DIVIDEND POLICY OF COMMERCIAL BANKS OF NEPAL WITH REFERENCE TO HBL, SCBNL AND NIBL

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RECOMMENDATION

This is to certify that the Thesis

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VIVA – VOCE SHEET

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Found the thesis to be original work of the student and written according to the prescribe format we recommend the thesis to be accepted as partial fulfillment of the requirement for the Master of Business Studies (MBS).

Viva – voce committee

Head of Research Department …………………..
Member (Thesis Supervisor)…………………….
Member (External Expert)……………………….
Date………………

DECLARATIION

I hereby declare that the work reported this thesis entitled “Dividend policy of commercial banks of Nepal with reference to HBL, SCBNL and NBL”, submitted to Shanker Dev Campus, Faculty of Management, T.U, is my original work done in the form of partial fulfillment of the requirement for the Master of Business studies (MBS) under the supervision of supervisor Mr. Prakash Sigh Pradhan of Shanker Dev Campus.

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ABBREVIATIONS

a	=	Constant of Regression
b	=	Regression Line
BVPS	=	Book Value Ser Share
C.V.	=	Coefficient of Variation
DPS	=	Dividend Per Share
DPR	=	Dividend Payout ratio
Dt-1	=	Dividend of last year
DY	=	Dividend Yield
EPS	=	Earning Per Share
EY	=	Earning Yield
HBL	=	Himalayan Bank Limited
NIBL	=	Nepal Investment Bank
No	=	Number
MVPS	=	Market value Per Share
P/E Ratio	=	Price Earning Ratio
r	=	Coefficient of Correction
r	=	Coefficient of Determination
S.D.	=	Standard Deviation
S.E (e)	=	Standard Error of Estimate
SEBON	=	Security Board of Nepal
SCBNL	=	Standard Chartered Bank Nepal Limited.

CHAPTER I

INTRODUCTION

1.1 HISTORY

The Banking has come to the present advanced through various stages. Some sort of banking activities has been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia.

In Greece, the temple of Delphi and other safer places acted as store houses for the precious meals before the days of coinage. Later coin is used as a money .It is difficult to carry physical money like coins each time from one place to another for trading .So the merchant s were popular and credit worthy that the letters issued by them were treated as good as money. Geoffrey Crowther says that merchant, goldsmith and the money lenders are the ancestors of modern banking

Goldsmiths started issuing a receipt the depositor with a notation.” I owe you (IOU)……….”which could be transferred to any person to deposit so wished.

The origin of the word “Bank is liked to

- Latin word “bancus”meaning a bench
- Italian word “banca” meaning a bench
- French word “banque” meaning a bench

However modern bank was emerged in the medieval Italy .Bank of Venice, set up in 1157 in Venice is regarded as the first modern bank.

In Nepal, goldsmiths and landlord were the ancient banker , “Tejaratha Adda” established during the tenure of the Rana Prime minister Ranodip Singh was functioning as financial institutions in some sense Tejaratha Adda did not collect deposits from the public but gave loans to employ and public against the bullion.

The history of modern banking in Nepal begun in 1994 BS , when Nepal Bank Limited was established as a first bank in non –government sector ,after 16 years of establishment , it became public limited company and carried out the functions of commercial bank.

Bank plays a pivotal role in the overall development of an economy of the country. Bank is a business organization that receives and holds deposits and funds from other, makes loans and extends credits and transfers funds by written order by depositors.

A commercial bank exchanges money, accepts deposits, grants loans, and performs other commercial bank functions and is not a bank meant cooperative, agriculture, industrial as per specific functions (commercial Bank Act, 2031)

The economic reforms initiated by the government more than one and a half decade ago have changed the nature of several sectors of the Nepali economy. The Nepal banking sector is no exception so banks, financial institutions are mush rooming is a short span of time in sector of investment.

We all know that to run business or any economic activity finance is the very necessary component. In the modern era no one can imagine to run business without the aid of finance. So finance is life blood of any economic activities. Actually any small or large business world. Its lies between the function of rising of fund and utilization of funds.

It is not only rising of funds but it considers accumulation of fund from various sources as well as appropriate use of funds in the produce process to achieve ultimate goal. Finance is a practical activities of business promotion includes money, credit, banking, securities, insurance, investment are the component of money market and capital market.

'So one of the perceptions of finance is dividend to attract the investors' attention towards the world of finance.

1. 2 BACKGROUND OF THE STUDY

Dividend refers to the portion of net earning or profit made by firm that is distributed to the shareholders as return of investment in shares. The policy related to payment of dividend called dividend policy. Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. The dividend policy should be optimal which balances the opposing forces and minimizes stock price.

Dividend policy determines the division of earrings between payment to stock holders and re-investment in the firm. Retained earnings are of the most significant sources of funds for financing corporate growth but dividends constitute the cash flows that accrue to share holder.

The payment of the corporate dividend is at the discretion of the board of directors. Dividend can be paid quaterly, semi –annually and annually, Dividend may be paid in cash, stock or merchandise cash dividend is the most common and merchandise dividends are the least common. In Nepal, most company pay dividend yearly.

The policy of company on the division of its profit between distribution to shareholders as dividend and relation for its investments is known as dividend policy. Due to issue of shares to the shareholders, dividend policy becomes major decision of financial management, dividend is the earning or profit distributed to shareholders by a company, it may be cash, shares and securities or a combination of these. Firstly, the company should decide whether the dividend should be paid or not, secondly the management should determine how much should be paid. All aspects and question related to the payment of dividend are contained in a dividend policy .It includes percentage , timing and method of dividend , cash dividend and retained earning has reciprocal relationship, if retained earning is kept more by the company less will be cash dividend and vice- versa. The management has to choose between distributing profits to shareholders and plugging them back into the business. The decision depends upon the objective of management i.e., wealth maximization, if it will lead maximization of the wealth of the owners. If not, it is better to distribute them to finance investment programs. The relationship between dividend and value of the firm should be criterion for making dividend decision (Pnday 1999).

After the establishment of corporation in Nepal actual owners of corporation do not seem adequately respected by paying dividends. The government is unable to receive dividends from public enterprises, which is clearly known survey published by HMG, Ministry of finance. Whereas some joint venture banks and other public limited companies have shown new trend of paying dividend to the shareholders

1.3 ORGANIZATION UNDER STUDY

1) Standard Charted Bank Ltd.

Standard Charted Bank Nepal Ltd. formerly known as Nepal Grind lays Bank Ltd incorporated in the year 1985 to 1987. On 31july, 2000 standard Charted Bank concluded the previous acquisition with new acquisition, 50%shares of standard charted Grind lays Bank, 33%shares of Nepal Bank Ltd and 17% sharers of general public with effective from July 16, 2001.

It is an international bank focused on the emerging market of Asia, Africa, the Middle East and Latin America with a network of over 140 offices in more than 55 Countries world-wide. It has in depth understanding of these Markets and strong long term commitment to them.

SCBNL is up- to- date with modern day technology. The bank has online V-SAT connection; SCBNL is the first bank, which has facilities cash withdraw using international debit cards in the country.

The bank mainly focuses on corporate consumer and commercial banking providing services for international forms as well as embassies, and agencies, airlines, hotel and government corporations.

The banking service range includes full trade finance capabilities as well as working capital and medium term loan facilities, remittances, deposit service firm, standard chartered Bank Nepal Ltd and Remittance services and foreign exchange.

SCBNL offer many things as;

1) Payroll Account:

A one step banking solution for company's and there employees that improves that salary payment on managed. The account offers bank wide range of benefits to employment and salary press convenience to the employer.

2) Women's Account

A Bank account designed specifically to meet the financial needs of women.

3) eSaver:

Helps to manage our money anytime anywhere and watch our saving grow faster with banks most competitive. Interested rate.

4) Foreign Currency Account

This account facilitates us to save our money in multiple foreign currencies. It's easy with SCB and it comes with a high interest rate as well.

The Share Capital of Standard Chartered Bank Nepal limited.

Share Capital and Reserve	**Net profit (RS)**
Authorized Capital	100,00,00,000
Issue Capital	100,00,00,000
Paid up Capital	62,07,84,000

2) Himalayan Bank Limited.

Himalayan Bank Limited is one joint venture commercial banks of Nepal which was established in Partnership with employee's provident fund and internationally renowned "Habit Bank of Pakistan."

It is the first commercial bank of Nepal with maximum shareholding by the Nepalese Private Sector. Besides commercial activities: the Bank also offers industrial and merchant banking.

Himalayan Bank has access to the worldwide correspondent network of HABB bank of funds transfer, letters of credit or any banking business and where in the world.

Bank has different product and services

i) Credit Card

ii) Tele Banking

iii) Any Branch Banking

iv) ATM

v) 24 Hours Banking

Functions of Himalayan Bank Limited are

- Various deposit facilities for the i.e., saving, current, fixed, call, etc.
- Collection and payment of cheques, drafts, promissory notes etc.
- Keeping valuables in safe custody called lockers.
- Issuing letter of credit, traveler's cheque, draft etc.
- Remittance of funds
- Dealing with transaction of foreign exchange
- Saving as agent of correspondent on behalf of client.

The share capital of Himalayan Bank limited.

Share Capital and Reserve	Net profit
Authorized Capital	2,00,00,000
Issue Capital	1,20,39,14,400
Paid up Capital	120,39,14,400

3) Nepal Investment Bank Ltd.

Nepal Investment Bank Limited previously named Nepal Indosuez Bank which was established on 21 January 1986 AD (magh 6, 2042 BS) as a joint venture bank between Nepal and the French's partnership. Now it is known as Nepal Investment Bank Limited.

The French Partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world. With the decision of credit Agricole Indosuez to divert a group of companies compromising of bankers, professional, industrialists and business, has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Limited. The name of the bank has been changed to Nepal Investment Bank Ltd upon approval of bank's Annual General meeting, Nepal Rastra Bank and Company Register's office with the following shareholding structure.

i) A group of companies holding 50% of the Capital.
ii) Rastriya Banijay Bank Holding 15% of the Capital.
iii) Rastriya Beema Ssnsthan Holding 15% of the Capital.

The remaining 20% being held by the general Public NIBL offered several products and Services to the Customer For their Satisfaction Are Following.

1) Deposits
2) Internet Banking
3) ATM
4) Loans and Advances
5) Card Services
6) State Deposit Locker
7) Ezee Saving
8) Premier Banking
9) NTC Mobile Bill Payments
10) 365 Days Services.

NIBL believes that success can only be achieved by living on their core values and principles are: Customer Focus Quality Team Work.

The share capital of Nepal Investment Bank limited.

Share Capital and Reserve	**Net profit (RS)**
Authorized capital paid up capital	2,0,00,00,000
Issue Capital	1,01,35,12,500
Paid up Capital	1,01,35,12,500

Commercial banks are:-

1. Nepal Arab Bank Limited (2041 B.S)
2. Nepal SBI Bank limited (2050 B.S)
3. Nepal Bangladesh Bank limited (2051 B.S)
4. Bank of Kathmandu Limited (2051 B.S)
5. Everest Bank Limited (2051 B.S)
6. Lumbini Bank Limited
7. Nepal industrial and commercial bank Limited.
8. Himalayan Bank Limited.
9. Kumari Bank Limited
10. Laxmi Bank Limited
11. Machhapuchhre Bank Limited
12. Nepal credit and commercial Bank Limited
13. Nepal investment Bank Limited
14. Nepal Merchant Bank Limited
15. Siddhartha Bank Limited
16. Standard Charted Limited
17. Global Bank
18. Prime Bank
19. Asian Bank
20. Sunrise Bank
21. Citizen Bank

1.4 Focus of the Study

Dividend policy is one of the important decisions which play a vital role in the financial sector. In any firm, dividend policy is taken as the major financial decision which affects the value of the firm. Any investor does not invest in stock with out knowing the dividend policy of the firm. In any firm, dividend policy is taken as major financial decision, which affects the value of the firm. Any investor does not invest in stock with out knowing the dividend policy of the firm.

This study is mainly focused on the dividend behavior of which includes 3 banks, 2finance companies and one insurance company. This helps to the investor to choose the better firm for investment .In Nepalese context, most of the investors is investing in the stock without the knowledge of company's performances and policies. This is due to the lack of availability of research about these company's performances. In this study it is tried to find out the appropriate dividend policies of sample companies and their performances regarding to the dividend payment. It is believed that this comparative study will be useful to those investors who are interested to have knowledge about the performances of sample companies.

1.5 Statement of the Problem

'Dividend policy determines the division of earnings between payments to stockholders and reinvestment in firm. Retained earning is one the most significant sources of finds for financing corporate growth, but dividends constitute the cash flows that accrue to stockholders.'J.fred Weston and Eugene F.Brigham, 1972.

Among financing, investment and dividend policies later is the third major decision of the firm. It deals with how much should pay to shareholders from the earnings. Dividend payout reduces the amount of earnings retained in the business, which affects the internal financing of the firm. This is still confusing whether dividend payment affects the value of the firm or not.

MM Model tells that dividends are irrelevant to the value of the firm. It believes that the earning should retain only for getting benefit of investment opportunities. If there is no investment opportunity, all the earning should be distributed as dividend. But other financial experts have their own view toward dividend payment such as Stable Dividend policy, Constant payout ratio, Low regular plus extras. So different experts have different views but none of these are completely satisfactory.

In Nepalese context, it has been found that especially Joint venture commercial banks and even sound insurance companies, manufacturing companies, finance companies and hotel industries have been distributing regular and satisfactory dividend. However single convincing dividend policy is not being followed. They have adopted different policies and dividends are paid in different forms such as cash dividend, stock dividend, stock dividend etc. Nowadays stock dividend is being more popular in Nepal especially in banking sector. But there is no any rigid rule for dividend payment because few companies are generating profit and they are focusing their attention towards the reinvestment.

In this research it is tried to get the answer of the following questions:

1. What is the prevailing dividend policy of sample listed joint venture commercial banks?
2. Are dividend policies affected the market price of stock and value of the firm.
3. Are all the sample companies adopting same dividend policy?
4. Is there any relationship between dividend policy and Dividend per share (DPS), Earning per share (EPS), Dividend pay out ratio (DPR), Price earning ratio (P/E Ratio), Liquidity Ratio, Market price of share (MPS)?
5. Is there any consistency in DPS and DPR of sample bank?

1.6 Objectives of the study

The Objectives of study are:

- To identify the dividend policies of different sample joint venture commercial bank.

- To identify the relationship between dividend policy and other financial indicators.
- To analyze the relationship between Dividend per share (DPS), Market price of share (MPS) and Earning Per Share (EPS)

1.6 Hypothesis

The study will test the following hypothesis :(the hypothesis test is based on t-test and F test.)

Hypothesis I

Null Hypothesis (Ho): There is no significant difference between the DPR of banks

Hypothesis II

Null Hypothesis (Ho): there is no significant difference between the DPS of banks.

