FIRM SPECIFIC DETERMINANTS OF DIVIDEND PAYOUT: AN ANALYSIS OF GOVERNMENT AND PRIVATE BANKS

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

by

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Firm Specific Determinants of Dividend Payout: An Analysis of Government and Private Banks"**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation

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Report of Research Committee

Ms. Pooja Pradhananga has defended research proposal entitled **"Firm Specific Determinants of Dividend Payout: An Analysis of Government and Private Banks"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work and guidance of supervisor and submit the thesis for evaluation and viva voce examination.

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We have examined the dissertation entitled **"Firm Specific Determinants of Dividend Payout: An Analysis of Government and Private Banks"** presented by **Pooja Pradhananga** a candidate for the degree of Master of Business Studies (MBS). We hereby certify that the dissertation is acceptable for the award of degree.

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Abbreviations

CAPM	: Capital Assets Pricing Model
DDM	: Dividend Discount Model
CV	: Coefficient of Variance
GDP	: Gross Domestic Product Growth
INF	: Inflation Rate
IR	: Interest Rate
MBS	: Master in Business Studies
NEPSE	: Nepal Stock Exchange
NRB	: Nepal Rastra Bank
SP	: Stock Price
SD	: Standard Deviation
SPSS	: Statistical Package for Social Science
TU	: Tribhuvan University
UR	: Unemployment Rate

Abstract

Dividend decisions are pivotal in corporate finance, impacting shareholder wealth and firm financial health. This study examines the determinants of dividend payout ratios across six commercial banks in Nepal over a comprehensive ten-year period from 2013/14 to 2022/23. Utilizing a combination of descriptive and analytical research designs, the investigation focuses on key financial metrics including profitability, liquidity, firm size, growth prospects, leverage, and earnings per share (EPS) to discern their influence on dividend policy formulations. The findings suggest a complex relationship between these factors and dividend payout decisions. While leverage and EPS exhibit a positive correlation with dividend payments, indicating that banks with higher leverage and EPS tend to distribute higher dividends, profitability, liquidity, size, and growth demonstrate a negative correlation. This implies that factors such as greater profitability or larger size do not necessarily lead to higher dividend payouts in the sampled banks. Statistical analysis, including Pearson correlation and regression models, reveals that these variables do not consistently and significantly predict dividend payout ratios across the banks studied except size of the bank have negative significant effect on dividend payout ratio. The study underscores the lack of a uniform dividend policy among Nepalese commercial banks, highlighting that dividend decisions appear to be influenced by a multitude of factors beyond straightforward financial metrics. Consequently, the implications for bank management and policy makers are substantial. Financial directors and boards are encouraged to carefully consider the interplay of profitability, liquidity, growth trajectories, and leverage in their dividend policy frameworks to better align with shareholder expectations and market dynamics.

Keywords: *Dividend policy, commercial banks, Nepal, profitability, liquidity, firm size, growth, leverage, earnings per share, shareholder expectations, financial management*

CHAPTER I
INTRODUCTION

1.1 Background of the Study

The determination of dividend payout is a critical aspect of financial management for commercial banks and other businesses, impacting their relationship with shareholders, capital structure, and overall financial stability. Dividends refer to cash payments that corporations distribute to their shareholders as a way to reward their investment and trust in the company. These payments usually come from the company's earnings, and the decision to pay dividends is influenced by various internal and external factors. It is crucial for both academics and practitioners in the finance field to understand the factors that determine dividend payout in commercial banks (John & Muthusamy, 2010).

The concept of return on investment encompasses both capital appreciation and dividends. Shareholders receive dividends, which represent a portion of the company's profits after taxes. The amount of dividend received is determined by the number of shares held by an individual. Dividends are a way for companies to distribute their earnings to shareholders and can be given in the form of cash or new shares. Essentially, dividends are the profits that belong to a company's shareholders. On the other hand, retained earnings are the profits that have not been distributed. The decision to issue dividends or retain earnings lies with the company's board of directors. Dividend policy involves making choices about distributing dividends and retaining profits. Although many firms choose to pay dividends instead of reinvesting profits, this remains a topic of debate in the corporate finance field (Dakito, 2015).

The rationale behind corporate dividend policy has been a subject of ongoing investigation in financial literature, with no definitive theory providing a conclusive explanation for why firms choose to pay dividends. This quest for understanding gained momentum after the publication of Miller and Modigliani's dividend irrelevance hypothesis, which suggested that dividend policy would have no impact on a company's value in an ideal capital market. However, this perspective is questioned when considering real-world market imperfections such as taxes, transaction costs, information asymmetry, and agency problems. Examining these market intricacies reveals significant flaws in M&M's idealized premise. These imperfections have led to

the development of various theories and models in dividend policy research. Notable among these are tax preference theories, clientele effects, signaling theories, and considerations of agency costs, all of which have evolved to address these market shortcomings.

Bhattacharya (1979) introduced a theory under the concept of information asymmetry, suggesting that dividends, especially in conditions of information asymmetry, convey crucial information about a firm's future prospects. This theory implies that higher dividend payouts can be a strategic response to agency issues, as proposed by Easterbrook (1984). By distributing a significant portion of profits as dividends, a company can limit the discretion of its management over available funds and mitigate agency conflicts. Additionally, there are several other models and concepts that contribute to our understanding of the complex relationship between information asymmetry and the transmission of information in dividend behavior. These diverse theories enrich the landscape of dividend policy research and provide a nuanced understanding of the various factors that influence a company's dividend decisions and their practical implications (Bhattacharya, 1979; Easterbrook, 1984).

The determinants of dividend payout in commercial banks are multifaceted and include profitability, liquidity, size, growth prospects, regulatory constraints, taxation policies, and macroeconomic conditions. These factors collectively shape a bank's approach to distributing dividends, balancing the reward to shareholders with the need to maintain financial stability and growth. A comprehensive understanding of these determinants is crucial for bank executives, investors, and policymakers as they navigate the complex landscape of dividend policy in the banking sector.

Several studies have examined the determinants of dividend payout in developed capital markets, mostly based on data from developed and developing countries. However, the findings based on data from developing countries have not been adequately tested for their consistency and validity in the case of Nepal. Therefore, it can be argued that the existing empirical evidence is insufficient when it comes to developing countries like Nepal. This study aims to fill this gap by using recent data to explore the dynamics of dividend decisions and the determinants of dividend payout that are most valued by commercial banks in developing capital markets like Nepal. Furthermore, it is essential

to understand how different banks formulate their dividend policies and consider the determinants before making dividend payout decisions.

1.2 Problem Statement

Successful companies generate profits from their operations, and these profits can be allocated in various ways, including investments in operating assets, acquisitions of securities, debt reduction, or distribution to shareholders. The portion of earnings distributed to shareholders is commonly referred to as dividends. When a company decides to distribute its earnings to shareholders, several key issues come into play. These include determining the proportion of earnings to be distributed to shareholders, the method of distribution (whether as cash dividends or through share repurchases), and the stability of the distribution over time. The complexity of this issue has attracted significant attention from researchers in corporate finance due to its sensitive nature, as it involves meeting shareholders' expectations and reducing conflicts among the firm's stakeholders. Furthermore, variations in dividend practices across different countries add to the puzzle of dividend payout policy, which remains one of the top ten most challenging unsolved problems in financial economics (Brealey et al., 2005; Felix et al., 2015).

While empirical data largely aligns with theoretical assumptions concerning dividend policy, there are instances where a disparity exists between observed outcomes and theoretical predictions. Researchers continue to actively investigate this domain to establish a robust theoretical framework and empirical analysis for dividend policy, despite the absence of a consensus answer to this financial quandary. From the perspective of respondents, a prevailing consensus emerges regarding the determinants of corporate dividend policy, with earnings being ranked as the most influential factor, followed by cash availability, past dividends, and concerns about maintaining or enhancing stock prices (Pradhan & Adhikari, 2004).

Numerous studies have examined the determinants of dividend payout in commercial banks across different countries. Bassey et al. (2014) focused on Nigerian banks and found that cash dividend payouts were influenced by factors such as current earnings, lagged dividend, and lending rates, highlighting a conservative financial management approach. Yushuf and Muhammed (2015) also studied Nigerian banks and identified profitability, liquidity, size, and financial leverage as significant determinants of

dividend payouts, emphasizing the importance of financial health and size in shaping dividend policies. Ahmad and Muqaddas (2016) analyzed Pakistani banks and discovered positive correlations between the dividend payout ratio and safety and profitability, suggesting that banks with higher payout ratios are perceived as safer. Hosain (2016) investigated Bangladeshi banks and found that liquidity, firm growth, and past dividends positively influenced dividend payout ratios, while leverage and profitability had a negative impact. These studies collectively provide insights into the diverse factors shaping dividend policies in commercial banks across different countries.

Lawrence and Clementina (2017) examined Nigerian deposit money banks and found a significant relationship between firm performance and dividend payout variables, while Raphael and Mnyavanu (2018) delved into the Dar es Salaam Stock Exchange-listed commercial banks and identified profitability, liquidity, growth, and financial leverage as key determinants of dividend payout decisions. Pradhan and Gautam (2019) conducted research on Nepalese commercial banks and highlighted the inverse relationship between dividend payout ratios and share price volatility, underscoring the importance of dividend policy in managing share price fluctuations. Adugna et al. (2020) examined private banks in Ethiopia and highlighted the impact of factors such as liquidity, bank size, inflation, and growth opportunities on dividend payouts. Jovković et al. (2021) explored Serbia's banking sector and emphasized the role of past dividends in shaping current dividend policies. Thapa (2021) underscored the influence of market-to-book value, slack, size, profitability, and cash flows on dividend payout ratios in retail banks in Nepal. Zelalem (2021) investigated Ethiopian commercial banks and found that return on equity, corporate tax rate, and the extent of shares distributed were significant factors affecting dividend payout ratios. Bhatt and Jain (2022) focused on the impact of Economic Policy Uncertainty (EPU) on dividend distribution strategies in Nepal and noted that EPU had no significant direct relationship with dividend decisions. Lastly, Onyeka (2022) explored factors affecting dividend payout rates in Nigerian commercial banks, highlighting the significance of retained earnings and bank age in predicting changes in the dividend payout ratio.

Although dividend policy remains a subject of controversy for many finance scholars, the belief that dividends play a significant role has been illustrated by the many empirical studies and behavioral surveys conducted on dividends. A deeper

understanding of the motivation behind dividends would provide an opportunity to better value stocks, as dividends are a key element in most current stock valuation models. While there is no consensus solution for the subject of dividend policy, researchers continue to conduct studies in this field to obtain a strong theoretical and empirical analysis of dividends (Kania & Sharon, 2005).

Thus, it is utmost need to conduct the research on determinants of dividend payout that will help unfold the puzzles regarding dividends and can have some clear indication of relationship between theory and practices in Nepalese perspective. In that case, this study attempts to analyze the trend pattern and relationship of dividend payout and its determinants namely profitability, liquidity, leverage, growth, size and EPS. In examining the firm specific factors of dividend payout determinants of Nepalese government and private commercial banks, this study was addressed the following research questions:

i. What is the existing scenario in dividend payout ratio and its firm-specific determinants such as profitability, liquidity, growth in net revenue, size, leverage and earnings per share among the sample banks?
ii. What is the relationship between dividend payout ratio and its firm-specific determinants profitability, liquidity, growth in net revenue, size, leverage and earnings per share in the sample commercial banks?
iii. What is the impact of firm-specific determinants profitability, liquidity, growth in net revenue, size, leverage and earnings per share on the dividend payout ratio (DPR) of the sample commercial banks?

1.3 Objective of the Study

The major objective of the study is to examine the determinants of dividend payout of Nepalese commercial banks. However, the specific objectives of this study are as follows:

i. To assess the existing scenario in the dividend payout ratio and its firm-specific determinants, including profitability, liquidity, growth in net revenue, size, leverage and earnings per share among the sample banks.
ii. To investigate the relationship between the dividend payout ratio and its firm-specific determinants profitability, liquidity, growth in net revenue, size, leverage and earnings per share in the sample commercial banks.

iii. To analyze the impact of firm-specific determinants profitability, liquidity, growth in net revenue, size, leverage and earnings per share on the dividend payout ratio of the sample commercial banks.

1.4 Hypothesis of the Study

Based on the empirical evidence and the objective of the study, the following hypothesis were tested:

H_0: Profitability has a positive significant relationship with dividend payout.

H_1: Liquidity has a positive significant relationship with dividend payout.

H_2: Growth has a positive significant relationship with dividend payout.

H_3: Size has a positive significant relationship with dividend payout.

H_4: Leverage has a negative relationship with dividend payout.

H_5: Earnings per share has a negative relationship with dividend payout.

1.5 Rationale of the Study

The rationale for conducting a study on the determinants of dividend payout in the context of Nepal's banking sector is multifaceted and holds significant importance. Firstly, Nepal's banking industry has experienced noteworthy growth and transformation in recent years, making it an intriguing subject for research. As the country's economy evolves and banking institutions expand their operations, understanding the factors influencing dividend decisions becomes crucial for investors, policymakers, and bank managers alike.

Secondly, Nepal's unique economic and regulatory environment, which can differ substantially from that of larger, more developed economies, provides an interesting backdrop for examining dividend policies. Factors such as market dynamics, regulatory frameworks, and economic stability specific to Nepal may influence how banks approach dividend distribution.

Furthermore, the Nepalese banking sector is characterized by a mix of domestic and international banks, each with varying strategies and priorities. Research into dividend determinants can shed light on how these banks navigate dividend decisions within the context of Nepal's financial landscape.

Additionally, given the importance of financial markets in supporting economic growth and stability, a comprehensive understanding of dividend policies in Nepalese banks

can have implications for broader economic development. The study can contribute to discussions about the role of banks in capital allocation, risk management, and economic growth within Nepal.

Lastly, as Nepal continues to open up to international markets and investors, insights into the determinants of dividend payouts can help attract foreign investments and foster confidence in the country's banking sector. Thus, the rationale for this study lies in its potential to offer valuable insights into dividend policies within the unique context of Nepal's evolving banking industry, benefiting various stakeholders and contributing to the country's economic growth and financial stability.

