

COMPARATIVE ANALYSIS OF THE BUSINESS PRODUCTS OF ISLAMIC AND CONVENTIONAL BANKS IN PAKISTAN

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ABSTRACT

The objective of this paper is to carry out comparative analysis of the business products of Islamic and conventional banks in Pakistan. For this purpose, we selected five banks each from both segments of banking sector as a sample of study. The sampling banks include: Meezan Bank Ltd, Al Baraka Bank Ltd, Habib Metropolitan Bank Ltd, Dubai Islamic Bank Ltd, Bank Islami Pakistan Ltd, Burj Bank Ltd, Askari Bank Ltd, Soneri Bank Ltd, Alfalah Bank Ltd and Bank Al Habib Ltd. Ratio analysis technique was used to analyze the financial indicators of these banks. The results show that profitability of greater than Islamic banks because conventional banks charge fixed interest against Islamic banks which provide financing to their clients on profit and loss basis. However, the customers of Islamic banks are more satisfied over efficient services and wide range of Shariah based business products. As Islamic banks have been established to promote real economy and to avoid being involved in speculative and unethical activities so their focus is on financial projects which are real and productive that will yield profit both for banks and entrepreneurs. Our results further show that conventional banks return on assets and deposits are more than

Islamic banks while there is negligible difference in the earning per share of both conventional and Islamic banks. We recommend that Islamic banks should expand their outreach and focus particularly the rural areas where the customers are more religious mind and committed to their faith.

Key words: Return on Assets, EPS, PLS, Interest Rate, Return on Equity, Net Profit.

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1. INTRODUCTION

A system of banking based on the statutes of Islamic law and economics. Paying or collecting interest or Riba, is prohibited by Islamic law, sharing profit and loss is a banking principle and shareholder capital and deposits are kept separate to ensure fair revenue sharing. Islamic banking in its private stage first began with the worldwide festival of the establishment of the 15th Hijra Century (Islamic Calendar) in the mid-70s. In 1974 the world's first development bank agreement with sharia, the Islamic Development Bank was recognized. Islamic banking method is different from Conventional banking. Riba used in Islamic banking and interest term used in Conventional banking. In Islamic banking

Ijara, Musharakah and Mudarabah terms are used for Leasing, Profit sharing and equity financing. Interest is forbidden in Islam. (Shehta, D.S.I, (2013) observing the concept from the prospects of an Islamic economy and the eventual role to be played by an Islamic bank within opines that “It is therefore, natural and, really, imperative for an Islamic bank to incorporate in its functions and practices commercial investment and social activities, as an organization designed to stimulate the civilized mission of an Islamic economy.”

1.1. Main Research Question

The main research question is given below:

“Comparative analysis of the business products of Islamic and Conventional banks in Pakistan”

The main purpose of this research is to examine the business products of Islamic banking with the conventional banking in the perception of overall working of banking sector in Pakistan.

1.2 Objectives of the Study

There are four objectives of this study, which are stated below: -

- ▶ To study the basic principles of Islamic Banking.
- ▶ To compare the products of Islamic Banks.
- ▶ To measure the profitability of both Islamic and Conventional banks.
- ▶ To examine the performance of Islamic and Conventional Banks.

This research tells us that how both banks work in Pakistan. Which banks are financially strong Islamic or conventional. Five Islamic and Five Conventional banks are selected for comparison of business products.

1.3 Difference between Islamic and Conventional Banking

1.3.1 Islamic banking

1. The functions and operating methods of Islamic banks are created on principles of Islamic Shariah.
2. In contrast, it helps risk sharing between supplier of capital (investor) and the use of funds (entrepreneur).
3. It also targets at maximizing profit but substance to Shariah limitations.
4. In modern Islamic banking method, it has become one of the service-oriented functions of the Islamic banks to be a zakat gathering Centre and they also compensation at their zakat.
5. Participation in partnership business is the essential function of the Islamic banks. So, we have to recognize our customer's business very well.
6. The Islamic banks have no facility to change any extra money from the debtors. Only small amount of advantage and these earnings is given to aid, Refunds are given for early clearance at the Bank's preference.
7. It gives due importance to the public interest. Its final purpose is to confirm growth with equity.
8. For the Islamic banks, it must be based on a Shariah accepted considerate transaction.
9. Since it shares profit and loss, the Islamic banks pay greater devotion to developing project evaluation and estimations.
10. The Islamic banks, on the other hand, give greater emphasis on the viability of the projects.
11. The position of Islamic bank to its clients is that of partner, investors and

trader, buyer and seller.

12. A conventional bank has to assurance of all its credits.

1.3.2 Conventional banking

1. The functions and operating methods of Conventional banks are based on fully artificial principles.
2. The investor is guaranteed of determined rate of interest.
3. Its purpose is at maximizing profit without any limit.
4. It does not contract with zakat.
5. Lending money and getting it back with compounds interest is the important role of the conventional banks.
6. It can charge extra money (penalty and compounded)
7. In it very often, bank's own interest becomes noticeable. It makes no struggle to confirm growth with equity.
8. For interest based commercial banks borrowing from the money market is comparatively earlier.
9. Since income from the advances is fixed, it gives little importance to developing enterprise in project consideration and assessments.
10. The conventional banks give better emphasis on credit-worthiness of the customers.
11. The position of Islamic bank in relation to its clients in that of creditor and debtors.
12. Islamic bank can only assurance and credits for deposit account, which is based on the principle of all-wadiah, thus the depositors are sure repayment of their funds, however if the account is based on the mudarabah concept, client have to share in a loss situation.

2. LITERATURE REVIEW

Customers are profit motivated, they prefer conventional loans rather than BBA financing when interest rate decline. Islamic banks get direct interest during trading transections sharing profits and losses with its partners/clients. The banks have to pay returns on customer deposit, conventional banks denoted as interest expense, while in Islamic banking it is denoted as share of profit. Conventional banks are more reliant on external liabilities than Islamic banks. Islamic banks are less unprotected to liquidity risk. For maintaining liquidity conventional banks have many revenues, government securities, and short-term loans, money at call, short bills, rental companies' bonds, and investment in shares etc. Islamic banks should be controlled and managed in similar manner as conventional banks. Comparison of financial ratios of Islamic bank displays that they are healthy and operating well. Conventional banks implement better than Islamic banks in term of technical effectiveness but in term of cost and assign efficiencies Islamic banks implement better than conventional banks. Customers are satisfied with the total service quality providing by their banks. Islamic finance basically helps financial transactions with links to the real economy and withdraws from financing activities that are detrimental to society. Islamic financial system originates its rules through Quran and Sunnah. In Sudan Islamic banking system is succeed in converting all banks into interest free. Banks required to pay Zakah provide more social expose than bank not essential to pay Zakah. The equilibrium ratio of profit allocation is the one between banks and depositors sufficient to sustain a supply of investable funds to business commensurate with business demand. Islamic banking works through

participatory instruments like Mudarabah and Musharakah as the central stage for credit collection and allocation of investable funds. The basic purpose of Islamic bank is to platform interest free action while the goal of conventional bank is to maximize its profit through interest. One thing which affects the conventional banks is that if regulators reduce the constraints imposed on banks, then banks may take more risk. Islamic banking is established on Islamic Shariah law which provides all results of financial difficulties. Conventional banks in Pakistan were more incline on the way to allowing for plan with long-term financing. Islamic banks should play or role similar to that of institutional investor, i-e buying significant blocks of stocks holding them for long-term, and actively monitoring management, same-times referred to as, relationship investing. Allah in Quranic verse ordered that we should not consume usury in any shape. We must always fright from Allah.

