# DIVIDEND POLICY OF GLOBAL IME BANK

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A Project Work Report

**By**

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Kathmandu

In partial fulfillment of the Requirements for the degree of
BECHELOR OF BUSINESS STUDIES (BBS)

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# DECLARATION

I hereby declare that the project work entitled "**DIVIDEND POLICY OF GLOBAL IME BANK**" submitted to the Faculty of Management, Tribhuvan University, Kathmandu is an original piece of work under the supervision of **Mr. Rajesh Bist**, faculty member, **Kanchan Vidya Mandir Samudayik College, Bhimdatt, Kanchanpur,** and is submitted in partial fulfillment of requirements for the award of the degree Bachelor of Business Studies (BBS). The project work report has not been submitted to any other university or institution for the award of any degree or diploma.

**……**

Lila Pandit

Date:

# SUPERVISOR'S RECOMMENDATION

This project work report entitled "**DIVIDEND POLICY OF GLOBAL IME BANK**" submitted by **Lila Pandit** of Kanchan Vidya Mandir Samudayik College is prepared under my supervision **Mr. Rajesh Bist** as per as the procedure and format requirement laid by the Faculty of Management, Tribhuvan University, as partial fulfillment of the requirements for the award of the degree of Bachelor of Business Studies (BBS). I, therefore, recommend the project work report for the evaluation.

……

**Mr. Rajesh Bist**

Supervisor

Date :

# ENDORSEMENT

We hereby endorse the project work report entitled "**DIVIDEND POLICY OF GLOBAL IME BANK**" submitted by **Lila Pandit** of Kanchan Vidya Mandir Samudayik College, Bhimdatt, Kanchanpur, in partial fulfillment of requirements for award of the Bachelor of Business Studies (BBS) for external evaluation.

Signature……
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Date: 2077/10/

Signature……
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# ACKNOWLEDGEMENT

This research entitled **"Dividend Policy of Global IME Bank Limited"** has been conducted to provide an insight about the dividend and management. This field report is also designated to provide practical knowledge to the student to gather information about what dividend is, how it maintains and how it is management by the bank and financial institutions to maintain the dividend and sustain in the financial market.

This is my first experience in writing project for which I have developed my best effort to make it better. It is my immense to complete this research work. I visited different sites and organization that are working in the field of my research work. I developed the research the skill as well as interpersonal communication skill through the interface with the people working in. I would like to thank **Mr. Rajesh Bist**, the senior person of research department for his genuine support throughout the project duration.

The main scope of this report is to provide insight to the dividend policy of Global IME Bank Ltd. So, this report covers the detail information of the dividend policy, condition, management, and its important in financial sector.

Lastly, I would like to thank all my friends and family for their continuous support and encouragement.

.....

Lila Pandit
Kanchan Vidya Mandir Samudayik College.
Date :

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# ABBREVIATION

| | | |
|---|---|---|
| NPR | : | Nepali Rupees |
| LC | : | Letter of Credit |
| ATM | : | Automated Teller Machine |
| ABBS | : | Any Branch Banking System |
| NRB | : | Nepal Rastra Bank |
| Ltd. | : | Limited |
| EPS | : | Earnings per Share |
| DPS | : | Dividend per Share |
| DPR | : | Dividend Payout Ratio |
| P/E Ratio | : | Price Earnings Ratio |
| NE | : | Net Earnings |
| NW | : | Net Worth |
| MVPS | : | Market value Per Share |
| BVPS | : | Book Value per Share |
| & | : | And |
| i.e. | : | That is |
| GBL | : | Global IME Bank Ltd. |
| NI | : | Net Income |
| EBIT | : | Earnings before Interest & Tax |
| EAT | : | Earnings after Tax |

# CHAPTER I: INTRODUCTION

## 1.1 Background

A dividend policy is the policy a company uses to structure its dividend payout to shareholders. Some researchers suggest the dividend policy is irrelevant, in theory, because investors can sell a portion of their shares or portfolio if they need funds. This is the dividend irrelevance theory, which infers that dividend payouts minimally affect a stock's price.

Every Bank has to give dividend to shareholder to run the bank properly because shareholders were invested to bank to achieve some benefits. It means that types of benefit and return which the bank provided to shareholder. Every Bank has a Board of Director (BOD) to control the bank and make policy to distribute dividend and other decisions also. Without benefits, nobody can invest their money in the bank that's why dividend decision important financial decision for bank and other types company also.And without investment of Investors, nobody can establish the bank. Dividend payment to shareholder is very important decision and related each other that are why I would like to write report on "Dividend Policy of The Global IME Bank Ltd."

Dividend is the proportion of net profit that the bank gives the shareholder as a return on investment who invests their money in the bank. Dividend is main income source and return of shareholder. All the shareholders have to get dividend on the basic of ratio of their investment. Dividend policy is for the bank very important decision which depends short term and long term strategy bank. It is directly affected performance of the bank. Dividend policy of the bank is an effect dividing in net profit into two parts. One is Retained Earnings, and another is Dividend Payment. Bank uses the retained earnings to provide the fund to the firm for long term growth that is why we call it as internal financing source also. Global IME Bank Ltd is also an 'A' class commercial bank in Nepal. It also distributes dividend every year to its shareholder. Which types of dividend policy the Global IME Bank, it depends on the decision of BOD of Global IME Bank

Ltd. We can say that dividend policy is that proportion of net income which is paid to common stockholder. In the context of Global IME Bank, if BOD decides to distribute from earnings on their investment. The BOD of The Global IME Bank uses what types of dividend policy, how to provide the dividend and how many percentages of net income provide to shareholder as dividend is called dividend policy of Global IME Bank. There are many types of dividend policy used by Global IME Bank Such as cash dividend, stock dividend, stock split, stock reverse split and repurchase of stock.

There are many Commercial Bank establishing in our area, but Global IME Bank Ltd. have to provide many types of facilities and to contribute economic development of the country due to its good management system &it is better dividend policy to pay dividend. So that it attracts the investor to invest additional in the bank and have good market in our area. Dividend payment is very important and necessary decision work in the bank to increase reputation of bank. As soon as If human leave to breathe, he will give up the world. Without payment of dividend, the bank also will not reach the destination of success because investors are angry while not taking dividend. Good Dividend payment policy makes make good relationship between shareholder and bank.

