

## **TABLE OF CONTENTS**

ACKNOWLEDGEMENT.....	I
DEDICATION.....	I
THE ABSTRACT.....	III
LIST OF TABLES.....	IV
LIST OF FIGURES.....	V

### **1. CHAPTER ONE: INTRODUCTION**

1.1. Introduction to Technical Efficiency.....	1
1.2. Introduction to Maqasid e Shariah Index.....	1
1.3. Islamic Banking Industry in Pakistan, Growth and Market Share.....	2
1.4. Research Problem.....	7
1.5. Significance of the Study.....	8
1.6. Objective of the Study.....	9
1.7. Organization of the Study.....	10

### **2. CHAPTER TWO: LITERATURE REVIEW**

2.1. Maqasid e Sharia Concept & Literature.....	11
2.2. DEA concept & Technical Efficiency.....	22
2.3. Identification of Variables.....	29
2.4. Research Gap.....	29

### **3. CHAPTER THREE: RESEARCH METHODOLOGY**

3.1. Nature and Series of Data.....	30
3.2. Sources of Data.....	30
3.3. Population and Sample Size for Study.....	30
3.4. Variables Selection and Test of Relationship.....	31
3.5. Research Methodology.....	32
3.6. Specification of Model DEA Technical Efficiency.....	34

3.7. Specification of Model Maqasid e Sharia Index.....	36
---	----

#### **4. CHAPTER FOUR: DATA ANALYSIS, TEST RESULTS & DISCUSSIONS**

4.1. Calculations of Technical Efficiency.....	39
4.2. Discussion on Technical Efficiency Results.....	40
4.3. Calculations of Maqasid e Shariah Index Results.....	41
4.4. Discussion on Results of Maqasid e Shariah.....	44
4.5. Plotting of data on quadrants of Technical Efficiency & Maqasid e Sharia Index.....	45
4.6. Performance Analysis of Islamic Banks in Pakistan.....	46

#### **5. CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS**

5.1. Conclusion.....	47
5.2. Recommendations.....	48
5.3. Limitation of Study.....	48
4.4. Future Research Direction.....	49

#### **REFERENCES**

#### **APPENDICES**

***Appendix I: Input and output data of four Islamic banks***

***Appendix II: Total Factor Productivity Changes of Islamic Banks using DEA Malmquist Index Analysis***

***Appendix III: Graph of Total factor productivity changes over the period of ten years***

***Appendix IV: Trend of Total Factor Productivity Change of all Islamic banks***

***Appendix V: Summary of ATM, Branch Network along with short term and long term rating***

***Appendix VI: Justification of using Robust Least Square Regression and Data***

***Appendix VII: Gant Chart, Maqasid e Shariah scores***

***Appendix VIII: Literature Fact Sheet***

# **“Performance Analysis of Islamic Banking in Pakistan Using DEA Technical Efficiency and Maqasid e Shariah Index”**

## **Abstract:**

The outlook of Pakistan’s Islamic banking industry remained positive over the decade based on business growth projections and as a fact played significant role in promotion of local as well as foreign direct investment. Industry crossed a landmark of 2 trillion deposits last year and still growing with an increasing rate. Shariah banks are using a unique business model which is designed under the principles of Islamic Sharia. They are providing sharia compliant products to customer therefore, gaining popularity in the country. Unlike traditional counterparts, Shariah banks had dual challenge they need to remain efficient and sharia compliant as well. This study examines the efficiency of Pakistan’s Islamic banking industry using DEA Technical Efficiency Scores and Sharia performance Ratio which is assessed through Maqasid e Sharia Index. Technical efficiency measured by using DEAP 2.1 software and Maqasid e Sharia Index measured through the weighted average of ten ratios. Results of Efficiency and MSI plotted on four quadrants based on score combinations calculations are relative not absolute. This study has 4 main findings on the basis of results plotted on four quadrants. Bank falls in Quadrant 1 is considered to be the best bank which achieved high level of technical efficiency and High level of Maqasid e Sharia Index score. Mezaan Bank falls in Quadrant 1 means that achieved high efficiency score and having high MSI scores. Islamic bank falls in Q2, achieved high technical efficiency and low sharia performance. Dubai Islamic bank secured place in Q2 which due to low score of MSI, management of bank need to align focus towards sharia performance besides technical efficiency. Bank falls in Q3 secured low score in technical efficiency and high score in sharia performance. Bank Islami and Albaraka Bank managed to secure position in Q3 which is again a grey block they need to work on technical efficiency side. Q4 is danger zone, in this quadrant those banks fall that have low technical efficiency and sharia performance. None of the bank in industry secured place in Q4 which is good sign.

After plotting technical and shariah efficiency scores, performance of Islamic banks analyzed through regression, wherein return on asset is taken as dependent variable, results states that there is positive association between return on asset and technical efficiency and impact of TE on ROA is highly significant. Same way positive association found between ROA and Maqasid e Shariah Index and impact of MSI is highly significant on ROA. While other efficiency measures taken control variables such as Financing expense to total spread, Admin expense to profit before tax, other expense to total income have negative association with ROA means that higher the expense lower the ROA and impact is also highly significant. Other expense to other income has negative association with ROA but its impact on ROA is insignificant.

This study would have practical implications and raise questions for all stakeholders whether SBP supervision is enough in terms of achievement of sharia goals? In context to Pakistan, this will be the first study where Performance of Shariah banks analyzed on the basis of Technical efficiency as well Sharia Efficiency.

---

***Key Words: Technical Efficiency, Maqasid e Shariah Index, Performance Analysis***