ABSTRACT

The core Objective of this survey is to investigate the relationship among the capital structure and financial performance of Islamic banks of Pakistan when is listed at Pakistan stock exchange. This study used panel data from the financial annual reports of the banks during time dated of 2007 to 2017. In this study different statistical tool is used to describe the consequence of capital structure and financial performance. Return on Assets (ROA), Return on Equity (ROE), Profit Margin (PM), and Earning per Share (EPS) s used to degree of financial performance of the banks that is endogenous variables. Capital Ratio (CR), Debt Ratio (DR), Debt to Equity Ratio (DER) and Debt to Capital Ratio (DCR) are treated as exogenous variables. Multiple techniques such as Descriptive, Regression & Correlation annually are used to check R/S between C/S & Financial performance of Islamic bank & apply E views to check determinants of Capital Structure and its impact of firm Performance of Islamic Banks.

KEY WORDS: Capital structure, financial performance, Islamic banks, returns on equity, debt ratio.

Chapter 1: Introduction and Research Design

1.1. Introduction Concept

Islamic Banking or Islamic Finance or Sharia-compliant Finance is banking or financing activity that complies with sharia (Islamic law) and its practical application through the development of Islamic economics. Some of the modes of Islamic banking/finance include Mudarabah (Profit sharing and loss bearing), Wadiah (Safekeeping), (Joint Venture), Murabahah (Cost plus), and Ijara (Leasing).

Sharia prohibits Riba defined as interest paid on all loans of money (although some Muslims dispute whether there is a consensus that interest is equivalent to Riba). Investment in businesses that provide goods or services considered contrary to Islamic principles (e.g. pork or alcohol) is also haram ("sinful and prohibited"). Moreover, what you give in usury (riba), that it may increase upon the people's wealth, increases not with God; (Quran 30:39)

Other Medinan verses are: for their taking usury (riba), that they were prohibited, (Surah An-Nisaa Quran 4:161)

O believers, devour not usury (riba), doubled and reddoubled, and fear you God; haply so you will prosper. (Surah Al-i’-Imran Quran 3:129-130)

Capital structure is particular distribution of equity and debt that makes up the finance of the institution. Capital structure is the most effective parameter to check the performance and valuation of financial institutions. The primary object of the financial managers should be to increase the shareholder's wealth is decided the best way source of fund for financial institutions. Capital structure theory was introduced first by Modigliani and Miller in 1958 who examined the firm’s value change though changing its capital structure (Modigliani and Miller 1958). After this theory many of papers publish to investigate and try to find the impact of capital structure on conventional bank and corporate performance. Few papers found on influence of capital structure on financial Islamic Bank performance. So the purpose of this survey we checked the effect of capital structure is negative or positive on Islamic banks performance. (Kajananthan 2012)

The decision of the capital structure is very essential because such type of decisions are directly influence on the performance of the firms. The victorious selection and usage of funding or capital is one of the major key component of the organization.

The firm’s financial performance is not based on the capital structure but on high-quality performance of the organization is created on the strategic knowledge by the management. Also achieved by the good governance.

To gain a return on equity, financial institutes can make use of a mixture of methods and strategies. One strategy is use of capital structure. The relationship among Capital structure and Return on Equity is definitely major significance to all firms. The decision of capital structure is particularly essential to banks because they are profound to fluctuate in financial Leverage due to their low rank of owner’s equity to entire assets. The decision of capital structure is very is very important for regulators, mangers and also important for shareholders of the firm. Banks are mandatory to retain a minimum ratio of capital by rating agencies and regulatory authorities.

One of the major objectives of financial managers must deem to maximize shareholders value by using the finest mixture of financial capital designed for the corporation. Furthermore, financing evaluations for the investment is the vital obligations of organization in assurance of the greatest blend of money related assets, and an extra purpose of financial chief or head is to take this type of assessments that helpful to achieve the firm value and also decide to invest their resources. Moreover, how to funding the assets of the company and also how much equity and debt generate to financed their assets, because this’ll effect on decision of the corporation’s (Yahyazadehfar, Shams et al. 2010).

Two main sources are on hand for firms willing to generate funds to perform their activities. In which the first one is internal source of fund and second is external source of fund. When the firm raises funds within the enterprise is known as internal source of funds that is commonly retain earning. To enhance their activities firms look outside to generate more funds to achieve a level of performance. When firms use take from external sources in shape of funds or loans in response it leads to increase the number of co-owners in the business.

Islamic banking system has been explained as banking in harmony among components with the value and philosophy structure of Islam, as well the rules of management and law of risk is set by Islamic Shariah. Islamic banking system is against to interest base system because it is banned in the Shariah of Islam. The system of Islamic banking is also avoiding the immoral practices to achieve the aims of an economy. Islamic Shariah does not make illegal capital gains. Banking system of Islam is based on sharing of risk, and observes to management asset to generate the profit.

According to history of Pakistan financial system of Islamic banking system was introduced in 1977-78. In 1980s, the council of Islamic ideology presents detail information about Islamic rules regarding the economy. The overall financial system was rapidly shifted to interest free banking but unfortunately Islamic banking system was failed due to inadequacy of human resource. In 1999s another approach used for Islamic banking system that approach was to set up an Islamic banking services in the conventional banks. Islamic banks deal in different type of investing modes like MURABAHA, IJARAH, IJARAH-WAL-IQTINA, MUSAWAMAH, ISTISNA, MUSHRARAKAH and MUDARABAH.