1.6 Limitations of the Study

Basically, this research is for the partial fulfillment of MBS degree. But the research has its own limitations which are listed below:

- The nature of the study, spanning a decade, may not account for recent developments, regulatory changes, or economic fluctuations that could affect dividend policies, potentially limiting the relevance of findings to the current banking landscape.
- The study focuses on specific independent variables (liquidity, profitability, growth, size, leverage, and EPS) while excluding other potential determinants, such as regulatory changes, macroeconomic conditions, and management preferences, potentially leading to omitted variable bias and incomplete explanatory power.
- Reliance on secondary data sources, such as annual reports and financial statements, may introduce limitations related to data accuracy, consistency, and completeness, potentially impacting the robustness of findings.
- The study's specific focus on Nepal's banking sector may restrict the generalizability of results to other industries or countries with different economic structures and regulatory environments, limiting the broader applicability of findings.
- The study does not explore the behavioral aspects, motivations, or preferences of bank managers and stakeholders, missing a potential deeper understanding of dividend policy decisions.

CHAPTER II
LITERATURE REVIEW

A literature review involves thoroughly examining existing research and key aspects related to the planning of a study within the same research field. It is crucial to acknowledge and build upon prior studies as they provide the basis for current research, ensuring a coherent progression in the field. The main objective of the current study is to investigate the determinants of dividend payout practices specifically in the commercial banking sector, focusing on six prominent commercial banks: ADBL, NBL, EBL, SCBNL, PCBL, and CZBIL. To accomplish this objective, a comprehensive review of relevant literature in this domain is necessary. This review aims to provide valuable insights, alternative perspectives, and important considerations by examining a wide range of sources, including books, magazine articles, previous theses by peers, and research published in journals. This chapter consists of a theoretical review and an extensive analysis of various studies, forming a solid foundation for the present research.

2.1 Theoretical Review

When a company disburses dividends to its shareholders, it does so utilize its distributable profits. In simpler terms, dividends represent payments made to shareholders from the earnings generated through the regular operations of the company. The segment of a company's earnings allocated to its shareholders is known as the dividend payout. The precise dividend amount is typically disclosed during the company's annual shareholders meeting. Shareholders receive dividends in proportion to their ownership stake in the company, and these dividends may be distributed in the form of cash or non-cash assets once authorized by the board of directors (Droughty, 2000).

2.1.1 Concept of Dividend and Dividend Payout

Dividend policy is often considered to be a residual investment strategy. This strategy distributes dividends from the remaining earnings after completing all potential investment opportunities. This approach's dividend policy is described as basically passive, with dividends being the residual amount that is available after a firm has satisfied all of its financial commitments and made provisions for profit retention and other eventualities (Kanniainen, 2007). Essentially, dividends are the percentage of

profits that are left over after meeting fixed obligations such as operating expenditures, interest payments, depreciation allowances, and reserves for future requirements. Dividends essentially represent the percentage of profits remaining after meeting fixed obligations like operating expenditures, interest payments, depreciation allowances, and reserves for future requirements.

In his work from 1979, Mathur highlights the significance of dividend choices in the context of financial management. These decisions include making a choice between distributing profits to shareholders and reinvesting those earnings to support the firm's operations. Determining the percentage of earnings to distribute to shareholders, versus the amount to retain within the firm, significantly impacts the company's financial structure, cash flow, liquidity, and the sentiment of employees and investors. This makes it a crucial topic for all stakeholders, significantly contributing to the overall corporate strategies aimed at boosting a company's common stock value. Dividends often reflect the proportion of retained profits distributed to shareholders. Conversely, management employs dividend policies to determine the distribution of retained earnings as dividends.

Guo (2002) investigates the discretionary nature of dividends, highlighting the board of directors' discretion in determining the payout size. When seen in this light, dividend payments are equivalent to decisions made by the board of directors, which gives them the authority to make decisions on dividend declarations. The corporate charter grants the board of directors the authority to decide on both the amount and distribution of dividends to shareholders. The board of directors bears the responsibility of deciding on the distribution of dividends. The directors, at a board meeting in accordance with the organization's charter and bylaws, adopt a resolution that specifies the dividend amount for the relevant period, the payment date, and the date when the firm became the owner of record. The company has a legally enforceable responsibility to pay the promised dividends. If the board of directors decides to withhold an announced dividend, shareholders have the legal right to demand its distribution. Guo (2002) asserts that shareholders possess a legitimate entitlement to the dividends, thereby establishing a vested interest in these entitlements. The fact that dividend policy is a difficult topic and plays a significant role in financial decision-making underscores its significance as a key component of corporate finance. These considerations provide a comprehensive understanding of this crucial aspect of financial management,

encompassing the fundamental nature of dividends, their discretionary nature, and the legal obligations associated with their declaration.

Businesses use a variety of dividends to provide returns to their shareholders. Businesses often pay out conventional cash dividends, but these dividends extend beyond them. Stock dividends, bond dividends, property dividends, and scrip dividends are some of the possibilities that are available (Brigham & Ehrhardt, 2017; Ross et al., 2019). Many Nepalese businesses mix cash dividends with stock dividends, commonly known as bonus shares. This practice is popular in Nepalese enterprises.

Cash dividends, one of the most common types of dividends, distribute cash payments to shareholders on a per-share basis. The board of directors determines the payment date, which coincides with the record date for dividend disbursement to shareholders (Ross et al., 2019). According to Brigham and Ehrhardt (2017), in order for a business to be able to pay out cash dividends, it is required for the firm to have adequate money in its coffers and retained profits. Furthermore, a consistent dividend policy is dependent on budgeting to guarantee the necessary financial reserves.

When a firm strives to maintain investor satisfaction with limited operating funds, it may opt to issue stock dividends, also known as bonus shares (Brigham & Ehrhardt, 2017). Ross et al. (2019) state that the original shareholdings of each equity shareholder determine their entitlement to a certain number of new shares. Not only does this have an effect on the company's issued capital, but it also has an effect on indicators like market price, earnings per share (EPS), and dividend per share (DPS) (Zameer et al., 2013).

The buyback of shares is yet another method that companies use in situations where there are insufficient chances for profitable investments. Brigham and Ehrhardt (2017) and Ross et al. (2019) anticipate a decline in future profits, resulting in changes to the capital structure and a rise in debt. Brigham and Ehrhardt (2017) assert that share repurchases can offer tax benefits not found in dividends and can serve as a substitute for traditional payout programs.

Stock splits are a method of changing the total number of shares in a corporation without having an effect on the business's capital accounts. Generally, companies do

this to lower the stock price and draw in smaller investors (Ross et al., 2019). Reverse splits can also maintain market efficiency (Pandey, 1995).

Brigham and Ehrhardt (2017) state that a corporation distributes scrip dividends when it lacks the necessary funds to pay dividends and instead makes promises to pay at a later date. Zameer et al. (2013) state that they may either be interest-bearing or non-interest-bearing accounts. Corporations can customize the distribution of returns to shareholders in accordance with their own financial conditions and investor preferences by using a wide range of dividend types.

A fundamental facet of commercial banks is the distribution of dividends, which is also an essential component of the investment choices that shareholders contemplate. According to Gaines-Ross (2017), the term "dividend payout" refers to the practice of distributing a part of a business's earnings to its shareholders as an incentive for them to further their investment in the firm. The distribution of dividends is one of the most important indicators of commercial banks' financial success and capacity to produce profits for shareholders.

It is the responsibility of commercial banks to allocate a portion of their earnings to shareholders in the form of dividends. Commercial banks make money by collecting interest from a variety of lending operations. Dividends were previously considered the primary incentive for investing in the stock market because they offered a consistent return on investment. Nevertheless, investors began to recognize the benefits of capital gains, which are defined as the rise in the value of the shares over time. According to Beasley (2017), capital gains are those that occur when the share price of a firm increases over a period of time. This is often the outcome of the company's growth and profitability.

Dividend distributions continue to be an essential component of the financial success of commercial banks, despite the fact that investor tastes are constantly shifting. According to Li, Lu, and Su (2015), dividend distributions are crucial for commercial banks because they encourage investors to participate in the stock market, which in turn reflects well on the banks' financial performance. An indication of its stability, profitability, cash flow, and predicted future success is the dividend distribution that the company makes. According to Gaines-Ross (2017), in order to be considered

trustworthy, stable, and financially sound, a corporation must have a dividend distribution that is both constant and steady.

There are both positive and negative effects that the dividend distribution in commercial banks has both positive and negative effects on the actions that shareholders take regarding their investments. Generally, investors gravitate towards commercial banks that offer substantial dividends, as these distributions signify favorable financial outcomes. The presence of high dividends is indicative of consistent profitability, solid cash flow, and a good prospect for investment. As a result, investors frequently interpret large dividend distributions as an indication of less risk and less uncertainty in the process of anticipating cash flows (Murphy, 2018). High dividend distributions also provide shareholders with a direct cash inflow, which they may utilize for reinvestment or other reasons. This cash inflow can be used for many different objectives.

On the other side, if the firm pays out an excessive amount of dividends, it may leave itself with little financial flexibility for prospective investments that will allow it to develop and innovate. According to Patterson and Shappee (2017), excessive dividend distributions may result in a drop in retained earnings, which in turn can impact the growth prospects, borrowing capacity, and financial stability of the firm. The company pays dividends to its shareholders from its profits. Additionally, shareholders may expect that the firm will continue to pay out dividends at the same level in the future. This may put pressure on management to continue paying dividends, even at times when the company's profitability is on the decline.

When it comes to commercial banks, dividend distribution is an extremely important factor in attracting shareholders and providing them with a reliable stream of revenue. The number of dividends distributed by a firm is a crucial measure of its financial health. Indicators of a constant and steady dividend distribution include robust financial performance, increasing cash flow, and strong investor confidence. Nevertheless, excessive dividend distributions have the potential to restrict the financial flexibility of a firm and slow down its development possibilities. Since this is the case, commercial banks are required to strike a balance between providing enough dividends to shareholders and keeping adequate revenues in order to preserve their financial stability and continue to expand their businesses.

2.1.2 Determinants of Dividend Payout

The determination of dividend payouts by companies has been extensively researched and debated within finance and corporate governance. Understanding the factors that influence a company's decision to pay dividends is essential for investors, financial analysts, and policymakers. Several key determinants have been identified and explored in the literature:

2.1.2.1 Profitability

Profitability is a basic financial indicator that shows a company's ability to generate profits relative to its total assets. Profitability is people often quantify profitability using the return on assets (ROA) ratio. 2008) determine return on assets (ROA) by dividing a business's net income by its average total assets over a specific time period. This provides information on how well a company makes use of its assets in order to earn profits. When it comes to commercial banks, return on assets (ROA) is an essential performance metric that evaluates the capabilities of the bank to create profits from its asset base, particularly via operations related to lending and investing (Hosain, 2016).

It is difficult to understand the connection between commercial banks' dividend distributions and their profitability, as measured by return on assets (ROA). Berger and Bouwman (2013) assert that a higher ROA signifies a bank's efficient use of its assets to generate profits, thereby generating the financial ability to distribute dividends to shareholders. Banks with a high level of profitability are often in a better position to pay dividends to their shareholders because they are able to spread their profits.

However, various circumstances can influence the impact of ROA on dividend distributions. Because banking rules often demand minimum capital adequacy ratios, regulatory requirements play a crucial role in today's financial system. According to Altunbas et al. (2010), corporations have a responsibility to guarantee that dividend payments do not reduce their capital reserves. There is a possibility that highly successful banks are more likely to issue dividends; nevertheless, these banks are also required to maintain regulatory compliance. In addition to this, the strategic objectives of a bank are considered noteworthy. Even if they have a high return on assets (ROA), banks that are in a development period or that have large investment prospects may decide to keep their profits rather than paying them out as dividends. They prioritize capital investments to support expansion, acquisitions, or risk management.

The state of the economy and the interest rate environment may also influence dividend decisions. It is possible for financial institutions to modify their dividend policy in reaction to changes in economic circumstances or expectations. During times of economic unpredictability, financial institutions may choose to keep their profits rather than distribute dividends in order to strengthen their financial stability. Furthermore, investors' preferences and market expectations may influence dividend selection. If a bank may feel pressure to maintain or boost dividend distributions, even if its return on assets (ROA) is strong, if it has a history of paying dividends and has attracted investors who are particularly focused on income.

Furthermore, Brealey et al. (2008) assert that while a high ROA is often associated with a bank's ability to pay dividends, a number of dynamic elements also play a role. Regulatory requirements, strategic goals, economic circumstances, and investor expectations may influence the dividend policy choices made by commercial banks. As a result, dividend payments might vary despite differences in return on assets (ROA). According to Hosain (2016), a high return on assets (ROA) is a favorable sign; nevertheless, it is not the only element that determines dividend distributions in the banking industry. This is because banks are required to consider a variety of internal and external criteria when developing their dividend policies.

2.1.2.2 Liquidity

The liquidity of a corporation measures its capacity to satisfy its short-term financial commitments by rapidly and effectively turning its assets into cash. It indicates the ease with which a business may acquire finances to handle urgent operational demands, such as paying bills and completing customer orders. An example of this would be satisfying consumer orders. According to Allen and Gale (2004), the primary definition of liquidity in commercial banks is the capacity to service customers' withdrawals of deposits and other short-term obligations without negatively impacting the bank's ability to continue operations or its ability to remain solvent. Financial institutions often evaluate their liquidity using a number of measures, such as the cash reserve ratio and the loan-to-deposit ratio.

There is a significant and multidimensional influence that liquidity has on dividend distributions in commercial banks. Kosmidou et al. (2011) assert that a bank's capacity to pay dividends heavily relies on liquidity. This is because banks are required to have

sufficient cash reserves in order to satisfy deposit withdrawals and other short-term commitments. In order to successfully handle unanticipated occurrences or economic downturns, banks must have an adequate financial cushion. This ensures that they are able to retain stability and continue to serve their clients at all times. Banking authorities require banks to maintain specified liquidity ratios in order to protect the interests of depositors and preserve financial stability (Demirguc-Kunt et al., 2008). Because of this, adequate liquidity is crucial for regulatory compliance. In many instances, failing to achieve these regulatory standards might result in limits on dividend distributions. This is because banks are required to prioritize maintaining an adequate liquidity buffer on their balance sheets.

Liquidity may also influence dividend decision-making, contingent on a bank's risk tolerance and market conditions. There is a possibility that banks with high levels of liquidity are more likely to pay dividends because they have the financial resources to do so without excessive difficulty. Nevertheless, when the economy is uncertain or the market is volatile, financial institutions may choose to save cash by lowering or postponing dividend payments in order to strengthen their resilience and protect themselves against the possibility of incurring losses. There is a strong connection between a bank's deposit base, financing sources, and liquidity management. Keeping both liquidity and dividend distributions at the same time might be difficult for financial institutions that depend largely on short-term financing or have a significant share of deposits that can be withdrawn in a short amount of time. There is a possibility that these banks will have to find a middle ground between dividend payments and the guarantee that they have enough liquidity to satisfy their continuing commitments.

