IMPACT OF DIVIDEND DECISION ON STOCK PRICE

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

By

Sujan Silwal

Campus Roll No.: 457/074

Symbol No: 6330/18

T.U. Reg. No: 7-2-25-1130-2010

Shankar Dev Campus

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "Impact of Dividend Decision on Stock Price". The work of this dissertation has not submitted previously as a part of requirements for any other academic purpose. I declared that all the information sources and literature used are mentioned in the reference section.

…….

Sujan Silwal

REPORT OF RESEARCH COMMITTEE

Mr. Sujan Silwal has defended research proposal entitled "Impact of Dividend Decision on Stock Price", successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Kamal Prakash Adhikari and submit the thesis for evaluation and viva voce examination.

Kamal Prakash Adhikari
Dissertation Supervisor:…….
Signature: …….

Dissertation Proposal Defended Date

Dissertation Submitted Date

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Head of Research Department
Signature: …….

Dissertation Viva Voce Date

APPROVAL SHEET

We have examined the dissertation entitled "Impact of Dividend Decision on Stock Price" presented by Sujan Silwal for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

Kamal Prakash Adhikari
Dissertation Supervisor
Signature: …….

Internal Examiner
Signature: …….

External Examiner
Signature: …….

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairman, Research Committee
Signature: …….

Asso. Prof. Krishna Prasad Acharya
Campus Chief
Signature: …….

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ABBREVIATIONS

MPS	:	Market Price per Share
EPS	:	Earning Per Share
DPR	:	Dividend Payout Ratio
KBL	:	Kumari Bank Ltd.
LR	:	Liquidity Ratio
SEBON	:	Security Board of Nepal
NEPSE	:	Nepal Stock Exchange
PE Ratio	:	Price Earning Ratio
NRB	:	Nepal Rastra Bank
NBL	:	Nepal Bank Ltd.
TU	:	Tribhuwan University

ABSTRACT

Investors often face challenges in assessing the productivity of their investments and justifying their investment decisions. This research can help them by identifying gaps and suggesting improvements in dividend policies. Management can also benefit by using these insights to refine their dividend strategies. Furthermore, policymakers can use the comparative study of dividend policies to gain valuable insights for formulating effective policies. The dividend policies of joint venture banks (JVBs) are particularly interesting to various stakeholders, including customers, financial agencies, stock brokers, interested individuals, and scholars. This study, which focuses on the dividend policies of JVBs, will provide significant benefits, especially to the banks themselves. The research will utilize secondary data sourced from the annual reports of relevant commercial banks, as well as publications such as booklets, newspapers, magazines, books, securities exchange records, journals, and bulletins from the Nepal Rastra Bank. The study will consider factors such as Earnings Per Share (EPS), Dividend Per Share (DPS), Market Price per Share (MPS), Dividend Payout Ratio, Cash and Dividend Analysis, Earning Yield, and Dividend Yield. The results of this study cannot be generalized to all similar organizations because of the differences in their operations and business activities. The study covers a period of ten years, from 2070/71 to 2079/80. It is primarily conducted for academic purposes, so it may have limited practical applications.

Keywords: Dividend Per Share, Earnings Per Share, Price Earnings Ratio, Dividend Yield, Dividend Payout Ratio

CHAPTER I
INTRODUCTION

1.1 Background of the study

Dividend refers to the portion of net income paid out to shareholders. It is paid to shareholder in cash or stock for making investment and bearing risk. One of the major reasons for which public are interested to invest money on the shares of banks or other institutions is for dividend. In other words, dividend is the distribution of profit to the shareholders by the company only if it reduces the value of the company's assets and liabilities. Capitalization of profit doesn't reduce the value of assets and liabilities so it has not considered as dividend. Dividend is paid out of current year profit or from retained earnings. It may be cash, stock or combination of these (Baral & Pradhan, 2017).

A firm has three alternatives regarding the distribution of its earning, it can distribute all of its earning in the form of cash dividend or it can retain all of its earning for reinvestment or it can distribute a part of earning as dividend and retained the rest for re-investment purpose. Dividend distribution practices vary widely among different corporations in Nepal, with no standard approach being followed. It is distributed only after meeting all obligation of company such as interest to depositor, operating expenses and tax etc. and retained certain portion for future expansion of as a part of dividend policy (Singh & Tandon, 2019).

Dividend policy is a crucial financial management decision as it influences the company's financial structure, cash flow, liquidity, growth, share prices, and investor sentiment. After a profitable fiscal year, management decides whether to distribute dividends to shareholders. A key aspect of this policy is determining how much profit to distribute as dividends and how much to retain within the company. It also involves deciding the form in which dividends will be paid (Kulkarni & Hyderabad, 2022).

In the contest of Nepal, Market Price per Share (MPS) is obtained from security exchange from where only listed securities market price has been obtained. The market value of a share is influenced by the company's dividend per share (DPS) and earnings per share (EPS). Generally, higher EPS and DPS lead to a higher market value per share. The market value can be either above or below the book value per share, depending on the company's performance. If the company is growing and its earnings exceed the cost of capital, the

market value of its shares will likely be higher than the book value. Conversely, if the company's earnings are less than the cost of capital, the market value per share will be lower. The market price of a stock is determined by the capital market and fluctuates based on available information. Efficient market conditions prevent individuals from making excessive profits through inefficiencies, which are regulated by laws in every country to ensure a fair securities market. This study focuses on the impact of dividend policy on stock market prices, examining various models and practices that affect the market price per share (MPS). Understanding MPS and security valuation is essential because, without proper valuation, pricing and trading of stocks would not be feasible (Lamyaa et al., 2023).

Dividend policy and MPS has always correlation; if the company pays high dividend the MPS increases and vice-versa. But in some cases out of this interrelation, the price may remain constant or decrease too. Therefore, the information lack or flow is the vital in the analysis of MPS.

1.2 Problem Statement

Generally, it's believed that there is a link between dividends and stock prices. However, in an underdeveloped capital market like Nepal, this relationship is not well understood. In this context, the distribution of dividends by commercial banks does not consistently align with their earnings. Additionally, there is no clear relationship between dividend payments and market share prices. The returns of listed companies often do not correlate appropriately with their stock prices. Companies with lower returns sometimes exhibit stable share prices, while companies with higher returns do not maintain consistent share prices. Thus, the returns of companies do not accurately reflect their market share prices (Shrestha, 2022).

Furthermore, while many organizations operate in Nepal, only some pay dividends. When dividends are paid, the amounts can be disproportionately low or high relative to profits. This inconsistency is exacerbated by the lack of specific rules and regulations governing dividend payments in the country (Thapa, 2023). This situation poses a significant challenge for investors or shareholders in making informed decisions regarding their long-term investments (Adhikari, 2021).

There are many aspects to consider regarding dividend theories, policies, and practices, and many questions about dividend policy remain unanswered. This study aims to address the following questions.

i. What is the pattern of the dividend distribution of the selected commercial banks?
ii. Is there any relationship of divided policy on the market share price?
iii. How dividend impact on the market share price?

1.3 Objective of the Study

The study primarily focuses on the dividend practice adopted by the sample banks and its relation to other financial indicators. But the specific objectives are as follows:

i. To describe the pattern of the dividend distribution of the selected commercial banks.
ii. To analyze the relationship of divided policy on the market share price.
iii. To examine the impact of dividend with that of market share price.

1.4 Rationale of the Study

The findings of this research will be valuable to shareholders by allowing them to compare the dividend policies of two banks. This comparison can help them assess the productivity of their investments and justify their investment decisions. Additionally, the management of these banks can use the insights to identify weaknesses in their dividend policies and suggest improvements. Policymakers will also benefit from this comparative study, gaining important insights for formulating effective dividend policies. Moreover, the dividend policies of joint venture banks are of significant interest to various external stakeholders, including customers, financial agencies, stock brokers, interested individuals, and scholars. This study, which focuses on the dividend policies of joint venture banks, will be particularly beneficial to these banks, as it will provide them with a detailed analysis of their current practices.

1.5 Limitations of the Study

Like all studies, this one has certain limitations. The primary constraints are time and data availability. The study will be limited by the following factors:

- It will rely on secondary data obtained from annual reports of the relevant commercial banks, as well as from booklets, newspapers, magazines, books, securities exchanges, journals, and bulletins from the Nepal Rastra Bank.
- The study will focus only on specific factors such as Earnings Per Share (EPS), Dividend Per Share (DPS), Market Price per Share (MPS), Dividend Payout Ratio, Earning Yield, and Dividend Yield.
- The result obtain from study can't generalized for all similar organization due to varying nature of their operation and business.
- This study period has been covered for 8 (Eight) years from 2072/73 to 2079/80
- The research has been carried out generally for academic purpose and thus, it lacks practical implication.

CHAPTER II
LITERATURE REVIEW

2.1 Introduction

During the preparation of this thesis, the researcher consulted a variety of sources including magazines, journals, books, and reports to gather relevant materials. The literature review is structured into two main sections: the conceptual framework and a review of related studies conducted at both national and international levels.

2.2 Theoretical Review

The theoretical framework is developed so that it serves as a foundation on which the entire research is based.

Dividend Theory

Residual Theory of Dividend

This policy suggests that a firm should retain its earnings as long as it has investment opportunities that promise higher rate of return than the shareholders required rate of return. According to the residual dividend policy, companies assume that external financing options are either unavailable or too costly to utilize. Under this theory, after making necessary investments, any remaining funds are distributed to shareholders as cash dividends. The principle behind this approach is that only profits left over after fulfilling fixed obligations and investment needs should be paid out as dividends. The decision hinges on the firm's investment policy: if there is excess earnings beyond what is needed for investments with higher returns, those earnings are reinvested. Conversely, if earnings are insufficient to cover all profitable investments, the remaining amount is distributed to shareholders as dividends (Gordon, 1962; Miller & Modigliani, 1961).

When firms have profitable investment opportunities, they prioritize using internally generated funds like retained earnings over costlier external financing, which includes expenses like flotation costs. Consequently, the amount of dividends fluctuates depending on the availability of attractive investment opportunities for the firm (Myers & Allen, 2011). While the residual theory of dividend implies that further analysis of dividend policy

might be unnecessary, it's not definitively established that dividends serve only as a way to distribute surplus funds (Lintner, 1956).

According to this theory, if a company's earnings exceed its equity financing requirements, the excess funds are distributed as dividends. However, if earnings are equal to or less than what is needed for equity financing, no dividends are distributed. This approach assumes that the dividend policy is entirely passive.

Dt = Max. (Et - It or 0)
Where,
Dt = dividend paid in year t
Et = earning in year t
It = portion of investment in year t to be financed by equity

In calculation, we can say the residual theory of dividend prefers use of internal funds in investment and increased value of shareholders assets through capital gain of equity.

Wealth Maximization Theory

Wealth maximization is widely recognized as the primary objective of a firm. According to this goal, managers should make decisions that maximize shareholder wealth. This theory advocates for announcing and distributing larger dividends to shareholders. It is particularly relevant for newly established companies and those experiencing declining financial profits. The main aim of the wealth maximization theory of dividends is to assure shareholders of the firm's commitment to their interests, especially when market value may not accurately reflect the company's potential (Pandey, 2005; Westerfield, & Jaffe, 2013).

Modigliani & Miller Theory

The Modigliani and Miller Theory, formulated by Franco Modigliani and Merton Miller in 1958, revolutionized corporate finance by proposing that, in a perfect market, the value of a firm is unaffected by its capital structure. Their proposition, known as the Modigliani-Miller (M&M) theorem, asserts that whether a company is financed by debt or equity does not impact its overall value. This is based on assumptions such as no taxes, no bankruptcy costs, and efficient markets where information is freely available. They later adjusted their model to include taxes, illustrating that debt financing could provide tax shields due to interest being tax-deductible, which can increase firm value (Modigliani & Miller, 1963).

