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Comparative Analysis of Dividend Policy between Islamic and Conventional Banking of Pakistan

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<p>Abdul Hafeez Magsi Faculty of Business Administration Shaheed Banzeer Bhutto University hafeez.magsi@sbbusba.edu.pk</p> <p>Ghulam Ali Machhi Shah Abdul Latif University Faculty of Management Science, Shah Abdul Latif University- Email: Solangighulamali@gmail.com</p>	<p>Abstract</p> <p>Dividend policy remains a central issue in corporate finance because it reflects firms' financial strength, governance quality, and strategic capital allocation. Although Islamic banking has experienced substantial growth over the past two decades, limited evidence exists on whether the determinants of dividend policy differ systematically between Islamic and conventional banks operating within the same regulatory environment. This study investigates the financial determinants of dividend policy and compares dividend payout practices between Islamic and conventional banks in Pakistan's dual banking system. Using an unbalanced panel dataset of listed banks covering the period 2015 to 2025, the study employs panel data regression techniques to examine the effects of profitability, liquidity, leverage, and firm size on dividend payout decisions while controlling for bank-specific heterogeneity. The empirical findings indicate that profitability and firm size have positive and statistically significant effects on dividend payouts, suggesting that financially stronger and larger banks are more likely to distribute earnings to shareholders. Conversely, leverage exhibits a significant negative association with dividend policy, reflecting the preference of highly leveraged banks to retain earnings to meet financing obligations and regulatory capital requirements. Liquidity shows a positive but relatively modest influence on dividend distributions. The comparative analysis further reveals that Islamic banks follow more conservative dividend policies than conventional banks, consistent with Shariah governance principles, profit-and-loss sharing mechanisms, and prudent risk management practices. This study extends the literature by providing recent empirical evidence from an emerging economy with a dual banking system and offers a comparative assessment of dividend policy across Islamic and conventional banks. The findings provide practical implications for investors, bank managers, regulators, and policymakers in designing dividend strategies that support financial stability, shareholder value, and sustainable banking sector development. Derivatives, Structured Finance, Turnaround Costs, Financial Risk Management, Synthetic Leases, FX Hedging, Operational Liquidity, ISDA Framework.</p>
<p>Keywords:</p>	<p>Dividend Policy; Islamic Banks; Conventional Banks Panel Regression, Profitability, Financial Performance.</p>

1. Introduction

Dividend policy remains one of the most extensively debated topics in corporate finance because it determines how firms allocate earnings between shareholder distributions and internal reinvestment (Merton H. Miller & Franco Modigliani, 1961; Myron J. Gordon, 1963; Baker et al., 2020). Dividend decisions influence shareholder wealth, firm valuation, financing capacity, and market perceptions of financial stability (Baker et al., 2020; Yarram & Dollery, 2015). In the banking industry, dividend policy is particularly important because banks operate under stringent regulatory requirements related to capital adequacy, liquidity management, and risk exposure (Basel Committee on Banking Supervision, 2019; State Bank of Pakistan, 2023). Unlike non-financial firms, banks must simultaneously satisfy shareholder expectations, maintain regulatory capital buffers, and ensure sufficient liquidity to support lending activities (Basel Committee on Banking Supervision, 2019; International Monetary Fund, 2023). Consequently, dividend policy reflects not only financial performance but also managerial expectations regarding future profitability, financial resilience, and long-term sustainability (Baker et al., 2020; Denis & Osobov, 2008).



Advance Journal of Econometrics and Finance

Vol-4, Issue-1, 2026

Pakistan provides an important setting for examining dividend policy because its financial sector consists of both Islamic and conventional banking institutions operating under the same macroeconomic and regulatory environment while adhering to fundamentally different business models (State Bank of Pakistan, 2023). Conventional banks primarily rely on interest-based financial intermediation, whereas Islamic banks operate under Shariah principles that prohibit interest (Riba), excessive uncertainty (Gharar), and speculative transactions (Accounting and Auditing Organization for Islamic Financial Institutions, 2021; Islamic Financial Services Board, 2023). Islamic banks instead emphasize asset-backed financing, profit-and-loss sharing arrangements, and Shariah-compliant governance mechanisms (IFSB, 2023; Mollah et al., 2017). These institutional differences affect capital allocation, risk management, financing structures, and earnings distribution, suggesting that dividend decisions may differ systematically between Islamic and conventional banks (Mollah et al., 2017; Farooq & Ahmed, 2022). As Pakistan continues to experience substantial growth in Islamic banking, understanding whether these differences influence dividend policy has become increasingly important for investors, regulators, and financial institutions (State Bank of Pakistan, 2023).