3. PRODUCTS OF ISLAMIC AND CONVENTIONAL BANKS

3.1 Business products of Islamic Banks

We selected four business products of Islamic and Conventional Banks. Four products of Islamic banks are as under: -

3.1.1 Murabah: Murabah is often stated as ‘cost-plus financing’ and normally appear as a form of trade finance. In its simplest form this agreement includes the sale of an item on a deferred basis. The item is supplied and the price to be paid for the item contains an equally agreed border of profit due to the seller. In this agreement, the market cost price of the product is shared with the buyer at the time of the sale.

3.1.2 Ijarah: Ijara the use of leasing is denoted by the Ijara agreement in Islamic law. The agreement represents a transaction in which a known profit (usufruct)

related with a quantified asset is sold for a payment. In the course of this sale of asset is not shifted the bank keeps the rights of asset.

3.1. 3 Mudarabah: In the mudarabah model, a mudarib or entrepreneur commonly provides managing expertise which is treated as a form of capital. The investor is recognized as the rabb-al-mal. The share of estimated future profits between the mudarib(s) and the investor(s) is decided at the outset in any ratio equally agreed to by the parties involved. The rabb-al-mal bears all sufferings of invested assets (by the cash or other forms of capital).

3.1.4 Musharakah: Musharakah model is basically a sharing model. Parties involved in a partnership arrangement donate funds to and have the right to exercise exclusive powers in that project in accordance with a decided formula.

3.2 Products of Conventional Banks

The business products of Conventional banks are stated below: -

3.2.1 Interest: Money that is paid in interchange for borrowing or using interest is calculated as a percentage of the money borrowed. Simple interest and compound interest are two types of interest. Simple interest is calculated only on the original principal amount. For example, if one borrows \$1,000 at 4% interest, the interest is \$4 (4% of 1,000) each time it is calculated. In compound interest, calculation of future interest includes already paid interest. For example, with the above loan, interest paid in the first month is \$40 (4% of 1,000), in the second month it is \$44.80 (4% of 1040), and so forth. Compound interest is more common because its profit is more for the moneylender.

3.2.2 Term Financing: A term financing is a loan from which a bank offers a specific amount that has a specified repayment schedule with the floating or fixed interest rate. For example, different banks have run term-loan programs

that are proposal small businesses the cash they need to operate financial activities. Often, a small business required cash from a term loan to purchase assets such as equipment for its production process.

3.2.3. Long term financing. It is a form of financing that is finance for a period of above than a year. Long term finance is provided to those business individuals that are face a shortage of capital. There are many long term sources of finance. It is different from short term financing that has to be paid back within a year. The paid back period may be less than one year as well. For Examples of long-term financing include a 20 year mortgage or a 15-year Treasury note. Equity is another form of long-term financing, when a company issues stock to increase capital for a new project.

3.2.4 Short term financing: It is to any investment, financial plan or anything else is lasting for one year or less. Short term investments and financial plans usually contain less insecurity than long-term investment and financial plans because; market trends are more easily expected for one year than for any longer period. Similarly, short term financial plans are more easily changeable as a result of the shorty term frame. Short term financial plans are usually involve investing in short term securities, such as T Bills or commercial paper.

3.2.5 Project Financing: In it investment of long term projects, industrial and public services established on a non-resource or limited resource financial structure, in which project liability and equity used the project are paid back from the cash flow.

3.2.6. Auto Financing: In direct offering, a loan is directly got from bank, finance company or credit union. Agreed to pay over a period of time, the amount

financed, plus charge. Once enter in a contract with authorization to buy a vehicle, use the loan from the direct lender to pay for the vehicle.

4. RESEARCH METHDOLOGY

4.1 Research Design

This research study has been designed in such a way that it helps to compare the performance and profitability of Islamic banks with the conventional banks. The area of the study is the whole Pakistan where Islamic and Conventional banks are operating under the same legal context. Business products of selected Islamic and Conventional banks tell the performance, products and also the profitability.

4.2 Sample of study

Five Islamic Banks and seventeen Conventional Banks are operating in Pakistan. Total five Islamic Banks and five Conventional Banks have been comprised into of this research study. Islamic banks are:

1. Meezan Bank Limited
2. Al Baraka Bank
3. Bank Islami Pakistan
4. Burj Bank
5. Dubai Islamic Bank

The selected conventional banks are the followings: -

1. Bank Alfalah Limited
2. Habib Metropolitan
3. Bank Al-Habib Limited
4. Askari Bank Limited
5. Soneri Bank Limited

4.3 Data and Source

For research of that topic we use the secondary source. Due to that we collect data easily. We take experiments and hypothesis. Due to that we come to know that either the statement of problem is right or not. The result of experiment is our findings. We describe our problem to others through models and case studies. We also make graphs. We use different data collection methods. We collect data through already present data. We get information through internet. We go to library and search different books about the related topic. We collect information through newspapers. We collect data through magazines. We also study the research papers of the related topic. We may use the qualitative and quantitative methods. Biasness occurs through direct interview because no one gives the right answer and also does not take it seriously. We collect different type of information. We check the balance sheet and income statement of these banks. These methods we follow to make our research complete and appropriate.

4.4. Analytical techniques

The following research techniques are used in this study.

1. Comparative analysis technique applied to compare the business products of Islamic and conventional banks.
2. We will also use ratio analysis technique to measure the profitability, liquidity and efficiency of Islamic and conventional banks.

4.5 Formulation of Hypothesis

H0

Is Islamic bank performance is better than Conventional banks and their profitability are greater?

Both banks are working properly. But Islamic banks are interest free. So we think that which banks charge interest whose performance is better. We just assume that but we are not sure about it. Before analysis of both banks we do not give the proper answer. If Islamic bank performance is better than we also think that their customers are also satisfied. If Conventional Bank performance is better than Islamic banks, then our assumption will be false.

For proofing our result and assumption we take ratio analysis for conclusion. Profitability tells the performance of banks. Other ratios also show clear results of better performance of banks. Business products of both banks also tells the terms and conditions they follow. Islamic banks are interest free so we think that is they earn better profit or not. Conventional banks have saving accounts in which customers finance increased. Customers consider it benefit for them. So I think conventional bank customers are satisfied. Conventional banks also provide bonuses this is a great opportunity for their employees and customers.

H1

Islamic bank performance is better than Conventional banks and their profitability are also greater.

We analyzed the business products of both banks. We selected 5 Islamic and 5 conventional banks for this analysis. After analyzing we compare the profitability and performance of both types of banks. Then we draw conclusions through hypothesis testing.

4.6 Ratio Analysis

We used the following financial ratios to measure the profitability of selected Islamic and Conventional Banks.

4.6.1 Profitability Ratios: -

- Return on Asset =
$$\frac{\text{Total Net Income}}{\text{Total Asset}}$$
- Return on Equity =
$$\frac{\text{Net Income}}{\text{Shareholders' Equity}}$$
- Net Profit Margin =
$$\frac{\text{Net Income}}{\text{Net Sales}}$$
- Earnings per share =
$$\frac{\text{Net Income}}{\text{Number of share}}$$
- Return on Deposits =
$$\frac{\text{Net Income}}{\text{Deposits}}$$

4.7 Selected Variables

Four financial indicators are selected as variables for drawing results

- 1) Profitability
- 2) Earnings per share
- 3) Efficiency
- 4) Return on Deposit.

4.8 Period of study

Our period of study will be 2010-2015.

