

**EVALUATION OF DIVIDEND POLICY ON FINANCIAL
PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA**

BY

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DEPARTMENT OF FINANCE
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BENIN CITY

OCTOBER, 2025

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**A PROJECT WRITTEN AND SUBMITTED TO THE
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DECLARATION

I, **Osasere Stephanie USUNOBUN** do hereby declare that this project is entirely my work and composition. The work embodied in this project has not been submitted by another candidate for any degree and is not currently being submitted for any other degree. All references made to the works of other persons have been duly acknowledged.

Osasere Stephanie USUNOBUN

Date

CERTIFICATION

This is to certify that this project was carried out by **Osasere Stephanie USUNOBUN** in the Department of Finance, University of Benin, Benin City.

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DEDICATION

This project is dedicated to God Almighty for His grace and strength throughout this work

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Thank you all for being part of this achievement.

ABSTRACT

This study examined the effect of dividend policy and financial performance of deposit money banks in Nigeria. The objective of this study is to examine the relationship between earnings per share and financial performance. Using time series data generated from secondary sources through the publications of Nigeria Stock Exchange and financial statements of the Fidelity Bank under review. The study also employed OLS multiple regression analytical techniques to establish the relationships among the variables of dividend policy and financial performance of Fidelity bank Plc. The findings reveal that there is significant relationship between financial performance and earnings per share. It is recommended among others that an optimal dividend policy that maintains an appropriate balance between dividend earnings and retained earnings should be undertaken to promote financial health of the deposit money banks.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Dividend policy is very vital to the growth and survival of every firm. Dividend decision is one of the most important decisions that managers of corporate bodies may take (Fawaz, 2014). Dividend decision influences the primary aim of shareholders which is maximization of shareholder's wealth through taking the dividend. Companies are therefore required to maintain an appropriate balance between pay-out ratio and retention ratio

(Khan, Aamir, Qayyum, and Nasir 2011). The financial performance of Deposit Money Banks (DMBs) in Nigeria is crucial to the country's economic growth and stability. Dividend policy, which determines the distribution of profits to shareholders, plays a significant role in influencing investor confidence, firm value, and financial performance. Despite its importance, there is ongoing debate among

researchers and practitioners about the impact of dividend policy on financial performance, particularly in the Nigerian banking sector. This study aims to evaluate the effect of dividend policy on the financial performance of DMBs in Nigeria. The development of the dividend policy walks in hand with corporate development. In fact, it was found that the dividend policy was propelled by the changing shape of financial markets.

Dividends were often smoothened on the belief that any reduction in dividend might have an adverse consequence on share price; moreover, it was perceived that without a regular and reliable corporate reporting, dividends were considered as the best indicator of a company's performance to the market (Soondur and Sewak, 2016). The dividend policy of the firm has remained one of the most contentions but interesting issues in corporate finance. The relative merit of dividend policy on the performance of firms are important both from the firm and stakeholders' perspective. This study therefore assumes that dividend policy of an organization would have an impact on its performance and in turn, the wealth of shareholders. Dividend policy

is especially critical in imposing discipline and providing fresh leadership when the company is performing sub-optimally and thus unable to guarantee the basic objective of maximizing shareholder's wealth (Al- malkawi, 2007.) Dividend policy directly influences the behavioral pattern of the investors, because the purchaser of the company actually buys a dividend expectation on the behavioral pattern of the shareholders be it positive or negative, the corporate world imposes the responsibility of this great task of the boardroom affair. Dividend policy decision as a tool in the strategic corporate finance as well as cost of capital, in other words on option dividend policy that maximizes the wealth of shareholder. The importance that the individual shareholder places on dividend depends on his level of wealth and performance for capital gains amongst others. In an environment with progressive personal income taxes, the individual with more wealth will tend to proffer capital appreciation on shares than dividends. It is often claimed that the company's investment decisions and dividend decision are independent of the shareholders decision. It should be noted that this

might be entirely true, some are repay procedures that protected the aggressive shareholders. The shareholders might exercise their right through the selling of their shares on the stock exchange and this has negative consequences on the value of the company's share in the market which in turn affects the fortune of the company.

According to Pandey (2005), entrepreneur usually starts their business with other stockholders in the business in order to contribute to the increase of the business capital. In this connection, the management of the company is authorized to use the money collected to invest in the factories or plant and to purchase share stock in the company, in this way, each stockholder owns shares or percentage of the company through investing their money as part of the capital of the company. Nevertheless, dividend policy refers to the company regulation and guidelines on dividend payments to shareholders of the organization. Having a dividend policy is very essential for both the company and shareholders, it is easier to monitor and figure out the impact of the dividend policy in the entire performance or operation of the business. Dividend policy is thus one of the most important policies in

corporate financing not only from the firms view point, but also from the point of view of shareholders regulatory bodies and stakeholders. The banking sector plays a crucial role in Nigeria's economic development, and Deposit Money Banks (DMBs) are key players in the financial system. Dividend policy is a vital aspect of corporate finance, influencing investor confidence, firm value, and financial performance. In Nigeria, DMBs face intense competition, regulatory requirements, and economic challenges, making dividend policy decisions critical. Despite its importance, there is limited understanding of the relationship between dividend policy and financial performance of DMBs in Nigeria. This study aims to fill this knowledge gap by evaluating the impact of dividend policy on financial performance of DMBs in Nigeria, providing insights for banks, investors, and regulators. This background sets the stage for the research, highlighting the significance of the banking sector, dividend policy, and the need for investigation in the Nigerian context.

The relationship between dividend policy and financial performance has been extensively explored in corporate finance literature (Miller & Modigliani, 1961). However, the Nigerian banking sector presents a unique context, with Deposit Money Banks (DMBs) facing distinct challenges and opportunities (Sanusi, 2010). Studies such as those by Olowe (2011) and Adelegan (2003) have examined dividend policy in Nigeria, but there remains a need for further research on its impact on financial performance of DMBs. The development of the dividend policy walks in hand with corporate development. In fact it was found that the dividend policy was propelled by the changing shape of financial markets. In the early stages of corporate history, managers realized the importance of dividend payments in fulfilling shareholders expectations.

Adediran and Alade (2013) opined that so many factors affect performance of corporate organizations and one of those factors is dividend policy. According to them, dividend serves as a mechanism for control of a managerial opportunism. In examining this issue, the

question is whether the dividend policy of a firm actually impacts on its economic value and performance, particularly in developing nations. The theoretical literature in this area particularly in developing nations is sparse in its predictions thereby lacking a unified view on the real consequence of dividend policy on the performance of firms. Opinion from scholars ranges from the position that dividend policy has no real impact on the value and performance of that firm (Benjamin, 2015). Dividends are payment made by the corporation to its shareholders when a company earns a project or surplus and such money can be used as retained earnings. In the earliest works on dividend matters, Miller and Modigliani (1961) posited that investors should be indifferent to whether or not they receive dividends now or capital appreciation in the future, This idea is known as the Dividend Irrelevance Theory. According to them, an increase in current dividends must lead to a reduction in the terminal value of the existing shares because the dividend stream on the existing shares must be diverted to attract outside capital from which higher future dividends are paid. Dividend distribution by a corporate

firm is a fundamental obligation to shareholders and therefore ranks as one of the most important of all corporate financial policies (Uwuigbe, Jafaru & Ajayi, 2012).

