Corporate Dividend Policy: A Study of Commercial Banks of Nepal

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Dividend policy is the policy used by a company to decide how much it will pay out to shareholders in dividends. Taking financial indicators of 8 commercial banks for the period of 1996/97 to 2006/07, this study attempts to elucidate the dividend practices of commercial banks of Nepal. Abound by controversies and unpredictability, this study concludes that commercial banks of Nepal do not show uniform trend of dividend policy. Dividend policy practiced by commercial banks of Nepal is neither fully explained by residual theory nor stable theory. With the development of financial institutions in Nepal, they need to follow a robust method of dividend policy so that investors can predict stock market and make a rationale investment decision.

Background

Financial institutions are important for achieving the basic objective of a country's economic and social progress. They enjoy a strategic and crucial position in our mixed economy. Financial institutions regulate different policies so that the economic standard of the country will be improved at large. They, in fact, play a catalyst role for resource mobilization and capital formation to facilitate the process of economic development of the country.

Commercial banks, among other, are key financial institutions for mobilizing national resources and keeping the economy alive. Despite making

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profits they have to pay attention towards the public welfare sustaining themselves in the competitive commercial market. All the business firms always seek to have the existence of sufficient profit for sustenance. Although, Nepal started joinery of commercial banking some seven decades ago, after many years of modern banking system in Nepal, the government allowed the establishment of foreign joint venture banks. As a result, Nepal Arab Bank Ltd. (NABIL), Standard Chartered Bank Ltd. (SCBL) and Nepal Indosuez Bank Ltd. (NISBL) started their commercial transaction in 1984, 1985 and 1986 respectively. The establishment of joint venture banks gave a new horizon to the financial sector of the country with the expectation of inviting foreign capital, technology, experience, competitiveness, expertise and skills in Nepal. After the restoration of multiparty democratic system in 1990, government adopted the liberalization and open market policy, which provided opportunities for growth of joint venture banks.

Most of the public enterprises in our country are operating in below the break even due to several reasons including inefficient management. In such enterprises, the problems are not the distribution of dividend rather minimization of loses through better utilization of capital. We can see only few enterprises paying proper dividend to the investors. But after establishment of joint venture companies, there is new trend of paying dividend to the shareholders. That has brought new hopes for productive mobilization of funds. So, major decision of the firm is its dividend policy, the percentage of earning it pays in cash to its shareholders.

By a dividend policy we mean some kind of consistent approach to the distribution versus retention decision rather than making the decision on the purely ad-doc basis from period. So, what and how much it is desirable to pay dividend is always a controversial topic because shareholders always expect higher dividend, but the firm ensures towards setting aside funds for maximizing the shareholders wealth (Dickens, Casey, & Newman, 2002).

It is true that only few companies are paying dividend, there is also growing practice of paying stock dividend among some Nepalese companies. The clue to stock dividend distribution may lie in their perceived substitution for relatively low cash dividends (Josef & Lev, 1987). It is said that when the firms need to retain a high percentage of earnings, they issue stock dividends so that the shareholders of the firms are content.

There are corporate laws that put limitations on the distribution of dividends, as corporations have to keep reserves for the protection of creditors overall interest. Therefore, a good policy is required to maintain a balance between shareholders interest with that of corporate growth from internally generated funds. The return on shareholders should be better paid as dividends since shareholders have invested opportunities to employ elsewhere. Financial management is therefore concerned with the activities of corporation that affect the well being of shareholders. That well being can be partially measured by the dividends received, but a more accurate measured is the market value of stock (Dean, 1973).

There is conceptual conflict about the dividend payout policy- paying in cash versus internal financing (Garrett & Priestley, 2000). These alternatives have their own impact while deciding dividend policy. If the investor would not receive cash dividend, they would think their investment was worthless. Similarly, management expects to retain all the earning for internal financing, an essential strategy for corporate growth. Generally, companies expect to have lower flotation cost about retaining the earning in the company rather paying it out to the shareholders (Rao, 1992). The dividend affects long term financing and immediate corporate financial indicators like net profit, market price per share, book value per share and earning per share. Decision regarding the dividend is a very crucial factor for every corporation.

