



Impact of financial determinants on dividend payout of commercial banks in Nepal

Sushmita Gaire

Department of Management, MBS-F Scholar of Lumbini Baniyja Campus, Tribhuvan University, Butwal, Nepal

Abstract

This study investigates the impact of financial determinants on the dividend payout of commercial banks in Nepal. A sample of 10 banks was selected from the 19 listed on the Nepal Stock Exchange (NEPSE), using convenience sampling. The analysis spans a 10-year period from fiscal year 2070/71 to 2079/80, with a total of 100 observations. Data were analyzed using SPSS 20 software. The findings show a weak and statistically insignificant relationship between net profit, bank size, and cash flow with the dividend payout ratio. However, a significant positive correlation was found between the dividend payout ratio and the market-to-book value ratio, suggesting that banks with higher market value relative to their book value tend to distribute higher dividends. Additionally, a negative correlation with the slack ratio indicates that banks with more slack resources typically pay fewer dividends. The regression model was statistically significant, with net profit and market-to-book value ratio being the key significant predictors of the dividend payout ratio. This study offers valuable insights into the financial factors influencing dividend payout of commercial banks in Nepal.

Keywords: Financial determinants, dividend payout, net profit, bank size, cash flow, market to book value and slack

Introduction

The financial determinants of dividend payouts in Nepalese commercial banks offer a unique area of study due to the country's specific economic, regulatory, and market conditions. While global research has explored these determinants extensively, focusing on Nepal provides valuable insights into the country's distinct economic framework, governance practices, and banking sector characteristics. The diverse nature of Nepal's banking sector, which includes private, public, and foreign banks, influences how factors such as liquidity, profitability, capital adequacy, bank size, and growth opportunities affect dividend policies. Additionally, regulatory guidelines from the Nepal Rastra Bank (NRB), alongside market conditions like inflation, interest rates, and overall economic growth, play crucial roles in shaping dividend payout decisions. Understanding these factors is essential for stakeholders, including investors and policymakers, to align dividend strategies with both financial stability and the broader economic objectives of Nepal. This analysis draws on relevant literature, including Acharya and Koirala (2015) ^[1], to explore how these financial determinants influence dividend policies in Nepalese commercial banks.

Dividends have a long-standing history that dates back to the rise of modern commerce in Europe. In the 17th century, companies like the Dutch East India Company were among the first to distribute dividends, sharing profits from profitable overseas trade ventures with shareholders (Neal, 1990) ^[15]. This practice firmly established dividends as a core element of shareholder compensation and investment returns. In the United States, dividends gained significance in the 19th century, particularly with the growth of railroad and industrial companies. Dividend payments served as a tool to attract investors and encourage capital investment in emerging industries (Smith, 2012) ^[22]. During the 20th century, dividends continued to be a cornerstone of investment strategies, providing many investors with a reliable source of passive income. They also became a vital indicator of a company's financial health and performance,

influencing investor confidence and stock valuations (Lintner, 1956) ^[13].

Dividends play a crucial role in a company's financial framework. Since firms primarily depend on equity capital raised from the public unlike debt capital, which offers a fixed return on equity capital relies on dividends as a form of return. Dividends are therefore vital for attracting and retaining investors as shareholders, forming a reliable and long-term source of capital for the company. As a result, decisions surrounding dividend policies are among the most critical aspects of managing a firm's capital. These policies significantly influence the proportion of equity capital within a company's capital structure. Dividend policy stands at the core of corporate finance and has attracted considerable academic attention. According to Allen and Michaely (2003) ^[2], dividend policies and the associated "dividend puzzle" demand further exploration to achieve a comprehensive understanding. Similarly, Brealey and Myers (2005) have highlighted dividend decisions as one of the top ten unresolved challenges in finance.

The dividend payout performance of commercial banks in Nepal for FY 2023/24 presents a mixed picture. While some leading banks, such as Nabil Bank and Rastriya Baniyja Bank (RBB), have shown strong performance with notable dividend payouts due to their profitability, other banks face challenges. Nabil Bank, for instance, saw a 76.94% increase in profits, reaching Rs 7.52 billion, which enabled it to distribute substantial dividends. Similarly, RBB had a solid dividend payout capacity, offering 44% of its distributable profits. However, the overall sector's dividend performance has been affected by several factors, notably the rising trend of non-performing loans (NPLs), which has led banks to set aside more funds for provisions. The NPL ratio increased to 2.8% in FY 2022/23, a 115% rise compared to the previous year, putting pressure on banks' profitability. Despite these challenges, several banks, including Standard Chartered and Siddhartha Bank, have managed to maintain relatively stable dividend payouts.