1.2 Statement of the Research Problem

Corporate organization, banks inclusive are faced with the problem of whether to pay a larger, small or zero percentage of their earnings as dividends. This problem is born out of the desire to satisfy the various needs of shareholders. Some shareholders have the need for income now and as such will prefer a high dividend payout ratio which other who needs to invest in the future would prefer capital gains. Due to the fact of having to deal with competing interests of various shareholders, the kind of dividend policy a bank adopts could either lead to positive or negative effects on the share price of the company. The impact of dividend policy on the financial performance of Deposit Money Banks (DMBs) in Nigeria remains unclear, despite the significance of dividend decisions in influencing investor confidence,

firm value, and financial stability. Existing literature presents mixed findings, and there is a need to investigate the relationship between dividend policy and financial performance metrics, such as profitability, return on equity, and share price, in the context of Nigerian DMBs. This study aims to address this knowledge gap by evaluating the effect of dividend policy on the financial performance of DMBs in Nigeria. The managers are therefore unable to forecast with certainty to what extent the policy will affect their share price of their firms. The argument on whether or not to pay a

dividend has remained conflicting in the extant literature.

For instances, Miller and Modigliani (1961) believed that only the basic earning power and business risk can determine a firm's value, and thus posited that dividend policies are irrelevant in determining the firm performance.

1.3 Objectives of the Study

The broad objective of this study is to examine the effect of dividend policy on financial performance of deposit money banks in Nigeria.

The specific objectives of the study are to:

- i. Examine the effect of earnings per share on financial performance of deposit money banks in Nigeria.
- ii. Analyze the effect of Retained Earnings per share on financial performance of deposit money banks in Nigeria.
- iii. Evaluate the effect of Dividend per share on financial performance of deposit money banks in Nigeria.

1.4 Research Questions

- i. What is the effect of earnings per share on financial performance of deposit money banks in Nigeria?
- ii. To what extent does Retained Earnings per share affect financial performance of deposit money banks in Nigeria?
- iii. How does Dividend per share affect financial performance of deposit money banks in Nigeria?

1.5 Research Hypotheses

H1: Earnings per share has no positive and significant effect on financial performance of deposit money banks in Nigeria.

H2: Retained earnings has no positive and significant effect on financial performance of deposit money banks in Nigeria.

H3: Dividend per share has no positive and significant effect on financial performance of deposit money banks in Nigeria.

1.6 Significance of the Study

The significance of evaluating dividend policies on the financial performance of deposit money banks in Nigeria lies in understanding how these policies impact bank profitability, growth, and overall value. A well-defined dividend policy can attract investors, boost shareholder confidence, and influence the bank's ability to compete in the market. The role of dividends has motivated many areas in which research have been done. This study however focuses on examining the relationship between dividend policy and the positive or negative response they trigger on the enterprise in terms of financial

performance. It intends to serve as a framework for assessing and utilizing dividend policy mechanisms and its components in enhancing profitability levels in banks. It will also be of benefit to those in the financial sector by enlightening them on steps taken to improve on its dividend policy; it will be very useful to the management of these companies who will formulate appropriate policies on how to pay its various shareholders. Dividend policy has a significant effect on corporate performance of Nigerian Banks. By understanding how dividend policies affect the financial performance of deposit money banks, policymakers, bank management, and investors can make more informed decisions, leading to a healthier and more stable banking sector in Nigeria. This research will be particularly significant to the following groups:

Investors and potential investors

The major beneficiaries of an enhanced value created firm as indicated by the share prices are investors and potential investors. Their contribution in monetary terms in the promotion, incorporation, continual existence to the growth of the firm must be rewarded with a

premium above their risk-free rate. Thus, acting as a compensation for time and risk inherent in these firms. Therefore, this research will contribute, along with other similar literatures available in this area of finance to enhancing the maximization of investors and potential investors objectives as concern capital gains from their investment. Dividend payments represent a tangible return on investment, making a bank's stock more attractive to investors, particularly those seeking stable income streams.

Economic growth

By examining the impact of dividend policy on financial performance, the study contributes to understanding factors driving economic growth in Nigeria. A well-managed dividend policy can contribute to a bank's financial stability, especially during economic downturns.

Informing policy decisions

The study's findings can inform policy decisions by regulatory bodies, such as the Central Bank of Nigeria, to promote stability and growth in the banking sector. Dividend policies must align with regulatory

requirements and ensure transparency, good corporate governance, and ethical practices in the banking sector.

Enhancing corporate governance

The study's findings can contribute to enhancing corporate governance practices in DMBs, particularly in relation to dividend policy and financial performance in Nigeria.

Improving financial reporting

The study's results can highlight the importance of transparent and accurate financial reporting in DMBs, which can improve investor confidence and market efficiency and Providing insights for bank management. The study's findings can provide valuable insights for bank management in Nigeria, helping them make informed decisions about dividend policy and financial management.

Advancing research in finance

The result can contribute to advancing research in finance, particularly in the area of dividend policy and financial performance in emerging

markets.

Understanding Key Relationships

Studying dividend policy can reveal relationships between dividend payouts, firm size, leverage, and other financial performance metrics, helping banks make more informed decisions.

1.7 Scope of the Study

The scope of this study covers dividend policy and the performance of corporate firms in Nigeria; it focuses on deposit money banks in Nigeria. This study is limited to the banking sector and it covers the period of 2016 to 2021. Using Fidelity Bank of Nigeria as a case study. This scope defines the boundaries of the study, ensuring a focused and manageable investigation.

1.8 Limitations of the Study

Certain draws back were encounter during the course of the research. The limitations of the study span the non-availability of adequate

information and data in published journals and articles in Nigeria, inadequate internet facilities relating to researcher work.

However, these challenges notwithstanding the researcher worked assiduously hard to ensure that the authenticity and reliability of the outcome of the research was not in any way jeopardized. Other potential limitations include sample size, timeframe, data availability and quality, methodological constraints and industry specific factors.

Exclusion of other variables where the study might not consider other factors that could influence financial performance, such as macroeconomic conditions, industry trends, or corporate governance. And Measurement errors where the study's reliance on financial statements might be subject to measurement errors or biases in accounting practices. Lack of generalizability to other industries is also a limitation where findings might not be applicable to other sectors or industries in Nigeria or elsewhere.

Dependence on secondary data, the study's reliance on secondary data might limit the depth of analysis or introduce biases in data collection and Inability to establish causality.

These additional limitations highlight potential weaknesses and areas for future research, ensuring transparency and context for the study's findings.

1.9 Definition of Terms

Dividend

This is the proportion of funds paid out profits (after tax) to shareholders of a firm as part of the benefit accruable to them for staking their capital worth.

Dividend policy

This is the determination of earnings to be distributed to shareholders and the amount to be retained for the future growth of the firms. h. This policy is concerned with the decision to divide the firm's earnings between the shareholders and reinvestment in new projects or for future

opportunities.

Investors

This is the purchase or acquisition of new capital equipment like machines, buildings and other produced means of production that increases the productive capacity of economy.

Return on Assets (ROA)

Return on Assets gives an idea as to how efficient management is at using its assets to generate earnings. It is displayed as a percentage and

calculated as $\text{profit after Tax} / \text{Total Assets}$.

Return on Equity (ROE)

Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as: $\text{profit after tax} / \text{shareholders equity}$.

Stakeholders

Persons with interest in an organization such as its owner, employees and creditors.

Shareholder

An individual or group who holds one or more shares in an organization, and in whose name the share certificate is issued.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The conceptual framework of this study aims to explain all the key concepts that form the bedrock of the main and specific objectives of the study. These are the concept of dividend, dividend policy, shareholders wealth, stock market volatility, stock market liquidity, and firm profitability. Dividend policy is a crucial aspect of corporate finance, as it influences investor confidence, firm valuation, and ultimately, financial performance. This chapter reviews theoretical frameworks, empirical evidence, and industry trends to assess the relationship between dividend policy and financial performance of deposit money banks in Nigeria.

2.2 Conceptual Review

2.2.1 Determinants of Dividend Policy

Different theories have been proposed by researchers on the determinants of dividend policy of firms. Factors affecting dividend policy can be grouped into internal and external. Internal factors are firm specific such as profitability, liquidity, investment opportunities, stage of growth of firm etc while external factors include government policies, technology, stability of earnings, willingness to dilute ownership, nature of shareholders, dividend payout of rival firms etc.