Gordon's Model

Gordon's Model, developed by Myron J. Gordon in the 1960s, is a dividend discount model that determines the value of a stock based on the theory that a stock's value is the present value of all its future dividends. The model is often referred to as the Gordon Growth Model (GGM). It assumes that dividends will grow at a constant rate indefinitely. The formula is P0=D0(1+g)r−gP_0 = \frac{D_0 (1+g)}{r - g}P0=r−gD0(1+g), where P0P_0P0 is the current stock price, D0D_0D0 is the current dividend, ggg is the growth rate of dividends, and rrr is the required rate of return. This model is particularly useful for evaluating stable, dividend-paying companies but less so for companies with unpredictable dividend patterns (Gordon, 1962).

Friend & Puckett

The study by Irwin Friend and Martha Puckett in the 1960s explored the relationship between dividends and stock prices. They examined whether dividend policy had an impact on the valuation of stocks. Their empirical research suggested that there is a significant relationship between dividend payouts and stock prices. They found that investors tend to prefer dividends over potential future capital gains, indicating that dividend policy can affect a firm's market value. This contradicted the M&M theorem by suggesting that in practice, market imperfections and investor preferences do influence the relevance of dividend policy (Friend & Puckett, 1964).

Signaling Theory

Signaling theory in finance, primarily developed by Michael Spence in the 1970s, posits that corporate financial decisions convey information to investors. The theory suggests that companies use dividends and other financial signals to communicate their financial health and future prospects to the market. For example, a company that increases its dividend payout might signal confidence in its future earnings. Conversely, cutting dividends could indicate financial trouble. This theory assumes that managers have more information about the company's prospects than investors and use financial policies to signal this information asymmetrically (Spence, 1973).

Walter's Study

James E. Walter's model, developed in the 1960s, emphasizes the importance of the relationship between a firm's internal rate of return (r) and its cost of capital (k) in determining the optimal dividend policy. According to Walter, if r>kr > kr>k, the firm should retain earnings and reinvest them, as this will maximize shareholder wealth. If r<kr < kr<k, the firm should distribute dividends to shareholders, who can potentially invest elsewhere for a higher return. Walter's model suggests that dividend policy is relevant and can influence a firm's valuation, especially when considering the reinvestment opportunities available within the firm (Walter, 1963).

2.3 Empirical Review

Njoku and Lee (2024) conducted study on "Revisiting the Effect of Dividend Policy on Firm Performance and Value: Empirical Evidence from the Korean Market." They investigated the relationship between dividend policy, firm performance, and value in the Korean market. Utilizing correlation, mean, standard deviation, median, and regression analyses. The study examined key factors such as dividend policy, dividend yield, payout ratio, debt ratio, free cash flow, and market-to-book value. The findings reveal that cash dividends positively influenced Tobin's Q and market-to-book ratios, thereby enhancing market valuations. This positive effect was pronounced in Chaebol firms, where dividends bolster performance, supporting the interest alignment hypothesis and strategic signaling. Conversely, in non-Chaebol firms, dividend policies negatively impact performance, aligning with the managerial entrenchment hypothesis and suggesting potential challenges to market value. The study underscores the importance of transparent communication regarding dividend policies to aid investor decision-making and improve corporate governance in the dynamic Korean market.

Budhathoki and Khadka (2024) conducted a study entitled "The Effects of Dividend Policy on the Price of Shares of Microfinance Companies." They examined how dividend policy impacted the market price of microfinance companies. Utilizing regression, mean and standard deviation, and correlation analyses, the study focused on variables such as dividend yield, retention ratio, dividend payout ratio, return on assets, return on equity, and share price. The findings indicated that dividend yield negatively affected share price, while the retention ratio had a positive and significant impact, and the payout ratio was negative and significant. Directly, the dividend yield had a negative effect on share price, with retention and payout ratios being insignificant. Indirectly, through return on assets, the

effects of dividend yield and retention ratio on share price were negative and insignificant, whereas through return on equity, they were positive and significant. Additionally, the return on shareholders' capital was found to be negative and insignificant.

Adhikari (2022) conducted a comprehensive study to investigate the factors influencing the market prices of shares in Nepalese life insurance companies. The study focused on understanding how various firm-specific variables affect the market price per share (MPS) over a period spanning from 2012/13 to 2020/21. The dependent variable in the study was the market price per share, which reflects the value that investors are willing to pay for a company's stock. This variable was analyzed in relation to several independent variables: earnings per share (EPS), dividend per share (DPS), price-earnings ratio (PER), dividend payout ratio (DPR), and dividend yield ratio (DYR). These variables were selected based on their potential impact on shareholder perceptions and market valuation. Data for the study were collected from authoritative sources such as the insurance and banking statistics published by Nepal Rastra Bank and the annual reports of selected life insurance companies operating in Nepal. The research employed correlation and multiple regression analyses to quantify the relationships between MPS and the independent variables. The findings revealed significant positive correlations between MPS and EPS, DPS, PER, DPR, and DYR. Specifically, MPS showed a moderate positive correlation (0.654) with EPS, indicating that higher earnings per share tend to correlate with higher market prices per share. Similarly, correlations between MPS and other dividend-related variables such as DPS (0.538), DPR (0.225), PER (0.486), and DYR (0.256) were also positive, albeit to varying degrees. The multiple regression analysis further explained that approximately 49.8% of the variability in MPS among Nepalese insurance companies could be attributed to variations in the independent variables studied. This means that these firm-specific factors collectively influence nearly half of the observed changes in share prices over the study period. However, the study also highlighted that 51.2% of the variability in MPS remained unexplained by the factors examined, suggesting the presence of other influential variables not accounted for in the research. To complement the quantitative findings, the researcher distributed a self-administered questionnaire to investors to gauge their awareness of how dividend-related factors influence MPS. The positive responses indicated that investors were cognizant of these factors and their impact on stock prices in the Nepalese insurance sector.

Kanakriyah (2021) examined the relationship between dividend policy and financial performance in emerging countries. The study analyzed data from 92 companies listed on the Amman Stock Exchange from 2015 to 2019. Results showed that Dividend Yield, Dividend Pay-out Ratio, and Firm Size had a strong association with financial performance. The Leverage Ratio had a negative impact on Return on Assets and Asset Turnover Efficiency. However, no significant relationship was found with the Current Ratio. The study concluded that dividend policy has a significant influence on a company's financial performance.

Dabrowska et al. (2020) conducted a study focusing on the determinants of dividend payout decisions among publicly listed food industry firms operating in emerging markets. The research analyzed unbalanced panel data comprising 799 observations from companies across 15 countries over a span of 14 years. The study formulated eight research hypotheses and employed a random effects panel probit model to model the factors influencing dividend payout decisions. A significant finding of the study was the impact of a company's financial position in the preceding year on its dividend payout decisions. Additionally, the study identified several key determinants that consistently influenced dividend payout decisions during the study period. These factors included free cash flow, growth prospects, liquidity, profitability, and company size. These findings align with and reinforce conclusions drawn by previous research in this area, underscoring their importance in shaping dividend policies.

Das (2020) explored the influence of dividend policy on the financial performance of companies listed on the Bombay Stock Exchange. The study employed correlation matrices and panel regression models to assess how dividend policies affected these companies. The findings indicated that the selected companies did not consistently follow a specific pattern in their dividend payments. The correlation between the price-earnings ratio and dividend payout ratio was found to be weakly positive. However, strong associations were observed between return on assets and return on equity. The Hausman Test suggested that a random effects model was suitable, highlighting that the performance of these companies significantly influenced their dividend policies. Dividend policy remains a complex area in corporate finance, requiring careful consideration by boards of directors when formulating strategies for their companies. The insights gained from this study provide valuable guidance for managerial decisions regarding dividend policies and their impact on financial performance.

Gul et al. (2020) stated on the factors affecting dividend policy: empirical study from pharmaceutical's companies in Pakistan (PSX). The existing study intends to measure those factors that affect dividend policy by considering pharmacy companies registered on PSX from 2013 to 2017. Population based on all sectors of Pakistan Stock Exchange (PSX) in which pharmaceutical's companies taken as a sample by using census sampling technique because all companies of pharmaceutical sector were considered. Panel VAR model, fixed effect model (FAM) and also used a regression model to define the influence of IV on DV. The results revealed that has a significant effect of managerial ownership, debt policy, ROA, firm size and free cash flow on dividend policy. The findings of this study demonstrated that the company's future performance has more concern for the betterment investors than current revenue. There should be active focus on the future aspects in order to improve firm performance.

Lestari (2019) conducted a study on the determinants of corporate dividend policy among manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period from 2011 to 2015. The research aimed to identify factors influencing dividend policy decisions. The study included various independent variables such as earnings, cash flow, free cash flow, debt levels, growth and investment opportunities, firm size, largest shareholder influence, firm risk, lagged dividend payments, with dividend policy as the dependent variable. A total of 32 manufacturing companies were analyzed. Multiple regression analysis conducted using Views 9.0 software revealed that earnings, cash flow, free cash flow, firm size, and lagged dividend payments had a significant impact on dividend policy decisions. On the other hand, variables such as debt, growth opportunities, investment opportunities, largest shareholder influence, and firm risk did not show a significant effect on dividend policy. The findings from this study are expected to assist financial managers in enhancing corporate profitability and providing essential insights for making informed investment decisions.

Singh and Tandon (2019) investigated the impact of dividend policy on stock prices within the context of the Indian market. The relationship between dividend policy and stock prices has been a topic of extensive debate in corporate finance literature, with arguments both for and against its significance. This study specifically aimed to assess how dividend policies influenced the market prices of shares belonging to companies in the Nifty 50 index listed on the National Stock Exchange (NSE) over the period from 2008 to 2017. The researchers employed various panel data regression models, including pooled regression,

fixed effect models, and random effect models, to analyze the data. The Hausman test was used to determine the most appropriate regression model for the analysis. The findings from the Hausman test indicated that the random effect model was most suitable for describing the relationship among the variables under study. The results derived from the random effect regression model provided strong support for the impact of dividend policy on stock prices. Based on these findings, the study concluded that dividend policy significantly affects the stock prices of firms within the Nifty 50 index on the NSE. These insights contribute valuable perspectives to the ongoing discourse on dividend policies and their implications for stock market valuations.

Masry (2018) conducted a theoretical and empirical study on factors influencing dividend policy in an emerging capital markets (ECM's) country. The research emphasized that dividend decisions are influenced by various factors, including legal and financial considerations. The study highlighted that profitability indicators, such as return on equity, return on assets, and earnings per share, have the greatest impact on share price performance. Financial risks, size, investment opportunities, and liquidity were also identified as significant factors affecting dividend policy. The research further revealed that profitability indicators had the most significant influence on the payout ratio, followed by financial risks, liquidity, and size/investment opportunities. Overall, the findings underscored the importance of considering multiple factors unique to each company when determining dividend policies.

Khan and Shamim (2017) conducted a sectoral analysis of dividend payment behavior in the Karachi Stock Exchange (KSE) from 2009 to 2013. The study employed descriptive analysis to assess the dividend payment trends across all 32 sectors. For 15 non-financial sectors, panel data unit root tests and pooled ordinary least square (POLS) tests were conducted. The findings revealed that earnings per share had a positive impact on dividend payment in sectors such as beverages, travel and leisure, fixed-line telecommunication, food processors, household goods, personal goods, automobiles, and electricity. However, the forestry sector (paper and board) exhibited a negative association with the dividend payout ratio. Moreover, free cash flow had a positive impact on dividend payment in the fixed-line telecommunication sector, while exhibiting a negative impact on sectors like chemical, forestry, construction and material, engineering, beverages, tobacco, travel and leisure, food processors, household goods, pharmaceutical and biotech, and automobiles.