Problem statement

The dividend payout is influenced by various financial factors, yet a complete understanding of their effects remains unclear, especially in emerging economies like Nepal. It is essential to explore the specific financial elements that affect dividend payout decisions in Nepalese commercial banks, as this would support informed decision-making by stakeholders and improve the banking sector's stability and efficiency (Shrestha and Adhikari, 2019) ^[20]. There is a gap in fully understanding the impact of these factors in the context of emerging economies such as Nepal. Identifying and analyzing these determinants is vital for stakeholders regulators, investors, and bank management to ensure the effective allocation of resources, financial stability, and increased shareholder value in the Nepalese banking sector (Poudel, 2020) ^[18].

The influence of financial factors on dividend payout decisions in commercial banks is vital for stakeholders to optimize resource allocation, strengthen financial stability, and maximize shareholder value. Although previous research exists, there is a need for a more in-depth examination of the specific financial elements driving dividend policies in the banking sector. This study aims to address this gap by investigating how factors like profitability, liquidity, regulatory requirements, growth opportunities, and shareholder preferences affect dividend payout decisions, particularly in the context of emerging economies such as Nepal. The research questions of the study obtain from research objectives which are as:

- What are the position of dividend payout, net profit, bank size, cash flow, market to book value and slack?
- What is the relationship between net profit, bank size, cash flow, market to book value, slack and dividend payout?
- What are the effect of net profit, bank size, cash flow, market to book value and slack on dividend payout?

Objectives of the study

The main objective of the study is to examine the impact financial determinants on dividend payout of commercial banks in Nepal. Here are some specific objectives of the study:

- To identify the position of dividend payout, net profit, bank size, cash flow, market to book value and slack of commercial banks of Nepal.
- To measure the relationship between net profit, bank size, cash flow, market to book value, slack and dividend payout of commercial banks of Nepal.
- To examine the effect of net profit, bank size, cash flow, market to book value and slack on dividend payout of commercial banks of Nepal.

Hypothesis

H₁: There is significant impact of net profit on dividend payout.

H₂: There is significant impact of bank size on dividend payout.

H₃: There is significant impact of cash flow on dividend payout.

H₄: There is significant impact of market to book value on dividend payout.

H₅: There is negative significant impact of slack on dividend payout.

Rationale of the study

This research provides significant value to the government in terms of policy formulation, oversight, and financial monitoring. It also serves as a useful resource for key stakeholders, including shareholders, management, and policymakers, by aiding their understanding and assessment of dividend policies. Policymakers can leverage the findings to create more effective dividend strategies for companies while analyzing trends in dividend distribution in Nepal. For academics, students, and investors, the study offers valuable insights into the current state of dividend practices in Nepal. It also guides investors in making informed decisions, helping them identify the most promising investment opportunities.

The reason for studying the impact of financial determinants on dividend payouts of commercial banks in Nepal lies in the unique dynamics of the country's banking sector and its economic context. Understanding what influences dividend policies helps investors, policymakers, and bank managers make better decisions that affect financial strategies, resource use, and economic stability. The banking sector plays a key role in Nepal's economy, and good dividend policies can build investor confidence, strengthen financial health, and encourage growth. Given the challenges faced by banks, such as rules, liquidity issues, and changing market conditions, it is important to look at factors like profitability, liquidity, capital, and growth potential. This study aims to fill gaps in current research and provide helpful insights for better decision-making in Nepal's banking industry.

Empirical literature

Malik *et al.* (2013) ^[14] analyzed the determinants of corporate dividend payout decisions for financial and non-financial firms listed on the Karachi Stock Exchange (KSE) and included in the KSE-100 index. The study used panel data from 2007 to 2009, covering 100 firms, and employed panel OLS regression and probit model estimations to investigate the impact of various financial factors on dividend policy. Key findings indicated that liquidity, leverage, earnings per share (EPS), and firm size have a positive relationship with dividend payouts. However, growth opportunities and profitability were found to be insignificant determinants of dividend policy. Additionally, the probit model analysis revealed that EPS, firm profitability, and size increased the likelihood of a company paying dividends, whereas growth opportunities reduced this probability. These findings provide valuable insights into the financial dynamics influencing dividend decisions in both financial and non-financial firms in Pakistan's corporate sector.

Bassey *et al.* (2014) ^[4] examined the determinants of dividend payout in selected commercial banks in Nigeria, using secondary data from 1989 to 2010 and analyzing it through the Ordinary Least Squares (OLS) regression technique. The study found that current earnings, lagged dividend, and lending rates were significant determinants of cash dividend payout in these banks. However, variables such as inflation rate and liquidity ratio were not significant in explaining the variation in dividend payouts. The results also indicated that the average marginal propensity (AMP) to pay out of current earnings was 30.67%, suggesting that the banks retained a large portion of their profits (69.33%) during the study period, reflecting a conservative

management approach. Based on these findings, the study recommended that to encourage more investment in the banking sector, Nigerian banks should consider reducing their retained earnings to provide higher dividend payouts, thus maximizing shareholder returns.