In Nepal, regular payment of dividends is under question. However, most of the joint venture banks are committed to pay dividend to the shareholders. The appreciation in the market value of share of these joint venture banks have, without any doubt, provided adequate sense of protection to shareholders (Shrestha, 1992).

Issues

Dividend policy is one the most controversial subjects in finance (Baker & Powell, 1999). Dividend, a key factor for the investment on the company's share, is desirable from the stockholder's point of view. In an established financial company dividend reflects several indicators of financial health of the company.

Studies conclude that dividend policies have close but controversial relationship with market value of stock (Baker, Farrelly, & Edelman, 1985; Black, 1975).

After 1950s some behavioural models were devised to establish, categorize, explain and measure different types of observed dividend behaviour (Gordon, 1962; Linter, 1956; Modigliani & Miller, 1961; Van Horne & McDonald, 1971; Walter, 1966). These models explain dividend behaviour in terms of net current earning, cash flow, and lagged dividend. However, there is no common consensus on the relationship that exists between amount paid out in divided and market price of share. There is still a considerable controversy concerning the relationship between dividends and common stock price. Therefore, finance scholars have engaged in extensive theorizing to explain why needs and process of dividend policy (Baker & Powell, 1999). Solomon (1963) contends that dividends may offer tangible evidence of the firm's ability to generate cash. As a result, the dividend policy of the firm affects the share price.

The stock market of Nepal is still in infancy having an expansionary growth in the recent years. Amidst the recent expansion, understanding dividend practices in relation to commercial banks financial health would provide opportunity to understand financial sector dividend practices. This article focuses to elucidate on the relationship of dividend with earning per share, market value per share and book net worth for per share. In addition, trends, levels and patterns of dividend practices are also analyzed. A comprehensive study of dividend practices of commercial banks of Nepal taking a time series data for a considerable period is strength of this study. Time series analysis can only explain the plausible relationship between dividend practices and financial indicators.

Theoretical framework

A bank may provide dividend in different forms- cash, stock, property, bond and scrip dividend. This article is referenced only with cash and stock dividend and the methodology is designed accordingly. Generally, two theories of dividend are in practice- residual and stability theory of dividend. The residual theory views dividend as payout to shareholders from the residual amount or left after all acceptable investment opportunities have been undertaken (Gitman, 2001). Although criticised largely by scholars, residual theory is based on some practical examples that corporate sector apply while making decision on dividend policy. Proponents of residual theory propose three approaches- pure-residual dividend policy, fixed dividend payout ratio and smoothed residual dividend policy (Rao, 1992).

Moving forward from concept that dividend is output of residual of company's financial balance, stability approach suggests regularity in paying some dividend annually (Esteban, 2001). Stability dividend refers to the consistency or absence of variation in the stream of dividends. In more precise term, it means that a certain minimum amount of dividend is paid out regularly. The stability dividends are generally paid as constant dividend per share, constant payout ratio and regular low dividend per share with extra dividend.

Data source

A total 8 commercial banks having provided cash dividend for at least 10 years by 2007 were selected for the this study. Commercial banks – Investment Bank, Standard and Chartered Bank, Nabil Bank, Himalayan Bank, Bank of Kathmandu, Everest Bank, NSBI Bank and NIC Bank - having satisfied the selection criteria were selected for the analysis. We used published reports of the selected commercial banks as major data source. We mainly focused on earning per share (EPS), market price per share (MPS), price-earning ratio (PER), cash dividend per share (DPS), dividend payout ratio (DPR) and dividend yield ratio (DYR).

Models

We used following five different regression models to estimate bivariate and multivariate impact of the variables.

$$DPS = \alpha + \beta EPS + \varepsilon \quad (1)$$
$$MPS = \alpha + \beta DPS + \varepsilon \quad (2)$$
$$MPS = \alpha + \beta DPR + \varepsilon \quad (3)$$
$$NW = \alpha + \beta DPS + \varepsilon \quad (4)$$
$$DPS = \alpha + \beta_1 EPS + \beta_2 MPS + \beta_3 \text{ lagged P/E ratio} + \varepsilon_i \quad (5)$$

Equations 1, 2, 3, and 4 explain bivariate relation between DPS and EPS (equation 1), MPS and DPS (equation 2), MPS and DPR (equation 3) and NW and DPS (equation 4). However, equation 5 is comprehensive and explains the impact of EPS, MPS and lagged price earning ratio (P/E) on the DPS.