Creditworthiness is one of the most important factors that determines dividend distributions in commercial banks, according to Allen and Gale (2004). Although liquidity is necessary for operational stability, regulatory compliance, and risk management, it also has the potential to function as a limitation on dividend policy during times of high liquidity. In order to achieve a balance between paying short-term commitments and satisfying shareholder expectations via dividend payments, banks need to carefully manage their liquidity holdings. This is particularly important during times of economic instability.

2.1.2.3 Growth on Net Revenue

An essential financial indicator that shows the development of a business's overall revenue over a specific time period is the growth of a company's net revenue, also known as revenue growth. One of the most important indicators of a company's capacity to grow its business, increase its market share, and produce better revenue from its core activities. Revenue growth at commercial banks often comprises a variety of income streams, including interest income from loans and investments, fee-based income from financial services, and other forms of income that do not involve interest. According to Altunbas et al. (2007), this indicator is essential for determining the overall financial health of a bank as well as its ability to generate value for its shareholders.

Commercial banks are subject to a considerable and diverse influence from the increase in their income on the dividend distributions they make. When it comes to dividend payments, a bank's ability to maintain or enhance them is often contingent on its capability to earn increased revenues on a constant basis. According to Pasiouras and Kosmidou (2007), financial institutions that have seen strong and consistent development in their income are in a better position to distribute a part of their earnings to their shareholders in the form of dividends. When the bank's revenue growth is higher, it indicates that it is effectively extending its operations, growing its client base, and maybe making more money from its core banking activities.

Additionally, revenue growth may influence dividend policy due to its impact on profitability. According to Petersen and Rajan (1995), a bank that is experiencing excellent revenue growth is likely to experience an improvement in its profitability. This is because higher sales may translate into larger profits. Because they have the financial ability to disburse a percentage of their revenues to shareholders, profitable banks are more likely to pay dividends than banks that are just not profitable. Because shareholders frequently anticipate dividend payments to coincide with the bank's financial success, revenue growth is an essential component in the decision-making process about dividends.

The rise in a bank's revenue may also have an effect on the bank's stock performance and investors' emotions. Financial institutions that demonstrate steady growth in net revenue may attract an increase in investors seeking capital appreciation and dividend income. According to DeAngelo et al. (2000), the increasing investor interest may place

considerable pressure on the management of the bank to either preserve or boost dividend distributions in order to fulfill the expectations of the shareholders. Because dividends are an essential element of overall shareholder return, financial institutions that are striving to retain and attract investors frequently consider revenue growth as a method to sustain dividend policy.

It is vital to acknowledge, however, that while the increase in revenue is a component that is advantageous for dividend payments, it is not the only element that determines dividend payouts. When deciding whether or not to pay dividends, financial institutions are required to take into account a variety of other financial factors, including liquidity, capital adequacy, regulatory obligations, and future investment requirements (Mollah et al., 2018). When it comes to maintaining or increasing dividend payments over the long term, it is essential for financial institutions to find a way to strike a balance between maintaining sustainable income growth and preserving financial stability.

The growth in net revenue is one of the most important factors that determines the amount of dividends paid out by commercial banks. Considering that increased revenue often results in increased profitability and piques the attention of investors, financial institutions that are experiencing significant revenue growth are in a better position to distribute profits to shareholders in the form of dividends. To achieve the optimal equilibrium between the expansion of income and the policy of dividends, however, financial institutions need to carefully evaluate a wide range of financial parameters and market circumstances.

2.1.2.4 Size

A bank's size is a basic financial term that indicates the scope and magnitude of its activities. This size is commonly defined as the total assets held by a commercial bank. The bank holds and manages all financial resources under its total assets. These resources include cash, loans, investments, and other assets. This important statistic reflects a bank's ability to engage in a variety of financial operations, as well as its market presence and financial strength. Among commercial banks, the size of the institution often plays a significant role in determining the rules and procedures regarding dividend payouts (DeYoung & Roland, 2001).

The size of the bank, defined by its total assets, exerts a significant and multidimensional influence on dividend distributions in commercial banks. According

to Berger and Bouwman (2009), larger banks, which are defined as those that have considerable total assets, have a tendency to have a greater variety of income sources and are often in a better position to create higher profits on a continuous basis. The increasing profitability of larger banks enables them to distribute a percentage of their profits to shareholders in the form of dividends, which is a financial resource necessary for dividend distribution. As a result, shareholders may anticipate higher dividend payments from larger banks because of the size of these institutions and the reliability of their financial situations.

Furthermore, the size of a bank may have an impact on dividend policy because of its effect on capital adequacy. According to Cebenoyan et al. (2002), larger banks often reap the benefits of economies of scale, which enable them to keep their capital positions in a healthy equilibrium while simultaneously supporting a variety of lending and investment operations. Adequate capitalization is crucial when making dividend decisions. This is because regulators mandate that banks have a specific amount of capital in order to protect themselves from experiencing negative financial conditions. In general, larger banks that have a substantial amount of total assets are better positioned to fulfill these statutory capital requirements. This gives them the freedom to issue dividends without jeopardizing their financial health.

Furthermore, the size of the bank may affect how investors perceive it and how confident the market is. According to Goddard et al. (2007), larger banks usually have a reputation for being more stable and less prone to financial instability. As a result, they attract a wider investor base that is looking for dependable dividend income. It's possible that investors prefer larger banks because they consider them to be safer, which could result in a rise in demand for their shares. Larger banks might prioritize maintaining or increasing dividend distributions to meet their shareholders' expectations and draw in additional investors due to investor interest.

When it comes to dividend policy in commercial banks, however, it is crucial to keep in mind that the size of the bank is simply one of numerous elements that impact the decision. When deciding dividend amounts, bigger banks must take into account a variety of other financial measures, legal restraints, and business goals (Saunders & Cornett, 2014). This is despite the fact that larger banks may have benefits in terms of profitability, capital sufficiency, and market perception. It is critical for financial

institutions that want to maintain or increase their dividend payments over time to find a way to strike a balance between maintaining a competitive size and completing their dividend promises.

Commercial banks distribute dividends based on the size of the bank, determined by its total assets. Larger banks that have considerable total assets often have the financial strength and stability to make profits on a continuous basis, fulfill the criteria for capital adequacy, and attract investors who are looking for dividend income. However, a variety of circumstances continue to impact the complicated issue of dividend policy. When deciding dividend amounts, banks must exercise caution and take into account their entire financial situation as well as their legal requirements.

2.1.2.5 Leverage

When it comes to commercial banks, the term "leverage" refers to the practice of financing a portion of their assets and activities via the use of borrowed money, which is often in the form of debt. Specifically, it refers to the bank's ability to increase returns on equity through debt financing, which has the potential to boost profitability but also increases the risks involved. According to Houston and Ryngaert (1997), leverage has the potential to considerably alter dividend distribution policies in commercial banks, and its effect is both diverse and considerable.

One of the most important ways in which leverage has an impact on dividend distribution is by having an effect on the financial stability and capital sufficiency of a bank. Although leverage has the potential to increase returns when profits are good, it also has the potential to worsen losses when earnings are negative (Hovakimian et al., 2001). In the event that poor economic circumstances prevail, financial institutions that have high leverage may experience increased financial strain, which may restrict their capacity to sustain or grow dividend payments. Highly leveraged banks may choose to save capital by lowering or halting dividend payouts in order to maintain compliance with regulatory capital requirements and promote financial resilience (Berger et al., 2000). Banks may take this action to ensure their ongoing financial stability.

Furthermore, leverage can influence the cost of debt financing, potentially impacting dividend policy. Banks often suffer increased interest charges connected to the service of their loan commitments when they raise the amount of leverage used by their institutions. According to Ozkan and Ozkan (2004), the payment of interest on debt

may compete with money that would otherwise be available for dividend payments to shareholders. Given this, financial institutions with high levels of leverage might find it challenging to allocate sufficient funds for dividends after fulfilling their interest payments, potentially leading to a decrease in the dividend payout.

Furthermore, leverage has the potential to influence the perceptions and risk profiles of investors. According to Titman and Wessels (1988), investors often consider highly leveraged banks to be riskier than other types of banks because of their heightened financial susceptibility and possibility of default. Investors may expect greater returns, including dividend yields, as compensation for keeping shares in such banks (Korkeamaki et al., 2010). This is a reaction to the perceived dangers that these banks pose to investors. This has the potential to put higher pressure on dividend payment ratios for highly leveraged banks, which are attempting to attract and keep investors by providing dividend yields that are competitive with those of other providers.

Nevertheless, it is of the utmost importance to understand that the link between leverage and dividend policy does not exist in a consistent manner across all banks. It is possible that some financial institutions would deliberately use leverage as a component of their business plan in order to increase returns and, consequently, dividend payments (Poon, 2003). These financial institutions carefully manage their leverage in order to achieve a compromise between risk and reward, with the objective of maximizing shareholder profit while simultaneously preserving financial stability.

One of the most important factors that impacts dividend distribution policies in commercial banks is leverage, which is defined as the use of borrowed money to support bank activities. High levels of leverage can influence a bank's dividend decisions, impacting the stability of the financial system, increasing interest expenditures, and influencing investor risk perceptions. The fact that the effect of leverage on dividend policy might vary based on a particular bank's financial strategy and risk management methods highlights the complexity of dividend decision-making in the banking industry.

2.1.2.6 Earnings Per Share

Gains per share, often known as earnings per share (EPS), is an important financial indicator that determines how profitable a firm is on a per-share basis. Divide the net income attributable to common shareholders by the total number of currently issued

common shares to determine it. Commercial banks measure the proportion of earnings to each common shareholder in the event of profit division through their earnings per share (EPS). According to Peterson and Peterson (1994), the link between earnings per share (EPS) and dividend distribution policies in commercial banks is complex and involves a number of factors to take into account.

To begin, earnings per share (EPS) is a foundational factor that determines whether or not a bank is able to maintain and enhance dividend payments. A higher earnings per share (EPS) indicates a greater net income that is available for distribution to shareholders. According to Ang (1991), commercial banks that have continually increasing earnings per share are in a stronger position to boost dividend distributions over time, which attracts investors who are looking for income. Banks that have earnings per share (EPS) that are falling or fluctuating may have a difficult time maintaining or increasing their dividend levels. This could ultimately result in less appealing dividend yields for investors and a decrease in investor trust.

Second, earnings per share (EPS) may have an impact on the stability and longevity of a bank's dividends. According to DeAngelo et al. (1992), financial institutions that have regular and predictable earnings per share patterns are more likely to create dividend policies that are compatible with the expectations of their shareholders. Maintaining a consistent dividend distribution schedule can enhance a bank's reputation among income-focused investors and foster long-term shareholder loyalty. According to Baker et al. (1985), banks that have earnings per share (EPS) that are irregular or unexpected may be subject to pressure to modify their dividend policy. This is because sustaining large dividend distributions during times of earnings volatility may put a strain on financially available resources.

Among many other financial variables, banks consider earnings per share (EPS) to determine dividend distribution ratios. Banks often create target payout ratios, which are a representation of the percentage of earnings per share that is dedicated to dividends. Chen et al. (2014) asserts that various variables, such as legal requirements and the specific financial objectives of the bank, influence these ratios. In order to allocate a lesser fraction of their earnings per share (EPS) to dividends, banks that place a higher priority on capital retention or investment in growth possibilities may settle for lower payout ratios. According to Al-Malkawi et al. (2015), banks that place a greater

emphasis on income distribution may choose to implement higher payout ratios, which commit a greater proportion of their earnings per share to dividends.

It is also possible for the market's perception of a bank's earnings per share growth potential to influence the bank's stock price and, as a result, the bank's dividend yield. According to DeAngelo et al. (1992), banks with a track record of substantial earnings per share growth may see an increase in demand for their shares, resulting in an appreciation of the stock price. As the stock price improves, the dividend yield, which is determined by dividing the yearly payout by the company's market price, may decrease. Lower dividend rates may attract investors who are more interested in capital gains than income, which may have the ability to influence a bank's choices about its dividend policy.

Earnings per share (EPS), a factor of critical importance, heavily influences the dividend distribution policies of commercial banks. An increase in earnings per share (EPS) makes it easier for a bank to boost dividend payments, and stable and predictable EPS patterns contribute to consistent dividend policies. Banks determine their target payout ratios by taking earnings per share (EPS) into account, as well as other factors. The market's assessment of the potential for earnings per share growth may impact stock prices and dividend yields. Earnings per share (EPS), along with other financial parameters, significantly influences the decision-making process for dividends in the commercial banking industry.

2.1.3 Dividend Irrelevance Theory

In their work titled "Dividend Policy, Growth, and the Valuation of Shares" (Miller & Modigliani, 1961), Merton Miller and Franco Modigliani presented their theory, which is known as the Dividend Irrelevance Theory. In their argument, they said that a firm's dividend policy has no impact on the company's value in a perfect capital market, which is characterized by the absence of taxes, transaction costs, and symmetric information. According to this idea, the value of a company is determined not by how it divides its revenues between dividends and retained earnings, but rather by the company's earning potential and the risk associated with the assets it owns.

Miller and Modigliani's thesis is based on the idea that investors have the ability to construct their own dividend policy by selling a part of their shares in the event that they demand cash. This renders the company's dividend policy unnecessary. The

conventional viewpoint, which holds that dividends are an essential element in determining the value of a firm, stands in stark contrast to this notion. Although this theory assumes a perfect capital market, the reality of imperfect markets introduces complexity that could potentially make dividends meaningful.

The evidence that empirical research has supplied in support of the Dividend Irrelevance Theory has been contradictory. Numerous studies have supported the hypothesis, particularly in markets that closely resemble the conditions of a perfect market. Other studies, on the other hand, identify a number of market inefficiencies, including taxes and transaction costs, which imply that dividends do matter to investors. Gordon and Shapiro (1956) discovered that investors often choose dividends because they are immediate and tangible, which might lower the perceived investment risk.

According to the Dividend Irrelevance Theory, if markets are perfect, a commercial bank's dividend policy should have no effect on its stock price. This theory is applicable to commercial banks. However, banks operate in highly regulated settings, where regulatory requirements and capital adequacy rules play key roles. These environments are very difficult to operate in. Regulation agencies often place restrictions on dividend payments in order to ensure that financial institutions have enough capital reserves, which in turn influences their dividend policies. As a result of this regulatory framework, the applicability of the payout irrelevance theory in banking is somewhat restricted. This is due to the fact that real-world conditions often require a particular payout strategy.