Fahim, Khurshid, and Tahir (2015) ^[9] investigate the determinants of dividend payout (DPO) in the financial sector of Pakistan, focusing on a sample of 53 listed financial firms over a seven-year period from 2007 to 2013. The study examines how factors such as financial leverage, investments, liquidity, return on equity, and firm size influence dividend payouts. Using a quantitative approach, the study applies statistical tools such as descriptive statistics, correlation matrices, and panel data analysis, selecting a random effects model to determine the relationships. The findings indicate that financial leverage negatively affects dividend payouts, while variables like the advances-to-deposit ratio, return on equity, investment, and firm size positively and significantly influence DPO. This research highlights the importance of these financial metrics in shaping dividend policies within the financial sector in Pakistan.

Poudel (2016) ^[17] examined the determinants of stock prices of private commercial banks listed on the Nepal Stock Exchange (NEPSE) using various statistical and financial tools, including arithmetic mean, correlation and regression analysis, and t-tests. The study employed a descriptive research design, analyzing data collected from a survey and processed through the SPSS tool to identify significant relationships between different variables. The results indicated that while Dividend Per Share (DPS), Book Value Per Share (BVPS), and Earnings Per Share (EPS) positively affected the Market Price Per Share (MPS), other internal and external factors also influenced stock prices. The study found that, although the theoretical relationship suggests that higher earnings, dividends, and book value should lead to higher stock prices, this was not always the case in the context of NEPSE. The research highlighted that various other factors beyond these traditional indicators also played a significant role in determining stock prices, challenging the straightforward theoretical expectations.

Khan and Ahmad (2017) ^[11] conducted an empirical study to explore the determinants of dividend payout among pharmaceutical companies listed on the Pakistan Stock Exchange (PSX). Utilizing financial data spanning from 2009 to 2014, the study examined the impact of profitability, growth opportunities, risk, liquidity, firm size, leverage, taxation, and audit type on dividend payout decisions. The researchers applied correlation analysis and backward multiple linear regression to assess the relationships and effects of these variables. The findings indicate that audit type, liquidity, growth opportunities, and profitability are significant determinants of dividend payout, collectively explaining 31.90% of the variation in dividend payout decisions among the sampled companies. Conversely, variables such as taxation, risk, firm size, and leverage were found to have an insignificant impact on dividend payout decisions. These results provide insights into the financial behaviors of pharmaceutical firms in Pakistan, highlighting the critical role of certain financial and operational factors in shaping dividend policies.

Olarewaju *et al.* (2018) ^[16] explored the relationship between dividend payout, retention policy, and financial

performance in commercial banks across 30 Sub-Saharan African countries. Their study, covering the period from 2006 to 2015, examined the causal relationship between two major dividend policies (dividend payout and retention policy) and financial performance, measured by Return on Assets (ROA). The empirical findings, based on the vector error correction model (VECM) and Granger causality tests, revealed that retention policies have a significant causal effect on performance (ROA). Both dividend payout and retention policies were found to be positively related to performance, but only retention policies were shown to Granger cause improved performance. The authors recommended that banks utilize their free cash flows effectively by investing in viable opportunities to enhance not only profit but also long-term wealth and survival.

Thapa (2021) ^[23] examines the impact of financial determinants on dividend payout ratios in Nepalese retail banks, using data from 19 commercial banks listed on the Nepal Stock Exchange. The study focuses on five key financial determinants: net profit, cash flow, size, market-to-book value, and slack. The analysis, which utilizes secondary data over five fiscal years, reveals that market-to-book value and slack positively and significantly affect dividend payout ratios. Additionally, the study finds a positive effect of size on the dividend payout ratio. In contrast, profitability and cash flows are found to have a negative impact on the dividend payout ratio of Nepalese retail banks. These findings highlight the complex interplay of financial factors influencing dividend decisions in the banking sector of Nepal.

Aryal (2022) ^[3] conducted a study on the dividend payout policies of Nepal Bank Limited, Rastriya Banijya Bank Limited, and Agricultural Development Bank Limited, analyzing secondary data from 2012/13 to 2021/22. The study found that larger banks, with greater financial strength, tend to pay higher dividends, while factors such as company size, leverage, and profitability significantly influence dividend payouts. Specifically, larger bank size and higher leverage were negatively correlated with dividend payouts, while increased profitability led to higher dividend payments. These results align with existing literature, which suggests that profitability supports dividend distribution, while higher leverage and larger size may reduce dividend payouts. Aryal's findings contribute to understanding how financial factors influence dividend decisions in the Nepalese banking sector.