Financial tools

We used some financial tools to calculate variables used in the regression model. The calculation followed the following procedure.

Cash Dividend per Share (DPS)

Cash dividend per share shows the earning distributed to the shareholders. It is the ratio of proposed cash dividend to paid-up share capital. DPS is calculated as:

$$DPS = \frac{\text{Proposed cash dividend}}{\text{Paid up share capital}}$$

Earning per Share (EPS)

EPS is a ratio of net profit after tax deduction to total number of common outstanding shares before the bonus is proposed. It measures the return on each equity shareholders. This ratio shows the bank's earning per share over the years and estimated as:

$$EPS = \frac{\text{Net profit after tax}}{\text{Total number of shares}}$$

Market Value per Share (MPS)

It is a traded price of the share at stock market at the end of the year. In Nepal this is decided by the demand and supply rules by the market at Nepal Stock Market Ltd.

Price Earning Ratio (P/E Ratio)

P/E Ratio is a ratio of market value of share at the end of the year to earning per share of the same year. PER is calculated as:

$$P/E\ Ratio = \frac{Market\ value\ per\ share}{Earning\ per\ share}$$

Net Worth (NW)

This is a ratio of share holder's equity to number of shares. NW is calculated as:

$$NW = \frac{Share\ holder's\ equity}{Number\ of\ shares}$$

Results

We specifically highlight six principal indicators as abovementioned – EPS, MPS, P/ER, DPS, DPR and DYR) - related to dividend policy in this section.

Earning Per Share (EPS)

EPS is an important indicator for performance of the commercial banks. EPS is expected to increase gradually over the year if financial market and other economic environment remain favourable which shows the strengths of banks and otherwise. An increase in EPS is an indicator of growing performance of the bank which signifies the better position in the stock market.

Table 1: EPS of commercial banks of Nepal, 1996/97-2006/07 (in NRs)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
SCBL	165.4	129.6	105.9	115.6	126.9	141.1	149.3	143.6	143.9	175.8	167.4	142.23
NABIL	67.68	44.50	67.84	83.79	59.26	55.25	84.66	92.61	105.5	129.2	137.1	84.31
HBL	115.1	113.3	86.07	83.08	93.57	60.26	49.45	49.05	47.91	59.24	60.66	74.33
NIBL	101.4	69.33	33.76	53.68	33.18	33.59	39.56	51.70	39.50	59.35	62.57	52.51
EBL	19.26	22.56	30.25	34.84	31.91	32.91	29.90	45.60	54.20	62.80	78.40	40.24
BoK	11.30	15.20	24.70	39.29	27.97	2.00	17.72	27.50	30.10	43.67	43.50	25.72
NSBI	9.23	11.26	12.35	9.53	13.26	10.12	11.47	14.26	13.29	18.27	39.35	14.76
NIC	2.35	7.58	10.25	11.23	5.68	1.36	5.19	13.65	22.75	16.10	24.01	10.92

Source: Annual Reports of Banks.

Note: NIBL= Nepal Investment Bank Ltd., SCBL = Standard and Chartered Bank Ltd., NABIL = Nepal Arab Bank Ltd., HBL = Himalayan Bank Ltd., BoK= Bank of Kathmandu, EBL= Everest Bank Ltd., NSBI= Nepal State Bank of India, NIC= Nepal Industrial and Commerce Bank

Table 1 shows that EPS of the banks is inconsistently changing over the year indicating the inconsistent response to the financial market and economic environment. Average EPS for the period of 1996/97 to 2006/07 of SCBL was the highest (NRs. 142.23). NABIL retained the second with ESP NRs. 84.31, followed by HBL (Rs. 74.33). NIC and NSBI reported the least EPS for the period – Rs. 10.92 and Rs. 14.76 respectively. Except SCBL, all banks observed a decline in EPS in the year 2001/02 which may be the response to negative economic growth rate Nepal observed in the year. A gradual and consistent increase is observed thereafter. SCBL and NABIL are more consistent in EPS compared to other banks.

Market Price per Share (MPS)

MPS is responsive to market price of the share. This is dependent on market process and performance of the banks. Generally, MPS of banks with better economic performance is expected to increase.