Deposits and assets of Islamic banks were recorded at Rs.1564 billion and Rs.1885 billion in that order by end March, 2017. In overall banking industry the market share of deposits of Islamic banking was 11.7 percent and the assets market share of Islamic banking was 13.2 percent at the end of March, 2017. The system of Islamic banking is containing twenty-one (21) Islamic bank associations in which five (5) purely Islamic banks as well as conventional banks having sixteen (16) branches. Total Islamic branches was recorded 2,317 that operating crossways 116 districts of Pakistan. There are 1,239 Islamic banking windows controlled by conventional banks at the end March, 2017.

The performance of a firm needs to do with how efficiently and effectively it can’ accomplish the set objectives which might be operational or financially. The money related performance of a firm identifies with its thought process to augment benefit both to investors and on resources (Chakravarty 1986) while the operational execution worries with development and extensions in relations to deals and ’market esteem (Chrisman, Bauerschmidt et al. 1998). Since capital is used by organization to accomplish the associations define objectives, and execution is said to be the destinations so set, structure of capital and organizations execution are in this way anticipated that would be relatively related and affected each other.

(David and Olorunfémi 2010), capital structure is the blend of equity and debt to finance the business. It is utilized to speak to the proportionate connection amongst equity and debt in corporate firms’ funds. Along these lines, in this unique circumstance, the blend of debt and equity in an organizations’ capital structure. This is in accordance with the definition (Chou and Chou 2007) as a blend of equity and debt financing of a firm. An ideal structure of capital is the great equity/obligation proportion of a firm, which limits to financing cost and expands the estimation of the organization. (Nikoo 2015) utilizing the information of 17 banks from the duration of 2009 to 2014 explained the connection among the financial performance and structure of capital that is directly relate with each other.
The decision of capital structure is play a vital role in managerial decision because it manipulates the risk and shareholder return. The decision of Capital structure is also influence on the market share of the firms. The companies have to decide its all plan regarding structure of capital at the point of starter. Afterward, whenever they have raised the funds the assessment of capital structure is involved. The requirement for generating more funds that lead to a new structure of capital that needs a critical study (Birru 2016). (Myers 2001) stated that which there was not exist any common study or rule of thumb on choice of debt and equity but point to be noted that still there is not any specific theory to explain the accurate structure of the equity and debt mixture. But some theories explore some mixture of capital structure.

1.2 Purpose of study
The core purpose of this study is that to examine and explain the relationship among capital structure and financial performance of Islamic banking in Pakistan.

1.3 Scope and Significance
The scope of this paper is that the results and findings of this work will explain the function of using capital structure in knowing the part that capital structure has in deciding financing related execution and then again it will enlighten researchers on the significance of the capital structure to any business. For managers of Islamic banks, this study will help them to know how to improve the organization's capital structure and to control it so as to have positive outcomes accordingly helping firms to gain a competitive edge over their competitors. It will similarly help future specialists to set up the connection among capital structure and financing related implementation of corporations and furthermore help preparing establishments improve the courses they offer.

1.4 Object of study
Based on the type of the dilemma recognized above, this study has following object:
- To explore the affiliation between capital ratio (CR) and financial performance of Islamic Banks of Pakistan.
- To investigate the relation among debt ratio (DR) and financial performance of Islamic Banks of Pakistan.
- To Find out the link amongst debt to equity ratio (DER) and financial performance of Islamic Banks Pakistan
To investigate the association between debt capital ratio (DCR) and financial performance of Islamic banks of Pakistan.

1.5 Chapter plan
This study is divided into following segments. The first segment is explaining the introduction of the capital structure and its influence on financial performance of Islamic banks of Pakistan. The second segment is consisting of literature review of study. Third segment of this study is explored the conceptual and theoretical framework. Data and research methodology is explained at segment forth. Segment fifth describes the empirical analysis of data. Last segment has been expresses the summary and conclusion of this study.