## 1.2 Introduction to Global IME Bank

Today's world is a world of Global Economy. Economy is the backbone of any country and financial institutions. Banks are the major institutions that affect the economy of the country. Being a finance student, we should be aware with current scenario of the bank and their performance and as part of it. Without the development of the bank and financial institutions, we cannot imagine the development of Economy. And without the development of Economy, we cannot imagine the development in whole sectors. Bank is a financial institution where customer can save money and provide short term and long term loan to the persons and organizations that need a loan. Bank is known as a financial institution that deals with money. A bank generally collects deposits from different individuals and institutions. The collected deposits are utilized providing

loan to different individuals, organizations, and bank also. Collections of deposit and provide loan are main functions of bank. The other important functions are such as agency related functions, remittance, e-banking etc. All of the bank and financial institutions are regulated by central bank of the country. In the context of Nepal, Nepal Rastra Bank is central bank of Nepal. So that NRB regulated all of bank and financial institutions. According to NRB, NRB classified in four types: Commercial Bank (A class bank),Development Bank (B class bank), Finance Company(C class bank) and Microfinance Company(D class Bank) .There are 27 Commercial Bank, 57 Development Bank, 36 Finance Company & 48 Microfinance at current time in Nepal.

Global IME bank limited was established in 2007 as an 'A' class commercial bank in Nepal which provides entire commercial banking services. The bank was established with the largest capital of NPR 1.0 billion. The paid up capital of the bank has since been increased to NPR 4.14 billion. But now days NRB makes a policy to The Commercial Bank of Nepal to make 6.4 billion paid up capital. The bank's shares are publicly treated as an 'A' category company in Nepal Stock Exchanges.

Pursuant to liberalized economic policy of the government, majority, to the commercial banks have established their head office in the Kathmandu valley. The Global Bank Ltd. now is starting 94 branches and six extension countries spread throughout Nepal. All established as full services. The bank also operates 103 ATMs throughout the country. The bank has been maintaining correspondent relationship with 74 different international banks from various countries to facilitate trade, remittance, and other cross border services. The bank also maintains its extension offices in India and Middle East to assist in remittance of funds from overseas Nepalese workers. Services are soon to be expanded to South Korea.

## 1.3 Objectives of study

The main objectives of study are as follows:

1. To identify and analyze the dividend policy and practice followed by Global IME Bank.
2. To examine relationship between dividend with EPS, MPS and NW.

3. To analyze the trend of dividend payment and find out impact of dividend on share price

## 1.4 Significance of study

We know that Nepal is known as a least develop country in economic condition due to lack of development of bank and financial institutions. We Nepalese people are not aware about the functions and services of the bank. So, bank cannot develop properly. So that I would like to write the report on "Dividend Policy of Global IME Bank Ltd" to aware all of stakeholder about the bank. I hope this report helps to all stake holders to know about dividend status of Global IME Bank and all of functions and financial information to customer also. I hope it helps to business and investors also. And this study shows the relation of dividend with EPS, MPS, NE & NW also.

Some Significances of this study are as follows:

1. It may help other researcher also as a secondary data.
2. To give the information about dividend policy of Global IME Bank.
3. To help the stakeholder and shareholder of Global IME Bank.

## 1.5 Review

A literature review is an evaluated report of information found in the literature related to selected area of the study which describes, summarizes, evaluates, and clarifies the literature. The literature review is a summary of previews research on topic which survey scholarly articles, books and of source relevant to a particular area of research or internet.

### 1.5.1 Conceptual review

This research aims to analyze the dividend policy and practices of Global IME Bank Ltd. For this purpose, it is helpful to review related literature in this concerned area which will help to get clear ideas, opinion, and other concepts. What others have said? What others have done? What others have written? 'All this and others related questions are reviewed, which has provided useful inputs in this research work. This chapter emphasizes on the literature which are concerned with this connection. Therefore, in this chapter, conceptual framework given by different authors and intellectuals on this area, books, journals, research works, and previous thesis related to dividend and dividend policies and practices are reviewed. Moreover, rules regarding to dividends policy are reviewed and an attempt has been made to present them properly.

### 1.5.2 Review of previous work

Dividend decision is an integral part of financial management of decision. It is in the sense that the firm has to choose between distributing the profile to the shareholders and reinvesting it to finance the business. The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders in returns to their investment and the amount to be returned in the firms. It affects the financial structure, the flow of fund, corporate liquidity, and investor's attitudes. It is matter of interest for all the stakeholders. Thus, it is one of the central decision areas related to policies seeking to maximize the value of firm's common stocks. Iqbal Mathur defines the dividend and dividend policy as: "Dividends refers to that portion of retained earning that is paid to stakeholders while dividend policies refer to the policy or guidelines that management uses in establishing the portion of retained earning that is to be paid in dividend."

**(Mathur; 1979:297)**

The policy of a company in the allocation of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. All aspect questions related to payment of dividend are contained in a dividend policy.

Generally, dividends are paid in the form of cash, which reduce the cash balance of the company. There is a reciprocal relationship between retained earnings and cash dividends. If retained earnings are kept more by the company, less will be the dividend and vice versa. The decision depends upon the objective of the management for capital maximization. What and how much is desirable to pay dividend, is always matter of dispute because shareholders expect higher dividend from the company, as it tends to increase their current wealth whereas retention of earning is desirable for the growth of firm. These two objectives of dividend policy are always in conflict. There is not yet consensus on whether the firms should follow certain pattern to distributed dividend and retained earnings. However, there is different decision models developed to analyze the situation and reach a decision. This decision models are conflicting and consider the different aspect of the firm. One school of thought argues that dividend payment has no impact on valuation of firm whereas other theories of dividend decision argue dividend to be active variable in valuation of firm. These different models on the relationship between dividend and the value of the firm will be discussed later on in this chapter in detail.

### 1.5.3 Concept of dividend

The various concepts of dividend, defined in various books of finance, are discussed below:

**I. Discretionary concept**

When the board of directors declares the amount of dividend, it is known as discretionary dividend. According to this concept, dividend payment is one of director decision and so they use discretion in declaration of dividend. Corporations' charter vested powers to board of directors and it is up to their discretion that determines what and how much to pay by way of dividends to stockholders. “The power to declare dividends is lodged in the board of director of the corporation. At a meeting of the board, in accordance with the charter and corporate by-laws, the board passes a resolution declaring the number of dividends, the period which it covers, the payable date, and the record date of

ownership"**(Cooke and Bomeli; 1967:180).** Even in the context of Nepalese corporation, the decision regarding the payment of dividend is purely vested in the board of directors of corporation, and it is also insisted by the corporate acts. There is not any legal right to demand any part of profit in the form of dividends by the ordinary shareholders because profits are the property of the corporations and not of individual shareholders.

**II. Pro- rata distribution concept**

"A dividend is a pro- rat distribution of cash, other assets, promises to pay, or additional stock to the shareholders of a corporation chargeable against its surplus accounts or(for certain liquidating dividends only) against its capital stock accounts."**(Cooke and Bomeli; 1967:180)**

The pro-rata distribution refers to proportionate share of all outstanding stock, or all shares of a given class, which participate equally in whatever is distributed. Thus, under this concept, all shareholders enjoy equal right on the profit distributed by the corporations, according to their proportion of shares.

