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THE EFFECT OF DIVIDEND POLICY ON FINANCIAL PERFORMANCE: THE CASE OF PRIVATE COMMERCIAL BANKS IN ETHIOPIA

By

Selam Tesfaye

A research paper submitted to corporate finance and investment analysis

Presented in partial fulfillment of the requirement for Masters of Science in Corporate Finance and Investment Analysis Degree

Advisor: Tesfa Nega (PhD)

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DECLARATION

I declare this research thesis is my original work and has not been presented to any academic institution for any academic reward. I have carried out the study decently with close guidance and support of research thesis advisor Tesfa Nega. (PhD)

Signature_____ Date_____

SelamTesfaye

This research thesis has been submitted for examination with my approval as the university supervisor.

Signature _____ Date _____

TesfaNegash. (PhD)

Lecturer, Department of Finance and Accounting

School of commerce

Addis Ababa University

ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE

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This is to certify that the thesis prepared by SelamTesfaye, entitled: The effect of dividend policy on financial performance: the case of private commercial banks in Ethiopia submitted in partial fulfillment of the requirements for the degree of Masters of Science in Corporate Finance and Investment Analysis Degree complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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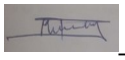
TesfaNega (PhD)

Advisor Signature_____ Date_____

Examiner_____ Signature_____Date_____

Ext.Examiner: Tafa Mosisa (Ph.D) Signature  Date: 29/07/2025

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Graduate program coordinator

ABSTRACT

This study explores the relationship between dividend policy represented by dividend payout ratio and dividend growth rate the financial performance of private commercial banks in Ethiopia from 2013 to 2023. Return on assets (ROA) and return on equity (ROE) were used to assess financial performance. The study's primary goals were to analyze the influence of dividend policy on bank profitability, examine trends in dividend payouts over the past decade, and evaluate the connection between dividend policy and bank performance. A purposive sampling approach was adopted to select 15 private commercial banks from the National Bank of Ethiopia database, with selection criteria based on data availability, operational history, and consistent dividend payments throughout the study period. Both descriptive and inferential statistical techniques were applied, including fixed and random effects regression models, to identify significant factors affecting financial performance. Additional diagnostic tests were conducted to validate the results. The regression findings indicated that dividend policy variables did not have a statistically significant impact on either ROA or ROE. However, the control variable—the natural logarithm of total assets—was found to have a significant positive effect on ROA, though it did not significantly affect ROE. These results imply that dividend policy is not a key driver of profitability for Ethiopian private commercial banks. Instead, structural elements such as bank size appear to exert a stronger influence on performance. Based on these conclusions, it is recommended that bank management prioritize strategies that foster growth and operational efficiency, while dividend policy decisions should focus on supporting long-term financial sustainability rather than reacting to short-term profitability metrics. Future research should expand the scope by including additional financial and macroeconomic factors to gain a more comprehensive understanding of the elements influencing the financial performance of Ethiopian banks.

Key words*:* *dividend payout ratio, dividend growth, financial performance, commercial banks, panel data, Ethiopia*

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SelamTesfaye

TABLE OF CONTENTS

LIST OF FIGURES

List of Tables

LIST OF ABBREVATIONS

Ar	Auto correlation test
COR	Corporate performance
DG	Dividend growth
DPR	Dividend payout ratio
DPS	dividend per share
EPS	Earning per share
FEM	Fixed effect model
FPI	Financial performance index
GDP	Gross domestic product
GLS	General least square
M&M dividend theory	Modigliani-Miller irrelevance theory
NBE	National bank of Ethiopia
NPM	Net profit margin
OLS	Ordinary least square
PMG-ARDL	Pooled mean group – autoregressive distributed lag
REM	Random effect model

ROA	Return on asset
ROE	Return on equity
SACCOs	Savings and Credit Cooperative Societies
SGMM	System generated method of moments
VIF	Variance inflation factor

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Dividends and dividend policy are essential aspects of corporate finance, serving as primary means through which companies return profits to shareholders. According to Gitman and Joehnk (2014), dividends refer to a portion of a company's net income allocated to shareholders, which may be distributed in cash, additional shares, or equity-based forms (Ross et al., 2002). The decision concerning profit distribution forms the core of a firm's dividend policy, which has a significant impact on shareholder wealth and the firm's capital structure. Previous research indicates that dividend payments can contribute to maximizing a company's share value in the capital market, thereby improving overall performance and increasing market valuation (Brealey et al., 2017). It is crucial for firms to comprehend these dynamics in order to align financial strategies with the expectations of their shareholders.

A dividend policy involves the strategic decisions a firm makes regarding the timing, amount, and method of distributing dividends (Brigham and Houston, 2015). This policy is a central element of a company's financial strategy, affecting shareholder wealth, capital structure, and investment opportunities. The dividend payout ratio, which represents the proportion of earnings paid out as dividends, is a key metric used to measure dividend policy effectiveness (Damodaran, 2012).

The formulation of an optimal dividend policy is complex, influenced by multiple factors including corporate earnings, cash flow availability, investment opportunities, capital structure, shareholder preferences, and tax considerations. For instance, a company with substantial investment prospects may choose to retain earnings and adopt a lower dividend payout ratio to fund growth opportunities.

Firms with ample investment opportunities often choose to retain earnings for reinvestment, resulting in a lower dividend payout ratio. Conversely, companies with fewer growth opportunities may adopt higher dividend payouts (Brealey, Myers, and Allen, 2017). Additionally, the preferences of shareholders regarding income from dividends versus capital appreciation play a significant role in shaping dividend policy. Some investors may prefer consistent dividend income, while others might prioritize long-term capital gains. Thus, firms need to carefully assess their shareholder base's preferences when establishing dividend policies. The primary goal of management is to enhance shareholder value, which equates to increasing the company's overall worth. This can be achieved by providing shareholders with an equitable return on their invested capital. However, the impact of a company's dividend policy on its financial outcomes remains a subject of debate.

In the context of Ethiopia's banking sector, more research is necessary to understand the implications of dividend policies, despite their recognized significance. The sector is characterized by rapid growth and evolving regulatory frameworks that influence how dividend policies are designed and executed. Factors such as a bank's earnings, cash flow, investment opportunities, and shareholder expectations are key considerations in dividend decision-making processes. Therefore, it is crucial to investigate how these elements interact and affect financial outcomes in Ethiopia's distinctive market environment. This study addresses this gap by examining the link between dividend policy and financial performance in private commercial banks in Ethiopia.

Although existing literature offers insights into dividend policy practices in developed economies, there is a distinct lack of comprehensive research focused on developing countries, particularly Ethiopia. This research aims to fill this gap by providing an in-depth analysis of how dividend policy affects the financial performance of private commercial banks in Ethiopia. Specifically, it examines the relationship between dividend payouts and key financial indicators, such as return on equity and return on assets, thereby contributing to a deeper understanding of effective financial strategies within the Ethiopian banking sector.

Previous research has largely concentrated on developed markets, paying little attention to the specific dynamics and regulatory frameworks present in emerging economies such as Ethiopia (Tesfaye, 2018). Furthermore, these studies have not thoroughly examined the long-term consequences of dividend policies on critical financial indicators within Ethiopian private banks. This study is designed to fill these research gaps by providing empirical evidence specific to the Ethiopian context.

Dividend policy plays a pivotal role in determining corporate financial performance and stability (Miller and Modigliani, 1961). In the banking sector, decisions regarding dividend distribution affect not only the wealth of shareholders but also the financial stability of the institutions themselves (Lintner, 1956). This research focuses on assessing the impact of dividend policies on the financial performance of private commercial banks in Ethiopia.

1.2 Statement of the Problem

In the field of corporate finance, the connection between dividend policy and financial performance is a significant area of focus, particularly in the context of emerging economies such as Ethiopia. Despite the notable expansion of the banking sector following the liberalization reforms of 1991, which led to the establishment of numerous private commercial banks, a thorough analysis of how dividend policies impact financial performance remains limited.

Ethiopia's private commercial banks operate in a dynamic setting marked by regulatory constraints and intense competition. Nonetheless, the specific influence of dividend policies on crucial financial indicators—including return on assets (ROA), return on equity (ROE), and overall financial stability—has not been comprehensively examined. Existing studies offer conflicting results regarding the relationship between dividend policy and financial outcomes. For instance, research by Abebe and Tehulu (2013) identified a significant negative correlation between dividend payouts and bank performance. Conversely, a study conducted by Marfo-Yiadom (2011) reported a positive these differing results raise crucial questions about the influence of dividend policies on

the financial stability of private commercial banks in Ethiopia. Given that dividends serve as a mechanism for returning value to shareholders, understanding this relationship is essential for both bank management and investors. A clear and consistent dividend policy has the potential to enhance a bank's financial performance, attract investment, and contribute to the stability of the banking sector.

Despite the importance of dividend policy in shaping financial performance, empirical research on its effects within the Ethiopian banking sector remains scarce (Abebe and Getachew, 2020). Previous studies have primarily focused on developed economies, creating a gap in knowledge about how dividend policy affects financial performance in emerging markets such as Ethiopia (Tesfaye, 2018). This research seeks to address this gap by investigating the impact of dividend payout ratios and retained earnings on key financial indicators, including Return on Assets (ROA), Return on Equity (ROE), and Profit Margin.

By providing a detailed analysis of the relationship between dividend payouts and financial performance indicators like ROA and ROE, this study aims to offer deeper insights into effective financial management strategies in the Ethiopian banking sector.

1.3. Objectives

1.3.1 General Objective:

This study aims to examine the influence of dividend policy on the financial performance of Private commercial banks in Ethiopia.

1.3.2 Specific Objectives:

i. To analyze the trend of dividend payout ratios among private commercial banks in Ethiopia from 2013 to 2023.
ii. To examine the relationship between dividend policy (dividend payout ratio and dividend growth rate) and financial performance metrics (ROA and ROE) of private commercial banks in Ethiopia.

iii. To assess the impact of dividend policy on financial performance(ROA and ROE) of private commercial banks in Ethiopia using panel regression analysis.

1.4 Hypothesis of the study

The hypotheses for this research were developed directly from the study's objectives and questions, aiming to provide empirical insights into the relationship between dividend policy and the financial performance of private commercial banks in Ethiopia.

The first hypothesis was designed to examine whether the dividend payout ratio has experienced significant changes during the study period from 2013 to 2023. This hypothesis was formulated to assess trends and the stability of dividend practices among private banks in Ethiopia.

The second hypothesis aimed to explore the association between dividend policy—measured by the dividend payout ratio—and the profitability of banks, indicated by Return on Assets (ROA) and Return on Equity (ROE). This hypothesis builds upon previous empirical studies, which have produced mixed results, to provide clarity on the nature of this relationship within Ethiopia's banking sector (Abebe and Tehulu, 2013; Marfo-Yiadom, 2011).

The third hypothesis sought to investigate the causal effect of variations in the dividend payout ratio on the financial performance of banks. Unlike the second hypothesis, this one goes beyond assessing correlation and aims to determine whether changes in dividend distributions directly influence ROA and ROE. Significantly affect ROA and ROE, while accounting for bank size using econometric models.

Together, these hypotheses provide the analytical framework for the study, which will be tested using panel data regression analysis. This approach aligns with the study's quantitative research design, ensuring methodological rigor and empirical reliability.

Hypothesis 1:

Null Hypothesis (H0): Dividend payout ratio and dividend growth rate do not have a statistically significant effect on financial performance (ROA and ROE) of private commercial banks in Ethiopia.

Alternative Hypothesis (H1): Dividend payout ratio and dividend growth rate have a statistically significant effect on financial performance (ROA and ROE) of private commercial banks in Ethiopia.

Hypothesis 2:

Null Hypothesis (H0): There is no significant relationship between dividend payout ratio and financial performance (ROA and ROE) of private commercial banks in Ethiopia.

Alternative Hypothesis (H1): There is a significant positive relationship between dividend payout ratio and financial performance (ROA and ROE) of private commercial banks in Ethiopia.

Hypothesis 3:

Null Hypothesis (H0): Dividend growth rate has no significant impact on financial performance (ROA and ROE).

Alternative Hypothesis (H1): Dividend growth rate has a significant impact on financial performance (ROA and ROE).

1.5 Significance of the study

A primary objective of this study is to examine and analyze the relationship between dividend policies and their effects on corporate financial performance, thereby contributing to more effective dividend policy decision-making. By gaining a clearer understanding of how varying dividend strategies impact financial outcomes, financial institutions in Ethiopia can adopt more informed and strategic approaches to dividend distribution.

For academic researchers, this study offers an opportunity to explore the impact of dividend policy within the unique framework of Ethiopia's evolving banking sector, providing valuable empirical insights that enrich the academic discourse.

For investors, a deeper understanding of how dividend policies affect financial performance can empower them to make more informed decisions when selecting banks for investment. This research can identify which banks maintain consistent dividend payments, potentially offering higher returns for investors seeking stability.

For bank managers, the findings of this study provide important guidance on how to optimize dividend policy. They offer insights into striking a balance between distributing profits to shareholders and retaining sufficient capital to support growth and ensure long-term financial stability.

For policymakers, understanding the link between dividend policy and bank performance enables more informed decisions regarding financial regulations. This research contributes to creating a robust and competitive banking environment that can attract investment and support the broader Ethiopian economy.

1.6 Scope and Delimitation of the Study

This research examines the impact of various dividend policies on the financial performance of private commercial banks regulated by the National Bank of Ethiopia (NBE). The analysis focuses on fifteen well-established private banks in Ethiopia: Dashen Bank, NIB Bank, Hibret Bank, Wegagen Bank, Awash Bank, Abyssinia Bank, Addis International Bank, Cooperative Bank of Oromia, Berhan Bank, Bunna Bank, Abay Bank, Lion International Bank, Debub Global Bank, Oromia International Bank, and Zemen Bank. Data for the study was obtained from NBE publications and the audited financial statements of these banks, covering a decade-long period from 2013 to 2023.

The research investigates the influence of dividend policies on the financial performance of these institutions, specifically focusing on key performance indicators such as Return on Equity (ROE), Return on Assets (ROA), and dividend payout ratios. The scope of the study is limited to private commercial banks in Ethiopia, deliberately excluding other financial institutions such as microfinance institutions, insurance companies, credit and savings cooperatives, and development banks. This approach allows for an in-depth

exploration of the specific economic and regulatory conditions influencing Ethiopia's private banking sector.

The study adopts a quantitative research methodology, employing statistical tools such as regression analysis, along with explanatory research designs, to assess the relationship between dividend policies and financial performance indicators. Through this approach, the research aims to deliver insights into how dividend policy decisions impact financial outcomes within the Ethiopian private commercial banking landscape (Abebe and Getachew, 2020; Tesfaye, 2018).

1.7 Limitation of the Study

This study encounters certain limitations stemming from the research design and data availability specific to the Ethiopian banking sector. The ability to generalize the findings is restricted by the potential for a limited sample size, as analyzing data from a relatively small number of Ethiopian private commercial banks may not fully represent the diversity within the sector.

To mitigate this limitation, the researcher incorporated data from a broad and representative selection of private commercial banks in Ethiopia. Furthermore, the reliability and accuracy of the study's findings are influenced by the accessibility and dependability of financial information provided by these institutions. Banks' disclosure practices may not fully cover all pertinent financial data, and there is a possibility of inconsistencies or inaccuracies in the reported information. To address these challenges, the researcher employed data triangulation methods and implemented rigorous data quality checks to ensure the validity and reliability of the results (Creswell and Creswell, 2018).

1.8 Operational Term & Terminology

Dividend Policy: Refers to a company's approach to distributing profits to its shareholders in the form of dividends. In this study, dividend policy is defined as the strategies implemented by Ethiopian private commercial banks regarding dividend payments (Gitman and Joehnk, 2014).

Financial Performance: Represents an enterprise's ability to effectively generate revenue while controlling expenses, ultimately achieving profitability and growth. In the context of this research, financial performance is assessed using key metrics such as Return on Assets (ROA) and Return on Equity (ROE) for Ethiopian private commercial banks (Damodaran, 2012).

Private Commercial Banks: Privately owned banking institutions that offer services including deposits, lending, and investment solutions. This study specifically focuses on private banks operating within Ethiopia's regulatory framework established by the National Bank of Ethiopia (NBE) (Tesfaye, 2018).

