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“(Conventional banking and Islamic banking system performance in Pakistan periods from 2013 to 2017)”

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ABSTRACT

The purpose of this study is to observe and calculate the financial performance of both Islamic and conventional banks operating in Pakistan during 2013 to 2017 by using 12 financial ratios these ratios divided into 4 group. First we calculated the performance of both Islamic and conventional in term of profitability. Profitability ratios include return on equity (ROE), return on assets (ROA) and profit to expenses ratio (PER). The second group is liquidity, liquidity ratios include loan to deposit ratio (LDR), Loan to assets ratio (LAR) and cash and portfolio investment deposit ratio (CPIDR). Third group is risk and solvency ratios, risk and solvency ratios include Debt to equity (DER), deposit to total assets ratio (DTAR) and equity multiplier (EM). Fourth group is Efficiency ratios, efficiency ratios include assets utilization (AU), income to equity ratio (IER) and operating expenses (OE). The sample of 10 conventional banks and 10 Islamic banks was selected for measuring the financial performance of both Islamic and conventional banks. This study found that overall financial performance of conventional banks was better than the Islamic banks. The study also found that Islamic banks financial performance has been improving continuously over the years. The main reasons that the conventional banks are dominating in Pakistan are conventional banks have great experience of handling banking transactions and they also have larger share in the total banking assets of Pakistan. Islamic banks are relatively new in financial market of Pakistan as compared to conventional banks which are operating in Pakistan ever since the independence from British rule, hence they have comparative advantage over Islamic banks. This study also found that profitability and efficiency ratio of Islamic banks are less than conventional banks during 2013 to 2017. Their solvency and risk ratios showed that Islamic banks are more solvent and less risky as compared with conventional banks.

Key words Islamic banks, Conventional banks, Pakistan, Comparison

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