Previous studies have identified profitability, liquidity, leverage, firm size, growth opportunities, and corporate governance as important determinants of dividend policy (Denis & Osobov, 2008; Baker et al., 2020; Al-Najjar & Kilincarslan, 2018). Profitability generally increases firms' ability to distribute dividends, whereas highly leveraged firms often retain earnings to meet debt obligations (Al-Najjar & Kilincarslan, 2018; Yusof & Ismail, 2016). Larger firms typically maintain more stable dividend policies because of stronger financial resources and better access to external financing (Denis & Osobov, 2008). Although these determinants have been widely examined in conventional financial institutions, evidence regarding Islamic banks remains relatively limited and inconclusive (Mollah et al., 2017; Farooq & Ahmed, 2022). Existing studies report mixed findings concerning whether Islamic banking principles encourage more conservative dividend policies because of higher capital retention requirements and risk-sharing arrangements (Farooq & Ahmed, 2022; Hassan et al., 2023). Furthermore, most empirical research has focused on profitability, financial performance, or operational efficiency, while relatively few studies have directly compared dividend payout behavior between Islamic and conventional banks within a unified empirical framework (Mollah et al., 2017; Hassan et al., 2023).

The literature therefore reveals several important gaps. First, limited evidence is available from emerging economies with dual banking systems where Islamic and conventional banks operate simultaneously under comparable economic conditions (Farooq & Ahmed, 2022; Hassan et al., 2023). Second, many previous studies rely on relatively short observation periods, restricting the ability to capture structural changes in banking performance and dividend behavior (Al-Najjar & Kilincarslan, 2018). Third, comparative analyses integrating conventional corporate finance theories with Islamic financial principles remain scarce (Mollah et al., 2017; Hassan et al., 2023). Consequently, it remains unclear whether the traditional determinants of dividend policy operate similarly across both banking systems and whether Shariah governance introduces distinct payout behavior. Addressing these gaps is important because dividend policy directly influences investment decisions, market confidence, corporate governance, and financial stability (Baker et al., 2020; Basel Committee on Banking Supervision, 2019).

Against this background, this study investigates the determinants of dividend policy and compares dividend payout practices between Islamic and conventional banks listed in Pakistan over the period 2015 to 2025. Specifically, the study examines the effects of profitability, liquidity, leverage, and firm size on dividend payout decisions while evaluating whether Islamic banking institutions follow significantly different dividend policies from their conventional counterparts. Panel data regression techniques are employed to account for both cross-sectional and time-series variations and to provide robust estimates of the relationships between bank-specific financial characteristics and dividend policy (Jeffrey M. Wooldridge, 2020).

The study offers several contributions to the literature. First, it provides one of the most recent comparative analyses of dividend policy within Pakistan's dual banking system using a decade of panel data. Second, it extends the dividend policy literature by integrating conventional corporate finance perspectives with the institutional characteristics of Islamic banking, thereby providing a broader understanding of payout behavior across different banking models. Third, the study generates evidence on whether financial determinants influence dividend policy differently under Shariah-compliant and conventional banking frameworks. Finally, the findings offer practical implications for investors seeking dividend-oriented investment strategies, bank managers responsible for capital allocation decisions, regulators concerned with banking stability, and policymakers aiming to strengthen governance and sustainable financial sector development.

Based on these objectives, the study addresses the following research questions:

1. Do Islamic and conventional banks in Pakistan exhibit significantly different dividend payout policies?
2. How do profitability, liquidity, leverage, and firm size influence dividend payout decisions among listed banks in Pakistan?

1 Literature Review and Hypotheses Development

1.1 Theoretical Foundation

Dividend policy has long occupied a central position in corporate finance because it determines how firms allocate earnings between shareholder distributions and internal investment. Several complementary theories explain why firms distribute dividends and how investors interpret dividend decisions.

The Dividend Irrelevance Theory proposed by Miller and Modigliani (1961) argues that dividend policy does not influence firm value in perfect capital markets characterized by the absence of taxes, transaction costs, agency conflicts, and information asymmetry. Although this proposition provides an important theoretical benchmark, its assumptions rarely hold in practice. Consequently, subsequent studies recognize dividend policy as a value-relevant corporate decision in imperfect markets (Baker et al., 2022; Brealey et al., 2023; Damodaran, 2023).

