CHAPTER –I
INTRODUCTION

1.1 General Background of the Study

Banking plays significant role in the economic developing of a country. Bank is a resource for the economical development which maintains the self confidence of various segments of society and extends credit to the people. So commercial banks are those financial institutions mainly dealing with activities of the trade, business, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing.

The objective of commercial banks is to mobilize idle resource into the most profitable sector after collecting them from scattered sources. The concept of the banking has been developed from the ancient history with the effort of ancient goldsmith who developed the practice of storing peoples gold and valuables under such arrangement the depositors would leave their gold safekeeping and given a receipt by the goldsmith. Whenever, the receipt was presented the depositors would get back their gold and valuable after paying a small amount as fee for safekeeping and serving.

Commercial banks contribute significantly in the formation and mobilization of internal capital and development effort. They furnish necessary capital required for business and commerce in mobilized the disperse saving of the individuals and institutions.

Since the important of banks is highly appreciated, it needs proper attention to run successfully. They should be established and conducted after analyzing the various factor. If there is no profit a business firm becomes unable to provide its facilities in long time and it couldn’t survive. This profit can be distributed among the owners as dividend.

Capital market is the general barometer that measure the proper collection and canalisation of saving for investment in productive and income generation assets (shrestha:2004:11). Capital market is the market place through which the entrepreneurs collect the long-term capital by mobilizing individual and institutional saving either directly or indirectly. Capital market since it facilities and provides better institutional arrangement for the borrowing and lending of long term funds. Investors purchase share available in the capital market expecting two forms of future return; dividend gain and capital gain (Pradhan and Adhikari: 2001: 16).

When a company pays out a portion of its earning to shareholder in the form of dividend ,the shareholder benefit directly .if instead of paying dividends, the firm retain the fund to exploit other growth opportunities ,the shareholder can expect to benefit indirectly though future increase in the price of their stocks. Thus, shareholder wealth can be increased through either dividend or capital gain. So that the policy of a company on the division of its earning between dividend and retention is known as dividend policy.

Dividend policy determines the division of dividend of earning between payment to stockholder and reinvestment in the firm (Weston Copeland: 1990: 57). All aspects and the issues related to payment of dividend are contained in dividend policy. The primary purpose of business organisation is to create profit for its owners and dividend is the most important way the business fulfil this mission. When a company earns a profit, some of this money is typically reinvestment in the business to maximize the wealth in the long run, called retained earning .So that retained earnings are the most significant internal source of financing for the growing firm. Even though financing growth can be considered as secondary objectives of dividend policy. Dividend policy of the firm thus

has its effect on both the long- term financing and wealth of shareholders. Therefore the firm should forecast the future need for funds and should determine the amount of retained earning available after payment of dividend. Dividend may be in the firm of cash, stock or property.

Dividend distributions are based in percentage of the par value or are certain sum per share of no par value stock. In the United States, dividend may be paid in properly of various kinds, including bonds and stock of the company or stock of other companies. In Great Britain dividends are payable only in cash. In context of Nepal, dividend can be paid either by cash or stock of their company. But most of shareholders prefer cash dividend because it is predictable than future gain in the form of capital gain (Brealy and Meyer: 1984: 417).The stock market in Nepal is a recent development and small in nature. The development of stock market started only after establishment of security exchange centre in 1984, which was later renamed as Nepal stock exchange ltd in 1993.NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal industry ,developing corporation and member are the share holders of NEPSE. Government of Nepal contributed 58.57%, NRB 34.60%,NIDC 6.13% and member 0.60%on its capital (Rs 34.91 million).

At present there are 23 brokers and 2 market makers who operate at trading floor as per the securities exchange act 1983, rules and by laws .Besides this, NEPSE has also granted membership to issue and sales manager securities trader (dealer).At present there are 11 sales and issue manager, and 2 dealer (secondary manager) .At the end of Ashadh 2065,161 companies listed in NEPSE.

Nepal stock exchange in short ‘NEPSE’ is a non profit organisation introduced fully automated screen based trading since 24th August 2007 (Shivraj Ghmire: 2065). But still Nepalese stock market is characterised by

small volume of trade and declining trend in stock transaction, under developed capital market, absence of adequate number of institutional and professional broker, limited dissemination of financial information in the stock, early and slow growth in industrial investment, presence of large number of unorganised investors, infant stage in investment banking, inadequate government policy and regulation and investors being not conscious about their right etc.

In the Nepalese context, many companies pay stock dividend rather than cash dividend, in which case shareholders receive additional stock. Stock dividend is issued at that time when the company needs funds and retained high percentage of earning.

Similarly the dividend policy is less balanced. Theoretical and practical deviation has proved, everything written is not practiced and everything is practice is not of actual theory. Therefore a dividend policy is the practice strategy or decision made by a firm as per their requirement to establish market reputation as well as to meet general exception of the shareholders. Moreover, the payment of the corporate dividend is at the discretion of the board of directors .However manager strongly agreed that stock dividend have a positive psychological impact.

Stock split is another aspect of dividend policy, which is popular in developed capital market but this aspect is almost neglected in the capital market of Nepal. An alternatives form of dividend is share repurchase. If a firm has excess cash and insufficient profitable investment opportunity to justify in the use of these funds, it is in the shareholders interest to distribute the funds.

The distribution can be accomplished either by the repurchase of stock or by paying the funds out in increase dividends. But, Nepal company

act,2053,reaction 47 has prohibited company repurchasing its own share. It states that no company shall purchase its own share and supply loans against the security of its own share.

Market Value of the Stock (MPS) is the trading price of the stock listed in authorised or legal stock exchange. It is that value of stock, which can be obtained by a firm from the market. In context of Nepal, MPS is the price that is coated for purchasing or selling under Nepal stock exchange act or related laws and regulation on the stock exchange floor. Market value of the share, which is the one of the variable, which is affected by the dividend per share (DPS) and earnings per share (EPS). If the dividend per share and earnings per share is high, the market value per share will also be high. Market value of the share may be high or low than the book value. If the firm is growing concern and its earning power is greater than cost of capital, the market value of the share will be higher than the book value. If the firms earning capacity is lower than cost of capital market price of the stock (MPS) will also be lower. The capital market determines MPS. Moreover dividend policy has direct impact on the MPS. Therefore the dividend is a significant factors as well as challenging job to the financial manager.

Two basic schools of thought on dividend have been expressed in theoretical literature of finance; One schools associated with Myron Gordon and John Linter among others, concludes that dividend policy affect the value of share. Their reformulation of the model justifies the behaviour of investors who value a rupee of dividend income more than a rupee of capital gains of income. This investors prefer dividend above capital gains because dividend are easier to predict are less uncertain and less risky and are therefore discounted with a lower discount rate (Francis: 1972: 354).

The other schools associated with Merton Miller and Franco Modigliani concludes that under a perfect market situation dividend policy

of a firm is irrelevant, as it does not affect the value of firm. Moreover, we can say that investors are indifferent to return in the form of dividend or capital gain. They argue that the earning determine the value of the firm.

1.1.1 Profile of the Sampled Banks

A) Kumari Bank Limited

Kumari Bank Limited is a well-established commercial bank. Its promoters represent a group of highly reputed Nepalese citizens. It is managed by experienced and dynamic professionals. Kumari Bank's competitive banking services have become a hallmark amongst its ever-increasing customer base.

The bank has recorded successful years in terms of performance amidst all challenging conditions, making it possible to distribute 10% Bonus shares this fiscal year as well. Acting as a conduit to the economic activities across the country and to cater to the needs of customers, the Bank, over the years, has been opening branches in strategic locations in Nepal. The period under review witnessed the Bank opening up of 3 more branches. With the Bank planning to open additional 11 branches in the running fiscal year, the Bank's points of representation will reach 30. Additionally the Bank continues to reach out to its varied clientele base through more than 20 ATMs spread throughout the country.

B) Nabil Bank Limited

Nabil Bank Limited is a public limited company, incorporated on 12th July 1984, and domiciled in Nepal. It is a "Ka" class licensed institution licensed under the Banks and Financial Institutions Act, 2006. The registered office of the Bank is located at Nabil House, Kamaladi, Kathmandu, Nepal. Its shares are listed in Nepal Stock Exchange Limited as a publicly traded company for its general classes of shares.

The permanent staff strength of the Bank is on at July 16, 2010 is 557. The Bank's paid up equity capital has increased by NRs. 483.4 million during the year, after the distribution of 50% bonus shares. The Paid Up Capital of the bank as at 15.07.2009 is NRs. 965,747,000.

1.2 Statement of the Problem

Dividend decision is still crucial as well as controversial area of corporate finance. The effect of the dividend on a market value of a corporation is a subject of long standing controversy (Baker, Farrly and Delman: 1985: 78). In recent year, Nepalese people are very interested and attracted towards share investment. Especially the investors are more interested towards the banking companies share because they have been receiving dividend in each and every year. In such context, the dividend policy is an effective tool to attract new investor and to maintain the present ones. However, the companies' managers and promoters seem to be conservative in dividend decision. Alternative investment opportunities, growth rates are not duly considered before deciding dividends. Similarly, Nepalese investors also seem not so aware enough to maximize their wealth lack of enough knowledge. People are investing hit or miss in shares and brokers have been exploiting the shareholders by taking the advantage of marker imperfection.

Dividend, the most inspiring factor for the investment on shares of the company is thus desirable from the stockholder's point of view. However, commercial bank in Nepal has no satisfactory result about dividend decision. Numerous theories and empirical finding concerning dividend policy has been reported in the financial literature over the past years. There is no limit to the identification of the problem about dividend policy that is visible in Nepalese commercial banks. While keeping this in mind selected problems of commercial banks with regards to dividend that

be quantified. In Nepal there are only a few companies that pay dividend to shareholders, commercial banks especially joint venture banks have sufficient earning and are capable to pay dividends. This study tries to deal with the following problems:

- What are the relationship between dividend payment and the price of the shares?
- What are the relationship between retained earnings and the price of the share?
- Is there any significant relation between dividend changes retained earnings change and stock market price?
- Whether dividend or retained earnings is more attractive among Nepalese stockholder?
- What is the elasticity of dividends and retained earning with respect the market price per share?
- What role does the lagged variable play on the determination of stock price?

1.3 Objective of the Study

The main objective of the study is to analyze the relation between dividend change and its impact on share price in context of Nepal. The study is an attempt to make overall review regarding dividend policy of commercial banks. But the specific objectives of the study are:

- To analyze relationship between dividend change and stock price change of KBL and NABIL.
- To identify what type of dividend policy is being followed.
- To know the dividend per share, earning per share and dividend payout ratio of banks.
- To provide workable suggestions that may be helpful to the formulation of optimal dividend policy and maximize the stock price.

1.4 Significance of the Study

Although the corporate sector of Nepal is small and unorganised as compared to developed countries. In recent year, people are attracted toward share investment in corporate sector for the purpose of getting more and more returns. Therefore, dividend policy should be an effective to attract new investors and present investors to keep happy and to maintain goodwill of the company. When any new company floats shares through capital market, very big congregation gathers to apply for owner's certificate. It indicates people's expectation on higher return of investment in shares. While investing in shares the investor forgoes opportunity income, he could have earned. In capital market the return can be in two ways,

A. By means of dividend
B. By capital gain

So that the study of dividend policy is important for various reasons, some of them are stated as below:

- As stated above corporate sector is expanding and prospective. So that investors are to gain a perfect knowledge about the market. This study tries to provide useful information to the investors.
- Help for the further research in this field.
- Examine investors preference on dividend and retained earnings, so as to find out ''which are'' preferred.
- The impact of retained earnings on stock price.
- Help to the government official in policy making, controlling
- Supervising and monitoring activities of the corporate sector.
- It covers the partial fulfilment of the requirement of M.B.S,T.U

1.5 Limitation of the Study

Dividend is the most important topic in financial management. There are several aspects of decision that should be undertaken by financial managers to achieve the management goal. Areas of financial management decision are investment, capital structure, liquidity, leverage, dividend and others, only

Dividend is selected in this study to make more specific. This study simply presents to fulfil a partial requirement of MBS programmed. So, it is a mini-research which is conducted and submitted with limited data. Every study has its own limitations and the following are the limitations of the present study:

- This study is mainly conducted on the secondary data so the result depends on the reliability of the secondary data.
- There are many factors that affect dividend decision and valuation of the firm. However only those factors related with dividend will be considered in this field.
- This study only covers the five years beginning from 2005/06 to 2009/010
- Only cash dividend will be analysed and interpreted.

1.6 Study Plan

The study has been organized into five chapters, each devoted to some aspect of the study of dividend and its impact on share price in Nepal. The title of each chapter is as follows:

Chapter-1 Introduction

First chapter deals with the subject matter of the study consisting introduction, significance of the study, statement of the problems and objectives of the study.

Chapter-II Review of Literature

Second chapter deals with review of literature. It includes a discussion on the framework on dividend policy also include major studies relating with dividends decision.

Chapter-III Research Methodology

Third chapter explain the research methodology used to evaluate dividend practices of joint venture banks in Nepal. It consists of research design, source of data, population and sample, statistical tools and financial tools.

Chapter- IV Presentation and Analysis of Data

Chapter four deals with analysis and presentation of data and information through a definite course of research methodology

Chapter-V Summary, Conclusions and Recommendations

The last chapter deals with summary, conclusion and recommendation of the study on the basis of the analysis done on the fourth chapter.

CHAPTER - II
REVIEW OF LITERATURE

The review of literature has been divided into four sections. Section one describes about conceptual framework, the review of major empirical works has been presented in section two and review of major studies in Nepal presented in section three. At the section four contains the concluding remarks.

2.1 Conceptual Framework

2.1.1 Dividend

The term dividend possesses great significance for stakeholders since the evolution of corporate business. Earning distributed to shareholders are called dividend. Dividend is one of the major reasons for which public are interested in investing their saving in common.

Stocks of corporate firms and institutions. Dividend refers to the portion of earning of a firm that is distributed to the shareholders in return to their investment in the shares (Hunt, William and Garden: 1972: 405). Therefore, it reduces the cash balance of the company. Once a dividend is declared, stakeholders become general creditors of the company until the dividend is not actually paid. Dividends are the foundation for the valuation of common stocks. Also, such payment may be useful in diversification of investment in an uncertain world (Dc Anglo and Dc Anglo).The important aspect of dividend policy is to determine the division of earning into dividend to the shareholders and retention for ploughing back to company. All aspects and question related to payment of dividend are contained dividend policy.

Dividend policy is a crucial and integral part of financial management. Dividend makes the investors happy in one hand and on the

other hand, the dividend distribution decreases the internal financing requirement for making investment in good opportunities. This may hamper the growth of the firm. The dividend payout reduces the amount of earning retained financing. This financing can be made either through the external sources or internal. The external sources includes the issue of share, debenture bond etc. Where as the internal of sources are the earning retained after the payment of dividend. Thus the amount of internal financing is largely depending upon the dividend policy adopted by the firm. For the existing firm, it is very necessary to analyze which source is more profitable because the cost of external financing is relatively high as compared the retained earnings due to the extra cost required.

It is fact that a high payout policy means more current dividend and less retained earnings, which may consequently result in slower growth and perhaps lower market price per share. Low payout policy means less current dividends, more retained earnings and higher capital gain and perhaps higher market price per share.

2.1.2 Dividend Payout Schemes

Stability or regularity of dividend is considered as a desirable policy by the management of companies. Most of the shareholders also prefer stable dividends because all other things being the same, stable dividend have a positive impact on the market price of the share. By stability, we mean maintaining their positions in relation to a trend live preferably one that is upward sloping .Three of the commonly used dividend policies are:

1. Constant Dividend Per Share

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 earning of the company. This policy does not imply that the dividend per share of dividend rate will never be increased.

2. Constant Payout Ratio

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

3. Low Regular Dividend Plus Extras

The policy of paying a low regular dividend plus extras is a compromise between 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 earning from year to year.

4. Residuals Dividend Policy

Residual dividend policy is based in the premise that investors prefer to have a firm terrain and reinvest earnings rather than pay them out in dividend if the rate of return the firm can earn on reinvested earnings exceeds the rate of return investors can obtain for themselves on other investments of comparable risk. Further, it is less expensive for the firm to use retained earnings than it is to issue new common stock. A firm using residual policy would follow these four steps:

a) Determine the optimal capital budget.

b) Determining the amount of equity required to finance the optimal capital budget given its target capital structure, recognizing that the funds used will consist of both equity and debt to preserve the optimal capital structure.

c) To the extent possible, use retained earnings to supply the equity required.

d) Pay dividends only if more earnings are available those are needed to support the optimal capital budget

2.1.3 Forms of Dividend

The usual practice is to pay dividend in cash. But dividend can be distributed in different forms regarding the corporate dividend policy and attitude of the directors. The type of the dividend that corporations follow is partly a matter of attitude of directors and in various circumstances and financial constraints that bound corporate plan and polices. Considering the changing needs of corporation, dividend is being distributed in several forms cash dividend, stock dividend, script dividend, property dividend and bond dividend.

Cash Divided

Cash dividend is the dividend, which is distributed to shareholders in cash out of earning. The payment of cash dividend reduces cash or reserve account of the company .so it may create the liquidity problems to the company. When cash dividend is distributed, both total assets and net worth of the company are decreased. The market price of the share drops in most case by the amount of cash dividend distributed (Hasting: 1966: 370) the objectives of the cash dividend are as follows:-

a) To distribute the earning to share holders, as they

b) Hold the proportion of the share.

c) To build an image in the capital market so as to create

d) Favourable condition a raise the funds at the needs.

e) To make distribution easy and to account easily.

The market price after cash dividend in calculated as follows: (Thapa and Koirala: 2063: 8.5).

