Introduction

1. Introduction

“Banking sectors plays an important role in the economic development of country. Commercial banks are one of the vital aspects of this sector. This deals in the process of canalizing the available resources in the sectors. It is the intermediately between the deficit and surplus of financial resources. Finical system contains two component viz., depository financial Intuitions and non financial Intuitions. Commercial Banks and Finical Intuitions of company are the example of depository financial institution where as employee provident fund, Development Banks, Insurance Company etc. are the example of non –depository Financial Institutions. All the economic activities are directly or indirectly channeled though these banks. People keep their surplus money as deposit in the banks and hence banks can provide such funds to finance the industrial activities in the banks and hence banks can provide such to finance the industrial activities in the form of loans and advance.

"A banker or a bank is a person, firm or company, having a place of business where credits are opened by the deposits or collection of money or currency subject to be paid or remitted upon draft cheque or order or where money is advanced or loaned on stocks, bonds, bullion and bills of exchange and promissory notes are received for discount and sale." [1]

Financial institution plays major roles in the proper functioning of an economy. These institutions act as an intermediary between the individuals who lends and who borrow. These institutions accept deposit s and in turn lend it to people who are in need of financial resources. These institutions make the flow of investment easier. So we cannot deny the role a bank plays in development an economy. It pools the funds scattered in the economy and mobilizes them to the productive sectors. But these institutions inherent a large amount of risk, which cannot be, denied either. A large amount of depositors’ money is at stake.

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[1] G.B. Upadhaya & N.R. Tiwari, "***Principle of Money and Banking in Nepal***" Ratna Pustak Bhandar. Kathmandu. 1982.P.167.

“An organization or a place that provides a financial service. Customers keep their money in the bank safely and it is paid out when needs by means of cheque."[2]

Banks came into existences mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of depositors. The shareholders and the society they are serving.

Banking Sectors is exposed to a number of risks. These risks are broadly categorized into two segments:

- **Portfolio or on Balance Sheet risks**: - Portfolio risk arises from various unanticipated changes in the items of balance Sheet. The Most important balance sheet items are deposits, borrowing, advances and investment, are affected by changes in interest rate, in deposit flow and demand, and in the ability of borrowers to repay loans. These unanticipated changes generated three basic portfolio risks namely interest rate risk, liquidity risk and credit risk and other is capital risk and operational risk.
- **Off balance sheet risk**:- Off balance sheet risk refers to those risk, which raised due to off balance sheet activities like bank guarantee, LC or contingent claims and commitments to a bank. Bank might give guarantee for its client of give a counter guarantee I. e. Backing the guarantee of another bank.

Such risk in excessive from had led many banks to go bankrupt in a number of countries. But due to their central role in the economy, government s and the central banks try their best to rescue banks from such situations. The impact of macro economic conditions one the banking system required special attention for two reasons.

- A well Functioning Banking System is important for the effectiveness of the macroeconomic policies.
- Weakness that emerges in the banking systems, if left unattended, could pose a threat to macroeconomic stability. Prevention of stress in banking system requires

[2] Oxford Dictionary *Oxford University Press*, 15th edition. 1996. P.80.

well balanced institution and regulatory structures. As well as macroeconomic policy mix that are sensitive to bank's financial soundness."

1.1EVELUATIONS / HISTORY OF BANKING INDUSTRIES

The evaluations of banking industry have started a long time back, during ancient times. There was reference to the activities of money exchanges in the temples of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositories for peoples' surplus and these were the centers of money landing transactions. Indeed the traces of "rudimentary banking" were found in the Chaldean, Egyptian and Phoenician history. The development of banking in ancients Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the death of Emperor Justinian in 565 AD, and it was not until the revival of trade and commerce in the middle ages that the lessons of finance were learnt anew from the beginning. Money landing in the middle age was, however, largely confined to the Jews since the Christians were forbidden by the canon law to indulge in the sinful act of landing money to other on interest. However, as the hold of the church loosened with the development of trade and commerce about the thirteenth century Christians also took to the lucrative business of money lending, thereby entering into keen competition with the Jews who had hitherto monopolized the business".

"As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and Bank of Venice, founded in 1157 was the first the public banking institution. Following it were established the Bank of Barcelona and Bank of Genoa in 1401 and 1407 respectively. In fact modern bank stat to take rapid speed in forming and Functioning from 17th century. During this period, Bank of Florence and Bank of St. George were established in Genoa. In 1609 the Bank of Amsterdam was established in Holland, like wise in 1610, Bank of Hamburg was established in Germany and the Bank of England was established in England"[3].

"In the context of Nepal, the development of managerial public banking is relatively recent. The record of banking system in Nepal gives details according of

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[3] America Institute of Banking, *Principle of Bank Operation*,USA, 1972,p345

mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, Shopkeepers and other individuals' moneylender has acted as fence to institutions credit in presence of unorganized market.

Nepal's first commercial bank, the Nepal Bank Limited, was established in 1937. The government owned 51 percent of the shares in the bank and controlled its operations to a large extent. Nepal Bank Limited was headquartered in Kathmandu and had branches in other parts of the country.

There were other government banking institutions. Rastriya Banijya Bank (National Commercial Bank), a state-owned commercial bank, was established in 1966. The Land Reform Savings Corporation was established in 1966 to deal with finances related to land reforms.

There were two other specialized financial institutions. Nepal Industrial Development Corporation, a state-owned development finance organization headquartered in Kathmandu, was established in 1959 with United States assistance to offer financial and technical assistance to private industry. Although the government invested in the corporation, representatives from the private business sector also sat on the board of directors. The Co-operative Bank, which became the Agricultural Development Bank in 1967, was the main source of financing for small agribusinesses and cooperatives. Almost 75 percent of the bank was state-owned; 21 percent was owned by the Nepal Rastra Bank and 5 percent by cooperatives and private individuals. The Agricultural Development Bank also served as the government's implementing agency for small farmers' group development projects assisted by the Asian Development Bank and financed by the United Nations Development Program. The Ministry of Finance reported in 1990 that the Agricultural Development Bank, which is vested with the leading role in agricultural loan investment, had granted loans to only 9 percent of the total number of farming families since 1965.

Since the 1960s, both commercial and specialized banks have expanded. More businesses and households had better access to the credit market although the credit market had not expanded.

In the mid-1980s, three foreign commercial banks opened branches in Nepal. The Nepal Arab Bank was co-owned by the Emirates Bank International Limited (Dubai), the Nepalese government, and the Nepalese public. The Nepal Indosuez Bank was jointly owned by the French Banque Indosuez, Rastriya Banijya Bank, Rastriya Beema Sansthan (National Insurance Corporation), and the Nepalese public. Nepal Grindlays Bank was co-owned by a British firm called Grindlays Bank, local financial interests, and the Nepalese public.

Nepal Rastra Bank was created in 1956 as the central bank. Its function was to supervise commercial banks and to guide the basic monetary policy of the nation. Its major aims were to regulate the issue of paper money; secure countrywide circulation of Nepalese currency and achieve stability in its exchange rates; mobilize capital for economic development and for trade and industry growth; develop the banking system in the country, thereby ensuring the existence of banking facilities; and maintain the economic interests of the general public. Nepal Rastra Bank also was to oversee foreign exchange rates and foreign exchange reserves.

There were other different banking institutions state-owned commercial bank, has established after the period of mid 1980s in the different part of country. there are 31 commercial banks are situated in the country of Nepal in the period of 2011 and also the international Banks are ready to serve the Nepal and Nepalese people under the Nepal government and Nepal Rastra Banks rules and regulations."[4] Out of the commercial Bank some commercial banks are describing as below:-

- **"Nepal Bank Limiter** was established in 1994 B.S. (1934 A.D.) as a First commercial bank of the Nepal and afterward the central bank of Nepal (Nepal Rastra Bank) was established in 2013(1957 A.D.) Under the Nepal Rastra Bank act 2012 B.S. (1956 A.D.). Likewise Rastriya Banijya Bank and Agriculture Development Bank were established in 2022 and 2024 B.S. respectively. The process of the development of banking system in Nepal was not satisfactory up to 2040 B.S. (1938 A.D.). No bank was opened from during this period except extending the Branches and sub Branches of the bank, which was established in this period. Country began to import the new

[4] KFA general Bank , "*Annual Publication*" Anniversary Publication,2066, P. 3

technology from foreign country after then the bank began to offer their valuable service to the people through new technology. This was the great significant event. Thus, some banks are open on the joint investment basis such as:-

- Nabil Bank limited (earlier known as Nepal Arab Bank ltd.): - The first private joint Investment commercial bank opened in the country. It was established in 2041B.S. (1984A.D.) with joint Investment. In the organ the bank has equity Rs. 30 Million with large no of branches i.e.15 branches.
- Nepal Investment Bank (earlier known as Nepal Indosuez Bank ltd.):- The second Joint Investment bank, was established in 2042 B.S. (1985).
- Standard Chartered Bank Ltd (earlier known as Nepal Grindlays Bank ltd.):- The third Joint Venture Bank came in to 2043 B.S. (1987A.D.) as a joint venture Between Grindlays and Nepal Bank Ltd. It starts Business with a Rs. 30 Millions paid up capital. After acquiring of the ANZ operations in the region by the standers chartered, it has become a subsidiary of SC Grindlays, which holds 50% of Shareholdings in the bank. Now from the date July 2001 it is named as Standers Chartered Bank Nepal Ltd, after take over by Standard chartered.
- Himalayan Banks Ltd.:- it is a joint venture with Habib Bank of Pakistan, it's opened in 2049 (early 1993) with paid up capital of Rs 60 Millions.
- Nepal SBI Bank Ltd.: it is a joint venture between Employees Provident Fund and State Bank of India, Wherein India hold 50% of the equity. The initial paid up capital was Rs. 119.95 Millions in 2050 B.S. (1993A.D.).

In additional to this, there are also other commercial banks open in Nepal. These banks are as follows:-

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. NABIL Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Nepal Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.
10. Bank of Kathmandu Ltd.

11. Nepal Credit and Commerce Bank Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial & Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.
18. Agriculture Development Bank Ltd.
19. Global Bank Ltd.
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd.
22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. Development Credit Bank Ltd.
25. NMB Bank Ltd.
26. KIST Bank Ltd.
27. Janata Bank Ltd
28. Mega Bank Nepal Ltd
29. Commerz and Trust Bank Ltd
30. Civil Bank Ltd
31. Century Bank Ltd."[5]

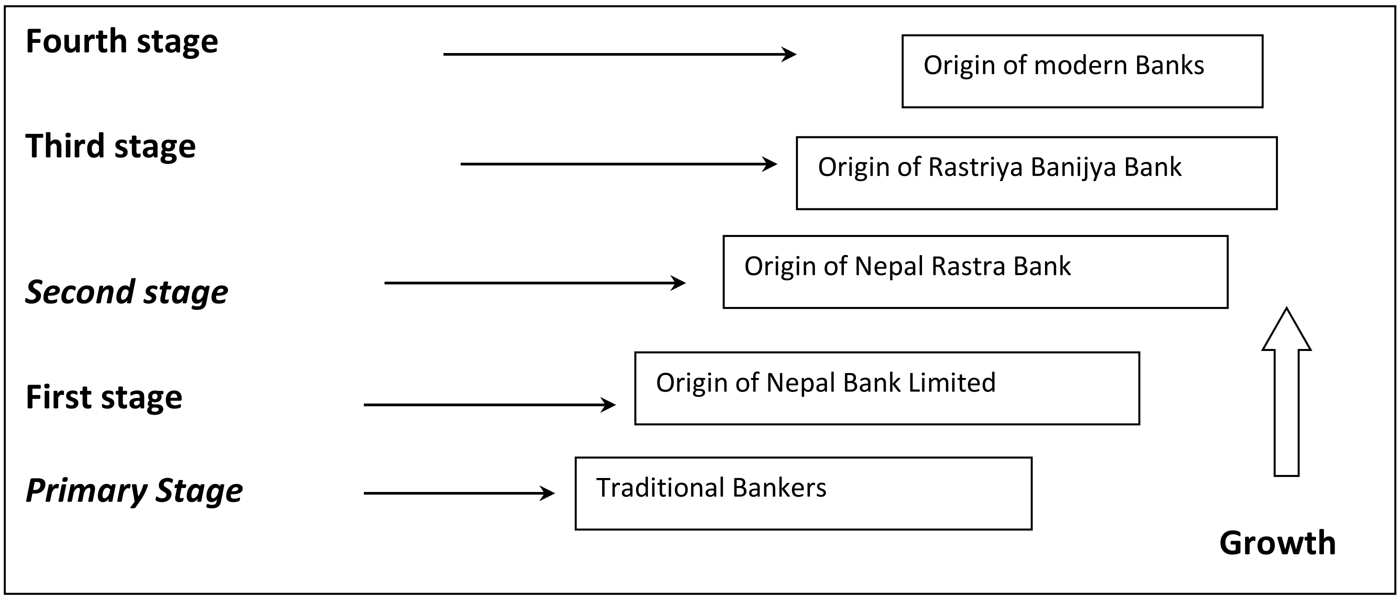
1.2. Nepal's Financial Systems

Organizations	No of Institution
1. Central Bank	1
2. Commercial Bank	31
3. Financials Company	77
4. Development Banks	63
5. Micro-Credit Financial Institution	15
6. Co-Operative (Licensed by NRB)	16
7. NGO's licensed by NRB	45
8. Insurance Company (Licensed by Insurance Board)	25

[5] NRB web site www.nrb.org.com.np

9.	Employee Provident Fund	1
10.	Citizens Investment Trust	1

Origin and Growth of Banks in Nepal:



*Source: - Singh Haridaya and Khadka Sherjang, Banking Principle Legislation and practice, Nabin Prakashan, Kathmandu, 2055, P.37***.**

1.3. Need of Bank

The development of any country can't be predictable without economic activities. The development of the banking system is one of the justifications of economic development. In others word, there is no possibility of economic development without development of banking system. It is impossible to fulfill the needs without bank whether it is inside the nation and foreign country, whether it is industries development or Business development and whether it is for people or tor the government. So, to develop or to solve the problems related to economic development, development of banking system is most necessary. Even in ancient it necessity time it necessity was realized but today it is considered to be much more necessary. To know the much more information why the banking system in needed, following reason are providing:-

- To relive people from financial exploitation

- To develop industry and commerce
- For economic development
- To provide security to valuable goods and property
- To transfer Funds
- To Create Employment and Skilled entrepreneurship
- To develop the habit of saving
- For monetarism Economic
- To develop the Agricultural and Back ward Area
- To balance the Economic Development as a whole
- To Exchange and control Foreign Currencies
- To Build the Capital
- To provide the Short and Long term loan
- For overall economic development of country.

1.4 TYPE OF BANK / TYPE OF BANK IN THE WORLD

The world cant imagined without banking system. Once there was such an age in which the people could not discharge their affairs without a bank. In fact concept of a bank is the result of changes occurred in the people thoughts, sense and the change of time. Thereafter, the industrial, commercial and scientific revaluation started. As a result of these revolutions, banking system develops and extended. In the absent of development and extension, of bank there is no possible of economic revolution. Without making economic revolution people living standard can't go up.

