

CHAPTER I

INTRODUCTION

1.1 Background of the study

Bank, a financial institution, is playing a vital role in the economic development of the country. The function of banks are not only accepting deposits and granting loans but also includes wide range of services to the different strata of society to facilitate the growth of trade, commerce, industry and agriculture of the national economy. In the absence and insufficiency of banking and financial facilities, the growth of the economic development becomes slow. However, bank is a resource for economic development, which maintains the self-confidence of various segments of society and advances credit to the people.

Nepal is in the phase of developing its economy, for this different financial sector plays a vital role. Thus the participation of the private sector plays great role for the development of economy. Therefore, different banks, financial companies have been established in the private sector and the government sector which helps in the development of the economy of country. But, however, rapid development and expansion of the financial institution, the country is unable to get desired income; these are due to the very low capital market and due to the early stage of economic growth. When studying to the origin of modern banking, we come to know that 'Bank of Venice' was established, as the first commercial bank of the world in 1157 and in Nepal, Nepal Bank Limited was established as the first commercial bank in 1994 B.S. Before 1974(B.S. 2031) there was no any existence of joint venture banks in the country, there were no provisions made in the old commercial bank act 1974 has however, made provisions to permit foreign banks to operate in the country by obtaining the approval of Nepal Rastra Bank.

Commercial banks are the financial institutions which deal in accepting deposits from persons and institutions, provide interest, formulate capitals and grant loans against securities that help to remove the deficiency of capital. They contribute significantly in the formation and mobilization of internal capital and developmental effort. They also furnish necessary working capital according to the requirements for trade, commerce,

industry and even to agriculture sectors. They also perform agency function to make life easier and play an important role in credit creation. Besides, they also provide technical and administrative assistance to industries, traders and business enterprises. So, they are being the means for the upliftment of society. Their main objectives are to earn reasonable profit as reward for their service by proper mobilization of idle resources collecting them from different scattered sources, in particular productive sectors. They help to reduce the probability of inflations by increasing the interest rate while economy is in boom period and reduce the interest rate so that investors are interested for investment in case of depression period. More specifically, they collect required capital through float (issue) of different types of securities, specially shares and debentures. According to Nepal Commercial Bank Act 2031 B.S.," A Commercial Bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for cooperation, agriculture, industries or for such specific purpose.

On the international front, the world economy in the year 2002 grew by 3% as a result of increased trade of goods and services and efforts at enhancing efficiency in overall economic management. Despite the uncertain security and political situation in the country, the macro economic indicators are good. Once the security and political situations improve, it can expect a good turn around in the economy. Considering the overall economic and political scenarios in the country, the performance of the bank is satisfactory. Political uncertainty, coupled with the poor security situation continues to be the major bottlenecks to the progress and prosperity of country. Nevertheless, the bank will make every endeavor to capture attractive business opportunities and hope that achievement in the current year will also be encouraging.

At present context of society there is a gesture of rising expectation and aspiration of people. They realized a vigorous socio economic development in the procedure of nation building. The government realizes to impart a vibrant role and charge the public sector with greater responsibility in fulfilling national goals and objectives. With this realization, the government mushroomed into a number of establishments like agriculture, industry, commerce, public works, transport etc. In this context, banking was seen as a major industry to uplift the economic condition of public and country as well. Therefore, the government was forced to adopt a liberal economic policy regarding operations of banks.

About the financial liberalization process it was said that "the interest rate deregulation, curtailment or elimination of directed credits, lifting entry and exit barriers for financial intermediaries, restructuring of banking system and institution for regulatory and supervisory mechanism is some of the key components of such liberalization."

Dividend is one of the major reasons for which public are interested to invest money on the shares of bank or other institution. It refers to the portion of earnings that is distributed to the shareholders in return to their investment in the shares. Normally, that business, which is running at profit, is capable to pay dividend. The amount which is distributed as dividend should be adequate to meet the normal expectations of shareholders. Dividend can be paid in cash, shares and securities or a composition of these. There is a reciprocal relationship between retained earning and cash dividends. So, cash dividend payout reduces the total amount of internal financing.

Dividend policy, an integral part of the firm's financing decision, refers that policy of a company on the division of its profits between dividend and retention. It is one of the major decisions of financial management because it affects the value of firm as well as overall financing decision like financial structure, the flow of funds, corporate liquidity and investor's attitudes. It is the work of management to adopt the appropriate dividend policy. The important aspect of dividend policy is to determine the appropriate allocation of profit between dividend payments and the amount to be retained in the firm. It solves the problem that how much of the profit should be distributed in terms of dividend and how much should be retained in the firm. It also determines the forms of dividend. All aspects and questions regarding payment of dividend and retention of profit are contained in this policy. Under this policy, it is determined that what percentage of the earnings of the firm is distributed to its shareholders and what percentage of the earnings is retained in the firm which is desirable for the growth of the firm. Dividend policy, having a crucial importance and being purely a policy matter, is to be formulated with consistent approach instead of making decision on adhoc / spur of moment basis.

It is obviously known that the dividend payout ratio depends on earnings. But net earnings may not conform and may not be an appropriate measure of the ability of the firm to pay dividend. So what and how much it is desirable to pay dividend and retained in the firm for the growth of firm is always a controversial matter because shareholders

expect higher dividend but corporations ensure towards setting a side funds for maximizing the shareholders wealth.

The joint venture banks in Nepal have brought new hope for productive mobilization of funds according to their new trends of dividend distribution among foreign joint venture banks. For example, Nepal Arab Bank Ltd. has been able to pay a token dividend of Rs. 5 per share. While other two (Standard and Chartered Bank and Nepal SBI Bank) have given much more dividend and have given signal to payment dividend in the future.

1.2 A BRIEF INTRODUCTION OF SAMPLE COMMERCIAL BANKS.

❖ A Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited, formerly known as Nepal Grind lays Bank Limited was incorporated in the year 1985 and has been in operation since 1987. On 31 July 2000, Standard Chartered Bank concluded the acquisition of ANZ Grind lays Bank form the Australia and New Zealand Banking Group Limited. With this acquisition, 50% shares of Nepal Grind lays Bank Ltd. (NGBL) previously owned by ANZ Grind lays are now owned by Standard Chartered Grind lays Bank Ltd. leading to the name change of the Bank to Standard Chartered Bank Nepal Limited with effective from July 16, 2001. The equity composition of Standard Chartered Bank Nepal Ltd. is as follows:

Standard Chartered Grind lays Bank	-	50%
Nepal Bank Limited	-	33%
General Public	-	17%

The Bank focuses mainly on corporate, consumer and commercial banking. It provides service for international firms, as well as embassies, aid agencies, airlines, hotels and government corporations.

The banking services range including full trade finance capabilities as well as working capital and medium term loan facilities, remittances, deposit services, credit card and ATM. For international firms, Standard Chartered Bank Nepal Limited has specialized in foreign trade, bonding, remittance services and foreign exchange. (/http: www. standard chartered. com. np)

❖ **Nepal SBI Bank Limited**

Nepal SBI Bank Ltd. (NSBL) is the first Nepal- Indo joint venture bank in the country. It is sponsored by three institutional promoters. They are, State Bank of India, Karmachari Sanchaya Kosh (Employees Provident Fund) and Agricultural Development bank of Nepal. Nepal SBI Bank Limited became operational on the 8th July 1993.

The bank was registered on 2050/ 01/16 (28.04.1993) in the Department of Industry, HMG/ N under the Company Act 2021 and Commercial Bank Act 2031. The formal inauguration of Nepal SBI Bank Limited took place on 7th July 1993. It commenced its operations on 2050/03/24 (8th July, 1993). The equity composition of the Bank is as follows:

State Bank of India	-	50%
Employee Provident Fund	-	15%
Agricultural Development Bank	-	5%
General Public	-	30%

The services provided by Nepal SBI Bank Limited include deposits, remittances, various types of loan facilities, letter of credit, bank guarantees, retail financing (house loans, vehicle loans and education loan) etc. It has recently launched 365 days banking and ATM facility from its New Road Branch. (The Himalayan Times February 2003)

❖ **Nabil Bank Limited (Nepal Arab Bank Limited)**

Nabil Bank Limited (Nepal Arab Bank Limited was incorporated in the year 1984 A.D.) It commenced its operation on 12 July 1984 as the first joint venture bank in Nepal. It was listed in the Nepal Stock Exchange in the year 1986 A. D. (08/09/42 B.S.). Dubai Bank Ltd. Dubai (Later acquired by Emirates Bank International Ltd. Dubai) was the first joint venture partner to NABIL currently, NB (International) Ltd., and Ireland is the foreign partner. NABIL Bank Limited had the official name Nepal Arab Bank Ltd. till 31st December 2001. The equity composition of Nepal Arab Bank Limited is as follows:

NB (International) Ltd, Ireland	-	50%
Nepal Industrial Development Corporation (NIDC)	-	10%
Rastriya Beema Sansthan	-	9.67%
Nepal Stock Exchange Limited	-	0.33%
General Public	-	30%

NABIL Bank is the pioneer in introducing many innovative banking services and marketing concept in banking sector of Nepal. It operates its activities through 15 branches and 2 counters. It is the only bank having presence in the Tribhuvan International Airport. Some of the services provided by NABIL Bank Limited are accepting deposits, documentary credit, guarantees, collections, credit cards, Tele-banking, safe deposit, fund transfer etc. (www.nabilbank.com.np)

1.3 Identification of the problem

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

The dividend decision, however, is still a crucial as well as controversial area of managerial finance. There is no consensus among the financial scholars on this subject matter and its relation with stock price. Some financial scholars say that stock price is least influenced by dividend per share while some others believe that its relevance to the stock prices is quite significant. The idea of relevance is vague as well. It is rather hard to define whether dividend per share has positive effect or its effect is negative one.

Dividend is desirable for the shareholders, which inspires them for the further investment on company's shares. But it is found that there is no satisfactory result about dividend decision of commercial banks in Nepal. Likewise, dividend distribution does not match with the earnings of the commercial banks, there does not exist a proper relationship between dividend and quoted market price of share. Similarly, commercial banks with lower returns record stable (rigid) price of share and banks making sound returns do not rigid in share price.

It is because, among the various reasons, the government rules and regulations, ownership patterns, attitudes of management, forms of management may be the partial causes of such a situation. In practice, every firm follows some kinds of dividend policy and there

is no unique dividend policy which is appropriate for all firms. So they follow different policies. In general, it is assumed that there is relationship between dividend and stock price but dividend and stock prices established by much finance scholars need to be tested in the context of Nepal.

In the Nepalese context, the companies listed in NEPSE are not seen so serious regarding dividend decisions, since most of them do not have any consistent and obvious (clear cut) policy on dividend distribution. In connection to Nepalese public enterprises, M.K.Shrestha remarks that dividend is still considered as the unintended strategy or the non payable obligation at a time when HMG is not in a position to impose the public limited companies to pay a minimum rate of dividend on the equity capital contributed. Some Nepalese acts like Nepal Company Act 2053, Nepal Commercial Bank Act 2031 and other regulating acts are still silent regarding dividend distribution. So different companies' are adopting different dividend decisions inconsistently. There is a common trend of deciding the dividend by the management of companies instead of by shareholders meeting.

This study deals with these following issues

- a) Whether the problem is effective to pay dividend or the ability to pay dividend.
- b) Whether there is uniformity of dividend distribution or not.
- c) Whether dividend decision affects the market price of shares differently in different banks or not.
- d) Whether or not the prevailing dividend policy influences the corporate liquidity position.
- e) Whether changing dividend policy or payout ratio increase the value of stock or not.
- f) What is the relationship between dividend with other key variables like earning per share, market price per share, book value per share, net profit per share, and net worth of the banks?
- g) What are the prevailing practices of the banks regarding their dividends?

1.4 Objectives of the study

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

- i. To study the dividend practices of the commercial banks.
- ii. To study the relationship between dividend per share and other financial indicators such as earning per share, net profits, net worth and market price of stock.
- iii. To study the relationship between dividend per share, earning per share and dividend policy.
- iv. To examine whether or not dividend influences the liquidity position and share prices of sample banks.
- v. To suggest and recommend on the basis of major findings.

1.5 Importance of the study

Dividend plays a crucial role in every company and dividend policy is one of the most important decisions that need to be taken by the organization. Due to excess liquidity and lack of investment opportunities in the capital market, nowadays people are very much interested and attracted to invest in shares for getting higher returns. When any new company issues shares through capital markets, very big congregation gathers to apply for owners' certificate. It reveals that people have expectation on higher return for investing in shares. So the dividend decision is one of the most important decisions of financial management. It is an effective tool to attract new investors, maintain present investors and controlling position of the firm. Having lack of adequate knowledge, the people are haphazardly investing in shares. It shows that there is an extreme necessity to establish clear conception about the return that yields from investing in securities. In Nepalese context, we find that there exist almost none of the companies adopting consistent dividend policy. There may be many reasons behind it. But there is not sufficient study conducted in this regard. So, I have made this humble attempt to contribute to this aspect. Considering all these facts, the study is undertaken which will help to meet deficiency of

the literature relating to dividend decision and factors affecting the dividend policy. So the study of dividend policy is of considerable importance.

I believe that so many persons and parties such as shareholders, management of banks, financial institutions, general public (depositors, prospective customers, investors etc) and other policy making bodies which are concerned with banking business will be benefited from this study. It is also believed that it will provide valuable inputs for future research scholars.

1.6 Limitation of the Study

No study can be free from its own limitation. So, the present study has also some limitation. Reliability of statistical tools use and lack of research experience are the major limitation and some other limitation can be enlisted as follows. This study is simply presented to fulfill a partial requirement of M.B.S. program. It is neither a Ph. D thesis, nor any master piece of work. The study covers the time period of last 5 years from fiscal year 2002/03 to 2006/07. The study is fully based on the students' financial resources and it is to be conducted and submitted within time constraint. Further, the study is not a final study on the subject. There are 16 commercial banks in Nepal. Due to time and resource constraints, only two commercial banks (NABIL and NSCBL) have been selected as samples in the study. The study is primarily based on the secondary data source such as annual reports of concerned banks and other related journals, magazines, books etc. The up-to-date and complete data are very difficult to obtain due to inability of providing the required data by concerned authority. Variations in the data itself are also found when comparing with different sources. So the reliability of conclusion of the study depends upon the accuracy of secondary data. There could be many factors affecting the dividend decision and valuation of the firm. However, only those factors related with dividend will be considered in this study.

1.7 Chapter Scheme

This study has been comprised into five chapters, each devoted to some aspects of dividend policy and practices of commercial banks. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

Chapter I: Introduction

This Chapter deals with the subject matter consisting introduction, focus of the study, identification of the problem, importance of the study, objectives of the study, limitation of the study and chapter scheme of the study.