Chapter .2 Review of Literature
(Haron 2004) analyzed the impacts of variables that give toward the profitability of Islamic banks. Collect the data of 14 Islamic banks with inward factors, for example, liquidity, add up to expenses, funds contributed in Islamic securities and the level of the benefit sharing proportion among the bank and the debtor of assets are exceptionally connected with the level of aggregate revenue received by Islamic banks. Comparable impacts were found for outside elements in which including a market share, interest rate and size of the bank. Different determinants in which fund deposited into current account, total capital and reserves, the level of benefit sharing among the bank and its contributors and cash supply were likewise establishing to assume an influence part in affecting the Profitability of IBs.
(Abor 2005) conduct research on listed companies of Ghana Stock Trade for 5 years to checked the link between capital structure and firms performance. Measure the capital structure of firms through return on equity in this research used regression analysis to estimate the result. Find the result of this study through ROE who show significant relation between total assets to short term debts ratio. Additionally, the outcomes show a direct relationship between the return on equity and total debt to total assets ratio. This study recommends to profitability of companies depend debts as compare to financing option.
(Salehi and Biglar 2009) a research conduct to identify with Iranian Firms were finished that concentrated the
issue of whether the capital structure choice affects firm’s profitability? Where they utilized three meaning of capital structure in scale of market worth to book value and five procedures were expected for financial performance. They connected the information of 117 firms in Tehran Stock Exchange for the session from 2002 to 2007. Show the results of study verified the capital structure impacts financial performance. The importance impact of capital structure on financial performance correspondingly is had a place with measures of market value, book value and adjusted value. (Arbabiyan and Safari 2009), utilizing the information of 100 organizations for 2001–2007, find a major direct relationship of TD TA and STD TA with return on equity. Be that as it may, the author finds out inverse relationship between of LTDTA with ROE. The fundamental disadvantage of this research paper was that they utilized just a single variable return on equity to determine the performance. (Kajananthan 2012) an investigation that is identified with Sri Lankan listed firms was done in 2013 by who checked the link between capital structure and firms performance of 25 companies utilizing the information covering the times of 2008-2012. Net benefit, gross profit, returns on assets and return on equity, were utilized as the measures of firm performance while debt assets ratio and debt equity ratio were utilized as the measures of capital structure. The statistical tests were utilized, where, the outcomes demonstrate that net profit, gross profit, return on assets, return on equity, are not significant associated with debt equity ratio. Also show a significant connection between capital structure on gross profit and return on equity. (Komnenic and Pokrajčić 2012) conducted a study and empirically describe connection between intellectual capital and organization performance. In this paper the Human and structural capital efficiency are used as dependent variables. Return on equity and return on asset is used as independent variable and capital employed efficiency were treated as control variable. To analysis the data regression statically tool is used. Results indicate that human capital efficiency, structural capital efficient and capital employed efficiency have directly related with performance. (Soumadi and Hayajneh 2015) a point out the impact of capital structure on financial performance of the publically organizations of Jordan that is listed at stock market of Amman. To look at the influence of capital structure on the financial performance of the use regression technique with the support of ordinary least square method. They selected industrial organization as well as service firms. The sample size is 76 firms and data is collected from 2001 to 2006.the result of this survey exhibited that if a firm has high leverage or low leverage there is no impact or there is no difference on their financial performance of the firm. This paper also explained that there is no impact on the performance of the firms by their high growth or low growth firms. (Salehi and Biglar 2009) conducted a research on this issue weather there is relation between capital structure and financial performance of the firms. They use three variables to explain the capital structure and five measures to clarify the financial performance of the firms. The sample size is 117 firms those listed on stock exchange of Tehran and the data is taken from 2002 to 2007.the findings of this study showed that the structure of capital of Tehran firma have affect the financial performance of the firms. (San and Heng 2011) in their examination investigate the connection between capital structure and firm financial Performance of Malaysian Construction Sector in the midst of 2005 to 2008. In this examination, 49 associations were picked as tests. Results exhibited that discover positive association between capital structure and firm performance. (Chen and Strange 2005) examined the connection between the factors of firm age, firm size, risk business, growth rate of sale, assessment, productivity and intangible resources with ratio of debt (capital structure) in 2003 of every 972 stock organizations in China and close that the connection between these factors and obligation proportion rely upon the principle of figuring of endogenous variable (book value or market value). (Sogorb-Mira 2005) an inspection the effect of small and medium organizations' highlights on their structure of capital in Spain from the time period of 1994 to 1998. In this investigation, he utilized from information of 6482 nonfinancial organizations in 8 industry arrange. Results demonstrate that profitability and tax reserves of these organizations have inverse association with capital structure even as asset structure, size, opportunities of growth these organizations have direct relation with structure of capital. (Umar, Tanveer et al. 2012) to determine the link between capital structure and it’s manipulating of this structure on financial performance of the organization. Data is taken of 100 firms from the time period s 2006 to 2009. In this study return on asset and earnings per share is used to measure the financial performance indicator. And to measure capital structure short term debt over total asset, total debt over total asset, and long term debt over total asset. The conclusion of this study stated that the capital structure is manipulated on the financial performance and the finding of this research paper is support the tradeoff theory. In this research paper(El-Sayed Ebaid 2009) inspected capital structure and performance of the organizations, the point of this study check connection between the financial performance of organizations and the debt level.
during period of this data (1997 to 2005). Three accounting based utilized by determine of the performance return on equity, return on asset and gross profit margin. In this research paper found that negative critical effect of the total debt and short term debt on financial performance of estimated by ROA, yet there is no huge link found between the long term debts and estimated of the financial performance. He is likewise proposed not critical impact of debt (STD, TD & LTD) on the financial performance of estimated by net overall revenue and Return on assets. In this paper found the outcomes firm size control variable no significant impact on firm performance. In this research used the least squares regression statistical tool to determine performance of organization.

We conduct the study by (Shafique, Faheem et al. 2012) who examines the Global financial affect the conventional banking system in all worlds. Islamic financial method performance is improved than conventional method of banking in the worldwide financial crises. During the IFN (interest free nature) of the Islamic financially structure the risk is less than of the conventionally banking system. In this research the order of Islamic banking system increases the WW (Western world) during the international financially structure. In this study test the validity of view that in the worldwide financial crises, system of Islamic bank also constant, then the conventional banking system. In this paper explains that the Islam is many additional, the prevention of the Zakah & Riba, but broad method accomplishes the society’s necessities. But the Islam point out on needs & peoples, instead of production.

