CHAPTER - I

1. INTRODUCTION

1.1 General Background

Nepal is the least developed country of the world. "It's average annual per capita income is $260 and GDP growth rate at producers price is 3.7 percent. Average population growth rate of Nepal is 2.2 percent"[1] Nepalese economy is characterized by slow growth mass poverty, large scale derivations of appropriate economic policy and lack of concerted and sustained efforts. Development efforts were noticed in 30's (AD) during the time of Rama Prime Minister Juddha Shamsher and initiation of planned development efforts in 1956 AD brought a new era in development. Nepal, despite being a primary sector dominated semi feudal society in fastly changing towards betterment.

The development of country is always measured by it's economic indices. Therefore, every country has given emphasis on upliftment of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. The financial institutions act as the intermediaries by transferring the resources from the point of surplus to the point of deficit.

Well organized financial institutions including finance companies commercial banks and other financial intermediaries play an important role for the development of the country.

They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial and economic activities of the country. The economic activities of a country can hardly be carried forward without the assistance of the financial institutions. They are the fact that an unorganized financial system leads the country nowhere.

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[1] Nepal Rastra Bank Ltd.Annual Report 2003/04

Nowadays there is very much competition in banking market but less opportunity to make investment. In this situation joint venture banks can take initiation in search of new opportunities, so that they can survive in the competitive market and each profit. But investment is a very risky job. For a purposeful, safe, profitable investment bank must follow sound investment policy. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market but there is no profitable place to invest. The prosperous economic condition of country is represented by the development of the industry, trade and business, which is the main ground to the banks to conduct their activities and to fulfill its objective of profit making. The proper investment policy followed by the proper financial information help the joint venture banks to make profitable investment that helps to maintain the financial system of the country organized and help in the development of the country.

But as Nepal has followed the course of economic liberalization, a number of commercial banks have been established in the joint venture with foreign commercial banks. According to kent "A bank is an organization where principal operation is concerned with the accumulation of the temporarily idle money of the general public of the purpose of advancing to other for expenditure."[2]

Common stock represents ownership in a company. The holder's of common stock are called shareholders. "People buy common stock of banks or any other institution expecting to earn dividend plus capital gain when they sell their shares at the end of some holding period."[3] Therefore one of the major reasons for investing money on shares of banks is for 'dividend'.

Dividend policy involves the decision to payout earning versus retaining them for re-investment in the firm. Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividend means higher the immediate cash flows to investors, which is good, but lower future growth,

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[2] R.S. Sayers, Modern Banking, Oxford clearendor press, India,1967p.3
3Kiran Thapa, Investment, Pratiba Prakashan, Kathmandu, 2003,p.147

which is bad The dividend policy should be optimal which balance the opposing forces and maximizes stock price.

"Dividend policy is one of major decision of financial management because it affects the financial structure, the flow of funds, corporate liquidity and investors attitude. The successful completion of the fiscal year having sufficient profit, management decides to declare dividend to shareholders. The important aspects of dividend policy are to determine the amount of earning to be distributed to the shareholders and the amount to be retained in the firm. It also determines the forms of dividend"[4]

For the entire development of any country, each and every sector should be strong and capable. Among various sector, economic sector is one of the major section. Nepal is running with 3 yr's 11th plan but no valuable achievement has been made in the field of economic development of the country. But as Nepal has followed the course of economic liberalization, a number of commercial banks have been established in the joint venture with foreign commercial banks. Some of the commercial banks that is conducted in Nepal are NABIL Bank Ltd. (2041 B.S.), Nepal Investment Bank Ltd. (2042 B.S.), Standard Chartered Bank Ltd. (2043 B.S.), Himalayan Bank Ltd. (2049 B.S), Nepal Bangladesh Bank Ltd. (2050 B.S.), Everest Bank Ltd. (2051 B.S.) Bank of Kathmandu (2051 B.S), Nepal Industrial and Commerce Bank Ltd.(2055 B.S), Nepal Credit and Commerce Ltd.(2050 B.S), Lumbini Bank Ltd (2055 B.S), Machhapuchhre Bank Ltd.(2057 B.S), Siddartha Bank Ltd. (2059 B.S), Nepal SBI Bank Ltd (2050 B.S), Laxmi Bank Ltd. (2057), Kumari Bank Ltd.(2057 B.S.), Sunrise Bank Limited (2064 B.S), Global Bank Limited (2065 B.S), Bank of Asia Nepal Limited (2065 B.S), Citizens Bank International Limited (2064 B.S). The importance of Bank is highly appreciated because it needs proper attention to run successfully.

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4 Yagga Bahadur katwal, A Comparative Study of dividend policy of commercial Banks, a thesis report Submitted to T.U. 2001, p.3

Therefore one of the major reasons for which public is interested to invest money on shares of banks or other institution is for 'dividend'. Dividend is paid by the business or organization when it is running at profit. Dividend refers to that portion of earning of the firm that is distributed to the shareholders in return to their investment in the share.

"The expected level of cash dividend is the key variable from which owners and investors in the market place determine share value. The establishment of an effective dividend policy is therefore key importance to the firm's overall objectives of the owner's wealthy maximization."[5]

According to Miller and Modigliani- "The value of firm depends solely on its earning power and is not influence by the manner in which its earning are split between dividend and retained earnings."[6]

Dividend is the income that the shareholders receive physically. Dividend refers to the portion of net earning which is paid out to shareholders. As dividend is direct return of the earnings. Such action is beneficial to the shareholders through future increase in share price. In short, capital gain means increase in the price of stock. Dividend policy determines the dividend of earning between payment to stockholders and re-investment of the firm.

1.2 **History of Bank**

Banking is the business of collecting and safeguarding money as deposits and tending of the same. The history of such business transaction is as old as our civilization. There was existence of the money changers and money lenders of keepers in ancient times that used to by the currency of other countries & give local coins in return and also lend money to the people in need. People used to save & keep security & for use in their old age. Later on, these money-keepers & changers started paying some extra money to induce the deposits & started lending such deposits at higher rate to needy people. Practice of receiving & safeguarding deposits and lending the same led to the emergence of modern banking system.

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[5] Lawerence.J.Gitman, Principle of managerial finance, Harper and Row publishers, New work (3rd edition), 1982,p-507

[6] Prasnan Chanda, Financial Management, Tata mc grow-Hill publishing company Ltd, New Delhi (2nd edin 1990,p-602

With the passage of time, BANCO DE RIALTO was established as the first bank of the world in Venice, Italy in 1587.

"Banking concept existed even in the ancient period when the goldsmith & rich people used to issue receipt against the promise of safe keeping of their valuable items and on the presentation of the receipt, the depositors would get back their gold & valuables after paying a small amount for safekeeping and saving."[7]

"Before 1842 B.S. the local 'goldsmith' and 'money lenders' participated in general type of economic activities by collecting valuable metals from the public. Gradually it evolved as 'Tejaratha Adda' under the Prime Ministership of Ranodeep Singh."[8]

During the prime ministership of Ranodeep Singh (1877-1885AD) 'Tejaratha Adda' was established as the first financial institution of the country. At the beginning, only government staffs were allowed to take loan at 5% interest rate. Later on, the general publics were also allowed to take the loan at the same rate of interest with gold & silver ornaments as security of collateral. The credit facilities of 'Tejaratha Adda' were also extended outside the valley during the Prime Ministership of Chandra Shamsher Rana. Although this institution did not accept any deposits, it had played an important role in the development process of banking system in Nepal.

Though the establishment of banking industry is relatively recent in Nepal, some crude bank operations were in practice even in the ancient times. According to historical record, the king of Kathmandu, Guna Kam Dev, and borrowed money to reconstructed his kingdom in 723 A.D. A merchant named 'Shankhadhar' paid all the debts of people and Nepal 'Sambat' was established for remembrance of that occasion in 880 A.D. Likewise Jayasthiti Malla classified the people in 4 classes & 64 castes by their occupations. One of those castes that were engaged in money lending business at that time was called "Tankadhari". All these descriptions serve as the evidence of prevalence of money lending & borrowing practices in Nepal.

Banking in true sense of term started with the inception of Nepal Bank Limited on 30th Kartik 1994 B.S. Right from inception, it carried out functions of a commercial bank. The authorized capital was contributed by the government (51%), and the remaining by the public (49%). There was a political change in 2007 B.S. and solid and important event took place in 14th of Baisakh 2013 B.S. that a central bank, Nepal Rastra Bank, was established with Rs. 1 crore authorized

[7] Paul A. Samuelson Arconomics, McGraw Hill Book, Co., New York, 1989, P211
[8] Lekhnath Bhusal, Nepal Rastra Bank Annual Report, Kathmandu, 14 Baisakh 2055 B.S. -41

capital under the Nepal Rastra Bank Act, 2012 B.S. Besides the central banking functions, it has a heavy burden to develop the whole economy, such as giving timely direction to all the financial institutions, to help the industry by mobilizing its capital, to issue shares & debentures, to promise the banking habit and transactions and to fix the exchange rate with foreign currency.

The gradual development of commercial banks moved in parallel with the economic liberalization policy of the government that caused the operation of commercial banks in increasing number. The financial policy of the government welcomed the establishment of J.V.B.S. Such soft of commercial banks are established under the commercial Bank Act 2031 B.S. They are registered with recommendation of the NRB and the same bank is capable legally to issue the patent for the financial transactions of the banks. The NRB, Nepal Bank Ltd. and Rastriya Banijya Bank are the only commercial banks established before 2041 B.S.

Nepal Arab Bank was the first bank in Nepal to be established as a JVB. The number has significantly increased after the restoration of democracy in 2046 B.S. & due to the liberal economic policy of the government. Foreign banks have the dominant role in managing the JVBS in Nepal. The banks have been found interested to invest their capital in manufacturing hotel, textile and medicine. The banks have their objectives to serve in financial sector with the margin of profit in spite of its main objectives of making profit. It bears some positive aspects and if the positive dimensions of such banks are implied in Nepalese banking system, the related sides will be benefited.

Although JVBS are also commercial banks, they differ in the fact that these banks are operated in collaboration with foreign established banks. Banks primarily play a role in accumulation and mobilization of funds in a national level.

"Banking institutions are invertible for the resource mobilization and all round development of the country. It is the resource for economic development; it maintains economic confidence of various segments of extends credit to people."[9]

In order to highlights the differences between commercial banks and JVBS, the have been explained separately as follows.

1.2.1 Commercial Banks

The Nepal commercial Bank Act 2031 states "a commercial bank is one which exchanges money, deposits money, accepts deposits, grants loan and performs

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[9] Ronald, Grywinshki, The new fashioned Banking, Harvard Business Review, May-June, 1993, P-87

commercial banking functions and which is not a bank meant for co-operation, agriculture, industries or for such specific purpose."

According to the World Bank, "commercial banks are the financial institutions which engage only in deposit taking & short-term loans & medium term lending." "Commercial bank is the corporation which accepts demand deposits subject to cheque and makes short term loans to business enterprises regardless of the scope of its other sources."[10]

The legal definitions of banking and the permitted activities of banks vary across countries. Nevertheless, the essential characteristics of banks are the same. They issue liquid, nominally valued liabilities, many of which are payable on demand at par, and they mainly acquire assets that are illiquid, relatively difficult to value & of longer maturity that their liabilities.

The two essential functions of commercial banks may best be summarized as the borrowing & lending of money. They borrow money by taking all kinds of deposits. Deposits may be received on current account whereby the banker incurs the obligation of paying legal tender after the expiry of a fixed period or on deposit account whereby the banker undertakes to pay the customer an agreed rate of interest on it in return for the right to demand from him an agreed period of notice for withdrawals. The primary function of a commercial bank is that of broker and dealer in money. Commercial bank gathers the small savings of the people, thus reducing to the lowest limits idle money. Then the bank combines the smallholdings in amount large enough to be profitably employed in those enterprises where they are most called for & most needed. Commercial bankers bridge the time element between the sale and actual payment of money by converting future claims into present money.

Commercial banks are the heart of the financial system. They hold the deposits of money persons, government establishment and business units. They make funds available through their lending and investing activities to borrowers, individuals and business firms. They also offer financial services to the government. They provide a large portion of the medium of exchange and they are the medium through which monetary policy is affected. These facts show that the commercial banking system of the nation is important to the functioning of the economy.

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[10] American Institution of Banking, Principle of Banking Operation, USA 1972, P-1

1.2.2 <u>Joint Venture Banks</u>

Joint ventures books are the commercial banks formed by joining two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industries well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods & services. A joint ventures is forming of forces between two or more enterprises for the purpose of carrying out specific operation (industrial or commercial investment, production trade).

