
THE EFFECT OF FINANCIAL LEVERAGE ON THE ISLAMIC BANKS' PERFORMANCE IN ASIAN COUNTRIES

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Abstract

The current research is designed for analyzing the impact of the financial leverage on performance of the Islamic Banks in the countries of Asian region. The research study comprises of the population of Islamic Banks from Asian region. The data of twenty five Islamic banks from Asian economies for the time period (2010 -2019) is used, and this data have been retrieved from the Thomson Reuters Data Stream. Researcher has used latest version of E-views for analyzing the data of current study. Data analyses are performed by applying the tests like Descriptive Statistics, Correlation Analysis, Common Effect Model, Fixed Effect Model, Likelihood Test, Random effect Model and Hausman Test.

Current study used the fixed effect regression model. Findings of current study showed significant and positive impact of Leverage on Islamic Banks performance in Asian Region. In the light of results and findings it is analyzed that financial leverage has positive and significant association for ROA in the presence of control variables (Bank Size and Bank Efficiency). It is clear indication from findings that the high financial leverage increases the performance of Islamic banks in Asian countries. The result of the research study is not having supporting the Agency Cost Theory. According to Agency Cost Theory when there is increase in the equity of banks this will have negative outcomes for firm value. The results of

current research work are providing strong evidence in support of the Signaling Theory. Signaling theory describes that if there is higher capital then the performance of the banks will be much better. The findings revealed that financial leverage is on the level in Islamic Banks that totally depends upon the flexibility ratio for the adjustment of the value of debt and their power of earning.

Keywords: *Financial Leverage (FL), Firm Performance (FP), Return on Assets (ROA), Signaling Theory*

1. INTRODUCTION

1.1 Background of the Study

Most Asian countries are emerging and increasing trend recognized within the current investigations on banking sector is linked with particular performance dimensions and benchmark in developing economies (Ebrahim, Girma, Shah, & Williams, 2014). The specific investigation attentions are on Asian banks, banks performance reacts differently in various flourishing economies. However the influence of Islamic banks and their compliance with the true rules of Sharia-which is profound in these countries on bank performance, is of special importance. Precisely, Sharia imposes clear restrictions on interest or any charge for loan of money (known as “riba”), whether the nature of payment is fixed or floating.

The Muslim population in various Asian economies, particularly in South East Asia, is increasing and flourishing very fast. Rapid growth of Muslims population and enhanced living standard may increase the demand of Islamic finance as an alternate system to conventional finance. Furthermore, shareholders/ investors from the Middle East and from Asia are seeking their attention to invest in Halal type of products which are parallel to their religious beliefs. Surveys have recommended that 50 percent will accept Islamic financial system if they are provided with reasonable and reliable alternative system to conservative finance. (KFHR, 2013).

(ii) The government and other finance authorities in many Asian economies played essential roles in cultivating the aftermath of Islamic financial markets parallel with the efforts to push up investments and gain demonstrable funding to boost economic growth by clicking the high liquidity from oil- and commodity-producing countries.

(iii) The moral values and financial stability of Islamic products can raise their appeal. Islamic financial products have a righteous focus (excluding the investment in alcohol) with a risk that captivates broad morally conscious investors. Islamic finance has been used as a feasible alternate system of finance (KFHR 2013).

(iv) It is stated that in Islamic banks returns on investment are comprises of fundamental economic operations /or assets that make up the relationship between two parties in contract, it is appropriate to use the asset based and risk sharing aspect of Islamic finance for high integration with the actual economic position and for the purpose of improvement in overall economic balance between the real economy and financial sectors.

Financial leverage means the borrowing (debt) or other forms of loan which are reinvested in order to earn the greater amount of return as compared to interest cost. If any organization has the high rate of (ROA) than the rate which is to be on loan, than (ROE) will be high if it is not borrowing.(Laurent, 2005).On the other side if a firm has low rate of return on asset than the whole yield on equity will be low than if it is not borrowing.

F- Leverage plays very vital and significant role in external financing methodology. Financial

leverage examined that business requires fund to buy a new asset, for the purpose of improving productive and other set of activities. Leverage is one of the excellent sources for company to complete its objective, and with the support of the financial leverage a firm could not only attain its goals but also raise desired value of its stakeholders. Requirement of finance is very essential for any trading zone therefore a businesses is initial and current, financial or non-financial organization requires capital to run its daily operations. According to the book of accounting and finance the leverage can be explained as the total amount of debt or credit which is issued to purchase the assets to improve the operative activity or obtaining a new company. Normally, the cost of loan amount (leverage) is less than the amount of equity. We can easily access the exact financial worth of any organization by using financial leverage like debt to equity and debt to total assets. Financial leverage is important for business in terms of increase in manufacture level, raises the investor share value or attained a new asset.

There are numerous firms those are registered on PSX (100-Index) are using the leverage in number of ways which examine different outcomes. It indicates that if company uses more financial leverage then its consequences raised the profit outcome and rate of risk and vice versa. Discussions, investigations and research determine that leverage and firm profitability have negative association due to high interest rate which causing gradual decrease in the profitability of firm. On the other side, further investigations examined that financial leverage and firm profitability have positive linkage because it strengthen the financial capacity of firm and increased the cost of shares. Many of the investigations shown financial leverage significantly influenced the value of firm.

All the previous examinations show positive results of leverage and (Memon et al., 2012). There also negative relation examined b/w these two variables on the other hand (Kebewar, 2012, 2013; Khaswneh & Dasouqi, 2017; Sheluntcova, 2014; Vithesonthi & Tongurai, 2015a, 2015b).

Iswatia, & Anshoria (2007), explain the performance as an ability of an organization to manage and gain its resources aimed at development of competitive advantage. The Performance of firm focus on variables which have direct relation with financial statement. Almajali, Alamro and Al Nwann Ifeanyi Onyenwe and Ivie Glory., (2006 -2015)

Soub (2012) investigated many ways to check the performance for example (ROA) return on assets denote the potential of firm for utilizing it asset, (ROE) return on equity explains the return rate which investors have gained from their investment and return on sale (ROS) reveals the earning of a firm in relation to its sale.

Leverage is measured by total debts to total assets and shows the level of debts which is utilized to finance the (Mwangi et al, 2014). If the leverage ratio is high it means the firm has high debt financing.

There are always tow concerning parties with the firm performance one are the shareholders who are possessing the ownership of organization and have a claim on the firm,s assets. They get the reward in shape of dividend according to the value of their shares, while others are the debt holders and they get the reward in term of interest along with their principal amount. They can hold the firm assets as guarantee if the firm is failed to repay the debt they become the owner of these assets (Harris and Raviv, 1991).

Different finance theories have their own perspective on the relation b/e leverage and performance while some empirical findings have three opinions which are negative ,insignificant and positive relation.

