, 1993) The study was based on data collected for 17 enterprises whose stock are listed in stock market. He categorized these 17 enterprises as smallest, intermediate and largest. His findings were as follows :

-) Stocks with larger ratio of dividend per share to market per share have higher liquidity , lower leverage ratio , higher earnings, high turnover ratios and higher interest coverage's .
-) There is a positive relationship noticed between dividend payout and liquidity, stock paying higher dividend have higher liquidity.
-) There is a negative relationship noticed between dividend payout ratio and leverage ratio, stock with larger dividend have lower leverage ratio.

-) There is a negative relationship noticed between dividend payout ratio and profitability ratio, turn over ratio, interest coverage ratio. Stocks with larger dividend have higher earnings, higher turnover ratio and higher interest coverage.

2.3.1.3 K. D. Manandhar

The main statement of the problem of the study is to set whether Nepalese firms consider the lagged earnings and dividend pay, the dividend in current years . To test this problem he has considered seventeen corporate companies as a sample and set different hypothesis and drawn the following conclusion.

-) There is significant relationship between the change in dividend policy in terms of dividend per share and changed in lagged earning.
-) In over all there is positive relationship between change in lagged consecutive earnings and dividend per share.
-) There is relationship between distributed lag profit and dividend.
-) When change in lagged consecutive earning is greater then zero , 65% the case change in dividend per share.
-) Over all increase in earning per share has result to increase in the earning per share resulted decrease in dividend payment.
-) Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

The different aspects of this thesis work regarding to dividend policy and practices of commercial bank Nabil, Kist and Everest Bank Ltd that have been mentioned in the previous chapters. An introduction relating to this thesis work is made in the first chapter and relevant literatures and reviewed in the second chapter. The “research methodology” which is used to analyze to collected data, are mentioned in this chapter.

This chapter highlight about methodology adopted in the process of present study. It also focus about sources and limitation of data, which are used in the present study. ‘Research Methodology’ is a way for systematically solving the research problem. In other word, research methodology indicates the methods and the processes employed in the entire aspect of the study. ‘Research Methodology’ refers to the various sequential steps to be adopted by researcher in studying a problem with certain objects in view. So it is the methods, steps and guidelines, which are to be followed in analysis, and it is a way presenting the collected data with meaningful analysis.

3.2 Research Design

The research design is of both descriptive and prescriptive nature. For the analytical purpose, the annual reports published by the relatives banks and other publications of the related banks published by Nepal Rasta Bank, Nepal stock exchange Ltd and other related agencies, were collected for the year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10.

3.3 Source of Data

The study is mainly based on secondary data, which are respective annual reports especially from profit and loss accounts, balance sheet and other publications made by the banks. Like wise, some other information are gathered from related banks and other related agencies like Nepal Rastra Bank, Nepal Stock exchange Ltd, Ministry of finance etc.

3.4 Data Processing Procedures

For the purpose of this study, the different data are obtained from different sources, which are scanned and tabulated under different heads. After tabulation, they are analyzed by applying both financial and statistical tools.

3.5 Population and Sample

At present, there are 34 commercial banks operating in Nepal. Due to time and resource factor it is not possible to study all of them regarding the study topic. Therefore sampling will be done selecting from population. The populations are as follows:

Table 3.1: List of Licensed Commercial Banks

S.N.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. in Millions)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya	1966/01/23	Kathmandu	1172.3

	Bank			
3	Agricultural Development Bank. Ltd.	1968/1/02	Kathmandu	9437.5
4	Nabil Bank Limited	1984/07/16	Kathmandu	2029.8
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2409.1
6	Standard Chartered Bank Nepal Limited	1987/01/30	Kathmandu	1398.5
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1600.0
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	1653.6
9	Nepal Bangladesh Bank Limited	1994/06/05	Kathmandu	1860.3
10	Everest Bank Limited	1994/10/18	Kathmandu	1079.6
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	1359.5
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupandehi	1399.6
13	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitwan	1294.5
14	Nepal Industrial &	1998/07/21	Biratnagar,	1311.5

	Commercial Bank Limited		Morang	
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1627.2
16	Kumari Bank Limited	2001/04/03	Kathmandu	1306.0
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1613.5
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	1561.0
19	Global Bank Limited	2007/01/02	Birgunj, Parsa	1473.4
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	1207.0
21	Prime Commercial Bank Limited	2007/09/24	Kathmandu	1210.0
22	Sunrise Bank Limited	2007/10/12	Kathmandu	1625.0
23	Bank of Asia Nepal Limited	2007/10/12	Kathmandu	1500.0
24	DCBL Bank Ltd.	2008/05/25	Kamaladi, Kathmandu	1920.9
25	NMB Bank Ltd.	2008/06/05	Babarmahal, Kathmandu	1651.6
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu	2000.0
27	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Kathmandu	1400.0

28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	1631.0
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi Kathmandu	1400.0
30	Civil Bank Ltd.	2067/08/10	Kathmandu	1200.0
31	Century Commercial Bank Limited	2067/11/26	Kathmandu	1080.0

(Source: List of licensed commercial Banks banking and Financial statistics.)

The sample to be selected are as follows :

1. Nabil Bank
2. Everest Bank

3.6 Period of the Study

The study is based on five years financial data of sample banks (i.e. Nabil bank and Everest bank) from fiscal year 2005/06 to 2009/10.

3.7 Financial Indicators and Variables

The following financial tools have been used in the present study.

1. Earning Per Share (EPS)

Earning per share refer the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholder , it is also identified to measures the profitableness of the shareholders investment. The earning per share simply shows the bank profitability of the banks on a per share basis. The higher earning indicates the better achievement of the profitability of the bank by mobilizing their funds

and vice-versa . in other words , higher earning per share denotes the strength and lower earning per share indicates the weakness of the banks.

EPS is computed to know the earning capacity and to make comparison between concerned banks. This ratio can be computed by dividing the earning available to common shareholders by the total number of common stock outstanding of banks . Thus ,

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

2. Dividend Per Share

Dividend per share indicates the rupee earnings actually measures the distributed to common stockholder per share held by them. It measures the dividend distribution to each equity shareholders.

The DPS simply shows the portion of earning distribution to the shareholders on per share basis. Generally ,the higher DPS creates positive attitude of the shareholder toward the bank, which consequently helps to increase the market value of the shares . and it also works as the indicator of better performance of the bank management.

It is defined as the result received by dividing the total dividend distributed to equity shareholders by the total number of equity share outstanding. Thus,

$$\text{DPS} = \frac{\text{Total amount of dividend paid to ordinary shareholders}}{\text{Number of ordinary shares outstanding}}$$

3. Dividend Percentage (DP)

Dividend percentage is the ratio of dividend per share to the paid-up price per ordinary share. It can be calculated as :

$$DP = \frac{\text{Dividend per share}}{\text{Paid up price per share}}$$

4. Dividend payout Ratio (DPR)

It is the portion of the earning used for the payment of dividend . The dividend payout ratio is the earning paid to the equity holder from the earnings of a firm in a particular year. This ratio shows what percentage is retained as reserve and surplus for the growth of the banks . In other words the amount of dividend that a bank pays depends up on the earning capacity of the bank. Higher earning enhance the ability to pay more dividends and vice versa.

There is a reciprocal relationship between dividends and retained earning. Higher the dividend payout ratio, the lower will be the retained earning and hence the capacity of internal financing of the firm is checked. It is calculated to indicate the percentage of the profit that is distributed as dividend . The ratio is calculated by dividing dividend per share by the earning per share. Thus,

$$DPR = \frac{\text{Dividend per share}}{\text{Earning pers share}}$$

And, retention ratio = (1-Dividend payout ratio)
= (1 - DPR)

5. Price-Earning Ratio / Earnings Multiplier (P/E Ratio)

Price earnings ratio is called the Earnings ratio is multiplier. Price earnings ratio is simply the ratio between market price per share and earning per share. Of In other words , this represent the amount which the investors are willing to pay for each rupee of the firm's earnings.

The P/E ratio measure investor's expectation and market appraisal of the performance of firm . the earning This is important to compare the market share prices of different stocks given their earnings per share . The higher P/E ratio implies the high market share price of stock given the earnings per share and the greater confidence of investor in firm's future . This ratio is computed by dividing earning per share to market price per share. Thus,

$$\text{P/E Ratio} = \frac{\text{Market price per share}}{\text{Earning per share}}$$

6. Earning yield and Dividend Yield (EY and DY Ratio)

The earning yield and dividend yield both are expressed in terms of the market value (price) per share. Earning yield and dividend yield are two important profitability ratios from the point of view of the ordinary shareholders.

Earning Yield (EY)

Earnings per share as the percentage of market price per share in the stock market is called the earning yield. In other words, it is financial ratio relating to earnings per share to the market share price at a particular time. It measures the earning in relation to market value share . It gives some idea of how much an investor might get for his money.

The share with higher earnings yield is worth buying . Earning yield is informative to compare the share price of stocks in the secondary market. It is calculated as:

$$\text{EY Ratio} = \frac{\text{Earning per share}}{\text{Market price per share}}$$

Dividend Yield (DY)

Dividend yield is a percentage of dividends per share on market price per share . It shows that how much is the dividend per share on the market price per share . It measures the dividend in relation to market value of share. So dividend yield is the dividend received by the investor as a percentage of market prices per share in the stock market.