"When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture."[11]

"A joint venture, an association of two or more individuals or parties having exceptional advantages in a specific operation, is undertaken to make the operation highly remunerative with their collective efforts."

Functionally, JVBs offer the same services as commercial banks. The primary difference lies in the fact that JVBs are opened in collaboration between two or more banks in order to take the benefit of new methods and technologies possesses by other banks. Joint venture banks are the mode of trading to achieve mutual exchange of goods & services for sharing competitive advantage by performing joint investment scheme between Nepalese investors, financial and non financial institution as well as private investors and their parent banks each supplying 50% of investment. The parent banks which have experiences in highly merchandised and efficient banking services in many parts of the world have come to Nepal with higher technology, advance management skills. JVBs are established by joining different forces and with ability to achieve a common goal with each of the partner. They are mode efficient & effective monetary institution n modern banking fields than other old types of banks in Nepalese context. JVBs are formed in Nepal as full fledged commercial bank under the Economy Act, 2012 BS and operated under the Banijya Bank Act 2032 BS.

From the establishment of first commercial bank in Nepal in 1994 BS, the banking sector has grown significantly. Nepal has witnessed a phenomenal growth in the last two decades. "There are 16 commercial banks, 13 development banks, 5

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[11] Jauch & Glueck, Business Policy & Strategic Management, McGraw hill, 5th Edition, 1988 -232

village development banks, 49 finance companies, 34 co-operative and 16 other non governmental organizations performing limited banking activities."[12]

Table 1.1 Joint Venture Banks in Nepal

Serial No.	Joint Venture Bank	Foreign Partner Banks	Date of Establishiment (B.S.)	Date of Operation (B.S.	Head Office
1	Everest Bank Ltd.	Pubjab National Bank, India	2051/07/01	2051/07/01	KTM
2	Himalayan Bank Ltd.	Habib Bank, Pakistan	2049/10/05	2049/10/05	KTM
3	NABIL Bank Ltd.		2041/03/29	2041/03/29	KTM
4	Nepal Bangladesh Bank	IFIC Bank, Bangladesh	2050/02/23	2050/02/23	KTM
5	Nepal Credit & Com. Bank Ltd. (Formerly Nepal Bank of Ceylon Ltd.)		2053/06/28	2053/06/28	SiddharthNagar
6	Nepal Investment Bank Ltd. (Formerly Nepal Indosuez Bank Ltd.)		2042/11/16	2042/11/16	KTM
7	Nepal SBI Bank Ltd.	State Bank of India	2050/03/23	2050/03/23	KTM
8	Nepal Standard Chartered Bank Ltd. (Formerly Nepal Grindlays Bank)	Standard Chartered Bank Ltd., Australia	2043/10/16	2043/10/16	KTM

1.2.3 Role of JVBs in Nepal

The entry of JVBs in Nepal has taken the concept of banking to a new level. The Nepalese people have been able to benefit from the state of the art and customized services these banks have to offer. There is no doubt that JVBs have become the

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[12] Nepal Rastra Bank, Annual Report-2003/04

choice of people when it comes to banking. And since the industry is still relatively a lot can be achieved in the years to come.

"Joint venture banks are already playing a dynamic and vital role in the economic development of the country. This will undoubtedly purchase with the passage of time."[13]

In order to specifically point out the roles it can be presented as under;

     i.   Healthy Competition:
           The induction of joint venture banks brings the benefit of healthy competition. The competition would force the domestic banks. Nepal Bank Ltd. and Rastra Banijya Bank to improve their services & efficiency.

     ii.   Foreign Investment:
           Foreign Investment is one of the important aspects for the development of the country. When looking at the possibility of the investment of in the country (Nepal), multinational companies are unfamiliar with the local companies to build up their confidence for investment by providing necessary information and financial support.

     iii. New Banking Techniques:
           Modern banking services are being provided to Nepalese financial system by new JVBs. New banking techniques such as tele-banking, computerization, Automated Telling Machines, Debit Cards, Credit Cards are the important contribution of JVBs to the gradual changing commercial banking scenario.

1.2.4   Brief Profile of Sampled Bank

This research is concerned with comparative study of joint venture commercial banks in Nepal. So, the sampled banks are briefly introduced below.

A) Nabil Bank Limited

Nabil Bank Limited, the first foreign bank of Nepal, started operation in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sector of the society. Pursuing its objectives,

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[13] Sunil Chopra, Role of Foreign Banks in Nepal, NRB Samachar, NRB KTM, 14 Baisakh 2056 BS, P-2

Nabil provides a full range of commercial banking services through its, 44 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. It was earlier known as Nepal Arab Bank Ltd. It has its head office at Kamaladi, Kathmandu. It has the largest no. of staffs among private commercial banks of Nepal.

Nabil as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector represents a mile stone in banking with customer satisfaction measured as a focal objective while doing business.

The bank's earning per share is Rs.84.66, Rs.92.61, Rs.105.49, Rs.129.21 and Rs.137.08 in fiscal year 2005, 2006, 2007, 2008 and 2009 respectively. Similarly the bank provided dividend (including bonus) on share capital is 50%,. 65%, 70%, 85% and 140% in fiscal year 2005, 2006, 2007, 2008 and 2009 respectively.

B) Everest Bank Limited

Everest bank limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through a network of 22 branches. The bank has conferred with "Bank of the year 2006, Nepal" by the banker, a publication of financial times, London.

The bank was best owed with the "NICCI Excellence Award" by Nepal India chamber of commerce for its spectacular performance under financial sector.

EBL has one of the first bank to introduce 'Any Branch Banking System' (ABBS) in Nepal, which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad the bank has entered into arrangements with banks and finance companies in different countries, which enables quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Qutar, Saudi Arabia, Maiaysia and Bahrain.

The bank's earning per share are Rs.29.90, Rs.45.60, Rs.54.20, Rs.62.80 and Rs.78.40 in fiscal year 2005, 2006, 2007, 2008 and 2009 respectively. The bank has paid dividend on share (Bonus Share) 20% and 30% in 2007 and 2009

respectively. Similarly cash dividend is paid 20%, 20%, 25% and 10% in 2005, 2006, 2008 and 2009 respectively. In 2007 there is no cash dividend.

C) Nepal SBI Bank Limited (NSBL)

Nepal SBI Bank Limited was incorporated in 2050 B.S. (1993 A.D) under joint venture of State Bank of India and Nepali Promoters. The bank has got authorized capital of Rs.1 Billion and issued capital of Rs.500 million. The bank provides services to its customers from 15 different branches across the country and a head office. The main objective of the bank is to carry out modern banking business. The bank provide loan to agriculture, commerce and industrial sector and performs various other banking functions. The bank's earning per share are Rs.11.47, Rs.14.26, Rs.13.29, Rs.18.27 and Rs.39.35 in the fiscal year 2005, 2006, 2007, 2008 and 2009 respectively. It has paid dividend 8%, 5%, and 47.59% in the fiscal year 2005, 2008 and 2009. The bank has not provided any dividend in 2006 and 2007.

1.3. Focus of the study

In each and every firm, dividend policy is taken as a financial decision that affects the firm. Investor should invest in stock of any company knowing the dividend policy of the firm. The main focus of this research will be valuable to the shareholders to view dividend policy of joint venture commercial banks comparatively. So this research may be helpful for those who wants to know the productivity of the commercial bank for their better investment. This study also helps to the management for corrective action.

"Stability or regularity of dividends is considered as a desirable policy by the management of companies. Most of the shareholders also prefer stable dividends have a positive impact on the market price of share. By stability we mean

maintaining its position in relation to a trend lives preferably one that is upward slopping."[14]

Investors are interested in investing their funds in the shares of public limited companies. This trend plays a significant role for the development and expansion of the capital market. And it will continue only when dividend pattern is directed to the interest of shareholders. There is no uniformity in the dividend pattern of Nepalese Corporations. This research focus a new trend of paying dividend to shareholders shown by different joint venture Banks and some public limited companies.

"By dividend, we mean some kind of consistent approach to the distribution versus retention decision, rather than making the decision on the purely adhoc basis from period to period."[15]

1.4 Statement of Problem.

In the context of Nepalese capital market, the commercial bank provide low rate of interest on deposits. So the people are attracted to invest money in shares for greater benefits. In Nepalese context only a few companies have adopted dividend policies. There are different such as cash dividend, stock dividend and Bonus share etc. Among different forms of dividend policy stock dividend is most popular one. But also dividend policy is not clearly understood by a large segment of financial community.

Different research has been made in this area seeking to establish the irrelevance of dividend on shareholders Millar and Modigliani's work the following questions: How can investors' benefits from a dividend when it is in effect, paid rupee for rupee out of the value of the share?

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[14] Narayan Koirala and Kiran Thapa, Financial Management, Khanal Book Publishers and Distributers, 3rd edition 2062 p.8.3

[15] Hunt pearson, M.willion Charles and Donald Garden, "Basic Business Finance Richard-Irwin,Inc, Homewood Illionosis, 1972, p-405

Besides the numbers of studies research has been made to lead the development of the behavior models associated with the name of Linter (1956), Darling (1957), and Britain (1966) and other attempting to categories explain and measure the different types of observed different practice. The study seems to provide useful guidance in handling the complicated decision problem.

Every firm follows different forms of dividend policy based on their strategy for the company. It is assumed that there is direct relationship between the dividend and stock price. But while considering the firms of underdeveloped country like Nepal, it is very difficult to match the relationship between dividend and stock price. There is no uniformity in the distribution of dividend of commercial banks. Similarly there is no any relationship between dividend distributed and share price. Due to political instability and many other factors almost of the firms are not able to pay the dividend to their shareholders. The joint venture banks are distributing low dividend while earning is high and sometime they pay high when earning is low. So, especially joint venture banks are distributing dividend in regular basis but there is no uniformity.

For example: - EBL, in year 2009, paid no dividend when earning per share was Rs.54.20 but in year 2007, EBL paid dividend of Rs.20 per share when earning per share was Rs.29.90.

NSBL paid dividend of Rs.8 per share when EPS was Rs.11.47 in year 2007. But in year 2008 and 2009 NSBL paid no dividend though the EPS in year 2008 and 2009 was Rs.14.26 and Rs.13.29 respectively.

Therefore we concluded that all banks have sufficient earning but they are not distributing the dividend in equal proportion. They have not followed the consistency in dividend policy and we could not get uniformity of dividend payout ratio in these sample banks.

Therefore this research raises some following questions:-

  i)   Are share prices affected by dividend per share in sample banks?

  ii)   Is the sample banks guided by specific dividend policy?

  iii)   Do the sample banks have uniformity in dividend distribution?

iv)   Is there any consistency in dividend per share and dividend payout ratio in the sampled banks?

v)   Does the dividend policy affect DPS, EPS, DPR, PE Ratio and MVPS with in stated sample banks?

vi)   This study will try to answer the above mentioned issues on the basis of major findings.

1.5 Objectives of the study

The main objective of the study is to analyse the impact of dividend policy on its market price of the share. Also this study may be helpful for management committee of the commercial banks in setting suitable dividend policy

Some fundamentals objectives of the study are listed below:-

To study the current practice of dividend policy in joint venture commercial banks.

To find out the impact of dividend on share price.

To identify the uniformity of dividend distribution of different commercial banks.

To examine the liquidity position of banks.

To analyse the allocation of income as dividend of the banks.

To examine the relationship between DPS, EPS and D/P ratio of sample banks.

To recommend the viable suggestion to cope with the short comings in the banks.

1.6 Significance of the study.

In Nepalese context, the banking sector is rising, so most of the people are interested to invest in such firm's shares. So the importance, in such circumstances, of the study is to provide guideline to the investors for making decision.

This study will be beneficial to the policy maker from the comparative study of dividend policy. The interested persons like customers, financial agencies, stockbrokers and scholars can also be benefited by this study about the dividend policy of joint venture banks. Moreover this study is useful to those joint venture banks to conduct smoothly on their dividend policy. Also this study helps to government in formulating policies and monitoring the joint venture banks in the case of dividend policy.

1.7 Limitation of the study

This study suffers from the following limitations:

I   The time is the major limitation of the study.

ii   The scope of the study is limited within the framework of dividend policy only the study doesn't cover other financial performance analysis technique.

iii The study is fully based on the secondary data collected from various sources. Their relevancy will depend upon the authenticity of the publishers.

Iv   The study has been done covering five years data only.