Shrestha *et al.* (2023) ^[21] conducted a study to examine the impact of internal financial factors on stock prices in Nepalese commercial banks. Using a causal-comparative research design and a quantitative approach, the study analyzed secondary data from four banks such as Himalayan Bank Ltd., Sunrise Bank Ltd., Citizen Bank International Ltd., and Prime Commercial Bank Ltd. over a 10-year period (2010/11 to 2019/20). The results showed that Earnings Per Share (EPS) and Dividend Per Share (DPS) had a negative but statistically insignificant effect on Market Price Per Share (MPS), indicating no substantial influence on stock prices. Similarly, the Price-Earnings (P/E) ratio showed a positive but insignificant impact on MPS. However, both Book Value Per Share (BVPS) and the Market to Book Value (Mkt to BV) ratio had a positive and statistically significant effect on MPS, suggesting that increases in these variables lead to a notable rise in stock

prices. The authors concluded that while traditional financial metrics like EPS and DPS have minimal impact, book value-related metrics are more influential, suggesting the need for future research on the role of macroeconomic factors in stock price determination.

Dahal *et al.* (2024) ^[8] explore the impact of various financial determinants on the stock prices of Nepalese commercial banks. The study uses a sample of 10 commercial banks listed on the Nepal Stock Exchange, spanning 110 yearly observations from fiscal years 2012/13 to 2022/23. The research analyzes key financial metrics, including earnings per share (EPS), dividend yield, price-to-earnings (P/E) ratio, earnings yield, book value per share, money supply, market-to-book value ratio, and stock return. The findings reveal significant positive correlations between stock prices and EPS, dividend yield, P/E ratio, book value per share, money supply, and market-to-book value ratio. On the other hand, earnings yield is negatively correlated with stock prices. This research underscores the significance of profitability and price metrics, especially EPS, dividend yield, and P/E ratio, for investors in Nepal. Despite the study's limited sample size and focus on commercial banks, the findings provide valuable insights for investors and stakeholders in understanding stock price dynamics in the Nepalese banking sector.

Theoretical framework and definition of variables

The research frame is designed from dependent and independent variables which is influence on financial determinants on dividend payment ratio. It has been assuming that variable is dividend payout i.e. dependent and independent variable are net profit, bank size, cash flow, market to book value and slack. The research framework for the study is presented in the following figure.

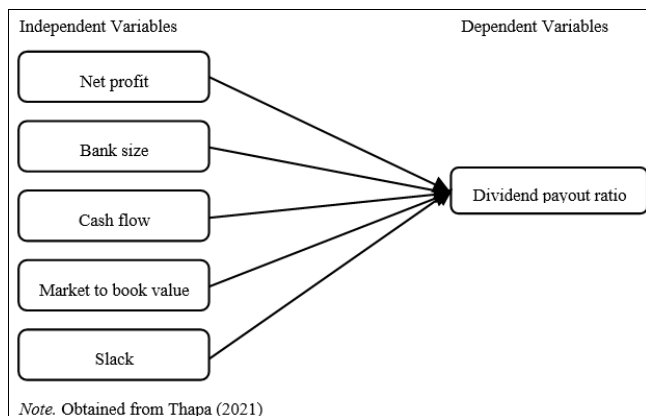


Fig 1: Theoretical framework and definition of variables

a. Dividend payout ratio

The dividend payout ratio is a financial metric that measures the percentage of earnings distributed to shareholders in the form of dividends. It is calculated by dividing the total dividends paid by a company over a specific period by its net income for the same period. The dividend payout ratio reflects a company's dividend policy and its willingness to share profits with shareholders. A high payout ratio indicates that a significant portion of earnings is being distributed to shareholders, while a low ratio suggests that the company is retaining more earnings for reinvestment in the business (Ross *et al.*, 2015) ^[19].

b. Net profit

Net profit, also known as net income or net earnings, is a financial metric that represents the total revenue of a company minus all expenses, taxes, and other deductions. It is the final amount of profit remaining after all costs of doing business have been accounted. The net profit is a fundamental measure of a company's profitability and is used to assess its financial performance over a specific period. It indicates the amount of income generated by the company's operations after accounting for all expenses, including operating expenses, interest payments, and taxes (Brigham and Ehrhardt, 2013) ^[7].

c. Bank size

Bank size refers to the scale or magnitude of a bank's operations, typically measured by its total assets, deposits, loans, or market capitalization. It reflects the extent of a bank's presence in the financial market and its capacity to serve customers, manage risks, and generate profits. The bank size is a significant determinant of a bank's performance and stability. Larger banks may benefit from economies of scale, allowing them to spread fixed costs over a larger asset base and offer a wider range of products and services. However, they may also face challenges related to complexity, regulatory compliance, and systemic risk (Berger and Mester, 1997) ^[5].