There are a number of factors that determine the dividend distribution for commercial banks. These factors include profitability, regulatory capital requirements, liquidity needs, and market circumstances. While the ability to generate a profit ensures sufficient revenues for distribution, regulatory capital requirements may limit the amount of dividends available to maintain financial stability. According to Goyal (2007), liquidity requirements require that banks keep a sufficient amount of profits in order to satisfy their operating requirements. Additionally, market circumstances have the potential to alter investor attitudes and expectations for dividends. Because of this, the theory does provide a theoretical basis, but practical concerns often compel banks to implement dividend policies that are tailored to their specific needs.

2.1.4 Signaling Theory

Two economists, Michael Spence and Stephen Ross, presented the Signaling Theory in the early 1970s. This theory proposes that business managers have access to more information about the future prospects of the firm than outside investors do. Despite Spence's Nobel Prize for his work on signaling in employment markets, Ross applied similar principles to financial markets and proposed that company dividend policies could potentially communicate information to investors (Spence, 1973; Ross, 1977). Spence's work on signaling in job markets won him the Nobel Prize. According to this theory, dividend announcements serve as signals to the market about a company's future profits. According to this idea, bigger dividend payments indicate that management is confident in the firm's ability to generate future cash resources.

Empirical evidence supports the signaling theory by demonstrating that changes in dividend policy often precede changes in profits. For instance, the stock price typically responds positively to a rise in dividends. This is because investors see it as a signal of excellent future performance, which drives the stock price. A reduction in dividends, on the other hand, often results in adverse responses from the stock price, which is indicative of the possibility of financial hardship (Bhattacharya, 1979). Research by Asquith and Mullins (1983) and Healy and Palepu (1988) further supports these results, indicating that changes in dividends provide the market with useful information.

The opaque nature of commercial banks' balance sheets and the intricate nature of their business operations make it possible for dividend policy to play a particularly significant role in the transmission of signals. Dividends are a method that banks may use to communicate to investors, regulators, and depositors that they are in excellent financial condition and stable. Continuous and reliable dividend distributions can reassure stakeholders about a bank's soundness (Flannery, 1994). This is especially important in the current regulatory climate. This has particular significance during periods of economic unpredictability, when it is essential to have unambiguous indications of financial stability.

According to the signaling theory, factors that determine the amount of dividends paid out by commercial banks include the bank's profitability, the potential for future development, and management's confidence in the business's capacity to maintain profits. When it comes to sending a positive signal, banks that have strong profitability

and optimistic projections for the future are more inclined to enhance their dividends. Alternatively, if there is a lack of clarity about future profits, financial institutions may choose to retain cautious dividend policies. Furthermore, regulatory issues play a role, since banks are required to strike a balance between their signaling goals and compliance requirements (Goyal, 2007).

2.1.5 Agency Theory

The 1976 article "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure" (Jensen & Meckling, 1976) credited Michael Jensen and William Meckling with the development of agency theory. This theory discusses the potential for conflicts of interest to arise between principals (owners) and agents (managers) in a business context. The Agency Theory suggests using a dividend policy as a tool to reduce agency costs. Managers achieve this by restricting their access to free cash flow. This prevents managers from pursuing unprofitable initiatives and aligns their interests with those of shareholders.

Empirical studies in a variety of different circumstances support agency theory. According to a number of studies, businesses with high free cash flow tend to have higher agency costs and may profit from larger dividend distributions. The distribution of extra income in the form of dividends helps businesses minimize the amount of money that managers can potentially abuse, which in turn helps to mitigate agency conflicts (Rozeff, 1982). Additionally, Easterbrook (1984) emphasizes that increased dividend distributions might compel corporations to look for external funding, which puts them under the scrutiny of the market and further aligns the interests of management and shareholders.

It is possible for agency conflicts to be considerable for commercial banks because of the inherent complexity and risk associated with their operations. The payment of high dividends can serve as a method to reduce agency costs. Reducing the amount of resources available for potentially hazardous investments achieves this. It is especially important to keep this in mind in the banking industry, where the actions of managers who take risks may have significant repercussions (Jensen, 1986). By ensuring that banks adhere to appropriate risk management techniques and maintain sufficient capital levels, regulatory monitoring in the banking industry also tries to reduce the number of agency conflicts that occur.

The degree to which shareholders and management have aligned interests, the available free cash flow, and the possibility of agency costs are the factors that determine the amount of dividends paid out by commercial banks, according to agency theory. Financial institutions with a larger free cash flow may choose to increase their dividend distributions in order to reduce the likelihood of agency conflicts and ensure that management is acting in the best interests of shareholders. Moreover, regulatory constraints can influence dividend policies, which financial institutions implement to maintain capital adequacy standards and financial stability (Goyal, 2007).

2.1.6 Bird-in-Hand Theory

In the 1960s, Myron Gordon and John Lintner created the Bird-in-Hand Theory as a reaction to the Dividend Irrelevance Theory. They developed this theory as a counter to the Dividend Irrelevance Theory. The statement posits that investors prioritize the certainty of dividends over potential future capital gains, implying that they perceive dividends as less risky than future capital gains. This preference is due to the fact that dividends provide a guaranteed return, whereas capital gains are contingent on the firm's future success and are thus predicated on a greater degree of uncertainty (Gordon, 1963; Lintner, 1962).

There are conflicting pieces of evidence that support the bird-in-hand theory. Numerous studies often correlate higher stock prices with greater dividend yields. This suggests that investors place a high value on the assurance that dividends provide. For instance, studies by Friend and Puckett (1964) and Baker, Powell, and Veit (2002) demonstrate that dividends offer a tangible return, thereby reducing the risk associated with investments. Conversely, Black and Scholes's (1974) study provides minimal evidence to support the notion that dividends are inherently less risky than capital gains.

The risk-averse attitude of many investors in the banking industry might make the Bird-in-Hand Theory especially applicable to commercial banks. This is because of the nature of the investors. When it comes to a highly regulated and sometimes opaque business, dividends provide a concrete return on investment. As a result, regular and predictable dividend payments have the potential to boost investor trust and attract risk-sensitive investors. This is of utmost significance in the banking industry, where preserving investors' confidence is essential to ensuring both stability and development (Goyal, 2007).

According to the Bird-in-Hand Theory, investors' desire for certainty, the bank's risk profile, and the stability of profits determines the amount of dividends that banks pay out. It is more likely that banks with consistent and predictable profits will pay higher dividends in order to satisfy investors' desire for assurance. Legal constraints and capital adequacy rules significantly influence the development of dividend policies, ensuring financial stability and fostering investor trust.

2.1.7 Tax Preference Theory

Economists such as Harry DeAngelo and Linda DeAngelo created the Tax Preference Theory, which examines the influence of various tax treatments on dividends and capital gains on investor preferences and corporate dividend policies. Investors choose capital gains over dividends, according to the idea, because capital gains are often subject to lower tax rates than dividends (DeAngelo & DeAngelo, 2006). This is why investors tend to favor capital gains over dividends. Companies may opt to keep profits or repurchase shares rather than issue dividends in order to offer tax-efficient returns to shareholders. This decision has an impact on corporate dividend policies.

Empirical data supports the Tax Preference Theory in several different circumstances. Several studies have shown that changes in tax legislation that impact tax rates on dividends and capital gains may have an effect on corporations' dividend policy. Poterba and Summers (1984), for example, discovered that companies increased their dividend distributions after decreasing dividend tax rates. On the other hand, Allen and Michaely (2003) discovered that reductions in capital gains tax rates led to an increase in share repurchases.

Tax concerns for commercial banks, particularly for institutional investors who are sensitive to tax efficiency, may influence dividend policy. On the other hand, the tightly regulated structure of banks weighs tax issues against regulatory capital requirements and other criteria. In order to guarantee that financial institutions have enough capital reserves, regulatory organizations often place limitations on dividend payments. This may limit the extent to which tax concerns impact dividend policy (Goyal, 2007).

The relative tax rates on dividends and capital gains, the structure of the investor base, and tax efficiency concerns are some of the factors that are considered to be the drivers of dividend distribution, as stated by the Tax Preference Theory. It is possible for financial institutions to modify their dividend policy in order to conform to the

preferences of investors on tax efficiency while also ensuring compliance with regulatory obligations. Furthermore, changes in tax rules and regulations have the potential to have a significant influence on commercial banks' dividend policies.

2.1.8 Clientele Effect Theory

Several economists, such as Myron Gordon and John Lintner, advanced the clientele effect theory by building on James Lintner's earlier research on corporations' dividend behavior. The hypothesis suggests that various investor groups, referred to as clienteles, exhibit a preference for distinct dividend policies, influenced by their individual tax positions and income requirements (Lintner, 1956). The clientele effect theory suggests that different businesses attract different types of customers based on the dividend policies they implement. Some investors want large dividend distributions because they need consistent income, while others prefer low or no dividends in order to take advantage of capital gains and tax deferral.

Empirical research has demonstrated that changes in dividend policy can lead to shifts in a company's shareholder base, thereby supporting the clientele effect theory. For instance, businesses that raise their dividends may attract investors who are interested in generating revenue, while companies that decrease their payouts may attract financiers who are more focused on development. Through their research, Allen, Bernardo, and Welch (2000) discovered that the preferences of investors for dividends differ depending on their tax status and investment horizons, which in turn influences the dividend policies of corporations.

When it comes to commercial banks, the clientele effect theory suggests that the dividend policies of these institutions might have an impact on the kinds of investors that they attract. The banks that pay higher dividends may be more appealing to investors who are more cautious and looking for income, whereas the banks that pay smaller dividends may attract investors who are more focused on growth. This is especially important in the banking industry, where the preferences of investors and the needs of regulatory agencies may have a substantial influence on dividend policy (Goyal, 2007).

The clientele effect theory says that commercial banks decide how much of a dividend to pay out based on a number of factors, such as the preferences of the bank's current and potential investors, tax issues, and the need to keep a stable and predictable

dividend policy in order to attract and keep certain investor clienteles. Banks have the ability to modify their dividend policies to match the preferences of their main investors and market circumstances. This enables them to attract and retain the investor clientele they seek while still adhering to regulatory agency standards.

2.2 Empirical Review

Bassey et al. (2014) investigated dividend payout determinants among selected commercial banks in Nigeria using secondary data from 1989 to 2010 and employing Ordinary Least Squares (OLS) regression. The study aimed to identify factors influencing cash dividend payouts, revealing that current earnings, lagged dividend, and lending rates significantly affected dividend decisions, while inflation rate and liquidity ratio did not. The findings underscored a conservative financial management approach among the banks, with a 30.67% average marginal propensity to distribute from current earnings and a substantial 69.33% retention rate of profits. Consequently, the study suggested cautious capital allocation and dividend policy implications for Nigerian financial institutions, emphasizing the need for strategic consideration of these determinants in financial decision-making.

Yushuf and Muhammed (2015) examined dividend payout determinants within the Nigerian banking industry, focusing on a sample of five banks among the fourteen publicly traded on the Nigerian Stock Exchange as of December 2012. Using data from the Nigerian Stock Exchange Fact Book 2011/2012, the study employed multivariate regression and correlation analysis to explore factors influencing dividend payout decisions, including profitability, liquidity, size, and financial leverage. The study aimed to identify the significant determinants affecting dividend policies in Nigerian banks. Key findings indicated that profitability, liquidity, size, and financial leverage were all significant factors influencing dividend payouts, with liquidity and profitability being particularly noteworthy. These results underscored the pivotal role of financial health and bank size in shaping dividend distribution strategies within the Nigerian banking sector. The study concluded by emphasizing the importance of these determinants for stakeholders and policymakers, highlighting implications for financial decision-making and strategic management in Nigerian banks.

Ahmad and Muqaddas (2016) investigated dividend payout determinants in the banking sector of Pakistan using panel data from 10 commercial banks listed on the Pakistan

Stock Exchange over a period of 9 years (2006-2014). Employing panel regression analysis, the study aimed to examine the impact of financial efficiency, safety, risk, and profitability on dividend policy decisions. Key findings revealed a positive association between dividend payout ratio and safety and profitability metrics, while a negative relationship was observed with financial efficiency and risk factors. The study highlighted statistically significant correlations between dividend payout ratio and these key determinants, suggesting that banks perceived as safer and more profitable tend to offer higher dividends. Overall, the research underscores the importance of safety, risk management, and profitability in guiding dividend policies within the Pakistani banking sector, with implications for strategic decision-making by banks and investment strategies by stakeholders.

Hosain (2016) conducted a study on the determinants of dividend payout policy in listed private commercial banks in Bangladesh, covering the period from 2005 to 2015 with a focus on ten publicly traded banks on the Dhaka Stock Exchange Limited. Employing pooled ordinary least squares (POLS) and dynamic panel regression models, the research aimed to identify factors influencing dividend payout ratios. Key findings revealed that liquidity, firm growth, and dividends paid in the previous year positively and significantly influenced dividend payouts, whereas leverage and profitability had negative impacts on this ratio. Interestingly, factors such as company size, risk, and ownership structure did not show significant effects on dividend payments. The study concluded that leverage, liquidity, firm growth, previous dividend history, and profitability are critical determinants guiding dividend policy decisions in Bangladesh's publicly traded private commercial banks. These findings underscore the importance of these factors in strategic financial management and shareholder value enhancement in the banking sector of Bangladesh.

Pradhan and Rajbhandari (2016) examined the impact of growth prospects, firm size, and leverage on dividend behavior in Nepalese commercial banks, focusing on dividend variables such as dividend per share (DPS), dividend yield (DVY), and dividend payout ratio (DPY). The study aimed to uncover the determinants influencing dividend patterns through regression analysis. Key findings indicated a positive relationship between dividend payouts and bank size, profitability, and lagged dividends, suggesting that larger, more profitable banks with a history of dividends tend to distribute higher dividends. Conversely, growth prospects, leverage, and the price-to-earnings ratio (P/E

ratio) showed negative impacts on dividend distributions, implying that banks experiencing higher growth prospects or leverage tend to allocate less to dividends. Additionally, the study highlighted significant correlations of the beta coefficient with size, profitability, and lagged dividends, while showing negative correlations with growth prospects, leverage, and the P/E ratio. The research concludes by emphasizing the importance of these factors in shaping dividend policies within Nepalese commercial banks, underscoring implications for strategic financial management and shareholder relations in the banking sector of Nepal.