1.8 Research Methodology

Research methodology is the research method used to test the hypothesis. In designing methodology for a thesis project the following elements should be taken into account. These are research design, population and sample, sources of data, data collection techniques and presentation and analysis of data. Research methodology is the way to solve the research problem systematically.

Research design is the main part of thesis or any research works. "By research design we mean an overall framework or plan for the collection and analysis of data."[16] Research design presents a series of guide posts to enable the researchers

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[16] Wolfe, Howard K.and Pant, Prem raj, *Social science research and thesis writing,* Buddha Academic publisher and distributor pvt. Ltd, 3rd edition,2002, P-74, P-65.

to progress in right direction in order to achieve the goals. The study tries to evaluate the dividend policy of some selected joint venture banks.

The financial and statistical tools and techniques used to analyze the available data are as follows:-

i) Financial indicators and variables.

ii) Test of hypothesis.

iii) Mean, Standard Deviation, Coefficient of Variation, Correlation of Coefficient, Coefficient of Determination, Standard error of estimate, Probable Error.

1.9. <u>Organization of the study</u>

This dissertation will be presented in the following order

Chapter 1: Introduction

This is the very first segment of the dissertation that starts with the general background of the emergence of Banks in Nepal. Focus of study, statement of problem, objectives of the study, significance of the study and limitation of the study is also presented in this chapter.

Chapter 2: Review of Literature

Various related books, journals, articles, periodicals, reports and other publications have been studies and reviewed in this part of the dissertation.

This chapter broadly consists of two segments- review of conceptual framework & review of previous studies. Review of conceptual framework is done in order to make clear the concept of the study; dividend policy in this case. Likewise, several other related studies are reviewed in separate segment to show what types of studies were made in this field and what conclusions the previous researchers drew.

Chapter 3: Research Methodology

This segment of the study attempts to explain the methodology of the research undertaken. The chapter contains research design, sources of data, population and sample, methods of data collection and analysis.

Chapter 4: Presentation and analysis of Data

The calculated results of each of the ratios are presented in a tabulated form in this segment of the dissertation. Along with the tabulated data, a graphical presentation is also made with the findings and interpretation of the calculated figures.

Chapter 5: Summary conclusions & Recommendations

The whole study is summarized and concluded in the final chapter. A list of recommendation derived from the analysis is presented at the end of the chapter. A list of Bibliography is presented after that and the necessary supplements are presented in the final segment as the annexure.

CHAPTER-2

2. Review of Literature

This chapter highlights the existing literature and research related to the present study with a view to finding out what had already been explained and how the present research adds to the dimension. This has been grouped under two segment review of conceptual framework and review of previous studies. Various books, journals, articles, periodicals, reports and other publications have been studied and reviewed in this chapter.

2.1. Conceptual frame work

Dividend refers to the portion of earning made by the firm that is distributed to shareholders as return of their investment in share. It can be defined as the reward to shareholders for banks the risk of certainty. Dividend policy is the most important and major decisions of financial management. After the successful completion of the fiscal year, the company has sufficient profit and management decides to declare dividend to the shareholders. The important aspect of dividend policy is to determine the amount of earning to be distributed to the shareholders and the amount to be kept as retained earning to reinvest it in profitable sector or in the expansion of business.

Thus, the policy of a company is the dividend of its profit between distribution to shareholders as dividend and retention for profitable investment is known as dividend policy. When a portion of the profit is paid out to the shareholders, the payment is known as dividend. Dividend policy involves the decision to pay out earning versus retaining them for investment in the firm. Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividend means higher the immediate cash flows to investors, which is good, but lower future growth,

which is bad. The dividend policy should be optimal which balances the opposing forces and maximizes stock price.

The objective of the firm plays crucial role to decide ho much of the earnings to retain and now much to pay as dividend to the shareholders.

People buy common stock of the company expecting to earn dividend and also they want to earn capital gain when they sell their share at the end of holding period. Capital gain is amount received as capital by issuing shares from the owner and as loan from outsiders. Capital gain consists of additional payment made to the business by shareholders of the company capital gain result from the passage of time because the retained earnings are employed with best opportunity to yield more profit, so that the value of the firm is maximized and the value of share raise too. The major reason for which public is interested to invest money on the shares is for dividend. Mostly of the investors expect dividend to be continue in each year as well as to receive better price when they sell the stock.

"The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most significant internal sources of financing. On the other hand, dividend may be considered desirable from shareholders point of view as they tend to increase their current wealth."[17]

"Generally a firm which has easy access to external sources of finance may feel less constrained in its dividend decision. For such a firm, its dividend decision as somewhat independent of its investment decision as well as its liquidity position. Enjoying greater degree of flexibility such a firm is inclined to be more generous in its dividend payout policy. On the other hand, a firm that has difficulty in raising finances externally is likely to lean heavily an internally generated fund. Given its investment and other commitments and a lesser degree of financing

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[17] I.M.Pandey, *Financial Management*, Vikash Publishing House Pvt. Ltd. (7th Revised Edition), 1997; P-672

attitude, such a firm is likely to pursue a somewhat conservative dividend policy."[18]

Generally dividends are paid in cash. Thus, it reduces the cash balances of the corporation, which affect both the internal financing and liquidity position of firm. The investment and financing decision the dividend decision has both theoretical and managerial facts. The dividend is one of the central decision area related to policies seeking to maximize the value of firm's common stock.

2.1.1 Forms of Dividend

There are different forms of dividend. The most popular form of the dividend is cash dividend. In the business world there are different organization based on their own objectives and policy. According to changing needs of corporations, dividend is being distributed in several forms. They are as follows.

a.   Cash dividend

Most of the companies pay cash dividend. Cash dividend is the dividend, which is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both total assets and net worth of the company decrease as cash dividend distributed.

b.   Stock dividend or Bonus Shares

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding shares of the firm's stock. Although stock dividends do not have a real value, firms pay stock dividend as a replacement for a supplement to cash dividend. Under stock dividend, stockholders receive additional shares of the company in lieu of cash dividends. Stock dividend requires an accounting entry transfer from the retained earnings account to the common stock and paid in capital accounts.

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[18] Prasanna Chandra; op.cit; P-612.

c. <u>Script Dividend</u>

Despite the large volume of earned profit, a company may runs with temporary cash shortage. In such circumstances, the company issues the script dividends. Script dividend mean payment of dividend in script of promissory notes. Under this type of dividend, company issues and distributes to shareholders transferable promissory notes which may be interest bearing or not.

d. <u>Property Dividend</u>

If the declared dividend is provided in the form of property or assets instead of cash, the dividend is said to be property dividend. This form of dividend may be followed when there are assets that are no longer necessary in operation of the business or in extra ordinary circumstances. Company's own products and subsidiaries of subsidiaries are examples that have been paid as property dividend.

e. <u>Bond Dividend</u>

Bond dividend by its name is a dividend that is distributed to shareholders in the form of a bond. In other words, company declares dividend in the form of its own bond with a view to avoid to cash outflows.

f. <u>Stock Repurchase</u>

Stock repurchase is a method, in which a firm buys back shares of its own stock, thereby decreasing shares outstanding, increasing EPS, and, often, increasing the price of the stock. Stock repurchase are an alternative to dividends for transmitting cash to stockholders.

2.1.2 <u>Theories of Dividend</u>
   a. **Residual Theory of Dividend**
   b. **Stability of Dividend**

a. **Residual Theory of Dividend**

Residual theory of dividend suggests that only Residual earnings should be distributed as dividend, which is left after accepting all the profitable investment opportunities and which depend upon the investment policy of the firm. According to this theory, the dividend is distributed if there exists a balance of earning after paying fixed obligations and investment opportunities. If the firm has investment opportunity with higher return than required, then firm will invest the earnings to that project and if there is only earnings left after accepting all the investment opportunities then it will be distributed to stockholders as cash dividend.

When the firm has opportunity of investment in profitable sector at first, they prefer the internally generated fund (Retained earnings) rather than the externally generated fund which is comparatively expensive due to the flotation cost and others. So, the amount of dividends fluctuates time to time in keeping with availability of acceptable investment opportunity of the firm "Although, the residual theory of dividend appears to make further analysis of dividend policy unnecessary. It is not clear that dividends are soley a means of disbursing excess funds."[19]

Thus, we conclude that the company invest opportunity as well as the availability of internally generated fund determines the dividend amount of a firm.

b. **Stability of Dividend**

Stability of dividend refers to the regularity in paying dividend even though the amount of dividend may fluctuate from period to period. "Stability or regularity of dividend is considered as desirable policy by the management of most 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."[20] By stability, we mean maintaining its position in relation to a trend lives preferably one that is upward sloping.

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[19] Ramesh K Rao,(1992). "The Dividend Policy Decision" Financial Management concept and application, 2nd edition, New York, Macmillion publishing co.p.458

[20] I.M Pandey(1995). Financial Management, 7th edition.New Delhi, Vikash Publishing house p. Ltd p.302

i. Constant dividend per share or dividend rate.

Constant dividend policy is based on the payment of a fixed rupee dividend in each period. A number of companies follow the policy of paying fixed amount per share as dividend every period, without considering the fluctuation in the earnings of the company. This policy does not imply that the dividend per share or dividend rate will never be increased. When the company reaches new level of earnings and expects to maintain it the annual dividend per share may be increased. Investors who have dividends as the only source of their income prefer the constant dividend policy.

ii. Constant payout ratio

The ratio of dividend to earning is known as payout ratio. When fixed percentage of earnings is paid as dividend in every period, the policy is called constant payout ratio. Since earnings fluctuate, following this policy necessarily means that the rupee amount of dividends will fluctuate, following this policy necessarily means that the rupee amount of dividends will fluctuate. It ensures that dividend are paid when profits are earned, and avoided when it incurs losses.

iii. Small constant Dividend per share plus extra dividend (Low Regular Dividend per share plus Extra.)

The policy of paying a low regular dividend plus extras is a compromise between a stable dividend a stable dividend (or stable growth rate) and a constant payout rate. Such a policy gives the firm flexibility, yet investors can count on receiving at least a minimum dividend. It is often followed by firms with relatively volatile earnings from year to year. The low regular dividend can usually be maintained even when earnings decline and extra dividends can be paid when excess funds are available.

2.1.3 Factors Affecting Dividend Policy.

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

a. Desire of shareholders

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

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

b. Legal Rules

Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. While specific limitations vary by state, generally a corporation may not pay a dividend. (i) if the firm's liabilities exceed its assets, (ii) if the amount of the dividend exceeds the accumulated profits (retained earnings)., and (iii) if the dividend is being paid from capital invested in the firm. The second type of legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts.

c. Liquidity Position

The cash or liquidity position of the firm influences its ability to pay dividend. A firm may have sufficient retained earnings, but if they are invested in fixed assets,

cash may not be available to make dividend payment. Thus, the company must have adequate cash available as well as retained earning to pay dividends.

d. Need to repay debt

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

e. Restriction in debt contracts

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

f. Rate of asset expansion

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

g. Profit Rate

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

h. Tax position of shareholders

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

i. Stability of earning

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

j. Control

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

k. Access to the capital markets

A firm's access to capital markets will be influenced by the age and size of the firm, therefore a well established firm is likely to have a higher payout ratio than a smaller, newer firm.

2.1.4. Legal Provision Regarding Dividend Practice in Nepal

"Nepal company Act-1997"5, makes some legal provisions for dividend payment, these provision may be seen as under:

Section2 (M)[6] states that bonus shares (stock dividend) means share issued is the form of additional shares to stockholders by capitalizing the surplus from the profit or the reserve fund of a company. The term also denotes an increase in he paid up values of the shares after capitalizing surplus of reserve

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

Section 137: Bonus shares and sub-section (1) states that the company must inform the office before issuing bonus shares under subsection (1). This may be done only according to special resolution passed by the general meeting.

Section 140: Dividends and sub-sections of this section are as follows:

Sub-section (1): except in the following circumstances dividend shall be distributed among the shareholders within 45 days from its dare of decision to distribute them.

    (a)   Incase any law forbids the distribution of dividends.

    (b)   Incase the right to dividend is disputed

    (c)   Incase dividends can not be distributed with in the time limit

mentioned above owning to circumstances beyond anyone's control and without any fault on the part of the company.

Sub-section (2): Incase dividend are not distributed with in the time limit mentioned in sub-section (1), this shall be done by adding interest at the prescribed

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

2.2.　Review of studied on Dividend Policies

In this part the major studies on dividend stock prices, management views on dividend policy, and management view on stock dividends have been reviewed.

