Dividend Policy in NEPAL
WITH
CASE STUDY IN COMMERCIAL BANKS OF NEPAL

SUBMITTED BY

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RECOMMENDATIONS

This is to certify that the thesis

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Dividend Policy in Nepal

With Case Study in Commercial Banks of Nepal

has been prepared as approved by the thesis department in the prescribed format of the Faculty of management, Tribhuwan University. This thesis is forwarded for examination.

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VIVA VOICE SHEET

We have concluded the viva voice examination of the thesis presented by:

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And found that the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master Degree in Business Studies.

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DECLARATION

I hereby, declare that the work reported in this thesis entitled **"Dividend Policy in Nepal with case study in Commercial Banks of Nepal"** submitted to the Research Department of Sankardev Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements for the Master of Business Studies [MBS], under the supervision of Mr. Kishor Maharjan, Associate Professor of Tribhuvan University.

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LIST OF ABBREVIATION

NE	**-**	**Net earning**
NW	**-**	**Net worth**
EPS	**-**	**Earning per share**
DPS	**-**	**Dividend per share**
DYR	**-**	**Dividend yield ratio**
DPR	**-**	**Dividend payout ratio**
MPS	**-**	**Market price per share**
P/E ratio	**-**	**Price earning ratio**
MVPS	**-**	**Market value per share**
BVPS	**-**	**Book value per share**
NEPSE	**-**	**Nepal Stock Exchange Limited**
LBL	**-**	**Laxmi Bank Limited**
SBL	**-**	**Siddhartha Bank Limited**
NIC	**-**	**Nepal Industrial and Commercial Bank**
MBL	**-**	**Machhapuchhere Bank Limited**
KBL	**-**	**Kumari Bank Limited**

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CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is a least developed country resulting lower per-capita income. However in recent days many reforms have been made in the financial sector of Nepal like liberalization of interest rates, creation of a basic regulatory framework and development of longer term government securities market. Participation of private sector in financial sector will play an important role in the economic development of the country.

In a capital market, all firms operate in order to generate earnings. Shareholders supply equity capital, expecting to share in these earnings either directly or indirectly. When a company pays out a portion of its earnings to shareholders in the form of a dividend, the shareholders benefit directly. If instead of paying dividends, the firm retains the funds to exploit other growth opportunities, the shareholders can expect to benefit indirectly through future increase in the price of their stock. Thus, shareholder wealth can be increased through either dividends or capital gains. The policy of a company on the division of its profits between dividend and retention is known as dividend policy. All aspects and questions related to payment of dividend are contained in a dividend policy. The wealth maximization objective in the long run can be achieved only by maintaining adequate funds for investment. Financing growth can be considered as a secondary objective of dividend policy. Therefore, the firm should forecast the future need for funds and determine the amount of retained earnings available after payment of dividends.

Despite the fact that only few companies are paying dividend, there is also growing practice of paying stock dividend among some Nepalese companies. The reason to stock dividend distributions may lie in their perceived substitution for relatively low cash dividends. It is said that when the firms need to retain a high percentage of earnings, they issue stock dividends so that the shareholders of the firms are content. Managers strongly agree that stock dividends have a positive psychological impact on investors receiving them. Stock split is another aspect of dividend policy. Practitioners have long contended that the purpose of stock split is to move a firm's share price into an "Optimal trading range." Specifically, investors of small means are presumably penalized by high stock prices that deny them the economies of buying stock in round lots. Thus, stock split is the popular practice of developed capital market. An alternative form of dividend is share repurchase. If a firm has some surplus cash (or if it can borrow), it may choose to buy back some of its own share. In the developed capital market, corporations are allowed to buy back share and better utilize unused cash. However, Nepalese Company Act, 1997, Section 47 has prohibited company from purchasing its own shares. It states that no company shall purchase its own shares or supply loans against the security of its own shares.

The issue of how much a company should pay its shareholders as dividends is one that has concerned managers for a long time. It has often been pointed out that a company that raises its dividends often experiences an increase in its stock price and that a company that lowers its dividends has a falling stock price. This seems to suggest that dividends do matter, in that they affect stock price. But this causal relationship has been refuted by several researchers on the grounds that dividends per share do not affect stock prices. Thus there should be no direct link between dividends and stock prices. Ross (1977) and Bhattacharya (1979) have argued that dividend policy could be viewed as a signaling mechanism whereby firms with profitable projects are able and willing to pay higher dividends in order to segregate themselves from firms with less profitable projects. They provide a rationale for value maximizing firms paying positive dividends when a risk premium per unit of dividend yield is positive in equilibrium. Ross (1977) proved that an increase in dividends paid out can represent and inimitable and unambiguous signal to the market place that a firm's prospects have improved. If this is an accurate picture of the way in which firms operate, then it follows those changes in dividend payments supply the market with information regarding management's assessment of the level of the firm's long run cash flows.

Higher dividends can directly benefit shareholders because they reduce the free resources which managers can use sub-optimally. Some economists believe that management decides to pay dividends in order to reduce agency costs. By issuing dividends management is forced to go to the capital markets for additional financing. Each time it attempts to raise fresh capital, its operations are intensely scrutinized by investment bankers, accountants and other market professionals. Because these parties have a comparative advantages over the bondholders in monitoring the firm's activities, dividend payments accompanied by subsequent new financing may lower monitoring costs and thereby increase firm value.

There are reasons for the efficacy of dividends as signals. Dividend announcements are backed by hard, cold cash. The firm must generate this cash internally or convince the capital markets to supply it. Alternative communications may lack the credibility that comes from "saying it with cash". Investors may feel that financial statements have been skillfully massaged by the financial staff. In addition, dividend decisions tend to be future oriented as opposed to accounting statements which document past performance. Besides credibility, dividends also have the advantages of simplicity and visibility. Many other announcements are, at the same time, complex and detailed in focus. They require time and expertise to decipher. As simple numerical signal, dividends facilitate comparative analyses unlike statement by management which may be difficult to calibrate. Simplicity is especially advantageous for investors holding many firms' shares to achieve the benefits of diversification. Further, dividend signals convey information without releasing sensitive details that may be useful to competitors.

Dividend policy is defined as the policy of allocating the earning between the dividend and retention. In practical dividend is payable whenever the board of directors declares to pay whether it might be monthly, semi annually or annually. Banks have today, gained vital trust of the public. Banking industry offers a wide range of services encompassing the needs of public in different walks of life. At present a large number of banks are operating in Nepal.

1.2 Statement of Problem

Numerous studies have examined the dividend policies of corporations. However, dividend decision is still a crucial as well as controversial area of managerial finance. The effect of dividend policy on a corporation's market value is a subject of long controversy. Black epitomizes the lack of consensus by stating "The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together". Hence, corporate dividend policy is not clearly understood by a large segment of the financial community.

There are many empirical studies on dividends and stock prices in developed capital market. For example, few of them are: Lintner (1956), Modigliani and Miller (1961), Gordon (1962), Friend and Puckett (1964), Walter (1966), Van Horne and Mc Donald (1971), Chawala and Srinivasan (1987). However, no simple and conclusive relationship exists between the amount paid out in dividend and the market price of share. There is still a considerable controversy concerning the relation between dividends and common stock prices.

The capital market is the part and parcel for corporate development. Though it is in early stage of development, Nepalese investors in recent years have poured funds in newly established companies encouragingly. This trend which is the corner-stone to the development of capital market would continue until investors are satisfied by the decisions made by the management of the companies. It is time to follow pragmatic approach by the management with regard to providing returns to investors on their investment on shares of the corporations. " In and uncertain world in which verbal statements can be ignored or misinterpreted, dividend action does provide a clear-cut means or 'making a statement' that 'speaks louder than a thousand words'. Solomon (1963) contends that dividends may offer tangible evidence of the firm's ability to generate cash, and as a result, the dividend policy of the firm affects the share price. Even if dividends do affect a firm's value, unless management knows exactly how they affect value, there is not much that they can do to increase the shareholder's wealth. The implication of corporate dividend practices thus provides an empirical question for this study.

Among the various empirical contradictions to the Asset Pricing Model of Sharpe (1964), Lintner (1965) and Black (1972), the most prominent is the size effect of Banz (1981). He finds that average returns on large stocks are lower while average returns on small stocks are higher. The positive relation between leverage and average returns on US stocks and firm's book value of common equity to its market value is documented by Stattman (1980) and Rosenberg, Reid, and Lanstein (1985). Similarly, Chan, Hamao, and Lakonishok (1999) find the strong role of book-to-market equity in explaining the cross-section of average returns on Japanese stocks. Basu (1983) also finds earning-price ratio in explaining cross-section of average returns on US stocks. Again, Ball (1978) finds that earnings-price relation is likely to be higher for stocks with higher risks and expected returns. Though there are these findings in the context of developed and big capital markets, their applicability is yet to be seen in the context of smaller and underdeveloped capital markets.

A study on stock market behavior in Nepal attempted to verify the above mentioned results. It mainly indicated that stocks paying higher dividends have higher liquidity, lower leverage, higher earnings, higher turnover, and higher interest coverage (S. Pradhan, 1993). Another such attempt was by the study on dividends and stock prices which revealed that the relationship between dividend per share and stock price is positive and dividend per share affects the share prices variedly in different sectors (Timilsina, 1997). However, pertinent question arises as to what extent these findings are still relevant in the present day context. Many changes have taken place after the completion of these studies. In order to verify these results, this study analyses the properties of portfolios formed on dividends and examines the dividend policy and distributions practices applied by the banks in the country. For this sample will be taken from the various commercial banks operating in the country.

Thus, this study deals with the following issues:

- What kind of dividend policy the selected banks have followed?
- Is there any variation in the performances, profitability, income, investment and funs etc.?
- Is there positive or negative relationship in between dividend and EPS, MPS, NE and NW?
- Is there any difference in between dividend policy followed by the selected commercial banks?

1.3 Objectives of the Study

The main objective of the study is to find out the appropriate dividend policy, distribution, practices followed by the selected banks of Nepal. Specifically, following objectives can be taken into consideration.

- To analyze and identify the dividend policy distribution and practices followed by the selected banks.
- To examine the relationship between dividend with EPS, MPS, NE and NW.
- To survey the opinions of financial executives on corporate dividend practices.

1.4 Importance of the Study

Dividend plays a crucial role in every company and dividend policy is one of the most important decisions that need to be taken by the organization. This might prove to give necessary and important information to these selected sample banks. The shareholders and personnel's from the organization may take benefits from this study. This will definitely help and support the future researchers.

1.5 Limitations of the Study

The major limitations of the study are as follows:

- This study is based on the five year data starting from 2005/6 to 2009/10 A.D.
- The study involves analysis from the view point of limited respondents.
- Besides there are many commercial banks only five banks are taken as a sample for the study.

1.6 Organization of the Study

The study has been organized into five chapters:

Chapter I: This contains the introduction which includes background of the study, statement of problem, importance of the study and limitation of the study.

Chapter II: It is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of major studies.

Chapter III: It describes the research methodology employed in the study. This chapter deals with the nature and sources of data, list of the selected companies, the model of analysis, meaning and definition of statistical tools.

Chapter IV: It deals with the presentation and analysis of secondary data to indicate quantitative facts on corporate dividend practices and an opinion survey to find out more qualitative facts on corporate dividend policy.

Chapter V: It includes summary, conclusion and recommendation of the study. This chapter presents the major findings and compares them with theory and other empirical evidence to the extent possible.

CHAPTER - II

LITERATURE RIEVIEW

2.1 Introduction

An argument in dividend decision is the major concern to the different companies. Specifically, the factors affecting dividend decision is a major argument among the companies. In an attempt to answer this argument, academics and practitioners developed a number of theories, which have been subjected to empirical test. The academic literature has been very helpful to provide clear guidance on practical issues and for the purpose literature review section is being carried out, which consist of valid and authentic books & journals concerning past studies on dividend policy.

