

# **MACRO AND MICRO LEVELS OF DETERMINANTS OF EFFICIENCY OF ISLAMIC BANKS**

**BY**

<b>MUNEEBA MEHMOOD</b>	<b>72943</b>
<b>FIZA MASROOR</b>	<b>73232</b>
<b>SANA AHMED</b>	<b>72928</b>

A Project submitted to Department of Management Studies, Bahria Business School, Bahria University – Karachi Campus, in partial fulfillment of the requirement for BS A&F Degree



**BS (ACCOUNTING & FINANCE)  
FALL-2024  
Bahria University Karachi Campus**

**PROJECT APPROVAL STATEMENT****APPROVAL FOR EXAMINATION**

Candidate's Name: Muneeba Mehmood

Registration No.: 72943

Candidate's Name: Fiza Masroor

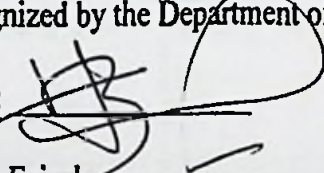
Registration No.: 73232

Candidate's Name: Sana Ahmed

Registration No.: 72928

Project Title: Macro and Micro Levels of Determinants of Efficiency of Islamic Banks

I hereby certify that the above candidate's thesis has been completed to my satisfaction and, to my belief, its standard is appropriate for submission for examination. I have also conducted plagiarism test of this thesis using HEC prescribed software and found similarity index at 11 that is within the permissible limit set by the HEC for the BS(A&F) thesis. I have also found the thesis in a format recognized by the Department of Management Sciences.

Supervisor's Signature: Date: 3/12/2024

Supervisor's Name: Sir Faisal

HOD's Signature: Date: 6/12/25

1<sup>st</sup> Half Semester Progress Report

Name of Student(s)	Munecba Mehmood, Fiza Masroor, Sana Ahmed
Enrolment No.	02-112211-044, 02-112211-050, 02-112211-019
Thesis/Project Title	Macro and Micro Levels of Determinants of Efficiency of Islamic Banks

## Supervisor Student Meeting Record

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
1	26-2-24	Cubicle 3	Topic name, variables, model, Zotero,	<i>A fiza</i> <i>Sana</i>
2	2-03-24	Cubicle -3	Model, hypothesis, financial literacy	<i>A fiza</i> <i>Sana</i>
3	12-10-24	Cubicle 3	Topic Finalized, Questionnaire, Search of Articles related to FI & other variables	<i>A fiza</i> <i>Sana</i>
4	25-10-24	Cubical 3	Model finalization, hypothesis finalization, questionnaire finalization	<i>A fiza</i> <i>Sana</i>

Progress Satisfactory

Progress Unsatisfactory

Remarks: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

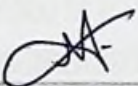
Signature of Supervisor: \_\_\_\_\_ Date: \_\_\_\_\_

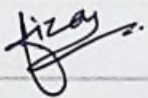
Name of Supervisor: M. Faisal

**Declaration of Authentication**

I hereby declare that no portion of the work referred to in this project has been submitted in support of any application of another degrees or qualification of this university or any other institution of learning.

Student's Signature  \_\_\_\_\_

Student's Signature  \_\_\_\_\_

Student's Signature  \_\_\_\_\_

## ACKNOWLEDGEMENT

First, we are thankful to Allah, who is the holder of our breaths, without his orders nothing is possible. In completing our project, we took help and guidelines of some respected people, who deserve our appreciation and we are thankful to them. We would like to show our deepest gratitude to **Lecturer Dr Faisal**, Course Supervisor, Bahria University for giving us helpful guidelines for this project through numerous consultations.

We are thankful to all those who have directly and indirectly provided us with guidance in completing this report. Our project Co-Ordinator **Ma'am Fazeelat Masood** as well as our Dean and our H.O.D who gave us this golden opportunity to do this project on the topic "*Macro and Micro Levels of Determinants of Efficiency of Islamic Banks*"

This has also helped us with the extensive research we undertook due to which we explored many more new things which will be helpful in our practical and work life. We would also like to thank our classmates who gave valuable comments and suggestions on this proposal which inspired us to improve our report. We would also like to thank our parents who helped and supported us during these hard times and motivated us a lot in finalizing this project within the limited time frame. We thank all the people for their direct and indirect help due to which we were able to complete our report.

