

Liquidity, Profitability and the Dividends Payout Policy

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The study of dividend policy has captured the attention of finance scholars since the middle of the last century. There is a literature gap as very few studies have been carried out in the UAE and no study investigated the determinants of dividend payout policy in the UAE banking sector. The objective of this study is to investigate the impact of liquidity and profitability on the dividend policy in the UAE banking sector, and to examine any kind of variations between Islamic and conventional banks prior and subsequent to the financial crisis. The study analyzes the data of 18 out of the 24 UAE national banks over the period 2005-2012. The dividend payout ratio is analyzed in relation to six liquidity and profitability ratios. The correlation analysis and regression analysis are conducted to analyze the data. The main finding is that the dividend payout ratio has a significant and positive correlation with liquidity but negative and insignificant correlation with profitability. There is a significant variation of the variables in Islamic banks but not significant with the period.

Keywords: Dividends Policy, Liquidity, profitability, UAE Banking Sector.

GEL: G 35, G 32

1. Introduction

The term 'dividend policy' refers to the practice that management follows in making dividend payout decisions or the size and pattern of cash distributions over time to shareholders. The study of dividend policy has captured the attention of finance scholars since the middle of the last century. They have attempted to solve several issues pertaining to dividends and formulate theories and models to explain corporate dividend behavior

Dividend policy is one of the most controversial issues in finance. But still the Dividend Puzzle: Does the dividend payout policy affect the value of the firm? What are the factors which affect the determination of the dividend policy? Many reasons are given for why dividend policy might be important and many of the claims made about the dividend policy are economically illogical.

With regard to the dividend decision firms have only two options; either to pay or to not pay dividends. The payment of cash dividends depends on the availability of cash and liquidity of the firm.

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Banking has a diversified and complex financial activity which is no longer limited within the geographic boundary of a country. UAE banks are classified to be highly liquid even during the period of financial crisis. Therefore, they are expected to pay more dividends in the forms of cash.

The findings of this study are somewhat consistent with Aivazian, Gatchev, and Spindt, (2007) and Kuwari (2009). All have shown positive relationship between liquidity and dividends. On the other hand, the results are different from the results of Mehta (2012), Juhmani (2011), and Kania & Bacon (2005), all of whom stated a strong relationship between profitability and dividends payout but our study proves insignificant relationship.

It has been proved by many finance authors and in practice that there is a contradictory relationship between liquidity and profitability. Both liquidity and profitability have an impact on the dividend payout policy of the firms in general and the banking sector in specific. Many previous studies have concentrated on the factors influencing the dividend policy such as Huda and Nayeem (2014) who tested the relationship between ownership structure and dividend policy and Anupam (2012) who investigated the determinants of dividend policy. This paper is trying to investigate the impact of liquidity and profitability together on the dividend payout policy of the UAE Banks.

The dividend issue is quite challenging. The important elements are not difficult to identify but the interactions between those elements are complex and no easy answer exists (Ross 2009). Many dividend theories have been propounded to give an explanation on how the dividend decisions are being undertaken and whether it has an influence on the value of the firm.

Many factors affect the distribution of cash dividends such as the profitability, assets size, low level of current liabilities, good relations with suppliers, and sound liquidity position. The main purpose of this study is to investigate the impact of liquidity and profitability on the dividend policy in the UAE banking sector.

Furthermore, this study will investigate the relationship between the different measures of liquidity and profitability on one hand and the dividend payout ratio on the other hand. The study will also highlight any significant difference regarding dividend or influential factors between Islamic and other commercial banks. This paper investigates the variation in dividends and its determinants prior and subsequent to the financial crises.

There is a literature gap as very few studies have been carried out in UAE and no study investigated the determinants of dividend payout policy in the UAE banking sector. Some studies investigated the impact of liquidity separated from profitability. In this study both contradictory variables have been investigated together. Therefore, this study analyzes the relevant information over an eight years period.

The rest of the paper is organized as follows: section two presents the review of literature; section three and four covers the methodology, data collection, and hypotheses; section five presents the analysis, development of the model, and findings, and section six provides a conclusion of the study.