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

$$\text{DV Ratio} = \frac{\text{Dividend per share}}{\text{Market price per share}}$$

7 Market value (prices) per share to book value per share (MPS to BVPS) Ratio

This ratio measures that the market situation per share in the competitive open market with respect to book value per share of joint venture banks . this ratio indicates that the price that the market is paying for the share that is reported from the net worth of the banks.

This is important to compare the market share prices of different stocks on the basis of the book value per share . it shows the market share price of stock as a percentage of book value per share and the effect of later on the former . the higher ratios represent to conclude that the better performance of joint venture banks in term of market price per

share to book value per share. This ratio can be derived by dividing market price per share by book value per share. Thus,

$$\text{MPS to BVPS Ratio} = \frac{\text{Market price per share}}{\text{Book value per share}}$$

8. Return on Net Worth (Shareholder's Equity)

It is a ratio of net profit after tax to net worth. This ratio reflects what percent of owner's capital is on net profit. It indicates how well the bank has used the resources of the owner. It helps to measure the profitability of the owner's investment. It measures the return on total fund belonging to equity holder. The higher ratio implies higher return on equity capital for the time period and profitable position of the company. This ratio can be derived by dividing net worth (preferred and common shareholders equity) to net profit after tax. Thus,

$$\text{Return on Net Worth} = \frac{\text{Net profit after tax}}{\text{Net worth}}$$

3.8 Statistical Tools

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

1. Arithmetic Mean or Average (X)

An average represents a group of values. It depicts the characteristic of the whole group. It is an envoy of the entire mass of homogeneous data.

Generally, the average value lies somewhere in between the two extremes i.e. the largest and the smallest items. It is calculated as follows:

$$\text{Arithmetic Mean, } \bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

$$\bar{X} = \frac{\phi X}{N}$$

Where,

X = Sum of the sizes of the items

N = Number of items

2. Standard Deviation (†)

Karl Pearson first introduced the concept of standard deviation in 1983. Standard deviation is the positive square root of the arithmetic average of the squares of all the deviation measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. Greater the amount of dispersion the greater the standard derivation i.e. greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity the observation as well as homogeneity of a series. Standard Deviation is denoted by a Greek letter 'a' (Sigma) and is calculated as follows.

$$\text{Standard Deviation } (\Xi) = \sqrt{\frac{\phi fX Z \bar{X})^2}{N}}$$

Where,

N= Number of items in the series.

X = Mean

X = Variable

3. Regression Analysis

The concept of regression was first introduced by Francis Galton. Regression refers to an analysis which is involving the fitting of an equation to a set of data points, generally by the method of least square. In other words the regression is a statistical method for investigating relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of helps to predict or estimate the value of one variable when the value of other variables is known. In order to make easier in my study, regression analysis has been divided into two parts.

A. Dividend Per Share on Earning Per Share

$$Y = a + bX$$

Where,

Y = dividend per share

a = Regression constant

b = Regression coefficient

X = Earnings per share

This model has been constructed to examine the relationship between dividend per share (dependent variable) and earnings per share (independent variable). It enables to determine whether the variable of earnings per share is the influencing factor to dividend decision or not.

B. Dividend per Share on Net Profit

The model:

$$Y = a + bx \text{ where,}$$

Y = Dividend per share a = Regression constant
b = Regression coefficient x = Net profit

This model tests the dependency of DPS on Net Profit.

C. Market Price per Share on Dividend Per Share

$$Y = a + bX$$

Where,

Y = Market per share
a = Regression constant
b = Regression coefficient
X = Dividend per share

This model examines the relationship between the market price per share and dividend per share.

D. Net Worth on Dividend Per Share:

$$Y = a + bX$$

Where,

Y = Net worth
a = Regression constant
b = Regression coefficient
X = Dividend per share

4. Correlation Coefficient (r)

The correlation analysis is a techniques used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of

correlation is a number which indicates to what extent two variables are related with each other. Similarly, what extent variations in one lead to the variation in the other?

The value of coefficient of correlation always lies between ± 1 . A value of -1 indicates as perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no variables are uncorrelated. 1 lie closer r is + 1 or -1, the closer the relationship between the variables and closer r is to zero (0), the less close relationship. The algebraic sign of the Correlation coefficient indicates the direction of the relationship between two variables. It may be direct or inverse.

Thus, in the study, the degree of relationship between the market price and other relevant financial indicators such as dividend per share, earning per share, and dividend payout ratio are measured by the correlation coefficient. The correlation coefficient can be calculated as;

$$r = \frac{\text{Cov } f(XY)A}{\Xi_x \Xi_y}$$

$$r = \frac{\phi (X Z \bar{X}) (Y Z \bar{Y})}{(N Z 1) \Xi_x \Xi_y}$$

or,

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

Where,

$\Xi_x \Xi_y$ are the standard deviation of the distributions of X and Y values respectively.

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

$$= \frac{\phi (X Z \bar{X}) (Y Z \bar{Y})}{(N Z 1)}$$

Under this study, the correlation between the following variables is analyzed:

-) Dividend per Share and Earning Per Share.
-) Dividend per Share and Net profit.
-) Dividend per Share and Market price per share.
-) Dividend per Share and Net Worth.
-) Dividend Payout Ratio and Market Price per Share

5. Coefficient of Variation (C. V.)

It is the measurement of the relative dispersion by Karl Person. It is used to compare the variability of two or more series. The series with higher coefficient of variation is said to be more variable, less consistent, less uniform, less stable and less homogenous. On the contrary the series with less coefficient of variation is said to be less variable, more Consistent, more uniform, more stable and more homogenous. It is denoted by C.V. and is obtained by dividing the standard deviation by arithmetic mean. Thus,

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

Where,

g = Standard Deviation

X = Mean

6. Coefficient of Determination

The coefficient of determination is the primary way. We can measure the extent, or strength of the association that exists between two variables, X and Y. R^2 measures only the strength of a linear relationship between two variables. It refers to a measure of the total variance in a dependent variable that is explained by its linear relationship to an independent variable.

The coefficient of determination equals R^2 and the value of R^2 lies between zero and unity, the closer to unity, the greater the explanatory power. A value of one can occur only if the unexplained variation is zero, which simply means that all the data points in the scatter diagram fall exactly on the regression line. The R^2 is always a positive number. It can't tell whether the relationship between two variables is positive or negative. The R^2 is defined as the ratio of explained variance to the total variance. Thus,

$$\text{Coefficient of determination } (R_2) = \frac{\text{Explained variance}}{\text{Total variance}}$$

$$\text{or } (R_2) = 1 - \frac{\text{Unexplained variance}}{\text{Total variance}}$$

In correlation and regression analysis, following statistics has been calculated and interpreted accordingly.

- 1. Multiple R:** It is the correlation coefficient between observed values and values given by the model. The values close to 1 is preferable, since it indicates that the values are closely related.

2. **Standard Error of Estimate (SEE):** It is likely an error in predicted values given by the model. Smaller SEE is desirable, since it denotes lower degree of error.
3. **Regression Co-efficient (b):** It describes how the changes in independent variables affect the values of dependent variable's estimate.
4. **Regression Constant (a):** The regression constant (a) indicates the average effect on depend variable, if all the independent variables are omitted from the model.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

Dividend policy is a major decision of the firm during to its decision of dividing net. Earning into two parts : the retained earnings and dividends and it impact upon value of the firm. The study contains different objectives, which have already mentioned in the previous chapter. In order to fulfill these objectives, the study attempts to analyze the secondary data regarding dividend policy to joint venture Banks .The analysis includes several tools and techniques such as statistical and financial indicators as well as the attitude of management towards the optimum decisions . this presentation and interpretation of financial statement is done here to determine the meaning of financial data. Some graphs and diagrams are also used to highlights the company's DPS, EPS and NPAT trend over the five years period.

4.1 Analysis of the financial tools (indicators)

4.1.1 Earnings per share (EPS)

Normally, the performance and achievement of a business organization are measured in terms of their capacity for generating earnings. Higher earnings indicates the strength and lower earnings denotes the weakness of business organization . Earnings per share are calculated by dividing the net profit after taxes (NPAT) by the total number of common share outstanding. EPS is the measurement of good and bad performance of institutions. For instance, higher EPS shows the good performance and lower EPS shows the weak performance. As a result, EPS the achievement of the institutions are measured with the help of it s capacity

to generate higher earnings per share. Therefore , higher EPS is the important financial tools (factor) of business organization to achieve its goal and objectives. The earnings per share of the bank under study are tabulated as follows:

Table 4.1.1: Earning Per Share of Banks under Study

Banks	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	St. Dev.	C.V.
Nabil	141.13	149.3	143.5	143.55	175.84	139.66	22.20	14.46
EBL	9.61	11.47	14.25	13.29	18.27	21.79	12.75	58.51

The EPS of Nabil Bank ranges between Rs. 175.84 and Rs. 105.68 during the period of the study . In this period, the average EPS or mean is Rs. 139.66. The standard deviation of the EPS under the period of the study is 20.20. The coefficient of variation (c.v.) of this bank is 14.46% on EPS. It indicates that there is 14.46% function in Eps among the given 5 years.

During the period of study EVEREST bank has an average has an average EPS of RS21.79 with a standard deviation of 12.75. The EPS range within 49.17 to 8.68. The coefficient of variation is 58.51% which shows that there is highly fluctuated in EPS of the Bank.