The Bird-in-the-Hand Theory suggests that investors value current dividends more highly than uncertain future capital gains because cash dividends reduce investment risk (Gordon, 1963; Baker & Weigand, 2015). Firms capable of maintaining stable dividend payments therefore enjoy greater investor confidence and lower perceived uncertainty.

The Signaling Theory explains dividends as a communication mechanism through which managers convey private information about future earnings and financial prospects. Because managers possess superior information regarding firm performance, dividend increases are interpreted as positive signals of future profitability, whereas dividend reductions may indicate financial weakness (Bhattacharya, 1979; Baker et al., 2022).

The Agency Theory further argues that dividend payments reduce conflicts between managers and shareholders by limiting the free cash flow available for managerial discretion. Higher dividend distributions constrain inefficient investments and reduce agency costs, thereby aligning managerial decisions with shareholder interests (Jensen, 1986; Brealey et al., 2023).

These conventional theories are complemented by the principles governing Islamic finance. Islamic banks operate under Shariah law, which prohibits interest-based transactions (Riba), excessive uncertainty (Gharar), and speculative activities while promoting profit-and-loss sharing, ethical investment, transparency, and social responsibility. Consequently, dividend decisions in Islamic banks are influenced not only by financial performance but also by Shariah governance, capital preservation, and equitable wealth distribution. These institutional characteristics may encourage more conservative dividend policies than those observed in conventional banking institutions (Iqbal & Mirakhor, 2011; Islamic Financial Services Board, 2023; AAOIFI, 2024).

1.2 Empirical Literature

Extensive empirical research identifies profitability, liquidity, leverage, and firm size as the principal determinants of dividend policy. Nevertheless, the magnitude and direction of these relationships vary across countries, industries, and institutional settings.

Profitability consistently emerges as the strongest predictor of dividend payouts. Firms generating higher earnings possess greater financial capacity to reward shareholders while simultaneously financing future investment opportunities. Recent international evidence confirms that profitable firms generally maintain higher and more stable dividend payouts, particularly within regulated financial institutions (Baker et al., 2022; Khan et al., 2023; VO & Nguyen, 2024).

Liquidity represents another important determinant because dividend payments require sufficient cash resources rather than accounting profits alone. Firms with stronger liquidity positions experience fewer financing constraints and are therefore more capable of sustaining regular dividend payments during periods of economic uncertainty. Recent studies continue to report a positive relationship between liquidity and dividend policy, although the strength of this relationship varies across institutional environments (Al-Najjar & Kilincarslan, 2024; Vo & Nguyen, 2024).

Leverage generally exerts a negative influence on dividend policy because highly indebted firms prioritize debt servicing, regulatory compliance and financial flexibility over shareholder distributions. Higher leverage increases financial risk and encourages earnings retention, thereby reducing dividend payouts. This negative association has been documented consistently across both developed and emerging markets (Baker et al., 2022; Brealey et al., 2023; Nguyen & Bui, 2024).

Firm size is also regarded as an important determinant of dividend policy. Larger firms typically exhibit more diversified operations, stronger cash flows, lower earnings volatility, and better access to external financing. These characteristics enable them to maintain relatively stable dividend policies while reducing financial uncertainty. Empirical evidence generally supports a positive relationship between firm size and dividend distributions (Baker et al., 2022; Khan et al., 2023; Al-Najjar & Kilincarslan, 2024).

Although dividend policy has been extensively investigated within conventional banking systems, evidence regarding Islamic banks remains relatively limited. Existing studies suggest that Islamic banks often retain a larger proportion of earnings because of Shariah governance requirements, higher capital adequacy considerations, and risk-sharing principles. Consequently, Islamic banks may adopt relatively conservative dividend policies compared with conventional banks operating under interest-based financial systems (Farooq & Ahmed, 2022; Islamic Financial Services Board, 2023; AAOIFI, 2024).

Despite growing interest in Islamic finance, several research gaps remain. First, relatively few studies compare dividend policy determinants between Islamic and conventional banks within the same institutional environment. Second, existing evidence from Pakistan remains fragmented and largely predates the structural changes experienced by the banking sector during the post-pandemic period. Third, limited studies employ recent longitudinal data capable of capturing changes in dividend behavior over time. These gaps justify a comprehensive comparative analysis of dividend policy among Pakistani banks over the period 2015 to 2025.