Farrukh et al. (2017) conducted a study in Pakistan to explore the impact of dividend policy on shareholders' wealth and firm performance. The objective was to examine whether dividend policy affects shareholders' wealth. The study utilized dividend per share and dividend yield as measures of dividend policy, earning per share and share price as proxies for shareholders' wealth, and return on equity as a measure of firm performance. The regression results indicated a positive and significant impact of dividend policy on both shareholders' wealth and firm performance. The findings supported dividend relevance theory, signaling effect theory, bird in hand theory, and clientele-effect theory. The study recommended the implementation of stable and target-oriented dividend policies, effective supervision by regulatory bodies, and appropriate disclosure of dividend-related information to aid investors in making informed decisions. These measures were suggested to enhance firm performance and increase shareholders' wealth in Pakistan.

Jozwiak (2015) delved into the determinants of dividend policy among listed companies in Poland, addressing the ongoing controversy in corporate finance surrounding dividend decisions. While extensive literature has explored dividend policies in developed countries, particularly the United States, there remains a dearth of research on dividend policies in emerging economies. This study aimed to fill this gap by analyzing cash dividend payments among Polish listed companies. Using panel data analysis, the research investigated the factors influencing dividend policies within the Polish market. The paper aimed to ascertain whether factors such as profitability, liquidity, firm size, and leverage similarly influence dividend payout decisions in Poland as they do in developed countries. The findings sought to elucidate the impact of these factors on dividend policy within the Polish market context, providing valuable insights into how companies in emerging economies approach dividend distribution. This research contributes to the broader understanding of dividend policy dynamics and its implications across different market environments.

Maldajian and Khoury (2014) conducted an empirical study on the dividend payout policy of Lebanese listed banks. They analyzed the impact of profitability, liquidity, leverage, firm size, growth, firm risk, and previous year's dividend payout on dividend payout ratios. Using an unbalanced panel dataset from 2005 to 2011, two models (OLS and dynamic panel regressions) were tested. The findings revealed that dividend policies were positively influenced by firm size, risk, and previous year's dividends, while being negatively influenced by the opportunity of growth and profitability. These results suggest that firms aim to mitigate agency conflicts by paying dividends and prioritize dividend stability in

their policy decisions. Additionally, Lebanese listed firms tend to prioritize investment for growth rather than increasing dividend payouts.

Ghose (2013) conducted a case study of the Indian company name SAIL on the impact of dividend decision, analyzing the relationship between the Dividend Payout Ratio, Gross Profit Margin, Net Profit Margin, ROE, and Return on Net worth of Indian company name SAIL from 2008 to 2012. Secondary data from authentic company websites was used, and Pearson's Correlation Coefficient (2 Tailed test, 5% Level of Significance) was employed to examine significant correlations among the variables dividend payout ratio, gross profit margin, net profit margin, roe, and return on net worth. The study found that there is significant relation of dividend payout ratio, gross profit margin, net profit margin with ROE.

Year and Author	Topics	Objectives	Methods	Variables	Findings
Njoku and Lee (2024)	Revisiting the Effect of Dividend Policy on Firm Performance and Value: Empirical Evidence from the Korean Market	To investigate the relationship between dividend policy, firm performance, and value within the Korean market.	Correlation, Mean, Std Dev, Median, Regression	Dividend Policy, Dividend Yield, Payout Ratio, Debt Ratio, Free Cash Flow, Market to book value	Cash dividends boost Tobin's Q and market-to-book ratios, positively affecting market valuations. In Chaebol firms, dividends improve performance, supporting interest alignment and signaling. In non-Chaebol firms,

					dividends harm performance, supporting managerial entrenchment. Clear communication on dividend policies is essential for better investor decisions and corporate governance in Korea.
Budhathoki and Khadka (2024)	The effects of dividend policy on the price of shares of microfinance companies	To examine the effect of dividend of the market price of microfinance companies	Regression, Mean and Standard Deviation, Correlation	Dividend Yield, Retention Ratio, Dividend Payout Ratio, Return on Assets, Return on Equity and share price	Dividend yield negatively affects share price; retention ratio is positive and significant; payout ratio is negative and significant. Directly, dividend yield is negative; retention and payout ratios are insignificant. Indirectly, through return

					on assets, effects are negative and insignificant; through return on equity, positive and significant. Return on shareholders' capital is negative and insignificant.
Adhikari (2022)	Factors affecting share price in insurance companies	To obtain in depth knowledge about the impact of dividend policy adopted by the selected companies to its market price of shares.	Correlation and Regression analysis was used in the study.	EPS, DPS, Dividend pay-out ratio, PE Ratio and dividend yield ratio.	There is positive relationship between market price per share and other dividend variables like, EPS, DPS, Dividend pay-out ratio, PE Ratio and dividend yield ratio.
Kanakriya h (2021)	Studied on dividend policy and companies' financial performance.	This study aims to determine the nature of the association between	It is the measureme nt of the relative dispersion by Karl	ROA and AOE, leverage ratio, current ratio	Also leverage ratio is negatively and significantly associated with ROA and AOE.

		dividend policy and a corporation's financial performance in emerging countries, as well as the main variables that may have an effect on financial performance	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 homogene ous.		Moreover, no relations were detected between current ratio and financial performance. The study's conclusion is that dividend policy explains a lot of a company's financial performance, meaning that the dividend policy has a statistically significant impact on company financial performance.
Gul, Ullah, Gul and Rasheed (2020)	on the factors affecting dividend policy: empirical study from pharmaceutic al's companies in	Population based on all sectors of Pakistan Stock Exchange (PSX) in which pharmaceutic	Correlation analysis is the statistical tools that can be used to describe the degree	EPS, DPS, PE Ratio and dividend yield	Population based on all sectors of Pakistan Stock Exchange (PSX) in which pharmaceutical 's companies taken as a

	Pakistan (PSX).	al's companies taken as a sample by using census sampling technique because all companies of pharmaceutical sector were considered	to which one variable is linearly related to another		sample by using census sampling technique because all companies of pharmaceutical sector were considered
Das (2020)	studied on impact of dividend policy on financial performance	This study is an attempt to evaluate the impact of dividend policy on financial performance of selected companies registered in Bombay Stock Exchange.	Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under study.	earning, deb, investment opportunities, firm size,DPR	Divided policy is still contemplated as one of the complicated areas in corporate finance. The findings from this study are worthwhile to be welcomed into account by the board of managers of companies to demonstrate dividend policy for the companies.

Dabrowska, Sawicka and Ulrichs (2020)	studied on Determinants of dividend payout decisions the case of publicly quoted food industry enterprises operating in emerging markets.	The study develops eight research hypotheses and uses a modelling approach based on the random effects panel probity mode	The coefficient of determination is the primary way we can measure the extend, or strength of association that exists between two variables		These important research results are confirmed by other studies in the field. They are therefore essential for determining dividend policies. Individual effects across investigated enterprises also played an important role in the dividend policy.
Singh and Tandon (2019)	studied on the effect of dividend policy on stock price: evidence from the Indian Market.	One of the most debated issues in the field of corporate finance is the relationship between dividend policy and market price of share.	The study is consists the comparative study of dividend policy of Nepalese insurance company and its effect on their stock	Dividend policy, EPS, Retention Ratio, P/E Ratio, NI, Index	The result of the Hausman test indicates that random effect model is more relevant in describing the relationship among the given variables. The results of the random effect

			price behavior. The study is mainly based on secondary data.		regression model support the relevant approaches of dividend policy. Thus, we conclude that there is significant effect of dividend policy on the stock price of firms.
Lestari (2019)	studied on Determinants of corporate dividend policy in Indonesia.	This study aims to investigate the determinants factors that affect the dividend policy. The sample used in this research is manufacture companies listed in Indonesia Stock Exchange (IDX) and	MPS is that value of stock, which can be obtained by a firm from the market. Market values share is one of the variables, which is affected by the dividend per Share and earnings	earning, cash flow, free cash flow, debt, growth opportunities, investment opportunities, firm size, largest shareholder firm risk, lagged dividend and dividend policy	The results of this study are expected to be implemented by the financial managers in improving corporate profits and basic information as return on investment decisions. There are independent variables such as earning, cash flow, free cash flow,

		the period 2011-2015	per share of the firm.		debt, growth opportunities, investment opportunities, firm size, largest shareholder, firm risk, lagged dividend and dividend policy used as dependent variable
Masry (2018)	Studied on factors affecting dividend policy in an emerging capital markets (ECM's) country	The dividend decision is taken after careful consideration of a number of factors, such as legal and financial. This is because it is impossible to develop a dividend policy set that applies to all companies	Standard deviation is the positive square root of average sum of squares of deviations of observation from the arithmetic mean of the distribution.	Investment, NI, Cash Ratio,ROE, ROA, EPS, DY, P/E Ratio	Then, the factor of size, investment opportunity for each of investment opportunity and net profit standard deviation without assets volume comes in the third place and finally, the liquidity and signals factor represented in the cash ratio

					without signals index. While the profitability aspects and its indicators for each of the return on equity, return on asset, earning per share without dividend yield are the most effective on pay-out ratio (first rank)
Farrukh, Irshad, Khakwani, Ishaque, and Ansari (2017)	studied on impact of dividend policy on shareholders wealth and firm performance in Pakistan	The objective of this research paper is to establish the impact of dividend policy on shareholders' wealth and firm performance in Pakistan. The conduct of dividend policy has been one of	Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another. In the present study, both	DPS, MPS, NO, ROE, MVPS	The study commends the implementation of stable, effective, managed and target-oriented dividend policy by firm's financial managers along with effective supervisory framework governed by capital market regulatory

		the most debatable issues in literature of corporate finance.	simple correlation and multiple correlations have been used.		bodies to uplift firms' performance and shareholders wealth in Pakistan. Furthermore, appropriate firm disclosure with respect to dividend payout and dividend per share is needed to guard the potential investors in making the right investment choices in listed firms.
Khan and Shamim (2017)	Studied on a sectoral analysis of dividend payment behavior evidence from Karachi stock exchange.	This study analyzes the sector-wise dividend payment behavior of Karachi Stock Exchange (KSE) for the	The P/E ratio is a valuation ratio of a company's current price per share compared to its	cash flow, dividend payment, MPS, P/E Ratio, EPS	In addition, free cash flow has a positive impact on dividend payment in fixed-line telecommunication, and a negative impact on chemical,

		period 2009 through 2013. The trend of dividend payment of 5 years with respect to all 32 sectors is descriptive analysis.	earnings per share		forestry, construction and material, engineering, beverages, tobacco, travel and leisure, food processor, household goods, pharmaceutical and biotech, and automobiles.
Jozwiak (2015)	Studied on determinants of dividend policy: evidence from polish listed companies.	The main goal of this paper is to examine cash dividend payments of Polish listed companies. In this study, panel data analysis is applied to investigate the determinants of dividend policies of Polish companies	Standard deviation is the popular and useful measure of dispersion and gives uniform, correct and stable results. Karl Pearson introduced the standard deviations concept in 1823.	profitabilit y, liquidity, size, leverage of the firm) affect dividend payout ratio	The paper also explains the impact of different factors on dividend policy on Polish market. Moreover, it tries to examine whether the same factors (profitability, liquidity, size, leverage of the firm) affect dividend payout

					decisions on Polish market as on developed countries.
Maldajian and Khoury (2014)	studied on determinants of the dividend policy	This research aims at investigating the factors determining the dividend payout policy in the Lebanese banks listed on the Beirut Stock Exchange.	It is the measurement of the relative dispersion by Karl person. It is used to compare the variability of two or more series.	dividend policy, EPS, DPS, MPS, MVPS	Furthermore, managers take into consideration the stability of dividends while determining the dividend policy. Moreover, the results suggest that the Lebanese listed firms prefer to invest their earnings to grow rather than to pay more dividends.
Ghose (2013)	studied on analysis of the impact of dividend decision on Sail	The study of corporate finance is one of the major areas of finance	In the above context I have studied the relationshi	Dividend Payout Ratio, Gross Profit Margin,	This research has used Persons Correlation Coefficient (2 Tailed test, 5%

		which looks into the financial problems of firms and their solution.	p between the Dividend Payout Ratio, Gross Profit Margin, Net Profit Margin, ROCE and Return on Net worth of SAIL over a period of 2008 to 2012	Net Profit Margin, ROCE and Return on Net worth	Level of Significance) to see whether there is any significant correlation between the above mentioned variables. It also needs to be seen whether there are any major fluctuations in the above variables over the period of study and to what extent.
KC (2021)	conducted her master's research on "Impact of Dividend Policy on Market Price of Share"	To analyze the impact of dividend policy on market price of share, To analyze the variable, such as profit, retain earnings, growth rate and other	Various financial and statistical tools have been used in this study. The analysis of data will be done according to pattern	profit, retain earnings, growth rate, MPS, EPS and DPS	The Major findings of this study are there is in consistency in dividend payment of commercial bank. There is no long term vision regarding dividend policy

		relevant variable to show relationship between the value and other indicator affecting it.	of data available. Financial tools and simple regression analysis are used in the analysis.		of commercial bank. There exist positive correlation of MPS with EPS and DPS.
Rajbhandari (2020)	conducted a research topic on "Dividend Policy Comparative Study between Banks and Insurance Companies." The	To examine the relationship between and market price of the stock, to identify the appropriate dividend policy followed by the banks and insurance companies' and To analyze the relationship between dividend policy decision of	The relationship between market price per share and dividend is positive The Dividend payment is not consistency of all six sample companies.	EPS, DPS, MPS, DY, Retention Ratio	The Major findings of the study are Average earning per share seems satisfactory of all sample companies. The positive relationship between dividend per share and earnings per share, the co-efficient of correlation between earning per share and market price to the negative.