Different banks are performing their regular function; a bank can't perform and provide all sorts of function and facility. So, today's different nature of bank are opening in the world and performing their regular duties and responsibility, which are briefly explained in the following paragraphs:-

- Central Bank
- Commercial Bank
- Agricultural Bank
- Industrial bank
- Saving Bank
- Exchange Bank

- Indigenous Bank
- Rural Develop Bank
- Development Bank
- Merchant Bank
- Student Bank
- Labor Bank

1.5 Meaning and definition of Commercial Bank

Black's law dictionary "Commercial Bank" means a bank authorized to receive both demand and time deposit, to engage in trust service, to issue letter of credit, to rent time deposit boxes, and to provide similar service.
2(a) of commercial bank Act 2031(1974) has defined that "Commercial Bank" Means a banks which operate currency exchanges transactions, accepts deposit, Provides loan; performs, dealing, relating to commercial except that banks which have been specified for the co-operative, agricultural, industry of similar other specific objective.

1.6 Function Of commercial Bank

"Commercial banks are directly related with the people and institutions. The Commercial bank is an important bank. It functions are very attractive for people. Although these banks are truly inspired with the objective of gaining profit, this commercial bank are established, to accelerate common people's economic welfare and facility to make available loan to the agriculture, industry and commerce and to provide the banking service to the public and the state. In Nepal, the commercial banks perform the following function:-

- To accept Deposit
- To provide loan
- Agency Functions
- General Utility Function
- Oversees Trading Services
- Information and other services."[6]

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[6] Dill Raj Bhandari,*Principle and Practices of Banking and Insurance* ,Ayush publication,Ktm,2003

1.7 IMPORTANT OF FINANCIAL ORGANIZATION

Financial markets and institutions are the key to the development of any economy, whether developing. Developed economies usually already have a highly sophisticated financial market in place whereas developing economics usually have no or rudimentary institutions in place. During the turn of the century a lot of countries gave up the moribund communist style economy towards a modern capitalist economy. In this process a large number of financial markets have developed across the world, including in my home country Nepal. Some of the emerging markets, especially India and China, have been able to attract huge amounts of foreign investments because these countries have been able to show extraordinary amounts of economic growth. In 1994, the Government of Nepal established a stock market with the technical assistance of the IRIS Center at the University of Maryland under the USAID sponsored Economic Liberalization-Project.

Financial markets play a fundamental role in the economic development of a country. They are the intermediary link in facilitating the flow of funds from savers to investors. By providing an institutional mechanism for mobilizing domestic savings and efficiently channeling them into productive investments, they lower the cost of capital to investors and accelerate economic growth of the country. Financial intermediation between borrowers and savers is done by commercial banks. This credit market enables debt financing for investments. An alternative method of intermediation is through equity financing. This is only possible through the development of capital markets. Capital markets, which deal with securities such as stocks and bonds, are associated with financial resource mobilization on a long term basis. Capital markets also allow for wider ownership among the public, thereby distributing risks and wealth amongst smaller investors. As such, capital markets help the economy to generate more savings and productive investments. A basic feature of an efficient capital market is constant liquidity, i.e., an easy mechanism for entry and exit by investors. Typically in developing countries, for various economic and policy reasons, financial markets are underdeveloped. In those countries where a capital market does exist, it is in a very rudimentary state. Private wealth and investments are concentrated among several large companies and individuals. As a result, these capital markets are very narrow based. They are constrained by limited investment opportunities and low income and savings rates. In many cases, the economy has high inflation, leading to a savings disincentive and capital flight. Financial sector development is a lengthy, evolutionary process. It is an indicator of the state of economic development of the country, since an efficient well-developed financial market is only possible when there is substantial income generation and investment opportunities. Nepal is a landlocked, mountainous country situated between India and China. It is a small, mostly agrarian based economy, sharing an open border with North India. With a GDP of $ 3.75 billion, Nepal has a per capita income of $ 200, one of the lowest in the world. As per 1995 figures, agriculture constitutes nearly 42% of GDP, whereas manufacturing sector comprises of only 9.4% of GDP.

The financial and construction sectors each constitute about 10% of GDP. Industrial development began in Nepal only in the mid-sixties, when the Government began establishing manufacturing industries such as the jute industry, cement factories, and sugar factories. In order to support this industrialization process, government actively promoted financial institutions, such as commercial banks and capital market institutions.

The Nepali capital market had its beginnings with the establishment of the Securities Marketing Center in 1976. In 1984, the Securities Exchange Act was promulgated and this institution was converted into the Securities Exchange Center (SEC) under the ownership of the Nepali Government, Nepal Rastra Bank - the Central Bank - and the-9 Nepal Industrial Development Corporation – a government owned industrial development bank. The main function of SEC was to assist in the development of a capital market by performing the role of a broker, underwriter and share issuer, and to sell government bonds. It operated an over the counter market for company shares and government bonds. After the inception of the Securities Exchange Center, shares of various manufacturing, trading and banking companies became listed. Interestingly, the listed shares were dominated by public enterprises during this stage. Between 1984 and 1990, 42 companies were listed, out of which more than 25 companies had some form of government-ownership.

The real boost into the capital market in the form of a private sector led growth began with the financial sector liberalization. In the mid-eighties, Nepal opened its doors to foreign investors as joint venture partners in the banking sector, which revolutionized commercial banking services in Nepal. Since then, a variety of private sector based financial institutions have evolved. In 1992, the Finance Companies Act was amended. These enabled finance companies to be established to function in various areas such as leasing, housing finance, and hire-purchase. These institutions were also allowed to perform capital market functions such as share issue, portfolio management, market making and custodial services.

The growth of these financial institutions was complemented by the establishment of the Nepal Stock Exchange. In 1993, the Securities Exchange Act was amended. The Securities Exchange Center was converted into the Nepal Stock Exchange for securities trading by private brokers and the Securities Exchange Board was established for oversight functions as a regulatory body. This amendment also permitted private sector market intermediaries and set the operating guidelines for intermediary functions such as broking, market making, issue management, and portfolio management. The economic environment which provides the main stimulus for a healthy growth of the capital markets has also influenced this market quite considerably. In 1992, the Finance Companies Act was amended. As a result, in the three year period, more than 30 finance companies were established all of who have made public share issues and are being listed on the Stock Exchange. This growth in the financial sector was further boosted by the liberalization of the commercial banking sector. The Central Bank gave licenses to more than 5 joint venture commercial banks. The commercial banking industry has historically performed very well in the capital markets, which infused a lot of investor interest in the market during the early stages of its development. Together, these sectors accounted for 65% of the turnover and 36 % of the total amount of public issue in 1994/95. In Nepal, the financial sector has witnessed tremendous growth and profitability, in contrast to the manufacturing sector where profitability has been very low. The manufacturing companies which are listed on the Stock Exchange have typically been very stagnant because they are primarily government owned public enterprises or newly established companies without a long track record of profitability. Privately owned companies which are profitable generally hesitate to go public owing to tax or other reasons. As a result, the growth of the stock market has mainly been due to the liberalization and the resulting growth of the financial sector (commercial banks and finance companies) rather than that of the industrial sector.

Government's privatization policy also enabled new industrial companies to enter the stock market. In 1994/95, of the total public issue, 31% was issues of privatized companies. In 1992, the Government brought out the Industrial Enterprises Act and enforced the one-window policy to actively promote foreign investment in the country.

This resulted in some new joint venture companies in the country, which accounted for 29% of the public issue in 1994/95.It is the objective of all policymakers to try to ensure a healthy, sustainable and stable growth of capital markets. It is the responsibility of the policymakers to be help to help and sustain a favorable growth environment for the infant capital market. To promote a healthy, competitive market, policymakers should seek to increase the number of market intermediaries and investors, both individuals as well as institutional. The regulatory environment also needs to be strengthened. A lot of institutional changes are necessary if Nepal is to have a sophisticated capital market that will be able to cater to the needs of all market participants. It is only when there is a healthy, competitive institutional structure supported by liberal and stable economic policies facilitating increased savings and investments in the country that the capital markets can grow

Source: http://econkancha .blogspot.com.

1.8 Object of the study

Researcher means that person who wants to know or find out the condition of particular to topic. In fact the main interest of researcher of this research is to provide workable suggestion that may be helpful to the formulation of the optimal dividend policy and maximize the stock price.

The main interest of researcher is to comparative analysis of five banks using dividend policy tools and techniques. The main objectives are as follows:

1. To know and compare the dividend policies of different companies.
2. To know and compare the relationship between dividend policy and other financial indicators.
3. To find out whether dividend policy affects value of the firm or not.

4. To find out the relationship between dividends per share (DPS) and market price per share (MPS).
5. To identify the regularity of dividend distribution of different listed companies.

1.9 Background of study

"Dividend is the earning or profit distribution of shareholders by a company. It may be in cash share and securities or combination of these. Dividends are paid quarterly, half yearly and annually. Dividend paid on equity or preference share is called preference share dividend, which is generally fixed or constant and payable before payment of equity dividend.

The policy of company on division of its profit between distribution to shareholders as dividend and retention for its investment is known as dividend policy dividend policy is determine the amount to be retention or reinvestment in the firm Any change in dividend policy has both favorable and unfavorable effects on the firms' stock price. Higher dividend paid means higher the immediate cash flow to investor which is good but lower future growth which is bad.

In our country, there is no similar way on dividend distribution. So, dividend paid in only annually. Some companies pay whole earning with in the year as dividend, whereas in some companies the dividend is not announced. Actually the usual dividend payout ratio seems to be 40 percent Thus, in short, the decision to keep some portion to retention and some to dividend maid regarding earnings is known to be "dividend policy"

This research work will study into all relevant factors of dividend policy of selected financial institutions. Nepal has already adopted liberal economic policy. Accordingly, there has been numerical growth in the emergence of financial institutes .It is consider as appositive sign in strengthening Nepalese financial sector. There are at present 31 commercial banks. Among the listed companies financial institute will be used as sample companies."[7]

1.10 Problems of Banking in Nepal

[7] shiva Raj Ghimire, (2005).*financial management, K.P.Pustak* Bandar ,Dillibazar, Kathmandu.

Since the banking service in Nepal has been standard from few years. Therefore, there are many problems of banking in Nepal. While company presents banking system of Nepal with that of past facing the following problems as;

- Lack of investment in productive sector.
- Lack of proper banking policy.
- No banking in rural areas.
- Weak financial position.
- Over staffing.
- Weakness in leading policy.
- Centralization.
- Weakness of NRB.

1.11. Significance of the study

Generally, most of the financial institutes have followed dividend policy. Dividend policy decision is one of the important decisions in every organization because the objective of dividend policy should be to maximize the shareholder's return. Therefore dividend policy should be optimal which balance the opposing forces and maximize stock price. This study is expected to fill the research gap and add to the inputs to financial literatures relating to dividend policy. The financial may be valuable to following groups.

1. **To the Management:** Dividend policy is the controversial topic of financial management. It may affect value of the firm. Moreover, most common objective of the firm is to maximize shareholder's wealth. So, Management may adopt appropriate dividend policy.
2. **To the Shareholders:** Shareholders are more concerned with the amount of dividend policy by firm. So, they have more curiosity on the dividend policy adopted by their concerned banks. With this study they can make their mind more comparable in terms of dividend pattern and value of the firm.
3. **To the Investors:** Generally, most of the investors prefer to invest in profitable firm and expect high return. Corporate sector is expanding but there is information gap between the management of Nepalese companies and Nepalese investors who are eager to investing shares. They are just investing in the shares in trail and error methods. So, the dividend behavior

should be effective to attract new investors keeping the previous investors satisfied and should maintain the reputation of the firm.

4. **To the Researcher:** it can be used by researcher as guideline to fulfill the partial requirement of Master of Business Studies. It may be help others who want to study in similar topic.

Beside these it will be also beneficial for the policy makers from the comparative study of dividend policy. They can get important findings, which are useful in policy making about dividend policy formation. Dividend policy of the banks helps the customers, financial agencies, stockbrokers, interest person and scholars to find out appropriate dividend policy. It is believed that others banks will also benefit with this study.

1.12 Statement of Problem

"Nepal is yam between two builders." The famous proverb is absolute for landlocked country like Nepal. Nepal is one of developing country of Asia. In fact, for the economic development business are needs in Nepal. Numbers of banking sectors are growth. But banking institutes in Nepal has not succeeded much in mobilizing capital for productive purpose. So, different institutions may follow different dividend policies according to their suitability. Normally, there is deep relationship between dividend and market price. But due to the underdeveloped capital market like Nepal, is not yet recognize.

The traditional model of dividend policy by Miller Modigliani 1961, known to be MM approach shows that dividend have no effect on shareholder's wealth in a world without taxes. Farrar and Selwyn 1967 and Brennan 1970, suggest paying no dividend as it effects on investors benefit. The dividend model is associated with the names of Rozeff 1981, Bhattacharya 1979, Mc Kesson 1982, Masulis and Truman 1988. As yet, none of these theories is completely satisfactory but they provide guidance and also they throw light on the complicated decision problem.

In the context of Nepal, it is seemed that the few companies in the financial sector have sufficient earning and able to pay dividends to the shareholders. But there is no any uniformity in dividend distribution. There is no distributing dividend in equal proportion. In this research we are trying to get the answer of the following question.

1. What are the prevailing dividend policies if sample listed companies?
2. Are dividend policies affected the market price of stock and value of the firm?
3. Are all the sample companies adopting same dividend policies?
4. Is there any relationship between dividend policy and dividend per share (DPS), Earning per share (EPD), Dividend pay out ratio (DPR), Price Earning Ratio (P/Ratio), Liquidity ratio, and market price of share (MPS)?
5. This research provides workable suggestion that may be helpful to the formulation of the optimal dividend policy and maximize the stock price.

1.13 Population and Sample

The term 'population' used in statistics denotes the aggregate form which the sample is to be taken for purpose of investigation. Population refers not only to the people but the totality of all observations that are selected for study. Population is also known as universe. Sample refers to the chosen part of population.

This study is conducted by assuming all "A" class commercial banks of Nepal as the population and following five banks as samples.

1. Everest bank Limited
2. Kumari Bank Limited
3. SBI Bank Limited
4. NMB Bank Limited
5. Standard Charter Bank Limited

1.14 AN INTRODUCTION ABOUT SAMPLE BANK

Everest Bank Limited

"Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K.B And has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Joint Venture Partner

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry."[8]

KUMARI BANK LIMITED:

"Kumari Bank Ltd. Stepped in the private banking sector in the country as a new entrant since Chaitra 21, 2057 B.S. The Bank was promoted by some of the largest renewed business houses in the country.