Market price per share after cash dividend= Market price per share before cash dividend –dividend per share.

Stock Dividend or Bonus Shares

A stock dividend occurs when the board of directors authorize a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding shares of the firm's stock. Although stock dividend does 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. Stock dividend requires an accounting entry transfer from the retained earning account to the common stock and paid in capital accounts. (Thapa and Koirala: 2063: 8.6).

Market price per share after stock dividend:

$$\frac{\text{Stock price before stock dividend}}{1 + \text{stock dividend in fraction}}$$

The objectives of the cash dividends are as follows:-

a) A desire to lower the price of the stock on a per share basis to prompt more trading and increase liquidity.
b) To have optimal cash in hand
c) Firms often use stock dividends in place of cash dividend if they are retaining money for growth.
d) To send positive information

Stock Split

A stock split (also known as straight stock split) is essentially when a company increase the number of shares. In case of stock splits, a company may double, triple or quadruple the number of shares outstanding, the market price of each share is merely lowered, and economic reality does not change at all.

The effect of a stock split is an increase in the number of shares outstanding and a reduction in the par, or started, value of the shares. The total net worth of the firm remains unchanged. The stock split does not involve any cash payment, only additional certificate representing new shares.

The Objectives of Stock Split

To increase liquidity, because some companies believe that their stock should be inexpensive so some people can buy it. This creates a condition where more of the company‘s stock is brought and sold.

Comparison between stock dividend and stock split

Stock Dividend		**Stock Split**	
1	A stock dividend involves a bookkeeping transfer from the retained earnings to the capital stock account .It is paid in share of stock instead of cash.	1	A stock split simply increases the number of shares outstanding.
2	A stock dividend increases the capital stock account.	2	A stock split does not affect the capital account.
3	A stock dividend does not change in the par value.	3	A stock split result in change in the par or stated value.(reduce the par value)
4	A stock dividend reduces the retained earnings.	4	A stock split does not affect retained earnings.

(Source: Thapa and Koirala: 2063:8.9)

Reverse Split

A method that is used to raise the market price of a firm's stock by ex-changing certain number of outstanding shares for one new share of stock. The effect of a reverse split is a decrease in the number of shares outstanding and an increase in the par, or stated value of the shares. The total net worth of the firm remains unchanged. The reverse split does not involve any cash payment, only additional certificate representing new shares.

Stocks Repurchase

Stock repurchase is a method, in which a firm buys back shares of its own stocks, thereby decreasing shares outstanding, increasing EPS, and, often, increasing the price of the stock. Stock repurchase are alternative to dividend to dividend for transmitting cash to stockholders. Stock repurchased by the issuing firm is called treasury stock.

$$\text{Repurchase price (p)} = \frac{\text{Market prices before stock repurchase}}{\text{1-stock repurchase in fraction}}$$

$$\frac{Market\ prices\ before\ stock\ repurchase}{1-stock\ repurchase\ in\ fraction}$$

The Objectives of Stock Repurchase:

a. If a firm has excess cash, it may repurchase its own stock leaving fewer shares outstanding and increasing the earnings per share.
b. Firms also repurchase their stock if the stock price is low.
c. It may be used for employee stock options.
d. Stock repurchase reduces the possibility of being taken over by another firm.

Methods of stock repurchase:

Open Market

A publicly owned firm can simply buy its own stock through a broker on the open market.

1. Tender Offer

Under this method, the company makes a formal offer to stockholders to repurchase its own stock at a set price. This bid price is above the current market price. The shareholders are not obliged to sell the share even if company proposed this offer.

2. Negotiations Basis

The firm can purchased a block of shares from one large holders on a negotiated basis

Advantages of Stock Repurchase

a) Utilization of idle cash
b) Enhanced dividend and earnings per share
c) Enhanced share price.
d) To change the capital structure.
e) Stockholders are given a choice of whether or not to sell his stock to the firm
f) The repurchase can remove a large block of stock overhanging the market.

Disadvantages of Stock Repurchase

a) May be viewed as a negative signal (firm has poor investment opportunity)
b) Selling stockholders may not be well informed ,hence be treated unfairly

c) Firm may have to bid up price to complete purchase thus paying too much for its own stock.

d) Loss of investment income

e) Repurchase are not as dependable as cash dividend, therefore the stock price may benefit more from can dividend.

2.1.4 Dividend Payment Procedure

Firms usually pay dividend on a quarterly basis in accordance with the following payment procedures.

1. Declaration Date

This is the day on which the board of directors declare the dividend. At this time they set the amount of the dividend to be paid, the holders of record date, and the payment date.

2. Holders of Record Date

This is the date the company open the ownership books to determine no will receive the dividend; the stockholders of record on this date receive the dividend.

3. Ex-Dividend Date

This date is four days prior to the record date. Share purchased after the ex-dividend date are not entitled to the dividend. Only investors who hold the share prior to the ex-dividend date receive the dividend.

4. Payment Date

This is the day when dividend checks are actually mailed to the holders of record.

2.1.5 Factors Affecting Dividend Policy

Many considerations may affect a firm's decision about its dividends, some of them as unique to that company, and some of the more general considerations are given subsequently. (Thapa, Koirala: 2063: 8.2).

1. Desire of Shareholders

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

In widely held company, number of shareholders is very large and they have diverse desire regarding dividend and capital gain. Some shareholders want cash dividend, while other prefers bonus share.

2. Legal Rules

Certain legal rules may limit the amount of dividend- a firm may pay i.e.

a) If the firm's liabilities exceed its assets
b) If the amount of the dividend exceeds the accumulated profits,
c) It the dividend is being paid from capital invested in the firm.

3. Liquidity Position

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

4. Need to Repay Debt

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

5. Restrictions in Debt Contracts

It specifies 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.

6. Rate of Asset Expansion

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

7. Profit Rate

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

8. Tax Position of Shareholders

The tax position of stockholders also affects dividend policy. Corporation owned by largely taxpayers in high income tax brackets tend toward lower dividend payout.

9. Stability of Earning

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

10. Control

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

2.2 Review of Empirical Work

There are so many studies made by the different persons and institutions for dividend change and stock price. There are two opinions regarding to dividend payout and market price of shares. The first point of views argues that dividend payment do not affect the market value of the

shares. The other viewer argues that dividends are relevant and the amount of dividend paid affects the market value of shares.

Always a critical and confused question has arose, whether dividend policy affect the market value of the shares or not. To put light in these matter different studies made by different international scholars and researcher should be overviewed.

Walter's Study

The relevant theory of dividend argues that the dividend policy of the firm affects the value of the shares. So, the dividend is relevant. In those cases where firm announced an increase in their dividend, there is a significant positive reaction in their stock prices. Conversely in those cases when firm announced the decrease in their dividend, there is the significant negative reaction in their stock prices.

Walter's study is also based on relevant theory, James E. Walter, by his article; dividend policies and common stock prices in journal of finance in 1957,advocated that the choice of appropriate dividend policy almost always affect the value of the enterprises i.e. share value/price. Walter's study is also based on some assumptions:

- The return on the firm's investment (R) and the cost of capital (ke) are constant.
- All earnings are either distributed as dividend or re invested internally,
- The value of the EPS and DPS remain unchanged.
- The firm has an infinite life.

Value of the stock according to Walter can be calculated by the following equation:

$$P= \{D+R/KE (E-D)\}/KE$$

Where:

P = Marker price of an equity share

D = DPS

E = EPS

R = the rate of return on the firm's investment

Ke = Market capitalization rate or cost of capital.

Walter's focus is in internal rate of return(R) and the cost of capital (Ke) in determining the dividend policy with these two variables: he had tried to conclude some decisions. Therefore, he had expected three conditions probably exist:

Conditions 1 (R>K)

When internal rate of return is greater than cost of capital, it will be better to retain all nerd profits' exceeding k shows the firm's better performance to earn more than the shareholders are paid in their reinvestment.

Conditions 2(R<K)

When internal rate of return (R)is less than cost of capital (K) ,it advocates that the shareholders can earn a higher return by investing elsewhere. Increasing the dividend in this condition increases the market price per share.

Conditions 3 (R=K)

If the internal rate of return equals to the cost of capital, the dividend payout does not affect the market value of the share. In this condition the market value of the share remains constant for the entire dividend payout ratio.

Limitation of Walter's Study

Walter has assumed that the firm is financed by retained earning it can be applicable only to those firms which have financed all their capital by equity. He has assumed that internal rate of return(r), cost of capital (Ke), dividend per share and earnings per share are constant though out the period which is not applicable for all companies as **'r'** and 'Ke'.

Modigliani and Miller's Study

It has been argued that dividend policy has no effect on the price of a firm's stock or its cost of capital, that is, dividend policy is irrelevance .this theory was first introduced by Franco Modigliani and Merton miller in 1961 and popularly known as M-M approach. Through an article 'dividend policy, growth and valuation of shares' they advocated that dividend policy does not affect the value of the firm i.e. dividend policy has no effect on the share price of the firm. The M-M approach focuses the irrelevant effect lf dividend policy in the firm valuation arguing that, the value of the firm is determined only by its basis earnings power and its business risk, thus, the value of the firm depends on the income from it assets and not on how this income is split between dividend and retain earning.

M-M approach is based on the following assumptions:

- Perfect capital market in which all investors are rational .information available to all at no cost, instantaneous transaction without costs, infinitely divisible securities and no investor large enough to affect the market price of the security.
- An absence of floatation costs on securities issued by the firms
- The worlds of no taxes.
- A given investment policy for the firm, no subject to change
- Perfect certainty by every investor as to future investment and profits of the firm,(but M-M dropped this assumption later).

They provide the proof in support of their argument in the following ways:

Step-1

The market price of a share of the firm at the beginning of a defined as equal to present value of dividend paid at the end of the period. Symbolically

Po= (D1+P1)/(1+Ke).....(i)

Where,

P0=current market price of share

D1=dividend per share to be received at the end of the period

P1=market price per share at the end of the period

Ke=cost of equity capital (this rate is assumed to be consistent)

Step-2

Multiply both sides of the equation (i) by the number of shares outstanding (n), we obtain the total value of firm

nPo= (nD1+nP1)/(1+Ke).....(ii)

Step-3

If the firm sells number of new shares (n) at the end of period at a price P1the value of firm at time will be

nPo= [nD+P1 (n+Δ n)- np]/(1+ Ke) .....(iii)

The above equation is formed in the following ways:

We have,

Step - 4

If the investment projects of a firm in a given period of time can be financed either by retained earnings of the issue of new share of both. Thus,

the amount issued will be conclusion when the assumption, market prices of shares at the beginning of the period is defined as equal to the present value of dividend paid at the end of the period plus the market price at the end of the periods.

View of MM hypothesis is that the firm which pays dividends will have to raise funds externally to finance its investment plans MM argument, that dividend policy does not affect the wealth of the shareholders, implies that when the firm pays dividends, its advantage is offset by external financing. This means that the terminal value of the share (say price of the share at the first period of the holding period is one year) declines when the dividends are paid. As a result present value per share after dividend and external financing is equal to the present value per share before the payment of dividends. Thus the shareholders are indifferent between of dividend and retention of earnings.

Gordon's Study

In 1963, Myron Gordon explained, that the dividend policy of a firm influences the value of a share. He said ,a corporation's share is not independent of the dividend rate.' investor value the present dividend more than future capital gains' was the focus of his study. That is to say current dividend is considered certain and risks less. Therefore, this theory is preferred by rational investors as compared to deferred in future is uncertain, and the investors avoid uncertainty.

He emphasized his argument that an increase in dividend payout ratio leads to increase in the share prices for the reason that investors consider, the dividend yield (D1/p0) is less risky than the expected capital gain. Gordon's theory is also based on some assumptions:

- The firm is all equity firms and there is no leverage in its capitalization.

- There is no outside financing and corporate goal is expected to derive from retain earnings.
- The internal rate of return,(R) of the firms remain constant.
- The cost o capital (K) for the firm remain constant,
- Corporate tax does not exist.
- Retention ratio (b) once decided will remain constants.
- The cost of capital for the firm is greater than the

Applying the assumption just prescribed, Gordon also presented an equation in order to find our market value per share as following.

P=E(1-b)/ke-b*r

Where,

P = market value per share

E = earnings per share

B = retention ratio

(1-b) = dividend payout ratio

Ke = cost of capital

B# r= g or growth rate in r

E (1-b) = dividend per share

According to this model the following facts are reveals:

Growth firm(r>Ke)

Share price tens to decline in correspondences with increase in pay out ration or decrease in retention ration that is high dividend leads to decrease in share price. Therefore, dividend and stock prices are negatively correlated in growth firms.

Normal firm(r=Ke)

Share value remains constant regardless of changes in dividend policies which mean dividends and stock prices are not correlated.

Prediction of Freeman, Olson and Penman

Freeman, Olson and Penman (1982)showed that an important predictor of earning change was the ratio of earning to the book value of equity(ROE).specifically, they showed that since ROE was mean reverting, high (low) ROE implied and expected decrease (increase)in earning and vice versa (Fama and French: 2000: 110). Since dividend change are positively correlated with current ROE, the expected change in earning is likely to be negatively correlated with the dividend change .to address this omitted correlated variable problem, they include ROE as an additional explanatory variable. And to examine whether dividend change contain information on future earning changes, increment to the earning change in the dividend change year, they include control variable also .in addition they allowed for different coefficients on dividend increase decrease.

Major finding of the study were:

a) They provide strong evidence in support of the information context of dividend hypothesis
b) After controlling for the expected change in future earning dividend change are positively related to earning change in each of the two year following the dividend changes
c) The findings are not asymmetric for dividend increases and decreases. dividend increase are associated with future profitability for at least four years after the dividend change where as dividend decreases are not related to future profitability after controlling and expected profitability.

Barker Farrelly & Eldeman's Study

H.Kent Baker, Gail E. Farrely, and Richard B. Edlemen surveyed management view on dividend policy. They questioned to corporate financial managers about what they consider the most important in determining their firm's dividend policy. The objectives of their study were:

- To examine management's perception of signalling and clients effects.
- To determine whether managers in different industries share similar views about the determinants of dividends policy.
- To compare the determinate of dividend policy with linter's behavioural model of corporate dividend policy and to assess management's arguments with linter's finding.
- They selected 562firms for the study purpose, where they selected at New York Stock Exchange(NYSE).these were selected from various sector,150 from utility sector,309 from manufacturing sector and 103 from wholesale retail sector they mailed questioner to obtain information about corporate dividend policy. The questionnaire consisted three parts.
- 15 close –end statement about the important of various factors that each firm used, to determine its dividend policy
- 18 close –end statement about theoretical issues involving corporate dividend policy
- A respondent's profile including such items as the firm's dividend and earnings per share.
- They sent the final survey statement to the chief financial officers (CFO'S) of the 562 firms, followed by second complete mailing to improve the response rate and reduce potential non response bias. Based on the dividend and earnings per share data are provided by the respondents, they found that payout ratio of the responding utilities sector (70.60%) and wholesale/retail (36.10%) sector. The

results of their study on the aspect of determinant of dividend policy were as follows:

- The highly ranked determinants were the anticipated level of firm's future earnings, and the pattern of past dividends. This was consistent with linter's finding.
- The third important determinant of dividend policy was availability of cash.
- The fourth determinant was concern their for maintaining or increasing stock price. They found this factor is particularly strong among utilities, which ranked this factor second in importance.

Macdonal and Varn Horne Study

McDonal and Varn Horne conducted a most comprehensive study on dividend policy and equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing on the market value of the firm's common stock. They used a well known valuation model i.e. cross section regression model. The required date were collected firm 86 electric utility firms including COMPUSTANT utility date tape and 39 firm in the electronic component industries listed on the COMPUSTAT industrial date tape.

By using different methodologies, they compared the results obtained forms firms, which both paid dividends and engaged in new equity financing with other firms in the industry sample. They concluded that for the electronic utility firms (1986), share value was not adversely affected by new equity financing in the present and cash dividend, except for those firms in the highest new issue group and it made new equity a more costly financing than retention of earning. They also indicate that the payment of dividend through excessive equity financing reduces share prices. For electronic components industries, a significant relationship between new equity financing and value was not demonstrated.

Patrick J. Hess's Study

Most tests regarding dividend focused on the tax effect and on financing signalling. Those studies cover the impact of other factors like flotation costs, transaction cost, institutional restriction and preference for dividends. The companies that pay dividend establish an ex-dividend date, stock transacted after that date carry the right to the dividend and stock transacted after that date does not carry to the dividend with it. It concludes that the value of stock decline less proportionately the value of dividend on the ex-dividend date. They interpret this result as consistent with a clientele effect where investors in high tax rackets shows a preference for capital gain over dividend, and vice versa.

Robert II. Litzenberger and Krishna Ramashwamy's Study

Litzenberger and Ramashwamy have found positive relationship between expected before tax return and dividend yields. They are covered that high dividend stocks providing expected before tax return and dividend yields. They are covered that high dividend stocks providing expects before tax return then low dividend stock to the tax effect. However , adding default risk premium variable to the external capital assets pricing model shows the dividend coefficient is not significant different from zero and concluded that the dividend yields measure was likely to be correlated with a number of economic phenomena. Thus, tax effect on dividend was in unsettled state. Another study of relationship between dividend yields and stock returns by Black and Schloles indicated that stocks with high pay out ratios did not provide returns significantly different from those with low pay out ratios. So, they interpreted these finding as consistent with the idea that dividend policy did not matter.

The finding from the above mentioned studies conducted in matured capital market concluded many interesting results about the subject. But

these results may not hold true in our context since our capital market is small, and unorganized. In fact, it is not the studies that are more attempts for comparable to that of Nepal. The following section therefore attempts to reviews same of the finding s of the studies that is carried out in Nepal.

