

Determinant of Leverage of Islamic banks:
Empirical Evidence from Middle East

BY

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(FINANCE)**



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Abstract:

This study examines whether the standard determinants of capital structure (Market-to-book ratio, profitability, size, tangibility, asset risk, dividends, and collaterals) can explain the variation in leverage of Islamic banks and also investigates whether the traditional theories of capital structure are applicable on Islamic banks. In order to fulfil the objective of the study panel data set of 37 banks for the period of 2006 to 2012 have been selected. The findings of fixed effects model reveals that Market-to-book and size found to be positively correlated while dividend and tangibility found to be negatively correlated with book leverage. The Market-to-book, dividend and tangibility have negative impact while size has positive impact on market leverage. Therefore, this study concludes that four standard determinants namely Market-to-book ratio, size, dividends and tangibility have significant impact on leverage of Islamic banks. Secondly, results are consistent with traditional theories of capital structure but highly supported the Trade-off theory.

Keywords: *leverage, capital structure, Market-to-book ratio, dividends, Islamic banks, Middle East, collaterals, tangibility, capital structure theories.*