2.2 Conceptual Framework

The policy of a company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. All aspects and questions related to payment of dividend are contained in a dividend policy. There is a reciprocal relationship between retained changes and cash dividends. If retained earning is kept more by the company less will be dividend and vice versa. Dividend decision is one of three major decisions of managerial finance. It is in the sense that the firm has to choose between distributing profits to shareholders and ploughing them back into the business. The decision depends upon the objective of the management for wealth maximization. The firm will use the net profit for paying dividends to the shareholders, if the payment will lead to maximization of the wealth of the owners. If not, it is better to retain them to finance investment programs. The relationship between dividend and value of the firm should therefore, be criterion for decision making.

Most shareholders expect two forms of return from the purchase of common stock. These are capital gains and dividends. Capital gain may be defined as the profit resulting from the sale of common stock. The shareholders expect, at same point, a distribution of the firm’s earnings in the form of a dividend. From mature and stable corporations, most investors expect regular dividends to be declared and paid on the common stock. This expectation takes priority over the desire to retain earnings to finance expansion and growth. Thus, shareholders expectation can be fulfilled through either capital gains or dividends. Since dividends would be more attractive to stockholder, one might think that there would be tendency for corporations to increase distribution of dividends. But one might equally pressure that gross dividends would be reduced some what, with an increase in net after tax dividends still available to stockholders , and increase in retained earnings for the corporation (Throp, 1997) It is therefore, a wise policy to maintain a balance between shareholders' interest with that of corporate growth from internally generated funds. The funds that could not be used due to lack of investment opportunities should be better paid as dividends, since shareholders have investment opportunities to employ elsewhere. Financial management is therefore concerned with the activities of corporation that affect the well-being of stockholders. That well-being can be partially measured by the dividend received, but a more accurate measure is the market by the dividend received, but a more accurate measure is the market value of stock (Dean, 1973) Shareholders usually think that the dividend yield is less risky than capital gain.

Dividends refer to that portion of a firm's net earnings which are paid out to the shareholders (Khan and Jain, 1992). Dividends are generally paid in cash. Therefore it reduces the cash balances of the company. Dividend policy affects the financial structure, the flow of funds, corporate liquidity, and investors' attitudes. Thus, it is one of the central decision area related to policies seeking to maximize the value of firm's common stock.

Major Forms of Dividends

Corporations need to use different forms of dividend in view of the objectives and policies which they implement. The major forms of dividends are cash dividends and stock dividends.

Cash Dividends

Cash dividend refers to the portion of earnings paid as cash to the investors in proportion to their shares of the company. Both the total assets and net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of cash dividend distributed. The firm has to maintain adequate balance of cash for the payment of cash dividend otherwise fund to be borrowed for this company paying stable dividend. To what extent cash dividend is popular and adopted by companies in Nepal may be an interesting study.

Stock Dividends and Stock Splits

A stock dividend is a payment in the form of additional shares of stock instead of cash. A stock split is essentially the same. When a stock splits, shareholders are given a larger number of shares for the old shares they already own. In either case, each shareholder retains the same percentage of all outstanding stock that he or she had before the stock dividends or split. Thus, for example, a 10 percent stock dividend would mean that each shareholder was given one share of stock for every ten shares already owned. Under a two-for-one stock split, each shareholder would be given one additional share of stock for every share already owned, thus doubling the number of shares owned by each shareholder. The effects of a stock dividend or a stock split is no change in the firm’s assets or liabilities or in shareholders’ equity (assets less liabilities) and there is fall in per share earnings, book value, and market price, and an offsetting rise in the number of shares held by each shareholder (Schall and Haley, 1991).

A stock dividend or split does not change the assets of the firm, since nothing is received by the firm for new shares issued. In spite of the fact that stock dividends and splits do not change the underlying assets, liabilities, or equity of the firm, there is some empirical evidence that the total market value of a company’s equity increases when the stock dividend or split occurs (roughly a 2 to 6 percent increase) (Grinblatt, Masulits and Titman, 1984). Some of the joint-venture banks of Nepal have followed the practice of paying stock dividend along with cash dividend.

Corporate Share Repurchase

Corporate share repurchase is often viewed as an alternative to paying dividends. If a firm has some surplus cash (or it can borrow), it may choose to buy back some of its own stock. It is instructive to see why share repurchases may be viewed as an alternative to paying dividends. By repurchasing stock, a company is reducing the number of shares outstanding. If the Price Earning (P/E) ratio does not change after the repurchase, the stock price must rise. If a firm has excess cash and insufficient profitable investment opportunities to justify the use of these funds, it is in the shareholders’ interests to distribute the funds. The distribution can be accomplished either by the repurchase of stock or by paying the funds out in increased dividends (Horne, 1997). It is thus corporate share repurchase is often viewed as an alternative to paying dividends. A repurchase is a signal that managers, who possess an insider's knowledge of the firm, are convinced that their stock is worth more than its current price. In addition, their conviction is strong enough to lead them to pay a premium for the stock despite the risk of dilution it they are wrong. Nepalese Company Act, 1997, Section 47 has prohibited company from purchasing its own shares. It states that no company shall purchase its own shares or supply loans against the security of its own shares.

Developing Dividend Policies

The Dividend practice should reflect the different factors as well as the firm's present operating and financial position. In this total framework, the firm finds that it has a choice of several dividend policies to follow.

These are as follows:

1. **Steady Dividends at the Present Level**

   Perhaps the most common dividend practice is to declare the same rupee dividend as paid last period. This meets the shareholders expectations for current income and is not likely to affect market price. This policy may result in shortages of funds during years when earnings have declined. For mature firms with unused borrowing capacity, this is not a serious drawback.

2. **Steady Dividends at a Level Lower than Present Level**

   The practice to reduce dividends would be considered if the firm has high-profit investment opportunities and needs the funds to finance them. This might alienate shareholders seeking current income and affect the market price of the stock. To minimize this impact, the firm might announce that the new level will be maintained in the near further lowering of dividends. This will reduce some of the uncertainty associated with the reduction of dividends. The firm may also indicate that dividends may be raised if the new investment opportunities are as profitable as expected.

3. **Steady Dividends at a Level Higher than Present Level**

This is a practice to raise the regular dividend declared by the firm. It is warranted when the firm's earnings have risen, when the earnings are stable at the higher level, and when the firm does not need the excess earnings to finance growth. Frequently
the dividend announcement will favorably affect the price of the common stock. In many cases, the higher earnings will already have caused a rise in the stock price, and the dividend declaration will have no effect.

The informational Content of Dividends

It has often been pointed out that a company that raises its dividends often experiences an increase in its stock price and that a company that lowers its dividends has a falling stock price. This seems to suggest that dividends do matter, in that they affect stock price. This causal relationship has been refuted by several researchers on the grounds that dividends per se do not affect stock prices; rather, it is the informational content of dividends that affects stock prices. Since management may have greater insight than the rest of the market as to the level of present and future earning power, they may use dividend payments as the medium through which their expectations are conveyed (Petit, 1976). Recent evidence demonstrates that dividend announcements convey information over and above that contained in alternative announcements. A number of writers have suggested that a considerable amount of information is conveyed by changes in dividends. In light of this, the management of a firm may use dividend payments (or a lack of them) as a method of indicating their estimates of the firm's earning power and liquidity (Petit, 1972).

The residual Theory of Dividends

Dividend policy can be viewed as on of a firm's investment decisions. A firm that behaves in this manner is said to believe in the residual theory of dividends. According to this theory, dividend policy is a residual from investment policy. Whether or not a company pays dividends depends on its investment policy. It assumes that the internally generate funds are comparatively cheaper that the funds obtained from external sources. The theory is based on the premise that investors prefer to have the firm retain on reinvested earnings exceeds the rate of return the investor could, himself, obtain on other investments of comparable risk. The dividend under a residual dividend policy equals the amount left over from earnings after equity investment. If equity investment equals earnings, no dividends are paid. If equity investment is greater than earnings, no dividends are paid. If equity investment is greater than earnings, then no dividends are paid and new shares are sold to cover any equity investment not covered by earnings. If there is no any investment opportunity, then cent percent earnings are distributed to shareholders. Dividends are therefore merely a residual remaining after all equity investments needs are fulfilled (Schall and Haley, 1991).

Although the residual theory of dividends appears to make further analysis of dividend policy unnecessary, it is indeed not clear that dividends are solely a means of disbursing excess funds (Rao, 1992). It would therefore be imprudent to conclude that there are no other implications of dividend policy, and so this study shall take a closer look at the relationship between dividends and value.

Factors Affecting Corporate Dividend Policy

A number of things come into play while establishing a corporate dividend policy. In what follows, various factors that financial executives in practice should consider when approaching a dividend decision, be taken up.

a) Stability of Earnings

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

b) Past Dividends

A firm with record of past dividend payments strives to maintain the same in the future. Dividends are habit-forming. If the market does not receive its expected dosage, the stock price will suffer current dividend payments even if they were operating at a net loss for an interim period. Furthermore, Baker, et al. (1985) finds that managers strongly agree with the statement that a firm should strive to maintain an uninterrupted record of dividend payments.

c) Availability of Cash

The availability of cash of liquidity of a company is a prime factor to be considered in many dividend decisions. As dividends represent a cash outflow, the greater the cash position and overall liquidity of a company, the greater its ability to pay a dividend. A company that is growing and profitable may not be liquid, for its funds may go into fixed assets and permanent current assets. Thus, even if a firm has a record of earning, it may not be able to pay cash dividends because of its liquidity position.

d) Concern about Maintaining or Increasing Stock Price

To the extent that there are insights into the effect of dividend on valuation, they may be gathered. If a firm concern about maintaining or increasing stock prices, it may elect to pay dividends. This concern is particularly strong among utilities who ranked this factor second in importance (Baker, et al. 1985)

e) Ability to Borrow of the Company

A liquid position is not the only way to provide for flexibility and thereby protect against uncertainty. If a firm has the ability to borrow on comparatively short notice, it may be relatively flexible. The larger and more established a company, the better its access to capital markets. The greater the ability of the firm to borrow, the greater will be the flexibility and ability to pay a cash dividend. With ready access to debt funds, management should be less concerned with the effect that a cash dividend has on its liquidity.

f) Investment Opportunities in the Company

Over the life cycle of a company, it would be expected that no dividends to be paid early on because of ample investment opportunities in the company. As it measures and begins to generate excess cash, dividends are paid – a token dividend at first, but bigger ones as relatively fewer productive investment opportunities are found. In the late stages," Harvesting "may occur. Here a company self-liquidates by paying substantial dividends it would be expected the mature company to pay sizable dividends.

g) Restriction on Bond Indenture or Loan Agreement

The protective covenants in bond indenture or loan agreement often include a restriction on payment of dividends. The restriction is employed by the lenders to preserve the company's ability to service debt. Usually, it is expressed as a maximum percentage of cumulative earnings. When such a restriction is in force, it naturally influences the dividend policy of the firm. Sometimes the management of a company welcomes a dividend restriction imposed by lenders because then it does not have to justify to shareholders the retention of earnings. It need only point to the restriction.

h) Control

With a liberal dividend policy a company increases the probability of raising fresh capital at some future date. If the current shareholders can not subscribes (or do not subscribe) to the new shares, new stockholders can dilute their controlling interest in the firm. Thus shareholders who are very sensitive to a potential loss of control prefer a low dividend payout policy.

Legal Provisions Regarding Dividend Practice

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

Section 2 (m) states that bonus shares (stock dividends) means shares issued in the form of additional shares to shareholders by capitalizing the surplus from the profits or the reserve fund of a company. The term also denotes an increase in the paid up values of the shares after capitalizing surplus or reserve funds (Endi Consultants Research Group Kathmandu, 1997).

Section 47 has prohibited company from purchasing its own shares. This Section states that no company shall purchase its own shares or supply loans against the security of its own shares.

Section 137 Bonus Shares ad Sub-Section (1) states that the company must inform the Office before issuing bonus shares under Sub-Section (1), this may be done only according to a special resolution passed by the meeting.

Section 140: Dividends and Sub-Sections of this Section are as follows:

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

    a) In case any law forbids the distribution of dividend.
    b) In case the right to dividend id 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.

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

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

The above 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.