Studies overall show how significant money related influence is affecting benefit in organizations. Most have discovered a huge connection between the two however changing degree. Such investigations included in Jordan (Al-Shamaileh and Khanfar, 2014), in Pakistan (Nawaz, Salmani and Shamsi, 2015) come to know that monetary influence has a measurably huge backwards sway on productivity at 99% certainty stretch; in China on the connection of operational influence and benefit (Chen, 2004); Iran on the association among budgetary influence and gainfulness (Fengju, Farad, Maher and Akhteghan, et.al 2013). Other models incorporate Banchuenvijt (2011) in Thailand and Srivstava (2014) in India who built up a positive relationship in the midst of monetary influence and gainfulness.

The relationship between the two kinds of influence is additionally exhibited in a few investigations in Africa, for example, Enekwe, Ague and Ezido (2014) in Nigeria, Boachie, Boachie, Ezidisi, Nyanes and Gyabeng (2013) in Ghana and Joshaau, (2007) in South Africa. In East Africa, there is the examination by Ishuza (2015) who looked with the impact of monetary influence on business banks' gainfulness in Tanzania. In Kenya there are studies, for example, Gweyi and Kranja, (2014) on the impact of budgetary influence on monetary execution of Deposit Taking Savings and Credit Co-usable in Kenya; and Kale, (2014) on the effect of money related influence on firm execution: the instance of non-monetary firms in Kenya; and Mule (2015) on the money related influence and execution of recorded firms in a wilderness market: board proof from Kenya. Every one of these investigations uncovered a noteworthy connection between money related influence and benefit. Nonetheless, these examinations didn't glance relation in Agricultural sector firms recorded with Stock Exchange of Nairobi.

In Pakistan, Al-Tani, (2013) examine how monetary leverage measures the use of debt by companies and equity in order to finance the assets of firm and its other. A firm can achieve the portfolio of its investment from equity and debt. Agency can rent desired capital as another shape of capital. Employer's fee of go back on property is constant irrespective of charge of the interest on debts. Economic leverage utilized by various corporations is supposed to earn greater benefits on their constant cost rather than the fee of their operations. As the debt will increase, monetary leverage will increase (Al-Tani, 2013; Mohamed, 2010). The accelerated monetary leverage manner a boom inside the enterprise potential and complements its capability earning lot of income.

1.2 Determinants of firm performance

1.2.1 (ROA) Return on Assets

ROA is the measure of gainfulness of the firm's functions. (Stephen 2010). It determines how a firm has earned the suitable return by making use of assets. Finance policy does not come under the consideration of this ratio it just shows how assets are used by firm to generate the income. (Williams, 2010).

1.2.2 (ROE) Return on Equity

ROE measures the total income related to firm average equity to stockholders during the year (Williams, 2010) and high ROE ensures the suitable profit to the shareholders. According to (Williams, 2010:647). A firm which suffers net loss is providing its shareholders a negative return on equity.

There is a possibility that a firm with high ROA has low ROE and having low ROA with high ROE because the ROE depends on amount of finance investment by the shareholders in the capital frame of the firm. If the borrowings (debt) are higher than the ROE will be low if we compare it with firm having same amount of entire assets and total earning.

Therefore this study will investigate the situation in Asian country to bridge the knowledge gap. In this research work ROE and ROA are the figures obtained from Islamic banks performance report in Asia.

1.3 Islamic Banking

Islamic financial system has grown itself as an element with worldwide financial scenery, despite of number of challenges faced by it. The smooth and steady growth of Islamic banks is a trademark of muslims world in 1980 to 1990. Having a good financial position Islamic banks are playing their important roles in their particular economies. According to their charter Islamic banks are rapidly going to become the owners and creditors of various firms and also providing investment services. Due to this Islamic banks are able to get the market shares in their home economies. The elimination of interest from the transaction becomes possible due to Islamic banking system. It is necessary to evaluate the Islamic bank performance for administrative and dogmatic. In fact, evaluating the performance of Islamic banks is essential for managerial as well as regulatory purposes. As the managers are seen measure the results of prior administration decisions, regulations for the purpose of safe and strong banking network to gain the public confidence and to cope up with the serious problems arising. Because without proper checking problems remain unsolved and may lead to failure of system. Depositors/investors have keen interest in characterizing the performance of banks because they have a right of fix return from their investment and there is no guarantee of their investment. Performance measurement is necessary to answer very important questions such as:

Are Islamic banks having the same rules and regulations like conventional banks? Are they able to compete the other financial institutions? When we see the economy of the world, we will find the Asian countries have more study on Islamic finance literature. The larger part of the Muslim population is living in Asian countries. In Pakistan the 96.4 percent population is living and so on in other countries which are Bangladesh 86.2, Indonesia 87.2, and Malaysia 61.3 percent. Here we cannot ignore the Muslim population in non-Muslim countries of Asia like in India 14.2 percent, or 172m Muslims are living there.

In current situation the sukuk and Islamic banking are the controlling devices of Islamic financial markets in Asian region. In 2014 the total contribution of Islamic financial sector of Asian region was 419b dollars. (IFSB 2015) The total Islamic financial Assets in 2014 were 22.4 from which 48.6 percent or 203b dollars were belong to Islamic Banking and sukuk share was 5.5 percent amounting 23.2b dollar and 0.93 percent amounting 3.9b dollars was Takaful. Takaful has small share and still growing.

Asian Islamic banking and financial sector grown and developed rapidly which shows that this sector can be considered as the back bone for the sector of Asian region.

As compare to the economies of Europe and north America Islamic banking assets and products are too much larger and Malaysian markets have prime contribution in this regard. Malaysia is famous as the leader of Islamic financial activities and held an estimated 10.0 percent share of the worldwide Islamic banking assets at the end of 2013. Although it has been noticed that countries in Asian region like Pakistan, Brunei Darussalam and Indonesia has lower ratio in Islamic banking and financial sector but it cannot be denied that the growth and implementation of the monetary policies make this possible for the expansion of the total velum of assets related Shariah complaint banking in the most recent years. It is also noted from ADB and IFSB in 2015 which described the contribution of Asian countries at the end of the economic year of 2013. The

contribution of Malaysia was 70.5 percent amounting 135.5b dollar, Indonesia 9.5 percent amounting 20.2b dollars and Pakistan 5.3 percent amounting 10.2b dollars.

Many of the securities are established by muslim countries in order to provide funds to finance the governmental projects related to the industries and commerce. It also played a vital role in the implementation of monetary policies announced by state banks. Shariah council provides patents to the Sharia compliant securities and are well-known as sukuk. The examples of these securities which come under this domain are GII in Malaysia, Ijarah in Brunei, Indonesia and Pakistan (Ghazavi and Bazmohammadi 2011).

Sukuk-Ijara is in brunei in 2006, Indonesia issued SC sukuk in 2008, Malaysia issued the first sukuk in 2002. Malaysia gone ahead of other countries when it issued global sukuk which got global benchmark position in the world. Stock Exchanges of different Islamic countries registered these sukuk. These exchanges include Luxemburg Stock exchange and Labuann stock exchange. Since that these issues become more important and long-lasting part of the world capital market (Azis 2007).