d. Cash flow

Cash flow is the movement of money into or out of a business, reflecting the company's ability to generate cash from its operations and manage its financial resources effectively. It encompasses both cash inflows and outflows, including revenues, expenses, investments, and financing activities. The cash flow analysis is essential for assessing a company's liquidity, solvency, and overall financial performance. Positive cash flow indicates that the company has enough cash to cover its operating expenses, invest in growth opportunities, and meet its financial obligations, while negative cash flow may signal financial distress and liquidity challenges (Gitman and Zutter, 2019) ^[10].

e. Market to book value

Market to book value, also known as price to book ratio, is a financial metric used to compare a company's market value to its book value. It is calculated by dividing the market price per share by the book value per share. The market to book value ratio provides insight into how investors perceive the value of a company relative to its accounting value. A ratio greater than 1 indicates that the market values the company's assets and earnings potential higher than their recorded book value, suggesting potential growth opportunities or favorable future prospects. Conversely, a ratio below 1 may indicate undervaluation or market skepticism regarding the company's performance and outlook (Brealey *et al.*, 2017) ^[6].

f. Slack

The concept of slack is important in financial analysis and management because it reflects inefficiencies or potential opportunities for improvement within an organization. Identifying and utilizing slack effectively can help optimize resource allocation, improve operational efficiency, and enhance overall financial performance. The slack (financial) is the unused capacity for debt and is equivalent to the

unutilized cash that a company has on hand. This extra money is available to help a company survive difficult times, such as decreases in sales, revenues, or profits. The slack has been calculated as the accumulated retained earnings divided by the total assets of the firm (Kaplan and Atkinson, 2015) ^[12].

Research methodology

The descriptive and causal comparative research design is used in this study for a clear presentation and analysis of existing patterns and trends. This study is based on secondary sources of data. This study selects 10 commercial banks, i.e., GBIME, NABIL, KBL, HBL, SANIMA, SBL, NMB, EBL, SCB, and MBL, out of the total 19 commercial banks of Nepal listed on NEPSE, using convenience sampling techniques to quickly gather data and cost-effectively access existing data sources. Thus, the study is based on 100 observations. The study is based on secondary data gathered from 10 commercial banks in Nepal over a 10-year period from 2070/71 to 2079/80. The variables analyzed are categorized into independent variables, including net profit, bank size, cash flow, market to book value ratio and slack ratio. This research empirically investigates how financial determinants affect the dividend payout of commercial banks in Nepal. The secondary sources include various issues of Banking and Financial Statistics, the Quarterly Economic Bulletin, and the Bank Supervision Report published by Nepal Rastra Bank, as well as the annual reports of the selected commercial banks.

Model specification

The main purpose of data analysis in this study is to explore the impact of financial determinants on dividend payout of commercial banks in Nepal. This study includes quantitative data, which is analyzed through descriptive statistics such as minimum, maximum, mean and standard deviation and inferential statistics such as reliability, correlation and regression methods. SPSS 20 is used to analyze the data and obtain the required information and results. For regression model is designed as dividend payout ratio is dependent variable and net profit, bank size, cash flow, market to book value and slack are taken as independent variables. The regression is presented as follows:

$$DPR = \beta_0 + \beta_1 NP + \beta_2 BS + \beta_3 CF + \beta_4 MBVR + \beta_5 SR + \epsilon$$

Where, is

- DPR_{it} = Dividend payout ratio
- NP_{it} = Natural logarithm of net profit
- BS_{it} = Natural logarithm of total assets
- CF_{it} = Natural logarithm of cash flow
- MBVR_{it} = Market to book value ratio
- SR_{it} = Slack ratio
- ε = Error term

Descriptive statistics

This table exhibits descriptive statistics (minimum, maximum, mean and standard deviation) of the variable being studied for the period of 2070/71 to 2079/80. The research variables are dividend payout ratio, net profit, bank size, cash flow, market to book value ratio and slack ratio has been explored in the following table.

Table 1: Descriptive statistics of research variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DPR	100	.00	105.26	19.8382	16.11642
NP	100	5.53	6.83	6.2383	.27114
BS	100	7.47	8.72	8.0822	.28108
CF	100	4.09	6.59	5.4975	.52947
MBVR	100	.00	13.43	3.5554	2.33453
SR	100	3.09	19.92	10.3670	4.08984

Note: Output from SPSS 20

Table 1 represents the descriptive statistics of research variables such as DPR, NP, BS, CF, MBVR and SR out of 100 observations. The minimum value indicates the dividend payout ratio and market to book value ratio which is not value and maximum value indicates dividend payout ratio i.e. 105.26% which is also high value of average as well as standard deviation so that it indicates the greater level of variability indicates to nearest the mean point of data. In contrast, average value is less in market to book value ratio i.e. 3.56 times but standard deviation is less in net profit which is lower level of variability.