1.9 Organization of the Study

This study is organized into five chapters. Chapter one provides the study's background, including the background of the organization, research questions, key terminology, problem statement, objectives, significance, scope, limitations, and structure of the study. Chapter two presents a reviews relevant literature, encompassing both theoretical and empirical perspectives, summarizing existing research, identifying gaps, and presenting the conceptual framework. Chapter three outlines the research methodology, detailing the research design, target population, sampling approach, research instruments, data collection procedures, data analysis methods, and ethical considerations. Chapter four presents the findings and discussion, offering background information, descriptive statistics, inferential statistics, and qualitative data analysis. Finally, chapter five delivers the summary, conclusions, policy and practical recommendations, and suggestions for further research (Creswell and Creswell, 2018).

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Introduction

Dividend policies represent key financial strategies that govern how firms allocate profits to their shareholders. These strategies can have a significant impact on shareholder value, which reflects the perceived worth of a company based on its ability to deliver returns to investors (Brealey, Myers and Allen, 2017). In the Ethiopian context, where the capital market is still in its developmental stages, it is crucial for both practitioners and scholars to understand how various dividend policies affect shareholder value and overall firm financial performance (Tesfaye, 2018).

Types of Dividend Policies

a) **Stable Dividend Policy**: This approach aims to provide shareholders with consistent and predictable dividend payments, regardless of fluctuations in earnings. Companies that adopt this policy often align their dividend distributions with long-term growth objectives rather than short-term profitability changes (Ross, Westerfield and Jaffe, 2002). Such stability can attract risk-averse investors, foster confidence, and potentially boost the company's market value (Damodaran, 2012).

b) **Constant Dividend Policy**: In this method, a fixed proportion of earnings is distributed as dividends annually. Although this policy allows for higher payouts during profitable years, it can also result in increased volatility in dividend payments, potentially creating uncertainty for investors about future income (Brigham and Houston, 2015).

c) **Residual Dividend Policy**: This strategy focuses on reinvesting in the business before distributing dividends. Dividends are issued only after covering capital expenditures and working capital requirements. Although this may result in variable dividend payments, it ensures that resources are effectively allocated toward growth initiatives, which can contribute to long-term shareholder value (Brealey, Myers and Allen, 2017).

d**) No Dividend Policy:** Some firms, especially in rapidly growing sectors or recently established firms tend to prefer refraining from paying dividends. Instead, they reinvest profits into expanding operation or developing new products. While this strategy may initially disappoint income-focused investors, it can lead to substantial increases in stock prices over time as the company grows.

2.2 Theoretical Literature

The theoretical framework of this study is grounded in several key theories that explain the connection between dividend policies, shareholder value, and a company's financial performance. These theories offer a perspective for analyzing how various dividend distribution strategies influence both investor perceptions and the operational effectiveness of firms, especially in the Ethiopian context.

2.2.1 Dividend Irrelevance Theory (Miller & Modigliani, 1961):

In the 1960s, as part of the emerging financial theory, Modigliani and Miller posited that, under specific assumptions of an ideal capital market—characterized by the absence of taxes and transaction costs—dividend policy is irrelevant. Within such a hypothetical market, free from taxes and transaction costs, dividend decisions do not affect either a company's share price or its cost of capital. Consequently, shareholder wealth remains unaffected by whether a firm pays dividends or retains earnings. This neutrality arises from the understanding that shareholder wealth is determined by a company’s investment decisions rather than by the method of profit distribution. Therefore, in Modigliani and Miller’s framework, dividends are deemed irrelevant (Miller & Modigliani, 1961).

According to the theory proposed by economists Merton Miller and Franco Modigliani, “In a perfect market with no taxes or transaction costs, a company’s dividend policy does not affect its overall value or stock price” (Miller & Modigliani, 1961). This implies that shareholders can achieve their desired income levels by buying or selling shares as needed, regardless of the company’s dividend payout strategy.

In summary, Modigliani and Miller asserted that a firm's profit distribution policy does not influence its overall value, which is instead determined by its earning power and investment policy. As articulated "Given a firm's investment policy, the dividend payout policy it chooses to follow will neither affect the current price of its shares nor the total returns to shareholders" (Miller & Modigliani, 1961).

The assumptions underpinning the dividend irrelevance hypothesis in a perfect capital market can be outlined as follows:

- "No distinction between taxes on dividends and capital gains";
- "Absence of transaction and flotation costs when securities are traded";
- "Market participants have free and equal access to the same information (symmetrical and costless information)";
- "No conflicts of interest between managers and security holders (i.e., no agency problem)";
- "All market participants are price takers."
- Given the significance of Modigliani and Miller's argument in the dividend policy discourse, the subsequent section will present their formal proof of dividend irrelevance (Al-Malkawi, Rafferty, &Pillai, 2010).

2.2.2 Clientele Effect

This theory posits that investors or shareholders possess diverse preferences and expectations regarding dividend payout policies. Consequently, shareholders tend to invest in firms whose strategies align with their financial objectives. This behavior arises from differences in tax treatments for capital gains and dividends, as well as the transaction costs associated with trading securities across markets. According to Miller and Modigliani, to minimize these costs, shareholders gravitate towards companies that align with their preferences (Miller & Modigliani, 1961).

Similarly, firms attract distinct groups of investors based on their dividend payout strategies. However, Miller and Modigliani argue that while the clientele effect may influence a firm's dividend policy, no specific group of investors holds greater value than

others. Therefore, dividend policy remains irrelevant to the overall valuation of the firm (Miller & Modigliani, 1961).

The clientele effect can be broadly categorized into two groups: those influenced by taxation and those affected by transaction costs. The theory suggests that investors in higher tax brackets are more likely to prefer shares with low or no dividend payouts, favoring capital gains through stock price appreciation as a means to reduce their tax burden. Conversely, investors in lower tax brackets may prefer firms with higher dividend payouts.

Furthermore, transaction costs contribute to the clientele effect when smaller investors depend on dividend payments to meet their financial needs, as they are less able to absorb the high costs associated with selling securities. The influence of these factors varies according to portfolio size, investor behavior, and market dynamics (Raza, Ramakrishnan, Gillani, & Ahmad, 2018).

2.2.3 Agency Theory

Agency theory, as formulated by Jensen and Meckling (1976), offers a framework for examining relationships in which a principal delegates decision-making authority and task execution to an agent. In the context of dividend policy, shareholders of a commercial bank serve as the principals, delegating financial decision-making authority to the management team, who act as their agents. These decisions ultimately affect the wealth of the shareholders.

This framework hinges on two key assumptions:

A. **Self-Interest**: Both shareholders and management are assumed to act in their own best interests, which may not always perfectly align. Shareholders, seeking to maximize their current income, typically prefer higher dividend payouts. Conversely, management might prioritize retaining earnings for reinvestment in the bank's future growth, potentially leading to higher stock

prices in the long run. This could also enhance their job security and power within the organization.

B. **Information Asymmetry**: The agent (management) often more aware regarding to organization operational performance, financial health, and future prospects than the principal (shareholders). This asymmetry can create a knowledge gap, potentially leading to conflicts of interest regarding dividend policy.

Agency theory highlights potential conflicts between shareholders and management regarding dividend policy. These conflicts can lead to agency costs, which are the expenses incurred due to the misalignment of interests between principals and agents. In the context of dividends, agency costs could arise if management retains excessive earnings, depriving shareholders of potential returns on their investments.(Rohlfs, H. W., & Stulz, N. M, 2003)

2.2.4 Signaling Theory

Signaling theory, introduced by Spence (1973), elucidates the communication strategies used by individuals or organizations such as firms in contexts where information asymmetry is present and the ability to fully disclose information is constrained. Information asymmetry, in this context, refers to the disparity in knowledge between the shareholders (principals) and the bank's management team (agents) regarding the bank's true financial health, future prospects, and overall risk profile. Shareholders, lacking complete information, rely on signals sent by management to assess the bank's condition and make informed investment decisions. Dividend policy can be a powerful tool for management to utilize in this scenario.(Ross, 1977)

2.2.5 Dividend Relevance Theory

This theory, primarily associated with Gordon (1962) and Lintner (1956), posits that dividends are a crucial factor in determining a firm's market value. According to this

perspective, regular and predictable dividend payments signal financial stability and profitability to investors, thereby enhancing shareholder value.(Lintner, 1965)

Implications for Ethiopia: In the Ethiopian market, where investor confidence may be sensitive to economic fluctuations, a stable dividend policy could attract more investors, leading to an increase in share prices and overall firm value.

Table2. 1: comparison of dividend theories and their payout implication

THEORY	**Claims dividend relevance**	**Impact of high / low payout**
Miller & Modigliani	Irrelevant (No)	No effect on performance
Gordon & Linter (Bird in the hand theory)	Yes	High payout boosts value
Signaling theory	Yes	High payout=strong signal
Agency theory	Yes	High payout reduces agency cost
Clientele effect	Yes	Depends on investor preference

2.3 Empirical Literature

Dividend policy remains a central topic in corporate finance, particularly concerning its influence on a firm's financial performance. Numerous studies have explored this relationship across various industries and economic contexts. This section examines empirical findings from selected academic sources, with a focus on the impact of dividend payout and related indicators on firm performance, as measured by return on assets and return on equity, with specific attention to private commercial banks. The relationship between dividend policy and financial performance has been the subject of extensive research, yielding mixed results. Within the context of Ethiopia and other

countries, several studies have explored this issue, offering valuable insights into the effects of dividend policy on financial performance. (Abebe, N.A and Tehulu , T.A, 2013)

In particular, several scholars have investigated the relationship between dividend policy and firm performance in Ethiopia. For example, Abebe and Tehulu (2013) conducted a quantitative analysis of private commercial banks in Ethiopia, employing panel data from 2005 to 2012 and utilizing a pooled Ordinary Least Squares (OLS) regression model. Their findings revealed a statistically significant negative relationship between the dividend payout ratio and bank performance. They suggested that higher dividend distributions might constrain reinvestment opportunities, particularly in less competitive and capital-limited environments like Ethiopia. Although their research offers important insights, it is limited by its reliance on outdated data and a relatively brief observation period, highlighting the need for more recent and comprehensive research within the Ethiopian banking sector.

In contrast, Korir (2018) examined the effect of dividend policy on the financial performance of commercial banks listed on the Nairobi Securities Exchange, employing a quantitative correlation research design supported by regression analysis. The findings revealed a significant positive relationship between dividend payout ratios and financial performance, suggesting that higher dividend distributions may signal strong profitability and financial stability, thereby enhancing investor confidence.

The divergent outcomes observed between the Ethiopian and Kenyan contexts can be attributed to differences in capital market maturity, investor awareness levels, and regulatory frameworks.

Similarly, Idewele and Murad (n.d.) analysed the relationship between dividend policy and financial performance in Nigerian deposit money banks using a panel regression approach with pooled least squares. Their results demonstrated a significant positive correlation between dividend payout ratios and return on equity, while dividend yield showed a negative but statistically insignificant association with performance. These

findings underscore the need to distinguish among various dividend-related indicators, as each may have distinct implications for a firm's financial outcomes.

Marfo-Yiadom and Agyei (2011), in a longitudinal study of commercial banks in Ghana, found a positive relationship between dividend payouts and bank performance. Their research also highlighted the role of firm-specific factors such as size, leverage, and growth in shaping the dividend–performance relationship, emphasising the importance of considering institutional characteristics as control variables when assessing the financial impacts of dividend policy decisions.

Onyeogo (n.d.) expanded the scope by investigating corporate performance in Nigeria across the banking and petroleum sectors using time-series regression analysis. The results indicated that dividend per share, payout ratio, and firm size significantly influenced return on equity, while earnings per share did not exhibit a statistically significant effect.

These nuanced findings underscore the necessity of identifying the financial indicators that best capture profitability within specific industry contexts.Jatoi, Rasheed, and Wahla (2023) conducted a panel regression analysis on non-financial firms in Pakistan to examine the relationship between dividend policy and firm performance. Their results demonstrated that dividend payout ratio, earnings per share, and financial leverage were all significantly and positively associated with both return on assets (ROA) and return on equity (ROE). Although their study focused on non-banking sectors, the findings indicate that dividend policy is closely linked to a firm's capital structure and overall profitability.

In contrast to the largely positive findings from developed economies, Srimintiswa, Ibrahim, and Maitala (2022) analyzed Nigerian banks using panel regression and found a significant negative association between dividend payouts and profitability. They argued that higher dividend distributions reduce retained earnings available for reinvestment, thereby weakening long-term financial performance. These results align with studies from Ethiopia, suggesting the potential adverse effects of high dividend payouts in banking sectors that rely heavily on reinvestment and face capital constraints.

Storozhenko (2020) explored the Finnish stock market and reported a positive and statistically significant relationship between dividend payments and financial performance indicators such as ROA and ROE. These findings are consistent with signaling theory, which posits that stable and increasing dividends convey a firm's financial strength. However, such patterns are typically observed in mature, transparent, and investor-focused markets.

Kanakriyah (2020) analyzed firms listed on the Amman Stock Exchange using panel regression and found that both dividend yield and payout ratio were significant predictors of ROA and ROE, while leverage had a negative impact on financial performance. These results emphasize the importance of firm-specific financial policies in shaping the dividend-performance relationship.

Yegon et al. (n.d.) examined manufacturing firms listed on the Nairobi Securities Exchange and found a positive association between dividend policy, firm profitability, investment levels, and earnings per share. Their study underscored the importance of well-structured and consistent dividend strategies in fostering sustainable growth and enhancing shareholder confidence.

Okoh et al. (2025) conducted a recent empirical investigation into the effect of dividend policy on the value of Nigerian manufacturing firms listed on the stock exchange over a ten-year period (2014–2023). Employing an ex-post facto research design, the study analysed panel data derived from the audited financial statements of five prominent manufacturing firms. The primary objective was to assess how dividend yield and dividend payout ratio influenced enterprise value (EV), which served as a proxy for firm value. The authors applied multiple regression analysis, descriptive statistics, and correlation analysis, using E-Views software to explore these relationships.

The regression results indicated that none of the three dividend policy variables exerted a statistically significant effect on firm value. This finding aligns with Akinleye and Ademiloye (2018), who similarly observed no significant impact of dividend policy on firm performance, and challenges traditional theories such as the Bird-in-the-Hand and

Tax Preference theories, which suggest that dividend distributions enhance firm value. Additionally, the results provide empirical support for the Dividend Irrelevance Theory proposed by Modigliani and Miller (1961), particularly in the context of imperfect market conditions.

This study offers a robust empirical reference and a valuable theoretical framework for the present research. It underscores the importance of considering contextual factors such as market development, regulatory environments, and firm-specific characteristics when examining the relationship between dividend policy and firm value. Moreover, it suggests that a comprehensive understanding of the impact of dividend policy may require integrating additional elements, including corporate governance mechanisms and investor behavioral biases (Okoh et al., 2025).

In a related context, Dang et al. (2020) conducted an empirical study to examine the influence of dividend policy on corporate value, using data from Vietnamese companies listed on the Ho Chi Minh City Stock Exchange during the period 2006–2017. The research aimed to address two core questions: whether dividend policy affects corporate value in Vietnam, and whether high or low dividend payout policies exert a more pronounced effect.These questions are particularly important in emerging markets, where investor behavior and market efficiency often differ significantly from those observed in developed economies. Dang et al. (2020) utilized a panel dataset comprising 2,278 firm-year observations and applied various regression methods, including Pooled OLS, Fixed Effects Model (FEM), and Random Effects Model (REM). To address potential issues such as heteroskedasticity and autocorrelation, the study ultimately employed the Generalized Least Squares (GLS) technique.

The key findings indicated that the dividend payout ratio had a significant and positive impact on firm value, especially among firms with higher payout ratios, while firms with lower payout ratios exhibited no significant effect. Additionally, profitability was found to positively influence firm value, whereas financial leverage had a negative effect. These findings support the signaling and agency theories, which propose that dividend

payments convey important information regarding a firm's future prospects and help align managerial interests with those of shareholders. The results align with previous empirical evidence provided by Murekefu and Ouma (2012), Gul et al. (2012), and Anton (2016), all of whom reported a positive relationship between dividend policy and firm value. However, they contrast with the findings of Amidu (2007), who observed no significant relationship between dividends and firm value in the context of Ghana. For the current research, the study by Dang et al. (2020) offers valuable empirical support and underscores the importance of including variables such as dividend payout ratio, profitability, firm size, and leverage when analysing firm valuation models.