2.3 Review of Research Studies

Chawala and Srinavasan (1987) studied the impact of dividend and retention on share price. The objectives of their study were to estimate a model to explain share price, dividend and retained earnings relationship, to test the dividend, retained earnings hypotheses and to examine the structural changes in the estimated relations over time. As per the financial theories they expected the coefficients of both dividend and retained earnings to be positive in the price equation. Similarly in the dividend supply function also they expected a positive sign for current earnings and previous dividend. They took 18 chemicals and 13 sugar companies and estimated cross-sectional relationship for the years 1969 and 1973. The required data were collected from the official directory of Bombay Stock Exchange. They used two stage least square techniques for estimation. They also used lagged earnings price ratio instead of lagged price earnings ratio, i.e., $(P/E)_{t-1}$. From the result of their two stage least square estimation, they found that in the case of chemical industry the estimated coefficients had the correct sign and the coefficient of determination of all the equations were very high. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry they found that the sign for the retained earnings is negative in both years. So they left sugar industry for further analysis. For chemical industry, they observed that the coefficient of dividend was significant at one percent level in both years. Whereas the coefficient of retained earning was significant at 10% level in 1969 and at 1% level in 1973. Finally, they concluded that the dividend hypothesis holds good in the chemical industry. Both dividend and retained earnings significantly explain the variations in share price in chemical industry. They also stressed that the impact of dividend is more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings.

Mahapatra and Sahu (1993) conducted research on determinants of corporate dividend behavior in India- an econometric analysis. The objectives of their study were to examine the relative significance of some known dividend models in the Indian situation and to enquire into the determinants of corporate dividend behavior with the help of some regression models. Their study was based on judgmental sample of 90 companies for the period 1977/78 to 1988/89. They collected the data from various volumes of Bombay Stock Exchange Official Director, covering a period of 12 years i.e., from 1977/78 to 1988/89. A comparative review of the various regression models used in their study revealed that Brittain's cash flow model is the model of good fit not only at the macro level, but also at the industry group level in the Indian situation. None of the other models provide as satisfactory an explanation of dividend behavior as Brittain's cash flow model. Based on this model, their study attempted to examine the impact of the few more except those already examined by earlier authors, determinants of dividend behavior with the help of their sample data. Those determinants are Investment demand (ID), Flow of Net Debt (FND), Interest (I), Liquidity (L), Behavior of Share Price (SP) and Changes in Sales(ζ S_{-2}). They did it by including these determinants one by one in the Brittain's cash flow model, which provided the model of good fit in most of the sample classifications.

After using various regression equations they found that dividend decision is primarily governed by cash flow, a measure of company's capacity to pay and dividend paid in the previous year, in majority of the sample companies. Among other determinants, investment demand has been found having significant impact on the dividend decision of electrical goods and chemical industries. The impact of flow of net debt on dividend decision found significant in case of new companies at the aggregate level and paper industry at the industry group level of their study. Similarly, they found that liquidity factor turns out to be a significant determinant of dividend payout in cotton and general engineering industries of their study. They found that determinants like interest payment, changes in sales and behavior of share prices in general do not have any significant bearing on the dividend decision of the sample companies.

Bhattacharyya (2000) explains dividend policy by using the asymmetric information paradigm. However, unlike the signaling models (where the informed manager/insider uses the dividend as a signaling device), he posits dividend policy as a component of a screening contract set up by an uninformed principal. In signaling models, hidden information is the source of informational asymmetry. In the dissertation, he uses a richer source of informational asymmetry – that due to moral hazard (because the effort exerted by agent is not observable) and that due to hidden information (because the productivity of agent is not observable). He assumes that the manager wants to maximize his net wealth and the principal recognizes this and sets up a discriminating contract to utilize the skill of the agent in the productive enterprise. He finds that contrary to the findings of the dividend models based on the signaling paradigm, dividend – conditional on cash availability – bears an inverse relationship to managerial type. That is, for a given level of available cash, the manager with lower productivity declares a higher dividend than that declared by a manager with higher productivity. He concludes that his model can be used to explain many of the empirical findings obtained by other researchers. An interesting corollary of his model is that when we include costly private effort and differences in productivity, the relationship between dividend and managerial type shifts from being monotone increasing to monotone decreasing. This relationship shows that incorporation of costly effort and difference in productivity modify the result (Miller and Rock, 1985) obtained. Miller and Rock study a model which does not include managerial effort. Another interesting implication of this dissertation is that dividends can be shown to be relevant in the presence of moral hazard and hidden information, even when the agency contract is optimally chosen. Some of the empirical implications of this model are quite different from some of the implications of the signaling models and the implications of the free cash flow hypothesis. Under the signaling theories, higher firm value is signaled by higher dividends. Therefore, under the signaling paradigm, dividend increases should result in positive abnormal returns on the announcement of dividends. Also, ceteris paribus, the value of the firm should be an increasing function of the dividend. By contrast, this theory says that higher dividends, conditioned on cash availability (i.e. for a given level of cash availability; or, if earnings are taken as proxy for cash availability, then for a given level of earnings), is an indication of lower agent type and should result in a lower abnormal return and lower firm value (ceteris paribus). The free cash flow conjecture (Easterbrook, 1984; Jensen, 1986) posits that higher dividends are better because higher dividend removes free cash from the hands of the managers; consequently, the managers have less money to waste. According to this conjecture, announcement of higher dividends would also lead to higher abnormal return.

Pandey and Bhatt (2007) examined the dividend behavior of Indian companies. Do Indian firms follow stable dividend policies? How do the monetary policy restrictions affect the dividend payouts of the firm? They used the Lintner's (1956) model to test for dividend stability of firms in India. They used the GMM estimator, which accounts for heterogeneity and is most suitable in a dynamic setting. Their results establish the validity of the Lintner model in the emerging Indian market, and prove the underlying dynamic relationship between current dividends as dependent variable and current earnings and past dividends as independent variables. Further, their results also show that the Indian firms have lower target payout ratios and higher adjustment factors. This points the low smoothing and instability of dividend policies in India. The most noteworthy finding is that the restricted monetary policies have a significant influence on the dividend payout behavior of Indian firms; they cause about a 5-6 per cent reduction in the payout ratios. The significance of macro economic policy variable suggests that MR do have an impact on the cost of raising funds and information asymmetry between lenders and borrowers increases thereby forcing the companies to reduce their dividend payout. These findings of this paper suggest that macroeconomic policies have an impact on corporate financing decisions. The future research should examine the impact of various other macro-economic policies on the corporate financing decisions of firms.

Amidu and Abor (2006) conducted research; this study examines the determinants of dividend payout ratios of listed companies in Ghana. The analyses are performed using data derived from the financial statements of firms listed on the GSE during a six-year period. Ordinary Least Squares model is used to estimate the regression equation. Major findings of the study were that there is a positive relationship between dividend payout and profitability, cash flow, and tax. The results suggest that, profitable firms tend to pay high dividend. A good liquidity position increases a firm's ability to pay dividend. The results also show negative associations between dividend payout and risk, institutional shareholding, growth and market-to-book value. Firms experiencing earning volatility find it difficult to pay dividend, such firms would therefore pay less or no dividend. The higher the institutional holding the lower the dividend payout ratio, meaning firms pay dividends in order to reduce the cost associated with agency problems. The results again suggest that, growing firms require more funds in order to finance their growth and therefore would typically retain greater proportion of their earnings by paying low dividend.

Firms with higher market-to-book value tend to have good investment opportunities and would therefore pay lower dividends. The results of this study generally support previous empirical studies. The implication of this article is that dividend payout policy decision of Ghanaian listed firms is influenced by the profitability, cash-flow position, growth prospects, and investment opportunities of the firms.

Olson and McCann (1994) have conducted a research on the linkage between dividend and earnings. The purpose of this paper has been to empirically test the linkage, if any, between dividends and earnings. The Granger causality test was used for two measures of dividends and earnings: the level of variables and deviations from expected values. An autoregressive model for earnings was estimated and contrasted to a bi-variate model that included dividend information as well as an autoregressive earnings series. The results of the study indicate that the inclusion of the dividend data improves the predictability of earnings using both the level of the variables and deviations from expected values measures. This finding is consistent with the signaling theory of dividends. An autoregressive model for the dividends was also estimated and contrasted to a model that included the earnings information set as well as an autoregressive dividends series. The results indicate that the inclusion of the earnings data improves the predictability of the autoregressive dividend model using both the level of the variables and deviations from expected values measures. This finding is consistent with the residual and partial adjustment theories of dividends. Another outcome of this study is that many firms whose dividends were useful in predicting earnings were also found to have earnings useful in predicting dividends. These results were observed using both the level of the variables and deviations from expected values measures. The findings indicate that many firms that follow a dividend policy of signaling also tend to employ a residual or partial adjustment policy, and vice versa. A log it regression was performed to distinguish the financial characteristics of firms with a specific linkage between dividends and earnings from other firms. The results suggest that firms following a dividend signaling policy have a higher growth in asset turnover, experience lower growth but higher variability in sales, are smaller in size, and rely on less leverage than firms that do not signal. Residual firms have higher growth in asset turnover and lower growth in sales than do non-residual firms. In addition, firms that follow both or either dividend signaling and residual policies are smaller; they have higher growth in asset turnover and lower growth in sales; and they use less debt than firms that follow neither policy.

Pradhan (1990) made a study on stock market behavior of Nepal which was based on the data collected for 17 enterprises from 1986 through 1990. The objectives of this study were to assess the stock market behavior in Nepal and to examine the relationship of market equity, market value to book value, price-earnings, and dividends with liquidity, profitability, leverage, assets turnover, and interest coverage. Some findings of this study, among others, were that higher the earnings on stocks, larger the ratio of dividends per share to market price per share. Dividend per share and market per share was positively correlated. There is positive relationship between the ratio dividend per share to market price per share and interest coverage. Similarly, the study shows positive relationship between dividend payout and liquidity. There is positive relationship between dividend payout and profitability. Again the study reveals that thee is positive relationship between dividend payout and turnover ratios. There is positive relationship between dividend payout and interest coverage. Liquidity and leverage ratios are more variable for the stock paying lower dividends. Earnings, assets turnover, and interest coverage are more variable for the stock paying higher dividends.

Shrestha (1992) has conducted a study to deal with policies and financial performance of some companies in Nepal. A book entitled “Share holder’s Democracy and Annual General Meeting Feedback” contains a paper, presented by Shrestha, on the occasion of fifth Annual Meeting of SBL Bank. In this Shrestha has raised the following issues like the cost push inflation at exorbitant rate has made the shareholder’s to expect higher returns from their investment. Erosion in purchasing power of people has made it clear that dividend payment must be directed to enhance shareholder’s purchasing power by raising dividend payout ratio on the basis of both earning and cost theory. Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by the way of dividend is just a natural economic consequence of it. Indo-Nepal trade transit deadlock has become a sort of economic warfare putting rise in the cost of living index to a considerable extent. This has cause d the shareholders to expect higher dividend. One way to encourage risk- taking and preference is to have proper risk return trade off by Bank Management in way that higher return must be the investment rule for higher risk takers that compromise bank's shareholders.

In the prevalence of these conditions, Shrestha suggests bank management to rethink the matters related to payment of the dividend.

Manandhar (2001) has carried out a study on the topic of "Bonus share and dividend changes empirical analysis in Nepalese context" based on the data collected for the year of eleven years from 1987/88 to 1997/98. The analysis covers 35 observations pre bonus dividend rate and 29 observations of post bonus dividend rate of 12 samples of the Nepalese corporate firms selected from the listed corporate firms in NEPSE. The sample corporate firms include 5 from banking, 3 from insurance and finance company and 4 from manufacturing, trading and airlines. The study is made to analyze the actual dividends behavior of Nepalese corporate firms after an issue of bonus share. Moreover, there are some specific research questions in this study like is quantum of the dividends increases directly related to ratio of bonus issue, is there any association between existing dividend rate and bonus issue, does the dividend announcement of the management indicate its intention of increasing future dividend. The major findings of the study were the announcement of bonus share issue has a significant impact in market price of share which ultimately the wealth of the stockholders. In overall, corporate management have not found considering its effect on dividend distribution in future as reflected by absence of the systematic dividend paying practice before and after bonus share issue. There is no systematic policy of dividend distribution after the issue. There is diversity in the increase in dividend rate and the total dividend payment after bonus issue. Which means dividend increase doesn't follow the bonus share issues in Nepalese corporate firm's dividend behavior. The relationship between existing dividend and various ranges of bonus share issue ratio is not found significant in Nepalese corporate firms.