5. DATA ANALYSIS

The results of ratio analysis are shown in Table 1

Table 1 Financial indicators of Meezan Bank Ltd, 2011-15.

<i>Meezan Bank Limited (Islamic Bank)</i>					
	2011	2012	2013	2014	2015
Return on Assets					
Net income (loss)	3,391	3,508	3,957	4,570	5,023
Total Assets	200,550	274,437	329,725	437,510	531,850
Return on assets	1.69%	1.28%	1.20%	1.04%	0.94%
Return on Deposits					
Net income (loss)	3,391	3,508	3,957	4,570	5,023
Deposits (Revenue)	18,032	21,837	23,171	28,803	33,114
Return on Deposits	18.81%	16.06%	17.08%	15.87%	15.17%
Return on Equity					
Net income (loss)	3,391	3,508	3,957	4,570	5,023
Total shareholders' equity	13,781	16,563	18,913	23,890	26,347
Return on equity	24.61%	21.18%	20.92%	19.13%	19.06%
Earnings per Share					
Income After Tax	3,391	3,508	3,957	4,570	5,023
Number of Equity Shares	802.993	903.367	1,002.738	1,102.463	1,102.463
Earnings per Share	4.22	3.88	3.95	4.15	4.56
Net profit margin					
Net Income (Loss)	3,391	3,508	3,957	4,570	5,023

Murabaha	174,093	201,720	232,941	167,593	121,976
Gross profit margin	1.95%	1.74%	1.70%	2.73%	4.12%

Table 2 Financial Indicators of Alfalah Bank Ltd, 2011-2015.

<i>Alfalah Bank Limited (Conventional Bank)</i>					
	2011	2012	2013	2014	2015
Return on Assets					
Net income (loss)	3,503	4,556	4,676	5,641	7,523
Total Assets	468,174	536,568	611,428	743,128	902,607
Return on assets	0.75%	0.85%	0.76%	0.76%	0.83%
Return on Deposits					
Net income (loss)	3,503	4,556	4,676	5,641	7,523
Deposits (Revenue)	44,298	46,080	43,961	55,378	61,458
Return on Deposits	7.91%	9.89%	10.64%	10.19%	12.24%
Return on Equity					
Net income (loss)	3,503	4,556	4,676	5,641	7,523
Total shareholders' equity	25,777	30,059	31,902	44,819	53,353
Return on equity	13.59%	15.16%	14.66%	12.59%	14.10%
Earnings per Share					
Income After Tax	3,503	4,556	4,676	5,641	7,523
Number of Equity Shares	1,349.156	1,349.156	1,349.156	1,587.243	1,589.806
Earnings per Share	2.60	3.38	3.47	3.55	4.73

Net profit margin					
Net Income (Loss)	3,503	4,556	4,676	5,641	7,523
Interest	44,298	46,080	43,961	55,378	61,458
Gross profit margin	7.91%	9.89%	10.64%	10.19%	12.24%

