Dividends

In the simulation you determine what percentage of your net income will be distributed to your shareholders in the form of dividends. We refer to this decision as the ***dividend payout ratio***. At SimStart, the dividend payout ratio is 35%.

In general:

- Increasing your dividend payout ratio will push your short-term stock price up, since investors will receive higher dividends
- However, increasing this ratio will also leave your bank with less capital, since more of your retained earnings will go to shareholders

The impact of this decision on your stock price depends upon the actual amount of dividends you pay as compared to your competitors. More specifically:

- If the amount of dividends you pay per share is higher than the market average, it will drive your stock price up by the difference between your dividends per share and the market average; for example:
  - Assume your stock price before dividends per share are included is $60/share
  - Assume you pay $2.00/share in dividends per share and the market average for dividends per share is $1.50/share
  - Your stock price will be adjusted upwards $0.50/share ($2.00 - $1.50) to $60.50/share
- Conversely, if the amount of dividends you pay per share is lower than the market average, it will drive your stock price down by the difference between your dividends per share and the market average; for example:
  - Assume your stock price before dividends per share are included is $60/share
  - Assume you pay $0.75/share in dividends per share and the market average for dividends per share is $1.50/share
  - Your stock price will be adjusted downwards $0.75/share ($0.75 - $1.50) to $59.25/share

However, paying higher dividends to shareholders lowers your equity (and capital). For example:

- Assume your bank earns $5 billion in net income
- If your dividend payout ratio is 40%:
  - You will pay $2 billion to shareholders through dividends
  - This leaves your bank with $3 billion to add to your equity (through Retained Earnings)
- If you increase your dividend payout ratio is 60%:
  - You will pay $3 billion to shareholders through dividends
  - This leaves your bank with only $2 billion to add to your equity (through Retained Earnings)

Your dividend payout ratio is also limited by your regulatory capital. In the simulation, you must maintain a Tier 1 Capital Ratio of at least 8.5%. ***If your bank's Tier 1 Capital Ratio falls below this minimum, you will not be allowed to pay dividends in the following year.***