Shrestha and Manandhar (1998) have carried out study on the topic of bonus share issue practices in Nepalese corporate firms based on the data collected from 1987 to 1998 for 12 corporate firms. The study found that the most popular bonus ratio prevalent in Nepalese corporate practices are 1:2, 1:1, 1:0.5 and other than ratios specified above have been found negligible important that accounts for only 39% for remaining 12 bonus ratios. The amount of bonus issued showed increasing trend during the period under study, during the three sub-periods on and average amount of bonus issue rose by 250% per sub-period. There is a trend to raise the additional equity capital by capitalizing the reverses and net profits by issuing bonus share and stock dividend. The average ratio of bonus share issue to equity capital is found above 0.5. The overall average of this bonus issue is noticed among Nepalese corporate practice. The number of bonus issue made five times or more are found two corporate firms in number SBL and NIC during the study period. No consistency in bonus ratio is observed. Only 50% of the bonus issuing corporate firms is found to follow the consistent policy in bonus issue. Among the corporate firms following the consistent policy of bonus issue are found to have made bonus issue is quick suggestion. Such corporate firms issued 15 times bonus share out of 25 times in total in the time interval of one year which accounted for 60% of the cases. Bonus share occurred at irregular in interval and on widely very ratios in 50% of the cases of the bonus issue. Large corporate firms are found to issues bonus share more times than the small sized corporate firms. The overall average bonus ratio of the corporate firms with equity capital of Rs. 50 and less than 100 million found to us 0.78 which accounted for 10 times out of 36 times bonus issues. Corporate firms over than 20 years are found to have issued bonus share more times compared to other corporate firms with lesser as which accounted 55% of the cases. Corporate firms are suggested to have their bonus share issued plan towards the accomplishment of corporate goal. Issue of bonus share must be in consistent with the growth and expansion scheme of the corporate firms and justified by increase earnings and reduced risks in terms of investment and returns.

Gautam (1998) has conducted comparative study on dividend policy in commercial banks of Nepal. The main objectives of his research were to identify what type of dividend policy is being followed and find out whether the policy followed is appropriate or not, to examine the impact of dividend on share prices and to identify the relationship between DPS and other financial indicators. He found that no commercial banks seem to be guided by clearly defined divided strategy in spite of the good earnings and potential. Shares of the financial institution are actively traded. Commercial banks represent a robust body or perfect earnings organization in comparison to the other sectors such as manufacturing, trading etc. One of the most striking findings of this study is that no commercial bank sample for this study has clearly dividend strategy. On the other hand there is significant relationship perceives between earnings and dividend of expansion programs.

Timilsina (1997) conducted a study on dividends and stock prices, by using the data for 16 enterprises from 1990 through 1994. The objectives of this study were to test relationship between dividends per share and stock prices, to determine the impact of dividend policy on stock prices and to identify where it is possible to increase the market value of the stock by changing dividend policy or payout ratio. To explain price behavior, the study used simultaneous equation model as developed by Friend and Puckett (1964). The findings of his study were that the relationship between dividend per share and stock prices is positive in the sample companies. Dividend per share affects the share prices variedly in different sectors. Changing the dividend policy or dividend per share might help to increase the market price of share. The relationship between stock prices and retained earnings per share is not prominent. The relationship between stock prices and lagged earnings price ratio is negative.

Shrestha (1981) shows short glimpse of the dividend performance of some public enterprise of that time in Nepal. He has concentrated on the following issues. The government wants two things from the public enterprise i.e. minimum dividend on the investment of equity capital and self supporting capability of public enterprise. These both objectives were not achieved by public enterprises. One reason for this inefficiency is given by the management and agreed by another attributes to the excessive government control over dirty affairs. Another reason is that the attributes to the lack of self correction by mangers of the enterprises has beguiled the protection of subsidization & flow of easy money from the government. The article points out and irony about the government business an exciting dividend from Nepal Bank Limited , irrespective of sufficient profit, and not to show interest in the case of Rastriya Banijya Bank despite considerable profit.

Adhikari (1999) carried out a research on corporate dividend practices in Nepal using primary as well as secondary data. The main objectives of his research were to analyze the properties of portfolios formed on dividend, to examine the relationship between dividend and stock prices and to survey the opinions of financial executives on corporate dividend practices. This study found that the financial position of high dividend paying companies is comparatively better than that of low dividend paying companies. Market price of stock of both finance and non finance sectors are affected by dividends. There is a positive relationship between dividend and stock price. There is a negative relationship between dividend payout and earnings before tax to net worth. Stocks with larger ratio of DPS to book value per share have higher profitability. These profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends. Companies paying higher dividend are reluctant to employ higher degree of leverage in their capital structures. The stocks with larger ratio of dividend per share to book value per share have also higher turnover ratio and higher interest coverage.

Rajbhandari (2001) has conducted research on dividend policy; a comparative study between banks and insurance companies through data collected from 1994/99 with three joint venture commercial banks and three insurance companies. The main objectives of her research were to examine the relationship between dividend and market price of the stock, to analyze the relation between dividend policy decision of the bank and insurance companies and to identify the appropriate dividend policy followed by the banks and insurance companies. Rajbhandari found that the average DPS and all concerned institution except SBL and EPS of all sample seem satisfactory. The analysis of dividend payout ratio shows none of the banks or insurance companies has constant payout ratio each year. It has been fluctuating from year to year. The analysis of coefficient of variation shows that there is the largest fluctuation in EPS and DPS. Other companies seem to be relatively more consistent.

Katwal (2001) has conducted a thesis on a comparative study of dividend policy in commercial bank of Nepal based on data collected from 1994/95 to 1998/99 for six sample commercial banks. The main objectives of his research were to study the current practice of dividend policy in commercial banks, to find out the impact of dividend on share prices and to analyze the relationship of financial indicators. The result of the study found that the analysis of the DPR shows that none of the sample banks have consistent dividend policy. No specific dividend payment strategy is following by these banks. Payment of cash dividend and stock dividend are made without wise managerial decision.

Sharma (2002) has conducted the study on dividend policy with respect to insurance companies in Nepal from 1998/99 with four Insurance companies of Nepal. The major objectives of her research were to find out the impact of dividend on market price of stock, to examine whether there is significant difference or not among DPS, EPS and DPR of the selected companies and to know if there is any relationship between market value per share and dividend policy and other financial indicator such as DPS, EPS, DPR, PE Ratio, Liquidity Ratio. Major findings of the study were the average DPS and EPS of NLGICO and NICO is satisfactory compared to PICO and UICO. Since, later insurance companies are new in dividend distribution. The analysis of coefficient of variation indicates largest fluctuation in PICO and UICO. The dividend yield analysis is fluctuating in all sample insurance companies.

Ghimire (2002) has conducted the study on dividend policy of listed companies with reference to Banks, Finance and Insurance Companies. The main objectives of his research were to identify the relationship between dividend policy and other financial indicators, to find out whether dividend policy affects value of the firm or not, to analyze the relationship between DPS and MPS, to identify the relationship between dividend policy and other financial indicators. The study found that the DPS of the finance companies are more fluctuating in comparison to banks among them HBL has more fluctuation and NGBL being consistent. Dividend yield of the finance and insurance companies are higher than banks and more consistent. Banks are following aggressive dividend policy due to higher DPR where as finance and insurance companies have implemented moderate dividend policy.

Aryal (1997) has performed a thesis on dividend policy a comparative study between SBL and NGBL with eight years data relating to dividend policy from 1987/88 to1994/95. The main objectives of the work were to highlight dividend practices of the banks and to analyze the relationship of dividend with various important variables. The conclusions of his study were that the relationship between DPS with EPS, net profit and stock prices are positive in sample banks. A change in DPS affects the share prices differently in different banks. There is not uniformity of dividend distribution policy in both the banks.
Adhikari Samita (2008) has performed a thesis entitled " A comparative Study of dividend Policy in Commercial Banks(with reference to SCBNL, and NABIL Bank) with five years data.

Major objectives of the study are to study the dividend practices of the commercial Banks, to study the relationship between DPS and other financial indicators such as EPS, Net profits, net worth, and MPS of stocks, to study the relationship between dividend per share, EPS and dividend policy, to examine whether or not dividend influences the liquidity position and share prices of Sample banks.

And major finding of the study are, the average EPS of the banks under the study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS, the average EPS shows that there is no regularity in dividend payment. The SCBNL has highest DPS, the analysis of DPR also shows that the DPR of the banks are not stable. Among the banks under the study, SCBNL has the highest average DPR and NABIL has the least fluctuation in DPR, regarding the MPPS, SCBNL has the highest average MPPS and NSBL has the lowest average MPPS.

Koirala Jeevan(2009) has done a thesis entitled " Dividend Policy and It's Practices in Nepal". With reference to four selected joint venture commercial banks.

Major objectives of the study are to Study and highlight the prevailing dividend policy adopted by selected commercial banks, to analyze the relationship of dividend policy with various financial indicators like EPS, MPS, DPR in the sample firms, to analyze the impact of dividend policy on market process of sample banks, to provide fruitful suggestion and recommendation to the chosen banks.

And major findings of the study are MPS of the banks is average fluctuating every year. NABIL has got success to keep the EPS more than average through out the study period. Whereas EBL, HBL and SBI have less than average through out the study period, DPS of the commercial banks are also fluctuating every year. NABIL has kept the DPS more than average throughout the study period. All the banks have distributed dividend during the study period, DPR of the commercial banks is also fluctuating every year. DPR of NABIL is more than average throughout the study period, MPS of the selected commercial banks is also in fluctuating trend. The coefficient of variance shows that there is no consistency of MPS.

2.4 Concluding remarks

The literature review of authentic books and journals has been very helpful to understand on practical issues. Even a casual review of the literature brings one quickly to the key impression about dividend decision by the companies. Academics and practitioners developed a number of theories, which have been subjected to empirical test. The various financing decision are vital for the financial welfare of the company. Dividend decision is one of the major decisions to be made.

The policy of a company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. There is a reciprocal relationship between retained changes and cash dividends. If retained earning is kept more by the company less will be dividend and vice versa. Dividend decision depends upon the objective of the management for wealth maximization. The firm will use the net profit for paying dividends to the shareholders, if the payment will lead to maximization of the wealth of the owners. If not, it is better to retain them to finance investment programs. Dividend policy affects the financial structure, the flow of funds, corporate liquidity, and investors' attitudes. Thus, it is one of the central decision area related to policies seeking to maximize the value of firm's common stock. One of the interesting implications found from the literature review is that dividends can be shown to be relevant in the presence of moral hazard and hidden information, even when the agency contract is optimally chosen.

Many studies have been done in the context of Nepal; it has now become necessary to find out whether their findings are still valid or not. Many changes have taken place in and outside Nepal. Like other countries, Nepal has also followed a policy of liberalization, privatization and globalization. Most of the studies conducted in the context of Nepal are based on secondary data. There is a need to conduct a survey of financial executives in order to find out more qualitative facts on dividends which cannot be determined through the use of secondary data. Besides the analysis of secondary data this study attempts to make an opinion survey among the financial executives of different commercial banks of Nepal. Moreover, the earlier studies on dividends have become old and need to be updated and validated because of the rapid changes taking place in financial market of Nepal.

CHAPTER – III

RESEARCH METHODOLOGY

With a view to attain the overall objectives of the research, the research has been carried out following the systematic methodology. The chapter provides a description of the type of data and with the description of methods and procedures for analyzing data.

3.1 Research Design

The structure of this research is constructed by both the descriptive and explanatory designs. Explanatory design is followed by review of past journals, books and annual reports as well as related schedules and consultation to suffice the qualitative and quantitative information regarding the stated objectives. Concurrently, descriptive design comprises a unique approach to this issue by using the simple regression model to identify the factors that influenced the dividend policy of the Nepalese commercial banks to test the theoretical relation between dividends with variables namely EPS, DPS, DPR, P/E ratio, MVPS to BVPS ratios, net worth, its analysis and the practices of these banks.

