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FINANCIAL PERFORMANCE OF ISLAMIC AND CONVENTIONAL BANKS IN PAKISTAN

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ABSTRACT

We conducted this study to evaluate financial performance of the Islamic and Conventional banks operating in Pakistan. The major objective of this study was to present picture of Islamic and conventional banks before the investors, depositors, shareholders, bank managers and regulatory bodies. The required data was collected from financial statements and annual reports of Islamic and conventional banks for the year, 2012- 2013. We used CAMEL techniques to analyze the financial performance of Islamic and conventional banks. We also used t-test to find out P-value. The empirical evidence show that Islamic banks are more efficient, more liquid and less risky vis-à-vis conventional banks. The profitability of conventional banks is more volatile and their default ratio is also high as compared to Islamic banks. We suggest that Islamic banks should train their staff in accordance with Shariah compliance in order to provide services to their customers in real Islamic sense.

Key words: CAMEL, balance sheet, PLS system

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1.INTRODUCTION

Islamic Banking endeavors to make a fair economic system. Islamic finance working as the standard to share the profit and loss. Riba (Interest) is rigorously proscribed in all manners. Islamic banks come in investment and trade in the direction to get Halal earnings as the banks neither attain the funds/deposits on Riba(interest) nor make the credit on interest. In order to make the profit the banks do the purchases and sell the assets on high prices or to penetrate in investment pitch. The Islamic banks used the most general sales contracts are Istisna, Murabaha and Salam do

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the sales on the basis of delayed payment whereas in Ijara there is the transaction of the usufruct(legal rights to use the property of another) of the asset possessed with the banks. In Islamic banks Musharaka, Wakala and Mudaraba structures are used for investment.

The Islamic banking practices increased day by day, with proven profitability, showing more strength in comparison of conventional banking. The metropolises of the Islamic world are growing rapidly along with Islamic banks and redistribution systems shows vibrant economies. Rising non-performing finances (NPFs) to financing ratio, concentration of financing in few sectors and limited expansion of Islamic banking network to second and third tier cities remain among major challenges faced by the industry. The study is conducted to modify the performance and efficiency of Islamic banking as compared to conventional banking through CAMEL analysis.

1.1 Main Research Question

The main research question of this paper is to analyze the financial performance of Islamic and Conventional Banks operating in Pakistan in order to highlight which sector is performing well and attracting customers

1.2 Objective of the Study

The objective of this study is

1. To present a fair picture of financial position of banks to financiers, management and shareholders.
2. To aware the people about the financial position of Islamic bank.
3. To compare the performance of Islamic and Conventional banks in order to identify, which one has, better financial position.

1.3 Scope of Study

Financial institutions particularly banking industry witnessed recorded growth during the last few years in all over the world. In Pakistan economy practiced a boost in the part of the banking zone towards GDP due to the development of the market and to diversify the products/services to meet customers' expectations. A huge number of new banks have ongoing their operations in Pakistan. In same way, beginning of Islamic banking business in 2002 introduced new path to use the different prospects. Islamic banks are being rewarded name for the reason that of interest free system, risk sharing actions and well-built bounding with the religious conviction. The subsistence of Islamic and conventional banks in Pakistan formed hard competition between banks to attract and retain the customers by the provision of quality product or services.

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2. Literature Review

Islamic banking is developing the economy at a rapid pace in the entire world even in non-Muslim countries. Banks offering Islamic financial services are showing a desired and encouraging growth of shares in financial systems of a number of countries. Islamic financing rules are established on Shariah principles in which Islamic banking is interest free. Riba is prohibited in Islam. Launching of Islamic banking system started three decades ago, the financial institutions has progressed from one institution in a country in 1975 to more than 300 institutions those are operating in more than 75 countries of the world, including non-Muslim countries (Cihak et al,2007).

Islamic banking is expressed in two areas firstly; Islamic banks being operated parallel to conventional banks those are interest based. Islamic banking industry (IBI) continued its growth throughout the third quarter of CY16. Assets and deposits are equally recorded positive growth when asset base of the industry achieved to Rs.742 billion as the deposits attained to Rs. 628 billion (IBB-SBP-September 2012). In terms of market share, assets make up 8.1 percent while deposits have 9.3 percent share in all over the banking industry. Islamic banking is continued the rising trend in profitability and achieved over Rs 7.7 billion through end September 2012 from Rs. 6 billion with the end June CY12 (SBP September 2012). "On the other hand return on assets (ROA) and return on equity (ROE) witnessed decline during the quarter under review. Investments of Islamic banking industry registered quarterly growth of more than eight percent reaching Rs.374 billion (IBB-SBP-September 2012)". Financial Institutions are more significant for economy of any country as these institutions are the major contributing factors to continue the financial systems on the trail of financial growth and economic development.

3. Conceptual Framework

3.1 Islamic Banking and Conventional Banking

Islamic and Conventional Banks both were financial intermediation which helped to transferring funds from depositors, savers or investors to investors or borrowers. Regular Conventional Banks shouldn't be performed in business transactions, that were allowed in favor of Islamic Banks. However, there were merchandize banks which were permitted to do merchandizing. The major disparity among the Islamic and Conventional Banks were that, the speculative transactions and interest rate, investment in tobacoo, in alcohol and in pig finished products were prohibited in accordance by Islamic Principles. In general, Conventional Banking Principles were manmade,

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while in Islamic Banking principles that were based on Shariyah. Simply to say transactions of Islamic banks are based on profit and loss sharing. As we were aware of, that interest rate for Conventional Banks was main source of earnings. As a proof, interest was forbidden in not only in Islam but also in Christianity as well. As was stated in the Holy Quran " "O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful."(Surah 3:verse 130) And another proof in Quran is "Allah has permitted trade and forbidden interest".(surah2:verse275) In the Bible states "Do not charge your brother interest, whether on money or food or anything else that may earn interest", Different Islamic Banks, the Conventional Banks are not allowed to acquire commodities for reselling them, in other words it is forbidden for them to buy capital assets or fixed assets such as: building, tracks, cars, machineries with the purpose to resell them with markup unless they do not use for their own.