Chapter II: Review of Literature

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

Chapter III: Research methodology

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

Chapter IV: Presentation, Analysis of Data and Major findings

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

Chapter V: Summary, Conclusions and Recommendations

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

CHAPTER II

REVIEW OF LITERATURE

2. Introduction

After selecting the topics of the research, researcher study different magazines, journals, and newspaper, book to collect the information about their subject matter. This process of studying different materials, which are concerned with the selected topics of the research, is known as review of literature. P.V. Young argues "Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research".

2.1 Conceptual Framework

The dividend decision or dividend policy of a firm is one of the major decision making areas of financial management. Simply, the policy of a company and the division of its profit between dividend and retention are known as dividend policy. "While dividend policy refers to the guidelines that management uses in establishing portion of earning that is paid to the shareholders in the form of dividend". (*Mathea, 1979, P. 297*). The firm will use the net profit for paying dividends to the shareholders, if the payment will lead to maximization of the wealth of the owners, if not, it is better to retain them for investment.

How much dividend should be retained in business, is not a simple question. Since dividends would be more attractive to shareholders, one might not hesitate to say that dividends weight more then retention in the perception of the shareholders. But one might equally pressure that gross dividend would be reduced some what with an increase in net after tax dividend still available to shareholders and an increase in retained for the corporation. It would be wise policy to maintain balance between shareholders interest with that of corporate growth from initially generated fund. If the company cannot get required rate of return by investing the funds in investment opportunities, it will be better to distribute funds so that the shareholders can invest in the more profitable project. This arguments of funds plugging back into the shareholders in an analogy to the financial management's objective to increase the value of the shareholders wealth or well being and that well being can be measured by dividend received but more accurate measure is the market value of the stock.

Normally, dividends are paid in cash, which decrease the cash balance of firm. It affects the investor's attitude, financial structure, corporate liquidity and the flow of funds.

2.1.1. Forms of Dividend.

In addition to the declaration of cash dividends, the firm has other options for distributing profits to shareholders. Other option may be the payment of the bonus shares or stock dividend. In this section, stock split is also discussed. The stock split is not a form of dividend; but its effects are similar to the effects of the bonus share.

I) Cash Dividend

Cash is a major form of dividend. Most of companies pay dividend in cash. A company should have enough cash in its bank account when cash dividends are declared. To pay cash as a dividend, the company should have enough cash. If the company has not sufficient cash then the company should made arrangement to borrow funds. When the company follows a stable dividend policy, it should prepare a cash budget for coming period to indicate the necessary funds, which would be needed to meet the regular dividend payment of the company. The cash account and the reserve account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend is distributed.

II) Stock Dividend (Bonus shares) and share split

A stock dividend is simply the payment of additional shares of common stock to shareholders. It occurs when the board of directors authorizes a distribution of common stock to existing shareholders. This has the effect of increasing the number of outstanding shares of the firm's stock. The bonus shares do not affect the wealth of the shareholders. In practice, however it carries advantage both to shareholders and the company. For shareholders, one of the advantages for receiving the bonus shares is the beneficial treatment of such dividends with regard to income tax. Normally, it is also indication of higher future profits. The declaration of the bonus issue may have a favorable psychological effect on shareholders. The bonus share is also advantageous to the company because it conserves the cash and only means to pay dividend under financial difficulty and contractual restrictions.

A stock split is eventually the same, when a stock splits; shareholders are given a large number of shares, for the old shares they already own. In either case, each shareholder retains the same percentage of all outstanding stock that he or she had before the stock dividends or splits.

III) Bond Dividend

Bond dividend distributed its shareholders in form of bonds. Bond dividend assists to postpone the payment of cash. In other words, company declares dividend in the form of its own bond with a view to avoid cash outflows.

IV) Scrip Dividend

When earning of the company justifies dividends but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of scrip. In this method of dividend, company issues and distributes transferable promissory notes to shareholders, which may be interest bearing or not. Scrip dividend is justified only when the company has really earned profit and has only to wait for the conversion of others current assets into cash in the course of operation.

V) Property Dividend

This involves a payment of assets/ property in any form other than cash. This form of dividend may be used when there are assets that are no longer necessary in operation of the business or in extraordinary circumstances. Companies owned products and securities of subsidiaries are the examples that have been paid as property dividend.

2.1.2 Corporate Share Repurchase

Corporate share repurchase is taken as an alternative to paying dividends. If a firm has some surplus cash (or it can borrow), it may choose to buy back some of its own stock. It is essential to see why share repurchase may be viewed as an alternative to paying dividends. By repurchasing a stock, a company is reducing the number of shares outstanding. If the price-earning (P/ E) ratio does not change after the repurchase, the stock price must rise. "If a firm has excess cash and insufficient profitable investment opportunities to justify the use of these funds, it is in the shareholders interest to distribute the funds. The distribution can be accomplished either by the repurchase of stock or by paying the funds out in increased dividends" (*Horne, April 1997, P.331*). It is thus corporate share repurchase is often viewed as an alternative to pay dividends. A

repurchase is a signal that manager, who possesses an insider's knowledge of the firm, are convinced that their stock is worth more than its current price in addition, their conviction is strong enough to lead them to pay a premium for the stock despite the risk of dilution if they are wrong. Nepalese Company Act 1997, section 47 has prohibited company from purchasing its own shares. It states that no company shall repurchase its own share or supply loans against the security of its own share.

James C. Van Horne quoted that the equilibrium share repurchase price (P^*), a company should offer is:

$$P^* = \frac{S \times P_C}{S - N}$$

Where,

S = Number of shares outstanding prior to the distribution.

P_C = Current market price per share prior to the distribution.

N = Number of share to be repurchased.

2.1.3 General Types of Dividend Policies

(Pradhan, 1992, P.377)

In general, the assumption behind the dividend policy being followed in the real world is that policy makers take into account the factors that affect the values of the firm in whatever policies they make. But it is very difficult to say, which policy, among all those being adopted by firms, is correct and optimal. The dividend policy can be simply grouped into four general categories.

I) Stable Rupee Amount Policy

The stable rupee amount implies a steady change in dividend amount, which increases at a certain constant growth rate to compensate for inflationary effect (or remain constant or decreases at a stable decreasing rate depending on the trend of earnings) irrespective of short-term fluctuations in earnings.

II) Constant Payout Ratio

The policy to distribute a certain percentage of profit every period is called payout ratio. The payout ratio is the ratio of dividend to profit. There are many companies which use a constant percentage of profit for dividend distribution? When a company uses a

constant payout ratio, amount of dividend fluctuates as earnings do. In other words, the amount of dividend increases or decreases proportionately with earnings.

III) Low Regular plus Extras

Those companies whose stockholders prefer at least a certain amount of regular dividend plus extra dividend based on company performance mostly follow this type of policy. Management fixed a minimum regular dividend to be paid in any case unless a long run trend of losses is expected. The amount of extra dividend depends on the level of earnings. Thus, a total dividend each stockholder receives is based on a fixed amount plus a certain percentage of profit.

IV) Residual Dividend Policy

There are many factors, each noted before, which influence dividend policy. However, among all earnings and investment opportunities are considered as determining factors in the residual dividend policy is the outcome to belief that investors are better off in reinvesting company profits and they prefer so. If the expected return on the reinvestment is higher than what individual investors can realize on their own, it is to the shareholders advantage to first invest profits in those projects that promise higher profit and then distribute only the leftovers as dividends.

The residual dividend policy states that profit should be used first in all profitable investment plans, which reflect equal or higher rate of return than investor's opportunity rate of return. And if there is any profit left that could not be utilized, it should be distributed as dividends. The principle on which the theory is based is clear, that is, to maximize the benefits to shareholder be first undertaking investment plans and distributing dividends if there is any leftover.

The residual policy says that the dividends decisions should be such that

- (a) Profits are reinvested to the optimum investment level that reflects maximum returns;
- (b) Reinvestment of profits help maintain optimal capital structure; and
- (c) Dividends are to be paid only if earnings are more than enough for investment plans.

Thus, the residual policy is consistence with the basic objective of value maximization, places more importance to overall value maximization than present dividend to shareholders.

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

2.2 Factors Affecting Dividend Policy

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

2.2.1 Legal Rules

Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. Second specific limitations, which is vary by state. Generally a corporation may not pay a dividend at following condition.

- i. If the firm's liabilities exceed its assets.
- ii. If the amount of the dividend exceeds the accumulated profits (retained earnings)
- iii. If the dividends are being paid from capital invested in the firm.

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

2.2.2 Liquidity Position

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

2.2.3 Restrictions in Debt Contracts

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

2.2.4 Desire of Shareholders

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

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

2.2.5 Rate of Asset Expansion

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

2.2.6 Profit Rate

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

2.2.7 Stability of Earnings

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

2.2.8 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 where as corporations owned by small investors tend toward higher dividend payout.

2.2.9 Control

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

2.2.10 Access to the Capital Markets

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

2.3 Rules regarding dividend practices in Nepal

Nothing had been explained about dividend practice in Company Act 2021 in Nepal but after the establishment of Security Exchange Act 1983, Nepal Stock Exchange Limited which safe the investor's interest. After that, in 1997 Nepal Company Act has established which had made some legal provision for dividend payment. These provisions may be seen as under :(*Endi Consultants Research Group 1997, p. 43*)

Section 2 (m) states that stock dividends (Bonus share) means share issued in the forms of additional shares to shareholders by capitalizing the surplus from the profit or the reserve fund of the company. The term also denotes an increase in the paid up values of the shares after capitalizing surplus or reserve fund of a company. The term also deviate an increase in the paid up values of the shares after capitalizing surplus or reserve funds. (*Endi Consultants Research Group, p. 60*)

Section 47 has prevailed company from purchasing its own share. This section states that no company shall purchase its own shares or supply loans against the security of its own. (*Endi Consultants Research Group, p. 94*)

Section 137, Bonus shares & sub section (i) states that the company must inform the office before issuing bonus shares under sub section (i), this may be done only according to special resolution passed by the general meeting. (*Endi Consultants Research Group, pp. 94-95*)

Section 140: Dividend and sub section of this section are as follows.

1. Except in the following circumstance, dividend shall be distributed among the shareholders within 45 days from the date of decision to distribute them.
 - a) In case any law forbids the distribution of dividends.
 - b) In case the right to dividend is disputed.

- c) In case dividends can not be distributed within the time limit, mentioned above owing to circumstances beyond anyone control and without any fault on the part of the company.

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

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

The above rules indicate that Nepalese law prohibits repurchase of stock, which is against the theory of finance. The reason for this kind of provision is not known.

2.4 Review of Major Studies in the Relevant Field

Here, we are going to review of the major studies concerning dividends, behavioral aspect of dividend policy, and dividends effect upon value of enterprises and dividend's effect on market price of share.

2.4.1 Walter's Study

James E. Walter in his study concluded that the choice of dividend policies almost always affects the value of enterprises. (*Walter, 1996, pp. 29-44*). In his study he suggests that dividend practice of firm affects its stock price. Walter's specially highlight that, there is significant relationship between internal rate of return and cost of capital, which is the main determining factor to retain its earnings or to distribute dividend to shareholder.

His study was based on the following assumptions

- ❖ The firm finances all investment projects through retained earning.
- ❖ All earning are either distributed as dividend or reinvested internally.
- ❖ The firm's internal rate of return (r) and its cost of capital (K) remain constant.
- ❖ There is no change in value of earnings per share and dividend per share.
- ❖ The firms have perpetual life.

Based on these assumptions, Prof. Walter develops a model to determine the market price per share is as follows:

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

Where,

P= Market price per share

DPS= Dividend per share

EPS= Earnings per share

r= Internal rate of return

K= Cost of Capital

According to this study the given firm may have three probable conditions. They are:

Growth Firms, $r > K$

If the firm's internal rate of return is more than cost of capital, the relation between dividend and stock price is negative, i.e., more dividend leads to low stock price and vice-versa. This kind of firm is referred to as growth firm. The zero dividend payout ratios would maximize the market value of stock for growth firm.

Normal Firms, $r = K$

If a firm has $r = K$, there is no relation between dividend and stock price, i.e., there is no role of dividend payout ratio for determining stock price. In this situation the firm is indifferent whether to retain its earnings or to pay dividends, such firms are called normal firms.

Declining Firms, $r < K$

If the firm's internal rate of return is less than the cost of capital, the relation between dividends and stock prices is positive, i.e., increase in payout ratio leads to increase in stock price. This type of firm is referred to as declining firm. Prof. Walter argues that 100% dividend payout would optimize the market price of share for such firm.

In this way, Walter's study concludes that dividends are negatively correlated with market value of stock for growth firm, positively correlated for declining firm and there is no relation between market value and dividend payout ratio for normal firm.

2.4.2. Gordon's Study

In 1962, Myron Gordon developed his theory. In his study he concluded that dividend policy of a firm affects its value. (*Gordon, 1962, p.57*).

A firm having greater investment opportunities tends to increase retention ratio by keeping low dividend payout ratio. In his dividend model, he assumes that the firm is all equity financed and also making the firm to rely on retained earnings without external

financing. According to him, market value of the share is equal to present value of an infinite stream of dividend to be received by the share.

Basically his model based on the following assumptions:

- a. No external financing is available i.e., only source is retained earning.
- b. The firm uses equity capital only.
- c. Internal rate of return (r) and cost of capital (K) of the firm remains constant.
- d. The firm has a perpetual life.
- e. There are no taxes on corporate income.
- f. The growth rate, $g = br$, is constant forever.
- g. Growth rate is always smaller than cost of capital $G < K$.

From, his above assumption, Gordon develop following formula for finding out the market value per share,

$$P = \frac{E(1-b)}{K_e - br}$$

Where,

P = Market value per share

E = Earning per share

b = Retention ratio

K_e = Cost of capital or capitalization rate

r = Interest rate of return

br = growth rate (g)

$1-b$ = Dividend payout ratio. i.e. percentage of earning distributed as dividend.

According to his study, following facts are revealed.

- In case of growth firm, share price tends to decline in corresponding with increase in payout ration or decrease in retention ratio i.e. high dividend corresponding to earnings leads to decrease in share price. Therefore, dividend and stock price are negatively correlated in growth firm.
- In the normal firm, share price remain constant regardless of change in divided policies. It means dividend and stock prices are free form each other in normal firm.

- In the case of declining firm, share price tends to rise in correspondence with raise in dividend payout ration. It means dividend & stock prices are positively correlated with each other in a decline firm.