3.2Sources of Data

The required data has been collected from the “financial statement of listed companies published by Nepal Stock Exchange Limited. The related data are obtained from the annual reports published by concerned banks. Besides this further data are collected from published and unpublished reports, journals, thesis etc. This study is based on secondary as well as primary data. Other necessary information was collected from various institutions.

3.3 Population and Sample

Various commercial banks are listed in the Nepal Stock Exchange Limited (NEPSE) i.e. which are listed in NEPSE as form the population of this study. Five of them have been selected as sample. Population and sample of this study are as follow:

Population

Name of the Banks	Establishment Date (B.S.)
1. Nepal Bank Limited	1994
2. Rastriya Banijya Bank Ltd.	2023
3. Agricultural Development Bank Ltd.	2025
4. NABIL Bank Ltd.	2041
5. Nepal Investment Bank Ltd.	2043
6. Standard Chartered Bank Ltd.	2044
7. Himalayan Bank Ltd.	2050
8. Nepal SBI Bank Ltd.	2050
9. Nepal Bangaladesh Bank Ltd.	2050
10. Everest Bank Ltd.	2051
11. Bank of Kathmandu Ltd.	2052
12. Nepal Credit and Commerce Bank Ltd.	2053
13. Lumbini Bank Ltd.	2055
14. Nepal Industrial and Commercial Bank Ltd..	2055
15. Machhapuchre Bank Ltd	2057
16. Kumari Bank Ltd.	2058
17. Laxmi Bank Ltd.	2059
18. Siddhartha Bank Ltd.	2059
19. Global Bank Ltd.	2064
20. Citizen Bank International Ltd.	2064
21. Prime Bank Ltd.	2064
22. Sunrise Bank Ltd.	2064

23. Bank of Asia Nepal Ltd.	2064
24. NMB Bank Ltd.	2065
25. Development Credit Bank Ltd.	2065
26. Kist Bank Ltd.	2066
27. Janata Bank Nepal Ltd.	2067
28. Mega Bank Ltd.	2067
29. Commerze and Trust Bank Ltd.	2067
30. Civil Bank Ltd.	2067
31. Century Commercial Bank	2067

(Sources: Arthik Abhiyan Daily, 2067 Paush , Falgun)

Sample of this study

1. Siddharatha Bank Limited
2. Kumari Bank Limited
3. Machhapuchre Bank Limited
4. Laxmi Bank Limited
5. Nepal Industrial and Commercial Bank Limited

3.4 Methods of Analysis

For analysis of this study different financial and statistical tools have been used. By applying financial and statistical tools, the relationship between dividends with different relevant financial variables has been examined. The calculated results have been tabulated and compared and interpreted. Simple regression analysis has been used to study the influences of independent variables to dependent variables. To determine whether the variable of earnings per share (EPS) is related to dividend decision, the regression model has been applied.

$X= a+bY$

Where,

X= Dividend per Share (DPS)

a = Intercept of line

b = Regression coefficient of line

Y= Earning Per Share (EPS)

This model has been applied to examine the relationship between the DPS and EPS of the banks over the study period.

Similarly the following regression models have been applied to determine whether the variable of net earnings is related to dividend per share.

$X= a+bY$

Where,

X= Dividend Per Share (DPS)

a = Intercept of line

b = Regression coefficient of line

Y = Net Earning (NE)

Like wise other regression models have been applied to determine whether the variable of DPS is related to MPS and variable of DPS is related to NW

$X= a+bY$

Where,

X= Dividend Per Share (DPS)

a = Intercept of line

b = Regression coefficient of line

Y= Market Price per Share (MPS)

and

$X= a+bY$

Where,

X= Dividend per Share (DPS)

a = Intercept of line

b = Regression coefficient of line

Y = Net Worth of the Bank (NW)

To obtain the regression line, we have to follow the approach of sum of square deviation and on this basis workout the values of its constants viz. "a" and "b" or that is known as the intercept and the relation. This has been done with the help of following normal equations.

$\sum X = na + b \sum Y$……………………(1)

Multiplying the equation (1) by Y, we get

$\sum XY = a \sum Y + b \sum Y^2$

Where,

a and b are unknown

n is number of observations in the sample

3.5 Financial Indicators/ Tools

- **Earning Per Share (EPS)**

It reflects the earning power of a company. It makes easy to compare past and present EPS of the company and compare with competitions. It is calculated by dividing total earnings available to the common shares holders by number of common share outstanding.

$$EPS = \frac{\text{Total Earnings Available to common Shareholders}}{\text{Number of Common Share Outstanding}}$$

- **Dividend Per Share**

It gives financial soundness of the company. Only financially strong companies can distribute dividend. It attracts investor to invest in shares of stock and maintains goodwill. It is calculated, by dividing net earnings pain to the common shareholders (after payment of preference dividend) by number of common share.

$$\frac{\text{Net Earnings Paid to Common Shareholders after Payment of Preferance Dividend}}{\text{Number of Common Share Outstanding}}$$

A portion of the earning is retained in the business.

- **Dividend Pay Out Ratio (DPR)**

The ratio of distribution of earnings to the shareholders and total earnings is dividend pay out ratio. It is calculated in term of percentage. It is calculated by using the following formula.

$$DPR = \frac{\text{Dividend per Share (DPS)}}{\text{Earning Per Share (EPS)}}$$

Or,

$$DPR = \frac{\text{Total Dividend Distribution to Common Shareholder after Preferance Dividend}}{\text{Total Earning Available to Common Shareholders after Preference Dividend}}$$

- Price Earning Ratio(P/E Ratio)

It is the price of share the outsider is paying for each rupee reported by the balance sheet of the banks. It is calculated by dividing the market value per share by book value per share.

$$P/E = \frac{\text{Market Price per Share (MPS)}}{\text{Earning Per Share (EPS)}}$$

- Return on Net Worth (RNW)

Net worth refers to the owners claim in the assets of an organization. It can be found by subtracting total liabilities from total assets (excluding intangible assets and accumulated loses). This ration indicates how well the banks have used the resources of the owners. It is calculated by dividing net profit after taxes by net worth.

RONW = $\frac{\text{Net Profit after Tax}}{\text{Net Worth}}$

3.6 Statistical Tools

- **Standard Deviation**

The standard deviation is the square root of the average of the square deviation of the observations from the mean. The standard deviation measures the absolute dispersion. The greater the amount of dispersion the greater the standard deviation which means a high degree of uniformity of the observation and vice versa. In this study standard deviation is calculated for certain selected dependent and independent variables, which is specified in the models presented above.

- **Coefficient of Correlation (r)**

Correlation analysis is a statistical tool can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. In its study simple coefficient of correlation is used to determine the relationship of different variables and dividend. The data related to dividend over different periods are tabulated an their relationship with each other is drawn out. The value of correlation can range 1 to t.

- **Coefficient of Multiple Determination**

The coefficient of determination is a measure of degree of line association or correlation between two variables one of which happens to be independent and other being dependent. In other words, R^2 measures the percentage of total variation in dependent variable explained by independent variable. The value of coefficient of determination can range from zero to one, zero simply means that all the data points in the scatter diagram fall exactly on the regression line, Value of one can occur only if regression in unexplained.

- **Regression Constant(A)**

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

- **Regression Coefficient (b1, b2, b3………..)**

The regression coefficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all the other independent variables in the regression mode. In other words, the coefficients describe how changes in independent variables affect the values of dependent variable estimate.

- **Standard Error of Estimate(SEE)**

The standard error of estimate measures the dispersion about an average line for measurement of accuracy in estimated line. It is used to predict better fit of regression line. Smaller SEE is better to estimate and vice versa. By the help of SEE, it is possible to ascertain how well and representative to regression line is as description of the average relationship between two series.

- **'T'- Statistics**

To test the validity of assumption, if sample size is less than 30 than t-test is used. If the small number sample are taken to test, t-values should be calculated first and compare with table value of 't' at a certain level of significance and given degree pf freedom we conclude the there is significantly different. If the calculated value is less than the table value we conclude that the different is not significant.

- **'F' – Statistics**

The ratios of two independent chi-square variates divided by their respective degrees of freedom is known as F-statistic and the distribution of F-Statistic is called the Fisher's F-distribution. The sampling distribution of F statistic does not involve any population parameters and depends only on the degree of freedom. The range of the values of F is from 0 to infinity. The value of F cannot be negative since both terms of the F ratio are squared values. F test is for testing the linearity of regression. F test is for testing the significance of an observed sample correlation ratio. If the calculated value of ‘F’> tabulated value in certain level of significance and given degree of freedom we conclude that there is significantly different. If the calculated value is less than the table value of it concludes the difference is not significant.

CHAPTER – IV

ANALYSIS AND PRESENTATION OF DATA

The basic objectives of the study and the subject matter have been introduced in the 'Introduction chapter'. In order to achieve these objectives, several tools and techniques have been used which is clearly described in 'research methodology' chapter. In this relevant data has been presented and analyzed with reference to dividend practices of commercial banks.

4.1 Earning per share (EPS):

Table 4.1(a)

Kumari Bank Limited (KBL)

Total Earning, Percentage Changes in Total Earnings, Number of Shares, EPS and Percentage Changes in EPS

Year	Total Earning (in million)	% change in Total Earnings	Total No. of Shares	Actual EPS	%change in Actual EPS
2005/06	103.69	n.a	6250000	16.59	n.a
2006/07	170.25	64.19	7500000	22.70	36.82
2007/08	174.95	2.76	10700000	16.35	(27.97)
2008/09	261.42	49.43	11860992	22.04	34.8
2009/10	316.58	21.10	13060159	24.24	9.98
			Average EPS	**20.38**	

(Source: Kumari Bank Limited, Annual Report)

In the year 2005/06 the total net earning of KBL was Rs. 103.69 million and EPS was Rs. 16.59. Then in year 2006/07 the total earnings increased by 64.19%, which was amounted to Rs. 107.25 million. The total number of shares in 2005/06 is 6250000 and it went on increasing in the following year. It has reached up to 13060159 in 2009/10.The total earning is also increased continuously from 2005/06 to 2009/10. It is increased by 64.19% in 2006/07, 2.76% in 2007/08, 49.43% in 2008/09 and 21.10% in 2009/10.

From the above analysis, it shows that total net earnings after tax has been increasing. Total earning of the bank was Rs. 103.69 million initially and reached to Rs. 316.58 million in 2009/10. The actual EPS fluctuated in between Rs. 16.59 to Rs. 24.24 This fluctuation is due to increment in total earning.

The average EPS is Rs. 20.38. In year 2006/7, 2008/09 and 2009/10 EPS was higher than that of the average EPS and in the year 2005/06 and 2007/08, EPS was lower than the average EPS.

Table 4.1(b)

Siddhartha Bank Limited (SBL)

Total Earning, Percentage Changes in Total Earnings, Number of Shares, EPS and Percentage Changes in EPS

Year	Total Earning (in million)	% change in Total Earnings	Total No. of Shares	Actual EPS	%change in Actual EPS
2005/06	65.25	n.a	5000000	13.05	n.a
2006/07	94.98	45.56	6000000	15.88	21.30
2007/08	143.16	50.73	8280000	17.29	9.22
2008/09	217.96	52.25	9522000	22.89	32.39
2009/10	240.79	10.47	10950300	21.99	(3.93)
			Average EPS	**18.22**	

(Source: Siddhartha Bank Limited, Annual Report)

Table 4.1(b) explains that, the total earning in year 2005/06 is Rs. 65.25 million and the actual EPS is Rs. 13.05 which later increase by 45.56% amounting Rs. 94.98 million and the actual EPS increased to Rs. 15.88. Total earning increased in increasing rate during the study period. Actual EPS also increased in increasing rate except in the last year. The Average EPS is Rs. 18.22. Actual EPS in year 2005/06, 2006/07 and 2007/08 is lower than average whereas from year 2008/09 to 2009/10 EPS is higher than the average.