2.2.1 Linter's Study

Linter[21] made an important study focusing on the behavioral aspect of dividend policy in the American context. He investigated a partial adjustment model as he

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[21]　J.Linter; *Distribution of Incomes of Corporation Among Dividends*, Retained Earnings and Taxes, American Economic Review, May 1950, PP-97-113

tested the dividend patterns of 28 companies. He concluded that a major portion of the dividend of a firm could be expressed in the following way:

$$DIV^*_t = {}_p EPS_t \qquad \text{............... (i)}$$

And, $DIV^*_t = a + b (DIV^*_t - DIV^*_{t-1}) + e_t$ .... (ii)

Or, $DIV^*_t = a + b\, DIV^* + (1 - b)\, DIV^*_{t-1}) + e_t$ ....(iii)

Where,

$DIV^*_t =$		Firm's desired payment.
P	=	Targeted payment ratio
A	=	Constant relating to dividend growth
B	=	Adjustment factor & b<1

The findings of this study are follows:

➢ Firms generally think in terms proportion of earning to be out.

➢ Investment requirement are not considered for modifying the pattern of dividend behaviour.

➢ Firms generally have target payout ratio in view while determining change In dividend per share of dividend rate

2.2.2 F. Modigliani and M.H. Miller's Study

Modigliani and miller[22] advocated that dividend policy did not affect the value of the firm. It implies that dividend policy has no effect on the share price of the firm. They argued that the value of the firm depended on the firm earnings, which depended on its investment policy. Therefore as per MM theory, a firm's value is independent of dividend policy.

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[22]   F.Modigliani and M.H.Miller; *Dividend Policy, Growth and the Valuation of shares, Journal of Business*
   (October , 1991), PP-411-433.

Their study of irrelevance of dividend is based on the following critical assumptions:

➢ The firm operates in perfect capital market
➢ There are no taxes
➢ The firm has a fixed investment policy, which is not subject to change
➢ Risk of uncertainty does not exist

Modigliani and Miller provided the proof in support their argument in the following manner:

Step I

The market price of a share in the beginning of the period id equal to the present values of dividend paid at the end of the period plus the market price of the share at the end of the period.

Symbolically:

$$P_0 = \frac{D_1 + P_1}{1 + K_e}$$

Where,

P_0 =   Market price at the beginning or at the zero period

D_1 =   Dividend per share to be received at the end of the period.

P_1 =   Market Price of the share at the end of the period

K_e =   Cost of equity capital (Assume constant)

Step II

Assuming that the firm does not resort to any external financing the market value of the firm can be computed as follows:

$$nP_0 = \frac{n(D_1 + P_1)}{1 + K_e}$$

Where,

n = Number of equity shares at zero period

Step III

If the firm's internal sources of financing on its investment opportunities fall short of the funds required and Δn is the number of new shares issued at the end of year 1 at price P_1.

Then,

$$nP_0 = \frac{nD_1 + P_1(n + \Delta n) - \Delta nP_1}{1 + K_e}$$

Steps IV

If the firms were to finance all investment proposals, the total amount of new share issued would be given the following equation:

ΔnP_1 = $I - (E - nD_1)$

ΔnP_1 = $I - E + nD_1$

ΔnP_1 = the amount obtained from the sale of new sale of new shares to finance capital budget.

I = The total amount of required budget

E	=	Earning of the firm during the period
$E - nD_1$	=	Retained Earnings

Step V

By substituting the value of $\triangle nP_1$ from equation of step IV to equation of step II, we find,

$$nP_0 = \frac{nD_1 + P(n + \triangle n) - I + E - nD_1}{1 + K_e}$$

Or

$$nP_0 = \frac{P(n + n\triangle) - I}{1 + K_e}$$

Step VI

The above equation gives the value of the firm. There is no role of dividend in the equation. So Modigliani and Miller concluded that dividend policy has no effect on the share price.

In this way according to Modigliani and Miller's study, it seems that under condition of perfect capita market, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy, its investment policy may have no influence in the market price of the share.[23]

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[23] F. Modgliani and M.H.Miller, *Some Estimates of the Cost of Capital to Electric Utility Industry*, 1945-57,
    American Economics Review, (June 1966), P-345

2.2.3. Myron Gordon's Study

Myron Gordon[24] in his study concludes that dividend policy of a firm affected its value. In his model, he plead that investor were not indifferent between current dividends and retention of earnings. The conclusion of his study is that investors value the present dividend more that the future capital gains. His argument insisted that an increase in dividend payout ration leads to increase in the stock price for the reason for that investor's capital gain.[25]

Hence investors required rate of return increase as the amount of dividend decrease. The means there a positive relationship existing between the amount of dividend and the stock prices.

His model is based on following assumptions:
➢   The firm is an all- equity firm.
➢   No external financing is available
➢   Internal rate of return (r) and appropriate discount rate (K_e) are constant.
➢   The firm and its stream of earnings are perpetual.
➢   The corporate taxes do not exist
➢   Retention ratio (b), once decided upon, is constant

Thus, growth rate (g) = br, is constant forever

The discount rate is greater then growth rate, K>br = g

Based on the above, Gordon had provided had provided the following the formula (which is the simplified version of original formula) to determine the market value of share.[26]

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[24]   Myron J Gordon, *The investment Financing and Values of Corporation*, (Homewood III, Richard D Irwin),
    1962.

[25]   Suredra Pradhan, *Dividend Management, Basic of Financial Management*, Kathmandu Educational Enterprises (P) Ltd, 1992, P-383

[26]   R.M.Srivastava, Financial Management, India Pragati Prakashan, Meerut, 1994, P.783.

$$P = \frac{D(1-b)}{K-br}$$

Where,

P   =   Prices of share.

E   =   Earning per share.

B   =   Retention ratio.

1-b   =   Percentage of earnings distributed as dividend.

E (a-b)   =   Dividend per share.

K   =   Capitalization rate or cost of capital

br   =   Growth rate r i.e. rate of return on investment of an all

                                      equity firm

This model shows the following facts:

In a growth firm, share price tens to decline in correspondence with an increase in payout ratio or decrease in retention ratio, i.e. high dividend corresponding to earning leads to decrease in share prices. Therefore, dividend and stock prices are negatively correlated in growth firm. In normal firm share value remains constant regardless of changes in dividend policies. It means divided and stock prices are free from each other in a normal firm, i.e. r = k firm. In a declining firm share prices tend to rise in correspondence with a rise in dividend payout ratio. It means dividend and stock prices are positively correlated with each other in declining firm.

2.2.4. Walter Study

Walter[27] studies dividend and stock prices in 1966. According to him the dividend policy of a firm cannot be looked separately from investment policy. His argument contradicts Modigliani and Miller's. He argued that dividend policy affected the stock prices. It implies that dividend is relevant with stock prices. The relationship between firm's internal rate of return and cost of capital is a determining factor in

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[27] James E Walter, *Dividend Policies and Common Stock Prices, Journal of Finance*, March 1966, PP-29-41

retaining profits or distributing dividends. As long as the internal rate is greater than the cost of capital, that stock price will be enhanced by retention and will vary dividend payout.

Assumption of the model:

➢ Retained earnings constitute the excusive source of financing. The firm does

not resort to debt equity financing.

➢ The firm's internal rate of return and its cost of capital are constant.

➢ The firm's distributes its entire earning or retains it for reinvestment immediately.

➢ There is no change in values of earnings per share and the dividend per share.

➢ The firm has perpetual life.

On the basis of these assumptions Walter's model to determine the market price per share is a below:

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

Or,

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

Where,

P	=	Market price per share
DPS	=	Dividend per share
EPS	=	Earnings per share
r	=	Internal rate of return
K	=	Cost of capital

There are according to these model three conditions of the firms.

(i) r>K

If the firm's internal rate of return exceeds the cost of capital, the relation between dividend and stock prices is negative. It implies that high dividend payout results in low stock prices. Such characteristics of the firm show growth share. Walter argued that zero dividends would maximize the market value of shares for growth firm.

(ii)   r = K

If the firm is in this situation, there is no role of dividend on stock prices. In other words, dividend payout doesn't affect the value of shares, so whether the firm retains the profit or distributes dividends is a matter of indifference. Such firms are categorized as normal firms.

(iii)   r < K

This condition shows the positive relation between stock prices and dividends. These types of firm said to be a declining firm. He argued that maximization of share prices of the firm depends upon dividend policy.

The conclusion is that when the firm is growing dividends have negative relation to stock prices. In the declining firms there is positive relation between stock and dividends. And in the normal firm dividend are irrelevant to stock prices.

2.2.5.   Van Horne and McDonald's Study

Van home and McDonald[28] conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the

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[28] James C. Van Horne and G. McDonald, *Dividend and New Equity Financing, Journal of Finance* Vol. XXXVI 26, May 1971, PP-507-519.

market value of the firm's common stocks. They explored some basic aspect of conceptual framework, and empirical tests were performed during year 1968 for two industries, using a well-known valuation model, i.e. across section regression model. The required data were collected from 86 electric utility firms on the COMPUSTAT utility data tape and 39 firms in the electronics and electronic component industries as listed on the COMPUSTAT industrial data tape.

They tested two regressions for the utility industries. By using these models, they compared the result obtained for the firms that both pay dividends and engage in new equity financing with others firms in an industry sample. They concluded that for electric utility firms in 1968, share values was no adversely, except for those in the equity financing in the presence of cash dividends, except for those on the highest new issue group and it made new equity a more costly form of financing than the retention of earning. They also indicated that the payment of dividends through excessive equity financing reduced share prices. For electronics, electronic components industry, a significant relationship between new equity financing and value was no demonstrated.

2.2.6 Mark E. Holder, Frederick W. Langreher and J. Lawrence Hexter's study

Mark E. holder, Frederick W. Langreher and J.Lawrence Hexter's[29] investigated the influence of stakeholders on firm's dividends policy by examining the interaction between the dividend and investment policies. They proposed that both non-investor stakeholders and capital suppliers had an impact on firm's dividend policy. To test the proposition, they used more direct measures of free cash flow as way to relate dividends and agency costs and an objective smoothing procedure on the dividend payout ratio. Their results indicate that an interaction between the dividend and investment policies of a firm does exit.

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[29] Mark E.Holder, Frederick W.Langreher and Lawrence Hexter, *Dividend Policy Determinants: An Investigation of the influence of Stockholders theory*", Vol.27 No.3, Autumn 1998, PP. 73-82.

They describe their econometric model and the variable used in the study. They used the regression equation below as the basis for testing their hypothesis of relationship between the Net Organizational Capital (NOC) of a firm and its dividend payout. To specify the model more fully, they included other variables based on previous research.

$$DP_{it} = \ + \ _1FS_{it} + \ _2LSALES_{it} + \ _3INS_{it} + \ _4LCSHR_{it} + \ _5FCF_{it} + \ _6GROW_{it} + \ _7STD_{it} + E_{it}$$

Where,

DP_{it}	= Smoothed dividend payout ratio for firm I in fiscal year t
FS_{it}	= Measure of the focus of firm i in year t.
$LSALES_{it}$	= Natural log of sales of firm i in year t.
INS_{it}	= Residual of insider ownership for firm i in year t regressed on LSALES.
$LCSHR_{it}$	= Residual of natural lo fog number of common shareholders for firm i in Year t regressed on LSALES.
FCF_{it}	= Free cash flow for firm I in year t.
$GROW_{it}$	= Sales growth of firm i for year t using the prior five year.
STD_{it}	= Standard deviation of monthly returns of firm I in year t.

Findings of the study are as follows.

> ➢ The corporate focus is negatively related to dividend payout ratios.
> ➢ More focused firms (with fewer lines of business) tend to have lower dividend payout ratios.
> ➢ The larger firms tend to have higher payout ratios than do smaller firms.
> ➢ When considering the influences of agency costs on payouts, they find that the greater the degree of insider ownership the lower the payout; the larger the number of shareholder, the higher the dividend-payout ratio; and greater the free cash flow the higher the payout ratio.

➢ When looking at transaction costs, payout ratios are lower for firm that have higher standard deviation of returns and for the higher sales growth firms.

2.2.7 Deepak Chawla and G.Srinivasan's Study

Chawla and Srinivasan[30] studied the impact of dividend and retention on share price. The objectives of their study are as follows:

To estimate a model to explain share price, dividend and retained earnings relationship.

➢ To test the dividend, retained earnings hypothesis.

➢ To examine the structural changes in the estimated relations overtime.