Reliability analysis

To ensure the reliability of the data collected on these variables, Cronbach's alpha is used to assess the internal consistency of the measurement tools which is analyzed from each research variables of 10 commercial banks using the financial year 2070/71 to 2079/80. A high Cronbach's alpha (above 0.7) indicates that the items used to measure these variables are reliable and produce consistent results, strengthening the validity of the study's findings.

Table 2: Reliability analysis

Research Variables	Cronbach's Alpha	Remarks
Dividend payout ratio	.647	Acceptable
Net profit	.963	Excellent
Bank size	.990	Excellent
Cash flow	.395	Poor
Market to book value ratio	.947	Excellent
Slack ratio	-2.014	Inappropriate

Note: Output from SPSS 20

Inferential statistics

The inferential statistics were used to analyze the impact of financial determinants on dividend payout of commercial banks in Nepal. Furthermore, regression analysis quantified the independent variables are net profit, bank size, cash flow, market to book value and slack ratio and dependent variable is dividend payout ratio. The inferential statistics, including the correlation coefficient, regression analysis, and hypothesis tests, are presented stepwise.

i. Relationship between financial determinants on DPR

A positive Pearson's correlation means that when one variable increases, the other one also tends to increase, showing a direct relationship. A negative correlation means that when one variable goes up, the other goes down. The strength of the correlation is also important: values close to +1 or -1 show a strong relationship, while values near 0 suggest a weak or no relationship. This concept helps in understanding the relationship between the dividend payout ratio and financial factors like net profit, bank size, cash flow, market-to-book value, and slack ratio.

Table 3: Relationship between financial determinants on DPR

		DPR	NP	BS	CF	MBVR	SR
DPR	Pearson Correlation	1	.076	-.160	-.046	.597**	-.299**
	Sig. (2-tailed)		.450	.112	.649	.000	.003
NP	Pearson Correlation	.076	1	.823**	.053	-.135	-.358**
	Sig. (2-tailed)	.450		.000	.601	.180	.000
BS	Pearson Correlation	-.160	.823**	1	.136	-.392**	-.317**
	Sig. (2-tailed)	.112	.000		.177	.000	.001
CF	Pearson Correlation	-.046	.053	.136	1	-.155	.030
	Sig. (2-tailed)	.649	.601	.177		.123	.768
MBVR	Pearson Correlation	.597**	-.135	-.392**	-.155	1	-.321**
	Sig. (2-tailed)	.000	.180	.000	.123		.001
SR	Pearson Correlation	-.299**	-.358**	-.317**	.030	-.321**	1
	Sig. (2-tailed)	.003	.000	.001	.768	.001	
**. Correlation is significant at the 0.01 level (2-tailed).							
b. Listwise N=100							

Note: Output from SPSS 20

Table 3 presents the relationship between various financial determinants and the dividend payout ratio. The table shows Pearson correlation coefficients between the dividend payout ratio and several financial variables, alongside their statistical significance (p-values). The correlation with net profit is weak and not statistically significant (p = 0.450), while the relationship with bank size and cash flow is also weak, with p-values of 0.112 and 0.649, respectively. However, a significant positive correlation is observed between the dividend payout ratio and the market-to-book value ratio (r = 0.597, p < 0.01). Conversely, the slack ratio has a significant negative correlation with the dividend payout ratio (r = -0.299, p = 0.003).

ii. Regression coefficient

In the regression analysis using SPSS 20, the dividend payout ratio is the dependent variable, and net profit, bank size, cash flow, market-to-book value, and slack ratio are the independent variables. The regression coefficient shows how strong and in which direction each independent variable is related to the dividend payout ratio. It tells us how much the dividend payout ratio is expected to change when one independent variable changes by one unit, while keeping the other variables the same. The results are shown step by step, including the model summary, ANOVA, and regression coefficients.

Table 4: Regression coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	6.019	51.875		.116	.908
	NP	19.376	8.966	.326	2.161	.033
	BS	-15.415	9.813	-.269	-1.571	.120
	CF	1.693	2.474	.056	.684	.495
	MBVR	3.522	.736	.510	4.786	.000
	SR	-.415	.386	-.105	-1.075	.285
a. Dependent Variable: DPR						

Table 4 shows the regression coefficients for the predictors of the dividend payout ratio. The significant predictors are net profit (p = 0.033) and market-to-book value ratio (p = 0.000). Net profit has a positive relationship with the dividend payout ratio, while the market-to-book value ratio also shows a positive relationship. Bank size has a negative relationship, but it is not statistically significant (p = 0.120). Cash flow and slack ratio are also not significant (p = 0.495 and p = 0.285, respectively), with cash flow showing a

positive relationship and slack ratio showing a negative relationship.