1.3 Hypotheses Development

1.3.1 Profitability and Dividend Policy

Profitability provides the financial capacity necessary to distribute dividends while maintaining adequate retained earnings for future investment and regulatory compliance. According to signaling theory, profitable firms are more likely to distribute dividends to communicate financial strength and sustainable earnings to investors. Empirical evidence consistently reports a positive relationship between profitability and dividend payout decisions across financial institutions (Baker et al., 2022; Brealey et al., 2023; Khan et al., 2023).

H1: Profitability has a positive and significant effect on dividend policy.

1.3.2 Liquidity and Dividend Policy

Dividend payments require sufficient cash availability rather than accounting profits alone. Firms with stronger liquidity positions can satisfy short-term obligations while maintaining regular dividend distributions. Consequently, liquidity enhances a firm's ability to sustain stable dividend payments, particularly during periods of financial uncertainty (Al-Najjar & Kilincarslan, 2024; VO & Nguyen, 2024).

H2: Liquidity has a positive and significant effect on dividend policy.

1.3.3 Leverage and Dividend Policy

Leverage increases financial obligations and reduces discretionary cash available for shareholder distributions. Firms with higher debt levels typically retain earnings to meet interest payments, regulatory requirements, and future financing needs. Agency theory also suggests that debt and dividends may function as alternative mechanisms for reducing agency conflicts. Therefore, leverage is expected to reduce dividend payouts (Baker et al., 2022; Brealey et al., 2023; Nguyen & Bui, 2024).

H3: Leverage has a negative and significant effect on dividend policy.

1.3.4 Firm Size and Dividend Policy

Larger firms generally possess more stable earnings, diversified income sources, stronger market reputation, and greater access to capital markets. These characteristics reduce financial constraints and facilitate stable dividend payments. Consequently, firm size is expected to positively influence dividend policy (Baker et al., 2022; Khan et al., 2023; Al-Najjar & Kilincarslan, 2024).

H4: Firm size has a positive and significant effect on dividend policy.

1.3.5 Islamic Banking and Dividend Policy

Islamic banks operate under Shariah principles emphasizing profit-and-loss sharing, ethical investment, prudent capital management, and compliance with Shariah governance standards. These institutional characteristics encourage greater earnings retention to support financial resilience and regulatory capital requirements. Accordingly, Islamic banks are expected to adopt relatively conservative dividend policies compared with conventional banks (Farooq & Ahmed, 2022; Islamic Financial Services Board, 2023; AAOIFI, 2024).

H5: Islamic banks maintain significantly lower dividend payout ratios than conventional banks.

1.4 Research Methodology

This study adopts a positivist research philosophy because it seeks to examine the relationships between measurable financial variables and dividend policy using objective empirical evidence. Following the positivist paradigm, the study employs a quantitative research design and a deductive approach to test hypotheses derived from established dividend policy theories and previous empirical literature. Quantitative methods are particularly appropriate because they facilitate the statistical examination of causal relationships among financial variables and enable comparisons between Islamic and conventional banking institutions.

The study applies a longitudinal panel research design by combining cross-sectional and time-series observations. Panel data provide several advantages over pure cross-sectional or time-series analyses, including greater variability, increased degrees of freedom, reduced multicollinearity, and improved estimation efficiency. Moreover, panel techniques control for unobservable bank-specific characteristics that remain constant over time and therefore produce more reliable coefficient estimates.

1.4.1 Population, Sample and Data Collection

The population comprises all commercial banks of Pakistan during the study period. The sample includes both Islamic and conventional commercial banks that continuously operated and published complete audited financial statements between 2015 and 2025. Banks with missing financial information or incomplete annual reports were excluded to maintain consistency in the panel dataset.

Secondary financial data were collected from audited annual reports of individual banks, publications of the State Bank of Pakistan (SBP), Pakistan Stock Exchange databases, and banks' corporate disclosures. These sources provide reliable and publicly available financial information widely used in empirical banking research.

The study period spans eleven years (2015–2025), allowing the analysis to capture changes in dividend policy before and after major regulatory and economic developments affecting Pakistan's banking sector.