2.3 Review of Major Studies in Nepal

The study of dividend, earning and stock price is recurring topic in the literature of a finance. Even sufficient investigation and analysis, yet have not been made in this topic in our context. In the context of Nepal, Radhe S. Pradhan (1993) indicated that stocks paying higher dividend have higher liquidity lower leverage, and high interest coverage. He used the data of 17 companies from 1986 to 1990 and includes 55 observations to perform the pooled cross sectional analysis and concluded that higher the earnings on stock higher the ratio of dividend per share and the dividend per share was positively correlated with market price per share.

Following finding were observed in connection with dividend behaviour:

- Higher the earning on the stock leads the larger the ratio of dividend per share.
- Stocks with larger ratio of dividend per share to the share to the market price per share have higher liquidity, liquidity position of the stock, paying lower dividend is also more variable as compared to the stock paying higher dividend.
- Stock with larger ratio of dividend per share to market price per share has higher liquidity.
- Positive relationship between the ratio of dividend per share to market price per share and interest coverage ratio.
- Dividend per share and market price per share was positively correlated
- Positive relationship between dividend payout and liquidity

- Positive relationship between dividend payout and profitability
- Positive relationship between dividend payout and turnover ratio
- Positive relationship between dividend payout and interest coverage.

Shrestha's Study

Professor Mohan Krishna Shrestha in his article entitled of "public enterprises have they dividend paying abilities" published in 1984 gives short glimpse in the dividend performance if some public enterprises of that in Nepal, Prof. Shrestha has highlighted the following issues in the article:

- One reason for this inefficiency is caused by excessive government interference in the day to affairs. On the other hand, high- ranking officials appointed by HMG as directors of board, do nothing but simply show their bureaucratic personalities. Bureaucracy has been the entry of efficiency and thus led corporations to face losses. Losing corporation is therefore, not in a position to pay dividends to government.
- The article point out the irony about the government biases on dividend practices in Nepal bank limited irrespective of sufficient profit aid not to show interest in case Rasta Bank despite considerable profit.
- HMG/Nepal expected two things from the public enterprises :
- They should be in a position to pay minimum dividend.

Public enterprises should be self supporting in financial matters in the years to come, but of these two objectives have been achieved by the public enterprises.

Another reason is lack of self-criticism and self-consciousness. moreover, corporate leadership comes, as managers are not ready to have self-criticism.in fact, all managers of corporation have not been able to identify themselves regarding what they can contribute as managers of corporations .So, HMG must be in position to develop a financial target on

corporate investment by imposing financial obligation on corporation. The improvement suggested by another are:

a) Adopt a certain guided policy to drain resources from corporation through the medium of dividend payment

b) Realization by manager about the cost of equity capital and dividend obligation.

If GON wants to tap resources through dividend, has to follow the following criteria:

- Imposition of fix rate of dividend by government on financially sound public enterprises.
- Specify performance target in terms of profits, priorities on timing and plans, and development of strategies plans that bridges the gap between aspiration and reality.
- Proper evaluation of public enterprises on capability of paying dividends through corporation co-ordination committee.
- Circulating the information about maximum rate of dividend to all public enterprises.
- Special character so as to clarify public enterprises managers regarding their financial obligation to pay dividend to HMG.

B.H. Bhattari's Study

Bishnu Hari Bhattarai has concluded in this unpublished Master Degree thesis, Tribhuvan university, Kritipur,Kathmandu,1996, entitled ''Dividend Decision and its Impact on Stock Valuation'' etc.

- There is no stable dividend practice by the companies for long time. Some companies have adopted the practices of steady increasing dividend and some have regular dividend practice. Stable dividend policy influences considerable on the valuation of shares perceived investors are rational .However this in yet to be realized by the Nepalese companies' management.

- There are no specific criteria for pay out ratio and it is observed that there is negative relationship between the pay out ratio and valuation of shares.
- There is a negative relationship between MPS and stockholders required rate of return. Shareholders have forgone opportunity income in the hope of getting higher return, but the companies have not been able to return even the risk free rate of return
- There is a positive relationship between cash flow and current profit and dividend percentage of shares. The degree of relationship is almost perfect. A net worthy points is than the Nepalese companies have maintained cash balance and dividend is declared. Only where there is enough cash and net profit
- Inflation rate is the recent years have indicated to decreasing trend and the market price of shares are increasing. Nevertheless, the companies are not able to give required rate of return to the investors.

Joint Study of Pradhan and Adhikari

A study (Pradhan and Adhikari: 2002: 16)jointly made by Radhe S. Pradhan and Nava Raj Adhikari on 'IMPACT OF DIVIDEND IN SHARE PRICE IN NEPAL' concluded that the dividend affects the stock prices. They collected the data from the publication of Nepal stock exchange limited, i.e. financial statement of listed companies vol.2, 3, and 4 of both finance and non-finance sector of 77 observations considering the period of FY 1992/93 to 1997/98. The model, they applied was developed by Friend and Puckett (1964).i.e:

$$P_t = f(D_t, R_t (p/e)_{t-1})$$

Where,

F1f2f3>0

P1 = Price of share in time t

Dt = DPS in time t

Rt = Retained earning per in time t

(P/E) t-1=Price earning multiple in time t-1

They concluded three Major Aspects:

a) Dividend has positive impact in share price.

b) Dividend have comparatively more favourable impact on the share price of the share prices of the non-finance sector then to the share price of finance sector.

c) Past earning have more impact than retained earnings and dividend on share price of finance sector.

Jiwan Kumar Dhakal (2002) has done a study called 'Dividend Behaviour in Nepalese Companies' in 2002. He concluded that:

- The mean value of the MPs of banking sector is the highest among four sectors for the study and its C.V is the lowest. It's mean it is less risky to invest in their stock than to invest in stock of other stocks. The mean value of MPS of insurance sector is the lowest. The C.V of manufacturing and processing sector is the highest .It means it is higher risk to invest in their stocks.
- The mean value of EPS of banking sector is highest and C.V is lowest. IT means it is less risky to invest in the sector than the other sector. The value of EPS of insurance sector is lowest and C.V of manufacturing and processing sector is highest. It means, both the sector are not favourable to investing
- The mean value of DPS of Banking sector is the highest and its C.V is lowest. It means it is less risky. The mean value of DPS of insurance sector is the lowest and its C.V is the highest, which means it has the highest risk.

Bhesh Raj Khadka, (2003) in this study, have examined the relationship between dividend change and future profitability. The objectives of the study were:

a) To assess the trend in dividend payment and profitability of
b) To examine the role of dividend change on stock price.
c) To determine the impact of dividend change on liquidity, profitability, turnover, coverage and other variable. He has included 31.03% enterprises i.e. 36 enterprises as sample size from among 116 Nepalese enterprises listed in the Nepal stock exchange. Khadka has made categorical analysis.

Econometric model have been tested. Major finding of the study are:

a) There are strong positive relation between concurrent changes and dividend changes, but the predictive power of these changes is weak.
b) Relation between dividend changes and future earning is not significant indicating there is only little evidence.
c) Relationship between dividend and stock price is in conformity with the relationship i.e. market price of share is positively affected by dividend changes.

Again, Radhe S. Pradhan and Nav Raj Adhikari (2004) study on 'Dividend and Stock Performance in Nepal'. Their study is based on pooled cross sectional data of 99 observation including 33 companies listed in Nepal stock exchange and traded on stock market. The result of cross sectional analysis indicated that stock with larger ratio of dividend per share to book value per share have higher liquidity lower leverage, higher earning ,higher assets turnover and higher interest coverage .likewise ,the stocks with larger dividend per share to market price per share have higher liquidity ,lower leverage, higher earning, higher assets turnover, interest coverage. It also indicated that liquidity, assets turnover, interest coverage,

leverage, and earning are more variable for the stock paying higher dividend

From the above literature reviewed, in our contest, reveals that there is positive correlation between stock price and dividend. As explained above our market is growing rapidly and investors are growing their interest towards capital market. So the question arises, whether the same trend is followed in resent year or not. Is the dividend payment more important as compared to retained earnings in these days, also? These are to be tested with recent data's in our context.

Suman Sapkota (2005) has done a study called ''Dividend Practises in Nepalese Financial Institutions'' in 2062 and concluded that:

- The majority of the respondent gave the high importance to dividend decision where as less to investment decision.
- The majority of respondent said that the most major motive for paying dividend to increase the market value of the firm's stock
- The majority of the respondent said that the Nepalese shareholder are conscious whether the company pays or do not pay dividend
- It the company has no cash to pay dividend the majority of the respondents said that of pay stock dividend
- The majority of respondent recommended for the steady dividend at a higher than present level
- The majority of respondent thought that dividend as a residual decision in Nepalese enterprises.
- The majority of the respondent ranked the factor of dividend in their importance in this way: 1^{st} is earning, 2^{nd} is availability of cash, 3^{rd} is past dividend.

2.4 Concluding Remakes

Dividends are the returns paid for the shareholders for the perpetual use of their money. Dividend seems to be very interesting factors for the shareholders decision. The decision of payment reveals as the foundation for the pricing of stock in market. However, there are many factors that give pressure for the dividend change decision. The increase in the dividend signals positive in the market and the stock price increases and vice versa.

Various study made in big and organized capital market concluded that specially designed dividend have signalling effect, and the positive change in dividend makes positive increment in stock price. this result is supported by the study of Jayaraman and Shastri (1988), Brickly (1983), Dhillon and Johnson (1994), Benartzi, Michaely and Thaler (1997), Gomola & Lie (1999).Walter disclosed that as long as the internal rate is greater than the cost of capital, the share price will be enhanced by retention and will vary inversely with dividend payment. Study of Brickly (1983) and Dhillon and Johnson (1994) reveal that the result is not true in context of bond. More than this the conclusion can be made that there is association between concurrent earning and dividend change is, positive from the study of Benartzi, Michaely and Thaler (1997) and & Nissim and Zim (2001).

In context of Nepal the result seem to be same as these studies reveals the positive relationship between stock price and dividend. Attention has been also given to test the effect of retained earning on stock prices. And as concluded by Radhe S. Pradhan (1993), Pradhan and Adhikari (2002), Bhesh Raj Khadka, (2003), Radhe S. Pradhan and Nav Raj Adhikari (2004).

Although ,various research have been concluded incorporating the effect of dividend changes on stock price in context of developed capital market, consistency of these research is yet to be tested in our context.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In this study, historical as well as descriptive research design is adopted.

The research is based on recent historical data. It deals with the ascertaining the relationship between dividend policy and the change in market price per share of commercial banks. In this study, historical as well as descriptive research design is adopted. To find out the relationship between DPS and MPS, historical research design is adopted along with correlation and regression analysis.

3.2 Population and Sample

Currently 30 commercial banks are operating throughout the country. However, the analysis of all these banks on the ground of impact of dividend policy on market price per share is almost impossible. Thus, for the study only two commercial banks, namely Kumari Bank Limited and Nabil Bank Limited, are selected.

3.3 Sources of Data

The study is based on secondary data as well as primary data. Secondary data has been collected by using the annual reports of the banks, annual trading reports of NEPSE, brochures and websites of concerned sampled banks and so on, while primary data has been collected by conducting questionnaire. For the primary data analysis, a questionnaire containing 10 questions has been prepared and distributed to 20 banking personnel, including 10 employees of KBL and 10 employees of NABIL.

3.4 Data Collection Procedure

The data are collected from secondary source as well as primary source. To collect secondary data, the researchers visited Campus Library of Saraswoti Multiple Campus, T.U. Central Library, Kirtipur, Library of Public Youth Campus, SEBON Library and Library of Nepal Rastra Bank, and official websites of the banks. For the collection of the primary data, the questionnaire approach was adopted. The questionnaire was carried out with different borrowers, depositors and employees of the sampled banks.

3.5 Period Covered

The necessary data and information have been collected from various sources covering a period of five years, i.e., 2005/2006 to 2009/10.

3.6 Tools for Analysis

Financial and statistical tools are the main tools to be used in the analysis of the data, which are explained separately.

3.6.1 Financial Tools

A) Market price per share

Market price per share of stock of each sample bank denotes the monthly and the yearly-ended value and has been brought here from NEPSE Annual Report and denoted by MPS. It is the output of interacting forces of demand and supply at given time in relation to price and volume.

$$\text{MPS} = \frac{\text{Total Market Capitalization}}{\text{No. of Common Shares Outstanding}}$$

B) Earning Per Share

It is extracted from individual banks' annual report and is the proportion of earning after taxes divided by the number of shares outstanding. It is the most important ingredient for determining MPPS. High value of EPS results in higher market price. In this study, it is denoted by EPS.

$$\text{EPS} = \frac{\text{Total Earning of Company}}{\text{No. of Common Shares Outstanding}}$$

C) Dividend per Share

Dividend per share is that portion of EPS which is distributed to the shareholders but is varied according to the company's policy. It is also another important factor affecting MPS. In short, it is denoted by DPS which is obtained by dividing the total dividend by the number of equity shares outstanding.

$$\text{DPS} = \frac{\text{Total Dividend Paid}}{\text{No. of Common Shares Outstanding}}$$

D) Dividend Payout Ratio

It is the portion of the earning used for the payment of dividend. The dividend payout ratio is the earnings paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. This ratio is calculated by dividing dividend per share by the earning per share. Thus,

$$\text{DPR} = \frac{\text{DPS}}{\text{EPS}}$$

E) Dividend Yield

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. It measures the dividend in relation to market value of share. This ratio is calculated by dividing dividend per share by market price of the stock.

$$\text{DY Ratio} = \frac{\text{DPS}}{\text{MPS}}$$

3.6.2 Statistical Tools

In this study, the following statistical tools have been extensively used;

A) Arithmetic Mean

Arithmetic mean is the number which is obtained by adding the various numbers of all the items of a series and dividing the total by the number of items. Arithmetic mean is a useful tool in statistical analysis.

The most popular and widely used measure of representing the entire data by one value is what most laymen call an average and what the statisticians call the arithmetic mean.

Formula,

$$\overline{X} = \frac{X}{N}$$

Where,

$\overline{X}$ = Arithmetic Mean

X = Sum of elements

N = Number of observation

B) Standard Deviation

The standard deviation measures the absolute dispersion, the greater the standard deviation the greater will be the magnitude of the deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite. Standard deviation is extremely useful in judging the representativeness of the mean.

Formula,

$$\pm = \sqrt{\frac{(X - \overline{X})^2}{N}}$$

Where,

$$\frac{(X - \bar{X})^2}{N} = \text{variance}$$

C) Coefficient of Variation

Coefficient of variation is the relative measure of dispersion. Coefficient of variation is the percentage variation in means standard deviation being considered as the total variation from the mean.

$$\text{Coefficient of variations (C.V)} = \frac{\pm}{\bar{X}} \times 100$$

D) Correlation Coefficient

It is a useful statistical tool for measuring the intensity of the magnitude of linear relationship between two variables. The most important method of measuring the correlation between the two variables is "Karl person's coefficient of correlation. "If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, then the correlation is said to be negative. The correlation coefficient always remains within the limit of +1 to -1. The correlation coefficients (r) between two variables X and Y can be obtained by using following formula." *(Gupta: 2002: 541)*

Formula,

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

Where,

r = The correlation coefficient between two variables of X and Y

Proprieties:

a) It lies between -1 and +1
b) If r = +1, then there is perfect positive correlation.
c) If r = -1, then there is perfect negative correlation.
d) If r = 0, then there is no correlation.
e) If r = 0.7 to 0.99 (or- 0.7 to -0.99) then there is high degree positive or negative correlation.

E) Probable Error

The probable error denoted by P.E. is used to measure the reliability and test of significance of correlation coefficient. Significance of relationship has been tested by using the probable error (P.E.) and it is denoted by the following model:

$$\text{Probable Error (P.E.)} = 0.6745\text{X}\frac{1-\text{r}^2}{\sqrt{\text{n}}}$$

Where, r = the value of correlation coefficient

n = number of pairs of observations

if r < P.E., it is insignificant, i.e. there is no evidence of correlation

if r > 6 P.E., it is significant

if P.E. < r < 6 P.E., nothing can be concluded

F) Regression Lines

The regression line is the line, which gives the best estimate of one variable for any given value of the other variable. In case of two variables X and Y, we will have two regression lines i.e. lines is called the regression equation and also estimating equations. Since there are two regression lines, there are two regression equations:

Regression equation of Y on X

The regression equation is expressed as:

$y = a + bx$

We shall get the normal equation for estimating "a" and "b" as.

$\sum X = Na + b \sum Y$

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

Where,

X = the value of independent variable

Y = the value of dependent variable

a = Y-intercept

b = slope of the trend line/coefficient of regression

N = number of pairs of observations.

$a = Y - b X$

G) T-Statistics

It was developed for the significant contribution in the theory of sampling applicable in case of small samples. When population variance is

not known, the test is commonly known as student's t-test, and is based on the t-distribution. As the sample size gets larger, the shape of the t-distribution loses its flatness and becomes approximately equal to the normal distribution.

For applying t-test in context of small samples, the t-value is calculated first of all and then compared with table value 't' at certain level of significance for given degree of freedom. If the calculated value of 't' exceeds the table value say ($t_{0.05}$) it infers that the difference is significant at 5% level but if 't' is less than the concerning table value of 't' the difference is not treated as significant.

Test statistic, under H_0, the test statistics is;

$$t = \sqrt{\frac{r}{1-r^2}} \, X \sqrt{n-2}$$

t_{n-2} i.e. follows, t-distribution with (n-2) d.f., n being the sample.

r = simple correlation coefficient

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This section of the study is concerned with achieving the objectives, which have been mentioned in the first chapter, by analyzing and interpreting the data that have been collected. In this chapter, the effort has been made to analyze impact of the dividend policy on the market price per share of both the banks.