Discussion

The discussion of impact of financial determinants on dividend payout ratio of commercial banks in Nepal reveals significant variations across different banks. It reveals that there is a weak and statistically insignificant relationship between net profit, bank size, and cash flow with the dividend payout ratio. In contrast, a notable positive correlation exists between the dividend payout ratio and the market-to-book value ratio and profitability, suggesting that banks with higher market value in relation to their book value tend to distribute more dividends. This results consistence with the finding mention by Ahmad and Muqaddas (2014), Olarewaju *et al.* (2018) [16], Kassie (2021), Girmay (2022), Dhungana *et al.* (2024), Shrestha *et al.* (2023) [21] and Dahal *et al.* (2024) [8] but inconsistency with finding mention by Thapa (2021) [23] and Zelalem (2021). Additionally, the slack ratio shows a significant negative correlation with the dividend payout ratio, indicating that companies with more slack resources may pay out fewer dividends. This results consistence with the finding mention by Aryal (2022) [3], Kinfe (2011), Thapa (2021) [23], Fahim *et al.* (2015) [9], Okpara (2010), Tahir and Mushtaq (2016) and Hosain (2016) but contradict with the finding mention by Malik *et al.* (2013) [14], Kassie (2021), Girmay (2022), Dhungana *et al.* (2024) and Zelalem (2021). The model overall shows a moderate relationship with the dividend payout ratio, explaining a substantial portion of its variance, and the regression model is statistically significant, suggesting that the predictors together influence dividend payout decisions. Among the predictors, net profit and the market-to-book value ratio are significant, both having a positive impact on the dividend payout ratio, this results consistence with the finding mention by Imran (2011), Ahmad and Muqaddas (2014), Bassey *et al.* (2014) [4], Fahim *et al.* (2015) [9], Poudel (2016) [17], Khan and Ahmad (2017) [11], Olarewaju *et al.* (2018) [16], Thapa (2021) [23], Kassie (2021), Aryal (2022) [3], Girmay (2022), Poudel (2024) and Dahal *et al.* (2024) [8] but contradict with the finding mention by Kinfe (2011), Malik *et al.* (2013) [14], Zelalem (2021), Shrestha *et al.* (2023) [21] and Dhungana *et al.* (2024), while other factors like bank size, cash flow, and slack ratio have weaker or no significant effects. This results consistence with the finding mention by Okpara (2010), Kinfe (2011), Bassey *et al.* (2014) [4], Tahir and Mushtaq (2016), Khan and Ahmad (2017) [11] and Dhungana *et al.* (2024) but inconsistency with the finding mention by Imran (2011), Musiega *et al.* (2013), Fahim *et al.* (2015) [9], Hosain (2016), Thapa (2021) [23], Zelalem (2021), Aryal (2022) [3] and Girmay (2022).

Conclusion

In conclusion, the study provides valuable insights into the impact of financial determinants on dividend payout ratio of commercial banks in Nepal. The findings reveal that while the average DPR varies across banks, with NABIL showing a higher average and KBL a lower one, the spread of data also differs, with some banks displaying more variability in key financial variables. The market-to-book value ratio emerges as a significant factor positively influencing DPR, suggesting that banks with higher market values relative to their book values tend to distribute higher dividends.

Conversely, net profit, bank size, and cash flow demonstrate weak or insignificant correlations with DPR, indicating these factors may not be as crucial in dividend decisions. Furthermore, the slack ratio is negatively correlated with DPR, implying that banks with more available resources may choose to retain earnings. The study also highlights the importance of improving the reliability of certain financial metrics like cash flow and slack ratio, which showed poor reliability. Overall, the results suggest that banks should focus on enhancing market value and consider adjusting dividend policies to align with investor expectations, while regulators could promote greater transparency in dividend decisions.

Implications

The major implications of the study are as presented in the following points.

- Banks with a higher market-to-book ratio are likely to pay higher dividends, suggesting a focus on enhancing market value.
- Banks with significant slack resources might consider revising their dividend policies, as higher slack could lead to lower dividend payouts.
- Investors may prioritize banks with higher market-to-book ratios as these banks are more likely to offer better dividend returns.
- Understanding the limited impact of net profit and cash flow on dividend decisions can help investors adjust their expectations regarding dividend yields.
- Banks with low market-to-book ratios should explore strategies to improve market performance, as this factor significantly influences dividend payouts.
- The study suggests that banks should align dividend policies with factors that investors care about, particularly market value, rather than focusing solely on net profit.
- The study highlights the need for better reliability in cash flow and slack ratio data, which showed poor consistency. Improving these metrics can lead to more accurate predictions of dividend payouts.
- Regulators may encourage banks to disclose more information about the financial determinants influencing dividend payouts, especially concerning market-to-book ratios and slack resources, for better transparency and market stability.
- Future research could investigate other factors not covered in this study, such as liquidity ratios or capital adequacy, to better understand their impact on dividend payout ratios in Nepali commercial banks.
- Researchers could conduct longitudinal studies to track how financial determinants affect DPR over time and compare Nepali banks' dividend policies with those of banks in other countries to identify global trends.