In the sector of Islamic banking one investigated by (Berger and Di Patti 2006) clearly inspected the new procedure for test the impact of capital structure performance on banks. In this research used the SEM (Simultaneous Equation Model) for the reserve causality by performance to capital. The profit efficiency used of firm performance to analysis agency cost & controlled the ownership structure. This research used the data 1990 to 1995, on 7320 US banks. The finding shows consistency with results & agency theory. (Berger and Di Patti 2006) controlled concurrent predisposition and they utilized averages variables over of the period rather Panel information. These studies used the panel data & increase the sample size & also increase the estimators & give more power of statistics.

2.1. Theoretical and conceptual framework

2.2. Hypothesis

The following hypothesis developed for this study,

H1: there is a relationship among capital ratio and return on asset of Islamic banks of Pakistan.
H2: there is an association between debt ratio and return on asset of Islamic banks of Pakistan.
H3: there is a link between debt to equity ratio and return on asset of Islamic banks of Pakistan.
H4: there is a relationship among debt to capital ratio and return on asset of Islamic banks of Pakistan.
H5: there is a connection between capital ratio and return on equity of Islamic banks of Pakistan.
H6: there is a relationship between debt ratio and return on equity of Islamic banks of Pakistan.
H7: there is an affiliation between debt to equity ratio and return on equity of Islamic banks of Pakistan.
H8: there is a relationship amongst debt to capital ratio and return on equity of Islamic banks of Pakistan.
H9: there is a correlation between capital ratio and profit margin of Islamic banks of Pakistan.
H10: there is a relationship between debt ratio and profit margin of Islamic banks of Pakistan.
H11: there is a relationship between debt to equity ratio and profit margin of Islamic banks of Pakistan.
H12: there is a relationship between debt to capital ratio and profit margin of Islamic banks of Pakistan.
H13: there is an association between capital ratio and earnings per share of Islamic banks of Pakistan.
H14: there is a relationship between debt ratio and earnings per share of Islamic banks of Pakistan.
H15: there is a relationship between debt to equity ratio and earnings per share of Islamic banks of Pakistan.
H16: there is a relationship between debt to capital ratio and earnings per share of Islamic banks of Pakistan.

Chapter 3. Data analysis & Methodology / Empirical Result
3.1 Data collection & Methodology
The target population of this survey consists of Islamic banks of Pakistan which is listed at Pakistan stock exchange under banking company ordinance 1962. We select Islamic banks because the object of this paper is to examine the link among the capital structure and financial performance of Islamic banks of Pakistan. The sample size of this study contains five Islamic banks including Meezan Bank Limited, Bank Alfalah Limited, Dubai Islamic Bank, Bank Islamic and Al Baraqa Bank. The information regarding current study is obtained from the annual reports of the banks. These financial reports are accessible on the banks websites and also the website of Pakistan stock exchange.

. Return on asset, return on equity, profit margin and earnings per share is used to measure the degree of financial performance of the banks that is endogenous variables. Capital ratio, debt ratio, debt to equity ratio and debt to capital ratio is treated as exogenous variables. For this purpose we use descriptive analysis to investigate the collection of data. Regression and correlation is also use to determine the link among structure of capital and Islamic banks financial performance of Pakistan.

3.2. Variables
There are following in which return on asset, return on equity, profit margin and earnings per share is used to measure the degree of financial performance of the banks that is endogenous variables. Capital ratio, debt ratio, debt to equity ratio and debt to capital ratio is treated as exogenous variables.

3.2.1 Endogenous variables
These are the following variables that considered as endogenous in which return on asset, return on equity, profit margin and earnings per share.

- **Return on asset (ROA):** Return on asset (ROA) is a money related proportion that exhibits the level of advantage an association gets in association with its asset. It is typically described as net income divided by total firm asset. Net income is derived from the income statement of the firm and is suitable after charges (Ramadan and Ramadan 2015, Rouf and Abdur 2015, Siddik, Kabiraj et al. 2017). A normally utilized measure of bank implementation is ROA, that provide a picture of how compelling the administration of the bank is in producing income with its accessible resources. Return on asset is also used by these researchers as an indicator of financial performance: (Salawu 2009, Gill, Biger et al. 2011, Chen, Wang et al. 2012, Fosu 2013).

- **Return on equity (ROE):** Return on equity (ROE) is the total of profit return as apportion of owners’ equity. Return on equity explain the organization’s profitability by disclose how a lot earning is produce with the capital that is provided by the shareholders of the firm (Pouraghajan, Malekian et al. 2012, Salim and Yadav 2012, Akeem, Terer et al. 2014). Return on equity is a great measure of the performance of the banks. Return on equity is the measure to check that how management of the firm use the funds of owner. Return on equity is used by these researcher as financial performance indicator (Abor 2005, Amjed 2007). Both return on equity and return on asset is used by some writers as measure the financial performance of the firm (Pratheepkanth 2011, Saeedi and Mahmoodi 2011, Abu-Rub 2012).