Figure 1 Return on Assets

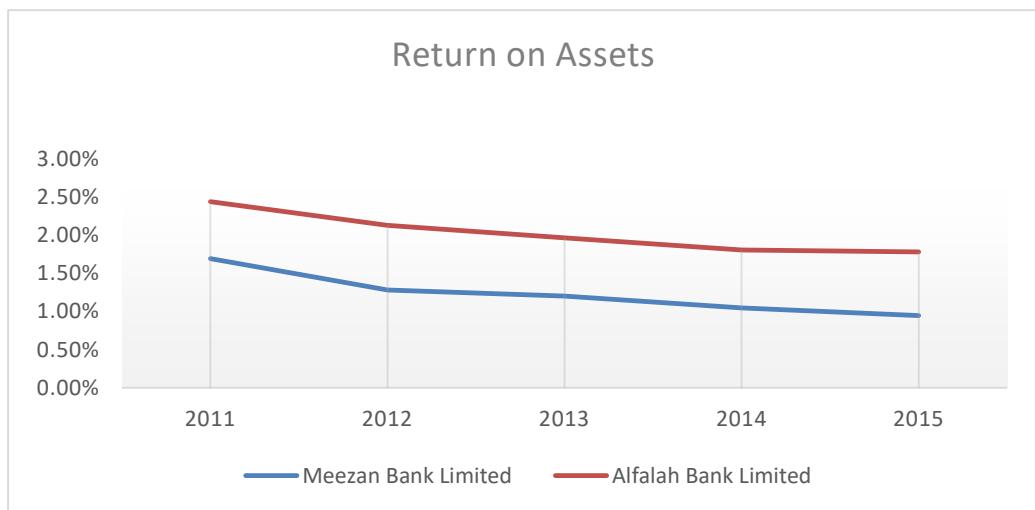


Figure 2 Returns on Deposits

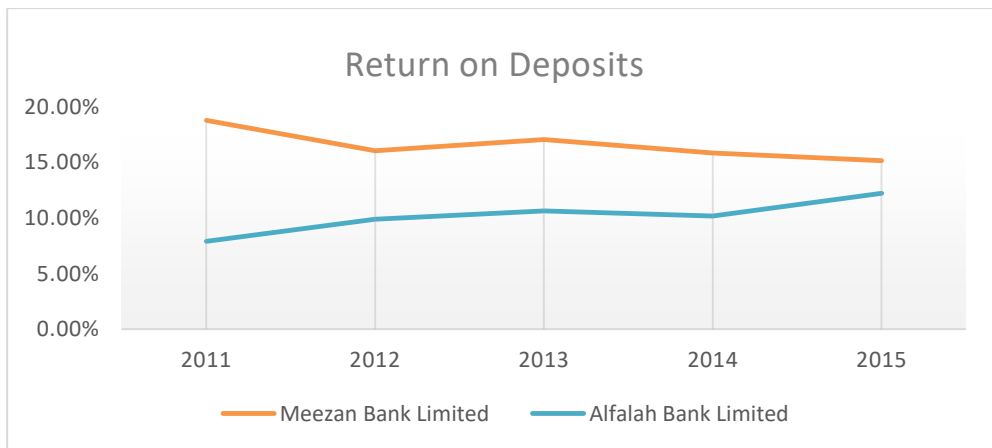


Figure 3 Returns on Equity

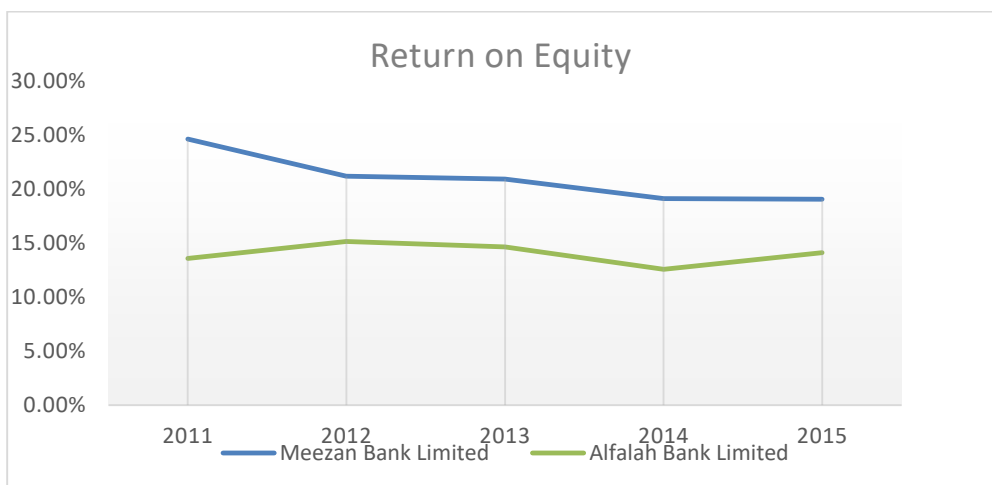


Figure 4 Earnings per share

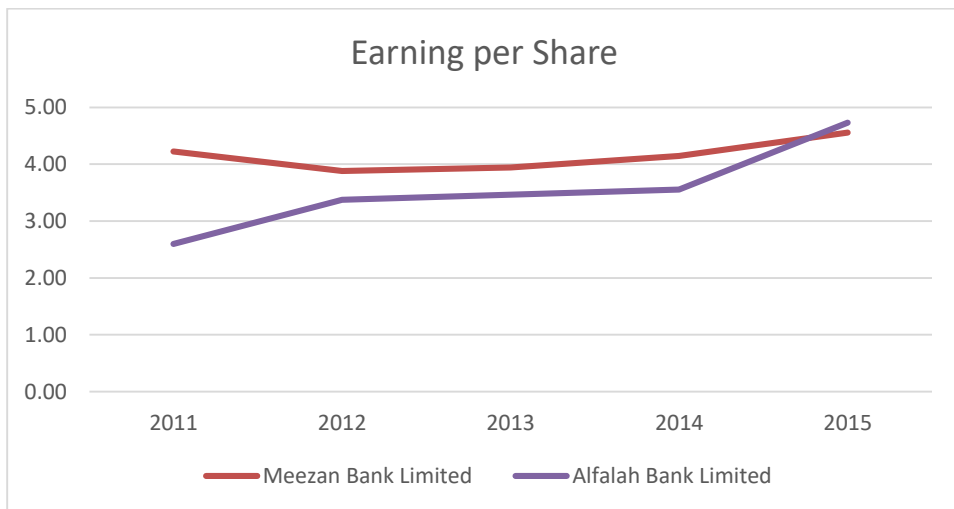


Figure 5 Net Profit margin

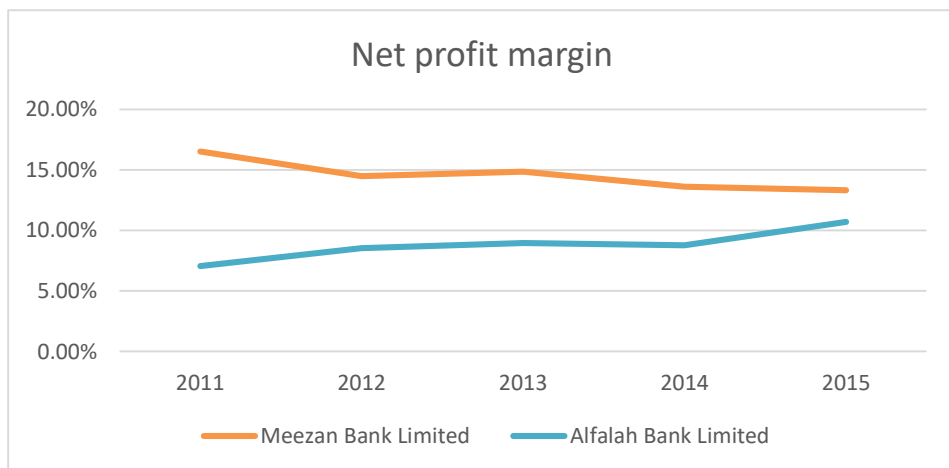


Table 3 Financial indicators of Al Baraka Bank Ltd, 2011-2015

<i>Al Baraka Bank (Islamic Bank)</i>					
	2011	2012	2013	2014	2015
Return on Assets					
Net income (loss)	212.29	235.24	257.78	274.77	286.17
Total Assets	17,154.04	19,055.13	20,967.56	23,463.59	24,618.20
Return on assets	1.24%	1.23%	1.23%	1.17%	1.16%
Return on Deposits					
Net income (loss)	212.29	235.24	257.78	274.77	286.17
Deposits (Revenue)	759.71	911.60	925.47	1,019.49	1,034.31
Return on Deposits	27.94%	25.81%	27.85%	26.95%	27.67%
Return on Equity					
Net income (loss)	212.29	235.24	257.78	274.77	286.17
Total shareholders' equity	1,799.15	1,967.68	1,983.39	2,074.62	2,094.58
Return on equity	11.80%	11.96%	13.00%	13.24%	13.66%
Earnings per Share					
Income After Tax	212.29	235.24	257.78	274.77	286.17
Number of Equity Shares	2,271.50	2,827.58	3,364.03	3,764.35	4,206.70
Earnings per Share	10.70	12.02	13.05	13.70	14.70
Net profit margin					

Net Income (Loss)	212.29	235.24	257.78	274.77	286.17
Murabaha	98,091	101,120	112,901	107,593	106,556
Gross profit margin	1.23%	1.88%	1.99%	2.44%	3.94%

Table 4 Financial indicators of Habib Metropolitan Bank Ltd, 2011-2015

<i>Habib Metropolitan (Conventional Bank)</i>					
	2011	2012	2013	2014	2015
Return on Assets					
Net income (loss)	3,289.20	3,396.36	3,526.77	4,942.15	7,673.48
Total Assets	291,916.05	304,310.09	311,395.64	397,674.82	489,885.64
Return on assets	1.13%	1.12%	1.13%	1.24%	1.57%
Return on Deposits					
Net income (loss)	3,289.20	3,396.36	3,526.77	4,942.15	7,673.48
Deposits (Revenue)	27,263.38	28,566.58	24,641.67	32,288.26	36,860.19
Return on Deposits	12.06%	11.89%	14.31%	15.31%	20.82%
Return on Equity					
Net income (loss)	3,289.20	3,396.36	3,526.77	4,942.15	7,673.48
Total shareholders' equity	27,263.38	28,566.58	24,641.67	32,288.26	36,860.19
Return on equity	12.06%	11.89%	14.31%	15.31%	20.82%
Earnings per Share					
Income After Tax	3,289.20	3,396.36	3,526.77	4,942.15	7,673.48
Number of Equity Shares	1,047.83	1,047.83	1,047.83	1,047.83	1,047.83
Earnings per Share	3.14	3.24	3.37	4.72	7.32
Net profit margin					

Net Income (Loss)	3,289.20	3,396.36	3,526.77	4,942.15	7,673.48
Interest	38,298	41,088	34,956	55,378	61,458
Gross profit margin	6.71%	8.33%	09.32%	10.77%	11.22%