Theiri et al. (2023) examined the relationship between dividend policy, financial performance, and financial constraints among French firms listed on the SBF120 index, particularly during the COVID-19 pandemic. The study analyzed a sample of 106 firms covering the period 2016–2021, using the System Generalized Method of Moments (SGMM) to address endogeneity and dynamic relationships. Their findings revealed that dividend payments had a significant negative impact on both return on assets (ROA) and return on equity (ROE), particularly during the crisis period. This suggests that during times of financial distress, dividend distributions may deplete internal resources, thereby weakening a firm's capacity to maintain strong financial performance. These results are consistent with agency theory, which cautions against excessive dividend payments in situations of constrained liquidity. Although the study focused on French firms, its findings are highly relevant to private commercial banks facing liquidity pressures or regulatory constraints.

Okoh et al. (2025) evaluated the influence of dividend policy on the enterprise value of Nigerian manufacturing firms through regression analysis. Although the study focused on enterprise value rather than profitability indicators such as ROA and ROE, it found that dividend payouts had an insignificant negative effect on firm value. This outcome suggests that, in certain industries, dividend distributions may not be a primary factor determining firm performance or value, highlighting the necessity of considering

industry-specific factors—such as those pertinent to the banking sector—when assessing the implications of dividend policy.

Taken together, these studies illustrate the complex and nuanced relationship between dividend policy and financial performance. While dividend payments often serve as signals of financial health and help enhance investor confidence, they may also deplete internal financial resources, potentially constraining a firm's capacity to sustain robust performance.

Dividend payments can limit reinvestment opportunities, especially during economic downturns or periods of financial constraint. The diverse results observed across various industries and regions indicate that the impact of dividend policy is highly context-dependent, influenced by market structure, corporate governance, and broader macroeconomic conditions (Okoh et al., 2025; Theiri et al., 2023; Dang et al., 2020).

Nyasani, Miroga, and Ochangwa (2025) conducted an empirical analysis examining how dividend decisions—specifically dividend payout ratios and retained earnings ratios—affect the financial performance of savings and credit cooperatives (SACCOs) in Kisii Central Sub-County, Kenya. The research aimed to determine whether structured and consistent dividend policies could improve financial indicators such as return on assets (ROA) and return on equity (ROE). Adopting a descriptive research design, the authors analyzed secondary data from 19 registered SACCOs covering the period 2017 to 2023. Stratified sampling was employed to ensure that each SACCO represented a distinct stratum within the population of licensed SACCOs in the area. The study used descriptive statistics, Shapiro-Wilk tests to assess normality, and both correlation and regression analyses to explore the relationships between the variables.

The findings revealed that SACCOs implementing well-defined and stable dividend policies demonstrated stronger financial performance and greater member satisfaction. The study's strengths include the use of multi-year data, robust statistical validity checks, and a sound theoretical basis rooted in the Modigliani-Miller dividend irrelevance theory. These results align with findings from Al-Malkawi et al. (2023) in the Gulf Cooperation

Council (GCC) region and Ndung'u and Muturi (2022) in Kenya, both of which reported positive effects of stable dividend policies on financial performance. However, they contrast with the warnings of Otieno and Muriuki (2021), who argued that excessive dividend payouts could negatively impact liquidity.

Nyasani et al. (2025) provide substantial empirical evidence supporting the idea that dividend policy decisions—particularly regarding payout ratios and retained earnings—play a crucial role in determining financial performance. The methodological approach, including the use of correlation and regression analyses, aligns with the current study, justifying the selection of similar statistical techniques. Furthermore, the study highlights the importance of balancing short-term shareholder returns with long-term reinvestment needs, a principle that is equally applicable to the banking sector.

The reviewed literature presents mixed findings concerning the relationship between dividend policy and financial performance. While studies from more developed and mature markets, such as Kenya, Ghana, Finland, and Jordan, generally report a positive association, research conducted in Ethiopia and Nigeria reveals either negative or insignificant relationships. These variations may be attributed to differences in financial market development, regulatory frameworks, access to capital, firm size, and investor behavior. Moreover, most studies utilize quantitative methodologies and panel regression models, underscoring the empirical nature of this field. Frequently examined variables include dividend payout ratios, dividend per share, and performance indicators such as ROA, ROE, and earnings per share (EPS). However, the inclusion of control variables like firm size, leverage, and macroeconomic factors differs across studies, potentially influencing the comparability of findings.

Table2. 2: Cross country evidence on the effect of dividend policy on bank financial performance

Study/Author	**Country /Context**	**Key Findings**	**Alignment with Theories**
Abebe&Tehulu (2013)	Ethiopia	Anegative correlation has been observed between dividend payout and bank performance.	Supports Agency Theory; aligns with Dividend Irrelevance in capital-constrained markets.
Korir (2018)	Kenya	Positive relationship: high dividend payout reflects strong profitability.	Supports Signaling Theory and Bird-in-the-Hand.
Idewele&Murad (n.d.)	Nigeria	Positive impact of payout ratio on ROE; negative but insignificant impact of dividend yield.	Supports Signaling and Clientele Effect.
Marfo-Yiadom&Agyei (2011)	Ghana	Positive link between dividend payouts and performance; firm size matters.	Supports Bird-in-the-Hand and Signaling Theory; size aligns with Agency Theory.
Onyeogo (n.d.)	Nigeria	Dividend per share and payout significantly affect ROE; EPS not significant.	Supports Signaling and Agency Theory.
Jatoi et al. (2023)	Pakistan (non-banks)	Positive link between payout, EPS, and performance.	Supports Signaling and Bird-in-the-Hand.
Srimintiswa et al. (2022)	Nigeria	Negative relationship between payout and	Supports Agency Theory: high payout limits

		profitability.	reinvestment.
Storozhenko (2020)	Finland	Positive relationship: consistent with Signaling Theory.	Supports Signaling Theory in developed markets.
Kanakriyah (2020)	Jordan	Payout and yield predict ROA/ROE; leverage negatively impacts performance.	Supports Signaling; leverage aligns with Agency Theory.
Dang et al. (2020)	Vietnam	High payouts increase firm value; low payouts show no effect.	Supports Signaling and Agency Theory.
Theiri et al. (2023)	France (COVID-19)	Negative impact of payouts on ROA/ROE under constraints.	Supports Agency Theory.
Okoh et al. (2025)	Nigeria (manufacturing)	No significant impact of dividend policy on firm value.	Aligns with Dividend Irrelevance Theory.
Nyasani et al. (2025)	Kenya (SACCOs)	Structured dividend policies improve ROA/ROE and member satisfaction.	Supports Signaling and Clientele Effect; partial Agency Theory.

2.4 Research Gap

The influence of dividend policy on the financial outcomes of commercial banks has been widely examined-established area of financial research. However, the specific

context of Ethiopian private commercial banks presents a unique opportunity to address a critical research gap. While a limited body of research exists on the dividend policies of Ethiopian banks, there is a dearth of scholarly inquiry that specifically analyzes the implication of these policies on financial performance.

The absence of research on the impact side presents a significant limitation in understanding the effectiveness of dividend policies within the Ethiopian banking sector.

Existing studies often focus on the determinants of dividend payout ratios, exploring factors influencing the proportion of profits distributed as dividends. These studies typically analyze factors such as profitability, size, liquidity, and growth prospects. However, a more complete picture emerges by moving beyond the determinants and investigating the consequences of dividend policy decisions.

In general, despite the extensive global literature, there remains a noticeable gap in the Ethiopian context, particularly regarding the long-term impact of dividend policy on financial performance using updated, longitudinal data. Most Ethiopian studies are outdated, lack comprehensive control variables, and do not distinguish between short-term and structural effects of dividend decisions.

Furthermore, empirical research examining the link between dividend policy and key performance indicators such as ROA and ROE in the banking sector is scarce. This study seeks to address this gap by utilizing an extensive panel dataset spanning 2013 to 2023 and covering 15 private commercial banks in Ethiopia. It incorporates both measures of dividend policy and crucial control variables like bank size, and applies fixed and random effects regression models. This methodology enables a more comprehensive understanding of the influence of dividend policy within the framework of a developing financial system.

2.5. Conceptual Framework

Drawing from the theoretical foundations discussed earlier, this section introduces the conceptual framework, which delineates the interaction between the dependent and independent variables examined in this study. Specifically, it underscores the link between dividend policy and the financial performance of private commercial banks operating in Ethiopia.

2.5.1 Variables in the Conceptual Framework

Independent Variable: Dividend Policy

- Dividend Payout Ratio (DPR): Represents the proportion of a bank's net earnings that is distributed to shareholders in the form of dividends.
- Dividend Growth Rate: Denotes the annual percentage increase in a bank's dividend payments to shareholders over a given period.

Dependent Variable: Financial Performance

- Return on Assets (ROA): Measures a bank's profitability in relation to its total assets, providing an indication of how efficiently the bank utilizes its assets to generate income.
- Return on Equity (ROE): Represents the profitability generated on shareholders' equity, serving as an indicator of the bank's ability to create value for its investors.

Control Variables

To ensure the accuracy of results, the following control variables are considered:

- Bank Size: Larger banks tend to have more stable and consistent financial performance.
- Leverage: A key factor that can significantly affect financial performance.
- Liquidity: Included as a control variable to account for its possible effect on financial performance.

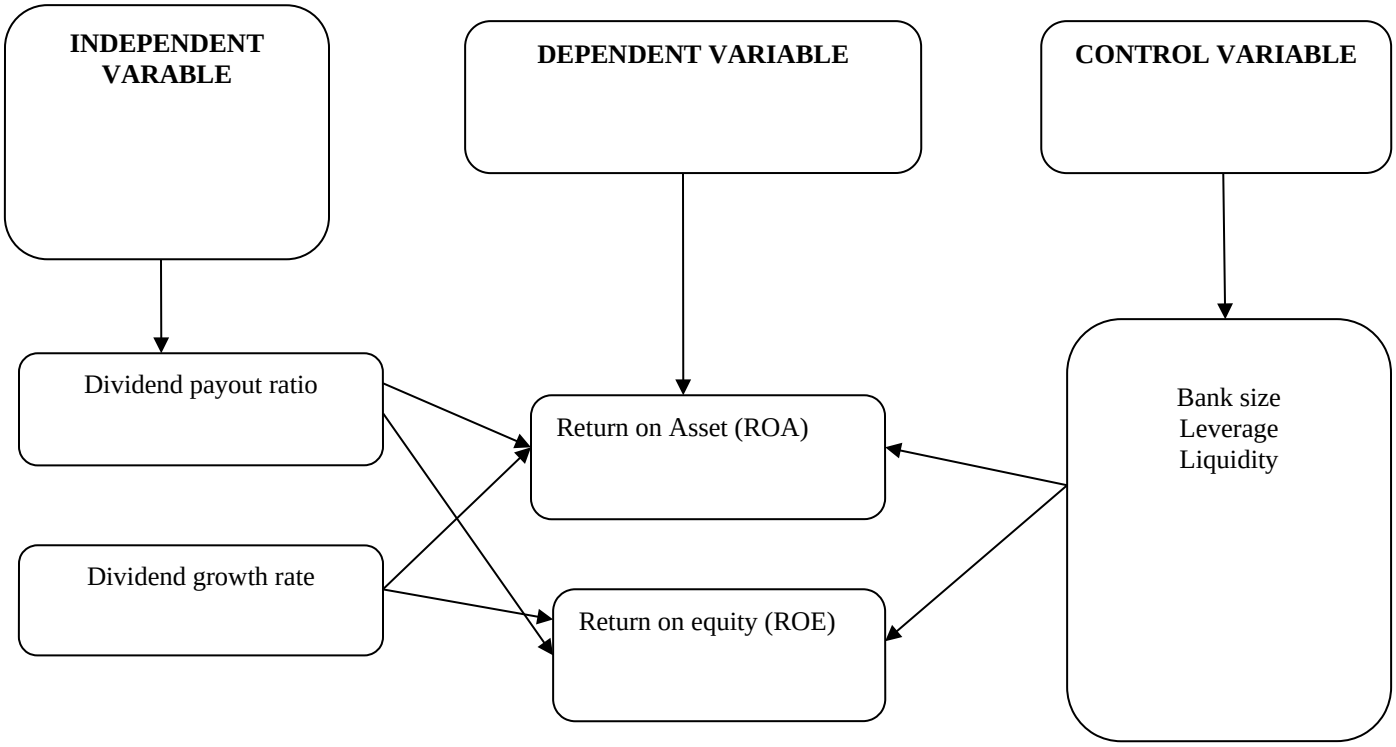

Figure2.1: Conceptual Framework Model

CHAPTER THREE

3. RESEARCH DESIGN & METHODOLOGY

3.1 Introduction

This chapter addresses the research approach, research design, sampling strategy, data types and sources, data collection tools and methods, data analysis techniques, validity and reliability assessments, and ethical considerations.

3.2 Research approach and design

3.2.1 Research Approach

A research approach refers to the broad strategy a researcher adopts to investigate a research question. It determines the overall direction and logic of the inquiry. (Creswell,.J.w., & Creswell,J.D, 2018). In this study quantitative research approach was used. This study employs a quantitative approach using financial data from private commercial banks in Ethiopia. As the study mainly rely on numerical data and statistical analysis of financial data. And by applying statistical analysis can effectively reveal the relationships between dividend payout, and financial performance. And In addition, as the study mainly using a large and representative sample, can lead to findings that can be generalized to a larger population of private commercial banks qualitative research approach is better

3.2.2 Research Design

A research design is the detailed plan outlining how a research study conducted to answer the research questions. It specifies the methods for data collection, analysis, and interpretation, acting as the road map for the entire research process. There are several broad categories of research design, such as experimental, quasi-experimental, non-experimental (including survey, case study, co relational, descriptive, explanatory, and exploratory).

In this study explanatory research design employed, by using explanatory research design delve deeper and understand the "why" behind these relationships. The cause-and-effect connections between the independent and dependent variables is the focus of explanatory research design. (Polit,D.F.,&Beck,C.T., 2017)

3.3 Types of data and Method of data collection

Based on originality research data are categorized as primary and secondary data.(Baker, 2006)

3.3.1 Type and source of data

This study utilized secondary data, which refers to information previously collected and compiled for purposes other than the current research. The data employed were quantitative financial records retrieved from audited annual financial statements and performance reports of 15 private commercial banks in Ethiopia. These documents are published and verified by both the respective banks and the National Bank of Ethiopia (NBE), ensuring high levels of reliability and consistency.

The data were collected from 2013 to 2023, covering an 11-year period. This time frame was selected to allow for meaningful trend analysis and to provide a robust basis for assessing the long-term impact of dividend policy on financial performance. Although the study was conducted in 2025, data for the year 2024 were not included because, at the time of data collection, the National Bank of Ethiopia had not yet released or compiled financial reports for 2024.

Secondary data were deemed most appropriate for this research because the required information—such as net income, total assets, dividends paid, equity, and other key financial metrics—was already publicly disclosed in audited formats. Relying on this data helped ensure objectivity and enabled comprehensive panel regression analysis.

Additional supporting information, such as macroeconomic data and regulatory updates, was gathered from NBE publications and official financial bulletins to provide context and control variables for the regression model.

3.3.2 Method of data collection

For this study, secondary quantitative data were collected through a structured document review method. The data were obtained from two primary sources:

1. Audited financial statements and annual reports of 15 selected private commercial banks, which include key financial indicators such as net income, total assets, equity, dividends paid, and liquidity ratios.
2. Publications and statistical reports issued by the National Bank of Ethiopia (NBE), which include sector-wide financial data, regulatory guidelines, and macroeconomic summaries that support consistency and validation of bank-level data.

The financial statements and reports were accessed directly from the official websites of the respective banks or through physical copies filed at the NBE's document archives. In cases where electronic reports were unavailable, hard copies were requested through formal correspondence with the banks. These sources were chosen due to their official, audited, and regulated nature, ensuring data accuracy, comparability, and reliability over the study period. The use of secondary sources also allowed for the inclusion of a longer time frame (2013–2023), which was essential for conducting panel data regression analysis and observing long-term financial patterns.

It should be noted that 2024 data were not included, as the National Bank of Ethiopia had not yet released the official financial records for that year at the time of data collection.