- **Profit margin (PM):** Profit margin is a ratio that indicate the profit of the organization it is demonstrate in shape of percentage and explain that how much company earn against every dollar of sale. It is calculated as income after interest and tax over by sale or net income over by sale. (Gibson, 2013) Profit margin (PM) is a ratio that indicates the net profit earned by the firm with each financial part of sales generated or produced by relating the net sales and net profit of the firm. (Bodie, Merton et al. 2009) Such type of ratio is used by the outside or peripheral users of financial and accounting like: creditor of the firms or investors to judge that how a company efficiently can transform revenue or sale into net profit.

- **Earnings per share (EPS):** Earnings per share are the element of the profit of the firm that pays to the outstanding shares holders. It is use as meter of the financial performance.(Abu-Rub 2012) contended that Earning per Share is the essential estimation of corporate performance and increase in earnings per share its mean the performance is also boosting up. Earnings per share are use as
indicator of performance of the firm it is computed by dividing the income after interest and tax over the number of outstanding shares. Earnings per share are obtained as:

\[\text{EPS} = \frac{\text{Net profit} - \text{dividends on preferred stock}}{\text{average outstanding shares}}\]

### 3.2.2. Exogenous variables

In this paper to explained the connection among capital structure and financial performance of Islamic banking of Pakistan in which Capital ratio (CR), debt ratio (DR), debt to equity ratio and debt to capital ratio is treated as exogenous variables.

- **Capital ratio (CR):** Capital ratio explains as book value of the total owners’ equity or shareholder equity over total asset. Basically it explains the total value of owner funds against total asset of the firms it is called the equity to total asset ratio.

- **Debt ratio (DR):** To measure the capital structure the debt ratio is also indicator that use by researchers. Debt ratio is a indicator of financial ratio that measure the level of the organization leverage. The ratio of debt is demonstrated as the ratio of debt and total equity its shows as a percentage. It can be translated as enhance of an firm's advantages that are fund from debt.

- **Debt to equity ratio (DER):** Debt to equity ratio is a ratio that speaks about finance that demonstrates the comparative point the value of investors and debt used to return back a firm advantage. It is closely interlinking the leverage it is also known as gearing or risk. It is explained as percentage that shows the firm how much have debt and what the value of our equity. Total debt to total equity is a measure of structure of capital that is also influence the financial report and performance of banks.

- **Debt to capital ratio (DCR):** An estimation of an organization's money related use, computed as the organization's obligation isolated by its aggregate capital. Obligation incorporates all here and now and long hauls commitments. Add up to capital incorporates the organization's obligation and investors' value, which incorporates normal stock, favored stock, minority premium and net debt.

To determine the capital structure there are following variable debt to equity and total debt over total asset used by these researcher (Berger and Di Patti 2006, Mans, Murinde et al. 2007, Shoaib 2010, Papa and Speciale 2011, Bei and Wijewardana 2012, Fosu 2013, Park and Jang 2013, Taani 2013, Chechet and Olayiwola 2014, Kipesha and James 2014).

### 3.3 Econometrics Modal

\[\text{PM} = \alpha + \beta_1 \text{CR} + \beta_2 \text{DCR} + \beta_3 \text{DR} + \beta_4 \text{DER} + \epsilon \quad \ldots \quad (1)\]

\[\text{EPS} = \alpha + \beta_1 \text{CR} + \beta_2 \text{DCR} + \beta_3 \text{DR} + \beta_4 \text{DER} + \epsilon \quad \ldots \quad (2)\]

\[\text{ROA} = \alpha + \beta_1 \text{CR} + \beta_2 \text{DCR} + \beta_3 \text{DR} + \beta_4 \text{DER} + \epsilon \quad \ldots \quad (3)\]

\[\text{ROE} = \alpha + \beta_1 \text{CR} + \beta_2 \text{DCR} + \beta_3 \text{DR} + \beta_4 \text{DER} + \epsilon \quad \ldots \quad (4)\]

### Table 1 Summary of the variables used and their description

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>0.0030</td>
<td>0.0055</td>
<td>0.0169</td>
<td>0.0285</td>
<td>0.0089</td>
</tr>
<tr>
<td>ROE</td>
<td>0.0676</td>
<td>0.0539</td>
<td>0.2846</td>
<td>-0.1698</td>
<td>0.1032</td>
</tr>
<tr>
<td>PM</td>
<td>0.0037</td>
<td>0.0065</td>
<td>0.0217</td>
<td>-0.0404</td>
<td>0.0125</td>
</tr>
<tr>
<td>EPS</td>
<td>1.1757</td>
<td>0.3467</td>
<td>6.1300</td>
<td>-2.1900</td>
<td>2.2155</td>
</tr>
<tr>
<td>CR</td>
<td>0.0982</td>
<td>0.0718</td>
<td>0.4271</td>
<td>0.0488</td>
<td>0.0702</td>
</tr>
<tr>
<td>DR</td>
<td>0.9046</td>
<td>0.9284</td>
<td>1.0772</td>
<td>0.5728</td>
<td>0.0741</td>
</tr>
<tr>
<td>DER</td>
<td>12.1214</td>
<td>12.9668</td>
<td>19.4749</td>
<td>1.3409</td>
<td>4.8812</td>
</tr>
<tr>
<td>DCR</td>
<td>0.9019</td>
<td>0.9284</td>
<td>0.9511</td>
<td>0.5728</td>
<td>0.0703</td>
</tr>
</tbody>
</table>