Both Islamic and conventional banking have contributing in the development and growth of financial sector of most of the countries of Asian region by the usage of multiple financial instruments for channeling funds to public and private sectors.

According to ADB and IFSB 66 percent sukuk were issued by Asian countries. Malaysia is at the top of the list of these issues since many years as a leader in sukuk issues. World primary sukuk market comprises of 68.8 percent of the Malaysian sukuk, 4.68 percent of the Indonesian sukuk, 0.3 percent of the Pakistani sukuk and 0.33 percent of the brunei sukuks. In Asia some other has also been interesting in sukuks like Singapur, Kazakistan, Hong Kong and China.

1.3.1 Islamic Financial System, Importance and Aims

Derbelet al., (2011) study explains the aim of financial institutions; moreover these are Islamic or non-Islamic, use of economic resources & diversify the resources in such a way to increase profitability and risk of investments.

Moreover the Islamic bank formed to render the services to Islamic society or nations who are ready to invest their wealth in accord to code & conduct, norms and values of Sharia law (Ali and Farrukh, 2013).

1.3.2 Growth of Islamic Banking

Ernest and Young (2013) examined that between 2009 and 2013 total Islamic financial assets rose to 17.6 percent and finally reached USD 78 billion in 2013. A musingly, the rise of Islamic banking basically started from the Gulf cooperation economies named Qataar, Saudi Arabia, United Arab Emirates, Bahrain, Oman and Kuwait.

At present the Islamic banking is best ever the upward sector of credit institutions in Muslim countries. Internationally the number of Islamic financial institutions in 75 Muslim countries is 300 (Basu, Prasad, & Rodriguez, 2015).

1.3.3 Financial Crises and Reason

The worldwide economic crunch of 2008 starts from USA as a consequence of breakdown the risk assessment and management at the institutional, corporation and product stages. The regulation and legal system underneath the economic division are working undergone in the direction of law and reliance on the market economy. Likewise Securities and Exchange

Commission (SEC) in the USA unties the capital prerequisite for bulky investment in banks 2004. The financial crunch has confrontation on fast growing of over-the-counter (OTC) Islamic banks imitative marketplace (Faiola et al., 2008), therefore raised the weakness of financial marketplace.

The present economic crunch in the world is nastiest economic crunch as the Great Recession of the world 1930. In fact the financial crunches detained the money markets and lead to abrupt turn down in property and stock worth, bank collapse, nervousness about the destiny of worldwide financial and present economic structure (Shapra, 2008).

During the uncertain circumstances, a large number of professionals and executives of Islamic financial system prove that Islamic bank does not influence by worldwide economic crunch. The Islamic banking has different banking system, moreover the worldwide financial crunch have little influence on Islamic banking system. Many previous studies decorated the credit crunch arise due to deficiency of appropriate laws, rules and transparency (Cecchetti, 2008b; Riaz, 2009, etc.).

1.4 Problem Statement

Asia is famous by its world largest Islamic markets. Islamic banks are playing their vital role in constituting a source of financial intermediation. In cross country analysis of 16 countries between 1939 to 2004 financial stability and role of Islamic banking was determined (Čihák and Hesse, 2010).

By global sampling it is concluded that for the banks in developing economy diversification in revenue is very useful as compared to the developed one.

A few numbers of reliable studies have investigated the leverage-performance relationship in Asian Islamic banks; a detailed and comprehensive research work is required to check the effect of financial leverage on the performance of Islamic banks in Asia and to fill this gap.

Numerous studies which are conducted in Asian countries are failed or unable to measure the impact of financial leverage on performance of Islamic banks. Jean Laurent Viviani, LotfiBelkacem,(2016), Zeitun, R., &Saleh, A. S. (2015),Kale, A. A.(2014) , R., Wahab, N. A., &Zainol, Z.(2014) ,(Singapurwoko, A., & El-Wahid, M. S. M.(2011) , Hidayat, S. E., &Abduh, M. (2012), Singapurwoko, A., & El-Wahid, M. S. M.(2011),Rosman, Hasan, M., &Dridi, J. (2011). Kraus, A., &Litzenberger, R. H. (1973). The aim and purpose of this research work is to determine the effect of financial leverage on Islamic bank's performance in Asian countries throughout period of 2010 to 2019. Due to the denationalization of state owned banks and liberal of policies in restricted financial sectors ,banking system in Asian countries is transformed in last two decades. In emerging Asian economies the commercial banks started diversification in interest base income to non-interest base income to survive in competitive market environment. Resultantly ratio of non-interest base income largely grown up for the banks of Asian countries. Consequently, there was remarkable increase in the shares of non-interest base income for the Islamic banks of this region the share of non interest base earning has significant increase for banks of this sector. Doumpos et al. (2016).

1.5 Research Questions

Does financial leverage affect the Islamic bank's performance?

1.6 Significance of the study

There may be a noteworthy impact of the financial leverage on the firm value either in positive or negative way. The results of this research work will help all old and new investors when making and identifying the fund investment decisions as they want to invest in listed Islamic banks for the purpose of lending the finance effectively for their core business activities.

The findings of study will benefit for different policy makers and governments of the Asian region for developing the new policies or making amendments in the existing policies in order to strengthening the Islamic banks performance. It will provide them the guideline for the review and formulation of suitable monetary policies and to bring reforms to make the availability of funds much accessible for the firms.

1.7 Research objective

To examine and find the impact of leverage on Islamic bank performance is the prime objective of this research work.

1.8 Life Stage Theory

Life stage theory says that firms in a similar fashion are the living organisms and progress through various life stages which is starting from birth and ending to death. (Frilinghaus, Mostert and Firer, 2005,).

Bender and Ward (1993) describe that financial leverage is always influenced by the life stages of the firm, there may be changes in the financial needs of the firm due to conditions. According to them business can be reduced by increasing the financial risk.

Hovakmian, Opler and Titman (2001) explain that firms can use high portion of debt to finance assets, however the purpose of having maximum opportunities high ratio of equity can be used. Therefore they can raise the proportion of debt in the debt to equity ratio for the progress and good achievement of firm performance.

Frilinghaus, Mostert and Firer (2005) argued that this theory says that if the firms are mature they should use more debt. They also observed that very few efforts have been made for empirical test of this theory. Resultantly based on lack of information or very few information's this theory is suggesting by agreeing with trade-off theory that the ratio of debt must follow a lower-higher-lower method over the firm's life.

1.9 Signaling Theory

Signaling theory says that the issuance of equity and debts are good signals because the issuance and debt is good sign, due to debt the market price of the share increases (Berk & DeMarzo, 2007) there is an increase in the level of confidence of investors in their business operations and the firm also gains confidence in order to generating the maximum cash flow to avoid the interest and it serves as positive sign for sound and strong condition of cash flow. Whereas on the other hand the issuance of equity shows negative signals and less confidence of investors of business because the stock value is overvalued as stated above Kabir and Roosenboom (2001) are of the opinion that due to equity there is reduction in stock price and it is considered as bad news for investor's point of view.