3.4 Conceptual Model
The conceptual model developed for this study is sketched in Figure 2.

Figure 2 Conceptual Model
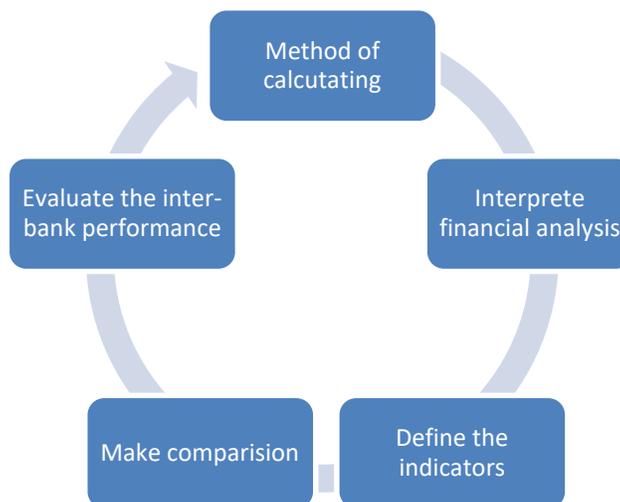
4.RESEARCH METHODOLOGY

4.1 Nature of Study

This study is quantitative in nature because we have used hard data in our analysis.

4.2 Design of Study

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This study is designed in such a way that we can compare the financial performance of Islamic and Conventional banks operating in Pakistan.

Data and Type

We have used secondary data in this study. The data was collected from the annual reports of selected banks, databases of the State Banks of Pakistan and Pakistan Stock Exchange.

4.3 Sample of Study

Total eight commercial banks: four Islamic and four Conventional banks a.re taken as a sample of study. The Islamic Commercial banks selected for this study are the followings: -

1.Dubai Islamic Bank Limited.

2.Meezan Bank Limited

3.Bankislami Pakistan Limited

4.Burj Islamic Bank Limited.

The four conventional banks selected for analysis of this study are as under:-

1. Allied Bank of Pakistan Ltd

2. United Bank Limited.

3. Faysal Bank Limited

4. MCB Bank Limited

4.4 Selected Variables

The following variables of CAMEL rating system are selected for this research to computes the financial performance and efficiency of a bank.

1.**Capital adequacy ratio**: It includes dependency ratio, capital to asset ratio and debt-to-asset ratio.

2. **Asset quality ratio**. This includes provision against loan defaults, outstanding loans, loan loss ratio, reserve ratio.

3.**Management capability**: This include number of active barrowers/number of credit officers, portfolio per credit officer, cost of per unit of money lent, cost per loan.

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4.**Liquidity**: It includes current ratio (projected cash inflows and outflow.

4.5 Hypothesis

Different hypothesis was formulated to determine the banks performance keeping in light of literature review. Eighteen financial ratios of CAMEL rating systems were applied to evaluate financial indicators such as capital adequacy, profitability, liquidity, risk and solvency, operational efficiency and effectiveness. t-test was used to find out the P-value.

4.6 Analytical Techniques

We have used CAMEL rating system in order to measure change in the financial indicators of selected banks. We have also used Ratio analysis to calculate various ratios of the financial indicators of banks. We have also used t-test to compare financial indicators of Islamic and conventional banks.

5.ANALYSIS OF FINANCIAL INDICATORS

5.1 Capital adequacy Ratios

In this research four Islamic and four conventional bank were compare data in below table-1 indicated that test statistics of t test -2.0342 and p-value 0.044075 this showed that our null hypothesis was non-significant that conventional bank found to be well capitalized than Islamic on basis of dependency ratio. The results have been shown in Table 1.

Table 1 Dependency Ratio

	Islamic Banks	*Conventional Banks*
Count	4	4
Average	0	0.83
Standard deviation	0	0.816047
Coefficient of variation		98.319%
Minimum	0	0.13
Maximum	0	2.01
Range	0	1.88

Standard. Skewness		1.27434
StandardKurtosis		1.19535

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

assuming equal variances: t = -2.0342   P-value = 0.044075

H*1:*   conventional banks are well capitalized than Islamic on basis of dependency ratio.

5.2. Capital to Asset Ratio

In this research we compare four Islamic and four conventional bank from the table and figure 2 we see that test statistics of t test =0.4814 and p-value 0.6763this show that our null hypothesis is significant that Islamic bank are well capitalized than conventional on the basis of capital asset ratio. The results have been shown in Table 2.

Table-2: Capital to Asset Ratio

	Islamic Banks	*Conventional Banks*
Count	4	4
Average	4.7475	3.14925
Standard deviation	3.96301	5.32692
Coefficient of variation	83.4757%	169.149%
Minimum	0.56	0.227
Maximum	9.95	11.12
Range	9.39	10.893
Standardskewness	0.560382	1.6094
StandardKurtosis	0.255433	1.59113

T test to compare means

Null hypothesis: mean 1 = mean 2

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Alt. hypothesis: mean 1 < mean 2

Assuming equal variances: t = 0.481445   P-value = 0.676372

H2: Islamic bank are well capitalized than conventional on the basis of capital asset ratio.

5.3:-Debt to Asset ratios

Comparison between four Islamic and four conventional bank from the below table- 6.3 indicated that test statistics of t test = -0.251925and p-value 0.404753 this showed that our null hypothesis was significant that Islamic bank were well capitalized than conventional bank on the basis of debt to asset ratio. The results have been shown in Table 3