References

1. Acharya B, Koirala S. Financial determinants of dividend payout in Nepalese commercial banks. *Journal of Business and Social Sciences*,2015:4(2):45-59.
2. Allen, F, Michaely R. Payout policy. *Handbook of the Economics of Finance*,2003:1:337-429. [https://doi.org/10.1016/S1574-0102\(03\)01007-5](https://doi.org/10.1016/S1574-0102(03)01007-5)
3. Aryal S. Dividend payout policies of Nepal Bank Limited, Rastriya Banijya Bank Limited, and Agricultural Development Bank Limited. *Nepal Business Review*,2022:12(1):72-87.
4. Bassey BE, Agbonifoh BA, Akpan U. Determinants of dividend payout in selected commercial banks in Nigeria. *International Journal of Business and Social Science*,2014:5(8):96-104. <https://doi.org/10.30845/ijbss.v5n8p13>
5. Berger AN, Mester LJ. Inside the black box: What explains the differences in the efficiencies of financial institutions? *Journal of Banking & Finance*,1997:21(7):895-947. [https://doi.org/10.1016/S0378-4266\(97\)00010-1](https://doi.org/10.1016/S0378-4266(97)00010-1)
6. Brealey RA, Myers SC, Allen F. *Principles of corporate finance* (12th ed.). McGraw-Hill Education, 2017.
7. Brigham EF, Ehrhardt MC. *Financial management: Theory and practice* (14th ed.). Cengage Learning, 2013.
8. Dahal K, Shrestha A, Poudel N. The impact of financial determinants on stock prices of Nepalese commercial banks. *Journal of Economics and Business*,2024:16(2):34-49.
9. Fahim SM, Khurshid M, Tahir A. Determinants of dividend payout in the financial sector of Pakistan. *Journal of Finance and Economics*,2015:3(5):103-112. <https://doi.org/10.12691/jfe-3-5-1>
10. Gitman LJ, Zutter CJ. *Principles of managerial finance* (15th ed.). Pearson, 2019.
11. Khan M, Ahmad Z. Determinants of dividend payout among pharmaceutical companies listed on the Pakistan Stock Exchange. *International Journal of Economics and Finance*,2017:9(12):132-142. <https://doi.org/10.5539/ijef.v9n12p132>
12. Kaplan RS, Atkinson AA. *Advanced management accounting* (3rd ed.). Pearson Education, 2015.
13. Lintner J. Distribution of income of corporations among dividends, retained earnings, and taxes. *The American Economic Review*,1956:46(2):97-113. <https://www.jstor.org/stable/1809822>
14. Malik F, Tufail M, Naseem MA. Determinants of corporate dividend payout decisions: Evidence from Karachi Stock Exchange (KSE) listed companies. *European Journal of Business and Management*,2013:5(13):87-101. <https://doi.org/10.2139/ssrn.2250542>
15. Neal L. The rise of the modern corporation and the history of dividends: A study of dividend payments in European companies in the 17th century. *Financial History Review*,1990:17(3):17-31. <https://doi.org/10.1017/S0968565000000199>
16. Olarewaju OA, Adebayo SA, Tijani S. Dividend payout, retention policy, and financial performance in commercial banks: Evidence from Sub-Saharan Africa. *African Journal of Economic Review*,2018:6(2):118-136. <https://doi.org/10.18855/ajer.v6i2.3729>
17. Poudel N. Determinants of stock prices in Nepalese commercial banks listed in the Nepal Stock Exchange (NEPSE). *Nepal Business Review*,2016:8(1):55-72.
18. Poudel S. Financial determinants of dividend payout ratios in Nepalese commercial banks: Empirical evidence from listed banks in Nepal. *Journal of Banking and Finance*,2020:11(3):128-139.
19. Ross SA, Westerfield RW, Jaffe J. *Corporate finance* (11th ed.). McGraw-Hill Education, 2015.

20. Shrestha S, Adhikari R. Determinants of dividend payout ratio in Nepalese commercial banks. *Nepal Journal of Business Studies*,2019;11(1):47-59.
21. Shrestha A, Poudel B, Aryal N. The impact of internal financial factors on stock prices in Nepalese commercial banks. *Nepal Journal of Economics*,2023;9(2):61-73.
22. Smith A. Dividends in the 19th century: A study of dividend payouts in the industrial revolution. *Business History Review*,2012;86(1):45-61. <https://doi.org/10.1017/S0007680512000101>
23. Thapa S. Impact of financial determinants on dividend payout ratios in Nepalese retail banks. *Nepal Financial Review*,2021;7(2):39-51.