



RESEARCH ARTICLE

The Influence of Financial Condition on Dividend Payout of Financial Institutions in Nepal

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Abstract

This study examined the influence of financial condition on dividend payout of twenty-one banks and financial institutions using quantitative secondary data from FY 2014/15 through 2023/24. Descriptive statistics and pooled ordinary least squares regression were used to analyze the data and derive the results. The study revealed that commercial banks paid the highest dividend, followed by development banks and finance companies. Capital adequacy and cash reserve ratios exceed the Nepal Rastra Bank standards, and the non-performing loan ratio showed high fluctuation. Besides, earnings per share positively influence dividend payout indicating higher earnings are associated with higher dividends. Capital adequacy, non-performing loan ratio, and leverage show a significantly negative influence on dividend payouts. Descriptive analysis shows that there is a significant mean difference in dividend payout across the three types of financial institutions, while there is insignificant negative impact of commercial bank dummy on dividends than that of other two sectors. Thus, the study concludes that dividend payout in the financial sector is largely driven by earnings capacity; however, high debt service obligations, poor asset quality, and excess capital adequacy lead financial institutions to adopt financial caution while struggling with profitability and efficiency. The study findings reinforce dividend relevance and signaling theories of dividend payout, as earnings per share is the key determinant. Practically, regulators like the central bank may review liquidity and capital adequacy to avoid excessive buffers, and bank managers need to emphasize improving earnings quality and controlling bad loans to enhance profitability.

Keywords: capital adequacy ratio, earnings per share, leverage, NPL ratio, dividend payout ratio

Introduction

Dividend payout is one of the most important issues in corporate finance because it affects shareholders' wealth and managerial discretion. As dividend payout is a crucial area, it requires determining the amount of earnings to be distributed to shareholders, and the amount to be retained for reinvestment in the firm (Pandey, 2010). Dividend distribution is the compensation that shareholders receive for their investments, and retained earnings are considered one of the primary internal sources of financing for the firm's growth. In this regard, Black (1976) argued that whether the distribution of dividends rewarded shareholders for their invested capital, and/or they are deprived of higher returns from reinvestment, remains indeterminate. Balancing shareholders' desire for current dividends and the firm's needs for growth, however, is influenced by several company-related factors and external factors, as they ultimately affect the shareholders' wealth.

The method of dividend distribution varies across emerging and developed markets. Glen et al. (1995) found that dividends in developed markets remain more stable than those of emerging markets because of differences in economic policy for each country. Country-specific characteristics have a significant effect on determining dividend policies in emerging markets (Aivazian et al., 2003b). For instance, higher dividends are paid by firms in emerging markets compared with U.S. firms. Further, Lintner (1956), Michel (1979), and Dempsey et al. (1993) claimed that there is a sectoral influence on dividend payout, resulting in firms from the same sector having similar dividend policies. However, very few empirical studies have examined the variations in dividend payout behavior across sectors.

The extant literature provides mixed evidence regarding factors affecting dividend payout. In this respect, this paper

focuses on contributing to the existing literature in two ways, especially in the context of Nepal. Firstly, this study seeks to identify the major financial factors influencing dividends. Secondly, it strives to fill a significant gap in the existing literature by examining the dividend behavior across various sectors of financial institutions (FIs), with particular emphasis on the sector-specific impact especially that of commercial banks on dividend payouts.

Literature Review

This section reviews the theoretical framework of dividend payout and discusses several works that empirically tested dividend payout in different markets. This section also formulates seven hypotheses on the factors that affect corporate dividend payout.

Theoretical Underpinnings of Dividend Policy

The research on dividend payout is based on various theories. A pioneering study by Miller and Modigliani (1961) on dividend policy, growth, and the valuation of shares marked the beginning of the theoretical explanation of dividends that continues to date. They proposed a model in which they claimed that the value of the firm in a perfect market situation, without the influence of taxes, transaction costs, and asymmetric information, is not affected by its dividend payout; rather it depends on the earnings power of the firm's assets. This theory is, thus, popularly known as the dividend irrelevance. Investors should not differentiate between dividends and retained earnings. Contrary to this, Gordon (1963) proposed the so-called The-Bird-in-the-Hand theory (Bhattarai 2020; Thapa, 2021; Dhungana et al., 2024), which pointed out the weaknesses of the previous theory and contended that keeping the time value of money into account, the value of the firm is affected by dividend payment because risk-averse investors favor dividends over

retained earnings. The theory argues that investors behave rationally and prefer current dividends to future dividends. Similarly, there are differences in the tax treatment of dividends and capital gains. Further, this theory posits that firms with elevated earnings per share and net earnings are likely to distribute higher dividends, also known as the dividend relevance theory.

Signaling theory (Bhattacharya, 1979; Miller & Rock, 1985) suggests that information about the declaration of a stock dividend or a stock split can affect the stock price because such announcements convey management's beliefs about the firm's favourable prospects. Information available to shareholders is often less complete than available to managers, which may lead to information asymmetry, resulting in various agency problems (Pandey, 2010). Originally, agency theory was proposed by Jensen and Meckling (1976), who contended that the distribution of high dividends can mitigate agency costs linked to free cash flow by restricting the resources available for potential managerial inefficiencies. Dividend allocation in favor of shareholders relative to lenders reduces agency costs as well as overinvestment in the firm (Khushi et al., 2020; Yusof & Ismail, 2016). Dickens et al. (2002) suggested that firms should allocate surplus cash as dividends to reduce agency problems. Pecking order theory suggests that dividend payments are generally secondary to profitable project investment, which may reduce funds to distribute dividends (Myers & Majluf, 1984). Thus growing firms plough back its profits rather than distributing dividends, and avoid external financing.