Table 2: MPS of commercial banks of Nepal, 1996/97-2006/07 (in NRs)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
SCBL	1050	840	1162	1985	2144	1575	1640	1745	2345	3775	5900	2196
NABIL	500	430	700	1400	1500	700	740	1000	1505	2240	5050	1433
HBL	640	755	1000	1700	1500	1000	836	840	920	1100	1740	1094
NIBL	719	600	822	1401	1150	760	795	940	800	1260	719	998
EBL	456	336	870	995	650	405	445	680	870	1379	2430	865
BoK	215	223	285	998	850	254	198	295	430	850	1375	543
NSBI	215	233	295	226	331	240	255	307	335	612	1176	384
NIC	215	225	295	345	263	245	220	218	366	496	950	349

Source: Annual Reports of Banks.

Table 2 shows that except in few years, all banks observed a gradual increase in MPS. SCBL and NABIL recorded the highest increase in MPS. For example, the MPS of SCBL was NRs. 1050 in 1996/97 which increased by 5 folds and reached to NRs. 5900 in 2006/07. NABIL observed an increase of about 10 folds in MPS in the last 11 years. But the increase is more significant and rapid in the year 2005/06 and 2006/07 showing a growing financial market. Except NIBL, all banks showed a significant increase in MPS in the year 2006/07.

As like the EPS, SCBL ranked first in MPS with an average value of NRs. 2196, followed by NABIL (NRs. 1433) and HBL (NRs. 1094). NIC and NSBI remained at the bottom with an average MPS of NRs. 349 and NRs. 384 respectively. NIBL (NRs. 998), EBL (NRs. 865) and BoK (NRs. 543) had average performance. EBL and BoK had significant increase in MPS in the recent years while NIBL observed a decline.

Price Earning Ratio (P/ER)

The relative performance of the bank is measured by the ratio of market value of share to bank's earning per share at the end of the year. This ratio increases when both EPS and MPS increase or EPS decreases in comparison to MPS. The increase in P/ER as a result of decease in EPS is not considered as positive. Therefore, banks' relative improvement in financial performance is measured by the increase in P/ER as a result of increase in EPS and MPS.

Table 3: P/ER of commercial banks of Nepal, 1996/97-2006/07

	1996/97	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
SCBL	6.35	6.48	10.9	17.2	16.9	11.2	10.9	12.2	16.3	21.5	35.3	15.0
NABIL	7.39	9.66	10.3	16.7	25.3	12.5	8.74	10.8	14.3	17.3	36.8	15.5
HBL	5.56	6.66	11.6	20.5	16.0	16.6	16.9	17.1	19.2	18.6	28.7	16.1
NIBL	7.10	8.65	24.4	26.1	34.7	22.6	20.1	18.2	20.2	21.2	27.6	21.0
EBL	23.6	14.9	28.8	28.6	20.6	12.3	14.9	14.9	16.0	22.0	31.0	20.7
BoK	19.0	14.7	11.5	25.4	30.4	126.9	11.18	7.20	14.29	19.46	31.61	28.34
NSBI	23.29	20.69	23.89	23.71	24.96	23.72	22.24	21.54	25.21	33.49	29.89	24.79
NIC	91.49	29.68	28.78	30.72	46.30	179.5	42.43	15.97	16.09	30.81	39.56	50.13

Source: Annual Reports of Banks.

Table 3 is indicative that SCBL (15.02), NABIL (15.46) and HBL (16.13) had low average P/ER compared to other banks. However, P/ER of these banks was increasing consistently over the years as a result of consistent increase in both EPS and MPS. Although, NIC (50.13), BoK (28.34) and NSBI (24.79) reported higher average P/ER, the trend was largely fluctuating. The increase in P/ER in these banks was mainly due to decrease in EPS which was not an encouraging symptom for stock market health. SCBL, NABIL, HBL and NIBL started from low P/ER in the year 1996/97 and observed a consistently increased P/ER in 2006/07. However, NIC, NSBI, BoK and EBL had higher P/ER in 1996/97 and observed a fluctuating trend over the year. For example, the P/ER of NIC in 2001/02 was 179.55, which decreased to 42.43 in the subsequent year. The increase in P/ER was due to a decline in EPS which was recorded to be 1.36 (Table 1).

