

FINAL THESIS

Which of the banking system is performing better, Islamic banks or conventional banks?

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ABSTRACT

Two famous streams of banks currently operational in Pakistan are, Islamic Banking and Conventional Banking System. Conventional banking is Interest-based system while Islamic banking is Riba-free banking system. The objective of any bank is to make maximum profit through offering various products and services to the customers to satisfy their financial needs. The growth of Islamic banking is very fast all over the world particularly in Pakistan. Moreover, the growth of Islamic banking is not limited to the Muslim society only. In fact the proposed products of Islamic financial System are also receiving acceptance among non-Muslim countries. Many international banks have already started to provide separate windows to serve their Muslim clients. Furthermore, renowned global organizations like IMF, World Bank, ADBP etc have put up special cells to investigate into this new phenomenon. This study carries out comparison of both banking stream to examine the performance of each stream of banking. For this purpose, a sample of four banks is taken out of which two banks are Islamic and two others are the conventional banks. Both the conventional banks and Islamic banks are of the same size for better comparison. Data is collected from secondary sources from 2007 to 2011 and financial ratios are applied to evaluate the performance.

This study concludes that Islamic banks are performing better than Conventional banks in terms of liquidity, capital adequacy, growth in profitability in terms of percentage in last 4 years. Conventional banks on the other hand are using their Assets more comprehensively to earn profit. Their ROA and Deployment Ratio 1 and 2 are far higher than Islamic banks.

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DEDICATION

To my Parents, whose unconditional love has inspired me throughout my life.

Thanks for your support Mom & Dad- words can't describe how much it means to me.