1.7 Significance of the study

In Nepal, the earning capacity of people is very low, as result they can hardly save the money to invest in profitable sector. This research will help them to choose profitable firm, which will provide higher return to their investment. Actually the return of investment in share is dividend provided by companies. So, this study will help them to choose the better company for investment. This research will also useful for management to point out the loopholes and suggest the remedies about the appropriate dividend policy and also for stockbrokers, financial agencies, scholars, policy makers and other interested persons. While investing in shares, the investor forgoes opportunity income that he could have earned. In capital market, the return can be earned in two ways.

a) By means of dividends

b) By capital gains

Due to lack of enough knowledge, people are investing in hit or miss in shares. It is necessary to establish clear concept about the return that results from investing in securities.

1.8 Limitation of the study

The study is limited to the following factors;

1. Most of data are secondary and may not be timely. The study is based on the Trading Report published by NEPSE.
2. Only three banks are taken as sample due to lack of time.
3. Only five years data from 2004 to 2009 are taken for analysis.
4. Most of the forms are not interested to provide actual report of their activities. There may be lack of detailed information required for the research.

1.9 Chapter Scheme

The study has been divided into five different chapters. The titles of these chapters are as follows:

Chapter 1	:	Introduction
Chapter 2	:	Review of literature
Chapter 3	:	Research Methodology
Chapter 4	:	Presentation and analysis of data
Chapter 5	:	Summary, Conclusion and Recommendation

Chapter 1 – this chapter deals with the subject matter of the study, focus of the study, statement of the problem, objectives of the study and limitation of study.

Chapter 2 – This chapter deals with and is focused to the theoretical analysis and review of the related and pertinent literature available and thesis related to the dividend behavior in Nepalese context.

Chapter 3 - This chapter describes the research methodology used to conduct the research. This chapter also contents the sample selection, data collection procedure, the model of analysis, definition of financial variables and statistical tools, and limitation of the study.

Chapter 4 - This chapter is the main part of the study, which describes about the presentation and analysis of data to find out the appropriate dividend behavior of the sample companies.

Chapter 5 - This is the last chapter of the study and includes the major findings and conclusion of the study that deals about the main themes of the study and the comparison of dividend policies of different sectors with recommendation for improvement of dividend behaviors of the selected companies.

The exhibits, bibliography, and appendixes are incorporated at end to the study.

CHAPTER II

REVIEW of LITERATURE

In this chapter relevant literature, which are related to the dividend policy are reviewed topics from different book and different studies published in magazines, theses to servers and journals related to the study are reviewed with conceptual framework and review to various studies

2.1 Conceptual framework

Dividend is that portion to the net earning dividend by the company among the shareholder as return for their money invested. In other words dividend is periodic payment made to the shareholders to compensate them form the use to risk to their investment

Dividend policy is and integral part to the firm's financing decision. "James c. van Horne and john M. choices, 1997". the dividend policy to the firm its regarded as a tool to determine the appropriate allocation to profits between dividend payments and the amount to be retained in the firm in every firm, there's own dividend policy. That determines dividends to be distribute, thus dividend policy it's the most important financial any company, which effects the financial structure to the firm.

Any change in dividend policy has both favorable and unfavorable effects on the price to the firm's stock higher the profit, higher the dividend. But there is reciprocal relationship between retained earning and cash dividend. If retained earning is kept more by the company less will be dividend to shareholders or if retained earning is kept less by the company higher will be dividend paid to the shareholders on company's profit. It is in the sense that the firm has to choose between distribution profits to shareholders and ploughing them back into the business.

How much it is desirable to pay dividend is always a controversial topic. Because owners expect higher dividend, from company whereas company ensure toward setting a side funds for maximizing the overall the shareholders wealth. Thus, shareholders expectation can be fulfilled through either dividend or capital gain. Dividend generally paid in cash which reduces the cash bankers of the company. In Nepal, dividend payout ratio seems to be 40%.

It any firm makes profit, then they have two alternatives, one is to reinvest earnings in profitable sector or to distribute it to the shareholders. So shareholders and firms must try to make balance between those two alternatives.

2.1.1 Major Forms of Dividend

Corporation needs to use different forms of dividend in view of the objective and policies, which they implement. The major forms of dividends are cash dividend and sock dividends" (Shrestha: 1980). The type of dividend that corporation follows is partly a matter of the various circumstances and financial constraints that bound corporate plan and policies" Ordinary dividends are paid in cash however dividend disbursements may be scrip, stock and property dividends (Gitman; 1994:696)

a) Cash Dividend

Cash dividend is the dividend paid in cash. It is the most popular and widely used form of dividend all over the world. Everyone likes to collect their return in cash rather than non cash means. So, cash dividend is not only a way to distribute earnings, but also a way to improve perception of the capital market (Niraula, Dilip: 2003,). A company should have enough cash in its bank account when cash dividends are declared. If the company does not have enough bank balance at the time of paying cash dividend, arrangement should be made to borrow funds. When the company follows a stable dividend policy, it should prepare a cash budget for the coming period to indicate the necessary funds which would be needed to meet the regular dividend payments of the company. It is relatively difficult to make cash planning in anticipation of dividend needs when an unstable dividend policy is followed (Pandey, I.M.:2002,).

The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed (Hastings, 1996: 370,).

(b) Stock Dividend and Stock Split

A stock dividend is the distribution of additional shares of stock to existing shareholders instead of cash "the firm pays stock dividends either as a replacement for or supplement to the payment of cash dividend." (Gitman, 1994: 696)

A stock split is essentially the same. When stock splits, shareholders are given a larger number of shares for the old shares they already own. Although stock dividends do not have a real value, firms pay stock dividend as a replacement for a supplement of cash dividend. Under this policy, stockholders receive additional shares of the company in lieu of cash dividends. But in India, stock dividend (Bonus share) can be issue in lieu of cash dividend (Pandey; 1999: 708)

The effects of a stock divided or a stock or a stock split can be summarized as follows (Schall and Charles: 1991: 448)

1. There is no change in the firm's assets or liabilities or in shareholders equity.
2. There is fall in per share earnings book value and market price due to an offsetting rise in the number of shares held by each shareholder. Some of the joint venture banks of Nepal have followed the practice of paying stock dividend or stock split along with cash dividend (NABIL, and NIBL)

C. Bond Dividend

Bond dividend by its name is a dividend that is distributed to shareholders in form of a bond. Bond dividend helps t postpone the payment of cash. In other word, companies declared in the from of its own bond with a view a view t avoid cash outflow.

d. Scrip Dividend

A dividend paid in promissory notes is called scrip dividend “scrip dividends are those paid in the company’s promises to pay instead of cash “(Encyclopedia Americana, 1997). When earning of the companies justify dividends but the company’s cash position is temporarily weak and does not permit cash dividend. It may declare dividend in the form of scrip. Scrip dividends may bear a definite maturity date or non interest bearing.

2.1.2 Theories of dividends

Different dividend theories have been advanced by now and thus head to the controversy regarding these theories as the theories consider the dividend decision to be both relevant and irrelevant. Some of the relevant and irrelevant theories have been discussed bellow.

a. Residual theory of dividend

According to one school of thought the residual theory of dividends suggest that the dividend paid by a firm should be viewed as a residual amount left after all acceptable investment t opportunities have been undertaken (Encyclopedia Americana; 1997). Dividend policy can be viewed as one of a firm’s investment decisions. A firm that behaves in this manner is said to believe in the residual theory of dividend. According to this theory, dividend policy is a residual after investment. Whether or not a company pays dividends depends on the availability to investment opportunity.

The staring point in this theory is that investors prefer to have the firm retain and reinvest earning, instead do buying dividends, if the return on reinvestment is higher than the opportunity cost of fund for investors (Weston and Brigham, 1983:68). The dividend under residual dividend policy equals the amount left over from earning after investment. No dividends are paid and new shares are sold to cover deficit for investment that is not covered by retention of earning if there is not any investment opportunity then cent percent earning is distributed to shareholders dividend is therefore merely a residual i.e. percent remaining after all equity investment needs are fulfilled (Rao: 1992: 458)

As long as there are investment projects with returns exceeding than that are required, the firm retains the earning to invest in such profitable projects rather than paying dividends when the firm has the opportunity of investments in profitable project a first is used internally generated funds as externally generated funds are comparatively expensive due to floatation costs. Although the residual theory of dividends appears to make further analysis of dividend policy, it indeed not clear the dividends are solely a mean s of disbursing excess funds (Schall and Charles: 1991:1)

Dividend policy is influenced by (i) the company's Investment opportunities and (ii) the availability of internally generated capital. According to this concept dividend policy is totally passive in nature "when we treat dividend as strictly a financing decision, payment of cash dividend is a passive residual (Van Horne; 2000:306)

When the firm has opportunity of investment is profitable sector at first, they prefer the internally generated fund (retained earning) rather than the externally generated fund which is comparatively expensive due to the floatation cost and others. So the amount of dividends fluctuates the to time in keeping with availability of acceptable investment opportunity of the firm although, the residual theory of dividend appears to make further analysis of dividend policy unnecessary it is not clear that dividends are solely an means of disbursing excess funds142. Thus, we can conclude that the company investment importunity as will as the availability in internally generated fund determines the dividend amount of a firm.

(b) Stability of Dividend

Stability of dividend refers to the regularity in paying dividend even though the amount of dividend may fluctuate from period to period. Stability of dividends is considers as a desirable policy by the management of most companies shareholders also generally favor this policy and value stable dividends higher than the fluctuating ones. All other things being the same, stable dividends have a positive impact on the market price of the share. (IM pandey 1995).

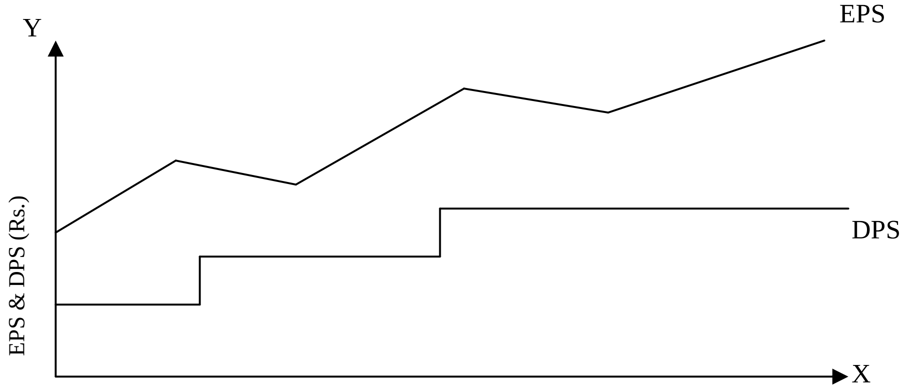
There are three major types of dividend policies developed (established) under dividend stability which is a follows

i. Constant dividend per Share

The company which follows this policy, pays a fixed amount per share as dividend every year, irrespective of the fluctuation the company faces difficulties to maintain such policy. This policy does not imply that the dividend per share will never be increased. When the company reaches level of earning and 3espects to maintain it, the annual dividend per share may be increased.

Figure No. 1

Constant Dividend per share Policy.



Time (Yrs)

Constant Dividend per Share Policy

The dividend policy of paying a constant amount of dividend per year treats common shareholders without giving any consideration to investment opportunities without giving any consideration to investment opportunities within the firm and opportunities available to shareholders[14].

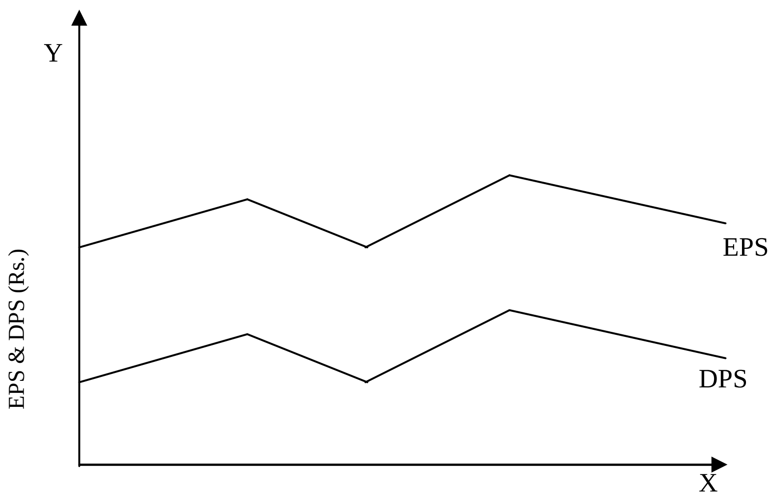
This policy is generally preferred by those persons and institutions that depend upon the dividend income to meet their living and operating expenses because of the constant amount of dividend they received.

ii. Constant payout ratio

Constant payout ratio refers to the paying a fixed percentage of net earnings every year as dividend, under this policy. The amount of dividend fluctuates with direct proportion of earnings. If the company incurs losses on dividend shall be paid regardless of the desire of shareholders. Internal financing with retained earnings is automatic when this policy is followed. At any payout ratio the amount of dividend and the additions to retained earnings increase with increasing earnings and vice versa.

Figure No. 2

Constant Payout Ratio Policy.



Time (Yrs)

Constant Payout Ratio Policy

iii. Low Regular Dividend Per Share Plus Extra

The company having fluctuating earnings follows this policy. In this policy, a small amount of dividend is fixed to reduce the possibility of ever missing a dividend payment. In the period of prosperity extra dividend is paid to prevent investors from expecting that the dividend represent an increase in the established dividend amount. This type of policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility for supplementing the income of shareholder only when the company's earnings are higher than the usual, without committing itself to make larger payments as a part the future dividend. (IM Panday, 1996). Some shareholder like his policy because of the certain amount of dividend with surprise extra dividend.

2.1.4 Factors Effecting Dividend Policy

The factors affecting dividend decision is one of the main focus of this study. Mostly government owned public limited companies are in loss. There is no question of paying dividend rather they are attempting to minimize losses. However in case of join venture companies, insurance companies and other private owned enterprise, management has somewhat understood the importance of the dividend, though all of them are not distributing dividend. Therefore it is desirable to study the factors recognized as active variable in determination of dividend in the Nepalese Companies.

1. Legal rules constraints:

Dividend payments on certain conditions are as following:

a. A. the new profit rule states that dividend must be paid from present profit and or past retained earnings.
b. The capital impairment rules states the dividends cannot be paid out of invested capital.

c. The insolvency rules states that o dividends can be paid during insolvency situation (when liabilities exceeds assets)

2. Liquidity Positions **:**

The cash or liquidity position of a firm influences its ability to pay dividends a firm may have sufficient retained earnings, but if they are invested in physical assets cash may not available to make dividend payments.

3. Need to repay debt:

It also influences the availability of cash flow to pay dividends.

4. Restrictions in debt contracts:

It may specified that dividends may be paid only out of earning generated after signing the loan agreement and only when net working capita is above a specified amount. Also preferred stock agreement after specified that preferred dividends take precedence over common stock dividend.

5. A high rater of assets expansion creates a need to retain funds rather than to pay dividends.

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

7. A fir access to capital market will be influenced bay the age and size of the firm , therefore a well established firm is likely to have a higher payout ratio than a smaller and newer firm.