Table 4.1(c)

Machhapuchre Bank Limited (MBL)

Total Earning, Percentage Changes in Total Earnings, Number of Shares, EPS and Percentage Changes in EPS

Year	Total Earning (in million)	% change in Total Earnings	Total No. of Shares	Actual EPS	%change in Actual EPS
2005/06	133.99	n.a	7150000	18.74	n.a
2006/07	74.11	(44.69)	8216513	9.02	(51.87)
2007/08	85.04	14.75	8216513	10.35	14.75
2008/09	123.22	44.89	14792696	8.33	(19.52)
2009/10	80.71	(34.50)	16271965.60	4.96	(40.46)
			Average EPS	**10.28**	

(Source: Machhapuchre Bank Limited, Annual Report)

The analysis covers the year from 2005/6 till 2009/10. From above table, in the year 2005/6 the total earning of the bank is Rs. 133.99 million which decreased by 44.69% in year 2006/7 amounting Rs. 74.11 and the EPS was Rs. 9.02. Total earning increased by 14.75% and 44.89% in the year 2007/08 and 2008/09 respectively and it decreased by 34.50% in the year 2009/10. The total numbers of shares is 7150000 in 2005/06 and increased up to 16271965.60 in the year 2009/10. The change in EPS is -51.87%, 14.75%, -19.52% and -40.46% in 2006/07, 2007/08, 2008/09 and 2009/10 respectively. And the average EPS is Rs. 10.28

Table 4.1(d)

Nepal Industrial and Commercial Bank Limited (NIC)

Total Earning, Percentage Changes in Total Earnings, Number of Shares, EPS and Percentage Changes in EPS

Year	Total Earning (in million)	% change in Total Earnings	Total No. of Shares	Actual EPS	%change in Actual EPS

2005/6	106.26	n.a	6600000	16.10	n.a
2006/7	158.47	49.13	6600000	24.01	49.13
2007/8	243.05	53.37	9438771	25.75	7.25
2008/9	317.40	30.59	11404800	27.83	8.10
2009/10	449.86	41.73	13115520	34.30	23.25
			Average EPS	**26.00**	

(Source: Nepal Industrial and Commercial Bank Limited, Annual Report)

In the year 2005/06 the total earning after tax of NIC Bank was Rs. 106.26 million and EPS was Rs. 16.10. Later in 2006/07 it increased by 49.13% amounting Rs. 158.47 million and likewise EPS also increases to Rs. 24.01. Total earning and EPS both increased in increasing rate over the study period. Number of share increased from 6600000 in 2005/06 to 13115520 in 2009/10.

Table 4.1(e)

Laxmi Bank Limited (LBL)

Total Earning, Percentage Changes in Total Earnings, Number of Shares, EPS and Percentage Changes in EPS

Year	Total Earning (in million)	% change in Total Earnings	Total No. of Shares	Actual EPS	%change in Actual EPS
2005/6	35.38	n.a	6100000	5.8	n.a
2006/7	78.44	121.71	7296970	10.75	85.34
2007/8	150.22	91.51	9131963	16.45	53.02
2008/9	227.30	51.31	10980861	20.70	25.84
2009/10	389.18	71.22	16135205	24.12	16.52
			Average EPS	**15.56**	

(Source: Laxmi Bank Limited, Annual Report)

The above table covers the period from 2005/06 till 2009/10. The net earning after tax and EPS of LBL were Rs. 35.38 million and Rs. 5.8 respectively in the year 2005/06. In year 2006/07, total earning and EPS increased by 121.71% and 85.34% respectively. Total earning and EPS both have shown the increasing trend during the study period. And average EPS of the bank is Rs. 15.56.

4.2 Dividend Per Share (DPS)

In this both cash dividend and stock dividend between the years 2002/03 till 2006/7 has been analyzed.

Table 4.2

Yearly Cash Dividend

Banks	2005/06	2006/07	2007/08	2008/09	2009/10	Average DPS
KBL	3.49	4.78	1.72	2.33	2.91	3.05
SBL	0	2.51	2.73	2.41	1.85	1.9
NIC	1.69	5.05	5.42	4.39	9.03	5.12
MBL	2.96	0	2.18	0	0.50	1.13
LBL	0	0	3.45	1.09	3.14	1.54

(Source: Annual reports of the banks)

The above table shows that NIC bank pays the highest cash dividend. However it is fluctuated from Rs. 1.69 to Rs. 9.03. The bank shows the lowest DPS in the year 2005/06 and highest in 2009/10.The average DPS is Rs. 5.12 which is highest among all other banks.

KBL pays the second highest cash dividend to its shareholders. The highest cash dividend paid was on 2006/07 i.e. Rs. 4.78 and the average DPS of KBL is Rs. 3.05.

MBL has paid dividend since only on three years and the table ranks it at last. It has the lowest average among the other banks i.e. Rs. 1.13.

SBL has not paid cash dividend on 2005/06 so the table shows cash dividend of fours years only. The highest cash dividend paid is Rs. 2.73 on 2007/08. The average DPS is Rs. 1.9

In case of LBL, dividend is paid only on three years. The average DPS is Rs. 1.54 and the highest cash dividend paid is on 2007/08 i.e. Rs. 3.45.

Let us see the growth rate of cash DPS of KBL computed, which provides the different amount of dividend for different periods. Actual cash dividend per share in the year 2005/06 was Rs. 3.49 and year 2009/10 was Rs. 2.91 per share.

Thus,

Dividend in the year 2005/06 = $D_{(0)}$ = Rs. 3.49

Dividend in the year 2009/10 = $D_{(i)}$ = Rs. 2.91

No. of years (n) = 5

Now,

$D_{(i)} = D_{(0)} (1+ g)^{n}$

$2.91 = 3.49 (1+g)^{5}$

g = -3.57 %

From the above calculation, it shows that the growth rate of -3.57% in every year.

Let us see the growth rate of cash dividend of SBL, Actual cash DPS in the year 2005/06 is Rs. 0 and in the year 2009/10 is Rs. 1.85.

Thus,

Dividend in the year 2005/06 = $D_{(0)}$ = Rs. 0

Dividend in the year 2009/10 = $D_{(i)}$ = Rs. 1.85

No. of years (n) = 5

Now,

$D_{(i)} = D_{(0)} (1+ g)^{n}$

$1.85 = 0 (1+g)^{5}$

g = ∞ %

From the above calculation, it shows that the growth rate is infinitive. The above given data shows that KBL has followed the instable growth rate. So, there is instability in dividend payment.

Again let's find out the growth rate of cash dividend of NIC, MBL and LBL respectively.

	NIC	MBL	LBL
Dividend in the year 2005/06 = $D_{(0)}$ =	Rs. 1.69	2.96	0
Dividend in the year 2009/10 = $D_{(i)}$ =	Rs. 9.03	0.50	3.14

No. of years (n) = 5

Now,

$D_{(i)} = D_{(0)} (1+ g)^{n}$

$9.03 = 1.69 (1+g)^{5}$ $0.5 = 2.96 (1+g)^{5}$ $3.14= 0 (1+g)^{5}$

$g = 39.81\ \%$ $g = -29.93\ \%$ $g = \infty\ \%$

The above calculation shows that there instability in payment of cash dividend by the LBL bank whereas MBL and LBL followed the stable dividend policy.

4.3 Dividend Pay Out Ratio (DPR)

Stability of dividends is considered as a desirable policy by the management of companies. Most of the shareholders also prefer stable dividends because all other things being the same, stable dividends have a positive impact on the market price of the share. Management should try to maintain regular dividend. For this the bank must have sufficient earnings. Management will set a lower dividend rate than banks with the same average earnings but less volatility. Management also declared extra dividends in years when earnings are high and funds are available. Earnings of the banks determine the amount of cash dividend. Dividend pay out ratio expresses the amount of dividend as a percentage of earnings available for the equity share after deducting all charges.

Table 4.3

Yearly Dividend Pay Out Ratio

Year	KBL	SBL	NIC	MBL	LBL
2005/06	21.05	0	10.53	15.79	0
2006/07	21.05	15.79	21.05	0	0
2007/08	10.53	15.79	21.05	21.05	21.05
2008/09	10.58	10.53	15.79	0	5.26
2009/10	12.00	8.42	26.32	10	13
Average DPR	15.04	10.11	18.95	9.37	7.86

(Source: Annual reports of the banks)

From the above table it shows that average yearly DPR of NIC i.e. 18.95 % is the highest than rest of the banks. Average DPR of KBL, SBL, MBL and LBL are 15.04 %, 10.11 %, 9.32 % and

7.86 % respectively. The ratio of 26.32% of NIC is the highest in the year 2009/10. SBL didn't not pay dividend on 2005/06. MBL and LBL also didn't pay dividend in two fiscal years during the study period.

4.4 Price Earning Ratio (P/E Ratio)

P/E ratio is the investor's expectation towards the company's financial performance. It gives the knowledge of financial protection towards owners, which also indicates the market appraisal of the different banks.

Table 4.4

Price Earning Ratio

Year	KBL	SBL	NIC	MBL	LBL
2005/06	26.71	27.59	30.81	17.08	63.44
2006/07	36.56	48.59	39.56	68.74	64.18
2007/08	61.47	63.04	49.86	124.19	67.66
2008/09	31.76	43.70	40.46	50.41	51.31
2009/10	19.31	20.19	18.25	56.90	23.63
Average P/E ratio	35.16	40.62	35.79	63.45	54.04

(Source: Annual reports of the banks)

Table 4.4 shows the P/E ratio of all the five selected banks. The KBL shows the average P/E ratio of 35.16 and has maintained this in year 2006/07 and 2007/08. The SBL average P/E ratio is 40.62 and it has failed to maintain this in year 2005/06, 2009/10. Similarly, the average P/E ratio of NIC bank is 35.79 and it has maintained it in year 2007/08 and 2008/09. P/E ratio of MBL is 63.45 which is the highest among the banks and it is more than the actual in year 2005/06, 2008/09 and 2009/10. Again P/E ratio of LBL is 54.04 and it has failed to maintain it in year 2008/09 and 2009/10.

4.5 Market Value Per Share to Book Value Per Share

This ratio evaluates the net present value of share in the market. The given table shows MVPS to BVPS ratio of these banks.

Table 4.5

Market Value Per Share to Book Value Per Share

Year	KBL	SBL	NIC	MBL	LBL
2005/06	2.97	2.98	4.27	2.46	3.46
2006/07	6.06	5.88	6.83	5.09	5.97
2007/08	7.85	8.34	9.29	9.08	8.87
2008/09	5.11	7.45	7.73	3.65	8.69
2009/10	3.42	3.035	4.65	2.59	4.81
Average MVP/BVP	5.08	5.54	6.55	4.57	6.36

(Source: Annual reports of the banks)

The average MVPS to BVPS ratio of NIC is the largest i.e. 6.55, which indicates one rupee book value of this bank is equal to Rs. 6.55 of MVPS.

The above calculation of different ratios shows that different banks have different ratios and they are fluctuating. NIC is first in all the ratios except the P/E ratio. MBL has the highest P/E ratio.

4.6 Analysis of Mean, Standard Deviation and Correlation of Co-efficient:

Ration analysis has given a true vision of dividend practices among the banks, but for more details, elaborated and extensive research is considered. So, in this we are finding out the degree of correlation between any two variables use din the correlation analysis. The mean, standard deviation and correlation co-efficient of KBL, SBL, NIC, MBL and LBL are presented in table

Table 4.6

Mean, Standard Deviation and Correlation for DPS, EPS, MPS, Net Earnings and Net Worth

Banks	Variables	Yr	Mean	S.D	DPS	EPS	MPS	NE	NW
			(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(In million)	(In million)
KBL	DPS	5	3.05	1.17	1	-0.23	-0.19	-0.25	-0.48
	EPS	5	20.38	3.53		1	0.56	0.39	0.39
	MPS	5	689.2	239.38			1	-0.13	-0.07
	NE	5	205.38	83.67				1	0.76
	NW	5	1347.81	369.18					1.00
SBL	DPS	5	1.9	1.11	1	0.42	0.66	0.36	0.37
	EPS	5	18.22	4.16		1	0.75	0.78	0.74
	MPS	5	734.4	325.35			1	0.15	0.10
	NE	5	152.43	75.97				1.00	0.78
	NW	5	1071.76	394.53					1.00
NIC	DPS	5	5.12	2.63	1	0.75	0.01	0.69	0.64
	EPS	5	25.59	6.58		1	0.18	0.76	0.28
	MPS	5	896.40	331.38			1	0.05	-0.04
	NE	5	255	135.51				1.00	0.79
	NW	5	1066.57	408.28					1.00
MBL	DPS	5	1.13	1.36	1	0.65	0.21	0.33	-0.46
	EPS	5	10.28	5.13		1	-0.03	0.54	-0.60
	MPS	5	585.4	412.46			1	-0.33	-0.27
	NE	5	99.43	27.19				1.00	-0.05
	NW	5	1313.69	396.24					1.00
LBL	DPS	5	1.54	1.67	1	0.58	0.35	0.54	0.57
	EPS	5	15.56	7.39		1	0.37	0.76	0.77
	MPS	5	760.6	320.34			1	0.12	0.16
	NE	5	176.2	139.55				1.00	0.80
	NW	5	1178.63	489.56					1.00

Table 4.6 depicts that mean of variables of DPS, EPS, MPS and NE is higher in NIC whereas mean of NW is higher in KBL. This means that NIC is performing better than all other selected banks. Average of Rs. 5.11 regular cash dividend has been distributed to its shareholders. The bank paid regular cash dividend throughout the period. Similarly, KBL, SBL, MBL and LBL

have average DPS of Rs.3.05, Rs.1.9, Rs1.13 and Rs. 1.54 respectively. MBL has the lowest average DPS of Rs. 1.13.