Overall, the theoretical review presents contrasting views on dividend policy. It remains a critical financial decision shaped by market imperfections and behavioural considerations.

Empirical Works and Hypothesis Development

Dividend payout is one of the most

debated issues in corporate finance, which depends on various factors. For instance, Arif and Akbar (2013), Imran (2011), Kilincarslan and Demiralay (2020) documented that investment opportunities, sales growth, profitability, free cash flows, firm size, debt, and taxation are the major factors that determine dividend payout of firms. Similarly, Mrzygold et al. (2021) reported that dividends depend on liquidity risk, leverage, size, and long-term debt of firms in BRICS countries. Among several factors, profitability indicators, leverage, liquidity, and firm size are important factors that affect dividend payout, and they have been studied most frequently (Rohov et al., 2020). Myers and Majluf (1984) stated that dividend payout is affected by profitability, which is generally explained by the pecking order theory. The debt-equity ratio influences dividend payout directly (Akhalumeh & Ogunkuade, 2021; Odawo & Ntoiti, 2015), while a high debt-equity ratio reduces a firm's ability to distribute dividends (Perera, 2016). The impact of profitability, firm size, and investment opportunities on dividend payouts has been studied by Fama and French (2001), who found that profitable firms have a higher probability of paying dividends. Bank size and liquidity ratio have a significant positive impact on dividend payout, while variables such as leverage, capital adequacy, and profitability ratios show insignificant relationship in the Nepali banking sector (Dhungana et al., 2024).

Capital Adequacy and Dividend Payout

The pecking order theory suggests that companies favor internal financing rather than seeking external funding. According to Myers and Majluf (1984), firms with a higher capital adequacy ratio (CAR) may prioritize retained earnings and restrict dividend payments to ensure they meet capital adequacy requirements. Similarly, Dhungana et al. (2024) reported that there is a negative influence of capital adequacy on dividend payments though the effect is

statistically insignificant for commercial banks in Nepal. However, Ramli (2010) found that the ownership structure and dividend payouts have a positive relationship. By reviewing the literature, the majority of studies favour the negative role of capital adequacy in dividend payout. Accordingly, the following hypothesis is proposed:

H_1 : Capital adequacy negatively influences dividend payout.

Cash Reserve Ratio and Dividend Payout

The monetary policy of the central bank regulates liquidity in the economy. Commercial banks must keep certain reserves based on their total deposits. In Nepal, the cash reserve requirement for commercial banks is set at four percent of their total deposit liabilities. According to signaling theory, adequate cash reserve ratio as well as ample payout signals strong financial positions. Besides, adequate reserve weakens financial distress, amplifying capacity of the firm to pay more. Empirically, liquidity variable found to be a positive significant factor in dividend payout of firms (Zurigat et al., 2013). Similarly, Hosain (2016), Adugna et al. (2020), and Zelalem (2021) documented liquidity influences on banks' dividend payout. Based on it, the study develops the following hypothesis:

H_2 : Cash reserve positively impacts dividend payout.

Non-Performing Loan and Dividend Payout

Non-performing loans (NPLs) refer to the portion of a bank's loan portfolio that is either in default or nearing default. A high non-performing loan to total loan ratio (NPL ratio) signals poor asset quality and financial challenges, which can adversely affect a bank's ability to pay dividends. Arko et al. (2014) suggest that firms with higher NPLs are more likely to retain earnings to cover

potential loan losses rather than distribute them as dividends. The pecking order theory (Myers & Majluf, 1984) aligns with this by proposing that companies facing financial constraints due to loan defaults prefer to retain earnings instead of paying out dividends. Similarly, Goetz et al. (2013) found that financial difficulties caused by bad loans result in more conservative dividend policies, leading to reductions in both dividends per share (DPS) and the dividend payout ratio (DPR). In this study, non-performing loans are measured by the ratio of non-performing loans to total loans and advances. Based on this, the study develops the following hypothesis:

H_3 : Non-performing loans to total loans and advances negatively influence dividend payout.

Leverage Ratio and Dividend Payout

Leverage, as indicated by the debt-to-equity ratio, serves as a reflection of a company's financial structure and its associated risk, which in turn affects its dividend distribution strategy. Companies with high leverage typically retain a larger portion of their earnings to fulfill debt obligations, leading to diminished dividend payouts, as noted by Fama and French (2002) and Jensen (1986). Additionally, debt covenants frequently impose limitations on dividend distributions to maintain adequate liquidity for servicing debt (Rozeff, 1982). In contrast, firms with lower leverage enjoy enhanced financial flexibility, enabling them to offer more substantial dividends (Myers & Majluf, 1984). Agency theory suggests that firms burdened with high leverage may opt for lower dividend payments to mitigate potential conflicts with debt holders (Jensen & Meckling, 1976). On the other hand, signaling theory indicates that companies with lower leverage might utilize dividend payments as a means to convey their financial robustness to investors (Bhattacharya, 1979). In this analysis, leverage is represented by the

debt-to-total assets ratio (Dhungana et al., 2024; Sahid et al., 2023), who found a positive but insignificant relationship with dividends. Likewise, Dsouza et al. (2025) also found a positive impact of leverage on dividend payment. Based on the literature, the majority of studies favor the negative role of leverage in the dividend payout of firms. Thus, the study proposes the following hypothesis:

H_4 : Leverage negatively impacts dividend payout.