To explain the price behaviour, they used simultaneous equation model as developed by Friend and Puckett (1964). The model in its unspecified from was as follows:

i)   Price function

$P_t = f [D_t, R_t (R/E)^1_{t-1}]$

ii)   Dividend supply function

$D_t = g [E_t, D_{t-1}(P/E)^1_{t-1})]$

iii)   Identity

$E_t = D_t + R_t$

Where,

P = Market Price Per Share.

D = Dividend Per Share

R = Retained earnings per share

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

t = Time.

As per financial theories they expected the coefficients of both dividend and retained earnings to be positive in the price equation. Similarly in the dividend

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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 year 1960 and 1973. The required data were collected from the official directory of Bombay Stock Exchange. They used two stage least square techniques for estimation instead of lagged earnings price ratio.

From the result of their two stage least square estimation, they found that in the case of chemical industry the estimated coefficient had the correct sign and 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 was negative in both years. So they left sugar industry for further analysis. For chemical industry, they observed that the co-efficient of dividend was very high as compared to retained earnings. They also found that co-efficient of dividend was significant at one percent level in both years where as co-efficient of retained earnings were significant ant ten percent level in 1969 and at one percent level 1973.

Finally, they concluded that the dividend hypothesis held in the chemical industry was good. Both dividend and retained earnings significantly explain the variation in share price in chemical industry. They also stressed that the impact of dividend was more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings.

CHAPTER – III

3. <u>Research Methodology</u>

Research methodology is the research method used to test the hypothesis. In designing methodology for a thesis project the following element should be taken into account. They are research design, population and sample, sources of data, data collection techniques and presentation and analysis of data. Research methodology is the way to solve the research problem systematically.

"Research Methodology refers to the various sequential steps to adopt by a researchers in studying a problem with certain objective in view"[31]

"Research methodology is a vital and absolutely indispensable part of social scientific and educational research. Without research methodology modern social scientific and educational research would still be in the darkage." [32]

3.1 <u>Research Design</u>

Research design is the main part of thesis or any research works. "By research design we mean an overall framework or plan for the collection and analysis of data."[33] Research design presents a series of guide posts to enable the researchers to progress in right direction in order to achieve the goals. The study tries to evaluate the dividend policy of some selected joint venture banks.

"Research design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances." Research design is conceptual structure within which a research is conducted. It is a purposeful scheme of action proposed to be carried out in sequence during the process of research. The study is descriptive, analytical and comparative employing various historical secondary data for the analysis of dividend pattern of Nepalese commercial banks.

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[31] C.R.KOTHARI; *Quantities Techniques,* Vikash Publishing House Pvt. Ltd, New Delhi (1992), P-119

[32] F.N.Kerlinger, (1986), " *Foundation of Behaviour Research* ' 3rd Edition, Holt, Rimehart and Winston, New york.

[33] K. Wolfe, Howard and Prem raj Pant,, *Social science research and thesis writing,* Buddha Academic publisher and distributor pvt. Ltd, 3rd edition,2002, P-74, P-65.

3.2 Population and Sample

"The term "population" or "universe" for research means all the members of any well-defined class of people, events or objects, organization or firms." The population means aggregate or the entire group. Population consists of large group. Due to its large size it is difficult to collect detailed information. So a sub-group is chosen that is believed to be representative of the population. The sub-group is called a sample. The sample allows the researchers more time to make an intensive study of a research problem. Good sampling techniques can save the researchers time and money.

i.   Nabil Bank Ltd.
ii.   Nepal Investment Bank Ltd.
iii.   Nepal SBI Bank Ltd.
iv.   Standard Chartered Bank Ltd.
v.   Himalayan Bank Ltd.
vi.   Nepal Bangladesh Bank Ltd
vii.   Everest Bank Ltd.
viii.   Bank of Kathmandu.
ix.   Nepal Industrial and Commercial Bank Ltd.
x.   Lumbini Bank Ltd.
xi.   Machhapuchhere Bank Ltd.
xii.   Kumari Bank Ltd.
xiii.   Nepal Credit and Commerce Bank Ltd.
xiv.   Laxmi Bank Ltd.
xv.   Siddartha Bank Ltd.
xvi.   Nepal Bank Limited
xvii.   Rastriya Banijya Bank
xviii. Bank of Asia Nepal Ltd.

The sample bank selected for analysis are as follows:-

i.   Everest Bank Ltd.
ii.   Nepal SBI Bank Ltd.
iii.   Nabil Bank Ltd.

3.3 Sources of data.

There are two types of sources of data

      (a) Primary sources.

      (b) Secondary sources.

This study on dividend policy "A comparative study of joint venture commercial banks in Nepal" is based on secondary source of data. The required data have been collected from Nepal stock exchange i.e. from the web page www.nepalstock.com. Other information is collected from different books, annual reports, web pages of concerned banks library and newspapers as required.

3.4 Data Collection Procedure

Once the purpose of statistical investigation has been defined the next step is to collect the data. The research is based on the historical data of the banks available in annual reports of the banks. The annual reports were collected from the respective banks as well as the webside (www.nepalstock.com). Books periodicals, journals, articles on the related subject were extensively reviewed in the library. Also, visiting the concerned banks through indirect or informal interviews I had tried to generate primary data as required this research.

3.5 Method of Analysis

The analysis of data has been done according to data available. The analysis includes several tools and techniques such as financial and statistical tools plus the attitude of management toward dividend decision. The data constitute the financial information drawn from the financial statement of concerned banks.

The data collected from different sources have been presented in the tabular form, diagram and the graphical form.

Various financial and statistical tools have been used in the study. The analysis of data is done according to pattern of data available. Each of the tools are explained briefly as under:

3.5.1 Financial indicators and variables

i. Earning Per share (EPS)

Earning per share shows that earning which is available for common shareholders. EPS is calculated to know the earning capacity and to make comparison between concerned banks. The higher earning indicates the better achievements in terms of profitability of the firm by mobilizing their funds .EPS can be measure by dividing the net profit after tax by number of common stock.

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

ii. Dividend per share (DPS)

DPS indicates the past of earning distributed to the shareholders on per share basis. Dividend refers to that portion of firms earnings, which are paid out to shareholders in return to their investments. DPS is calculated by dividing the total dividend to equity shareholders by no. of common share outstanding

$$DPS = \frac{\text{Total dividend to equity shareholders}}{\text{No. of common share outstanding}}$$

iii. Dividend payout ratio

Dividend payout ratio is the proportion of earnings paid in the forms of dividend. This ratio shows the percentage of profit, which is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the bank. Dividend payout ratio is calculated to indicate percentage of the profit on share that is distributed as dividend.

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

And. Retention ratio = 1-DPR

iv.   Price earning Ratio (P/E Ratio)

Price earning ratio is also called the earning multiplier. P/E ratio is the ratio between market price per share and earning per share. P/E Ratio reflects the price currently paid to the market for each rupee of currently reported earning per share. It is computed by dividing the market value per share by earning per share.

$$\text{P/E Ratio} = \frac{\text{Market value par share (MVPS)}}{\text{Earning per share (EPS)}}$$

v.   Earning yield and dividend yield

Earning yield and dividend yield both are expressed in terms of its market value per share. Earning yield and dividend yield are two important profitability ratios from the point of view of the ordinary shareholders. The earning yield may be defined as the ratio of earning per share to its market value per ordinary share.

$$\text{Earning Yield} = \frac{\text{Earning share}}{\text{Market value per share.}}$$

Similarly, the dividend yield reflects percentage relationship between per share and market value per share. It is calculated by dividing the cash dividend per share by the market value per share.

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

This ratio highly influences the market pride per share because a small change in dividend per share can bring effective change in the market value of the share.

vi.   Market value per share to book value per share r

This ratio indicates the price the outsider is paying for each rupee reported by the balance sheet of the banks. It is calculated as.

$$\text{MVPS to BVPS} = \frac{\text{Market value per share (MVPS)}}{\text{Book value per share (BVPS)}}$$

vii.   Liquidity Ratio

Liquidity ratio is used to measure a firm's ability to meet its current obligations as they come due. It is calculated as under.

$$\text{Liquidity Ratio} = \frac{\text{Total Assets}}{\text{Total Liability}}$$

viii.   Profitability Ratio

Profitability ratio shows the combined effects of liquidity asset management and debt management on operating results. It measures the earning of the company for a certain period. Profitability ratio is calculated by dividing net assets by capital employed.

$$\text{Profitability Ratio} = \frac{\text{Net Assets}}{\text{Capital Employed..}}$$

3.5.2 Test of hypothesis

A hypothesis is a supposition made as a basic for reasoning in testing of hypothesis; an assumption is about the population parameter.

To test whether the assumption or hypothesis is tight or not; a sample is selected from the population, sample statistic is obtained, observed the difference between the sample mean and the population hypothesized value, and test whether the difference is significant or insignificant. Smaller difference, the sample mean is close to the hypothesized value, and larger the difference the hypothesized value has low chance to be correct. The hypothesis of this research work as follows:

(i) Hypothesis First

Null Hypothesis (H_0)   :   There is not significant difference
                                                        in DPS on sample joint venture banks

Alternative Hypothesis (H_1)   :   There is significant difference in
                                                        DPS on sample joint venture banks

(ii) Hypothesis Second

Null Hypothesis (H_0)	:	There is not significant difference in EPS on sample joint venture banks
Alternative Hypothesis (H_1)	:	There is significant difference in EPS on sample joint venture banks

(iii)Hypothesis third

Null Hypothesis (H_0)	:	There is not significant difference In DPR on sample joint venture bank
Alternative Hypothesis (H_1)	:	There is significant difference in DPR on sample joint venture banks

3.5.3 Statistical Tools used

(i) Mean of Average ($\overline{X}$):

Mean or an average value is a single value within the range of the data that is used to represent all of the value in the series. Since an average is somewhere within the range of the data, it is also called a measure of central tendency. In this study, the data related to dividend are tabulated and drawn out average over different year ($\overline{X}$).

Mean ($\overline{X}$) = $\dfrac{}{n}$

(ii) Standard Deviation ($\overline{\sigma}$)

Standard deviation (σ) is the most important and widely used measure of study dispersion. It measures the absolute dispersion. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series,

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and vice verse. The data related to dividend of the sample joint venture banks are tabulated and observed the uniformity and homogeneity of the series after of the series after obtaining their respective standard deviation (σ)

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{(X-\overline{X})^2}{N-1}}$$

(iii)   Co-efficient of variation (C.V)

Co-efficient of variation is the most commonly used measure of relative variation. It is used in such problems where we want to compare the variability of two or more than two series. The series for which the co-efficient of variation is greater is said to bi more variable or conversely less consistent, less uniform, less stable of less homogeneous. On the other hand, the series for which co-efficient of variation is less is said to be less variable or more consistent, more homogeneous, co-efficient of variation is denoted by C.V. and is obtained as follows:

$$\text{C.V} = \frac{\sigma \times 100}{\overline{X}}$$

(iv) Correlation coefficient (r)

The Correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variable. In other words, Correlation is a statistical device, which helps us in analyzing the con-variation of two or more variables. In this study simple coefficient of correlation is used to determine the relationship among DPS, EPS, DPR, P/E Ratio, dividend yield and profitability ratio on MVPS. The data related to dividend are tabulated and their relationship with MVPS are drawn out. Correlation coefficient is obtained as;

$$r = \frac{xy \times 100}{N\sigma_x \sigma_y}$$

Where

$$X = (x - \bar{x}); \quad Y = (y - \bar{y})$$

0_x =   Standard deviation of series X.

0_y =   Standard deviation of series y

n   =   Number of pairs of observations

r   =   the correlation co-efficient

(v) Coefficient of Determination (r^2)

One very convenient and useful way of interpreting the value of co-efficient of correlation between two variables is to use square of coefficient of correlation, which is called co-efficient of Determination. The co-efficient of determination is thus equals r^2. in other word, the co-efficient of determination (r^2) is defined as the ratio of the explained variance to the total variance. That is;

$$\text{Coefficient of determination} = \frac{\text{Explained variation}}{\text{Total Variance}}$$

(vi) Regression Analysis

Regression Analysis is widely used to statistical tools which is used in estimating the value of one variable give the value of dependent of another. In other words, Regression analysis provides estimated of value of dependent variable from values of the independent variable. The device used to accomplish this estimation procedure is the regression line. The regression line describes the average relationship existing between X and Y variables, i..e. it display mean values of X for given value of Y, the equation of this line, known as the regression equation, provides estimates of the dependent variables when values of the independent variable are inserted into the equation.