Here, we use descriptive analysis to analysis the data of capital structure and its link with Islamic banks financial performance of the Pakistan demonstrated that the return on asset’s mean value is 0.0030, the median value is 0.0055, highest value of return on asset’s 0.0169 and lowest amount is 0.0285, standard deviation value is 0.0089.The value of mean of return on equity is 0.0676, the value of median is 0.0539 with highest value is 0.2846 and minimum value is -0.1698 and 0.1032 is the value of standard deviation. The results of
profit margin (PM) indicates the value of mean that is 0.0037, the value of median is 0.0065, the maximum value of profit margin (PM) is 0.0217 and the smallest value is -0.0404, with standard deviation value 0.0125. This descriptive analysis explain the mean value of the earnings per share (EPS) is 1.1757, the value of median the earnings per share (ESP) is 0.3467, the maximum value of earning per share (EPS) is 6.1300 and minimum value is -2.1900 with standard deviation value 0.0982. The result of debt ratio (DR) demonstrated the values of mean, median, maximum, minimum and standard deviation respectively (0.9046), (0.5728), (0.5728) and (0.0741). The mean value of debt equity ratio (DER) is 12.1214, the median value is 12.9668, and maximum and minimum values of debt equity ratio (DER) is 19.4749 and 1.3409 respectively. The standard error value of debt to equity (DER) is 4.8812. The descriptive analysis point of the values of mean of debt to capital ratio (DCR) is 0.9019, the median value of debt to capital ratio (DCR) is 0.9284, maximum amount is 0.9511 and minimum amount is 0.5728. The value of standard error debt to capital ratio (DCR) is 0.0703.

This table shows the Correlation results that explains the relationship among the different variables. Return on asset (ROA) is positively relate with return on equity, profit margin (PM), earning per share, debt ratio, debt to equity ratio and debt to capital ratio (DCR). Moreover, it is negatively relating with the credit ratio (CR). Return on equity (ROE) has positive relation with profit margin (PM), debt ratio, debt to equity ratio and debt to capital ratio and negatively relate with credit ratio (CR). Profit margin (PM) is demonstrated the direct and positive relation with earnings per share (EPS), debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR). But there is negative relation with Capital ratio (CR). Earnings per share (EPS) have negative relation with credit ratio (CR) and positive relation with debt ratio, debt to equity ratio and debt to capital ratio (DCR). Credit ratio (CR) has negative relationship with debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR). Debt ratio (DR) has positive relation with debt to equity ratio (DER) and debt to capital ratio (DCR). Debt to equity ratio (DER) is positively treated with debt to capital ratio.

This table demonstrated the regression result of this research paper in this table we use return on asset (ROA) as dependent variable and return on equity (ROE), profit margin (PM), earning per share (EPS), capital ratio (CR), debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR) is used as exogenous variable. Standard error explains the chances of error in the data. The Std. Error value of return on equity (ROE) 0.005496, profit margin (PM) 0.036566, earning per share (EPS) 0.000184, capital ratio (CR) 0.005068, debt ratio (DR) 0.011710, and debt to equity ratio (DER) 0.000113 and debt to capital ratio (DCR) is 0.011750. T-statistics shows the relationship between the variables that may be positive and negative. By using return on equity (ROE) it is positively relate with the return on equity (ROE), profit margin (PM), and debt to capital ratio (DCR) with following values respectively (9.458275), (11.11599), (1.175779). Earnings per share (EPS), capital ratio (CR), debt ratio (DR), and debt to equity ratio (DER) is negatively relate with the return on asset (ROA).
with respectively (-3.518628), (-1.097067), (-1.082333), (-1.225025). P value shows the importance level of the variable. Return on equity (ROE) and profit margin (PM) are positively significant at the level of 5%. An Earnings per share (EPS) is also significant at the significance level of 5%. Capital ratio (CR), debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR) are insignificant. The value of R-squared is 0.970718 that explain the model that we used is over all significance. The value of R-squared demonstrated the overall significance of the model of the study.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>12.5207</td>
<td>1.3237</td>
<td>9.4582</td>
<td>0.000***</td>
</tr>
<tr>
<td>PM</td>
<td>-3.4621</td>
<td>0.9494</td>
<td>-3.6462</td>
<td>0.0007***</td>
</tr>
<tr>
<td>EPS</td>
<td>0.0140</td>
<td>0.0024</td>
<td>5.6593</td>
<td>0.0008***</td>
</tr>
<tr>
<td>CR</td>
<td>0.1513</td>
<td>0.0765</td>
<td>1.9764</td>
<td>0.0539**</td>
</tr>
<tr>
<td>DR</td>
<td>0.2233</td>
<td>0.1810</td>
<td>1.2333</td>
<td>0.2234</td>
</tr>
<tr>
<td>DER</td>
<td>0.003613</td>
<td>0.0016</td>
<td>2.1282</td>
<td>0.0385***</td>
</tr>
<tr>
<td>DCR</td>
<td>-0.2604</td>
<td>0.1811</td>
<td>-1.4378</td>
<td>0.1570</td>
</tr>
</tbody>
</table>