Figure 6 Returns on Assets

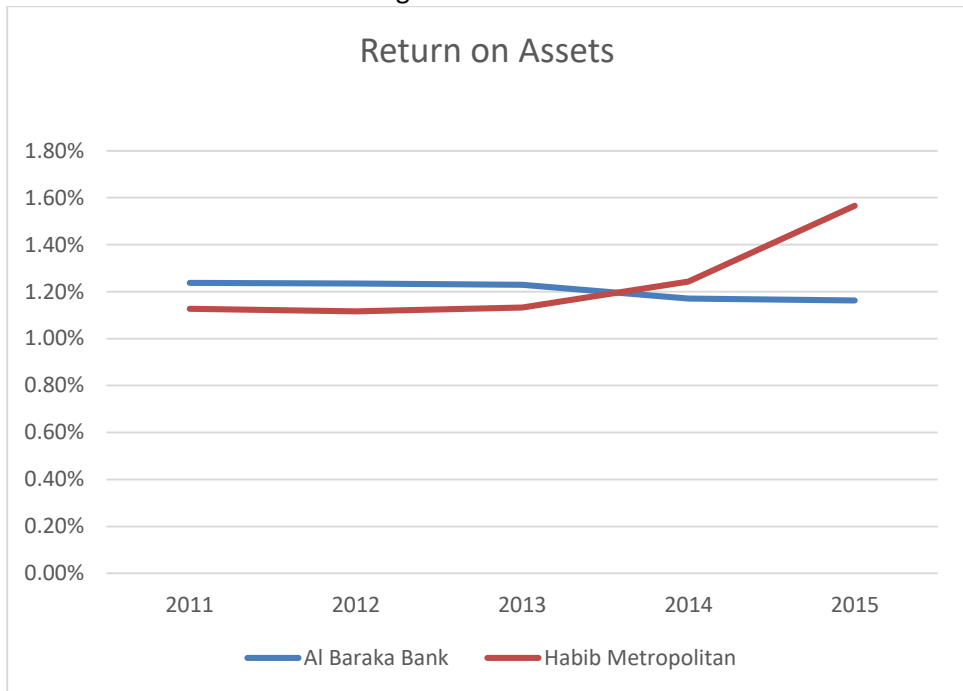


Figure 7 Returns on Deposits

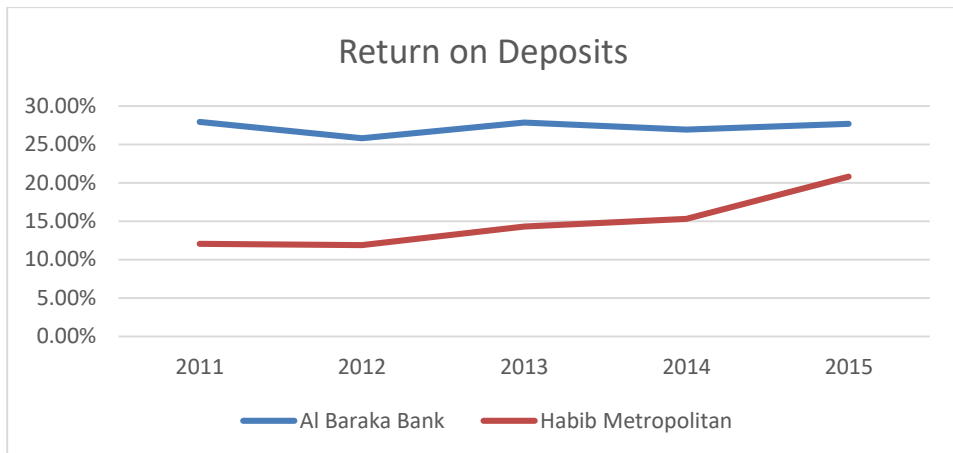


Figure 8 Return on Equity

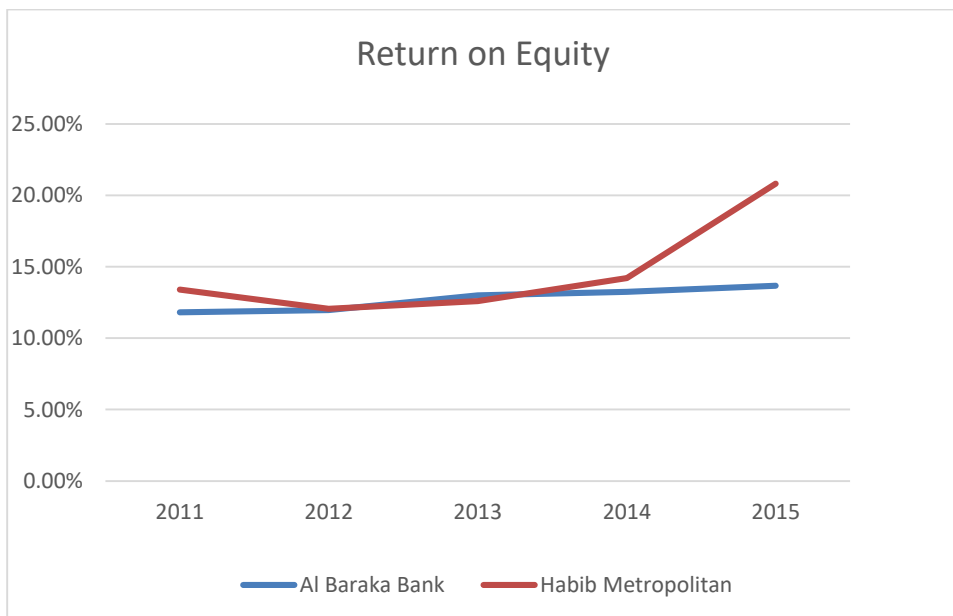


Figure 9 Earning per share

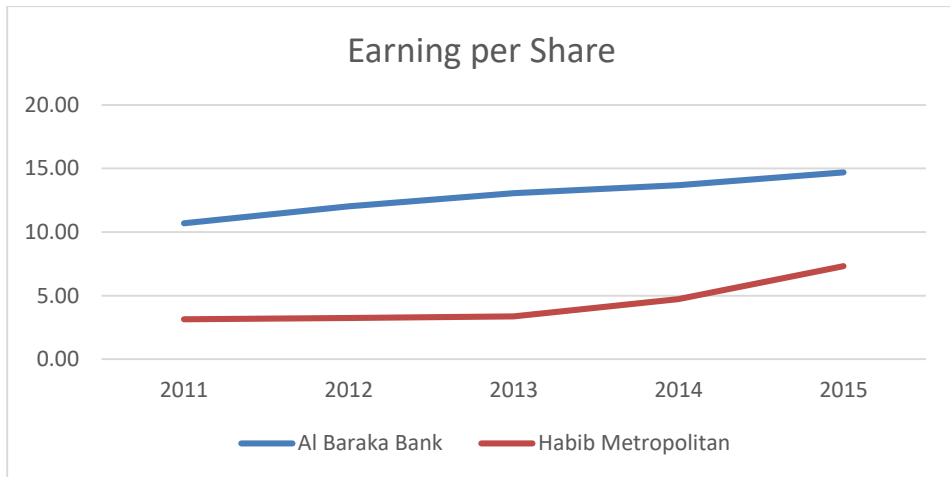


Figure 10 Net profit margin

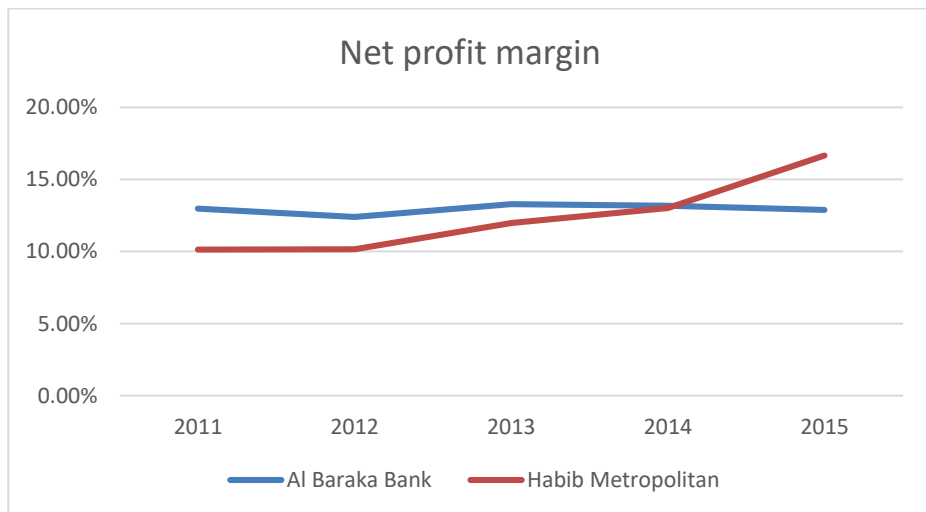


Table 5 Financial Indicators of Bank Islami Pakistan, 2011-2015

<i>Bank Islami Pakistan (Islamic Bank)</i>					
	2011	2012	2013	2014	2015
Return on Assets					
Net income (loss)	410.00	307.00	185.00	314.00	(196.00)
Total Assets	58,833	74,249	86,856	101,984	174,130
Return on assets	0.70%	0.41%	0.21%	0.31%	-0.11%
Return on Deposits					
Net income (loss)	410.00	307.00	185.00	314.00	(196.00)
Deposits (Revenue)	5,502.00	5,992.00	6,289.00	7,812.00	8,834.00
Return on Deposits	7.45%	5.12%	2.94%	4.02%	-2.22%
Return on Equity					
Net income (loss)	410.00	307.00	185.00	314.00	(196.00)
Total shareholders' equity	5,325.00	5,591.00	6,242.00	6,867.00	11,186.00
Return on equity	7.70%	5.49%	2.96%	4.57%	-1.75%
Earnings per Share					
Income After Tax	410.00	307.00	185.00	314.00	(196.00)
Number of Equity Shares	527.97	527.97	527.97	676.87	1,007.87
Earnings per Share	0.78	0.58	0.35	0.46	(0.19)
Net profit margin					