		banks and insurance companies.			
Giri (2017)	conducted research on A Comparative Study of Dividend policy of KBL Bank Ltd Standard Charter Bank Nepal Ltd and Investment Bank Ltd,	To identify dividend policy bank of selected banks, To analyzes the relationship between financial indicators such DPS, EPS, DPR, PE ratio, Liquidity ratio and profitability ratio on market value per share (MVPS)	The earnings per share are a useful measure of profitabilit y, and when compared with EPS of other similar companies, it gives a view of the comparativ e earning power of the companies	EPS, MVPS, PE Ratio, MVPS, DPR, Liquidity Ratio, ROE	Correlation between EPS and MVPS of KBL bank is positive, whereas correlation between EPS and MVPS of SCBNL and NIBL is negative, same as correlation between PE ratio and MVPS of KBL, SCBNL and NIBL were positive. Correlation between DPR and MVPS of all three bank are positive but correlate between dividend yield and MVPS and KBL is positive except others

					two banks. Same as, correlation between liquidity ratio of KBL and NIBL bank positive but SCBNL is negative.
Paudel (2018)	conducted research on A Comparative Study on Dividend Policy of Everest Bank Ltd and Nepal Investment Bank Ltd	To identify dividend policy bank of selected banks, To analyzes the relationship between financial indicators such DPS, EPS, DPR, PE ratio, Liquidity ratio and profitability ratio on market value per share (MVPS).	The dividend payout ratio is the amount of dividends paid to stockholders relative to the amount of total net income of a company.	DPS, EPS, DPR, PE Ratio, Liquidity Ratio, Profitability Ratio, MVPS	The Major findings of the study are By comparing the DPS of two sample banks, it is found the EBL has a higher average the KBL even through the banks are not paying regular dividend. The performance of KBL is satisfactory in case of DPS with higher consistency level then EBL.
Devkota (2016)	conducted research on	To analysis the existing	The price to earnings	EPS, DPS, PE Ratio,	The relationship

	Dividend Policy of Commercial Bank in Nepal, that had covered the period	dividend practices of sample bank in term of DPS, DPR and DY, to find out the effect on the MVPS due to DPS and EPS	ratio (P/E ratio) is the ratio of market price per share to earnings per share. The P/E ratio is a valuation ratio of a company's current price per share compared to its earnings per share.	DY, MVPS	between DPS of all sample banks with EPS is positively correlated. Correlation coefficient between DPS and NWPS two sample banks have positive and HBL has Negative. Similarly the correlation of the DPD with MVPS of the all sample banks is also positively correlated. The regression coefficient DPS on EPS of EBL, HBL and NIBL are positive value.
G.C (2016)	Conducted a study on Dividend Policy and Its Impact on Share Price:	To examine the impact of dividend policy on market price of stock of	MPS is that value of stock, which can be obtained by a firm	MPS, DPR, DPS, EPS	The Major findings of the study are the Commercial banks of the Nepal are

	(Analysis of Selected "A" Class Listed Companies).	"A" class listed companies of Nepal, to explore the prevailing practices and effort made in dividend policy among the companies	from the market. Market values share is one of the variables, which is affected by the dividend per Share and earnings per share of the firm		regular paying dividend. Being an "A" class financial institution, the majority companies under the development banks, financial institutions and insurance companies have not been able to pay dividend to its shareholders.
Ghimire (2015),	Dividend Policy of Listed Companies with Reference to Banks, Finance and Insurance Companies	To examine the dividend policy of listed companies. The other specific objectives of the study are to identify the regularity of divided distribution of different listed companies	Standard deviation is the positive square root of average sum of squares of deviations of observatio n from the arithmetic mean of the distribution . Standard	DPR, EPS, MPS, ROA, ROE, Retention Ratio	The major findings of the study are the average dividend per share of the banks is satisfactory compared to finance and insurance companies. The average earning per share of the bank is also more

			deviation is the popular and useful measure of dispersion and gives uniform, correct and stable results		satisfactory than finance and insurance companies.
Budhathoki (2015),	Study of Dividend Policy of the commercial Banks in Nepal,	The other specific objectives of the study are to compare the dividend policy followed by different commercial banks chosen, to analyze the relationship of dividend on other financial indicators.	The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable. The average market price shows that there is quite high level of fluctuation.	EPS, DPS, DPR, MPS	The major findings of this study are the average earning per share (EPS) of the banks under study shows a positive result. However, the coefficient of variation indicates that there is no consistency of EPS. The average dividend per share (DPS) shows that there is no regularity in

					dividend payment.
Deuja (2015),	*Corporate Dividend Practices in Nepal*,	The other specific objectives is to analyze the properties of portfolios on dividend, to examine the relationship between dividend and stock prices and to test the impact of earning on dividend.	These profitabilit y ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.	EPS, DPS, MPS, ROA, ROE	The major findings of this research are the financial position of high dividend paying companies is comparatively better than that of low dividend paying companies. Market price of stock of both finance and non-finance and non-finance sectors are affected by dividends.

2.4 Research Gap

This study stands out from previous research efforts in key aspects. Unlike the study focusing on a comparative analysis of dividend policies among six insurance companies, this research examines the dividend policies and practices within the unique context of the Nepalese capital market. The Nepalese market, still in its early development stages, does not align with the conclusions drawn from international studies (Giri, 2017). Hence, it is recommended that foreign models of dividend practices be carefully considered when shaping Nepalese dividend policies. This study, encompasses data from six insurance

companies over the past decade, takes into account various financial indicators such as EPS, DPS, DPR (Dividend Payout Ratio), MPS (Market Price per Share) and P/E ratio (Price-to-Earnings ratio). This comprehensive approach provides a more detailed and extensive analysis. Furthermore, while recognizing the existing literature on dividend policy both nationally and internationally, this research acknowledges that not all foreign concepts and practices can be directly applied to the unique Nepalese dividend policy landscape. To bridge this research gap, the study explores the relationship between dividend payout ratios and their impact on market share prices through regression analysis (Budhathoki & Khadka, 2024).

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived to obtain answers to research questions and to control variance. Being an academic research, the purpose of this research is to answer the queries raised and control the variances. Casual comparative and descriptive research design, a fact-finding approach, were followed for accessing the profitability and bank specific variables of sample commercial banks. Regression analysis and coefficient of correlation techniques were applied for determining the relationship between the figures of bank specific factors and profitability. So to meet the objective of the study descriptive and casual comparative research design was carried.

3.2 Population and Sample, and Sampling Design

20 number of banks are actively trading shares in the stock market, it is impractical to study all of them in depth regarding the chosen topic. Therefore, a sampling approach will be employed to select a subset from the population. The banks selected for this study are NABIL Bank Ltd., Kumari Bank Ltd. (KBL), and Nepal Bank Limited, chosen because they exhibit consistent and regular dividend policies, much like other major corporate entities. Conducting a comprehensive study involving all banks is not feasible due to various constraints including time and cost limitations.

The researcher aims to ensure that this study serves as a representative analysis of dividend policies among banks in Nepal. Based on their recent performance, one well-performing bank, one average-performing bank, and one underperforming bank have been selected to provide a comprehensive overview of dividend policies across different performance levels. This approach will help in capturing a broad spectrum of practices and outcomes within the banking sector.

3.3 Nature and Sources of Data, and the Instrument of Data Collection

The study relies on secondary data gathered from various sources for its analytical purposes. Data were primarily sourced from publications by the Nepal Stock Exchange

(NEPSE), annual reports of selected banks, websites of these banks, and publications from the Securities Board of Nepal (SEBON).

Original data obtained from these sources underwent thorough validation, re-evaluation, editing, and tabulation to ensure suitability for analysis. The researcher took steps to enhance the trustworthiness of the collected data by obtaining them from authorized and reliable sources. Additionally, graphical charts were utilized as needed to visually interpret findings. Data were organized thematically and presented in tables sequentially for clarity and ease of analysis.

Financial ratios played a crucial role in analyzing and interpreting bank-specific factors and the profitability of the selected commercial banks. These measures were instrumental in providing insights into the financial health and performance trends of the banks under study.

3.4 Method of Analysis

The study was employed both descriptive and analytical statistics to analyze the collected data; this process also involved manual working and computer programmed MS-word, MS-excel and SPSS. The study was used descriptive statistics in analyzing data through ratio and data presented in form of times and percentages which reflected the different financial ratio include in this study.

3.5.1 Financial Tools

As this study is related to loan management analysis financial tools are more useful, they help to identify the actual loan position and relation with ratios. A ratio is a numerical representation that expresses the relationship between two variables. It quantifies the quantitative connection between sets of financial data obtained from either a profit and loss account or balance sheet. Ratios serve as a tool to measure and understand the relationship and proportionality between different financial elements within a company's financial statements.

3.5.2 Statistical Tools

In this research study some statistical tools are used for the analysis of the data more accurately, which are given below:

Arithmetic Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value.

Mean or Average ($\overline{X}$) = $\frac{\sum X}{N}$

Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean denoted by Greek letter's (read as sigma), standard deviation is extremely useful for judging the representatives of the mean.

Standard deviation (σ) = $\sqrt{\frac{\sum(X-\overline{X})}{n-1}}$

Coefficient of Variation (CV)

The coefficient of variation (CV) quantifies the spread or variability of data relative to its mean. It is calculated as the ratio of the standard deviation to the mean of a sample. Essentially, the CV serves as a measure of relative risk: a higher CV indicates greater risk compared to the average. It provides insight into the level of dispersion in the data set, helping to assess the degree of variability in relation to the average value.

Coefficient of Variation (CV) = $\frac{\text{Standard Deviation}}{\text{Mean}}$

Coefficient of Correlation (r)

Correlation analysis is a statistical method used to assess how closely two variables are related. It measures the covariance between variables and determines the degree of their relationship (Pant and Choudhary, 2053:299). This tool describes the extent to which one variable changes in relation to another in a linear fashion, capturing both the strength and direction of the relationship.

The correlation coefficient, denoted as "r," ranges between -1 and +1. A value of -1 indicates a perfect negative relationship where one variable increases as the other decreases.

Conversely, a +1 value indicates a perfect positive relationship where both variables move in the same direction. A correlation coefficient of 0 signifies no linear relationship between the variables; they are considered uncorrelated.

The magnitude of the correlation coefficient indicates the strength of the relationship: the closer r is to ±1, the stronger the relationship between the variables. A coefficient closer to 0 suggests a weaker relationship. The sign (+ or -) of the coefficient indicates the direction of the relationship—positive or negative, respectively.