3.4. Target population and Sample unit

The focus population for this research encompasses all private commercial banks operating in Ethiopia, chosen for their significant role in shaping the country’s financial landscape and influence on dividend policy decisions. The sampling unit consists of individual private commercial banks. Specifically, 15 banks (including Dashen, Awash, Cooperative Bank of Oromia, Bank of Abyssinia, Hibret, Wegagen, Nib, Oromia, Lion, Berhan, Buna, Zemen, Abay, Addis, and Debub Global Banks) were selected. These banks were chosen based on criteria such as their operational longevity, availability of

relevant financial data, and consistency in dividend payments during the study period spanning from 2013 to 2023 (11 years).

3.4.1 Sample Design

This research adopts a purposive sampling approach to select 15 private commercial banks in Ethiopia. The banks were chosen based on factors such as data availability, operational history, and their consistent dividend payments over the study period of 11 years. The sample includes institutions with at least 11 years of continuous operation, ensuring a robust time-series analysis. This method improves the reliability and comparability of financial performance indicators across the selected banks. A sample design details the process of selecting a subset from a population to represent the entire group, ensuring the sample accurately captures the population's characteristics, which enables researchers to generalize the results to the broader population (Babbie, 2010). The following section discusses the sampling technique and sample size for this study.

3.4.2 Geographical description

This study centers on examining the effect of dividend policy on shareholder value and financial performance within the context of Ethiopian financial institutions. While dividend policy research frequently focuses on developed markets, this research seeks to provide insights into corporate financial practices specific to Ethiopia. The study's objectives include: identifying existing dividend payout practices among Ethiopian commercial banks, analyzing the relationship between dividend policy and shareholder value within these banks, and exploring investor perceptions of dividend policy in the Ethiopian banking sector.

3.4.3 Sample size determinant

Although including all 32 commercial banks in Ethiopia might provide a more comprehensive analysis, focusing on a carefully selected sample of 15 banks offers significant advantages that strengthen the depth and relevance of this study. The rationale for selecting these 15 banks from the overall population is based on several

considerations:

- Ensuring representation of a diverse range of bank sizes as large, medium, and small to capture potential variations in dividend policies and their impact across different size categories.
- Restricting the sample to privately owned commercial banks, thereby excluding developmental and state-owned banks, which do not distribute dividends due to their lack of shareholder structures
- Selecting banks that have been operational for at least ten years, ensuring that they have a sufficient history to observe changes in their business practices and that reliable financial data is available for the period between 2013 and 2023.

3.5 Method of data analysis and Model selection

This study utilized a quantitative approach, incorporating both descriptive and explanatory research design. Descriptive statistics such as frequencies, percentages, means, and standard deviations were used to summarize the quantitative data. To explore the relationship between dividend policy and financial performance, and explanatory design a pooled OLS model was applied. Considering the panel structure of the data (spanning 11 years) and the cross-sectional dimension (covering 15 banks), both random-effects and fixed-effects models were employed, with the selection guided by the Hausman test results. The statistical analysis was performed using STATA software version 2021 to enhance the robustness of the findings.

3.5.1. Model selection

Dependent Variable: Financial Performance variable (ROA, ROE)

Independent Variables: Dividend Policy variables (Lagged dividend payout ratio, lagged dividend growth rate).

To reflect the delayed impact of dividend policy on financial performance, this study employs one-period lagged values of the dividend payout ratio and dividend growth rate. This approach aligns with contemporary panel data modeling practices, where lagged variables are used to capture temporal dynamics and avoid simultaneity bias. Dividend decisions often influence investor expectations, capital structure, and reinvestment outcomes in the following period, rather than immediately. Recent empirical research supports this strategy. For instance, (Suresh, N., & Pooja,M., 2022) utilized lagged dividend payout ratios to examine their influence on firm performance in India, emphasizing that past dividend behavior significantly shapes current profitability outcomes. Similarly,(Khajar,l., & Alfian,A.H., 2022) argued that dividend policy decisions have intertemporal effects, and used lagged variables to better model their influence on firm value. Using lagged values also helps address endogeneity concerns, particularly the risk of reverse causality where profitable firms may choose to pay higher dividends, making it difficult to identify causal direction (Baltagi, 2021). Therefore, incorporating lagged dividend variables enhances the theoretical and econometric rigor of this study by aligning with the dynamic nature of corporate financial behavior.

Control Variables: Log (total-assets or bank size), liquidity (logged current ratio) and leverage. In constructing the regression model, three control variables bank size, leverage, and liquidity were selected based on both theoretical relevance and empirical precedent. Bank size measured as the natural logarithm of total assets, captures the effects of scale economies, market power, and operational efficiency, all of which are known to influence financial performance in the banking sector.(Berger,A.N AND Bonaccorsi di patti,E., 2006)(Athanasoglou,P.P ., Brissimis, S.N. and Delis, M.D., 2008). Leverage, expressed via the equity multiplier, reflects a bank's capital structure and risk exposure, with empirical studies suggesting that it can either enhance profitability through tax shields or increase financial vulnerability (Jensen,M.C ., Mechling W.H, 1976)(Berger,A.N AND Bonaccorsi di patti,E., 2006) . According to agency theory, leverage can affect managerial discipline and shareholder value by imposing external monitoring through debt obligations(Jensen,M.C ., Mechling W.H, 1976).However,

excessive leverage increases financial risk and may negatively affect profitability, particularly in volatile markets (Berger &Bonaccorsi di Patti, 2006)(Berger, A.N and Mester, L.J., 1997).

In the banking sector, where financial leverage is inherent and tightly regulated, controlling for it is essential to separate the effects of financing structure from those of dividend policy.(Khajar,l., & Alfian,A.H., 2022)

Liquidity, proxies by the log of the current ratio, indicates short-term financial health and the ability to meet immediate obligations, which is vital for banks' operational continuity and risk resilience(Demirguc-kunt,A. and Huizinga,H., 1999). Other potential control variables such as macroeconomic indicators (e.g., inflation, GDP), corporate governance mechanisms, or taxation were excluded due to limited data availability across the 15 banks and their alignment with a macro-level scope that extends beyond the internal firm-level analysis intended in this study. (Suresh, N., & Pooja,M., 2022)

Moreover, including a large number of additional controls increases the risk of over fitting, particularly in a panel dataset with a modest number of observations (Gujarati ,D.N and porter,D.C., 2009).

3.5.2. Model specification

The research model used for this study is similar with that of Agyei and Yiadom (2011). The basic model is written as follows

$$\mathbf{ROE}_{it}=\beta_0+\beta_1 L.DPR_{i,(t-1)+}\beta_2 L.\ DG_{i,(t-1)+}\beta_3 BankSize_{it}+\beta_4 LEV_{it}+\beta_5 LIQ_{it}+\mu_i+\epsilon it$$

Where; ROE is return on equity.

B_0 is the constant term,

$B_1, B_2, B3, \beta_4$ & β_5 is coefficient lagged dividend payout ratio, lagged dividend growth rate, Bank size (Logged Total asset) & liquidity (Log of current raio) simultaneously

$Ɛ_0$ is a marginal error

‘l is private bank t is time period u_i is fixed effect that is specific to each bank.

$$\mathbf{ROA_{it}}=\beta_0+\beta_1 L.DPR_{i,\,(t-1)+}+\beta_2 L.DG_{i,\,(t-1)+}+\beta_3 BankSize_{it}+\beta_4 LEV_{it}+\beta_5 LIQ_{it}+\mu_i+\epsilon_{it}$$

This formula represents a Recommended ROA Model using a Fixed Effects Panel Regression. It aims to explain the Return on Assets (ROA) for bank i in year t ($ROA_{i,t)}$ based on several factors:

β0: The intercept or constant term. It represents the expected value of $ROA_{i,\,t}$ when all other independent variables are zero.

$\beta 1 DPR_{i,t-1}$: The effect of the lagged one-year Dividend Payout Ratio (DPR) on $ROA_{it.}$ β1 is the coefficient that quantifies this relationship. The i,t−1 subscripts indicate that this is the dividend payout ratio for bank i in the year before year t.

$\beta 2 DG_{i,\,t-1}$: The effect of the lagged one-year Dividend Growth Rate (DG) on ROA_{it}. β2 is the coefficient that quantifies this relationship. The i,t−1 subscripts indicate that this is the dividend growth rate for bank i in the year before year t.

β3BankSize: The effect of Bank Size on ROA_{it}. β3 is the coefficient that quantifies this relationship.

Bank Sizeis a control variable, often measured as the logarithm of total assets or total capital for bank i in year t.

μi: The bank-specific effect. This term captures time-invariant characteristics of each individual bank that may influence its ROA but are not explicitly included in the model. This can be treated as either a fixed effect or a random effect depending on the specific assumptions of the model.

ϵit: The error term. This represents the unobserved factors that affect $ROA_{it}$and are not captured by the other variables in the model. It is assumed to be random.

3.5.3. Description and measurement of variables

Dependent Variables (Dividend Policy Variables)

ROA (Return on Assets):- Measures profitability relative to total assets. It shows how efficiently banks use assets to generate income.

ROE (Return on Equity):- Measures profitability relative to shareholders' equity.

Independent Variables (Dividend Policy Variables)

Lagged_DPR(Dividend Payout Ratio (Lagged)):- The proportion of net income distributed as dividends in the previous year.

Lagged_DG (Dividend Growth Rate (Lagged)):- The percentage increase in dividend payments from the previous year.

Both are lagged by one period to capture the delayed effect of dividend policy on performance.

Control Variables

Ln_Bank_Size (Log of Bank Size Natural logarithm of total assets):- used to control for economies of scale and bank size.

(Ln_Current_Ratio) Liquidity Natural log of the current ratio: - reflects the bank's ability to meet short-term obligations.

Leverage (Equity Multiplier):- Leverage Total assets divided by total equity — shows the extent to which the bank uses debt financing.

3.6. Reliability and validity of instrument

3.6.1 Reliability

This research was prioritizing reliable data collection methods to minimize measurement error and ensure consistent results. Reliability was addressed in this research by the financial statement data sourced from reputable databases of national bank of Ethiopia.

Whenever possible, the analysis was utilized multiple data points from the financial statements to assess the same construct which allows for cross-validation and strengthens the reliability of the findings.

3.6.2 Validity

Validity denotes the extent to which a test accurately measures the variables it is intended to assess (Creswell, 2003). It reflects the accuracy and relevance of the conclusions drawn from the study's data. In this research, the validity was ensure by relying on credible sources, including publicly available financial statements, and by carefully defining and justifying the financial ratios and metrics used to assess shareholder value and financial performance, based on established academic literature specific to the Ethiopian banking sector. To enhance the validity of the findings and ensure the research contributes significantly to the existing body of knowledge, rigorous methodological standards were maintained throughout the study.

3.7 Ethical Consideration

Ethical considerations in research are essential to safeguarding participant well-being and upholding the integrity of the research process (Creswell, J.W., & Creswell, J.D., 2018). This study follows strict ethical guidelines to protect data integrity and respect participant rights. Recognizing potential differences in accounting policies and estimates across financial statements, the study prioritizes data sourced from the National Bank of Ethiopia. Where feasible, cross-referencing data points within financial statements and comparing them to industry benchmarks helps ensure accuracy. Since the financial statements used are publicly accessible, concerns about confidentiality are minimal. However, the study does not use any sensitive or undisclosed bank-specific information. All data sources are clearly cited following appropriate academic referencing conventions.

Data collected will be stored securely on protected devices and backed up regularly to prevent unauthorized access. Overall, this research is committed to ethical data collection, analysis, and reporting.

CHAPTER FOUR

4.1 RESULT AND DISCUSSION

This chapter presents summary of descriptive statistics, regression diagnoses results, regression results and discussions. The relationships of dividend policy and control variables with bank performance are discussed in detail.

Table4. 1: Variable labels

Variable used in regression	**Description of variable**
Dividend policy variables	Independent variable

Lagged_ DPR	Lagged dividend payout ratio
Lagged_ DG	Lagged dividend growth
Control variables	
ln Bank size	Log of bank size
Liquidity (Ln current ratio)	Log of current ratio
Leverage (Equity multiplier)	Equity multiplier
Dependent variable (Financial Performance variables)	
ROA	Return on asset

4.1. Summary of descriptive statistics

Descriptive statistics provide an overview of the financial status and dividend distribution patterns of private banks in Ethiopia. The analysis draws on balanced panel data over eleven years, covering fifteen private banks. According to the table below, the average values for financial performance indicators are 2.79 for Return on Assets (ROA) and 19.58 for Return on Equity (ROE). The standard deviation, which reflects the variability among these banks, is relatively high, particularly for ROA at 0.95 and for ROE at 5.96.

Table 4.2: summary of descriptive statistics

stats	ROA	ROE	log_DPR	log_DG	log_cu~o	ln_Ban~e	equity~r
mean	2.79	19.58	3.78	19.07	13.89	23.50	7.25
sd	0.95	5.96	1.29	1.80	1.21	1.30	1.66
min	0.00	2.50	0.00	-2.34	8.55	18.33	3.86
max	7.51	41.10	9.48	20.72	19.12	26.14	12.65

Return on Assets (ROA) averages 2.79 with a standard deviation of 0.95, indicating that, on average, Ethiopian private banks generate about 2.79 cents in profit for every 1 Birr of assets, with moderate variability in performance. Return on Equity (ROE) averages 19.58 with a standard deviation of 5.96, suggesting shareholders receive an average return of nearly 20% on their equity, although this measure is more volatile than ROA. The average Dividend Payout Ratio is 3.78, with a standard deviation of 1.29, showing that banks typically distribute just over one-third of their profits as dividends, though payout levels vary significantly across banks due to differences in dividend policies. The average Dividend Growth is 19.07%, reflecting consistent increases in dividend payments, although the presence of negative values suggests that some banks have reduced dividends during certain periods.

Bank Size, measured as the natural logarithm of total assets, has an average value of 23.50, reflecting a moderate scale among Ethiopian private banks, where larger institutions may benefit from operational efficiencies. Liquidity, expressed as the logarithm of the current ratio, averages 13.89, indicating that most banks maintain solid short-term solvency. The Equity Multiplier, which measures financial leverage, averages a high 7.25, suggesting banks make extensive use of debt financing, holding over 7 Birr in assets for every 1 Birr of equity. The higher ROE compared to ROA highlights the role of financial leverage in amplifying returns.

The considerable variation in dividend payout ratios and dividend growth indicates diverse dividend practices and perhaps inconsistent profitability or differing regulatory pressures among banks. While the strong average liquidity suggests banks are financially stable, excess liquidity could lower ROE by keeping funds idle. The moderate average bank size hints at potential gains from economies of scale; however, subsequent regression analysis suggests that larger bank size might negatively impact asset efficiency, as measured by ROA.

4.2. Dividend trends of private banks

As shown below graph the dividend trends of Hibret bank, Cooperative Bank, and Dashen bank were fluctuating more than other banks. When you see dividends of nib and Zemen bank were decreasing. Lion bank, Bunna bank, Abay bank, Debub global bank was almost constant throughout the year. Based on the data of graph below increasing dividend indicates strong profitability, growth, and confidence in future earnings. Stable dividends (Bank of Oromia, Debub Global Bank, Bunna International Bank and Lion International Bank) suggest consistency and reliability; banks may be focused on long-term planning. Decreasing or no dividends (Nib Bank, Zemen Bank) could signal declining profitability, reinvestment priorities, or regulatory restrictions.

