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"Comparative Financial Performance of Islamic & Conventional Banks during the Transition Period in Pakistan"



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Executive Summary

This project compares the performance of Islamic and conventional banks on financial performance during the dual banking system in Pakistan during transition phase. The study has been modified to respond directly to the comments made by the examiner, which includes strengthening the historical background, an explanation of the evolution and development of Islamic banking, the inclusion of global and domestic significance, an explanation of method, and an extension of ratio analysis with macro and micro interpretation.

The study has been carried out on five Islamic banks and five conventional banks in Pakistan. Hence, the selected Islamic banks are Meezan bank, Bank Islami, Al Baraka bank, Dubai Islamic bank Pakistan and MCB Islamic bank and the selected conventional banks are Habib bank limited, United bank limited, MCB bank, National bank of Pakistan and Allied bank. This sample offers a hands-on comparison of Shariah-compliant banking and interest-based banking in a similar regulatory and economic context.

The method used is a secondary data, ratio analysis, trend analysis, Data Envelopment Analysis (DEA), Z score stability test and graphical interpretation. The indicators of profitability are ROA, ROE and net profit margin, efficiency are the cost-income ratio and DEA score, indicators of stability are the Z-score, capital adequacy ratio and non-performing loan ratio, and digital preparedness are the share of digital transactions, mobile banking users and IT investment.

The results demonstrate that conventional banks are more profitable and efficient as they have more diverse income sources and have more extensive networks, and their legacy digital infrastructure is stronger. Islamic banks, on the other hand, are more stable, have less risk exposure, and are quicker to adopt digital banking due to asset-backed financing and Shariah governance as well as growing customer demand for ethical banking services.

The overall study findings are that neither banking model has an advantage in all the performance factors. The Islamic banks have advantages in their stability and ethical positioning while the conventional banks have the advantage of profitability and cost control. This dual banking system is thus extremely significant for Pakistan, for financial inclusion, customer preference and financial sector resilience and sustainable development.