In summary, correlation analysis provides insights into how variables behave relative to each other, helping to quantify their association in a meaningful way within statistical analysis.

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

Where,

n = number of observation in series X and Y

$\sum$ X = sum of observation in series X

$\sum$ Y = sum of observation in series Y

$\sum$ X2 = sum of squared observation in series X

$\sum$ Y2 = sum of squared observation n series y

$\sum$ XY = sum of the product of observations in series X and Y

The value of correlation coefficient ranges from -1 to +1.

r = 0 means variables are correlated lies between -1 and +1

r = -1 means perfect negative correlation between the variables

r = +1 means positive correlation between the variables

Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two (or more) variables and to make estimation (or prediction) of one variable on the basis of the other variable(s). In other words, regression is that statistical tool with the

help of which the unknown value of one variable can be estimated on the basis of known value of the other variable. Regression equation showing the relation between all independent variable and dependent variable.

Regression Equation:

Model 1: MPS = β0 + β1 DPS+ β2 EPS+ β3 P/E Ratio+ β4 DY+ β5 DPR + e

Where,

MPS = Market Price Per Share

DPS = Dividend Per Share

EPS = Earnings Per Share

P/E Ratio = Price Earnings Ratio

DY = Dividend Yield

DPR = Dividend Payout Ratio

β0 = intercept value of regression equation

β1 = coefficient of DPS

β2 = coefficient of EPS

β3 = coefficient of P/E Ratio

β4 = coefficient of DY

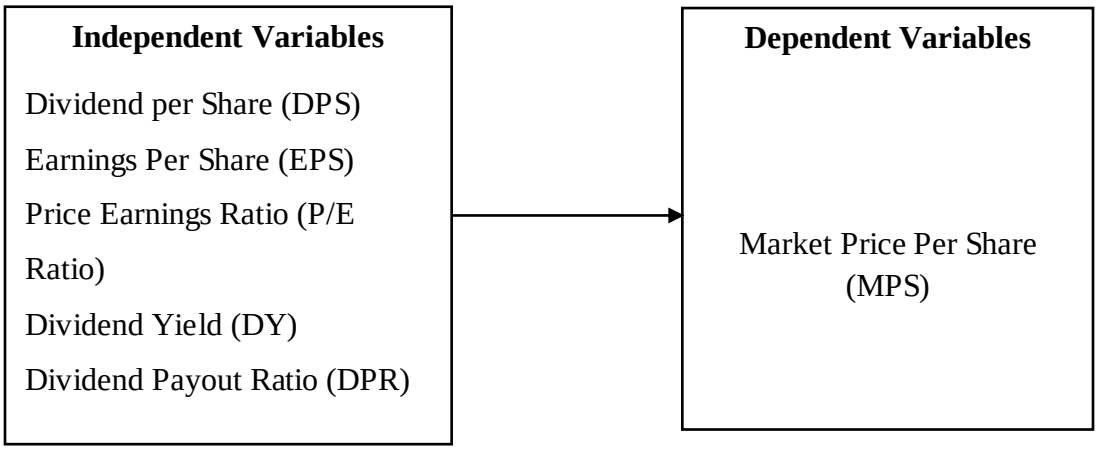
β5 = coefficient of DPR

CDR = Credit Deposit Ratio

e = residual term of the regression equation

3.5 Research Framework and Definition of Variables

Given the research objectives, the study focuses on analyzing how dividends affect several key variables including earnings per share, dividend per share, dividend payout ratio, retention ratio, price-earnings ratio, dividend yield, and market price per share. Additionally, various financial indicator tools relevant to these objectives are being utilized and considered for analysis.



(*Source*: Khadka & Khadka, 2021)

Independent Variables

Earnings Per Share (EPS)

Earnings Per Share (EPS) is a crucial financial metric that measures the amount of profit available to equity shareholders on a per-share basis. It reflects a company's earning power and profitability, providing insights into its financial health and performance. Higher EPS indicates greater net profit, which can positively affect stock prices as it signals strong financial performance and potential for future growth. According to Gordon's Model, the value of a stock is determined by the present value of all future dividends, closely tied to the company's earnings. When a company reports higher EPS, it suggests that the firm has higher earning potential, which can lead to higher expected dividends. This, in turn, can drive up the stock price as investors anticipate better returns on their investment. Thus, EPS is not only a measure of profitability but also a predictor of future dividend payments, making it a key variable in stock valuation and investment decisions.

Dividend Per Share (DPS)

Dividend Per Share (DPS) signifies the portion of a company's earnings that is distributed to shareholders in the form of dividends. It is an important indicator of a company’s financial health and its ability to generate returns for its shareholders. The Wealth Maximization Theory suggests that larger dividends are particularly beneficial for shareholders, especially for companies experiencing declining profit trends. Higher DPS can attract investors by providing them with regular income, enhancing the firm's goodwill and reputation in the market. When a company consistently pays out higher dividends, it signals financial stability and confidence in its future earnings, which can directly impact

stock prices. Investors are likely to value such companies higher, leading to an increase in the market price of their shares. Therefore, DPS is a critical measure of a company's commitment to returning value to its shareholders and maintaining investor confidence.

Market Price per Share (MPS)

Market Price per Share (MPS) is the value of a stock as determined by the capital market, reflecting the collective assessment of a company's worth by investors. According to the Modigliani & Miller Theory, in a perfect market, a firm's value is unaffected by its capital structure, suggesting that dividend policy alone does not influence MPS. However, Signaling Theory provides a different perspective, arguing that changes in dividends serve as signals to investors about the company's future prospects. An increase in dividends can indicate that the company expects strong future earnings, thereby positively influencing MPS. A higher DPS, linked with a higher EPS, often leads to an increase in MPS as it signals positive performance and growth prospects to the market. Thus, while MPS is influenced by a variety of factors, dividend decisions play a significant role in shaping investor perceptions and market valuations.

Price Earnings Ratio (P/E Ratio)

The Price Earnings Ratio (P/E Ratio) measures the market's valuation of a company's earnings, indicating how much investors are willing to pay for each dollar of earnings. It is a key indicator of market sentiment and investor expectations regarding a company's future growth prospects. According to the study by Friend & Puckett, dividend policy significantly impacts stock valuation, with investors often preferring dividends over potential future capital gains. A higher P/E ratio reflects greater investor confidence and expectations of future earnings growth, which can be influenced by consistent and high dividend payouts. Companies with higher P/E ratios are typically viewed as having strong growth potential, making them attractive to investors. Therefore, the P/E ratio serves as a vital tool for assessing how the market values a company's earnings relative to its stock price, and how dividend policies can influence this valuation.

Dividend Yield (DY)

Dividend Yield (DY) represents the dividend per share as a percentage of the market price per share, offering a measure of the return on investment for shareholders in the form of dividends. According to the Residual Theory of Dividend, firms should only pay dividends

from residual earnings after all profitable investment opportunities have been funded. This approach ensures that dividends are only paid out when there are no better investment opportunities available, making higher DY an attractive return on investments for shareholders. A higher dividend yield indicates that a company is generating substantial income relative to its stock price, potentially increasing the market price of the stock as investors seek higher yields. Consequently, DY is an important metric for investors looking for steady income from their investments and for assessing the overall attractiveness of a stock.

Dividend Payout Ratio (DPR)

The Dividend Payout Ratio (DPR) indicates the portion of EPS that is used for dividend payments versus the portion that is retained for reinvestment. Walter's Study emphasizes the importance of the relationship between a firm's internal rate of return (r) and its cost of capital (k) in determining the optimal dividend policy. A high DPR suggests that a larger portion of earnings is paid out as dividends, which can signal to investors that the firm has fewer profitable reinvestment opportunities. This might attract income-focused investors but can also limit the firm's potential for growth through reinvestment. Conversely, a lower DPR indicates that more earnings are being reinvested into the company, potentially leading to capital gains and an increased stock price over time. Therefore, the DPR is a crucial variable in understanding a company's dividend policy and its implications for both short-term income and long-term growth.

CHAPTER IV

RESULT AND DISCUSSION

Significant data from Nepal's sample banks, as well as their analysis and interpretation in order to meet the study's goals, are presented and discussed in this chapter. As explained in the third chapter, the data has been analyzed in line with the research strategy in order to get the best potential result. It is possible to understand the foundations of data analysis and interpretation, as well as how to do these tasks, by reading this chapter. The statistical testing of significance is an essential component of data analysis because it establishes if the correlations or differences supporting or opposing the original or new hypothesis are statistically significant. This assists in determining the validity of the data and the validity with which it may be utilized to draw any conclusions. A variety of financial and statistical methodologies are used throughout this chapter to analyze data acquired from secondary sources. The findings of the study are discussed in depth.

4.1 Results

The current chapter is broken down into two sections. The tests for various ratio analyses of individual banks were divided into two parts in Section 4.1, which also included descriptive statistics for panel data from ten commercial banks. Several parts included correlation analysis between dependent and independent variables and multiple regression models are among other topics

4.1.1 Analysis of Earning per share (EPS)

Earnings per share (EPS) represents the monetary value of earnings attributed to each outstanding share of common stock in a company. It serves as a key indicator of profitability for shareholders' investments. EPS reflects the profitability of banks on a per-share basis, where higher earnings indicate more effective utilization of funds and vice versa. The earnings per share for the banks under investigation are presented in the following table.

Table 1

EPS of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	76.12	26.67	38.64
2071/72	57.24	17.17	36.31
2072/73	59.27	26.53	44.59
2073/74	59.86	13.29	38.77
2074/75	51.84	14.54	39.98
2075/76	50.57	14.81	26.99
2076/77	36.16	12.08	20.68
2077/78	33.57	14.20	23.43
2078/79	18.64	19.27	20.29
2079/80	27.82	7.46	23.22
Mean	47.11	16.60	31.29
S.D.	17.56	6.11	9.23
C.V	37.27%	36.78%	29.49%

(Source: Annex I)

Table 1 provides an analysis of the Earnings Per Share (EPS) for Nabil Bank, Kumari Bank, and Nepal Bank over a ten-year period, from fiscal year 2070/71 to 2079/80. Nabil Bank demonstrates the highest mean EPS at 47.11, indicating superior profitability compared to the other two banks. However, this bank also experiences the highest standard deviation (17.56), reflecting substantial fluctuations in its earnings. The coefficient of variation (37.27%) further emphasizes the volatility in Nabil Bank's EPS, despite its higher average profitability. Kumari Bank, on the other hand, has the lowest mean EPS at 16.60, signaling the least profitability. Its standard deviation of 6.11 is the lowest among the three banks, suggesting relatively more stable earnings compared to Nabil Bank but less stable than Nepal Bank. The coefficient of variation for Kumari Bank is 36.78%, indicating significant variability in its earnings despite the lower mean EPS. Nepal Bank's mean EPS stands at 31.29, positioning it between Nabil Bank and Kumari Bank in terms of average profitability. Its standard deviation of 9.23 denotes moderate fluctuation in earnings, less than Nabil Bank but more than Kumari Bank. The coefficient of variation for Nepal Bank is the lowest at 29.49%, highlighting the most stable EPS relative to its mean value among the three banks. Over the ten-year period, Nabil Bank, despite its profitability, shows significant volatility with a notable decline in EPS from 76.12 in 2070/71 to 27.82 in 2079/80. Kumari Bank's EPS, though lower, also fluctuates, particularly in the fiscal years

2073/74 and 2079/80, indicating potential instability. Nepal Bank exhibits a moderate and stable EPS, with less fluctuation compared to the other banks, suggesting better risk management or consistent performance. Overall, Nabil Bank leads in profitability but struggles with consistency, Kumari Bank lags in profitability with moderate instability, while Nepal Bank shows moderate profitability with the highest stability in EPS among the three banks.

4.1.2 Analysis of Dividend per Share (DPS)

Dividend per share (DPS) represents the amount of earnings distributed per share to common stockholders in rupees. It indicates the portion of earnings allocated to shareholders on a per-share basis. Higher DPS typically fosters a positive perception among shareholders towards the bank, potentially enhancing the market value of shares. Moreover, DPS serves as an indicator of effective bank management performance. The dividend per share for the banks being studied is detailed in the table provided.