4.1 Secondary Data Analysis

This section consists presentation and analysis of secondary data related with different variables using both financial and statistical tools explained in the third chapter.

4.1.1 Earning Per Share

Earnings per share are generally considered to be the single most important variable in determining a share's price. Earning per share shows the company's capability of generating profit per share. Higher EPS indicates better performance.

Table 4.1

Earning Per Share (EPS)

Year	KBL	NABIL
2005/06	16.59	129.21
2006/07	22.70	137.08
2007/08	16.35	108.31
2008/09	22.04	106.76

2009/10	24.24	78.61
Average	**20.38**	**111.99**
S.D.	**3.28**	**20.40**
C.V.%	**16.07**	**18.22**

(Source: Appendix - II)

From the observation of the table 1.1, the EPS of KBL has oscillated during the observed periods. The EPS of the bank has ranged from Rs. 16.35 in the fiscal year 2007/08 to Rs. 24.24 in the fiscal year 2009/10. The average EPS is Rs. 20.38, standard deviation is 3.28, and the coefficient of variation is 16.07%. This coefficient of variation clarifies that there is 16.07% fluctuation in EPS, which means there is acceptable consistency in EPS.

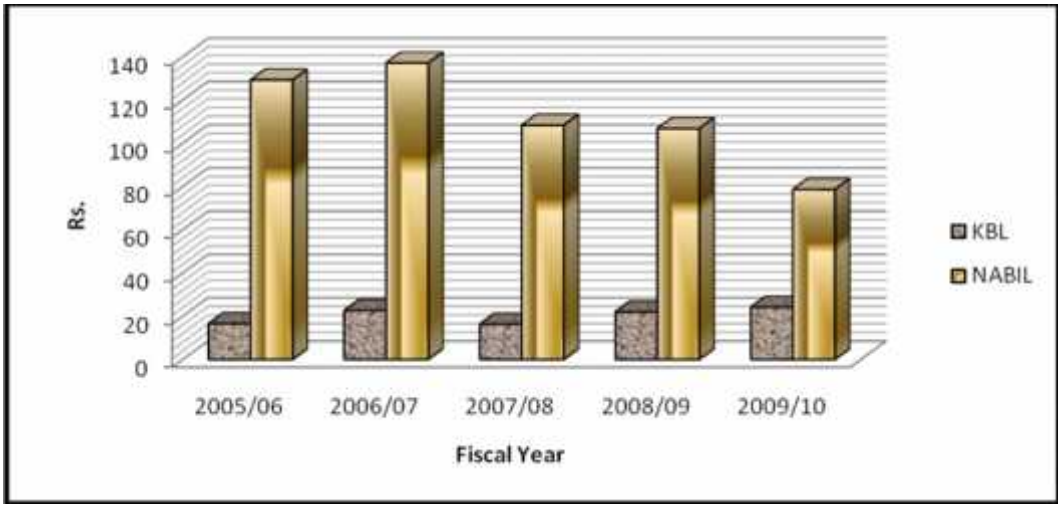
In contrast to EPS in KBL, the EPS in NABIL has increased for the first two observed periods, i.e. from Rs. 129.21 in the fiscal year 2005/06 to Rs. 137.08 in the fiscal year 2006/07, and then has decreased in the last three fiscal years, i.e. from Rs. 108.31 in the fiscal year 2007/08 to Rs. 78.61 in the fiscal year 2009/10. The bank achieved lower EPS in the recent periods. Likewise, the average EPS of NABIL in these five fiscal years is Rs. 111.19 and the standard deviation & Coefficient of Variation are 20.40 and 18.22% respectively.

In average, the EPS of NABIL is magnificent than that of KBL: almost more than five times of the EPS of KBL. Precisely, the average EPS of NABIL is Rs. 20.38 and that of KBL is Rs. 111.99. So, it can be considered

that NABIL remained more successful than KBL in generating higher EPS. However, the EPS of KBL is more consistent than that of NABIL.

Figure 4.1

Earnings Per Share



4.1.2 Dividend per Share (Total Including Stock Dividend)

Dividend per share (DPS) is a simple and intuitive number. It is the amount of the dividend that shareholders have (or will) receive for each share they own. Higher the amount of DPS retains the shareholder for long term. The dividend, including both cash and bonus share, distributed has been presented in the table 4.2.

Table 4.2

Dividend Per Share (Total)

Year	KBL	NABIL
2005/06	21.05	85.00
2006/07	21.05	140.00
2007/08	10.53	100.00

2008/09	10.58	85.00
2009/10	12.00	70.00
Average	**16.17**	**96.00**
S.D.	**4.91**	**23.96**
C.V.%	**30.34**	**24.96**

(Source: Appendix - II)

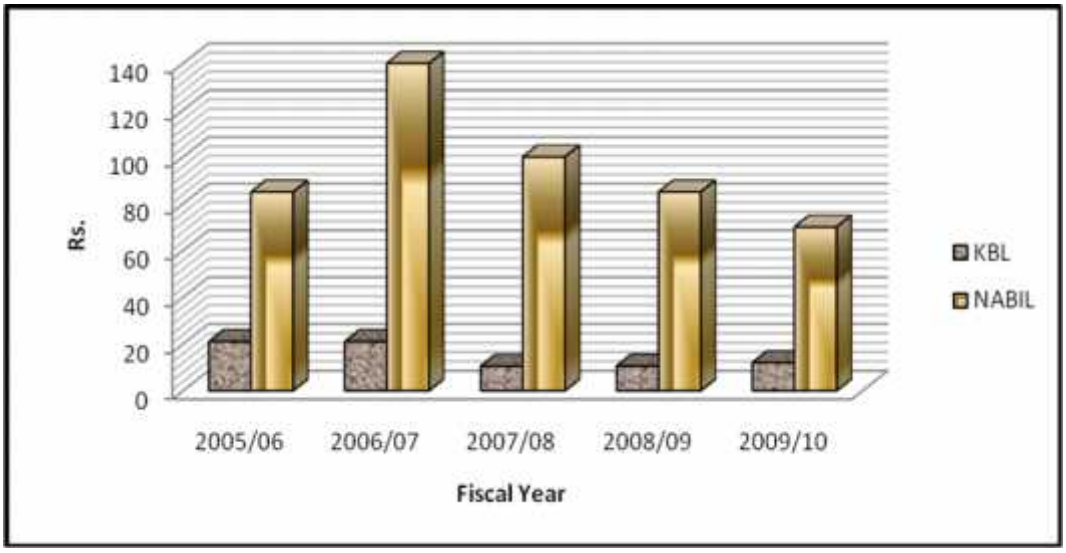
The table reveals that KBL lacks strong dividend policy to entice the investors toward the bank. The DPS of the bank has swung over the periods. For the first two years, the bank distributed Rs. 21.05 as DPS, then for the fiscal year 2007/08, the bank distributed lower amount of DPS, i.e. Rs. 10.53, and then the bank slightly increased its DPS to Rs. 10.58 in the fiscal year 2008/09, and finally the bank distributed Rs. 12.00 as DPS. In average, KBL has paid Rs. 16.17 as dividend per share, including both cash dividend and bonus share dividend. The standard deviation and the coefficient of variation of the bank are 4.91 and 30.34% respectively.

To affectionate the investors, it seems that NABIL has distributed high amount of DPS in the first two fiscal year periods, and then the bank has probably retained its earning and started to pay low dividend in each fiscal year, due to the decrement in earnings per share. The DPS of NABIL is highest, Rs. 140, in the fiscal year 2006/07 and is lowest, Rs. 70, in the fiscal year 2009/10. In average, the bank has paid Rs. 96 DPS. However, the variation in such dividend payment is 24.96%.

Eventually, the average dividend per share paid by NABIL is comparatively higher than the average dividend per share of KBL. So, NABIL is comparatively more successful to create the positive attitudes on shareholders towards the bank. It consequently helps to increase the market value of shares and also helps to demonstrate the better performance of the bank's management.

Figure 4.2

Dividend Per Share (Total)



4.1.3 Market Price Per Share

A company's market value per share is defined as the company's assessed market value divided by the total number of shares held by stock owners in the company.

Table 4.3

Market Price Per Share

Year	KBL	NABIL
2005/06	443	2240
2006/07	830	5050
2007/08	1005	5275
2008/09	700	4899
2009/10	468	2384
Average	**689**	**3970**
S.D.	**214.11**	**1359.47**
C.V.	**31.07**	**34.25**

(Source: Appendix - II)

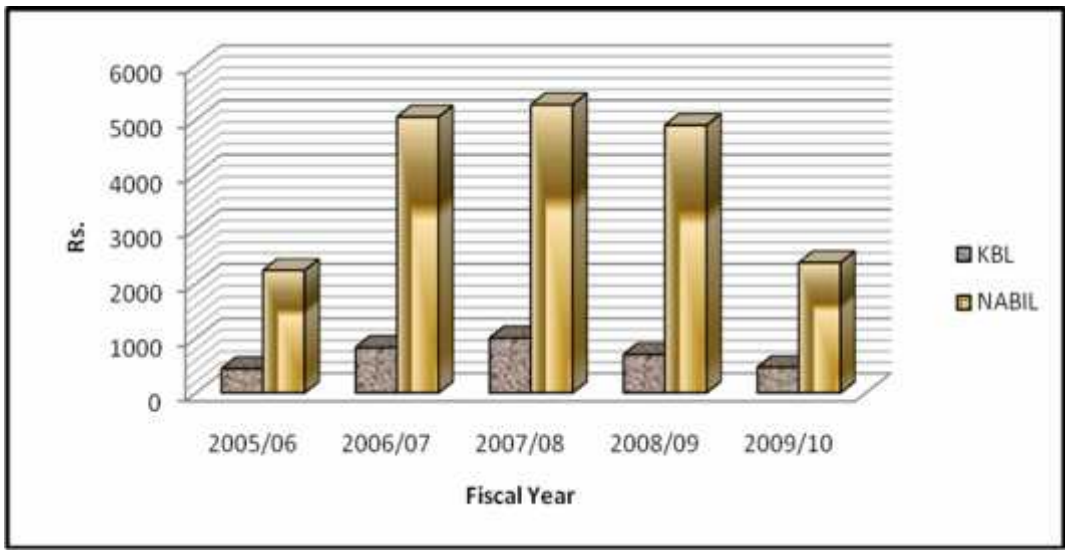
The table emblazons that the market price per share of KBL has increased up to the fiscal year 2007/08, i.e. from Rs. 443 in the fiscal year 2005/06 to Rs. 1005 in the fiscal year 2007/08. However from the fiscal year 2008/09, the MPS of the bank has followed decreasing trend and finally reached to Rs. 468 in the fiscal year 2009/10. In average, the market price per share of KBL has remained to be Rs. 689, and the variation on the MPS is 31.07%.

Likewise, the MPS of NABIL has also increased for the first three fiscal years and then decreased in the last two fiscal years. The MPS of NABIL is highest, Rs. 5275, in the fiscal year 2007/08 and is lowest, Rs. 2240, in the fiscal year 2005/06. In average, the MPS of the bank is Rs. 3970, and the fluctuation in the market price is 34.25%.

The MPS of both the banks have decreased from the fiscal year 2008/09. It can be inferred that the macroeconomic indicators might be onus for such decrement in MPS of both the banks. Despite such decrement, it can be concluded that the crave to be the part of NABIL in the form of shareholder is much higher than that of KBL.

Figure 4.3

Market Price Per Share



4.1.4 Dividend Payout Ratio

Dividend payout ratio is the fraction of net income a firm pays to its stockholders in dividends. Investors seeking high current income and limited capital growth prefer companies with high Dividend payout ratio. However investors seeking capital growth may prefer lower payout ratio because capital gains are taxed at a lower rate. High growth firms in early life generally have low or zero payout ratios. As they mature, they tend to return more of the earnings back to investors.

Table 4.4

DPR Analysis

Fiscal Year	KBL			NABIL		
	DPS	EPS	DPR	DPS	EPS	DPR

2005/06	21.05	16.59	126.88	85.00	129.21	65.78
2006/07	21.05	22.70	92.73	140.00	137.08	102.13
2007/08	10.53	16.35	64.40	100.00	108.31	92.33
2008/09	10.58	22.04	48.00	85.00	106.76	79.62
2009/10	12.00	24.24	49.50	70.00	78.61	89.05
Average			**76.31**			**85.78**
S.D.			**29.96**			**12.32**
C.V.%			**39.27**			**14.36**

(Source : Annual Reports of KBL and NABIL)

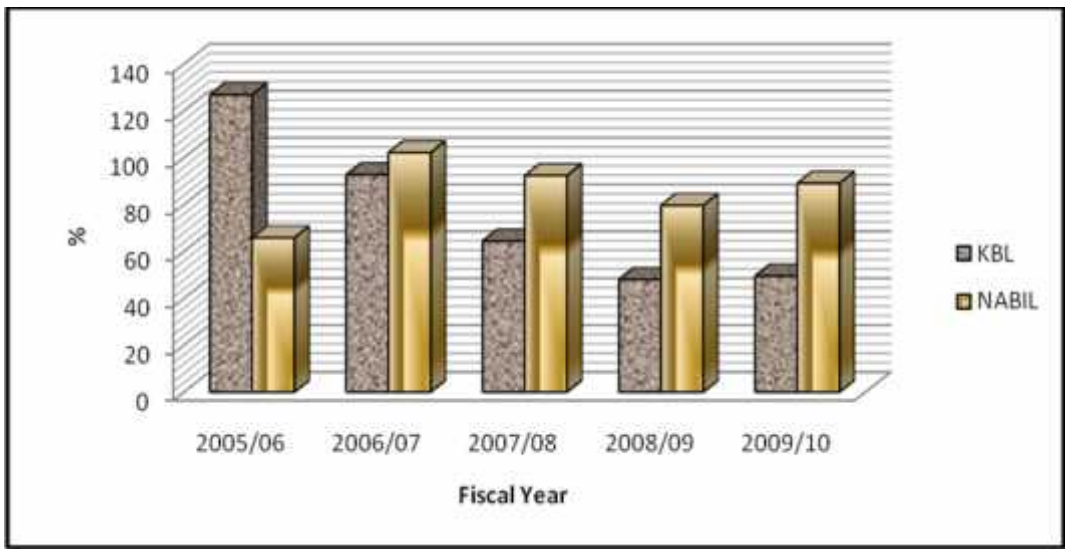
The above table showed that dividend payout ratio of KBL has followed decreasing trend for the first four observed periods and slightly increased in the final year. In first three years, the bank distributed more than half of its earning as a dividend and the dividend distribution in the last two years is proximity to the half of the earnings.The DPR of KBL has ranged from Rs. 126.88% in the fiscal year 2005/06 to Rs. 48.00 in the fiscal year 2008/09. The bank maintained an average DPR of 76.31% in the five fiscal years. The standard deviation of DPR is 29.96% and coefficient of variation is 39.27%. Considering the average DPR and the coefficient of variation, it can be concluded that the bank has adopted a policy of attracting and retaining investors by distributing more dividend.

Alike in KBL, the DPR of NABIL fluctuated during the observed periods, and thus has ranged from 65.78% in the fiscal year 2005/06 to 102.13% in the fiscal year 2006/07. In the fiscal year 2009/10, the DPR of NABIL is 89.05%. NABIL maintained an average DPR of 85.78% during the five year periods, which clearly indicated that NABIL gave more effort in retaining its existing shareholder and attracting potential shareholder toward it, because it retained only 14.22% in average for internal financing. The standard deviation and C.V. are also 12.32% and 14.36% respectively.

Thus, it can be concluded that NABIL has more consistent DPR (C.V. 14.36%) than that of KBL (C.V. 39.27%). In addition, NABIL's DPR is higher than that of KBL. Looking the average DPR of NABIL, it can be said that NABIL became more successful to satisfy its shareholder than KBL.

Figure 4.4

Dividend Payout Ratio



4.1.5 Dividend Yield Ratio

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market

price per share. The dividend yield ratio of KBL and NABIL during the five year period is presented in the following table 4.5.