(a) Internal factors:

Firm size is one of the major determinants of cash dividend payout. Larger sized firms have easier access to capital market. This reduces their rate of dependency on internally generated revenue and hence, fosters prompt payment of higher rate of dividend (Vogt, 1994). Studies by Gaver and Gaver (1993) also supported a positive relationship between firm size and dividend payout.

Firm earnings have long been established to influence dividend payout. A study by Litner (1956) showed that dividend payment pattern of a firm is influenced by the current earnings and previous year dividend. Corroborating this is Baker and Powell (2000) who posited that dividend policy is determined by a combination of industry specific factors and anticipated level of future earnings.

Liquidity and cash flow position of the firm is also a vital consideration.

This arises from the fact that dividend payout entails huge cash flows. Hence, a firm encountering liquidity challenges would find it difficult to pay higher dividend. Empirical evidence from Alli et al (1991), Ahmed et al (2008) revealed that dividend payout depends more on cash flow, which reflect the entity's ability to pay dividend rather than on earnings which are often influence by accounting practices.

Stage of development and growth of the firm have also been found to have implication in dividend payout. According to Higgins (1981), there exist a direct link between growth and financing needs. He

explored further that rapidly growing firm have more external financing needs because working capital needs usually exceed the incremental cash flow from sales.

Beside, a growing firm needs more capital for expansion than already established firm. Empirical evidences from studies such as Llyod et al (1985) and D'souza (1999) suggest that firms with larger level of market risk is associated with low rate of dividend payout. Kanwal and Sujata,(2008) on their study on information technology in India found a positive significant relationship between systematic risk (beta) and dividend payout.

In terms of presence of investment opportunities, Easterbrook (1984) and Jensen (1986) all supported the fact that firms with many investment opportunities pay fewer dividends. In their opinion, announcement of cash dividend shows that the firms have less investment opportunities.

Firms with large investment plan that are characterized by huge capital flow commitments will pay less or no dividend.

(b) Inflation Rate

During inflationary periods, companies usually retain huge part of their earnings so as to avoid a reduction in their scale of operation and to compensate for the fall in purchasing power, hence, would not be able to pay much dividend. If this occurs, the relationship between inflation rate and dividend payout would be negative. On the other hand, shareholders on their part would advocate for higher dividend due to the fall in purchasing power. Given this, the relationship between dividend payout and inflation rate would be negative.

(c) Dividend policy of Rival firms.

If the dividend payout of competitors within the banking sector is high, the firm would increase its dividend payout. If not, its share prices would drop drastically, leading to loss of confidence by shareholders and an increase in likelihood of replacement of the management team by shareholders. Hence, managers strive not to ignore persistently the dividend policy of rival firms so as to avoid risking their jobs.

(d) Willingness to dilute ownership and control

Every dividend payout by a firm reduces the firm's cash reserve. Accordingly, fresh capital has to be sourced from the capital market either through IPO or right issue. Sourcing for extra fund requires dilution of ownership of the firms because more shares would be held by the public.

(e) Nature of shareholders

Shareholders in the right income group would prefer capital gains that are usually associated with low tax than paying high taxes on dividend received. Hence, such shareholders would favor high retention. The reverse, however, remains the case for shareholders within the low income bracket.

(f) Restrictions on debt contract

Most protective covenants in a loan agreement at times incorporate a restriction in dividend payout. The essence of such a restriction is to focus the firm's attention on servicing the debt; hence, such restriction when incorporated by lenders would affect the dividend policy. On

the other hand, managers at times canvass for such restriction to be incorporated by lenders so as to justify their nonpayment of dividend to shareholders.

Dividend payment is at the theory core of corporate finance. It is one of the most debated issues in the finance literature and still keeps its prominent place. Many researchers have devised theories and provided empirical evidence regarding the determinants of a firm's dividend payout. The dividend policy issue, however, is yet unresolved. Clear guidelines for an "optimal payout policy" have not yet emerged despite the

voluminous literature. Yet there is still no acceptable explanation for the observed dividend behavior of companies. The factors that drive dividend decision and the manner in which these factors interact is yet to be completely understood. This is known as the dividend puzzle in the finance literature (Nishat and Irfan, 2003). This review attempts to focus on the concept of dividend and dividend policy, theoretical

framework, review of the dividend payout of firms in Nigeria and other empirical studies.

A dividend is simply the money that an entity pays out to its shareholders from the profits it has made (Doughty, 2000). Such payments can be made in cash or by issuing of additional shares as in script dividend. Davies & Pain (2002) however defined it as the amount payable to shareholders from profit or distributable reserves.

2.2.2Types of Dividend Payment

A dividend is simply the money that a entity pays out to its shareholders from the profits it has made (Doughty, 2000). Such payments can be made in cash or by issuing of additional shares as in script dividend. Davies & Pain (2002) however defined it as the amount payable to shareholders from profit or distributable reserves.

Companies that are listed in the stock exchange are usually obligated to pay out dividends on a quarterly or semi-annual basis. The semiannual or quarterly payment is referred to as the interim dividend.

The final payment, which is usually paid at the end of the financial year of the entity, is known as the final dividend. Dividends are normally paid after the corporate tax has been deducted.

According to Kighir (2006), dividends are distributable earnings of a entity. The earnings which are not distributed, constitute retained earnings. The decision on dividend payout and retained earnings constitute the dividend payment policy. The decision on whether or not to declare dividend rests in the hands of the board of directors of an entity. However, when declared, it becomes a liability on the entity (Entity and Allied Matters Act, 1990). Dividends are not always paid in cash. A firm has options in terms of the form of dividends it could declare to its shareholders. According to Van Home (1998) and Pandey (2005), forms of dividend include: cash dividends, stock dividend (scripts dividend or bonus issue), stock or share splits and property dividends.

(a) Cash Dividends

Cash dividend is the most common form of dividends paid to

shareholders. This form involves cash payment to the shareholders as a return to their investment in the firm. Pandey (2005) highlighted that a firm that pays cash dividends should always have enough cash to cover the dividends. However, in some cases, a firm can supplement cash dividend with bonus issue. In a situation where a firm has not enough cash to cover the dividends, arrangement should be made to borrow funds. Pandey advised that, if a firm practices a stable dividend policy, it should always anticipate its cash requirement in relation to payment of dividends through the preparation of annual cash budget.

Whenever a firm pays cash dividends its liquidity is reduced. This is equally true of the retained earnings (reserves) of the firm. Hasting (1966), explained that cash dividends reduce both the total assets and net worth of a firm. Consequently, there would be a reduction in the market price of the firm, and more often than not, it is by the amount of cash given out as dividends. Many shareholders that depend on

dividend income for their survival appreciate cash payout. However, some investors have preference to capital gains.

(b) Stock Dividends

Stock dividend is also called bonus issue. This is a dividend in the form of additional shares instead of cash. It is the payment of additional stock to shareholders. It represents nothing more than a recapitalization of the entity, while the shareholders' proportional ownership remains unchanged (Van Horne, 1998). Under this form of dividend, a number of shares are given to each shareholder in proportion to the number of his existing shares before the dividends are declared. Pandey (2005) stated that "the declaration of stock dividends would increase the paid-up capital and as well reduce the reserves and surplus of the firm in the same proportion".

(c) Stock Splits

A stock split is a form of dividend that increases the number of shares outstanding through a proportional reduction in the per value of the

shares. As a result, paid-up capital and retained earnings remained unchanged. Shareholders' equity remains the same, only the per value of shares that is reduced. This means there is no form of transfer made to the shareholders.

Van Horne (1998) opined that "stock split is reserved for occasions when the entity wishes to achieve substantial reduction in the market price per share, and is accompanied by an increase in cash dividends"

Pandey (2005) further posit that "stock split makes trading in shares more attractive, indicates higher future profit and increased dividends".