Net Income (Loss)	410.00	307.00	185.00	314.00	(196.00)
Murabaha	75,091	84,122	112,900	107,555	106,572
Gross profit margin	1.75%	1.46%	1.22%	2.44%	1.21%

Table 6 Financial indicators of Bank Al-Habib Ltd, 2015-2016

<i>Bank Al-Habib Limited (Conventional Bank)</i>					
	2011	2012	2013	2014	2015
Return on Assets					
Net income (loss)	4,533.48	5,455.41	5,154.55	6,348.94	7,404.91
Total Assets	384,282.46	453,105.54	460,726.92	578,918.83	639,712.47
Return on assets	1.18%	1.20%	1.12%	1.10%	1.16%
Return on Deposits					
Net income (loss)	4,533.48	5,455.41	5,154.55	6,348.94	7,404.91
Deposits (Revenue)	36,502.76	41,467.87	37,255.75	44,001.20	50,293.23
Return on Deposits	12.42%	13.16%	13.84%	14.43%	14.72%
Return on Equity					
Net income (loss)	4,533.48	5,455.41	5,154.55	6,348.94	7,404.91
Total shareholders' equity	19,853.55	23,814.15	25,282.05	32,628.35	37,856.66
Return on equity	22.83%	22.91%	20.39%	19.46%	19.56%
Earnings per Share					
Income After Tax	4,533.48	5,455.41	5,154.55	6,348.94	7,404.91

Number of Equity Shares	878.60	1,010.39	1,010.39	1,111.43	1,111.43
Earnings per Share	5.16	5.40	5.10	5.71	6.66
Net profit margin					
Net Income (Loss)	4,533.48	5,455.41	5,154.55	6,348.94	7,404.91
Murabaha/Interest	38,233	41,045	34,921	50,438	59,338
Gross profit margin	7.81%	9.33%	10.32%	10.77%	11.22%