By using panel least squares method the result of regression shows that when return on equity (ROE) is considered as dependent variable and return on asset, profit margin, earning per share, capital ratio (CR), debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR) is used as independent variable. The value of standard error in this mode is return on asset (ROA) 1.323792, profit margin (PM) 0.949490, earning per share (EPS) 0.002478, capital ratio (CR) 0.076581, debt ratio (DR) 0.181097, debt to equity ratio (DER) 0.001698 and debt to capital ratio (DER) 0.181116. The t-statistic shows the relationship between the dependent and independent variable that may be positive or negative. Return on asset (ROA), earning per share (EPS), capital ratio (CR), debt ratio (DR), and debt to equity ratio (DER) is positively relate with return on equity (ROE) with respectively values, (9.458275), (5.6593), (1.9764), (1.2333) and (2.1282). The value of t-statistics shows that profit margin (PM) and debt to capital ratio (DCR) is inversely relate with dependent variable, respectively (-3.6462) and (-1.4378). The p value is shows the significance level of the variables in this table return on asset (ROA), profit margin (PM), earnings per share (EPS) and debt to equity ratio (DER) is significant at the level of 5%** significance level. Capital ratio (CR) is significant at the level of 10%** significance level. Debt ratio (DR) and debt to capital ratio (DCR) is insignificantly related with dependent variable. The value of R-squared demonstrated the overall significance of the model of the study. The value of the R-squared is 0.9465 that explain the model of this study is significant and overall purity of model. The value of adjusted R-squared is 0.09398.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1.7718</td>
<td>0.1594</td>
<td>11.1159</td>
<td>0.0000***</td>
</tr>
<tr>
<td>ROE</td>
<td>-0.06265</td>
<td>0.01718</td>
<td>-3.6462</td>
<td>0.0007***</td>
</tr>
<tr>
<td>EPS</td>
<td>0.0010</td>
<td>0.0004</td>
<td>2.5560</td>
<td>0.0138***</td>
</tr>
<tr>
<td>CR</td>
<td>-0.0048</td>
<td>0.0106</td>
<td>-0.4517</td>
<td>0.6535**</td>
</tr>
<tr>
<td>DR</td>
<td>0.0314</td>
<td>0.0243</td>
<td>1.2933</td>
<td>0.2021</td>
</tr>
<tr>
<td>DER</td>
<td>0.0001</td>
<td>0.0002</td>
<td>0.4373</td>
<td>0.6638</td>
</tr>
<tr>
<td>DCR</td>
<td>-0.0349</td>
<td>0.0244</td>
<td>-1.2688</td>
<td>0.2127</td>
</tr>
</tbody>
</table>

Here we used profit margin (PM) as dependent variable return on asset (ROA), return on equity (ROE), earning per share (EPS), capital ratio (CR), debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR) as independent variables. Standard error is about the average chances of error. The values standard error of these variables are return on asset (ROA) 0.1594, return on equity (ROE) 0.0171, earning per share (EPS) 0.0004, capital ratio (CR) 0.0106, debt ratio (DR) 0.0243, debt to equity ratio (DER) 0.0002 and debt to capital ratio (DCR) 0.0244. T-statistics value determines the relationship between the dependent and independent variable either there is a positive relation or negative relation. There are following variables that have positive relationship with profit margin (PM) that is considered as dependent variable in which return on asset (ROA), earning per share (EPS), debt ratio (DR) and debt to equity ratio (DER) is included by these values (11.1159),

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1.7718</td>
<td>0.1594</td>
<td>11.1159</td>
<td>0.0000***</td>
</tr>
<tr>
<td>ROE</td>
<td>-0.06265</td>
<td>0.01718</td>
<td>-3.6462</td>
<td>0.0007***</td>
</tr>
<tr>
<td>EPS</td>
<td>0.0010</td>
<td>0.0004</td>
<td>2.5560</td>
<td>0.0138***</td>
</tr>
<tr>
<td>CR</td>
<td>-0.0048</td>
<td>0.0106</td>
<td>-0.4517</td>
<td>0.6535**</td>
</tr>
<tr>
<td>DR</td>
<td>0.0314</td>
<td>0.0243</td>
<td>1.2933</td>
<td>0.2021</td>
</tr>
<tr>
<td>DER</td>
<td>0.0001</td>
<td>0.0002</td>
<td>0.4373</td>
<td>0.6638</td>
</tr>
<tr>
<td>DCR</td>
<td>-0.0349</td>
<td>0.0244</td>
<td>-1.2688</td>
<td>0.2127</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>R-Squared</th>
<th>0.9465</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R-Squared</td>
<td>0.09398</td>
</tr>
</tbody>
</table>
(2.5560), (1.2933) and (0.4373) respectively. Returns on equity (ROE), capital ratio (CR) and debt to capital ratio (DCR) is negatively related with profit margin with following values respectively (-3.6462), (-0.4517) and (-1.2628). The value of P represents the variable significance level. In this model return on asset (ROA), return on equity (ROE), earning per share (EPS), is significant at the level of the 5%*** significance level. Capital ratio (CR) is significant at 10%** level of significance. Debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR) are insignificantly related to profit margin (PM). The value of the R- squared is 0.9349 that point out the overall significance of the research model. The value of adjusted r-squared is 0.9268.