Cash Dividend Per Share (DPS)

DPS is an important indicator of banks' public image and performance. A bank paying higher DPS to shareholders is considered to have a better financial health to which the investors are attracted. Demand of share of these banks (with higher DPS) is always high in the share market. Banks declare high DPS when their financial health is better.

Table 4: DPS of commercial banks of Nepal, 1996/97-2006/07 (in %)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
SCBL	90.0	70.0	80.0	100.0	100.0	100.0	110.0	110.0	120.0	130.0	80.0	99.1
NABIL	0.0	30.0	50.0	55.0	40.0	30.0	50.0	65.0	70.0	85.0	100.0	52.3
HBL	50.0	50.0	50.0	50.0	27.5	25.0	1.3	0.0	11.6	30.0	15.0	28.2
NIBL	50.0	50.0	30.0	25.0	0.0	0.0	20.0	15.0	12.5	20.0	5.0	20.7
EBL	10.0	15.0	25.0	20.0	0.0	0.0	20.0	20.0	0.0	25.0	10.0	13.2
BoK	5.0	0.0	0.0	10.0	10.0	10.0	5.0	10.0	15.0	18.0	20.0	9.4
NSBI	5.0	0.0	5.0	0.0	10.0	6.0	8.0	0.0	0.0	5.0	12.3	4.7
NIC	0.0	5.0	5.0	0.0	6.0	0.0	0.0	0.0	10.0	0.5	1.1	2.5

Source: Annual Reports of Banks.

SCBL was the only commercial bank providing around 100 percent DPS to shareholders for over the 11 years period. In some years, DPS was more than 100 percent. In 2005/06 it was as high as 130 percent. SCBL was followed by NABIL, which provided 100 percent DPS in the year 2006/07. DPS of SCBL decreased in the year 2006/07 to 80 percent from 130 percent of previous year while of NABIL increased to 100 percent from 85 percent of previous year. All other banks had a fluctuating trend in DPS. This fluctuation has made difficulty to project the DPS in the future years. NIC and NSBI were at the lowest bottom of DPS with average value of 2.5 percent and 4.7 percent respectively in the period of 11 years.

Dividend Payout Ratio (DPR)

This ratio shows the amount of dividend as a percentage of earning available for equity share. It shows the relationship between bank's earning per share and dividend provided to shareholders. The ratio increases if the DPS increases faster than EPS, which is expected. DPR also increases if EPS decreases but this phenomenon is not recommended as this tendency does not positively explain the financial health of banks.

Table 5: DPR of commercial banks of Nepal, 1996/97-2006/07

	1996/97	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
SCBL	54.41	54.00	75.57	86.49	78.81	70.86	73.68	76.63	83.37	73.93	47.80	69.67
NABIL	0.00	67.42	73.70	65.64	67.50	54.30	59.06	70.19	66.36	65.78	72.95	62.00
HBL	43.45	44.13	58.09	60.18	29.39	41.49	2.67	0.00	24.17	50.64	24.73	37.96
NIBL	49.32	72.12	88.86	46.57	0.00	0.00	50.56	29.01	31.65	33.70	7.99	39.39
EBL	51.92	66.49	82.64	57.41	0.00	0.00	66.89	43.86	0.00	39.81	12.76	32.76
BoK	44.25	0.00	0.00	25.45	35.75	500.0	28.22	36.36	49.83	41.22	45.98	36.40
NSBI	54.17	0.00	40.49	0.00	75.41	59.29	69.75	0.00	0.00	27.37	31.23	31.58
NIC	0.00	65.96	48.78	0.00	105.6	0.00	0.00	0.00	43.96	3.29	4.37	22.95

Source: Annual Reports of Banks.

Table 5 shows that the average DPR of SCBL and NABIL was more than 60 percent while none of other banks have so. These two banks had consistent DPR over the years. While other banks, except NIC (22.95%), had DPR slightly more than 30 percent and the trend was also largely fluctuating. Some banks had unusual DPR in some years. For example BoK, reported DPR of 500 percent in the year 2001/02, highest among all banks. This high DPR is not because of increase in DPS but due to a huge decline in EPS, which could be a negative sign for health of stock market. DPR of NIC was considerably poor compared to other banks as it did not provide cash dividend in 5 years out 11 years data included in the analysis.