Figure 11 Return on Assets

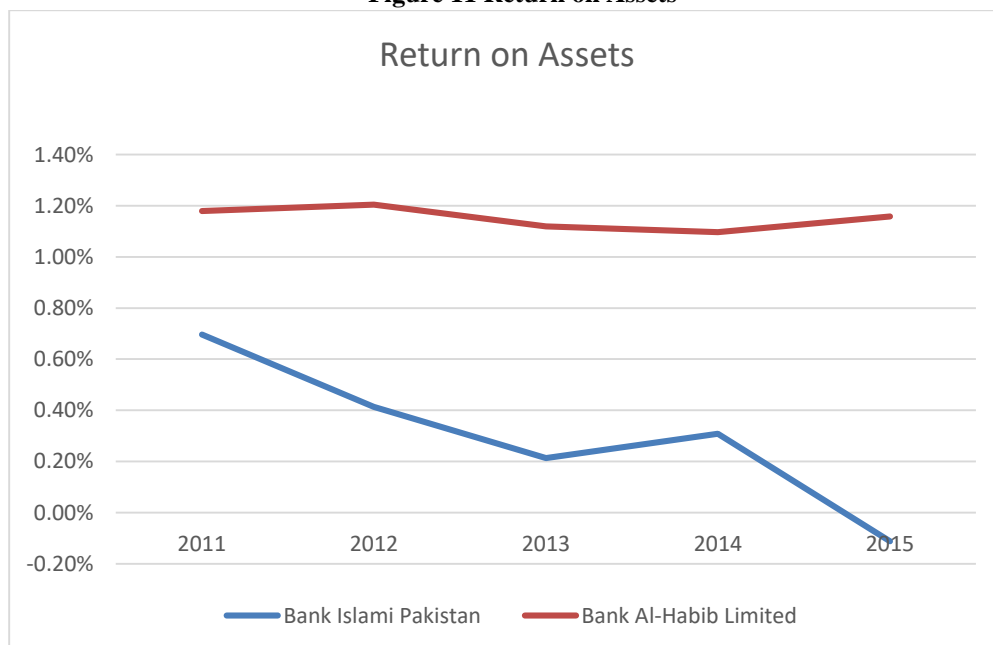


Figure 12 Return on deposits

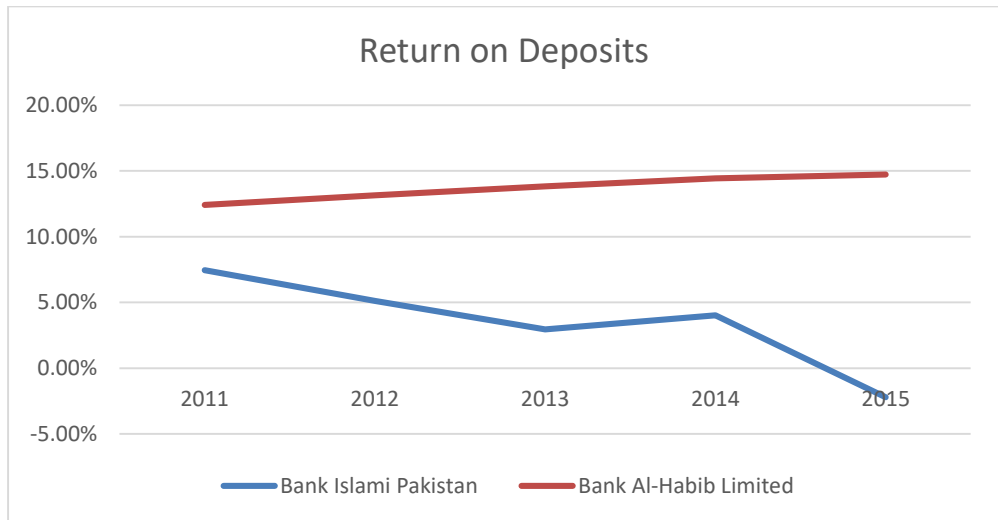


Figure 13 Return on Equity

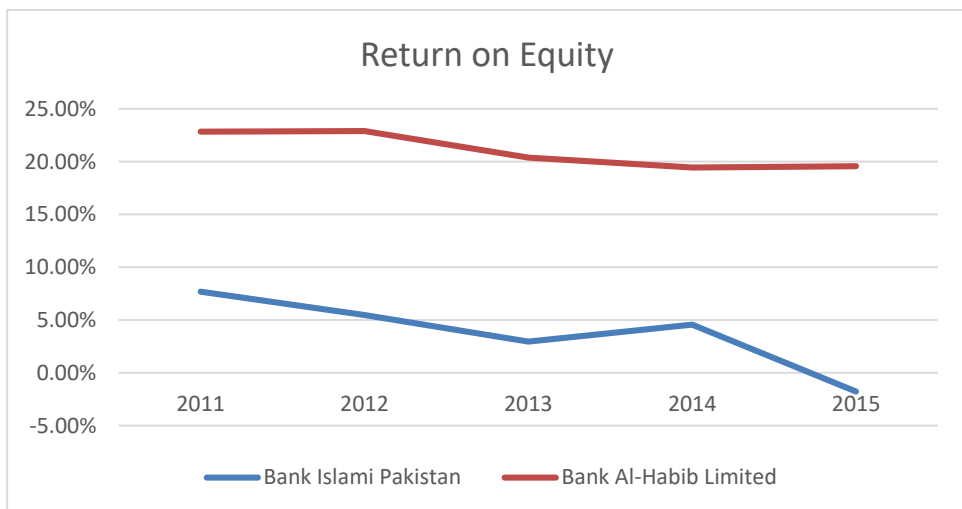


Figure 14 Earning per share

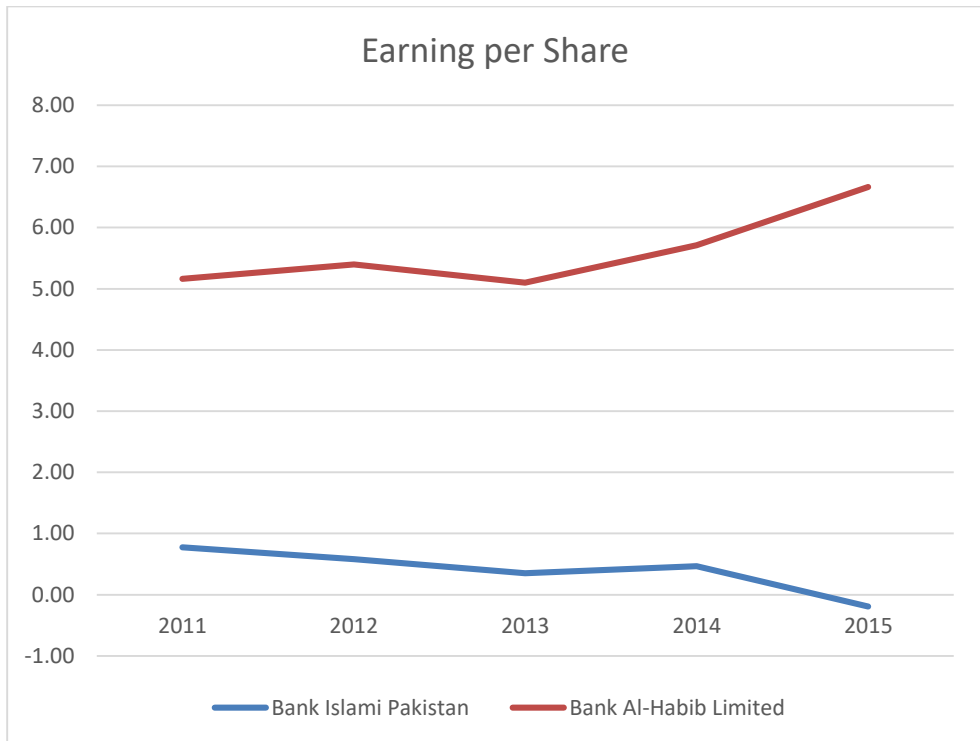


Figure 15 Net profit margin

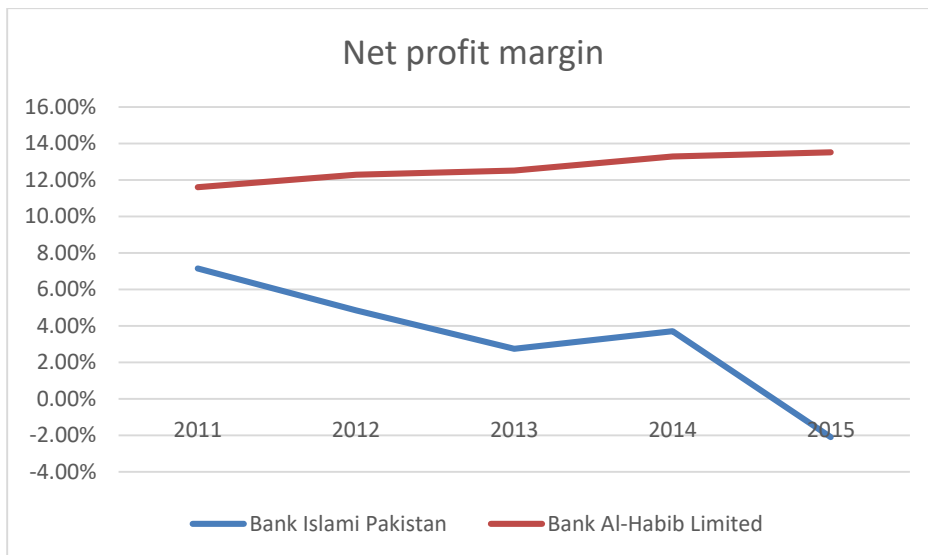


Table 7 Financial indicators of Burj Bank Ltd, 2011-2015

<i>Burj Bank (Islamic Bank)</i>					
	2011	2012	2013	2014	2015
Return on Assets					
Net income (loss)	288.49	84.65	1,133.03	471.78	399.60
Total Assets	27,656.22	47,185.45	53,389.06	34,090.53	32,736.07
Return on assets	1.04%	0.18%	2.12%	1.38%	1.22%
Return on Deposits					
Net income (loss)	288.49	84.65	1,133.03	471.78	399.60
Deposits (Revenue)	2,375.59	3,603.35	3,698.46	4,265.54	2,528.22

Return on Deposits	12.14%	2.35%	30.64%	11.06%	15.81%
Return on Equity					
Net income (loss)	288.49	84.65	1,133.03	471.78	399.60
Total shareholders' equity	5,804.58	5,937.48	5,361.21	4,803.72	4,388.93
Return on equity	4.97%	1.43%	21.13%	9.82%	9.10%
Earnings per Share					
Income After Tax	288.49	84.65	1,133.03	471.78	399.60
Number of Equity Shares	741.05	741.05	816.75	816.75	816.75
Earnings per Share	0.39	0.11	1.39	0.58	0.49
Net profit margin					
Net Income (Loss)	288.49	84.65	1,133.03	471.78	399.60
Murabaha	255,556	84,144	632,989	433,555	355,572
Gross profit margin	1.75%	1.46%	6.22%	2.44%	1.21%