Finally , EPS of commercial bank in Nepal seems to be positive. The average EPS of Nabil Bank LTD is higher then Everest bank. The EPS range of banks under study during this period is between Rs 175.84 to 8.68 similarly, the standard deviation of Nabil Bank LTD is higher then Everest bank. The coefficient of variation of these banks shows that there is fluctuation in the EPS. If we compare the entire banks, Nabil bank has the most consistent EPS between both sample bank.

4.1.2 Dividend per share (DPS)

Dividend per share indicates the proportion of earning distributed to owner (shareholder) on per share basis. Generally, higher DPS creates positive attitude among the shareholders towards the bank, which accordingly helps to increase the market value of shares. The dividend per share of the banks under study are stated in the table below.

Table 4.1.2: Dividend Per Share of Banks under Study

Banks	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	St. Dev.	C.V.
Nabil	100	110	110	120	130	101	20.25	22.5
EBL	0	8	0	0	0	7.3	6.24	85.48

Mean DPS of Nabil Bank Ltd is Rs 90 with the standard deviation of 20.25. the highest and lowest DPS are Rs 1.30 and 70 respectively. The coefficient of variation is 22.5% this indicates that there is less fluctuation in the DPS of Nabil bank during the period of study.

Everest bank has an average DPS of rs 7.3. The highest DPS IS RS !5 . The standard deviation of DPS is 16.47 . The standard deviation is 6.24 and coefficient of variation is 85.48% the cv indicates the DPS of Everest bank is highly fluctuating.

From the above calculation, Nabil bank Ltd has the higher average DPS and Everest bank has the lowest. The cv indicates that between the bank under study during period , Nabil bank has the highest consistency in paying dividend whereas DPS of Everest is highly fluctuating.

4.1.3 Dividend Payout Ratio (DPR)

This ratio shows the amount of dividend as a percentage of earning available for equity share. It depends upon earnings of organization.

Greater the earnings is the more ability to pay dividend. The DPR of the banks under study are stated in the table as follows.

Table 4.1.3: Dividend Payout Ratio of Banks under the Study

Banks	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	St. Dev.	C.V.
Nabil	70.86	73.68	77.08	83.59	73.93	72.84	10.31	14.15
EBL	0	69.75	0	0	0	27.14	29.02	106.9

The average DPR of Nabil bank Ltd is 72.84. it means the Nabil bank generally pays 72.84% of its total earning as dividend to its shareholders. The standard deviation of DPR is 10.31. The coefficient of variation is 14.15 % which indicates that there is only about 14.15% fluctuation in DPR of the bank over the years.

An average DPR of 27.14% of Everest bank indicates that Everest bank Ltd generally pays out 27.14 % of its earnings as dividend. The standard deviation is 29.02 and coefficient of variation is 106.9% the cv indicates that the DPR of Everest bank Ltd is highly fluctuated during the period of study.

The above calculation shows that Nabil Bank Ltd has the highest mean DPR and it also has the lower Cv on DPR. It shows that Nabil bank has the uniform dividend payments. On the other hand, the cv of Nabil bank is high which indicates high oscillation in their DPR . if analysis is done taking the mean DPR of the sample banks, the average dividend Payout ratio of the sample banks comes out to 55.5 with a standard deviation of 15.02 and cv of 43.22%. It indicates that , in average , out of the total earnings made 55.5% is distributed as dividend to the shareholders with fluctuation of 43.22%.

4.1.4 Market Price Per Share (MPPS)

Mpps is the price of share on which shares are traded in the secondary market. Thus, this price is fixed in the stock market based on demand supply position for a specified share. Higher MPPS is more desirable. The average market price per share of the banks under study is presented in table as follows.

Table 4.1.4: Market Price Per Share of Banks under Study

Banks	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	St. Dev.	C.V.
Nabil	1550	1640	1745	2845	3775	1873.6	887.85	55.87
EBL	401	255	307	335	612	598.9	388.13	64.81

The average of closing MPPS of Nabil bank Ltd. (Nbl) during the period of study is Rs 1589.1 with a standard deviation of 887.85 and a coefficient of variation of 55.87%

During the period of study, Everest bank Ltd has an average closing MPPS of RS. 598.9 with a standar deviation of 388.13. the coefficient of variation shows that there is fluctuation of 64.81 % in closing MPPS Of EVEREST bank.

Finally , the average MPPS of Nabil is higher than other banks . so this bank is in good position but the average MPPS of all sample Commercial banks are considered to be encouraging. Almost all bank's MPPS of Nabil have lower coefficient of variation. The MPPs of sample banks have fluctuated in range of 50.57% to 64.81% as indicated by respective CV of the different samples banks.

4.1.5 Price Earnings Ratio (P/E Ratio)

Price earnings ratio is between market price per share and the earnings per share. It is also known as earning multiplier. The price- earnings ratio of the banks is presented in table below.

Table 4.1.5: Price Earnings Ratio of Banks under Study

Banks	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	St. Dev.	C.V.
Nabil	10.98	10.98	12.16	16.34	21.47	12.98	4.64	35.75
EBL	41.72	22.23	21.54	25.21	33.5	40.51	45.3	118.82

The average P/E Ratio of Nabil bank Ltd, during this period of study is 12.98. it is within the range 21.47 and 6.35. the standard deviation of P/E ratio is 4.64 where as the coefficient of variation of 35.75% indicates the fluctuating nature of P/E ratio in Nabil Bank Ltd.

Everest has an average P/E ratio of 40.51, ranging between 172.86 and 8.95 during the period of study. The standard deviation of 45.3 and the fluctuation of 118.82% in the P/E ratio are seen during this period, which is very high.

From above calculation, Everest has the highest average P/E ratio and Nabil has the lowest. The CV indicates between the banks under studying period Nabil has the highest consistency in P/E ratio of Everest is highly fluctuating.

4.1.6 Earning Yield (EY)

Earning Yield is the percentage of earning per share to market price per share in the secondary market. It gives an idea of how much an investor might get for his money. The share with higher earnings yield is worth

buying. Earnings yield of the bank under the study is presented in table below.

Table 4.1.6: Earning Yields of Banks under Study

Banks	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	St. Dev.	C.V.
Nabil	8.96	9.1	8.22	5.05	4.66	8.8	3.76	42.7
EBL	2.38	4.49	4.64	3.97	2.99	4.92	3.15	64

The average of EY of 8.8 with the standard deviation of 3.76 is seen for Nabil bank Ltd (NBL). The highest and lowest EY are 15.75% and 4.66% respectively. The coefficient of variation is 42.7% during the period of study.

The average EY of Everest bank Ltd is 4.92%. the standard deviation is 3.15% and coefficient of variation is 64% . the CV indicates that the EY of Everest is quite fluctuating.

From the above calculation, Nabil has the highest average EY and Everest has the lowest. The CV indicates between the banks, during the period of study, whereas the earning yield of Everest is highly fluctuating.

4.1.7 Dividend Yield (DY)

Dividend Yield is the percentage of DPS on MPPS. It measures the dividend in relation to market value of share. It is the dividend received by the investors as a percentage of market price per share in the stock market. This ratio highly influences the market price per share because small change in dividend per share can bring effective change in the market value of share. The dividend yields of the banks under the period of the study are presented in table given below.

Table 4.1.7: Dividend Yields of Banks under Study

Banks	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	St. Dev.	C.V.
Nabil	6.71	6.3	4.22	3.44	3.44	6.05	1.61	26.61
EBL	0	3.14	0	0	0	1.7	1.88	110.59

The dividend yield of Nabil Bank Ltd (NBL) is range between 8.57% and 3.44 % during the period of study. During this period , the average DY is 6.05%. The standard deviation DY of Nabil under the period of study is 1.61. The CV is 26.61% indicates that the fluctuation of DY of Nabil is lowest.

During the period of study Everest bank Ltd (EVL) has an average DY of 1.7% with standard deviation of 1.88. The DY ranges between 4.85 % and 0%. The coefficient of variation shows that there is a fluctuation of 110.59 % in DY of Everest.

From the above data and calculation , it can be said that the average DY of Nabil is the highest and Everest is the lowest. The DY range of the bank during the study period is between 10 % and 0 %. Similarly, the standard deviation of Nabil is the highest and Everest is the lowest. The coefficient of variation of these banks shows a high level of fluctuation in DY. In comparison, Nabil has the most consistent DY between banks.

4.2 Company wise analysis

4.2.1 Nabil Bank Ltd.

Table 4.2.1 Financial Variables of (NBL)

Variables	Mean	Max.	Min.	C.V. (%)
EPS	139.84	175.84	105.68	14.46
DPS	101	130	70	22.5
DPR	72.84	86.49	54	14.15
MPS	1873.6	3775	840	55.87
P/E Ratio	12.98	21.47	6.35	35.75
EY	8.8	15.75	4.66	42.7
DY	6.05	8.57	3.44	26.61

EPS and DPS of NABIL have ranged between Rs 175.84 to 105.68 and Rs. 130 to Rs.70 respectively. The average is Rs.139.84 and Rs. 101 respectively. Average DY of the bank is 6.05% and its C.V. is 26.61 %, which indicates that the dividend yield of this bank is slightly low. The average DPR shows that this bank distributed 72.84% of its profit to shareholders and remaining are retained and its coefficient of variation is 14.15% over the year. The average MPPS and EY are RS.1873.in6 and 8.8 times respectively .their coefficients of variation are accordingly 55.87 and 42.7.