8. Control considerations: may influence dividend policy, since additional external financing is influenced by the dividend payout, if the owners rely on internal financing in order to maintain control the dividend payment will be reduced.

9. the tax position of stockholders also affects dividend policy

a. Corporation owned largely; by taxpayers in high income tax tend toward Lower dividend payouts.
b. Corporations owned by small investors tend toward higher dividend payouts.

Sometimes there may be conflict between stockholders in lower tax brackets

i. The dividend policy may be a compromised on intermediate payout ratio.
ii. If one group dominates the members of the other grout are likely to sell their share, overtime. There fore a firm's dividend policy dictates the type of stockholders it has and vice- versa. This is called the clientele effect.

2.1.5 Legal Provisions Regarding Dividend Practices in Nepal

In Nepal the Nepal Company act 1997 makes some legal provisions for dividend payments. These provisions may be seen as under.

Section 2 (m) states that bonus share (stock dividends means share issued in the form of additional shares to shareholders by capitlizi9ng the surplus from the profits or the reserve fund of a company. This term also denotes an increase in the paid up value of shares after capitalizing surplus or reserve funds.

Section 47 has prohibited company fro purchasing its own share. This section states that no company shall purchase its own share or supply loans against the security of its own share.

Section 137 bonus shares and subsection (I) states that the company must inform the office before issuing bonus share and under sub section (I) this may be done only according to special resolution passed by general meeting. Section 140and sub sections are as follows except in this following circumstance dividend shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

1. In case any low forbids the distribution dividends.
2. In case the righted to dividend is dispute.
3. In case dividends cannot be distributed within the time limited mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

sub –section (3) in case dividend s are not distributed within the time limit mentioned kin sub- section (9i) this shall be done by adding interest at the prescribed rate.

Sub- section (3):- only the person whose name stand registered in the register as existing shareholders at the time of declaring the dividend shall be entitled to receive dividend.
The above provision of act indicates the Nepalese law jprohivi9ts repurchase of stock, which is against the theory of finance.

Section 140 Dividends and subsections of this section are as follows.
Subsection 1: Except in the following circumstances, dividend shall be distributed among the shareholders with in 45 days from the date of decision to distribute them.

a) Case any law forbids the distribution of dividends.
b) In case the right to dividend is disputed.
c) In case dividends cannot be distributed with the limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

Subsection 2: In case dividends are not distributed with in the time limit mentioned in subsection (1), this shall be done by adding interest at the prescribed rate.

Section B explains that only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it

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

2.2 Review of Major Studies

2.2.1 Walter's study

Professor James E. Walter conducted a research in 1996 regarding dividend policy, in which he argues that value of the firm always affected by the dividend policy adopted by the firm. In his approach, investment policy of the firm is directly affected by the dividend policy that is opposite the Modigliani and miller's approach.

His study is mainly focused to find out the relationship between internal rate of return and firm's cost of capital. By analyzing these tow factors firm can allocate the total earnings to dividend and retained earning.

His model is best on following assumptions

1. The firm finances all investment through retained earnings; that is debt or new equity is not issued.
2. The firm's internal rate of return and its cost of capital are constant.
3. All earnings are either distributed as dividends or reinvested internally immediately.
4. Beginning earnings and dividends never change. The values of the earnings per share, EPS, and the dividend per share, DIV, may be changed in the model to determine results, but any given values of EPS/DIV are assumed to remain constant forever in determining a given value.

5. The firm has a very long or infinite life.

Walter's formula to determine the market price per share is as follows:

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

Where,

P	=	Market price per share
DPS	=	Dividend per share
EPS	=	Earning per share
r	=	Internal rate of return
k	=	Cost of capital

In Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return, r and its cost of capital; k. Walter's view on the optimum dividend-payout ratio can be summarized as follows:

i. Growth Firm

If the internal rate of return is higher than the firm's cost of capital, these firms said to be growth firm. These firms assumed to have sufficient profitable investment opportunities. Such firms can maximize the value of share by retaining all earnings for internal investment. Thus, the optimum payout ratio for a growth firm is zero

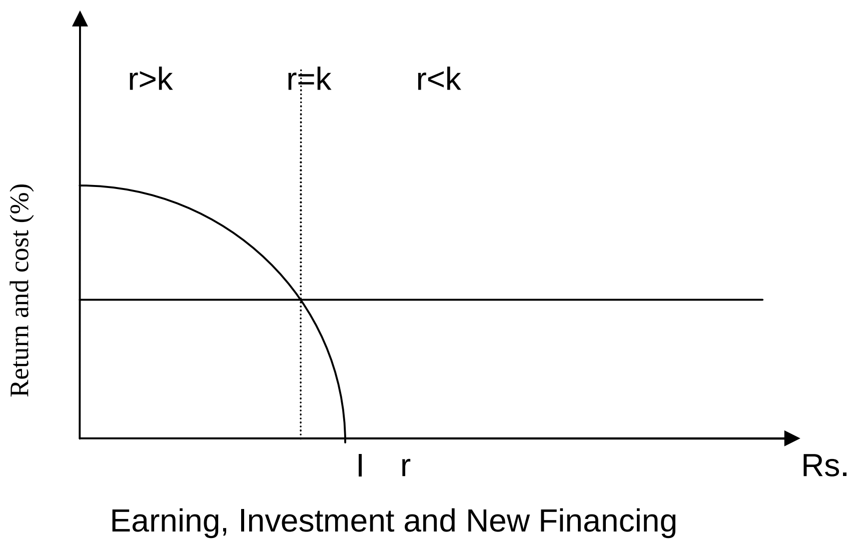
ii. Normal Firm

The firm having equal internal rate of return and cost of capital knows normal firm. For these firm dividends policy does not affect the market value share. There is now unique optimum payout ration for a normal firm. One dividend policy is a good as other. The market value per share is not affected by the payout ratio.

iii Declining Firm

Firm having r<k may be referred as declining firm. The optimum pay out ratio for a declining firm is 100 per cent. The market value per share, increases as pay out ratio increases when r>k.

Figure No.3: Earning, Investment& New Financing Under Walter's Model



Thus, in Walter's model, the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rates of return (r) and its cost of capital (k). The firm should use earnings to finance investments if r>k; should distribute all earnings when r<k and would remain indifferent when r=k. (Pandey, I.M; 2002:746-749) Thus, dividend policy is treated as a financing decision; the payment of cash dividends is a passive residual (Solomon, Ezra; 1963:139-140).

2.2.2 Gordon's Model

Myron Gordon (1962) modified the Walter's model for determining the market price of the stock. In his study he conducted the dividend policy has the direct relationship with market value of the stock. So dividend policy affects the market value of the stock even when the internal rate of return (return on investment) is equal to the capitalization rate. This study suggests that investor prefer present dividend rather than future gains so, the higher dividend yield causes increase in market price of stock

This study is mainly based on following assumptions.

1. The firm is an all equity firm.
2. No external financing is available. Consequently retained earning would be used to finance any expansion.
3. The internal rate of return, r, of the firm is constant. This ignores the diminishing marginal efficiency of investment.
4. The appropriate discount rate k for the firm remains constant. Thus, Gordon's model also ignores the effect of a change in the firm's risk-class and its effect on k.
5. The firms and its stream of earnings are perpetual.
6. The corporate taxes do no exist.
7. The retention ratio b, once decided upon, is constant. Thus the growth rate, g=br, is constant forever.
8. k>br=g. If this condition is not fulfilled, we cannot get a meaningful value for the share.

Gordon has further developed the following equation for the computation of market value of stock:

$$P=\frac{EPS(1-b)}{k_e-br}$$

Where,

P	=	Market Price per share
EPS	=	Earning per share
b	=	Retention ratio
K	=	Cost of capital
1-b	=	Payout ratio

br = Growth rate

Gordon's relevant theory is a popular theory of dividend. As investors prefer current dividend earnings rather than expected higher future income so as to eliminate the risk associated with future capital gain, Gordon stressed that the higher payout increases the dividend yield and hence increases the value of stock. But the assumptions of this model are also far from the reality.

2.2.3 Modigliani and Miller' Study (MM Study)

According to Modigliani and Miller (M-M), dividend policy of a firm is irrelevant as it doesn't affect the wealth of the shareholder. They argue that the value of the firm depends on the firm's earnings which result from its investment policy. Thus, 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 the firm.M-M's hypothesis of irrelevance is based on the following assumptions:

1. The firm operates in perfect capital markets where investors behave rationally, information is freely available to all and transactions and flotation costs do not exist. Perfect capital markets also imply that no investor is large enough to affect the market price of a share.
2. Taxes do not exist; or there are no differences in the tax rates applicable to capital gains and dividends. This means that investors value of rupee of dividend as much as a rupee of capital gains.
3. The firm has a fixed investment policy.
4. Risk of uncertainty does not exist. That is, investors are able to forecast future prices and dividends with certainty, and one discount rate is appropriate for all securities and all time periods. Thus r=k=kt for all t.

Modigliani and Miller provided following model to prove their theory (Niroula; 2003: 25-26).

Market value of share

The market value of a share at the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period. Symbolically,

$$P_0 = \frac{D \ + P_1}{1 + k_e}$$

Where,

P_0 =Market price of share at the beginning of the period

D_1 =Dividend per share at the end of the period

K_e =Cost of equity capital

No external financing

If no new external financing exists the market value of a firm can be computed by multiplying both sides by the number of outstanding shares as follows:

$$nP_0 = \frac{n(D_1 + P_1)}{1 + K_e} \quad \text{………………………………….. (ii)}$$

Where,

n=Numbers of outstanding shares

New Shares

If retained earning is not sufficient to finance the investment opportunities, issuing new shares is the other alternative. Assuming that m is the number of newly issued equity share at the price of P1, the value of firm at time 0 will be:

$$nP_0 = \frac{nD_1 + P_1(n + m) - mP_1}{1 + k_e} \quad \text{……………………………..(iii)}$$

Where,

n = No. of shares at the beginning

m = No. of shares issued at the end of the period

Total numbers of shares

A firm can pay dividends and raise funds to undertake the optimum investment policy. If the firm finances all investment opportunities either by issue of new equity of retained earnings, the total numbers of new shared can be computed on the following way:

MP_1=I-(E-nD_1)………………………………. (iv)

Where,

MP_1 = Amount obtained from the sale of new shares

I = Amount required for new investment during the period

E = Total earnings during the period

E-nD_1 = Retained earning

nD_1 =Total dividend paid

Substituting the value of mP_1 of equation (iv) to equation (iii) we get,

$$nP_0 = \frac{nD_1 + P_1(m+n) - I + E - nD_1}{1+k_e}$$

$$= \frac{P_1(m+n) - I + E}{1+k_e}$$

A firm which pays dividends will have to raise funds externally to finance its investment plans. M-M's argument, that dividend policy does not affect the wealth of the shareholders, implies that when the firm pays dividends, its advantage is offset by external financing. This means that the terminal value of the share declines when dividends are paid. Thus, the wealth of the shareholders- dividends plus terminal price – remains unchanged. As a result, the present value per share after dividends and external financing is equal to the present value per share before the payment of dividends. Thus, the shareholders are indifferent between payment of dividends and retention of earnings.

M-M assert that their hypothesis of dividend irrelevance is not affected if the firm raises external funds by issuing debt instead of shares. When external financing involves debt M-M invoke their indifference hypothesis with respect to leverage (Pandey, I.M; 2002:756-759)

2.2.4 Linter's Study:

J.Linter conducted a study in 1956, which is focused in the behavioral aspect of dividend policy. He investigated dividend pattern of 28 different companies of America and found that, firm generally predetermines the desired payout and tries to achieve it and rarely considers other factors. The model developed from his research is as follow :(Pandey, I.M; 2002: 802)

$$D^*_t = P.EPS_t$$

$$D_t - D_{t-1} = a + b(D^*_t - D_{t-1}) + e$$

Where,

D^*_t = Desired dividend

EPS_t = Earning per share

P = Targeted payout ratio

a = Constant relating to dividend growth

b = Adjustment factor relating to previous period's dividend and desired level of dividend (b<1).

Major findings of this study are as follows:

i. Firm generally prefer desired proportion of earning to be paid as dividend.
ii. Investment opportunities are not considered for modifying the pattern of dividend behavior.
iii. Firm generally have target payout ratios in view while determining change in dividend per share.

2.2.5 Van Horne and Mc Donald's study

Van Horen and Mc Donald (1971) concluded a comprehensive study of 86 electric utility firms and 39 electronics and electric component industries by using cross sectional regression model in 1968 to know the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stock. From their study they concluded that the market price of share was not affected by new equity financing in presence of cash dividend except for these in the highest new issue group and it made new equity more costly form of financing than retention of earning. They also indicated that the payment of dividend through excessive equity financing reduces the market price of share. (Van Horne; 1971:507-519)

2.2.6 Chawala and Shrinivasan's Study

This study is also focused on the impact of dividend and retention market price of stock. They estimated cross sectional relationship of 18 chemical and 13 sugar industries for the year 1963 to 1973, the basic objective of the studies are

i. To set a model which explains the relationship between share price, dividend and retained earning?
ii. Te test he dividend, retained earning hypothesis.
iii. To examine the structural changes in the estimated relations overtime.

To achieve above objectives, they used simultaneous equation model as developed by friend and Puckett in 1964.

The unspecified form of the model is as follows.

Price function

P_t= F (D_t, R_t, P/E_{t-1})

Dividend supply Function:

Dt = F (E_t, D_{t-1}, P/E_{t-1})

Identity, $E_1 = D_t + R_t$

Where,

P	=	Market price of Share
D	=	Dividend per Share
R	=	Retained Earning per Share
E	=	Earning Per Share
P/E	=	Deviation from the sample, Average of price earning Ration
T	=	Subscript for time.

They used two stage least square techniques for estimation. They found that the estimated coefficient had a correct sign and coefficient of determination of all equation was higher in case of chemical industry. Which implies that the stock price and dividend paid variation can be explained by their independent variables. But in case of sugar industry sign for retained earning is negative.
From their study they concluded that both dividend and retained earnings significantly explain the variations in share price of the industry.

2.2.7 Friend and Puckett's Study

Friend and Puckett (1964) conducted a study on the relationship between dividends and stock prices, by running regression analysis on the data of 110firms from five industries in the year 1956 to 1958. These five industries were chemicals, electric utilities, electronics food and steels. These industries were selected to permit a distinction made between the results for growth and non growth industries and to provide a basis for comparison with result by other authors for earlier years. They also considered cyclical and no cyclical industries which they covered. The study periods covered a boom year for the economy when stock price leveled off after rise (1958) and a somewhat depressed year for the economy when stock prices however rose strongly (1958: 656-682)

They used dividends, retained earnings and price earning ratio as independent variables in their regression model of price function. They used supply function, i.e. Dividend functions also. In their dividend function. Earnings, last year's dividend and price earning, last year's dividend and price earning ratio are independent variables. They quoted that the dividend supply function was developed by adding to the best type of relationship developed by linter.