Table 3- Debt to Asset Ratio

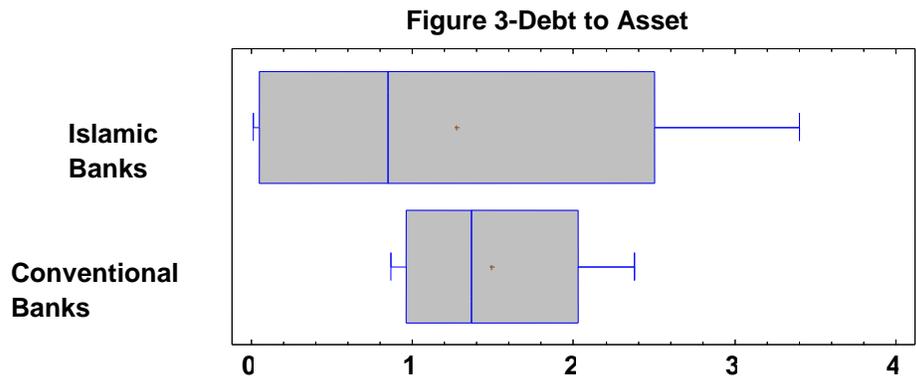|	**Islamic Banks**	**Conventional Banks**
Count	4	4
Average	1.275	1.4935
Standard deviation	1.59433	0.683429
Coefficient. of variation	125.046%	45.7603%
Minimum	0.01	0.864
Maximum	3.4	2.38
Range	3.39	1.516
Standardskewness	0.798066	0.633094
Standard. kurtosis	-0.25979	-0.452989

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = -0.251925   P-value = 0.404753

H3: Islamic bank are well capitalized than conventional bank on the basis of debt to asset ratio.

Figure 3-Debt to Asset

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5.4 Loan Loss Provision Ratio

We compared four Islamic and four conventional bank and the results have been shown in table and figure 4. We see that test statistics of t test = 9.2451and p-value 0.999955 this show that our null hypothesis is significant that Islamic banks resource allocation efficiency is less than Conventional banks on the basis of loan loss provision ratio.

Table.4-Loan Loss Provision Ratio

	Islamic Banks	**Conventional Banks**
Count	4	4
Average	2.8675	0.01975
Standard deviation	0.615433	0.0276933
Coefficient. of variation	21.4624%	140.219%
Minimum	2.18	0.001
Maximum	3.54	0.06
Range	1.36	0.059
Standardskewness	-0.037491	1.35761
Standard kurtosis	-1.23962	1.07728

T test to compare means

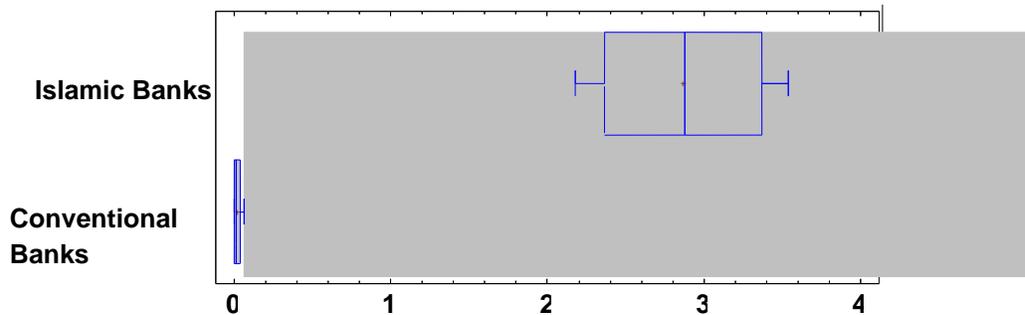Null hypothesis: mean   1 = mean2

Alt. hypothesis: mean   1 < mean2

Assuming equal variances: t = 9.2451   P-value = 0.999955

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H4: Islamic banks resource allocation efficiency is less than Conventional banks on the basis of

5.5 Loan loss provision Ratio.

Figure 4- Loan Loss Provision Ratio

5.6 Portfolio in Arrears

Comparative studies between four Islamic and four conventional bank data in the below table 5 and figure 5 indicated that test statistics of t test = -0.809981and p-value = 0.224437 this showed that our null hypothesis was significant that Islamic banks resource allocation efficiency was lesser than Conventional banks on the basis of portfolio in arrears.The results have been shown in Table 5.

Table 5-Portfolio in Arrears

	Islamic Banks	**Conventional Banks**
Count	4	4
Average	2.78	5.1975
Standard deviation	2.68464	5.33151
Coefficient of variation	96.57%	102.58%
Minimum	1.27	1.07
Maximum	6.8	13.01
Range	5.53	11.94
Standardskewness	1.61623	1.40698
Standard kurtosis	1.60431	1.30488

T test to compare means

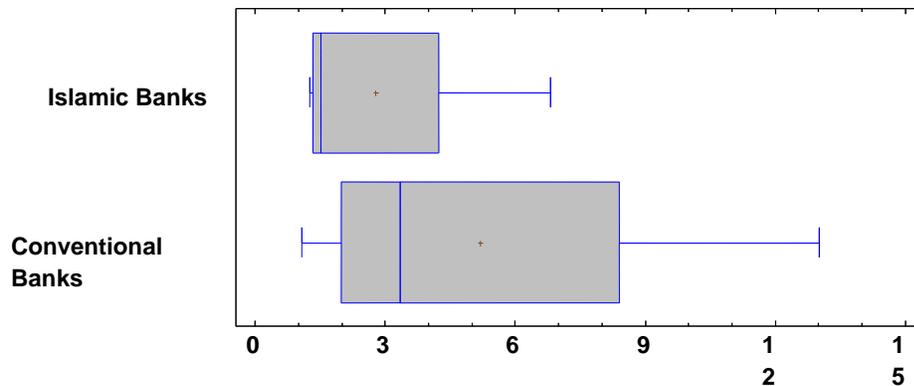Null hypothesis: mean1 = mean 2

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Alt. hypothesis: mean1 < mean 2

Assuming equal variances: t = -0.809981   P-value = 0.224437

H5: Islamic banks resource allocation efficiency is less than Conventional banks on the basis of

5.7 Portfolio in arrears

Figure 5-Portfolio in Arrears

5.8 Loan Loss Ratio

In this research we compare four Islamic and four conventional bank from the table and figure 6 we see that test statistics of t test = 5.36668and p-value 0.999141 this show that our null hypothesis is insignificant that Islamic banks are less risky than Conventional banks on the basis of loan loss ratio.