4.2.2 Everest Bank Ltd.(EBL)

Table 4.2.2 Financial Variables of EBL

Variables	Mean	Max.	Min.	C.V. (%)
EPS	21.79	49.17	8.68	58.51
DPS	7.3	20	0	85.48
DPR	27.14	71.58	0	106.9
MPS	598.9	1500	255	64.81
P/E Ratio	40.51	172.86	8.95	118.82
EY	4.92	11.18	0.58	64
DY	1.7	4.85	0	110.59

DPS of EVEREST has ranged from Rs. 20 to Rs.0 and average DPS is Rs. 7.3. The C.v. of its DPS is 85.48% , which indicates 85.48% fluctuation in its average value. The average DPR is 27.14 and Its C.V. is 106.9, which are seen very highly fluctuation the average dividend yield is 1.7% and its C.V. indicates 10.59% fluctuation. The bank's average EPS is RS.21.79 and its C.V. is 58.51% The MPPS of the bank has ranged from Rs. 1500 to 255, average is Rs. 598.9, and its C.V. is 64.81%.

4.3 Correlation Analysis

Table 4.3 Correlation Analysis.

Banks	Variables	Correlation with			
		EPS	NP	MPPS	NW
Nabil	DPS	0.59	0.90	0.88	0.89
	DPR	-	-	0.5564	-
EBL	DPS	0.87	-0.20	0.049	-0.73
	DPR	-	-	-0.1474	-

The correlation coefficient measure the relationship between the two variables. It also measure the extent to which one variable affect the another one. The correlation coefficients lies between +1 and -1 . The +1 coefficient indicates that the correlation between DPS and all variables and DPR with MPPS of NABIL is positive. This indicates that if EPS is increased DPS may also increased for this bank. Likewise, if NP is increased , DPS is also increased. Similarly, if Dps is increased MPPS and NW are also increased. The correlation between DPR and MPPS of this bank indicates that when dividend payout ratio is decreased, the MPPS increase vice versa.

Everest's DPS is positively correlated with EPS, NP and NW. The relationship between DPS with MPPS and DPR on MPPS are negative with clarify that if DPS of Everest bank is increased, The EPS, NP and NW will be also increased. But DPS of this bank has negative relation with MPPS, due to such relationship between variables. If DPS increased MPPS of the bank will decrease. The correlation between DPR and MPPS of this bank indicates that, when dividend payout ratio is increased, the MPPS will be decreased vice – versa.

4.4 Regression Analysis

4.4.1 Simple Regression Analysis

4.4.1.1 Regression Analysis : DPS on EPS

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under the study. Regression analysis helps us to know the relative movement in the variables study. The regression result of dividend per share or earnings per share ,dividend per share or net profit, net worth or dividend per share are presented in the following tables.

Table 4.4.1.1: Regression analysis :DPS on EPS under study

Banks	a	b	SE	R ²	T
Nabil	31.78	0.496	15.08	0.3481	2.61
		(0.113)			
EBL	-0.1085	0.67	2	0.945	1172
		(0.026)			

Note :

$$) \text{ DPS} = a + b\text{EPS}$$

Values in indicates standard error of regression coefficient 'b'

In the regression analysis of DPS on EPS , beta coefficient 'b' should be interpreted. The value of beta coefficient of Nabil and Everest are 0.496 and 0.49 respectively. All the beta coefficient of bank is positive. Positive beta Coefficient indicates that one rupee increase in EPS lead to increase in DPS beta value if other variables remain constant.

The variation explained by EPS to DPS is indicated by the value of R². R² of the two selected banks are 0.3481 ando.76 respectively. The standard

error of estimate of Nabil and Everest Bank are 15.08 and 4.65 respectively. These values indicates the possible error in the predictive value for respective banks.

4.4.1.2 Regression analysis : DPS on NP

Table 4.4.1.2 Regression analysis : DPS on NP under the study.

Banks	a	b	SE	R ²	T
Nabil	43.67	0.13	3.27	0.81	5.84
		(0.0087)			
EBL	16.76	0.10	10.86	0.757	4.99
		(0.008)			

Note :

$$) \text{ DPS} = a + bNE$$

) Values in () indicates standard errors of regression coefficient 'b'.

According to the above regression results of DPS on NP, regression coefficient (b) is positive of Nabil and negative for Everest Bank. It indicates that these on million increase in total earnings leads to an average of Rs.0.13 increase in DPS, keeping other variables constant.

The coefficient of multiple determinations (R²) is the lowest of Everest (0.04) which indicates that only 4% in DPS is explained by Np i.e. 4% variation in DPS of the bank. The value of R² of NABIL was 0.81. This indicates that 81% of dividend variation can be explained by net profit variable of the respective banks. The standard error of estimate of NABIL and EVEREST are 3.27,8.87 respectively. These values indicate the possible error in the predict the value for the respective banks.

4.4.1.3 Regression analysis : NW on DPS

Table 4.4.1.3 Regression analysis NW on DPS under the study

Banks	a	b	SE	R ²	T
Nabil	-272	14.63	139.58	0.7921	5.52
		(2.6)			
EBL	831	3.26	128	0.2116	1.46
		(2.56)			

Note :

) $NW=a+bDPS$

) Values in () indicates standard errors of regression coefficient 'b'

The above table of regression result of net worth (NW) on dividend per share (DPS) is concerned, regression co-efficient (b) is positive in NABIL and EVEREST . On the other hand one Rupee increase in DPS lead to the average about Rs.14.63 and 3.62 increase in net worth of the NABIL and EVEREST only if other variables remain constant. The value of R² of NABIL of dividend variation can be explained by DPS of the respective banks.

4.4.1.4 Regression Analysis: MPPS on DPS

Table 4.4.1.4 Regression analysis MPPS on DPS under the study

Banks	a	b	SE	R ²	T
Nabil	-2541.1	43.71	440.6	0.774	5.31
		(8.20)			
EBL	-190	24.09	414.74	0.5329	4.42
		(7.96)			

Notes:

) $MPS=a+bDPS$

) Values in() indicates Standard errors of regression coefficient 'b'

The regression analysis between MPPS and DPS shows a positive relation between MPPS and DPS between banks. In NABIL, the regression relation between MPPS and DPS is highest, which indicate that with an increase of Rs. 1 in DPS, the MPPS will increase by RS. 43.72, assuming that other variable held constant.

The coefficient of multiple determination (R^2) is low for EVEREST (0.0024) which indicates that only 0.24% in MPPS Explained by DPS i.e. 0.24% variation in MPPS of the bank. The value of multiple determinations (R^2) of NABIL and EVEREST are

0.774 and 0.5329 respectively, which indicates that 77.4% and 53.29% variation in MPPS of these banks are explained due to change in DPS of respective banks.

4.4.2 Multiple Regression Analysis

Multiple regressions are defined as the statistical device, which is used to estimate the values of two or more independent variables are known or given. In multiple regression analysis , two or more independent variables are used predict the value of a dependent variable , it is a statistical technique for investigating the relationship between one dependent variable and a set of two or more independent variables. This part of the study is designed to examine the linear relationship between DPS, EPS and MPS.

4.4.2.1 Regression of MPS ON DPS and EPS

Multiple Regression Equation: $X_1 = a + b_1X_2 + b_2X_3$

Table 4.4.2.1 Multiple Regression of MPS on DPS and EPS

Banks	Regression Coefficient						
	a	b ₁	b ₂	R ²	SE	F	F Sig.
Nabil	-2236.939	46.795	-4.409	0.788	462.83241	13.010	0.04
	(1076.167)	(10.642)	(8.941)				
	[-2.079]	[4.397]	[-0.493]				
EBL	505.134	-18.19	10.397	0.038	454.93	0.139	0.872
	(290.892)	(35.709)	(20.339)				
	[1.737]	[-0.509]	[0.381]				

Note:

-) Market price per share, Dividend per share and Earning per share are denoted by X₁, X₂ and X₃
-) Values in () represent standard error of coefficient.
-) Values in [] represent t- value.
-) Critical value of F-statistic is provided in Appendix.

In the equation, X₁ indicates dependent variables i.e. MPS, where as X₂ and X₃ are DPS and EPS respectively, b₁ and b₂ are constants. When DPS and EPS changes negatively or positively, it directly affects MPS, which is dependent on these variables. In above case, the coefficient to beta on DPS related in Everest bank are negative. The beta coefficient on EPS related in EVEREST is negative and rest over have positive beta coefficient. Fr NABIL the value of multiple coefficient of determination (R²) 0.788 i.e. 78.8% which shows that out of total variation in market price, 78.8% variation, can be explained by the independent variables of the given regression. The tabulate value at the rate of 5% level of significance and at degree of freedom is 2.57. Where as calculated t- value of DPS is 4.397, which is greater than tabulated t-value. Calculated

t-value of EPS is -0.493, which is less than t-tab. Therefore, DPS is significant variable and independent variables DPS. Likewise, in EPS, calculated t-value is less than t- tab so H_0 is accepted which indicates that it is not significant.