2. Literature Review

Dividend policy theory is closely tied to the work of Miller and Modigliani (1961, hereafter M&M) and their dividend policy irrelevance thesis. M&M demonstrate that under certain assumptions including rational investors and a perfect capital market, the market value of a firm is independent of its dividend policy. In actual market practices however, it has been found that dividend policy does seem to matter, and relaxing one or more of M&M's perfect capital market assumptions has often formed the basis for the emergence of rival theories of dividend policy. Because of uncertainty of future cash flow, investors will often tend to prefer dividends to retained earnings. As a result, a higher payout ratio will reduce the required rate of return and hence increase the value of the firm (Gordon, 1959).

There are three main contradictory theories of dividends which can be identified. Some argue that increasing dividend payments increases a firm's value. Another view claims that high dividend payouts have the opposite effect on a firm's value; that is, it reduces firm value. The third theoretical approach asserts that dividends should be irrelevant and all effort spent on the dividend decision is wasted. These views are embodied in three theories of dividend policy: high dividends increase share value theory (or the so-called 'bird-in-the-hand' argument), low dividends increase share value theory (the tax-preference argument), and the dividend irrelevance hypothesis. Dividend debate is not limited to these three approaches.

Typically, mature, profitable companies pay dividends. However, companies that do not pay dividends are not necessarily without profits. If a company thinks that its own growth opportunities are better than investment opportunities available to shareholders elsewhere, the company should keep the profits and reinvest them into the business. Companies that manage their cash flow effectively tend to sustain and grow their dividend payouts over time. Successful growth of earnings usually pays off for investors in the form of higher share prices (Ibrahim E. Ahmed 2013).

Liquidity dividends refer to available funds that can go paying shareholders dividends in the short term. Business' liquidity depends on the organization's ability to convert its assets into cash to meet debt or other obligations. As a result, investors with current or anticipated future liquidity needs may have a preference for dividend paying stocks.

In this literature, stocks with higher liquidity levels trade at a premium and have lower expected returns relative to stocks with lower liquidity levels. Firms, however, can pay cash dividends, reduce investor dependence on the liquidity of the market, and therefore raise their valuations — an option more valuable for firms with higher discount rates due to lower liquidity levels. Indeed, Baker and Wurgler (2004a, 2004b) present significant evidence those firms consider valuation effects when choosing a dividend policy.

Corporate dividend payout is not only the source of cash flow to the shareholders but it also provides information regarding firm's current and future performance (Afza & Mirza, 2010). Every single investment is done with the purpose of earning an expected return that will definitely exceed the outflow of the investors.

Kania & Bacon (2005) studied the impact of profitability, growth, risk, liquidity and expansion on the dividend decision/policy of a corporation. Their study concluded that the dividend payout ratio is significantly affected by the profitability (return on equity), growth

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(sales growth), risk (beta), liquidity (current ratio), control (insider ownership) and expansion (growth in capital spending).

Fama and French (2001) empirically analyzed the importance of firm size, profitability and growth opportunities in the firm's decision to pay dividends. Booth and Cleary [2001] indicated that a firm's dividend policy is affected by profitability, size, debt, risk, tangibility and growth.

Aivazian, B, Gatchev, V & Spindt, P (2007) tried to establish a link between the firm dividend policy and stock market liquidity of NYSE and AMEX firms for the period 1963 to 2003. In the cross section analysis, they found that the owners of less (more) liquid common stock are more (less) likely to receive cash dividends.

Gill, Biger and Tibrewala (2010) analyzed the American service and manufacturing firms and found that the dividend payout ratio is a function of profit margin, sales growth, debt-to-equity ratio and tax. For the services industry, the dividend payout ratio is a function of profit margin, sales growth, and debt-to-equity ratio. For manufacturing firms, the dividend payout ratio is a function of profit margin, tax and market-to-book ratio.

Juhmani (2011) in his study of Malaysia listed companies for food industries under the consumer products sector showed that variables having a strong relationship with dividend payout are not necessarily the determinants of the dividend payment decision such as profit-after-tax that has the strongest relationship with dividend per share. The study further confirmed the fact that debt-to- equity ratio and past dividend per share were the important determinants of dividend payment.

Kuwari (2009) studied the determinants of the dividend policy in GCC countries. The study investigated the determinants of dividend policies for non-financial firms listed on the Gulf Co-operation Council (GCC) country stock exchanges. The study found out that the firms pay dividends with the intention of reducing the agency problem and the listed firms in GCC countries alter their dividend policy frequently and do not adopt a long-run target dividend policy. The study concluded that dividend payments are strongly and directly related to government ownership, firm size and firm profitability but negatively to the leverage ratio.