KBL, the first national level Bank managed by Nepali management is also the bank with highest capital base. It took the initiative of establishing itself when the country was going through major economic and financial crisis. It stands with a vision to be a world class Nepalese Bank and to be a leading financial institution of the country. Its goal is to create its own niche in the market and get recognition as the most preferred organization among its customers, shareholders, regularity, authorities and all its stakeholders.

At present, The bank is running its operation from its head office situated at Putalisadak, Kathmandu and the branches are in Birgunj, Biratnagar, Pokhara, New road, Birtamode, Itahari etc. The bank was successful to register operating profit in the fast year of it operations which is indeed historical. KBL provides a

[8] www.everestbank.com.np

full range of commercial banking service through its outlets spread across the nation and reputed correspondent banks across the global.

So, for it have been able to associate their customer with banking products like interest banking, mobile banking and auto sweep facilities which has helped them to meet their objectives of adapting modern technologies and coming up with innovative banking products the success of the achievement relay on their organization values of good team work and high professionalism”[9].

NEPAL SBI BANK LIMITED:-

“Nepal SBI Bank limited is one of the leading joint venture Bank. It was established in 2050 B.S. under the ‘Company Act 2021’ and ‘Banijya Bank Act 2031 B.S.’ as a joint undertaking with State Bank of India. The bank started its operation with an authorized capital of 24 crores and paid of capital of 12 crores. Out of which 50% was invested by state bank of India, 15% by employee provident fund (EPF), 5% capital is held by Agricultural Development Bank (ADB) and the rest 30% is from the general public of Nepal through issuing shares.

This bank has been able to secure an outstanding position among the commercial banks. It is able to draw the attraction of many people due to its customer friendly approach. Owing to its experience of international banking transaction round the globe, it has better reputation and goodwill among the commercial bank. Today this bank with 27 branch offices and a team of 249 enthusiastic, dedicated and efficient employees have been able to satisfy its customers with fast, easy and reliable banking services.

The principle activities of the bank during the year were personal & co-operate financial services, international network services, foreign currency exchange dealing etc. Apart from the traditional banking services, the bank has entered into the new era generation next banking by providing ATM services, credit card, safety deposit locker, remittance services letter of credit and many other such services.

[9] www.kumaribank.com.np

The main pillars of support for Nepal SBI Bank Ltd are its customers, shareholders and its employees. It is Bank's mission to deliver quality banking and stakeholder satisfaction in the true meaning of the word. Bank fully grasp the ultimate importance of engaging more closely in customer relations at every level, ensuring satisfactory, sufficient profits and plough back the fruits of the business successes back to customers, the community, and shareholders.

Nepal SBI Bank's Code of Conduct encapsulates international best practices applicable to Nepali context. The level of commitment of the people to take SBI Bank to greater heights has been a huge catalyst. The team spirit within the organization is something the Bank is proud of."[10]

NMB Bank Ltd.

Background

"NMB Bank Limited licensed as "A" class financial institution by Nepal Rastra Bank in May 2008 has been operating in Nepalese Financial market for over fifteen years and is one of the leading commercial banks in the banking industry. Since its inception, the Bank has been continuously endeavoring to win the trust of its customer which has resulted to ever increasing customer base and more importantly attained customer's delight through its different products and services.

Vision

To establish ourselves as a leader in banking by providing a range of financial services suitable to the needs of the market with high priority on customer care while simultaneously embracing the interests of all stakeholders and value of a good corporate citizen.

Mission

To gain supremacy in growth, profit, customer care and social response in banking by way of:

1. Leveraging and integrating the existing strengths of the institution
2. Reaching out and serving wide range of customers within and outside the country
3. Developing a culture of "Giving Extra Care to the Customers"

[10] www.sbibank.com.np

4. Being innovative in designing and delivering services
5. Adopting prudent investment practices for building up a sound assets base.
6. Developing internal and external efficiencies by prudent use of technology
7. Building operational efficiency through smarter processes and controls
8. Providing exciting and challenging career prospects for the employees
9. Placing high priority on stakeholders' interest and statutory compliance
10. Acting responsibly for making contributions to the society at large"[11]

Standard Chartered Bank Nepal Limited

"Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 19 points of representation, 23 ATMs across the country and with more than 425 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Consumer banking, Wholesale and SME Banking catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

[11] www.nmbbank.com,np

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's values. The Bank believes in delivering shareholder value in a socially, ethically an environmentally responsible manner. Standard Chartered throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally considered. It supports non-governmental organizations involving charitable community activities The Group launched two major initiatives in 2003 under its 'Believing in Life' campaign- 'living with HIV/AIDS' and 'Seeing believes'."[12]

1.15 Limitation of Study

1. This study is limited to dividend policy.
2. This study is based mainly on secondary data.
3. The data available in published annual report have been assumed to be correct and true.
4. Data is not available easily.
5. Only five companies are taken as sample due to lack of time.

1.16 Sources of collection of data

This study is primary based on secondary source of data. The required data have been collected from following ways:

1. Financial statement provides by related banks.
2. Related websites.
3. Different related books from library, articles and other related materials published in newspaper.
4. Speeches of financial experts
5. Banks' annual report.
6. Personal visits (interview).

[12] www.scbnl.com.np

1.17. Tools used for analysis

In this fieldwork report, collected data are analyzed and interpreted with the help of various fundamental financial and statistical tools. Following tools are used while conducting this research.

a) **Financial tools**: it mainly provides support to analyze the strength and weakness of a firm. It helps to show the mathematical relationship between two figures. Mainly following financial tools are used in this study.
   a. Dividend per share
   b. Earnings per share
   c. Market price per share
   d. Dividend yield
   e. Earnings ratio
   f. Retention ratio
   g. Dividend payout
   h. Price earnings ratio.

b) **Statistical tools**: It's mainly help to know the risk of risk less organization in the current senior. We are using various statistical tools to know the actual position of our sample banks our collected data's. Following statistical tools are used to get our research/proposal objective:
   i. Mean
   ii. Standard deviation
   iii. Coefficient of variation
   iv. Correlation
   v. Regression
   vi. Test of hypothesis
   vii. Analysis of variance

1.8. THEORETICAL FRAMEWORK

The studies have been divided into four major chapters which are as follows:-

- Introduction
- Review of literature
- Presentation and analysis of data
- Summary, Conclusion and recommendation

- The first chapter “introduction” deals with the studies showing the force of the financial performance and background information. This also include statement of problems ,objective of studies ,methodology, assumption of data, limitation of studies, and frame work of the studies
- The second chapter “REVIEW OF LITERATURE” deal with the related review and available studies has been made.
- Third chapter “RESEARCH DESIGN AND METHODOLOGY” presents the methodology use in the studies. It deals with research design, sources of data, procedure financial tools & technique and statistical tools use for the studies.

CHAPTER TWO

Review of literature

In this chapter relevant literature, which are related to the dividend policy is reviewed. Topics from different books and studies published in magazines, theses of seniors and journals related to the study are reviewed below. This chapter contains conceptual framework and review of various studies.

2.1 Conceptual Framework

Dividend refers to the portion of earnings made by the firm that distributed to shareholders as return of their investment in shares. In other words, it is the reward to shareholders for bearing the risk of uncertainty. If any firm makes profit then they have two alternatives, one is reinvest the earnings in profitable sector or in the expansion of business and other is distribute it to its owner i.e. Shareholders. Most firms try to make balance between these two alternatives. For this they retain certain percentage of business and rest is distributed to stockholders. This distributed income is simply called dividend. It is not decide dividend payout ratio because firm needs more fund for the expansion, in other hand they should have to satisfy shareholders by providing return on their investment. For this is necessary to adopt an effective dividend policy.

Dividend policy refers to the policy, which segments the earnings to retention amount and dividend. Dividend policy determines the ratio of earning to be retained and payout. As the dividend payment and retained earnings have inverse relationship all the problems regarding dividend payment and retention of earning is closely examined before applying appropriate dividend policy. Higher dividend payout reduces the retention amount, which affects the internal financing in other hand lower dividend payout affects maker price of stock. The decision regarding dividend payment depends upon the objective of the firm. If the firm have wealth maximization objective, it pays higher dividend otherwise[13] it uses the fund to reinvestment for growth and expansion of the firm with lower dividend payout.

“Most of investors expect dividend to continue in each year as well as to receive price when they sell the stock”. The expected final stock prices include the returns of the original investment plus capital gain. If the stock is actually sold at price

[13] Smith Dan Throp.1977. “Relief from double Taxation of Dividend income”, Harvard Business Review, Jan-Feb Vol.pp.90-91.

above its purchase price, the investor will receive a capital gain as such the shareholders expect an increase in market price of common stock over time. At the same time, they also expect firm's earning in a form of dividend. So, the shareholders may satisfy with dividend or capital gain. "Financial manager is therefore concerted with the activities of corporation that affect the being of stockholders. That well being can be partially measured by dividend received but a more accurate measure is the market value of stock"[14]. But shareholders usually think the dividend yield less risky than capital gain. "Since Dividend would be more effective to shareholders. One might think that there would be a tendency for corporation to increase distribution of dividend. But on might equally pressure that gross dividend would be reduced somewhat within increase in net profit after tax dividend still available to shareholders and increase in retained earnings for the corporation" [15]

2.1.1Forms of Dividend

Generally dividends are paid in cash but when the company is unable to pay cash dividend they use different form of dividend payment for satisfying stockholders. Such form of dividend scrip dividend, Property dividend, bond dividend etc. But in Nepalese context most of the companies are paying cash and stock dividend (bonus share).

1. **Cash Dividend**

Cash dividend may be termed as portion of earning paid in cash to owner of the firm as return on their equity investment. If company doesn't have enough cash at the time of dividend payment, company seeks to arrange fund, which will be managed by borrowing. "When the company follows stable dividend policy, they use to prepare cash budget to indicate the necessary funds which would be needed to meet regular dividend payment of the company"[16].

"The cash account and the reserve account of the company will be reduced when cash dividend is paid. Thus, both the total assets and the net worth of the company

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[14] shiva Raj Ghimire, (2005).financial management, K.P.Pustak Bandar ,Dillibazar, Kathmandu:p.310-312

[15] Smith Dan throp .(1977)."Relief from double taxation of Dividend income",Harvard business review ,jan –feb Vol.pp.90-91

[16] I.M. pandy. 1995. Financial Management, 7th Edition. New Delhi: Vikash Publishing house P.ltd.309

are reduced when the cash dividend is distribution. The market price of share drops in most cases by the amount of the cash dividend distribution"[17].

2. Stock Dividend

If additional shares are issued to existing shareholders instead of cash dividend is known as stock dividend. "A stock dividend represents a distribution of shares in lieu of or in additional to the cash dividend to the existing shareholders"[18]. When stockholders receive stock dividend, the number of share increases but as it is paid to existing shareholders on their proportion of their share holding, it does not affect the ownership of the company. Stock dividend increases number of shares as a result, EPS, DPS, and Market price of share of the company decreases.

3 Scrip dividend

If the company have not sufficient amount of cash for dividend payment, company may issue scrip or notes promising to pay dividend within the maturity period. So scrip dividend is those paid in the company promises to pay instead of cash. These dividends may be interest bearing or non interest bearing. When the company has sufficient cash then it is distributed to stockholders.

4. **Property Dividend**

If payments are made in the form of property or assets rather than cash, it is called dividend. When the company has unnecessary or useless assets for the operation of business, it is distributed in the form of property dividend.

5. Bond Dividend

When the company generates more profit for a long time, it is better to bonds, which carries certain interest rate. But there should be other constraints to issue bonds. It is issued in the form of bond dividend for existing shareholders.

2.1.2Theories of Dividend

1) Residual theory of dividend
2) Stability of Dividend

1. Residual theory of Dividend:

Residual dividend theory is based on the premise that inventors prefer to have a firm retain and re-invest rather than payout in dividend when it can invest the

[17] P.G. Hastings.1966.Management of business finance ,(n.e.)New York :Van Nostrand.p.370.
[18] ibrd:p.309

earnings the inventors themselves could get on re-investment of dividend received from the company. Because cost of retain earnings is lower than cost of equity the shareholder demands to retain available earning for financing the approved investment than payment of dividend.

2. Stability of Dividend:

Stability of dividend refers to the regularity in paying dividend even though the amount of dividend may fluctuate from period of period. “Stability of dividend is considers as a desirable policy the management of most companies. Shareholders also generally favor this policy and value stable dividends higher than the fluting ones. All other things being the same, stable dividends have a positive impact on the market price of the share”[19].

There are three major types of dividend policies developed (established) under dividend stability. Which are as follows?

I). Constant Dividend per share

The company which follows this policy pays a fixed amount per share as dividend every year, irrespective of the fluctuations in the earnings. It is easy to follow this policy when earnings are stable but if it fluctuates, the company faces difficulties to maintain such policy.

This policy does not imply that the dividend per share will never be increased. When the company reaches new level of earning and experts to maintain it, the annual dividend per share may be increased.

“The dividend policy of paying a constant amount of dividend per year threats common shareholders without giving any consideration to investment opportunities within the firm and opportunities available to shareholders”[20].

ii) Constant payout ratio

Constant payout ratio refers to the paying a fixed percentage of net earnings every year as dividend. Under this policy, the amount of dividend fluctuates with direct proportion of earnings. If the company incurs losses no dividend shall be paid regardless of the desire of shareholders. Internal financing with retained earnings is automatic when this policy is followed. At any payout ratio the amount of dividend and the additions to retained earnings with increasing earnings and Vice Versa.

[19] I.M. pandy. 1995. Financial Management, 7th Edition. New Delhi: Vikash Publishing house P.ltd.302

[20] . louis K.Brandit (1972).analysis of financial management ,(n.e).Engle Wood Cliffs ,N.J:prentice hall inc.p.7

iii) Low regular dividend per share plus extra

The company having fluctuating earnings follows this policy. In this policy a small amount of dividend is fixed to reduce the possibility of ever missing a dividend payment. In the period of prosperity extra dividend is paid to prevent inventors from expecting that the dividend represent an increase in the established dividend amount. "This types of policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility for supplementing the income of shareholders only when the company's earnings are higher than the usual .without committing itself to make larger payments as a part the future dividend"[21]. Some shareholder like this policy because of the certain amount of dividend with surprise extra dividend.

2.1.3 Factors Affecting Dividend Policy

Many considerations may affect a firm's decisions about its dividends, some of them are unique to the company, and some of more general considerations are given subsequently.

1) Desire of shareholders

Shareholders may be interested either in dividend incomes or capital gains. Wealthy shareholder in a high income tax bracket may be interested in capital gains as against current dividends. A retired and old person, whose source of income is dividend, would like to get regular dividend.

In a closely held company, management usually knows the desires of shareholders. So, they can easily adopt a dividend policy that satisfies all shareholders. But in a widely held company, numbers of shareholders is very large and they have diverse desires regarding dividends and capital gains. Some shareholders want cash dividends, while other prefers bonus share.