According to F- value, the tabulated value of F is 19 at 5% level of significant and the F-cal is 13.010 which is less than that of F-tab. This shows that is not significant and H_0 is accepted. There is no relationship between dependent and all explanatory variables. In another words, from above table it shows that is significant only at 0.04. The standard error of estimate is 462.83241, which is significant that depicts the closeness of estimates derived from the regression equation to actual observed values. In context of Everest, the dividend per share shows the low degree of relationship which is $b_1=18.19$, which indicates that Rupee on increase or decrease in DPS will lead to increase or decrease of 18.19 in MPS. The coefficient of EPS shows -4.409 which is negative. The t-values are -0.509 and 0.139, which is less the F-tab. That signifies the estimated equation is not significant. R^2 is 3.8% can be explained by the independent variables of the given regression and rest over due to other factor.

4.4.2.2 Multiple Regressions of MPS on NW and EPS

Multiple Regression Equation: $X_1 = a + b_1X_2 + b_2X_3$

Table 4.4.2.2: Multiple Regressions of MPPS on NW and EPS

Banks	Regression Coefficient						
	a	b ₁	b ₂	R ²	SE	F	F Sig.
Nabil	-1038.395	- 14.046	59.552	0.596	639.212645	5.156	0.042
	(1414.446)	(5383)	(18.573)				
	[-0.734]	[- 2.609]	[3.206]				
EBL	-1843.961	16.493	-4.624	0.475	336.24998	3.162	0.105
	(981.4)	(6.577)	(7.855)				
	[-1.879]	[2.508]	[-0.589]				

Notes:

) Market price per share , Net Worth and earnings per share are denoted by X_1 , X_2 and X_3 respectively.

) Values in () represents standard error of coefficient.

) Values in [] represent t-value

) Critical values of F-statistics are provided in Appendix.

In above equation, X_1 indicates MPS, which is dependent on other independent variables NW and EPS, which are indicated by X_2 and X_3 . a_1, b_1 and b_2 are constants.

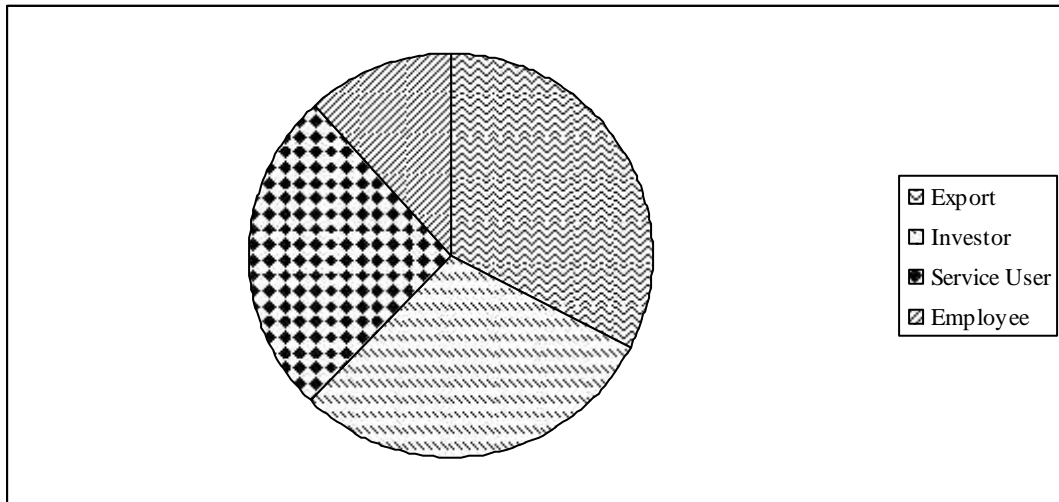
When EPS and NW fluctuate, it directly affects MPS. In above cases, the co-efficient of beta on NW related in Nabil and EVEREST are negative. In case of NABIL , the value of multiple coefficient of determination (R^2) is 0.596, which shows that independent variable NW and EPS explain

59.6% variation to the dependent variables. The calculated value of t is -2.609 and 3.206 when as t - tab and H_1 is accepted. The F cal is 5.156 where as F tab at 5% level of significance is 19, which shows that F cal is less than F tab. H_0 is accepted which mean it is not significant. In other words, F value is significant only at 0.042 that means there is no linear relationship between dependent variables MPS and Independent variables NE and EPS. The standard error estimate is 639.21264, which depict the closeness of estimates derived from regression of equation to actual observed values.

In context of EVEREST bank the coefficient of b_1 and b_2 are 16.493 and -4.624 which shows that increases or decreases in Rupee one in NW and EPS leads to increase or decrease of 16.493 and -4.624 in MPS. The value of R_2 is 0.475, which depict that 47.5 percent is explained by independent variable NW, and EPS and rest percent age of variation is affected by other variables. The calculated t -values of b_1 and b_2 are 2.508 and 0.589 where as tabulated t -value at 5% level of significant only at 0.105 in other words, since F cal is less than F tab it is not significant and H_0 is accepted. There is no relationship between dependent and all explanatory variables.

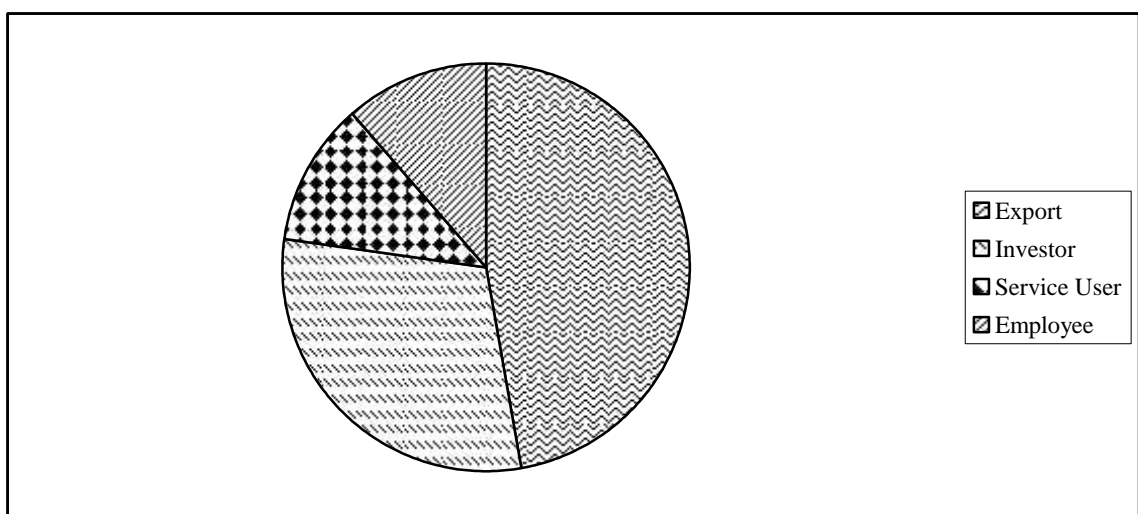
4.5 Primary Data Analysis

Q.No.1 . Is the bank practice comprehensive dividend policy?



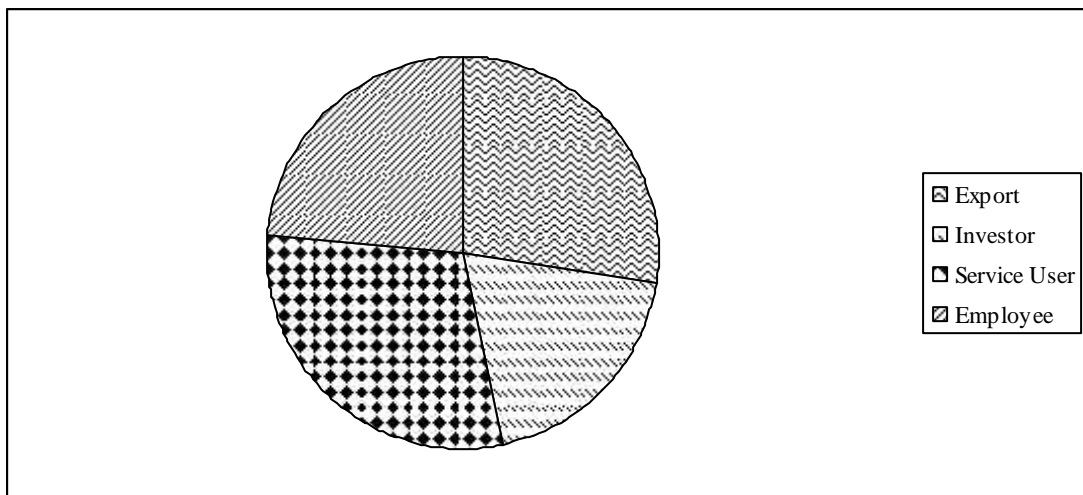
From the analysis of the pie-chart presented above it is found that 31 % of the total respondent strongly agrees to the statement, 22.5% are moderately agree, 18% are disagree with the statement, 8% are strongly disagree and 20.5% says they don't know about statement.

Q.No.2. Do you think the current political situation affects the dividend policy of commercial bank?