The regression equation of y on X is expressed as;

Y= a+bX

Where,

Y	=	Dependent variable
X	=	independent variable
a	=	Y-intercept or regression constant
b	=	Slope of line of regression coefficient

Both "a" and "b" in the equation called numerical constants because for any given straight line, their value does not change:[24] the values of "a" and "b" are obtained by solving the following simultaneous equations.

$$y = Na + b \ x \qquad \text{...............(i)}$$
$$xy = a \ x + b \ x^2 \qquad \text{................(ii)}$$

(a)Regression Constant (a)

Regression Constant (a) is also called the intercept because it's value is the point at which the regression line crosses the axis. It indicates the average.

Level of dependent variable when independent variable is zero. In other to understand that "a" indicates the mean of average effect on dependent variable if all the variables are omitted from the model.

(b) Regression coefficient (b)

The regression coefficient (b) is also known as the slope of the line. It represents how much each unit change of the independent variable changes the dependent variable.

Both the numerical constants, "a" and "b" are tabulated and their effect on dependent and independent variable are analyzed in this study.

(vii) Standard Error of Estimates (SEE)

With the help of regression equations prediction is practically impossible. The standard error of estimate measures the dispersion about an average line. It also measures the dispersion about an average line. It also measures the accuracy of the estimated figures. The smaller the value of SEE the closer will be the dots to the regression line and the better the estimated based on the equation of this line. If standard error of estimate is zero than there is no variation about the line and the correlation will be perfect. Thus, with the help of standard error of estimate, it is possible for us to ascertain hoe good and representative the regression line is as a description of the average relationship between two series. The standard error of co-efficient of correlation is obtained.

(viii) Probable Error (PE)

The probable error of the co-efficient of correlation helps in interpreting it's valre. With the help of probable error, it is possible to determine the reliability of the value of the coefficient. The probable error of the coefficient of correlation is obtained as follows:

$$PE_r = \frac{0.6745 \times (1\text{-}r^{2)}}{N}$$

Where, r is the coefficient of correlation and n the number of pairs of observation. If the value of r is less than PE, the value of r is not at all significant and if the value of r is more than PE, the value of r is significant.

CHAPTER – IV

4. <u>Presentation and Analysis of Data</u>

The presentation and analysis of secondary data is the major part of the research study. The analysis of data has been done according to the data available. The analysis includes several tools and techniques such as financial and statistical tools plus the attitudes of management towards dividend decision. The basis objectives of the study have been already mentioned in Chapter I – Introduction. In the same way in Chapter II, Review of Literature, past studies are reviewed and conceptual framework based on this study has been already done. In order to achieve those objectives several tools and techniques are implied that are defined in Chapter III - Research Methodology. The presentation and analysis of data is a core of the research which leads to the major findings and helps to fill up the existing gaps. The main focus of this study is to analyze the comparative study on dividend policy of joint venture commercial banks in Nepal. Hence related data had been taken for description analysis, comparative analysis and inferential analysis.

This chapter begins with the analysis of Dividend per share (DPS), Earning per share (EPS), Price earning ratio (P/E ratio), Dividend payout ratio (D/P ratio), Market value per share (MPS), and Dividend yield (D/Y). The statistical tools i.e. Mean, Standard Deviation, and Coefficient of Variation are calculated and interpreted with the help of which financial indicators of concerned banks are compared. The test of hypothesis on significance of DPS, EPS, and D/P ratio on sample joint venture commercial banks are done. At the end of this chapter correlation and regression analysis of some specific components have been made.

4.1 Analysis of Financial indicators and variables

4.1.1 Dividend per share analysis

Table No. 4.1.1

Year	NSBL	EBL	NABIL	Pooled Average
2005	8	20	50	26
2006	-	20	65	28.33
2007	-	-	70	23.35
2008	5	25	85	38.33
2009	12.59	10	100	40.86
Average ($\overline{X}$)	5.12	15	74	31.37
S.D.(σ)	5.40	10	19.17	7.76
C.V	105.47	66.67	25.90	24.73

The above table (Table No.4.1.1) compares the dividend per share between the sample banks from the year 2005 to 2009 using the statistical tools such as Mean ($\overline{X}$) , Standard Deviation (σ) and coefficient of variation.

In the year 2005, NABIL paid the highest dividend of Rs.50 per share. Similarly EBL and NSBL paid cash dividend of Rs.20 and Rs.8 per share respectively. The pooled average dividend per share in the year 2005 was Rs.26.

Similarly in the year 2006, NSBL had paid no cash dividend. EBL paid Rs.20 per share as cash dividend whereas NABIL paid Rs.65 as cash dividend. The pooled average dividend per share in the year 2006 was Rs.28.33.

The pooled average dividend per share in the year 2007 was Rs.23.33. In this year NABIL has paid Rs.70 per share as cash dividend but NSBL and EBL has not paid cash dividend.

In the year 2008 and 2009 NSBL, NABIL and EBL has paid cash dividend Rs.5 per share and Rs.12.59 per share, Rs.85 per share and Rs.100 per share, Rs.10 per share and Rs.15 per share respectively. The pooled average dividend per share in the year 2008 and 2009 was Rs.38.33 and Rs.40.86. On the average, NABIL has paid the highest cash dividend of Rs.74 per share. The average dividend paid by NSBL and EBL are Rs.12.59 per share and Rs.10 per share respectively. The pooled average of average was Rs.31.37 per share.

Now, Standard deviation of NSBL, EBL and NABIL are 5.40, 10 and 19.17 respectively. The pooled average of s.d was 7.76. A small s.d measures a high degree of uniformity of observation as well as homogeneity of series and vise-versa. Here, it is preferable to state the rate of fluctuation with the help of coefficient of variation (c.v) of above data. CV of NSBL is 105.47%, CV of EBL is 66.67% which shows high degree of fluctuation in paid cash dividend. Here, CV of NABIL is 25.90 that show the consistency in paid cash dividend. In other words we can say that NABIL has paid cash dividend with low rate of fluctuation. The pooled average of CV is 24.73 that show the fluctuation is at the rate 24.73%.

4.1.2 Earning per share Analysis

Table No. 4.1.2

Year	NSBL	EBL	NABIL	Pooled Average
2005	11.47	29.90	84.66	42.01
2006	14.26	45.60	92.61	50.83
2007	13.29	54.20	105.49	57.66
2008	18.27	62.80	129.21	70.09
2009	39.35	78.40	137.08	84.94
Average ($\bar{X}$)	19.33	54.18	109.81	61.11
S.D.(σ)	11.47	18.19	22.73	16.82
C.V	59.34	33.57	20.70	27.52

The above table (Table No.4.1.2) shows the earning per share of the sample joint venture commercial banks from 2005 to 2009. EPS is calculated to know the earning capacity of the organization. Earning capacity of the organization is the main tool that is used to measure the efficiency, performance and achievement of any business organization. Higher earning shows the strength of the organization whereas lower earning shows the weaknesses of the organization.

The table shows that NABIL has highest earning per share of Rs.84.66 in the year 2005. Similarly in the year 2005 EPS of NSBL and EBL were Rs.11.47 and Rs.29.90 respectively. The pooled average EPS in Year 2005 was Rs.42.01.

In the year 2006, EPS of NSBL, EBL and NABIL was Rs.14.26, Rs.45.60 and Rs.92.61. EPS of all sample banks has been increased in year 2006 in comparision to 2005. The pooled average EPS was Rs.50.83.

Similarly, in the year 2007, EPS of NSBL has decreased from Rs.14.26 to Rs.13.29 whereas EPS of EBL and NABIL has been increased i.e. Rs.54.20 and Rs.105.49 respectively. The pooled average EPS was Rs.57.66. In the year 2008 EPS of NSBL, EBL and NABIL were Rs.18.27, Rs.62.80 and Rs.129.21. The pooled average EPS was Rs.70.09.

In the year 2009 EPS of all sampled banks are increased. EPS of NSBL, EBL and NABIL were Rs.39.35, Rs.78.40 and Rs.137.08 respectively. The pooled average EPS was Rs.84.94 which is better than before year.

On the average, NABIL has the highest EPS of Rs.109.81. The average EPS of NSBL and EBL were Rs.19.33 and Rs.54.18 respectively. The average of pooled average is Rs.61.11.

The standard deviation (σ) of NSBL, EBL and NABIL were 11.47, 18.19 and 22.73 respectively. The pooled average s.d.is 16.82. A small s.d measures a high degree of uniformity of the observation as well as homogeneity of series and vice-versa. Here it is preferable to state the rate of fluctuation with the help of coefficient of variation (c.v) of above data. CV of NSBL is 59.34%, CV of EBL is 33.57% and CV of NABIL is 20.70%. Among all sampled banks the low of level

of fluctuation in EPS is NABIL. The pooled average of CV of sample banks is 27.52%.

4.1.3 Price Earning Ratio (P/E Ratio) Analysis.

Table No. 4.1.3

Year	NSBL	EBL	NABIL	Pooled Average
2005	22.24	14.90	8.74	15.29
2006	21.54	14.90	10.80	15.74
2007	25.21	16	14.27	18.49
2008	33.49	22	17.34	24.28
2009	29.89	31	36.84	32.58
Average ($\overline{X}$)	26.47	19.76	17.59	21.27
S.D.($\overline{0}$)	5.12	6.94	11.25	7.26
C.V	19.34	35.12	63.96	34.13

The above table shows the price earning ratio of sample banks. The study helps us to know the relationship between earning per share and market price per share.

In the year 2005, the P/E ratio of all the banks were consistent. NSBL has the highest P/E ratio i.e. 22.24 times whereas NABIL has lowest P/E ratio i.e. 8.74 times. P/E ratio of EBL was 14.90 times. The pooled average P/E ratio in the year 2005 was 15.29 times. In the year 2006, P/E ratio of EBL had been unchanged i.e.14.90 times whereas P/E ratio of NSBL has been decreased i.e. 21.54 times and NABIL P/E ratio has been increased i.e. 10.80 times. The pooled average P/E ratio in the year 2006 was 15.74 times.

In the year 2007, P/E ratio of all sample banks was in increasing trend P/E ratio of NSBL, EBL and NABIL were 25.21 times, 16 times and 14.27 times respectively.

The pooled average P/E ratio in the year 2007 was 18.49 times. In the year 2008, P/E ratio of NSBL, EBL and NABIL were 33.49 times, 22 times and 17.34 times respectively.

Similarly in the year 2009, P/E ratio of NSBL, EBL and NABIL were 29.89 times, 31 times and 36.84 times. The pooled average P/E ratio was 32.58 times. The average P/E ratio of NSBL, EBL and NABIL were 26.47 times, 19.76 times and 17.59 times respectively. The average of pooled average P/E ratio was 21.27 times. Similarly standard deviation of P/E ratio of sampled banks NSBL, EBL and NABIL were 5.12 times, 6.94 times and 11.25 times respectively. The s.d of pooled average P/E ratio was 7.26 times. The CV of NSBL was 19.34 times which shows consistent P/E ratio than other because CV of EBL and NABIL was 35.12 times and 63.96 times respectively. The CV of pooled average P/E ratio was 34.13 times. It indicates that the overall CV of sample banks are not good.

4.1.4 Dividend Payout Ratio (DPR) Analysis

Table No. 4.1.4

Year	NSBL	EBL	NABIL	Pooled Average
2005	69.75	66.89	59.06	65.23
2006	-	43.86	70.18	38.01
2007	-	-	66.35	22.17
2008	27.37	39.81	65.78	44.32
2009	31.99	12.75	72.95	39.23
Average ($\overline{X}$)	25.82	32.66	66.86	41.79
S.D.($\overline{0}$)	28.74	26.15	5.25	15.50
C.V	111.31	81.17	7.85	37.09

The above table shows the dividend payout ratio of the sample joint venture banks from the year 2005 to 2009.

<u>Assumption</u>

Conservative dividend policy ------------ Less than 20%

Moderate dividend policy -------------- 20% to 50%

Aggressive dividend policy ------------ More than 50%

In the year 2005, as per assumption NSBL, EBL and NABIL has followed aggressive dividend policy in which NSBL paid 69.75%, EBL paid 66.89 % and NABIL paid 59.06%. The pooled average dividend payout ratio of the year 2005 was 65.23% which indicates that is moderate dividend policy.

In the year 2006, there is no dividend payout ratio of NSBL. EBL has followed moderate policy i.e. dividend payout was 43.86% and NABIL followed aggressive policy i.e. dividend payout ratio was 70.18%. The pooled average dividend payout ratio was 38.01 which is to be said moderate dividend policy.

In the year 2007, NSBL and EBL have no dividend payout ratio. Only NABIL has dividend payout ratio of 66.35% that indicates that NABIL has followed aggressive dividend policy. The pooled average dividend payout ratio was 22.17% that shows that it was conservative dividend policy.