In UAE, Anupam Mehta (2012) empirically investigates the determinants of dividend payout for all firms in the areas of real estate, energy sector, construction sector, telecommunications sector, health care and industrial sectors (except bank and investment concerns). This study analyses a range of determinants of dividend policy: Profitability, Risk, Liquidity, Size and Leverage of the firm. The correlation and the multiple regression techniques have been applied to find out the most significant variables used by the UAE firms in making the dividend decisions. The study provides evidence that profitability and size are the most important considerations of dividend payout decisions by UAE firms.

The UAE banking sector has managed to survive the global economic crisis over the last five years, starting from the mortgage crisis through the global financial crisis and finally the debt crisis in Euro Zone. This enabled the banks to maintain a comfortable level of liquidity and a strong capital base in addition to a high capital adequacy ratio as well as to realize a profit of approximately AED 26.5 billion in 2012 accompanied with generous dividends payout to the shareholders. It is worth noting that cash dividends of National Banks have reached about AED 11 billion which represent about 48% of total profits.

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The UAE banks' dividends could potentially trump its estimates (2012e dividend yield: 4.0%), as early indicators suggest that banks are concentrating on returning capital to investors. With near-term growth prospects remaining weak, there is a strong case for UAE banks to enhance payout this year, especially as they are well capitalized and adequately liquid, Hermes added. CBD's proposed FY12 dividend (AED0.30/share, payout ratio c70%) sent a message that payout ratios could exceed the dividend cap of 50%. ADCB acquired approval from regulators for a 10% share buyback. Moreover FGB's management has been focused on returning capital since 2011. We believe a higher payout is positive for the sector's valuations – 2013e P/E of 8.3x and P/BV of 1.3x – as it would enhance ROEs (2013e 14.0%).

The contribution of this study is significant and highly valuable to academics and banking policy makers. The main reason behind this research is to add to the body of knowledge and the literature in the GCC region and the UAE as only one study was conducted about the determinants of dividend policy in UAE (Mehta (2012), which excludes the banking sector. Therefore, this study concentrates on the banking sector in UAE to complement with the previous one. Another motivation and significant contribution, is that no study selected a long period like this one as it covered the period before and after financial crises to investigate variations if there.

3. The Hypotheses

In this section, we introduce the main hypotheses and conjectures providing an intuitive explanation for the potential relevance of liquidity and profitability to the dividend payout policy. The previous part of the literature covers the different aspects of dividends theories, dividends policy, the importance of dividends, the determinants of the dividend policy and the common practice of dividends worldwide, dividends in the Gulf, and dividends in UAE. Based on this literature survey, we can state the following hypotheses to be tested by the data collected from the financial reports of the UAE banking sector.

Hypothesis 1: There is a significant relationship between liquidity and the dividend payout ratio.

Hypothesis 2: There is a significant relationship between profitability and the dividend payout ratio.

Hypothesis 3: The dividend payout ratio and independent variables of liquidity and profitability vary significantly between Islamic banks and conventional banks.

Hypothesis 4: There is a significant difference between the dependent and independent variables prior and subsequent to the financial crisis.

4. The Methodology

4.1 The Variables

There are many factors influencing the dividend policy as discussed in the literature above. In this study, the dependent variable is the dividend payout ratio (DPR) and the independent variables are liquidity and profitability. The firms with more liquidity are more likely to pay dividends as compared to the firms with a liquidity crunch. Three of the common liquidity measures in the banking sector have been applied. Each ratio measures

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liquidity from a specific angle and each measure expected to have its own impact on the dividend payout ratio.

- Loans to Asset Ratio (LAR) = Loans and advances or investments in Islamic banks divided by total assets.
- Loans to Deposits Ratio (LDR) = Loans and advances or investments divided by customers' deposits.
- Deposits to Assets ratio (DAR) = Customers' deposits divided by total assets.

The second variable is the bank's profitability. Previous researchers have found profitability as one of the most important determinants of dividend payout policy. However, the results on relationship of profitability and dividend payout have been mixed. As per the pecking order theory, the firms will prefer to rely more on internal funds or retained earnings as a result the firms will have a tendency of paying less dividend and hence having more retained earnings. Hence, the profitable firms will prefer lower dividends. In addition, three common measures of profitability have been conducted:

- Return on Assets (ROA) = Net income divided by total assets.
- Return on Equity (ROE) = Net income divided by the total equity of the bank.
- Earnings per Share (EPS) = Net income divided by the number of outstanding common shares.