Symbolically, their price function and dividend supply function are.

Where,

Pt	=	Share Price at time t
Dt	=	Dividends at time t
Rt	=	Retained earnings at time t
(E/P)t-1	=	lagged earning price ratio

Dividend supply function: Dt = e + fEt + gDt-1 + h(E/P)t-1

Where

E1	=	Earning per Share at time t
Dt-1	=	last year dividend

Their study was based on the following assumptions:

i. Dividends do react to year – to – year fluctuations in earnings.
ii. Price doesn't contain speculative components.
iii. Earnings fluctuations may not sum zero over the sample.

Their regression results based on the equation of pt = a+bDt+ cRt showed the customary storing dividend and relatively weak retained earnings effects in there of the five industries, ie chemicals foods and steel. Again they tested other regression equations by adding lagged earnings price ratio to the above equation and resulted the following equation: pt = a+bDt =cRt+d(E/P) t-1. they found the following results: they found that more than 80% of the variation in stock prices can be explained by three independent variables. Dividends have a predominant influence on stock prices in the same three out lf five industries but they found the differences between his dividends and retained earnings coefficient are not quite so marked as in the first set of regressions. They also found that the dividends and retained earnings coefficient re closer to each other for all industries in both years except for steels in 1956, and the correlation are higher, again except for steels.

H.K. Baker, G.E. Farrelly and Richard B. Edelman's Study

H.K. Baker, Gail E. Farrelly and Richard B. Edelman surveyed management view on dividend policy. (1985) they asked corporate financial managers what they considered most important in determining their firm's dividend policy.

The objectives of their survey were as follows.

i. to compare the determinants of dividend policy today with linter's behavioral model of corporate dividend policy and to assess managements agreement with linter's findings
ii. to examine management's perception of signaling and clientele effect and
iii. to determine whether managers in differe3nt industries share similar views about the determinants of dividend policy

The firms they surveyed were listed on the New York stock exchange and classified four digit standard industrial classification codes. Total of 562 NEPE firms were selected from three industrial groups, utility (150) manufacturing (309) and whole sale /retail (103)

They mailed questionnaire to obtain information about corporate dividend policy. The questionnaire consisted of three parts (i) 15 closed end statements about the importance of various factors that each firm used tin determining its dividend policy, (ii) 18 closed end statement about theoretical issues involving corporate dividend policy , and (iii) a respondent's profile including such items as the firm's dividends and earnings per share. They send the final survey instrument to the chide financial officer of the 562 firms , followed by a second complete mailing to improve the response rate and reduce potential non response bias. Their survey yielded318 usable responses (56.6% response rate), which were divided among the three industry and 57 wholesale/ retail (5.3%) Based on dividend and earning per share data provided by the respondents, the average dividend payout ratio were computed. They found that payout ratio of the responding utilities (70.6%) were considering for manufacturing (36.6%) and wholesale / retail (36.1%).

The results of their survey on the aspect of determinants of dividend policy were as follows

- The first highly ranked determinants are the anticipated level of firm's future earnings and the second factor is the pattern of the past dividends. They found the high ranking of these two factors is consistent with linter's findings.
- A third factor cited as important in determining dividend policy is the availability of cash.
- A fourth determinant is concerned about maintaining or increasing stock price. They found this factor is particularly strong among utilities that ranked this second in importance.

Similarly, the results of their survey on the aspect of attitudes on theoretical issues were as follows.

- Respondents from all three – industry groups agreed relatively strongly that dividend payout affects common stock prices.
- The respondents from all three- industry groups agreed, on average, that dividend payouts provide a signaling device of future company prospects and that the market uses dividend announcements as information for assessing security value.

- The respondents also demonstrated a high level of agreement that the reason for dividend policy changes should be adequately disclosed to investors.
- Respondents from all three industry groups thought that investors have different perceptions of the relative riskiness of dividends and retained earnings and hence are not indifferent between dividend and capital gain returns.

Whereas coefficient of retained earnings was significant at ten- percent level in 1969 and one – percent level in 1973. Finally they concluded that the dividend hypothesis holds good in the chemical industry. Both dividend and retain earnings significantly explain the variation in share price in chemical industries.

Review of Journals and Articles in Nepalese Perspective

There is not much research articles published about dividend practices in Nepal. The two major studies are reviewed as follows:-

Manohar K. Shrestha's Study (1992)

Mr. Manohar k. Shrestha presented a paper on "'Shareholder's democracy and annual general meeting feedback" deals with the polices and financial performance of some financial companies in Nepal.

In his view, the common problems and constraints of the shareholders are as follows:

- The cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
- Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
- Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholder's

purchasing power by raising dividend payment ratio on the basis of both earnings and cost theory.

- Indo-Nepal trade and transit deadlock has become a sort of economic welfare putting rise in the cost of living index to a considerable extent. This is the reason, which made shareholders to expect higher demand for satisfactory dividend.
- One way to encourage risk taking ability and preference is to have higher return must be the investment rule for higher risk- takers that comprise bank's shareholders.

Regarding these difficulties he requests the bank management board to rethink about the payment of dividend. At the close of paper, Shrestha opines that the bank is trying its best to satisfy both the shareholders and employees.

Radhe Shyam Pradhan's study (1993)

Mr.Radhe Shyam Pradhan conducted a landmark study in the field of dividend policy in Nepal. He studied stock market behavior of 17 firms covering the period 1986 to 1990 with the following objectives (Pradhan, R.S.:1993):

i. To access the stock market behavior in Nepal.
ii. To exam in the relationship of market equity, market value, price earning and dividend with liquidity, profitability, leverage, assets turnover and interest turnover.

Findings of his study are as follows:

- Higher earnings in stock leads to the larger ratio of dividend per share.
- Stock with larger ratio of dividend per share to market price have lower leverage ratio.
- Stock with larger ratio of dividend per share to market price has higher liquidity.
- Positive relationship between the ratio of dividend per share to market price and interest coverage ratio.
- Dividend per share and market price per share are positively correlated.

1. Positive relationship of dividend payout with liquidity, profitability, assets turnover and interest coverage ratios.

Kamal Das Manadhar's Study (2000)

Mr. Kamal Das Manandhar conducted a study to test the lagged structure of dividend and different hypothesis on relationship of dividend payout and other financial factors were tested. He carried out his study based on the data taken from 17 Nepalese corporate firms and covered the period of 1987 to 1998. The conclusions of his study are as follows (Manandhar, K.D.:2000):

i. There is significant relationship between changed in dividend policy in terms of DPS and change in lagged earnings.
ii. There is relationship between distributed lagged profits and dividends.
iii. In overall there is a positive relationship between in lagged consecutive earnings and dividend per share.
iv. When change in lagged consecutive earnings is greater than zero, in 65% cases, change in DPS.
v. Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share.
vi. Corporate firm do not take into account that one-year and two year lagged earnings.

Major findings of this study are as follows:

- Significant relationship is found between change in dividend policy in terms of dividend per share and change in lagged earnings
- There is relationship between distributed lagged profit and dividend.
- The difference is found significant between overall proportions of changing dividend and due to increase and decrease in earning per share during the study period.
- In overall, increase in EPS (t) has resulted to increase in the dividend payment in 66.6% of the cases while decrease in EPS resulted decrease in dividend payments which come to equal to 33.3% of the cases.

- It is found that Nepalese corporate firms have followed the practice of maintains constant dividend payment per share or increase it irrespective of change in earning per share as reflected by the total percentage of constant and increased dividend payment of 78.33% of the cases. In other words forms are reluctant to decrease dividend payment.
- In overall, Nepalese corporate firms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effects of dividend relating to the firm's continued progress and performance, sound financial strength favorable investment environment, lower risk, ability; to maintain sustained dividend rate finally to increase the market price of the stocks in the stock market.

In overall Nepalese corporate firm are reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effect of dividend relating to the firms. Investment environment, lower risk, ability to maintain dividend rate and finally to increase the market price of the stock in the stock market

Review of Thesis

Master's degree studies in Nepal regarding dividend and dividend policy done by master's students. Some of them are as follows:-

Pramesh K.C. Study (1991)

This thesis on "Dividend Policy of Joint Venture Bank in Nepal" had covered the period of 1984/85 to 1989/90.

The objectives of this study were as follows:

1. To provide conceptual framework of dividend models

2. To analyze the financial variables affecting the stock value and interpret the dividend paying implication under dividend valuation model and
3. To provide suggestions, which will give vision for determination and espousal of dividend policy of joint venture banks (K.C., 1991)

He has the following findings:

- the earnings per share of all joint venture banks were raised satisfactorily
- there was correlation between EPS and DPS
- Amount of cash dividend had been raising each year
- The P/E ratio, earning yield, dividend yield percentage exposed cyclical behavior.
- the P/E ratio was fluctuated in smaller proportion
- the market value per share of joint venture banks tocks in security exchange center were significantly fluctuated and trading on high price joint venture banks in Nepal were seen as growth banks because actual capitalization rate ® is higher than the normal capitalization rate (k) which is r>k,
- Under CAPM beta risk of joint venture banks were less riskier.
- Cash dividend per share (CDPS) of joint venture banks were significantly increasing in each year
- The annual average growth rate in CDPS of NABIL and NISBL and NGBL were recorded as 35.0%, 51.7% and 100.0%respectively.

Hari Ram Aryal's Study (1997)

He has conducted a research work on "Dividend policy comparative study between NABIL and NGBL". He analyzed the data of these two banks for the year 1978/88 to the year 1994/95.

The objectives of this study; were as follows:

i. To analyze the relationship of dividend with various important variable such as earning per share. Net profit, net worth and stock prices.

He has the following findings:

- The relationship between dividends per share with earning per share, net profit net worth and stock prices are positive.
- Market price per share is affected by dividend decision, if change in dividend i.e. share.
- there is not uniform dividend policy in both the banks

However, Aryal's study has following limitation:
number of sample selected for the study are small i.e. only two banks are selected, that way not represent the exact practice of dividend policy in commercial banks.

Sadaker Timilsina's Study (1997)

MBA Thesis entitled "Dividends and Stock Prices: An Empirical Study" conducted by Mr. Sadakar Timilsina was carried out by using the data of 16 enterprises for the period of 1990 to 1994.

i. To test the relationship between DPS and Stock Prices.
ii. To determine the impact of dividend policy on stock prices.
iii. To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

To explain the behavior, he used multiple regression models of three independent variables as developed by Friend and Puckett. Further he tired to highlight the relationship between stock price and other independent variables setting separate simple linear regression equations. The findings of the study are as follow:

- The relationship between DPS and stock prices is positive in the sample companies.

- DPS affects the share prices variably in different sectors.
- Changing the dividend policy of dividend per share might help to increase the market price of share.
- The relationship between stock prices and retained earnings per share is not prominent.
- The relationship between stock prices and lagged earnings price ratio is negative.

The relationship between stock prices and retained earning per share is not prominent.

Rishi Raj Gautam's Study (1998)

Mr. Rishi Raj Gautam conducted a comparative study of dividend policy of commercial banks by using the secondary data of three banks in 1996.
Objectives of the study are as follows (Gautam, R.R.:1996)

i. To identify what type of dividend policy is being followed and find out whether the policy followed is appropriate or not.
ii. To examine the impact of dividend on share prices.
iii. To identify the relationship between DPS and other financial indicators.
iv. To know if there is any uniformity among DPS, EPS and DPR of the three sample commercial banks.

Major finding of the study are as follow:

- Average earning per share and dividend per share of all concerned banks are satisfactory.
- Analysis indicates the largest fluctuations in earning per share and dividend per share. No banks exhibit constant dividend payout ratio.
- No commercial banks seen to be guided by cleanly defined dividend strategy in spite of the good earnings and potentials.
- Shares of the financial institution are actively traded and market prices are increasing.
- Correlation between DPS and EPS of all sample banks is fairly positive. But it is fairly safe to say that the relationship is not significant.

- Theoretically, issue of bonus share has equal impact on EPS, MPS, and DPS. But in case of these sample banks, a significant variation in the degree of impact is observed.

Navaraj Adhikari's study (1999)

This thesis on "Corporate Dividend Practices in Nepal" had covered the period of 1990 to 1996 with the total observation of 47 in financial sector and 39 non – non financial sectors

The objective of this study was as follows:

i. To analysis the proportion of portfolio formed on dividends.
ii. The test the relationship between dividend and stock price.
iii. To survey the opinion of financial executives on corporate dividend practices.

He has the following findings

- Positive relationship between the ratio of dividend per share to book value per share and turnover ratios.
- There is positive relationship between the ratio of dividend per share to book value per share and interest coverage.
- Market price of the share is affected by dividend
- Financial executives of Nepal reject dividend as a residual decision in Nepalese companies
- Stock with larger ratio of dividend per share to book value per share has higher liquidity. .
- Stock with larger ratio of dividend per share to book value per share has higher Profitability.

P.L. Rajbhandari's Study (2001)

This thesis on "Dividend Policy Comparative Study Betwe3en Banks and Insurance Companies" had taken into consideration of data of only five year 1994/95 through 1998/99. Six companies are taken as sample.

The objectives of this study were as follows:

i. To examine the relationship between and market price of the stock.
ii. To identify the appropriate dividend policy followed by the banks and insurance companies.
iii. To analyze the relationship between dividend policy decision of banks and insurance companies.

She has the following findings

- Average earning per share seems satisfactory of all sample companies.
- The positive relationship between dividend per share and earning per share
- The co- efficient of correlation between earning per share and market price to the negative.
- The relationship between market price per share and dividend is positive
- Dividend payment is not consistency of all six sample companies.

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

At first, her study is based on secondary; data of past five year 1994/1995 to 1998/99. That may not represent the exact practice of dividend policy of joint venture banks and insurance companies based on secondary data only.

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

Bijay Ranabhat study (2006)

This thesis on “Dividend policy of banks insurance companies and finance companies” carries out the study from 1997 through 2002.

The objectives to this study were as follows:

i. Study and comparing various aspects of dividend polices of the bank, insurance and finance companies in Nepal
ii. Earning the relationship between dividend and market price of stock
iii. Analyzing factor affecting dividend policy between of the banks insurance companies and finance companies

The major finding of this study are the below

- Average DPS to finance company and insurance do not seem quite satisfactory
- The analysis to coefficient of variance shows fluctuation in EPS and DPS
- The calculation of DPR Show none of the in situations have constant payout notice during the study period.

Dinesh Gurung's study (2008)

This thesis on "Dividend pattern is Nepal a case study of listed commercial banks in NEPSE" had take into considerations data of only five year.

The objectives to this study were as follows.

ii. To identity the appropriable dividend policy followed by commercial banks that whether commercial banks are guided by and specific dividend policy or not
iii. To examine the relationship between market price to the stock that whether dividend policy affects the stock price of Nepalese commercial bank or not.

He has the following finding.

- Dividend payment is not consistency of commercial banks
- Average earning per share seems satisfactory.
- Market price to share is affected by dividend.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps to adopt by a researcher in studying the problem with certain objectives. It describes the method and process applied in the entire aspect of the study. In this research, the research design, data collection procedure and analysis are described thoroughly. Analysis is conducted with using appropriate financial and statistical tools and the findings are presented in a systematic way.