Lawrence and Clementina (2017) investigated the impact of dividend payout on the financial performance of selected listed deposit money banks in Nigeria over the period 2007-2016. Using a random sample of ten banks listed on the Nigeria Stock Exchange and data from their annual reports, the study employed pooled ordinary least squares regression, descriptive analysis, and correlation analysis to explore relationships. Key findings indicated a positive yet insignificant relationship between bank size and earnings per share, while the explanatory power of independent variables on Tobin's Q was limited, reflected in a low adjusted R-squared value. However, significant associations were observed between firm performance and dividend payout variables, supported by low p-values. The study also identified a positive but insignificant link between Tobin's Q and dividend payout and board size variables. Overall, the research highlighted the intricate dynamics among dividend payout, financial performance metrics, and firm-specific characteristics in Nigerian deposit money banks, underscoring the necessity for nuanced dividend policy decisions tailored to each bank's unique context. These findings suggest implications for enhancing financial performance through strategic dividend policies in the Nigerian banking sector.

Pradhan and Gautam (2017) investigated the impact of dividend policy on share price volatility within Nepal's commercial banking sector, employing a structured methodology to analyze various performance indicators and dividend policy dynamics. The study's objective was to examine the relationship between dividend payout ratio, earning volatility, dividend yield, and their effects on share price volatility and stock returns. Key findings revealed an average price volatility of 6.27%, with negative trends observed in both market price per share (MPS) and stock return changes. The research highlighted an inverse relationship between dividend payout ratio and share price volatility, indicating that higher dividend payouts tended to mitigate volatility.

Conversely, earning volatility positively correlated with share price volatility, suggesting that greater earnings volatility increased share price fluctuations. Moreover, the study identified a significant negative impact of dividend yield on stock return changes, implying that higher dividend yields were associated with more stable stock returns. Additionally, dividend yield and firm size were found to positively influence dividend per share (DPS). Overall, the findings underscored the strategic role of dividend policy in managing financial market volatility and optimizing shareholder returns in Nepal's commercial banking sector. These insights suggest potential strategies for banks to enhance shareholder value through prudent dividend policy decisions and volatility management.

Raphael and Mnyavanu (2018) conducted a study on the determinants of dividend payout among commercial banks listed on the Dar es Salaam Stock Exchange (DSE), aiming to identify key factors influencing dividend distribution decisions within this specific market. Employing a structured methodology, the researchers analyzed profitability, liquidity, growth, financial leverage, and firm size using appropriate statistical techniques. Key findings revealed that profitability, liquidity, growth, and financial leverage were statistically significant determinants of dividend payout among the examined banks, whereas firm size did not exhibit significant influence. The study underscored the importance of profitability, liquidity management, growth prospects, and financial leverage in shaping dividend policies for commercial banks listed on the DSE. These findings imply that banks in this market should prioritize these factors in their strategic decision-making regarding dividend distributions, suggesting potential avenues for enhancing shareholder value and financial stability through effective dividend policy management.

Adugna et al. (2020) conducted a study on the determinants of dividend payout ratios in the Ethiopian private commercial banking sector, utilizing panel data from eight private banks over the period 2008 to 2016. Employing a random-effect regression model, the research aimed to identify firm-specific and macroeconomic factors influencing dividend payout decisions. Key findings indicated that liquidity, bank size, and inflation positively and significantly impacted dividend payout decisions among Ethiopian private banks. Conversely, factors related to bank growth and investment opportunities were found to have negative and statistically significant effects on dividend payout ratios. The study underscored the importance of considering these

determinants in formulating effective dividend policies to enhance financial performance and meet shareholder expectations in Ethiopia's evolving economic landscape. These findings suggest implications for strategic dividend management and financial decision-making in the Ethiopian private banking sector, emphasizing the need for balanced approaches that consider both internal financial metrics and external economic conditions.

Jovković et al. (2021) investigated the determinants of dividend policy in Serbia's banking sector from 2009 to 2018, aiming to identify key factors influencing dividend decisions within this specific context. Employing the random effects model, the study analyzed the relationship between various determinants and dividend payouts. The research highlighted that dividend paid in previous years had a significant positive impact on current dividend policy, underscoring the persistence of dividend decisions over time. This finding suggests that past dividend history plays a crucial role in shaping current dividend strategies among Serbian banks. The study provides valuable insights for individual investors making financial decisions and for bank managers crafting dividend policies aimed at maximizing profits and meeting the expectations of both employees and shareholders in Serbia's banking industry. These insights emphasize the importance of historical dividend performance in guiding strategic financial management and shareholder relations within the Serbian banking sector.

Thapa (2021) investigated the impact of financial determinants on dividend payout ratios in 19 Nepalese retail banks, aiming to assess the influence of net profit, cash flow, size, market-to-book value, and slack on dividend payout behavior. Using secondary data from annual financial statements of banks listed on the Nepal Stock Exchange, the study employed a casual comparative research design and regression analysis across a dataset of 95 observations spanning five fiscal years. Key findings revealed that market-to-book value and slack exerted a positive and significant influence on dividend payout ratios, while size also had a positive effect. In contrast, profitability and cash flows showed a negative impact on dividend payout ratios among the banks. The research concluded by emphasizing the importance of these determinants in shaping dividend policies and guiding investment decisions within Nepal's retail banking sector. These insights provide valuable guidance for banks and investors alike, suggesting strategies to optimize dividend payouts and enhance financial performance in the Nepalese banking industry.

Zelalem (2021) conducted a study on the determinants of dividend payout policies among commercial banks in Ethiopia, utilizing nine years of panel data derived from audited financial statements of eight selected banks. The research aimed to investigate the impact of financial leverage, profitability, firm age, corporate tax rate, operating cash, and extent of shares distributed on the dividend payout ratio (DPO), employing descriptive statistics, inferential statistics including random effect regression, and correlation analysis. Key findings indicated that Return on Equity (ROE), Corporate Tax Rate (CTR), and Number of Shares Distributed (NSD) had negative relationships with DPO, while Debt Ratio (DR), Age of Firm, and Cash to Total Assets Ratio (CTA) showed positive relationships. Financial leverage, corporate tax rate, cash balance, and shares distributed emerged as significant determinants influencing DPO, whereas profitability and firm age did not show statistical significance. The study concluded that specific factors like financial leverage, corporate tax rate, and distribution of shares play pivotal roles in shaping dividend policies of Ethiopian commercial banks. These findings offer insights for bank managers and policymakers in Ethiopia, suggesting strategies to optimize dividend payouts and enhance financial decision-making in the banking sector.

Bhatt and Jain (2022) investigated the impact of Economic Policy Uncertainty (EPU) on dividend distribution strategies in developing countries, focusing on Nepal's commercial banks. Using data from 19 banks over the period 2009 to 2020 and employing the Baker, Bloom, and Davis Index as a measure of EPU, the study found that EPU did not have a significant direct relationship with dividend decisions among Nepalese banks. Contrary to expectations, banking firms in Nepal did not adjust their dividend policies during periods of economic policy uncertainty, showing neither initiation nor cessation of dividend distributions in response to economic conditions. The research also indicated a lack of precautionary incentive among bank executives to alter dividend policies amidst policy distress. Instead, dividend decisions in Nepalese banks appeared to be driven more by internal factors such as corporate earnings, past dividend history, ownership structure, and bank size. These findings underscore the importance of firm-specific variables in shaping dividend policies in Nepal's banking sector, highlighting the need for adaptive strategies that consider internal financial metrics rather than external economic fluctuation.

Onyeka (2022) evaluated the factors influencing the dividend payout rates of commercial banks in Nigeria. Secondary data were collected from the annual reports and accounts of selected banks listed on the Nigerian Stock Exchange (NSE), and the analysis relied on multiple regression techniques. The findings unveiled several important insights: Firstly, earnings per share had a positive yet statistically insignificant effect on the dividend payout ratio of commercial banks in Nigeria. In contrast, retained earnings exhibited a negative and significant influence on the dividend payout ratio. Net profit margin and debt-equity ratio had negative and statistically insignificant effects on the dividend payout ratio. However, bank age displayed a positive and significant impact on the dividend payout ratio. The adjusted R-squared value indicated that 21% of the variations in dividend payout ratio could be explained by the studied variables, while the remaining 79% was attributed to other unexamined factors. The implications of these findings suggest that, among the factors studied, only retained earnings and bank age can effectively predict changes in the dividend payout ratio of banks in Nigeria, underscoring their importance in dividend policy decisions within the Nigerian banking sector.

Onuarah (2023) examined the determinants of dividend payout (DP) within the context of Nigeria's banking sector. The research selected a sample of eight out of the 21 deposit money banks (DMBs) for analysis, relying on secondary data sourced from the annual reports and accounts of these banks. The study employed a comprehensive methodology, encompassing descriptive statistics, correlation analysis, and multiple regression analysis using the Ordinary Least Squares (OLS) method with a pooled model facilitated by E-VIEW computer software. The key findings highlighted the significant relationships between Profitability (PROF) and Bank Size (BS) with DP Ratio (DPR), underscoring their role as influential determinants of DPR in Nigerian DMBs. Conversely, Liquidity (LIQ) and Loan to Deposit Ratio (LDR) were not found to have a significant impact on DPR. These results shed light on the factors that contribute to dividend payout decisions in the Nigerian banking sector, suggesting that banks may need to optimize their loans to deposit ratios to enhance liquidity and mitigate the risk of illiquidity, given the lower impact of LIQ on DP. These findings have valuable implications for banks in Nigeria, guiding their strategic decisions in managing dividend policies effectively.

Table 1

Summary of Empirical Review

Author(s) and Year	Objectives	Methodologies	Main Findings
Bassey et al. (2014)	Investigate determinants of dividend payout in selected Nigerian commercial banks	Used secondary data from 1989 to 2010; Employed Ordinary Least Squares (OLS) regression method	Identified that cash dividend payouts were primarily influenced by current earnings, lagged dividend, and lending rates. Banks exhibited a conservative financial management approach with a 30.67% AMP to pay from current profits. Banks retained 69.33% of profits. Suggests cautious financial management approach.
Yushuf and Muhammed (2015)	Examine determinants of dividend payout in the Nigerian banking industry	Selected a sample of five banks and used data from the Nigerian Stock Exchange (NSE) Fact Book 2011/2012; Employed multivariate regression and correlation analysis	Found that profitability, liquidity, size, and financial leverage were significant determinants of dividend payouts in Nigerian banks, with liquidity and profitability being the most influential variables. Suggests importance of financial health and size in shaping dividend policies.
Ahmad and Muqaddas (2016)	Investigate determinants of dividend payout policy in the	Used panel data of 10 commercial banks from 2006 to 2014;	Discovered a positive correlation between dividend payout ratio and safety and profitability, and

	banking sector of Pakistan	Employed panel regression analysis	a negative relationship with financial efficiency and risk. Suggested using safety, risk, and profitability metrics for dividend policy.
Hosain (2016)	Examine determinants of dividend payout policy in listed private commercial banks in Bangladesh	Analyzed data from 2005 to 2015 of ten publicly traded private commercial banks on the Dhaka Stock Exchange Limited; Employed pooled ordinary least square (POLS) and dynamic panel regression models	Found that liquidity, firm growth, and previous year's dividends had positive impacts on the dividend payout ratio, while leverage and profitability had negative effects. Company size, risk, and ownership structure did not significantly influence dividend payments.
Pradhan and Rajbhandari (2016)	Explore the impact of growth prospect, size, and leverage on dividend behavior of Nepalese commercial banks	Examined dividend variables such as DPS, DVY, and DPY; Found positive relationships with bank size, profitability, and lagged dividends, and negative relationships with growth prospects, leverage, and price-to-earnings ratio (P/E ratio)	Emphasized the significance of bank size, profitability, and lagged dividends in driving dividend payouts, while suggesting that growth prospects, leverage, and P/E ratio could lead to reduced dividend payments.
Lawrence and Clementina (2017)	Examine the effect of dividend payout on the financial performance of	Analyzed data from 2007 to 2016 of ten selected banks listed on the Nigeria Stock	Revealed a positive yet insignificant relationship between bank size and earnings per share (EPS).

	selected listed deposit money banks in Nigeria	Exchange; Employed pooled ordinary least square (OLS) regression analysis	Tobin's Q had a low R-squared, but the model showed a significant relationship between firm performance and dividend payout variables.
Raphael and Mnyavanu (2018)	Analyze determinants of dividend payout of commercial banks listed at Dar es Salaam Stock Exchange (DSE)	Investigated factors influencing dividend payout in banks listed on DSE; Methodology details not provided	Found that profitability, liquidity, growth, and financial leverage were significant determinants of dividend payout, while firm size did not significantly impact dividend decisions.
Pradhan and Gautam (2019)	Study the impact of dividend policy on share price volatility of commercial banks in Nepal	Analyzed data from 2009 to 2020 of 19 commercial banks; Examined dividend yield, earning volatility, stock return change, and DPS	Revealed that dividend payout ratio was inversely related to share price volatility, while earning volatility was positively associated with share price volatility. Dividend yield and firm size influenced DPS.
Adugna et al. (2020)	Investigate the effect of firm-specific and macroeconomic factors on dividend payout decision of Ethiopian private commercial banks	Used panel data from eight private banks covering 2008–2016; Employed random-effect regression model	Found that liquidity, bank size, and inflation had positive and significant impacts on dividend payout decisions, while a bank's growth and investment opportunities had negative and significant effects.
Jovković et al. (2021)	Examine the determinants of	Investigated dividend determinants and	Established that dividends paid in previous years had a

	dividend policy in Serbia's banking sector	dividend payout in Serbia from 2009 to 2018; Utilized a random effects model	significant positive effect on dividend policy, suggesting the importance of past dividend history in shaping current decisions. Suggested implications for individual investors and bank managers.
Thapa (2021)	Assess the impact of various financial determinants on dividend payout ratios of Nepalese retail banks	Explored the effects of net profit, cash flow, size, market-to-book value, and slack on dividend payout ratios; Methodology details not provided	Found that market-to-book value, slack, and size had a positive impact on dividend payout ratio, while profitability and cash flows had a negative effect.
Zelalem (2021)	Investigate the determinants of dividend payout policy of commercial banks in Ethiopia	Utilized nine years of panel data from eight selected Ethiopian commercial banks; Employed random effect regression and correlation analysis	Financial leverage, corporate tax rate, cash balance, and extent of shares distributed were significant variables influencing dividend payout ratios. Profitability and firm age were not statistically significant determinants.
Bhatt and Jain (2022)	Examine the effects of Economic Policy Uncertainty (EPU) on dividend distribution strategy in	Investigated the relationship between EPU and dividend decisions in 19 commercial banks from 2009 to 2020; Employed Baker,	Found that EPU had no significant direct relationship with dividend decisions in Nepalese banks, suggesting a more intuitive approach to dividend policy. Firm-

	developing countries	Bloom, and Davis Index as EPU proxy	specific variables played a significant role.
Onyeka (2022)	Evaluate factors influencing the dividend payout rate of commercial banks in Nigeria	Analyzed data from 2009 to 2018; Utilized multiple regression techniques	Discovered that earnings per share had a positive yet nonsignificant effect, while retained earnings had a negative and significant effect on the dividend payout ratio of Nigerian banks. Other factors had negative and insignificant effects.
Onurah (2023)	Investigate the determinants of dividend payout in Nigeria's banking sector	Examined a sample of eight out of 21 deposit money banks (DMBs); Utilized secondary data, descriptive statistics, correlation analysis, and OLS regression	Found that Profitability (PROF) and Bank Size (BS) had significant relationships with DP Ratio (DPR), while Liquidity (LIQ) and Loan to Deposit Ratio (LDR) did not. Suggested optimizing loans to deposit ratios for liquidity management.