Table 4.5

DY Analysis

Fiscal Year	KBL			NABIL		
	DPS	MPS	DY	DPS	MPS	DY
2005/06	21.05	443	4.75	85.00	2240	3.79
2006/07	21.05	830	2.54	140.00	5050	2.77
2007/08	10.53	1005	1.05	100.00	5275	1.90
2008/09	10.58	700	1.51	85.00	4899	1.74
2009/10	12.00	468	2.56	70.00	2384	2.94
Average			**2.48**			**2.63**
S.D.			**1.28**			**0.75**
C.V.%			**51.47**			**28.54**

(Source: Annual Reports of KBL and NABIL)

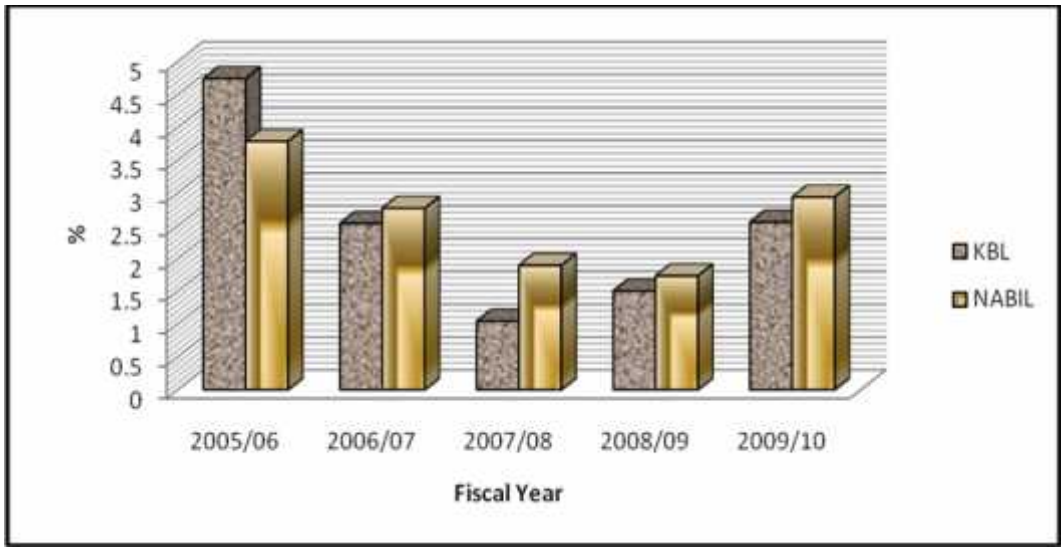
The above table reveals the dividend yield ratio of the concerned banks from the fiscal year 2005/06 to 2009/10. The dividend yield ratio of KBL ranged from 1.05% in the fiscal year 2007/08 to 4.75% in the fiscal year 2005/06. The average dividend yield of KBL during the five year period is only 2.48% and the standard deviation & C.V. are 1.28% and 51.47% respectively. The average dividend yield of KBL indicated that the shareholders are paid dividend of only 2.48% dividend of the market price they invested per share.

Likewise, the dividend yield of NABIL ranged from 1.74% in the fiscal year 2008/09 to 3.79% in the fiscal year 2005/06. The dividend yield of NABIL followed a decreasing trend for the first four fiscal years. NABIL maintained an average dividend yield of 2.63%, standard deviation of 0.75% and C.V. of 28.54%. The average dividend yield indicates that NABIL paid 2.63% of the market price as an average dividend.

Comparing the average dividend of NABIL and KBL, it can be considered that the shareholders of NABIL got more percentage of the market price they paid for a share as dividend in return.

Figure 4.5

Dividend Yield



4.1.6 Simple Correlation and Regression Analysis

To find the relationship of dividend with other determinants of share price the Karl Pearson's correlation coefficient and simple regression lines have been analyzed.

4.1.6.1 Dividend per Share (DPS) and Earning Per Share (EPS)

4.1.6.1.1 Correlation between DPS and EPS

The correlation coefficient between DPS and EPS as calculated in Appendix III is summarized below.

Table 4.6

Correlation Coefficient between DPS and EPS

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
KBL	-0.1213	-ve	0.0147	0.2972	1.7833	Insignificant
NABIL	0.7468	+ve	0.5578	0.1334	0.8004	Insignificant

(Source: Appendix III)

The table 4.6 helps to depict the relationship between Earning Per Share (EPS) and Dividend Per Share (DPS) of KBL and NABIL. The correlation coefficient (r) between EPS and DPS of KBL is -0.1213, which indicates the negative relationship between EPS and DPS. It means that the DPS decreases with the increase in of EPS of KBL. However, the relationship between EPS and DPS of NABIL is positive, 0.7468, and the degree of correlation coefficient is medium. Coefficient of determination is the measure of the degree of linear association or correlation between two variables. The value of r^2 of KBL is 0.0147, which indicates that 1.47% of variation is explained in the dependent variable DPS due to the change in the value of independent variable EPS.

Similarly, in case of NABIL, the coefficient of determination between EPS and DPS is 0.5578, which indicates that the variations in the DPS explain 55.78% due to change in the value of EPS. However, the probable error indicates that the relationship between EPS and DPS of KBL is insignificant ($r < 6 \times P.E.$) and the relationship between EPS and DPS of NABIL is also insignificant ($r < 6 \times P.E.$).

4.1.6.1.2 Regression Analysis: Dividend per Share (DPS) on Earning Per Share (EPS)

The simple regression equation of DPS on EPS calculated in the Appendix III is:

$$Y = a + b X$$

$$DPS_{KBL} = 18.76 - 0.18 \times EPS_{KBL}$$

$$DPS_{NABIL} = -2.22 + 0.88 \times EPS_{NABIL}$$

Table 4.7

Regression Analysis of DPS on EPS

Banks	No. of observation (n)	Constant (a)	Regression coefficient (b)	T value
KBL	5	18.76	-0.18	-0.2116
NABIL	5	-2.22	0.88	1.9452

(Source: Appendix III)

The table 4.7 depicts the output of simple regression analysis of DPS on EPS of the two banks viz. KBL and NABIL. In case of KBL, beta coefficient is -0.18, which indicates that a one rupee increase in EPS leads to an average Rs. 0.18 decrease in dependent variable DPS, holding other variables constant. The constant (a) is 18.76. Also, the calculated absolute value of |t| (0.2116) is lower than the tabulated value of t (2.78) at 5% level of significance and 4 degree of freedom, which indicates that the result is statistically insignificant.

In the case of NABIL, the beta coefficient is 0.88, which indicates a one-rupee increase in EPS leads to an average Rs. 0.88 increase in DPS, if the constant (a), -2.22, remains constant. Since calculated absolute value of |t| (1.9452) of NABIL is lower than the tabulated value of t (2.78) at 5% level of significance, the result is statistically insignificant.

4.1.6.2 Market Price per Share (MPS) and Dividend per Share (DPS)

4.1.6.2.1 Correlation between MPS and DPS

The correlation between MPS and DPS and the probable error calculated in *Appendix III* is summarized in the below table 4.8.

Table 4.8

Correlation Coefficient between MPS and DPS

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
KBL	-0.2714	-ve	0.0737	0.2794	1.6766	Insignificant
NABIL	0.6312	+ve	0.3984	0.1815	1.0889	Insignificant

(Source: Appendix III)

The table 4.8 reveals the relationship between dividend per share (DPS) and market price of stock (MPS). Coefficient of correlation between MPS and DPS of KBL and NABIL is -0.2714 and 0.6312 respectively. The coefficient of correlation between DPS and MPS of KBL indicates inverse relationship and that of NABIL indicates the moderate positive relationship between these two variables. Further, there is insignificant relationship between MPS and DPS of KBL since the 'r' (-0.2714) is lower than the 6 P.E. (1.6766). Similarly, in case of NABIL, since the value of 'r' (0.6312) is lower than 6 P.E. (1.0889), there is no significant relationship between MPS and DPS, which means MPS does not necessarily has to increase with the increase in DPS in NABIL.

4.1.6.2.2 Regression Analysis: Market Price per Share (MPS) on Dividend Per Share (DPS)

Let the dependent variable MPS is denoted by Y and independent variable DPS is denoted by X, then the regression equation of MPS on DPS is given by:

$$Y = a + b X$$

$$MPS_{KBL} = 866.35 - 11.78 \times DPS_{KBL}$$

$$MPS_{NABIL} = 531.43 + 35.81 \times DPS_{NABIL}$$

Table 4.9

Regression Analysis of MPS on DPS

Banks	No. of observation (n)	Constant (a)	Regression coefficient (b)	T-value
KBL	5	866.35	-11.78	-0.4884
NABIL	5	531.43	35.81	1.4094

(Source: Appendix III)

The table 4.9 depicts the major output of simple regression analysis of average market price per share (MPS) on dividend per share (DPS) of the concerned banks. As far as the regression of MPS and DPS is concerned, the regression coefficient of KBL is negative, -11.78, and that of NABIL is positive, 35.81. It indicates that a one-rupee increase in DPS causes Rs. 11.78 decrease in MPS of KBL and Rs. 35.81 increase in MPS of NABIL, if the other variable remains constant. The test of t-statistics aid to conclude that in KBL the relationship between MPS and DPS is insignificant, since the calculated absolute value of |t| (0.4884) is lower than tabulated value of t (2.78) and in NABIL as well the relationship is statistically insignificant, since the calculated absolute value of |t| (1.4094) is lower than the tabulated t-value (2.78) at 5% level of significance on 4 degree of freedom. Hence, MPS of both the banks is not significantly affected by the dividend per share of the corresponding banks.

4.1.6.3 Market Price Per Share (MPS) and Dividend Payout Ratio (DPR)

4.1.6.3.1 Correlation between MPS and DPR

Let r be the correlation coefficient between MPS and DPR and P.E. be the probable error.

Table 4.10

Correlation between MPS and DPR

Banks	r	Relationship	r^2	P.E.	6 P.E.	Remarks
KBL	0.5959	+ve	0.3550	0.1945	1.1673	Insignificant
NABIL	-0.2580	-ve	0.0665	0.2816	1.6894	Insignificant

(Source: Appendix III)

As shown in table 4.10, the correlation coefficient between dividend payout ratio (DPR) and market price per share of KBL and NABIL is 0.5959 and -0.2580 respectively. Coefficient of determination (r^2) of KBL is 0.3550, which shows DPR of KBL explains 35.50% of variations in the MPS. Likewise, according to the same table, coefficient of determination (r^2) of NABIL is 0.0665, which explains that the variation in the DPR explains 6.65% of variations in MPS.

Since, 'r' of KBL (0.5959) is lower than 6 P.E. (1.1673), the relationship between DPR and MPS is insignificant, which means that the increase in DPR does not necessarily mean the increase in MPS. Similarly, 'r' of NABIL (-0.2580) is lower than 6 P.E (1.6894), which indicates that there is insignificant relationship between DPR and MPS.

4.1.6.3.2 Regression Analysis: Market Price Per Share (MPS) on Dividend Payout Ratio (DPR)

Let MPS be denoted by Y and DPR be denoted by X, then the regression line of Y on X is given by:

$$Y = a + b X$$

$$MPS_{KBL} = -1670.75 + 65.75 \times DPR_{KBL}$$

$$MPS_{NABIL} = 829.85 - 1.84 \times DPR_{NABIL}$$

Table 4.11

Regression Analysis of MPS on DPR

Banks	No. of observation (n)	Constant (a)	Regression coefficient (b)	T-value
KBL	5	-1670.75	65.75	1.2851
NABIL	5	829.85	-1.84	-0.4625

(Source: Appendix III)

The table 4.11 depicts the linear relationship between stock price (MPS) and dividend payout ratio (DPR) of concerned banks. In case of KBL, beta coefficient is 65.75, which indicates that a one percent increase in dividend payout ratio (DPR) leads to an average Rs. 65.75 increase in market price per share (MPS), all other things being same. However, the calculated absolute value of |t| (1.2851) is lower than the tabulated 't' value (2.78) at 5% level of significance and 4 d.f., which means that there is insignificant relationship between DPR and MPS of KBL.

Similarly, in case of NABIL, beta coefficient is -1.84, which indicates that a one percent increase in DPR leads to an average Rs. 1.84 decrease in average stock price, other variables remaining constant. In addition, the calculated $t_{0.05}$ (0.4625), which is lower than the tabulated $t_{0.05}$ (2.78), shows that the relationship between DPR and MPS of NABIL is insignificant. Thus, it can be stated that the market price per share of both the banks is not totally dependent on the dividend policy of the banks.

4.1.7 Multiple Correlation and Regression Analysis

4.1.7.1 Multiple Correlations between MPS, EPS and DPS.

Let correlation between MPS and DPS be denoted by r_{12}, DPS and EPS be denoted by r_{23} and MPS and EPS be denoted by r_{13}. Then the multiple correlation coefficient of MPS on DPS and EPS is given by; *(Appendix IV)*

$$R_{1.23} = \sqrt{\frac{r^2_{12} + r^2_{13} - 2\, r_{12}\, r_{23}\, r_{13}}{1-r^2_{23}}}$$

$R_{MPS.DPS\ EPS}$ (KBL) = 0.3878

$R_{MPS.DPS\ EPS}$ (NABIL) = 0.6860

Table 4.12

Multiple Correlations between MPS, EPS and DPS

Banks	R	Relationship	R^2	P.E.	6 P.E.	Remarks
KBL	0.3878	+ve	0.1504	0.2563	1.5376	Insignificant
NABIL	0.6860	+ ve	0.4706	0.1597	0.9582	Insignificant

(Source: Appendix IV)

The above table shows the multiple correlations between market price per share (MPS) and dividend per share (DPS) and earnings per share (EPS) of two concerned banks during the year covered for study. The multiple correlation coefficients (R) between MPS, DPS and EPS of KBL and NABIL are 0.3878 and 0.6860 respectively, which show the low degree of positive relationship in KBL and moderate degree of positive correlation in NABIL between these variables of both the banks**.**

The coefficient of multiple determinations (R^2) of KBL is 0.1504, which is lower than that of NABIL (0.4706). It shows that, in case of KBL, 15.04% of variation in dependent variable (MPS) is explained by the variation in independent variables (EPS and DPS). Similarly, 47.06%

variation in dependent variable (MPS) of NABIL is explained by the variation in independent variables (DPS and EPS).

To measure the significance of the relationship between MPS, EPS and DPS of the two concerned banks, it would be more preferable to calculate the probable error of correlation coefficient. The same table depicts that R of KBL and NABIL is lower than 6 P.E of the corresponding bank. So, it can be concluded that the relationship between MPS, EPS and DPS is insignificant in both the banks. It indicates that market price per share does not solely depends upon the dividend distribution policy and earnings of the banks, indicating that the other factors have greater preponderance to influence the MPS.

4.1.7.2 Multiple Regression Equation: MPS on DPS and EPS

Let MPS, DPS and EPS be denoted by X_1, X_2 and X_3 respectively. Then the multiple regression equation of MPS on DPS and EPS is given by;

$X_1 = a + b_1 X_2 + b_2 X_3$

$MPS_{KBL} = 1260.30 - 13.25\ DPS_{KBL} - 18.24\ EPS_{KBL}$

$MPS_{NABIL} = 1903.14 + 52.94\ DPS_{KBL} - 26.93\ EPS_{KBL}$

Table 4.13

Multiple Regression Line of MPS on DPS and EPS

Banks	No. of year	Constant (a)	Regression Coefficient (b)	
			b_1	b_2
KBL	5	1260.30	-13.25	-18.24
NABIL	5	1903.14	52.94	-26.93

(Source: Appendix V)

The above table represents the linear relationship between MPS, with DPS and EPS of two concerned banks. The constant (a) is positive in KBL (1260.30) and in NABIL (1903.14). In case of KBL, the beta coefficient of DPS and EPS are -13.25 and -18.24 respectively. It indicates that a one-rupee increase in DPS leads to Rs. 13.25 decrease in MPS and one rupee increase in EPS leads to an average about Rs. 18.24 decrease in MPS. Thus, the EPS and DPS jointly has negative impact on MPS of the KBL, indicating that the MPS of KBL is affected mostly by macroeconomic indicators rather than by the internal financial indicators.

On the other hand, in case of NABIL, the regression coefficients of DPS and EPS are 52.94 and -26.93 respectively, which indicates that a one rupee increase in DPS causes Rs. 52.94 increase in MPS and one rupee increase in EPS leads to an average about Rs. 26.93 decrease in MPS. Hence, it can be concluded that DPS has direct influence on MPS and EPS has indirect relationship with MPS of NABIL, if observed in combined form.

4.2 Primary Data Analysis

The primary data analysis has been done by distributing questionnaire containing 10 questions to 10 employees of each sampled banks. Hence in total, 20 employees were approached for questionnaire purpose. The primary data has been collected from the head office of each bank.

4.2.1 Reasons for Paying Dividend

To examine for what reasons the commercial banks are interested to pay the dividend each year, the respondents were asked on this matter. The responses obtained from them are presented in the below table.

Table 4.14

Reasons for Paying Dividend

Reasons	NABIL		KBL		Total	
	No.	%	No.	%	No.	%
Retain Existing Investors	3	30	2	20	5	25
Attract Potential Investors	3	30	4	40	7	35
Capture the Market	4	40	4	40	8	40
Total	**10**	**100**	**10**	**100**	**20**	**100**

(Source: Field Survey, 2010)

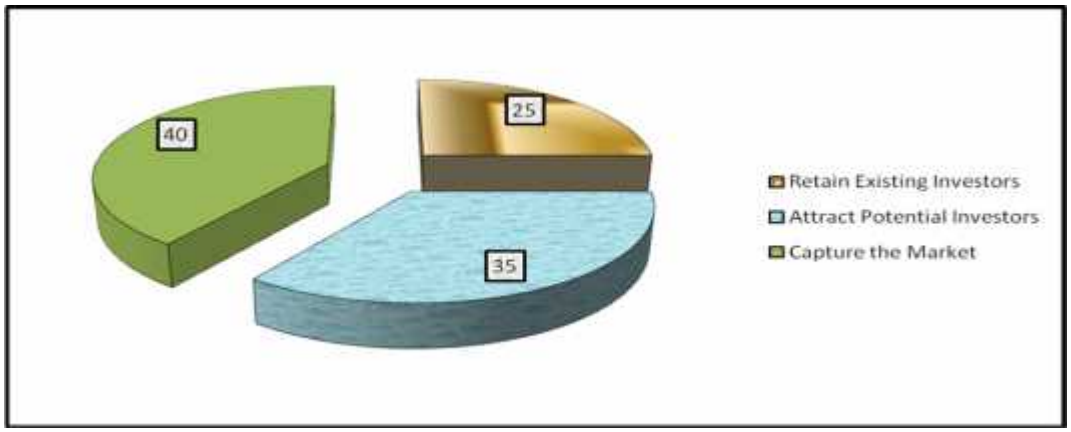
The table showed that the majority of both the groups, 40% of the NABIL's staff (4 out of 10) and 40% of the KBL's staff (4 out of 10), are in the view that the main reasons behind distributing dividend is to capture the market of the banking industry. Similarly, 30% of the NABIL's employee and 40% of the KBL's employee are in the view that to attract the potential customers is the main reason behind distributing dividend. Finally, 30% of the NABIL's employee and 20% of the KBL's employee stated that to retain existing investors is the main reason behind disbursing dividend.

