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Ways to Develop Dividend Policy in Commercial Banks

Aliyev Gulomnazir Makhamatjonovich
Researcher at the Banking and Finance Academy of the Republic of Uzbekistan

ABSTRACT: This article provides a comprehensive analysis of the theoretical foundations and practical mechanisms for developing dividend policy in commercial banks. The study substantiates the impact of improving dividend policy on banks' financial stability, capitalization level, and investment attractiveness. In addition, the interrelationship between changing socio-economic conditions, the efficiency of banks' lending activities, risk management systems, and the share of non-performing loans in the process of dividend policy development is examined. The article also analyzes the challenges arising in financial decision-making during the formation and development of dividend policy in commercial banks, particularly issues related to maintaining a balance between profit distribution and reinvestment.

KEYWORDS: dividend, dividend policy, commercial banks, dividend policy development, bank capitalization, lending activity, non-performing loans, financial decisions, bank risks, financial stability, bank financial strategy, investment attractiveness

INTRODUCTION

In the context of globalization and integration of financial markets, banks are faced with the task of developing dividend policy not only as a means of profit distribution, but also as a strategic mechanism aimed at strengthening investor confidence, increasing their position in the capital market, and ensuring long-term sustainable development. International practice shows that banks that pursue a stable and predictable dividend policy enjoy high confidence in the capital market, and their shares are considered more attractive to investors.

In the context of the processes of reforming the banking system of Uzbekistan, the development of the capital market and the expansion of the participation of private investors, the issue of developing a dividend policy in commercial banks is gaining particular relevance. The strategic documents of the President of the Republic of Uzbekistan aimed at modernizing the banking system set out as priority tasks increasing the level of capitalization of banks, strengthening their financial stability and improving corporate governance. The role and importance of dividend policy in the effective implementation of these tasks is increasing.

At the same time, practical analysis shows that the dividend policy of the majority of commercial banks of our republic is cautious, and dividend payments are often below the inflation rate or, in some cases, are not made at all. This situation reduces the investment attractiveness of bank shares and limits the active participation of banks in the capital market. In particular, the focus on capitalization of profits does not negate the need to develop a dividend policy, but requires its coordination with the bank's financial strategy.

In the process of developing a dividend policy, the efficiency of banks' lending activities, risk management system and the share of problem loans are of great importance. Increasing dividend payments in conditions of low credit portfolio quality can negatively affect the financial stability of the bank. Therefore, the development of dividend policy should be carried out in close connection with effective credit risk management, improving asset quality and ensuring financial stability.

This study aims to deeply analyze the theoretical and practical aspects of the development of dividend policy in commercial banks, to study it in connection with the financial strategy of banks, the level of capitalization and investment attractiveness, and to develop practical recommendations based on advanced foreign experience. The results of the study will serve to ensure the sustainable development of the banking system by improving the dividend policy in commercial banks.

of the President of the Republic of Uzbekistan " On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025", adopted on May 12, 2020 Decree No. PF-5992, " An analysis of the current situation in the banking sector showed that there are a number of systemic problems that hinder the development of the banking sector in line with economic reforms and the needs of society, such as high levels of state intervention in the banking sector, insufficient quality of management and risk management in banks with state participation, and a low level of financial intermediation in the economy ” [1] .

Thus, in the process of transforming the economy, commercial banks are actively developing their dividend policy, which helps stimulate economic growth and increase the well-being of society.

ANALYSIS OF RELEVANT LITERATURE

In the scientific literature, the issue of developing dividend policy has been studied based on various approaches, and in some studies, the impact of dividend payments on the market value of shares has been deeply analyzed, and in other studies, the problems of the balance between profit distribution and reinvestment have been analyzed. Also, in foreign scientific works, dividend policy has been considered inextricably linked with the financial strategy of banks, the risk management system, and the quality of the loan portfolio. This creates the need to study the development of dividend policy not only within the framework of profit distribution, but also as a complex element of banking activities. Theoretically , in perfect market conditions, investors are interested only in the total return, not in its individual forms. M. Gordon [2] and J. Lintner in their works believe that “as the dividend payout ratio increases, the value of equity capital (return on equity) decreases, since the receipt of income in the form of an increase in the value of capital is more risky than income in the form of dividends.” In their opinion, any dividend policy leads to the same results without affecting the value of the bank and the well-being of its owners.