**III. Residual concept**

"Dividend is the residue left after meeting all obligations and adjusting for retention of earnings and other provisions. It is a residue since shareholders get dividends only when there exist balance of earnings after paying fixed obligations such as operating expenses, interest, provisions for depreciation and setting." **(VanHorne; 1993: 327)**

Under this concept, dividend policy is a residual form investment policy and dividends are paid only after financing all investment opportunities. So, dividend policy is totally passive in nature. "When we treat dividend policy strictly as a financing decision win the payment of cash dividend is a passive residual." **(VanHorne; 1993: 327)**

**IV. Liability concept**

Dividend once declared by the board of directors, becomes a liability of the corporation. "When the board of directors of a solvent corporation declares cash dividend, the amount

declared becomes an obligation to pay. “If the directors avoid payment of dividend after declaration, the shareholders will have a right to take action against the directors to force payment. The dividends declared are treated as liabilities in the balance sheet if the shareholders do not come to claim in time.

### 1.5.4 Conflicting Theories on Dividends

Basically, there are two schools of thoughts in dividend policy which have been expressed in the theoretical literature of finance. One school, associated with Myron Gordon and John Lintner, holds the views that capital gains expected to result from earning retention are riskier than are dividend expectations. In other words, dividend yield is less risky than the expected capital gain. It also says that investors give more emphasis to the present dividend than future capital gain. Investors are not indifferent between current dividend and retention of earning with the prospects of future dividends, capital gain and both. Accordingly, these theorists suggest that the earnings of a firm with a low pay-out ratio are typically capitalized at higher rates than the earnings of a high pay-out firm, other things held constant. Another school of thought, associated with Merton Miller and Franco Modigliani, holds the view that investors are basically indifferent to returns in the form of current dividends or retention of earnings with the prospects of future dividends, capital gain. When firms raise or lower the dividends, their stock prices tend to rise or fall in like manner. They argue that, given the investment decision of the firm, the value of firm is determined safely by the firms earning power and that the manner in which the earnings split between dividends and retained earnings does not affect the value of firm. In other words, when investment decision of the firm is given, dividend decision, the split of earnings between dividends and retained earnings, is of no significance in determining the value of firm.

As mentioned earlier, dividend policy determines the allocation of earnings between payments to shareholders and retained earnings. The significance of dividend policy lies in the firm's management ability to maintain a balance between growth and dividends

distribution to the shareholders. Firms may adopt residual or stable dividend policies. The dividend policy can be classified and explain through the below points:

**a) Residual dividend policies**

Companies which rely on internally generated equity to finance new projects employ resident dividend policy **(Aduda and Kimath, 2011)**.Residual dividend policy is a method of distribution where dividends are paid after all the requirement for capital are met.

**b) Stable dividend policy**

Dividend stability means consistency in the dividend payout each year. It refers to payments of a certain amount of dividend year after year even if the earnings of the company withered fluctuations **(AP GWILYM act as, 2000)**. This is because shareholders generally value stable dividends better than companies with fluctuating dividend policy. **Higgins (1972)** attempted to develop and test a dividend mode foe a shareholder's wealth maximizing firm consistent with the valuation theory. He assumed that in an environment of tax differential and transaction cost, shareholders prefer capital gain to dividend income. Dividend is viewed as a residual in the corporate financing and investment decisions. He argues that the relevant cost here related to the possible accumulation of excess liquidity resulting from whether or not to pay dividend and the need for external financing.

**Muk Herjea and Austin (1980)** studied the relationship between share price and dividend policy in a sample of 198 Texas banks during the period between 1973 and 1975. Seven variables were used to explain dividend policy: price to book value, price to earnings ratio, dividend payout ratios and dividend cash payout ratios, dividend to book value and dividend held. They concluded that the share prices of the small banks are valued relatively lower than larger banks.

They further noticed that bank size has insignificant effect on dividend policy. The result implies that another factor than dividend payout may affect share value.

**Mahmoud et al(1995)** indicated that dividend policy is used by a firm's management as a mechanism to reduce agency cost related to the relationship between shareholders (principal) and management (agent). By distributing cash, management is forced to look for outside financing and subject itself to the capital market security. This would result in a reduction in agency cost.

According to **Ezro Solmon**, the dividend policy of a firm is a residual decision and dividend is a passive residual. Dividend policy is basically a financing decision which is primarily conditioned by available investment opportunities and investors and different between dividend and capital gains. Their principal desire is to earn higher return on their capital. If a firm has in hand array of investment opportunities promising higher returns (r) and the cost of capital (k), stockholders will be inclined to more and more retention so that ploughed back funds may finance profitable investment outlets to generate higher earnings. However, if expected return on potentials projects is likely to be less than what it would cost, they would be least interested in reinvestment of income and instead, immediate distribution of income will be insisted upon.

This presents an overview of dividend policy. It provides insight into the different between the relevance and irrelevance theories of dividend, which explored possible factors that might influence employment of specific dividend policy. The growth rate of the enterprises earnings, patterns of past dividends and availability of investment opportunities are the major determinants of dividend policy. Dividend policy influences the value of enterprises in Nepal.

## 1.6 Methods

Research methodology is the specific procedure or techniques used to identify, select, process, and analyze information about a topic. It answers two main questions. How was the data collected or generated and how was it analyzed?

This study has followed descriptive as well as statistical research methodology to fulfill the objective of the study. The ratio analysis method has been adopted to analyze the dates.

### 1.6.1 Research Design

Research design is the set of methods and procedure used in collecting and analyzing measures of the variable specified in the research problem. The design of a study defines the study type(descriptive, correlation, semi-experimental, experimental, review, meta-analytic) and sub-type (e.g., descriptive-longitudinal, case study), research problem, hypotheses, independent and dependent variables, experimental design, and if applicable, data collection methods and a statistical analysis plan. A research design is a framework that has been created to find answers to research questions.

A research design is the specification of method and procedure for accruing the information needed. It is overall pattern of framework of project that stipulates what information is to be collected from various sources.

Descriptive Research Design is appropriate for this study.

A research design that is developed with the aim of studying of research in detail and explains the facts and characteristics related to research problem is descriptive research design. It collects and presents the facts and figures in a certain situation. The goal of descriptive study is to describe relevant aspects of the factors of interest to the researcher from an individual, organization or other perspective. Even though it is descriptive method, it uses the scientific method of collecting, classifying and analysis related data, facts and figures.

### 1.6.2 Population and Sample

Population refers to all the number people, things, data, and other things which are used in research. It means population is all number of people and things that represent all factors of research. If the researcher research, he shows & research between how many people & things that factor are called population of the research. Here, I was prepared report writing, in my report writing on "Dividend Policy of Global IME Bank", I have research between 2020 people who are 2000 customers & 20 staffs & employer of Global IME BANK. They, 1020persons are population of my research.