Table 2

DPS of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	110	40	0
2071/72	43.68	16.84	0
2072/73	45	21	0
2073/74	48	12.75	0
2074/75	34	8.5	0
2075/76	34	10	15
2076/77	35.26	10.85	12
2077/78	38	6	14
2078/79	30	12.5	12
2079/80	11	0	0
Mean	42.89	13.84	5.30
S.D.	25.73	10.82	6.90
C.V	59.98%	78.13%	130.13%

(Source: Annex II)

Table 2 presents the Dividend Per Share (DPS) for Nabil Bank, Kumari Bank, and Nepal Bank over the ten-year period from fiscal year 2070/71 to 2079/80. Nabil Bank displays the highest mean DPS at 42.89, reflecting its strong dividend payouts relative to the other banks. However, Nabil Bank's standard deviation of 25.73 signifies considerable variability in its dividends. This is further highlighted by a coefficient of variation (C.V.) of 59.98%, indicating a high degree of fluctuation in its DPS over the years. Kumari Bank has a lower mean DPS of 13.84, suggesting a more modest dividend distribution compared to Nabil Bank. Its standard deviation is 10.82, pointing to significant but lesser variability than Nabil Bank. With a C.V. of 78.13%, Kumari Bank's DPS shows even greater relative variability, suggesting instability in its dividend payouts over the analyzed period. Nepal Bank's mean DPS stands at 5.30, the lowest among the three banks, indicating minimal dividend distributions. Its standard deviation is 6.90, indicating notable fluctuation despite the low mean DPS. The coefficient of variation for Nepal Bank is the highest at 130.13%, reflecting the greatest relative variability and highlighting substantial inconsistency in its dividend payments. Analyzing the data over the ten-year span, Nabil Bank shows a significant decline in DPS from 110 in 2070/71 to 11 in 2079/80, reflecting decreasing dividend payouts and high variability. Kumari Bank's DPS, while generally lower, also exhibits substantial fluctuations, particularly noticeable in the fiscal years 2073/74 and 2079/80. Nepal Bank's DPS, although the lowest, is marked by inconsistency, with sporadic dividend payments observed only in certain years, such as 2075/76, 2076/77, 2077/78, and 2078/79.

4.1.3 Analysis of Market Price Per Share (MPS)

Market Price per Share (MPS) refers to the current trading price of a company's shares on the secondary market. Table 3, accompanied by a graphical representation, presents the average MPS of Nabil Bank, Kumari Bank, and Nepal Bank over a specific period. Nabil Bank typically shows the highest MPS, reflecting its strong market position and investor confidence. Kumari Bank's MPS is moderate, indicating a fair market perception but with less investor enthusiasm compared to Nabil Bank. Nepal Bank's MPS is generally the lowest, suggesting lower investor confidence or market performance.

Table 3

MPS of the Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	2535	642	658
2071/72	1910	459	564
2072/73	2344	0	470
2073/74	1523	327	364
2074/75	921	199	281
2075/76	800	220	336
2076/77	765	186	249
2077/78	1359	171	268
2078/79	824	191	298
2079/80	599.2	165	249
Mean	1358.02	256.00	373.70
S.D.	699.55	179.49	143.15
C.V.	51.51%	70.11%	38.31%

(Source: Annex III)

Table 3 details the Market Price per Share (MPS) for Nabil Bank, Kumari Bank, and Nepal Bank over a ten-year span from fiscal year 2070/71 to 2079/80. Nabil Bank, with a mean MPS of 1358.02, is the most highly valued among the three banks, signifying strong investor confidence. However, its standard deviation of 699.55 and a coefficient of variation (C.V.) of 51.51% indicate substantial volatility in its share price, reflecting fluctuating market perceptions over the years. Kumari Bank, with a mean MPS of 256.00, is valued significantly lower than Nabil Bank, suggesting less favorable market sentiment. Its standard deviation of 179.49 and a C.V. of 70.11% reveal the highest relative volatility, highlighting substantial instability and possibly underlying operational challenges. Nepal Bank's mean MPS of 373.70 positions it between Nabil and Kumari Banks. It exhibits the lowest volatility, with a standard deviation of 143.15 and a C.V. of 38.31%, indicating more stable market valuation despite having a lower average MPS compared to Nabil Bank.

4.1.4 Analysis of Price Earnings Ratio (P/E Ratio)

The price-earnings ratio (P/E ratio) represents the relationship between a company's market price per share and its earnings per share. It is also known as the earnings multiplier. The P/E ratios of the banks under examination are depicted in both table and graphical formats:

Table 4

P/E Ratio of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	33.38	24.07	12.34
2071/72	33.37	26.73	8.45
2072/73	39.55	27.81	10.54
2073/74	25.44	24.61	9.39
2074/75	18.6	13.68	7.03
2075/76	15.82	14.85	12.45
2076/77	21.15	15.39	12.04
2077/78	40.48	26.13	18.9
2078/79	44.21	9.92	13.21
2079/80	21.54	22.12	10.72
Mean	28.35	15.84	11.79
S.D.	10.51	8.02	3.24
C.V.	37.06%	50.61%	27.53%

(Source: Annex IV)

Table 4 outlines the Price-to-Earnings (P/E) Ratio for Nabil Bank, Kumari Bank, and Nepal Bank over a ten-year period from fiscal year 2070/71 to 2079/80. The price-earnings ratio (P/E ratio) is a crucial measure indicating how much investors are willing to pay for each dollar of a company's earnings. Among the banks studied, Nabil Bank shows the highest average P/E ratio of 28.35. However, the standard deviation of 10.51 and a coefficient of variation (C.V.) of 37.06% indicate moderate volatility in its P/E ratio over the years, reflecting fluctuations in market sentiment. Kumari Bank has a lower average P/E ratio of 15.84 compared to Nabil Bank. Its standard deviation of 8.02 and a higher C.V. of 50.61% reveal significant volatility, indicating a less consistent market perception of its earnings

potential and higher investor uncertainty. Nepal Bank shows the lowest average P/E ratio at 11.79, indicating the market's lower growth expectations for this bank. It has the smallest standard deviation of 3.24 and the lowest C.V. of 27.53%, suggesting the most stable P/E ratio among the three banks, with relatively consistent investor expectations. Analyzing the ten-year period, Nabil Bank's P/E ratio fluctuates significantly, peaking at 44.21 in 2078/79 and dropping to 15.82 in 2075/76. Kumari Bank shows the highest volatility, with its P/E ratio ranging from a high of 27.81 in 2072/73 to a low of 9.92 in 2078/79.

4.1.5 Analysis of Dividend Yield (DY)

Dividend yield represents the percentage of dividend per share (DPS) relative to the market price per share (MPS). It indicates the dividend income received by investors as a proportion of the share's market value in the stock market. This ratio significantly impacts the market price per share, as even a slight change in DPS can lead to noticeable fluctuations in the share's market value.

Table 5

Dividend Yield of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	2.56	6.23	0
2071/72	1.93	3.66	0
2072/73	1.92	0	0
2073/74	3.15	3.9	0
2074/75	3.69	4.27	0
2075/76	4.25	4.55	4.46
2076/77	4.61	5.83	4.82
2077/78	2.8	3.51	5.22
2078/79	3.64	6.54	4.03
2079/80	1.84	0	0
Mean	3.04	3.85	1.85
S.D.	1.00	2.29	2.41
C.V.	32.79%	59.55%	130.06%

(Source: Annex V)

Table 5 presents the Dividend Yield for Nabil Bank, Kumari Bank, and Nepal Bank over a ten-year period from fiscal year 2070/71 to 2079/80. Dividend yield measures the dividend income as a percentage of the market price per share, indicating how much cash flow investors receive for each dollar invested in the equity. Nabil Bank has an average dividend yield of 3.04%, reflecting a steady income return for investors. The standard deviation is 1.00, and the coefficient of variation (C.V.) is 32.79%, suggesting relatively low volatility and consistent dividend payouts compared to its share price. Kumari Bank shows a higher average dividend yield of 3.85%, indicating a more attractive dividend income for investors. However, it has a higher standard deviation of 2.29 and a C.V. of 59.55%, which points to greater variability in its dividend yield over the years, reflecting fluctuating dividend payouts or market prices. Nepal Bank has the lowest average dividend yield at 1.85%, suggesting it offers the least dividend income relative to its share price. With a standard deviation of 2.41 and the highest C.V. of 130.06%, Nepal Bank's dividend yield is the most volatile, indicating significant inconsistency in its dividend payments or market price fluctuations. Analyzing the ten-year period, Nabil Bank's dividend yield fluctuates between 1.84% in 2079/80 and 4.61% in 2076/77, showing some variability but generally providing steady returns. Kumari Bank's dividend yield varies widely, peaking at 6.54% in 2078/79 and dropping to zero in 2072/73 and 2079/80, reflecting unstable dividend policies or market conditions. Nepal Bank's dividend yield is inconsistent, with zero yields in several years and a peak of 5.22% in 2077/78, highlighting irregular dividend distributions. Overall, Nabil Bank offers steady but moderate dividend yields with low volatility, Kumari Bank provides higher but more variable dividend yields, and Nepal Bank, despite its lowest average yield, experiences the highest volatility, indicating inconsistent dividend income for investors.

4.1.6 Analysis of Dividend Payout Ratio (DPR)

The proportion of earning paid in the form of dividend is called Dividend Payout Ratio (DPR). This ratio shows what percentage of the profit is distributed as dividend and it is measured in percentage. The dividend payout ratio of a bank depends upon the earnings made by the bank. The DPR of the banks under study are stated in the table and graph as follows:

Table 6

DPR of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	85.59	112.1	0
2071/72	64.36	98.13	0
2072/73	75.93	79.16	0
2073/74	80.19	95.94	0
2074/75	68.68	58.46	0
2075/76	67.24	67.52	55.58
2076/77	97.51	89.82	58.03
2077/78	113.2	42.25	59.75
2078/79	160.94	64.87	59.14
2079/80	39.54	0	0
Mean	85.32	70.83	23.25
S.D.	33.16	32.56	30.03
C.V.	38.87%	45.97%	129.18%

(Source: Annex VI)

Table 6 details the Dividend Payout Ratio (DPR) for Nabil Bank, Kumari Bank, and Nepal Bank over a ten-year period from fiscal year 2070/71 to 2079/80. The DPR indicates the proportion of earnings distributed as dividends to shareholders, providing insights into the banks' dividend policies. Nabil Bank shows an average DPR of 85.32%, suggesting that it distributes a significant portion of its earnings as dividends. The standard deviation of 33.16 and a coefficient of variation (C.V.) of 38.87% indicate moderate variability in its payout ratio, reflecting a relatively stable dividend policy over the years. Kumari Bank has an average DPR of 70.83%, indicating a substantial but slightly lower dividend distribution compared to Nabil Bank. With a standard deviation of 32.56 and a C.V. of 45.97%, Kumari Bank's DPR shows greater variability, suggesting more fluctuation in its dividend payout policies. Nepal Bank presents a markedly lower average DPR at 23.25%, indicating a conservative approach to dividend distribution, often retaining a larger portion of its

earnings. Its standard deviation of 30.03 and the highest C.V. of 129.18% among the three banks highlight significant volatility and inconsistency in its dividend payouts. Analyzing the ten-year period, Nabil Bank's DPR ranges from a high of 160.94% in 2078/79 to a low of 39.54% in 2079/80, reflecting varying levels of earnings distribution. Kumari Bank's DPR fluctuates considerably, with zero payouts in 2079/80 and peaks like 112.1% in 2070/71, indicating inconsistent dividend strategies. Nepal Bank's DPR is sporadic, with several years of zero payouts and a peak of 59.75% in 2077/78, emphasizing its irregular dividend distribution. Overall, Nabil Bank maintains a high but moderately variable DPR, Kumari Bank exhibits substantial yet more volatile payouts, and Nepal Bank, while conservative in dividends, shows the highest inconsistency. These trends illustrate differing approaches to balancing retained earnings and shareholder returns among the three banks.