In our opinion, the main ones were formulated by economists D.K. Shim and D.G. Siegel, who stated:

"First, dividend policy affects the relationship with investors. Shareholders have a negative attitude towards joint-stock companies that regularly reduce dividends, because they associate this decrease with the financial difficulties of the joint-stock company, as a result of which they may sell their shares, which in turn may cause the market price of the shares to fall;"

secondly, dividend policy affects the financial strategy of the joint-stock company and the capital investment budget;

Third, dividend policy affects the cash flow of a joint-stock company. Joint-stock companies with low liquidity may be forced to limit dividend payments;

Fourth, dividends have the property of reducing equity capital because they are paid out of profits. As a result, they lead to an increase in the ratio of debt capital to equity capital” [2].

According to the theory put forward by R. Litzenberger and K. Ramaswamy, “For shareholders, capitalized income is more important than dividend income, and this is due to the fact that capitalized income is taxed at a lower rate than dividends received” [4].

According to the signaling theory of S. Ross and S. Bhattacharya, “Through dividend policy, management sends signals to investors about the state of the bank, while in agency theory, M. Jensen and U. Meckling express that conflicts of interest between different management groups, bank shareholders, and creditors occur through dividend policy [5].

One of the main factors determining dividend policy is debt and its quality. If a bank begins to borrow heavily on the open market, then, according to Y. Fedorova and I. Lukasevich, “investment in the activities of national banks in order to receive dividends is becoming more widespread” [6].

The economic essence of dividends, the results that joint-stock companies can achieve through a rational dividend policy, and the issues of dividend analysis were studied in detail by the Uzbek economist S. Elmirzaev[7]. N. Sherkozieva, in her article, studied the role of dividend policy in the financial management system of joint-stock companies, and studied in detail the main theories of dividend policy, principles of dividend policy, and the procedure for declaring and paying dividends based on national and international experience [8]. Dividend policy issues are also of great importance in the business environment. In particular, according to Victoria Maisuradze, the head of corporate ratings at Moody's, "Dividend policy is one of the main factors in determining a company's credit rating" [9].

Taking into account the above circumstances, at the present stage, scientific research aimed at studying the processes related to dividend policy in commercial banks of our country is also of particular importance. In particular, the scientific work carried out by the aforementioned domestic and foreign researchers confirms the relevance of the issues of improving dividend policy in the context of reforming the banking system, developing the capital market and increasing investor confidence. These studies serve to formulate approaches aimed at harmonizing dividend policy with the financial strategy of banks, ensuring an optimal balance between profit distribution and reinvestment.

In our opinion, the main conceptual difference between these views is explained by different interpretations of the role and importance of dividend policy at the level of companies, in particular commercial banks. The specific features of banking activities, including a high level of regulation, sensitivity to risks and strict capitalization requirements, require a flexible and strategic approach to the development of dividend policy. Therefore, a comprehensive analysis of existing theoretical approaches to determining ways to develop dividend policy in commercial banks and their adaptation to the conditions of the national banking system is an urgent scientific and practical task.

RESEARCH METHODOLOGY

This In preparing the article, a comparative and critical analysis of the legal and regulatory documents, the literature and Internet information used, and the scientific and theoretical views of economists on the topic were carried out. In addition to general economic methods, systematic analysis, generalization, abstract-logical thinking, and statistical methods were used during the study of the topic.

ANALYSIS AND RESULTS

Along with determining the type of dividend policy, it is necessary to comprehensively consider the impact of the implementation of this policy in joint-stock companies on the efficiency of investment activities and the level of investment attractiveness. Because a rational and stable dividend policy is one of the important factors that increase the attractiveness of the stock market for investors, which ultimately serves the activation of the capital market and the sustainable development of the country's economy. In particular, in the activities of commercial banks, dividend policy is of strategic importance in strengthening investor confidence, increasing the market value of bank shares, and attracting long-term investments.

In our republic, the state has a significant stake in strategically important joint-stock companies, including commercial banks, and state participation remains high even in the structure of general joint-stock companies. In such conditions, the process of forming dividend policy is carried out on the basis of a more centralized approach, and this situation is often characterized by a priority given to the capitalization of profits. As a result, the limitation of dividend payments may reduce investment activity in the stock market.

At the same time, taking into account the fact that the financial market of our republic is developing as a developing market, there is a need to further improve the dividend policy of joint-stock companies with state participation, in particular commercial banks. At the same time, the introduction of predictable and transparent mechanisms of dividend policy is of great importance for the effective implementation of the currently planned privatization processes, attracting strategic investors, and increasing the market attractiveness of bank shares.