Overall, 5 out of 20 (25%), 7 out of 20 (35%) and 8 out of 20 (40%) of the respondents opined that to retain existing investors, to attract potential investors and to capture the market are the main reasons behind disbursing dividend. Hence, looking the majority of the overall respondents and the majority of each individual bank's employee, it can be concluded

that to capture the market of banking industry is the main reason behind disbursing industry.

Figure 4.6

Reasons for Paying Dividend



4.2.2 Effect of Dividend distribution on Market Price per Share

To analyze whether the dividend distribution pattern affects the market price per share of the concerned banks, the respondents were asked on this matter. The responses obtained from them are presented in the table below.

Table 4.15

Effect of Dividend distribution on Market Price per Share

Effect	**NABIL**		**KBL**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
High	6	60	5	50	11	55
Medium	3	30	3	30	6	30
Low	1	10	2	20	3	15
Total	**10**	**100**	**10**	**100**	**20**	**100**

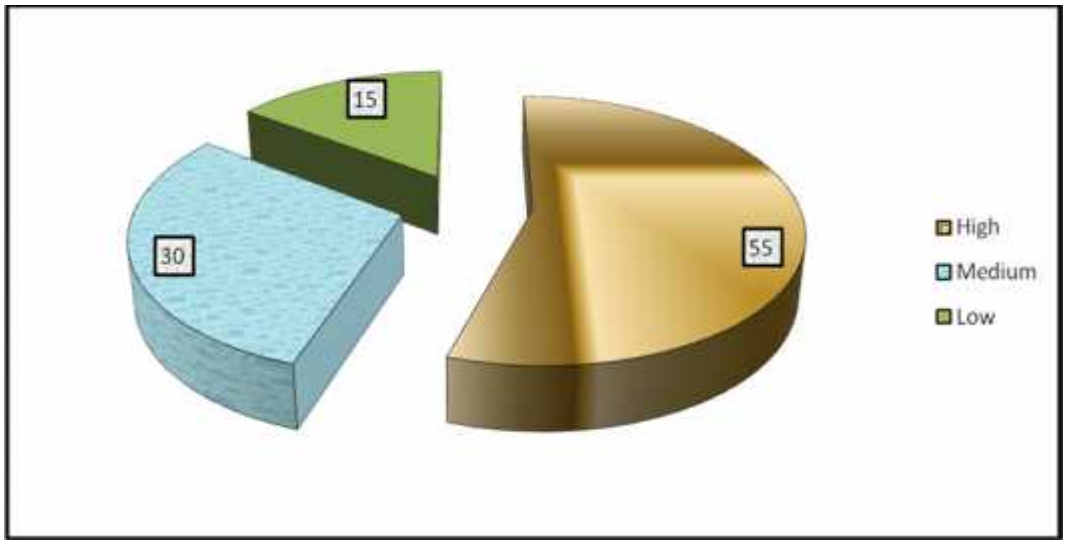
(Source: Field Survey, 2010)

The above table reveals that the majority of the respondents (55%), 11 out of 20, opined that dividend has high effect on changing the value of

MPS. Similarly, 30% of the respondents, (6 out of 20), and 15% of the respondents (3 out of 20) stated that dividend has medium effect and low effect on market price respectively. Also, looking the responses of each bank's employee, 60% of NABIL's employee (6 out of 10) and 50% of KBL's employee (5 out of 10) stated that dividend has high effect on changing the market price per share. Hence on the majority, it can be concluded that dividend distribution pattern has high impact on the variability of market price.

Figure 4.7

Impact of Paying Dividend



4.2.3 Factors for Dividend Practice

To know the factors that should be considered to adopt the dividend practice, the respondents were given options and asked to choose from them. The responses obtained from them are presented in the following table 4.16.

Table 4.16

Factors for Dividend Practice

Factors	NABIL		KBL		Total	
	No.	%	No.	%	No.	%
Legal consideration	6	60	6	60	12	60
Liquidity position	3	30	2	20	5	25
Borrowing capacity of the firm	1	10	1	10	2	10
All of above	0	0	1	10	1	5
Total	**10**	**100**	**10**	**100**	**20**	**100**

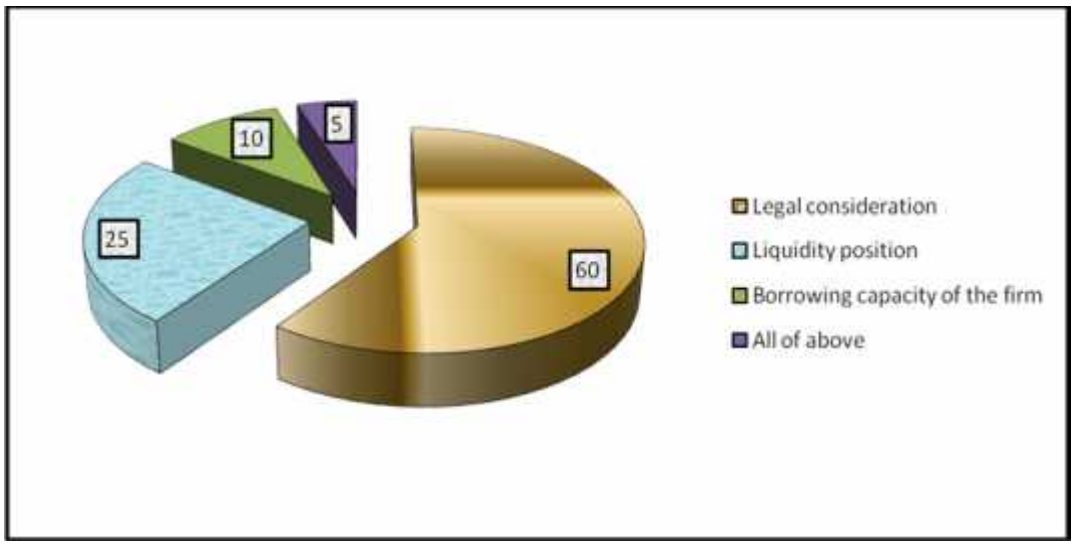
(Source: Field Survey, 2010)

The above table reflects that 60% of both banks consider the legal considerations to be adopted while declaring dividend. Likewise 30% of NABIL and 20% of KBL replied liquidity position should be adopted for that. Similarly 10% respondents of both banks consider borrowing capacity of the firm before declaring dividend. None of the respondents of NABIL and 10% respondents of KBL replied in favor of all above mentioned factors.

Also in overall, the majority (60%) of the respondents, 12 out of 20, opined that legal consideration has to be adopted while declaring dividend. Similarly, 25% of the respondents, 10 % of the respondents, and 5% of the respondents stated that liquidity position, borrowing capacity and all, i.e. the aforementioned cases, should be considered respectively while making the dividend distribution.

Figure 4.8

Factors for Dividend Practice



4.2.4 Major Motive of Cash Dividend

To know the actual reason for providing cash dividend to the shareholders, the respondents were asked to choose the best answer that suits their motive for distributing cash dividend. The responses achieved are summarized in the following table 4.17.

Table 4.17

Major Motive of Cash Dividend

Motive	NABIL		KBL		Total	
	No.	%	No.	%	No.	%
To convey information that the company is doing well.	1	10	2	20	3	15
To draw attention from the investment community.	2	20	2	20	4	20
To increase the market value of the firm's stock	2	20	2	20	4	20
To fulfill shareholder's expectation.	5	50	4	40	9	45
Total	10	100	10	100	**20**	**100**

(Source: Field Survey, 2010)

The above table shows that 45% of the respondents stated that the major motive of paying cash dividend is to fulfill the shareholder's expectation. Similarly, 20% respondents said that increase the market value of stock and draw attention from investment community are the major motives to pay cash dividend. And 15% of the respondents said that to convey information to the shareholders that the bank is doing well is the major motive for paying cash dividend.

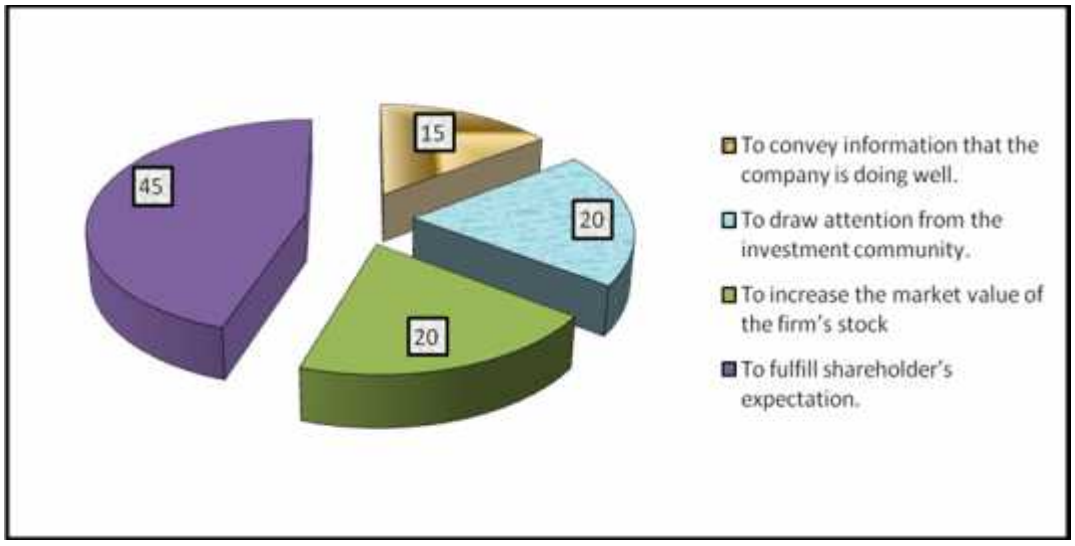
Likewise, 20% of KBL and NABIL responded that the company pays cash dividend to convey information to share holders that the company is doing well. 20% of both banks said in order to draw attention from investment community cash dividend is paid. Similarly, 20% of respondents

of both the banks also replied that cash dividend is paid to increase the market value of the firm's stock. And remaining 40% and 50% of respondents of KBL and NABIL respectively said that cash dividend is paid to fulfill share holder's expectations. But, none gave any reasons other than mentioned above behind paying cash dividend.

Hence gazing the overall majority and the majority of each individual bank, it can be concluded that the major motive of paying cash dividend is to fulfill the shareholder's expectation.

Figure 4.9

Major Motive of Cash Dividend



4.2.5 Dividend Practice Followed

The respondents were asked to state the types of dividend practices that are followed by the banks in Nepal. The responses obtained from them are presented in table 4.187.

Table 4.18

Dividend Practice Followed

Practice	NABIL		KBL		Total	
	No.	%	No.	%	No.	%
Payment of dividend after financing in all investment opportunities	5	50	6	60	11	55
Paying regular dividend	5	50	2	20	7	35
Both of above	0	0	2	20	2	10
None of above	0	0	0	0	0	0
Total	**10**	**100**	**10**	**100**	**20**	**100**

(Source: Field Survey, 2010)

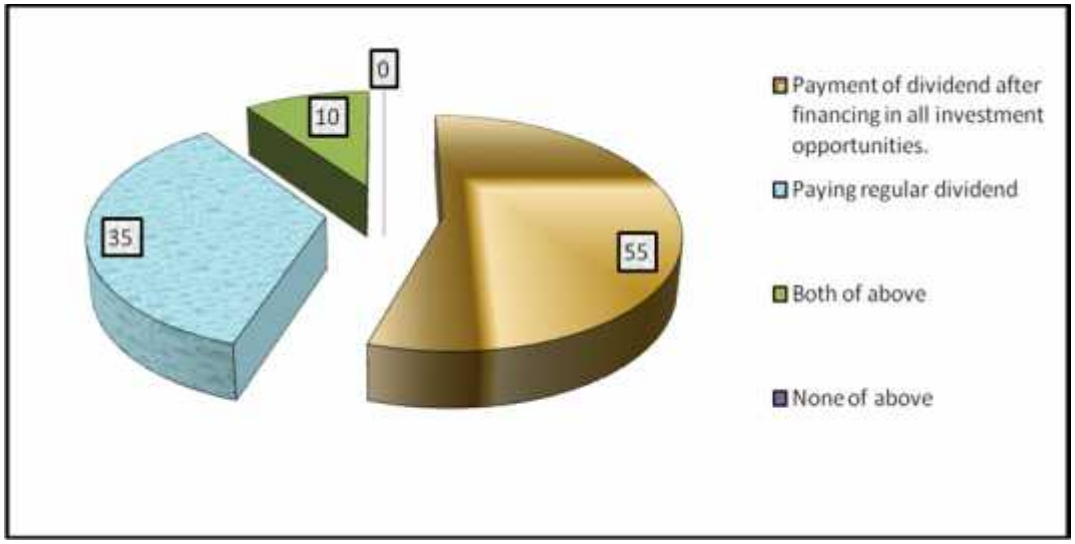
The above table clearly depicts that the majority of the respondents (55%) strongly opined that the bank should pay dividend after financing all investment opportunities. While, 35% of the respondents said that the bank should pay regular dividend and 10% of the respondents said that the bank should follow both the aforementioned practice.

Likewise, 50% and 60% of respondents of KBL and NABIL respectively said dividend is a residual decision. But, 50% of KBL and 20% of NABIL replied the banks followed regular dividend practice None of NABIL and 20% of KBL respondents consider that both followed both above mentioned practice.

Hence, considering the overall majority and majority of the respondents of each individual bank, it can be concluded that the bank should follow the practice of declaring dividend after financing all the investment opportunities.

Figure 4.10

Dividend Practice Followed



4.2.6 Indifferent by Nepalese Shareholder on Dividend

To know the interest of Nepalese shareholder on dividend that are paid by the banks of Nepal, the respondents were asked about the degree of indifferent shown by shareholders. The responses obtained from them are presented in the table 4.19.

Table 4.19

Indifferent by Nepalese Shareholder on Dividend

Indifference	**NABIL**		**KBL**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
Yes	2	20	2	20	4	20
No	5	50	6	60	11	55
Don't Know	3	30	2	20	5	25
Total	**10**	**100**	**10**	**100**	**20**	**100**

(Source: Field Survey, 2010)

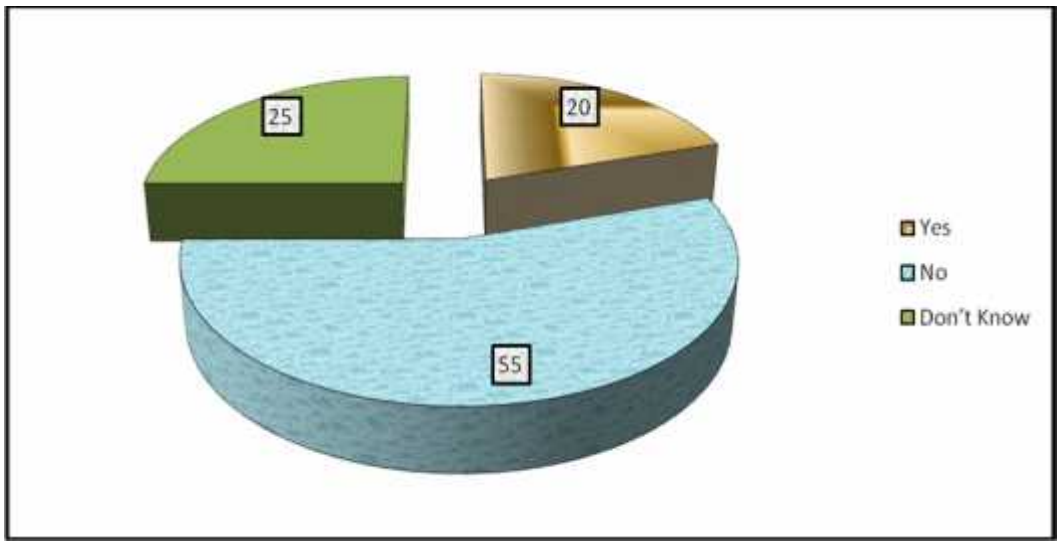
The above table reflects that 20% of both the banks responded that the Nepalese Shareholders are indifferent whether the company pays or does not pay dividend. But, 60% of KBL and 50% of NABIL did not agree with the question that they are indifferent whether the company pays or does not pay dividend. Similarly, 20% of KBL and 30% of NABIL said that they have no idea about it.

In overall, 55% of the respondents said that the shareholders won't be indifferent whether the banks pays dividend or not, 20% of the respondents said that the they remain indifferent and 25% of the

respondents remained neutral in this question. Hence, on the overall majority and the majority of respondents of each bank, it can be concluded that the Nepalese shareholders have strong interest on the dividend of the company and thus do not remained indifferent.

Figure 4.11

Indifferent by Nepalese Shareholder on Dividend



4.2.7 Suggestion in case of no Cash to pay Dividend

The respondents were asked to give their valuable suggestions if the company is unable to pay cash dividend. The suggestions obtained from them are presented in the table 4.20.