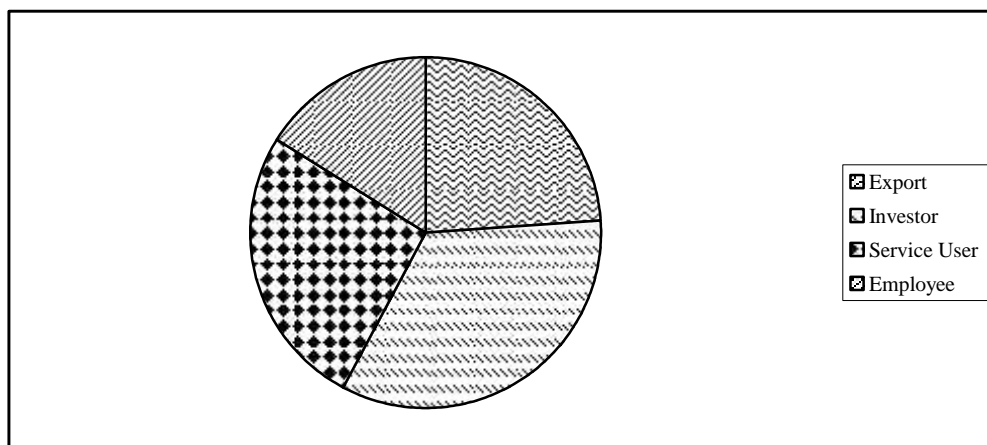
From the analysis of the pie-chart presented above it is found that 38.5% of the total respondent strongly agree to the statement, 29% are moderately agree, 7% are disagree with the statement, 7% are strongly disagree and 18.5% says they don't know about the statement.

Q.No.3. Do you think the degree of risk associated with the commercial bank will also increase in dividend per share. ?



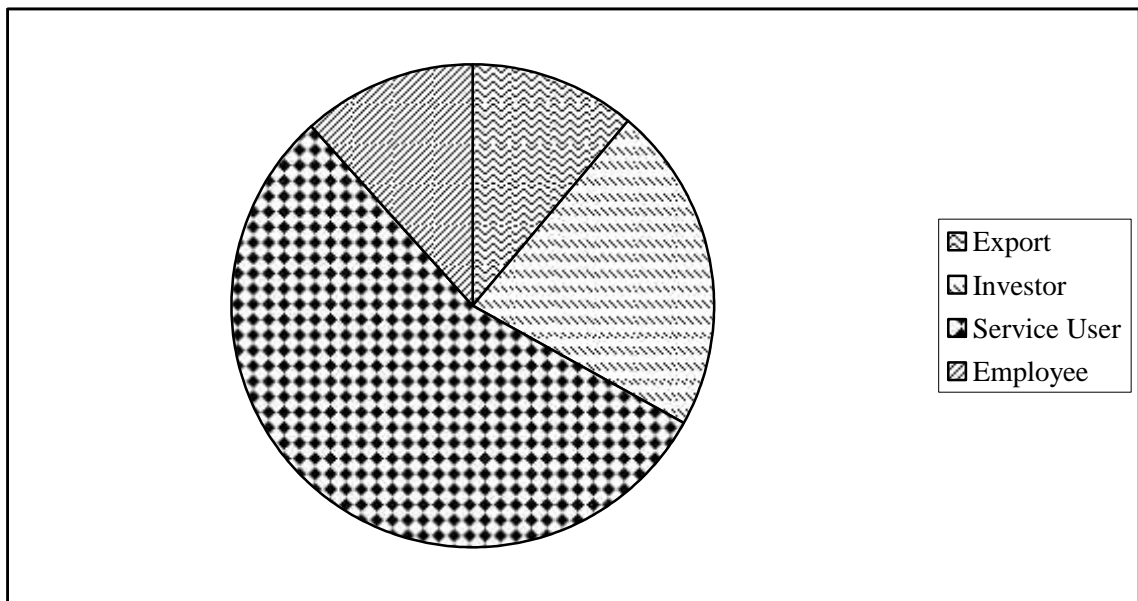
From the analysis of the pie-chart presented above it is found that 13% of the total respondent strongly agree to the statement, 16.5% are moderately agree, 26% are disagree with the statement, 20.5% are strongly disagree and 24% says they don't know about the statement.

Q.No.4. Do you think the dividend influences the liquidity position and share price of commercial bank?



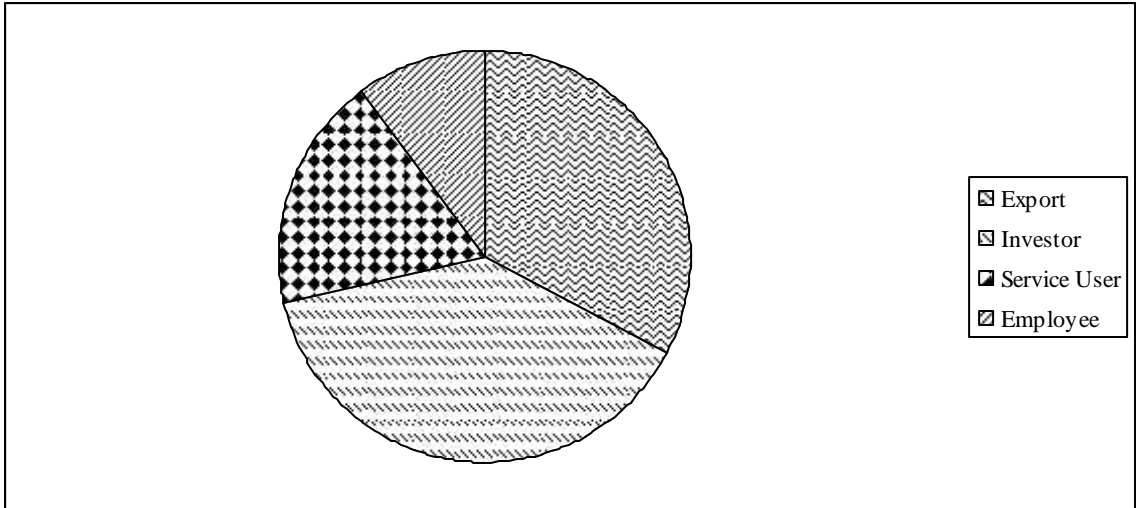
From the analysis of the pie-chart presented above it is found that 29% of the total respondent strongly agree to the statement, 24% are moderately agree, 17% are disagree with the statement, 11.5% are strongly disagree and 18.5% says they don't know about the statement.

Q.No.5. Do you have any idea as to how far the present dividend policy is effective?.



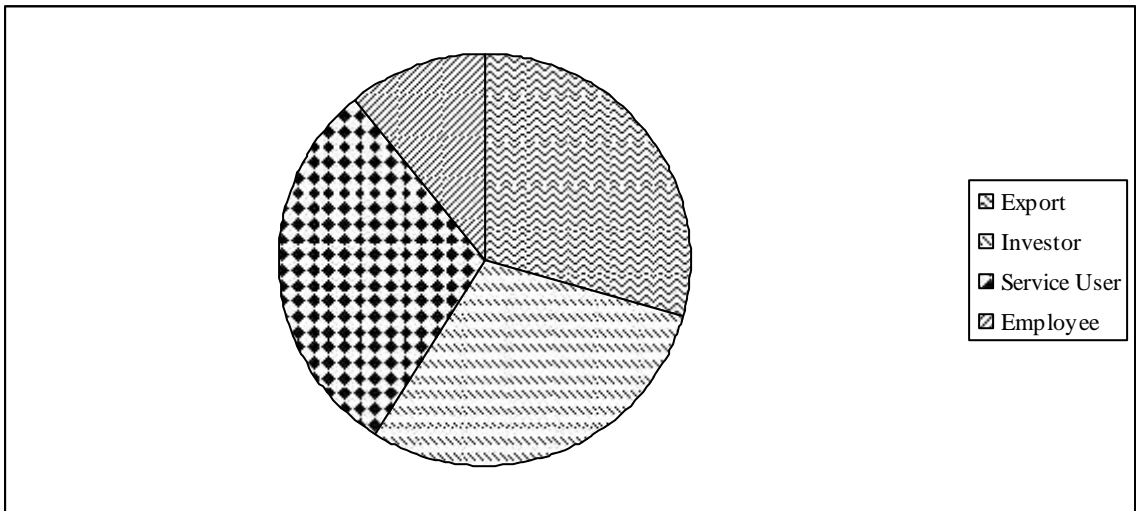
From the analysis of the pie-chart presented above it is found that 23% of the total respondent strongly agree to the statement, 42.5% are moderately agree, 9% are disagree with the statement, 8.5% are strongly disagree and 17% says they don't know about the statement.

Q.No.6. Do you think the government policy affect the dividend policy of commercial bank?



From the analysis of the pie-chart presented above it is found that 26.5% of the total respondent strongly agree to the statement, 28.5% are moderately agree, 13.5% are disagree with the statement, 7.5% are strongly disagree and 24% says that they don't know about the statement.

Q.No.7. Do you think the dividend policy by commercial bank is in optimal level?



From the analysis of the pie-chart presented above it is found that 22% of the total respondent strongly agree to the statement, 23% are moderately agree, 23.5% are disagree with the statement, 8.5% are

strongly disagree and 23% says that they don't know about the statement.

Q.No. 1 . Does the bank practice comprehensive dividend policy?

	SA	MA	DA	S.D.A	D.N.	Total
Export	25	10	8	5	2	50
Investor	15	7	3	2	3	30
Service User	10	20	15	5	20	70
Employee	12	8	10	4	16	50
	62	45	36	16	41	200

Chi-square cal (χ^2 Cal) = 34.454

The tabulated value of chi-square at 5% level of significance for (5-1) (4-1) d.f. is 21.026.