In the year 2008, NSBL, EBL and NABIL has 27.37%, 39.81% and 65.78% dividend payout ratio respectively that indicate that NSBL and EBL followed moderate dividend policy and NABIL followed aggressive dividend policy. The pooled average dividend payout ratio was 44.32% that indicates that it was moderate dividend policy.

Similarly in the year 2009, NSBL, EBL and NABIL has 31.99%, 12.75% and 72.95% dividend payout ratio respectively that indicates that EBL followed conservative dividend policy whereas NSBL followed moderate and NABIL has followed aggressive dividend policy. The pooled average dividend payout ratio was 39.23% that indicates that it was moderate dividend policy.

In average, NSBL and EBL have followed moderate dividend policy i.e. 25.82% and 32.66% respectively. But NABIL has 66.86% dividend payout ratio that

indicates it has followed aggressive dividend policy. The average of pooled average dividend payout ratio is 41.79%.

The standard deviation of dividend payout ratio of NSBL, EBL and NABIL were 28.74% 26.51% and 5.25 respectively. The pooled average of standard deviation of dividend payout ratio was 15.50%. The CV of NSBL and EBL were 111.31% and 81.17% respectively which means the variation in dividend payout ratio in these banks is very high. NABIL has very consistent dividend payout ratio as the CV of NABIL was 7.85%. The pooled average CV of dividend payout ratio of the sample banks was 37.09%.

4.1.5 Market Value Per Share (MVPS)

Table No. 4.1.5

Year	NSBL	EBL	NABIL	Pooled Average
2005	255	445	740	480
2006	307	680	1000	662.33
2007	335	870	1505	903.33
2008	612	1379	2240	1410.33
2009	1176	2430	5050	2885.33
Average ($\overline{X}$)	537	1160.80	2107	1268.27
S.D.($\overline{0}$)	383.14	788.45	1741.80	969.12
C.V	71.35	67.92	82.67	76.42

The above table shows the market price per share of the sampled bank form the year 2005 to 2009. In the year 2003 NABIL had highest MVPS i.e. Rs.740 whereas NSBL had lowest MVPS i.e. Rs.255. EBL had MVPS Rs.445. The pooled average MVPS in the year was Rs.480.

In the year 2006, all sampled banks MVPS had increased as compared to previous year. The pooled average MVPS in the year was Rs. 662.33. In the year 2007, MVPS of NSBL, EBL and NABIL had Rs.335, Rs.870 and Rs.1505 respectively. Similarly in the year 2008, MVPS of NSBL, EBL and NABIL had Rs.612, Rs.1379 and Rs.2240. The pooled average MVPS in the year 2008 and 2008 were Rs.903.33 and Rs.1410.33 respectively.

In the year 2009, all the sampled banks MVPS were in increasing trend. THE MVPS of NSBL, EBL and NABIL were Rs.1176, Rs.2430 and Rs.5050 respectively. The pooled average MVPS was Rs.2885.33.

In average, NABIL has the highest MVPS i.e. Rs.2107, NSBL had MVPS of Rs.537 and EBL had MVPS of Rs.1160.80. The average pooled average MVPS was Rs.1268.27. The standard deviation of MVPS of sample banks was 383.14%, 788.45% and 1741.80% of NSBL, EBL and NABIL respectively. The pooled average standard deviation was Rs.969.12.

Similarly, CV of all sampled banks are not consistent. The CV of NSBL, EBL and NABIL were 71.35%, 67.92% and 82.67%. The pooled average co-efficient of variation was 76.41%

4.1.6 Dividend Yield (DY) Analysis.

Table No. 4.1.6

Year	NSBL	EBL	NABIL	Pooled Average
2005	3.14	4.49	6.76	4.79
2006	-	2.94	6.50	3.15
2007	-	-	4.65	1.55
2008	0.82	1.81	3.79	2.14
2009	1.07	0.41	1.98	1.15
Average ($\overline{X}$)	1.01	1.93	4.74	2.56
S.D.($\overline{0}$)	1.29	1.84	1.98	1.46
C.V	127.72	95.34	41.77	57.03

The above table shows the dividend yield analysis for the year 2005 to 2009. In the year 2005, the data related to dividend yield shows that shareholders of NSBL, EBL and NABIL have acquired that dividend yield of 3.14%, 4.49% and 6.76% respectively. The pooled average dividend yield in the year 2005 was 4.79%. In the year 2006, EBL and NABIL acquired the dividend yield of 2.94% and 6.50% respectively but NSBL has no dividend yield. The pooled average dividend yield was 3.15%.

Only NABIL has dividend yield of 4.65% in the year 2007. No other sample banks has dividend yield. The pooled average dividend yield was 1.55%. In the year 2008, NSBL, EBL and NABIL acquired the dividend yield of 0.82%, 1.81% and 3.79% respectively. The pooled average dividend yield in the year 2008 was 2.14%. Similarly in the year 2009 NSBL, EBL and NABIL acquired the dividend yield of 1.07%, 0.41% and 1.98% respectively. The pooled average dividend yield in the year 1.15%.

The average dividend yield of NSBL, EBL and NABIL were 1.01%, 0.41% and 1.98% respectively. The average of pooled average dividend yield was 2.56%. The standard deviation of dividend yield by different sampled bank NSBL, EBL and NABIL were 1.29%, 1.84% and 1.98% respectively. The pooled average standard deviation was 1.46%.

The level of variation in NSBL, EBL and NABIL was high i.e. 127.72%, 95.34% and 41.77% respectively. This shows that among these bank NABIL was more consistent than other because it has CV of 41.77%. The pooled average variation in dividend yield was 57.03%.

Comparative Study of Dividend Policy in Joint Venture Commercial Banks.

Independent Variable (X)   Dependent Variable (Y)

Predictors or Constant
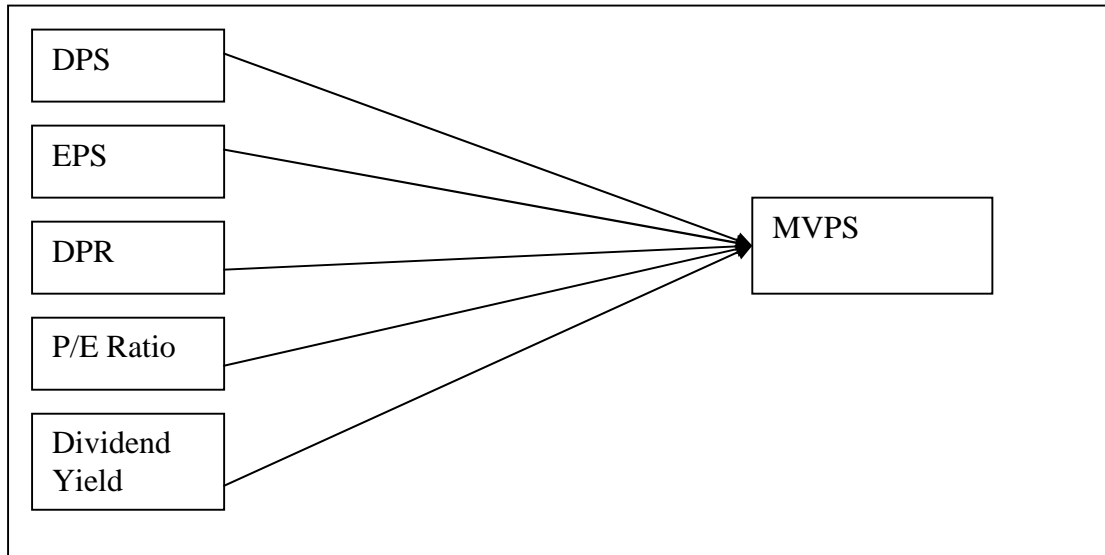
Statistical Tools

Pearson's Correlation Coefficient $= r$

Coefficient of Determination $= r^2$

Standard Error of Estimate $= Se$

Probable Error $= Pe$

Constant (Intercept of Regression) $= a$

Coefficient (slope) of Regression $= b$

MVPS vs DPS

Predictors	NSBL	EBL	NABIL
R	0.74	-0.18	0.92
r^2	0.55	0.03	0.85
Se	0.20	0.43	0.07
Pe	0.13	0.29	0.05
A	266.29	1377.74	-4092.89
B	52.89	-14.46	83.78

MVPS vs EPS

Predictors	NSBL	EBL	NABIL
R	0.98	0.94	0.88
R^2	0.96	0.88	0.77
Se	0.02	0.05	0.10
Pe	0.01	0.03	0.07
A	-99.41	-1053.78	-5269.68
B	32.93	40.87	67.17

MVPS vs DPR

Predictors	NSBL	EBL	NABIL
R	0.05	-0.53	0.68
r^2	0.0025	0.28	0.46
Se	0.45	0.32	0.24
Pe	0.30	0.21	0.16
A	517.96	1673.14	-13082.06
B	0.74	-15.69	227.16

MVPS vs P/E Ratio

Predictors	NSBL	EBL	NABIL
R	0.67	0.99	0.99
r^2	0.45	0.98	0.98
Se	0.24	0.01	0.01
Pe	0.161	0.007	0.007
A	-800.61	-1060.26	-610.28
B	50.52	112.40	154.48

MVPS vs DY

Predictors	NSBL	EBL	NABIL
R	-0.07	-0.64	-0.93
r^2	0.0049	0.41	0.86
Se	0.44	0.26	0.063
Pe	0.29	0.17	0.042
A	558.32	1686.70	5998.21
B	-21.19	-272.48	-821.62

All the above calculation has been obtained by using scientific calculator. The availability of data has been taken for five years.

4.2 Correlation Analysis

The following general rules are given which would help in interpreting the value of r.

➢ When r = +1, it means there is perfect positive relationship between the variables.

➢ When r = -1, it means there is perfect negative relationship between the variables.

➢ When r = 0, it means there is no relationship between the variables. i.e. variable are uncorrelated.

➢ The closer r is to +1 or -1, the closer the relationship between the variables and the closer r is to 0, the less close the relationship.

4.2.1 Correlation between MVPS and DPS

The above table depicts that correlation "r" of NABIL is 0.92 whish indicates that there is high degree of positive correlation between MVPS and DPS of NABIL. Similarly correlation "r" of NSBL and EBL were 0.74 and -0.18 respectively. On the other hand, "r^2" of NABIL is 0.85 that means 85% of variation in the value of depended variable (MVPS) is explained by independent variable (DPS). Similarly,

r^2 of NSBL and EBL were 0.55 and 0.03 respectively that means 55% and 3% of variation in the value of depended variable (MVPS) is explained by independent variable (DPS) respectively.

Here, we are evaluating the significance of correlation, the value of "r" of EBL is not significant as their probable error "Pe" is more than "r". On the other hand it is reliable to say that the value of "r" is significant in case of NSBL and NABIL because the value of "r" is more than "Pe".

4.2.2 Correlation between MVPS and EPS

In the above table correlation "r" of NSBL, EBL and NABIL was 0.98, 0.94 and 0.88 respectively. This indicates that there is a high degree of positive correlation between MVPS and EPS. The value of coefficient of determination "r^2" of NSBL, EBL and NABIL were 0.96, 0.88 and 0.77 respectively. This indicates that 96%, 88% and 77% of variation in the depended variable (MVPS) of respective banks have been explained by independent variable (EPS).

Since the value of correlation "r" is more than the value of probable error "Pe" of all sampled banks, so it is reliable to say that the value of "r" is significant.

4.2.3 Correlation between MVPS and DPR

In the above table the correlation analysis between MVPS and DPR reveals that MVPS of EBL is negatively correlated with DPR i.e. the value of "r" of EBL is -0.53. The value of "r" of NSBL and NABIL were 0.05 and 0.68 respectively which indicates that there is positive correlation between MVPS and DPR of the bank. The coefficient of determination "r^2" of NSBL, EBL and NABIL were 0.0025, 0.28 and 0.46 respectively that means 0.25%, 28% and 46% of the variation in the dependent variable (MVPS) of the respective banks have been explained by the independent variable (DPR). Regarding the significance of correlation the value of "r" of NABIL were more than the value of Pe so the value of "r" is significant. But the value of "r" NSBL and EBL were less than the value of Pe, so the values of these banks are not significant.