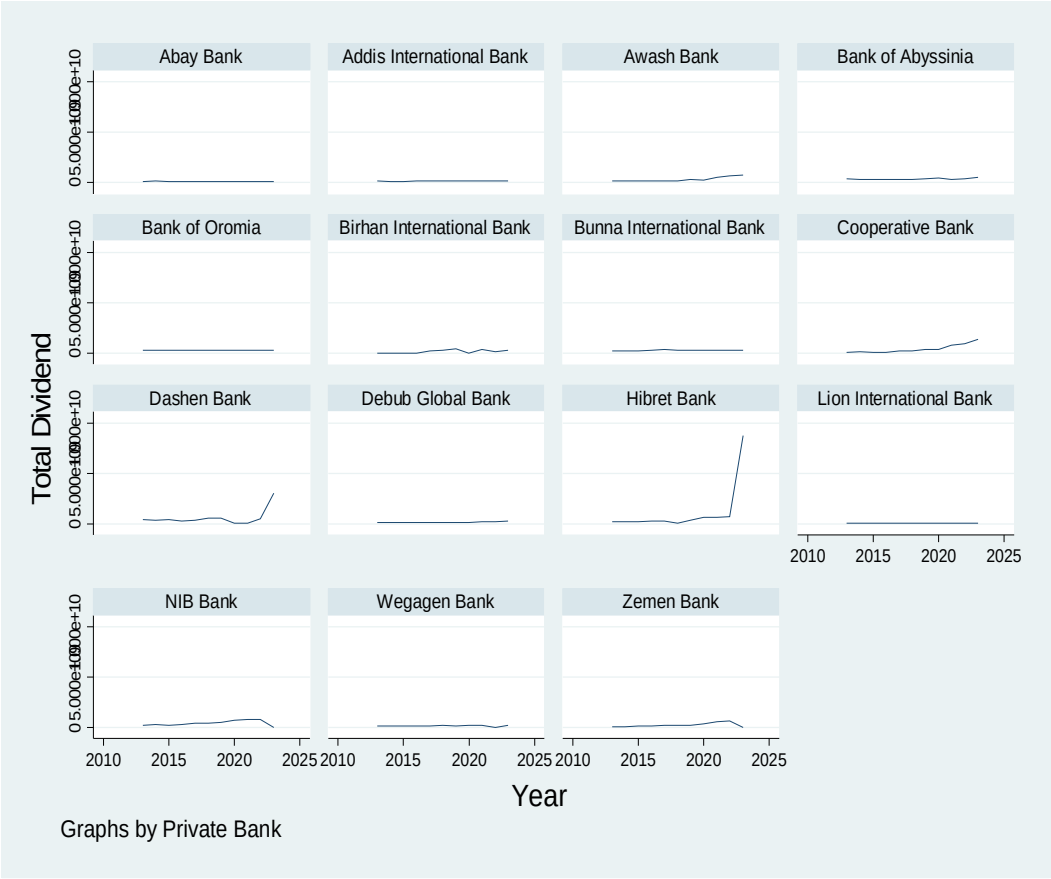

Figure4. 3: Dividend payout trend of private commercial banks

4.3. REGRESSION DIAGNOSES

Prior to performing the panel regression analysis, it was necessary to assess whether the core assumptions of the regression model were met to ensure the reliability of the results. These assumptions include the absence of autocorrelation, constant variance of error terms (homoskedasticity), lack of multicolinearity among independent variables, and the stationary of the time-series data. To evaluate these, the Wooldridge test was applied to identify any autocorrelation, while the Breusch-Pagan test was used to examine heteroskedasticity. Multicolinearity was assessed using the Variance Inflation Factor (VIF), and the Levin-Lin-Chu unit root test was conducted to confirm stationary. The outcomes of these diagnostic tests are presented in the sections that follow.

4.3.1 Autocorrelation Test

The Wooldridge test and the Arellano-Bond test are widely recognized and reliable methods for detecting autocorrelation in panel data. Specifically, the Wooldridge test was employed to assess autocorrelation, as presented in the table below

Table4.4: Wooldridge test for serial-correlation

Source	SS	df	MS	Number of obs	=	135
				F(1, 133)	=	3.18
Model	105.141306	1	105.141306	Prob > F	=	0.0769
Residual	4398.41462	133	33.0707866	R-squared	=	0.0233
				Adj R-squared	=	0.0160
Total	4503.55592	134	33.6086263	Root MSE	=	5.7507

ROE_diff	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
ROE_diff_lag	-.1506164	.084471	-1.78	0.077	-.3176968	.016464
_cons	-.2507654	.4954389	-0.51	0.614	-1.230724	.7291936

ROA_diff	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
ROA_diff_lag	-.0872586	.0776852	-1.12	0.263	-.2409168	.0663996
_cons	-.0884853	.0729822	-1.21	0.227	-.2328412	.0558707

The Wooldridge test was used to assess the presence of first-order autocorrelation in the panel data regression model. The null hypothesis (H_0) assumes no serial correlation, while the alternative hypothesis (H_1) indicates the presence of serial correlation. As presented in Table 4.3, the test generated an F-statistic of 3.18 and a corresponding p-value of 0.0769. Based on the decision rule—reject H_0 if the p-value is below 0.05,

otherwise fail to reject Ho—the null hypothesis cannot be rejected because the p-value is greater than 0.05. This outcome indicates a lack of significant evidence of first-order serial correlation in the residuals, thereby supporting the reliability of the regression estimates.This confirms that the model satisfies the regression assumption of independence of error terms, which is essential for obtaining unbiased and consistent standard errors in panel data analysis.

4.3.3. Heteroskedasticity test

The Breusch-Pagan/Cook-Weisberg test was employed to check for heteroskedasticity in the regression models for the dependent variables, Return on Assets (ROA) and Return on Equity (ROE). The test's null hypothesis posits that the error terms have constant variance, indicating homoskedasticity. As displayed in Table 4.4, the p-values for ROA and ROE were 0.414 and 0.435, respectively. Because both p-values are higher than the 0.05 significance level, we fail to reject the null hypothesis. This indicates that the residuals are homoskedasticity and there is no significant evidence of heteroskedasticity in the data. This confirms that the assumption of homoskedasticity is satisfied, meaning the variance of the error terms remains constant across observations. Meeting this assumption ensures the efficiency of regression estimates and the validity of hypothesis testing results.

Table4. 5: Breusch-Pagan test for Heteroskedasticity

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of ROA

         chi2(1)      =     0.67
         Prob > chi2  =   0.4145
```

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of ROE

         chi2(1)      =     0.61
         Prob > chi2  =   0.4352
```

4.3.4. Multicolinearity test

One of the key challenges in using multiple regression analysis is the potential for multi-co linearity among the independent variables. To assess the degree of co linearity between these variables, the Variance Inflation Factor (VIF) was calculated for each explanatory variable. The results showed that the highest VIF value was 1.38, and the mean VIF was 1.26. Since all VIF values are significantly below the commonly accepted threshold of 10, it can be concluded that multicolinearity does not pose a significant issue in this model. These results confirm that the regression model satisfies the assumption of no multicolinearity, which is essential to ensure that the estimated coefficients are reliable and not distorted by strong correlations between the independent variables.

Table4. 6: variance inflation factor test

Variable	VIF	1/VIF
log_TotalA~t	1.39	0.716901
lagged_DG	1.38	0.722156
lagged_DPR	1.01	0.991173
Mean VIF	1.26	

4.3.5. Stationary test

Table 4.6 below presents the results of the Levin-Lin-Chu (LLC) unit root tests for Return on Assets (ROA) and Return on Equity (ROE). The null hypothesis (H_0) states that unit roots are present, implying non-stationary, while the alternative hypothesis (H_1) indicates that the series are stationary. The adjusted t-statistics for ROA and ROE are -7.2717 and -6.7878, respectively, both with p-values of 0.0000. Since these p-values are

well below the typical significance levels of 1%, 5%, and 10%, we reject Ho. This indicates that the data for ROA and ROE are stationary, confirming the appropriateness of the panel data for subsequent regression analysis.This result confirms that the regression model satisfies the assumption of stationary, which is crucial to prevent spurious regression results and ensure that the statistical relationships among variables are valid over time.

Table4. 7: Levin-Lin-Chu unit-root test for stationary

```
Levin-Lin-Chu unit-root test for ROA
```

Ho: Panels contain unit roots	Number of panels = 15
Ha: Panels are stationary	Number of periods = 11
AR parameter: Common	Asymptotics: N/T -> 0
Panel means: Included	
Time trend: Included	

ADF regressions: 1 lag
LR variance: Bartlett kernel, 7.00 lags average (chosen by LLC)

	Statistic	p-value
Unadjusted t	-11.9119	
Adjusted t*	-7.2717	0.0000

```
Levin-Lin-Chu unit-root test for ROE
------------------------------------

Ho: Panels contain unit roots               Number of panels  =     15
Ha: Panels are stationary                   Number of periods =     11

AR parameter: Common                        Asymptotics: N/T -> 0
Panel means:  Included
Time trend:   Included

ADF regressions: 1 lag
LR variance:     Bartlett kernel, 7.00 lags average (chosen by LLC)
```

	Statistic	p-value
Unadjusted t	-11.6525	
Adjusted t*	-6.7878	0.0000

4.3.6. Hausman test

The Hausman test is a statistical tool commonly used in panel data analysis to determine the most suitable estimation technique: Fixed Effects (FE) or Random Effects (RE) models. This test assesses whether the unobserved individual effects (unique errors) are correlated with the explanatory variables in the model.

Null Hypothesis (H_0): The Random Effects model is appropriate, as there is no correlation between individual effects and the independent variables (i.e., $E(ui|Xi) = 0$).

Alternative Hypothesis (H_1): The Fixed Effects model is appropriate, indicating that the individual effects are correlated with the independent variables (i.e., $E(ui|Xi) \neq 0$).

Based on this, the researcher first estimated the Fixed Effects model and stored the results, then ran the Random Effects model and stored those results. Finally, the Hausman test was performed to determine whether to reject or accept the null hypothesis, guiding the choice of model.

Table4. 8: Hausman test Model selection for ROA (Fixed effect test)

```
Fixed-effects (within) regression               Number of obs     =       150
Group variable: PrivateBan~d                    Number of groups  =        15

R-sq:                                           Obs per group:
     within  = 0.1122                                         min =        10
     between = 0.3074                                         avg =      10.0
     overall = 0.1660                                         max =        10

                                                F(5,130)          =      3.28
corr(u_i, Xb)  = -0.1648                        Prob > F          =    0.0079
```

ROA	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
lagged_DPR	5.11e-06	.0000623	0.08	0.935	-.0001181	.0001284
lagged_DG	-1.11e-10	5.39e-10	-0.21	0.838	-1.18e-09	9.57e-10
log_current_ratio	-.0232187	.0632289	-0.37	0.714	-.1483096	.1018722
ln_Banksize	-.1099673	.0904301	-1.22	0.226	-.2888723	.0689378
equitymultiplier	-.1904467	.0691084	-2.76	0.007	-.3271695	-.0537239
_cons	7.064694	1.980956	3.57	0.001	3.145609	10.98378
sigma_u	.41969617					
sigma_e	.75371919					
rho	.23667831	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(14, 130) = 2.96                     Prob > F = 0.0006
```

Table4. 9: Hausman test Model selection for ROA (Random effect test)

```
Random-effects GLS regression                   Number of obs     =       150
Group variable: PrivateBan~d                    Number of groups  =        15

R-sq:                                           Obs per group:
     within  = 0.1118                                         min =        10
     between = 0.3141                                         avg =      10.0
     overall = 0.1678                                         max =        10

                                                Wald chi2(5)      =     21.42
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =    0.0007
```

ROA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
lagged_DPR	2.93e-06	.0000604	0.05	0.961	-.0001154	.0001213
lagged_DG	-7.01e-11	5.09e-10	-0.14	0.890	-1.07e-09	9.27e-10
log_current_ratio	-.0139738	.0617943	-0.23	0.821	-.1350885	.1071409
ln_Banksize	-.0919879	.0857087	-1.07	0.283	-.2599739	.075998
equitymultiplier	-.1840398	.0589476	-3.12	0.002	-.2995749	-.0685046
_cons	6.452989	1.838164	3.51	0.000	2.850253	10.05573
sigma_u	.40050063					
sigma_e	.75371919					
rho	.22018149	(fraction of variance due to u_i)				

This section presents the results of the Hausman test, which was used to identify the most appropriate model specification for estimating Return on Assets (ROA) in the panel data of private banks. A Random-effects Generalized Least Squares (GLS) regression was

conducted, with "Private Bank" serving as the grouping variable to represent bank-specific panels.

The analysis utilized 150 observations, comprising 15 groups (banks) with 10 observations each. The R-squared values show that the model explains a modest portion of ROA's variability: 11.18% of the variation within banks, 31.41% of the variation between banks, and 16.78% of the overall variation.

The Hausman test yielded a Wald Chi-square statistic of 21.42 with a p-value of 0.0007. This highly significant result at the 1% level leads to the rejection of the null hypothesis, which asserts no correlation between unobserved individual effects and explanatory variables. As a result, the fixed-effects model is favored over the random-effects alternative.

Table 4.8 presents the coefficient estimates and their statistical significance levels. Among the explanatory variables, only the equity multiplier is statistically significant ($p = 0.002$) and has a negative coefficient (-0.140398), indicating that higher equity multipliers are associated with lower ROA, all else being equal. The constant term (_cons) is also significant ($p < 0.01$), suggesting the presence of a baseline ROA across the banks.

The other explanatory variables—lagged dividend payout ratio (lagged_DPR), lagged dividend growth (lagged_DG), log of the current ratio (log_current_ratio), and natural logarithm of bank size (ln_Banksize)—are not statistically significant, as reflected by their high p-values. This indicates that these variables do not have a meaningful impact on ROA.

Table4. 10: Hausman test results comparing fixed and random effects models

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
lagged_DPR	5.11e-06	2.93e-06	2.18e-06	.0000154
lagged_DG	-1.11e-10	-7.01e-11	-4.06e-11	1.80e-10
log_curren~o	-.0232187	-.0139738	-.0092449	.0133924
ln_Banksize	-.1099673	-.0919879	-.0179794	.0288377
equitymult~r	-.1904467	-.1840398	-.0064069	.0360715

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 1.00
Prob>chi2 = 0.9105

A Hausman test was performed to assess whether the differences in coefficients between the fixed effects and random effects models were systematic. The test produced a chi-square statistic of 1.00 with a corresponding p-value of 0.9105. Given that this p-value is well above the standard significance level of 0.05, we fail to reject the null hypothesis, which asserts that the differences are not systematic. This outcome indicates that the random effects model is suitable for the data.

Table4. 11: Hausman test Model selection for ROE (Fixe effect test)

```
Fixed-effects (within) regression               Number of obs     =        150
Group variable: PrivateBan~d                    Number of groups  =         15

R-sq:                                           Obs per group:
     within  = 0.0102                                         min =         10
     between = 0.1357                                         avg =       10.0
     overall = 0.0022                                         max =         10

                                                F(5,130)          =       0.27
corr(u_i, Xb)  = -0.2326                        Prob > F          =     0.9302
```

ROE	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
lagged_DPR	-.0001315	.0004151	-0.32	0.752	-.0009528	.0006898
lagged_DG	-2.69e-09	3.59e-09	-0.75	0.455	-9.80e-09	4.42e-09
log_current_ratio	-.3406051	.4213236	-0.81	0.420	-1.174143	.4929333
ln_Banksize	.0400171	.6025773	0.07	0.947	-1.15211	1.232144
equitymultiplier	.0363429	.4605015	0.08	0.937	-.8747042	.94739
_cons	23.68447	13.20003	1.79	0.075	-2.430203	49.79915
sigma_u	3.719661					
sigma_e	5.0223799					
rho	.35421954	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(14, 130) = 4.15                     Prob > F = 0.0000
```

The fixed-effects regression model was employed to control for unobserved heterogeneity among banks by accounting for time-invariant characteristics. The R-squared values show that the model's explanatory variables explain only a small fraction of the variation in Return on Equity (ROE):

- Within $R^2 = 0.0102$, indicating that approximately 1% of the variation in ROE within individual banks is explained.
- Between $R^2 = 0.1357$, suggesting that around 13.6% of the variation between banks is accounted for.
- Overall $R^2 = 0.0022$, indicating minimal explanatory power of the model as a whole.

The F-statistic ($F(5,130) = 0.27$, Prob> F = 0.9302) suggests that the overall model is not statistically significant at conventional levels ($p > 0.05$).

The correlation between unobserved effects and explanatory variables (Corr (u_i, Xb) = -0.2326) indicates a weak negative relationship.

When examining individual coefficients, none of the explanatory variables show statistical significance (p-values > 0.05). For instance:

- The coefficient for lagged Dividend Payout Ratio is -0.00013 (p = 0.752), suggesting no meaningful impact on ROE.
- The coefficient for lagged Dividend Growth is -2.69e-09 (p = 0.455).
- The coefficients for Log (current ratio) and ln (Bank size) are also insignificant, with p-values of 0.420 and 0.967, respectively.

In summary, the fixed-effects model explains very little of the variation in ROE and provides no significant evidence of relationships between the explanatory variables and ROE.