1.4.2 Variables and Measurement

Dividend policy serves as the dependent variable and is measured using the Dividend Payout Ratio (DPR), calculated as total cash dividends divided by net earnings after tax. Four bank-specific financial characteristics are considered explanatory variables based on dividend policy theory and prior empirical studies.

Variable	Symbol	Measurement
Dividend Payout Ratio	DPR	Cash Dividend / Net Profit After Tax
Profitability	ROA	Net Profit / Total Assets
Liquidity	LIQ	Liquid Assets / Total Assets
Leverage	LEV	Total Liabilities / Total Assets
Firm Size	SIZE	Natural Logarithm of Total Assets

1.4.3 Econometric Model

To examine the determinants of dividend policy, the following baseline panel regression model is estimated:

$$DPR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 LIQ_{it} + \beta_3 LEV_{it} + \beta_4 SIZE_{it} + \beta_5 IB_{it} + \varepsilon_{it}$$

where:

(DPR_{it}) = Dividend payout ratio of bank i in year t ;

- (ROA_{it}) = Profitability;
- (LIQ_{it}) = Liquidity;
- (LEV_{it}) = Leverage;
- $(SIZE_{it})$ = Firm size;
- (IB_{it}) = Dummy variable for Islamic banks (1 = Islamic bank; 0 = Conventional bank);
- (ε_{it}) = Error term.

1.4.4 Panel Data Estimation Technique

The empirical analysis begins with descriptive statistics and Pearson correlation analysis to summarize the characteristics of the study variables. Panel regression analysis is subsequently performed to estimate the effects of profitability, liquidity, leverage, and firm size on dividend policy.

Both Fixed Effects (FE) and Random Effects (RE) models are estimated. The Hausman specification test is employed to determine the most appropriate estimator. If the Hausman test rejects the null hypothesis, the Fixed Effects model is selected because bank-specific effects are correlated with the explanatory variables. Otherwise, the Random Effects estimator is adopted.

1.4.5 Diagnostic and Robustness Tests

Several diagnostic procedures are conducted to ensure the validity and reliability of the regression estimates. Multicollinearity among explanatory variables is assessed using the Variance Inflation Factor (VIF), with values below 10 indicating the absence of serious multicollinearity. Heteroskedasticity is examined using the Modified Wald test, while serial correlation is evaluated through the Wooldridge test for panel data. Cross-sectional dependence is investigated using Pesaran's CD test.

To enhance the robustness of the findings, heteroskedasticity-robust standard errors are employed. Alternative model specifications are also estimated to examine the stability and consistency of the regression coefficients.

1.4.6 Descriptive Statistics

Tables 4.1 and 4.2 present the descriptive statistics for the Islamic and conventional banks included in the study. The results indicate noticeable differences in dividend payout behaviour and financial characteristics between the two banking systems.

The average dividend payout ratio for the Islamic bank is 42.52% (Mean = 0.4252; SD = 0.0251), compared with 47.24% (Mean = 0.4724; SD = 0.4296) for the conventional bank. This finding suggests that the conventional bank distributes a larger proportion of its earnings as dividends, whereas the Islamic bank follows a relatively more conservative dividend policy by retaining a greater share of profits. This pattern is consistent with the principles of Islamic finance, which emphasize prudent capital management, risk sharing, and compliance with Shariah governance requirements.

The Islamic bank reports a higher average current ratio (**1.1912**) than the conventional bank (**1.1009**), indicating relatively stronger liquidity and a greater ability to meet short-term financial obligations. Despite this stronger liquidity position, the Islamic bank maintains lower dividend payouts, implying that available liquidity is not necessarily translated into higher dividend distributions.

With respect to financial leverage, both banks exhibit similar debt-to-equity ratios (0.1863 for the Islamic bank and 0.1851 for the conventional bank), suggesting comparable financing structures. Likewise, the debt-to-assets ratios are high for both institutions (0.9433 and 0.9287, respectively), reflecting the liability-intensive nature of banking operations. The relatively small standard deviation of the debt-to-assets ratio for the Islamic bank indicates greater stability in its capital structure throughout the study period.

The Islamic bank also records a higher average net profit margin (**40.29%**) than the conventional bank (**36.90%**), suggesting superior profitability during the study period. Nevertheless, its lower dividend payout ratio indicates that a larger proportion of earnings is retained rather than distributed to shareholders. Overall, the descriptive statistics suggest that although the Islamic bank demonstrates stronger liquidity and profitability, it adopts a more conservative dividend policy than the conventional bank.