2.3 Research Gap

There have been many national and international research conducted on the factors that influence dividend distribution. Along with that, the weaknesses and disadvantages are also discussed in detail. All of the ideas and practices of a foreign author's model of dividend practices are not utilized in our Nepalese dividend policy, which is based on a different model. Many studies have been conducted in the past on the dividend policy and practice of different books of various financial and statistical tools, and the results have been published. In a constantly changing environment, previous research cannot be applied to the most current issue. It is a matter of public importance. Only six sample banks ADBL, NBL, EBL, SCBNL, PCBL and CZBIL are examined in this thesis, out

of a total population of twenty commercial banks operating. Considered in this study's research gap are trends in profitability, liquidity, size, growth, leverage and earnings per share over the study period, as well as a comparison of dividend payout and practices between commercial banks: ADBL, NBL, EBL, SCBNL, PCBL and CZBIL are the six commercial banks under consideration.

CHAPTER III
RESEARCH METHODOLOGY

The research methods enable to avoid the misinterpretations and the misunderstandings of the observed results and findings. This chapter therefore explains the methodology which will employ in this study which includes various sections describing research design, nature and sources of data, population, samples and sampling procedure, data analysis methods and techniques and models used for this study.

3.1 Research Design

This study employed descriptive and causal research designs to address issues associated with the determinants of dividend payout. The descriptive research design was utilized to identify the factors affecting dividend payout and gather comprehensive information on such determinants. Additionally, a causal research design was employed to investigate the direction and magnitude of the causal relationships among the dependent variable, i.e., dividend payout, and the independent variables.

3.2 Population and Sample, and sampling design

This study encompassed a sample of six commercial banks operating in Nepal, representing various sectors within the banking industry. The sample included two government banks, namely ADBL and NBL, two private sector banks with foreign investment, EBL and SCBNL, and two private sector banks with Nepalese investment, PCB and CZBIL. Out of the twenty commercial banks in Nepal, these six were selected purposively for the study. The purposive sampling method was used to select these sample.

3.3 Nature and Sources of Data

This study relied on secondary data for its research purposes, aiming to analyze the relationships and causal links between dividend payout and its influencing factors. Additionally, the study assessed the predictive power of these influencing factors using secondary data sources. The data pertaining to firm-specific variables, including the dependent variable, were obtained from the annual reports of the sampled firms, which were accessible through their respective websites. Moreover, data from NEPSE, SEBON, and NRB databases were utilized to extract the necessary information for this investigation. The study collected data on determinants of dividends for commercial banks for each year spanning from 2013/14 to 2022/23. Consequently, panel data

analysis was employed to examine the relationship between dividend payouts and the factors influencing them.

3.4 Data Collection Procedures

The secondary data pertaining to both the dependent and independent variables were gathered from multiple sources, including the annual reports of the selected banks, as well as published and online reports provided by SEBON, NEPSE, and NRB. The data collection process involved the extraction of financial statements, encompassing balance sheets, profit and loss accounts, cash flow statements, and key indicator statements from the sample banks. Additionally, consolidated financial reports prepared by SEBON, NEPSE, and NRB served as valuable sources for the collection of secondary data.

3.5 Research Framework and Definition of Variables

Miller and Modigliani's hypothesis generated substantial debate among researchers, with opposing viewpoints emerging. Partington's study in 1985, for instance, argued against Miller and Modigliani, contending that, in practice, companies do not adhere to a residual dividend policy, as dividend decisions are made independently of investment policies. Nevertheless, these controversies persist, and definitive conclusions remain elusive. This study adopts the conceptual model proposed by Raphael and Mnyavanu in 2018 as its framework. The conceptual model encompasses the dividend payout ratio as the dependent variable, with independent variables comprising profitability, liquidity ratio, leverage ratio, firm size (total assets), growth, and earnings per share. Figure 1 illustrates the relationships between the dividend payout ratio and its determinants in the conceptual model.

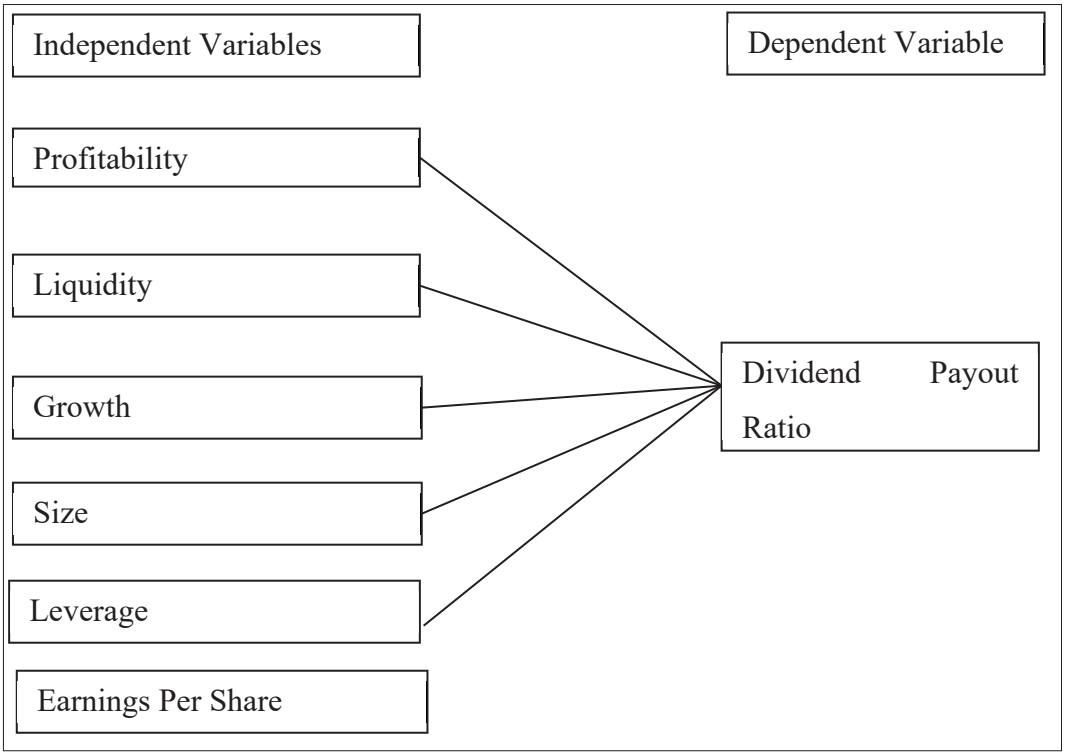

Figure 1 ***Research Framework***

(Source: Raphel & Mnyavanu, 2018)

3.5.1 Dividend Payout

The dividend payout in commercial banks holds significance for shareholders' investment decisions, with both positive and negative implications. High dividend payouts are generally attractive to investors, signaling positive financial returns, stability, and reduced risk (Murphy, 2018). However, excessive payouts can limit a bank's financial flexibility for future investments, potentially impacting growth and financial stability (Patterson & Shappee, 2017). In essence, striking a balance between dividend distribution and retaining earnings is crucial for commercial banks to maintain financial strength and attract shareholders.

3.5.2 Profitability

Return on assets (ROA), a key profitability metric, measures a company's capacity to generate earnings in relation to its total assets. In commercial banks, ROA reflects their efficiency in generating profits from lending and investments (Brealey et al., 2008). While a higher ROA typically indicates the ability to pay dividends, other factors come into play. Regulatory requirements mandate capital preservation, affecting dividend decisions, even for highly profitable banks (Altunbas et al., 2010). Banks with growth ambitions may prioritize reinvesting earnings, while economic conditions and investor

expectations can prompt adjustments. Thus, while ROA is important, dividend payouts in commercial banks are influenced by multifaceted factors, making it a vital but not sole determinant (Hosain, 2016).

3.5.3 Liquidity

Liquidity, a vital financial measure for banks, assesses their ability to convert assets into cash quickly to meet short-term obligations. In commercial banks, liquidity is paramount for honoring deposit withdrawals and maintaining operational stability (Allen & Gale, 2004). It plays a critical role in dividend payouts, as banks must retain sufficient cash reserves to ensure regulatory compliance and safeguard depositors. High liquidity can enable dividend payments, but during economic uncertainty, banks may conserve liquidity by reducing or suspending dividends. Banks relying heavily on short-term funding face challenges balancing liquidity with dividend obligations. In essence, liquidity is both an enabler and constraint in determining dividend policies for commercial banks (Kosmidou et al., 2011).

3.5.4 Growth in Net Revenue

Growth in net revenue, a key financial metric, represents a company's ability to increase its total revenue over time. In commercial banks, this metric signifies the bank's capacity to expand operations, gain market share, and boost income from various sources. For dividend payouts, revenue growth is pivotal, as banks with consistent and strong growth are better positioned to distribute profits to shareholders. It enhances profitability, aligns with investor expectations, and attracts shareholders seeking both capital appreciation and dividend income. However, revenue growth alone does not dictate dividend decisions, as banks must consider factors like liquidity, regulatory requirements, and investment needs to strike the right balance between growth and dividend policy (Altunbas et al., 2007).

3.5.5 Size

Bank size, indicated by the total assets held by a commercial bank, serves as a crucial metric reflecting the scale of its operations. In the context of commercial banks, size plays a multifaceted role in shaping dividend payout policies and practices. Larger banks, characterized by substantial total assets, often exhibit diverse revenue streams and consistent profitability, providing them with the financial capacity to distribute dividends to shareholders. This size advantage aligns with shareholder expectations of

more substantial dividend payments from larger, financially stable banks. Moreover, larger banks benefit from economies of scale, enabling them to maintain robust capital positions and meet regulatory requirements, which are essential factors in dividend decisions. However, it's crucial to recognize that bank size represents just one facet of the complex web of factors influencing dividend policies, and banks must consider a broader financial context and regulatory constraints when determining dividend levels (DeYoung & Roland, 2001; Goddard et al., 2007; Saunders & Cornett, 2014).

3.5.6 Leverage

Leverage in commercial banks involves utilizing borrowed funds, typically debt, to finance operations and assets, potentially magnifying returns on equity but also increasing risks. Its influence on dividend payout policies is multifaceted. Leverage affects financial stability and capital adequacy, with highly leveraged banks facing greater pressure during economic downturns and often needing to conserve capital by reducing dividends. Additionally, the cost of debt servicing can compete with funds available for dividends, potentially leading to lower payouts for highly leveraged banks. Investor perceptions of risk play a role, with highly leveraged banks considered riskier, which may lead to the need for competitive dividend yields. However, the relationship between leverage and dividend policy varies across banks, as some strategically manage leverage to maximize shareholder value while maintaining financial stability (Houston & Ryngaert, 1997; Titman & Wessels, 1988; Poon, 2003; Korkeamäki et al., 2010).

3.5.7 Earnings Per Share

Earnings per share (EPS) is a fundamental financial metric for commercial banks, reflecting the per-share profitability of the institution. Banks with consistently rising EPS are better positioned to increase dividend payouts over time, attracting income-seeking investors. Stable and predictable EPS patterns contribute to consistent dividend policies, enhancing a bank's reputation among income-focused shareholders. Banks establish target payout ratios based on EPS, considering factors such as regulatory requirements and financial goals. Moreover, the market's perception of a bank's EPS growth potential can affect stock prices and dividend yields, influencing dividend policy decisions in the commercial banking sector (Peterson & Peterson, 1994; Ang, 1991; DeAngelo et al., 1992; Chen et al., 2014; Al-Malkawi et al., 2015).

3.6 Method of Analysis

The method of secondary data analysis which was used in this study consists of econometric models. Among others, the study was employed a regression model which aims to test the effect of the independent variables on the dividend payout. The study has also used descriptive statistics, correlation analysis along with statistical test of significance such as, F-test, Prob. Value and Adjusted R^2.

3.6.1 Descriptive Analysis

This study employs a summary of descriptive statistics to analyze the dividend payout ratio and its determinants in sample banks. The analysis covers the nature, characteristics, and trends of these variables over the sample period from 2013/14 to 2022/23. To explain the characteristics of the dividend payout ratio and its determinants, this study examines key descriptive statistics such as mean, standard deviation, minimum, and maximum values. These statistics provide insights into the central tendency and dispersion of the variables. The variables analyzed include Dividend Payout Ratio (DPR), Net Profit (NP), Liquidity (LIQ), Growth (GRO), Size (SZ), Leverage (LEV), and Earnings per Share (EPS). By examining these variables, the study aims to describe the characteristics of dividends and their determinants for the sample firms over the specified period. The use of descriptive statistics such as mean and standard deviation, along with minimum and maximum values, enables a comprehensive understanding of the dividend payout ratio and its determinants in the context of the sample banks from 2013/14 to 2022/23.

3.6.2 Correlation Analysis

Correlation analysis was used to determine the relationship between variables. It is a statistical tool to identify direction and magnitude of relation between two set of variables. It shows how two variables move together and also shows the degree of association between them. The relationship has been explained by using Pearson correlation coefficient. The value of correlation coefficient ranges from -1 to +1. If correlation coefficient is exactly -1, two variables are said to have perfect negative correlation as such that they move together exactly into opposite direction. On the other hand, if correlation coefficient is +1, the variables are said to be perfectly positively related.