Table4.12: Hausman test Model selection for ROE (Random effect test)

```
Random-effects GLS regression                   Number of obs     =        150
Group variable: PrivateBan~d                    Number of groups  =         15

R-sq:                                           Obs per group:
     within  = 0.0028                                         min =         10
     between = 0.2347                                         avg =       10.0
     overall = 0.0589                                         max =         10

                                                Wald chi2(5)      =       2.25
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =     0.8137
```

ROE	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
lagged_DPR	-.0000899	.0004106	-0.22	0.827	-.0008946	.0007149
lagged_DG	-1.91e-09	3.46e-09	-0.55	0.581	-8.70e-09	4.88e-09
log_current_ratio	-.2474095	.4200859	-0.59	0.556	-1.070763	.5759436
ln_Banksize	.2433822	.5836445	0.42	0.677	-.9005399	1.387304
equitymultiplier	.3954943	.4033204	0.98	0.327	-.3949992	1.185988
_cons	14.74657	12.53182	1.18	0.239	-9.815353	39.30849
sigma_u	2.7819693					
sigma_e	5.0223799					
rho	.23478446	(fraction of variance due to u_i)				

The random-effects GLS model was estimated to capture both within-group and between-group variation, under the assumption that unobserved heterogeneity is uncorrelated with the explanatory variables. The model's R-squared values are as follows:

- Within $R^2 = 0.0028$, even lower than that of the fixed-effects model.
- Between $R^2 = 0.2347$, showing that about 23.5% of the variation between banks is explained.
- Overall $R^2 = 0.0589$, indicating a slightly better fit than the fixed-effects model, though still weak overall.

The Wald Chi² statistic (2.25) with a p-value of 0.8137 suggests that the model is not statistically significant. The rho value (0.2973) indicates that approximately 29.7% of the variation in ROE is attributable to differences between banks.

As with the fixed-effects model none of the explanatory variables are statistically significant in the random-effects model. For example:

- Lagged_DPR has a coefficient of -0.000059 ($p = 0.756$).
- log_current_ratio has a coefficient of -0.4126 ($p = 0.453$).
- ln_Banksize and equitymultiplier also have p-values above 0.05, indicating a lack of significance.

Table4.13: Hausman test results comparing fixed and random effects models for ROE

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
lagged_DPR	-.0001315	-.0000899	-.0000416	.0000613
lagged_DG	-2.69e-09	-1.91e-09	-7.78e-10	9.60e-10
log_curren~o	-.3406051	-.2474095	-.0931956	.0322715
ln_Banksize	.0400171	.2433822	-.2033651	.1498618
equitymult~r	.0363429	.3954943	-.3591514	.2222481

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 80.12
Prob>chi2 = 0.0000
(V_b-V_B is not positive definite)

A Hausman specification test was carried out to compare the fixed-effects and random-effects models. The null hypothesis posits that the random-effects model is both consistent and efficient, while the alternative hypothesis favors the fixed-effects model due to systematic differences in coefficient estimates.

The test produced a $Chi^2(4)$ value of 80.12, with a corresponding p-value of 0.0000. Since the p-value is below the 0.05 threshold, the null hypothesis is rejected, indicating that the random-effects model is not appropriate, and the fixed-effects model is preferred. These results also suggest that the differences in coefficients between the two models are systematic.

In summary the Hausman specification test For ROA Modelwas conducted to determine whether the fixed effects or random effects model is more appropriate for the ROA regression. The null hypothesis assumes that the individual effects are uncorrelated with the explanatory variables, supporting the use of the random effects model. The test produced a p-value of 0.0000, which is less than the 0.05 significance level. Therefore, the null hypothesis is rejected, and the fixed effects model is preferred.

This result confirms that the assumption required for applying the random effects model, that unobserved individual effects are uncorrelated with the regressors is violated. As such, the fixed effects model is statistically appropriate for the ROA regression, ensuring consistent and unbiased parameter estimates.

Similarly, the Hausman test was applied For ROE Model to choose the appropriate model for the ROE regression. The test yielded a p-value of 0.0000, leading to rejection of the null hypothesis that favors the random effects model. Consequently, the fixed effects model is also preferred for the ROE regression.

This indicates that the random effects model would violate the assumption of no correlation between individual-specific effects and independent variables in the ROE model. Therefore, the fixed effects model is the correct specification, providing more reliable and consistent estimates in this context.

4.4 Relationship between dividend policy and financial performance

Mature banks paying more dividends established profitable companies often pay higher dividends (lower retention ratio) because they have fewer high-return investment opportunities.

4.4.1. Correlation matrix

Table4. 14: Correlation matrix of dependent and independent variable

	ROE	lagged~R	lagged~G	log_cu~o	ln_Ban~e	equity~r
ROE	1.0000					
lagged_DPR	-0.0547 0.5065	1.0000				
lagged_DG	0.0991 0.2276	-0.0143 0.8621	1.0000			
log_curren~o	0.0711 0.3644	-0.0265 0.7475	0.0856 0.2977	1.0000		
ln_Banksize	0.1905 0.0143	-0.0865 0.2926	0.5262 0.0000	0.4391 0.0000	1.0000	
equitymult~r	0.2944 0.0001	-0.1116 0.1740	0.3350 0.0000	0.1644 0.0348	0.5911 0.0000	1.0000

Table 4.13 displays the correlation coefficients between the dependent variable (ROE) and the independent variables (lagged_DPR, lagged_DG, log_current_ratio, ln_Bank size, and equity multiplier). This correlation matrix provides insight into the strength and direction of the linear relationships among these variables.

The analysis shows that lagged_DPR has a very weak negative correlation with ROE (r = -0.0547), which is not statistically significant (p = 0.5065). Similarly, lagged_DG exhibits a very weak positive correlation with ROE (r = 0.0591), also statistically insignificant (p = 0.2276). Log_current_ratio shows a minimal positive correlation with ROE (r = 0.0711), with no statistical significance (p = 0.3644).

In contrast, ln_Bank size demonstrates a moderate positive correlation with ROE (r = 0.1915), statistically significant at the 5% level (p = 0.0148), suggesting that larger banks may be associated with higher profitability.

Most notably, the equity multiplier shows a stronger positive correlation with ROE (r = 0.2644), which is statistically significant at the 1% level (p = 0.0001). This indicates that higher financial leverage is associated with increased profitability, likely due to the enhanced returns generated by the use of debt financing.

Overall, the correlation analysis suggests that while most independent variables show weak and statistically insignificant relationships with ROE, ln_Bank size and the equity multiplier are significant, indicating that both bank size and financial leverage may influence profitability.

4.4.2. Regression analysis

To examine the relationship between dividend policy and the performance of private commercial banks in Ethiopia, the study analyzed a panel dataset consisting of fifteen banks over an eleven-year period (2013–2023). The analysis employed both fixed-effects and random-effects models, chosen based on the Hausman test criteria. Specifically, the fixed-effects model was applied to ROE since the p-value from the Hausman test was below 0.05, indicating the fixed-effects model was preferable. Conversely, the random-effects model was used for ROA because the p-value was greater than 0.05 (0.95), suggesting the random-effects model was appropriate.

In this analysis, the dependent variables are financial performance indicators (ROE and ROA) for the private banks. The independent variables include the lagged dividend payout ratio, lagged dividend growth, and control variables such as the logarithm of bank size, the leverage ratio (measured by the equity multiplier), and the liquidity ratio (measured by the logarithm of the current ratio).

Table4. 3: Fixed effect model analysis of return on asset (ROE)

```
Fixed-effects (within) regression               Number of obs     =         150
Group variable: PrivateBan~d                    Number of groups  =          15

R-sq:                                           Obs per group:
     within  = 0.0102                                         min =          10
     between = 0.1357                                         avg =        10.0
     overall = 0.0022                                         max =          10

                                                F(5,130)          =        0.27
corr(u_i, Xb)  = -0.2326                        Prob > F          =      0.9302
```

ROE	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
lagged_DPR	-.0001315	.0004151	-0.32	0.752	-.0009528	.0006898
lagged_DG	-2.69e-09	3.59e-09	-0.75	0.455	-9.80e-09	4.42e-09
log_current_ratio	-.3406051	.4213236	-0.81	0.420	-1.174143	.4929333
ln_Banksize	.0400171	.6025773	0.07	0.947	-1.15211	1.232144
equitymultiplier	.0363429	.4605015	0.08	0.937	-.8747042	.94739
_cons	23.68447	13.20003	1.79	0.075	-2.430203	49.79915
sigma_u	3.719661					
sigma_e	5.0223799					
rho	.35421954	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(14, 130) = 4.15                     Prob > F = 0.0000
```

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
lagged_DPR	-.0001315	-.0000899	-.0000416	.0000613
lagged_DG	-2.69e-09	-1.91e-09	-7.78e-10	9.60e-10
log_curren~o	-.3406051	-.2474095	-.0931956	.0322715
ln_Banksize	.0400171	.2433822	-.2033651	.1498618
equitymult~r	.0363429	.3954943	-.3591514	.2222481

```
                b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =       80.12
                Prob>chi2 =      0.0000
                (V_b-V_B is not positive definite)
```

The analysis showed that the lagged Dividend Payout Ratio (DPR) and lagged Dividend Growth (DG) both had negative but statistically insignificant effects on ROE (withp-values of 0.752 and 0.455, respectively). This outcome aligns with Modigliani and Miller's (1961) dividend irrelevance theory, which proposes that in efficient markets with rational participants, dividend policy does not significantly affect a firm's profitability.

The liquidity measure (log of the current ratio) demonstrated a negative relationship with ROE (coefficient = -0.3406, p = 0.481). While liquidity is typically linked to reduced financial risk and potentially improved performance, the lack of statistical significance here may suggest that excessive liquidity leads to opportunity costs and underutilization of assets. This observation is consistent with Vodová's (2011) research on liquidity management in the banking sector.Bank Size (ln of total assets) also exhibited a negative but statistically insignificant relationship with ROE (coefficient = -0.0400, p = 0.647), indicating that larger banks do not necessarily enjoy higher profitability. This may be attributed to operational inefficiencies, increased complexity, and bureaucratic challenges, as noted by Berger and Humphrey (1997).

The leverage ratio, measured by the equity multiplier, showed a positive but statistically insignificant effect on ROE (coefficient = 0.0363, p = 0.947). This finding is consistent with Modigliani and Miller's (1958) capital structure irrelevance theory in perfect markets, and with empirical research highlighting mixed results regarding the impact of leverage on bank performance.

Overall, the regression analysis revealed that neither dividend payout policy (DPR) nor dividend growth (DG) had a significant impact on ROE at the 5% significance level. Likewise, the control variable (bank size) did not have a significant influence. These results suggest that for the private commercial banks in Ethiopia included in this study, dividend policy does not have a direct effect on short-term profitability.

Table4. 4: Random effect analysis of return on asset (ROA)

```
Random-effects GLS regression                   Number of obs     =       150
Group variable: PrivateBan~d                    Number of groups  =        15

R-sq:                                           Obs per group:
     within  = 0.1118                                         min =        10
     between = 0.3141                                         avg =      10.0
     overall = 0.1678                                         max =        10

                                                Wald chi2(5)      =     21.42
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =    0.0007
```

ROA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
lagged_DPR	2.93e-06	.0000604	0.05	0.961	-.0001154	.0001213
lagged_DG	-7.01e-11	5.09e-10	-0.14	0.890	-1.07e-09	9.27e-10
log_current_ratio	-.0139738	.0617943	-0.23	0.821	-.1350885	.1071409
ln_Banksize	-.0919879	.0857087	-1.07	0.283	-.2599739	.075998
equitymultiplier	-.1840398	.0589476	-3.12	0.002	-.2995749	-.0685046
_cons	6.452989	1.838164	3.51	0.000	2.850253	10.05573
sigma_u	.40050063					
sigma_e	.75371919					
rho	.22018149	(fraction of variance due to u_i)				

Table4. 5: Hausman test results comparing fixed and random effects models for ROE

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
lagged_DPR	5.11e-06	2.93e-06	2.18e-06	.0000154
lagged_DG	-1.11e-10	-7.01e-11	-4.06e-11	1.80e-10
log_curren~o	-.0232187	-.0139738	-.0092449	.0133924
ln_Banksize	-.1099673	-.0919879	-.0179794	.0288377
equitymult~r	-.1904467	-.1840398	-.0064069	.0360715