Earnings Per Share and Dividend Payout

Earnings per share (EPS) indicates the portion of a company's profit allocated to each outstanding share of common stock, serving as a key measure of a firm's profitability. Lintner (1956) and Fama and French (2001) suggested that firms with higher EPS are more likely to distribute higher dividends, as strong earnings provide the necessary resources and confidence for consistent dividend payments. Numerous studies, including those by Amidu and Abor (2006), Al-Najjar and Hussainey (2009), and Baker et al. (2001), have found a positive relationship between EPS and dividend policy, showing that firms with higher EPS tend to distribute larger dividends to maintain investor trust and signal long-term profitability. EPS is also viewed as a crucial factor in dividend decisions, supported by signaling theory, which argues that management uses dividend payments to signal future earnings potential. In this study, EPS is used as an additional proxy for profitability, reflecting how shareholder returns influence dividend policies. Based on this, the study develops the following hypothesis:

H_5 : Earnings per share positively influence dividend payout.

Size of Firm and Dividend Payout

Firm size is measured by total assets (Nguyen, 2014). Titman and Wessels

(1988) argued that large corporations are highly probable to be diversified, and thus, firms tend to pay higher dividends to their shareholders. Similarly, there is a positive influence of firm size on dividend payout ratio (Garaibeh, 2013). Neupane (2018) and Dhungana et al. (2024) reported that bank size has a significant positive influence on dividend payment in Nepali commercial banks. Further, several studies showed a favorable effect of firm size on dividend payout (Ademola et al., 2024; Nguyen, 2025; Pradika & Rediyono, 2022). Based on this, the study develops the following hypothesis:

H_6 : Firm size positively impacts dividend payout.

Age of the Corporation and Dividend Payout

Typically, older firms are in a more mature stage with limited growth potential and fewer investment opportunities (Barclay et al., 1995; Deshmukh, 2003; Grullon et al., 2002). Due to their maturity, these companies often have reduced needs to retain earnings for future expansion, enabling them to follow more generous dividend distribution policies. Further, recent empirical evidence suggests that as firms age, they may face a "competency trap" necessitating high reinvestment in research and development and digital transformation, thereby negatively impacts their capacity for dividend payouts (Goda, 2022). Moreover, in emerging markets, older firms often place emphasis on financial flexibility and cash retention over dividends to defend market share against aggressive younger entrants. This negative relationship is often moderated by agency conflicts, where entrenched management in mature firms may hoard cash for internal projects rather than returning it to shareholders (Bhattacharya et al., 2020). Based on this rationale, the following hypothesis is formulated:

H_7 : Age of the firm negatively influences dividend payout.

Methodology

In a meticulous pursuit to assess the influence of financial condition on the dividend payout of commercial banks in Nepal, the study relied on contextual analysis, data collection, appropriate variable selection, and the application of suitable models.

Context and Data Collection

This study emphasized the financial institutions of Nepal, which were in operation as of mid-July 2024, and actively engaged in stock trading in the secondary market after listing in the Nepal Stock Exchange Ltd. As per the Bank and Financial Institutions Act, 2017, Article 41, BFIs are categorized into four classes; “A”, “B”, “C”, and “D”, based on the minimum paid-up capital as prescribed by the Nepal Rastra Bank from time to time. As of mid-July

2017, the categories of banks based on their capital base are: 1) Class “A” - Commercial Banks with capital of Rs. 8 billion (8 Arab); 2) Class “B” – Development Banks with capital of Rs. 2.50 billion (2.50 Arab); 3) Class “C” -Finance Companies with capital of Rs. 800 million (80 Crore); and 4) Class “D” Micro Finance Development Banks with capital of Rs. 100 million (10 Crore). As of mid-March 2026, there are 20 commercial banks, 17 development banks, 17 finance companies, and 51 microfinance development banks in Nepal. Overall, the listed companies are divided into 12 sectors by Securities Board of Nepal and only three sectors of banking viz. commercial banks, development banks, and finance companies were selected for the study (Annual Report, 2023/24). The selection of sample FIs and their categories is presented in Table 1.

Table 1

List of Sample Financial Institutions

S.N	Type	Name	Study period	Observations
1		Everest Bank Limited	2014/15 to 2023/24	10
2		Himalayan Bank	2014/15 to 2023/24	10
3	Commercial Banks	Global IME Bank	2014/15 to 2023/24	10
4		Machhapuchchhre Bank	2014/15 to 2023/24	10
5		Sanima Bank	2014/15 to 2023/24	10
6		Nabil Bank	2014/15 to 2023/24	10
7		SBI Bank	2014/15 to 2023/24	10
8		Muktinath Bikas Bank	2014/15 to 2023/24	10
9		Jyoti Bikas Bank	2014/15 to 2023/24	10
10	Development Banks	Green Development Bank	2014/15 to 2023/24	10
11		Lumbini Bikas Bank	2014/15 to 2023/24	10
12		Kamana Sewa Bikas Bank	2014/15 to 2023/24	10
13		Shangrila Development Bank	2014/15 to 2023/24	10
14		Garima Bikas Bank	2014/15 to 2023/24	10
15		Nepal Finance	2014/15 to 2023/24	10
16		Progressive Finance	2014/15 to 2023/24	10
17	Finance Companies	Pokhara Finance	2014/15 to 2023/24	10
18		Manjushree Finance	2014/15 to 2023/24	10
19		Reliance Finance	2014/15 to 2023/24	10
20		Goodwill Finance	2014/15 to 2023/24	10
21		Best Finance	2014/15 to 2023/24	10
Total observations				210

The study selected seven institutions, each from Class “A”, Class “B”, and Class “C”, using a convenience sampling technique. The basis for sample selection was: 1) to maintain equal representation from each sector, samples were selected because the number of financial institutions is relatively similar across sectors; and 2) there is easy access to the required data from FY 2014/15 to 2023/24 on the company websites. The study excluded the Class “D” financial institutions, which represent the fourth sector as categorized by Securities Board of Nepal, because this sector developed later and operates with relatively limited functions. The collected data from the sample FIs were tabulated in MS Excel and SPSS version 27 for further analysis.