4.1.7 Descriptive Statistics

Descriptive statistics are short descriptive coefficients that describe a particular data set, which may be a representation of the complete population or a sample of the full population. Descriptive statistics may be divided into two categories: measurements of central tendency and measures of variability (or variation) (spread). The profitability drivers of commercial banks measurement-base statement, as well as their mean score, based on panel data from ten commercial banks. The information gathered was refined and analyzed in a methodical manner using SPSS software.

Table 7

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
EPS	19.40	47.14	31.67	9.94
DPS	3.67	50.00	20.68	11.57
MPS	337.73	1278.33	662.57	311.20
PE	13.10	28.50	20.46	5.03
DY	0.61	5.09	2.91	1.60
DPR	13.18	94.98	59.80	22.33

Table 7 provides descriptive statistics summarizing key financial metrics for the sample companies, including Earnings Per Share (EPS), Dividend Per Share (DPS), Market Price per Share (MPS), Price-to-Earnings (P/E) Ratio, Dividend Yield (DY), and Dividend Payout Ratio (DPR). The data reveals considerable variability across these metrics. EPS ranges from 19.40 to 47.14, with an average of 31.67 and a standard deviation of 9.94, indicating moderate variability in profitability. DPS varies widely from 3.67 to 50.00, with a mean of 20.68 and a higher standard deviation of 11.57, suggesting significant diversity in dividend payouts among the companies. MPS ranges from 337.73 to 1278.33, reflecting notable fluctuations in market valuations, with an average of 662.57 and a standard deviation of 311.20. P/E ratios range from 13.10 to 28.50, indicating different levels of investor expectations and growth prospects, with a mean of 20.46 and a standard deviation of 5.03. DY varies from 0.61% to 5.09%, with an average of 2.91% and a standard deviation of 1.60, highlighting varying dividend policies relative to share prices. DPR shows substantial variability, ranging from 13.18% to 94.98%, with a mean of 59.80% and a standard deviation of 22.33, reflecting diverse approaches to distributing earnings as dividends. These statistics provide insights into the financial performance and market valuation dynamics of the sample companies.

4.1.8 Correlation Analysis

The correlation coefficient measures the relation between two or more variables. It also measures the extent to which one variable affects the other one. The correlation coefficient lies between +1 and -1. A correlation coefficient of +1 signifies a perfect positive correlation between variables, while -1 indicates a perfect negative correlation. A coefficient of 0 suggests no relationship between the variables. Positive correlation means that as one variable increases, the other variable also tends to increase, while negative correlation indicates that as one variable increases, the other tends to decrease. The magnitude of the correlation coefficient indicates the strength of the relationship between variables. The table below displays the correlation coefficients (r) among financial variables for the sample banks.

Table 8

Correlations Matrix

		MPS	EPS	DPS	PE	DY	DPR
MPS	Pearson Correlation	1					
	Sig. (2-tailed)						
EPS	Pearson Correlation	.905**	1				
	Sig. (2-tailed)	.279					
DPS	Pearson Correlation	.970**	.775	1			
	Sig. (2-tailed)	.156	.436**				
PE	Pearson Correlation	.934**	.695	.993**	1		
	Sig. (2-tailed)	.232	.511	.075			
DY	Pearson Correlation	.132**	-.302**	.369**	.476	1	
	Sig. (2-tailed)	.916	.805	.759	.684		
DPR	Pearson Correlation	.749**	.396**	.887**	.936**	.756	1
	Sig. (2-tailed)	.461	.741	.305	.230	.454	

**. Correlation is significant at the 0.01 level (2-tailed).

Table 8 presents the correlation matrix for various financial metrics including market price per share (MPS), earnings per share (EPS), dividend per share (DPS), price-to-earnings ratio (PE), dividend yield (DY), and dividend payout ratio (DPR). The correlation coefficients indicate the strength and direction of the relationships between these variables. Firstly, the correlation between MPS and EPS is notably high at 0.905, suggesting a strong positive relationship between market price and earnings per share. However, the significance level of 0.279 indicates that this correlation might not be statistically significant. Similarly, the correlation between EPS and DPS is relatively high at 0.775, indicating a positive relationship between earnings and dividends per share, though not statistically significant at a significance level of 0.436. The correlation between DPS and PE is strong at 0.970, indicating a positive relationship between dividend per share and price-to-earnings ratio, yet not statistically significant at a significance level of 0.156. PE shows a strong positive correlation with EPS (0.993) and a slightly weaker positive correlation with DPS (0.695), suggesting a strong relationship between price-to-earnings ratio and earnings per share, and a moderate relationship with dividend per share. However,

these correlations are not statistically significant at conventional levels (p = 0.075 and p = 0.511 respectively). Additionally, DY demonstrates weak correlations with the other variables, indicating a low relationship with MPS, EPS, DPS, and PE, while DPR exhibits moderate correlations with EPS, DPS, PE, DY and DPR suggesting a moderate relationship between dividend payout ratio and these financial metrics.

4.1.9 Regression Analysis

Regression analysis is a mathematical method of determining which of those factors has an effect on the outcome of the experiment. It provides answers to the questions: What are the most important factors? Which of these can we afford to ignore? What is the nature of the interactions between those factors? And, perhaps most crucially, how confident are we in our understanding of all of these variables? For this study Market price per share is dependent variable and EPS, DPS, PE, and DY was used as independent variables. The result from regression analysis is presented in table.

Table 9

ANOVA Table When Dependent Variable is MPS

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	533.12	5	106.22	4.563	.000[b]
	Residual	140.87	6	234.812		
	Total	674.99	11			

a. Dependent Variable: MPS

b. Predictors: (Constant), EPS, DPS, PE, DY and DPR

Table 9 provided the results of an analysis of variance (ANOVA) for the regression model with MPS as the dependent variable. It indicates that the predictors EPS, DPS, PE, DY and DPR) collectively have a significant impact on MPS. The F-statistic of 4.563 with a p-value of .000 confirms the model's statistical significance. The table also shows the amount of variability explained by the regression (sum of squares) and the unexplained variability (residuals). Overall, the table supported the conclusion that the predictors have a meaningful influence on MPS.

Table 10

Coefficient Table When Dependent Variable is MPS

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	123.736	530.17		7.233	.000
	EPS	1.972	17.22	.027	.427	.670
	DPS	11.420	8.957	.274	4.296	.000
	PE	38.697	2045.046	.156	1.886	.004
	DY	7.456E-8	.000	.076	2.887	.031
	DPR	74.325	8523.232	.123	2.166	.034

a. Dependent Variable: MPS

The coefficient Table 10 provided the results of a regression analysis with MPS as the dependent variable. Regarding the independent variables, EPS (earnings per share) has a coefficient of 1.972 with a standard error of 17.22, suggesting a weak positive relationship with MPS. However, its p-value of 0.670 indicates that this relationship is not statistically significant. DPS (dividend per share) has a coefficient of 11.420 with a standard error of 8.957, implying a stronger positive relationship with MPS compared to EPS. This coefficient is statistically significant with a p-value of 0.000, indicating that increases in DPS are associated with higher MPS. PE (price-to-earnings ratio) has a coefficient of 38.697 with a large standard error, implying a positive relationship with MPS. However, its statistical significance is questionable with a p-value of 0.004. DY (dividend yield) has a coefficient of 7.456E-8 (which is essentially zero) with a standard error close to zero, indicating an extremely weak relationship with MPS. Despite this, it shows statistical significance with a p-value of 0.031. DPR (dividend payout ratio) has a coefficient of 74.325 with a large standard error, suggesting a positive relationship with MPS. Its statistical significance is marginal with a p-value of 0.034.

Table 11

Model Summary When Dependent Variable is MPS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.90[a]	.92	.18	152.32

a. Predictors: (Constant), EPS, DPS, PE, DY and DPR

Table 10 presents the model summary statistics for the regression analysis where the dependent variable is MPS (market price per share). The coefficient of determination (R-squared) for the model is 0.92, indicating that approximately 92% of the variance in the dependent variable (MPS) can be explained by the independent variables (EPS, DPS, PE, DY, and DPR) included in the model. This suggests that the model provides a very good fit to the data, as a high R-squared value indicates a strong relationship between the independent and dependent variables. The adjusted R-squared, which takes into account the number of predictors in the model, is 0.18. This adjusted value is considerably lower than the R-squared, indicating that there may be some degree of overfitting or that some of the predictors may not be adding much explanatory power to the model. The standard error of the estimate is 152.32. This represents the average deviation of the observed values from the predicted values by the model. A lower value indicates a better fit of the model to the data.

4.2 Major Findings

The major findings led this study to conclude that there are difference in financial position of high dividend paying and low dividend paying banks.

i. The range of Earnings Per Share (EPS) varies from 19.40 to 47.14, with an average of 31.67.
ii. Dividend Per Share (DPS) shows a wide variation from 3.67 to 50.00, averaging 20.68.
iii. Market Price per Share (MPS) ranges extensively from 337.73 to 1278.33, with a mean of 662.57.
iv. Price-to-Earnings (P/E) Ratio fluctuates between 13.10 and 28.50, averaging 20.46.
v. Dividend Yield (DY) varies from 0.61% to 5.09%, with an average of 2.91%.

vi. Dividend Payout Ratio (DPR) exhibits extensive variability, ranging from 13.18% to 94.98%, with a mean of 59.80%. Market price per share (MPS) and earnings per share (EPS) show a notably high correlation of 0.905, suggesting a strong positive relationship. However, this correlation might not be statistically significant at a significance level of 0.279.

vii. There's a relatively high correlation of 0.775 between EPS and dividend per share (DPS), indicating a positive relationship. But this correlation is not statistically significant at a significance level of 0.436.

viii. The correlation between DPS and price-to-earnings ratio (PE) is strong at 0.970, indicating a positive relationship. However, it's not statistically significant at a significance level of 0.156.

ix. PE shows a strong positive correlation with EPS (0.993) and a slightly weaker positive correlation with DPS (0.695), suggesting a strong relationship with earnings per share and a moderate relationship with dividend per share. However, these correlations are not statistically significant at conventional levels ($p = 0.075$ and $p = 0.511$ respectively).

x. Dividend yield (DY) exhibits weak correlations with the other variables, indicating a low relationship with MPS, EPS, DPS, and PE.

xi. Dividend payout ratio (DPR) demonstrates moderate correlations with EPS, DPS, PE, DY, and DPR, suggesting a moderate relationship between dividend payout ratio and these financial metrics.

xii. Regarding the independent variables, EPS (earnings per share) has a coefficient of 1.972 with a standard error of 17.22, indicating a weak positive relationship with MPS (market price per share). However, its p-value of 0.670 suggests that this relationship is not statistically significant.

xiii. DPS (dividend per share) has a coefficient of 11.420 with a standard error of 8.957, implying a stronger positive relationship with MPS compared to EPS. This coefficient is statistically significant with a p-value of 0.000, indicating that increases in DPS are associated with higher MPS.

xiv. PE (price-to-earnings ratio) has a coefficient of 38.697 with a large standard error, implying a positive relationship with MPS. However, its statistical significance is questionable with a p-value of 0.004.

xv. DY (dividend yield) has a coefficient of 7.456E-8 (which is essentially zero) with a standard error close to zero, indicating an extremely weak relationship with MPS. Despite this, it shows statistical significance with a p-value of 0.031.

xvi. DPR (dividend payout ratio) has a coefficient of 74.325 with a large standard error, suggesting a positive relationship with MPS. Its statistical significance is marginal with a p-value of 0.034.