The standard deviation enables us to determine, with a great deal of accuracy, where the values of the frequency distribution are located in relation to the mean. While analyzing the standard deviation of all the selected banks it is low which shows that there is less fluctuation in dividend distribution. However NIC pays high dividend so its standard deviation is higher than other selected banks which show that there is fluctuation in dividend distribution. Similarly, KBL, SBL, MBL and LBL have low standard deviation but their dividend distribution is lower.

Correlation Analysis is the statistical tool that we can use to describe the degree to which one variable is linearly related to other variables. It deals to determine the degree of relationship between two or more variables. Its values are limited between the range +1 and -1. Thus, if the variable is perfectly correlated, returns on theses would move up and down together. The variable of such would be exactly as risky as the individual stocks. The variable negatively correlated would move perfectly together but in exactly opposite direction. In this condition, risk can be eliminated completely. But perfect negative correlation almost never is found in the real world. When the correlation between two variables is exactly zero, there is no relationship and are independent of each other.

From the above table, it is clear that the correlation coefficients are positive in some cases and negative in some. Positive correlation indicates that changes in one variable which leads to change in other variables in the same way. Negative correlation means increase or decrease in one variable leads to change in other variable in opposite direction. All selected banks except KBL have positive correlation coefficient of DPS on EPS, which indicates increase in EPS leads to increase in DPS. In case of correlation of DPS on MPS and DPS on NE only KBL has negative correlation. If the total earning of the banks is high, it distributes more dividends

4.7 Analysis of Bivariate Regression:

To know the impact of the dividend policy followed by the selected banks, financial data are used to determine how one variable is related to other variables. Simple regression is used for this purpose. Regression is the estimation of unknown values or prediction of one variable from known values of other variable. Regression analysis is a mathematical measure of the average relationship between two or more variables in terms of the original units of the data. A line of regression gives the best estimate of one unknown variable for any given values of the other variables. The equation of the regression line where dependent variable “X” is determined by the independent variable “Y”.

For this the Bivariate regression of DPS on EPS, NE., NW and MPS on DPS has been calculated to find the solution. The following table shows the simple linear relationship between above said variables.

Table 4.7(a)

Simple Regression of DPS on EPS

Banks	**A**	**B**	**SEE**
KBL	0.67	0.12	1.14
SBL	-0.65	0.14	1.01
NIC	-4.61	0.38	1.74
MBL	-1.03	0.21	1.03
LBL	-0.95	-0.16	1.36

Note:

- DPS = a+bEPS

In the regression of DPS on EPS, beta coefficient “b” should be interpreted. The value of beta coefficient of KBL, SBL, NIC, MBL and LBL are 0.12, 0.14, 0.38, 0.21, -0.16. Beta coefficient of KBL, SBL, NIC and MBL are positive whereas beta coefficient of LBL is negative. Positive beta coefficient indicated that one rupee increase in EPS leads to increase in DPS beta value if other variable remain constant. The above table shows that NIC should provide more DPS since its beta is highest among all.

Table 4.7(b)

Simple Regression of DPS on NE

Banks	A	B	SEE
KBL	3.93	-0.0043	1.13
SBL	0.38	0.01	1.04
NIC	0.02	0.02	1.90
MBL	-0.86	0.19	1.28
LBL	-0.23	0.01	1.41

Note:

- DPS = a+bNE

NIC has the highest beta coefficient i.e. 0.20. This indicates that one million increases in total earning leads to an average of Rs. 0.20 increase in DPS, keeping other variables constant .Similarly, KBL has the negative beta coefficient. SBL and LBL has the lowest beta coefficient which indicates that one million increases in total earnings leads to average of Rs. 0.01 increase in DPS other variables remaining constant.

From this it is clear that if increase in one million occurs in total earnings of all banks, NIC pays higher dividend than other banks.

Table 4.7(c)

Simple Regression of NW on DPS

Banks	A	B	SEE
KBL	1917.78	-187.12	323.87
SBL	764.13	161.91	366.53
NIC	431.47	124.14	313.71
MBL	1504.17	-168.57	351.83
LBL	853.41	211.73	402.24

Note:

- NW = a+bDPS

In this, NW is dependent upon DPS. NW is dependent variable and DPS a independent. The above table shows SBL, NIC and LBL have positive beta coefficient whereas KBL and MBL have negative beta coefficient. The positive beta coefficient of SBL shows that one rupee increase in DPS leads to an increase in Rs. 161.91 million in net worth. It also indicates that if all the banks are increasing its DPS one rupee 'b' then it will lead to increase in net worth at the highest rate, if all other variables are constant.

Table 4.7(d)

Simple Regression of MPS on DPS

Banks	**A**	**B**	**SEE**
KBL	696.33	-2.34	235.02
SBL	278.44	239.98	244.42
NIC	-5072.59	1166.73	331.36
MBL	496.70	78.36	403.26
LBL	630.35	84.8	300.08

Note:

- MPS = a+bDPS

The table represents the relationship of MPS on DPS. MPS is taken as a dependent variable where as DPS as an independent. The regression of MPS on DPS depicts that beta coefficient is negative in case of KBL. Where SBL, NIC, MBL, LBL have positive beta coefficient. The beta coefficient of SBL is 239.98 which indicate that one rupee increase in DPS leads to an increase of Rs. 239.98 per share in MPS.

From the above calculation we can analyze that coefficient of DPS might be positive and negative both. The relationship between DPS and other variables are inconsistent.

Therefore, it indicates that its regression have not explained the variation in dividend satisfactorily. From above we can analyze that DPS has effect the EPS, NE, MPS and NW in different ways in different banks. It does not have fixed rules.

4.8 Dividend Policy: An Opinion survey

In the present context it is very essential to make study on dividend policy because it will generate the information that how the executives make decisions on dividend. This will help to develop the realistic theoretical models and also help to test practically the different hypothesis concerning dividend policy. Hence, primary data is required to make the efficient study on dividend policy.

This chapter is based on primary data analysis mainly deals with qualitative aspects of corporate dividend policy. The qualitative aspects are examined by distributing questionnaires to 60 financial executives of which only 55 response were valid for analysis. This analysis is based on their opinions with respect to major aspects of corporate dividend practices in Nepal. These aspects include assessing priority for major decisions of finance, motives for paying cash and stock dividend, factors affecting corporate dividend policy and suggestion and recommendation on dividend policy.

The set of questionnaire which were used for interview and the results obtained from it are as follows:

1.Priority for dividend decisions:

S.N	Statement	Percentage
1	Financing Decisions	36.85%
2	Investment Decisions	49.47%
3	Dividend Decisions	13.68%

When this question was kept to different personnel of different financial institutions, 49.47% preferred investment decision, 36.85% went for financing decision whereas 13.68% said dividend decision.

2. Motive of paying cash dividend:

S.N	Statement	Percentage
1	Information to shareholders that Company is doing well.	47.37%
2	Draw attention from the investment community.	10.53%
3	Increase the market value of the firm’s stock	17.89%
4	Fulfill shareholder’s expectation.	18.95%
5	Others	5.26%

The above table shows that maximum percentage i.e. 47.37% of respondents think that the motive of paying cash dividend is providing information that company is doing well. 18.95% of the respondents opine that it fulfills shareholder’s expectations and 17.89% thinks that it increases the market value of the firm’s stock.

3. Dividend as a residual decision:

S.N	Statement	Percentage
1	Yes	40%
2	No	49.47%
3	Don’t Know	10.53%

This table shows that 49.74% of the respondents agree that there is residual decision in Nepalese enterprises about payment of dividend whereas 40% of the respondent disagree this statement.

4. Nepalese shareholders are indifferent whether company pays dividend or not:

S.N	Statement	Percentage
1	Yes	45.26%
2	No	54.74%
3	Don’t Know	Nil

The response to this question was that 54.74% of the respondents disagree that Nepalese shareholders are indifferent whether company pays dividend or not. And 45.26% agree that Nepalese shareholders are unaware about the payment of dividend by the enterprises.

5. Company's announcement of earnings will help to increase market price of share:

S.N	Statement	Percentage
1	Yes	86.32%
2	No	13.68%
3	Don't Know	Nil

When this question was put to the officials of different financial institutions it was found that 86.26% agree that company's announcement of earnings helps to increase market price of share. Similarly 13.68% only disagreed that market price of share increase with announcement of earnings.

6. Suggestions if the company has no cash to pay dividend:

S.N	Statement	Percentage
1	Borrow funds and pay cash dividends.	9.47%
2	Pay stock dividends.	81.06%
3	Do not pay cash or stock dividends at all.	9.47%
4	Others	Nil

81.06% of the respondents said that a company should pay stock dividend if it does not have cash to pay. 9.47% says that a enterprise should not pay cash or stock dividend whereas 9.47% response that a company should borrow funds to pay cash dividends.

7. Suggestion for stock split so that small investor can purchase high priced share:

S.N	Statement	Percentage
1	Yes	65.26%
2	No	24.21%

3	Don’t Know	10.53%

When this question was asked 65.26% of the respondents said that there should be stock split of the high priced shares so that small investors can also invest on those shares. Only 24.21% of the respondents disagree with the statement.

8. Determinant for dividend decision in Nepal:

S.N	Statement	Percentage
1	Earnings	70.53%
2	Past dividends.	5.26%
3	Concerned about maintaining or increasing stock price.	13.69%
4	Investment opportunities in the company.	5.26%
5	Restriction in bond indenture or loan agreement	5.26%

When it was asked that what may be the determinant for dividend decision in Nepal. 70.53% answered that earning of a company is the major determinant.

9. Motive of stock dividend in Nepal:

S.N	Statement	Percentage
1	To conserve cash.	38.95%
2	To indicate higher future profits.	29.47%
3	To raise future dividends for shareholders	10.53%
4	To provide high psychological value to shareholders.	21.05%
5	To lower the firm’s stock price.	Nil

The above table elaborates that 39.95% of the officials think that the main reason for providing stock dividend in Nepal is to conserve cash whereas 29.74% of respondents says that it indicates the higher future profits of the company.

10. Suggestion regarding to dividend policy in Nepal:

S.N	Statement	Percentage
1	Treatment of dividend as an obligation.	29.47%
2	Stability of dividend & constant payout ratio.	25.27%
3	Cash balance for dividend be adequately planned and maintained.	29.47%
4	Legislation regarding minimum dividend be enacted.	15.79%
5	Others	Nil

29.47% of the respondents think that Nepalese enterprises treat dividend as an obligation, 15.79% says that the dividend policy in Nepal is based on legislation regarding minimum dividend to be enacted.