From the analysis of different respondents view, since chi-square calculation is greater than tabulated value so alternative hypothesis is accepted and that the bank practices comprehensive dividend policy. It means the dividend policy of commercial bank is in satisfactory.

Q.No.2. Do you think the current political situation affect the dividend policy of commercial bank?

	SA	MA	DA	S.D.A	D.N.	Total
Export	30	10	2	3	5	50
Investor	12	13	1	2	2	30
Service User	27	23	7	3	10	70
Employee	8	12	4	6	20	50
	77	58	14	14	37	200

Chi-square cal (χ^2 Cal) = 35.58

The tabulated value of chi-square at 5% level of significance for (5-1) (4-1) or 12d.f is 21.026.

From the analysis of different questioner filled by the respondents, it is found that current political situation affect the dividend policy of commercial bank. Since chi-square calculation is greater than tabulated value so the alternative hypothesis is accepted. This means favorable political situation helps to make satisfactory dividend policy of commercial bank and vice-versa. Q.No.3. Do you think the degree of risk associated with the commercial bank will also increase in dividend per share.?

	SA	MA	DA	S.D.A	D.N.	Total
Export	5	10	21	11	3	50
Investor	8	3	12	2	5	30
Service User	7	11	14	16	22	70
Employee	6	9	5	12	18	50
	26	33	52	41	48	200

Chi-square cal (X^2 Cal) = 34.82

The tabulated value of chi-square at 5% level of significance for (5-1) (4-1) or 12 d.f is 21.026.

From the analysis of different respondent view, since chi-square calculation is greater than tabulated value so that alternative hypothesis is accepted. It means that the degree of risk associated with the commercial bank will also increase in dividend policy per share.

Q.No.4. Do you think the dividend influences the liquidity position and share price of commercial bank?

	SA	MA	DA	S.D.A	D.N.	Total
Export	20	15	7	6	2	50
Investor	7	15	3	2	3	30
Service User	15	10	20	5	20	70
Employee	16	8		10	12	50
	58	48	34	23	37	200

Chi-square cal (X^2 Cal) = 42.64

The tabulated value of chi-square at 5% level of significance for (5-1) (4-1) or 12 d.f is 21.026.

The view of export, investor, service user and employee are analyzed for identifying. Since chi-square, calculation is greater than chi-square tabulated value so that alternative hypothesis is accepted. From the analysis, it drew the conclusion that the dividend influences the liquidity position and share price of commercial bank.

Q.No.5. Do you have any idea, how far the present dividend policy is effective.

	SA	MA	DA	S.D.A	D.N.	Total
Export	10	30	5	3	2	50
Investor	9	16	2	1	2	30
Service User	23	27	3	7	10	70
Employee	4	12	8	6	20	50
	46	85	18	17	34	200

Chi-square cal (X^2 Cal) = 46.97

The tabulated value of chi-square at 5% level of significance for (5-1) (4-1) or 12 d.f is 21.026.

From the analysis of different questioner filled by the different respondent it is analyzed the effective of dividend policy of commercial bank. Since chi-square, calculation is greater than chi-square tabulated value so that alternative hypothesis is accepted. This means the present dividend policy is effective.

Q.No.6. Do you think the government policy affect the dividend policy of commercial bank?

	SA	MA	DA	S.D.A	D.N.	Total
Export	17	13	6	2	12	50
Investor	12	8	3	4	3	30
Service User	16	14	10	5	25	70
Employee	8	22	8	4	8	50
	53	57	27	15	48	200

Chi-square cal (X^2 Cal) = 22.25

The tabulated value of chi-square at 5% level of significance for (5-1) (4-1) or 12 d.f is 21.026.

From the analysis of different respondent view, the effect of government policy in formation of dividend policy is analyzed. Since chi-square, calculation is greater than chi-square tabulated value so that alternative hypothesis is accepted. This means government policy affect the dividend policy of commercial bank.

Q.No.7. Do you think the dividend policy by commercial bank is in optimal level?

	SA	MA	DA	S.D.A	D.N.	Total
Export	10	25	2	5	8	50
Investor	3	15	3	2	30	30
Service User	15	10	20	5	20	70
Employee	12	8	10	4	16	50
	44	46	47	17	46	200

Chi-square cal ^(x²) Cal) = 47.28

The tabulated value of chi-square at 5% level of significance for (5-1) (4-1) or 12 d.f is 21.026.

Since X^2 Cal = 47.28 is greater than X^2 tab = 21.026 so H_0 is rejected i.e. the dividend policy of commercial bank is not in optimal level.

4.6 Major Findings

The major findings of this research works are summarized in numeric order given below

- 1) The average earning per share (EPS) of the banks under the study shows a positive result. However, the coefficient of variation indicates that there is no consistency of EPS. The CV ranges within 58.51% to 14.46%. Among the sample banks, SCBNL has the highest average EPS with the lowest fluctuation and NSBL has the least with high degree of fluctuation.

- 2) The average dividend per share (DPS) shows that there is no regularity in dividend payment. The SCBNL has the highest average DPS and the higher degree of paying regular dividend to their shareholders. DPS share also fluctuating. The CV of DPS ranges within 85.48% to 22.5%. NSBL has the lowest average DPS and the highest fluctuation among the sample banks.
- 3) The analysis of DPR also shows that the DPR of the banks are not stable. Among the banks under the study, SCBNL has the highest average DPR and NABIL has least fluctuation in the DPR. The result also shows that NSBL has the lowest average DPR and has the highest fluctuation. The fluctuating ranges within 106.9% to 8.62%.
- 4) The average market price per share (MPPS) shows that there is quite high level of fluctuation. SCBNL has higher average MPPS than other banks. So, this bank is in good position but average MPPS of all commercial banks being considered to be encouraging. NSBL has the lowest MPPS and has the highest fluctuation and SCBNL has the most stable MPPS.
- 5) The average price-earnings ratio (P/E) of NSBL among the banks under the study is the highest and highly unstable. The ratio of remaining banks and financial companies are satisfactory and quite stable.
- 6) The average earning yield of banks, under the study, indicates that the earning yield of SCBNL is higher than other banks. The mean EY of different banks ranges from 8.8% to 4.92%. The EY of

NABIL is less fluctuated than other banks. But NSBL has higher fluctuation in its earning as indicated by CV of this bank.

- 7) The average dividend yield of the banks indicates that the dividend yield is quite low ranging within 6.05% to 1.7%. Among the banks, SCBNL has the highest average dividend yield and NSBL has the lowest. There is high fluctuation in the dividend yield ranging from 110.59% to 26.61%.
- 8) The DPS of SCBNL and NABIL is positively correlated with EPS, NP, MPPS and NW. But the correlation between DPR and MPPS of SCBNL is positive and NABIL is negative. The correlation results that when DPR increase, the MPPS is decrease and vice-versa.
- 9) The relationship between DPS of NSBL with EPS and MPPS are positively correlated and relationship between DPS with NP, NW and DPR with MPPS are negatively correlated.
- 10) The regression analysis of DPS on EPS shows that regression coefficient (b) is positive among all the sample banks as well as first.
- 11) The regression analysis of DPS on NP also shows that the regression coefficient (b) is positive with SCBNL and NABIL and negative with NSBL.
- 12) As far the regression results of NW on DPS are concerned, regressions coefficient (b) are positive with SCBNL and NABIL and negative with NSBL.

- 13) The regression analysis between MPPS and DPS indicates that the regression coefficient (b) is positive for all sample banks.
- 14) Most of the respondents agree that the bank practice comprehensive dividend policy.
- 15) People opined that current political situation affect the dividend policy of commercial bank while 28 candidates say no and 37 say do not know.
- 16) Nearly 48 respondents say that they don't have any idea that degree of risk associated with the commercial bank will also increase in dividend per share and 93 people are disagree with this statement.
- 17) Most of the respondents argue that capital structure of commercial bank is not optimal.
- 18) About 131 people agree that dividend policy of commercial bank is effective people say they do not have idea and remaining is disagreeing with this statement.
- 19) Most of respondents argue that government policy affect the dividend policy of commercial bank.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

A brief description regarding policy and practice of commercial bank has been already presented in the previous chapters. A brief introduction of the study has been presented in the first chapter. Besides the review of literature with possible review of ideas theories and research finding has also been presented in the second chapter. Research methodology has been described in the third chapter where all the available data are presented and analyzed in the fourth chapter as well as finding are also drawn related to dividend policy in these sample commercial banks.

Therefore, in this chapter, summary and conclusion regarding the study topic are presented. These finding regarding dividend policy certainly have shown necessity for the improvement of existing condition of the commercial bank of Nepal. So, the analysis of dividend, carried out from many dimension has provided some substantial feedback for the further improvement of the performance of the financial institution.

5.1 Summary

Dividend policy decision is one of the major decision of financial management. The dividend policy decision affects on the operation and prosperity of the organization because it has the power to influence other two decision of the organization. Capital structure decision and investment decision.

An investors expects two types of return namely capital gain and dividend by investing in equality capital or ordinary share. So, payment

of dividend to shareholders is an effective way to clearly defined and effectively managed dividend policy so as to fulfill the shareholder's expectations and corporate growth.