Ross (1977) explains that a firm which possess maximum amount of debt shows high value and quality because it provides the good signals that firms get higher level of confidence for the generation of maximum and stable cash flow for the recovery of due debts and interest.

All the above mentioned theories have an association with the existing body of literature but the signaling theory is strongly persistent with the results obtained from this research work.

2. REVIEW OF LITERATURE

Frirer et al, (2004), Ward & Price, Sharma,(2006), found in their work that F- leverage has major effect on the firm value. Many prior studies which were conducted by Ebiringa, Oforegbunam Thaddeus ,Ezeji, E. Chigbu,(2012) explained that a number of sampled banks are using leverage as tool in their firms financial structure for the diversification of financial risk and if the Islamic banks are well managed financial leverage can enhance their value. In this way the impact of leverage on the profitability which is determined by return on equity, results match with Miller and Modigliani theory and (Yegonl at el 2012).And when the financial leverage is measured through debt proportion it has no impact on profit. Modigliani and Miller proposed no relevant financial leverage.

Ishuza Witness Edson,(2015) claims that firm's profitability is affected by the financial leverage, while trade-off theory says financial leverage can affect positively when optimized.

Ahmadu Abubakar, (2015) found that many banks in Nigeria are highly leveraged banks and it is cleared by debt-equity and debt ratios .It is noted that in Nigeria banks are using minimum equity in their capital framework. Consequently there is negative but significant association b/w debt to equity ratio and return on equity and the relation between ROE and debt ratio was not found significant during the whole period of study.

Jean Laurent Viviani, LotfiBelkacem,(2016) explains that characteristics of the bank which are profitability ratio and financial leverage ratios are the discriminator between the Islamic and their counterparts. The research work examines that financial accounting ratios are the better tool for the classification of firms within the same industries which are based on the financial characteristics.

Yu-Yen Ku & Tze-Yu Yen, (2016) found that across the quintile levels there is significant connection between leverage and firm value and this relation which is identified in study shows the debatable association.

Nwanna, Ifeanyi, Onyenwe and Ivie Glory, (2017) explained that financial leverage is effecting the various sectors of the performance especially profitability of the firm is affected significantly by the financial leverage. Furthermore, bank size is also influenced by the financial leverage. Liquidity is affected due to such sound managing techniques adopted by banks.

Another study shows that Arabian banks are working hard for improving their performance by making balance in leverage borrowing and their zakat liabilities. (Hasan Ahmed Al-Tally 2018).

Another research check the Islamic bank's performance and impact of financial leverage on it in GCC Countries examining significant relationship between leverage and firm performance in the region.

Abdesslam Menacer, Abdulazeez Y.H. Saif-Alyousfi, & Nor Hayati Ahmad, (2019) Investigated an absolute need of strong financial system to maintain high financial leverage which can ensure the efficiency in term of profit and to maintain minimum financial leverage in order to minimize the risk.

In a research study (Wipern, 1966) a researcher confirmed the traditional views that when firms use fixed commitment type of financing in efficient and judicious manners will increase and enhanced the shareholders wealth. The various research studies showed the positive result between financial leverage and value of the firm (Ronald, 1983, Jameel, 2004 and Wipern, 1966). A research study found that those firms that are producing products may find that liquidations is a costly way because these firms needs spare parts and specialized type of services (Titman and Wessels, 1988). So as a result firms are financed with low debt capital because they are indulge in the equipment and manufacturing machines because they are producing products. Another research study conducted on the Engineering firm listed on KSE Pakistan b/w firm performance and capital structure decision. Gross Profit, Tobin Q and Return on sources are used as proxy of firm performance. This study found significant relation b/w firm performance and leverage. This study found positive and significant relation between return on equity and financial leverage (Khan, 2012).

Research study found that profitability of firms increase when firms have high ratio of debt capital (Baker, 1973). For profitability of firms source of financing has great role and the firm financial health is increased due to use of financial leverage. The source of financing has great contribution towards the profitability of the firms. Another research study conclude that profitability of firm increased due to high level of debt and high level of debt also increase higher risk, thus higher risk may result in high profitability. (MacKay & Phillips, 2005).

Book worth and market worth of debt is also impact on the relation between f- leverage and firm performance. In this regard a researcher conducted the research between financial leverage and performance by means of the market and book value as measurement of firm performance (Mireku, Mensah & Ogoe, 2014). This research study used the data from 2002-2007 that was collected from 15 companies of Ghana Stock Exchange and concluded that there is significant association between leverage and performance.

The exploration of Financial Leverage influence, firm development and budgetary quality in recorded organizations in Sri Lanka was finished by Bei and Wijewardana (2012). Specialists examined whether the Financial Leverage impacts contrarily or emphatically on singling the firm development toward Sri Lanka firms. Here specialists utilized 62 firms exchanged the Colombo Stock Exchange (CSE) out of 13 segments for the period from 2000 to 2009 and analysts require information were gathered from distributed yearly reports, handbooks of recorded organizations in Colombo Stock Exchange and yearly reports of Central Bank of Sri Lanka. Information was examined by different relapse models. Because of the investigation budgetary influence is emphatically identified with the development and money related quality. Then again, there is a positive relationship than a negative connection between monetary influence, firm development and it is an adversely signal about future development

Abor (2005) concentrate on impact of capital structure on gainfulness of the 22 firms registered on Ghanaa Stock Exchange. This examination assessed capacity relating the Return on Equity (ROE) with proportions of capital structure by utilized relapse investigation. The outcomes clarify an essentially certain relation between the proportion of momentary obligations in order to add the resources and ROE. Nonetheless, a insignificant association between the long haul obligations to add up to resources and ROE was found. With consideration to the connection between all obligations and rate of return, the results clarify an altogether sure relation b/w the proportion of obligations to add up resources and profit value.

Assets increase of a corporation is necessary for boom sales and profitability of company with the aid of considering these factors Saberi and Asadipour (2016) has investigated the Relationship among Finance Growth and Strength with Leverage Ratios of firms Listed in Tehran Stock Exchange. In this study, the unbiased variable was sales boom, income boom, and financial energy. The leverage ratio became the dependent variable. And additionally examine the employer's financial leverage by used to four diverse rations. Altman financial disaster model has been measured monetary power. Data related to 102 agencies listed in Tehran Stock Exchange for the period 2002 to 2011 was used as a sample to test the hypotheses and take a look at the impact of impartial variables and leverage ratio. To evaluation the facts, descriptive and inferential information used. The final results of the observer were a vast stage between assets boom and leverage ratio.