Variables and their Measurement

The study employed DPS and DPR as proxies for measuring dividend payout. They are the dependent variables in the study. Similarly, various financial factors

such as capital adequacy ratio, cash reserve ratio, NPL ratio, leverage, and earnings per share were used as explanatory variables. To identify the actual impact of explanatory variables on the dependent variables, it is desirable to control for the effects of some variables. Accordingly, the study employed two control variables viz. size of the bank proxied by total assets, which controls operational activities, and age of the corporation, which measures the stability of operations and growth of the firm. Of the three sectors chosen such as commercial banks, development banks, and finance companies, a dummy variable for the commercial bank sector was included in the study to examine the sectoral effect i.e., the effect of commercial banks on dividend payout. Additionally, the reason behind the use of a commercial bank dummy is that the dividend payout of commercial banks was the highest which is around twice that of other sectors of financial institutions (refer to Panel B of Table 4). The variables used for the study are presented in Table 2.

Table 2

Study Variables and Their Definitions

Variable	Full form	Proxy	Source
DPS	Dividend per share	Measured by dividing the total dividends paid to the shareholders by the number of outstanding shares.	Fama & French (2002), Hosain (2016), Nguyen (2025)
DPR	Dividend payout ratio	Measured by dividing the total dividends by the net income of the company.	Myers & Majluf (1984), Fama & French (2002), Hosain (2016), Nguyen (2025)
CAR	Capital adequacy ratio	It is the ratio of core capital and supplementary capital to risk-weighted assets.	Myers & Majluf (1984), Ramli (2010), Dhungana et al. (2024)
CRR	Cash reserve ratio	It is the ratio of cash reserve held with the central bank to total deposits.	Zurigat et al. (2013), Hosain (2016), Adugna et al. (2020), Zelalem (2021)
NPL/TL	Non-performing loan to total loan	Non-performing loan to total loan and advance	Arko et al. (2014), Myers & Majluf (1984), Goetz et al. (2013)
LEV	Leverage	Measured as the debt-to-total assets ratio	Fama & French (2002), Jensen & Meckling (1976), Bhattacharya (1979), Sahid et al. (2023), Dhungana et al. (2024)

EPS	Earnings per share	per	EPS is measured by net profit to the number of shares outstanding.	Lintner (1956), Fama & French (2001), Amidu & Abor (2006), Al-Najjar & Hussainey (2009), Baker et al. (2001)
lnTA	Total asset		Bank size is measured by the total assets of the firm. Natural logarithm of total assets (lnTAs) is used as a proxy of bank size.	Titman & Wessels (1988), Garaibeh (2013), Neupane (2018), Dhungana et al. (2024), Pradika & Rediyono (2022), Ademola et al. (2024), Nguyen (2025)
FirmAGE	Age of corporation	of	The age of the corporation is measured as the difference between the date of incorporation and the last fiscal year of the study.	Barclay et al. (1995), Grullon et al. (2002), Deshmukh (2003), Al-Malkawi (2005)
ComBNK_Dummy	Commercial bank dummy		Binary variable, which takes a value of "1" if FIs distributing dividends are in the commercial bank sector, and "0" otherwise, i.e., development banks and finance companies.	

The Model

To measure the characteristics of variables under study, descriptive statistics have been widely employed. A one-sample t-test was used to compare the mean of each variable under study, with the hypothesized population mean. It helps to test whether the actual mean of the sample is significantly different from zero. Further, one-way ANOVA is used to compare the equality of the mean dividend per share and dividend payout ratio across three types of FIs.

This study analyzes the correlation coefficients between the variables under study. Multiple correlation analysis was specifically conducted to check multicollinearity among the predictor variables. Further, this paper focuses on assessing the impact of financial conditions on the dividend payout of Nepali FIs. In this study, DPS and DPR were used as the dependent variables. The five explanatory variables were capital adequacy ratio, cash reserve ratio, NPL ratio, leverage, and EPS. The control variables were the banks' total assets and the age of the bank. Among the three sectors, the study employed the commercial bank sector as a dummy variable. The study used pooled ordinary least squares estimation because it

assumes homogeneous individual-specific effects across entities. The robustness of the models was checked by applying regression assumptions such as normality, homoscedasticity, and multicollinearity.

$$DPS_{it} = \alpha + \beta_1 CAR_{it} + \beta_2 CRR_{it} + \beta_3 NPL/TL_{it} + \beta_4 LEV_{it} + \beta_5 EPS_{it} + \beta_6 lnTA_{it} + \beta_7 FirmAGE_{it} + \beta_8 ComBNK_Dummy_{it} + e_{it} \dots\dots\dots (i)$$

$$DPR_{it} = \alpha + \beta_1 CAR_{it} + \beta_2 CRR_{it} + \beta_3 NPL/TL_{it} + \beta_4 LEV_{it} + \beta_5 EPS_{it} + \beta_6 lnTA_{it} + \beta_7 FirmAGE_{it} + \beta_8 ComBNK_Dummy_{it} + e_{it} \dots\dots\dots (ii)$$