## TABLE OF CONTENTS

<b>ABSTRACT</b> .....	<b>ix</b>
<b>CHAPTER 1</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
<b>1.1. Introduction</b> .....	<b>1</b>
<b>1.2. Background</b> .....	<b>1</b>
<b>1.3. Problem statement</b> .....	<b>2</b>
<b>1.4. Research objectives</b> .....	<b>2</b>
<b>1.5. Research questions</b> .....	<b>2</b>
<b>1.6. Significance of the study</b> .....	<b>3</b>
<b>1.7. Scope of the study</b> .....	<b>4</b>
<b>1.8. Organization of thesis</b> .....	<b>4</b>
<b>CHAPTER 2</b> .....	<b>6</b>
<b>LITERATURE REVIEW</b> .....	<b>6</b>
<b>The Interplay Between Portfolio Composition and Other Bank-Level     Determinants</b> .....	<b>11</b>
<b>Portfolio Composition and Operating Efficiency</b> .....	<b>11</b>
<b>Portfolio Composition and Capital Adequacy Ratio</b> .....	<b>11</b>
<b>Portfolio Composition and Credit Risk</b> .....	<b>12</b>
<b>Portfolio Composition and Asset Management</b> .....	<b>12</b>
<b>Portfolio Composition and Bank Size</b> .....	<b>13</b>
<b>2.1. Summary of Literature Review</b> .....	<b>16</b>
<b>2.2. Research Hypotheses</b> .....	<b>17</b>
<b>2.3. Conceptual Framework</b> .....	<b>19</b>
<b>CHAPTER 3</b> .....	<b>20</b>
<b>METHODOLOGY</b> .....	<b>20</b>

<b>3.1. Research Approach &amp; Type .....</b>	<b>20</b>
<b>3.2. Research Design .....</b>	<b>20</b>
<b>3.3. Research Population.....</b>	<b>20</b>
<b>3.4. Sample Size &amp; Sampling Technique.....</b>	<b>20</b>
<b>3.5. Research Instrument.....</b>	<b>20</b>
<b>3.6. Data Collection.....</b>	<b>21</b>
<b>3.7. Data Analysis.....</b>	<b>22</b>
<b>1. Descriptive Statistics: .....</b>	<b>22</b>
<b>2. Financial Ratio Analysis: .....</b>	<b>23</b>
<b>3. Trend Analysis:.....</b>	<b>23</b>
<b>4. Correlation and Regression Analysis: .....</b>	<b>23</b>
<b>5. Comparative Analysis: .....</b>	<b>24</b>
<b>6. Qualitative Analysis: .....</b>	<b>24</b>
 <b>CHAPTER 4.....</b>	 <b>25</b>
 <b>DATA ANALYSIS .....</b>	 <b>25</b>
<b>Model 1: Fixed-effects .....</b>	<b>25</b>
<b>Model 2: Fixed-effects: .....</b>	<b>27</b>
<b>Model 3: Fixed-effects .....</b>	<b>29</b>
<b>Model 4: Fixed-effects: .....</b>	<b>31</b>
<b>Model 5: Fixed-effects: .....</b>	<b>33</b>
<b>Model 6: Fixed-effects .....</b>	<b>35</b>
 <b>CHAPTER 5.....</b>	 <b>38</b>
 <b>CONCLUSION AND RECOMMENDATIONS.....</b>	 <b>38</b>
<b>Conclusion .....</b>	<b>38</b>
<b>Recommendations for Policymakers, Regulators, and Bank Managers: .....</b>	<b>38</b>
 <b>REFERENCES.....</b>	 <b>41</b>

## ABSTRACT

This study aims to explore the determinants of efficiency at both macro and micro level in Islamic Banks. The Profitability measures i.e Return on Assets (ROA) and Return on Equity (ROE) are used to determine the effect of determinants on efficiency & performance of Islamic Banks. The technological changes and advancement over the time and changes in productivity of macro and micro levels could be another level of study. The results shown in models depicts that asset management (efficiency) has a positive relation with ROA means if AM increases ROA also increases, or vice versa. Similarly, AM also has a positive relation with ROE or vice versa. The study is beneficial for overcoming the doubtfulness in banking sector. Ultimately, the findings suggests that the need for targeted strategies that address both macro and micro levels to build a more efficient and sufficient Islamic banking sector.