Table 6-Loan Loss Ratio

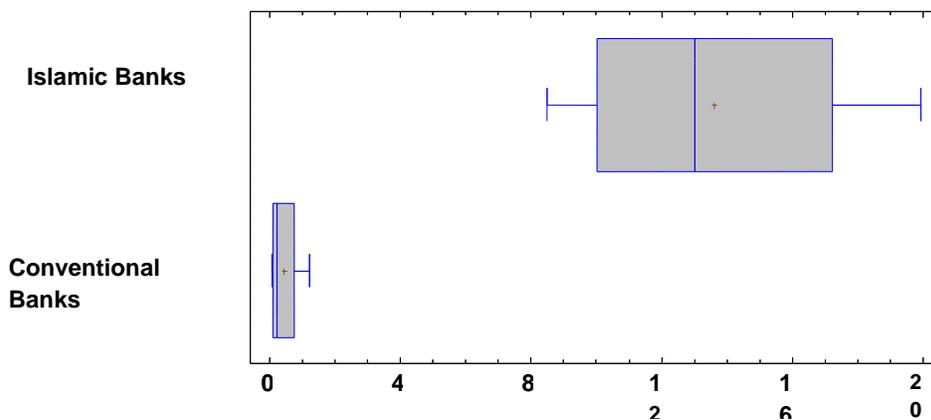|	_Islamic Banks_	_Conventional Banks_
Count	4	4
Average	13.615	0.4185
Standard deviation	4.88804	0.541512
Coefficient of variation	35.90%	129.39%
Minimum	8.5	0.06
Maximum	19.96	1.22
Range	11.46	1.16
Standard skewness	0.525975	1.50829
Standard kurtosis	0.0331354	1.40786

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = 5.36668   P-value = 0.999141

H6: Islamic banks are less risky than Conventional banks on the basis of loan loss ratio.

Table 6-Loan Loss Ratio

5.9 Reserve Ratio

in this research we had compared four Islamic and four conventional bank from the table and Figure 7 and observed that test statistics of t test = 0.179404   and p-value 0.568237 this show that our null hypothesis is insignificant that Islamic banks are less risky than Conventional banks on the basis of reverse ratio.

Table 7-Reserve Ratio

	Islamic Banks	Conventional Banks
Count	4	4
Average	0.58	0.50075
Standard deviation	0.168127	0.867338
Coefficient of variation	28.99%	173.21%
Minimum	0.4	0.01
Maximum	0.8	1.8

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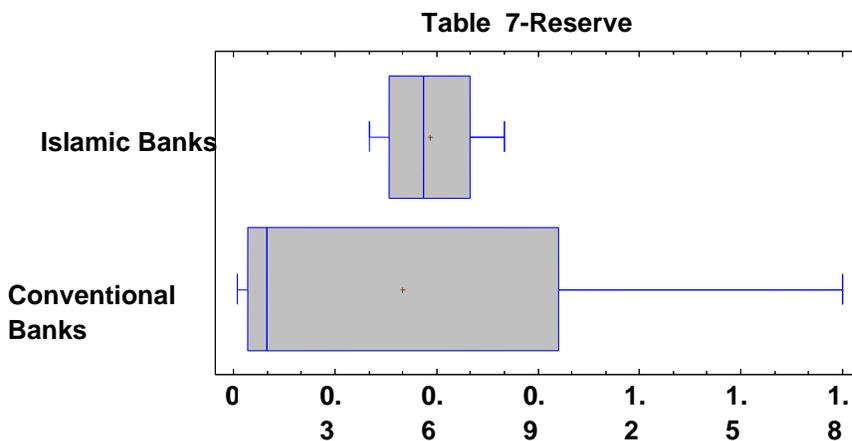| Range	0.4	1.79
Standard skewness	0.527793	1.61974
Standard kurtosis	0.288637	1.6112

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = 0.179404   P-value = 0.568237

Table 7-Reserve

5.10. Management Capability

5.10.1 Number of Active Borrowers per Management staff

In this research we compare four Islamic and four conventional bank from the table and figure 8 we see that test statistics of t- test = 9.56847   and p-value = 0.999963this show that our null hypothesis is significant that Islamic banks operational efficiency is less than conventional banks.

Table 8- Number of active borrowers per management staff

	Islamic Banks	**Conventional Banks**
Count	4	4
Average	2.27	0.21
Standard deviation	0.430039	0.0216025
Coefficient of variation	18.94%	10.29%
Minimum	1.8	0.18

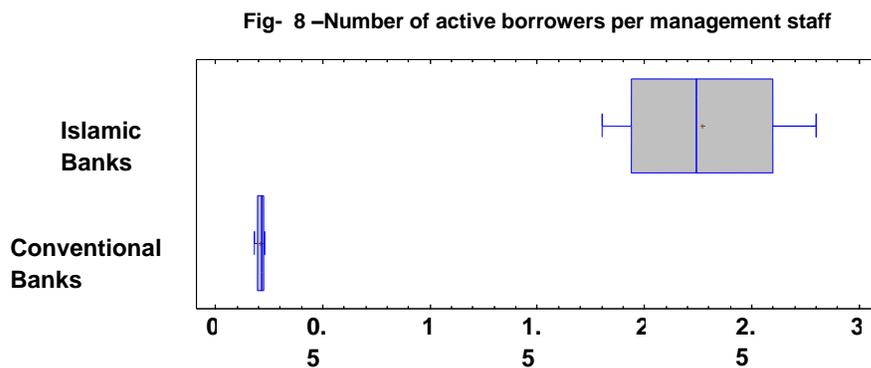| Maximum	2.8	0.23
Range	1	0.05
Standardskewness	0.276462	-0.971909
Standard kurtosis	-0.3669	0.612372

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = 9.56847   P-value = 0.99996

H8: Islamic banks operational efficiency is less than conventional banks

Fig- 8 –Number of active borrowers per management staff

5.10.2. Portfolio Per Credit Officer

In this research we compare four Islamic and four conventional bank from the table and figure 9 we see that test statistics of t test -3.9623   and p-value 0.00371606 indicating that our null hypothesis was insignificant that Islamic banks operational efficiency was less than conventional banks

Table 9- Portfolio per credit officer

	Islamic Banks	**Conventional Banks**
Count	4	4
Average	6.7	15.9975
Standard deviation	1.58535	4.41709
Coefficient of variation	23.66%	27.61%
Minimum	5.4	10.5