2.4.3. Linter's Study

During the period of 1956, Linter an important study of the behavioral aspect of dividend policy in the American context. From the tested of 28 companies in America partial adjustment model was developed by him. From the he concluded that a major portion of the dividend of a firm could be expressed in the following way. (*Linter, 1956, pp. 97-113*)

$$\text{Div}_t^* = P^{\text{EPS}}_t \quad \dots\dots\dots \text{(i)}$$

$$\text{and } \text{Div}_t^* - \text{Div}_{t-1} = a + b (\text{Div}_t^* - \text{Div}_{t-1}) + e_t \quad \dots\dots\dots \text{(ii)}$$

$$\text{or } \text{Div}_t = a + b \text{Div}_t^* + (1-b) \text{Div}_{t-1} + e_t \quad \dots\dots\dots \text{(iii)}$$

Where,

Div_t^* = is firm's desired payment Eps_t = Earning per share

P = targeted payout ratio a = Constant relating to dividend growth

b = Adjusted factors relating to previous period's dividend and new desired level of dividend whose $b < 1$.

The major findings of this study were.

- 🚩 Firms generally think in terms of proportion of earning to be paid out.
- 🚩 Investment requirements are not considered for modifying the pattern of dividend behavior.
- 🚩 Firm generally have target payout ration in view while determining change in dividend, or dividend rate.

2.4.4 Modigliani and Miller's Study

In 1961 Modigliani and Miller, for the first time in the history of finance argued that the dividend policy doesn't affect words divided has no effect on the stock price of the firm. In other words dividend has no effect on the stock price of the firm. They argued that the value of the firm depends upon the firm's earnings, which depends on its investment policy. That's why, MM theory; a firm's value is independent of dividend policy. (*Modigliani & Miller, 1961, pp. 411-433*)

This study is based on the following assumption.

- ❖ The firm operates in perfect capital market(i.e. all investors are rational, information is freely available, floatation costs does not exist, infinitely divisible securities and no investors are large enough to affect market price of security).
- ❖ There are no taxes.
- ❖ The firm has a fixed investment policy, which is not subject to change.
- ❖ Risk of uncertainty does not exist.

Considering the above critical assumption MM provide the proof in support of their arguments.

$$nP_0 = \left(\frac{P_1(n + \Delta n) - I + E}{1 + Ke} \right)$$

Where,

- | | |
|-------------------------------|--|
| nP_0 = Value of firm | P_1 = Market price of the share at the end of year. |
| n = No. of additional share | Δn = No. of new shares at the end of the period. |
| I = Total investment | E = Total Earning of the firm. |

By taking the above equation, it is formed that there is no role of dividend in estimating the value of firm. So Modigliani & Miller concluded that dividend policy has no effect on the share price or value of the firm.

Hence, MM theory concluded that, it seems that under the conditions of perfect capital market, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy, its dividend policy may have no influence on the market price of the share. (*Modigliani & Miller 1966, p. 345*)

2.4.5 Van Horn & Mc - Donald's Study

Van Horn and Mc Donald conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They explored some basic aspects of conceptual framework, and empirical tests were performed during year-end 1968, for two industries, using a well-known valuation modal. The required data were colleted from 86 electric utility firms

included on the COMPUSTAT utility data tape and 39 firms in the electronics and component industries as listed on the COMPUSTAT industry data tape. (*Van Horne & McDonald, 1971, pp. 507-519*)

They tested two regression models for the utilities industries.

First model was,

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + U$$

Where,

$$P_0/E_0 = \text{Closing market price in 1968 dividend by average EPS for 1967 and 1968}$$

g = Expected growth rate, measured by the compound annual rate of growth in assets per share for 1960 through 1968.

D_0/E_0 = Dividend payout, measured by cash dividend in 1968 dividend by earnings in 1968.

Lev = Financial risk, measured by interest charges dividend by the difference of operating revenues and operating expenses.

$$u = \text{Error term}$$

The Second Model was,

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (F_a) + a_5 (F_b) + a_6 (F_c) + a_7 (F_d) + U$$

Where,

F_a, F_b, F_c and F_d are dummy variables corresponding to new issue ratio (NIR) groups A through D.

It is noted that they had grouped the firms in five categories A, B, C, D and E by NIR. For each firm the value of dummy variables representing its NIR group is one and the value of remaining dummy variables is zero.

Again, they tested the following regression equation for electronics electronic components industry.

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (OR) + U$$

Where,

Lev= Financial risk, measured by long-term debt plus preferred stock dividend by net worth as of the end of 1968.

OR= Operating risk, measured by the standard error for the regression of operating earnings per share on time of 1960 through 1968, and rest are as in first model above.

By using these models or methodology, they compared the result obtained for the firms, which both pay dividends and engage in new equity financing with other firms in and industry. They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividends, except for those in the highest new issue group and it made new a mostly costly form of financing than the retention of earning. They also indicated that the payment of dividends through excessive equity financing reduces share prices for electronics, electronic components industry, a significant relationship between new equity financing and value was not demonstrated.

2.4.6 R. Richardson Pettit's Study

In 1972 R. Richardson Pettit's developed a theory, which is most comprehensive that was "Dividend announcement security performance and capital market efficiency". The main objective of the study was to offer further evidence about the validity of efficient market's hypothesis by estimating the speed and accuracy with which market price react to announcements of changes in the level of dividend payment. The objectives were to provide evidence on the hypothesis that changes in dividend levels convey important information to market participants. For the purpose of the study, they collected necessary data monthly and daily. In the context of monthly data, they collected 625 New York Stock Exchange (NYSE) firms for the period of Jan. 1964 through June 1968 from the wall street journal index whereas daily data were collected for 135 announcements made in the 1967- 1969. (*Pettit, 1972, pp. 993-1008*)

They employed well-known model, i.e. market model

$$R_{it} = \alpha_1 + \beta_1 R_{mt} + u_{it}.$$

Where,

R_{it} = the investment relative of the i^{th} security in time period t .

R_{mt} = the investment relative to the market.

u_{it} = A random error term incorporating the effect of the factors that affect only the i^{th} security.

β_1 = It measures the response of this security's return to factors that affects the return on all securities.

The result of this investigation clearly supports the proposition that the market makes uses of announcement of changes in dividend payment in assessing the value of security. Management's fear of reducing or omitting dividends seems well founded and leads to a desire to delay increasing dividend until a level of cash flows can be estimated with little uncertainty. They suggest at least two conclusions regarding rules and regulations of corporate disclosure.

2.4.7 Friend and Puckett's Study

Friend and Puckett had conducted a study on the relationship between dividend and stock prices based on 110 firms from five industries. There five industries were chemical, electronic, food, steel and electric utilities. The study prior covered a boom year for the economy when stock price leveled off after rise (1956 A. D) and a somewhat depressed year for the economy when stock prices, however, rose strongly (i.e. 1958 A.D). (*Friend and Marshall, 1964, pp. 656- 682*)

They used dividends, retained earnings and price earning ratios as independent variables in their regression model of price function. They also used dividend (supply) function on which earnings, last year's dividends and price earnings ration are independent variables.

Their price function and dividend (supply) function can be presented as follows:

I) Price Function

$$P_t = a + bD_t + cR_t + d \left(\frac{E}{P} \right)_{t-1}$$

Where,

P_t = Price per share at time t.

D_t = Dividend at time t

R_t = Retained earning at time t.

$\left(\frac{E}{P} \right)_{t-1}$ = Lagged earnings price ratio.

II) Dividend (Supply) Function

$$D_t = e + fE_t + gD_{t-1} + h \left(\frac{E}{P} \right)_{t-1}$$

Where,

$$E_t = \text{Earning per share at time } t \quad D_{t-1} = \text{Last year dividend}$$

This study was based on following assumption.

- a) Dividends do react to year-to-year fluctuation in earnings.
- b) Price doesn't contain speculative components.
- c) Earnings function may not sum zero over the sample.

The conclusion of Friend and Puckett's study was, 'it is possible to increase stock price in non growth industry by raising dividend, and in growth industry by greater retentions or low dividends.'

2.4.8 Deepak Chawala and G. Srinivasan's Study

In India, Chawala and Srinivasan studied the impact of dividend and retention on share price.¹⁸ Chemical and 13 sugar industries were selected for the study. (*Chawala and Srinivasan, 1987, pp. 137-140*)

The objectives of their study were as follows:

- To set a model to explain share price, dividend and retain earnings relationship.
- To test the dividend, retained earnings hypothesis.
- To examine the structural changes in the estimated relations over time.
- To explain the price behavior, they used simultaneous equation model as developed by friend and Puckett (1964).

Price Facion

$$P_t = F \left[[D_t, R_t, \left(\frac{P}{E} \right)^t / (t-1)] \right]$$

Dividend Supply Function

$$P_t = F \left[[E_t, D_{t-1}, \left(\frac{P}{E_s} \right)^t / (t-1)] \right]$$

Where,

P = Market Price Per Share

D = Dividend per share

R = Retained per share

E = Earning per share

$\left(\frac{P}{E^t} \right)$ = Deviation from the sample average of price earning ratio.]

t = Subscript for time.

They used two stage least square techniques for estimation and in case of chemical industry they found the estimated coefficient had the correct sign and the coefficient of determination of all the equation were very high. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry, they found the sign for the retained earnings is negative. Finally, they concluded that dividend hypothesis holds well in chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry. They also stressed that the impact of dividend is more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings.

2.5 Review of Research Works in Nepalese Perspective

In this regard, there are very few articles published in Nepal under this sub- section, the two major studies are reviewed as follows:

2.5.1 Pradhan's Study

This study on “*Stock market behavior in a small capital market: A case study of Nepal*” was based on the data collected for 17 enterprises from 1986 through 1990. (Pradhan, 1993, pp. 23-49)

The following were the objectives of the study.

- To assess the stock market behavior in Nepal.
- To examine the relationship of market equity, market value to book value, price-earnings, and dividend with liquidity, profitability, leverage, assets turnover, and interest coverage.

The employed equation was:

$$V = b_0 + b_1 \text{ LIQ} + b_2 \text{ LEV} + b_3 \text{ EARN} + b_4 \text{ TURN} + b_5 \text{ COV} + U_t$$

Where,

The dependent variable V chosen for the study has been specified as under:

- Market equity (ME) - Market value of equity to its book value $\left(\frac{MV}{BV}\right)$.
- Price- earning ratio $\left(\frac{P}{E}\right)$.
- Dividend per share to market price per share $\left(\frac{DPS}{MPS}\right)$.
- Dividend per share to earning per share $\left(\frac{DPS}{EPS}\right)$.

LIQ= Current ratio (CR) or quick ratio (QR).

LEV= Long-term debt to total assets $\left(\frac{LTD}{TA}\right)$ or long-term debt to total capitalization $\left(\frac{LTD}{TC}\right)$.

EARN= Return on assets, that is earning before tax to total assets $\left(\frac{EBT}{TA}\right)$ or earning before tax to net worth $\left(\frac{EBT}{NW}\right)$.

TURN = Fixed assets turnover, that is, sales to average fixed assets $\left(\frac{S}{FA}\right)$, or total assets turnover, that is sales to average total assets $\left(\frac{S}{TA}\right)$.

COV = Interest coverage ratio, that is, earning before tax to interest.

U = Error term

Some findings of his study, among others, were as follows.

Higher the earnings on stocks, larger the ratio of dividends per share to market price per share.

Dividend per share and market price per share was positively correlated.

Positive relationship between the ratio dividend per share to market price per share and interest coverage.

Positive relationship between dividend payout and liquidity.

Positive relationship between dividend payout and profitability.

Positive relationship between dividend payout and turnover ratios.

Positive relationship between dividend payout and interest coverage.

Liquidity and leverage ratios are more variable for the stock paying lower dividends.

Earnings, assets turnover, and coverage are more variable for the stock paying higher dividend.

2.5.2 Shrestha's Study

One article, "Public Enterprises: Have they dividend paying ability"? Was published in 1981 by Prof. Dr. Manohar Krishna Shrestha, which gives short glimpse of the dividend performance of some public enterprise of that time in Nepal. (*Shrestha, 1981, P.23*)

Dr. Shrestha has highlighted following issues in his article.

- HMG expects two things from the public enterprises:
 - i. They should be in a position to pay minimum dividend and
 - ii. The public enterprises should be self- supporting in financial matters in future years to come, but non of these two objectives are achieved by the public enterprises.
- One reason for this inefficiency is caused by excessive governmental interference in day-to-day affairs. On the other hand, high-ranking officials of BIMG appointed on directors of Board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and thus led corporation to face losses. Losing corporations are, therefore, not in position to pay dividend to government.
- Another reason is the lack of self-criticism and self-consciousness. Esman has pointed out that the lack of favorable leaders is one of the biggest constraints to institution building: Moreover, corporate leadership comes as managers of corporations have not been able to identify them regarding what they can contribute as managers of

corporations. So, HMG must be in a position to develop a financial target in corporate investment by imposing financial obligation on corporation.

- The article point out the irony of government biasness that government has not allowed banks to follow an independent dividend policy and HMG is focused to have pressurized on dividend payment in case of Nepal Bank Ltd. regardless of profit. But, it has let off Rastriya Banijya Bank from dividend obligation in spite of considerable profit.

The improvements suggested by author are:

- ❖ Adopt a criteria-guided policy to drain resources from corporations through the medium of dividend payment.
- ❖ Realization by Managers about the cost of equity and dividend obligation.

If HMG want to tap resources through dividend, the following criteria should be followed.

- ❖ Proper evaluation of public enterprises in term of capability of paying dividend should be made through corporation co-ordination committee.
- ❖ Imposition of fixed rate of dividend by government to all the financially sound public enterprises.
- ❖ Circulating the information to all the public enterprises about the minimum rate of dividend.
- ❖ Specifying performance criteria such as profit target in terms of emphasis, priorities, timing and plans and developing a strategic plan that is not just a statement of corporate aspiration but must be done to convert the aspiration into reality.
- ❖ Identification of corporation objectives in corporation Act, Company Act or special charter so as to clarify the public enterprise managers regarding their financial obligation to pay dividend to HMG.

2.6 Review of Previous Thesis

Prior to this thesis, some student has conducted several thesis works. Out of them, as are supposed to be relevant for this study have been reviewed in this section.

Yagya Bahadur Katawal has conducted a thesis on "A comparative study of dividend policy in Commercial Banks" in July 2001 based on data collected from 1994/95 to 1998/99 for 6 sample commercial banks.

The main objectives of his study were:

- a) To study the current practice of dividend policy in commercial Banks.
- b) To find out the impact of dividend on share prices.
- c) To analyze the relationship of financial indicators.
- d) To examine if there is any uniformity among DPS, EPS and DPR on the six sample Banks.