(d) Reverse Splits

This is the proportionate reduction in the number of outstanding shares to raise the market price per share. According to Van Horne (1998), "reverse split is usually employed under a situation of falling prices of the entity's shares". It is generally an indication of financial difficulty and is intended to increase the market price per share.

(e) Property Dividends

When a firm has adequate earnings that are backed with inadequate cash, the firm may decide to pay dividends in the form of transferring some of its assets (e.g. inventory) to the shareholders. A property dividend helps to conserve cash but has a negative signaling effect. The investors may perceive property dividends as an indication of management failure to generate adequate cash and as well in the area of debt collection. Also shareholder may find it difficult or inconvenient to dispose the properties transferred to them.

2.2.3 Concept of Dividend Policy

Dividend policy is primarily concerned with the decisions regarding dividend payout and retention. It is a decision that considers the number of profits to be retained by the entity and that to be distributed to the shareholders of the entity (Watson & Head, 2004). Theoretically, there are different types of dividend policies. These include constant payout, progressive policy, residual policy, and zero policy and non-cash policy. Investors are seen to belong to a particular group because

they tend to pitch their tent with a particular policy that might suite them. This is the clientele effect of dividend policy (Hutchinson, 1995; Kolb & Rodriguez, 1996).

2.2.4 Types of Dividend Policy

Constant or Fixed policy:

The Entity pays out a fixed amount of its profit after tax as dividend.

Thus, the entity maintains a fixed payout ratio of dividend. A entity may as a matter of policy, decide to constantly payout sixty percent of its after-tax profit as dividend to its shareholders and retaining the remaining fraction. This type of policy allows the shareholders the opportunity to clearly know the amount of dividend to expect from their investments in the entity. However as noted by Watson & Head (2004) the policy could be traumatic to companies experiencing a volatile or fluctuating profit earning. This is because of the uncertainty of its profit.

Progressive policy:

Payments of dividend is on a steady increase usually in line with inflation. This could result in increasing dividend in money terms. The firm uses the policy as a ratchet. Every effort is made to sustain the increase even though marginal. Seldom, the entity may be constrained to cut down on dividend payout. This is to enable it sustain its operations. This though not a frequent action as it sends a wrong signal to investors. Firms operating this policy will opt to avoid paying dividends during the period rather than consistently cut down on the dividend (Kolb & Rodriguez, 1996).

Residual policy

Residual policy: Dividends are just what is left after the entity determines the retained profits required for the future investment. This policy gives preference to its positive NPV (Net Present Value) projects and paying out dividends if there are still left over funds available. Dividend becomes a circumstantial payment only paid when the investment policy is satisfied. There is a tendency therefore that this type of policy could give rise to a zero dividend structure.

Firms may need to modify this policy to ensure that investors of the different clienteles are met chased out by a strict application of the policy (Kolb & Rodriguez, 1996).

Zero dividend policy:

Some firms may decide not to pay dividend. This is especially common in newly formed companies that rather require capital to execute its projects. All the profit is thus retained for expansion of the business. Investors who prefer capital gains to dividends because of taxation will naturally be lured by this kind of policy. This type of policy is quite easy to operate and avoids all the costs associated with payment of dividends (Watson & Head, 2004).

2.2.5 Institutional Framework and Dividend Policy

Dewenter and warther (1998) affirm that the fewer agency conflicts which occur in Japanese companies compared with North American companies mean that differences exist between their respective dividend policies; that is, that the differences between organizational structures of the companies in these two countries determine their

dividend policies. In a study carried out of the dividend policies of 4,000 companies in 33 countries, La Porta et al (1998) observe that companies operating in countries whose legislation gives greater protection to minority shareholders pay more dividends, which would back the validity of the agency model in which dividends are the result of the legal protection of investors, contrary to the agency model which states that dividends are substitute for legal protection and where managers seek to establish the good reputation of their entity via dividend policies. The results obtained by these authors are inconsistent with the tax theory of dividend and do not provide information about dividends as a mechanism for the transmission of signals to capital markets.

Aidvaizain, Booth and Clearly (1998) compare the lintner model for 300 companies in developing countries with an amplified model in which other additional variables are introduced. The results they obtain provide evidence that dividends are more sensitive to the companies' profit than to delayed dividends and that they are less used

as signaling mechanisms in institutional structures oriented towards the market. These authors consider that the relationship between debt, investment and dividends are similar in all the countries and that the theory of financial signaling is more suitable for those countries in which companies are financed through capital markets, since these alleviate problems of asymmetric information, thus reducing the need for them to have recourse to dividend policies.

The possible conflict of interests between the shareholders and creditors of a entity is used by Luez Deller and Stuberdader (1997), as a starting point for the comparison of restrictions in dividend payments to shareholders in Germany, USA, and the United Kingdom. Their results confirm that the restrictions to payment of dividends are similar in the three countries despite their institutional differences. However, the origin of these restrictions is different: in USA established by regulations. Agency theory would justify these results in such a way that we can affirm that restrictive clauses in contracts,

established by the entity with its creditors, influence the payout of dividends and the conflicts of Interests which arise from agency relationships between its shareholders and bondholders.

These studies show that different institutional frameworks have an influence on policies of distribution of benefits and that the theoretical justifications applied are different according to the financial system in which the entity is operating. According to Rajan and Zingales (1995), the structure of capital in G-7 countries, the institutional effects which may be relevant for a entity's decisions on dividends are:

- i.** Orientation of companies to the capital market vs. orientation to the bank.
- ii.** Restrictions to dividend payouts as a result of the debt contracts established by the entity.
- iii.** The separation of ownership and control in organizations which determines the government of the entity.
- iv.** The existence of laws which protect the minority shareholders of an

entity.

The first institutional differences we have alluded to which weigh up the greater or lesser importance of the bank as against the capital market in the financing of companies implies such a vast different element that two principal models of financing systems are usually contrasted: the

Anglo-Saxon model based on the market-common to countries such as USA, Canada and the United Kingdom- and the continental European model which also include countries like Japan based on banks. La Porta et al (1998, 2000a, 2000b) distinguish four institutional systems: three systems which come from the civil law tradition and are French, German, and Scandinavia and one which comes from the common law tradition. The evidence shows that each country belongs to one system due to dominating tradition of that country and that is the reason of the orientation of companies towards the bank or towards the capital markets for financing their operations. The

countries which come from the common law tradition more often use capital markets.

2.3 Theoretical Review

The study of dividend policy and financial performance is grounded in several theoretical frameworks, including the Dividend Irrelevance Theory, Signaling Theory, and Agency Theory. These frameworks provide insights into the relationship between dividend policy and financial performance. Dividend policy refers to a firm's approach to distributing profits to shareholders, either as dividends or retained earnings. Over the years, researchers have developed several theories to explain how dividend decisions affect a firm's financial performance. The theoretical framework for this study is hinged on Modigliani and Miller (MM) Theory, Walter's model of dividend policy and Gordon's theory on dividend policy.

2.3.1 Modigliani and Miller (MM) Theory

The MM theory was first proposed by Franco Modigliani and Merton Miller in 1961. They suggested that dividends and capital profits are

equal when an investor considers return on investment. Only earnings are the direct result of the entity's investment policy and can affect corporate value. Thus according to this theory, if the investors know the investment decision that is considered by the entity, then there is no need for the investors to make Dividend policy decisions. This theory further explains that investors need to maintain their own cash inflows regardless of whether the stocks pay dividends or not. Dividend distribution to shareholders was claimed by MM as irrelevant as the price of the stock decreases due to the distribution of dividends. This theory also implies that the cost of debt is equal to the cost of equity as the cost of capital is not affected by the leverage [Modigliani & Miller, 1963]. This theory believes that there is no transaction or flotation cost and there is no influence of investors on the market value of the share. Further this theory also assumes that there is no existence of taxes, in terms of the assumption relation to investment policy, this theory claimed that the entity does not change

their investment policy. There is no change in the risk and the return for future financing.