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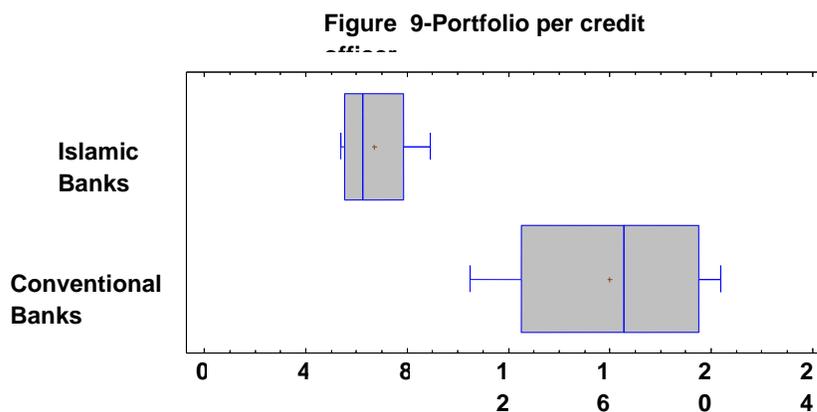| Maximum	8.9	20.39
Range	3.5	9.89
Standardskewness	1.01803	-0.424008
Standard kurtosis	0.365922	-0.73334

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = -3.9623   P-value = 0.00371606

H9: Islamic banks operational efficiency is less than conventional banks.

Figure 9-Portfolio per credit officer

5.10.3 Value of Loans Outstanding/Number of Loan Officers

In this research we compare four Islamic and four conventional bank from the table and figure 10 we see that test statistics of t test = -1.85137   and p-value = 0.0567868 this show that our null hypothesis is insignificant that Islamic banks operational efficiency is less than conventional banks.

Table 10-Value of Loans outstanding/Number of Loan officers

	Islamic Banks	**Conventional Banks**
Count	4	4
Average	0.575	12.93
Standard deviation	0.170783	13.3458
Coefficient of variation	29.70%	103.22%
Minimum	0.4	0.19

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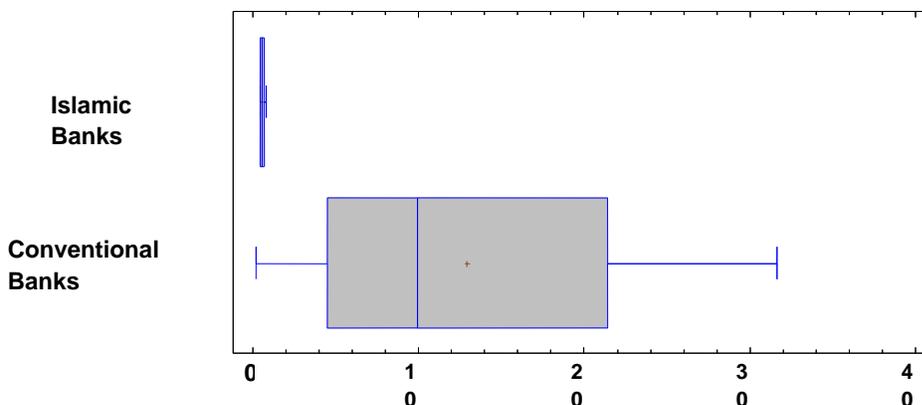| Maximum	0.8	31.67
Range	0.4	31.48
Standardskewness	0.614689	1.01537
Standard kurtosis	0.139971	0.923059

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = -1.85137   P-value = 0.0567868

H10: Islamic banks operational efficiency is less than conventional banks.

Figure 10- Value of Loan Outstanding

5.10.4 Cost per Loan Made

In this research we compare four Islamic and four conventional bank from the table and figure 11 we see that test statistics of t test = -5.59931and p-value = 0.000690873 this show that our null hypothesis is insignificant Islamic banks operational efficiency is less than conventional banks on the basis of cost per loan.

Table 11-Cost per Loan Made

	Islamic Banks	**Conventional Banks**
Count	4	4
Average	2.825	5.7075

|		
Standard deviation	0.262996	0.995435
Coefficient of variation	9.31%	17.44%
Minimum	2.6	4.5
Maximum	3.2	6.93
Range	0.6	2.43
Standardskewness	1.17825	0.0364114
Standard kurtosis	0.912381	0.530996

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = -5.59931   P-value = 0.000690873

H11: Islamic banks operational efficiency is less than conventional banks on the basis of cost per loan.

Figure 11- Cost per Loan
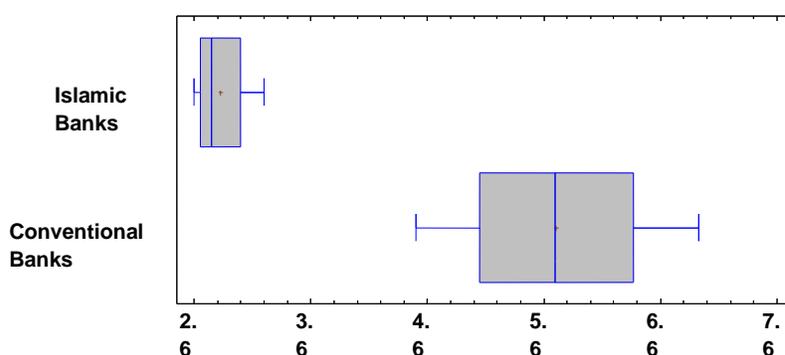
5.11 Earnings Ratios

5.11.1 Return on Performing Assets

Data in table- 12 indicated that test statistics of t test = 0.494687 and p-value = 0.680795 this showed that our null hypothesis was significant that Islamic banks liquidity was higher than conventional banks on the basis of return on performing assets.

Table 12- Return on performing Assets

	Islamic Banks	**Conventional Banks**
Count	4	4

|		
Average	2.63	1.545
Standard deviation	3.41222	2.75665
Coefficient of variation	129.74%	178.42%
Minimum	0.01	0.02
Maximum	7.44	5.67
Range	7.43	5.65
Standard skewness	1.1284	1.60982
Standard kurtosis	0.578672	1.59194

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = 0.494687   P-value = 0.680795

H12: Islamic banks liquidity is higher than conventional banks on the basis of return on performing assets.