Dividend Yield Ratio (DYR)

The ratio shows the dividend received by the investors in relation to market value of the share. Dividend yield is a percentage of dividends per share on market value per share. The ratio is expected to increase due to increase in dividend per share and market value of share when the earlier increases faster. If DYR increases due to the decline in market value of the share, it is considered as an unwanted and therefore does not explain the health of stock market. Since dividend per share and market value per share are closely related, they influence each other. For example, if a bank declares high dividend per share, demand of share of that bank increases resulting an increase in the market value of the share or otherwise.

Table 6: DYR of commercial banks of Nepal, 1996/97-2006/07

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
SCBL	8.57	8.33	6.88	5.04	4.66	6.35	6.71	6.30	5.12	3.44	1.36	4.51
NABIL	0.00	6.98	7.14	3.93	2.67	4.29	6.76	6.50	4.65	3.79	1.98	3.65
HBL	7.81	6.62	5.00	2.94	1.83	2.50	0.16	0.00	1.26	2.73	0.86	2.58
NIBL	6.95	8.33	3.65	1.78	0.00	0.00	2.52	1.60	1.56	1.59	0.29	2.07
EBL	2.19	4.46	2.87	2.01	0.00	0.00	4.49	2.94	0.00	1.81	0.41	1.52
BoK	2.33	0.00	0.00	1.00	1.18	3.94	2.53	3.39	3.49	2.12	1.45	1.72
NSBI	2.33	0.00	1.69	0.00	3.02	2.50	3.14	0.00	0.00	0.82	1.05	1.21
NIC	0.00	2.22	1.69	0.00	2.28	0.00	0.00	0.00	2.73	0.11	0.11	0.72

Source: Annual Reports of Banks.

Values of DYR are generally lower than DPR since DYR is dependent on market value of share which is generally higher than earning per share. SCBL, NABIL and HBL stood in first three positions. DYR of all banks decreased in recent years due to higher increase in MPS and either slow increase or decrease in DPS. For example, DYP of SCBL constantly declined 2002/03 (DYR = 6.71%) onwards and reached to as low as 1.36 percent in 2006/07. The low DYR was due to rapid increase in MPS (Rs. 5900 in 2006/07) and decline in DPS (80 % in 2006/07). DYR of all banks, except NIC, declined in the year 2006/07 due to rapid increase in MPS.

The summary indicators showed that SCBL and NABIL had better dividend indicators. HBL and NIBL were following SCBL and NABIL in many indicators. EBL and BOK were in the medium performance level while NSBI and NIC were at the lower bottom. Although the financial indicators showed better performance for SCBL and NABIL, the high std. deviation warned the persistent variability in the indicators over the year (Annex 1). Such fluctuation makes the trend prediction difficult and unreliable.

Correlation among the dividend indicators

Dividend practices of banks may have relationship with several financial indicators. We have conducted bivariate correlation analysis among the principal financial indicators with dividend per share. The variables used in the analysis are EPS, MPS, P/ER, NW and total shares (TS) which are correlated with the DPS.

Table 7: Correlation of principal financial indicators with DPS

Financial indicators	**DPS**
EPS	0.917**
MPS	0.657***
P/ER	-0.246**
NW	-0.463**
TS	-0.116

*** significant at the 0.01 level (2-tailed)*
** significant at the 0.05 level (2-tailed)*
NW= Net Worth
TS = Total Share

DPS has significant positive relationship with EPS *(r=0.917, p<0.01)* and MPS *(r=0.657, p<0.01)* while negative with P/ER *(r=-0.246, p<0.01)* and NW *(r=-0.463, p<0.01)*. However, no significant relationship is observed between DPS and TS. Theoretically, earning per share influences the decision on dividend per share. Higher the earning per share, banks are likely to declare higher dividend per share. This study confirms the hypothesis that earning per share and dividend per share are perfectly correlated. Market price per share is determined by the trading share in the market. Generally, higher market value of share encourages banks to declare higher dividend to its shareholders.

However, the analysis does not confirm uniform correlation among the indicators when bank specific analyses are made. This gently reminds that corporate dividend practices are still not following standard procedures and thus, unpredictable.