In our opinion, one of the effective ways to develop a dividend policy in commercial banks is to establish a minimum mandatory share of net profit allocated to dividend payments. This approach, on the one hand, allows banks to maintain their capitalization level, and on the other hand, provides a stable source of income for investors. Thus, the dividend policy is carried out in harmony with the bank's financial strategy, contributing to the development of the stock market and the successful implementation of privatization processes.

In general, the development of dividend policy in commercial banks requires a comprehensive approach aimed at ensuring a balance between the interests of investors and the financial stability of banks. The implementation of this approach in practice is an important factor in increasing the competitiveness of the banking sector, activating the capital market, and accelerating economic development.

Dividend policy in commercial banks includes several important aspects of economic importance. This policy determines the financial stability, development and relations with investors of the bank.

Table 1 of Uzbekistan in 2019–2024[1]

Bank name	Dividends on common shares	Dividends on preferred shares	The main feature of dividend policy	Analytical assessment
Microcreditbank JSCB	Not calculated	20 percent of the nominal value, 213.60 soums per 1 share	A stable dividend policy focused primarily on preferred shares	Stable, but less attractive for investors than common stocks
Aloqabank JSCB	Calculated in some years	Regularly paid	is aimed at returning part of the profit to shareholders .	Average investment attractiveness
People's Bank JSCB	Limited quantity or not counted	Priority direction	High state participation, capitalization- oriented policy	Dividends are of secondary importance

[1] Compiled by the author based on data from commercial banks

Ipotekabank JSCB	Available at certain times	Unstable	Priority for expanding lending	Dividend policy is variable.
Kapitalbank JSCB	Regular (in selected years)	Not available or limited	-oriented policy for investors	High investment attractiveness
Agrobank JSCB	Not calculated or low	Limited	Focused on financing agriculture	Dividend policy is socially oriented

can be seen from the comparative table, the dividend policy of commercial banks in Uzbekistan is not uniform, but is formed depending on the form of ownership, strategic direction and level of capitalization of banks. In particular, although the dividend policy of JSCB "Mikrokreditbank" is characterized by stability on preferred shares, the absence of dividends on ordinary shares limits the market attractiveness of bank shares. While in private banks (for example, JSCB Kapitalbank) the dividend policy is more focused on attracting investors, in banks with a high state share, dividend payments are more subordinated to capitalization and social tasks. This situation indicates the need for a differentiated and strategic approach to improving the dividend policy in commercial banks.

Table 2 indicators of Agrobank JSCB for 2023-2024[2]

Indicators	2023 (first half of the year)	2024 (first half of the year)	Trend of change
Dividend income (million soums)	452	335	Decreased
Dividends payable (million soums)	448	432	Shrunken
Dividends as a percentage of profits	Low	Low	Unchanged
The nature of dividend policy	Conservative	Conservative	Stable

presents a comparative analysis of the dividend indicators of Agrobank JSCB for the first half of 2023–2024. According to the results of the analysis, in the first half of 2024, the dividend income received by the bank decreased from 452 million soums to 335 million soums compared to the same period in 2023. This is explained by a decrease in income from the bank's investments in shares of other economic entities or a decrease in the volume of dividend payments. It is also observed that the volume of dividends payable to shareholders decreased from 448 million soums to 432 million soums during the period under analysis. This indicates that Agrobank JSCB's dividend policy is prudent and the main part of the profit is directed to capitalization, strengthening financial stability and expanding the bank's assets. The share of dividends in the bank's profit remained low in both periods, which indicates that the bank's dividend policy prioritizes long-term development strategies over paying current income to shareholders. This approach is typical for commercial banks with high state participation and is aimed at ensuring the bank's financial security and minimizing risks. In general, the table data shows that the dividend policy of Agrobank JSCB has not changed significantly in 2023–2024 and is carried out in a conservative direction.

republic is regulated by the Law “On Joint Stock Companies and Protection of Shareholders’ Rights”, we have observed that the theoretical and practical aspects of the practice of conducting dividend policy have not been studied sufficiently fully, and very few studies have been conducted in this area. However, the initial studies in this area began to take shape in the first half of the last century. However, it should also be noted that scientists have not yet come to a consensus on the optimal form of this policy, the formation of which dates back to such a long time. This indicates the need to conduct both theoretical and practical studies on the formation and effective application of optimal dividend policy in order to increase the investment attractiveness of joint stock companies in our country.