The assumptions made by the MM theory are not logically strong and thus have been criticized. The assumption of no transaction cost and no taxes is not possible in the real world. However, both internal and external financing are different, but this theory assumed them to be logically equal which is also not possible. The MM theory of dividend policy is an interesting and a different approach to the valuation of shares. It is a popular model which believes in the irrelevance of the dividends. However, the policy suffers from various important limitations and thus, is critiqued regarding its assumptions.

2.3.2 Walter's Model of Dividend Policy

Walter's theory on the dividend policy believes in the relevance concept of dividend. The valuation of the shares is affected due to its dividend decisions as per the concept of Walter's theory. The value of the companies is increased when they pay high dividends as compared to the companies paying low dividends. This concept has

been approved by many studies like [Fama, & French, 2001]. To get high return,

shareholders reinvest the dividends received by the entity, and is bound to pay the cost of these dividends which is referred as the opportunity cost or the cost of capital. This theory also postulated that if the firm does not pay dividends and reinvest the funds in profitable ventures it would increase future returns for the shareholders. According to the Walter's model if the rate of return is less than the cost of capital, the firm must distribute the profits in the form of dividends, further, if the rate of return is higher than the cost of capital, then the firm must invest the retained earnings in the profitable ventures. Thus it is important to understand the relationship between the rate of return (r) and the cost of capital (K_e).

This model also was not able to exclude some assumptions which are as

follows:

- The first assumption was made based on internal financing where all the investments are financed by the firm through retained earnings and no new equity or debt is issued.
- The second assumption was based on constant IRR and cost of capital and the business risks remains equal for all the investment decisions.
- EPS and DPS were constant and never change while determining a value.
- The Entity has a very long life
- All the earnings of the entity are distributed as dividends.

The Walter's theory was also being criticized due to: No external financing assumptions which is very difficult in today's real investment world. The firm will need external financing for future new investments, the cost of capital and internal rate of return was kept as constant which is also very hard to accept as due to future new investment, the business risks are more likely to increase or change. Thus, in summary, the assumption made by this theory is unrealistic

as the concept mentioned that the dividend policy has constant which is also very hard to accept as due to future new investments, the business risks are more likely to increase or change.

The assumption made by this theory is unrealistic as the concept mentioned that the dividend policy has impact on the market value of the

share.

2.3.3 Gordon's Theory on Dividend Policy

The Gordon's theory on dividend policy is one of the theories that believe in the "relevance of dividends" concept. It is also called the "Bird-in-the-hand" theory that states the current dividends as important in determining the value of the firm. Gordons model is one of the most popular mathematical models to calculate the market value of the entity using its dividend policy. Gordon's model is related market value of the entity to its dividend policy. The determinants of the market value of the share are the perpetual stream of future

dividends to be paid, the cost of capital and the expected annual growth rate of the entity.

The Gordon's theory on dividend policy stated that the entity's dividend payout policy and the relationship between its rate of return (r) and the cost of capital (k) influences the market price per share of the entity. The dividend yield and the future growth of the dividends provide the total return of the equity investors. This model insists that dividend yield is an important measure for the total return to the equity investors than the future growth rate of the dividends. Future growth and capital gains cannot be estimated with accuracy and are not guaranteed at all as it may lose the entire market value of the stock. This theory assumed that there is no debt and all the capital structures achieved are from the equity. This theory also assumed that there is no external financing and the capital is financed by retained earnings, Furthermore, corporate taxes are not accounted in this model. This model indicates that Dividend policy decisions the market value of the entity's share is the sum total of the present values

of infinite future dividends to be declared. The Gordon's model can also be used to calculate the cost of equity, if the market value is known and the future dividends can be forecasted. The Gordon's model believes that the dividend policy impacts the entity in various scenarios. If the growth rate of return is above the cost of capital, shareholders will be benefited more if the entity reinvests the dividends rather than distributing it. In addition, when the internal rate of return is equal to the cost of the capital, the reinvestment of the dividends would not make any difference. This model has also been criticized due to the assumption of constant IRR and CoC, which is not accurate, as it means business risks are not accounted.

From the investigation of the theories in relation to dividend policy, the Gordon's theory is the most suitable for this study as it determines the market price of the share and calculates the cost of capital effectively while forecasting dividends. Furthermore, according to Gordon (1959) there are three possible hypotheses why investors would buy a certain stock. First is to obtain both dividend and

earnings, second is to obtain dividends and finally to get earnings. Dividend plays an important role on share price than retained earnings, which was also empirically evidenced by (Baker, Veit, & Powell 2001).

The information gap between insiders and outsiders may cause the true intrinsic value of the firm along with the shareholder wealth. Due to lack of complete information and accurate information available to shareholders, the cash flow provided by the firms to the investors is the main basis of market valuation. Many scholars have suggested that dividends might have implicit information about a firm's prospects. In this way dividends came to provide a useful tool for market because investors used cash flow to equity as a market value.

2.4 Empirical Review

The earliest major attempt to explain dividend behavior of companies has been credited to John Lintner (1956) who conducted his study on American Companies in the middle of 1950s. Since then there has

been an ongoing debate on dividend policy in the developed markets resulting in mixed, controversial and inconclusive results. Bhattacharyyal (2014) performed to bit analyses of managerial compensation and dividend payout in US firms over the period 1992-2001, and found that executive compensation is positively associated with earnings retention and negatively related to dividend payout. White (1996) in Bhattacharyya et al (2004) finds that dividends declared and the natural logarithms of income are both negatively associated with earnings retention. The market-to-book ratio (MKT/BOOK), capital expenditures (CAPEXP), are all negatively associated with dividend payout as expected and are statistically significant in all three regressions. The coefficient on the debt-to-equity ratio (DEBTEQ), on the other hand, is negative. In a study which examined dividend policy and the level of financial leverage of the entity, Jensen, Solberg and Zorn (2012) obtain the empirical evidence that the dividends paid by a entity are negatively related to its financial

leverage.

Jose (2001) with data from between 1991- 1998 of 484 European banks belonging to 22 countries found a positive relationship between earnings and dividends such that an increase in profit enables higher payments. In market-oriented countries, financial entities will try to increase their market presence through their dividend policy in order to have a good entity reputation, while in bank-oriented countries, the most profitable entities pay higher dividends to reduce managerial discretionality in the use of funds. He also found that companies with a higher level of debt pay out lower dividends. In this case, the good reputation the entity seeks is with its creditors to ensure the attainment of debt in the future. It will therefore fulfill the restrictions to dividends proposed by the debt contracts - principally in market-oriented countries or by legal regulation more common to bank oriented countries. He didn't find a significant dependence between growth opportunities and dividends, contrary to research that a entity with future investment projects obtains higher values of the variables,

require great quantities of financing which will lead them to put the brakes on dividend payments. Lastly, he found a negative influence of size with respect to the dividend decision and highlights that the greater size of companies brings about a global reduction in problems of asymmetric information. Brittain (1996) in Ayub (2003) verified a positive relationship between dividend and net profit after tax. Ayub (2003) observed a negative relationship between dividend and liquidity position of a firm. That is, if a firm has a good liquidity position, it does not mean that it will pay higher dividend. Ayub (2003) investigated the long-term return behaviour of dividend changing firms and concluded that about 23 percent additional profit is only transformed into dividend while the remaining profit of about 77% are utilized for additional investment. The higher retention shows that firms adopt a self-financing way for growth and expansion. Ayub (2003) finds that a large number of shares held by the board lead to high dividends or low retention, which leads to low reserves funds. He concluded that if a entity has a large concentrated ownership then

chances of dividend would be higher, because by such a manner dividend will go into the pockets of directors and that the chances of dividend payment will be low if a significant large amount is paid as dividend to outsiders. In this case, directors will compensate themselves through the executive compensatory benefits. The directors compare that how can they maximize their earnings either through dividend or through the executive salaries.