4.3 Discussion

The current findings offer a detailed look into different financial measures and how they influence dividend policies, ultimately affecting stock market outcomes. Meanwhile, prior studies by Kandpal and Kavidayal (2014), Harshapriya (2016), Zainudin et al. (2017), Farrukh et al. (2017), Baral and Pradhan (2017), Anwar et al. (2017), Khan and Shamim (2017), Iftikhar et al. (2017), Felimban et al. (2018), Baral and Pradhan (2018), Singh and Tandon (2019), Phan and Tran (2019), Alajekwa and Ezeabasili (2020), Kulkarni and Hyderabad (2022), and Lamyaa et al. (2023) delved into similar topics but in various regions and industries using different methods.

For example, Kandpal and Kavidayal (2014) focused on the Indian banking sector, discovering significant impacts of dividend policy on share prices, especially in private sector banks. Harshapriya (2016) looked at share price volatility in Sri Lanka's commercial banking sector and found that dividend yield and payout ratio play crucial roles in volatility. Zainudin et al. (2017) studied stock price volatility among Malaysian industrial products firms and highlighted the importance of dividend policy in predicting volatility, particularly after crises. Farrukh et al. (2017) examined how dividend policy affects shareholder wealth in Pakistan, revealing mixed correlations between dividends and other financial measures. Baral and Pradhan (2017, 2018) explored the influence of dividend policy on Nepalese commercial banks' share prices and found strong connections with earnings per share (EPS), price-to-earnings (P/E) ratio, and dividend payout ratio (DPR). Anwar et al. (2017) analyzed the impact of cash dividend announcements on stock returns in Indian manufacturing companies, showing positive abnormal returns after announcements. Khan and Shamim (2017) conducted a sector-wise analysis of dividend payments in Pakistani companies, noting varying levels of explanatory power across different sectors.

Iftikhar et al. (2017) investigated how dividend policy affects stock prices in Pakistani banks, revealing significant positive relationships between dividends and stock prices.

Felimban et al. (2018) studied how the stock market reacts to dividend announcements in GCC countries, finding significant trading volume reactions and changes in dividends. Singh and Tandon (2019) explored the relationship between dividend policy and stock prices in India, finding strong positive correlations between EPS and MPS. Phan and Tran (2019) looked at how dividend policy influences stock price volatility in Vietnam, finding that dividend yield helps mitigate volatility. Alajekwa and Ezeabasili (2020) examined how dividend policy affects stock price volatility in Nigeria, showing varied effects across financial and non-financial firms. Kulkarni and Hyderabad (2022) analyzed how dividend policy impacts stock prices in Indian companies, highlighting the importance of EPS and the moderate impact of DPS and return on equity (ROE). Lastly, Lamyaa et al. (2023) investigated how dividend payout policy impacts financial performance and share prices in Moroccan companies, finding significant positive relationships between dividends and share prices.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter is dedicated to summarizing the study conducted and presenting the researcher's conclusions. It will further provide recommendations based on the findings. To fulfill this objective, the chapter is structured into sections covering summary, conclusion, and recommendations.

5.1 Summary

This study investigates the correlation between dividend policy and market share prices. Dividend policy is a critical financial strategy for organizations, influencing their sustainability, growth, and market perception. Investors typically seek substantial returns on their investments in shares. Companies that pay higher dividends alongside strong earnings tend to enjoy a favorable public image and higher market prices in the Nepalese stock market. Conversely, companies with lower earnings and dividends attract less shareholder interest, resulting in lower market prices.

While numerous companies are listed on NEPSE, only a few maintain consistent dividend payments, and even fewer have stable dividend policies. Many companies, particularly those in early growth stages, offer minimal dividends, while some do not distribute any dividends to shareholders at all. In this context, the researcher selected Nabil Bank, known for its regular dividend payments, and Kumari Bank, which is still growing and has recently started paying dividends, for this study. The objective was to investigate how dividend policy impacts the market price of shares for these two banks. For this purpose, various financial and statistical tools were developed to analyze the data from banks. Using the pooled cross section data of two banks from fifteen observations, researcher attempted to determine the impact of different variables in determining the market price of share.

The findings indicate the share value is affected by earning, dividend payments and retained earnings. The market price of shares shows both positive and negative relationships with EPS and DPS, indicating a strong dependency on these factors. Specifically, higher EPS and DPS tend to positively influence MPS. Conversely, there is a negative relationship between MPS and retained earnings, indicating an inverse correlation between retained earnings and market price. The importance of dividend is higher than the importance of

retained earnings is a major conclusion of this study which is consistent with the results of previous studies conducted on this topic. Similarly, paper concluded that more or less dividend policy depends on earning of the company since there is always certain negative correlation between EPS in Nabil and positive correlation between Kumari bank. The correlation between MPS and DPS is negative is in Kumari bank and Nepal bank.

5.2 Conclusion

This paper investigates the valuation of shares in the market for two distinct banks. It seeks to ascertain the varying significance of dividend policy, earnings, and retained earnings in determining the market price of shares. There is not any consistent dividend policy of the banks. Therefore, result of different analysis accepts the theoretical assumptions and sometimes do not. The researcher's findings indicate that the primary factor influencing dividend policy is the earnings of the banks. Dividend distribution decisions are closely tied to the banks' earning capacity. Additionally, the study concludes that Nepalese investors place greater emphasis on and value dividend distributions over retained earnings. The market price of share is a function of numerous variables such that EPS, DPS, DPR, P/E ratio, DY and others. Basically, EPS of Kumari bank positively correlated and hence positive impact is seen in the market price whereas EPS of Nabil bank, DPS is positively correlated and hence positive impact is seen in the market price. Besides that, DY, DPR is negatively correlated with market price and hence negative impact is seen. Higher importance of divided among Nepalese investors signifies that management can increase the market price of stock by raising dividend to some extent. The earning capacity of the fund in different bank is significantly different though these all are of A class financial institutions.

The market price per share is influenced by dividend-related financial variables such as DPS and DPR, exhibiting either positive or negative effects. The nature of this influence varies among banks; some banks show a positive correlation between dividends and market price per share, while others demonstrate a negative correlation. Moreover, the market price per share significantly depends on dividends, as indicated by the coefficient of multiple determination.

There is no legal obligation that mandates companies to pay dividends when they are profitable. The Company Act 2053, Commercial Bank Act 2031, and other regulatory statutes do not clearly outline provisions regarding dividend policies. Thus, it may be

concluded that earnings and dividend payment is more important as compared to retained earnings in Nepal. If the company retains more earning, the market price of share may decline. In this connection, it is more interesting to note that market price of the share is the determination of earning, dividend and retained earnings. The earnings and dividend yields positive impact on market price whereas retained earning has negative impact on market price. The results indicate the customary strong dividend and weak retained earnings effect on market price of share. The study shows a predominant influence of dividend and an absence of retained earning effect on share price. Dividends are found relatively more attractive among Nepalese stockholders. They are, therefore, not indifferent towards dividend and retained earnings.

5.3 Implication

Based on the empirical findings and observations of market price per share (MVPS) with dividend per share (DPS) and other variables across sampled commercial banks, the following recommendations are proposed:

Establish Consistent Dividend Policies: Sample banks exhibit inconsistent dividend policies. It is recommended that these banks establish a practice of paying reasonable DPS annually. Consistency in dividend payouts fosters a positive attitude among shareholders and investors, enhancing the perceived value of the banks.

Control Fluctuations in Financial Metrics: The sample banks demonstrate significant fluctuations in DPS, earnings per share (EPS), dividend payout ratio (DPR), dividend yield, share price, and price-earnings (PE) ratio. It is crucial to implement measures to stabilize these variables for financial stability and investor confidence.

Develop Stable Dividend Payment Practices: The current dividend payment practices among banks lack stability. Some banks pay minimal dividends without considering risk-adjusted returns, which complicates market valuation. Clear policies on dividend payments should be developed to ensure stability and proper valuation of shares.

Adopt Static or Growing Dividend Policies: To positively influence the market, banks are advised to adopt either a static or steadily increasing dividend policy. Declaring dividend amounts in general meetings ensures adequate returns to shareholders and supports long-term market value growth, efficient management, and equitable income distribution.

Consider EPS in Dividend Decisions: EPS should be a key factor in determining dividend amounts. The analysis underscores the importance of considering earnings in dividend decisions to maintain shareholder confidence and financial health.

Enact Legal Framework for Dividend Payments: It is recommended to establish legal regulations binding companies to pay dividends. Clear legal guidelines for dividend treatment are essential for the smooth growth of enterprises and the national economy. Collaboration among regulatory bodies like NEPSE, SEBON, and government agencies is crucial in this regard.

Set Target Earnings and Payout Ratios: Banks should establish target earnings and payout ratios to mitigate fluctuations in EPS and DPR, which can confuse shareholders. Clear financial planning and communication of targets will enhance transparency and investor trust.

Enhance Transparency and Disclosure: Companies should provide comprehensive information about their activities and financial performance. Increased transparency enables investors to make informed decisions and encourages investment in the most promising companies.

Advocate for Regulatory Reforms: Following this study, there is a clear need for regulatory reforms regarding dividend payments in the banking sector. Stakeholders such as the Nepal Government, Nepal Rastra Bank, Security Board, and Nepal Stock Exchange should collaborate to formulate and implement effective rules for dividend policy regulation.

These recommendations aim to strengthen the dividend policies of banks in Nepal, fostering stability, transparency, and investor confidence in the financial sector.

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APPENDIX

ANNEX I

EPS of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	76.12	26.67	38.64
2071/72	57.24	17.17	36.31
2072/73	59.27	26.53	44.59
2073/74	59.86	13.29	38.77
2074/75	51.84	14.54	39.98
2075/76	50.57	14.81	26.99
2076/77	36.16	12.08	20.68
2077/78	33.57	14.20	23.43
2078/79	18.64	19.27	20.29
2079/80	27.82	7.46	23.22

(Source: Annual Report NABIL, KBL, NBL)

ANNEX II

DPS of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	110	40	0
2071/72	43.68	16.84	0
2072/73	45	21	0
2073/74	48	12.75	0
2074/75	34	8.5	0
2075/76	34	10	15
2076/77	35.26	10.85	12
2077/78	38	6	14
2078/79	30	12.5	12
2079/80	11	0	0

(Source: Annual Report NABIL, KBL, NBL)

ANNEX III

MPS of the Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	2535	642	658
2071/72	1910	459	564
2072/73	2344	0	470
2073/74	1523	327	364
2074/75	921	199	281
2075/76	800	220	336
2076/77	765	186	249
2077/78	1359	171	268
2078/79	824	191	298
2079/80	599.2	165	249

(Source: Annual Report NABIL, KBL, NBL)

ANNEX IV

P/E Ratio of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	33.38	24.07	12.34
2071/72	33.37	26.73	8.45
2072/73	39.55	27.81	10.54
2073/74	25.44	24.61	9.39
2074/75	18.6	13.68	7.03
2075/76	15.82	14.85	12.45
2076/77	21.15	15.39	12.04
2077/78	40.48	26.13	18.9
2078/79	44.21	9.92	13.21
2079/80	21.54	22.12	10.72

(Source: Annual Report NABIL, KBL, NBL)

ANNEX V

Dividend Yield of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	2.56	6.23	0
2071/72	1.93	3.66	0
2072/73	1.92	0	0
2073/74	3.15	3.9	0
2074/75	3.69	4.27	0
2075/76	4.25	4.55	4.46
2076/77	4.61	5.83	4.82
2077/78	2.8	3.51	5.22
2078/79	3.64	6.54	4.03
2079/80	1.84	0	0

(Source: Annual Report NABIL, KBL, NBL)

ANNEX VI

DPR of Sample Banks

Fiscal Year	Nabil Bank	Kumari Bank	Nepal Bank
2070/71	85.59	112.1	0
2071/72	64.36	98.13	0
2072/73	75.93	79.16	0
2073/74	80.19	95.94	0
2074/75	68.68	58.46	0
2075/76	67.24	67.52	55.58
2076/77	97.51	89.82	58.03
2077/78	113.2	42.25	59.75
2078/79	160.94	64.87	59.14
2079/80	39.54	0	0

(Source: Annual Report NABIL, KBL, NBL)

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