Table No.5 Regression Analysis: Earnings per Share

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>317.0063</td>
<td>90.0937</td>
<td>-3.5186</td>
<td>0.0010***</td>
</tr>
<tr>
<td>ROE</td>
<td>28.5354</td>
<td>5.0421</td>
<td>5.6593</td>
<td>0.0000***</td>
</tr>
<tr>
<td>PM</td>
<td>116.0589</td>
<td>45.4057</td>
<td>2.5560</td>
<td>0.0138***</td>
</tr>
<tr>
<td>CR</td>
<td>1.5841</td>
<td>3.5848</td>
<td>0.4419</td>
<td>0.6605</td>
</tr>
<tr>
<td>DR</td>
<td>-18.0160</td>
<td>7.8790</td>
<td>-2.2865</td>
<td>0.0267***</td>
</tr>
<tr>
<td>DER</td>
<td>0.1062</td>
<td>0.0798</td>
<td>1.3514</td>
<td>0.1829</td>
</tr>
<tr>
<td>DCR</td>
<td>16.2242</td>
<td>8.0081</td>
<td>2.0259</td>
<td>0.0483***</td>
</tr>
<tr>
<td>R-Squared</td>
<td>0.7637</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-Squared</td>
<td>0.7342</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Here we used earning per share (EPS) as endogenous variable and return on asset (ROA), return on equity (ROE), profit margin (PM), capital ratio (CR), debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR) as independent variables. This table indicates relationship of earnings per share with return on asset (ROA), return on equity (ROE), profit margin (PM), capital ratio (CR), debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR). Regression analysis show the standard error value of variables are following: return on asset (ROA) 90.0937, return on equity (ROE) 5.0421, profit margin (PM) 40.4057, capital ratio (CR) 3.5848, debt ratio (DR) 7.8790, debt to equity ratio (DER) 0.0786 and debt to capital ratio (DCR) 8.0081. T-statistic value point out the relationship between exogenous variables and endogenous variables. It is indicating the type of relation that may be positive or negative. Positive relation that shows by t-value are return on equity (ROE), profit margin (PM), capital ratio (CR), debt ratio (DR) and debt to capital ratio (DCR) with respectively values: (2.5560), (0.4373), (0.4419), (1.3514), and (0.2906). Return on asset (ROA) and debt ratio have negative relation with the earning per share (EPS) by (-3.5186) and (-2.2865) respectively. P value of this table indicates the significant level of the variables. Return on asset (ROA), return on equity (ROE), profit margin (PM), debt ratio (DR) and debt to capital ratio (DCR) have significant relation at the level of 5%*** significance level. Debt to equity ratio (DER) and capital ratio (CR) is insignificant. The value of the R-squared explains the overall significance of the research model. The value of R-square in this table is 0.7637 that is a good sign for the research model. It is acceptable and significant research model. 0.7637 is present adjusted R-squared value.

Chapter 4. Conclusion

This research paper investigates the affiliation among capital structure and financial performance of Islamic banking of Pakistan. The decision of capital structure is important for the banks because its plays a vital function in the financial performance of Islamic banks. We collect data of following Islamic banks in which including Meezan Bank Limited, Bank Alfalah Limited, Dubai Islamic Bank, Bank Islamic and Al Baraqa Bank from the time period of 2007 to 2017. For the purpose of data collecting we use annual reports of the banks that are available on the banks official sites and web site of the state bank of the Pakistan. To take analysis we use a five banks data as a sample and use different statistical techniques to achieve the purpose of this study. We use descriptive analysis that explains the mean, median, maximum, minimum and standard error values of the variables. Regression analysis is used to determine and point out the significance level of the variable and explain that how much a variable is related to other variable and how much an independent variable depends on the other depended variable. There are four variables in which return on asset, return on equity, profit margin and earnings per share is apply to determine the degree of financial performance of Islamic banks that is endogenous variables. Capital ratio (CR), debt ratio (DR) debt to capital ratio (DCR), and debt to equity ratio (DER) is treated as exogenous variables. Correlations technique is also used to explain the relation of all variable with other variables. According to the results of this study return on asset is positively significant with return on equity and profit margin at the level of 5%, *** significance level. Earnings per share (EPS) is also significant at the significance level of 5% *** level of significance. Capital ratio (CR), debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR) are insignificantly related with return on asset (ROA), the
results of return on equity shows that return on asset (ROA), profit margin (PM), earnings per share (EPS) and debt to equity ratio (DER) is significant at the level of 5%*** significance level. Capital ratio (CR) is significant at the level of 10%** significance level. Debt ratio (DR) and debt to capital ratio (DCR) is insignificantly related with return on equity. The result of profit margin (PM) present that return on asset (ROA), return on equity (ROE), earning per share (EPS), is significant at the level of the 5%*** significance level. Capital ratio (CR) is significant at 10%** level of significance. Debt ratio (DR), debt to equity ratio (DER) and debt to capital ratio (DCR) are insignificantly related to profit margin (PM). Earnings per share (EPS) demonstrated that return on asset (ROA), return on equity (ROE), profit margin (PM), debt ratio (DR) and debt to capital ratio (DCR) have significant relation at the level of 5%*** significance level. Debt to equity ratio (DER) and capital ratio (CR) is insignificant.

REFERENCES


