“The Performance and comparison of Islamic/ Conventional Banking with the focus on credit, liquidity and interest rate risk.”

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FINAL PROJECT APPROVAL SHEET

Viva-Voice Examination

Date __/__/____

Topic of Research: write your own topic i.e. Risk Premium in KSE during different Market Trends… etc

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DECLARATION OF AUTHENTICATION

I certify that the research work presented in this dissertation is to the best of my knowledge all sources used and any help received in the preparation of this dissertation have been acknowledged. I hereby declare that I have not submitted this material, either in whole or in part, for any other degree of this or any other institution.

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Signature

DEDICATION

This dissertation is dedicated to my parents who supported me in my entire life while I passed from hard times. Moreover to my friends who kept me motivated throughout my research phases and helped me wherever they could.

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Executive summary

This project aims to compare and analyze the performance of conventional retail/commercial banks with Islamic banks in managing banking risks. The financial and capital markets of Pakistan give an ideal platform for the Islamic banking industry to grow thus increasing its comparative market share in competition to conventional banking. The argument in favor for this point is the fact that, being an Islamic nation, the public has started preferring the interest-free banking system which is of course, Islamic. First Islamic bank started provision of services in Pakistan in the year 2002 and since then, many multinational Islamic banks have started operating in Pakistan for example Dubai Islamic Bank; various local banks have also started offering Islamic modes of financing like Askari Commercial bank.

Comparatively, Islamic banks are exposed to low levels of credit and liquidity risk and offer a higher rate of return as opposed to the conventional banks. To prove this point, data from six conventional banks has been compared with six Islamic banks. This data is from 31st December 2006 to 31st December 2009. The analysis of relevant data has been done using the following methods:

- T- stats
- Mann Whitney test
- Multiple linear regression test and
- The univariate test

Findings

By using these models, most accredited researchers have come to the conclusion that unlike conventional banks, Islamic banks have comparatively low credit and liquidity risk exposure and Islamic banks manage to give a higher return to their clients. They also deducted that the major determinants for credit risk are: documentary credit and bank size, for liquidity risk; loan provision and loan volatility, and for rate of return risk: loan provision and size of the bank