11. Dividend policy recommended for Nepalese Enterprises:

S.N	Statement	Percentage
1	Steady dividends at the present level	45.26%
2	Steady dividends at level lower than present level	Nil
3	Steady dividends at level higher than present level	54.74%

When this question was kept then 54.74% officials of different financial institutions recommended that there should be higher level of dividend than the present level and 45.26% of respondents say that the present level of dividend should be continued.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Dividends refer to that portion of a firm's net earnings which are paid out to the shareholders. Dividend serves as a simple, comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. The improved corporate dividend practice is thus an essential means to solve the problem of asymmetric information between management of newly established Nepalese companies and Nepalese investors who have invested their funds therein. There are different factors that affect dividends such as earnings, liquidity position, degree of leverage, assets turnover and interest coverage. These factors indicate the financial position of a firm. If a firm has good performance in terms of these factors, it will be able to provide returns in the form of dividends to the shareholders.

The study mainly aims to assess corporate dividend practices in Nepal. Its specific objectives are:

1. To analyze and identify the dividend policy distribution and practices followed by the selected banks.
2. To examine the relationship between dividend with EPS, MPS, NE and NW.
3. To survey the opinion of financial executives on corporate dividend practices.

Dividends affect on earning and market price of the shares has been a vital issue. Policies should be maintained to have a balance between shareholder's interest and corporate growth by internally generated funds. Due to the lack of the opportunities the fund which cannot be utilized should be paid as dividend. In today's changing market, we can see that there is an influence of other factors on dividend and the implication of it on market price of the share. Besides there is a limitation, this study tried in covering some of such factors.

Vague practices have been made on distribution of dividend in the Nepalese companies. High expectation has been made by the shareholders that market price of shares will be significantly higher than the net worth, whilst dividend decision should depend on earning per share and net total earnings. Likewise market price of stock and net worth should depend on dividend decision and is paid only on the profitable years. Instability to pay dividend is the most common practices of the Nepalese companies. The companies promoted by indigenous promoters are less likely to pay dividend than that of the joint venture companies and commercial companies.

The study of relationship between dividends and by collecting the data on market price per share , retained earnings and dividend per share of five commercial banks for the period of 2005/06 to 2009/10. In order to study the opinion of financial executives on corporate dividend practices, a questionnaire survey of 55 respondents were carried out.

Major Findings

The major findings from opinion survey:

1. Among the major decisions of finance, the majority of the respondents feel that investment decisions are more important. Financing decisions got second importance and dividend decisions got third and last importance. It indicates that dividend decisions are relatively less important.
2. With respect to major motives for paying cash dividend, the majority of the respondents feel that it is to convey information to shareholders that the company is doing well.
3. As regards dividend as a residual decision, the majority of the respondents feel that it is not a residual decision.
4. Nepalese shareholders are not really indifferent towards payment or non-payment of dividends.
5. With respect to whether the company's announcement of earnings will help to increase market price of a share, the majority of the respondents felt that the company's announcement of earning will help to increase market price of a share.
6. If the company has no cash to pay dividends, the majority of the respondents opined to pay stock dividends.
7. Majority of respondents suggested that there should be stock split so that small investors can purchase high priced share.

8. When the question was asked about determinant of dividend decision in Nepal, the majority of respondents gave the first priority to ‘earnings’, the second priority to ‘maintaining or increasing stock price’, the third to ‘past dividend’, ‘investment opportunity’ and ‘restriction in bond indenture or loan agreement’.

9. With respect to motives of stock dividend payment in Nepalese corporate sector, the majority of the respondents gave first priority to ‘conserve cash’, second priority to ‘indicate higher future projects’, third to ‘provide psychological value to shareholders and fourth to raise future dividends for shareholders and last to lower the firm’s stock price.

10. With regard to suggestion on dividend policy, the majority of respondents suggested ‘treatment of dividend as an obligation; and cash balance for dividend be adequately planned and maintained’.

11. With respect to recommendation the majority of respondents recommended ‘steady dividends at a level higher than present level’.

12. Most of the respondents believed that dividend payout affects the price of the common stock. Similarly, most of the respondents agreed that dividend payments convey the future prospects of the company. Again, majority of respondents disagreed that shareholders in high tax brackets are attracted to low dividends. When the question was asked that should a firm avoid making changes in its dividend rates that might have to be reversed in a year or so then majority of respondent agree. Similarly, majority of the respondents agreed that reasons for the changes in dividend policy should be disclosed to the investors. A company’s market price will increase even if it pays dividend or retain its earning if it provides information on favorable future prospect. Majority of respondent agreed that company should not pay dividend if profitable investments are on hand. And lastly, majority of respondents disagree that Nepalese company do not want to pay dividend.

13. The major findings of secondary data:

1. Average earning per share of NIC Bank Limited is highest among all other selected banks.
2. NIC Bank Limited pays highest cash dividend among the selected banks.
3. Average dividend payout ratio is also highest in NIC Bank Limited.
4. Price earning is high in MBL.

5. There is significant relationship between dividend per share with earning per share and net worth of the company.
6. Market price of the company also depends on how effectively a company pays dividend to its shareholders.

5.2 Conclusion

With the above findings it can be concluded that there are differences in financial position of high dividend paying and low dividend paying financial institutions. A market price of the share is affected by the dividend decisions and dividend decision depends upon the earning per share of the company. Dividend as a residual decision in Nepalese companies is rejected by the financial executives of Nepal.

The major issue raised in this study is that dividend decision of a company affect on earning and market price of the shares. A company should maintain policies that generate a balance between shareholder’s interest and corporate growth by internally generated funds. Due to the lack of the opportunities the fund which cannot be utilized should be paid as dividend. In today’s changing market, we can see that there is an influence of other factors on dividend and the implication of it on market price of the share.

Distribution of dividend in the Nepalese companies is unclear and uncertain. High expectation has been made by the shareholders that market price of shares will be significantly higher than the net worth, whilst dividend decision should depend on earning per share and net total earnings. Likewise market price of stock and net worth should depend on dividend decision and is paid only on the profitable years. Instability to pay dividend is the most common practices of the Nepalese companies. The companies promoted by indigenous promoters are less likely to pay dividend than that of the joint venture companies and commercial companies.

There is no uniformity in distribution of dividend by the financial institutions. There is fluctuation in dividend. Different banks are following policies maintaining their own rules and regulations. Market price per share is traded on high price and is highly fluctuated. It highly depends on dividend per share and earning per share. Changes in DPS affect the market price per share differently in different banks. The relationship between DPS and EPS is positive in all banks. Likewise DPS on NE, MPS on DPS and DPS on NW are fluctuated. There is no stable dividend policy adopted by the financial institution in Nepal, some have increasing trend and some have irregularity in dividend payment.

5.3 Recommendations

From the above analysis, some of the recommendation is mentioned below for the growth of financial institutions:

- Banks have been found to adopt unstable dividend payment policies. This policy has negative impression in the mind of investors. So, these banks are advised to follow either static of constantly growing dividend policy. It would be better to fix the amount of dividend by the annual general meeting. This is important not only from the point of view if adequate return to shareholders but also generate stable and increasing market value per share, long run survival of the bank and efficient management and socially acceptable distribution of income.
- Shareholders should be given the alternative, as would they prefer stock dividend or cash dividend. They should be well informed that issue of stock dividend decreases market value per share and earning per share. As a number of shares are increased, total earning to shareholders will be the same. The distribution of cash dividend increases both market value per share and earning per share but it does not increase the number of shares.
- Some companies are not paying dividend even they have enough earning but there are other companies too whose profit are less but still prefer in paying regular dividend. There should be some specific policies for the growth of the enterprises. Therefore it is better for the government to formulate policies for fixing minimum and maximum dividend pay out ratio for profit making companies. Dividend policy provides the clear concept of the dividend distribution, such as stable dividend, constant pay out ratio or low regular plus extra dividends etc. The policy should be formulated and the top management of the company should implement it.

A survey of Corporate Dividend Practices

Dear respondent, I am Anup Jonchhe from, Kathmandu. On the partial fulfillment of Masters in Business Studies I am writing a thesis on **Dividend Policy in Nepal with case study in commercial Banks**. The main focus of this thesis is concerned with analyzing and interpreting the dividend policy and practices of different institution. Your valuable contribution will help to improve the significance of the study.

The information provided will be use for the purpose of the study only and shall not resemble any liability on the part of any person or institution concerned.

Name (Optional): ……………………………….

Position: ………………………………………..

Experience: ………………………… years Institution: …………………….

Address: ………………………..

1. Which of the following decisions, do you think, are more important? Please rank in order of their importance.

Importance
Very little
1…………2…………..3

a. Financing decisions ( )
b. Investment decisions ( )
c. Dividend decisions ( )

2. What do you think is the major motive for paying cash dividend? (Please make a tick mark)

a. To convey information to shareholders that the company is doing well. ( )
b. To draw attention from the investment community. ( )
c. To increase the market value of the firm's stock. ( )
d. To fulfill shareholder's expectation. ( )
e. Others (Please specify)……………………. ( )

3. Do you think that dividend as a residual decision in Nepalese enterprises? (Residual decisions means that the company will pay dividend only if there are no investment opportunities in the company)

   a) Yes: ……………….. b) No: ………………… c) Don't know ……………………

4. Nepalese shareholders are indifferent whether the company pays or does not pay dividend. Do you agree? (Please make a tick mark).

a) Yes: ……………… b) No: …………………. c) Don't know ……………………..

5. Do you think that company's announcement of earnings will help to increase market price of a share? (Please make a tick mark)

   a) Yes: ……………… b) No: …………………. c) Don't know ……………………..

6. What do you suggest if the company has no cash to pay dividends? ({Please tick mark)

   a) Borrow funds and pay cash dividends. ( )
   b) Pay stock dividends. ( )
   c) Do not pay cash or stock dividends at all. ( )
   d) Others (Please specify)…………….. ( )

7. In Nepal, market price of stock of some companies is higher and is out of reach of ordinary or poor investors. Do you suggest these companies to go for stock split so that their shares can be placed within a more popular trading range? (Please make a tick mark)

   a) Yes: ………………. b) No: ……………………. c) Don't know: ………………..

8. Please consider the following factors affecting corporate dividend policy in Nepal, and rank in order of their importance.

	Importance Very Little 1…..2….3…..4….5….6…...7
a) Earnings.	( )
b) Past dividends.	( )
c) Availability of cash.	( )
d) Concern about maintaining or increasing stock price.	( )
e) Ability to borrow of the company.	( )
f) Investment opportunities in the company.	( )
g) Restrictions in bond indenture or loan agreement.	( )

9. How do you rank the following motives of stock dividend (bonus share) payment in Nepalese corporate sector?

	Importance Very Little 1…..2….3…..4….5….6…...7
a. To conserve cash.	( )
b. To indicate higher future profits.	( )
c. To raise future dividends for shareholders.	( )
d. To provide high psychological value to shareholders.	( )
e. To lower the firm's stock price.	( )
f. Others (Please specify)………………….	( )

10. What would you like to suggest with regard to dividend policy in Nepalese enterprises? (Please make a tick mark)

a. Treatment of dividend as an obligation. ( )

b. Stability of dividend and haphazard payout ratio. ( )

c. Cash balance for dividend be adequately planned and maintained. ( )

d. Legislation regarding minimum dividend be enacted. ( )

e. Others (Please specify)…………………… ( )

11. Which of the following dividend policies do you recommend for Nepalese enterprises? (Please make a tick mark)

a. Steady dividends at the present level. ( )
b. Steady dividends at a level lower than present level. ( )
c. Steady dividends at a level higher than present level. ( )

12. How far do you agree / disagree with the following observations on Dividend policy in Nepal? (Please make a tick mark at the appropriate number as per following scheme:
1 = strongly agree, 2 = agree, 3 = don't know, 4 = disagree, 5 = strongly disagree)

S. No.	Statement	1	2	3	4	5
1	Dividend payout affects the price of the common stock.					
2	Dividend payments convey future prospects.					
3	Share holders in high tax brackets are attracted to low dividends.					
4	A firm should avoid making changes in its dividend rates that might have to be reversed in a year or so.					
5	Reasons for dividend policy changes should be adequately disclosed to investors.					
6	Shareholders in high tax brackets prefer stock dividends.					
7	If a company provides information on favorable future prospect, it will increase whether company pays dividends or retains earnings					
8	Shareholders are indifferent whether company pays dividends or retains earnings.					
9	Company should not pay dividends if profitable investments are on hand.					
10	In Nepal, most of the companies do not want to pay dividends.					

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