On the other side a research study found significant and positive link between financial performance and leverage. The research concludes that this is because free cash flows are reduced due to use of leverage and hence increase the firm performance (Lili, Wei, & Lin, 2011). Akhtar, et al.,(2012) study intended to gauge the effect of influence on business budgetary execution apply on oil and vitality organizations area .The investigation tried a theory that states, organizations with high paces of gainfulness are trying to expand influence ., The examination inspected the impact of influence on pace of profit for resources record of, return on value , the occasions to cover advantages and obligation , the proportion of profits to value , and net working benefit , and development in deals, income per share The outcomes indicated that monetary influence prompts improve organizations money related circumstance, accordingly expanding the odds of development inside the segment wherein they work.

Therefore current research work is an effort to fill the gap by addressing possible outcomes of monetary leverage on the Islamic banks in Asian countries. Research work is designed to examine the impact of financial leverage on the performance of the Islamic banks with the help of debt to equity ratio.

To show their theories on the influence of financial leverage on company overall performance, many students suggest their very own research. On the one hand, a group of economists guide the belief that monetary leverage can be positively associated with corporation performance. Margaritis and Psillaki (2010) discover French corporations within the chemical, pc, and fabric industries from 2002 to 2005 and use the debt-to-belongings ratio to define financial leverage. Eventually, they finish that high economic leverage has a optimistic have an effect on on firm presentation. Berger and Di Patti (2006) take a look at US industrial banks from 1984 to 1995 and use the fairness-to-assets ratio to symbolize financial leverage. Their outcomes show that high monetary leverage can efficaciously decrease organization expenses and enhance organization performance. Margaritis and Psillaki (2007) examine the connection between financial leverage and company performance using a sample of 12,240 New Zealand companies from 2003 to 2004, and degree economic leverage the use of the long-time period debt ratio. They finish that high levels of economic leverage can undoubtedly impact corporation performance. Regarding the papers above, we have a look at that they both use durations of monetary growth (Margaritis and Psillaki, 2010; Margaritis and Psillaki, 2007), or follow a long period (Berger and Di Patti (2006)), where the results of extreme durations are completely diluted.

Wainina (2014) Examined affiliation among leverage and performance of top one hundred SME,s enterprises in Kenya. In this study he used pass sectional kind of descriptive studies

designed in his work. Objective populace for the examiner turned into the top hundred SMEs (2013) in Kenya. It uses an instance of 30 SMEs. This examines compiled information for duration of five years (2008-2012). According to the results of this study leverage had crucial impact on the monetary performance and that has been a tremendous association among leverage, debt Fairness and economic performance of small and medium Enterprise in Kenya.

Research conducted by Gweji and Kranja (2014) to check the effect of leverage on overall performance of the credits, deposits co-operation firms. The data of 40 firms was the part of study from the time period 2001-2012. In this study there were two plans adopted named descriptive and logical plans. The findings of the study shown affiliation among leverage and returns on equity and profit after taxes and also relation among ratio of debt and return on property and there is increase in level of total income.

Suhila (2014) examined the impact of liquidity and F-leverage on overall economic performance of business public corporations during the tourism's change in Kenya. Study has adopted descriptive measures designed. Data was collected from 10 profitable companies from traveling enterprise in Kenya, the time period was 2008-2012. A tremendous relation was located b/w the enterprise liquidity and profitability of the firms. In array to measure the presentation of the firm earning per shares, Return on assets and net profit were used as proxies of firm value while on the other side total debt obligations to total economic sources, and long and short term debt to total resources were the variables used for capital structure. Another research study conducted on Tehran stock exchange. This research study explores the relationship between capital structure decision and firm profitability (Salteh et al., 2012).

2.1 Firm Performance

A researcher concluded that performance of the firms means how the firm conducts its business and how it manages and uses the asset in effective and efficient manners to generate the revenue (Yahaya & Lamidi, 2015).

A researcher study explained that as there are much literature are available on the capital structure but there are not enough literature on relation between firm value and change in capital the structure in the research studies.

According to another research study found that there is an inverse relation between firm's financial leverage and corporate performance firms which have high growth (McConnell and Servaes, 1995).

A research study found that some firms such as utilizes get high return on equity when they used leverage (Gulner, 2008) but for other types of firms these result are in opposite side. Another research study explored that firms using high leverage have high performance as compared to those firms which are using low level of leverage (Cheng & Tzeng, 2011).

A research study conducted on listed companies of Jordanian on Amman Stock Exchange found that there no appropriate relationship between firm's performance and leverage but their relationship is same in financial leverage of both low and high increase firms on performance of the firms (Soumadi & Hayajneh, 2012).

As for as the finance is concerned the firms performance means the overall well-being of the firm. To make the comparison between same industries or across the different industries firm performance can be used as gauge or measuring instrument. Briefly firm's performance is a critical tool that has been the desire of all profit oriented companies.(Yahaya&Lamidi, 2015).

2.2 Financial Leverage

Association between owner equity and the funds that firm borrows is the major concern of financial leverage which results in shaping the firm's capital structure. Researcher defined leverage as how the firm utilizes the funds of external parties and ultimately boosts its overall profit and taxes (Barakat, 2014).

A research study found that in banking sector capital structure has significant impact on firm profitability (Zafar, Zeeshan et al., 2016). These research studies use the data from 25 listed banks of Pakistan and use regression technique. There was absolutely direct relation between financial leverage and ROE ratio and indirect link with ROA (Meero (2015)). This result is based on the data of Gulf countries from period of 2005-2014.

Another research conducted on Karachi stock exchange to judge the association b/w banking performance and capital structure (Nikoo, 2015). The research study found strong association between ROE, ROA and EPS. A research study based on 19 countries by selecting 85 Islamic. These research studies explore the relationship between profitability and capital structure (Tarek Al-Kayed, Raihan Syed MohdZain et al., 2014). These research studies conclude that there is a strong association between profitability and capital structure.

Enekwe, Agu & Eziedo,(2014). Explain most of the firms use the financial leverage for the purpose of earning more return from the investment than the cost of funds.

Abubakar, (2015).investigated that the leverage is just a loan which a firm borrows from other firms with the intension of utilizing these loans efficiently and effectively by the firm because the earnings generated from the investment are more than the interest paid on the loans.