```
                b = consistent under Ho and Ha; obtained from xtreg
 B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                        =        1.00
              Prob>chi2 =      0.9105
```

This section presents the findings from a random-effects generalized least squares (GLS) regression analysis investigating the factors affecting return on assets (ROA) in Ethiopian private banks. The analysis used panel data with "Private bank" as the grouping variable, and Table 4.12 summarizes the regression results.

The R-squared statistics reveal that the independent variables account for approximately 16.73% of the overall variation in ROA. Notably, the between-group variation (31.41%) surpasses the within-group variation (11.18%), suggesting that structural differences among banks—such as size, capital structure, and liquidity management—play a more prominent role in explaining ROA than variations within individual banks over time.

The key findings from the model include:

Dividend Payout Ratio (lagged_DPR) and Dividend Growth (lagged_DG): Both variables showed negative but statistically insignificant coefficients, consistent with the residual theory of dividends, which posits that dividend policies are secondary to investment and financing decisions. This aligns with empirical studies (e.g., Fama& French, 2001) indicating that payout policies alone do not substantially impact profitability measures like ROA.

Log of Current Ratio (log_current_ratio): As a liquidity measure, this variable was found to be insignificant in relation to ROA. This suggests that while liquidity may reduce risk and ensure stability, it does not directly enhance asset profitability.

Log of Bank Size (ln_Banksize): This variable showed a negative but insignificant effect suggesting that theoretical benefits of economies of scale, larger banks may experience bureaucratic inefficiencies and agency problems.

Equity Multiplier (leverage): This variable displayed a negative relationship with ROA, which was marginally significant at the 10% level. This finding supports theories such as the pecking order theory and agency cost theory, which propose that high leverage can limit managerial flexibility, heighten risk, and ultimately lower profitability. This is consistent with Modigliani & Miller (1963) and Jensen &Meckling (1976).

Constant Term: The constant was significant and positive, indicating that there is a baseline level of profitability not explained by the model's financial variables.

The overall model was statistically significant, with a Wald Chi-square statistic of 21.42 and a p-value of 0.0007, suggesting that the included variables collectively influence ROA.

To confirm the appropriateness of the random-effects specification, a Hausman test was performed, comparing fixed-effects and random-effects models. The test returned a Chi-square statistic of 0.20 and a p-value of 0.9105, indicating no significant difference between the two models. Therefore, the null hypothesis—that the random-effects model is consistent and efficient—was not rejected, validating its use for this analysis.

In summary, the results indicate that dividend payout ratio, dividend growth, and liquidity are not significant drivers of ROA in private banks. However, leverage, as measured by the equity multiplier, has a marginally negative effect on ROA. Additionally, the findings suggest that bank size (log of total assets) plays a significant role in influencing ROA, with larger banks tending to be more profitable. These results are in line with theoretical and empirical studies, underscoring the importance of capital structure and size in determining bank performance. However, the moderate explanatory power of the model suggests that other factors not included in the analysis may also contribute to ROA variations.

The integrated analysis across statistical outputs and theoretical perspectives reinforces that dividend policy, in the context of Ethiopian private commercial banks, does not have a significant explanatory power over asset-based financial performance.

The findings align most consistently with the Dividend Irrelevance Theory, while no support for Signaling and Agency theories in this setting. These outcomes underscore the importance of operational efficiency, internal governance, and regulatory compliance as the dominant drivers of bank performance in Ethiopia.

4.5 Interpretation and discuss finding

Descriptive statistics indicated that Ethiopian private banks pay moderate dividends, with a relatively low mean dividend payout ratio and notable variation across banks. The standard deviation suggests inconsistency in dividend distribution practices. The correlation matrix revealed weak and statistically insignificant relationships between dividend payout ratio, dividend growth rate, and return on assets (ROA). This finding preliminarily indicated that dividend-related variables might not have a strong direct association with asset-based profitability.

The panel diagnostic tests confirmed that the data were appropriate for fixed effects regression (for ROA) and met critical assumptions:

- No autocorrelation: Ensures error terms are not serially correlated.

- No heteroskedasticity: Ensures homogeneity of error variance.

- No multicolinearity: VIF results confirmed independent variables were not linearly dependent.

- Stationary: All variables were stationary at level, suggesting stable long-term relationships.

The regression analysis using the fixed effects model for ROA indicated that: - Dividend Payout Ratio (DPR): Statistically insignificant - Dividend Growth Rate (DGR): Statistically insignificant.

Based on the findings from descriptive statistics, correlation analysis, and regression models, the following hypotheses were tested and their conclusions are summarized below:

Table4. 6: Hypothesis test result

Hypothesis	**Null Hypothesis (Ho)**	**Alternative Hypothesis (H_1)**	**Result**	**Conclusion**
H1	The dividend payout ratio has not significantly evolved from 2013 to 2023	The dividend payout ratio has significantly evolved from 2013 to 2023.	Not rejected	No significant evolution
H2	No significant correlation between dividend payout and profitability (ROA, ROE).	Significant positive correlation between dividend payout and profitability.	Not rejected	No significant correlation
H3	Dividend payout ratio does not significantly impact ROA and ROE.	Dividend payout ratio significantly impacts ROA and ROE.	Not rejected	No significant effect

The hypothesis testing results align closely with the study's empirical findings:

- Descriptive analysis showed that dividend payout patterns remained relatively stable across the study period.
- Correlation analysis revealed no significant association between dividend payout and performance metrics (ROA, ROE).

- Regression results confirmed that variations in dividend payout did not significantly influence financial performance.

Although the coefficient of the lagged dividend payout ratio is statistically insignificant, this result is meaningful in the context of Ethiopian banking. It suggests that dividend policy may not be a key performance driver, possibly due to the underdeveloped capital market, limited shareholder pressure, or internal financing preferences. This aligns with Modigliani and Miller's dividend irrelevance theory, particularly in markets with inefficienciesThese results support the Dividend Irrelevance Theory proposed by Miller and Modigliani (1961), indicating that dividend policy is not a key driver of profitability in Ethiopian private commercial banks. The findings offer limited or no support for Signaling and Agency theories within the context of Ethiopia’s semi-developed capital market.

Furthermore the integrated analysis across statistical outputs and theoretical perspectives reinforces that dividend policy, in the context of Ethiopian private commercial banks, does not have a significant explanatory power over asset-based financial performance. The findings align most consistently with the dividend irrelevance theory, while offering limited or no support for Signaling and Agency theories in this setting. These outcomes underscore the importance of operational efficiency, internal governance, and regulatory compliance as the dominant drivers of bank performance in Ethiopia.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

This study investigated the relationship between dividend policy and the financial performance of private commercial banks in Ethiopia, using panel data spanning from 2013 to 2022. Although conventional financial theories often suggest that dividend decisions significantly influence firm performance, the results of this study show that neither the lagged dividend payout ratio nor dividend growth had a statistically significant impact on ROA or ROE. While this findings are in fact highly relevant, as they reflect the unique structural and institutional characteristics of Ethiopia's banking sector.

Several contextual factors may account for this lack of significance:

Absence of a developed capital market as Ethiopia does not yet have an active stock exchange, which limits how markets respond to dividend announcements. In such environments, dividends are less likely to carry meaningful signals to investors compared to developed markets.Strict regulatory environment The National Bank of Ethiopia imposes strong regulatory controls on banks, including limitations on profit distributions and capital reserves. These constraints limit managerial discretion in dividend decisions and may weaken any potential performance link.Preference for internal financing Due to limited access to external capital, Ethiopian banks rely heavily on retained earnings to fund operations and growth. As such, dividends serve more as routine distributions than as strategic tools to influence firm value.

Investor characteristics Bank shareholders in Ethiopia are often long-term insiders or institutional investors who may prioritize long-term growth over immediate cash returns, reducing the performance pressure tied to dividend policies.

These results are consistent with the Modigliani-Miller dividend irrelevance theory, which argues that in markets with imperfections, dividend policy has limited influence on firm valuation. More broadly, the findings underscore the importance of context—demonstrating that patterns observed in developed economies may not apply universally, especially in emerging markets like Ethiopia.

In conclusion, the non-significant relationship between dividend policy and performance should not be interpreted as a shortcoming of the study. Instead, it offers a valuable insight: in Ethiopia, the drivers of bank performance appear to lie more in operational strategies and structural factors—such as efficient resource management, bank size, and internal reinvestment—than in dividend distribution policies.

5.2. Recommendation

In light of the findings and the specific characteristics of Ethiopia's banking sector, several practical recommendations can be made. Given that dividend policy variables did not show a significant influence on financial performance, bank managers are encouraged to redirect their strategic focus away from dividend distribution and toward enhancing operational effectiveness, prudent capital allocation, and reinvestment in core business areas. Factors such as institutional scale and financial structure appear to play a more meaningful role in determining profitability. Thus, improving internal processes, expanding service capacity, and managing costs efficiently are likely to produce more substantial performance outcomes than emphasizing dividend payouts.

For investors and shareholders, it is advisable to look beyond dividend payments when evaluating a bank’s financial health. In Ethiopia’s regulatory and institutional context, dividend practices are often shaped by policy requirements or internal resource needs rather than profitability. Therefore, investors should consider indicators such as reinvestment strategies, asset growth, and long-term value creation instead of relying solely on dividend records.

Regulatory bodies, including the National Bank of Ethiopia, may also benefit from reviewing existing guidelines related to dividend policy. Since dividends were not shown to impact financial performance significantly, it may be more beneficial to allow banks greater autonomy in retaining earnings for productive reinvestment. Supporting banks in channeling resources toward technological advancement, credit expansion, and operational resilience could have a more meaningful effect on sector stability and growth.

At a broader policy level, the establishment and development of Ethiopia's capital market infrastructure particularly the launch of a functioning stock exchange would help strengthen the informational role of dividends over time. Until then, policy efforts should prioritize institutional development, internal performance monitoring, and capacity building, rather than placing emphasis on dividend behavior as a primary performance indicator

5.3. Suggestions for further research

While this study offers valuable insights into the relationship between dividend policy and financial performance within Ethiopia's private commercial banking sector, further research could build on its findings in several ways. Future studies may consider expanding the analysis to include other dividend-distributing financial institutions, such as private insurance companies or microfinance institutions, to assess whether the observed patterns hold across different segments of the financial industry.

Methodologically, although this study employed a fixed effects panel regression model with appropriate diagnostic checks, future researchers could adopt more advanced econometric approaches, such as the Generalized Method of Moments (GMM). The GMM technique is particularly useful in controlling for unobserved heterogeneity, addressing potential endogeneity issues, and capturing the dynamic nature of financial performance over time. Applying such models could provide deeper insights into the causal links between dividend policy and performance, especially in contexts with evolving financial structures.

Moreover, incorporating qualitative perspectives—such as through interviews with banking executives or financial analysts—could help uncover the strategic rationale behind dividend decisions and offer richer explanations for the statistical findings. Researchers may also explore broader or alternative performance indicators, including cost-efficiency ratios, asset quality, or customer-based metrics, which could reveal different aspects of bank performance not captured by ROA and ROE alone.

Finally, as Ethiopia progresses toward the establishment of a formal stock exchange, future research could explore how the development of capital market infrastructure may reshape the role and relevance of dividend policy. Comparative studies involving similar emerging markets could also provide further insight into how institutional factors influence the dividend–performance relationship. Such future research would not challenge the current findings, but rather complement and extend them, reinforcing the contribution this study makes to the literature on corporate finance in developing economies.

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APPENDIX

Heteroskedasticity

```
. regress ROE lagged_DPR lagged_DG log_TotalAsset
```

Source	SS	df	MS		
Model	259.500897	3	86.5002991	Number of obs	= 150
Residual	4863.34481	146	33.3105809	F(3, 146)	= 2.60
				Prob > F	= 0.0547
Total	5122.8457	149	34.3815148	R-squared	= 0.0507
				Adj R-squared	= 0.0311
				Root MSE	= 5.7715

ROE	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
lagged_DPR	-.000193	.0004457	-0.43	0.666	-.0010739	.0006879
lagged_DG	-8.35e-10	3.52e-09	-0.24	0.813	-7.79e-09	6.12e-09
log_TotalAsset	1.157545	.4788487	2.42	0.017	.2111744	2.103916
_cons	-7.734807	10.91124	-0.71	0.480	-29.2992	13.82958

```
.
. estat hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of ROE

         chi2(1)      =     0.61
         Prob > chi2  =   0.4352
```

Multicolinearity-test

```
. regress ROA lagged_DPR lagged_DG log_TotalAsset

      Source |       SS           df       MS      Number of obs   =       150
-------------+----------------------------------   F(3, 146)       =      4.99
       Model |  10.9083105         3   3.6361035   Prob > F        =    0.0025
    Residual |  106.413069       146  .728856636   R-squared       =    0.0930
-------------+----------------------------------   Adj R-squared   =    0.0743
       Total |  117.321379       149  .787391808   Root MSE        =    .85373

------------------------------------------------------------------------------
         ROA |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
  lagged_DPR |    7.65e-06   .0000659     0.12   0.908    -.0001227    .0001379
   lagged_DG |   -1.94e-11   5.20e-10    -0.04   0.970    -1.05e-09    1.01e-09
log_TotalAs~t |   -.2299121   .0708318    -3.25   0.001    -.3699002   -.0899239
       _cons |    8.168071   1.614003     5.06   0.000     4.978244    11.3579
------------------------------------------------------------------------------

.
. vif

    Variable |       VIF       1/VIF
-------------+----------------------
log_TotalA~t |      1.39    0.716901
   lagged_DG |      1.38    0.722156
  lagged_DPR |      1.01    0.991173
-------------+----------------------
    Mean VIF |      1.26
```

Stationery-test

```
. xtunitroot fisher ROE, dfuller lags(1)

Fisher-type unit-root test for ROE
Based on augmented Dickey-Fuller tests
-------------------------------------------
Ho: All panels contain unit roots           Number of panels  =     15
Ha: At least one panel is stationary        Number of periods =     11

AR parameter: Panel-specific                Asymptotics: T -> Infinity
Panel means:  Included
Time trend:   Not included
Drift term:   Not included                  ADF regressions: 1 lag
------------------------------------------------------------------------------
                                     Statistic      p-value
------------------------------------------------------------------------------
 Inverse chi-squared(30)   P         75.8707       0.0000
 Inverse normal            Z         -4.8421       0.0000
 Inverse logit t(79)       L*        -4.9886       0.0000
 Modified inv. chi-squared Pm         5.9219       0.0000
------------------------------------------------------------------------------
 P statistic requires number of panels to be finite.
 Other statistics are suitable for finite or infinite number of panels.
------------------------------------------------------------------------------
```

OLS regression result

```
. regress ROE lagged_DPR lagged_DG log_TotalAsset
```

Source	SS	df	MS	Number of obs	=	150
				F(3, 146)	=	2.60
Model	259.500897	3	86.5002991	Prob > F	=	0.0547
Residual	4863.34481	146	33.3105809	R-squared	=	0.0507
				Adj R-squared	=	0.0311
Total	5122.8457	149	34.3815148	Root MSE	=	5.7715

ROE	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
lagged_DPR	-.000193	.0004457	-0.43	0.666	-.0010739	.0006879
lagged_DG	-8.35e-10	3.52e-09	-0.24	0.813	-7.79e-09	6.12e-09
log_TotalAsset	1.157545	.4788487	2.42	0.017	.2111744	2.103916
_cons	-7.734807	10.91124	-0.71	0.480	-29.2992	13.82958

```
. regress ROA lagged_DPR lagged_DG log_TotalAsset
```

Source	SS	df	MS	Number of obs	=	150
				F(3, 146)	=	4.99
Model	10.9083105	3	3.6361035	Prob > F	=	0.0025
Residual	106.413069	146	.728856636	R-squared	=	0.0930
				Adj R-squared	=	0.0743
Total	117.321379	149	.787391808	Root MSE	=	.85373

ROA	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
lagged_DPR	7.65e-06	.0000659	0.12	0.908	-.0001227	.0001379
lagged_DG	-1.94e-11	5.20e-10	-0.04	0.970	-1.05e-09	1.01e-09
log_TotalAsset	-.2299121	.0708318	-3.25	0.001	-.3699002	-.0899239
_cons	8.168071	1.614003	5.06	0.000	4.978244	11.3579