Table 4.20

Suggestion in case of no Cash to pay Dividend

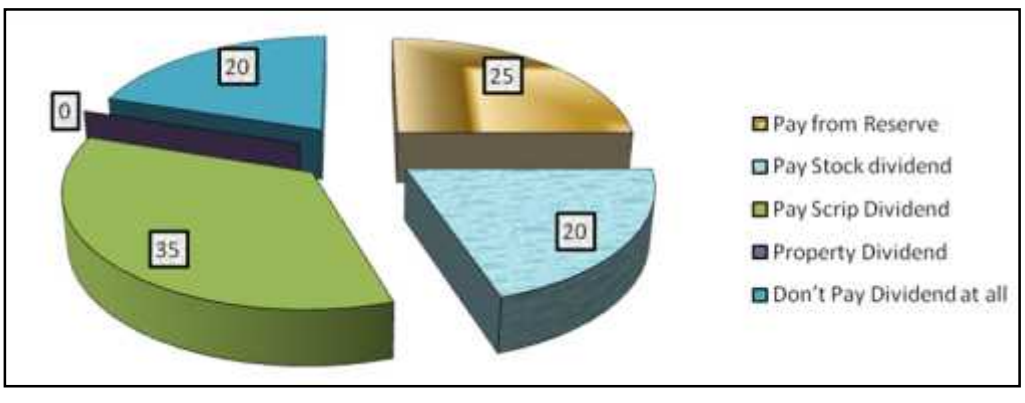
Suggestions	NABIL		KBL		Total	
	No.	%	No.	%	No.	%
Pay from Reserve	3	30	2	20	5	25
Pay Stock dividend	2	20	2	20	4	20
Pay Scrip Dividend	3	30	4	40	7	35
Property Dividend	0	0	0	0	0	0
Don't Pay Dividend at all	2	20	2	20	4	20
Total	**10**	**100**	**10**	**100**	**20**	**100**

(Source: Field Survey, 2010)

The above table showed that the majority of the respondents (35%) stated that the bank should pay scrip dividend, i.e. promising to pay dividend later on, in case of non availability of cash. Similarly, 25% of the respondents said that the bank should pay from the reserve as dividend, 20% of the respondents affirmed that the bank should pay stock dividend and 20% of the respondents said that the bank should not pay dividend at all. While none of them said that the bank should pay property dividend. Also, looking individually, the majority of NABIL's employee (30%) and the majority of KBL's employee (40%) said that the bank should pay scrip dividend in case of cash scarcity.

Figure 4.12

Suggestion in case of no Cash to pay Dividend



4.2.8 Impact of Dividend on Liquidity

To know the degree of agreement on the impact of dividend on liquidity position of the firm, the respondents were asked on this regard. The answers obtained from them are presented in table 4.21.

Table 4.21

Impact of Dividend on Liquidity

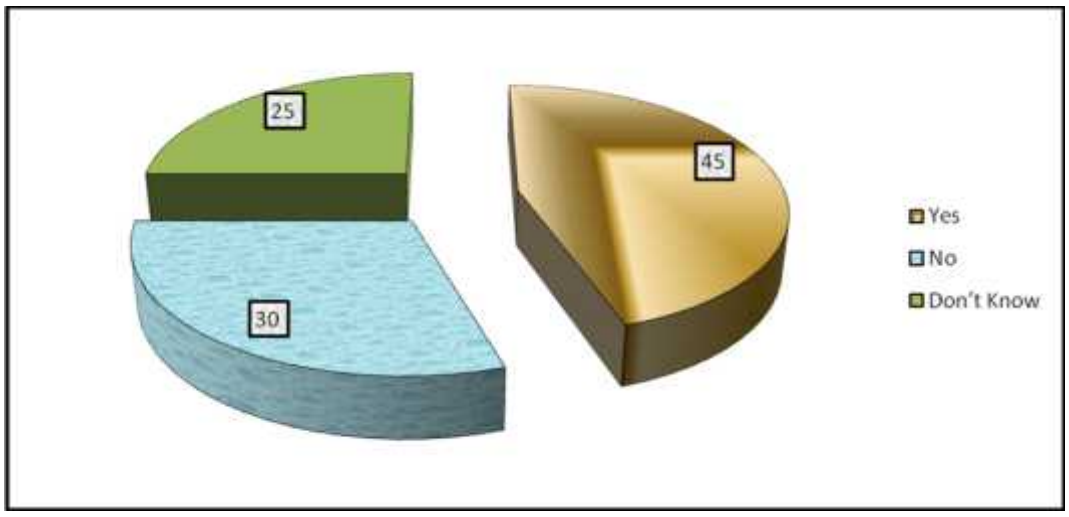
Impact	**NABIL**		**KBL**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
Yes	5	50	4	40	9	45
No	2	20	4	40	6	30
Don't Know	3	30	2	20	5	25
Total	**10**	**100**	**10**	**100**	**20**	**100**

(Source: Field Survey, 2010)

The above table reflects that 45% of the total respondents opined that dividend has impact on the liquidity position, 30% of the total respondents stated that dividend has no impact and 25% remained neutral. Similarly, 50% of respondents of NABIL and 40% of KBL respondents are in view that dividend distribution influences the liquidity position. 20% respondents of NABIL and 40% of KBL do not think so and 30% respondents of NABIL and 20% of KBL did not have any idea.

Figure 4.13

Impact of Dividend on Liquidity



4.2.9 Suggestion for Dividend Policy in Nepal

The respondents were also asked to suggest with regard to the dividend policy in Nepalese enterprises. The valuable suggestions achieved from them are inserted in the table 4.22.

Table 4.22

Suggestion for Dividend Policy in Nepal

Suggestion	**NABIL**		**KBL**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**
Treatment of dividend as an obligation	3	30	3	30	6	30
Stability of dividend and unhaphazard payout ratio	4	40	3	30	7	35
Cash balance for dividend be adequately planned and maintained	3	30	4	40	7	35
Total	**10**	**100**	**10**	**100**	**20**	**100**

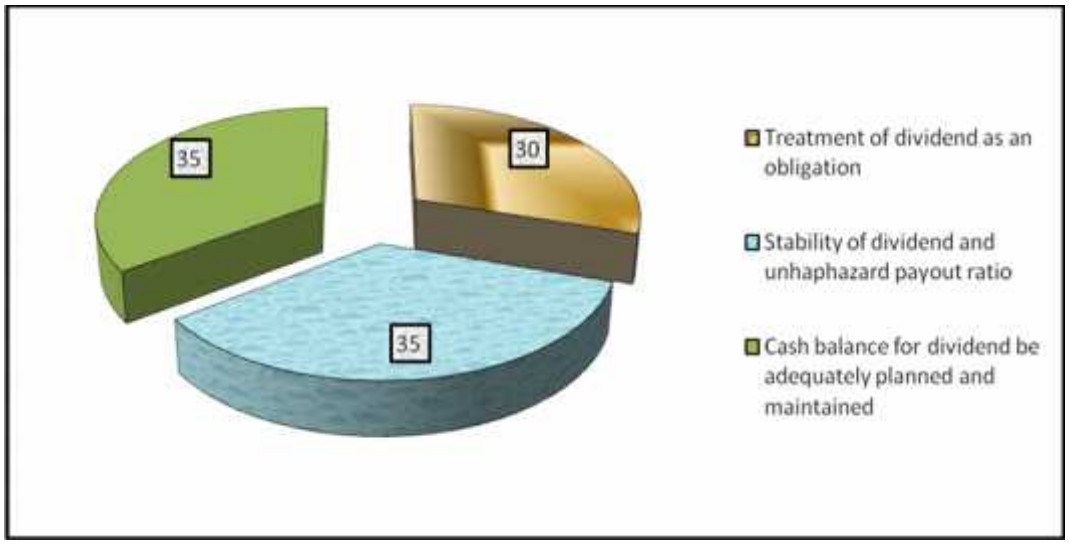
(Source: Field Survey, 2010)

From the above table it is clear that 30% of both banks suggested that treatment of dividend, as an obligation should be dividend policy in Nepalese enterprises. Similarly, 30% of KBL and 40% of NABIL suggested stability of dividend and unhaphazard payout ratio with regards to dividend policy in Nepalese enterprises. And 40% of KBL and 30% of NABIL recommended that cash balance for dividend should be adequately planned and maintained. But, no respondents replied other specific policies.

Likewise, 30% of the overall respondents suggested that treatment of dividend as an obligation, 35% of the respondents suggested that stability of dividend and unhaphazard payout ratio, and 35% adequate cash balance planning should be the dividend policy in Nepal.

Figure 4.14

Suggestion for Dividend Policy in Nepal



4.2.10 Reasons to investment in Share Capital

Large number of people is driving to invest in share capital. So to know the actual causes that provoke them to invest, the respondents were requested to give the main reasons that attracts the investors in share capital.

Table 4.23

Reasons to invest in Share Capital

Reasons	NABIL		KBL		Total	
	No.	%	No.	%	No.	%
To utilize the surplus	4	40	5	50	9	45
This is the best method of investment	2	20	1	10	3	15
To receive dividend	3	30	3	30	6	30
To get voting right	1	10	1	10	2	10
Total	**10**	**100**	**10**	**100**	**20**	**100**

(Source: Field Survey, 2010)

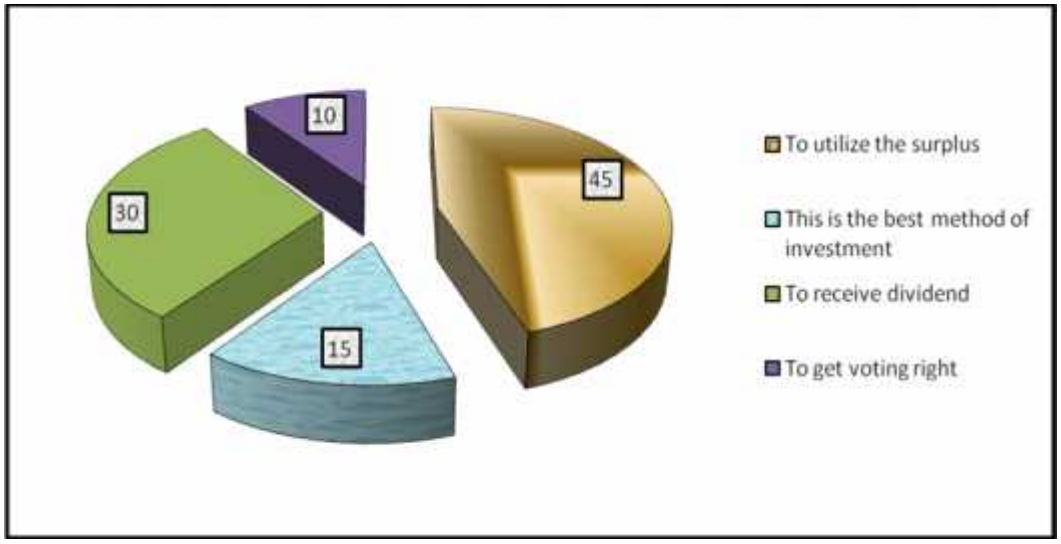
From the above table it is obvious that 50% of KBL and 40% of NABIL replied that people invest in share capital to utilize surplus 10% of KBL and 20% of NABIL considered the investment in share capital the best method. Similarly, 30% of both the banks responded that people invest in share capital in order to get dividend. And, 10% of both banks said that the reason for investment in share capital is to get voting rights.

Similarly in overall, 45% of the total respondents (9 out of 20), 15% of the respondents (3 out of 20), 30% of the respondents (6 out of 20) and 10% of the respondents (2 out of 20) said that to utilize the surplus, just for becoming the best method of investment, to receive dividend, and to get voting right respectively are the main reasons behind investing in share

capital. Hence, it can be concluded that after utilizing surplus, to get dividend is the main reason behind investment in share capital.

Figure 4.15

Reasons to invest in Share Capital



4.3 Major Findings of the Study

The major findings that have drawn from the analysis of secondary data and primary data are presented below.

Findings of secondary data

- EPS analysis shows that the average EPS of NABIL (Rs. 111.19) is more than five times the average EPS of KBL (Rs. 20.38). The NABIL bank earned higher earning per share in comparison with the KBL bank. However, the C.V. analysis of EPS in KBL (16.07%) is more consistent as compared to that of NABIL (18.22%).
- NABIL bank distributed Rs. 96 as DPS in average, while KBL distributed an average DPS of Rs. 16.17 during the period taken for research. Also, there is more consistent in DPS of NABIL (C.V. = 24.96%) as compared to the dividend distribution of KBL (C.V. = 30.34%).

- The DPR ratio shows that KBL provided an average 76.31% of its EPS as dividend which is comparatively very low compared to the dividend payout ratio of NABIL (85.78%). Both banks have distributed dividend more than three-fourth of the EPS.
- The dividend yield ratio shows that only 2.48% of the average market price of KBL was provided as dividend during the period taken for study, whereas 2.63% of the MPS of NABIL was provided as dividend. Hence the shareholders of NABIL enjoyed more divided percent compared to the shareholders of KBL on the basis of MPS.
- In case of KBL, the correlation of DPS with EPS and MPS is negative and insignificant, while the correlation of DPR with MPS is positive but insignificant. Similarly in case of NABIL, the correlation between DPS and EPS, and DPS and MPS is positive but insignificant, and the correlation of MPS and DPR is negative and significant.
- The multiple correlation coefficient among MPS, DPS and EPS indicates there is insignificant relationship between MPS and DPS & EPS.

Findings of Primary Data

- 40% of the total respondents said that the main reasons for paying dividend is to capture the market of banking industry.
- 55% of the total respondents said that the effect of dividend distribution pattern has high impact on changing the market price per share of the bank.
- 60% of the respondents said that the bank should consider the legal consideration before declaring the dividend payout ratio.
- 45% of the respondents said that the major motive behind distributing the dividend is to fulfill the shareholder's expectation.

- 55% of the respondents stated that the bank should follow the practice of paying dividend only after financing all the investment opportunities.
- 55% of the respondents said that the Nepalese Investors does not remain indifferent on whether the bank pays dividend or not, rather they are interested in dividend.
- In case of no cash dividend to pay, 35% of the respondents suggested to pay scrip dividend.
- 45% of the respondents said that dividend payment has greater impact on the liquidity position of the bank.
- 35% of the respondents each suggested that stability of dividend and unhaphazard payout ratio, and 35% adequate cash balance planning should be the dividend policy in Nepal. Eventually, 45% of the respondents said that the investors invest in share capital to utilize the surplus.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The dividend policy of a firm becomes the choice of financial strategy when investment decisions are taken as given. It is also imperative to know whether the firm will go for internal or external source of financing for its investment project. There are a number of factors affecting the dividend policy decisions of a firm such as investors' preference, earnings, investment opportunities; annual vs. target capital structure, flotation costs, signaling, stability & Government policies and taxation. In the presence of asymmetric information, signaling is one of the crucial factors that influence the market. Dividends may convey information about the company, so it suggests the possibility of its influence on the stock market. Paying large dividends reduces risk and thus influence stock price and is a proxy for the future earnings.

Dividend policy decision is undoubtedly one of the major decisions of financial management. It is right to say that dividend policy decision affects the operation and prosperity of a financial company because it has the power to influence other two decisions namely capital structure decision and investment decision. Basically an investor expects two types of return namely, capital gain and dividend, by investing in equity capital or ordinary share. So, payment of dividend to shareholders is an effective way to attract new investors and maintain present investors to invest in shares. So, it is justified to hold that a clearly defined and effectively managed dividend policy is required in all financial companies to fulfill the shareholders expectations with that of corporate growth from internally generated funds. So, the funds that could not be used due to lack of investment opportunities

would be better to be distributed as dividend, since shareholders have investment opportunities elsewhere.

This paper attempts to explore the possible links between dividend policy and stock price behavior in Nepalese banking sector. A sample of two listed banks from NEPSE is examined for the years 2005/06 – 2009/10. Dividend policy has always been a source of controversy despite years of theoretical and empirical research both in developed countries and emerging economies. The present study features a panel data approach to analyze the relationship between dividend-retention ratio and stock-price behavior while controlling the variables like size and long-term debt-equity ratio of the firm.

5.2 Conclusion

On the basis of secondary data analysis, it can be concluded that NABIL is paying higher portion of its earning as dividend since the average dividend per share of NABIL is higher than KBL. However, both the banks have the not paid bonus share dividend regularly. Similarly, the earning capacity of NABIL is higher as average earning per share of NABIL is greater than KBL. NABIL leads KBL in the sense that it has greater average dividend payout ratio and dividend percent than that of KBL. The investors are more enticed to be the part of the NABIL than that of KBL, since the market price per share of NABIL is higher than that of KBL.

The dividend payment policy of KBL is not significantly affected by the earnings, since EPS and DPS has negative and insignificant relationship. In addition, the MPS of the KBL is not very much influenced by the DPS, since the two variables have insignificant relationship. Even, the joint effect of EPS and DPS has not much role to swing the MPS of KBL. Though, EPS and DPS of NABIL has positive relationship, such relationship is statistically insignificant and thus the fluctuation of DPS does not entirely depends upon the change in EPS. Same situation exists between MPS and DPS and thus MPS is not much affected by dividend payment pattern. Also, EPS and DPS jointly does not have great influence on MPS of the NABIL. Thus, it can be concluded that the MPS of the observed banks is not much influenced by the dividend and thus the change in MPS relies on other macroeconomic factors, like economic growth, market rumor, malpractices in NEPSE etc. and other internal financial indicators.

From the findings of the study of primary data, it can be concluded that companies distribute dividend to capture the market. Further, the payment of dividend has high effect on the market price of share. The bank should consider mainly the legal consideration while declaring dividend and pay cash dividend to fulfill shareholder’s expectation. In addition, the bank

should pay dividend only after financing in all investment opportunity. Shareholders are not indifferent whether company pays dividend or does not pay dividend**.** Company should pay scrip dividend if it has no cash dividend to pay. Also, dividend distribution influences the liquidity position of the firm. With regard to dividend policy, either dividend should be stable and unhaphazard or cash balance for dividend should be adequately planned and maintained. Most of the people invest in share capital in order to utilize the surplus.