2) Legal rules

Certain legal rules may limit the amount of dividends a firm may pay .These legal constraints fall into categories. First, statutory restriction may prevent a company from paying dividends.While specific limitations vary by state, generally a corporation may not pay a dividend (I) if the firm's liabilities exceed its assets, (ii) if the amount of the dividend is being paid from capital invested in the firm.

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[21] Ibrd.p.304

The second type of legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts.

3) Liquidity position

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

4) Need to repay debt

The need to repay debt also influences the arability of cash flow to pay dividend.

5) Restrictions in debt contracts

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

6) Rate of assets expansion

A high rate of asset expansion creates a need to retain funds rather than to pay dividends.

7) Profit rate

A high rate of profit on net worth makes it desirable to retain earnings rather than to pay them out if the investor will earn less on them.

8) Stability of earning

Firms that have a stable earnings trend will pay a larger portion of its earnings in dividends. If earnings fluctuate significantly, a larger amount of the profits may be retained to ensure that enough money is available for investment projects when needed.

9) Tax position of shareholders

The tax position of stockholders also affects dividend policy. Corporation owned by largely taxpayers in high income tax brackets tend towards lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

10**) Control**

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

2.1.4 Legal Provision regarding Dividend practice in Nepal

Company Act 1997 makes some legal provision for dividend payment in Nepal. These provisions may be seemed as under;

Section 140: dividends and subsections of this section are as follows:

Subsection 1: except in the following circumstances, dividend shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

A) Case any law forbids the distribution of dividends.

B) In case the right to dividend is disputed.

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

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

Section B: explains that only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitles to it.

Above rules indicates that Nepalese law prohibits repurchase of stock. Which is against the theory of finance, the reason for this kind of provision is not known

2.2Review of Major studies

2.2.1Walter's study[22]

Professor James E Walter conducted research in 1966 regarding dividend policy. In which he argues that value of the firm always affected by the dividend policy adopted by the firm. In this approach, investment of the firm is directly affected by the dividend policy. This is opposite to the Modigliani and M iller's approach.

His study is mainly focused to find out the relationship between internal rate of return and firm's cost of capital. By analyzing these two factors firm can allocate the total earnings to dividend and retained earnings.

His model is based on following assumptions.

[22] James E. walter .March 1966."Dividend policies and common stock price,"Journal of finance .p.29-41

1. The firm finances all investment through retained earning i.e. Debt or new equity not issued. 2. All earnings are either distributed as dividend or reinvested immediately, i.e. no earnings should be retained in form of cash.
3. The firm's internal rate of return and cost of capital are constant.
4. Beginning earning per share and dividend never change.
5. Firm has very long or infinite life.
Based on these assumptions Walter formulated the related factors to determine the market price of share.

$$P = \frac{DPS}{K} + \frac{r/k\,(EPS-DPS)}{k}$$

Where,

P = market price per share
DPS = Dividend per share
EPS = Earnings per share
r = initial rate of return
k = cost of capital

According to Walter's model, the optimum dividend policy depends on the relationship between IRR and its cost of capital. His view on the optimum dividend payout ratio can be summarized as follows.

1. Growth firms

If the initial rate of return is higher than the firm's cost of capital, these firms are said to be growth firm. These firms assumed to have sufficient profitable investment opportunities. Such firms can maximize the Value of share by retaining all earning for internal investment. Thus, the optimum payout Ratio for a growth is zero.

2. Normal firm

The firm having equal internal rate of return and cost of capital is known as normal firm. For these firms dividend policy does not affect the market value of share. 'There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as other. Market value per share is not affected by the payout ratio.'

3. Declining firm

Declining firms have lower IRR than firm's cost of capital. Generally these firms don't any profitable investment opportunities. So, for these firms it is better to distribute all the earning s as dividend. Thus the optimum payout ratio for declining firm is 100%. The market value per share increases as payout ratio increases.

2.2.2 Gordon's Model [23]

Myron Gordon modified the Walter's model for determining the market price of the stock. In his study he conducted that dividend policy has the direct relationship with market value of the stock. So, dividend policy affects the market value of the stock even when the internal rate of return (return on investment) is equal to the capitalization rate. This study suggests that investor prefer present dividend rather than future gains. So, the higher dividend yield causes increase in market price of stock.

This study is mainly based on following assumptions.

I) The firm is an all equity firm.
II) No external equity is available. Only retained earnings are used for financing any expansion.
III) Internal rate of return and appropriate discount rate are constant.
IV) The firm and its stream of earning are perpetual.
V) The corporate taxes do not exist.
VI) The retention ratio once decided upon is constant. Thus the growth rate is constant forever.
VII) Cost of equity must be greater than growth rate.

Based on these assumptions, Gordon has derived a formula for determining the market value of share.

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

Where,

[23] . Myron J.Gorden.1962. The investment financing and Valuation of Corporate "-,Home Wood Vol .III

P	=	market price of share
EPS	=	Earnings per share
b	=	retention ratio
1-b	=	dividend payout ratio
Ke	=	capitalization rate
br or g	=	growth rate

Limitations

Since the assumptions of both model are almost same. Some both have same conclusions. But their assumptions are far from the reality. Like they assumed that r and k will be constant but in practice r and k will not be constant rather it changes. They also assumed that firm is free from tax liability but in practice tax exists in any firm.

2.2.3 Modigliani and Miller study (MM study) [24]

M.M theory is also known as irrelevant theory of dividend. According to Modigliani and miller, dividend policy of any firm is irrelevant, as it does not affect the wealth of shareholders. They argue that the value of the firm depends upon the firm's earning rather than the amount of dividend paid. So, an effective investment policy causes increase in value of the stock. MM theory is based on following assumptions.

1. The firm operates in perfect capital market. Information is costless and readily available to all investor. Transaction cost and flotation cost do not exist. All securities are infinitely divisible. Investor is assumed to rational and to behave accordingly.
2. Taxes do not exist.
3. The firm has fixed investment policy.
4. Risks of uncertainty do not exist.

Modigliani and miller provide following proofs for the support of their argument.

[24] . F.Modigliani and M.H .Miller. October 1961."Dividend policy, Growth and Valuation of Share," Journaof Business.pp.411-433

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

Symbolically,

$$Po = \frac{D1+P1}{1+K_e}$$

Where,

Po = Market piece of the share at the beginning of the period.

P1 = Market price of share at the end of period.

D1 = dividend per share at the end of the period.

K_e = cost of equity

According to MM model, if external financing exists the market value of the firm can be computed by multiplying both sides by number of share outstanding. The total value of the firm is,

$$nP_0 = \frac{n(D1+P1)}{1+Ke}$$

Where,

n= no. Of shares outstanding

At the end of the year the firm sells number of new shares at price P1and finances it investment opportunities. The value of the firm at time 0 will be,

Or,

Wl $nP_0 = \dfrac{P1\ (n+\Delta\ n)}{1+K_e}$

n = no. Of shares at the beginning of the yea
Δ n = no. Of share issued at the end of the year

If the firm finances all investment proposals (projects) either by issuance of new shares or by re or both the amount of the new shares would be

$$\mathbf{\Delta nP1 = I - (E - nD1)}$$

Where,

ΔnP1 = amount obtained from the sale of new shares.
I=amount required for new investment during the period.
E=total earnings during the period.
E-nDI=Retained Earning
Substituting the value of npi of step 4 to equation of step 3
We get,

$$nP_o = \frac{nDi+PI\ (n+\ n)-I+E-nDI}{I+\ K_e}$$

or

$$nP_o = \frac{PI\ (n+\ n)\ +I+E}{I+Ke}$$

Conclusion:

Since there is no existence of dividend in above equation, MM conclude that amount of dividend paid is irrelevant to the value of the firm. In other words, dividend policy doesn't affect the value of the firm.

Limitation

MM Theory of irrelevance is mainly based on simple assumption, which is not well founded. Such as perfect capital market, which is hardily found in practice? Their assumption about in existence of tax is far from the reality. Investors have to pay tax on dividend received or capital gains earned. As the tax rate on capital gain is lesser then dividend received. So, investor doesn't remain indifferent between dividend and capital gains. In fact, dividends are relevant and influence the wealth of firm.

2.2.4 Linter's Study[25]

J. Linter conducted a study in 1956, which is focused in the behavioral aspect of dividend policy .he investigated dividend pattern of 28 different companies of America. The conclusion of his study is as follows.

$$Div_t^* = PEPS_t$$

And

$$DIV_t - DIV_{t-1} = a + b(Div^*_t - Div_{t-1}) + e$$

Where, DI V^*_t=firms desired payout

EPS_t= Earnings per share

P=targeted payout ratio

a=Constant relating to dividend growth

b=adjustment factor relating to pervious period's dividend and desired level of dividend (b>1).

Major findings of this study are as follows:

1. firm generally thinks in terms of proportion to be paid as dividend
2. investment requirements are not considered for modifying the paten of dividend behavior

[25] J.linter. 1956. "Distribution of incomes of corporations among dividend, Retained Earnings and Taxes."American Economic Review. Vol.46.pp.97-113

3. Firm generally have target payout ratio in view while determined change in dividend per share.

2.2.5 Van horm and mc danald's study [26]

van horn and mc danald concluded Comprehensive studies of 86 electric utility firms and 39 electronic and electric component industries by using cross sectional regression model in 1968 to know the combined effect of dividend policies and new equity financing decision on the market value of the firm's common stock.
From their studies, they concluded that the market price of share was not affected by new equity financing in present of cash dividend except for these in the highest new issue group and it made new Equity more costly from of financing than retention of earnings. They also indicates that the payment of dividend through excessive equity financing reduce the market price of share.

2.2.6Chawala And Shrinivasan's Study

This study is also focused on the impact of dividend and retention market price of stock .they estimated cross sectional relationship of 18 chemical and 13 sugar industries for the year 1963 to 1973. The basic objectives of the study are
To set a model this explains the relationship between share price, dividend and retained earnings.

1. To test the dividend, retained earning hypothesis.
2. To examine the structural changes in the estimated relations overtime.

To achieve above objectives, they used simultaneous equation model as developed by Friend and Pukeet in 1964·

The unspecified form of the model is as follows

Price function

$$P_t = F\,(D_t\,,\ R_t\,, P/E_{t-1})$$

[26] James C.van Horn and G. Mc Donald 1971."Dividend policy and new equity financing " Journal of finance. Vol.XXVI.pp.507-519

Identity, $E_t + R_t$

Where

P= Market price of share

D=Dividend per share

R=Retained earnings Per Share

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

T=Subscript for time

They use two stage least square techniques for estimation. They found that the estimated coefficient has a correct sign and coefficient of determination of all equation was higher in case of chemical industry. Which implies that the stock price and dividends paid variation can be explain by their independent variables. But the case of sugar industry the sign for retained earnings is negative.

From their study they conclude that both dividend and retained earning significantly explain the variation in share price of the industry.

2.2.6 Friend and Puckett's Study[27]

Friend and pucket (1964) conducted a study on the relationship between dividends and stock price, by running regression analysis on the data of 110firms from five industries in the year 1956 to1958.thesefive industries were chemicals, electric utilities, electronics, food and steels. These industries were selected to permit a distinction made between the result for growth and non growth industries and to provide a basis for comparison with result by other authors for earlier year. They also cyclical and no cyclical industries which they covered. The studies provides cover a boom year for the economy when stock price leveled off after rise (1956) and a somewhat depressed year for the economy when stock prices, however Rose strongly (1958).

[27] . Irwin Friend and Marshall Puckett.1964. "Dividends and stock prices". The American Economic Review ,Vol.LIV.pp.656-682

They used dividends, retained earnings and price earning ration as independent variables in their regression model of price function. The use supply function i.e. dividend function also. In their dividend function, earnings, last year's dividend and price earnings ratio are independent variables. They quoted that the dividend supply function was developed by adding to the best type of relationship developed by Linter.

Symbolically, their price function and dividend supply function are:

Price function: $P_t = a + bD_t + cR_t + d\,(E/P)_{t-1}$

Where,

P_t=share price at time t

D_t=Dividends at time t

R_t=Retained earnings at time t

$(E/p)_{t-1}$=lagged earning price ratio

Dividend supply function: $D_t = e + f\,E_t + gD_{t-1} + h\,(E/P)_{t-1}$

Where,

E_t=earnings per share at time t

D_{t-1}=last year dividend

Their study was based on the following assumptions:

1. Dividends do react to year –to –year fluctuations in earnings.
2. Price doesn't contain speculative components.
3. Earnings fluctuations may not sum zero over the sample.

Their regression result based on the equation of $Pt=a+ b\,D_t + c\,R_t$ shows the customary strong dividend and relatively weak retained effects in three of the five industries, i.e. chemicals, foods and steel. Again they tested other regression equations by adding lagged earnings price ratio to the above equation and result the following equation:

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

They found the following results:

They found that more than 80%of the variation in stock prices can be explained by three independent variables. Dividends have a predomeninant influence on stock prices in the same three out of five industries but they found the differences between dividends and retained earnings. Coefficients are not quite so market as in the first set of regressions. They also found that the dividends and retained earnings coefficient are closer to each other for all industries in both years except for steels in 1956 and the correlation are higher again except for steels.

They also calculated dividends supply equation i.e.

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

Further, they lagged price as a variable instead of lagged earning price ratio and showed that more than 90%of variation in stock prices can be explained by the three independent variables and retained earnings received weight then dividend in most of the cases .the only exception was steels and foods in 1958. they considered chemicals ,electronics and utilities as growth industries .in these groups and the retained earnings effect was larger than the dividend effect for both years covered .for the other two industries ,namely foods and steels ,there were no significant systematic differences between the retained earnings and dividend coefficients.

Similarly, they tested the regression equation of $Pt=a+ b D_t +c R_t$ by using normalized earning again. They obtained normalized retained earnings by subtracting dividends from normalized earnings. That normalized procedure was based on the period 1950 to 1961.again they added prior year's normalized earning price, variable and they compared the result. Comparing the result they found that there was significant role of normalized earnings and the retained earnings but effects of normalized price earnings ratio was constant. When they examined the later equation, they found that the different between dividend and retained earnings coefficients disappeared. Finally they concluded that management might be able to increase prices somewhat by raising dividends in foods and steel industries.

They conducted more details examination of chemical samples. That examination disclosed that the result obtained largely reflected the undue regression weighting given the three firms with price deviation most from the average price in the sample of 20 firms and retained earnings as a price determination.

Finally, friend and Puckett concluded that, it is possible that management might be able, at least in some measure, to increase stock prices in non growth industries by raising dividends and in growth industries by greater retention i.e. low dividends.

2.2.7 H.K.Baker, G.E. Farrelly and Richard B. Edelman's study[28]

H.K. Baker, G.E. Farrelly and Richard B. Edelman surveyed management view on dividend policy. They asked corporate financial managers what they considered most important in determining their firm's dividend policy .the objectives of their survey were as follows.

1. To compare the determinants of dividend policy today with Linter's behavioral model of corporate dividend policy and to assess management's agreement with Linter's findings.
2. To examine management's perception of signaling and clientele effect.
3. To determine whether managers in different industries share similar views about the determinants of dividend policy.