Determinants of dividend practices

We perform two level analyses of determinants of corporate dividend practices. In first level we analyse bivariate impact of few financial indicators with dividend practices. There are controversies in determinants of dividend practices because regulation of dividend payout is complex (Roy & Mahajan, 2004). In this section, we highlight impacts of EPS, MPS and lagged PER on DPS. We also performed a few bivariate regression analyses to identify some other relations as discussed in earlier equations and mentioned below.

Table 8 displays result of regression coefficients. It shows that dividend practices rely on earning per share. One unit change in EPS, for example, brings 0.917 ($p<0.01$) unit change in dividend per share. It allows us to argue that earning from share is an important indicator that financial institutions depend to decided dividend as it explains about 84 percent of the dividend decisions.

Table 8: Regression coefficients

		β	t	Sig.
Dependent variable: Dividend Per Share				
	EPS	0.917	21.277	0.000
Adjusted R square	0.839			
Dependent variable: Market Value Per Share				
	DPS	0.657	8.087	0.000
Adjusted R square	0.425			
Dependent variable: Market Value Per Share				
	DPR	0.073	0.676	0.501
Adjusted R square	0.006			
Dependent variable: Book Net Worth				
	DPS	0.463	4.851	0.000
Adjusted R square	0.206			

The theoretical relation between that dividend practices and market value of share is approved by this study. Although not in similar ratio, when the banks declare higher dividend, it makes upward influence in the market value of share creating demands of share in the stock market. This concludes that one unit change in dividend per share the market responses share value by 0.657

($p<0.001$). However, the dividend payout ratio could not explain market value of share appropriately. One reason may be associated with methodological issues of estimating dividend payout ratio.

Bank's dividend practices also influence book net worth. The dividend per share positively influences the book net worth ($\beta=0.463$, $p<0.01$). However, dividend practices cannot fully explain changes in book net worth (adjusted R square = 0.206).

Finally we include earning per share, market value per share and lagged price earning ratio in the model to estimate impact on dividend policy. The results are displayed in Table 9. Interestingly, commercial banks of Nepal generally made dividend policy based on earning from the share. It concludes, higher the earning from share, more likely to increase dividend per share whereas market value of share negatively explains the dividend practices and lagged price earning ratio does not explain dividend practices.

Table 9: Regression coefficients (dependent variable dividend per share)

Covariates	**β**	**t**	**Sig.**
Earning per share	1.042	14.580	0.000
Market value per share	-0.135	1.974	0.052
Lagged price earning ratio	0.036	0.783	0.436
Adjusted R square =0.856			

Table 9 reinforces that one unit change in earning per share brings 1.042 units changes in the dividend per share ($p<0.01$). The negative influence of market value of share on dividend practices has loose statistical significance and may improve when other financial indicators are included in the model or time reference is increased. Statistically insignificant impact of lagged price earning ratio indicates some methodological issues and maturity of stock market in Nepal. Interestingly, earning per share alone explains 83 percent variations in dividend practices while other two add only a few percents indicating that commercial banks of Nepal heavily depend on earning potentiality from share to declare dividend policy.

The overall analysis shows that the stock market of Nepal is still growing to be mature and the dividend policy of commercial banks in Nepal is in course of following standard norms and practices. Therefore, all the theoretical explanation of elsewhere cannot be anticipated to function in corporate dividend policy in Nepal. For example, even SCBL, a comparatively stable and developed commercial bank in Nepal's banking sectors, had not followed financial relation fully while declaring the dividend policy. The case of most financial institutions is similar to that of SCBL.

Conclusion

Corporate dividend policy is an important factor to determine the stock market. However, there is no universal dividend policy that all commercial banks follow unconditionally (Baker & Powell, 1999). The worldwide studies conclude a varying dividend policy even in financially and economically high growth and stable countries (Garrett & Priestley, 2000). In countries like Nepal where financial sector is still in infancy and growing slowly, predicting dividend policy of banks is difficult and uncertain. However, the growing financial sector in recent years with the increasing number of financial institutions has increased the scope of examining dividend policy and contributing to recommend policy agenda that can help to improve the financial sectors.