Sample refers the number few person & things which are brings from population. Sample represents nature, quality & character of all population. Researcher has faced difficult to research between all population so that researcher takes sample from the population to research fast & easily.

### 1.6.3Data Collection

This research is based on secondary data. The data and information are collected from the office of Global IME Bank, Bhimdatt, Kanchanpur along with the annual report for the fiscal year 2069/70 to 2073/74.

Other sources were reference books, articles, journals, field reports and online websites.

## 1.7 Limitations of Study

We all of know that every works of our daily life is not easy. If we do any types work, some disturbances and problem will come in our work. It is the rules of nature. Research report writing is very sensitive and irritating work. So that , while preparing a report writing on the topic "Dividend Policy of Global IME Bank Ltd." , I have to also face some problems and limitations.

Some problem & limitations of study are as follows:

1. This study is only based on 5 year data, time also affect the study.

2. This study is only for Global IME Bank, but this study cannot represent dividend policy of other commercial banks.

# CHAPTER II: RESULTS AND ANALYSIS

## 2.1 Data Presentation

Data Presentation is the presentation of collected data through table, figures, and charts. Data analysis is the process of developing answers to questions through the examination and interpretation of data. The basic steps in the analytic process consist of identifying issues, determining the availability of suitable data, deciding on which methods are appropriate for answering the questions of interest, applying the methods, evaluating, summarizing, and communicating the results.

### 2.1.1 Earnings per Share (EPS)

It reflects the earning power of the bank. It makes easy to compare past & present EPS of the bank and compare with competitions. It is calculated by dividing total earnings available to common shareholders of Global IME Bank by number of common shares outstanding of Global IME Bank. The five year EPS data of Global IME bank of 2072/073 to 2076/077 are as follows.

Table 2.1.1- Earnings Per Share (EPS)

| Year | EPS | Change in EPS % |
|---|---|---|
| 2072/073 | 16.45 | - |
| 2073/074 | 19.57 | 18.96 |
| 2074/075 | 15.58 | -20.38 |
| 2075/076 | 19.33 | 24.06 |
| 2076/077 | 22.57 | 16.76 |

*Source: Annual report of Global IME Bank*

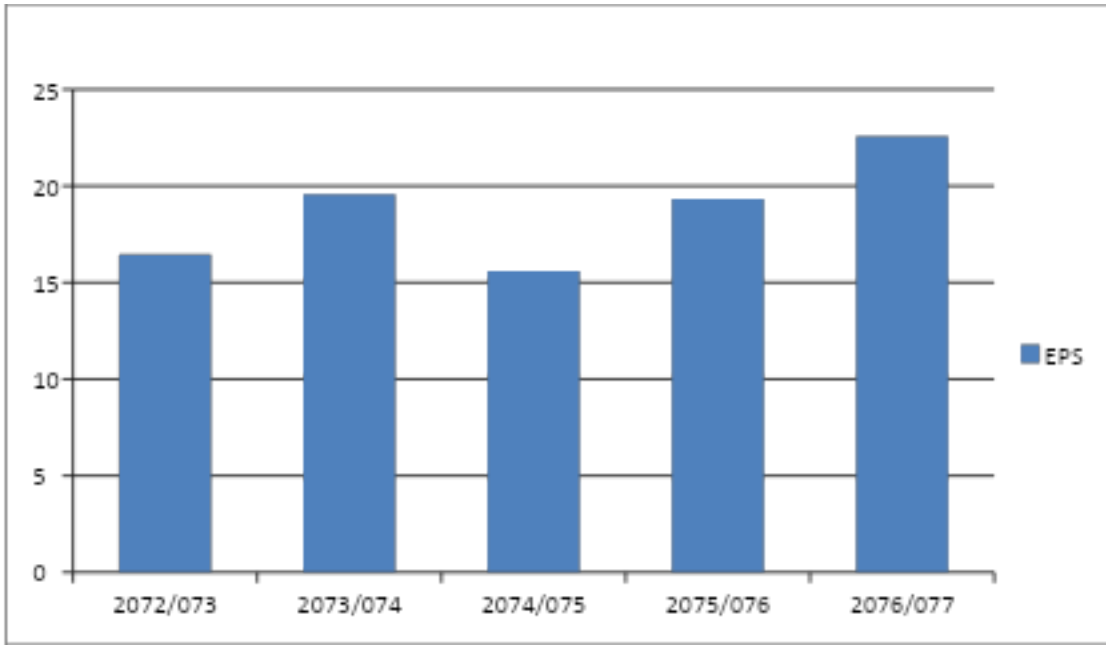



Figure 2.1.1: Earnings per Share (EPS)

There are data of EPS in different year & % change in EPS of Global IME Bank of 2072/073 to 2076/077. The EPS of 2072/073 was Rs. 16.45 per share & % change in 2072/073 was not there because of lack of data of 2068/069. The EPS of 2073/074 was Rs.19.57 per share & increased by 18.96% from previous year. The EPS of 2074/075 Rs. 15.58 per share & decreased by 20.38% from previous year. The EPS of 2075/076 was Rs. 19.33 per share & increased by 24.06% from previous year. The EPS of 2076/077 was Rs. 22.57 per share & increased by 16.76% from previous year.

## 2.1.2 Dividend per Share (DPS)

It gives financial soundness of the bank. Only financially strong bank can distribute dividend. It attracts investor to invest in shares of stock and maintains goodwill. It is calculated by dividing net earnings paid to the common shareholders of Global IME Bank (after payment the dividend of prefers stock) by number of common shares of

Global IME Bank. The five year DPS data of Global IME Ban of 2072/073 to 2076/077 are as follows.

Table 2.1.2: Dividend Per Share (DPS)

| Year | DPS | % change in DPS |
|---|---|---|
| 2072/073 | 2.47 | - |
| 2073/074 | 4.11 | 66.39 |
| 2074/075 | 3.58 | -14.8 |
| 2075/076 | 3.09 | -13.68 |
| 2076/077 | 2.26 | -26.86 |