3.6.3 Regression Analysis

The regression models were employing in this study intend to analyze the relationship between corporate dividend payout determinants i.e., explanatory variables. The relationship between the dependent and independent variables were stated in the following form:

$DPRit=\beta_0 + \beta_1 PRO_{it} + \beta_2 LIQ_{it} + \beta_3 GRO_{it} + \beta_4 SIZE_{it} + \beta_4 LEV_{it} + \beta_4 EPS_{it} + \varepsilon$

Where,

DPR= Dividend Payout Ratio

PRO_{it}= Profitability

LIQ_{it}= Liquidity

GRO_{it}= Growth

$SIZE_{it}$= Size

LEV_{it}= Leverage

EPS_{it}= Earnings Per Share

ε = the error term

As one of major objectives of this study is to ascertain the predictive power of determinants in the variability in dividend payout and to evaluate the direction of relationship between these variables, the test involves estimating several pairs of regressions equations.

CHAPTER IV
RESULTS AND DISCUSSION

This chapter serves as a critical component in achieving the research objectives outlined in the introduction, primarily focusing on the presentation and analysis of secondary data. Utilizing both financial and statistical methods outlined in the third chapter, Research Methodology, this section offers a comprehensive examination of various variables. Through the application of diverse tools, the acquired data is effectively displayed, compared, and evaluated. This extensive analysis plays a pivotal role in scrutinizing the comparative dividend choices made by commercial banks and the underlying attitudes of bank management regarding optimal dividend decisions. By examining the dividend distribution practices of commercial banks in Nepal.

4.1 Results

The use of financial indicators to get information about a company's financial policies and strategies is beneficial in determining the strengths and weaknesses of the company's financial policies and plans. It is necessary to apply these tools in order to analyze and evaluate the factors that influence dividend distribution. Financial tools are those that assist in the analysis of the factors that influence the dividend distribution of a company. They provide management with an idea of what investors believe about the company's previous performance and future prospects, as well as its financial position. They aid in the evaluation of a company's performance and give rules for examining the dividend payment to the firm's shareholders and shareholders' dividend payout.

4.1.1 Descriptive Analysis

Table 2 presents a summary of the descriptive statistics of the dependent and independent variables for six commercial banks during a nine-year period from 2013/14 to 2022/23, with a total of 60 observations. The data is based on a total of 60 observations. There are mean, standard deviation, number of observations, minimum and maximum values for the independent and dependent variables in the model, as well as other information. Profitability, Liquidity, Size, Growth, Leverage, EPS are the measure of banks' dividend behavior are independent variables under this study while dividend payout ratio was a dividend variable. The statistics are from pooled data of 60 valid observations. N is the number of observations. There are average indicators of variables calculated from the financial accounts, which are shown below (Table 2).

Table 2

Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DPR	60	.00	296.59	63.6375	46.25995
ROA	60	.25	3.57	1.8882	.67550
LIQ	60	4.06	36.35	18.5015	7.89353
SIZE	60	23.55	25.98	25.0195	.58285
GROWTH	60	-33.55	495.66	26.7028	79.54407
LEV	60	-8.75	22.26	11.5322	5.72639
EPS	60	7.48	198.53	43.6578	31.70011

(Source: SPSS Output)

The mean of dividend payout ratio was 63.64% and standard deviation 46.26%. This means, commercial banks in Nepal, under the period of study, paid out 63.64 percent of their net income after tax as dividend. Regarding the standard deviation, it means the value of dividend can deviate from its mean to both sides by 46.25 percent. The minimum and maximum value of dividend payout ratio was 0% and 296.59% during the study period. To check profitability and its relationship with the dividend payout ratio return on asset (ROA) was used as a proxy. The average profitability was 1.89%. This means, on the average, for each one-rupee investment in the asset of commercial banks there was 0.019 return. The maximum value of ROA for the year was 3.57 whereas the minimum value was 0.25. Also, the standard deviation was 0.67 which indicate there was low variation from the mean. Likewise, the liquidity ratio has a minimum value of 4.06% and a maximum of 36.35% percent with a mean of 18.5% percent. The average value of the growth variable as proxied by change in net profit was 26.70%. This implies that on average, the commercial banks net profit increased by 26.70% over the study period. The maximum value of growth for the study period was 495.66% and a minimum value of -33.55 percent. The standard deviation was 79.54%. The size of the commercial banks and its relationship with dividend payout, natural logarithm of total asset was used as proxy. The mean of the natural logarithm of total assets over the period 2013/14 to 2022/23 was 25.02 and standard deviation of 0.58. The maximum value was 25.98 while the minimum value was 23.55. Regarding the leverage, it was proxied by debt ratio (total equity divided by total asset). The mean of debt ratio of the sampled commercial banks was 26.70% percent. It reveals that equity represents nearly 26.70% of the equity of commercial banks. The highest debt ratio for a company in a particular year was 22.26% and in the same way the minimum

ratio for a company in a year was -8.75%. The average EPS of sample commercial banks during the study period was Rs. 43.66 with and maximum and minimum of Rs. 198.53 and Rs. 7.48.

4.1.2 Correlation Analysis

In research, correlation analysis is a statistical approach that is used to determine the strength of the linear connection between two variables and to calculate the link between the two variables. Simply expressed, correlation analysis is the process of calculating the amount of change in one variable as a result of the change in another. A high correlation indicates that there is a significant link between the two variables, while a low correlation indicates that the variables are only loosely associated. When a rise in one variable causes an increase in the other, this is referred to as a positive correlation between the two variables. A negative correlation, on the other hand, indicates that when one variable grows, the other variable drops and vice versa, and vice versa. In statistics co-relation analysis is a preferable statistical tool for this study, because it helps to identify the relationship between dividend payout with profitability, liquidity, size, growth, leverage, earnings per share and find whether relationship is significant or not.

Table 3

Correlations Analysis

		DPR	ROA	LIQ	SIZE	GROWTH	LEV	EPS
DPR	Pearson Correlation	1						
	Sig. (2-tailed)							
ROA	Pearson Correlation	-.044	1					
	Sig. (2-tailed)	.739						
LIQ	Pearson Correlation	-.188	.201	1				
	Sig. (2-tailed)	.150	.123					
SIZE	Pearson Correlation	-.111	.169	-.073	1			
	Sig. (2-tailed)	.399	.197	.579				
GROWTH	Pearson Correlation	-.215	.174	.068	.009	1		
	Sig. (2-tailed)	.099	.183	.607	.947			
LEV	Pearson Correlation	.134	.637**	.181	.328*	-.235	1	
	Sig. (2-tailed)	.306	.000	.167	.010	.071		
EPS	Pearson Correlation	-.153	.288*	.159	.024	.353**	-.205	1
	Sig. (2-tailed)	.243	.026	.224	.854	.006	.117	

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

*. Correlation is significant at the 0.05 level (2-tailed).

Table 3 shows the correlation between independent and dependent variables used in the study. The correlations and their significance levels provide insights into how each variable is related to DPR. The Pearson correlation coefficient between ROA and DPR is -0.044 with a p-value of 0.739. This weak negative correlation suggests that there is a very slight inverse relationship between ROA and DPR, meaning that as ROA increases, DPR tends to decrease slightly. However, this relationship is not statistically significant ($p > 0.05$), indicating that ROA does not have a meaningful impact on DPR in this dataset.

The Pearson correlation coefficient between LIQ and DPR is -0.188 with a p-value of 0.150. This weak negative correlation indicates that higher liquidity is slightly associated with lower DPR. Nevertheless, the relationship is not statistically significant ($p > 0.05$), suggesting that liquidity does not have a significant influence on the dividend payout ratio. The Pearson correlation coefficient between SIZE and DPR is -0.111 with a p-value of 0.399. This weak negative correlation implies that larger firm size is associated with a lower DPR. However, the relationship is not statistically significant ($p > 0.05$), indicating that firm size does not have a significant impact on the dividend payout ratio.

The Pearson correlation coefficient between GROWTH and DPR is -0.215 with a p-value of 0.099. This weak negative correlation suggests that higher growth rates are slightly associated with lower DPR. Although the p-value is closer to the threshold of significance, it is still above 0.05, indicating that the relationship between growth and DPR is not statistically significant. The Pearson correlation coefficient between LEV and DPR is 0.134 with a p-value of 0.306. This weak positive correlation suggests that higher leverage is slightly associated with higher DPR. However, the relationship is not statistically significant ($p > 0.05$), indicating that leverage does not have a significant impact on the dividend payout ratio.

The Pearson correlation coefficient between EPS and DPR is -0.153 with a p-value of 0.243. This weak negative correlation indicates that higher earnings per share are slightly associated with lower DPR. However, the relationship is not statistically significant ($p > 0.05$), suggesting that EPS does not have a significant influence on the dividend payout ratio. None of the independent variables (ROA, LIQ, SIZE, GROWTH, LEV, and EPS) show a statistically significant correlation with the

dependent variable DPR. This implies that within this dataset, these variables do not have a strong or meaningful impact on the dividend payout ratio. The lack of significant correlations may be due to various factors such as insufficient sample size, measurement errors, or the presence of other influencing variables not included in this analysis.

4.1.2 Regression Analysis

In order to determine which factors, have an influence on a subject of interest, regression analysis is a trustworthy strategy to use. It is possible to accurately establish which elements are the most important, which ones may be disregarded and how these factors interact with one another via the process of running a regression. The R value from model summary measures how well the regression model explains the actual variations in the dependent variable (Brooks, 2008).

4.1.10.1 Model Summary and Autocorrelation Test

The model summary result from dependent variable DPR and independent variables ROA, LIQ, SIZE, GROWTH, LEV and EPS. It tests that the residuals from a linear regression or multiple regression are independent. Since the Durbin Watson test is only applicable to test autocorrelation in time series, this study uses Wooldridge (2002) test appropriate in panel-data models where a significant test statistic indicates the presence of serial correlation.

Table 4

Model Summary and Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.472[a]	.223	.135	1.52450	.555

a. Predictors: (Constant), EPS, GROWTH, SIZE, LIQ, ROA, LEV

b. Dependent Variable: DPR

Table 4 the regression model summary indicates that the model, which includes EPS, GROWTH, SIZE, LIQ, ROA, and LEV as predictors for the dividend payout ratio (DPR), explains 22.3% of the variance in DPR, as indicated by the R Square value of 0.223. However, the Adjusted R Square, which accounts for the number of predictors in the model, is slightly lower at 0.135, suggesting that some predictors may not be significantly contributing to the model. The standard error of the estimate is 1.52450,

reflecting the average distance that the observed values fall from the regression line. The Durbin-Watson statistic is 0.555, indicating potential positive autocorrelation in the residuals, suggesting that the assumption of independence of errors may be violated.

4.1.10.2 Analysis of Variance (ANOVA)

Analysis of variance (ANOVA) is an analysis tool used in statistics that splits an observed aggregate variability found inside a data set into two parts: systematic factors and random factors. The systematic factors have a statistical influence on the given data set, while the random factors do not. Anova table contains columns labeled "Source", "SS or Sum of Squares", "df - for degrees of freedom", "MS - for mean square", "F or F-ratio", and "p, prob, probability, sig., or sig. of F". The t-test tells us if the variation between two groups is "significant". In general, the purpose of analysis of variance (ANOVA) is to test for significant differences between means. Generally, the level of significant is taken “1%”, “5%” and, “10%”.

Table 5

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.378	6	5.896	2.537	.031
	Residual	123.177	53	2.324		
	Total	158.555	59			

a. Predictors: (Constant), EPS, SIZE, ROA, LIQ, GROWTH, LEV

b. Dependent Variable: DPR

From Table 5 it is clear that 60 observations are utilized in the model and the dependent variable is the DPR of sample commercial banks in Nepal and that independent variables are ROA, LIQ, SIZE, GROWTH, LEV and EPS. The f-static is not significant at 5% i.e., 0.031<0.05, which implies that the independent variables in the model were able to explain variations in the dependent variable. Therefore, the general model, which is specified by F-statistical probability zero which results in null acceptance, shows that the total model is significant at 5% level of significance. The ANOVA results indicate that the overall regression model is statistically significant, implying that the predictors EPS, SIZE, ROA, LIQ, GROWTH, LEV collectively have a significant impact on the dividend payout ratio.

4.1.10.3 Coefficients

It is possible to estimate unknown population characteristics using regression coefficients, which may be used to characterize the connection between a predictor variable and the answer. Correlation coefficients are the values that multiply the predictor values in a linear regression model. With one unit change in the predictor, the coefficient value indicates the mean change in the response for the whole time period.

Table 6

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	21.012	9.417		2.231	.030
	ROA	.902	.596	.267	1.514	.136
	LIQ	-.711	.464	-.215	-1.532	.131
	SIZE	-.685	.399	-.244	-1.719	.041
	GROWTH	.114	.166	.105	.685	.496
	LEV	.695	.520	.256	1.337	.187
	EPS	-.214	.457	-.086	-.469	.641

b. Dependent Variable: DPR

Table 6 presents the results of a multiple regression analysis where the dependent variable is the dividend payout ratio. The independent variables are return on assets (ROA), liquidity (LIQ), size (SIZE), growth (GROWTH), leverage (LEV), and earnings per share (EPS). The coefficients, standard errors, t-values, and p-values are listed to interpret the influence of each variable on the dividend payout ratio.

The constant term (intercept) in the model is 496.419, which represents the expected value of the dividend payout ratio when all independent variables are zero. Although this value provides a baseline, it is often not interpretable in a meaningful way due to the nature of the predictors. However, the constant can sometimes offer insights into the average level of the dependent variable when the predictors are centered around zero.

Return on assets (ROA) has an unstandardized coefficient of 0.902 with a standard error of 0.596, resulting in a t-value of 1.514 and a p-value of 0.136. This indicates that,

holding other variables constant, a one-unit increase in ROA is associated with a 0.902 unit increase in the DPR. However, the p-value suggests that this relationship is not statistically significant at the 0.05 level, implying that ROA does not have a meaningful impact on the DPR in this model. The insignificance may be due to high variability in ROA data or insufficient sample size, which can reduce the power to detect a true effect.

Liquidity (LIQ) shows an unstandardized coefficient of -0.711 with a standard error of 0.464, leading to a t-value of -1.532 and a p-value of 0.131. This suggests that a one-unit increase in liquidity is associated with a 0.711 unit decrease in the DPR, holding other factors constant. Despite this negative relationship, the p-value indicates that it is not statistically significant, suggesting that liquidity does not have a significant effect on the DPR within this model. This might be due to multicollinearity or other confounding factors not accounted for in the model.

Size (SIZE) has an unstandardized coefficient of -0.685 with a standard error of 0.399, yielding a t-value of -1.719 and a p-value of 0.041. This result is statistically significant at the 0.05 level, indicating that a one-unit increase in size is associated with a 0.685 unit decrease in the DPR, all else being equal. The significant negative relationship suggests that larger firms tend to have lower dividend payout ratios.