The major findings of his study were as follows:

- a) Average EPS and DPS for the period covered by the study of all concerned banks are satisfactory.
- b) Analysis of coefficient of variation indicates that there is largest fluctuation in EPS and DPS and other are relatively more consistent.
- c) The analysis of DPR shows none of the sample banks have consistent dividend policy.
- d) The market value of shares in the market is fluctuating in all sample banks.
- e) The most important decision is that no specific dividend payment strategy is followed by these banks. Payment of cash dividend and stock dividend are made without wise managerial decision due to unstable and adequate dividend and unequal payout ratio.

It is better to research about the dividend policy in the Joint Venture Commercial Banks.

2.6.2 P. L. Rajbhandari's Study

This study takes into consideration of data of only five year 1994/95 through 1998/99. Six companies taken as sample. Her main findings are (*Rajbhandari: 2001*):

- ❖ Average earning per share seems satisfactory of all sample companies.
- ❖ The positive relationship between dividend per share and earning per share.
- ❖ The coefficient of correlation between Earning per share and market price to the negative.

- ❖ The relationship between market price per share and dividend is positive Dividend payment is not consistency of all six sample companies.

The Institutions do not seem to follow the optimal dividend policy of paying regular dividend as per shareholders expectation and interest.

At first, her study is based on secondary data of past five year 1994/1995 to 1998/99. That may not represent the exact practice of dividend policy of Joint Venture Banks and Insurance Companies based on secondary data only.

Secondly, she did not explain the existing capital market in Nepal.

The dividend it in macro level but it is necessary to do comparative study and analysis of dividend policy in micro level for the as of joint ventures banks and insurance companies as well.

They have not calculated the test of hypotheses, especially ANOVA test therefore, whether the financial indicator such as EPS, DPS & DPR results obtained values are significant or not.

2.6.3 Prabin Kumar Ghimire's Thesis

Prabin Kumar Ghimire has conducted a study on "Dividend policy of listed companies (with Ref. to Banks, Finance and Insurance companies.) in 2002. This study was conducted by taking four sample companies from banking sector.

The main objectives of his studies were:

- a) To identify the dividend policy of different sample companies.
- b) To identify the regularity of dividend distribution of different listed companies.
- c) To identify the relationship between dividend policy & other financial indicators.
- d) To analyze the relationship between dividend per share and market price per share.
- e) To find out whether dividend policy affects value of the firm or not.

His major findings were as follows:

- a) The average earning per share of the bank is satisfactory than finance & insurance companies.
- b) The average dividend per share of the banks is also satisfactory as compared to finance & insurance companies.

- c) DPS of the finance companies are more fluctuating in comparison to banks. Among them HBL has more fluctuating and BGBL being consistent.
- d) Dividend yield of the finance & insurance companies are higher than banks and also more consistent.
- e) Banks are following aggressive dividend policy due to higher DPR where as finance & insurance companies have implemented moderate dividend policy.

These studies cover the data till 1998/99. There are many changes taken place in last few years. So, it is necessary to carryout a fresh study related to dividend pattern in Nepalese companies. In this study, it has tried to carryout the latest data f the sample companies for analyzing the dividend policies of these companies. Because the earlier studies on dividend have became old and need to be updated due to the rapid changes taking place in financial market of Nepal.

2.6.4 Meghana Gurung's Thesis

Meghana Gurung has conducted a thesis on "Dividend Policy of Nepalese Listed Companies" in September 2003.

The main objectives of her study were:

- a) To assess prevailing dividend policy adopted by listed companies.
- b) To study whether or not dividend influences the liquidity position and stock prices of selected companies.
- c) To examine whether there is significant difference between DPS, EPS and DPR of the selected companies.
- d) To identify the relationship between dividend policy and other financial indicatirs.

Her main findings were:

- a) Some joint venture bank does not have stable and consistent dividend payment practice except SCBNL.
- b) The DPS & EPS of all the banks are positively correlated which means higher the EPS, higher will be the DPS.
- c) The DPS of all sample banks are highly fluctuating except SCBNL.

- d) NBBL should not consider their liquidity position while making dividend payment decision.
- e) There is no long-term vision regarding earnings and dividend per share which helps them to cope with challenging competitive situation of present world.
- f) There seems a necessity to establish an organization that carries out activities to promote and protect shareholders/investors interest.
- g) Investment is not considered during dividend payment. However, it is seen that when the investment are at increasing rate the dividends of the banks are highly fluctuating.

2.6.5 Rabindra Paudel's Study

A study 'Dividend Policy': A case study of different listed finance companies conducted by Rabindra Paudel has concluded that (*Paudel, 2000*):

- ❖ Dividend practices of all the sample companies are neither stable nor constantly growing. Moreover, haphazard way is adopting but in growing trend.
- ❖ Relationship between DPS with EPS, NAPAT and NW are positive in all these finance companies. Whereas relationship between DPS with average stock price is in improving condition with compare to previous year.
- ❖ Change in DPS affects the MPS differently in different finance companies.

The situation of capital markets of Nepal is in improving condition. So the capital markets are efficient with compare to previous years. But still capital markets of Nepal are inefficient.

Reviewing the available studies in Nepal, it is found that no one has conducted any studies of dividend practices especially commercial bank. Regarding dividend policy, dividend decision is major decision of the company. It has direct effect on the market value of share and its trend is very important to attract rational investors.

Actually, Commercial Banks are financial institutions. It provides those kinds of services, which are different from other bank like development, agriculture etc. So, in Commercial Bank there should be some unique policy and strategy. This study differs from the previous studies because it tries to analyze the capital market explaining whether the capital market is efficient or inefficient which is not cover by previous studies.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to study systematically to solve the research problem. (C.R. Kothari: *New Delhi, 1990*). In other words, research methodology describes the methods and processes to be followed during the research period. The basic objective of the study is to compare the dividend policy and practices of Nepalese Joint Venture Banks and the factors that affect it. It also tries to find out the relationship between dividend and earning per share, net profits after taxes, market price of shares and net worth of Joint Venture Banks taken as sample for data analysis purpose. It is given in another subtopic of this section. Basically secondary data will be used for analysis.

3.2 Research Design

Research design is a plan, structure and strategy of investigation. It is conceived so as to obtain answers to research questions and to control variance. Research design helps in the analysis of data related to the study topic. It is a controlling media for the collection of data. It helps to collect the accurate information, which is related to dividend practices of the JVBs. The research design of this study will be descriptive as well as analytical by using the all variables related to the dividend policy of JVBs. For the analytical purpose, the reports of relative JVBs will be collected from the year 1997/98 to 2006/2007.

3.3 Populations and Sample

Since mid 1980s when HMG adopted economic liberalization policy in Nepal many Joint venture banks have established within a short period of time. As a result, now a day, many Joint Venture Banks are operating in the country.

There are many Joint Venture Banks whose share is traded actively in the stock market. It is not possible to study all of them regarding the study topic. Therefore sampling technique will be used for selecting sample from population. The list given below shows the licensed commercial banks in the securities board.

S. No.	Name of Banks	Estd (B.S.)
i.	Nepal Bank Ltd.	1994
ii.	Rastriya Banijya bank	2022
iii.	Agriculture Devt. Bank Ltd.	2024
iv.	Nabil Bank Ltd. (Prev. Nepal Arab Bank Ltd.)	2041
v.	Nepal Investment Bank Ltd (Prev. Nepal Indosuez Bank Ltd.)	2042
vi.	Standard Chartered Bank Nepal Ltd. (Prev. Nepal Grindlays Bank Ltd)	2043
vii.	Himalayan Bank Ltd.	2049
viii.	Nepal SBI Bank Ltd.	2050
ix.	Nepal Bangladesh Bank Ltd.	2051
x.	Everest Bank Ltd.	2051
xi.	Bank of Kathmandu Ltd.	2051
xii.	Nepal Credit & Commercial Bank Ltd. (Prev. Nepal Bank of Ceylon)	2053
xiii.	Nepal Industrial & Commercial Bank Ltd.	2055
xiv.	Lumbini Bank Ltd.	2055
xv.	Machapuchhre Bank Ltd.	2057
xvi.	Kumari Bank Ltd.	2056
xvii.	Laxmi Bank Ltd.	2058
xviii.	Siddhartha Bank Ltd.	2059
xix.	Global Bank Ltd.	2063
xx.	Citizen International Bank Ltd.	2063

Table 3.1 List of licensed Commercial Banks

Out of 20 commercial banks that are operating their activities in Nepal, only 15 commercial banks are listed in Security Board of Nepal. This research work has selected 3 Commercial Banks for the study purpose. The samples selected for this study are as given below:

Standard Chartered Bank Nepal Ltd. (Previously Nepal Grindlays Bank Ltd.)

- 1) Nepal SBI Bank Ltd.
- 2) Nabil Bank Ltd. (Nepal Arab Bank Ltd.)

Thus in our study,

Population Size : 20

Sample Size : 3

In this research study, the sample size is 15% of the population size.

3.4 Nature and Sources of Data

The study mainly conducted on the basis of primary and secondary data. To analyze the study topic, the required data of secondary has been collected from annual reports of concerned joint venture banks. Other supplementary data and information are obtained from Nepal Rastra Bank's Reports. In addition to it, the other data are collected from Financial Statement published by Nepal Stock Exchanged Ltd., Ministry of Finance SEBON and National Planning Commission. and the primary data has been collected by the researcher or through agent for the first time form related field and possessing original characters are knows as primary data.

3.5 Method of Analysis

The analysis of the joint venture banks data will be conducted according to the pattern of data available. Various financial and statistical tools have been applied to analyze the variables regarding the study topic. The various calculated results have been obtained through financial and statistical tools. They are tabulated under different headings by using various financial and statistical tools.

3.5.1 Financial Tools

The analysis of this study is based on following financial tools.

1. Earning Per Share (EPS)

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the profitability of the shareholders investment. The earning per share shows the profitability of the banks and finance companies. The higher earning indicates the

better achievements in terms of profitability of the banks by mobilizing their funds and vice-versa. In other words, the earning per share indicates the strength and weakness of the banks.

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

$$\text{EPS} = \frac{\text{Earning Available to Common Stockholders}}{\text{Number of Common Shares Outstanding}}$$

2. Dividend Per Share (DPS)

Dividend per share indicates the rupee earnings distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholders. Dividend per share shows the portion of earning distribution to the shareholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the banks. Dividend per share helps to increase the market value to the share. It also works as the indicator for better performance of the bank management.

It is calculated by dividing the total dividend distributed to equity shareholder by the total number of equity shares outstanding. Thus,

$$\text{DPS} = \frac{\text{Total Amount of Dividend Paid to Ordinary Shareholders}}{\text{Number of Ordinary Shares Outstanding}}$$

3. Dividend Percent (DP)

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

$$\text{DP} = \frac{\text{Dividend Per Share}}{\text{Paid – Up Price Per Share}}$$

4. Dividend Payout Ratio (DPR)

It is the portion of earning paid in the form of dividend. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. The dividend payout ratio of the banks depends upon the earnings made by the banks. Higher earning enhances the ability to pay more dividend and vice-versa.

There is an inverse relationship between dividend and retained earning. The higher the dividend payout ratio, the lower will be the proportion of retained earning and vice versa. The capacity of internal financing of the firm is checked out by the retention ratio.

It is calculated as the percentage of the profit that is distributed as dividend. This ratio is calculated by dividing per share by the earning per share. Thus,

$$\text{DPR} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

$$\begin{aligned} \text{And, Retention Ratio} &= (1-\text{Dividend payout ratio}) \\ &= (1-\text{DPR}) \end{aligned}$$

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

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

The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock. This ratio is computed by dividing earning per share to market price. Thus,

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

6. Earning Yield (EY)

Earning yield is the percentage of earning per share to market price per share in the stock market. In other words, it is a financial ratio relating to earning per share to the market share price at a particular time. It measures the earning in relation to market value of the share. It gives some idea that of how much an investor is earning for his money. The share with higher earnings yield is worth buying. It is calculated as:

$$\text{Earning Yield} = \frac{\text{Earning Per Share}}{\text{Market Price Per Share}}$$

7. Dividend Yield (DY)

Dividend yield is a percentage of dividends per share on market price per share. It measures the dividend in relation to market value of share. So, dividend yield is the dividend received by the investors as a percentage of market prices per share in the stock market.

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

$$\text{DY} = \frac{\text{Dividend Per Share}}{\text{Market Price Per Share}}$$

8. Market Price per Share (MPS) to Book Value per Share (BVPS)

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

This is important to compare the market share prices of different stocks on the basis of the book value per share. It shows the market share price of a stock as a percentage of book value per share and the effect of later on the former. The higher ratios represent to conclude that the better performance of joint venture banks in terms of market price per share to book value per share. This ratio can be derived by dividing market price per share by book value per share. Thus,

$$\text{MPS to BVPS Ratio} = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

9. Net Worth Per Share

Net worth per share is a rupee value per share. It is calculated dividing Book Value of Net Worth (or Net Worth) by Total Numbers of Share Outstanding. Thus,

$$\text{Net Worth per Share} = \frac{\text{Net Worth}}{\text{No. of Shares}}$$

3.5.2 Statistical Tools

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

1. Arithmetic Mean or Average (\bar{X})

An average represents a group of values. It depicts the characteristic of the whole group. It is an envoy of the entire mass of homogeneous data. Generally, the average value lies somewhere in between the two extremes i.e. the largest and the smallest items. It is calculated as follows:

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

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

Where,

$\sum X$ = Sum of the sizes of the items

N = Number of items

2. Standard Deviation (†)

Karl Pearson first introduced the concept of standard deviation in 1893. Standard deviation is the positive square root of the arithmetic average of the squares of all the deviation measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. Greater the amount of dispersion the greater the standard deviation i.e. greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. Standard Deviation is denoted by a Greek letter 'σ' (Sigma) and is calculated as follows.

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

Where,

N = Number of items in the series.

\bar{X} = Mean

X = Variable

3. Regression Analysis

Francis Galton was the first person to introduce the concept of regression. Regression refers to an analysis, which involves the fitting of an equation to a set of data points. Generally it is shown by the method of least square. In other words the correlation analysis shows the direction of movement but it doesn't tell the relative movement in the variable under study. Regression analysis helps to know the relative movement in the variables. Simple regression analysis of following variables are calculated and interpreted in this study.

A. Dividend Per Share on Earning Per Share

For this, following model is used.

$$Y = a + bx$$

Where,

$$Y = \text{Dividend per share} \qquad a = \text{Regression constant}$$

$$b = \text{Regression co-efficient} \qquad x = \text{Earning per share}$$

This analysis enables to know whether EPS is influencing factor of dividend per share or not.