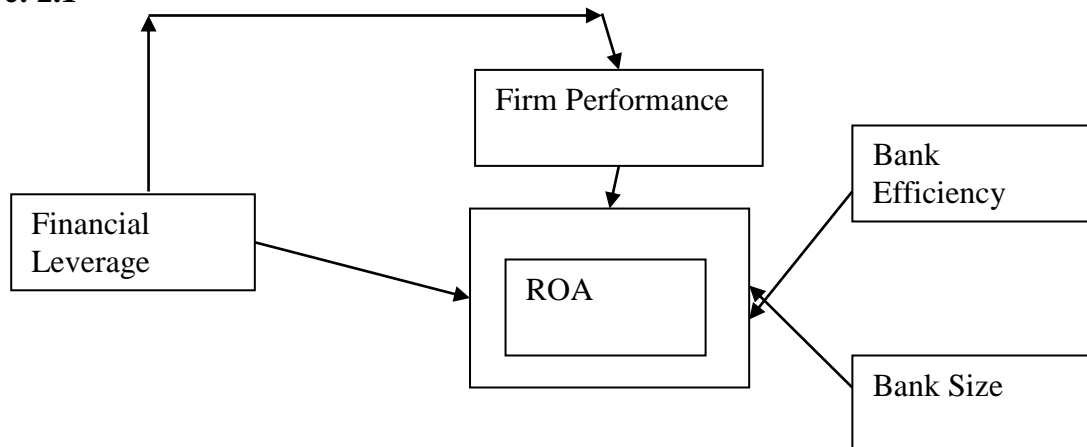
Therefore on the basis of above mentioned literature and evidences from previous studies by researchers (as mentioned in literature review) researcher will go to check out how performance of Islamic banks is affected by financial leverage. So the below mentioned hypothesis has been formulated as proposed hypotheses for current research study.

H1: There is correlation between financial leverage and Islamic banks performance.

H2: Financial leverage has positive impact upon Islamic banks' performance (ROA).

2.3 Theoretical Framework

Figure: 2.1



Theoretical background of current study based on signaling theory and its description. Signaling theory says that the issuance of equity and debts are good signals because the issuance and debt is good sign, due to debt the market price of the share increases (Berk & DeMarzo, 2007) there is an increase in the level of confidence of investors in their business operations and the firm also gains confidence in order to generating the maximum cash flow to avoid the interest and it serves as positive sign for sound and strong condition of cash flow.

Jensen and Meckling (1976) are of the opinion that agency cost theory started from reality is that debt finance is acting like controlling instrument that restricts the managers from selfishness and freedom of expenditures spending in unnecessary and lavish manners on the behalf of the value and performance of the firm.

Signaling theory for the capital framework explained that if due to the financial leverage there is an improvement in the value of the firm signals.

Research Model of current study is combination of the relationships among two variables financial leverage (IV), and firm performance (DV). The determinant for firm performance in current study is ROA.

3. METHODOLOGY

3.1 Dependent Variable

3.1.1 Firm Performance

Iswatia, & Anshoria, (2007), Explain performance refers to an ability of entities by managing the resources in various ways for the accomplishment their goals or for the achievement of their objectives. Mainly it focuses on those variables which are closely related to the financial statements.

Several measures for the firm performances such as return on sales shows that what company earns in relation to sales, ROA reveals the ability of the company use its assets (Almajali, Alamro and Al-Soub ,2012).

3.2 Independent Variable

3.2.1 Financial Leverage

In order to enhance or boost the taxes and profit Financial leverage is used, and is equal to the ratio of loans and total liabilities.

A firm which is comprises of owner equity and debt is called levered firm whereas all-equity firm is known as unlevered firm.(Andy, Chuck & Alison, 2002). Because with the increase of debt financial leverage increases.

Pandey (2010) examines that financial leverage occurs if there is low financial interest or there is no fixed financial interest. .it is said that a firm may be unlevered or levered.

3.3Data Environment

The study is comprises of 20 listed Islamic banks from Asian region. Ten years (i.e., 2010 to 2019) data set involved the 20 Islamic banks from Asian region. Thomson Reuters DataStream will be used to retrieve the data.

3.4 Variables measurement

3.4.1 Variables Description and Model Specification

Variable Type	Variables	Short Name	Measurement
Independent Variable	Financial Leverage	(FL)	Equity to Total Liabilities
Dependent Variables	Return on Assets	(ROA)	Net Income / Total Assets
Control Variables:	Bank efficiency	(BE)	Cost of the Total Income
	Bank size	(SIZE)	Log of the total Assets

Data of current research study is estimated by using following econometric model:

$$ROA_{it} = \beta_0 + \beta_1 FL + \beta_2 BE + \beta_3 SIZE + \varepsilon_{it} \quad (1)$$

In the above econometric model

(ROA) mean Return on Assets; (FL) is Financial Leverage

(BE) means Bank Efficiency and SIZE refers to Bank Size

In the above mentioned equation

1. It is used to measure the relationship between financial leverage and (ROA).

3.5 Data Analysis Technique

For analyzing the data of current research work the researcher will apply E-Views software to run the various tests. Firstly researcher will run the Descriptive statistics to find out Mean, Median and Standard deviation of the data. Secondly researcher will run correlation test to check the association among the variables of the research work. The following test will be run to check the relationship among various variables of the study: Common Effect, Fixed Effect, Likelihood, Random effect and Hausman Test.

Then hypothesis of study will be tested to see the association b/w the F- leverage and Islamic bank's performance in Asian countries.

4. RESULTS AND FINDINGS

4.1. Introduction

The chapter three briefly explained the method of investigations about study topic. However, the chapter four is working on the analysis of the study by basing on the chapter (03) schematic work. Thus, the researcher obtained the secondary data. As empirical chapter, the study has used the frequency tests as descriptive. In next part, correlation tests are implied after data normality through Skewness and kurtosis. Further, fixed effect regression test is applied to check the data impact of experimental variables with dependent variables.

4.2 Descriptive Statistics

The table 4.1, in this study describes the behavior of data about all existing variables in the model from the duration of 2010 to 2019. Descriptive statistics of financial leverage and firm performance measures like ROA is separately explained. Data behavior was investigated to explore the accuracy before examining other statistical test. The descriptive statistics analysis shows the summary of data that contain average value of mean, lower value in the data set shows by (minimum), high value in data shown with data set (maximum) and measurement of dispersion (standard deviation). The mean value description about average of data , spread and measure of dispersion in the value of the data from mean and standard deviation and mean has

low due to the used as separately and minimum and maximum values shows the current series of data.

In below table dependent variable bank performance measure through the combination of return on asset and return on equity in the 25 Islamic banking sectors. In this table explanation of return on assets and return on equity has been explained through the value of minimum and maximum strength from the selection of all Islamic banks, in which rear any bank hold maximum assets and equity returns and also shows that difference with standard deviation value. In this table also explanation of financial leverage as independent variable, in which value of mean shows that average value of financial leverage, minimum and maximum value shown low leverage and high leverage respectively. The standard deviation value of the financial leverage has been recorded as difference among the variables during the 2010-2019. The descriptive statistic table also explores the controlling variables description for mean, minimum, maximum, standard deviation.