Based on the above discussion, a linear regression model will be developed to test the states hypotheses.

$$\text{DPR} = f(\text{Liq, Prof.}) \quad (1)$$

$$\text{DPR} = f(\text{LAR, LDR, DAR, ROA, ROE, EPS}) \quad (2)$$

4.2 The Data

The study is considered unique and comprehensive in the sense that it covers all the UAE national banks operating since 2005. The study selected 18 banks out of the 24 UAE national banks because the non-selected 6 banks started operations after 2010. A cross sectional time series data were collected from the publications of the banks over an eight-year period from 2005 to 2012, which is divided into two terms: First term from 2005 to 2008 is considered as prior to financial crisis and the second term from 2009 to 2012 as subsequent to the financial crisis. The mean average for each variable is computed for every four years to test the variation between the two terms.

The study is expected to cover all the banks working in the UAE with the exception of six national banks due to the unavailability of data for the past 8 years as most of them have started after 2010. Also foreign banks working in the UAE have been excluded because their dividend policy is determined by their head offices and not based on operations of branches in the UAE.

5. Analysis and Findings

To test the stated hypotheses, this section presents descriptive analysis; correlation coefficients, collinearity diagnostic, and the linear regression model have been developed. Under the descriptive section, the ratio of the dividend payout (dependent variable) and the

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ratios of the six independent variables that represent liquidity and profitability have been computed over the eight years horizon. Table 1 presents the mean values of each variable and for every bank have been computed for the period prior and also subsequent to the financial crisis. As per table 1, the dividend payout ratio ranges between 0 and 67% and a significant difference have been noticed between prior and subsequent periods to financial crisis in Islamic banks rather than in conventional banks. The deposits to assets ratio seems to be very similar among the different banks and consistent with the loans to deposits ratio. Due to the same results provided by both ratios, we have removed the deposits to assets ratio from the variable. This results in a non-collinearity problem among the variables of the study. The Statistical Package of Social Sciences (SPSS) tool was used in analyzing the data.

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Table 1: Descriptive Statistics

Bank	DPR	LAR	LDR	DAR	ROA	ROE	EPS
NBAD	0.37	0.74	0.95	0.68	0.03	0.26	1.1
	0.59	0.76	1.16	0.66	0.02	0.18	1.45
FGB	0.41	0.9	0.99	0.72	0.038	0.19	1.2
	0.34	0.88	0.65	0.62	0.02	0.16	1.18
MSQ	0.1	0.44	0.8	0.38	0.03	0.22	9.4
	0.4	0.52	0.88	0.46	0.01	0.08	6.5
Em NBD	0.15	0.74	0.82	0.61	0.01	0.18	1.2
	0.42	0.89	1.15	0.73	0.023	0.15	1.6
EB Int	0.37	0.72	1.02	0.75	0.05	0.12	0.45
	0.32	0.71	0.93	0.68	0.04	0.11	0.42
CBD	0.55	0.88	0.85	0.65	0.02	0.15	0.38
	0.47	0.83	1	0.62	0.05	0.17	0.42
ADCB	0.55	0.78	0.94	0.72	0.017	0.18	0.45
	0.47	0.63	1.12	0.71	0.018	0.15	0.48
NB Fuj	0.63	0.95	1.15	0.82	0.027	0.18	0.45
	0.35	0.71	0.88	0.72	0.02	0.16	0.35
RAK	0.36	0.73	0.82	0.71	0.04	0.25	1.23
	0.45	0.77	0.87	0.74	0.05	0.22	1.2
UMQW	0.67	0.72	1.42	0.82	0.03	0.15	0.96
	0.54	0.58	1.12	0.72	0.025	0.12	0.93
Un NB	0.25	0.65	0.92	0.58	0.03	0.11	0.96
	0.48	0.48	0.73	0.45	0.03	0.12	0.98
U Arb B	0.66	0.92	1.23	0.84	0.03	0.13	0.55
	0.59	0.85	1.05	0.79	0.03	0.17	0.64
CB Int	0	0.52	0.63	0.44	0.04	0.15	0.08
	0.04	0.47	0.51	0.41	0.03	0.09	0.14
ADIB	0.47	0.63	0.83	0.57	0.02	0.15	2.6
	0.51	0.64	0.84	0.58	0.02	0.18	3.2
DIB	0.55	0.82	0.76	0.65	0.03	0.26	0.57
	0.51	0.83	0.78	0.67	0.01	0.14	0.27
SHIB	0.48	0.44	0.75	0.58	0.03	0.12	0.07
	0.58	0.47	0.75	0.63	0.02	0.08	0.12
EIB	0	0.21	0.77	0.32	0.015	0.24	0.03
	0.25	0.35	0.83	0.45	0.03	0.29	0.04
B SH	0.35	0.65	0.92	0.58	0.03	0.11	1.25
	0.52	0.64	0.89	0.55	0.03	0.18	1.3