The firms they surveyed were listed on the New York Stock Exchange and classified four digit standard industrial classification codes .total of 562 NYSI

[28] . H. Kent baker, Gail E. Farrely and Richard B.Edelman.1985. "A Survey of Management Views on Dividend policy", Financial Management .Autumn Vol.pp.78-84.

firms were selected from three industrial groups. Utility (150), Manufacturing (390) and whole sale/retail (103).

They mailed questionnaire to obtain information about corporate dividend policy. The questionnaire consisted of three parts (1) 15 closed end statements about the importance of various factors that each firm used in determining its dividend policy. (2)18 closed end statement about theoretical issues involving corporate dividend policy (3)a respondent's profile including such items as the firm's dividends and earnings per share.

They send the final survey instrument to the chief financial officer of the 562 firms followed by a second complete mailing to improve the response rate and reduce potential non response bias. Their survey yielded 318 usable responses (56.6%response rate) which were dividend among the three industry groups as follows.114 utilities (76%) ,147 manufacturing firms (47.6%) and 57 wholesale / retail (5.3%).based on dividend and earnings per share data provided by the respondents, the average dividend payout ratio were computed .they found that payout ratio of the responding utilities (70.3%) was considerably higher than for manufacturing (36.6%) and wholesale /retail(36.1%).

The results of their survey on the aspect of determinants of dividend policy were as follows.

i. The first highly ranked determinations are the anticipated level of firm's future earnings and the second factor is the pattern of the past dividends. They found the high ranking of these two factors is consistent with Linter's findings.
ii. A third factor cited as important in determining dividend policy is the availability of cash.
iii. A fourth determinant is concerned about maintaining or increasing stock price. They found this is particularly strong among utilities that ranked this second in importance.

Similarly, the results of their survey on the aspect of attitudes on theoretical issues were as follows.

i. Respondents from all three-industry groups agreed relatively strongly that dividend payout affects common stock price.
ii. respondents from all three-industry groups agreed .on average ,that dividend payouts provide a signaling device of future company prospects and that the market uses dividend announcements as information for assessing security value.
iii. Respondents also demonstrated a high level of agreement that the reason for dividend policy changes should be adequately disclosed to investors.
iv. Respondents from all three-industry groups thought that investors have different perceptions of the relative riskiness of dividends and retained earnings and hence are not indifferent between dividend and capital gain returns.

2.3 Review of Journal and Articles

Radha shyam Pradhan conducted an outstanding study related to stock market behavior [29]in 1992. In his study he collected that data of 17 enterprises from the year 1986 to 1990.the objectives of the study are

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

The conclusion of the study related to dividend behavior is as follows.

i. Higher earning on stock leads the leverage ratio of DPS.
ii. Stock with larger ratio of dividend per share to market price have lower leverage ratio.
iii. Positive relationship between the ratios of market price and interest coverage.
iv. Positive relationship between dividend payout and turnover ratios.
v. Positive relationship between dividend payout and liquidity.
vi. Positive relationship between dividend payout and profitability.
vii. DPS and MPS are positively correlated.

[29] Radhe shyam Pradhan.1993."Stock Market behavior in a small capital market: A case of Nepal". The Nepalese Management Review, vol.IX.pp.23-49

Manohar K. Shrestha's study on 'shareholder's democracy and annual general meeting feedback'[30] deals with the policies and financial performance of some financial institution of Nepal, which contains Dr. shrestha's view expressed in annual general meeting of financial institution . The paper presented by him on fifth annual general meeting of Nepal Arab bank has been presented here.

In his view the common problems and constraints of the shareholders are as follows:

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

[30] Dr. Manohar Krishna Shrestha.1992."Shareholder's Democracy and Annual general meetings feedback", Portfolio analysis. Kathmandu: Nepal publication

At way to the paper, Mr. Shrestha states that the banks are trying its best to satisfy shareholders and employees as well.

Another article published by **K.D. Manandhar** describes about the relationship of dividend payout to other financial factors [31]based on the data of 7 commercial banks ,5 finance and insurance companies ,2trading companies ,2service oriented companies and 1manufacturing company for the year 1987to 1998.

Following are the major findings of his study

1. Significant relationship is found between change in dividend policy in term of dividend per share and change in lagged earnings.
2. There is relationship between described lagged profit and dividend.
3. The difference is found significant between overall[32] proportion of change dividend and due to increase and decrease in EPS during the study period.
4. In overall increase in EPS has resulted to increase in the dividend payment in 66.6%of the cases while decrease in EPS resulted decrease in dividend payment, which come to equal to 33.3%of the cases.
5. it is found that Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share or increase it irrespective of change in EPS as reflected by the total percentage of constant and increase dividend payment of 78.33% of the cases .in other words forms are reluctant to decrease dividend payment .
6. in overall forms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effects of dividend relating to the firm's continued progress and performance sound financial strength favorable investment environment, lower risk, ability to maintained sustained dividend rate and finally to increase the market price of the stocks in the stock market.

2.4 Reviews from the Thesis

[31] Kamal das Manandar (2000)."preliminary test of ledgal structure of dividend" empirical test: case of corporate firm in Nepal' . management of dynamic. Vol. 10, shanker dev campus. Pp.5-12

There are few theses available which have looked into corporate dividend behavior .The available thesis review as follows:

A comparative study of dividend policy in commercial banks [33]conducted by **Miss.Samita Nirawla** was crried out by using the secondary data five years commercial banks in2007.

Objective of the study are as follows:

1. To identify the dividend policies of different companies and find out whether the followed policy is appropriate or not and which policy is better.
2. To identify the regularity of dividend distribution of different listed companies.
3. To identify the relationship between dividend policy and other financial indicators.
4. To find out whether dividend policy affects value of the firm or not.
5. To find out the relationship between dividends per share (DPS) and market price of share (MPS).

Major findings of the study are as follows:

1. Average earning per share and dividend per share of all concerned banks are satisfactory.
2. The analysis of MPS shows that MPS of all sample commercial banks are in increasing trend.
3. This analysis found that the market price of stock is affected by other variables which indicate about the rational behavior of investors.
4. This analysis shows that most of the companies don't see to follow the optimum dividend policy of paying regular dividend per shareholder's expectation. It might cause uncertainty among stockholders.
5. The insignificant relationship between DPS and other financial indicators like EPS and CR indicates that the dividend policy of all these companies is unscientific.

[33] Samita nirawla 2007."Dividend Policy in Commercial Banks: a Comparative study of SCBNL, N ABIL,HBL,NIBL,EBL."unpublished Master's Degree thesis (T.U), post graduate campus ,Biratnagar

6. Though there is positive relationship between market price of share and last year's dividend for all sample banks. There is negligible effect on market price due to dividend.

Babita Khadaka has performed a thesis on dividend policy: Comparative study between KBL and MBL[34]with five year's data relating to dividend policy from 2003/2004 to2007/2008.

Objective of the study as follows:

1. To check the consistency in DPS, EPS and D|P ratio on sample banks.
2. To study the current practice of dividend policy in commercial banks.
3. To determine the impact of dividend on share price.
4. To provide useful suggestions to formulate optional dividend policy and maximize share price on the basis findings.

Major findings of the study are as follows:

The generally analysis of earning per share, dividend yield, dividend per share ,dividend payout ratio, earning yield ,price earnings ratio, correlation between various variable ,regression analysis and test of hypothesis of EPS,DPS and DPR shows the following findings:

1. The average earning per share of related banks is satisfactory.
2. Dividend per share is not satisfactory.
3. The correlation coefficient between MPS and EPS of two banks is positive.
4. The correlation coefficient between EY and DY of banks is positive.
5. The correlation coefficient between MPS and P|E ratio is positive and the relationship of two bank is significant at 5%level off's' test.
6. The regression coefficient of EPS, dependent variable MPS on EPS of two banks are positive.
7. F test suggest that EPS, DPS, DPR and MPS of the concerned two banks are significant different at 5%level of significance.
8. No commercial banks seen to be guided by cleanly defined dividend strategy in spite of the good earning and potentials.

[34] Babita karki. (2007/2008)."Study on dividend policy: A comparative study between KBL and MBL". unpublished Master's Degree thesis (T.U), post graduate campus ,Biratnagar

Sabita karki has conducted a study on dividend policy .a comparative study between banks and insurance companies[35]through data collected from 1998/99 to 2002/2003with 3 joint venture commercial banks and 3 insurance companies.

The main objective of her study was:

1. To examine the relationship between dividend market price of the stock.
2. To identify the appropriate dividend policy followed by the banks and insurance companies.
3. To analyze the relation between dividend policy decision of banks and insurance companies.

Major findings are as follows:

1. The average DPS and EPS of all sample institutions seem satisfactory.
2. The analysis of coefficient of variation shows that there is the largest fluctuation in EPS and DPS .other companies have seemed to be relatively more consistent.
3. The analysis of dividend payout ratio shows, none of the banks or insurance companies has consisted payout ratio each year. It is always fluctuating from year to year.

Prabin Bhattarai has conducted a study on dividend policy and practices of commercial[36] bank of Nepal through data collected from 2000 to 2004.

The main objective of the study as follows:

1.To examine relationship of dividend with various important variable share as earning per share .dividend per share ,dividend per ratio and profitability ratio on market value per share.

2. To analyze the impact of dividend on share price.

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[35] Sabita Karki. (2006) .”Study on dividend policy: A comparative study between Banks and Insurance”. Unpublished Master’s Degree thesis (T.U), Shankar Dev Campus.

[36] Prabin Bhattarai (2006).”Dividend policy and practices of commercial banks of Nepal”. unpublished Master’s Degree thesis (T.U), post graduate campus ,Biratnagar

3. To examine if there is any uniformity among DPS, EPS, and DPR on the three sample JVBS.

4. To provide suggestions that can be helpful for further improvement and to overcome the problems on the basis of fact and figure found during the research.

Major finding are as follows:

1. Dividend per share of EBL is not satisfactory. SCBNL paid the highest average DPS to its shareholders Rs 104 where as EBL paid the lowest average DPS to its shareholders Rs8.

2. Earnings per share of all three banks is satisfactory. SCBNL paid the highest average EPS to its shareholders Rs 135.29 where as EBL paid the lowest average EPS to its shareholders.

3. Analysis of CV indicates that there is largest fluctuation in DPS of EBL.NABIL and SCBNL are relatively more consistent in EPS.

4. Changes in DPS affect the MPS.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction:

Research methodology is defined as the followed by the researcher in order to give the result of his study. It is a way to systematically solve the research problem. "Research methodology refers to the various sequential steps to adopt by a research in studying a problem with certain objects in view." "A systematic research study needs to follow proper methodology to active the pre mentioned objective. Research methodology is a sequential procedure and method to be adopted in a systematic study." in fact, research methodology is the outline of the research which the research is going to do .here a focus is given to the research design, sources of data, population and sample, method analysis, tools defined about certain financial indicators, test of hypothesis and statistical tools used.

3.2 Research Design

"By research design we mean an overall framework or plan for the collection and analysis of data". The research design is the conceptual structure within which the research is conducted. In simple words, planning for research is research design. the research design of this study basically follows the impact of dividend on the market price to common stock of a company when dividend is paid to shareholders and also how market price respond when dividend is not paid to the shareholders. Various analytical and descriptive approaches are used to determine the impact of dividend the impact of dividend policy followed by an organization on its market price. Thus, the research design is integrated frame that guides the research planning and executing the research works .for the analysis purpose, the financial statement of banks published by Nepal stock exchange ltd. We are collected from the year 2006/07 to 2010/11.

3.3 Data Analysis Tools

3.3.1 Financial tools used for analysis

1. Dividend per share (DPS)

The dividend per share is the per share earnings distributed to the shareholders .it can be calculated by following formula.

$$\text{Dividend per share} = \frac{\text{Dividend paid to equity shareholders}}{\text{Numbers of equity shares}}$$

The dividend per share is considered excellent when it is higher .a large number of present and potential investors may be interested in DPS rather than EPS.

2. **Earnings per share (EPS)**

The earnings per share is the income of per common share .it can be calculated by the following way.

$$\text{Earnings per share} = \frac{\text{Net profit after tax –preference dividend}}{\text{Number of common shares}}$$

Higher earnings per share are preferable and vice versa.

3. Market price per share to book value per share ratio

This ratio reflects the price of the market or outsiders are paying for each rupee of currently or reported by the company. It is calculated by dividing the market value per share by book value per share.which is denoted as follows :

$$= \frac{\text{Market value per share}}{\text{Book value per share}}$$

4. Dividend yield

The dividend yield is the ratio between dividends per share (DPS) to market value per share (MVPS) is known as dividend yield ratio. It evaluates the shareholder’s return in retention to the market value of share. It can be computed by following formula.

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

5. Earning yield

The earning yield is the earnings per share divided by a current book price.

$$\text{Earning yield} = \frac{\text{Earnings per share}}{\text{Market value per share}}$$

6. Retention ratio:

Retention Rate (also called earnings retention ratio, plowback ratio) is the proportion of net income that is not paid in dividends. A firm earning RS, 80 million after taxes and paying dividends of RS, 20 million has a retention rate of RS, 60 million/RS, 80 million, or 75%. A high retention rate makes it more likely a firm's income and dividends will grow in future years. It's often expressed as a percentage.

Retention rate is calculated as: **(Net Income - Dividends)/Net Income**

7. Dividend pays out ratio

The dividend payout ratio is the ratio between dividends per share (DPS) to earning per share (EPS) is known as dividend payout ratio. It can be completed by the following way.

$$\text{Dividend payout ratio} = \frac{\text{DPS}}{\text{EPS}}$$

Earnings not distributed shareholders are retained in the business.

8. Price earnings ratio

Price earnings ratio shows how much investor are willing to pay per rupee of reported profits. It is higher for firms with high growth prospectus, other things held constant, but they are lower for riskier firms.

$$\text{Price earnings ratio} = \frac{\text{Price per share}}{\text{Earnings per share}}$$

3.3.2 Statistical tools used

The various statistical tools have been used for the analysis and interpretations of the study .in this study, the following statistical tools are to analyze the relationship between dividend and other variables.

1. **arithmetic mean or average($\bar{x}$):**

The most popular and widely used measure of center tendency is the arithmetic mean or simply the mean .arithmetic mean is the sum of all the observations on divided by the number of observation is called arithmetic mean. it represents the entire data by a single value. In this study, the data related to dividend are tabulated and drawn out average over different years. It is calculated as

$$\text{Mean}(\bar{x}) = \frac{\text{Sum of the value of observation}}{\text{Total number of observation (N)}}$$

2. **Standard deviation (SD)**

Standard deviation of a set of values of a variable which is defined as the positive square root of the arithmetic root of the arithmetic mean of the square of the square of all observations of the values from their mean. It is usually denoted by Greek letter sigma .it is most important measure of dispersion. It was developed by Karl pear sons in 1983. a small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and vice versa . It is calculated for dependents and independent variables specified.