3.1 Research Design

Research design can be defined as the plan, structure and strategy on investigation concerned so as to obtain answer to reason questions and to control variants. A researcher can design his research in many different ways. This research is based on secondary data. It is simply an analytical and descriptive research. It covers the data from the year 2003 to 2008. So the research is somehow limited. The collected data is analyzed with financial as well as statistical tools and interpreted.

3.2 Population and Sample Selection

As this study is based on the data of the join venture bank listed in NEPSE. So the population is taken from only those banks which are listed in NEPSE. Since the topic implies the study should be done among the dividend paying and actively traded companies. The sampling will be done according. This study will cover all together 3 banks.

The sample banks were selected random from the financial institution listed with the Nepal stock exchange. Data necessary for the data analysis section of the study of the selected samples were easily available and in an

economical way. The study has taken 3 banks as sample bank three are taken from banking sector among fourteen banks listed at the NEPSE.
Banks

I. Himalayan Bank Limited
II. Nepal Investment Bank Limited
III. Standard Chartered bank Limited

3.3 Data Collection Procedure

Almost all the data required for the research is collected are collected from the secondary source, mainly from the financial statement of listed bank. Trading report published by Nepal stock exchange. Other necessary information has been taken from the individual investors, related organizational officials. SEVO/N and NEPSE staffs and other relate personalities as well. Also from newspaper and magazines, annual report, national planning commission central business opt statistics.

3.4 Method for Analysis

Specific financial and statistical tools are used in this research. The analysis of data is done according to pattern of data available. The relationship between different variables related to study topic would be drawn out by using financial and statistical tools. The calculated results are tabulated under different heading for ease of reading, and then they are compared with each other to interpret results. In this study simple regression analysis has been used to analyze the effect of independent variable on dependent variable. It helps in studying the effect and magnitude o the single independent variable on one dependent variable to determine whether the variable of DPS is related to dividend decision.

Data Analysis Tools

3.5.1 Financial tools used for analysis

1. Earning per share (EPS)

EPS is calculated to know the earning capacity and to make comparison between concerned companies. It is defined as the result received by dividing net profit after taxes by no. of common stock outstanding

$$\text{EPS} = \frac{\text{Net profit after Taxes}}{\text{No. of common stock outstanding}}$$

2. Dividend per Share (DPS

The part of earnings distributed to the shareholders as per share basis on known as DPS. It is the amount calculated by dividing the total dividend with total numbers of share outstanding

$$\text{DPS} = \frac{\text{Total dividend}}{\text{No. of common share outstanding}}$$

3. Dividend in Percent

Dividend percent indicates the ratio of dividend per share to the paid up price per outstanding share. It is obtained by dividing dividend per share by paid up price per share.

$$\text{Dividend in Percent (\%)} = \frac{\text{Dividend per Share (DPS)}}{\text{Paid up Price per Share}}$$

4. Dividend pay- out Ratio (DPR)

The percentage of the profit on share that is distributed as dividend is called dividend pay – out ratio (DPR). It is the result received by dividing DPS by EPS.

$$\text{DRP} = \frac{\text{Dividend per Share (DPS)}}{\text{Earning value per share (EPS)}}$$

5. Price Earning Ratio (P/E Ratio)

P/E Ratio expresses the amount currently paid to each rupee of currently reported by the balance sheet of company's earning per share by the market. IT is calculated using following formula

$$\text{P/E Ratio} = \frac{\text{Market Value per Share (MVPS)}}{\text{Earning per share (EPS)}}$$

6. Dividend Yield

Dividend yield may define as the ratio of dividend per share to the market value per share. IT is also expended in terms of the market value per share. OT is the result obtained by dividing KPS by the MVPS. AS

$$\text{Market Value Per share} = \frac{\text{Dividend per Share}}{\text{Dividend Yield}}$$

7. Market value per share to book value per share ratio

This ratio reflects the price of the market or outsiders are paying for each rupee of currently or reported by the company. It is calculated by dividing the market value per share by book value per share.

$$= \frac{\text{Market Value per Share (MVPS)}}{\text{Booking Value per Share (BVPS)}}$$

8. Liquidity Ratio

This ratio is calculated through dividing total assets by total liability.

$$\text{Liquidity ratio} = \frac{\text{Total Assets}}{\text{Total Liability}}$$

9. Profitability Ratio

This ratio is calculated by dividing net assets by capita employed (EBIT). That is

$$\text{Profitability Ratio} = \frac{\text{Net Assets}}{\text{EBIT}}$$

3.5.2 Statistical Tools Used

The research holds various statistical tools, which are defined as follows.

Mean ($\overline{X}$)

The arithmetic mean or average is the sum of total values to the number of observation in the sample. It represents the entire data which lies almost between the tow extremes. Foe this reason an average is frequently referred to as a measure of central tendency. On this study it is used in data related to dividend of sample companies over different years. It is calculated as

Mean = $\frac{\text{sum of total values}}{\text{No. of values}}$

$$\overline{X} = \frac{\sum X}{n}$$

Where,

$\overline{X}$ =Mean

N = Number of value

$\sum X$ = Sum of total value

i. Standard Deviation ± (S.D)

The measurement of the scatter ness of the mass of figures in a series about an average is known as dispersion. The standard deviation (S.D.) is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. it is calculated for selected dependent and independent variables specified. It is the positive square root to mean square deviation from the arithmetic mean it is denoted by o. that is

Formula S.D = $\frac{\sqrt{\sum (X - \overline{X})}}{n}$

Where S.D = standard deviation.

iii. Coefficient of variations (C. V.)

Coefficient of variables reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the C.V. it is used for comparing variability of two distributions. If the x be the arithmetic mean and 0 the standard deviation of the distribution, then the C.V. is defined as,

$$C.V. = \frac{S.D}{\overline{X}} \times 100$$

Where, C.V. = coefficient of variations

Less the C.V. more will be the uniformity; consistency and more the C.V. less will be the uniformity, consistency.

Iv. Coefficient of correlation(r)

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. "Coefficient of correlation is the measurement it the degree of relationship between two casually related sets of figure whether positive or negative. Its value lies somewhere ranging between –I to + I. if the both variables are constantly changing in the similar direction, the value of coefficient will be 1+ indicative of perfect positive correlation, when the coefficient will be -1 two variables take place in opposite direction. The correlation is said to be perfect negative. In this, simple coefficient of correlation is used to examine the relation ship of different factors with dividend and other variables. The data regarding dividend over different years are tabulated tend their relationship with each other s are drawn out in practical life, the possibility of obtaining either perfect positive or perfect negative correlation is very remote.

v. Coefficient of multiple Determination(r^2)

The coefficient of determination is a measure of the degree of linear association or correlation between two or more independent variables. It measured that percentage total variation in dependent variables explained by independent variables .to r2 has a zero value then, it indicates the there is no correlations which means all the data points in the scatter diagram fall exactly on the regression line, if it has a value equal to 1 then it indicates the there is perfect correlation and as such the regressing line is a perfect estimator. But in most of the cases the value of r3 will lie somewhere between the tow extremes of 1 and 0. One should remember that r2 close to 1 indicates a strong correlation between two variables and re near to zero means there is little correlation. It is symbolically indicates as r2 through some would prefer to put it as r2 the coefficient of determination value can have ranging between zero to one. A value of one can occur only if the unexplained variation is zero which means that all the data pints in the scatter diagram fall exactly on the regression line. If r2 is 70% of the total variation in the dependent variable.

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

Vi. Regression Analysis

Simply, using the relationship between a know variable independent and an unknown (Dependent) variable to estimate the unknown one is termed as regression analysis. But in real life, so many independent variables do affect the dependent variable and any study of correlation must take all variable into consideration. Such relationship between a single dependent variable and a number of independent variable in combinations on known as multiple regressions.

Regression Constant (a)

The regression content (a) which is the intercept of the model rep resents the average level of dependent variable when independent variable has a value of zero. In other words , it can be termed as an indicator which specifies average effect on dependent variable if all the variables are omitted from the model. Theist term has practical meaning only if a zero value for the independent variable is possible.

Regression Coefficient (b1, b2, b3........)

The regression coefficient (b) is a parameter which indicates the marginal relationship between independent variable and value of dependent variable holding constant the effect of all other independent variables in the regression model. The coefficient specifies a part of change in the dependent variable regarding part of change in the independent variables.

vii. T – Test

In case of all small sample where ’n’ is less than 30, we make use of the’t’ distribution. It used for finding more appropriately the two limits where in the estimate would probably lie. For applying t- first of all ’t’ value should be calculated and compared with the table value of ’t’. At a certain of significance for given degree of freedom, if the calculated value of’t’. Excess the table value. (say 0.05) we know that the different is significant an 5% level, but it ’t’ is less than the concerning table value of the ’t’ the different is not trended as significant.

Viii. F- Test

A technique which is generally known as the variance ratio and is mostly used in contest of analysis of variance. F – Test is used to identify the significance of difference between more than two samples means from same normal populations with equal variance. In case of f- test there is now assumption of equality of vafiances as it was in the case of t-test. So one- way ANOVA method so used to examine the equality between sample variances.

I**x. Standard Error of estimate (SEE)**

Standard error of estimate measures the line variability or scatter of the observed values around the regressing line. It also measures the reliability after finding the regression. It the i.E. of estimate happens to be zero then there is cent percent correct estimator. In other words, the estimating equation of the dependent variable is a ’perfect" estimator. IT is possible for us to ascertain how well and representative the regressing line is as a description if the average relationship between two series. It is worded out as under. The square root or the se is also known as the variance of the error term which is the basic measure of reliability

$$Se = \sqrt{\frac{\sum e^2}{n-2}}$$

Where,

e = the error term

Se = Standard Error

N = no. of observation

x. Probable error (P.E)

Probable error of the correlation efficient denoted by P.E. is the measure of testing the reliability of the calculated value of 'r'.

Where, r = correlation coefficient between x and y

$$P.E. = 0.6745\ \frac{1-r^2}{\sqrt{n}}$$

(1) If r<P.E., it is insignificant. So perhaps there is no evidence of correlation coefficients may be used to determine the limits within which the population correlation lies.

(2) If r > 6 P.E., Limits for population correlation coefficient may be used to determine the limits within which the population correlation lies. are r + P.E.

In the present study, probable error has been calculated to determine reliabilities the value to coefficients to EPS and DPS,/DBS and net profit and DPS and net work.

Limitation of the methodology

i) The analysis is based an secondary data

ii) Only three banks are taken as sample

iii) Only dividend is considered for data analysis

iv) Only six years data are presented

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

The purpose of this chapter is to carry out the secondary data analysis to achieve the objectives, the relevant data and information regarding dividend policy of commercial banks.

This chapter begins with the descriptive analysis of earning per share, dividend per share market price per share dividend payout ratio, banks with the hypothetical and explanatory analysis.

The companies of financial indicators of the concerned of financial indicators of he concerned institutions is done with the help of statistical tool correlation, regression analysis to different components to each bank are made and the data are presented in a systematic tabulated from.

4.1 Analysis of Financial Indicators

4.1.1 EPS Analysis of commercial Bank

Generally, the success and failure of business organization depends on its capacity to generate earning. The earning of any business organization helps to evaluate the performance and achievement and also status of goodwill of the organization in the market.

Higher earning shows higher strength while lower earning show weaker strengths of business organization for growth, expansion and diversification. So EPS is the amount of earnings of the share invested in the company. Higher the EPS of the company, better position seen in the market so, all the business organization always see to have more and more earning that could sustain efficient in the competitive market.

Table No. 4.1

	EPS			
year	**HBL**	**SCBNL**	**NIBL**	**Pooled Average**
2002/03	49.45	149.3	39.56	79.44
2003/04	49.05	14.55	51.7	81.43
2004/05	47.91	143.44	39.5	76.85
2005/06	59.24	175.84	59.35	98.14
2006/07	60.66	167.37	62.57	96.87
2007/08	62.74	131.92	57.87	84.18
Average	54.84	155.84	51.76	86.16
S.D	6.14	15.08	9.23	8.33
C.V %	11.19	9.93	17.83	9.67

Source: Annual Report of Concerned Banks

Above table shows the amount of earning per share is paid by the banks from year 2002/03 to 2007/08.

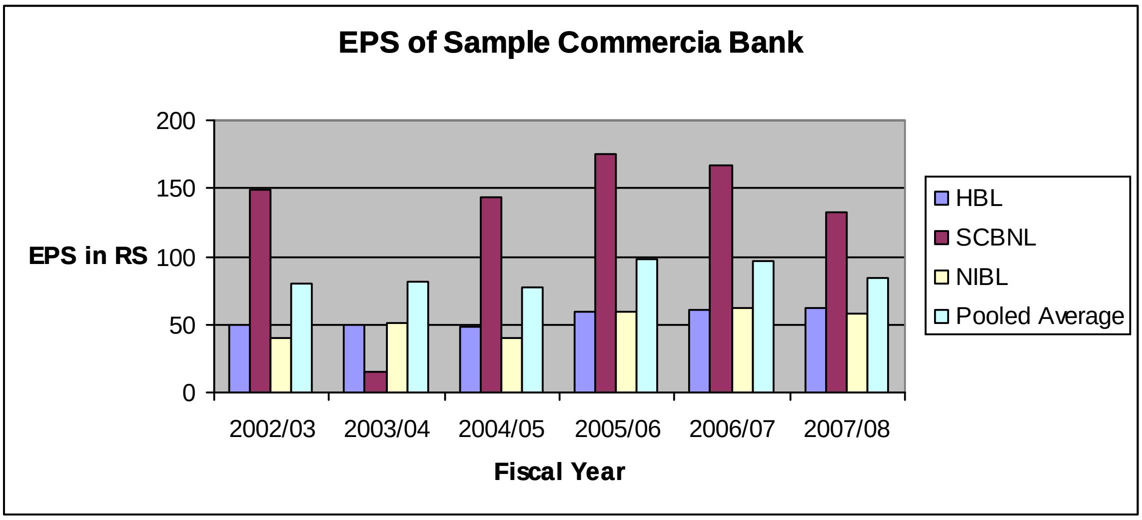
EPS of HBL, SCBNL and NIBL for the six year period are presented in the table. According to table SCBNL has highest EPS than HBL and NIBL. In year 2005/06 SCBNL has highest EPS among all the six year. Whereas in year 2006/07 and 2007/08, SCBNL has less earning than year 2005/06, which shows decline trend HBL has higher earning than previous year NIBL has not Constant EPS.

Pooled average shows highest EPS in year 2005/06 is 98.14. The lower earning made by all sample banks at year 2004/05 is 47.91, 143.14 and 39.5 respectively. And pooled average is 76.85.

Since the average of EPS of SCBNL is highest among all three banks, it has been able to pay considerably higher amount of dividend to its shareholder in comparison to other two banks. NIBL has the lowest EPS among all three banks. Without considering the rate of fluctuation the analysis of variance is studied. it is observe that C.V of SCBNL is 9.93 and HBL and NIBL are 11.19 and 17.83 respectively.