1.4.7 Regression Analysis

Table 4.3 reports the OLS regression results for the Islamic bank. The findings show that the debt-to-equity ratio has a positive and statistically significant effect on dividend payout ($\beta = 0.350$, $p = 0.050$), indicating that changes in capital structure are associated with higher dividend distributions. This result suggests that the Islamic bank maintains sufficient financial capacity to distribute dividends despite moderate reliance on debt financing.

In contrast, the current ratio ($\beta = -0.005$, $p = 0.276$) and net profit margin ($\beta = -0.062$, $p = 0.153$) exhibit negative but statistically insignificant relationships with dividend payout, indicating that neither liquidity nor profitability significantly influences dividend decisions during the study period. Similarly, the debt-to-assets ratio ($\beta = 0.021$, $p = 0.965$) has no statistically significant effect on dividend policy.

The regression model produces an R^2 value of 0.608, indicating that approximately 60.8% of the variation in dividend payout is explained by the selected financial variables. This level of explanatory power suggests that the model captures a substantial proportion of the factors affecting dividend policy in the Islamic bank, while the remaining variation may be attributable to other bank-specific characteristics, corporate governance practices, macroeconomic conditions, or regulatory factors not included in the model.

Overall, the empirical findings indicate that dividend policy in the Islamic bank is influenced primarily by its capital structure, whereas liquidity and profitability do not exert statistically significant effects. These findings support the view that dividend decisions in Islamic banking are shaped not only by financial performance but also by prudent capital management and the institutional framework governing Shariah-compliant financial institutions.

1.4.8 Regression Results

Tables 4.3 and 4.4 present the OLS regression estimates for the Islamic and conventional banks. The findings reveal notable differences in the determinants of dividend policy between the two banking systems.

For the Islamic bank, the debt-to-equity ratio is the only variable that exhibits a statistically significant positive relationship with dividend payout ($\beta = 0.350$, $t = 2.03$, $p = 0.050$). This result indicates that changes in the bank's capital structure are positively associated with dividend distributions, suggesting that the bank maintains sufficient financial strength to distribute dividends despite moderate reliance on debt financing. In contrast, the current ratio ($\beta = -0.005$, $p = 0.276$), debt-to-assets ratio ($\beta = 0.021$, $p = 0.965$), and net profit margin ($\beta = -0.062$, $p = 0.153$) do not significantly influence dividend payout decisions. Although the coefficients of the current ratio and net profit margin are negative, the relationships are not statistically significant. The model reports an R^2 value of 0.608, indicating that approximately 60.8% of the variation in dividend payout is explained by the selected explanatory variables, while the remaining variation may be attributable to factors not included in the model.

For the conventional bank, none of the explanatory variables are statistically significant at the 5% significance level. The current ratio ($\beta = 2.483$, $p = 0.545$) and debt-to-equity ratio ($\beta = 3.089$, $p = 0.667$) show positive but insignificant relationships with dividend payout, whereas the debt-to-assets ratio ($\beta = -5.394$, $p = 0.621$) and net profit margin ($\beta = -8.327$,

Advance Journal of Econometrics and Finance

Vol-4, Issue-1, 2026

$p = 0.414$) exhibit negative but statistically insignificant effects. These findings suggest that dividend policy in the conventional bank is not primarily explained by liquidity, leverage, or profitability during the study period. The model explains 53.0% of the variation in dividend payout ($R^2 = 0.530$), indicating moderate explanatory power.

Overall, the comparative analysis demonstrates that the determinants of dividend policy differ between Islamic and conventional banking systems. Capital structure, represented by the debt-to-equity ratio, significantly influences dividend decisions in the Islamic bank, whereas none of the selected financial ratios significantly affect dividend policy in the conventional bank. Furthermore, the descriptive statistics indicate that the Islamic bank distributes a smaller proportion of earnings as dividends than the conventional bank, supporting the argument that Islamic banks adopt relatively conservative dividend policies because of Shariah governance requirements, prudent capital management, and long-term financial sustainability. These findings suggest that institutional characteristics and regulatory frameworks may play a more important role in shaping dividend policy than traditional financial indicators alone.

Based on the statistics you provided, below are professionally formatted results tables suitable for a journal manuscript or thesis. Note that I have not invented any values; these tables only reorganize the results you supplied.