Table: 4.1 Descriptive Statistics

	Mean	Maximum	Minimum	Std. Dev.	Observations
ROA	0.0610	0.7066	0.0246	0.0479	230
FL	0.1989	0.9612	0.0102	0.2568	230
BS	9.2932	16.3006	5.1976	3.4648	230
BEF	17.0799	35.3314	0.0183	6.0604	230

In above table 4.1, description about study variable has been explored briefly. The mean value of ROA return on assets is (0.0610), it explains the average Islamic banking performance having a 6.10% return on assets with value of standard deviation value (0.0479), in which difference in return is 4.79% during the 2010-2019 Islamic banking sector. The maximum value is (0.7066), it shows the higher rate of asset return is 70.66% and minimum value is (0.0246), it shows that lower rate of return on assets is 2.46% during the 2010-2019 Islamic banking sector.

The mean value of FI financial leverage is (0.1989), it explains the average Islamic banking performance having a 19.89% financial leverage with value of standard deviation value (0.2568), in which difference in return is 25.68% during the 2010-2019 Islamic banking sector. The maximum value is (0.9612), it shows the higher rate of equity return is 96.12% and minimum value is (0.0102), it shows that lower rate of return on equity is 1% during the 2010-2019 Islamic banking sector.

The mean value of BS bank size is (9.29), it explains the average Islamic banking performance having a 9% bank size with value of standard deviation value (3.4648), in which difference in variation of bank size is 3.46% during the 2010-2019 Islamic banking sector. The maximum value is (16.30), it shows the higher ratio of bank size is 16.30% and minimum value is (5.19), it shows that lower ratio of bank size is 5.19% during the 2010-2019 Islamic banking sector.

The mean value of BEF bank efficiency is (17.07), it explains the average Islamic banking work efficiency having a 17.07% with value of standard deviation is (6.06), in which difference in variation of bank efficiency is 6.06% during the 2010-2019 Islamic banking sector. The maximum value is (35.33), it shows the higher ratio of bank efficiency is 35.33% and minimum value is (0.01), it shows that lower ratio of bank efficiency is 1% during the 2010-6.02019 Islamic banking sector.

4.3 Correlation Analysis

Correlation analysis showed to determine the relationship between financial leverage and Islamic banking performance. In our study also examine the potential multicollinearity problem. Multicollinearity problem check with the formula ($VIF=1/1-\text{Adjusted R-squared}$). According to the formula all values of VIF below the value of 3, so according to the standard value of VIF all values of VIF less than threshold value 10. Therefore, no multicollinearity issue in research model. In below Table 4.2, examined Correlation analysis among all financial leverage and responding variables. To check the strength of relation among variables with direction of positive and negative measured through correlation matrix. The range for correlation analysis is (-1 to +1) which shows that correlation between variables. If value less than 0 value shows that negative relationship and if greater 0 value its mean positive relationship among variables. (+1, -1) shows the perfect correlation among variables.

Table: 4.2 Correlation Analyses

	ROA	ROE	FL	BS	BEF
ROA	1.00				
FL	(0.22)	0.04	1.00		
BS	0.29	0.04	(0.63)	1.00	
BEF	(0.58)	(0.34)	0.29	(0.60)	1.00

In Table 4.2, correlation analysis analyzed no multicollinearity issues in panel data of 10 years of Islamic banking sector because values relay below the 0.63 correlation outcomes described the significant correlations all the values has below 0.63.

In Table: 4.2, correlation analysis indicates that return on equity coefficient value 0.17 positively linked with (ROA). The high correlation shows that both indicators were dependent variables and measurement of these both mostly moderate levels correlated each other. The coefficient value of financial leverage (FL) 0.22 indicates positive correlation. The value shows positive correlation among financial leverage and return on assets, due to the lower debt financing Islamic banking sector. The coefficient value 0.04 shows that positive correlation among financial leverage and return on equity.

The value of Coefficient for bank size BS is 0.29, it shows that positive correlation between bank size and return on assets in Islamic banking sector, the coefficient value 0.04 shows that positive correlation among the bank size and return on equity, the coefficient value 0.63 shows that high positive correlation between bank size and financial leverage in Islamic banking sector duration of 2010-2019. The next one coefficient value of bank efficiency BEF is 0.58, it shows that positive correlation b/w Bank efficiency and Return on Assets, the coefficient value 0.34 shows that positive correlation among bank efficiency and return on equity, the coefficient value 0.29 shows that positive correlation between bank efficiency and financial leverage, the coefficient value 0.60 shows that positive correlation among the bank efficiency and bank size in Islamic banking sector during the 2010-2019.

4.4 Panel Regression Analysis

In the below **Table 4.3,4.4**, panel-regression analysis has been described the effect of financial leverage with controlling effect of bank size and bank efficiency on Islamic banking

performance with measure of ROA. However, study found that direct effect of independent variable financial leverage with different proxy measures. The study has found the direct significant/positive or negative role of financial leverage for adjusting the Return on Assets and Return on Equity in Islamic banking industry of Pakistan. Regarding to the direction of likelihood ratio test fixed model was suitable for hypothesis improvement as final analysis. According to Hausman test and redundant test suggested the common and random effect model were not suitable for the final interpretation. The fixed model and random effect model R-square and p values were mostly significant and accepted range then fixed effect model were finalized for further analysis.

4.4.1 Model 1 Dependent Variable Return on Assets

The below fixed effect model test examined the impact of financial leverage on return on assets with controlling role of bank size and bank efficiency. But before applying the fixed effect model study has been checked its consistency through likelihood and Hausman test, both these test will provides the suggestion for final selection of any model from common, fixed and random effect model.

4.4.1.1 Likelihood test

Null hypothesis: Shows common effect is more appropriate

Alternate hypothesis: Indicates fixed effect is also more appropriate

Table: 4.3 Likelihood test

Redundant Fixed Effects Tests			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.952371	(22,204)	0.0000
Cross-section Chi-square	63.575106	22	0.0000

The Chi-square value is $p < 0.05$ then according to this likelihood test fixed effect model has been selected for final analysis.

4.4.1.2 Hausman Test

Null hypothesis results shows that Random Effect is more appropriate

Alternate hypothesis results shows that fixed Effect is more appropriate

Table: 4.4 Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	38.663437	3	0.0000

The cross section random value is $p < 0.05$, its mean hausman test recommends the fixed effect model is more appropriate for the final analysis. So likelihood and Hausman selection base test recommended the fixed effect model is more suited for the final analysis of the hypothesis improvement.

4.4.1.3 Fixed Effect Model

According to direction of likelihood test study has applied the fixed effect model to check the effect of financial leverage on return on assets as Islamic banking performance.

Table: 4.5 Fixed Effect Model

Dependent Variable: ROA				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.829213	0.112305	7.383586	0.0000
FL	0.007891	0.019684	0.400876	0.0589
BS	-0.071130	0.012066	-5.895336	0.0000
BEF	-0.006369	0.000805	-7.917099	0.0000
R-squared	0.512944	Mean dependent var		0.060961
Adjusted R-squared	0.453255	S.D. dependent var		0.047852
S.E. of regression	0.035383	Akaike info criterion		-3.739062
Sum squared resid	0.255394	Schwarz criterion		-3.350409
Log likelihood	455.9921	Hannan-Quinn criter.		-3.582287
F-statistic	8.593706	Durbin-Watson stat		1.596478
Prob(F-statistic)	0.000000			

Note: The above table depicts the results for linear panel data regression model with using the 25 Islamic banks and 10 years fixed effects. The dependent variable is the return on assets (ROA) and the independent variables were financial leverage. In further statistically significant level is 1%, 5% and 10 percent respectively.