Mathematically;

$$\text{S. d.} = \frac{(X-\bar{X})}{N-1}$$

Where,

S. d. = Standard Deviation

X= set of observation

$\bar{X}$=arithmetic mean

N=number of observation

2. co-efficient of variation(c.v.)

Co-efficient of variation (CV) is the most commonly used measure of relative variation .it is used in such problems where to compare the variability of two or more than two series. “The coefficient of variation is the relative based on the standard deviation and is defined as the ratio of the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percent.” it shows the risk per unit of return and provides a more meaningful basis for comparison when the expected return on the expected return on two alternatives are not the same. because the coefficient of variation captures the effects of both risk and return , it is the better measure for evaluating risk in situations where investment differ with respect to both their amounts of total risk and their expected return. A project with a low c. v. Has less risk per rupees. A project with a high c. v. It is denoted by C.V. and is obtained as follows;

$$\text{Coefficient of variation (C.V.)} = \frac{\text{SD.}}{\text{MEAN}(\overline{X})} * 100$$

Where,

c.v. = co-efficient of variation

S.d . = standard deviation

Mean($\overline{X}$) = arithmetic mean

4. **Coefficient of correlation (r)**

The correlation analysis deals with statistical technique, which measure the degree of relationship or association between the variables .in other words, it helps us in analyzing the co-variation of two or more variables. It value lies somewhere ranging between -1 to +1.if the both variables are constantly changing in the similar direction .the value of coefficient will be +1 indicative of perfect positive correlation ,when the coefficient will be -1 two variables take place in opposite direction. For analyzing the relationship between two variables, Karl Pearson’s correlation has been used. Symbolically, it is determine,

$$r = \frac{\sum xy}{\sqrt{\sum x^2} * \sqrt{\sum y^2}}$$

Where,

r=correlation of coefficient

X=independent variable

Y=dependent variable

N=number of period

Chapter Four

Presentation and analysis of data

In the previous chapter, introduction of study, review of literature and research methodology were presented .this chapter is related with the data calculation to obtain in objectives the researcher mentioned in the introduction chapter .this is main part of the study from where we get result, this chapter is used all the process mentioned in the researchers methodology chapter two fulfill the purpose of the study.

This chapter begins with the analysis of earning per share, dividend per share, earning yield, dividend yield, dividend percentage, dividend payout ratio and P/E ratio .this financial indicators of concerned banks are compared with the help of statistical tools like mean ,standard deviation ,relationship between with other variables is calculated .regression analysis of some specific variables has been made. And hypothesis is also tested during the period of the 2006/2007 to2010/2011.

4.1 Analysis of Financial Indicators:

4.1.1Earnings per share (EPS) and Dividend per share (DPS) analysis

Table 4.1(a) EPS of Respective Banks

Year	KBL	SCBNL	SBI	EBL	NMB
2006/07	16.59	175.84	18.27	62.78	18.25
2007/08	22.7	167.37	39.35	78.42	37.57
2008/09	16.35	131.92	28.33	91.82	7.28
2009/10	22.04	109.99	36.18	99.99	4.22
2010/11	24.24	77.65	23.69	100.16	10.65
Total	106.92	662.77	145.82	433.17	77.97
Average	21.384	132.554	29.164	86.634	15.594
SD	4.919414	40.65039	8.693652	16.00557	13.3504
CV%	23.00511	30.66704	29.80953	18.47493	85.6124

(Source: Annual report and web-side of the concern companies and **Appendix 5**)

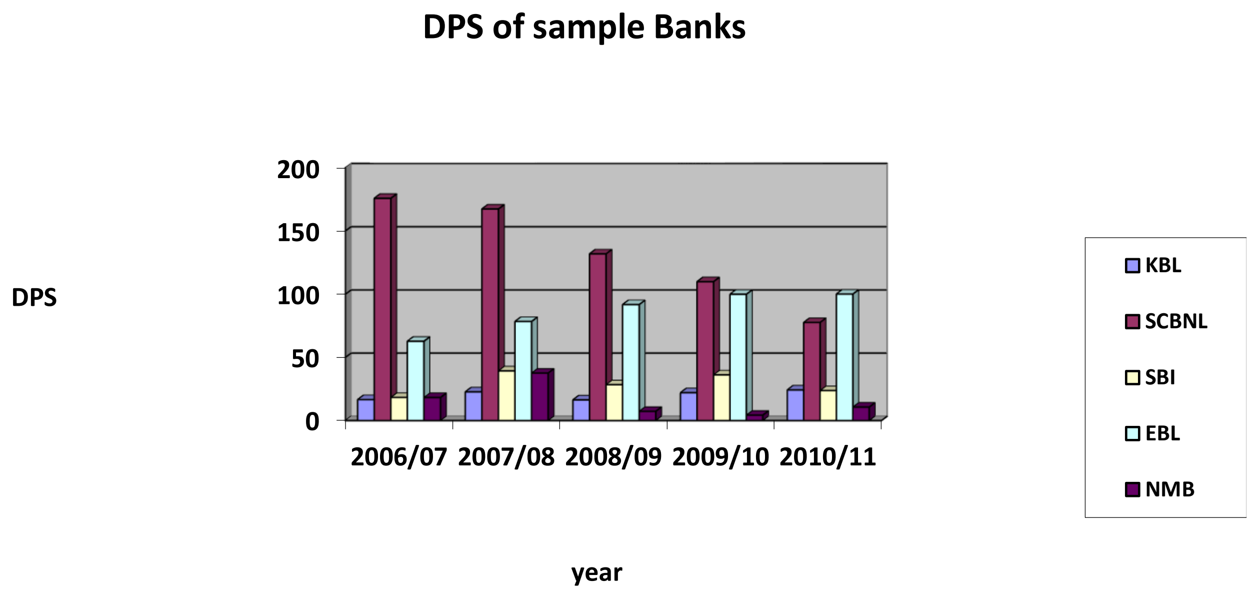
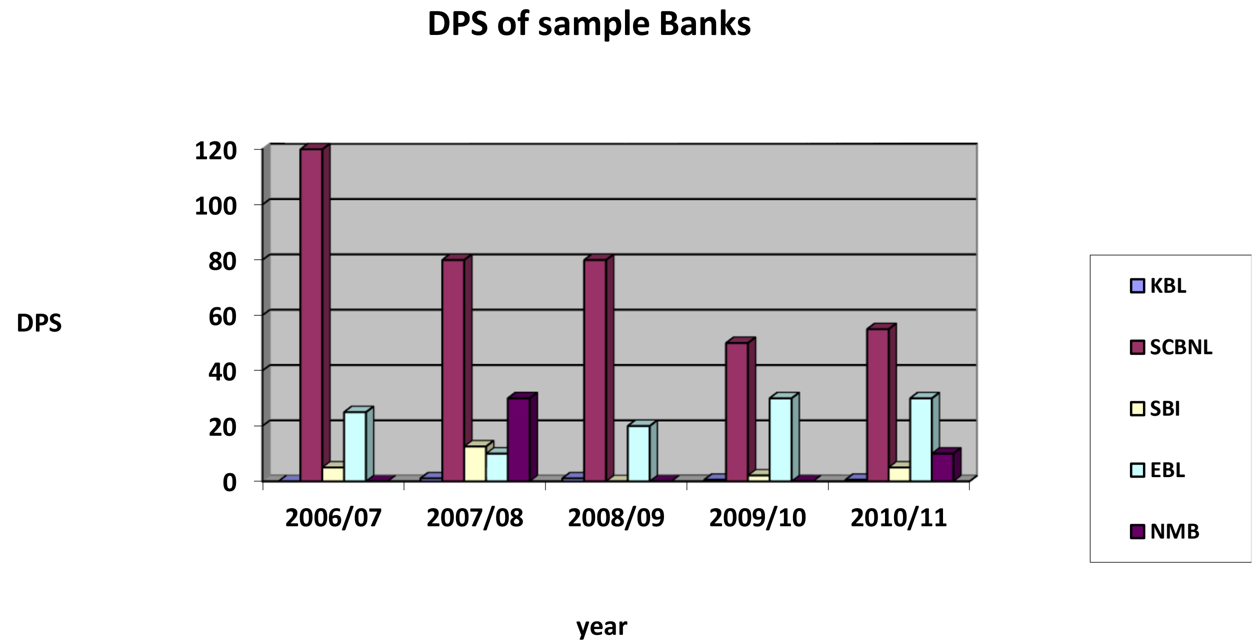


Table 4.1(b) DPS of Respective Banks

DPS data presentation

Year	KBL	SCBNL	SBI	EBL	NMB
2006/07	0	120	5	25	0
2007/08	1.05	80	12.59	10	30
2008/09	1.05	80	0	20	0
2009/10	0.53	50	2.11	30	0
2010/11	0.55	55	5	30	10
Total	3.2	385	24.7	115	40
Average	0.64	77	4.94	23	8
SD	0.436463	27.74887	4.768181	8.3666	13.0384
CV%	68.19735	36.0375	96.52188	36.37652	162.9801

(Source: Annual report and website of the concern companies and **Appendix 5**)



Above table shows the amount of earning per share and dividend per share paid by the banks from the year 2006/07 to 2010/11

Starting from the year 2006/07 SCBNL has the highest EPS than other banks, which paid higher dividend also in comparison with other banks. The lowest earning made by KBL but KBL and NMB haven't paid dividend .Although the DPS of SBI is lowest in comparison with other three banks.

In 2007/08 the EPS of SCBNL slightly decreased and increasing trend of other three banks continues. KBL also paid lower DPS in comparison with other banks but KBL and NMB have paid dividend in comparison with previous year.

In 2008/09 the EPS of KBL, SCBNL, SBI, NMB decreased and increasing trend of EBL continues .the amount of dividend is increased in case of EBL and constant in case of KBL and SCBNL in comparison with previous year. But SBI and NMB haven't paid dividend this year.

In 2009/10 the EPS of SCBNL and NMB decreased and increasing trend of other three banks continuous. But KBL paid lower DPS in comparison with other banks and NMB also hasn't paid dividend in this year.

In 2010/11 the EPS of SCBNL and SBI decreased and increasing trend of other three banks in comparison with previous year. But the amount of dividend is increased in the case of SCBNL and constant in the case of KBL and EBL in this year.

On the average, SCBNL has the highest EPS.EBL, SBI, KBL and NMB come after SCBNL respectively. The average of pooled average is

Since the average of EPS of SCBNL is highest among all five banks it has been able to pay considerably higher amount of dividend to its shareholder in comparison with other four banks.NMB has the lowest EPS in average among all five banks.

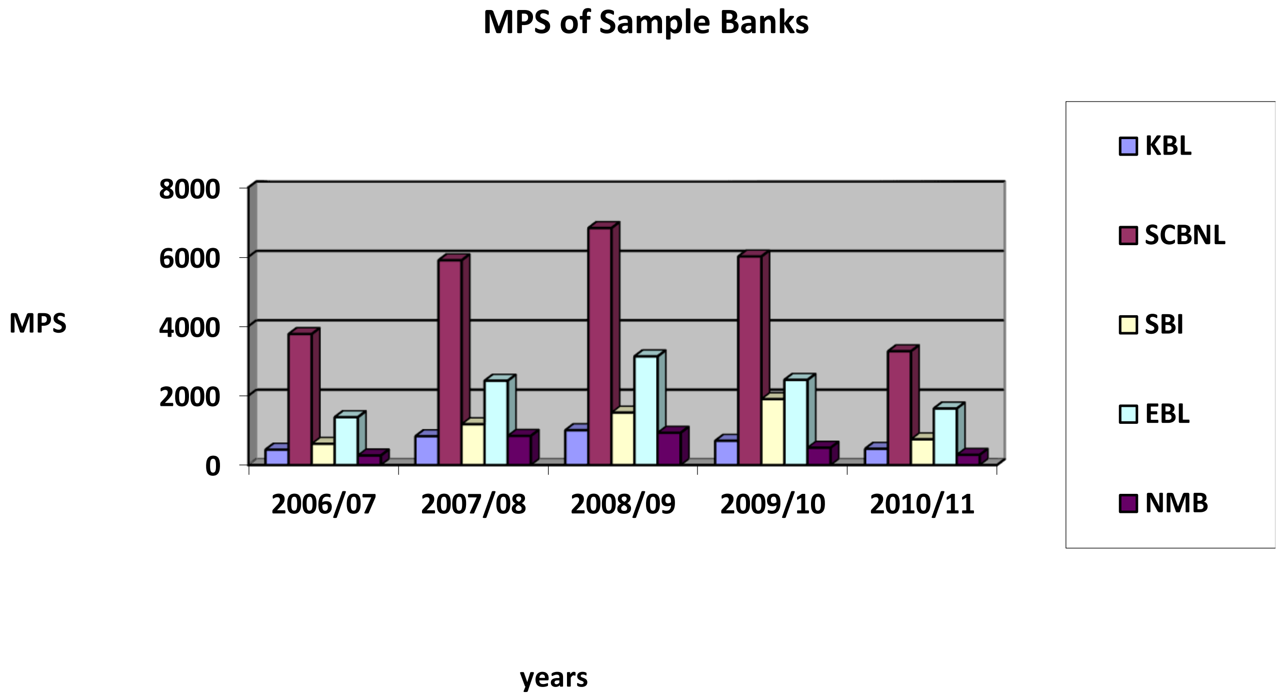
Without considering the rate of fluctuation the analysis of EPS and DPS cannot be completed for this we can observe the coefficient of variation. It can be observed that the CV of SCBNL is the lowest in comparison with other banks and the CV of NMB is highest than other banks.

Market Price Per share (MPS) Analysis

Table 4.2Market Price per Share of Respective Banks

Year	KBL	SCBNL	SBI	EBL	NMB
2006/07	443	3775	612	1379	276
2007/08	830	5900	1176	2430	840
2008/09	1005	6830	1511	3132	930
2009/10	700	6010	1900	2455	499
2010/11	468	3279	741	1630	295
Total	3446	25794	5940	11026	2840
Average	689.2	5158.8	1188	2205.2	568
SD	239.3819	1542.35	534.5564	704.5131	303.9663
CV	34.7333	29.89746	44.99633	31.94781	53.51519

(Source: Annual report and website of the concern companies and **Appendix 5**)



Above table shows the amount of market price per share of the banks from the year 2006/07to 20010/11.

Starting from the year 2006/07 SCBNL has the highest MPS than other banks .NMB has the lowest MPS. In 2007/08 and 2008/09 the MPS of all sample banks increased.

In the year2009/10 shows the decrease in MPS except SBI but in the year 2010/11 the MPS of all the sample banks decreased in comparison of previous year.

On the average, SCBNL has the highest MPS. EBL, SBI, KBL and NMB come after SCBNL respectively.