Where,

α = constant term and $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7,$ and β_8 are the regression coefficients. DPS_{it} = Dividend per share for firm i and period t ; DPR_{it} = Dividend payout ratio for firm i and period t ; CAR_{it} = Capital Adequacy Ratio for firm i and period t ; CRR_{it} = Cash reserve ratio for firm i and period t , NPL/TL_{it} = Non-performing loan to total loan (NPL ratio) for firm i and period t ; LEV_{it} = Debt to total Assets Ratio for firm i and period t ; EPS_{it} = Earnings per share for firm i and period

t ; $\ln TA_{it}$ = Natural logarithm of total assets for firm i and period t ; $FirmAGE_{it}$ = Age of the corporation i and period t ; $ComBNK_Dummy_{it}$ = Commercial bank dummy for firm i and period t , and e_{it} = error term for firm i and period t .

The mean capital adequacy ratio is 16.34, with a minimum of -28.51 and a maximum of 66.85. This result indicates that the capital adequacy ratio of all three types of sample FIs during the period is around 17. As of 2080/81 BS, the minimum capital required is 11 percent of total risk-weighted exposure; thus, the result of the present study is above the Nepal Rastra Bank (NRB) standard (Capital Adequacy Framework, 2008). The cash reserve ratio varies, with an average of 16.41, while according to the NRB standard, it should be maintained at around four percent. It indicates that FIs hold reserves, resulting in reduced lending capacity and lower profitability.

Results and Discussion

Results

Descriptive Analysis of Financial Condition and Dividend Payout

Panel A of Table 3 presents the descriptive statistics for the financial condition variables, dividend payout, and control variables considered in the study, along with the total number of observations.

Table 3

Panel A: Descriptive Statistics for Financial Condition

Variable	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis	n
CAR	16.34	11.23	-28.51	66.85	1.20	7.68	210
CRR	16.41	11.65	0.65	48.19	0.26	-1.37	210
NPL/TL	2.48	4.37	0.00	49.29	6.80	64.50	210
Leverage	0.01	0.01	0.00	0.04	1.52	1.66	210
EPS	17.98	14.06	-52.52	78.04	0.19	4.72	210
FirmSIZ (Rs. in Million)	76728.97	108711.99	116.82	604518.11	2.38	6.63	210
FirmAGE	18.74	8.05	5	40	0.31	-0.77	210

Panel B: Descriptive Statistics of Financial Condition Based on Sector

Variable	Commercial Bank				Development Bank				Finance Company			
	Mean	Std Dev	t-stat	n	Mean	Std Dev	t-stat	n	Mean	Std Dev	t-stat	n
CAR	13.05	1.17	93.69	70	14.77	9.60	12.88	70	22.61	18.93	9.98	70
CRR	19.56	9.61	17.02	70	12.33	10.16	10.15	70	29.29	40.77	6.01	70
NPL/TL	1.15	1.22	7.85	70	1.48	1.43	8.61	70	16.95	30.80	4.60	70
Leverage	0.01	0.01	10.27	70	0.00	0.01	4.36	70	0.00	0.01	3.04	70
EPS	27.05	12.77	17.72	70	15.19	8.73	14.56	70	10.70	15.03	5.96	70
LnTA	25.76	0.61	355.77	70	23.74	1.39	143.03	70	21.86	1.42	128.82	70
FirmAGE	22.79	8.12	23.49	70	12.07	3.41	29.61	70	21.21	6.90	25.73	70

The variable NPL/TL represents the ratio of non-performing loans to total loans and advances (NPL ratio), with a mean of 2.48 percent and a standard deviation of 4.37, showing highest variation in the NPL ratio among FIs. It implies high credit risk

and variability in lending practices, leading to volatile profits and increased provisions, resulting in poor asset quality of FIs. The mean leverage ratio is 0.01, and it ranges between 0.04 and 1.52. The mean EPS is Rs. 17.98, indicating high efficiency in

generating income relative to shares. Bank size is represented by total assets, with a mean value of Rs. 76,728.97 million with a standard deviation of Rs. 108,711.99. Age of the firm ranges between five and 40 years, with a mean value of 18.74, indicating that FIs are relatively younger and in a high-growth phase, with greater capital demands, leading to retention of larger portion of earnings and distribute lower or no dividends (Deshmukh, 2003; Grullon et al., 2002).

Panel B shows the sector-wise descriptive statistics of the dividend payouts of FIs. The sample FIs are 70 from each of the three sectors, namely commercial banks, development banks, and finance companies. The results of the one-sample t-test indicate that the mean values of dividend payouts are significantly different from zero at the 1 percent level of significance ($p < 0.01$). Therefore, the null hypothesis is rejected. This indicates that financial conditions have a statistically significant impact on bank dividend payout decisions.