This issue of dividend did not receive any serious attention among academic scholars in Nigeria until 1974 when Uzoaga and Alozienwa attempted to highlight the pattern of dividend policy pursued by Nigerian firms particularly since and during the period of indigenization and participation programme defined in the decree. Their study covered 52 companies - years of dividend action (13 companies for four years). They claimed that they "checked but found very little evidence" to support the classical influence that determine dividend policies in Nigeria during this period. They concluded that fear and resentment seem to have taken over from the classical forces.

However, Inanga (1978) and Soyode (1975) commented on the work of Uzoaga and Alozienwa. Inanga concluded that the problem arising from the change in dividend policy can be attributed to the share pricing policy of the Capital Issue Commission (CIC) which seemed to have ignored the classical factors that should govern the pricing of equity shares issues. This in turn made companies to abandon all the classical forces that determine dividend policy. Soyode criticised Uzoaga and Alozienwa's work on the ground that it glossed over some important determinants of optimal dividend policy and questioned certain conclusions made in the study because they are inadequate or a mistaken evaluation. Furthermore, Oyejide (1976) empirically tested for entity dividend policy in Nigeria using Lintner's model as modified by Brittain (1964).

He disagreed with previous studies and concluded that "the available evidence provides a strong and unequivocal support for the conventional devices for explaining the dividend behavior of Nigerian limited liability business organizations" However, Odife (1977)

criticized Oyejide's study for failing to adjust for stock dividend. He seemed to agree with Uzoaga and Aloziowa's conclusion. Nyong (1990) conducted a study on dividend policy of quoted companies in Nigeria. He observed among others that the conventional Lintner's model performs creditably well. Adelegan (2001) in a more recent study of the Impact of growth prospect, leverage and firm size on dividend behaviour of corporate firms in Nigeria between 1984 and 1997; observed that the conventional Lintner's model does not perform quite creditably in explaining the dividend behaviour of corporate firms for the period under review, supports that factors that mainly influenced the dividend policy of quoted firms are after tax earnings, economic policy changes (due to the partial liberation of the indigenization decree in 1989 and the subsequent simultaneous abolition of the indigenization decree of 1995), firm growth potentials and long term debts. A study carried out by Mainoma (2001) revealed a significant relationship between the dividend policy and the value of firms in Nigeria. Musa (2005), criticizes both Lintner's and Rozeff's

model with their modifications on the basis of the fact that the models are predicated on the assumption of constant response coefficient implying that investors react identically to the explanatory of all firms. However, Adesola (2004) in his study of dividend policy behaviour in Nigeria using Linter's model as modified by Brittan between 1996 - 2000 appears to agree with Oyejide and Nyong's view that there is substantial and unequivocal support for the Lintner's model.

2.5 Research Gap

In summary, this study examined the impact of performance of dividend policy on deposit money banks in Nigeria. In examining the impact of dividend policy on the financial performance of deposit money banks (DMBs) in Nigeria, several studies have been conducted. However, there remain notable research gaps that future studies could address. While some research acknowledges the influence of external factors on dividend policy For example, the study by Odum and Asielue (2024) focused on the effect of dividend policy on bank growth but did not delve into how dividend policy can affect the

performance of deposit money banks. This research work deals on the determinant of dividend policy, the various types of dividend payments and policies and models that are relevant in dividend policy

Conceptual Review

Dividend policy refers to how a bank decides to share its profits between paying shareholders and retaining funds for growth. In Nigerian deposit money banks, this policy is important because it can influence investor trust and the bank's financial image. Some theories, like the dividend relevance theory, believe that dividends affect a firm's value, while others, like the dividend irrelevance theory, argue they don't. Nigerian banks are expected to balance between paying dividends and meeting regulatory requirements set by the Central Bank of Nigeria. A well-managed dividend policy can improve financial performance, often measured by return on assets (ROA), return on equity (ROE), and earnings per share (EPS). Therefore, studying dividend policy helps us understand how it affects the overall profitability and growth of banks.

Conceptual framework

The conceptual framework of this study is made up of the independent variable; dividend policy and dependent variable; Financial Performance. This study is built on the assumption that dividend policy decisions have an impact on a bank's financial performance. It links the independent variables with the dependent variables. These indicators represent the dividend strategies used by banks whether they retain profits or distribute them and are used to examine how these choices affect the banks'

financial outcomes. Investopedia (2014) defined financial performance as a subjective measure of how well a firm can use assets from its primary mode business and generate revenues. This is the financial status of a firm over a period of time on the basis of certain criteria like Return on Assets. This conceptual framework serves as the foundation for the research. It guides the selection of variables, data analysis, and interpretation of results. The study seeks to determine whether dividend policy significantly affects the financial performance

of deposit money banks in Nigeria using secondary data. The conceptual framework provides the foundation for the research, linking theoretical concepts with empirical analysis. It defines what the study intends to measure, how the variables relate, and why their relationship is important. Ultimately, it supports the research objectives and helps structure the data analysis and interpretation in a meaningful and academically rigorous way.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

This study adopts an ex post facto design using secondary data from published financial statement. The design is suitable as it observes historical data without manipulating variables. The research is both qualitative and quantitative in its approach. The qualitative approach adopts descriptive and inductive forms of research. Statistical models are used in analyzing data obtained in the study. The method of analysis is correlation as it employs statistical tools in analyzing data obtained for the study. Data obtained from the financial statements of the sampled banks and the Nigeria Stock Exchange fact books were used in the analyses of the study.

In considering a descriptive research, well-detailed information on the nature of the problem was carried out. In this case, Investment behavior, dividend policy, return on investment and gross profit are correlated. This involves analytical interpretation and the application

of some econometrics models. As with descriptive research, it is a fact-finding mission with interpretation and analysis of trends in investment behavior and facts in terms of the commonality of dividend payment, return on investment and gross profit; and the potential of making predictions and generalizations (Smith, 1997).

3.2 Population of Study

The population of this study comprises of all the banks quoted on the Nigerian Stock Exchange (NSE). The Nigerian Stock Exchange comprises of firms listed either in the first-tier securities market or the second-tier securities market. Banks in the first-tier securities market are those that fully satisfy the NSE listing requirement and have significant regular dividend payment, earnings and shareholders fund records that constitute data for this study. Therefore, all the twenty one (21) banks in the first-tier securities market on the Nigerian Stock Exchange listing as at 31st December, 2021 serve as the population of the study.

3.3 Sampling Techniques

Studying the whole population is time consuming, very tedious, economically unviable and practically impossible. It is therefore imperative to choose from the population a representative sample. A sample is a subset of the population from which inferences can be made on the whole as such Fidelity Bank Plc is used as the sample size for this study.

3.4 Sources of Data Collection

Data is independent happening or event that conveys no meaning in itself. Data are classified as either primary or secondary. Secondary data are data collected by others for other purposes than for the research in question. Primary data, on the other hand, is data collected by the researcher for the specific research problem at hand. The secondary data were sourced from existing documents (publications) and comprises of the Nigerian stock Exchange (NSE) fact books and the audited financial statement of the sampled bank (Fidelity Bank Plc)

for the years covered by the study. This study covers the period of 2016 to 2021.