*Source: Annual report of Global IME Bank*

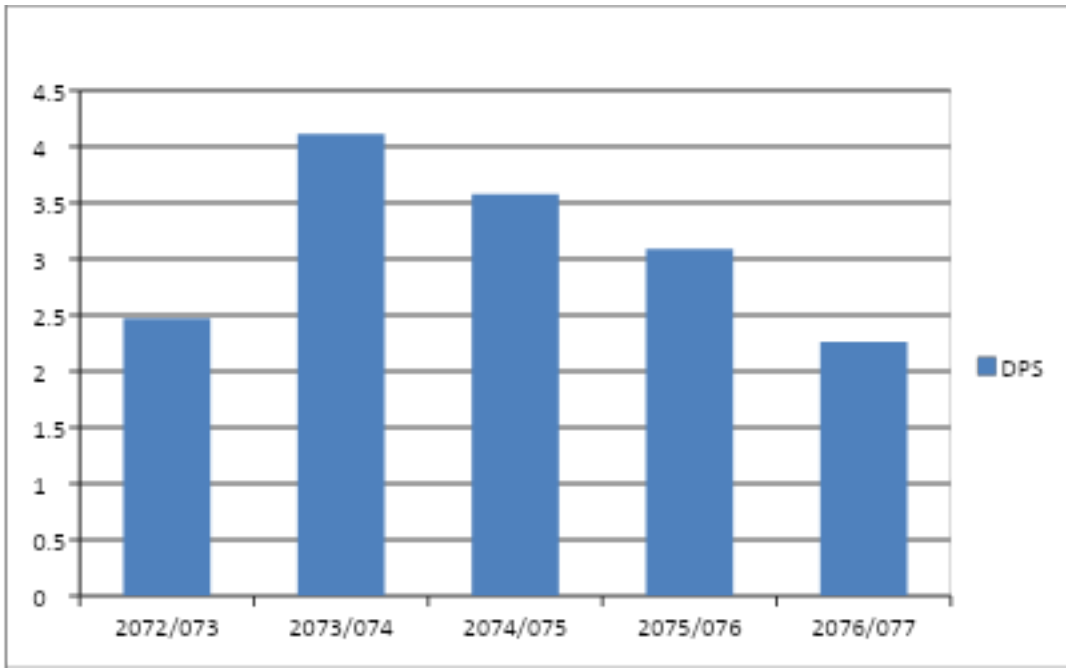



Figure 2.1.2: Dividend Per Share (DPS)

There are data of DPS in different year & % change in DPS of Global IME Bank of 2072/073 to 2076/077. The DPs of 2072/073 was Rs2.47 per share & % change in 2072/073 was not there because of lack of data of 2068/069. The DPS of 2073/074 was Rs.4.11 per share & increased by 66.39% from previous year. The DPS of 2074/075 Rs. 3.58 per share & decreased by 14.8% from previous year. The DPS of 2075/076 was Rs. 3.09 per share & decreased by 13.68% from previous year. The DPS of 2076/077 was Rs 2.26 per share & decreased by 26.86% from previous year.

### 2.1.3 Dividend Payout Ratio (DPR)

The ratio of distribution of earnings to shareholders and total earnings is dividend payout ratio. It is calculated in term of percentage. It is calculated by dividend payment divided by net income of bank. The DPR ratios of Global IME Bank of 2072/073 to 2076/077 are as follows.

Table no. 2.1.3: Dividend Payout Ratio (DPR)

| Year | DPR (%) |
|---|---|
| 2072/073 | 15 |
| 2073/074 | 21 |
| 2074/075 | 23 |
| 2075/076 | 16 |
| 2076/077 | 10 |

*Source: Annual report of Global IME Bank*

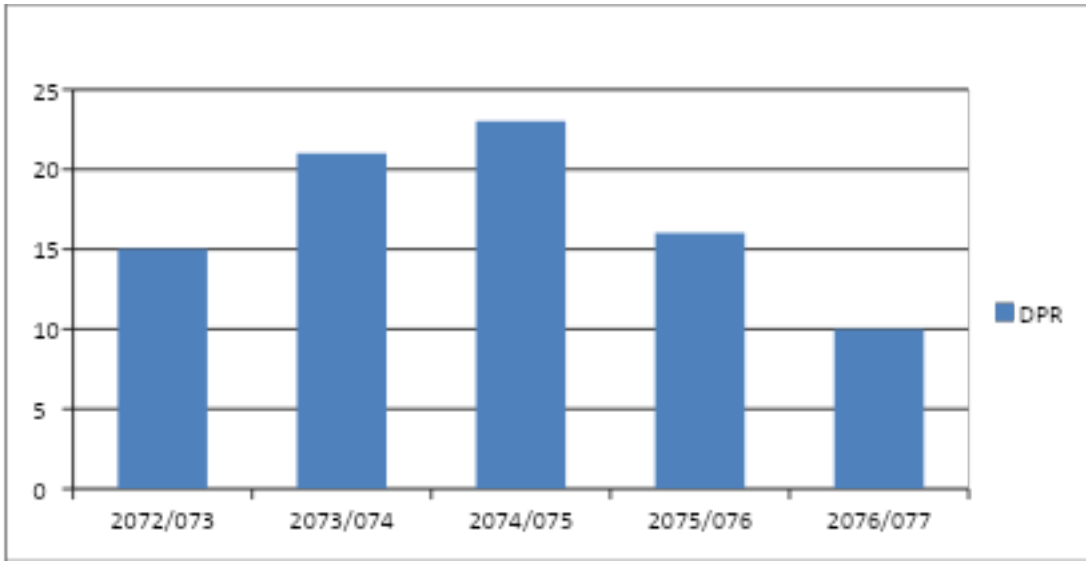



Figure 2.1.3: Dividend Payout Ratio (DPR)

This table shows that the DPR Ratios of Global IME bank of five year 2072/073 to 2076/077. The PDR ratios of Global IME Bank were 15% in 2072/073, 21% in 2073/074, 23% in 2074/075, 16% in 2075/076 & 10% in 2076/077 respectively.

### 2.1.4 Price Earnings Ratio (P/E Ratio)

It is price of share the outsider is paying for each rupee reported by balance sheet of bank. It is calculated by dividing the market price per share of Global IME Bank by book earnings per share of Global IME Bank. The P/E Ratios of Global IME Bank of 2067/070 to 2076/077 is as follow.

Table 2.1.4: Price Earnings Ratio (P/E Ratio)

| Year | P/E Ratio |
|---|---|
| 2072/073 | 26.74 |
| 2073/074 | 32.7 |
| 2074/075 | 30.74 |
| 2075/076 | 26.64 |
| 2076/077 | 17.19 |