Table 4

Panel A: Descriptive Statistics of Dividend Payout

Variable	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis	n
DPS	12.66	12.88	0.00	70.00	1.73	4.14	210
DPR	0.60	0.46	0.00	2.24	0.59	0.88	210

Panel B: Descriptive Statistics for Dividend Payout based on Sector

Variable	Commercial Bank				Development Bank				Finance Company			
	Mean	Std Dev	t-stat	n	Mean	Std Dev	t-stat	n	Mean	Std Dev	t-stat	n
DPS	20.88	15.24	11.46	70	10.74	8.43	10.65	70	6.35	9.28	5.73	70
DPR	0.73	0.36	16.67	70	0.64	0.38	13.90	70	0.43	0.56	6.44	70

Panel C: One-way ANOVA for Testing Equality of Mean Dividend Per Share across Financial Institutions

Sector	Mean	Std. Dev.	Min	Max	n
Commercial banks	20.88	15.24	0.00	70.00	70
Development banks	10.74	8.43	0.00	36.35	70
Finance companies	6.35	9.28	0.00	52.00	70

F -statistic = 29.914; $df = 2, 207$ and $**p < 0.01$

Panel D: One-way ANOVA for Testing Equality of Mean Dividend Payout Ratio across Financial Institutions

Sector	Mean	Std. Dev.	Min	Max	n
Commercial banks	0.726	0.367	0.000	2.226	70
Development banks	0.637	0.386	0.000	1.856	70
Finance companies	0.431	0.564	0.000	2.243	70

F -statistic = 7.971; $df = 2, 207$ and $**p < 0.01$

Dividend payout metrics, such as dividend per share (DPS) and dividend payout ratio (DPR), serve as crucial signals of how much cash investors receive per share they own. As shown in Panel A in Table 4, DPS measures how much of the bank's profit is returned to shareholders. The result of DPS exhibits a wide range of values from

Rs 0.00 to Rs. 70.00, with a mean DPS of Rs. 20.88 and a standard deviation of 15.24. This metric is a key gauge signaling a bank's strong profitability and willingness to reward shareholders. DPR, on the other hand, measures the percentage of earnings per share, that is paid out as dividends. The results show that DPR ranges from 0.00 to

2.24,, with a mean of 0.73 and a standard deviation of 0.36 . A higher DPR indicates that banks distribute most of their profits, which may please investors; however, it could limit reinvestment and growth. Like DPS, DPR is a crucial metric for assessing the financial strengths of banks in the market.

Panel B in Table 4 shows the sector-wise analysis of DPS and DPR of FIs. The results show that the mean DPS and DPR of commercial banks are the highest, followed by development banks and finance companies. Testing the null hypothesis shows that both dividend payout variables are significantly different from zero at the 1 percent level. This supports the rejection of the null hypothesis, indicating that higher dividends carry informative value about the banks' profitability, stability, and growth.

Additionally, Panels C and D in Table 4 test the equality of mean DPS and DPR across FIs, respectively. The result of one-way ANOVA shows that the mean DPS and DPR across FIs are significantly different at the 1 percent level of significance. Post hoc comparisons using the least significant

difference test also indicate that the mean DPS and DPR across the three types of FIs are significantly different across all pairs, except for the mean DPR between commercial banks and the development banks. These results suggest that categories of FIs affects DPS and DPR.

Relationship between Financial Condition and Dividend Payout

Table 5 depicts the correlation results between key financial condition variables and dividend indicators. The capital adequacy ratio shows strong negative associations with both DPS and DPR. Cash reserve ratio shows a weak negative correlation with DPS and DPR. The non-performing loan to total loan and advances ratio shows a statistically significant negative association with both DPS and DPR. Leverage exhibits a positive correlation with DPS; however, a negative association with DPR, and both are statistically insignificant. Finally, earnings per share show positive correlations with DPS and DPR, and these relationships are statistically significant.

Table 5
Correlation between Financial Condition and Dividend Payout Variables

Variable	DPS	DPR	CAR	CRR	NPL/TL	Leverage	EPS	LnTAs	FirmAGE
DPS	1								
DPR	.671**	1							
CAR	-.220**	-.206**	1						
CRR	-0.086	-0.078	.433**	1					
NPL/TL	-.272**	-.341**	0.032	.419**	1				
Leverage	0.082	-0.054	-.155*	-0.041	-.157*	1			
EPS	.745**	.320**	-.177*	-0.014	-.205**	.165*	1		
LnTA	.451**	.346**	-.343**	-.166*	-.545**	.538**	.444**	1	
FirmAGE	0.094	-.176*	0.07	0.103	.186**	.208**	0.093	.154*	1

** $p < 0.01$, * $p < 0.05$

Overall, the results of the correlation analysis in table 5 show that there is no problem of multicollinearity between the independent variables under study.

When using total assets to measure bank size, the data shows a clear trend that larger banks consistently payout higher

dividends (both in total cash per share and as a percentage of their profits). This suggests that as banks grow, they become more efficient through economies of scale, allowing them to pass those savings and surplus profits back to their investors. However, the age of the corporation

shows a weak association with DPS and a statistically significant negative relationship with DPR.

These initial results provide insights into the relationship between financial condition variables and dividend payout, contributing to a deeper understanding of the financial conditions influence dividend payout within banks.

Impact of Financial Condition and Bank Dividend Payout

Table 6 presents the results of regression analysis investigating the influence of explanatory variables related to firms' financial condition and the dependent variables dividend per share and dividend payout ratio of commercial banks. The regression coefficients provide insights into the direction and significance of the relationship between each explanatory

variable and dividend payout measures, while other statistics, such as standard error, *t*-statistic, and probability, help assess the reliability and significance of these relationships.

Panel A in Table 6 shows the results of the two regression models. The results indicate that there is a significant positive impact of earnings per share on dividend per share (with a coefficient of 0.638 ($p < 0.01$) in the first model and 0.578 ($p < 0.01$) in the second model), suggesting that higher earnings per share are associated with higher dividend payout. Crucially, variables such as capital adequacy ratio and NPL ratio negatively influence dividend per share in the first model. Further, leverage shows a negative influence on dividend per share being significant only in the second model, indicating that higher levels of debt use is associated with lower dividend per share.