```
.
```

Private Bank	Year	Net income	Total Asset	ROA	ROE	Total Dividend	Dividend Payout ratio	Bank size	Dividend growth	
Dashen Bank	2013	607000000	19747170000	3.26	31.33	397965000	65.56260297	19747170000	367172399	36717
Awash Bank	2013	508000000	16079550000	3.1	24.2	138760223.2	27.31500457	16079550000	130863119	13086
Cooperative Bank	2013	204470000	7350370000	4	34	20914178	10.22848242	7350370000	18943687.9	189436
Bank of Oromia	2013	67000000	3911230000	2	13.6	238770841.6	356.3743904	3911230000	225864858	22586
Hibret Bank	2013	214000000	9985990000	3	24	203481118	95.08463458	9985990000	179464082	17946
Wegagen Bank	2013	498000000	10393800000	3.66	19.99	101831279	20.44804799	10393800000	89808978.6	898089
NIB Bank	2013	1555900	91450000	3.44	18.75	203276953	13064.91118	91450000	180339738	18033
Bank of Abyssinia	2013	216000000	10160100000	2.88	26.29	351842678.2	162.8901288	10160100000	312727668	31272
Lion International Bank	2013	111000000	2942430000	4	23	78816832.53	71.00615543	2942430000	72197042	7219
Birhan International Bank	2013	52900000	2197310000	2.13	12.01	12602	0.023822306	2197310000	11140.58979	1114
Bunna International Bank	2013	46220000	2128450000	2.6	14	208794283.9	451.7401209	2128450000	197871071	19787
Zemen Bank	2013	94000000	3248470000	3.34	24.33	75080803	79.87319468	3248470000	69027060	6902

Debub Global Bank	2013	38000000	380560000	7.51	25.24	126175611.5	332.0410829	380560000	116824825	11682
Addis International Bank	2013	27210000	916170000	4.06	14.04	90832112.88	333.8188639	916170000	78606040.8	78606
Abay Bank	2013	38460000	1951100000	2.4	12.8	54314535.94	141.2234424	1951100000	50293944.7	50293
Dashen Bank	2014	438610000	21962200000	3.42	30.69	340367000	77.60128588	21962200000	397964914.5	
Awash Bank	2014	712480000	20028790000	3.4	27.2	134243615.6	18.84173815	20028790000	138760126.5	
Cooperative Bank	2014	343160000	7350370000	5	38	139540250	40.66332032	7350370000	20913510.8	
Bank of Oromia	2014	153870000	6151660000	3.1	23.7	252277767.6	163.9551359	6151660000	238770735.9	
Hibret Bank	2014	278170000	11876370000	3	20	219319769	78.84378941	11876370000	203481010.2	
Wegagen Bank	2014	318440000	11528760000	2.91	16.02	102154314	32.07961123	11528760000	101831178.7	
NIB Bank	2014	297370000	10747280000	2.99	16.38	225630080	75.87519925	10747280000	203276842	
Bank of Abyssinia	2014	270710000	11276390000	2.53	20.53	255601609.6	94.41897588	11276390000	351842605.6	
Lion International Bank	2014	98580000	3613330000	3	17	62193100.21	63.08896349	3613330000	78816753.62	
Birhan International Bank	2014	45010000	2813460000	1.8	9.62	12602	0.027998223	2813460000	12502	
Bunna International Bank	2014	79960000	3011940000	3.1	17.9	228726523.5	286.05118	3011940000	208794174.4	
Zemen Bank	2014	183880000	3924770000	5.13	31.98	70193569	38.17357461	3924770000	75080709.51	

Abay Bank	2014	57600000	3196780000	2.2	14.6	96668523.13	167.827297 1	3196780000	54314357.9 6
Debub Global Bank	2014	18460000	874820000	2.9	12.5	83583862.27	452.783652 6	874820000	90832020.8 6
Addis International Bank	2014	44660000	1262720000	4.1	16.5 2	55386910.28	124.019055 7	1262720000	90832051.9
Dashen Bank	2015	729130000	24763880000	3.12	26.4 1	400427000	54.9184644 7	24763880000	340366882. 4
Awash Bank	2015	645340000	23869610000	2.9	23	145126243.9	22.4883385 3	23869610000	134243507. 5
Cooperative Bank	2015	312440000	11462060000	3	25	22726868	7.27399436 7	11462060000	139540233. 7
Bank of Oromia	2015	221780000	9534840000	2.8	25.5	239708840.3	108.084065 4	9534840000	252277672. 6
Hibret Bank	2015	281320000	14360870000	2	17	210989486	74.9998172 9	14360870000	219319672. 8
Wegagen Bank	2015	352450000	13711360000	2.79	15.4 6	97051058	27.5361208 7	13711360000	102154219
NIB Bank	2015	337070000	13256120000	2.81	16.2 8	173007785	51.3269602 8	13256120000	225630003. 3
Bank of Abyssinia	2015	291740000	13667550000	2.34	17.4 7	294923837.8	101.091327 1	13667550000	255601494. 2
Lion International Bank	2015	150580000	5859360000	3	21	62992008.8	41.8329185 8	5859360000	62192998.9 3
Birhan International Bank	2015	103700000	4171940000	2.97	16.1 9	10775365	10.3909016 4	4171940000	-72903.1975 9
Bunna International Bank	2015	134510000	4499690000	3.6	22.5	213767271.3	158.922958 4	4499690000	228726430
Zemen Bank	2015	153280000	4874340000	3.48	21.5	95854115	62.5353046	4874340000	70193432.4

					7		7		4
							689.779431		83583720.4
Debub Global Bank	2015	17180000	1291950000	1.7	8.6	118504106.3	3	1291950000	9
Addis International					15.3		145.011412		55386757.8
Bank	2015	58210000	1714980000	3.91	1	84411143.45	9	1714980000	8
							42.7365097		96668467.6
Abay Bank	2015	125450000	4582180000	3.2	21.5	53612951.52	8	4582180000	7
					23.1		40.2609923		400426926.
Dashen Bank	2016	727050000	28576430000	2.73	5	292717545	7	28576430000	9
							18.8824888		400426986.
Awash Bank	2016	743770000	29609600000	2.8	21.5	140442287.4	6	29609600000	6
							152.928667		145126042.
Cooperative Bank	2016	39030000	10687340000	0	3	59688059	7	10687340000	2
							165.067429		22726250.0
Bank of Oromia	2016	155180000	11281890000	1.5	13.4	256151637.3	6	11281890000	4
							74.9887912		239708815.
Hibret Bank	2016	339020000	17269870000	2	18	254227000	2	17269870000	4
					14.3		25.8375640		210989364.
Wegagen Bank	2016	375620000	16189760000	2.51	9	97051058	3	16189760000	6
							59.4923022		97050796.0
NIB Bank	2016	389790000	15830380000	2.68	16.6	231895045	7	15830380000	5
					18.3		82.1030605		173007728.
Bank of Abyssinia	2016	360570000	16828060000	2.36	3	296039005.5	7	16828060000	9
					20.7		38.6371204		294923759.
Lion International Bank	2016	190160000	8119230000	2.81	4	73472348.25	5	8119230000	2
Birhan International					29.7		4.05658414		62991538.8
Bank	2016	265790000	7196300000	4.68	5	10781995	5	7196300000	4
Bunna International							128.057225		10774683.1
Bank	2016	187460000	6820960000	3.3	22.9	240056074.5	3	6820960000	5
Zemen Bank	2016	202770000	7373830000	3.31	22.9	114853634	56.6423208	7373830000	213767266.

					6		6		3
							243.988760		95853864.5
Debub Global Bank	2016	51690000	1291950000	4.2	19.1	126117790.3	5	1291950000	6
Addis International					15.2		135.810681		118504009.
Bank	2016	82410000	2462190000	3.95	4	111921582.5	3	2462190000	4
							32.2044438		84410994.0
Abay Bank	2016	147010000	6186770000	2.7	17.5	47343752.94	7	6186770000	4
					20.5		46.6912221		292717424.
Dashen Bank	2017	756110000	34624600000	2.39	7	353037000	8	34624600000	4
		100337000							
Awash Bank	2017	0	41974860000	2.8	23.7	147995096.4	14.7498028	41974860000	140442182
							88.0949860		59687752.2
Cooperative Bank	2017	207820000	17724230000	1	15	183079000	5	17724230000	7
							94.0603645		256151531.
Bank of Oromia	2017	288380000	16292900000	2.1	19.3	271251279.4	9	16292900000	4
							75.0078591		97050762.9
Hibret Bank	2017	381720000	21902920000	2	17	286320000	6	21902920000	8
					17.2				
Wegagen Bank	2017	532160000	20949160000	2.87	7	97051058	18.2371952	20949160000	97050958
					16.2		85.0949481		231894882.
NIB Bank	2017	443400000	21019710000	2.41	1	377311000	3	21019710000	3
					22.6		52.7468475		296038903.
B ank of Abyssinia	2017	570310000	25324800000	2.71	8	300820546.3	6	25324800000	9
					21.3		22.5977798		73472265.6
Lion International Bank	2017	268460000	10975910000	2.81	2	60665999.89	9	10975910000	8
Birhan International					22.4		57.3668899		73471938.8
Bank	2017	329990000	10488880000	3.73	1	189305000	1	10488880000	2
Bunna International							157.169907		10781432.3
Bank	2017	201380000	9820010000	2.4	17.4	316508759	1	9820010000	4
Zemen Bank	2017	249390000	9669250000	2.93	21.5	197726518	79.2840603	9669250000	240055995.

					3		1		6
Debub Global Bank	2017	50850000	2062900000	3	13.7	105386074	207.2489164	2062900000	126117539.3
Addis International Bank	2017	92250000	3414620000	3.14	13.24	96194686.1	104.2760825	3414620000	-48402894.33
Abay Bank	2017	174150000	8692400000	2.3	15.4	47280049.04	27.14903763	8692400000	47343653.07
Dashen Bank	2018	928950000	45425380000	2.32	18.84	547817000	58.97163464	45425380000	547816935.6
Awash Bank	2018	1492430000	55268100000	3.1	31.3	156744089	10.50260915	55268100000	147994990.5
Cooperative Bank	2018	439210000	29888030000	2	23	203292000	46.28583138	29888030000	183078889
Bank of Oromia	2018	727710000	23796730000	3.6	34.2	276773534	38.03349329	23796730000	271251177.4
Hibret Bank	2018	573630000	28030930000	2	17	30421000	5.303244252	28030930000	286319989.4
Wegagen Bank	2018	793560000	27390910000	3.28	22.1	160074000	20.17163163	27390910000	97050893.06
NIB Bank	2018	514850000	26688920000	2.16	16.26	385883000	74.95056813	26688920000	377310897.7
Bank of Abyssinia	2018	570310000	31983030000	1.96	15.74	276025201	48.39915151	31983030000	300820454.5
Lion International Bank	2018	390770000	14319600000	3.09	23.99	64704494.3	16.55820414	14319600000	60665893.23
Birhan International Bank	2018	327850000	14067970000	2.67	16.04	261464000	79.75110569	14067970000	189304861.9
Bunna International Bank	2018	315260000	13021150000	2.8	18.9	286527291	90.88602772	13021150000	316508668.5

Zemen Bank	2018	271020000	12489150000	2.45	17.7	197727000	72.95660837	12489150000	197726418
Debub Global Bank	2018	106630000	206900000	4	19.3	99573619.5	93.38236847	206900000	105385979.5
Addis International Bank	2018	112900000	4215970000	2.96	13.6	117266380	103.8674756	4215970000	96194564.19
Abay Bank	2018	316990000	12325070000	3	20.4	68320689.5	21.55294788	12325070000	47279904.54
Dashen Bank	2019	1016790000	56218410000	2	16	547817000	53.87710343	56218410000	547816900
Awash Bank	2019	2439720000	74635400000	3.8	41.1	262811888	10.77221517	74635400000	156743921.3
Cooperative Bank	2019	657780000	41790800000	2	23	334524000	50.85651738	41790800000	203291835.4
Bank of Oromia	2019	745870000	31779310000	2.7	23.7	267408021	35.85182686	31779310000	276773437.4
Hibret Bank	2019	752310000	35736100000	2	22	362998000	48.25111988	35736100000	30419806.75
Wegagen Bank	2019	620960000	29770010000	2.17	15.29	140330000	22.59887915	29770010000	160073912.3
NIB Bank	2019	720750000	33717420000	2.39	18.5	490310000	68.02774887	33717420000	385882872.9
Bank of Abyssinia	2019	777000000	39294430000	2.18	16.9	341502843	43.95145985	39294430000	276025077.3
Lion International Bank	2019	539040000	20391560000	3.11	24.68	65949086.6	12.23454412	20391560000	64704392.38
Birhan International Bank	2019	457930000	19172560000	2.76	18.33	397304000	86.76085865	19172560000	261463848
Bunna International Bank	2019	461370000	14494780000	3.4	20.3	250456290	54.28534365	14494780000	286527203.6

Zemen Bank	2019	483770000	14689020000	3.56	23.71	190766000	39.43320173	14689020000	197726903.5
Debub Global Bank	2019	210710000	5487510000	4.8	25.1	115250845	54.69642874	5487510000	99573503.76
Addis International Bank	2019	159250000	5514850000	3.27	15.81	118261107	74.26129168	5514850000	117266279.2
Abay Bank	2019	213120000	15106300000	3.7	23.5	70467162.9	33.06454716	15106300000	68320586.36
Dashen Bank	2020	1537110000	68261320000	2.47	20.28	77992000	5.073937454	68261320000	547816985.8
Awash Bank	2020	2591160000	89287990000	3.2	24	223168000	8.612667686	89287990000	262811803.1
Cooperative Bank	2020	1182620000	52488890000	3	28	334524000	28.28668549	52488890000	334523900
Bank of Oromia	2020	860550000	33831480000	2.6	20.7	279972334	32.53411586	33831480000	267407916.3
Hibret Bank	2020	889330000	42998490000	2	19	602925000	67.79541902	42998490000	362997833.9
Wegagen Bank	2020	831730000	38159590000	2.45	17.69	180682000	21.72363628	38159590000	140329871.2
NIB Bank	2020	104140000	42463750000	2.73	20.42	733383000	704.2279624	42463750000	490309850.4
Bank of Abyssinia	2020	853650000	56890530000	1.78	16.06	390296863	45.72094688	56890530000	341502728.7
Lion International Bank	2020	643110000	31782600000	3.11	21.29	76936268.6	11.9631585	31782600000	65948969.94
Birhan International Bank	2020	553190000	19172560000	2.73	17.78	0	0	19172560000	397304000
Bunna International Bank	2020	440300000	18867140000	2.6	15.6	300460933	68.24004838	18867140000	250456170

Zemen Bank	2020	739120000	18495870000	4.45	27.1	333017000	45.05587726	18495870000	190765825.4
Debub Global Bank	2020	199050000	7852180000	3	17.2	138279100	69.46953027	7852180000	115250725
Addis International Bank	2020	213110000	6490440000	3.55	17.27	101175538	47.4757346	6490440000	118261021.4
Abay Bank	2020	501200000	20203730000	3.7	18.1	81123843	16.18592239	20203730000	70467047.78
Dashen Bank	2021	172624000 0	94696650000	2.12	18.72	77992000	4.518027621	94696650000	77991900
Awash Bank	2021	339574000 0	12869574000 0	3.1	24.1	486411000	14.3241532	12869574000 0	223167782
Cooperative Bank	2021	132717000 0	81320940000	2	22	793223000	59.76800259	81320940000	334523762.9
Bank of Oromia	2021	871960000	41691050000	2.3	17.3	295103389	33.84368423	41691050000	279972228.6
Hibret Bank	2021	103531000 0	54094050000	2	17	615116000	59.41370218	54094050000	602924898
Wegagen Bank	2021	126730000	39655610000	0.33	2.5	174272000	137.5144007	39655610000	180681903.5
NIB Bank	2021	121099000 0	54199190000	2.51	18.79	763141000	63.017944	54199190000	733382895.9
Bank of Abyssinia	2021	134195000 0	10385034000 0	1.67	18.73	306192463	22.81697999	10385034000 0	390296784.5
Lion International Bank	2021	334540000	32204190000	1.05	9.4	80385143.3	24.0285596	32204190000	76936164.12
Birhan International Bank	2021	194910000	21355280000	0.81	5.43	339452000	174.1583295	21355280000	0
Bunna International Bank	2021	670550000	18867140000	3	19.5	298276273	44.48233137	18867140000	300460833.7

Zemen Bank	2021	952680000	25150670000	4.37	25.05	528751000	55.50142755	25150670000	333016841.2
Debub Global Bank	2021	194920000	11628460000	0	11.4	183031550	93.90085676	11628460000	138278967.6
Addis International Bank	2021	271220000	8873230000	3.53	18.21	92846835.8	34.23303436	8873230000	101175446.2
Abay Bank	2021	847130000	29998620000	3.4	23.2	51078770.3	6.029625949	29998620000	81123780.04
Dashen Bank	2022	2904560000	11714403000	2.74	23.71	499066000	17.18215496	11714403000	77991360.11
Awash Bank	2022	5341240000	18339105000	3.4	28.8	603424000	11.29745153	18339105000	486410875.9
Cooperative Bank	2022	2045340000	11460581000	2	22	950393000	46.46625989	11460581000	793222880.2
Bank of Oromia	2022	1201070000	52045170000	2.6	19.5	294224472	24.49686296	52045170000	295103289.3
Hibret Bank	2022	1091160000	67409290000	2	16	736579000	67.50421577	67409290000	615115880.3
Wegagen Bank	2022	551400000	43121660000	1.33	10.38	0	0	43121660000	174272000
NIB Bank	2022	1329540000	61491320000	2.3	17.47	763141000	57.39887484	61491320000	763140900
Bank of Abyssinia	2022	3235030000	14945144000	2.55	28.3	367035825	11.34566990	14945144000	306192343.1
Lion International Bank	2022	268820000	32972850000	0.82	7.19	75223503.7	27.98285235	32972850000	80385049.72
Birhan International Bank	2022	478520000	33064770000	1.6	11.66	87563000	18.29871270	33064770000	339451974.2
Bunna International Bank	2022	881380000	34103550000	2.9	19.9	271346727	30.78657639	34103550000	298276182

Zemen Bank	2022	1476270000	35119780000	4.9	27.49	657169000	44.51550191	35119780000	528750875.7
Debub Global Bank	2022	277160000	14085620000	2.2	13.1	204118612	73.64649011	14085620000	183031438.5
Addis International Bank	2022	344860000	10788310000	3.51	18.17	113477197	32.90529403	10788310000	92846713.58
Abay Bank	2022	933260000	40695500000	2.6	18.5	69916672.97	7.491660727	40695500000	51078633.42
Dashen Bank	2023	3561090000	14464093000	2.72	21.13	2997432000	84.17175640	14464093000	499065399.4
Awash Bank	2023	6993560000	22402411000	3.4	28.6	686636000	9.818118383	22402411000	603423886.2
Cooperative Bank	2023	2604170000	14032637000	2.04	19.89	1378523000	52.93521544	14032637000	950392855
Bank of Oromia	2023	1579620000	65413270000	2.7	20.4	294505766	18.64408946	65413270000	294224371.9
Hibret Bank	2023	2298210000	82583020000	3	28	8772080000	381.6918384	82583020000	736577809.1
Wegagen Bank	2023	8238200000	53485870000	1.71	13.16	223398000	27.11733146	53485870000	0
NIB Bank	2023	1506900000	77020750000	2.18	16.66	0	0	77020750000	763141000
Bank of Abyssinia	2023	3872740000	18951227000	2.29	22.99	488828107	12.62228053	18951227000	367035691.8
Lion International Bank	2023	489530000	35584790000	1.43	11.96	77272025	15.78494168	35584790000	75223400.98
Birhan International Bank	2023	508630000	45045220000	1.3	10.72	235631000	46.32660284	45045220000	87562730.9
Bunna International Bank	2023	949200000	46395270000	2.4	16.4	275541479	29.02881153	46395270000	271346625.5

Zemen Bank	2023	1813110000	47784520000	4.37	24.61	1070615	0.059048541	47784520000	657168999.8
Debub Global Bank	2023	523060000	18853990000	3.2	17.3	236552853	45.2248027	18853990000	204118496.1
Addis International Bank	2023	223480000	12604400000	1.91	9.4	101600712	45.46299982	12604400000	113477107.5
Abay Bank	2023	1551470000	55058110000	3.2	22.9	48784198.9	3.144385576	55058110000	69916603.13