Table 3 The main factors affecting the non-payment of dividends in state-owned banks and their scientific and [3]practical characteristics

Reasons	Scientific content	Practical implications and commentary
Capital adequacy requirements	Dividend payments reduce the capital base, which may be contrary to prudential standards.	are directed to capital strengthening as retained earnings, not dividends
Non-performing loans (NPL) ratio	High NPLs reduce bank profits through reserves	to pay dividends will be limited, and profits will be used to cover risks.

[2]Compiled by the author based on the financial statements of Agrobank JSCB

[3] Author's development

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The need to maintain liquidity	Dividend is a real cash flow	will not pay dividends to reduce liquidity risk
State development mandate	State-owned banks perform socio-economic functions in addition to profit	will be secondary, lending will be a priority
Privatization and transformation process	Capital will be increased to increase the value of the bank	paying dividends makes the bank attractive to investors in the long term
The lack of strict standards for dividend policy	There is no exact payout ratio.	are centralized and situational.
Shareholder structure (state dominance)	Market pressure will be low	There is no obligation to pay dividends.
Priority of lending volume	Profits are directed to finance economic growth	are seen as a factor reducing credit resources

The analysis of the factors presented in Table 3 above shows that the non-payment of dividends or their limited payment in state-owned banks is mainly due to their institutional tasks and strategic priorities, rather than to the fact that the banks are making losses. The dividend policy of state-owned banks serves to ensure capital adequacy, strengthen financial stability, and provide credit to priority sectors of the economy, rather than to pay current income to shareholders.

At the same time, from the perspective of developing a dividend policy in commercial banks, the complete non-payment of dividends may reduce the investment attractiveness of bank shares and limit the activity of banks in the capital market. Therefore, in the future, it is advisable to introduce a conditional and phased dividend policy in state-owned banks, that is, to apply a mechanism for paying minimum dividends when capital adequacy, NPL levels and liquidity indicators reach certain criteria.

CONCLUSIONS AND SUGGESTIONS

The results of the study show that in commercial banks, dividend policy is not only a means of distributing bank profits, but also an important strategic mechanism that determines the financial stability, level of capitalization, investment attractiveness and position of banks in the capital market. It was found that the formation of dividend policy is inextricably linked to the financial results of banks, the quality of the loan portfolio, the risk management system and prudential requirements. The analysis showed that the dividend policy of Uzbek commercial banks, especially those with a high state share, is conservative in nature, and the main part of the profit is directed to capitalization and strengthening financial stability. In the case of Agrobank JSC and the NBU, the limited or complete absence of dividend payments is explained by the banks' development mandates, capital adequacy requirements and reserves for problem loans. However, the long-term non-payment of dividends can reduce the investment attractiveness of bank shares and negatively affect the development of the capital market. As a result of comparative analysis, it was found that in private banks, dividend policy is more focused on attracting investors, while in state-owned banks, dividend policy is of secondary importance. This situation requires a differentiated and flexible approach to the development of dividend policy in commercial banks. Also, the need to harmonize dividend policy with banks' lending activities, risk management system and strategic development goals was scientifically substantiated.

In general, the development of dividend policy in commercial banks is an important factor in ensuring the sustainable development of the banking system, strengthening investor confidence, and activating the capital market.

Based on the above conclusions, the following scientific and practical proposals are put forward for the development of dividend policy in commercial banks:

1. Introducing a mechanism in commercial banks that provides for the allocation of a certain minimum share of net profit (for example, 10–20 percent) to dividend payments will create a predictable income environment for investors.

2. Making dividend payments when capital adequacy, NPL levels, and liquidity indicators exceed established criteria will allow the bank to develop a dividend policy while maintaining its stability.

link the dividend policy with the bank's long-term financial strategy, capitalization plan, and risk management system.

public disclosure of clear dividend policy rules, payout ratios, and decision-making mechanisms strengthens investor confidence.

5. Improving the quality of the loan portfolio and reducing the level of NPLs will expand the possibilities for dividend payments.

Introducing a mechanism for transitioning state - owned banks to minimum dividends and then stable dividend payments will increase their attractiveness in the capital market. The dividend signaling and stable dividend policy models used in banks in developed countries should be adapted to the conditions of the national banking system.

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