Correlation: Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. It assesses how well the relationship between two variables can be described using a monotonic function. If there are no repeated data values, a perfect Spearman correlation of +1 or -1 occurs when each of the variables is a perfect monotone function of the other. Table 2 presents a very low coefficient correlation among

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the different variables which proves that all existing variables have influential impact on the dividend payout ratio because they have a significant correlation. The deposit/asset ratio is highly correlated with the loan/deposit ratio the reason it was removed. The variables have a significant relationship with Islamic banks but there is insignificant relationship with the period. This proves that the variables are somehow similar prior and subsequent to financial crisis.

Table 2: Coefficient Correlations

Coefficient Correlations^a

Model		period	Islamic	EPS	ROE	LDR	ROA	LAR	
1	Correlations	period	1.000	.035	.049	.193	.050	.087	.045
		Islamic	.035	1.000	.237	-.193	.171	.277	.330
		EPS	.049	.237	1.000	-.092	-.011	.206	.239
		ROE	.193	-.193	-.092	1.000	.019	-.166	-.088
		LDR	.050	.171	-.011	.019	1.000	.018	-.364
		ROA	.087	.277	.206	-.166	.018	1.000	.033
		LAR	.045	.330	.239	-.088	-.364	.033	1.000
	Covariances	period	.002	7.39E-005	2.32E-005	.003	.000	.007	.000
		Islamic	7.39E-005	.003	.000	-.004	.001	.030	.002
		EPS	2.32E-005	.000	.000	.000	-1.6E-005	.005	.000
		ROE	.003	-.004	.000	.163	.001	-.136	-.005
		LDR	.000	.001	-1.6E-005	.001	.016	.005	-.006
		ROA	.007	.030	.005	-.136	.005	4.152	.009
		LAR	.000	.002	.000	-.005	-.006	.009	.019

a. Dependent Variable: DPR

The regression analysis has been conducted using the SPSS to investigate the impact of the selected variables on the dividend payout ratio. The regression results are presented in table 3, table 4, and table 5 below. The model is a robust model and statistically significant with $F = 7.42$ and a high value of $R\text{-square} = 0.65$ which indicates that the model explains 65% of the variations on the dividend payout ratio.

There is a highly positive and very significant relationship between loan to deposit ratio and dividend payout ratio (0.00) and also between loan to asset ratio and the dividend payout ratio (0.001). Therefore, we can accept hypothesis 1 that there is a significant relationship between liquidity and the dividend payout ratio.

This finding proves that liquidity is a major determinant factor of the dividend policy, hence it is consistent with Aivazian, Gatchev, and Spindt, (2007), Kuwari (2009), and Baker and Wurgler (2004).

One of the interesting results is that there is insignificant and negative relationship between the return on assets (0.9) and return on equity (0.22) on one hand and the dividend payout ratio on the other hand. This result contradicts with many studies due to the fact that all the

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banks generate same range of profits and varies in their liquidity position; hence the profitability is not a determinant factor as in the case of liquidity. The earning per share is not significant but in the right direction because the P-value is 0.99 under a 0.05 level of significant. Based on this result, hypothesis 2 will be rejected because there is no significant relationship between profitability and the dividend payout ratio.

It is evident that profitability has no significant relationship with the dividend payout ratio. This result is different from the findings of Mehta (2012), Juhmani (2011), Kania & Bacon (2005), and with Gill, Biger and Tibrewala (2010).