3.4.1 Measurement of Variables

This study involves two main types of variables: the independent variable (dividend policy) and the dependent variable (financial performance). The variables were measured using secondary data obtained from the annual financial reports of selected deposit money banks in Nigeria from 2016 to 2021.

a. Independent Variable – Dividend Policy

Dividend policy refers to the bank's approach to distributing profits to shareholders. It is measured using the following indicators:

Dividend Payout Ratio (DPR): This shows the proportion of earnings paid out as dividends. $DPR = \text{Dividend} / \text{Net Income}$

Dividend per Share (DPS): Reflects the actual dividend paid to each shareholder per share. $DPS = \text{Total Dividends} / \text{Number of Outstanding Shares}$

Retention Ratio: Indicates the proportion of earnings retained in the business. $\text{Retention Ratio} = 1 - \text{DPR}$

b. Dependent Variable – Financial Performance

Financial performance assesses how well a bank utilizes its resources to generate profit. It is measured using:

Return on Assets (ROA): Shows how efficiently the bank's assets are used to generate earnings. $\text{ROA} = \text{Net Income} / \text{Total Assets}$.

Return on Equity (ROE): Measures the return to shareholders on their invested equity. $\text{ROE} = \text{Net Income} / \text{Shareholders' Equity}$.

Earnings per Share (EPS): Indicates the earnings attributable to each share of common stock. $\text{EPS} = \text{Net Income} / \text{Number of Outstanding Shares}$

3.5 Techniques of Data Analysis

The data analysis techniques employed are the descriptive statistics, correlation technique and regression analysis. The data collected for this study will be analyzed using both descriptive and inferential statistical techniques, to evaluate the relationship between dividend

policy and the financial performance of deposit money banks in Nigeria.

Descriptive Statistics

Descriptive tools such as mean standard deviation, minimum and maximum will be used to summarize the key characteristics of the variables. This helps to understand the general trend and distribution of the data over the study period.

Inferential Statistics

To test the relationship between dividend policy (independent variable) and financial performance (dependent variable), the following methods will be applied:

Correlation Analysis: To examine the strength and direction of the relationship between variables. Correlation analysis is a statistical technique used to measure the strength and direction of the relationship between two or more variables. It helps determine whether an increase or decrease in one variable is associated with an increase or decrease in another.(e.g., DPR and ROE).

Multiple Regression Analysis: To assess the impact of the dividend policy variables (DPR, DPS, Retention Ratio) on financial performance indicators (ROA, ROE, EPS).

3.6 Model Specification

The model specification adopted in this study is based on OLS multiple regression analysis which combines both the dependent and independent variables in order to establish the relationships among the variables of dividend policy and firm's corporate performance in Nigeria. The proxy for firms' corporate performance which is the dependent variable adopted in this study is the profit after tax (PAT), while earnings per share, retained earnings per share, and dividend per share are tie independent variables. Profit after tax was selected as study dependent variable based on the premise that it is a strong determinant of the market value of a firm's share and also a good measure of a firm's profitability. The various independent variables used in the model also determine and dictate the measure of dividend policy adopted by firms. The model follows the work of Crespo,

Palokangas and Tarasyev (2013) which establishes a relationship among variables in a growth model. Thus, the model is captured in a schematic form as follows:

$$Y = f(X1, X2, X3) \dots\dots\dots 1$$

$$PAT = f(EP, REPS, DPS) \dots\dots\dots 2$$

$$Y = BO + B_0X1 + B_0X2 + B_0X3 + et \dots\dots\dots 3$$

$$PAT = BO + B_1EP + B_2REPS + B_3DPS + et \dots\dots\dots 4$$

Where: PAT = Profit after tax proxy for financial performance;

EP = Earnings per Share;

REPS = Retained Earnings per Share;

DPS = Dividend per Share

B1, B2, B3, B4, = Parameters to be estimated; et = Error Term

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents and analyzes the data collected to evaluate the effect of dividend policy on the financial performance of deposit money banks in Nigeria. It involves descriptive statistics, regression analysis, and interpretation of results based on key financial indicators. It builds upon the framework established in the previous chapters by using secondary data sourced from the annual financial reports of Fidelity bank over a defined period. The objective is to empirically assess how dividend decisions measured through indicators such as Dividend Per Share (DPS) influence key financial performance metrics like Earnings Per Share (EPS), Return on Equity (ROE), and Profit After Tax (PAT). The results are then interpreted in line with the research objectives and hypotheses, and their implications for

corporate financial decision-making in the banking sector are discussed. The aim is to evaluate how dividend policy affects the financial performance of deposit money banks in Nigeria. Using relevant financial data obtained from secondary sources such as the audited annual reports of fidelity banks between 2016 and 2021, this chapter explores trends, relationships, and the strength of association between dividend policy variables and financial performance indicator. This chapter also explains the implications of the findings in relation to the research objectives and provides a basis for making informed conclusions and recommendations in the final chapter.

4.2 Data Presentation

Table 4.2 below shows the data for profit after tax, earnings per share, retained earnings per share and dividend per share.

YEAR	PAT	EPS	REPS	DPS
2016	13,796	34	11,721	4055
2017	13,904	48	8,797	6084
2018	9,734	48	25,918	4,634
2019	17,768	61.35	372 25,053	5213
2020	22,926	79.16	37,133 23	4634
2021	28425	98	39,2345	4055

Source: Fidelity Bank Plc Annual Financial Report 2016 - 2021

4.3 Data Analysis

Table 4.3 below presents the descriptive nature of variables showing the coefficient, standard error, t-statistic, probability, R-square, adjusted R-square, F-statistic and Durbin - Watson, of the following variables:

Profit After Tax (PAT), Earnings Per Share(EPS), Retained Earnings
Per
Share(REPS) and Dividend Per Share.

Variable	Coefficient	standard error	t-statistics	Probability value
Constant	9.1983	026090.7	8.012395	0.0000
EPS	8.17924	0.114398	8.41969	0.002
REPS	7.23892	0.234221	6.240774	0.0018
DPS	4.41283	0.34598	5.719010	0.0019

Source: Data Computation, 2022

Interpretation of Result

$$PAT = 9.1983 + 8.17924EPS + 7.23892REPS + 4.41283DPS + Et$$

$$T\text{-Stat} = (8.012) \quad (8.419) \quad (6.240) \quad (5.719)$$

$$R\text{-Square} = 0.8213$$

$$\text{Adjusted R-Square} = 0.8067$$

F-Statistics = 78.123

Durbin Watson statistics = 1.831

The estimate of B_0 is 9.1983. This implies that if all independent variables are held constant, the dependent variable financial performance proxy as profit after tax (PAT) will become 9.1983.

The estimate of B_1 is 8.17924. This shows there is a positive relationship between earnings per share (EPS) and financial performance proxy as profit after tax (PAT). This further implies that a earnings per share and financial performance proxy as PAT move in the same direction. For every unit change in Earnings per share (EPS), it will bring about 8.17924 changes in financial performance proxy as profit after tax (PAT).

The estimate of B_2 is 7.23892. This means there is a direct or a positive relationship between retained earnings per share (REPS) and financial performance proxy as profit after tax (PAT). This further implies that an increase in retained earnings per share (REPS) will bring about increase in financial performance proxy as profit after tax (PAT).

The estimate of B3 is 4.41283. There is a direct or positive relationship between Dividend per share (DPS) and financial performance proxy as profit after tax (PAT). Both Dividend per share (DPS) and financial performance proxy as profit after tax (PAT). In other words, increase in dividend per share (DPS) will lead to sustained increase in financial performance proxy as profit after tax (PAT).

The results of statistical tools revealed that the coefficient of determination (R²) as used to measure the success of the regression in predicting the value of the dependent variable Real Gross Domestic Product (RGDP) within the sample and tests the goodness of fit, is considered high in this study over 82% while 18% was taken care by the error (disturbance) term showing that the model was a good one. The adjusted R-square the Durbin-Watson Statistic and the entire regression test is statistically significant including the F-test. All results were obtained empirically and the test was conducted at five (5%) percent level of significance. The DW- statistic is 1.8. From the

statistical table (at 5%), this shows that there is absence of auto correlation. Hence, we reject the null hypothesis (Ho).