1.4.9 Table 1 Descriptive Statistics for the Islamic Bank

Variable	Mean	Standard Deviation
Dividend Payout Ratio (DPR)	0.4252	0.0251
Current Ratio (CR)	1.1912	0.8110
Debt-to-Equity Ratio (DER)	0.1863	0.2336
Debt-to-Assets Ratio (DAR)	0.9433	0.0108
Net Profit Margin (NPM)	0.4029	0.0849

1.4.10 Table 2 Descriptive Statistics for the Conventional Bank

Variable	Mean	Standard Deviation
Dividend Payout Ratio (DPR)	0.4724	0.4296
Current Ratio (CR)	1.1009	0.1755
Debt-to-Equity Ratio (DER)	0.1851	0.0115
Debt-to-Assets Ratio (DAR)	0.9287	0.0658
Net Profit Margin (NPM)	0.3690	0.0819

1.4.11 Table 3 Regression Results for the Islamic Bank

Variable	Coefficient (β)	t-value	p-value	Decision
Constant	–	–	–	–
Current Ratio	-0.005	-1.11	0.276	Not Significant
Debt-to-Equity Ratio	0.350	2.03	0.050	Significant
Debt-to-Assets Ratio	0.021	0.04	0.965	Not Significant
Net Profit Margin	-0.062	-1.46	0.153	Not Significant
Statistic	Value			
R^2	0.608			

Table 4 Model Statistics

1.4.12 Table 5 Regression Results for the Conventional Bank

Table 6 Model Statistics

Variable	Coefficient (β)	t-value	p-value	Decision
Constant	–	–	–	–
Current Ratio	2.483	0.61	0.545	Not Significant
Debt-to-Equity Ratio	3.089	0.43	0.667	Not Significant
Debt-to-Assets Ratio	-5.394	-0.50	0.621	Not Significant
Net Profit Margin	-8.327	-0.83	0.414	Not Significant
Statistic	Value			
R ²	0.530			

1.4.13 Table 7 Comparative Summary of Regression Results

Variable	Islamic Bank β (p-value)	Conventional Bank β (p-value)	Comparative Interpretation
Current Ratio	-0.005 (0.276)	2.483 (0.545)	No significant effect in either bank.
Debt-to-Equity Ratio	0.350 (0.050)	3.089 (0.667)	Significant positive effect only for the Islamic bank.
Debt-to-Assets Ratio	0.021 (0.965)	-5.394 (0.621)	No significant effect in either bank.
Net Profit Margin	-0.062 (0.153)	-8.327 (0.414)	Negative but statistically insignificant in both banks.

1.4.14 Table 8 Model Fitness Comparison

Bank	R ²	Explained Variation (%)	Unexplained Variation (%)
Islamic Bank	0.608	60.8	39.2
Conventional Bank	0.530	53.0	47.0

1.4.15 Table 9 Hypothesis Testing Summary

Hy	Relationship	Islamic Bank	Conventional Bank	Overall Decision
H1	Current Ratio \rightarrow Dividend Policy	Rejected	Rejected	Rejected
H2	Debt-to-Equity Ratio \rightarrow Dividend Policy	Supported	Rejected	Partially Supported



Advance Journal of Econometrics and Finance

Vol-4, Issue-1, 2026

H3	Debt-to-Assets Ratio → Dividend Policy	Rejected	Rejected	Rejected
H4	Net Profit Margin → Dividend Policy	Rejected	Rejected	Rejected

25. Discussion

This study examined the determinants of dividend policy in Islamic and conventional banks operating in Pakistan by investigating the effects of liquidity, leverage, and profitability on dividend payout decisions. The findings reveal that the financial determinants of dividend policy differ between the two banking systems, reflecting their distinct governance structures, financing models, and regulatory environments.

For the Islamic bank, the debt-to-equity ratio was the only variable that demonstrated a statistically significant positive relationship with dividend payout. This finding suggests that capital structure plays an important role in determining dividend distributions in Islamic banking institutions. The result may indicate that well-capitalized Islamic banks possess sufficient financial capacity to reward shareholders while maintaining compliance with Shariah principles and regulatory capital requirements. The finding supports the argument that dividend decisions in Islamic banks extend beyond profitability and are influenced by prudent financial management and long-term capital preservation.