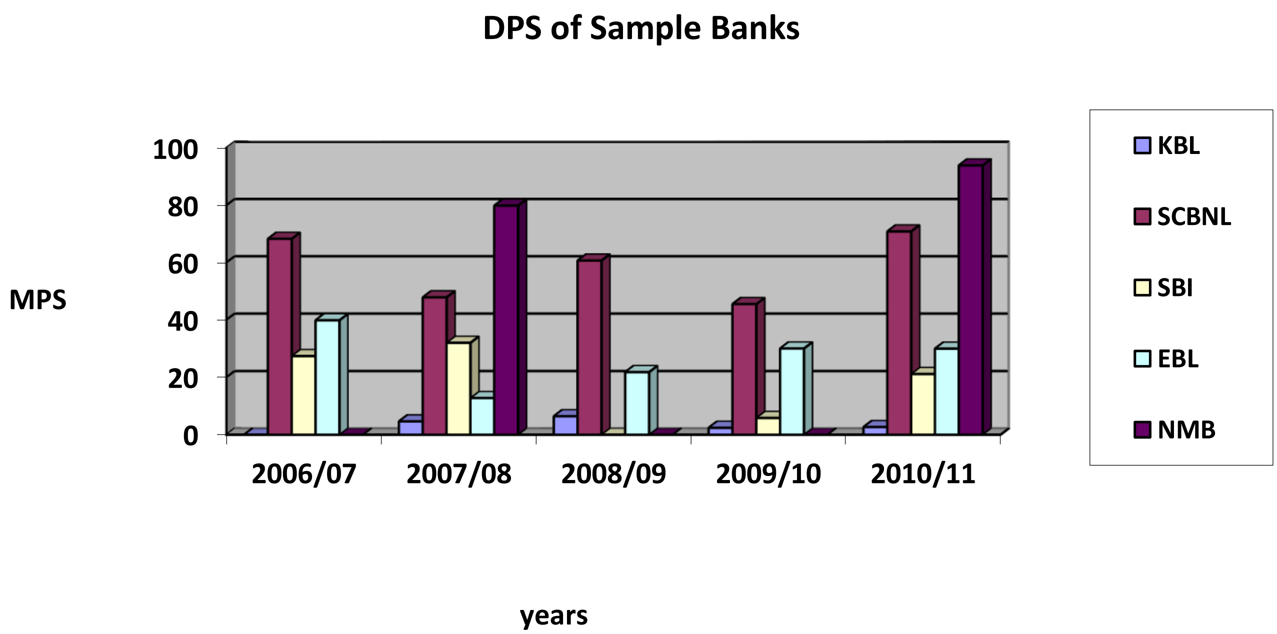
Without considering the rate of fluctuation the analysis of MPS cannot be completed for this we can observe the coefficient of variation. It can be observed that the CV of SCBNL is lowest (29.89) in comparison with other banks and the CV of NMB is higher than other banks which show the great fluctuation in MPS of NMB.

4.1.3 Dividend Payout Ratio (DPR) Analysis

Table 4.3 Dividend payout Ratio of Respective Banks

Year	KBL	SCBNL	SBI	EBL	NMB
2006/07	0	68.24	27.37	39.82	0
2007/08	4.63	47.8	31.99	12.75	79.85
2008/09	6.42	60.64	0	21.78	0
2009/10	2.41	45.46	5.83	30	0
2010/11	2.67	70.83	21.11	29.95	93.9
Total	16.13	292.97	86.3	114.3	173.75
Average	3.226	58.594	17.26	22.86	34.75
SD	2.426671	11.57544	13.80724	7.31211	47.84198
CV	75.22227	19.75534	79.99562	31.98648	137.6748

(Source: Annual report and website of the concern companies and **Appendix 5**)



The above table 4.2 shows the dividend payout ratio of five sample banks, which is the percentage of dividend payout of the total earnings made. Before analyzing the DPR we can segregate the DPR of these companies in to their differently categorize policy.

Policy DPR

Conservative dividend policy = less than 20%
Moderate dividend policy =20%to 50%
Aggressive dividend policy = more than 50%

In the year 2006/07, SCBNL applied Aggressive dividend policy .it has 68.24% Dividend payout Ratio respectively. But other banks SBI and EBL have 27.37% and 39.82% DPR which is Moderate dividend policy. NMB and KBL have not pay dividend in 2006/07.

In the year 2007/08, NMB and KBL have increased Dividend payout Ratio. NMB applied Aggressive dividend policy. It has 79.85% Dividend payout Ratio respectively. The DPR of SCBNL and EBL have decreased and in Moderate dividend position.

In the year 2008/09, the highest payout ratio is 60.64% of SCBNL under Aggressive dividend policy. EBL applied Moderate dividend policy and KBL applied Conservative dividend policy. But SBI and NMB haven't paid dividend in this year.

In the year 2009/10, the highest DPR 45.46%of SCBNL under Moderate dividend policy. EBL also applied Moderate dividend policy with DPR 30%.But KBL and SBI follow Conservative dividend policy.NMB haven't paid dividend.

In the year 2010/11, SCBNL and NMB have increased their payout ratio which showed aggressive policy. SBI has also increased and EBL has decreased their ratio and followed Moderate dividend policy. But KBL has lowest DPR (2.67%) than other banks.

The average DPR of SCBNL shows aggressive policy.EBL and NMB are adopting Moderate dividend policy.KBL and SBL are adopting Conservative dividend policy.

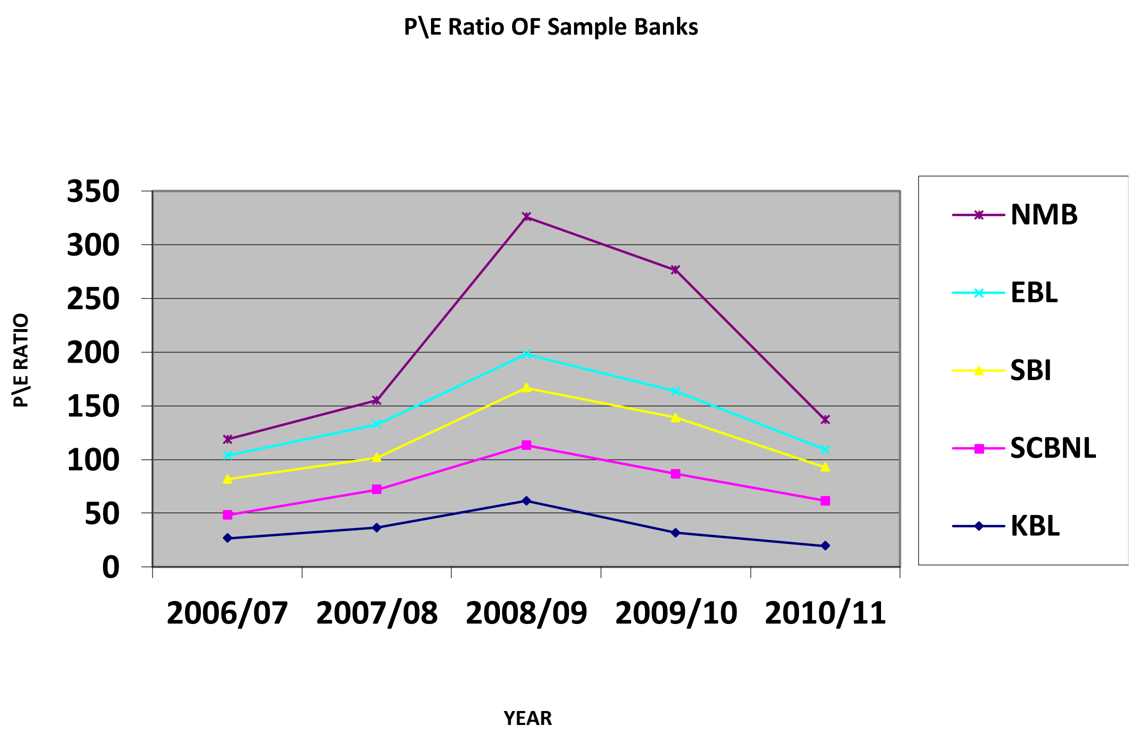
The coefficient of variation of DPR suggests that the DPR of NMB is more fluctuating than other banks .the CV of KBL and EBL shows less fluctuating .

4.1.4 Analysis of P/E Ratio

Table 4.4 P/E Ratio of Respective Banks

Year	KBL	SCBNL	SBI	EBL	NMB
2006/07	26.71	21.47	33.49	21.97	15.13
2007/08	36.56	35.25	29.89	30.99	22.36
2008/09	61.47	51.77	53.34	31.41	127.71
2009/10	31.76	54.64	52.52	24.55	112.93
2010/11	19.31	42.23	31.28	16.27	27.71
Total	175.81	205.36	200.52	125.19	305.84
Average	35.162	41.072	40.104	25.038	61.168
SD	16.03403	13.39788	11.78222	6.374898	54.43376
CV	45.60046	32.62047	29.37916	25.46089	88.99059

(Source: Annual report and website of the concern companies and **Appendix 5**)



Above table shows the P/E Ratio of sample banks. This ratio describes the relationship between EPS and MPS.

In the year 2006/07, the P/E ratio of SBI has the highest and NMB has the lowest among these five banks.

In the year 2007/08, the P/E Ratio KBL, SCBNL, EBL and NMB are increased and that is of SBI is decreased to 29.89. In the year2008/09, the P/E ratio of all sample banks is increased. But NMB has highest (127.71) and EBL has lowest P/E Ratio (31.41) in this year.

In the year2009/10, the P/E ratio of SCBNL is increased and other four banks are decreased in comparison with previous year

In the year 2010/11, the P/E Ratio of all five banks is decreased. SCBNL has highest P/E Ratio (42.23) and EBL has lowest P/E Ratio (16.27) in this year. One average, NMB has highest P/E ratio with 61.168. SCBNL, SBI, KBL and EBL come after NMB respectively .The CV analysis shows that NMB is more consistent than others and P/E ratio of NMB is highly fluctuating in these five years.

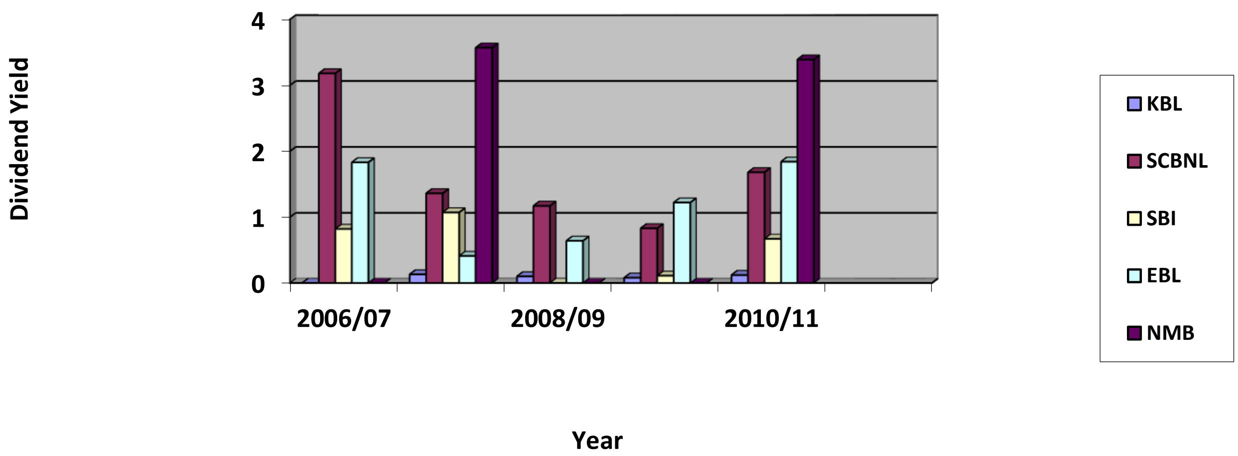
4.1.5 Dividend Yield Analysis

Table 4.5 Dividend Yield of Respective Banks

Year	KBL	SCBNL	SBI	EBL	NMB
2006/07	0	3.18	0.82	1.83	0
2007/08	0.13	1.36	1.07	0.41	3.57
2008/09	0.1	1.17	0	0.64	0
2009/10	0.08	0.83	0.11	1.22	0
2010/11	0.12	1.68	0.67	1.84	3.39
Total	0.43	8.22	2.67	5.94	6.96
Average	0.086	1.644	0.534	1.188	1.392
SD	0.051769	0.912212	0.46166	0.66028	1.907137
CV%	60.19618	55.48732	86.45319	55.57915	137.0069

(Source: Annual report and website of the concern companies and A**ppendix 5)**

Dividend Yield of Sample Banks



In the year 2006/07, EBL has highest dividend yield (1.83) and SBI has lowest dividend yield (0.82). But KBL and NMB have no dividend yield. The pooled average is

In the year 2007/08, the highest dividend yield of NMB and KBL has lowest dividend yield (0.13).dividend yield of SCBNL and EBL have decreased than previous year. The

In the year 2008/09, SBI and NMB have no dividend yield. The dividend yield of EBL is increased and KBL and SCBNL are decreased than previous year.

In the year 2009/10, the dividend yield of SBI and KBL are increased. But KBL and SCBNL are decreased than previous year.

In the year 2010/11, the dividend yield of all banks is increased than previous year.

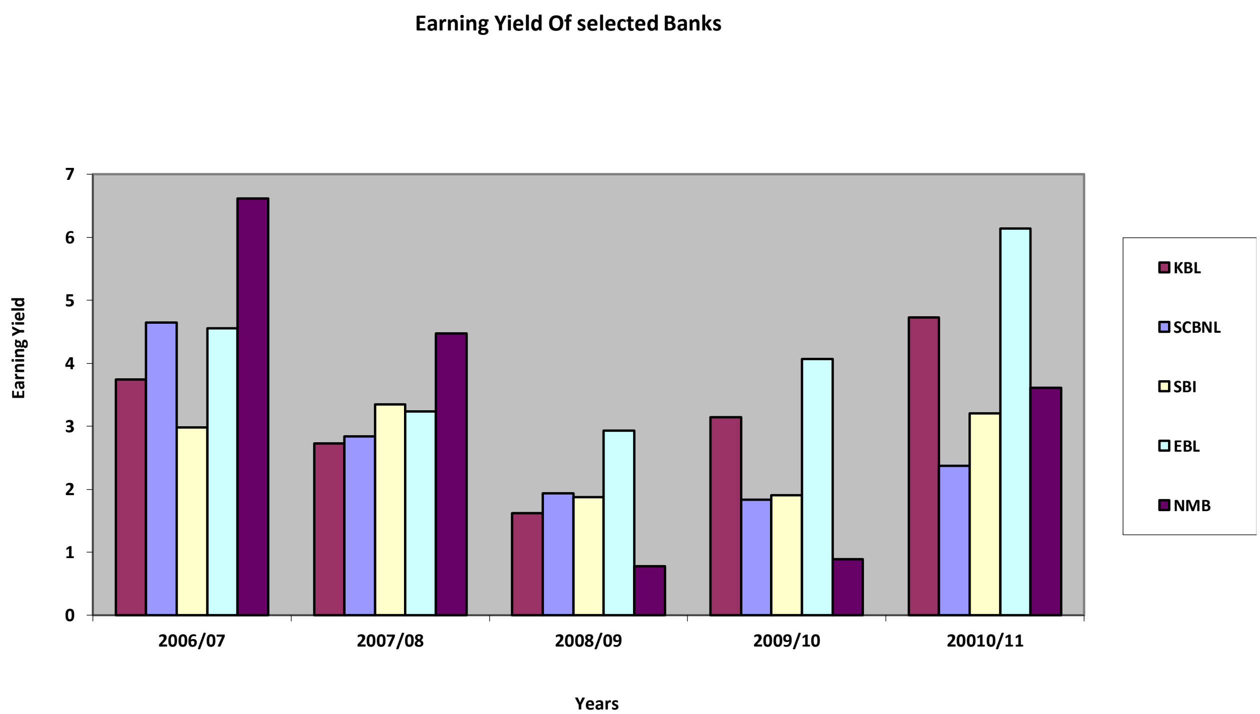
On average, SCBNL highest dividend yield (1.644) and KBL has lowest dividend yield (0.086).