Table 6

Panel A: Results of Regression Models taking Dividend Per Share as a Response Variable

	β	VIF	β	VIF
(Constant)	4.3000**		-6.934	
CAR	-0.116*	1.385	-0.086	1.799
CRR	0.017	1.610	0.006	1.769
NPL/TL	-0.100**	1.382	-0.075	2.578
Leverage	-97.807	1.073	-206.014**	1.519
EPS	0.638**	1.124	0.578**	1.365
LnTA (Control)			0.433	4.339
FirmAGE (Control)			-0.060	1.320
ComBNK_Dummy			-3.447	2.565
No. of observation	210		210	
R-square	0.584		0.604	
Adj R-square	0.574		0.588	
F-statistic	57.220**		38.315**	

** $p < 0.01$, * $p < 0.05$

Panel B: Results of Regression Models taking Dividend Payout Ratio as a Response Variable

Variable	β	VIF	β	VIF
(Constant)	0.678**		-0.491	
CAR	-0.010**	1.385	-0.006*	1.799
CRR	0.004**	1.610	0.002	1.769
NPL/TL	-0.010**	1.382	-0.006*	2.578

Leverage	-8.861**	1.073	-12.147**	1.519
EPS	0.007**	1.124	0.006*	1.365
LnTA (Control)			0.055	4.339
FirmAGE (Control)			-0.009*	1.320
ComBNK_Dummy			-0.046	2.565
No. of observation	210		210	
R-square	0.259		0.290	
Adj R-square	0.240		0.262	
F-statistic	14.234**		10.274**	

** $p < 0.01$, * $p < 0.05$

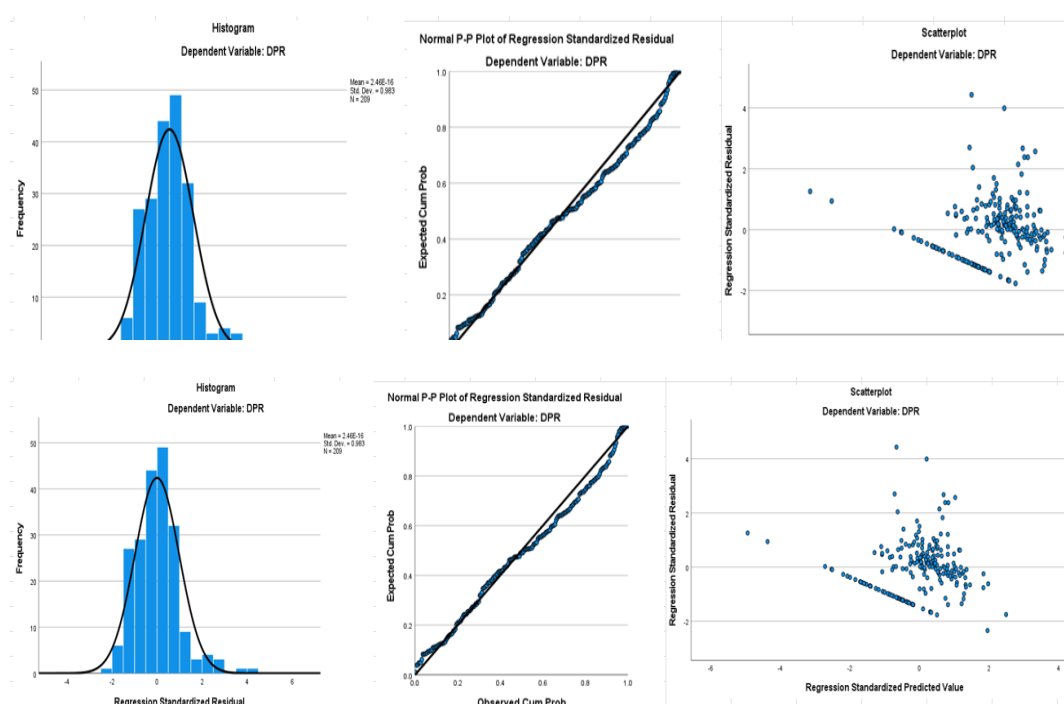
For the control variables, both bank size, proxied by the natural logarithm of total assets, and age of the corporation demonstrate a weak influence on dividends. Additionally, the binary variable, commercial bank dummy, has a negative influence, than other two sectors viz. development bank and finance company, on dividend per share; however, the influence is statistically insignificant. This indicates that the presence of both control variables and dummy variables in the second model has no significant impact on the dividends of FIs.

The results of regression analysis for the determinants of dividend payout measured by DPR are presented in Panel B of Table 6. The regression estimates reveal that earnings per share (coefficients = 0.007, $p < 0.01$ in the first model and 0.006, $p < 0.05$ in the second model) exert a positive and statistically significant influence on dividend payout. Similarly, the cash reserve ratio also demonstrates a positive influence on dividend payout (coefficients = 0.004, $p < 0.01$ in model one, and 0.002, $p > 0.05$ in model two). Conversely, the capital adequacy ratio, the NPL ratio, and leverage are all negative and significantly associated with dividend payout. Furthermore, the control variable age of the corporation are found to have statistically significant negative influence on dividend payout.

Robustness Check

The histogram with a fitted normal curve shows that the regression standardized residuals are normally distributed in both models. The normal P-P Plot of regression standardized residuals does not show significant scatters from the diagonal line, supporting the normality assumption. Scatter plots of standardized residuals against predicted values also do not show any distinct pattern in both the models, which fulfills the assumption of homoscedasticity of residuals.