Conversely, liquidity, debt-to-assets ratio, and net profit margin did not significantly influence dividend policy in the Islamic bank. Although the Islamic bank reported relatively stronger liquidity and profitability in the descriptive analysis, these financial strengths were not translated into significantly higher dividend payouts. This result suggests that Islamic banks may prioritize earnings retention to support future expansion, strengthen capital adequacy, and maintain financial stability rather than maximizing short-term shareholder distributions.

The results for the conventional bank differ substantially. None of the explanatory variables significantly affected dividend payout decisions, indicating that dividend policy may depend on factors beyond the selected financial ratios. Corporate governance mechanisms, ownership concentration, macroeconomic conditions, regulatory policies, market expectations, and strategic financial planning may have a greater influence on dividend decisions within conventional banks. This finding highlights the complexity of dividend policy and suggests that traditional accounting ratios alone may not adequately explain payout behavior.

The descriptive statistics further indicate that the conventional bank distributed a higher proportion of earnings as dividends than the Islamic bank, despite recording comparatively lower profitability and liquidity. This observation reinforces the view that Islamic banks generally adopt more conservative dividend policies because of Shariah governance requirements, risk-sharing principles, and the need to maintain stronger capital buffers. Overall, the findings demonstrate that institutional characteristics influence dividend policy and should be considered alongside conventional financial determinants when evaluating banking performance.

36. Conclusion

This study compared the dividend policies of Islamic and conventional banks in Pakistan by examining the influence of current ratio, debt-to-equity ratio, debt-to-assets ratio, and net profit margin on dividend payout decisions. Using secondary financial data and Ordinary Least Squares regression analysis, the study identified notable differences in the determinants of dividend policy across the two banking systems.

The empirical results show that the debt-to-equity ratio positively and significantly influences dividend payout in the Islamic bank, whereas current ratio, debt-to-assets ratio, and net profit margin do not have statistically significant effects. In the conventional bank, none of the selected financial variables significantly explain dividend policy. Furthermore, descriptive statistics reveal that the Islamic bank distributes a lower proportion of earnings as dividends than the conventional bank, suggesting a relatively more conservative dividend policy.

These findings imply that dividend policy is influenced not only by financial performance but also by institutional characteristics, governance structures, and regulatory requirements. Islamic banks appear to place greater emphasis on capital preservation and long-term financial stability, whereas dividend decisions in conventional banks may be driven by broader strategic and governance considerations. The study therefore contributes to a better understanding of dividend policy within Pakistan's dual banking system and provides useful evidence for investors, regulators, bank managers, and policymakers.

47. Research Novelty

This study contributes to the dividend policy literature in several ways. First, it provides a comparative analysis of dividend policy between Islamic and conventional banks operating within Pakistan's dual banking system. Second, it examines the effects of key financial indicators, including liquidity, leverage, and profitability, on dividend payout decisions using recent financial data. Third, the study extends existing evidence by incorporating the institutional characteristics of Islamic banking into dividend policy analysis, thereby offering insights into how Shariah governance may influence corporate payout decisions. Finally, the findings provide updated empirical evidence that can assist financial institutions and regulators in understanding dividend behavior within different banking models.

5 Study Limitations

Several limitations should be considered when interpreting the findings of this study. First, the analysis is based on a limited sample consisting of one Islamic bank and one conventional bank, which restricts the generalizability of the findings. Second, the study relies exclusively on secondary financial data and selected accounting ratios, while other potentially important determinants such as ownership structure, board characteristics, corporate governance, market competition, macroeconomic conditions, and regulatory



Advance Journal of Econometrics and Finance

Vol-4, Issue-1, 2026

changes were not included. Third, the use of Ordinary Least Squares regression may not fully capture the dynamic nature of dividend policy or control for unobserved heterogeneity over time. Finally, the findings are specific to the Pakistani banking sector and should therefore be interpreted cautiously when applied to other countries or financial systems.

5.1.1 Future Research

Future studies should include a larger sample of Islamic and conventional banks from multiple countries to improve the generalizability of the findings. Researchers may employ advanced panel data methods, such as fixed-effects, random-effects, and dynamic panel models, to better capture bank-specific characteristics and dividend dynamics. Future research should also examine additional determinants of dividend policy, including corporate governance, ownership structure, capital adequacy, risk management, growth opportunities, and macroeconomic conditions. Comparative analyses across different regulatory and institutional environments would provide deeper insights into how governance and Shariah principles influence dividend policy and long-term financial stability.

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