*Source: Annual report of Global IME Bank*

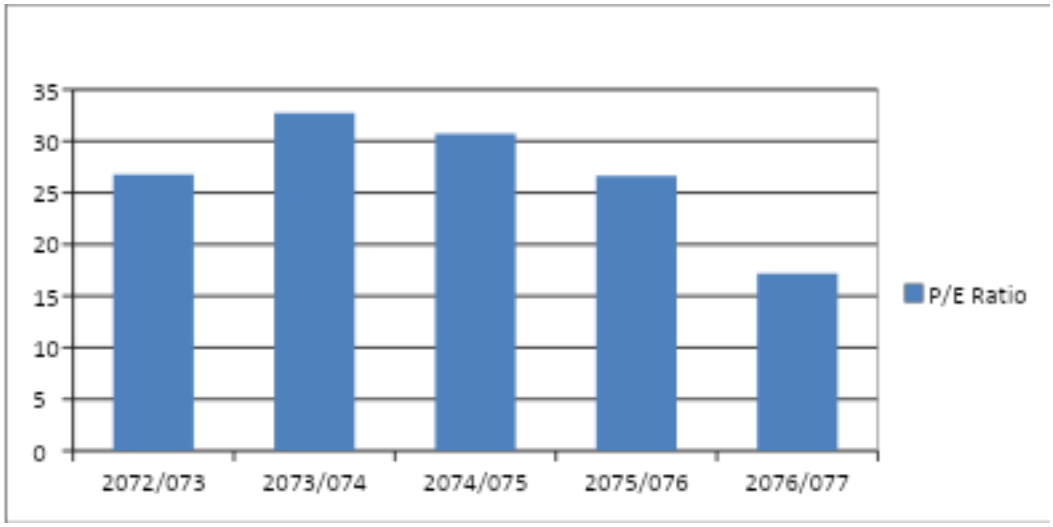



Figure no. 2.1.4: Price Earnings Ratio (P/E Ratio)

This table shows that the P/E of Global IME bank of five year 2072/073 to 2076/077. The P/E ratios of Global IME Bank were 26.74 times in 2072/073, 32.70 times in 2073/074, 30.74 times in 2074/075, 26.64 times in 2075/076 & 17.19 times in 2076/077 respectively.

## 2.1.5 Net Worth (NW)

Net worth refers to the owners claim in the assets of the bank. It can be found by subtracting total liabilities from total assets. The ratio indicates how well the bank has used the resources of the owners. It is calculated by dividing net profit after tax by net worth. The NWs of Global IME Bank of 2072/073 to 2076/077 are as follows.

Table 2.1.5: Net Worth (NW)

| Year | NW (Rs.) | % change in NW |
|---|---|---|
| 2072/073 | 3231 | - |
| 2073/074 | 6126 | 89.6 |
| 2074/075 | 7323 | 19.53 |
| 2075/076 | 8706 | 18.8 |
| 2076/077 | 11305 | 29.85 |

*Source: Annual report of Global IME Bank*

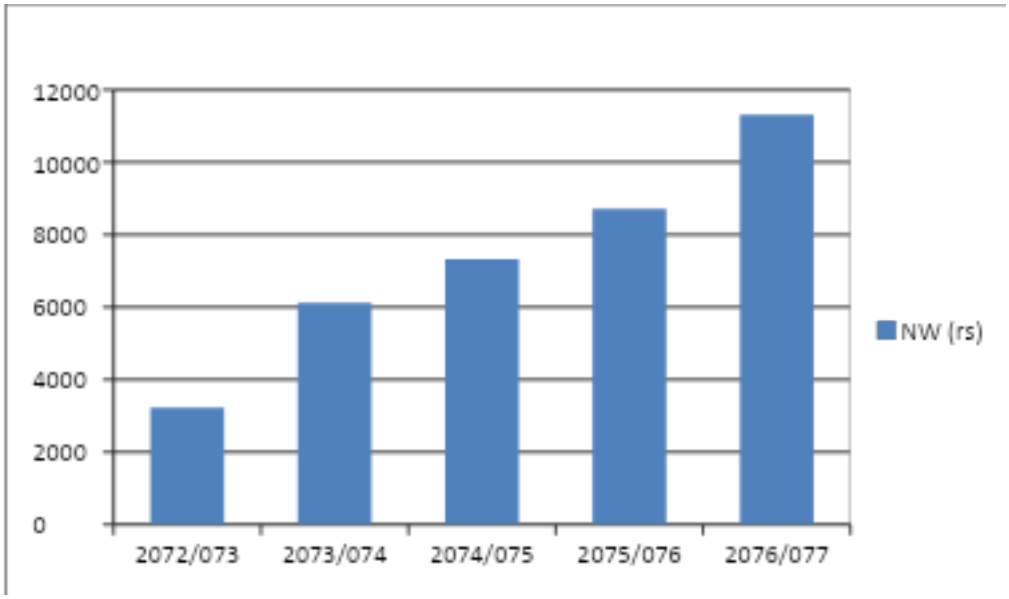



Figure 2.1.5: Net Worth (NW)

There are data of NW in different year & % change in NW of Global IME Bank of 2072/073 to 2076/077. The NW of 2072/073 was 3231 & % change in 2072/073 was not there because of lack of data of 2068/069. The NW of 2073/074 was Rs.6126 & increased by 89.60% from previous year. The NW of 2074/075 was Rs.7323 & increased by 19.54% from previous year. The NW of 2075/076 was 8706 & increased by 15.89% from previous year. The NW of 2076/077 was Rs.11305 & increased by 29.85% from previous year.

## 2.1.6MarketValue Per Share (MVPS)

MVPS is price of shares of Global IME Bank which is current buying & selling price in the market. It measures per share market price in the current time of the bank.

Table 2.1.6: Market Value per Share (MVPS)

| Year | MVPS | % change in MVPS |
|---|---|---|
| 2072/073 | 432 | - |
| 2073/074 | 640 | 48.14 |
| 2074/075 | 479 | -25.16 |
| 2075/076 | 515 | 7.5 |
| 2076/077 | 388 | -24.66 |

*Source: Annual report of Global IME Bank*

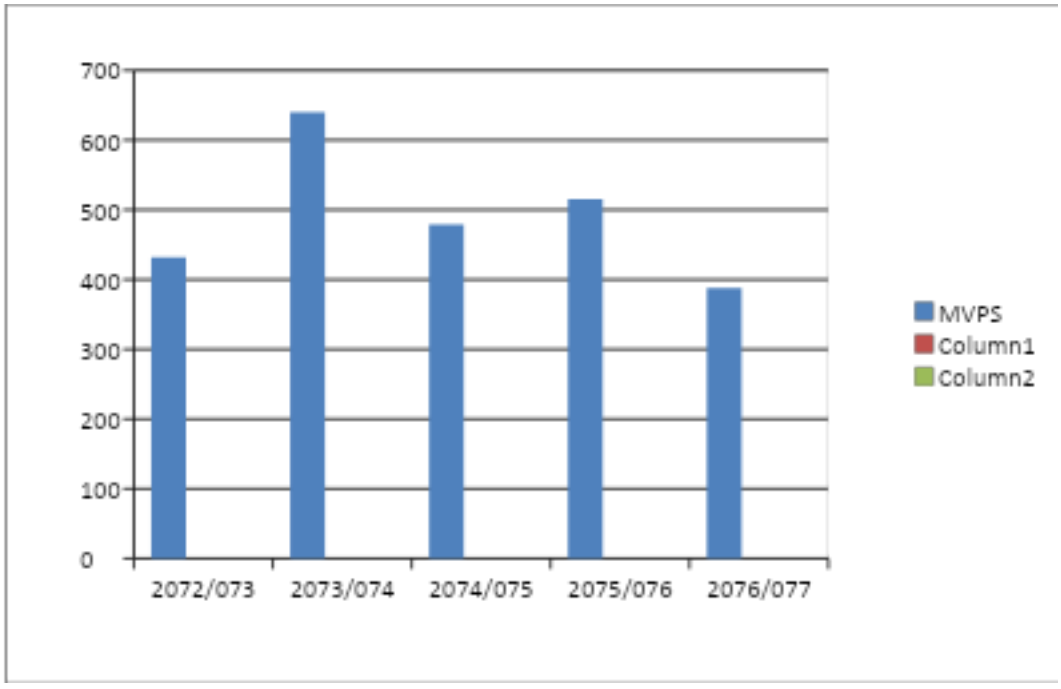



Figure 2.1.6: Market Value Per Share (MVPS)