Growth (GROWTH) has an unstandardized coefficient of 0.114 with a standard error of 0.166, resulting in a t-value of 0.685 and a p-value of 0.496. This indicates that a one-unit increase in growth is associated with a 0.114 unit increase in the DPR, holding other variables constant. However, the relationship is not statistically significant, implying that growth does not have a substantial impact on the DPR in this model. The insignificant result might be due to a mis-specification of the model, where the linear relationship between growth and dividend payout ratio might not be appropriate.

Leverage (LEV) displays an unstandardized coefficient of 0.695 with a standard error of 0.520, producing a t-value of 1.337 and a p-value of 0.187. This suggests that a one-unit increase in leverage is associated with a 0.695 unit increase in the DPR, controlling for other variables. Despite the positive relationship, the p-value indicates that this effect is not statistically significant, meaning that leverage does not significantly affect the DPR within this sample. This could be due to the sample size being too small to detect a significant effect or potential collinearity with other predictors.

Earnings per Share (EPS) has an unstandardized coefficient of -0.214 with a standard error of 0.457, leading to a t-value of -0.469 and a p-value of 0.641. This suggests that a one-unit increase in EPS is associated with a 0.214 unit decrease in the DPR, when other factors are held constant. However, this relationship is not statistically significant, indicating that EPS does not have a meaningful impact on the DPR in this model. This insignificance could be due to random variability or the presence of other variables that better explain the variation in dividend payout ratios.

The regression analysis indicates that only size has a statistically significant effect on DPR, with a negative relationship. Other independent variables ROA, LIQ, GROWTH, LEV, and EPS do not show statistically significant effects on DPR. This could be due to various factors, including a small sample size, multicollinearity among predictors, measurement errors, omitted variable bias, or model mis-specification. To obtain more conclusive findings, it may be necessary to increase the sample size, improve the measurement of variables, and include additional relevant predictors in the model.

4.2 Discussion

The purpose of this research is to examine the dividend payment determinants of six commercial banks operating in Nepal during a ten-year period. All of the banks in the sample paid a good dividend, but were unable to maintain a specified dividend distribution ratio. As a consequence, it is critical to understand the bank's dividend distribution plan in detail. The bank must choose how much of its profits should be retained for internal financing and how much should be distributed to shareholders as dividends. As a result, a delicate balance would exist between the company's development and the interests of its stockholders. Profitability is closely tied to the number of dividends paid by banks. If banks produce a higher profit, they may pay a higher dividend to shareholders. Profitable businesses are more likely to pay a greater dividend to communicate their superior financial success. As a result, ADBL has a greater dividend distribution capability than the other six commercial banks. Each of the six example banks is in a healthy liquidity position. Firms having a greater cash balance are in a better position to pay a higher dividend than those with insufficient cash. Using data from the preceding ten years on average, it is possible to conclude that the average size of ADBL is greater than the average size of other sample banks throughout the ten-year study period. The size of the bank has an effect on the number of dividends paid. There is a positive correlation between size and dividend distribution

because larger companies are more competitive, easier to obtain financing from the public sector due to a greater credit rating resulting from more consumer and collateral, and easier to raise capital from the private sector. The bank must choose how much of its profits should be retained for internal financing and how much should be distributed to shareholders as dividends. According to the growth analysis, NBL is more likely to pay a greater dividend than the other sample banks. Earnings per share is also a factor in commercial banks' dividend distribution. Banks with greater earnings per share were more likely to pay a bigger dividend than banks with a lower capital ratio. Thus, EBL has a greater potential to pay dividends than the six example commercial banks due to its EPS.

The correlation between growth and dividend payment had a negative value indicating that the two variables were not related. It implies that as growth prospects develop, they will have a negative influence on the economy and cause it to shrink. The connection between liquidity and dividend distribution was found to be negative, indicating a negative relationship. This means that if the liquidity or cash flow of the commercial banks grows, the dividend distribution will drop. Profitability also exhibited a negative association with dividend payout. This indicates that a rise in profitability will result in a drop in the dividend distribution amount. Furthermore, there was a negative association between the size of the company and the dividend distribution. This demonstrates that when the size of commercial banks grows, the dividend payouts drop as well. Meanwhile, the correlation analysis revealed a positive association between leverage and dividend payment. This demonstrates that increasing leverage has a beneficial impact on dividend distribution. Finally, the connection between earnings per share and dividend payment is negative, indicating that a rise in profits per share results in a fall in dividend payout for commercial banks in Nepal. Only leverage exhibited a positive relationship with dividend distribution, according to the correlation data.

With a lower p value, the profitability (ROA) coefficient was particularly poor. This means that Nepal's successful commercial banks are also underpaying their owners. So the dividend policy theory's signaling premise fails. Profitable businesses may pay dividends, according to pecking order theory. Raphael & Mnyavanu (2018), Tessema & Ponnala (2016) view the positive association between dividends and profitability as supporting the pecking order concept. The findings showed a 0.094 p value for the link between liquidity and dividend payment ratios. This study's findings show that

excellent liquidity reduces commercial banks' capacity to pay dividends. Previous research and signalling theories do not support this favourable correlation. According to Alli et al. (1993), dividend payment is liquid. Liquidity and dividend payment ratios are linked, according to Amidu and Abor (2006). This result contradicts Hosain (2016) and Tessema & Ponnala (2016).

Commercial bank size has the negative relationship with dividend payout at 5% level of significance. This result is inconsistent with the findings of Pradhan & Rajbhandari (2016) while this result is consistent with the findings of Tessema & Ponnala (2016). The negative relationship of size with payout is arguable, as some researchers have reported negative relationship of size with payout like Naceur et al. (2006) and Ahmed and Javid (2009). While majority of others researchers have reported positive relationship of size with corporate payouts. More specifically, Aivazian et al. (2003) argued that large firms are more likely to be mature and thus have easier access to capital markets, and should be able to pay more dividends. It is predicted that firms with high growth or investment opportunities tend to retain their income to finance their investments, thus paying less or no dividends. The result shows the relationship between growth and dividend payout policies is negative and insignificant at five percent significance level with a p-value of -0.060. This is indicative of the fact that, growing commercial banks net revenue requires more funds in order to finance their growth and therefore would typically retain greater proportion of their earnings by paying low dividend. this result is inconsistent with the findings of Hosain (2016).

Highly levered firms depend on external financing to a greater extent than the one with lower leverage ratios, because leverage produces fixed charge requirements. Consequently, levered firms should pay fewer dividends. This hypothesis was tested using the debt ratio as a surrogate for leverage. The results of this study show a positive and but statistically insignificant relationship between leverage and dividend payout ratios. A number of previous studies reported statistically significant and negative relationship between financial leverage and dividend payout. Jensen et al., (1992) and Aivazian et al. (2003) argued that a firm’s leverage is a key factor explaining the firm‟s decision to pay dividend. They found a negative association between firm's leverage and dividends. Also, the result is consistent with the findings of Tessema & Ponnala (2016). Commercial banks with highest earning per share were more likely paid the dividend to its shareholders. The regression result indicate that EPS has a positive

insignificant relationship with dividend payout. This result is consistent with the empirical findings of Bassey, Elizabeth & Asinya (2014).

CHAPTER V
SUMMARY AND CONCLUSION

5.1 Summary

In the financial world, dividend decisions are a type of financing decision that can have a significant impact on both the wealth of shareholders and their ability to retain earnings. The dividend policy is the payout policy that determines the amount and form of cash distributed to shareholders over time. It is widely believed that dividend payments are significant to investors for a variety of reasons. Distribution of dividends may be seen as a sign of a company's financial health. This article investigates the drivers of dividend payout ratio by examining a sample of six commercial banks operating in Nepal during a ten-year period, from 2013/14 to 2022/23. The data used in this study comes from six commercial banks operating in Nepal. The descriptive and analytical designs were used in this investigation. Profitability, liquidity, size, growth, and earnings per share (EPS) have a negative link according to the results of Pearson correlation, however leverage has a positive correlation. It also indicates that none of the independent variables were statistically significant. While the other variables were not statistically significant, and the findings from regression indicate that profitability is insignificant in explaining the probability of dividend payout, while liquidity, average revenue growth, leverage, and earnings per share are all insignificant in explaining the probability of a dividend payout in the regression model. But size have negative significant effect on dividend payout ratio of commercial banks. The relationship between dividend payment and leverage is further complicated by the fact that dividend payout is positively related to profitability, while dividend payout is negatively related to liquidity, growth, and leverage.

Nepalese firms' shareholders have a high expectation of the market price, which is reflected in the ambiguous practice of dividend distribution. The most often seen phenomenon in Nepalese dividend distribution procedures is the inconsistency of dividend stability and the uneven payment ratio. The theoretical premise of the research was that the choice to pay a dividend should be based on factors such as liquidity, net profit, size, growth, leverage, and so on. From the above research, the study discovered that there is no consistent dividend policy in either of the two sectors examined, and

that dividend payments seem to be completely random decisions made by the boards of directors of sample commercial banks.

5.2 Conclusion

This study examines the dividend payment factors of six Nepalese commercial banks over ten years of the study period. All of the banks in the sample provided a respectable dividend but couldn't keep up with the ratio. As a result, understanding the bank's dividend policy is crucial. The bank must decide how much of its earnings to keep for internal use and how much to pay out as dividends. As a consequence, the company's growth and investor interests would be delicately balanced. Bank dividends are intimately linked to profitability. If banks make more money, they may pay more dividends to shareholders. In order to demonstrate their superior financial performance, profitable enterprises are more inclined to offer a higher dividend. As a consequence, ADBL may distribute dividends faster than the other six commercial banks. Each of the six sample banks has enough liquidity. Firms with more cash are better positioned to pay a bigger dividend than those with less cash. Using data from the previous 10 years, it can be concluded that ADBL is larger than other sample banks throughout the ten-year research period. The size of the bank influences dividend payments. Larger enterprises are more competitive, have a better credit rating owing to more customers and collateral, and can receive funds from the private sector faster. The bank must decide how much of its earnings to keep for internal use and how much to pay out as dividends. The growth study predicts that NBL will pay a higher dividend than the other sample banks. Earnings per share affects commercial banks' dividend payouts. Banks with higher EPS paid larger dividends than banks with lower capital ratios. Due to its EPS, EBL has a higher capacity to pay dividends than the six commercial banks.

Growth and dividend payment showed a negative correlation, showing they were unrelated. It suggests that future growth possibilities will be detrimental to the economy and force it to contract. The association between liquidity and dividend distribution was found to be negative. This implies that when commercial banks' liquidity or cash flow rises, dividend payouts decline. Profitability has a negative correlation with dividend distribution. As a consequence, increasing profitability reduces dividend payouts. There was also a negative correlation between firm size and dividend distribution. This shows that when commercial banks expand in size, dividend distributions decline. The correlation between leverage and dividend payment was indicating a positive relationship

between the two variables. This shows that increased leverage benefits dividend distribution. Finally, the correlation coefficient between earnings per share and dividend distribution showing that rising earnings per share leads to lower dividend payments for Nepalese commercial banks. The correlation data showed that only leverage correlated positively with dividend distribution. However, dividend policy has a negative link with profitability, liquidity, size, growth, and earnings per share. The correlation coefficient signals between the dependent and independent variables were contradictory with the hypothesis.

The research model's regression results indicate that return on assets, growth on net revenue and leverage have a positive influence on dividend payment, whilst liquidity ratio, size of the bank and earnings per share have a negative impact on dividend payout. At the 5% level of significance, only bank size has negative significant effect on dividend payout ratio while other independent factors was shown to be a statistically insignificant predictor of the decision to pay out dividends, according to the findings. The outcome is diametrically opposed to both reality and dividend payment ideas. Because of the larger fluctuation in independent variables for practically all sample banks over the research period, it is possible that this result was obtained.

5.3 Implications

On the basis of the findings of the study following recommendations has been made.

- When paying dividends, the bank should consider the current circumstances and expectations of shareholders in order for the payout to be in line with the interests or expectations of the shareholders as much as possible.
- This research suggests that commercial bank dividend policy makers, such as finance directors and the board at large, should focus on profitability, liquidity, growth, and leverage, since these are essential elements influencing dividend payouts and therefore keeping customers and shareholders happy.
- Understanding the factors of dividend policy impacts an investor's investing strategy based on their dividend preference. Buying and selling existing equities is difficult without a secondary market where searching and brokerage expenses are significant. Moreover, investors looking for dividend producing businesses may wish to consider the aspects listed above.
- Banks are playing on the public money so in this regard, they are advised to have target rate of return (earnings) and target payout ratio that will help the banks to

build good image in stock market and investors will be benefited on making investment decision.

- The legal rules and regulation must in favor of investors to exercise the dividend practice and to protect the shareholders right.
- The Bank should study about the strategy to attack the ordinary or small or low-level investors. So that the interest or the expectations of shareholders will to be destroyed even the bank.
- Various future research avenues are possible. One might evaluate the inclusion of other factors such as the firm's business risk and the number of directors. Second, using macroeconomic variables might be a future study direction. Finally, the data revealed investors' perspectives on dividend policy, which future academics might investigate.

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Abstract Dividend decisions are pivotal in corporate finance, impacting shareholder wealth and firm financial health. This study examines the determinants of dividend payout ratios across six commercial banks in Nepal over a comprehensive ten-year period from 2013/14 to 2022/23. Utilizing a combination of descriptive and analytical research designs, the investigation focuses on key financial metrics including profitability, liquidity, firm size, growth prospects, leverage, and earnings per share (EPS) to discern their influence on dividend policy formulations. The findings suggest a complex relationship between these factors and dividend payout decisions. While leverage and EPS exhibit a positive correlation with dividend payments, indicating that banks with higher leverage and EPS tend to distribute higher dividends, profitability, liquidity, size, and growth demonstrate a negative correlation. This implies that factors such as greater profitability or larger size do not necessarily lead to higher dividend payouts in the sampled banks. Statistical analysis, including Pearson correlation and regression models, reveals that these variables do not consistently and significantly predict dividend payout ratios across the banks studied. The study underscores the lack of a uniform dividend policy among Nepalese commercial banks, highlighting that dividend decisions appear to be influenced by a multitude of factors beyond straightforward ii financial metrics. Consequently, the implications for bank management and policy makers are substantial. Financial directors and boards are encouraged to carefully consider the interplay of profitability, liquidity, growth trajectories, and leverage in