With the objective of examining the dividend policy of Nepalese commercial banks deriving data from 8 commercial banks for the period of 1996/97 to 2006/07, this study draws some important conclusions. The asymmetric dividend policy of commercial banks has made predicting dividend policy an uncertain task. However, banks depend on certain financial indicators while making decisions on dividend policy. Dividend on share is an important indicator that shows the performance of banks and thereby attracting the investors. Investors examine the dividend policy of the banks before they decide to invest on stock market (Dickens, et al., 2002). But due to fluctuation on dividend policy of commercial banks of Nepal, investors are unable to predict the future earnings from cash dividend. This fluctuation implies the general phenomenon of financial market. The analysis has raised a critical issue that all Nepali commercial banks are not following financial indicators to decide dividend on share. Banks need to follow financial indicators to decide dividend on share which systematizes the stock market.

This study also concludes that payment of dividend to shareholders is the effective way to attract investors and retain current investors. Therefore, commercial banks have to respect investors' expectation and decide on dividend accordingly. The growing financial markets of Nepal have created an environment for establishment of new commercial banks. This growth in the number of banks has increased the competitiveness in dividend policy also. Therefore, banks have to be competitive and systematic on dividend policy. Since the investors are also critical on the security of their investment, better financial indicators of commercial banks help investors to secure their investment.

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Annex 1: Summary of principal indicators, 1996/97-2006/07

	Maximum	**Minimum**	**Mean**	**Std. Dev**
Standard and Chartered Bank Ltd. (SCBL)				
EPS	175.84	105.86	142.23	21.8
MPS	5900.00	840.00	2196.45	1462.9
P/ER	35.25	6.35	15.02	8.1
DPS	130.00	70.00	99.09	18.1
DPR	86.49	47.8	70.50	12.7
DYR	8.57	1.36	5.71	2.1
Nepal Arab Bank Ltd. (NABIL)				
EPS	137.08	44.5	84.31	29.87
MPS	5050.00	430	1433.18	1317.71
P/ER	36.84	7.39	15.46	8.72
DPS	100.00	0.00	52.27	27.78
DPR	73.70	0.00	60.26	20.76
DYR	7.14	0.00	4.43	2.30
Himalayan Bank Ltd. (HBL)				
EPS	115.08	47.91	74.33	25.17
MPS	1740.00	640.00	1093.73	380.72
P/ER	28.69	5.56	16.13	6.45
DPS	50.00	0.00	28.22	19.71
DPR	60.18	0.00	34.45	20.32
DYR	7.81	0.00	2.88	2.58
Nepal Investment Bank Ltd. (NIBL)				
EPS	101.37	33.18	52.51	20.59
MPS	1729.00	600.00	997.82	345.86
P/ER	34.65	7.10	20.99	7.91
DPS	50.00	0.00	16.59	14.93
DPR	88.86	0.00	37.25	28.34
DYR	8.33	0.00	2.57	2.75

Everest Bank Ltd. (EBL)				
EPS	78.40	19.26	40.24	18.17
MPS	2430.00	336.00	865.09	603.82
P/ER	31.00	12.31	20.69	6.61
DPS	25.00	0.00	13.18	9.82
DPR	82.64	0.00	38.34	30.36
DYR	4.49	0.00	1.93	1.69
Bank of Kathmandu (BoK)				
EPS	43.67	2.00	25.72	13.40
MPS	1375.00	198.00	543.00	405.11
P/ER	126.96	7.20	28.34	33.65
DPS	20.00	0.00	9.36	6.59
DPR	500.00	0.00	73.37	142.51
DYR	3.94	0.00	1.95	1.35
Nepal State Bank of India Ltd. (NSBI)				
EPS	39.35	9.23	14.76	8.54
MPS	1176.00	215.00	384.09	284.96
P/ER	33.49	20.69	24.78	3.76
DPS	12.29	0.00	4.66	4.32
DPR	75.41	0.00	32.52	29.55
DYR	3.14	0.00	1.32	1.27
Nepal Industrial and Commercial Bank Ltd. (NIC)				
EPS	24.01	1.36	10.92	7.63
MPS	950.00	215.00	348.91	217.11
P/ER	179.55	15.97	50.13	47.53
DPS	10.00	0.00	3.05	3.48
DPR	105.63	0.00	24.73	36.23
DYR	2.73	0.00	0.90	1.17

Source: Annual Reports of Bank.