There are data of MVPS in different year & % change in MVPS of Global IME Bank of 2072/073 to 2076/077. The MVPS of 2072/073 was Rs 432 per share & % change in 2072/073 was not there because of lack of data of 2068/069. The MVPS of 2073/074 was Rs 640 per share & increased by 48.14 % from previous year. The MVPS of 2074/075 was Rs.479 per share & decreased by 25.16% from previous year. The MVPS of 2075/076 was Rs 515 per share & increased by 7.5% from previous year. The MVPS of 2076/077 was Rs.388 per share & decreased by 24.66 from previous year.

### 2.1.7Relationship of Dividend with EPS, MPS, P/E Ratio & NW

We all of know that there is direct & close relation of dividend with EPS, MPS, P/E, & NW which are showing following table:

Table 2.1.7: Relation between DPR, DPS & PS

| Year | EPS | DPS | DPR | MPS | P/E | NW |
|---|---|---|---|---|---|---|
| 2072/073 | 16.45 | 2.47 | 15 | 438 | 26.74 | 3231 |
| 2073/074 | 19.57 | 4.11 | 21 | 640 | 32.7 | 6126 |
| 2074/075 | 15.58 | 3.58 | 23 | 479 | 30.74 | 7323 |
| 2075/076 | 19.33 | 3.09 | 16 | 515 | 26.64 | 8706 |
| 2076/077 | 22.57 | 2.26 | 10 | 388 | 17.19 | 11305 |

*Source: Annual report of Global IME Bank*

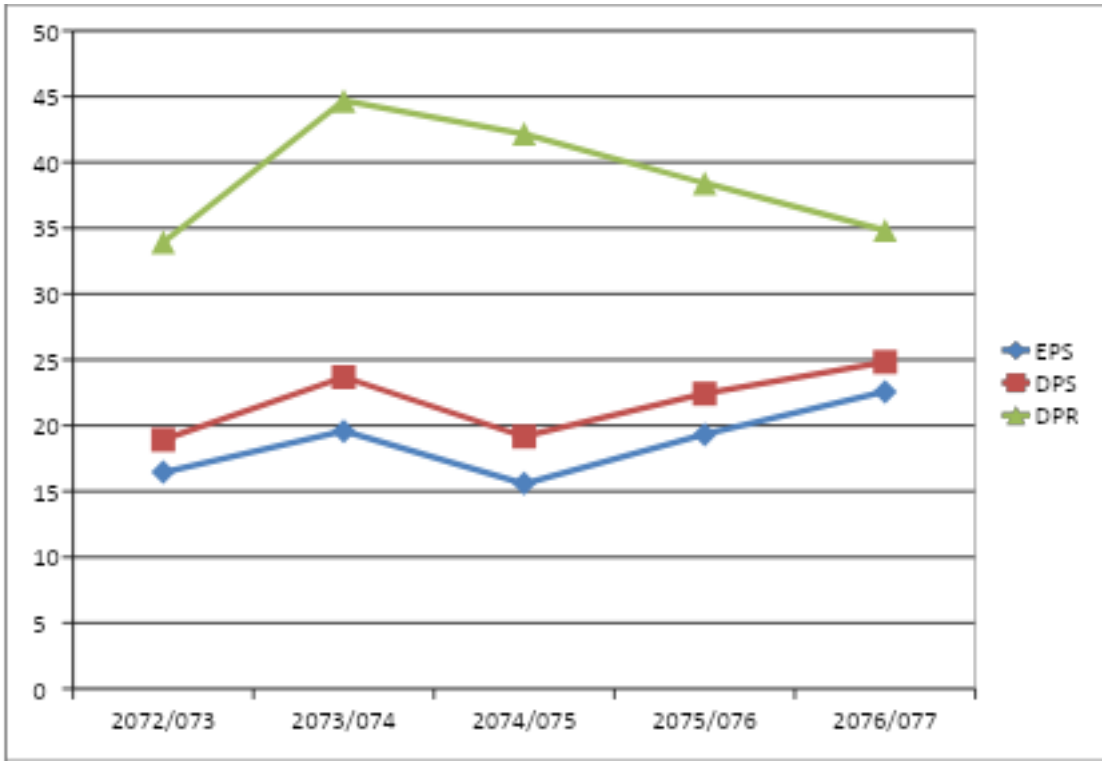



Figure 2.1.7: Relation between DPR, DPS & DPS

The given table shows the relationship of dividend with EPS, MPS, P/E, & NW in the five year time. When EPS was Rs 16.45 in 2072/073, DPS was Rs 2.47 per share, DPR was 15%, MPS was 438, P/E Ratio was 26.74 times & NW was Rs 3231. When EPS was Rs 19.57 in 2073/074, DPS was Rs 4.11per share, DPR was 21%, MPS was 640, P/E Ratio was 32.7 times & NW was Rs 6126. When EPS was Rs 15.58 per share in 2074/075, DPS was Rs 3.58per share, DPR was 23%, MPS was Rs 479, P/E Ratio was 30.74 times & NW was Rs 7323. When EPS was Rs 19.33 per share in 2075/076, DPS was Rs 3.09per share, DPR was 16%, MPS was Rs 515, P/E Ratio was 26.64 times & NW was Rs 8706. When EPS was Rs 22.57 per share in 2076/077, DPS was Rs 2.26per share, DPR was 10%, MPS was Rs 388, P/E Ratio was 17.19 times & NW was Rs 11305Really If Earning change by some %, it affects other DPS,MPS, NW also. If the EPS change some % how many % change in DPS, MPS, NW shows the following table.