The Comparative EPS of selected banks can be presented with the helps of following diagram

Figure No. 4.1



4.1.2 DPS Analysis of Commercial Banks

Dividend per share indicated the part of earning distributed to the shareholder on per share basis. It is calculated by dividing the total dividend to equity shareholders by the total number of equity share.

Generally higher the dividend higher the satisfaction level of shareholders. But there may be different cases when shareholders. Prefer their dividend to be retained for future prospective. Dividend can only be provided when there is profit in any organization. So any company who is in a position to pay dividend means it is earning at least some profit.

Table No 4.2

	DPS			
Year	**HBL**	**SCBNL**	**NIBL**	**Pooled Avg.**
2002/03	1.32	110	20	43.77
2003/04	-	110	15	41.67
2004/05	11.58	120	12.5	48.03
2005/06	30	130	20	60
2006/07	15	80	5	33.33
2007/08	25	80	7.50	37.5
Average	13.82	105	13.33	44.05
S.D	11.11	18.93	5.71	8.50
C.V	80.39	18.03	42.84	19.30

Source: Annual Report of Concerned Bank.

The DPS of three sample bank for six year period are presented on table 4.2 in year in year 2005 /06 DPS of SCBNL market highest figure. The table shows that HBL didn't distribute cash dividend on year 2003/04. In year 2006/07, NIBL just earned lower amount.

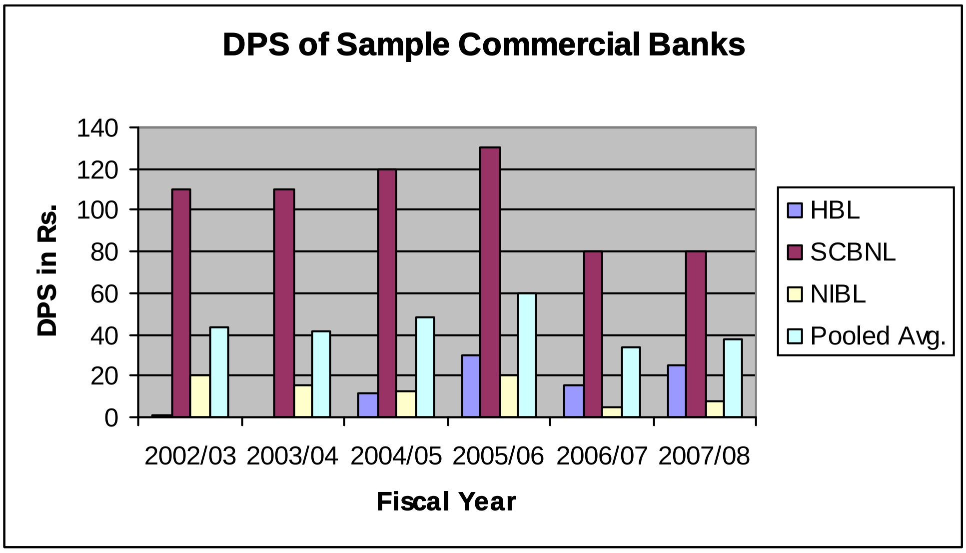
The entire sample banks issued bonus share. HBL issued dividend including bonus on share capital.

While observing pooled average and aggregate average of bank data, SCBNL maintain highest position in the fiscal year 2005/05, though, this study deals with cash dividend, only glimpse of stock dividend is mentioned. From DPS table SCBNL is number one position to give dividend for each year.

Besides considering the average, the analysis of DPS is preferable to state the rate of fluctuations with the help of co-efficient of variance C.V. measures risk per unit of asset according to table the C.V of HBL is 80.39, SCBNL is 18.03 and NIBL is 42.84.

The Comparative DPS of selected banks can be presented with the helps of following diagram.

Figure No. 2



4.1.3. DPR Analysis of commercial Banks.

Dividend payout ratio reflects the percentage of the profit distributed to shareholders as dividend against the percentage that is retained as resume for the growth of any banks. Dividend payout ratio is calculated by dividing EPS by DPS .

Table No. 4.3

Year	HBL	SCBNL	NIBL	POOLED AVERAGE
2002/03	2.67	73.68	50.56	42.30
2003/04	0	76.63	29.01	35.21
2004/05	24.17	83.83	31.65	46.55
2005/06	50.64	79.62	33.69	54.65
2006/07	24.72	77.67	7.99	36.79
2007/08	39.85	60.64	12.96	37.82
AVERAGE	23.68	75.35	27.64	42.22
S.D.	18.23	7.26	14.03	6.78
C.V.%	77.00	9.63	50.77	16.06

Source: Annual Report of Concerned Banks

The above table 4.3 shows the dividend payout ratios of three sample banks .The table helps to find out the percentage of dividend payout ratio of the total earning made by every bank for every year during the period of study .D/P ratio of SCBNL is highest in the year 2005/06 recorded as 79.62%.There is no dividend payout ratio of HBL in year 2003/04. The lowest D/P ratio is 2.67% of HBL in the year 2002/03 whereas in 2006/07, NIBL has only 7.99% dividend paid.

Before analyzing the DPR, we can segregate DPR of these banks in their differently categorized policy.

Policy	DPR
Conservative	Less than 20%
Moderate	20% to 50%
Aggressive	more than 50%

From table, in year 2003/03, HBL followed conservative policy, SCBNL and NIBL followed aggressive dividend 73.68 and 50.68 respectively. But their pooled average data shows DPR of 42.30 which falls under moderate dividend policy according to assumption.

In year 2003/04, SCNBL has 76.63 DPR, NIBL has 29.01 and HBL has no DPR. SCNBL again followed aggressive dividend policy with the increment ratio whereas other two sample bank has decreased. In the year 2004/05, again SCBNL have aggressive dividend policy of DPR 83.88 which is highest in six consecutive years. HBL and NIBL have 24.17 and 31.65. DPR ratio. But average polled data shows DPR of 46.55 which is in moderate dividend policy.

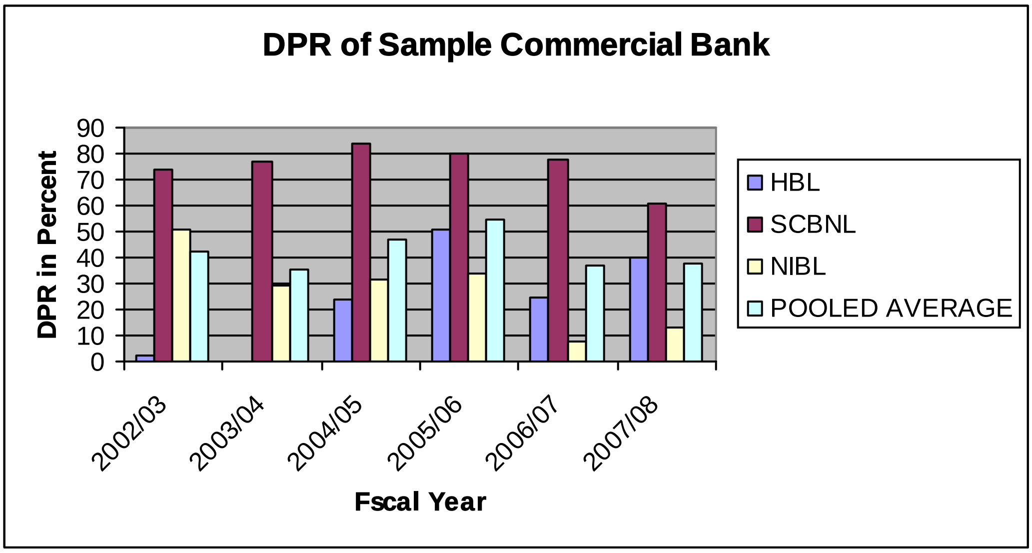
In the year 2005/06 again SCBNL have aggressive dividend policy of DPR 79.62 but HBL and NIBL has 50.64 and 33.67 as DPR. And pooled average is 54.65 with aggressive dividend policy.

And in six year HBL and NIBL have DPR below 50% and SCBNL has 60.64 with moderate dividend policy.

The C.V. of DPR suggests that the DPR of HBL is fluctuating than other two banks C.V. of NIBL is also fluctuate.

The Comparative DPR of selected banks can be presented with the helps of following diagram.

Figure No. 3



4.1.4 Market Value per Share/ Book Value per Share

The ratio between market value per share MPS and book value per share (net worth) gives the idea on the different between the book value of a share i.e.; the real value of the share and market value i.e., the price of share will earn if sold, In general, it may be thought that book value per share and market value per share will be of about the same value. But the calculation of the ratio gives a slightly different picture, which is shown below in the table

Table No. 4.4

Year	HBL	SCBNL	NIBL	Pooled Avg.
2002/03	3.37	4.07	3.68	3.71
2003/04	3.04	4.37	3.18	3.86

2004/05	3.84	5.55	3.99	4.46
2005/06	4.81	8.06	5.26	6.04
2006/07	6.57	11.52	7.38	8.49
2007/08	7.99	17.01	10.98	8.99
Average	4.99	8.43	5.85	5.93
S.D	1.73	4.60	2.62	2.13
C.V	34.67	54.59	44.87	35.96

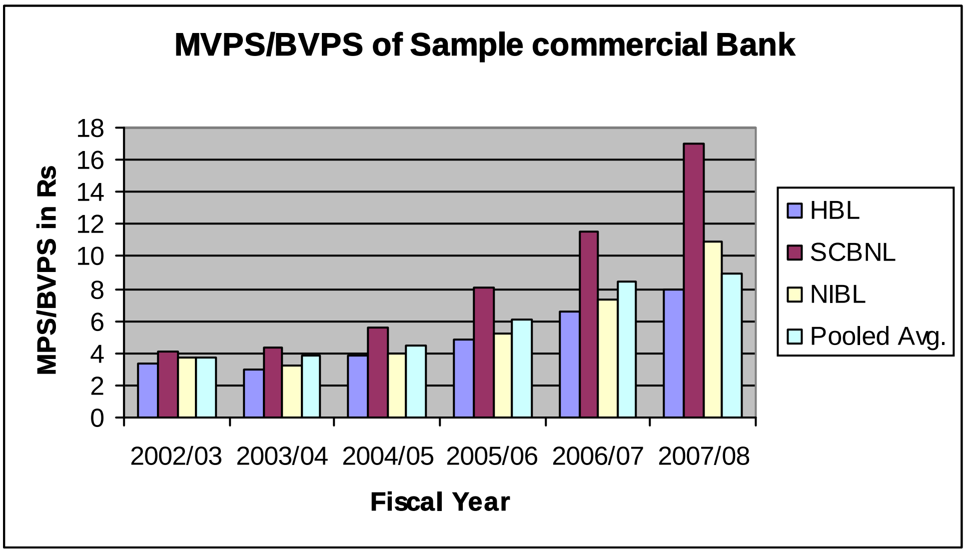
Source; annual Report of Concerned Banks

In table 4.4, highest ratio between MPS and net worth is 11.52 of sample bank and highest average MPS and net worth is 8.43 of SCBNL is 7.99 and 10.98 respectively.

It is always good to have higher MVS than face value. Because in today's open market shareholders maximize wealth than profit maximization. C. V. measure risk per unit of assets it can be observed the CV of SCBNL is greater than other sample banks. Greater the CV means greater the risk. So MPS/ BVPS are fluctuated in SCBNL than other two sample banks.

The Comparative MVPS/BVPS of selected banks can be presented with the helps of following diagram.

Figure No 4



4.1.5 P/E Ratio Analysis of Commercial Bank.

Profit earning ratio shows the standing of the share in the capital market. In general, we may think that market value per share has some link with EPS or MPS is determined by EPS. But this always may not be true.

Table 4.5

	P/E Ratio			
Year	HBL	SCBNL	NIBL	Pooled Avg.
2002/03	16.91	10.98	20.1	15.99
2003/04	17.12	12.16	18.18	15.82
2004/05	19.2	16.38	20.25	18.61
2005/06	18.57	21.47	21.23	20.42
2006/07	28.69	35.25	27.63	30.52
2007/08	31.56	51.77	42.33	41.89
Average	22.01	20.62	24.95	23.88
S.D	5.85	15.09	8.31	9.45
C.V	26.59	73.18	33.32	39.57

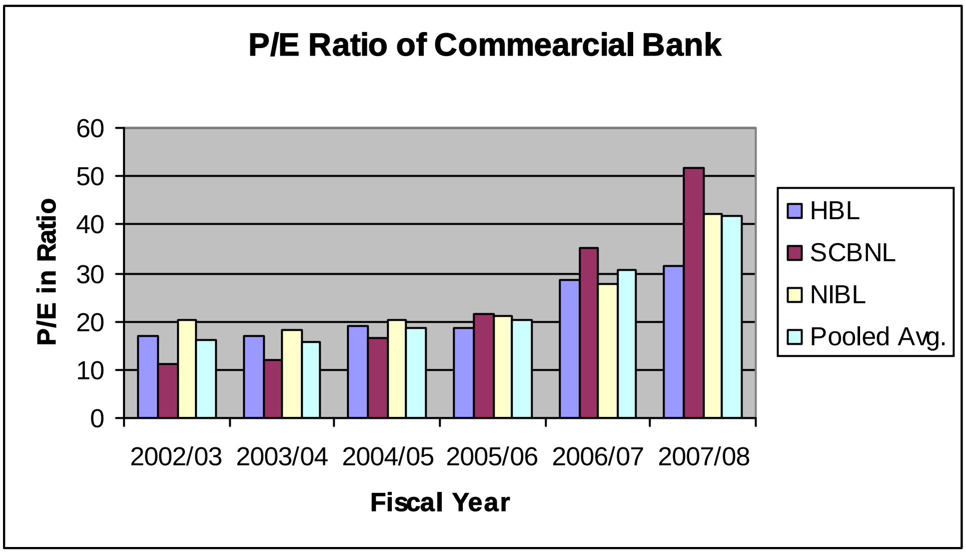
Source: Annual Report of Concerned Banks.

Above table 4.5 shows the P/E ratio of three sample banks. The ratio describes the relationship between EPS and MPS.

So in the year 2002/03, the P/E ratio of HBL, SCBNL, NIBL are 16.91, 1098and 201 respectively from year 2003/04 to 2007/08, the ratio of profit earning is in increasing trend. From poded Average, in the year 2007/08 bas highest P/E ratio of 41.89 percent. The C.V of three banks HBL, SCBNL and NIBL are 26.59, 73.18, and 33.23 respectively C.V of SCBNL is large. It reveals That SCBNL has more variation in its P/E ratio during the study period. This indicates that there exacts high degree of risk in the P/E ratio of SBNL.

The Comparative P/E ratio of selected banks can be presented with the helps of following diagram.

Figure No 4.5



4.1.6 Earning Yield Analysis of Commercial Banks.

Earning yield means the percentage relationship between EPS and MPS which is one of the reliable tools to calculate the real value of the share.