B. Dividend Per Share on Net Profit.

The model:

$$Y = a + bx$$

Where,

$$Y = \text{Dividend per share} \qquad a = \text{Regression constant}$$

$$b = \text{Regression co-efficient} \qquad x = \text{Net profit}$$

This model tests the dependency of DPS on Net profit.

C. Market Price Per Share on Dividend Per Share

The Model:

$$Y = a + bx$$

Where,

$$Y = \text{Market per share} \qquad a = \text{Regression constant}$$

$$b = \text{Regression co-efficient} \qquad x = \text{Dividend per Share}$$

This model tests the dependency of MPPS on DPS.

D. Net Worth on Dividend Per Share

The model:

$$Y = a + bx$$

Where,

$$Y = \text{Net worth} \qquad a = \text{Regression constant}$$

$$b = \text{Regression co-efficient} \qquad x = \text{Dividend per Share}$$

This model tests the dependency of Net worth on dividend per share.

4. Correlation Coefficient (r)

The correlation analysis is a technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number which indicates to what extent two variables are related with each other. Similarly, what extent variations in one lead to the variation in the other?

The value of coefficient of correlation always lies between ± 1 . A value of -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect

positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means that the variables are uncorrelated. The closer r is +1 or -1, the closer the relationship between the variables and closer r is to zero (0), the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables. It may be direct or inverse.

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

$$r = \frac{Cov(XY)}{\sigma_x \sigma_y}$$

$$r = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{(N-1)\sigma_x \sigma_y}$$

Or,

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

Where,

σ_x, σ_y are the standard deviation of the distributions of X and Y values respectively.

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

$$= \frac{\sum(X - \bar{X})(Y - \bar{Y})}{(N-1)}$$

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

- a) Dividend per Share and Earning Per Share.
- b) Dividend per Share and Net profit.
- c) Dividend per Share and Market price per share.

- d) Dividend per Share and Net Worth.
- e) Dividend Payout Ratio and Market Price Per Share

5. Coefficient of Variation (C. V.)

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

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

Where,

$$\sigma = \text{Standard Deviation} \quad \bar{X} = \text{Mean}$$

6. Coefficient of Determination (R²)

The coefficient of determination is a primary way to measure the extent and strength of the association that exists between two variables, x and y. It refers to a measure of the total variation in a dependent variable that is explained by its linear relationship to an independent variable. The coefficient of determination is denoted by R² and the value lies between zero and unity. The closer unity is greater the explanatory power. A value of one can occur only if the unexplained diagram falls exactly on the regression line. The R² is always a positive number. It can't tell whether the relationship between the two variables is positive or negative. The R² is defined as the ratio of explained variation to the total variation. Thus,

$$\text{Coefficient of Determination (R}^2\text{)} = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

Or,

$$R^2 = \frac{1 - \text{Unexplained Variation}}{\text{Total Variation}}$$

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

1. **Multiple R:** It is the correlation coefficient between observed values and values given by the model. The values close to 1 is preferable, since it indicates that the values are closely related.
2. **Standard Error of Estimate (SEE):** It is likely an error in predicted values given by the model. Smaller SEE is desirable, since it donates lower degree of error.
3. **Regression Co-efficient (b):** It describes how the changes in independent variables affect the values of dependent variable's estimate.
4. **Regression Constant (a):** The regression constant (a) indicates the average effect on dependent variable, if all the independent variables are omitted from the model.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 Analysis of the Financial tools (indicators)

4.1.1 Earning Per Share (EPS)

Normally, the performance and achievement of a business organization are measured in terms of their capacity for generating earnings. Higher earning indicates the strength and lower earning denotes the weakness of business organization. Earning per share is calculated by dividing the net profit after taxes (NPAT) by the total number of common shares outstanding. EPS is the measurement of good and bad performance of institutions. For instance, higher EPS shows the good performance and lower EPS shows the weak performance. As a result, EPS, the achievement of the institutions are measured with the help of its capacity to generate higher earning per share. So, higher EPS is the important financial tools (factors) of business organization to achieve its goals and objectives. The earning per share of the bank under study is tabulated as follows:

Banks	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	Mean	St.Dev.	C.V.
SCBNL	165.41	129.62	105.68	115.62	126.88	141.13	149.3	143.55	143.55	175.84	139.66	20.20	14.46
NSBL	37.45	49.17	13.97	41.74	8.68	9.61	11.47	14.25	13.29	18.27	21.79	12.75	58.51
NABIL	67.68	44.5	67.84	83.78	59.26	55.25	84.86	92.61	103.45	129.21	78.84	23.99	30.43

Table 4.1.1: Earning Per Share of Banks under Study.

The EPS of Standard Chartered Bank Nepal Ltd. (SCBNL) ranges between Rs.175.84 and Rs.105.68 during the period of the study. In this period the average EPS or mean is Rs.139.66. The Standard Deviation of the EPS under the period of the study is 20.20. The Co-efficient of variation (C.V.) of this bank is 14.46% on EPS. It indicates that there is 14.46% fluctuation in EPS among the given 10 years.

During the period of study, Nepal SBI Bank Ltd. (NSBL) has an average EPS of Rs.21.79 with a standard deviation of 12.75. The EPS ranges within 49.17 to 8.68. The Coefficient of variation is 58.51%, which shows that there is highly fluctuated in EPS of that Bank.

The average EPS of NABIL Bank Ltd, during this period of study, is Rs.78.84. It stays within the range of Rs.129.21 to 44.5. The standard deviation of EPS is 23.99 where as the co-efficient of variation 30.43. The CV indicates a moderate fluctuation in the EPS of the Bank.

Finally, EPS of commercial banks in Nepal seems to be positive. The average EPS of SCBNL is the highest and that of NSBL is the lowest. The EPS range of the banks under study during this period is between Rs175.84 to 8.68. Similarly, the standard deviation of SCBNL is the highest and NSBL is the lowest. The coefficient of variation of these banks shows that there is fluctuation in the EPS. If we compare the entire banks, SCBNL has the most consistent EPS among all the sample banks.

4.1.2 Dividend Per Share (DPS)

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

Banks	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	Mean	St.Dev.	C.V.
SCBNL	90	70	80	100	100	100	110	110	120	130	101	20.25	22.5
NSBL	20	20	10	15	0	0	8	0	0	0	7.3	6.24	85.48
NABIL	50	30	50	55	40	30	50	65	70	85	52.5	16.47	31.37

Table 4.1.2: Dividend Per Share of Banks Under Study

Mean DPS of Standard Chartered Bank Nepal Ltd. (SCBNL) is Rs.90 with the standard deviation of 20.25. The highest and lowest DPS are Rs.130 and 70 respectively. The coefficient of variation is 22.5%, this indicates that there is less fluctuation in the DPS of SCBNL during the period of the study.

Nepal SBI Bank Ltd. (NSBL) has an average DPS of Rs.7.3. The highest DPS is Rs.15 whereas it has not paid dividend in the year 2001/02 2002/03 2004/05 2005/06 and 2006/07 The standard deviation is 6.24 and coefficient of variation is 85.48%. The CV indicates that the DPS of NSBL is highly fluctuating.

During this period of study, the average DPS of NABIL Bank Ltd. is Rs.52.5. It is within the range of Rs.85 and Rs.30. The standard deviation of DPS is 16.47 whereas the coefficient of variation of 31.37% indicates there is quite fluctuation in DPS of NABIL Bank Ltd.

From the above calculation, SCBNL has the highest average DPS and NSBL has the lowest. The C. V. indicates that among the banks under study during period, SCBNL has the highest consistency in paying dividend whereas the DPS of NSBL is highly fluctuating.

4.1.3 Dividend Payout Ratio (DPR)

This Ratio shows the amount of dividend as a percentage of earning available for equity share. It depends upon earnings of organization. Greater the earning is the more ability to pay dividend. The DPR of the banks under study are stated in the table as follows.

Banks	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	Mean	St.Dev.	C.V.
SCBNL	54.41	54	75.57	86.49	78.81	70.86	73.68	77.08	83.59	73.93	72.84	10.31	14.15
NSBL	53.4	40.68	71.58	35.94	0	0	69.75	0	0	0	27.14	29.02	106.9
NABIL	73.88	67.42	73.7	65.64	67.49	54.3	59.06	70.19	67.67	65.78	66.51	5.73	8.62

Table 4.1.3: Dividend Payout Ratio of Banks Under the Study.

The average DPR of Standard Chartered Bank Nepal Ltd. (SCBNL) is 72.84. It means that SCBNL generally pays 72.84% of its total earning as dividend to its shareholders. The standard deviation of DPR is 10.31. The coefficient of variation is 14.15%, which indicates that there is only about 14.15% fluctuation in DPR of the bank over the years.

An average DPR of 27.14% of Nepal SBI Bank Ltd. (NSBL) indicates that NSBL generally pays out 27.14% of its earning as dividend. The standard deviation is 29.02 and coefficient of variation is 106.9%. The C. V. indicates that the DPR of NSBL is highly fluctuated during the period of study.

NABIL Bank Ltd. has an average DPR of 66.51% during this period of study. It means that it generally pays 66.51% of its earning to its shareholders in form of dividend. The standard deviation of DPR was 5.73 whereas the coefficient of variation of 8.62% indicates the less fluctuating nature of DPR in NABIL Bank Ltd.

The above calculation shows that SCBNL has the highest mean DPR and it also has the lower CV on DPR. It shows that SCBNL has the uniform dividend payments. On the other hand the CV of NSBL is high which indicates high oscillation in their DPR.

If analysis is done taking the mean DPR of the sample banks, the average dividend payout ratio of the sample banks comes out to 55.5 with a standard deviation of 15.02 and CV of 43.22%. It indicates that, in average, out of the total earnings made 55.5% is distributed as dividend to the shareholders with fluctuation of 43.22%.

4.1.4 Market Price Per Share (MPPS)

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

Banks	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	Mean	St.Dev.	C.V.
SCBNL	1050	840	1162	1985	2144	1550	1640	1745	2845	3775	1873.6	887.85	55.87
NSBL	412	440	562	1165	1500	401	255	307	335	612	598.9	388.13	64.81
NABIL	500	430	700	1400	1500	735	735	1000	1505	2240	1074.5	543.37	50.57

Table 4.1.4: Market Price Per Share of Banks Under Study.

The average of closing MPPS of Standard Chartered Bank Nepal Ltd. (SCBNL) during the period of study is Rs.1589.1 with a standard deviation of 887.85 and a coefficient of variation of 55.87%.

During the period of study, Nepal SBI Bank Ltd. (NSBL) has an average closing MPPS of Rs.598.9 with a standard deviation of 388.13. The coefficient of variation shows that there is a fluctuation of 64.81% in closing MPPS of NSBL.

The average of closing MPPS of NABIL Bank Ltd., during this period of study, is Rs.1074.5. It stays within the range of Rs.2240 and Rs.430. The standard deviation of closing MPPS is 543.37 whereas the coefficient of variation is 50.57%. The CV indicates moderate fluctuation in the closing MPPS of the bank.

Finally, the average MPPS of SCBNL is higher than other banks. So this bank is in good position but the average MPPS of all sample commercial banks are considered to be encouraging. Almost all banks' MPPS is in increasing trend for succeeding years. There is less fluctuation in the MPPS of SCBNL and NABIL they have lower coefficient of variation. The MPPS of sample banks have fluctuated in range of 50.57% to 64.81% as indicated by respective C.V of the different sample banks.

4.1.5 Price Earning Ratio (P/E Ratio)

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

Banks	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	Mean	St.Dev.	C.V.
SCBNL	6.35	6.48	10.98	17.17	16.9	10.98	10.98	12.16	16.34	21.47	12.98	4.64	35.75
NSBL	11	8.95	40.22	27.91	172.86	41.72	22.23	21.54	25.21	33.5	40.51	45.3	118.82
NABIL	7.39	9.66	10.32	16.71	25.31	13.3	8.68	10.8	14.55	17.34	13.41	5.08	37.9

Table 4.1.5: Price Earning Ratio of Banks Under Study.

The average P/E Ratio of SCBNL, during this period of study, is 12.98. It is within the range of 21.47 and 6.35. The standard deviation of P/E Ratio is 4.64 whereas the coefficient of variation of 35.75% indicates the fluctuating nature of P/E Ratio in SCBNL.

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

NABIL Bank Ltd has an average P/E ratio of 13.41. The standard deviation is 5.08 and coefficient of variation is 37.9%. The CV indicates that P/E ratio of NABIL Bank Ltd is quite fluctuating.

From the above calculation, NSBL has the highest average P/E Ratio and SCBNL has the lowest. The C.V indicates that among the banks under study during the period SCBNL has the highest consistency in P/E ratio whereas the P/E ratio of NSBL is highly fluctuating.

4.1.6 Earning Yield (EY)

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

share with higher earnings yield is worth buying. Earning yield of the banks under the study is presented in the table below.

Banks	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	Mean	St.Dev.	C.V.
SCBNL	15.75	15.43	9.11	5.82	5.92	8.96	9.1	8.22	5.05	4.66	8.8	3.76	42.7
NSBL	9.09	11.18	2.48	7.43	.58	2.38	4.49	4.64	3.97	2.99	4.92	3.15	64
NABIL	13.54	10.35	9.69	5.98	3.95	7.89	11.44	9.26	6.78	5.77	8.47	2.78	32.82

Table 4.1.6: Earning Yield of Banks Under Study.

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

The average EY of Nepal SBI Bank Ltd is 4.92%. The standard deviation is 3.15% and coefficient of variation is 64%. The C.V indicates that the EY of NSBL is quite fluctuating.

The average EY of NABIL Bank Ltd, during this period of study, is 8.47%. It is within the range of 13.54% and 3.95%. The standard deviation of EY is 2.78 whereas the coefficient of variation is 32.82%. The coefficient of variation in EY of NABIL indicates that it has moderate fluctuation.

From the above calculations, SCBNL has the highest average EY and NSBL has the lowest. The C.V indicates that among the banks, during the period of study, NABIL has the highest consistency in its earning yield whereas the earning yield of NSBL is highly fluctuating.

4.1.7 Dividend Yield (DY)

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

Banks	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	Mean	St.Dev.	C.V.
SCBNL	8.57	8.33	6.88	5.04	4.66	6.35	6.71	6.3	4.22	3.44	6.05	1.61	26.61
NSBL	4.85	4.55	1.78	2.67	0	0	3.14	0	0	0	1.7	1.88	110.59
NABIL	10	6.98	7.14	3.93	2.67	4.28	6.75	6.5	4.65	3.79	5.67	2.07	36.51

Table 4.1.7: Dividend Yield of Banks Under the Study

The DY of Standard Chartered Bank Nepal Ltd. (SCBNL) ranges between 8.57% and 3.44% during the period of study. During this period, the average DY is 6.05%. The standard deviation DY of SCBNL under the period of study is 1.61. The C.V. of 26.61% indicates that the fluctuation of DY of SCBNL is the lowest.