5.3 Recommendations

On the basis of the major findings and conclusion drawn, the following recommendations have been provided;

- There should be certain program to improve the efficiency and reduce the government interference in daily affair. Similarly, the managers should be able to fulfill their duties and responsibilities and to protect the shareholder's interest but not for operation of company desired by themselves.
- Banks are playing on the public money. So in this regard, they are advised to have target rate of return (earnings) and target payout ratio that will help the banks to build good image in stock market and investors will be benefited on making investment decision.
- It would be better to fix the amount of dividend in the annual general meeting of shareholders. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.
- The bank should consider the existing conditions and expectations of shareholders while distributing dividends so that the distributed dividend should meet the interests or expectations of the shareholders as far as possible.
- The bank should study about the strategy to attract the ordinary or small or low level investors so that the interest or the expectation of shareholders will not be destroyed even the bank can't pay the dividend in some year.
- The banks should define their dividend strategy (policy) clearly whether the bank is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends. The clearly defined policy will guide the way on how to follow dividend distribution. The bank should follow them (defined dividend strategy) strictly in normal condition. If there is lack of clearly defined dividend

strategy, so many problems or inconveniences will be created to many other organizational sectors especially on the financial sectors.

- There is no clear-cut legal provision regarding dividend payments. So the government should act in favor of investors and should bind through such legal provisions or distinct rules so that the profit earning companies should distribute certain percent of their earnings as dividend.
- The payment of dividend is highly fluctuating, which is neither static nor constantly growing. Such inconsistency and irregularity in the dividend payment may create more confusion and miss-conception about that firm. Due to higher degree of risk and uncertainty, such fluctuations impact the firm's market price per share adversely. So these banks are advised to follow either static or constantly growing dividend payment policy.
- Banks should try to know whether they (shareholders) prefer to obtain cash dividend or stock dividend or any forms of dividend. So, instead of declaring cash or stock or any forms of dividend, dividend declaration should be proposed to the annual general meeting of shareholders for their approval. Furthermore, the banks should also be careful about informing the impacts of dividends, the advantages and disadvantages of different forms of dividend to those shareholders or potential investors who know less about the matters.

APPENDIX - I

QUESTIONNAIRE

Dear Sir/Madam,

This is to bring your kind information that this is an attempt to identify the relationship between dividend policy and market price per share of Nepalese Commercial Banks for the partial fulfillment of Thesis required for MBS degree, TU. You are kindly requested to fill up the following questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

Respondents:

Name : …….. Sex: M [ ] F [ ]

Bank: ……. Position (Optional): …….

Please tick the best answers.

1. Why does the bank pay dividend?
   a) Retain Existing Investors b) Attract Potential Investor
   b) Capture the Market d) All

2. To what extent does dividend policy affects the market price per share?
   a) High b) Medium c) Low

3. What factors should be considered while adopting dividend practice?
   a) Legal Restriction

b) Liquidity Position

c) Borrowing capacity of the firm

d) All of above

4. What is the major motive of cash dividend in your bank?

a) To convey information to shareholders that the company is doing well.

b) To draw attention from the investment community.

c) To increase the market value of the firm's stock.

d) To fulfill shareholders' expectation.

5. What are the dividend practices being followed by the banks in Nepal?

a) Payment of dividend after financing in all investment opportunities.

b) Paying regular dividend

c) Both of above

d) None of above

6. Nepalese share holders are indifferent whether the company pays or does not pay different dividend. Do you agree?

a) Yes b) No c) Don't know

7. What do you suggest if the company has no cash to pay dividends?

a) Pay from reserve

b) Pay stock dividend

c) Pay Scrip Dividend

d) Pay Property Dividend

e) Pay no dividend at all

8. Payment of dividend has impact on the liquidity position of the firm. Do you agree?

a) Yes b) No c) Don't know

9. What would you like to suggest with regard to dividend policy in Nepalese enterprises?

a) Treatment of dividend as an obligation
b) Stability of dividend and unhaphazard pay out ratio.
c) Cash balance for dividend be adequately planned and maintained.

10. Why do people invest in share capital?

a) To utilize the surplus money
b) This is the best method of investment.
c) To receive dividend
d) To get voting rights.

Thank You.

APPENDIX - II

A) Calculation of Correlation Coefficient and Regression line of DPS on EPS of KBL

Year	EPS X	DPS Y	$x = X-\bar{X}$	$y = Y-\bar{Y}$	x^2	y^2	xy
2005/06	16.59	21.05	-3.79	6.01	14.39	36	-22.79
2006/07	22.7	21.05	2.32	6.01	5.36	36	13.91
2007/08	16.35	10.53	-4.03	-4.51	16.27	20	18.20
2008/09	22.04	10.58	1.66	-4.46	2.74	20	-7.39
2009/10	24.24	12	3.86	-3.04	14.87	9	-11.73
Total	**101.92**	**75.21**			**53.64**	**122**	**-9.80**

i) Calculation of Mean

For EPS $\bar{X}$ For DPS $\bar{Y}$

Mean $\bar{X} = \sum X/5 = 20.38$ $\bar{Y} = \sum Y/5 = 15.04$

ii) Calculation of Correlation Coefficient between EPS and DPS

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}} = \frac{-9.79744}{80.80} = -0.1213$$

iii) Calculation of Standard Deviation (б)

For EPS $б_x = \sqrt{\frac{\sum (x-\bar{x})^2}{N-1}} = \sqrt{\frac{54}{5}} = 3.28$

For DPS $б_y = \sqrt{\frac{\sum (y-\bar{y})^2}{N-1}} = \sqrt{\frac{122}{5}} = 4.93$

iv) Simple Regression Equation of DPS on EPS

$$Y-\bar{Y} = \frac{r \times б_y (X-\bar{X})}{б_x}$$

or, $Y-15.04 = \frac{0.1213 \times 14.93 (X-20.38)}{3.28}$

or, Y-15.04 = 0.18 X + 3.72

or, Y = 18.76 - 0.18 X

v) Calculation of Probable Error (P.E.)

$$P.E. = \frac{0.6745 \times (1 - r^2)}{\sqrt{N}}$$

Here,

r^2	$1-r^2$	$0.6745 \times (1-r^2)$	$\sqrt{5}$	P.E.	6 P.E.
0.0147	0.9853	0.6646	2.2361	0.2972	1.7833

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{(n-2)}$$

$$= \frac{-0.213 \times \sqrt{(5-2)}}{\sqrt{1 - 0.0147}} = -0.2116$$

B) Calculation of Correlation Coefficient and Regression line of DPS on EPS of NABIL

Year	EPS X	DPS Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2005/06	129.21	85	17.22	-11.00	296.39	121	-189.
2006/07	137.08	140	25.09	44.00	629.31	1936	1103.
2007/08	108.31	100	-3.68	4.00	13.57	16	-14.7
2008/09	106.76	85	-5.23	-11.00	27.39	121	57.5
2009/10	78.61	70	-33.38	-26.00	1114.49	676	867.9
Total	**559.97**	**480.00**			**2081.16**	**2870**	**1825.**

i) Calculation of Mean

For EPS $\bar{X}$ For DPS $\bar{Y}$

Mean $\bar{X} = \sum X/5 = 111.99$ $\bar{Y} = \sum Y/5 = 96.00$

ii) Calculation of Correlation Coefficient between EPS and DPS

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}} = \frac{1825.23}{2443.96} = 0.7468$$

iii) Calculation of Standard Deviation (б)

For EPS $б_x = \sqrt{\frac{\sum (x-\bar{x})^2}{N-1}} = \sqrt{\frac{2081}{5}}$

$= 20.40$

For DPS $б_y = \sqrt{\frac{\sum (y-\bar{y})^2}{N-1}} = \sqrt{\frac{287}{5}}$

$= 23.96$

iv) Simple Regression Equation of DPS on EPS

$$Y - \bar{Y} = \frac{r \times б_y (X - \bar{X})}{б_x}$$

or, $Y - 96 = \frac{0.7468 \times 23.96 (X - 111.99)}{20.40}$

or, $Y - 96 = 0.88 X - 98.22$

or, Y = - 2.22 - 0.88 X

v) Calculation of Probable Error (P.E.)

$$P.E. = \frac{0.6745 \times (1 - r^2)}{\sqrt{N}}$$

Here,

r^2	$1-r^2$	$0.6745 \times (1-r^2)$	$\sqrt{5}$	P.E.	6 P.E.
0.5578	0.4422	0.2983	2.2361	0.1334	0.8004

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{(n-2)} = \frac{0.7468 \times \sqrt{(5-2)}}{\sqrt{1 - 0.5578}} = 1.9452$$

C) Calculation of Correlation Coefficient and Regression line of MPS on DPS of KBL

Year	DPS X	MPS Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2005/06	21.05	443.00	6.01	-246.20	36.10	60614	-1479.
2006/07	21.05	830.00	6.01	140.80	36.10	19825	845.9
2007/08	10.53	1005.00	-4.51	315.80	20.36	99730	-1424.
2008/09	10.58	700.00	-4.46	10.80	19.91	117	-48.1
2009/10	12.00	468.00	-3.04	-221.20	9.25	48929	672.8
Total	**75.21**	**3446.00**			**121.71**	**229215**	**-1433.**

i) Calculation of Mean

For DPS $\bar{X}$ For MPS $\bar{Y}$

Mean $\bar{X} = \sum X/5 = 15.04$ $\bar{Y} = \sum Y/5 = 689.20$

ii) Calculation of Correlation Coefficient between DPS and MPS

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}} = \frac{-1433.432}{5281.91} = -0.2714$$

iii) Calculation of Standard Deviation (б)

For DPS $б_x = \sqrt{\frac{\sum (x-\bar{x})^2}{N-1}} = \sqrt{\frac{122}{5}} = 4.93$

For MPS $б_y = \sqrt{\frac{\sum (y-\bar{y})^2}{N-1}} = \sqrt{\frac{2292}{5}} = 214.11$

iv) Simple Regression Equation of MPS on DPS

$$Y - \bar{Y} = \frac{r \times б_y (X - \bar{X})}{б_x}$$

or, $Y - 689.20 = \frac{0.2714 \times 214.11 (X - 15.04)}{4.93}$

or, Y-689.20 = 11.78 X + 177.15

or, Y = 866.35 - 11.78 X

v) Calculation of Probable Error (P.E.)

$$P.E. = \frac{0.6745 \times (1 - r^2)}{\sqrt{N}}$$

Here,

r^2	$1-r^2$	$0.6745 \times (1-r^2)$	$\sqrt{5}$	P.E.	6 P.E.
0.0737	0.9263	0.6248	2.2361	0.2794	1.6766

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{(n-2)} = \frac{-0.2714 \times \sqrt{(5-2)}}{\sqrt{1 - 0.0737}} = -0.4884$$

D) Calculation of Correlation Coefficient and Regression line of MPS on DPS of NABIL

Year	DPS X	MPS Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2005/06	85	2240	-11.00	-1729.60	121.00	2991516	1902
2006/07	140	5050	44.00	1080.40	1936.00	1167264	4753
2007/08	100	5275	4.00	1305.40	16.00	1704069	5221
2008/09	85	4899	-11.00	929.40	121.00	863784	-1022
2009/10	70	2384	-26.00	-1585.60	676.00	2514127	4122
Total	**480**	**19848.00**			**2870.00**	**9240761**	**10278**

i) Calculation of Mean

For DPS $\bar{X}$ For MPS $\bar{Y}$

Mean $\bar{X} = \sum X/5 = 96.00$ $\bar{Y} = \sum Y/5 = 3969.60$

ii) Calculation of Correlation Coefficient between DPS and MPS

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}} = \frac{102787}{162852.65} = 0.6312$$

iii) Calculation of Standard Deviation (б)

For DPS $б_x = \sqrt{\frac{\sum (x-\bar{x})^2}{N-1}} = \sqrt{\frac{2870}{5}}$

$= 23.96$

For MPS $б_y = \sqrt{\frac{\sum (y-\bar{y})^2}{N-1}} = \sqrt{\frac{9240}{5}}$

$= 1359.47$

iv) Simple Regression Equation of MPS on DPS

$$Y - \bar{Y} = \frac{r \times б_y (X - \bar{X})}{б_x}$$

or, $Y - 3969.60 = \frac{0.6312 \times 1359.47 (X-96)}{23.96}$

$= 35.81 X - 3438.17$

or, Y-3969.60

or, Y = 531.43 + 35.81 X

v) Calculation of Probable Error (P.E.)

$$P.E. = \frac{0.6745 \times (1 - r^2)}{\sqrt{N}}$$

Here,

r^2	$1-r^2$	$0.6745 \times (1-r^2)$	$\sqrt{5}$	P.E.	6 P.E.
0.3984	0.6016	0.4058	2.2361	0.1815	1.0889

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{(n-2)} = \frac{0.6312 \times \sqrt{(5-2)}}{\sqrt{1 - 0.3984}} = 1.4094$$

APPENDIX - III

Calculation of Multiple Regression Equation of MPS on DPS and EPS of KBL

Let MPS, DPS and EPS are denoted by X_1, X_2 and X_3 respectively. Then the multiple regression equation of MPS(X_1) on DPS(X_2) and EPS(X_3) be;

$$X_1 = a_1 + b_1 X_2 + b_2 X_3 \quad \text{..... (i)}$$

The values of constant a_1, b_1 and b_2 can be determined by solving following three normal equations simultaneously.

$$\sum X_1 = na_1 + b_1 \sum X_2 + b_2 \sum X_3 \quad \text{..... (ii)}$$
$$\sum X_1X_2 = a_1 \sum X_2 + b_1 \sum X_2^2 + b_2 \sum X_2X_3 \quad \text{..... (iii)}$$
$$\sum X_1X_3 = a_1 \sum X_3 + b_1 \sum X_2X_3 + b_2 \sum X_3^2 \quad \text{..... (iv)}$$

X_1	X_2	X_3	X_1X_2	X_2X_3	X_3X_1	X_2^2	X_3^2
443	21.05	16.59	9325.15	349.22	7349.37	443.10	275.23
830	21.05	22.7	17471.50	477.84	18841.00	443.10	515.29
1005	10.53	16.35	10582.65	172.17	16431.75	110.88	267.32
700	10.58	22.04	7406.00	233.18	15428.00	111.94	485.76
468	12	24.24	5616.00	290.88	11344.32	144.00	587.58
$\sum X_1$ = 3446	**$\sum X_2$ = 75.21**	**$\sum X_3$ = 101.92**	**$\sum X_1X_2$ = 50401.30**	**$\sum X_2X_3$ = 1523.28**	**$\sum X_3X_1$ = 69394.44**	**$\sum X_2^2$ = 1253.02**	**$\sum X_3^2$ = 2131.18**

Substituting the sum values in normal equation, we get

$$3446 = 5\,a_1 + 75.21\,b_1 + 101.92\,b_2 \quad \text{..... (v)}$$
$$\text{or, } 50401.30 = 75.21\,a_1 + 1253.02\,b_1 + 1523.28\,b_2 \quad \text{..... (vi)}$$
$$\text{or, } 69394.44 = 101.92\,a_1 + 1523.28\,b_1 + 2131.18\,b_2 \quad \text{..... (vii)}$$

Multiplying (v) by 75.21 and (vi) by 5 and then subtracting (v) from (vi), we get

$$252006.50 = 376.05\,a_1 + 6265.11\,b_1 + 7616.42\,b_2$$
$$259173.66 = 376.05\,a_1 + 5656.54\,b_1 + 7665.40\,b_2$$
$$\text{– \quad – \quad – \quad –}$$
$$\text{or, } -7167.16 = 608.57\,b_1 - 48.98\,b_2 \quad \text{..... (viii)}$$

Again multiplying (v) by 101.92 and (vii) by 5 and then subtracting (v) from (vii), we get

$$346972.20 = 509.60\,a_1 + 7616.42\,b_1 + 10665.90\,b_2$$
$$351216.32 = 509.60\,a_1 + 7665.40\,b_1 + 10387.69\,b_2$$
$$\text{– \quad – \quad – \quad –}$$
$$\text{or, } -4244.12 = -48.99\,b_1 + 268.21\,b_2 \quad \text{..... (ix)}$$

Again multiplying (viii) by -48.99 and (ix) by 608.57 and then subtracting (viii) from (ix), we get,

$-2582833 = -29812.01\ b_1 + 163225.44\ b_2$

$351099 = -28812.01\ b_1 + 2399.75\ b_2$

(− − −)

or, $-2933932 = 160825.70\ b_2$

or, $b_2 = \frac{-2933932}{160825.70}$

$= -18.24$

Substituting the value of b_2 in equation ix, we get

$-4244.12 = -48.99\ b_1 + 268.21 \times -18.24$

or, $-4244.12 = -48.99\ b_1 - 4892.98$

or, $648.86 = -48.99\ b_1$

or, $b_1 = \frac{648.86}{-48.99}$

$= -13.25$

Again substituting the value of b_1 and b_2 in equation v, we get

$3446 = 5\ a_1 + 75.21 \times -13.25 + 101.92 \times -18.24$

or, $3446 = 5\ a_1 - 2855.52$

or, $6301.52 = 5\ a_1$

or, $a_1 = \frac{6301.52}{5}$

$= 1260.30$

Now substituting the values of a_1, b_1 and b_2 in (i), we get multiple regression equation of MPS(X_1) on DPS(X_2) and EPS(X_3);

$X_1 = 1260.30 - 13.25\ X_2 - 18.24\ X_3$

i.e. MPS $= 1260.30 - 13.25$ DPS $- 18.24$ EPS

Same process has been practiced to find out the multiple regression equation of MPS on DPS and EPS of NABIL.