Figure 12-Return on performing
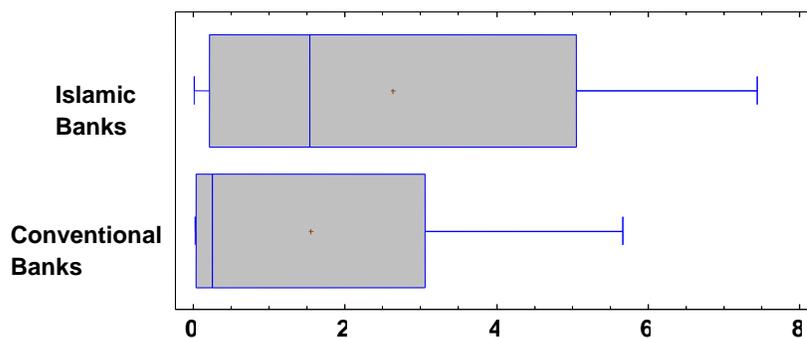
5.11.2 Return on Average Total Assets

In below table 13 comparison between four Islamic and four conventional it was observed that test statistics of t test = -0.817556 and p-value = 0.222428 this show that our null hypothesis was insignificant that Islamic banks resource allocation efficiency was less than conventional banks on the basis of return on average total assets.

Table.13-Return on Average Total Assets

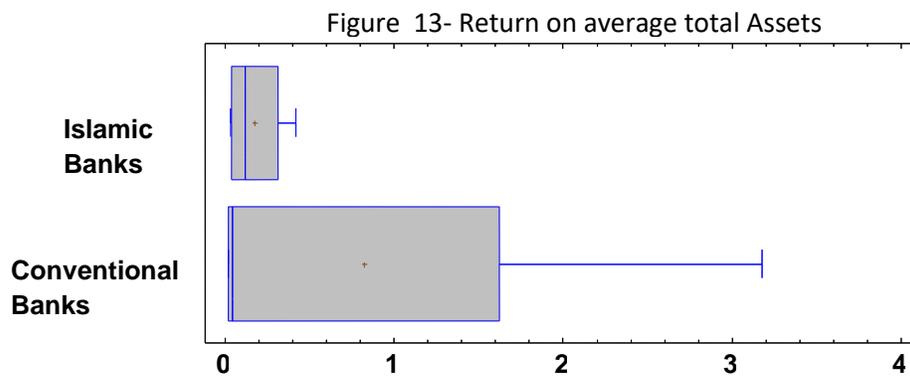|	Islamic Banks	Conventional Banks
Count	4	4
Average	0.1725	0.82
Standard deviation	0.18246	1.57345
Coefficient of variation	105.77%	191.88%
Minimum	0.03	0.02
Maximum	0.42	3.18
Range	0.39	3.16
Standard skewness	0.89269	1.63229
Standard kurtosis	-0.0187748	1.63181

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = -0.817556   P-value = 0.222428

 H13:Islamic banks resource allocation efficiency is less than conventional banks on the basis of

5.11.3 Return on average total assets.

Figure 13- Return on average total Assets

5.11.4 Financial Cost Ratio

In this research we compare four Islamic and four conventional bank from the table and figure .14

we see that test statistics of t test = 1.25and p-value= 0.871117 show that our null hypothesis is

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significant that Islamic banks are less profitable than Conventional banks on the basis of financial cost.

Table- 14:- Financial Cost Ratio

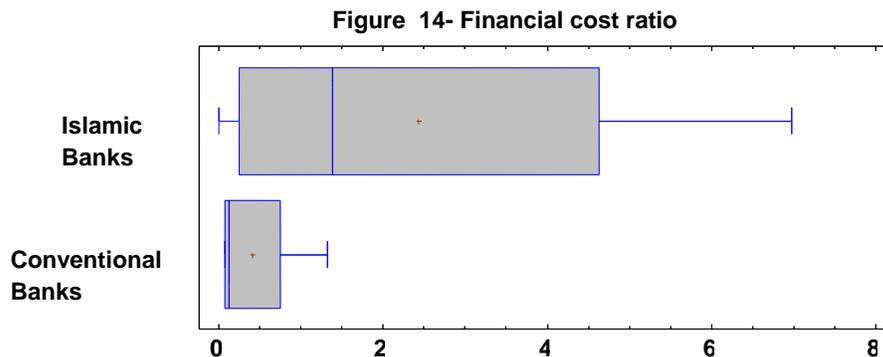|	**Islamic Banks**	**Conventional Banks**
Count	4	4
Average	2.4355	0.41
Standard deviation	3.1826	0.608331
Coefficient of variation	130.68%	148.37%
Minimum	0.002	0.07
Maximum	6.98	1.32
Range	6.978	1.25
Standardskewness	1.21705	1.60673
Standard kurtosis	0.801295	1.58635

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = 1.25023   P-value = 0.871117

H14: Islamic banks are less profitable than Conventional banks on the basis of financial cost

Figure 14- Financial cost ratio

5.12 Administrative Cost Ratio

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Data in table & figure 15 has depicted that test statistics of t test = 0.238486 and p-value = 0.59028 this show that our null hypothesis is insignificant that Islamic banks are less profitable than Conventional banks on the basis of administrative cost ratio.