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

The average DY of NABIL Bank Ltd during this period of study is 5.67%. It stays within the range of 10% and 2.67%. The Standard deviation of DY is 2.07 whereas the coefficient of variation is 36.51%. The C.V indicates a moderate fluctuation in the DY of the bank.

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

4.2. Company Wise Analysis

4.2.1 Standard Chartered Bank Nepal Ltd. (SCBNL)

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

Table 4.2.1 Financial Variables of SCBNL

EPS and DPS of SCBNL have ranged between Rs.175.84 to 105.68 and Rs130 to Rs.70 respectively. The average is Rs.139.84 and Rs.101 respectively. Average DY of the bank is 6.05% and its C.V is 26.61%, which indicates that the dividend yield of this bank is slightly low. The average DPR shows that this bank distributed 72.84% of its profit to shareholder and remaining are retained and its coefficient of variation is 14.15% over the years. The average MPPS and EY are Rs. 1873.6 and 8.8 times respectively. Their coefficients of variation are accordingly 55.87 and 42.7.

4.2.2 Nepal SBI Bank Ltd. (NSBL)

Variables	Mean	Max.	Min.	C.V. (%)
EPS	21.79	49.17	8.68	58.51
DPS	7.3	20	0	85.48
DPR	27.14	71.58	0	106.9
MPS	598.9	1500	255	64.81
P/E Ratio	40.51	172.86	8.95	118.82
EY	4.92	11.18	.58	64
DY	1.7	4.85	0	110.59

Table 4.2.2 Financial Variables of NSBL

DPS of NSBL has ranged from Rs.20 to Rs.0 and average DPS is Rs.7.3. The C.V. of its DPS is 85.48%, which indicates 85.48% fluctuation in its average value. The average DPR is 27.14 and its C. V. is 106.9 which is seen very high fluctuation. The average dividend yield is 1.7% and its C. V. indicates 110.59% fluctuation. The bank's average EPS is Rs.21.79 and its C. V. is 58.51%. The MPPS of the bank has ranged from Rs.1500 to 255 and average is Rs.598.9 and its C. V. is 64.81%.

4.2.3 Nepal Arab Bank Limited (NABIL)

Variables	Mean	Max.	Min.	C.V. (%)
EPS	78.84	129.21	44.5	30.43
DPS	52.5	85	30	31.37
DPR	66.51	73.88	54.3	8.62
MPS	1074.5	2240	430	50.57
P/E Ratio	13.41	25.31	7.39	37.9
EY	8.47	13.54	3.95	32.82
DY	5.67	10	2.67	36.51

Table 4.2.3 Financial Variable of NABIL

NABIL has mean EPS of Rs.78.84 ranged between Rs.44.5 to Rs.129.21 and its coefficient of variation is 30.43%. Banks average DPS, DY and DPR are Rs.52.5, 5.67% and 66.51% respectively. Its DPR shows that the bank has distributed 66.51% of its profit to the stockholders on an average over the years and remaining portion of profit is retained in the bank to meet other financial requirement. The DY of this bank indicates that the dividend yield of this bank is moderate fluctuation of 36.51%. The average MPPS, EY of the bank are Rs.1074.5, 8.47 times respectively. Their coefficients of variation are 50.57%, 32.82%. The P/E Ratio of the Bank is 13.41 and its CV is 37.9%. The over all financial performance of this bank can be taken as satisfactorily during the study period.

4.3 Correlation Analysis

Banks	Variables	Correlation With			
		EPS	NP	MPPS	NW
SCBNL	DPS	0.59	0.90	0.88	0.89
	DPR	-	-	0.5564	-
NSBL	DPS	0.87	-0.20	0.049	-0.73
	DPR	-	-	-0.1474	-
NABIL	DPS	0.972	0.87	0.73	0.46
	DPR	-	-	-0.0427	-

Table 4.3 Correlation Analysis

The correlation coefficient measures the relationship between the two variables. It also measures the extent to which one variable affects the other one. The correlation coefficient lies between +1 and -1. The +1 coefficient indicates that the correlation between DPS and all variables & DPR with MPPS of SCBNL is positive. This indicates that if EPS is increased DPS may also be increased for this Bank. Likewise, if NP is increased, DPS is also increased. Similarly, if DPS is increased MPPS and NW are also increased. The correlation between DPR and MPPS of this Bank indicates that when dividend payout ratio is decreased, the MPPS increases and Vice-Versa.

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

Similarly, NABIL has positive relation between DPS and all variables. This indicates that if DPS is increased, EPS, NP, MPPS and NW are also increased. The relationship

between DPR and MPPS of this Bank is also positive. At last, the above table shows that the relationships between DPS and EPS for all sample banks are positive. It clarifies that if EPS increases, the DPS may also increase for all sample banks. Similarly, the relationship between DPS and Net Profit (NP) for all sample banks is also positive. By this, it is clear that if NP increases, it may be the cause of increasing in DPS of all sample banks. In all sample banks, DPS has positive relationship with MPPS and NW. It clarifies that for these banks, if DPS is increased, it may be the cause of increase in the market price per share. Similarly, the relationship between MPPS and DPS for NABIL is positive and for SCBNL and NSBL is negative.

4.4 Regression Analysis

4.4.1 Simple Regression Analysis

4.4.1.1 Regression Analysis: DPS on EPS

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

Banks	a	b	SEE	R²	T
SCBNL	31.78	0.496	15.08	0.3481	2.61
		(0.113)			
NABIL	-0.1085	0.67	2	0.945	11.72
		(0.026)			
NSBL	-3.47	0.49	4.65	0.76	5.02
		(0.103)			

Table 4.4.1.1: Regression analysis: DPS on EPS under study.

Note:

❖ $DPS = a + bEPS$

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

In the regression analysis of DPS on EPS, beta coefficient 'b' should be interpreted. The value of beta coefficient of SCBNL, NABIL and NSBL are 0.496, 0.67 and 0.49 respectively. All the beta coefficient of banks is positive. Positive beta coefficient indicates that one rupee increase in EPS leads to increase in DPS beta value if other variables remain constant. The above table shows that NABIL should provide more DPS since its beta is highest among all.

The variation explained by EPS to DPS is indicated by the value of 'R²'. R² of the three selected banks are 0.3481, 0.945 and 0.76 respectively. R² of NABIL is 0.945 which shows that 95 % of variation in DPS is explained by EPS.

The standard error of estimate of SCBNL, NABIL and NSBL are 15.08, 2 and 4.65 respectively. These values indicate the possible error in the predictive value for the respective banks.

4.4.1.2 Regression analysis: DPS on NP

Banks	a	b	SEE	R²	T
SCBNL	43.67	0.13	3.27	0.81	5.84
		(0.0087)			
NABIL	16.76	0.10	10.86	0.757	4.99
		(0.008)			
NSBL	10.41	-0.059	8.87	0.04	-0.589
		(0.1)			

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

Note:

❖ $DPS = a + bNE$

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

According to the above regression results of DPS on NP, regression coefficient (b) is positive for SCBNL and NABIL and negative for NSBL. SCBNL has the highest beta coefficient i.e. Rs.0.13 among all other banks. It indicates that these on million increase in total earnings leads to an average of Rs.0.13 increase in DPS, keeping other variables constant.

The coefficient of multiple determination (R^2) is the lowest of NSBL (0.04) which indicates that only 4 % in DPS is explained by NP i.e. 4 % variation in DPS of the bank. The values of R^2 of SCBNL and NABIL are 0.81 and 0.757 respectively. This indicates that 81% and 75.7% of dividend variation can be explained by net profit variable of the respective banks. The standard error of estimate of SCBNL, NABIL, and NSBL are 3.27, 10.86 and 8.87 respectively. These values indicate the possible error in the predicted values for the respective banks.

4.4.1.3 Regression analysis: NW on DPS

Banks	a	b	SEE	R²	t
SCBNL	-272	14.63	139.58	0.7921	5.52
		(2.6)			
NABIL	831	3.62	128	0.2116	1.46
		(2.56)			
NSBL	661	-26.32	222.37	0.5329	-3.02
		(11.27)			

Table 4.4.1.3 Regression analysis: NW on DPS under the study.

❖ $NW = a + bDPS$

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

The above table of regression results of net worth (NW) on dividend per share (DPS) is concerned, regression co-efficient (b) is positive in SCBNL and NABIL. On the other, hand one rupee increase in DPS leads to the average about Rs.14.63 and 3.62 increases in net worth of the SCBNL and NABIL only if other variables remain constant.

From this analysis, we can conclude that increase in DPS by one rupee in all sample banks results increase in net worth of SCBNL only if higher than that of others.

The value of multiple determination (R^2) is the lowest in NABIL (0.2116%), which indicates that only 21.16% variation in NW of the commercial bank is explained due to the change in value of DPS of the commercial bank. The value of R^2 of SCBNL of dividend variation can be explained by DPS of the respective banks.

4.4.1.4 Regression analysis: MPPS on DPS

Banks	a	b	SEE	R²	t
SCBNL	-2541.1	43.71	440.6	0.774	5.31
		(8.2)			
NABIL	-190	24.09	414.74	0.5329	4.42
		(7.96)			
NSBL	616	2.35	403.88	0.0024	0.1389
		(20.46)			

Table 4.4.1.4 Regression analysis: MPPS on DPS under the study.

Note:

❖ $MPS = a + bDPS$

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

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

The standard error of estimate of SCBNL, NABIL and NSBL are 440.6, 414.74 and 403.88 respectively. The values indicate that possible error in the predicted value for the respective banks.

The coefficient of multiple determination (R^2) is low for NSBL (0.0024) which indicates that only 0.24 % in MPPS explained by DPS i.e. 0.24% variation in MPPS of the Bank. The value of multiple determinations (R^2) of SCBNL and NABIL are 0.774 and 0.5329 respectively which indicates that 77.4% and 53.29% variation in the MPPS of these banks are explained due to the change in DPS of the respective banks.

4.4.2 Multiple Regression Analysis

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

4.4.2.1 Regression of MPS on DPS and EPS

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

Banks	Regression Coefficient						
	a	b ₁	b ₂	R ²	SEE	F	F Sig.
SCBNL	-2236.939 (1076.167) [-2.079]	46.795 (10.642) [4.397]	-4.409 (8.941) [-0.493]	0.788	462.83241	13.010	0.04
NSBL	505.134 (290.892) [1.737]	-18.19 (35.709) [-0.509]	10.397 (20.339) [0.381]	0.038	454.93	0.139	0.872
NABIL	-298.252 (448.717) [-0.665]	-9.884 (33.671) [0.294]	23.992 (23.111) [1.038]	0.595	413.12573	5.15	0.042

Table 4.4.2.1 Multiple Regression of MPS on DPS and EPS

Note:

- Market Price per Share, Dividend per Share and Earning per Share are denoted by X_1 , X_2 and X_3 respectively.
- Values in () represents Standard Error of coefficient.
- Values in [] represents t- value.
- Critical values of F- statistics are provided in Appendix.

In the equation, X_1 indicates dependent variable i.e. MPS, where as X_2 and X_3 are DPS and EPS respectively. a , b_1 & b_2 are constants. When DPS and EPS changes negatively or positively, it directly affects MPS which is dependent on these variables. In above case, the coefficient of beta on DPS related in NSBL and NABIL are negative. The beta coefficient on EPS related in SCBNL is negative and rest over have positive beta coefficient. For SCBNL the value of multiple coefficient of determination (R^2) is 0.788 i.e. 78.8%, which shows that out of the total variation in market price, 78.8 % variation can be explained by the independent variables of the given regression. The tabulated value at the rate of 5% level of significance and at degree of freedom is 2.57. Where as calculated t- value of DPS is 4.397, which is greater than tabulated t-value. Calculated t-value of EPS is -0.493, which is less than t-tab. Therefore DPS is significant and H_1 is accepted which means that there is linear relationship between the dependent variable and independent variable DPS. Like wise, in EPS, calculated t- value is less than t – tab so H_0 is accepted which indicates that it is not significant.

According to F – value, the tabulated value of f is 19 at 5% level of significance and the F – cal is 13.010 which is less than that of F – tab. This shows that it is not significant and H_0 is accepted. There is no relationship between dependent and all explanatory variables. In another words, from above table it shows that it is significant only at 0.04.

The standard error of estimate is 462.83241, which is significant that depicts the closeness of estimates derived from the regression equation to actual observed values. In context of NSBL, the dividend per share shows the low degree of relation which is $b_1 = -18.19$, which indicates that rupee one increase or decrease in DPS will leads to increase or decrease of 18.19 in MPS. The coefficient of EPS shows -4.409 which is negative. The t – values are -0.509 and 0.381 which are less than t – tab. Therefore, it is not significant and H_0 is accepted. The standard error of estimate gave the significant result i.e. 454.93 the result of the F- test is 0.139 which is less the F-tab that signifies the estimated equation is not significant. R_2 is 3.8% which shows that out of total variation only 3.8% can be explained by the independent variables of the given regression and rest over are due to other factors.

For NABIL, b_2 is 23.992, which explains that if there is one rupee increase or decrease in EPS, it will effect in MPS by increase or decrease of 23.992. The R_2 is 59.5% which is satisfactory. 59.5% of the total variation in the MPS has been explained by DPS and EPS.

The SEE is 413.12573 which are also significant. The calculated values of t are 0.294 and 1.038. F cal is less than t-tab, therefore, H_0 is accepted. The value of F test is 5.15 while comparing with F tab it is less. Consequently, it is not significant and H_0 is accepted.

4.4.2.2 Multiple Regression of MPS on NW and EPS

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

Banks	Regression Coefficient						
	a	b ₁	b ₂	R ²	SEE	F	F Sig.
SCBNL	-1038.395 (1414.446) [-0.734]	-14.046 (5.383) [-2.609]	59.552 (18.573) [3.206]	0.596	639.21264	5.156	0.042
NSBL	-1843.961 (981.4) [-1.879]	16.493 (6.577) [2.508]	-4.624 (7.855) [-0.589]	0.475	336.24998	3.162	0.105
NABIL	590.483 (865.497) [0.682]	-5.737 (4.915) [-1.167]	25.886 (8.830) [2.931]	0.657	380.293	6.707	0.024

Table 4.4.2.2 Multiple Regression of MPS on NW and EPS

Note:

- Market Price per Share, Net Worth and Earning per Share are denoted by X_1 , X_2 and X_3 respectively.
- Values in () represents Standard Error of Coefficient.