Table No. 4.6

	P/E Ratio			
Year	**HBL**	**SCBNL**	**NIBL**	**Pooled Avg.**
2002/03	5.92	9.10	4.98	6.63
2003/04	5.84	8.23	5.5	6.25
2004/05	5.21	6.10	4.94	5.42
2005/06	5.39	4.66	4.71	4.92
2006/07	3.49	2.84	3.62	3.32
2007/08	3.17	1.93	2.36	2.49
Average	4.84	5.48	4.35	4.89
S.D	1.09	2.62	1.06	1.55
C.V	22.66	47.87	24.26	31.62

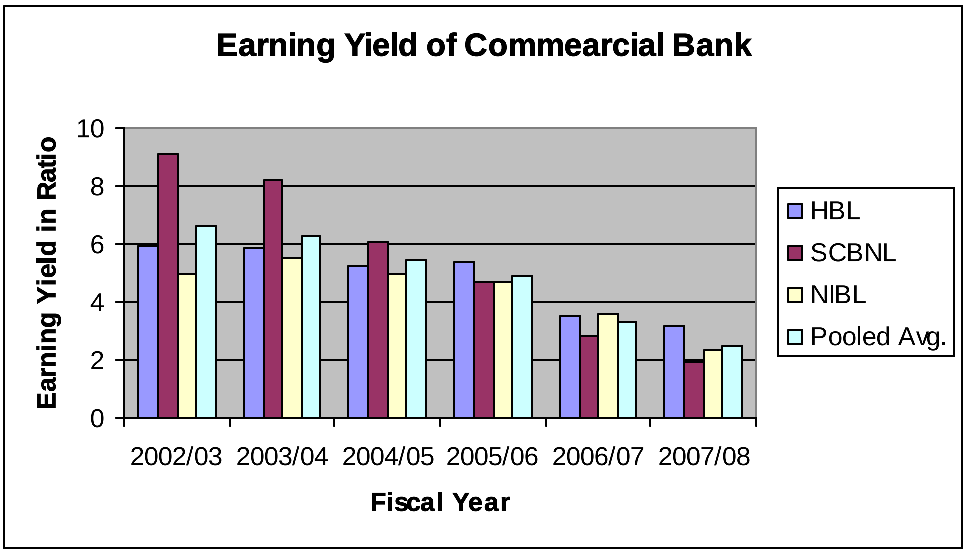
Source: Annual Report of Concerned Banks.

The above table 4.6 depicts the relationship between EPS and MPS. The main reason to illustrate the earning yield of the concerned bank helps to calculate the real value of current market value of each share.

Comparing earning yield of sample banks, SCBNL has highest average of 5.48. the C.V of SCBNL is higher than other two sample banks. We know that higher the C.V. more the Risky. So greater C.V indicates that there is actuation on earning yield of SCBNL. However HBL and NIBL Maintain Consistency. The C.V. of HBL and NIBL Maintain Consistency. The C.B of HBL and NIBL is 22.66 percent respectively.

The Comparative Earning yield ratio of selected banks can be presented with the helps of following diagram.

Figure No. 4.6



4.1.7 Dividend yield Analysis of Commercial Bank.

Dividend yield means the percentage relationship between DPS and MPS which is also one of the reliable tools to calculate the real value of the share and find out if there is any consistency in DPS and market value of bank in the consecutive years.

Table No. 4.7

	Dividend yield			
Year	**HBL**	**SCBNL**	**NIBL**	**Pooled Avg.**
2002/03	0.16	6.71	2.52	3.13
2003/04	0	6.30	1.59	2.63
2004/05	1.26	5.12	1.56	2.65
2005/06	2.73	3.44	1.59	2.59
2006/07	0.86	1.36	0.29	0.84
2007/08	1.26	1.17	0.31	0.91
Average	1.10	4.02	1.13	2.125
S.D	0.90	4.98	0.79	4.92
C.V	81.90	123.95	60	231.42

Source: Annual Report of Concerned Banks.

The above table 4.7 shows the dividend yield analysis of three sample banks from the year 2002/03 to 2007/08 respectively.

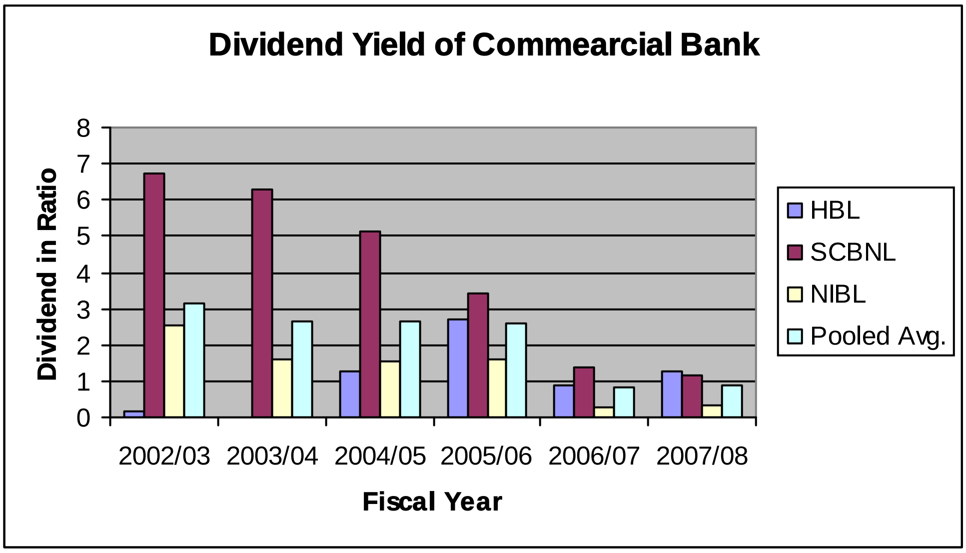
In year 2002/03, SCBNL has highest dividend yield 6.71 and the pooled average is 3.13, SCBNL has highest dividend yield than other two banks. Like wise in time period SCBNL has highest dividend yield than HBL and NIBL except in year 2007/08 HBL has 1.26 as a dividend yield. Ass the banks don’t have constant dividend yield is volatile.

According to pooled average, dividend yield has decreased trend.

Here C.V of NIBL is lowest in comparison to HBL and SCBNL, so its dividend yield can be considered more consistent.

The Comparative Dividend of selected banks can be presented with the helps of following diagram.

Figure No 4. 7



4.2 Correlation analysis

Correlation analysis helps to determine the strength of the linear relationship between two variables that it shows how strength the two variables are correlated.

It helps to determine whether a positive or negative relationship exists between two variables and whether the relationship is significant or not.

In this study, the correlation analysis is referred to identify the relationship between DPS and other variables like MPS, EPS, CR, D_t -1 and whether theses relationships holds any significance.

We can calculate correlation coefficient as:

$$r = \frac{\sum xy}{\sqrt{\sum x_2}\ \sqrt{\sum y_2}}$$

Where

$=\quad x = (n - x)$

$=\quad y = (n - y)$

Again

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

- If 6PE is greater than 'r' then insignificant.
- If 6PE is less than 'r' then significant.

4.2.1 Correlation between EPS and DPS of Commercial Banks

Table No.4.8

Banks	r	Relationship	r^2	Probable error	Sig / Insig
HBL	0.80	Positive	0.64	0.09	Sig.
SCBNL	-0.39	Negative	0.16	0.23	Insig
NIBL	-0.49	Negative	0.24	0.21	Insig

Above table 4.7 shows the relationship between EPS and DPS of three banks. It can be observed that the correlation coefficient of HBL is positive whereas SCBNL, NIBL is negatively corrected. It can be conclude that KPS of HBL is more dependent on its earning. Increase and it earning decrease, dividend is also decreasing.

4.2.2 Correlation between MPS and DIVIDEND (D_{t-1})

Table No. 4.9

Banks	r	Relationship	r^2	Probable error	Sig / Insig
HBL	0.49	Positive	0.24	0.21	Insig
SCBNL	-0.12	Negative	0.02	0.27	Insig
NIBL	-0.69	Negative	0.48	0.14	Insig

In the above table SCBNL and NIBL have negative correlation coefficient and HBL has positive correlation which is significant. Relationship between MPS and D_{t-1} . Since SCBNL and NIBL are negatively correlated the MPS is not dependent on last year's dividend. Value of r of HBL is grater than GPE. So grater the value of r, lesser the value of 6PE is signification relationship

4.2.3 Correlation between EPS and MPS of Commercial Bank.

Table No. 10

Banks	r	Relationship	r^2	Probable error	Sig / Insig
HBL	0.94	Positive	0.84	0.03	Sig
SCBNL	0.02	Positive	0.0004	0.28	Insig
NIBL	0.72	positive	0.51	0.13	Insig

Above table shows the relationship between market share of the stock and earning per share. It can be observed that the correlation co- efficient of HBL SCBNL and NIBL, all three banks has positive correlation, but two bank SCBNL and NIBL hare Insignification relationship since 6JPE greater than r of SCBNL and same as NIBL. Here, HBL have aggressive degree of correlation so we can conclude that increase or decrease stock price is dependent.

4.3 Regression Analysis

Regression analysis is used to determine the statistical relationship between two or more variables and to make predication of one variable on the basis of the others. The regression analyses can either simple regression or multiple regressions.

When we take only one independent variable to predict the value of the dependent variable through the appropriate regression time then the analysis is known as simple regression analysis. But when we take two or more independent variable to predict the value of the dependent variable through the appropriate regression tune, then the analysis in known as multiple regressions.

Here the statistical tool sample and multiple regression analysis is presented in this study is to identify the relationship between MPS, EPS, D (t-1) and net worth of sample banks.

4.3.1 Simple regression Analysis

This analysis shows the relation between the dependent variable and independent variable. Dependent variable market price per share (MPS) or Pt on independent variable EPS or ET.

Table No. 4.11

Bank	Constant(a)	Reg .Coeff. (b)	Std. errors	't'
HBNL	-3818	92.16	4.2.45	0.22
SCBNL	2944.41	5.01	4742.76	1.06
NIBL	-61520.81	46.33	2281.63	0.02

From above table MPS on EPS, beta co-efficient (b) is positive in all sample bank and content (a) is negative is HBL and NIBL whereas SCBNL has Positive constant (a)

Beta co – efficient indicates that one rupee increase in EPS leads to decrease in MPS; IT is very ridiculous to say that increase in earning per share leads to decrease in MPS. It is almost impossible however when could concluded that MPS of HBL and NIBL did not depend upon. Whereas SCBNL's MPS is depend on EPS.

4.4 TEST of Hypothesis

First Hypothesis

Dividend per share

Table No. 4.12 (a)

Year	HBL	SCBNL	NIBL
2002/03	1.32	110	20
2003/04	-	110	15
2004/05	11.58	120	12.5
2005/06	30	130	20
2006/07	15	80	5
2007/08	25	80	7.50

Here,

Null Hypothesis (Ho): μa = μb = μc i.e. there is no significant difference between DPS of HBL, SCBNL and NIBL.

Alternative Hypothesis (H_1): $\mu a \neq \mu b \neq \mu c$ i.e. there is significant difference between DPS of HBL, SCBNL and NABIL.

Computation of Hypothesis

Table No. 4.12 (b)

Xa	Xb	Xc	Xa^2	Xb^2	Xc^2
1.32	110	20	1.47	12100	400
-	110	15	-	12100	225
11.58	120	12.5	134.09	14400	156.25
30	130	20	900	16900	400
15	80	5	225	6400	25
25	80	7.50	625	6400	56.25
$\sum x_a$ 82.9	630	80	1885.83	68300	1262.5

Now,

Grand Total (T) = ∑xa + ∑xb + ∑xc

= 82.9 + 630 + 80

= 792.9

Correction factor (C. F) = $\frac{T^2}{h}$

$= \frac{628690.41}{17}$

= 36981.79

Total sum of square

(TSS) = $\sum Xa^2 + \sum Xb^2 + \sum Xc^2$

= 71448.33

Sum of square between Samples.

$$SSB = \frac{(\sum xa)^2}{n\ a} + \frac{(\sum xb)^2}{n\ b} + \frac{(\sum xc)^2}{h\ c} - CF$$

$$= \frac{(82.9)2}{5} + \frac{(630)2}{6} + \frac{(80)}{6} - 36981.79$$

$$= \frac{6872.41}{5} + \frac{396900}{6} + \frac{6400}{6} - 36981.\ 79$$

$$= 1374.48 + 66150 + 1066.67 - 36981.78$$

$$= 31609.\ 37$$

Sum of square within sample

SSW = TSS - SSB

= 39838.96

Table No. 4.12 (c)

ONE WAY ANOVA				
Source of variation	**Sum of square**	**D. F**	**Mean sum o Square**	**F = ratio**
Between sample	31609. 37	2	15804.69	F = 5.55
Within sample	39838.96	14	2845.64	
Total		16		

Critical value; the tabulated value of at 5% level of significance for 2 and 14 degree of freedom is 3.7

Decision: since calculated 'f' value is 5.55 is greater that tabulated 'f' value 3.74 h_o is rejected. There is significant difference between the DPS of HBL SCBNL and NIBL, i.e., null hypothesis is rejected and h_1 alternative hypothesis is accepted.

Second Hypotheses

Dividend Paid out Ratio

Table No. 4.13 (a)

Year	HBL	SCBNL	NIBL
2002/03	2.67	73.68	50.56
2003/04	0	76.63	29.01
2004/05	24.17	83.83	31.65
2005/06	50.64	79.62	33.69
2006/07	24.72	77.67	7.99
2007/08	39.85	60.64	42.33

Null Hypothesis: (Ho): μa = μb = μc i.e. there is no significant difference between DPR of HBL, SCBNL and NIBL.

Alternative Hypothesis (H_1): μa ≠ μb ≠ μc i.e. there is significant difference between DPR of HBL, SCBNL and NABIL.

Computation of Hypothesis

Table No.4.13 (b)

Xa	Xb	Xc	Xa^2	Xb^2	Xc^2
2.67	73.68	50.56	73.13	5428.74	2556.31
0	76.63	29.01	-	5872.16	841.58
24.17	83.83	31.65	584.19	7027.47	1001.72
50.64	79.62	33.69	2564.14	6339.34	1135.01
24.72	77.67	7.99	611.08	6032.63	63.84
39.85	60.64	42.33	1588.02	3677.21	1783.37
142.05	425.07	195.13	5354.83	34377.55	7381.83

Grand Total (T) = ∑xa + ∑xb + ∑xc

= 279.24

Correction factor (C. F) = $\frac{T^2}{h}$

= 346064.42

Total sum of square

(TSS) = $\sum Xa^2 + \sum Xb^2 + \sum Xc^2$

$= 47114.2$

$$SSB = \frac{(\sum xa)^2}{n} + \frac{(\sum xb)^2}{n} + \frac{(\sum xc)^2}{h} - CF$$

$= 3363.03 + 34061.21 + 6345.95 - 346064.44$

$= -302294.23$

Sum of square within sample

SSW = TSS - SSB

$= 47114.21 - (-302294.23)$

$= -349408.44$

ANOVA table 4.13 (C)

ONE WAY ANOVA				
Source of variation	**Degree of freedom**	**Sum of square**	**Mean sum of Square**	**F - ratio**
Between Banks	2	302294.23	151147.12	6.92
Within Banks	16	349408.44	21838.03	
Total	17			

Critical Value: The tabulated value of F at 5% level of significance is per 2 and 16 degree of freedom.