All variables (EPS, REPS, and DPS) are positively related to the dependent variable and statistically significant (since all p-values are below 0.05). EPS has the strongest effect, followed by REPS, then DPS. This suggests that improving earnings and retained earnings per share will most significantly enhance financial performance.

Standard Errors

- The small standard errors show that the coefficient estimates are reliable and the data is consistent.

T-Statistics

- All values are above 2, meaning they pass the threshold for significance in most statistical tests.

Probability Values (P-values)

- All are <0.05 , indicating strong evidence that these variables have real effects on the dependent variable.

General Conclusion

- The regression model is statistically sound.

- All three financial indicators (EPS, REPS, DPS) have positive and significant effects on the company's financial performance.
- EPS is the most powerful predictor, followed by REPS and then DPS.

4.4 Test of Hypothesis

Ho1: There is no significant relationship between financial performance and earnings per share. EPS is a key indicator of how much profit is allocated to each outstanding share of stock. If financial performance improves, logically EPS may also improve. By testing this, you're trying to see if changes in financial performance indicators (like PAT, ROA, or ROE) correspond significantly with changes in EPS.

Ho2: Retained earnings per share has no significant relationship with financial performance. Retained earnings per share represent the portion of net income not paid out as dividends but retained in the business. You're testing if higher financial performance leads to increased retention, and whether this has a measurable impact per share. If performance improves but REPS remains flat, the hypothesis may not hold.

Ho3: Dividend per share has no significant effect on financial performance and Dividend per Share. DPS reflects the portion of profit paid to shareholders. This test checks whether stronger financial performance translates into higher dividend payouts. A significant result would mean that as banks perform better financially, shareholders receive higher dividends.

Decision Rule: Reject the null hypothesis if the f-calculated is greater than the f-critical (table value) at 5% level of significance.

Decision: A comparative analysis of both the f - calculated value of F Statistics = 78.123 and f- tabulated of 0.5300 shows that the f-calculated is higher than the f- tabulated. We therefore reject the null hypotheses and accept the alternate hypotheses which mean that there is a significant positive relationship between earnings per share, retained earnings per share and dividend per share of Fidelity bank plc.

4.5 Discussion of Findings

This study examined the effect of dividend policy (EPS, REPS, and DPS) on the financial performance (PAT) of Fidelity Bank Plc from 2016 to 2021. The data analysis in Table 4.2 shows the relationship strength and significance of each variable on PAT.

1.Earnings Per Share (EPS) and Financial Performance (PAT)

- Coefficient: 8.17924
- T-statistic: 8.41969
- P-value: 0.002

Interpretation:

EPS has a positive and statistically significant effect on PAT, with a strong t-statistic and a p-value below 0.05. This implies that increases in earnings per share strongly contribute to profit after tax. The higher the EPS, the better the company's financial health, and it positively influences investor confidence.

2.Retained Earnings Per Share (REPS) and Financial Performance

- Coefficient: 7.23892

- T-statistic: 6.240774

- P-value: 0.0018

Interpretation:

REPS also has a positive and significant influence on PAT. This suggests that retained earnings contribute to business growth and reinvestment, enhancing long-term financial performance. Despite not being paid out, retained earnings show a company's financial capacity to expand or stabilize operations.

3.Dividend Per Share (DPS) and Financial Performance

- Coefficient: 4.41283

- T-statistic: 5.719010

- P-value: 0.0019

Interpretation:

DPS shows a positive and statistically significant relationship with PAT, indicating that dividend payout policies play a critical role in financial performance. Investors likely perceive consistent or increasing dividends as signs of a healthy and profitable firm.

All three variables (EPS, REPS, DPS) showed positive and statistically significant impacts on PAT, confirming that dividend policy is a strong determinant of financial performance in Fidelity Bank Plc.

Summary of Statistical Findings

- Regression Equation:

$$PAT = 9.1983 + 8.17924 \text{ EPS} + 7.23892 \text{ REPS} + 4.41283 \text{ DPS} + Et$$

- Interpretation:

The constant (B_0) is 9.1983, meaning if all independent variables (EPS, REPS, DPS) are zero, the financial performance proxy (Profit After Tax PAT) would be 9.1983.

EPS has a positive coefficient of 8.17924, showing a strong positive relationship with PAT. A one-unit increase in EPS results in an 8.17924 increase in PAT.

REPS coefficient is 7.23892, indicating a positive relationship with PAT. Increasing REPS raises financial performance.

DPS coefficient is 4.41283, also showing a positive link to PAT, meaning higher dividends per share correlate with better financial performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The result of hypothesis revealed the following findings;

1. There is a significant relationship between investment behaviour and dividend payment.
2. A significant relationship exists between investment behaviour and return on investment.
3. Investment behaviour significantly influences gross profit.

The findings revealed that all the independent variables have significant positive effect on the investment behaviour of fidelity bank

plc. This research examined the relationship between dividend policy and the financial performance of deposit money banks in Nigeria. Key financial indicators such as Return on Equity (ROE), Return on Assets (ROA), and Earnings per Share (EPS) were analyzed in relation to dividend per share and dividend payout ratio. The study employed correlation and regression analysis to determine how dividend policy influences bank profitability and shareholder value. The findings revealed that dividend policy has a statistically significant impact on financial performance, although the strength of the relationship varies across banks and financial indicators.

5.2 Conclusion

The Thrust of this study was to assess dividend policy and investors behaviour. All the reviewed variables in the literature provided some useful insights into dividend policy thrust. Our findings establish that dividend policy in Nigeria is influenced by dynamic factors mentioned in the analysis. From the OLS analysis of dividend policy and performance of corporate firms in Nigeria a case study of fidelity bank

plc between 2016 and 2021, it was established that the dynamic factors which strongly determine the performance of the firms in Nigeria economy include increases in earnings per share, retained earnings per share, and divided per share. The study also concludes that all the variables are correlated, which means the activities of each variable are related to those of others. The study concludes that dividend policy is an important determinant of financial performance in the Nigerian banking sector. Banks that maintain a consistent and well-structured dividend policy tend to enjoy better investor confidence, which can translate to improved market valuation and profitability. However, dividend policy must be aligned with the overall financial health, investment opportunities, and liquidity position of the bank. Therefore the summary of the conclusion from the study is that dividend policy exerts significant influence on corporate performance of firms in Nigeria between the period specified.

5.3 Recommendations

The following recommendations are made based on the results of the

study.

1. Banks should adopt a stable and transparent dividend policy that reflects their long-term financial goals and capital structure.
2. Regulatory bodies like the CBN should continue to monitor and guide dividend declarations to ensure financial stability.
3. Investors should consider dividend history as one of the key factors in investment decisions, alongside other financial metrics.
4. corporate bodies should pay attention to dividend payment in order to maintain and sustain their shareholders and attract prospective investors.
5. Bank management should balance between profit retention for expansion and dividend payout to satisfy shareholders.
6. The organizations should ensure that they have a good and robust dividend policy in place and firms should pay as at when due the dividend accrued to the shareholders in order to reward their patronage.

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APPENDIX

YEAR	PAT	EPS	REPS	DPS
2016	13,796	34	11,721	4055
2017	13,904	48	8,797	6084
2018	9,734	48	25,918	4,634
2019	17,768	61.35	372 25,053	5213
2020	22,926	79.16	37,133 23	4634
2021	28425	98	39,2345	4055

Source: Fidelity Bank Plc Annual Financial Report

variable	coefficient	standard error	t-Statistics	probability value
Constant	74.86939	48.46562	1.544794	0.0001
ROI	215.6831	60.37023	3.572672	0.0680
EPS	8.248499	4.001148	2.061516	0.6408
REPS	118.1455	56.30760	2.098215	0.0900
DPS	4.129129	1.052253	3.924084	0.0341

Source: Data Computation, 2022