The results of the regression model show that the dividend payout ratio is positively affected by three variables of which the two liquidity variables are significantly related but earning per share is positive but insignificant. The return on assets and return on equity are not significantly related to the dividend ratio and negatively correlated. This may be explained by the reliance of the UAE banks on profits to finance their continuous expansion. It is noticed that the dividend payout ratio is negatively affected by some external variables explained by (-0.383) which may include nature of investments, ownership structure, management policies, and economic and financial factors.

The model can be written as follows:

$$\text{DPR} = - 0.383 + 0.51 \text{ LAR} + 0.505 \text{ LDR} - 0.258 \text{ ROA} - 0.509 \text{ ROE} + 2.74 \text{ EPS}$$

Where;

LAR: Loans to assets ratio;

LDR: Loans to deposits ratio;

ROA: Return on assets;

ROE: Return on equity; and

EPS: Earnings per share.

Table 3: Regression ANOVA

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.725	7	.104	7.419	.000 ^a
	Residual	.391	28	.014		
	Total	1.116	35			

a. Predictors: (Constant), period, Islamic, EPS, ROE, LDR, ROA, LAR

b. Dependent Variable: DPR

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.806(a)	.650	.562	.11817

a Predictors: (Constant), period, Islamic, EPS, ROE, LDR, ROA, LAR

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Table 5: Model Coefficients

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.383	.157		-2.437	.021		
LAR	.510	.138	.502	3.689	.001	.677	1.478
LDR	.505	.125	.519	4.055	.000	.763	1.310
ROA	-.258	2.038	-.015	-.127	.900	.868	1.152
ROE	-.509	.404	-.149	-1.261	.218	.902	1.109
EPS	2.74E-005	.012	.000	.002	.998	.887	1.127
Islamic	.169	.052	.431	3.240	.003	.707	1.415
period	.063	.041	.179	1.547	.133	.939	1.065

a. Dependent Variable: DPR

The results of regression coefficients presented in table 5 above, proved that there is a significant and positive relationship between all the variables and Islamic banks (0.003) but not significant with conventional banks. This can be explained by the nature of sharing profits in Islamic banks and their consistent performance even during the crisis period which is not exactly true in the case of conventional banks. Hence, we can accept hypothesis 3 and agree that the dividend payout ratio and independent variables of liquidity and profitability vary significantly between Islamic banks and conventional banks.

Regarding the impact of crisis, the results prove that the impact of period (prior and subsequent) to crisis is not significant but in the positive direction (0.13). The finding here is to reject hypothesis 4 which states that there is a significant difference between the dependent and independent variables prior and subsequent to the financial crisis. This may be explained because the banks were performing well prior to crisis and also recovers quickly after the crisis. Another justification is that the peak period of crisis is 2008 and 2009 and we classify 2008 as a prior crisis year and 2009 as a subsequent crisis year, which eliminates the impact of the period.

6. Summary and Conclusion

The dividend policy refers to the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders. The main objective of this study is to investigate the impact of liquidity and profitability on dividend payout ratio in the UAE banking sector as well as investigating the variations between Islamic and conventional banks prior and subsequent to financial crisis.

The main motivation behind this study is that very few studies have been conducted in the Gulf region and the UAE and no single study about the dividends in the UAE banks. Therefore, the study tries to fill this research gap and help banking practitioners to make useful decisions.

This study is comprehensive in the sense that it covers around 75% of the UAE national banks (18 out of 24 banks). The major liquidity and profitability ratios and the dividend payout ratio have been computed for the period 2005 - 2012. The correlation analysis and multiple regression analysis are conducted to test the research hypotheses.

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The main findings are the significant relationship between liquidity and dividend payout ratio but non-significant relationship between profitability and dividend payout ratio. The variables are significantly related to the Islamic banks but non-significant with the period (prior and subsequent to crisis). Based on the findings, hypothesis 1 and hypothesis 3 have been accepted whereas, hypothesis 2 and hypothesis 4 have been rejected.

The results of our study support the previous studies conducted by Aivazian, Gatchev, and Spindt, (2007), Kuwari (2009), and Baker and Wurgler (2004). It is however different from the studies of Mehta (2012), Juhmani (2011), Kania & Bacon (2005), and somehow with Gill, Biger and Tibrewala (2010).

The study was planned to cover all the banks working in UAE but one of the limitations is that it exclude all the foreign banks working in UAE because their dividend policy is not determined by the liquidity and profitability of the branches. The policy is stated by the head offices of the foreign branches. Also six local banks have been excluded because of the unavailability of consistent data for the 8-years period.

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