- Values in [] represents t- value.
- Critical values of F- statistics are provided in Appendix.

In above equation, X_1 indicates MPS which is dependent on other independent variables NW and EPS, which are indicated by X_2 and X_3 . a_1 , b_1 and b_2 are constants. When EPS and NW fluctuate it directly affects MPS. In above cases, the co-efficient of beta on NW related in NABIL and SCBNL are negative. The beta co-efficient on EPS in NSBL is negative.

In case of SCBNL, the value of multiple co-efficient of determination (R_2) is 0.596, which shows that independent variable NW and EPS explain 59.6% variation to the dependent variable MPS and remaining percentage of variation is affected by other variables. The calculated value of t is -2.609 and 3.206 when as t- tab at 5% level of significance is 2.571 which shows that t-cal is greater than that of t- tab and H_1 is accepted. The F cal is 5.156 where as F tab at 5% level of significance is 19, which shows that F cal is less than F tab,, H_0 is accepted which mean it is not significant. In other words, F value is significant only at 0.042 that mean there is no linear relationship between dependent variable MPS and independent variable NW & EPS. The standard error of estimate is 639.21264, which depict the closeness of estimates derived from the regression of equation to actual observed values.

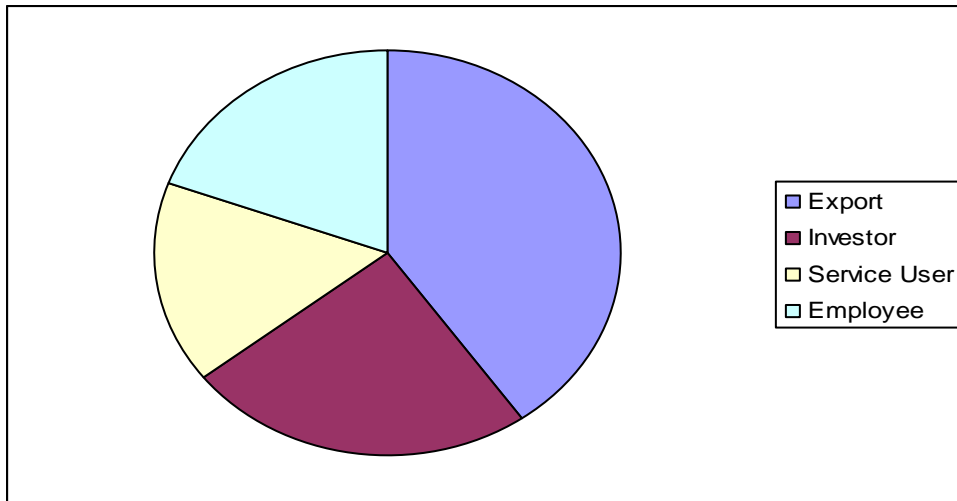
In context of NSBL, the co-efficient of b_1 and b_2 are 16.493 and -4.624 which shows that increase or decrease in rupee one in NW and EPS leads to increase or decrease of 16.493 and -4.624 in MPS. The value of R_2 is 0.475 which depict that 47.5% is explained by independent variable NW and EPS and rest percent age of variation is affected by other variables. The calculated t-values of b_1 and b_2 are 2.508 and -0.589 where as tabulated t- value at 5% level of significance is 2.571 which show that t-cal is less than t-tab and H_0 is accepted. Likewise F cal is 1.033 where as F tab is 19 at 5% level of significance. The given table shows that it is significant only at 0.105 in other words, since F cal is less than F tab it is not significant and H_0 is accepted. There is no relationship between dependent and all explanatory variables.

In case of NABIL, the co-efficient of b_1 and b_2 are -5.737 and 25.886 which explains if there is an increase or decrease in rupee one there will be same effect in MPS. The R_2 shows that it explains 65.7% to the dependent variable and remaining variation are

affected by other variables. The t cal is -1.167 and 2.931 which shows it is significant and H₀ is accepted. Since its t-tab is 2.571 which is higher than t-cal. The F-cal is 6.707 which is significance is 19 which is greater than F-cal. Which shows that H₁ being rejected and H₀ is accepted. Which is not significant and there is no relation in between dependent variable MPS and independent variables NW and EPS.

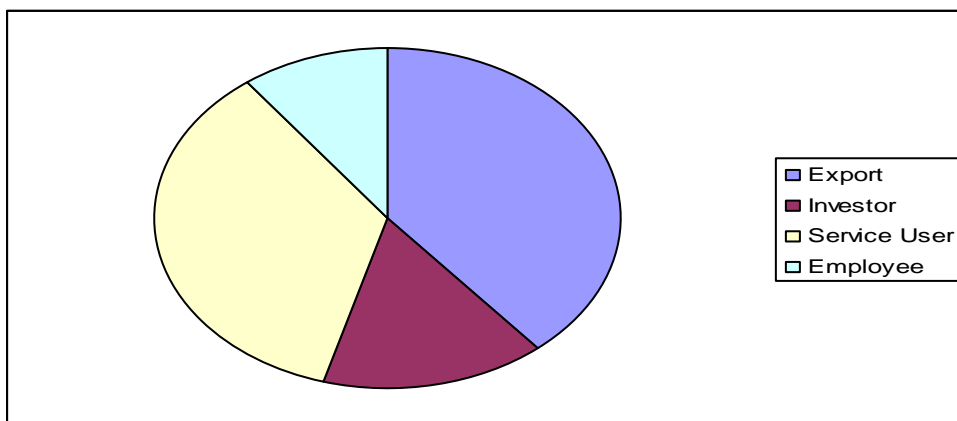
4.5 Primary Data Analysis

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



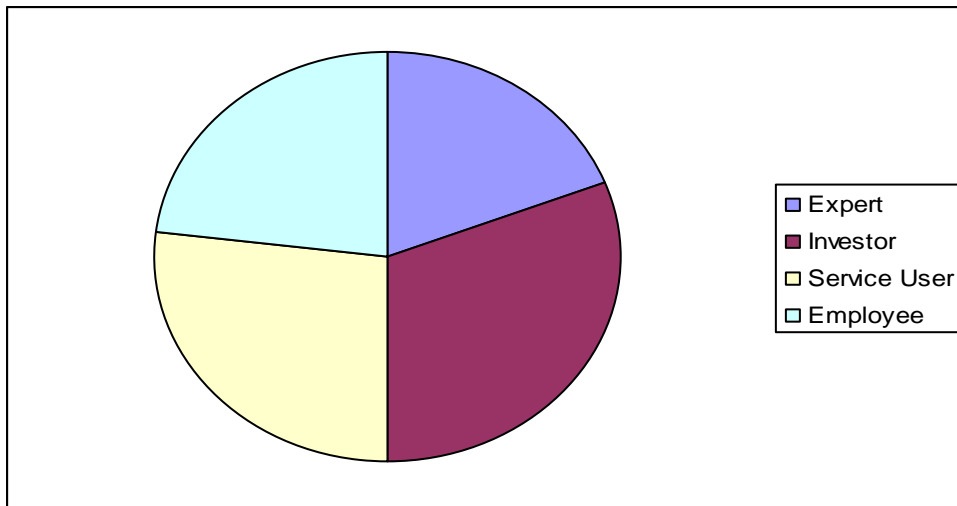
From the analysis of the pie-chart presented above it is found that 31% of the total respondent strongly agree to the statement, 22.5% are moderately agree , 18% are disagree with the statement , 8% are strongly disagree and 20.5% says they don't know about the statement.

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



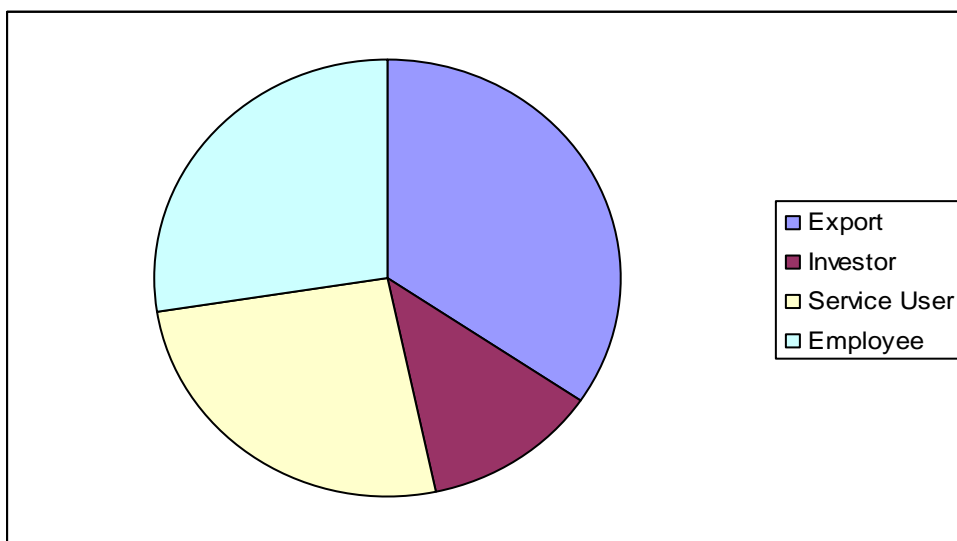
From the analysis of the pie-chart presented above it is found that 38.5% of the total respondent strongly agree to the statement, 29% are moderately agree , 7% are disagree with the statement , 7% are strongly disagree and 18.5% says they don't know about the statement.

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



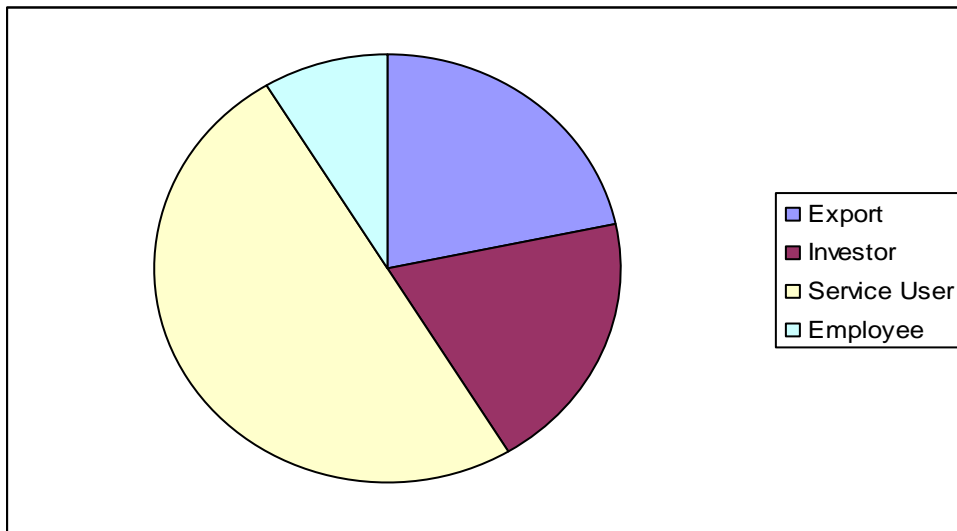
From the analysis of the pie-chart presented above it is found that 13% of the total respondent strongly agree to the statement, 16.5% are moderately agree , 26% are disagree with the statement , 20.5% are strongly disagree and 24% says they don't know about the statement.

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



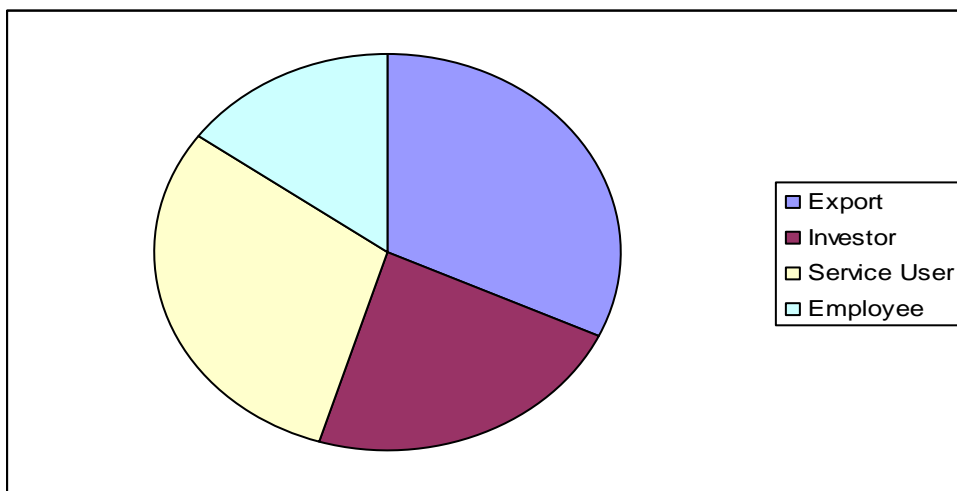
From the analysis of the pie-chart presented above it is found that 29% of the total respondent strongly agree to the statement, 24% are moderately agree , 17% are disagree with the statement , 11.5% are strongly disagree and 18.5% says they don't know about the statement.

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



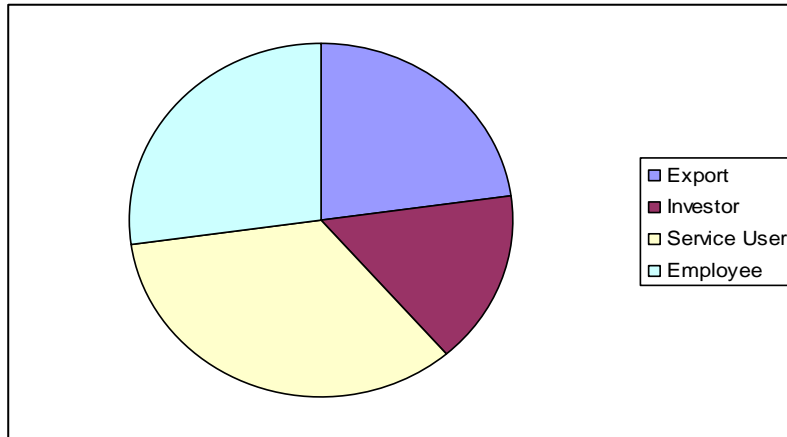
From the analysis of the pie-chart presented above it is found that 23% of the total respondent strongly agree to the statement, 42.5% are moderately agree , 9% are disagree with the statement , 8.5% are strongly disagree and 17% says they don't know about the statement.

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



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

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



From the analysis of the pie-chart presented above it is found that 22% of the total respondent strongly agree to the statement, 23% are moderately agree , 23.5% are disagree with the statement , 8.5% are strongly disagree and 23% says they don't know about the statement

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

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

Chi-square cal (χ^2 Cal) = 34.454

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

From the analysis of different respondents view, since chi-square calculation is greater than tabulated value so alternative hypothesis is accepted and that the

bank practices comprehensive dividend policy. It means the dividend policy of commercial bank is in satisfactory.