## 2.2Analysis of Results

In the present context, it is very essential to study on dividend policy because it will generate the information that how the executives make decision on dividend. This will help to develop the realistic theoretical models & also help to test practically the different hypothesis concerning dividend policy. Hence primary data is required to make the effective study on "Dividend Policy of Global IME Bank". This chapter is based on primary data analysis mainly deals with qualitative aspects of corporate dividend policy of bank. When I prepared the report writing on "Dividend Policy of Global IME Bank", I asked some questions from Mr. Dipendra Bahadur Singh Sir who the Manager of Bhimdatt Branch was. I also collected data by interview & questionnaire method as a primary data from Global IME Bank. I was prepared the set of questionnaires about The Global IME Bank that gives all information about Global IME Bank.

Global IME Bank has also paid dividend to shareholder every year which is the proportion of net earnings of Global IME Bank. Global IME Bank used to pay dividend to shareholder such as cash dividend & stock dividend on availability of net earnings & cash. The priorities of dividend decision are financing decision, investment decision & dividend decision also in Global IME Bank. The bank also paid as a residual dividend policy. Nepalese shareholders are indifferent whatever bank pays dividend or not. This report found the trend of dividend policy of Global IME Bank is good in everything. The motives paying cash dividend are Information to shareholders that bank is doing well, Draw the attention from the investment community, Increase the market value of the bank's stock, Fulfill shareholder's exceptions. Global IME Bank announcement of earnings help to increase market price of share. There is the relationship between DPS, MPS & EPS. The determinants of dividend policies of Global IME Bank are availability of cash, past dividend, Earnings & control. The motive of stock dividend in Global IME Bank are to converse cash, to raise future dividend for shareholders, to lower the firm's stock price, to lower the firm's stock price. These all data are founded by interview & questionnaire with the manager of Global IME Bank of Bhimdatt Branch.

## 2.3 Finding

Under above this project work researcher show the fund mobilization in different sector and interest rate on different sector of Global IME Bank LTD. The major finding of this study was to find out the about Credit Performance of Global IME Bank LTD.
Above this study the major finding are as follows:

1. The Global IME Bank paid cash dividend & stock dividend also.
2. The relationship between DPS & MPS is positive. Likewise, DPS on NE, MPS on DPS, & DPS on NW are fluctuated.
3. A market price of share is affected by dividend decisions & dividend decision depends upon the Earnings per Share of the bank.
4. In today's changing market, we can see that there is an influence of other factors on dividend & the implication of it on market price of the share.

# CHAPTER III: SUMMARY AND CONCLUSION

## 3.1 Summary

Dividend refers to that portion of bank's net earnings which are paid out to the shareholders. Dividend payment for bank is most important decision for the development of bank. Bank should use different types of dividend policy on basic of financial condition of bank. Here I prepared the report writing on "Dividend Policy of Global IME Bank", I found that Global IME Bank also used cash dividend & stock dividend. When Global IME Bank earn a lot of earnings at that time bank paid cash dividend & when bank had no earnings at that time bank paid stock dividend in the context of Global IME Bank. There are the different factors that affect the dividend such as liquidity position, degree of leverage assets turnover & interest coverage also.

Dividends effect on earnings & market price of shares has vital issue. Policies should be maintained to have a balance between shareholders interest & corporate growth by internally generated funds. Due to the lack of the opportunities the fund which cannot be utilized should be paid as dividend. In today's changing market, we can see that there is an influence of other factors on dividend and the implication of it on market price of share. Besides there is a limitation, this study tried in covering some of such factors. High exceptions have been made by the shareholder that market price of share will significantly higher than net worth, whilst dividend decision should depend upon on EPS & total earnings. Likewise, market price of stock & net worth should depend on dividend decision & is paid on the profitable years. So, the dividend is most important decision that affects all activities of bank.

When prepared the report writing on "Dividend Policy of Global IME Bank", this report found that dividend decisions more important decision for bank &more things about bank. The major findings of my study are as follows.

1. This study found that Global IME Bank used cash dividend as well as stock dividend also.
2. This study found that there is direct relationship between dividend with EPS, MPS, NE, NW & other factors.
3. This study found that dividend affect value of stock also.
4. This study showed that the trend of dividend payment of Global IME Bank of five year data 2072/073 to 2076/077.
5. This study found that If Global IME Bank has no earnings, the bank paid stock dividend.
6. This report found that Bank's shareholders are not really indifferent towards payment or nonpayment of dividend.
7. This study found that the determinants of dividend are Earnings, past dividend, availability of cash, control etc.
8. This study also found that dividend is the proportion of net earnings that paid to shareholder on their investment.

## 3.2 Conclusions

With the above findings it can be concluded that dividend is the part of net earnings which paid to shareholder & dividend payment functions is necessary functions of bank for the development of bank. The Global IME Bank paid cash dividend & stock dividend also. A market price of share is affected by dividend decisions & dividend decision depends upon the Earnings per Share of the bank. Dividend as residual decisions in Nepalese banks is rejected by the financial executives of Nepal.

The major issue raised in the study is that dividend decisions of Global IME Bank effect on earnings & market price of share. A Global IME Bank should maintain policies that

generate a balance between shareholder's interest and corporate growth by internally generated the funds. Due to lack of the opportunities the funds which cannot be utilized should be paid as a dividend. In today's changing market, we can see that there is an influence of other factors on dividend & the implication of it on market price of the share.

We know that distributions of dividend in Nepalese bank are unclear & uncertain. High exceptions have been made by shareholders that market price of share will be significantly higher than the net worth whilst dividend decision should depend upon EPS& total income. Likewise, MPS & NW should depend on dividend decision and is paid only on profitable years.

There is no uniformity in distribution of dividend by the financial institutions. There is fluctuation in dividend. Different banks are following policies maintaining their own rules & regulation. Global IME Bank is also following its own rules & regulation. Market price per share is traded on high price& highly fluctuated in Global IME Bank. It highly depends on DPS & EPS. Change in DPS affects the MPS differently in the Global IME Bank. The relationship between DPS & MPS is positive. Likewise, DPS on NE, MPS on DPS, & DPS on NW are fluctuated. There is no stable dividend policy adopted by the financial institutions in Nepal, some have an increasing trend, and some have irregularity in dividend payment.

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# APPENDIX

## A. Data Presentation

**TABLE No. 2.1.1**

Earning Per Share (EPS)

$$\text{EPS} = \frac{total\ earning\ available\ to\ common\ shareholder}{number\ of\ \ common\ share\ outstanding}$$

**TABLE No. 2.1.2**

Dividend Per Share (DPS)

$$\text{DPS} = \frac{net\ earning\ paid\ to\ common\ shareholder}{number\ of\ common\ share\ outstanding}$$

**TABLE No. 2.1.3**

Dividend Payout Ratio (DPR)

$$\text{DPR} = \frac{dividend\ per\ share}{earning\ per\ share}$$

**TABLE No. 2.1.4**

Price Earning Ratio (P/E Ratio)

$$\text{P/E Ratio} = \frac{market\ price\ per\ share\ (MPS)}{earning\ per\ share(EPS)}$$