Decision: since the calculated 'f' value is 6.92 greater than tabulated value is 3.63. Null Hypothesis is rejected. Alternative Hypothesis is accepted. So there is significance difference between the DPR of HBL, SCBNL and NIBL at 5% level of Significance.

4.5 MAJOR FINDINGS

The major findings of three sample banks obtained from the secondary data analysis are stated as follows.

- The average earning per share EPS of sample banks do not seem satisfactory except SCBNL has highest earning per share in all consecutive years.
- Similarly, the average dividends per share of sample banks do not seem satisfactory except SCBNL. SCBNL paid higher rate of dividend to its shareholder which seems quite satisfactory. But in case of HBL and NIBL, dividend paid for share is quite low.
- The analysis of co-efficient of Vance shows that higher the CV, higher will be risk. Higher the risk means it is risky to shareholder because of

volatile and not consistent relationship, so SCBNL should retained capital for retention.

- It is found that the calculation of DPR shows none of the sample banks have constant payout. Ratio during the study period. The DPR is always fluctuating.
- MVPS and BVPS show that SCBNL have higher net worth. Higher net worth gives the real value of the share and market price i.e., the price of share will earn if sold. So SCBNL is satisfied from the view point of shareholders.
- Average price earning ratio of NIBL is highest among the all sample however EPS and DPS are low. C, V analysis shows that HBL and NIBL has more consistent P/E ratio. While SCBNL have higher CV which is risky.
- The earning yield also shows that SCBNL has higher earning yield SCBNL take aggressive policy while making dividend decision. While other low bank have consistent relationship between EPS and MPS.
- The dividend yield of SCBNL is higher than other two sample bank. Other two banks HBL and NIBL have lower dividend risk.
- The correlations between EPS and DPS have both positive and negative relation among the sample banks.
- The correlations between MPS and last year dividend have both positive and negative relation of insignificant.
- The correlations between EPS and MPS of all sample banks have positive relationship.

5. ISSUES AND GAPS.

During the writing session of the thesis, the issues relating to dividend factors to dividend factors were found. There have been many national and international studies in the field of dividend policy to date, In Nepalese context, Pradhan's and Mandhar's research can be considered to be landmark in the field of dividend market in last few years and the validity of past results are doubtful in the present context. So, it is necessary to carryout a fresh study related to dividend pattern of Nepalese financial in institution.

Lock of legal Rules and Regulations

There is a lack of rules and regulations while paying dividend every year by the copanies.The government does not have any clear policy towards dividend so that companies may force to pay the minimum dividend in recession also.

Lack of strategic Policy in Dividends

There is hardly any company which adopts the dividend policy out of number of listed companies. There seems instability and inconsistency is dividend payment. Dividend payout ratio hardly shows the stability and co-ordination with other factors.

Investors with no-conscience

In context of Nepal, shareholders are not so much literate about the investment divisions, so they do not know about dividend payment system, shareholders are the investors who have the right to get dividend from their investment but they are exploited by the companies. Open market concept is one who invests money to gain more money in return. There is a lack of legal body to educate the share holders.

Lack of strategic Policy in Dividends:

There are hardly any banks which adopts the dividend policy out of 100 listed banks. There seems instability and inconsistency in dividend payment. Dividend payout ratio hardly shows the stability and co-ordination with others factors.

Verbal and professional Commitments Differ

Verbal and professional commitments are always differ made by companies at earlier stage of raising the capital from general public. Companies always attract investor mentioning to pay higher rate of dividend. Which never done in practices.

Government silence in unbalanced economy

Government does not have clear policy regarding dividend amount paid by the companies. The numbers of companies are suffering from loss.

Chapter v

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Dividend simply means the portion of net profit distributed to shareholders by the company. So dividend policy refers to the division of earnings between payments to stockholder and re-investment in the firm. Theory of dividend policy and implementation of dividend payment to the common stock holders do differ in practical life.Modigiliani and Muller theory insists the hypothesis on dividend as an irrelevance theory.

M.M hypothesis insists that dividend policy does not affect the stock price which makes dividend decision irrelevant conveys passive residual theory earning available for payment where as other argue that dividend policy does affect the value due to the factors of uncertainty.

Many factors affect the dividend payment depending upon investors need and preference on one side and the financing needs of the financial institutions to potential investment opportunities on the other side. Dividend policy involves many aspects such as selecting the types of dividend as well as selecting constant or fluctuating dividend payment and also other extra dividend payment and forms of dividend and dividend policy.

After the economic liberalization in Nepal, the governments of Nepal make an open market policy in the country. So due to open market policy after 1984, many commercial banks, joint venture banks, financial institutions and insurance companies are established in Nepal which got opportunity and appropriate environmental to expand their activities.

Stock has always a high desire and expectation that market price share will be higher than its net worth and getting high percentage of dividend from earnings. So distributing dividend to the shareholders is one of the effective

ways to achieve the attention and trust to investors to encourage them to invest in the share market
dividend policy study mainly aims to access the prevailing practices of listed sample banks regarding dividend payment.

Dividend paying financial industries has been selected for the study, so implication of dividend, Instability of dividend and haphazard payout ratio Nepalese financial institution and such financial institutions do not adequately maintain cash balance for dividend payment.

From shareholders perspective, shareholders have always high expectations that marker prices of share will be significant higher than the net worth of shock price. so companies invested by foreigners are paying dividend that is more attractive dividend than the companies promoted by the Nepalese promoters. Because higher net worth do not benefit the foreigner rather than market prices of share. They invest their capital only for higher return in the investment. For example, SCBNL have 70% foreigner investment so the preference of this bank is cash dividend rather than any other form of dividend.

However, joint venture banks are not guided by an appropriate dividend policy. This will actually affect the market price, goodwill of all such banks in the long run. So this study covers banks of Nepal paying dividend which covers a period of six years from the year 2002/03 to 2007/08.

To analyze the dividend payment practices of sample banks, different financial ratio and statically tools and hypothesis have been calculated and interpreted. In order to assess the impact of dividend on market price of shares, available information for banking are reviewed and analyzed

The major aspects of the study are discussed in this chapter.

Test of hypothesis of DPS shows that there is significant difference between DPS of banks at 5% level of significance. Test of hypothesis of DPR shows that there is no significant difference between DPR of sample banks at 5% level of significance.

5.2 Conclusion

Above mentioned major findings led this study conclude that earnings of sample bank SCBNL is comparatively high than other two bank. The results high than other two banks. The results of this analysis are not strong enough to establish the relationship between dividend policy and dividend practices of Nepalese companies. Though it shows the glimpse of dividend practices in Nepal in recent years.

The insignificant relationship between DPS and other financial indicators indicates that the dividend policy of all these companies is not better. From the analysis it is found that the market price of stock is not affected by other variables. But in Nepalese context, changes in these variables affect the market price of the stock. This indicates about the irrational behavior of investor. They are investing the money to securities randomly without analyzing the company’s financial and investment policies. It shows the in efficient capital market of Nepal.

Sample banks don’t seem to follow the optimum dividend policy of paying regular dividends per shareholder’s expectation. It might cause uncertainty among stockholders.

The situations of capital market of Nepal are improving day by day. As a result, the capital market seems to be efficient while comparing to previous years. But it is reality that the capital market of Nepal is still immature. The major findings have also led to conclude that the sample banks are neglecting the major factors like earnings position of the firm, liquidity position while paying dividend.

Dividend practices of all sample banks are neither stable not constantly growing.

The study of the impact of cash dividend that dividend on market price of share revealed that dividend per share has positive impact on the market price of share in all sectors.

The study deals with only examining and analyzing the dividend practices of sample banks. For a period covering 5 years from 2002/03 to 2007/08 due to limited period. It a large sample is taken for the whole population the result might very and be more accurate and absolute. So, dividend policy may be subjected of further study, which can be more appropriate.

The correlation of EPS and DPS shows that it is positively correlated then, it means higher the EPS, higher will be DPS and if it is negatively correlated than vice-verse. EPS and DPS are positively correlated in all sample banks which means higher the EPS, higher will be MPS.

From the analysis, it is found that name of the sample companies have followed a relevant and appropriate dividend policy except SCBNL. Other banks are neither followed neither fixed dividend policy nor constant payout ratio. This fluctuation in dividend distribution may causes uncertainly among stockholders. Analysis shows that the sample companies are ignoring the liquidity position of company while making dividend decision.

All companies must accept one major fact that EPS is to be considered for determining dividend amount. The analysis shows the insignificant relationship between EPS and DPS. This indicates that EPS is not taken in account for declaration of dividend. So, it is important for the companies to consider earning rather than neglecting it while making dividend decision.

5.3 Recommendations

Although, this study is concerned with dividend practices of Nepalese Financial Institutions, it may be appropriate to provide a package of suggestion in the light of major findings and conclusions. The given recommendation have been classified in five different parts i.e. for the future researcher, for share holders, for company's management, for the stock broker and lastly for government.

5.3.1 For future Researcher

This study has concluded within various shortcoming and limitations. There are several avenues for future research in the area of dividend practices in Nepal. Since dividend affects an individual shareholders on the one hand and whole economic development of the nation on the other hand. Hence, it may be pertinent to suggest the researcher of finance to develop on the subject of dividend policy and practices. And, it is hoped that present study helps them. A first avenue of research is to make study by additional years and by increasing sample companies to get greater insight into the effect of dividend practices. A second research avenue is to find out other relevant variables which will explain the variation in stock price besides the variable presented in this study. Lastly, the models developed by financial expert are not applicable to have the rational dividend practices in the Nepalese financial sector. So one Important Avenue of research is to estimate and forecast an appropriate model by proving it to practices among various model available in the literature.

5.3.2 For the Investors

Actually, shareholders are the owners of company. In the case of Nepalese companies, shareholders are exploited by the company's management in many ways, so knowledgeable investors are needed to protect their rights. Conscious shareholders will protect their interest by themselves and lead the company in profitable way. However, Nepalese investors are investing their funds on companies haphazardly, randomly and without consulting capital market analyst. So they are suggested to analyze the capital market situations before investing their fund. It is noted that, there must be such kind on of institution which is fully devoted to educate investors about their rights on dividend income and other specific right. Such kind of organization should be recognized by government. The government should encourage this kind of organization to promote the activities and to protect the interest of investors, which will help the steady growth of the company, as well as create the good atmosphere of understanding between company's management and share holders.

5.3.3 For Company's Management

Companies are paying dividend without adopting any appropriate policy. It seems impossible to increase shareholders wealth. Companies management are advised to adopt the long-run dividend policy like, fixed divined payout policy which helps to boost up the wealth of shareholders. By considering the different responsibilities to protect investors interest but not for the operation of company in a way desired by themselves and every policy should be passed on the consensus of shareholders.

5.3.4 For the Government

The legal rule for treatment of dividend is must for the smooth growth of the companies as well as growth of national economy. But, since most of the public enterprises are suffering losses and efforts are continuously made to minimize less rather than payment of dividend, government has not given any consideration to legislate legal rules regarding the dividend policy. Some of the companies are in position to pay dividend but there is already unequal distribution of dividend as reflected by some cases. Therefore, the government should act in favor of investor's and their companies by making distinct rules.

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APPENDIX 1

Data Presentation

1) Himalayan Bank Limited

Years	EPS	DPS	DPR%	P/E Ratio	Earning Yield	MPS	CRR	D_{t-1}
2002/03	49.45	1.32	2.65	16.91	5.92	836	8.32	25
2003/04	49.05	-	0	17.11	5.84	840	8.28	1.32
2004/05	47.91	11.85	24.17	92.2	5.12	920	7.86	-
2005/06	59.24	30	50.64	18.57	5.39	1100	5.92	11.85
2006/07	60.66	15	24.72	28.69	3.49	1740	5.92	30
2007/08	62.74	25	39.85	31.56	3.17	1980	5.13	15

Source: Annual Report of HBL Bank

APPENDIX 2

Data Presentation

2) Standard Chartered Bank Nepal Limited

Years	EPS	DPS	DPR%	P/E Ratio	Earning Yield	MPS	CRR	D_{t-1}
2002/03	149.3	110	73.68	10.98	9.10	1640	9.07	100
2003/04	149.3	110	76.63	12.16	8.23	1745	9.46	110
2004/05	143.14	120	83.83	16.38	6.10	2345	8.77	110
2005/06	17.84	130	79.62	21.47	4.66	3775	6.86	120
2006/07	167.37	80	77.67	35.25	2.84	5900	5.46	140
2007/08	131.92	80	60.64	51.77	2.84	6830	5.84	80

Source: Annual Report of SCBNL Bank

APPENDIX 3

Data Presentation

3. Nepal Investment Bank Limited

Years	EPS	DPS	DPR%	P/E Ratio	Earning Yield	MPS	CRR	D_{t-1}
2002/03	39.56	20	50.56	20.1	4.98	795	10.11	30
2003/04	51.7	15	29.01	18.18	5.5	940	9.19	20
2004/05	39.5	12.5	31.65	20.25	4.94	800	9.78	15
2005/06	59.35	20	33.69	21.23	4.71	1260	13.61	12.5
2006/07	62.57	5	7.99	27.63	3.62	1729	10.47	20
2007/08	57.87	7.50	12.96	42.33	2.32	2450	10.91	5

Source: Annual Report of NIBL Bank

APPENDIX 4

Regression Analysis of HBL

Note: Value of X represents EPS
Value of Y represents MPS

Output of Regression Result

$\bar{X}$ = 54.84

$\bar{Y}$ = 1236

$\sum x^2 = 18271.9$

t = 0.22

$\sum x = 32.05$

$\sum xy = 427.552$

$\sum y^2 = 10408896$

$\sum y = 7416$

a = -3818

b = 92.16

S.E = 421.45

APPENDIX 5

Regression Analysis of NIBL

Note: Value of X represents EPS
Value of Y represents MPS

Output of Regression Result

$\bar{X}$ = 1329

$\bar{Y}$ = 51.79

b = 46.43

$\sum x^2$ = 16584.49

$\sum x$ = 310.55

$\sum xy$ = 436394.23

$\sum y^2$ = 12735166

$\sum y$ = 7974

a = - 61520.81

a = - 61520.81

t = 0.02

S.E = 2281.63

APPENDIX 6

Regression Analysis of HBL

Note: Value of X represents EPS
Value of Y represents MPS

Output of Regression Result

$\bar{X}$ = 151.88

$\bar{Y}$ = 37.05.83

$\sum x^2$ = 139721.47

$\sum x$ = 911.12

$\sum xy$ = 3383302.65

$\sum y^2$ = 106943175

$\sum y$ = 22235

a = 2944.4 1

b = 5.01

t = 1.06

S.E = 4742.76