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

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

Chi-square cal (2cal) = 35.58

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

From the analysis of different questioner filled by the respondents, it is found that current political situation affect the dividend policy of commercial bank.

Since chi-square calculation is greater than tabulated value so the alternative hypothesis is accepted. This means favorable political situation helps to make satisfactory dividend policy of commercial bank and vice- versa.

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

	SA	MA	DA	SDA	DN	Total
Expert	5	10	21	11	3	50
Investor	8	3	12	2	5	30
Service User	7	11	14	16	22	70
Employee	6	9	5	12	18	50
	26	33	52	41	48	200

Chi- square cal (2cal) = 34.82

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

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

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

	SA	MA	DA	SDA	DN	Total
Expert	20	15	7	6	2	50
Investor	7	15	3	2	3	30
Service User	15	10	20	5	20	70
Employee	16	8	4	10	12	50
	58	48	34	23	37	200

Chi-square cal (2cal) = 42.64

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

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

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

	SA	MA	DA	SDA	DN	Total
Expert	10	30	5	3	2	50
Investor	9	16	2	1	2	30
Service User	23	27	3	7	10	70
Employee	4	12	8	6	20	50
	46	85	18	17	34	200

Chi –Square cal (2cal) = 46.97

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

From the analysis of different questionnaire filled by the different respondent it is analyzed the effective of dividend policy of commercial bank. Since chi-square

calculation is greater than that of tabulated value so that alternative hypothesis is accepted. This means the present dividend policy is effective.

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

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

Chi-square cal (χ^2_{cal}) = 22.25

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

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

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

	SA	MA	DA	SDA	DN	Total
Export	10	25	2	5	8	50
Investor	7	3	15	3	2	30
Service						
User	15	10	20	5	20	70
Employee	12	8	10	4	16	50
	44	46	47	17	46	200

Chi-square cal (χ^2_{cal}) = 47.28

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

Since $\chi^2_{cal} = 47.28$ is greater than $\chi^2_{tab} = 21.026$ so H_0 is rejected i.e. the dividend policy of commercial bank is not in optimal level .

4.6 Major Findings

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

- 1) The average earning per share (EPS) of the banks under the study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS. The C.V ranges within 58.51% to 14.46%. Among the sample banks SCBNL has the highest average EPS with the lowest fluctuation and NSBL has the least with high degree of fluctuation.
- 2) The average dividend per share (DPS) shows that there is no regularity in dividend payment. The SCBNL has the highest average DPS and the higher degree of paying regular dividend to their shareholders. DPS share also fluctuating. The C.V. of DPS ranges within 85.48% to 22.5%. NSBL has the lowest average DPS and also the highest fluctuation among the sample banks.
- 3) The analysis of DPR also shows that the DPR of the banks are not stable. Among the banks under the study, SCBNL has the highest average DPR and NABIL has least fluctuation in the DPR. The result also shows that NSBL has the lowest average DPR and has the highest fluctuation. The fluctuating ranges within 106.9% to 8.62%.
- 4) The average market price per share (MPPS) shows that there is quite high level of fluctuation. SCBNL has higher average MPPS than other banks. So, this bank is in good position but average MPPS of all commercial banks being considered to be encouraging. NSBL has the lowest MPS and has the highest fluctuation and SCBNL has the most stable MPS.
- 5) The average price-earning ratio (P/E) of NSBL among the banks under the study is the highest and also highly unstable. The ratio of remaining banks and financial companies are satisfactory and quite stable.
- 6) The average earning yield of banks, under the study, indicates that the earning yield of SCBNL is higher than other banks. The mean EY of different banks ranges from 8.8% to 4.92%. The EY of NABIL is less fluctuated than other banks. But NSBL has higher fluctuation in its earning as indicated by C.V. of this bank.

- 7) The average dividend yield of the banks indicates that the dividend yield is quite low ranging within 6.05% to 1.7%. Among the banks, SCBNL has the highest average dividend yield and NSBL has the lowest. There is high fluctuation in the dividend yield ranging from 110.59% to 26.61%.
- 8) The DPS of SCBNL and NABIL is positively correlated with EPS, NP, MPPS and NW. But the correlation between DPR and MPPS of SCBNL is positive and NABIL is negative. The correlation results that when DPR increase, the MPPS is decreased and vice-versa.
- 9) The relationship between DPS of NSBL with EPS and MPPS are positively correlated and relationship between DPS with NP and NW and DPR with MPPS are negatively correlated.
- 10) The regression analysis of DPS on EPS shows that regression coefficient (b) is positive among all the sample banks as well as first.
- 11) The regression analysis of DPS on NP also shows that the regression coefficient (b) is positive with SCBNL and NABIL and negative with NSBL.
- 12) As far the regression results of NW on DPS are concerned, regressions coefficient (b) are positive with SCBNL and NABIL and negative with NSBL.
- 13) The regression analysis between MPPS and DPS indicates that the regression coefficient (b) is positive for all sample banks.
- 14) Most of the respondents agree that the bank practice comprehensive dividend policy.
- 15) People opined that current political situation affect the dividend policy of commercial bank. while 28 candidates say no and 37 say don't know.
- 16) Nearly 48 respondents say they don't have any idea that degree of risk associated with the commercial bank will also increase in dividend per share and 93 people are disagree with this statement.
- 17) Most of the respondents argue that capital structure of commercial bank is not optimal.

- 18) About 131 people agree that dividend policy of commercial bank is effective people say they don't have idea and remaining is disagreeing with this statement.
- 19) Most of the respondents argue that government policy affect the dividend policy of commercial bank.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

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

5.1 Summary

Dividend policy decision is one of the major decisions of financial management. The dividend policy decision affects on the operation and prosperity of the organization because it has the power to influence other two decisions of the organization i.e. capital structure decision and investment decision. 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. It is important to have clearly defined and effectively managed dividend policy so as to fulfill the shareholders' expectations and corporate growth.

Dividend paying banks have been analyzed to show the implication of dividend policy that they have adopted in their market price per share. Now in Nepal, those banks have earned profit on only those paid dividend. Instability of dividend and inconsistent dividend payout ratio are the most applied phenomena of commercial banks in Nepal. But, only the banks operating under Joint Venture are paying dividend more attractively

than the banks promoted by indigenous promoters. However, dividend policy is taking its path, slowly in Nepalese Commercial Environment.

In analyzing the problem with the stated objectives, this study has been in more descriptive nature. The study covers three joint venture banks as well as it cover for the past ten fiscal years from 1997/98 to 2006/07. The available secondary data has been analyzed using various financial and statistical tools. So, the reliability of conclusions of this study is determined on the accuracy of secondary data.

The theoretical statement of this study is that dividend decision should depend upon NW, EPS and NP of the sample banks. Among Sample Banks, dividend payout ratio of SCBNL is higher than other. Similarly, according to EPS, among sample banks, SCBNL is more successful than other where as NSBL is the lowest. On the basis of P/ E ratio, among sample banks, NSBL has the higher ratio than other. It means NSBL has the better performance for enhancing the wealth of shareholders rather than other banks. On the basis of DPS, SCBNL is paying higher value of dividend among sample banks. Moreover, on the basis of market price per share, SCBNL has higher MPS then others.

For the purpose of statistical analysis of the entire sample banks, simple correlation and regression analysis are used to interpret the results. According to regression analysis of DPS on EPS is concerned, coefficient (b) is positive in all sample banks. It indicates that among others DPS increase with the increase in EPS in all. As for the relationship between DPS on NP is concerned, coefficient (b) is positive in all sample banks. The positive coefficient indicates that DPS increase with higher NP in all. As for the regression analysis of NW on DPS is concerned, coefficient (b) is positive for all banks. The positive coefficient (b) is indicates of net worth increase with higher DPS. Similarly, for the regression analysis of MPPS on DPS is concerned, coefficient (b) is positive for all banks except in NSBL. The positive coefficient (b) indicates that dividend per share increase MPPS whereas negative coefficient (b) indicates the DPS decrease MPPS.

The multiple regression of analysis of MPS on DPS & EPS shows that DPS and EPS have both positive and negative impact on MPS in all cases. On the other hand, there is greater influence of DPS rather than EPS to MPS in case of SCBNL. But there is greater influence of EPS rether than DPS to MPS in case of NSBL and NABIL. The F- statistics for the regression provide statistically significant explanation of variation in stock price only in case of NSBL at 5% level of significance. Likewise, multiple regression analysis

of MPS on NW and EPS shows the same impact on MPS in all cases. On the other hand, there is greater influence of EPS rather than NW to MPS in case of NABIL and SCBNL. But there is greater influence of NW rather than EPS to MPS in case of NSBL. The F-statistics for the regression doesnot provide statistically significant explanation of variation in stock price.

The situation of capital market of Nepal is improving day by day. As a result, the capital market is efficient with compare to previous year. Though, there is '**weak**' efficient market where share price movement is random. This means share price movement does not follow any trends. In such market cash dividend will more effective then other forms of dividends like bonus and right. But it is reality that capital market of Nepal is still immature.

5.2 Conclusion

In conclusion, uncontrollable growth in number of financial institutions within a short span of time has raised reasonable doubts to the common people. By the analysis of investment activities, it is noticed that only few institutions have aggressive investment strategy with compare to conservative strategy among most of the financial institutions. Despite this, there is no doubt that financial institutions are the pillars of a nation's economy. The overall growth of the nation's economy is linked with financial institutions. In these days, some financial institutions are running successfully and providing dividend to the shareholders according to their capacity. Also, they achieve the trust of common people which is the great success of their performance. On the whole, over this period, the scale of operation has expanded many times which makes more earnings every year. The financial institutions are able to distribute divided and able to expand their activities with the good earnings. But, it is yet to be done for the satisfaction of shareholders as well as overall growth of nation's economy.

The respondents of the parishioners and academicians are not support of particulars theory of dividend policy as it is evident that they ranked. Some of the structure questionnaires if the response in the former is consistent with later.

5.3 Recommendations

Based on the findings, the suggestions for future guidelines are presented here. These suggestions may also need some regressions but there is no doubt that these measures are helpful to improve the existing condition of financial institutions as well as other

organizations of Nepal. These suggestions will be proved to be milestone in order to correct the existing situation.

1. Dividend policy is must for the enhancement of existing return to meet the expectation of shareholders as well as improvement of nation's economy. By the formulation of dividend policy, there is a clear way to follow the dividend distribution. Therefore, the HMG must impose a minimum dividend obligation policy through suitable pragmatic legislative measure to ensure protection in the form of dividend payment to the investors in general.
2. There is a lack of consciousness in Nepalese investors regarding their rights and the company act. Therefore, there should be a kind of educating center about their rights on dividend income and other specific rights. Every body should have clear knowledge about Nepalese Company Act- 1997 that makes some legal provisions for dividend payments.
3. Payment of dividend is neither static nor constantly growing. It is highly fluctuating. Such way of paying dividend could not impress the market positively. So, these financial institutions are advised to follow either static or constantly growing dividend payment policy. It would be better to fix the amount of dividend in the general annual meeting. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of financial institutions, efficient management and socially acceptable distribution of income. Ability to maintain linkage of the adequate earning power with the adequate dividend return provides the benchmark for dynamic growth stability.
4. Issue of stock dividend decreases market value per share and earning per share. But, issue of cash dividend increases market value per share and earning per share. So, due to this reason common shareholders should be given a choice whether they prefer stock dividend or cash dividend. Therefore, all the financial institutions are suggested to take care regarding the interest of shareholders.
5. As financial institutions are assisting to promote the capital market and improve the economic condition of nation through collecting the scattered resources and utilizing them into productive ways. The government should provide facilities to improve the efficiency of the financial institutions and reduce the interference in

daily affair. Similarly, the management should be careful about their duties and responsibilities for the operation of the financial institutions towards the interest of the shareholders as well as the improvement of nation's economy.

6. Formulation of dividend policy will clearly guide the way to follow dividend distribution. They should determine whether the company is going to adopt stable dividend policy, constant pay out ratio or low regular plus extra dividend. There should be the long run dividend payout ratio, either it is pure residual theory, fixed dividend payout policy or smoothed residual dividend policy they all should have been clearly explained by the dividend policy.
7. Since financial institutions are dealing with public money collected by way of deposits in different sectors, there should be active supervision and credit-monitoring role of NRB becomes important. Progress reporting should be continuous and financial institutions should make their performance transparent to the investors. Moreover, there should also be professional representation in the Credit Information Bureau instead of having only member of it.
8. All the financial institutions should conduct a seminar and workshop for shareholders to get experience at least twice in a year. Private consultancy firms' experts in financial activities and top executives from all the financial institutions should be the key participants in seminar to identify where the problems lie in the efficient operation. Only then, there will be the solution of the problems regarding the financial performance of the financial institutions, which are helpful for more profit as well as more dividends to their shareholders.
9. It is more important for financial institutions for long-term sustainability then getting quick rich tendency of short-term value. Since, financial institutions have to survive as institutions in the long run and provide capital gain to the investor. That's why all the financial institutions have to maintain certain discipline by learning from experience of operation regarding what is good to do and what is not good to do for future improvement and further success.
10. The managers should be able to perform their duties and responsibilities to protect shareholders interest. They mustn't show their desire to operate the company in their own way.

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ANNEX

Questionnaire used for primary data collection A STUDY ON DIVIDEND POLICY of commercial banks. A survey of participants view the respondents are assumed that the responses will maintain anonymity. If respondents are interested, the findings would be shared. The co-operation of the respondents be highly appreciated

Name:

Occupation:

Age:

Firm type: private/public

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

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

- a. strongly agree (.....)
- b moderately agree (.....)
- c disagree (.....)
- d strongly disagree (.....)
- e don't know (.....)

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

- a. strongly agree (.....)
- b. moderately agree (.....)
- c. disagree (.....)
- d. strongly disagree (.....)
- e. don't know (.....)

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

- a. **strongly agree** (.....)
- b. **moderately agree** (.....)
- c. **disagree** (.....)
- d. **strongly disagree** (.....)
- e. **don't know** (.....)

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

- a. **strongly agree** (.....)
- b. **moderately agree** (.....)
- c. **disagree** (.....)
- d. **strongly disagree** (.....)
- e. **don't know** (.....)

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

- a. **strongly agree** (.....)
- b. **moderately agree** (.....)
- c. **disagree** (.....)
- d. **strongly disagree** (.....)
- e. **don't know** (.....)

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

- a. **strongly agree** (.....)
- b. **moderately agree** (.....)
- c. **disagree** (.....)