4.1.6 Earning Yield Analysis

4.6 Earning Yield of Respective Banks

Year	KBL	SCBNL	SBI	EBL	NMB
2006/07	3.74	4.65	2.98	4.55	6.61
2007/08	2.73	2.84	3.35	3.23	4.47
2008/09	1.62	1.93	1.87	2.93	0.78
2009/10	3.14	1.83	1.9	4.07	0.89
2010/11	4.73	2.37	3.2	6.14	3.61
Total	15.96	13.62	13.3	20.92	16.36
Average	3.192	2.724	2.66	4.184	3.272
SD	1.156836	1.148686	0.719687	1.270386	2.478693
CV	36.24174	42.1691	27.05592	30.36295	75.75468

(Source: Annual report and website of the concern companies and **Appendix 5**)



In the year 2006/07, earning yield of NMB is greater and SBI is lower but SCBNL and EBL have slightly changed.

In the year 2007/08, earning yield of NMB has decreased (4.47) than previous year .KBL and SCBNL have few different and SBI and EBL have also few different in this year.

In the year 2008/09, Earning yield of all sample banks have decreased than previous year.

In the year 2009/10, earning yield of EBL, KBL, SBI and NMB are increased except SCBNL. The pooled average is

In the year 2010/11 follows increasing trend in earning yield than previous year. pooled

The highest average earning yield is 4.184of EBL and the lower average earning yield is2.66 of SBI .CV shows that the highest Earning yield has NMB (75.75468) and the lowest Earning yield has SBI (27.05592).

4.2 Correlation Analysis

Two variables are said to have "correlation", when they are so related that the change in the value of one variable is accompanied by the change in the value of the other. It helps to determine the strength of the linear relationship between two variables. In other words , as to how strongly are these two variables correlated .it helps to determine whether a positive or negative relationship exists between two variable and the relationship is significant or not. In this study , the correlation analysis is referred to identify the relationship between DPS and other variables like MPS ,EPS,DY,EY and the relationship is significant or not.

Correlation Co-efficient between EPS and DPS

Table 4.7

Banks	correlation coefficient ®	Relationship	coefficient determination r^2	probable error	sign/non-sign
SCBNL	0.838	Positive	0.7022	0.0898	Significant
EBL	0.433	Positive	0.1875	0.2452	no significant
KBL	0.186	Positive	0.0346	0.2912	no significant
SBI	0.369	Positive	0.1362	0.2605	no significant
NMB	0.876	Positive	0.7674	0.0702	Significant

Source: **Appendix 1**

Above table 4.7 shows the relationship between EPS and DPS of five sample banks. It is observed that the correlation coefficients of all sample banks are positive. So it is concluded that there is positive relationship between EPS and DPS of them.

Coefficient of determination measures the degree of linear association of correlation between two variables. The coefficient of determination between EPS and DPS of NMB and SCBNL are 0.7674 and 0.7022, which means that the dependent variable (EPS) explains 76.74% and 70.22% of the variation in (DPS). It shows that the change in EPS has a significant effect of the variation of DPS. In case of EBL and SBI, r is greater than PE but it is still less than 6PE and an insignificant relationship exists between EPS and DPS.

Correlation Co-efficient between DPS and MPS

Table4.8

Banks	correlation coefficient(®)	Relationship	coefficient determination(r^2)	probable error	sign/non-sign
SCBNL	-0.198	Negative	0.039204	0.2898	No significant
EBL	-0.409	Negative	0.167281	0.2513	No significant
KBL	0.870	Positive	0.7569	0.0732	significant
SBI	-0.369	Negative	0.136161	0.2605	No significant
NMB	0.343	Positive	0.117649	0.2663	No significant

Source: Appendix 2

The correlation coefficient of three banks have negative and KBL and NMB banks have positive relationship.

In case of these four banks, the correlation coefficient appears to be less than 6PE, so the relationship between DPS and MPS is insignificant .this implies that the increase or decrease in market price of share doesn't depend up on the DPS.

But in case of KBL, it is significant .this implies that the increase or decrease in the price of share depends upon DPS.

Determination of correlation of KBL 75.69%which means that 75.69% of total variation in the value of dependent variable (MPS) has been explained by the effect of independent variable (DPS) and remaining (100-75.69)is due to the effect of other factors.

Relationship between EPS and MPS

Table 4.9

Banks	Correlation coefficient ®	relationship	coefficient determination r^2	probable error	sign/non-sign
SCBNL	0.195	Positive	0.038025	0.2902	Non significant
EBL	0.404	Positive	0.163216	0.2524	Non significant
KBL	-0.242	Negative	0.058564	0.284	Non significant
SBI	0.717	Positive	0.514089	0.1466	Non significant
NMB	0.267	Positive	0.071289	0.1961	Non significant

Source: Appendix 3

In above table 4.8 all sample banks have positive correlation coefficient except KBL. So it is concluded that there is positive relationship between EPS and DPS of SCBNL, EBL, SBI and NMB. In case of EBL, SBI and NMB r is less than 6PE and an insignificant relationship. This implies that the increase or decrease in market price of stock doesn't depend upon the EPS. It means market price of these banks is not affected by earning price.

Determination of correlation of SBI bank is 51.41%which means that 51.41% of total variation in the value of dependents variable (MPS) has been explained by the effect of independent variable (EPS) and remaining (100-51.41) is due to the effect of other factors.

Relationship between EY and DPS

Table 4.10

Banks	correlation coefficient ®	Relationship	coefficient determination r^2	probable error	sign/no significant
SCBNL	0.884	Positive	0.781456	0 .0659	significant
EBL	0.701	Positive	0.491401	0.1535	insignificant
KBL	-0.651	Negative	0.419904	0.1740	insignificant
SBI	0.829	Positive	0.68393	0.0942	significant
NMB	0.304	Positive	0.09242	0.2737	insignificant

Source: Appendix 4

In this table 4.9, all banks have positive correlation except KBL. But Correlation coefficients of EBL, KBL and NMB bank is less than 6PE and in case of SBI and SCBNL, it is greater than 6PE. It means, the relationship is significant .which implies that the increase or decrease in dividend price per share depends upon the EY.

Major Findings

Major findings obtained from the secondary data analysis are stated as below:-

1. The average of earning per share of the sample banks is satisfactory. SCBNL lies in top position and it is followed by EBL, SBI, KBL and NMB respectively. Among the sample banks, the C.V of NMB is greater than other sample banks and the C.V of EBL is lowest. It means common stock of NMB is riskier as compared to other sample banks .the common stock of EBL is less risky as compared to other sample banks and KBL, SBI, SCBNL are less risky than NMB but high risky than EBL.
2. The DPS analysis shows that the DPS of SCDBNL is greater and KBL is lower among sample banks. Higher dividend per share creates positive attitude of the shareholders towards the company, which consequently helps to increase the market value of shares. It shows that CV of DPS of NMB is greater and SCBNL is lowest. It indicates that among the sample banks, SCBNL has the highest consistency in paying dividend whereas the DPS of NMB is highly fluctuating. DPS of SBI, KBL and EBL respectively followed NMB in terms of fluctuation of DPS.
3. The analysis of MPS shows that the average MPS of SCBNL is highest and average MPS of EBL is lowest. NMB bank has the highest C.V. and SCBNL has lowest C.V. among the sample banks. It indicates that NMB bank has greater variability in MPS and SCBNL has less variability in MPS.
4. The dividend payout ratio of SCBNL is higher and KBL has lowest among all, which indicates that SCBNL is following aggressive dividend policy and it has ability to pay the dividend is strong that others and KBL has weak ability to pay dividend. The C.V of DPR is highest of NMB bank and the lowest of DPR of SCBNL. It indicates that the SCBNL’s D|P ratio to common shareholders is much better than other sample banks.

5. The P/E ratio of EBL and SCBNL are almost close to each other, where NMB bank has the highest and SBI has lowest P|E ratio and C.V., which indicates that P|E ratio of SBI is more fluctuating than other banks.
6. Dividend yield of SCBNL is higher and KBL has lowest among all sample banks. It is indicates that the share of SCBNL is worth buying. The C.V. of DY is highest of NMB and lowest of SCBNL indicates that SCBNL has the highest consistency followed by EBL, KBL, and SBI.
7. Earning yield of SBI is highest and EBL has lowest among all sample banks. it indicates that
8. The correlation between EPS and MPS is positive relationship for all sample banks except KBL. But all the sample banks have insignificant relationship.
9. The correlation between EPS and DPS is positive relationship of all sample banks and only two sample banks SCBNL and NMB have the significant relationship. The relationship is insignificant for EBL, KBL, and SBI.
10. The correlation between DPS and EY is positive relationship for all sample banks. And all the sample banks have significant relationship except SBI.

CHAPTER-FIVE

SUMMARY, CONCLUSION AND RECOMMESDATION

This chapter presents summary, conclusion and recommendation .this chapter of the study regarding the sample banks dividend policy and practices helps to make the future policy and might also help to improve the dividend policies of the sample banks **.**this chapter focuses on some selected action oriented findings, conclusion and recommendation on the basis of analysis, which derived from the five sample banks.

5.1 SUMMARY

This research work has been done on the topic of "A comparative study of dividend pattern" is selected Nepalese commercial Banks. Comparative studies of KBL, SCBNL EBL, SBI, and NMB have done. Dividend policy is the combination of two words dividend and policy .dividend refers to the part of earning that is paid out to real owner of corporation in return to their investment.

The dividend may be affected by different factors such as earning of the firm, liquidity position of the firm; net worth etc. these factors indicate the financial position of a company. If a firm has good performance in terms of these factors; it will be able to provide return in the form of dividend.

This study is mainly focused to access the dividend practices of different Nepalese commercial banks. It covers specific objectives mainly to find out the relationship between other finances indicates and also to find out the appropriate dividend policy of different companies.

The research works dividend in five chapter consisting, introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion and recommendation. These objectives of the research were:

To identify what types of dividend policy being followed and find out whether policy is appropriate or not.

To test the relationship between EPS and DPS, EPS and MPS, DPS and EY.

To know whether there is any uniformity among EPS, DPS and DPR of the selected banks or not.

To meet these objectives various statistical tools, mean standard deviation, coefficient of variation, coefficient of correlation were applied.

This study is mainly based on secondary data; this data is taken from website related banks. This study covers a period of five years from 2006/7 to20010/11.

To make the research reliable, many more analysis are conducted to find out the appropriate relationship between dividend and other variables, which affects the dividend.

5.2 Conclusion

After drawing above finding we can draw the following conclusion .this study basically on variable aspect of dividend policy .we took data of five commercial banks and analyze these data as our requirement and find in above mentioned. The researcher wants to draw the conclusion on the basic of all forward objectives;

1. With first objectives: it is found from the study that there is no consistency in dividend distribution in all sample banks. The researcher shows that none of these banks have well defined and appropriate policy regarding dividend payment. Some of them are high dividend and others are paying low dividend.SCBNL is paying higher dividend than other banks.
2. With second objectives: to test the relationship between EPS and DPS, EPS and MPS, DPS and EY, DPS and MPS .The correlation coefficient between EPS and DPS of all banks are positive and two banks are significant. Correlation coefficient between EPS and MPS of all banks are also positive except KBL and all banks are positive all are significant. In this way DPS and MPS of two banks are positive relationship and one bank is significant.
3. With third and fourth objectives: though there is negative relationship of SCBNL, EBL and SBI between DPS and MPS. Another thing which is that the market prices of the companies are highly affected by dividend because those companies are paying high dividend their market price per share is higher than other who are paying low dividend.
4. With fifth objective: to know whether there is any uniformity among EPS, DPS and DPR of sampled banks or not .there is not uniformity in EPS, DPS and DPR of the concerned banks.

   At last we can say that none of the some banks followed by any dividend policy and not maintain any aspects of policy. In some case, the result is opposite of theory or say universal truth.

   This study deals with only examining and analyzing the dividend practices based on only 5banks from 5years period .if a large sample is taken , for the whole population the result might vary and more accurate and absolute .so dividend policy may be subject of future study ,which can be more appropriate.

5.3 Recommendation:

1. The financial institution must have guidelines on dividend distribution .the companies should have given more priority to shareholders interest.
2. Most of the sample banks have had great fluctuation in coefficient of variation CV of DPS, EPS, DY and dividend payout ratio, price Earnings ratio and market price per share. Such fluctuation increase in risk position of inventors.
3. The practice of dividend payment adopt by the banks are not stable. In many cases a small amount of dividend are paid without considering risk free rate of return. Further the price of hare on which the dividend is not paid a upward trend, this created problems to judge the true value of share in the market.
4. Payment of dividend is neither static nor constantly growing. It is highly fluctuant. Such way of paying dividend could not impress the market positively. So, these banks are advised to follow either static of constantly growing dividend policy according to banks and financial intuitions ordinance 2061.it would to fix and declared the amount of dividend in general meeting. This is not important only from the point of view adequate return to shareholders but also to generate stable and increasing market values per share, long run survival of bank efficient management and socially acceptable distribution of incomes.
5. Formulation of dividend policy will clearly guide the way of how to follow dividend distribution strategy. The policy should determine whether the company is going to adopt stable dividend policies, constant payout ratios or low regular plus extra dividend. What should be the long run dividend payout ratio, either it is pure residual policy, fix dividend payout policy or smooth residual dividend policy should have been clearly explained by the dividend policy.
6. The legal rule for treatment of dividend is must for the smooth growth of any enterprises as well as growth of national economy. Some of the companies are in position to pay dividend while considering some case. But some companies are suffering loss and there are efforts to minimize rather

than payment of dividends. Therefore, the government should act in favor of investors and bond these companies by distinct rules

7. Management is the agent of shareholders; therefore, management must have to accountable toward shareholders. Management of financial institutions must have to change their attitude and have to think how they can maximize the wealth of shareholders.

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