Dividend paying banks have been analyzed to show the implication of dividend policy that they have adopted in their market price per share. Now, in Nepal, those banks have earned profit only those paid dividend. Instability of dividend and inconsistent dividend payout ratio are most applied phenomena of commercial banks in Nepal. However, only the banks operating under joint venture are paying dividend more attractively than the banks promoted by indigenous promoters. However, dividend policy is taken path, slowly in Nepalese commercial environment.

In analyzing the problem with the stated objectives, this study has been in nature that is more descriptive. The study covers three joint venture bank as well as it cover for the path five fiscal year from 2005/06 to 2009/10. The available secondary data has been analyzed using various financial statement and statistical tools. So, the reliability of conclusion of this study is determined on the accuracy of secondary data.

The theoretical statements this study is that dividend decision should depend upon NW, EPS, and NP of the sample banks. Among sample banks; dividend payout ratio of Nabil is higher than Everest. Similarly, according to EPS between sample banks, Nabil is more successful than Everest. On the basis of P/E ratio between sample banks. Nabil has the higher ratio than Everest. It means Nabil has the better performance for enhancing the wealth of shareholders rather than Everest. On the basis of DPS, Nabil is paying higher value of dividend than Everest bank. Moreover, on the basis of Market price share, Nabil has higher MPS than Everest bank.

For the purpose of statistical analysis of the entire sample bank, simple correlation and regression analysis are used to interpret the results. According to regression analysis of DPS on EPS is concerned, coefficient (b) is positive in both sample banks. It indicates that between others DPS increase with the increases in EPS in both. As for the relationship between DPS on NP is concerned, coefficient (b) is positive in all sample banks. The positive coefficient indicates that DPS on NP is concerned, coefficient (b) is positive in both sample banks. The positive coefficient indicates that Dps increase with higher NP in both. AS for the regression analysis of NW on DPS is concerned, coefficient (b) is positive for both banks. The positive coefficient (b) indicates of Net Worth increase with higher DPS. Similarly, for regression analysis of MPPS on DPS is concerned, coefficient (b) is positive for both banks. The positive coefficient (b) indicates that dividend per share increase MPPS. The multiple regression of analysis of MPPS on DPS & EPS shows that DPS and EPS have both positive and negative impact on MPS in all cases. On the other hand , there is greater influence of DPS rather then EPS to MPS in case of NABIL. But there is greater influence of EPS rather than DPS to MPS in case of Everest Bank. The F- statistic for the regression provide statistically significant explanation of variation in stock price only in case of Everest bank at 5% level of significance. Like wise, multiple regression analysis of MPS on NW and EPS shows the sample impact on MPS in all cases. On the other hand, there is greater influence of NW rather than EPS to MPS in case if Everest. The F- statistical for the regression does not provide statistically significant explanation of variation in stock price.

The situation of capital market of Nepal is improving day by day. As a result, the capital market is efficient with compare to previous year.

However , there is ‘weak’ efficient market where share price movement is random. This means share price movement doesn’t follow any trend. In such market cash dividend will be more effective than other forms of dividends like bonus and right. However, it is true that capital market of Nepal is still immature.

5.2 Conclusion

In conclusion , uncontrolled growth in number of financial institutions within a short span of time has raised reasonable doubts to common people. By the analysis of investment activities, it is noticed that only few institutions have aggressive investment strategy with compare to conservation strategy among most of the financial institutions. Despite this , there is no doubt that financial institutions are the pillars of a nation’s economy. The over all growth of nation’s economy is linked with financial institutions. In these days, some financial institutions are running successful and providing to the shareholders according to their capacity. Also, they achieve the trust of common people which is the great success of their performance. On the whole, over this year , the financial institutions are able to distribute dividend and able to expand their activity with the good earnings . But , it is yet to done for the satisfaction of shareholders as well as overall growth of nation’s economy. The respondents of the parishioners and academicians are not support of particulars theory of dividend policy as it is evident that they ranked . Some of the structure questionnaires of the response in the former are consistent with later.

5.3 Recommendations

Based on the findings the suggestions for future guidelines are presented here. These suggestion may also regressions but there is no doubt that these measures are helpful to improve the existing condition of financial institutions as well as other organization of Nepal . these suggestions will be provide to be milestone in order to correct the existing situation.

1. Dividend policy is must for the enhancement of existing return to meet the expectation of shareholders as well as improvement of nation's economy. By the formulation of dividend policy, there is a clear way to follow the dividend distribution. Therefore , the IIMG must impose a minimum dividend obligation policy through suitable pragmatic legislative to ensure protection in the form of dividend payment to the investors in general.
2. There is a lack of consciousness in Nepalese investors regarding their rights and the company act ; therefore , there should be a kind of education center about their rights on dividend income and other specific rights .Everybody should have clear knowledge about Nepalese company act- 1997 that makes some legal provisions for dividend payments.
3. Payments of dividend is neither static nor constantly growing. It is highly fluctuating. Such way of paying dividend could not impress the market positively. So , these financial institutions are advised to follow either static or constantly growing dividend payment policy. It would be better to fix amount of dividend in the general annual meeting. This is important not only from the point of view of adequate return to shareholders but also generate stable and increasing market value per share, long run survival of financial

institutions, efficient management and socially acceptable distribution of income. Ability to maintain linkage of the adequate earnings power with the adequate dividend return provides the benchmark for dynamic growth stability.

4. Issue of stock dividend decrease market value per share and earnings per share. However, issue of cash dividend increase market value per share and earnings per share . so due to this reason common shareholder should be given a choice. Whether they refer stock dividends or cash dividend. Therefore, all financial institutions are suggested to take care regarding the interest of shareholders.
5. As financial institutions are assisting to promote the capacity market and improve the economy condition of nation through collecting the scattered resources and utilizing them into productive ways. The government should provided facilities to improve the efficient of financial institutions and reduce the inter faces in daily affairs. Similarly , the management should be careful about their duties and responsibility for the operation of the financial institution towards the interest of the share holders as well as the improvement of nation's economy.
6. Formulation of dividend policy will clearly guide the way to follow dividend distribution . they should determine whether the company is going to adopt stable dividend policy, constant payout ratio, either it is pure residual theory, fixed dividend payout or smoothed residual dividend policy they all should have been clearly explained by the dividend policy.
7. Since financial institutions are dealing with public money collected by way of deposits in different sectors, there should be active supervision and credit-monitoring role of NBR becomes

important. Progress reporting should be continuous and financial institutions should make their performance transparent of the investors. More ever, there should also be professional representation in the credit information bureau instead of having only member of it.

8. All financial institutions should conduct a seminar and workshop for shareholder to get experience at least twice in a year . private consultancy firm's experts in financial activities and top executives from all the financial institution should be the key participants in seminar where the problems lie in the efficient operation only then, there will be the solution of the problems regarding the financial performance of the financial institutions, which are helpful for more profit as well as more dividends to their shareholders.
9. It is more important for financial institution for long-term sustainability then getting quick rich tendency of short term value. Since, financial institutions have to survive as an institution in long run and provide capital gain to the investor . that is why , all the financial institution have to maintain certain discipline by learning from experience of operation regarding what is good to do and what is not good to do for future improvement and further success.
10. The managers should be bale to perform their duties and responsibilities to protect shareholder interest . they must not show their desire to operate the company in their own way.

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ANNEX

Questionnaire used for primary data collection **A Study on Dividend Policy** of commercial banks. A survey of participants view the respondents are assumed that the responses will maintain anonymity. If respondents are interested, the findings would be shared. The co-operation of the respondents is highly appreciated.

Name:

Occupation:

Age:

Firm Type: Private/Public

Please answer the following question as they relate to dividend policy of any commercial bank.

Q.No.1 . Does the bank practice comprehensive dividend policy?

- A. Strongly agree (.....)
- B. Moderately agree (.....)
- C. Disagree (.....)
- D. Strongly disagree (.....)
- E. Don't know (.....)

Q.No.2. Do you think the current political situation affect the dividend policy of commercial bank?

- A. Strongly agree (.....)
- B. Moderately agree (.....)
- C. Disagree (.....)
- D. Strongly disagree (.....)
- E. Don't know (.....)

Q.No.3. Do you think the degree of risk associated with the commercial bank will also increase in dividend per share?

- A. Strongly agree (.....)
- B. Moderately agree (.....)
- C. Disagree (.....)
- D. Strongly disagree (.....)
- E. Don't know (.....)

Q.No.4. Do you think the dividend influences the liquidity position and share price of commercial bank?

- A. Strongly agree (.....)
- B. Moderately agree (.....)
- C. Disagree (.....)
- D. Strongly disagree (.....)
- E. Don't know (.....)

Q.No.5. Do you have any idea, how far the present dividend policy is effective?

- A. Strongly agree (.....)
- B. Moderately agree (.....)
- C. Disagree (.....)
- D. Strongly disagree (.....)
- E. Don't know (.....)

Q.No.6. Do you think the government policy affect the dividend policy of commercial bank?

- A. Strongly agree (.....)
- B. Moderately agree (.....)
- C. Disagree (.....)
- D. Strongly disagree (.....)
- E. Don't know (.....)

Q.No.7. Do you think the dividend policy by commercial bank is in optimal level?

- A. Strongly agree (.....)
- B. Moderately agree (.....)
- C. Disagree (.....)
- D. Strongly disagree (.....)
- E. Don't know (.....)