4.2.4 Correlation between MVPS and P/E Ratio.

In the above table, the value of correlation "r" NSBL, EBL and NABIL were 0.67, 0.99 and 0.99 respectively that shows that MVPS of all three banks are highly correlated with their respective P/E ratio. The coefficient of determination "r^2" of NSBL, EBL and NABIL were 0.45, 0.98 and 0.98 respectively. This indicates that 45%, 98% and 98% of the variation in the dependent variable (MVPS) of the respective banks have been explained by the independent variable (P/E ratio).

Regarding the significance of correlation, the value of "r" of all three sampled banks has more than the value of Pe so we can say that the value of "r" is significant.

4.2.5   Correlation between MVPS and Dividend Yield.

From the above table we can derive that MVPS of all three sampled banks are negatively correlated with dividend yield. The coefficient of determination "r^2" of NSBL, EBL and NABIL were 0.0049, 0.41 and 0.86 respectively. This indicates that 0.49%, 41% and 86% of the variation in the dependent variable (MVPS) of the respective banks have been explained by the independent variable (DY).

Regarding the significance of correlation the value of "r" of all three sampled banks were less than the values of Pe, so the values of these banks are not significant.

4.3   Regression Analysis

The strength of relationship between two or more variables is called regression analysis. It is statistical tools with the help of which we can estimate the value of one variable when the value of other variable is known. In banking sector estimation has an important role, so regression analysis has been used for the study.

As per the regression of DPS and MVPS is concerned, the beta coefficient of NSBL and NABIL were 52.89 and 83.78 respectively that indicates that one rupee

increase in DPS leads to increase in MVPS of Rs.52.89 and Rs.83.78 remaining other variable constant. In despite of this EBL has negative beta coefficient this indicates that MVPS of EBL do not depend on DPS.

Regarding the regression analysis of MVPS and EPS, the regression coefficient (beta coefficient) of NSBL, EBL and NABIL were 32.93, 40.87 and 67.17 respectively which indicates that one rupee increase in EPS lead to increase in MVPS by Rs.32.93, Rs.40.87 and Rs.67.17 keeping other factor constant.

Regarding the regression analysis of MVPS and DPR, the beta coefficient of NABIL has 227.16 which indicates that 1% increase in DPR lead to increase in MVPS by Rs.227.16 remaining other factor constant. Similarly NSBL has beta coefficient is equal to 0.74 that indicates that 1% increase in DPR lead to increase in MVPS by Rs.0.74 keeping other factor constant. But as EBL has negative beta coefficient, it indicates that there MVPS do not depend on DPR.

Regarding the regression analysis of MVPS and P/E Ratio, the beta coefficient of NSBL, EBL and NABIL were 50.52, 112.40 and 154.48 respectively which indicates that an increase P/E ratio by 1% leads to increase in MVPS by Rs.50.52, Rs.112.40 and Rs.154.48 respectively.

Regarding the regression analysis of MVPS and DY the beta coefficient of NSBL, EBL and NABIL were in negative which indicates that an increase in liquidity ratio leads to decrease in MVPS.

4.4   Test of Hypothesis

4.4.1   Hypothesis First

Null Hypothesis (H_0): $\mu_1 = \mu_2 = \mu_3 = \mu_4$ i.e. There is no significant difference in DPS of NSBL, EBL and NABIL.

Alternative Hypothesis (H_1): μ_1 μ_2 μ_3 μ_4 i.e. There is significant difference in DPS of NSBL, EBL and NABIL.

Dividend Per Share (DPS)

Year	NSBL	EBL	NABIL
2005	8	20	50
2006	-	20	65
2007	-	-	70
2008	5	25	85
2009	12.59	10	100

Computation of "F" test Statistics

Correction Factor (C.F)	= 14763.66
Total Sum of Square (TSS)	= 15858.84
Sum of Square with Between Bank (SSC)	= 13872.31
Sum of Square with Bank (SSE)	= 1986.54

Analysis of Variance (ANOVA) Table

S.No	Sum Of Variance	Degree of Freedom (d.f)	Sum of Squares	Mean sum of Squares	Calculated "F"
1.	Between Banks (Due to Row)	3-1=2	13872.31	13872.31/2 = 6936.15	F = 6936.15/165.65 = 41.87
2.	Within Banks (Due to Error)	15-3=12	1986.54	1987.85/12 = 165.65	
3.	Total	15-1=14	15858.84		

Critical value of degree of freedom (d.f)
$V_1 = 2$
$V_2 = 12$

Tabulated value of 'r' at 5% level of significance = 2.62.
Decision: Since the calculated value of "F" is higher than the tabulated value (i.e. 41.87 > 2.62) at 5% level of significance, H_0 is rejected. So there is significant difference in DPS of NSBL, EBL and NABIL.

4.4.2 Hypothesis Second

Null Hypothesis (H_0):　　　$\mu_{1} = \mu_{2} = \mu_{3} = \mu_{4}$ i.e. There is no

significant difference in EPS of NSBL,

EBL and NABIL.

Alternative Hypothesis (H_1):　μ_1　μ_2　μ_3　μ_4 i.e. There is

significant difference in EPS of NSBL,

EBL and NABIL.

Earning per Share (EPS)

Year	NSBL	EBL	NABIL
2005	11.47	29.90	84.66
2006	14.26	45.60	92.61
2007	13.29	54.20	105.49
2008	18.27	62.80	129.21
2009	39.35	78.40	137.08

Computation of "F" test Statistics

Correction Factor (C.F)	= 56009.15
Total Sum of Square (TSS)	= 24744.23
Sum of Square with Between Bank (SSC)	= 20827.25
Sum of Square with Bank (SSE)	= 3916.97

Analysis of Variance (ANOVA) Table

S.No.	Sum Of Variance	Degree of Freedom (d.f)	Sum of Squares	Mean sum of Squares	Calculated "F"
1.	Between Banks (Due to Row)	3-1=2	20827.25	20827.25/2 = 10413.62	F = 10413.62/326.41 = 31.90
2.	Within Banks (Due to Error)	15-3=12	3916.97	3916.97/12 = 326.41	
3.	Total	15-1=14	24744.22		

Critical value of degree of freedom (d.f)
$V_1 = 2$
$V_2 = 12$

Tabulated value of 'r' at 5% level of significance = 2.62.
Decision: Since the calculated value of "F" is higher than the tabulated value (i.e. 31.90 > 2.62) at 5% level of significance, H_0 is rejected. So there is significant difference in EPS of NSBL, EBL and NABIL.

4.4.3 Hypothesis Third

Null Hypothesis (H_0): $\mu_1 = \mu_2 = \mu_3 = \mu_4$ i.e. There is no significant difference in DPR of NSBL, EBL and NABIL.

Alternative Hypothesis (H_0): $\mu_1 \quad \mu_2 \quad \mu_3 \quad \mu_4$ i.e. There is significant difference in DPR of NSBL, EBL and NABIL.

Dividend Payout Ratio (DPR)

Year	NSBL	EBL	NABIL
2005	69.75	66.89	59.06
2006	-	43.86	70.18
2007	-	-	66.35
2008	27.37	39.81	65.78
2009	31.99	12.75	72.95

Computation of "F" test Statistics

Correction Factor (C.F)	= 26186.87
Total Sum of Square (TSS)	= 11060.39
Sum of Square with Between Bank (SSC)	= 4835.01
Sum of Square with Bank (SSE)	= 6225.38

Analysis of Variance (ANOVA) Table

S.No	Sum Of Variance	Degree of Freedom (d.f)	Sum of Squares	Mean sum of Squares	Calculated "F"
1.	Between Banks (Due to Row)	3-1=2	4835.01	4835.01/2 = 2417.50	F = 2417.50/518.78 = 4.66
2.	Within Banks (Due to Error)	15-3=12	6225.38	6225.38/12 = 518.78	
3.	Total	15-1=14	11060.39		

Critical value of degree of freedom (d.f)
$V_1 = 2$
$V_2 = 12$

Tabulated value of 'r' at 5% level of significance = 2.62.
Decision: Since the calculated value of "F" is higher than the tabulated value (i.e. 4.66 > 2.62) at 5% level of significance, H_0 is rejected. So there is significant difference in DPR of NSBL, EBL and NABIL.

CHAPTER –V

Summary, Findings, Conclusion and Recommendation

A summary of the study is presented in this chapter outlining the study's introduction, purpose, objective and methodology. The findings of the study are also presented in a summarized form and recommendations are made where possible.

Summary

Dividend Policy is one of the major decision of financial management because it affects the financial structure, the flow of funds, corporate liquidity and investors attitude. The successful completion of the fiscal year having sufficient profit, management decides to declare dividend to shareholders. The important aspects of dividend policy are to determine the amount of earnings to be distributed to the shareholders and the amount to be retained in the firm. It also determine the forms of dividend.

Paying dividend to shareholders is an effective way to attract new investors to invest in shares. Moreover, the introduction of the study and focus of the study has been presented in the first chapter. In second chapter theoretical analysis and brief review of literature is available. The third chapter deals with Research methodology which includes research design, population and sample, sources of data, data collection procedure and Methodology of analysis and definition of statistical tools. The fourth chapter deals with the presentation and analysis of data. Finally the fifth chapter includes summary, findings, conclusion and recommendation. Among many joint venture commercial banks three banks are selected for the study. They are EBL, NSBL and NABIL.

The main objective of the study is to analyze the relationship of Dividend per share, Earning per share, Dividend payout ratio, Price earning ratio and Dividend yield with Market value per share.

Major Findings

This study has some major findings that are listed as below.

i) Dividend per share of NSBL and EBL are not satisfactory, but NABIL has distributed better dividend in most of the year. The pooled average dividend was Rs.31.37. NABIL has paid average dividend of Rs.74 where as NSBL paid lowest average dividend of Rs.5.12.

ii) Earning per share of all three sampled banks was good. The pooled average EPS was Rs.61.11. In average, EPS of NSBL was lowest i.e. Rs.19.33 and EPS of NABIL was highest i.e. Rs.109.81.

iii) Analysis of coefficient of variation indicates that there is high degree of fluctuation of DPS of NSBL and EBL whereas NABIL has low degree of fluctuation. In the same way, there is high degree of fluctuation in EPS of NSBL in comparision to NABIL as their CV is 59.34% and 20.70% respectively. The pooled average CV was 27.52%.

iv) As comparision to P/E ratio NSBL has CV of 19.34%,that shows the low degree of fluctuation whereas NABIL has CV of 63.96% that shows the high degree of fluctuation in price earning ratio.

v) In average, NSBL and EBL have followed moderate dividend policy but NABIL has followed aggressive and consistent dividend payout ratio. The CV analysis shows that NABIL has consistent dividend payout ratio whereas EBL and NSBL has high degree of fluctuation rate.

vi) The MVPS of all three sampled banks are in increasing in trend. The pooled average MVPS of the sampled banks was Rs.1268.27. MVPS of all three banks has highest degree of fluctuating ratio.

vii) The pooled average dividend yield in average was 2.56%. The level of variation in NSBL, EBL and NABIL was very high. In comparision to these three banks. NABIL has more consistent than other banks.

viii) The correlation analysis between MVPS with DPS, EPS, DPR, P/E ratio and DY of sampled banks are both positively correlated and negatively

correlated. This, it can be concluded that MVPS of all sampled banks are not positively correlated with DPS, EPS, DPR, P/E ratio and DY.

ix) The test of hypothesis of DPS, EPS and DPR shows that there is significant difference in DPS, EPS and DPR respectively of concerned sampled banks at 5% level of significance.

Conclusion

By the above major findings this study conclude that some sampled banks has paid high dividend , some paid low dividend and some of these bank had not paid any dividend. But also all three banks had sufficient earnings in most of the years. By above study we can also conclude that all banks have not defined clearly about the dividend policy that they follow during the fiscal year. The dividend paying system is highly fluctuating. The payment of cash dividend is made without wise decision of management. Among three banks NABIL has paid high dividend in all the years.

Recommendation

i) The payment of dividend is neither static nor constantly growing. Also the dividend payment is highly fluctuating. This type of dividend paying system does not keep positive impact on the market. So, these sample banks are advised to follow either static or constantly growing dividend policy system. This type of dividend policy system helps bank to make stability in market to increase market value per share, long term survival of banks and also increase the investors for the share issued.

ii) The banks should not violate the shareholders expectation and rights of getting dividend.

iii) Some banks of the sampled banks had high degree of fluctuation in DPS, EPS, DPR etc. Therefore, I suggest the banks to take some strict policy.

iv) The legal procedure and the rule for the treatment of dividend policy must be followed by the banks for the smooth growth of an organization as well as the growth of national economy. Therefore, the government should act in favour of investors and should make rules and regulation in such a way that all the banks can develop their internal strategy for the development of banks.

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