Table 15-Administrative Cost Ratio

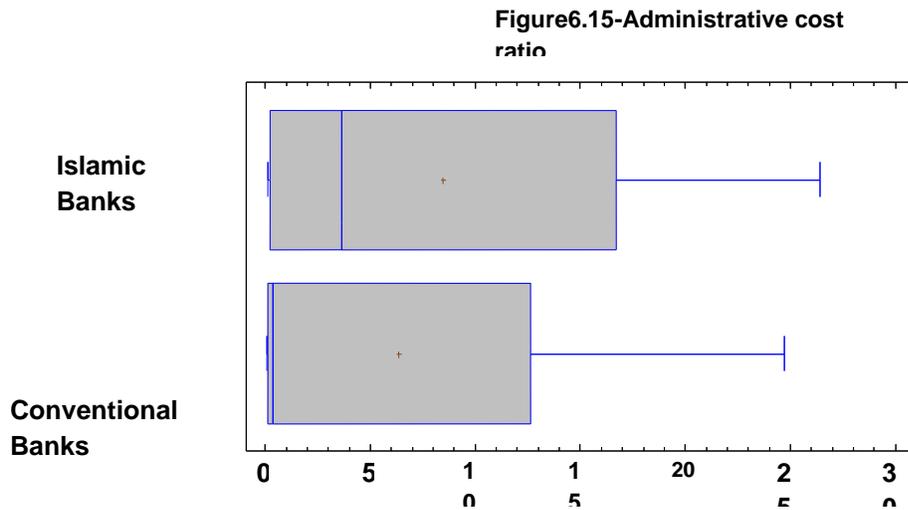|	*Islamic Banks*	*Conventional Banks*
Count	4	4
Average	8.45	6.375
Standard deviation	12.3903	12.2185
Coefficient of variation	146.63%	191.66%
Minimum	0.14	0.07
Maximum	26.41	24.7
Range	26.27	24.63
Standard skewness	1.33662	1.63153
Standard kurtosis	1.02917	1.63052

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = 0.238486   P-value = 0.59028

H15:Islamic banks are less profitable than Conventional banks on the basis of administrative cost ratio.

Figure6.15-Administrative cost ratio

5.13 Operating Self-Sufficiency Ratio

In this research we compare four Islamic and four conventional bank from the table and figure 16 we see that test statistics of t test = -0.17205and p-value = 0.434527 this show that our null hypothesis is insignificant that Islamic banks are less profitable than Conventional banks on the basis of operating self-sufficiency ratio.

Table 16- Operating Self-Sufficiency Ratio

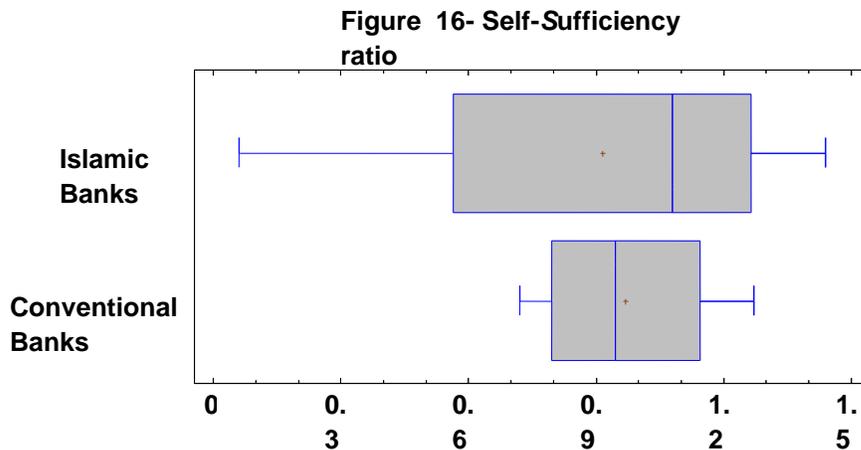|	_Islamic Banks_	_Conventional Banks_
Count	4	4
Average	0.915	0.97
Standard deviation	0.594783	0.234521
Coefficient of variation	65.00%	24.18%
Minimum	0.06	0.72
Maximum	1.44	1.27
Range	1.38	0.55
Standard skewness	-1.21907	0.443107
Standard kurtosis	1.14194	-0.0624181

T test to compare means

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Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = -0.17205   P-value = 0.434527

H16: Islamic banks are less profitable than Conventional banks on the basis of operating self-sufficiency ratio.

Figure 16- Self-Sufficiency ratio

5.14 Liquidity

5.14.1 Current Ratio

In this research we compare four Islamic and four conventional bank from the table and figure 17 we see that test statistics of t test -= 0.443568   and p-value = 0.663549 this show that our null hypothesis is insignificant that Islamic banks liquidity is higher than conventional banks

Table 17- Current Ratio

	Islamic Banks	**Conventional Banks**
Count	4	4
Average	0.7925	0.6325
Standard deviation	0.403846	0.597795
Coefficient of variation	50.96%	94.51%
Minimum	0.35	0.11
Maximum	1.33	1.31
Range	0.98	1.2

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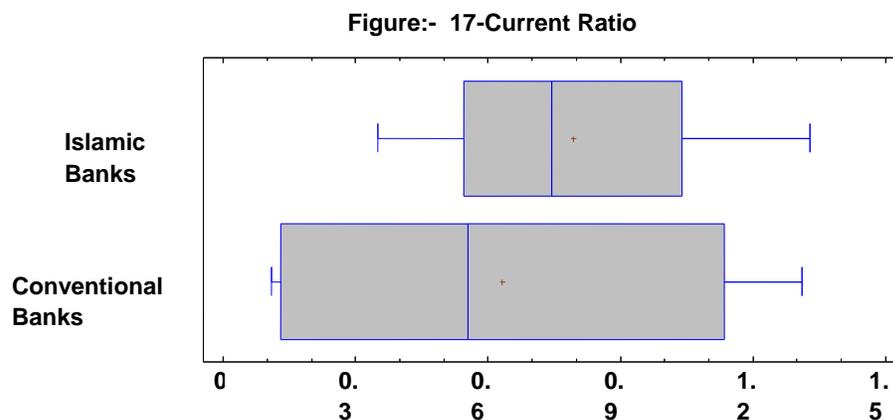|		
Standard skewness	0.565467	0.232199
Standard kurtosis	0.720975	-1.77192

T test to compare means

Null hypothesis: mean1 = mean2

Alt. hypothesis: mean1 < mean2

Assuming equal variances: t = 0.443568   P-value = 0.663549

H17: Islamic banks liquidity is higher than conventional banks.