The value of the variance inflation factor (VIF) of the explanatory variables for both models was found to be less than 5, and the tolerance level was found to be more than 0.1 for all explanatory variables. Pearson's Bivariate Correlation coefficients among explanatory variables were found to be substantially less than 1, which supports the absence of multicollinearity. Models 1 and 2 of Panel A Table 6 show an adjusted R^2 of 0.574 and 0.588 respectively, which means that more than 50 percent of the variation in dividend per share is explained by the explanatory variables included in the model. However, Panel B shows an adjusted R^2 of 0.240 and 0.262 in Model 1 and 2, respectively, indicating that the explanatory variables have limited power to explain the dividend payout ratio. The F -statistic value is significant at the 5 percent level in both cases. Thus, the results indicate that there is a nuanced impact of financial condition



variables on dividend payout of financial institutions in Nepal.

Discussion

The study examined the impact of financial conditions on dividend payout of the Nepali banking sector. The results show that commercial banks are able to maintain the most robust dividend profile, followed by development banks and finance companies. One of the major findings shows that there is a significant positive impact of EPS on DPS and DPR, implying that the higher earnings lead to higher dividend payouts among FIs. This result aligns with the foundational theories of Lintner (1956) and Fama and French (2001), suggesting that higher EPS are more likely to distribute higher dividends. Further, Amidu and Abor (2006) and Al-Najjar and Hussainey (2009) also found similar results, showing a positive impact of EPS on dividends. Thus, the result corroborates dividend relevance theory (Miller & Modigliani, 2064), which posits that with elevated earnings per share and net earnings, the firms are likely to

opt for distribution of higher dividends. Further, this result aligns with signaling theory (Bhattacharya, 1979; Miller & Rock, 1985), suggesting that information about the dividend announcement can affect stock price and dividends.

Conversely, the negative effect of CAR and leverage supports Pecking Order Theory (Myers & Majluf, 1984). The high CAR and CRR observed are well above the NRB standards, indicating that Nepali financial institutions maintain excessive liquidity buffers. Further, explanatory variables such as NPL ratio demonstrate a negative influence on dividend payout. An increase in bad loans reduces the profitability of banks because FIs must set aside provisions for potential losses from its profits leading to less money available for distribution as dividends. This finding is consistent with the findings of Goetz et al. (2013) and Arko et al. (2014), who suggest that firms with higher NPLs are more likely to retain earnings to cover potential losses.

Age of the corporation negatively influences dividend payouts, indicating that mature firms prefer to reinvest profits into

long-term projects rather than distributing profits. The result is consistent with the findings of Goda (2022), who suggested negative impacts on dividend payouts due to a “competency trap” that requires high reinvestment in R&D and digital transformation. However, this result is inconsistent with earlier studies by Barclay et al. (1995), Grullon et al. (2002), and Deshmukh (2003), who found that older firms have fewer investment opportunities, and thus require lower capital expenditures, leading to higher dividend payouts. Further, the study results show negative coefficients of the commercial bank dummy, which are statistically insignificant. Thus, there is no sector-specific impact on dividend payouts of financial institutions in Nepal.

Theoretically, the findings reinforce the dividend relevance and signaling theories, showing that EPS is a key determinant of dividend payout in Nepali FIs. The negative influence of CAR and NPL ratio supports the pecking order theory, implying that firms prefer retaining earnings when financial risk and liquidity pressures are high. The negative influence of firm age on dividends suggests that mature firms may prioritize reinvestment over dividend distribution. Practically, bank managers should emphasize improving earnings quality and controlling bad loans to enhance profitability. Regulators like the central bank may review liquidity and capital adequacy to avoid excessive buffers that could unnecessarily constrain dividend payments. Further, investors can use EPS and leverage as key signals when evaluating the dividend-paying potential financial institutions.

Conclusion and Limitation

The study concludes that the dividend payout of commercial banks is the highest, followed by development banks and finance companies in Nepal. The high cash reserve ratio of FIs signals financial stability of banks; however, it reduces income and, in

turn, dividend payouts. Similarly, higher capital adequacy enhances a bank’s stability and investor confidence, but it is considered a conservative risk management approach. On the other hand, banks are burdened with poor asset quality and reduced profitability.

Another conclusion of the study is that profitability, especially earnings per share, is the key determinant of dividend decisions in FIs in Nepal. The negative influence of leverage and NPL ratio indicates that FIs with higher leverage and poor loan quality tend to reduce dividend payments to maintain financial stability and meet their financial obligations. Further, the empirical results on capital adequacy indicate that maintaining strong capital reserves for financial stability influences dividend policy decisions.. Thus, earnings per share, capital adequacy, leverage, and the NPL ratio are the major determinants of dividend payout decisions in the banking sector. The sectoral impact and the influence of control variables such as firm size and the age of the firm were not noteworthy in the study.

The study has some limitations. It relies on quantitative secondary data that captures structural aspects of financial conditions, however, qualitative dimensions, such as management quality, brand reputation, corporate governance, customer loyalty, and employee satisfaction, may explain dividend payout in the financial institutions. Future studies can be extended by: i) including a broader set of financial condition variables along with a cross-country comparative analysis, and ii) employing a mixed-method approach, the better understanding of the relationships between financial determinants and dividend policies can be accomplished.

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Conflict of Interest

The authors declare that there is no conflict of interest in relation to this manuscript.

Ethical Compliance

This study used the secondary sources of data. We declare that the study was conducted in accordance with accepted ethical standards.

Consent for Publication

"Not applicable"

Plagiarism and AI Use

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