H1: There is significant correlation between Financial Leverage and Islamic Bank performance.

In the above **Table: 4.5** financial leverage and return on assets have been explained. To determining the relationship of financial leverage and its influence on banking performance with controlling role of bank size, bank efficiency, the fixed effect model is used for the hypothesis's improvement. The above table is included dependent variable return on assets and independent variables financial leverage, controlling variable bank size and bank efficiency in Islamic banking sector. The above **Table 4.5** shows that value of R^2 (0.51) in the model which includes financial leverage shows only 51% return on assets performance of the Islamic banking has been examined through the independent variable of this study, in other words variation in return on assets outcome due to the other independent variables in the field of banking sector. However, the R-squared value build a suitable source for the model of financial leverage and Islamic banking performance.

H1a: Financial leverage has positive impact upon Islamic banks performance through return on assets.

Financial leverage has a positive impact on Islamic banking performance with measure of return on assets. In above model FL (financial leverage) found that statistically significant at the level of ($p < 0.05$) with coefficient value ($\beta = 0.007$). These values show that financial leverage significantly positive influence on return on assets. Similar results found that negative impact of financial leverage on return on assets Kipasha and Moshi (2014), NGUYEN, T. N. L., &

NGUYEN, V. C. (2020). The coefficient value of control variables BS (board size) is $\beta = -0.071$ significant at the level of ($p < 0.05$) and bank efficiency (BEF) coefficient value ($\beta = -0.006$), significant at the required level of ($p < 0.05$). The control variables values shows that significant relationship with dependent variable return on assets its mean study control the effect of financial leverage through bank size and bank efficiency improvement. According to these outcomes hypothesis 1a has been accepted statistically, because required results obtained from this table. Financial leverage has a positive influence on Islamic banking performance with measure of return on equity. In above model FL (financial leverage) found that statistically significant at the level of ($p < 0.05$) with coefficient value ($\beta = -1.11$). These values shows that financial leverage significantly negative influence on return on equity. Similar findings in the study of Abubakar (2015) Nikoo, S. F. (2015), Thabang and Maina (2014), Vitolla, F., Raimo, N., Rubino, M., & Garzoni, A. (2020), in which examined the negative impact of leverage on return on equity. The coefficient value of bank efficiency (BEF) coefficient value ($\beta = -0.020$), significant at the required level of ($p < 0.05$) and bank size insignificant at the level of $p > 0.05$. The control variable bank efficiency value shows that significant inverse relationship with dependent variable return on equity its mean study control the effect of financial leverage through bank efficiency improvement. According to these outcomes hypothesis 1b has been rejected statistically, because required results does not meet the threshold. According to the both fixed effect model findings hypothesis 1 has been approved, because in both model financial leverage p value found that significant at the level of $p < 0.05$. So with respective of the threshold values and outcome of this study hypothesis 1 has been accepted.

4.5 Summary of Hypothesis

The aim and objective of study was to determine the association between F- leverage and firm performance, financial leverage is an independent variable and measured by equity to entire liabilities, whereas dependent variables ROA and ROE were the determinants of Firm performance and measured by net income /assets and net earnings/ total equity correspondingly.

To meet the objective of this research following Hypotheses were tested which were base on the wide-ranging literature review.

Hypothesis

H1: There is significant correlation between financial leverage And Islamic banks performance.

Status

Accepted

H2: Financial leverage has positive impact upon Islamic banks performance (ROA).

Accepted

The aim and objective of research work was to check the effect of Financial Leverage on Islamic Bank's performance which is achieved successfully. All the required results according to Hypothesis of the study are persistent with the Hypothesis mentioned above which can be helpful for the researchers in the future.

Most of the results are persistent with the previous studies described in Literature of this research work, Firer et al, (2004), Ward & Price, Sharma,(2006), found in their works that financial leverage has significant and positive impact on the firm value.

Many prior studies which were conducted Ebiringa, Oforegbunam Thaddeus ,Ezeji, E. Chigbu (2012) explained positive and significant connection of financial leverage on firm value.

Wainaina (2014) and (zafer ,Zeeshan et al.,) also explained theencouraging and significant link between firm performance and financial leverage.

Conclusions and Recommendations

This research work aims at shaping the impact of leverage on performance of Islamic banks in Asian countries. (ROE) and (ROA) were used to measure the Islamic bank performance whereas the financial leverage is independent variable. The total number of 25 Islamic and semi Islamic banks is the part of analysis of this study for the time period from 2010 to 2019 namely Bahrain, Bangladesh, Qatar, Indonesia, Malaysia, srilanka and Pakistan are the part of analysis of this study.

In the light of the results obtained significant association between the bank performance and financial leverage which shows that an increase in the equity will result in the increase of Islamic bank performance (ROA,ROE) in Asian Islamic countries, These results differ from the agency cost theory which says high financial leverage cause in decrease in the overall performance of firm .However results support the signaling theory which claims the higher performance of banks due to increase in equity.

Results of the study imply the requirement of those Islamic banks which can maintain maximum financial leverage for the achievement of efficient and sufficient profit or able to have a low financial leverage for the reduction of risk. It is also noted that Islamic banks having high level of financial leverage are in a good position to obtain high financial benefits through tax income or the bear high cost of debt in term of interest reducing the profit. On the basis of this financial leverage used by Islamic banks is depending on flexibility in the adjustment of the value of their debt and their power of earning. This research study has main focus on Islamic banks in Asian region. Therefore there is a need of more comprehensive and detailed studies to check the effect of leverage on listed and unlisted Islamic banks as well in Asian countries to make the findings and results of this research work more sound and strong.

Although, in this research work we have used debt and equity ratio as a measures in current study to achieve the maximum level of financial leverage but other measures can also be applied when there is large number of Islamic banks for the achievement of maximum stage of F-leverage which are not part of this study such as WACC. Main focus of this study is the Islamic banks in Asian countries. Globally there are more than 150 Islamic banks, while only 25 of them are part of this study. The results of this research study cannot be considered for all Islamic banks worldwide. Islamic banks which are the part of this study are different in term of economic condition, business activities currencies and other environment, the effect of financial leverage on the profitability of individual Islamic bank is not considered in this work. Therefore the effect of financial leverage on the performance of Islamic banks is examined combine for Asian region rather than individually. It is also noted that the results are only limited to the financial firms only therefore it is recommended that non-financial firms can also be part of this study or findings can be generalized to non-financial listed banks, because the financial institutions have quite different accounting rules from non-financial institutions and have quite different uniqueness from one another.

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