Figure:- 17-Current Ratio

6. FINDINGS AND RESULTS

We analyzed the results obtained through CAMEL analysis and independent sample t-test. In order to make comparison more consistent, Independent sample t-test was used to find out the P-value. The correspondence means of these banks was analyzed by Independent t-test and CAMEL analysis. T-test was used to verify the level of significance means difference among banks.The bank's Capital adequacy was estimated with the help of Capital risk asset and Equity Liability ratios. Islamic banks and Conventional banks the capital adequacy ratios was seen   increasing and decreasing trends in both Islamic and conventional banks. It was noted that Islamic banks has greater equity liability ratio and lesser   Capital Risk Asset ratio than Conventional banks. The test statistics of t-test -2.0342 and p-value 0.044075   show that our null hypothesis was insignificant which means that conventional banks were well capitalized than Islamic banks on

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basis of dependency ratio. The test statistics of t test =0.4814 and p-value 0.6763 showed that our null hypothesis was significant which means that Islamic bank were well capitalize than conventional on the basis of capital asset ratio. In analysis test statistics of t test = -0.251925and p-value 0.404753 show that our null hypothesis was significant that Islamic bank were well capitalized than conventional bank on the basis of debt to asset ratio.When the T-test applied that showed there was no significance of means differences among the ratios at 5% level. Though p-value was supported the significant means difference between banks at both 5% and 1% level of significant. The findings provided different facts in technique that Islamic banks were well capitalized.The   results   were supported the hypothesis that the Islamic banks were better capitalized than their Conventional peers.

We examined Liquidity position of Islamic banks and Conventional banks through Current Asset Ratios, Current ratio, Net Loans to Total Asset Ratio and Loan Deposit Ratio. Current Ratios were indicated the banks capability to meet its current Laibilities. Current Ratios were showed a higher value which evaluated that the banks had more Liquid Assets to reimbursed their depositors. Capital to Asset Ratio were indicated the proportion of banks liquid assets. Higher Capital to Asset Ratio is an indication of liquidity. Loan Deposit Ratio is measured the level of banks relying on borrowed funds. The higher number of Loan Deposit Ratio showed that banks were more relied on borrowed funds and directed to liquidity. To measure the total outstanding loans as a proportion of total assets the Net loans to total assets were used. This higher ratio indicated that the banks were loaned up and liquidity was low. We saw that test statistics of t test -= 0.443568   and p-value = 0.663549 which show that our null hypothesis was insignificant that the liquidity of Islamic banks was higher than conventional banks.Banks profitability was examined through profitability indicators: ROA were the net earnings per unit of a given asset. ROE were the net earnings of per share equity. Performance Equity Management was measured by cost efficiency which analyzed the bank efficiency of making higher profits with given expense. Results showed a fluctuating in all the profitability indicators of Islamic and conventional banks. It was analyzed that the profitability of these banks had increasing and decreasing trends. The T-test was demonstrated the difference in profitability of these banks were not significant at 5% level of significance.

All the results showed that the profitability of both banks were not considerably different, therefore, research hypothesis was rejected. Islamic banks were highly profitable than conventional banks. The test statistics of t test = 9.2451and p-value 0.999955 show that our null

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hypothesis was significant denoting that Islamic banks resource allocation efficiency was less than Conventional banks on the basis of loan loss provision ratio. we saw that test statistics of t test = -0.809981and p-value = 0.224437 indicate that our null hypothesis was significant the resource allocation efficiency of Islamic banks was lower than Conventional banks on the base of portfolio in arrears. The test statistics of t test = 5.36668and p-value 0.999141 reflected that our null hypothesis was insignificant that Islamic banks were less risky than Conventional banks on the basis of loan loss ratio.

The reason of Islamic banks' high liquidity is that they did not have enough investment opportunities. The Risk and solvency measures Debt/total Asset Ratio, Debt Equity Ratio and Loan Deposits Ratio were used to assess the threat of banks. Debt to Equity Ratio was measured the banks capability to absorbed the financial crisis. Debt to Total Asset Ratio was the determinants of banks had the financial strength to disburse its debtors. There was an increased and decreased in overall risk measures of both Islamic banks and Conventional banks through a selected era. Independent Sample for T-test and P-value were supported the means differences of Debt-Equity Ratio and Debt-total-Assets showed the statistical significant at 5%. Overall risk and solvency measures showed the less proportion of risk for Islamic banks than Conventional banks. Thus. It was found that the Islamic banks were less risky as compared to Conventional banks.

The important component of this study was the operational ratios. Net Interest Margin is the measure of banks operational efficiency. The increase of that ratio is considered better. Islamic banks net interest margin was increased during study period of 2012-2013. Although there was an oscillation in Conventional banks NIM. That showed difference among these banks were not significant at 5% level of significance. This ratio indicated that Islamic banks had higher interest margin. The test statistics of t test = 0.179404   and p-value 0.568237 show that our null hypothesis is insignificant that Islamic banks are less risky than Conventional banks on the basis of reverse ratio. The statistics of t- test = 9.56847   and p-value = 0.999963 show that our null hypothesis is significant that Islamic banks operational efficiency is less than conventional banks. It means difference of such ratios were not statistically significant at 5% level. It was examined from overall results that the operational ratios such as Net Interest Margin and Cost income ratios were supported the Islamic banks operational efficiency was increased than Conventional banks. These results are consistent with the result of Asarpota (2007). The last constituent of financial performance was the deployment ratios. Deployment ratios were measured the resource allocation

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efficiency. The higher ratios were considered better for conventional banks. The test statistics of t test = -0.17205and p-value = 0.434527   show that our null hypothesis has proved insignificant that Islamic banks were less profitable than Conventional banks on the basis of operating self-sufficiency ratio. Islamic bank has lower operating ratios than Conventional banks. The mean differences were statistically significant at 1% level of significance for Investment to Equity ratio and Deposit ratio. However, that means difference among banks were not important for Investment liabilities ratios. The results were supported the hypothesis that Islamic banks resource allocation efficiency was lower as compared to conventional banks. That was concluded the deployment ratios were in support of Convention banks and they were made much better use of their resources.

7. CONCLUSIONS

We examined the financial performance of Islamic and conventional banks in Pakistan by applying CAMEL techniques. We developed different hypothesis to test the performance of selected banks. Our analysis show that Islamic banks are not more capitalized vis-a-Islamic banks. However, our study show that Islamic banks are more efficient, less risky, more service-oriented and more innovative. Their default ratio is low while profitability rate is moderate. Thus, the hypothesis that Islamic banks are more profitable is rejected. The reason for moderate profitability of Islamic banks is that there are more profit distribution among depositors as compared to conventional banks.

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