Table 8 Financial indicators of Askari Bank Limited, 2011-2015

<i>Askari Bank Limited(Conventional Bank)</i>					
	2011	2012	2013	2014	2015
Return on Assets					
Net income (loss)	1,628.00	1,255.00	(5,480.00)	4,015.00	5,043.00
Total Assets	343,756	353,056	394,827	447,083	535,867
Return on assets	0.47%	0.36%	-1.39%	0.90%	0.94%
Return on Deposits					
Net income (loss)	1,628.00	1,255.00	(5,480.00)	4,015.00	5,043.00
Deposits (Revenue)	32,766.00	32,402.00	27,961.00	34,604.00	36,592.00
Return on Deposits	4.97%	3.87%	-19.60%	11.60%	13.78%
Return on Equity					
Net income (loss)	1,628.00	1,255.00	(5,480.00)	4,015.00	5,043.00

Total shareholders' equity	17,776.00	19,688.00	18,729.00	23,707.00	26,853.00
Return on equity	9.16%	6.37%	-29.26%	16.94%	18.78%
Earnings per Share					
Income After Tax	1,628.00	1,255.00	(5,480.00)	4,015.00	5,043.00
Number of Equity Shares	707.02	813.07	1,260.26	1,260.26	1,260.26
Earnings per Share	2.30	1.54	-4.35	3.19	4.00
Net profit margin					
Net Income (Loss)	1,628.00	1,255.00	(5,480.00)	4,015.00	5,043.00
Interest	443,233	421,045	566,921	250,438	559,338
Gross profit margin	6.81%	7.33%	0.32%	10.77%	11.22%

Figure 16 Returns on Assets

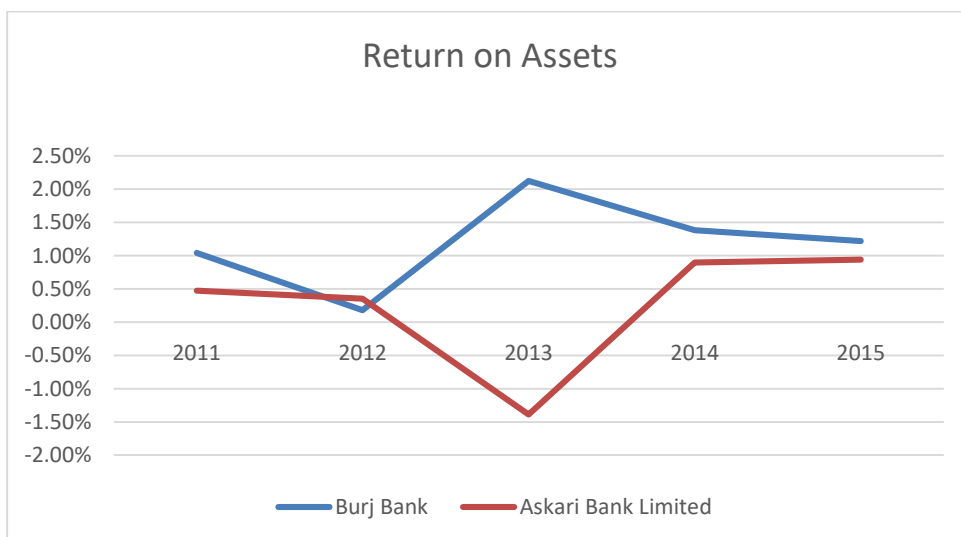


Figure 17 Return on deposits

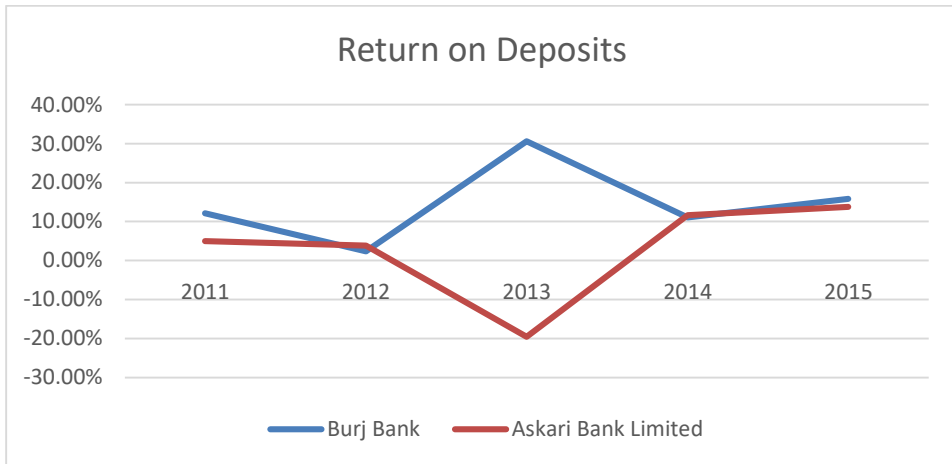


Figure 18 Return on Equity

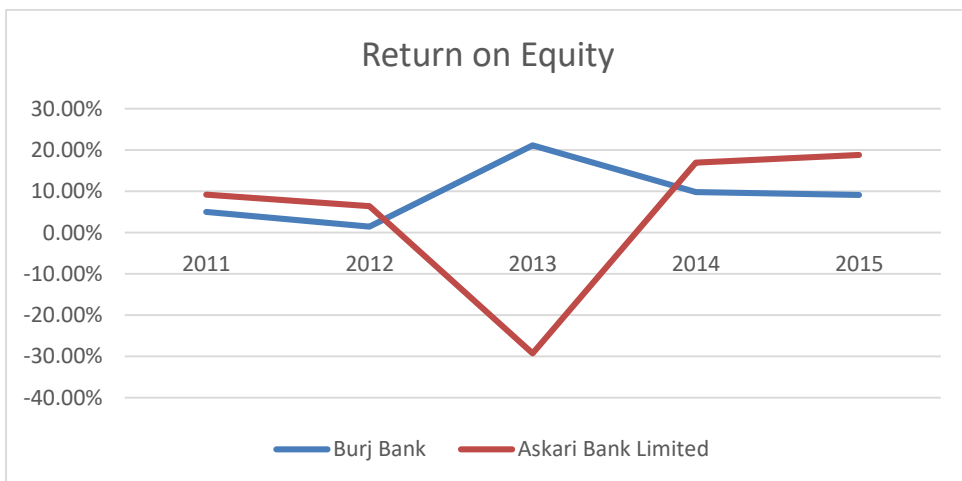


Figure 19 Earning per share

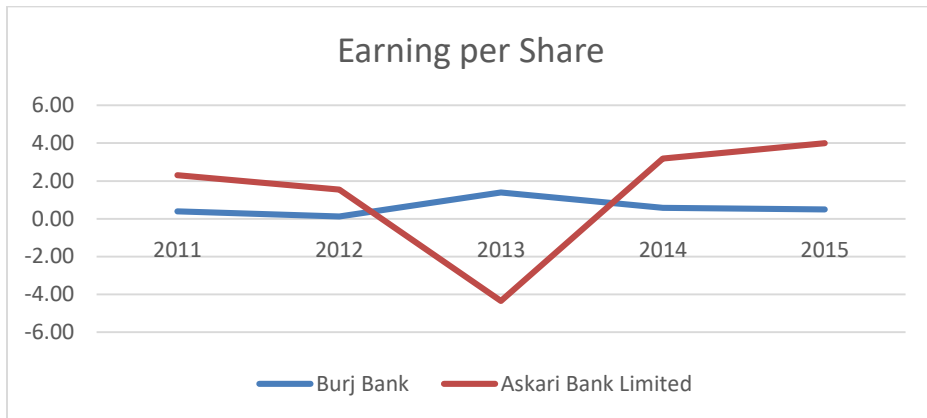
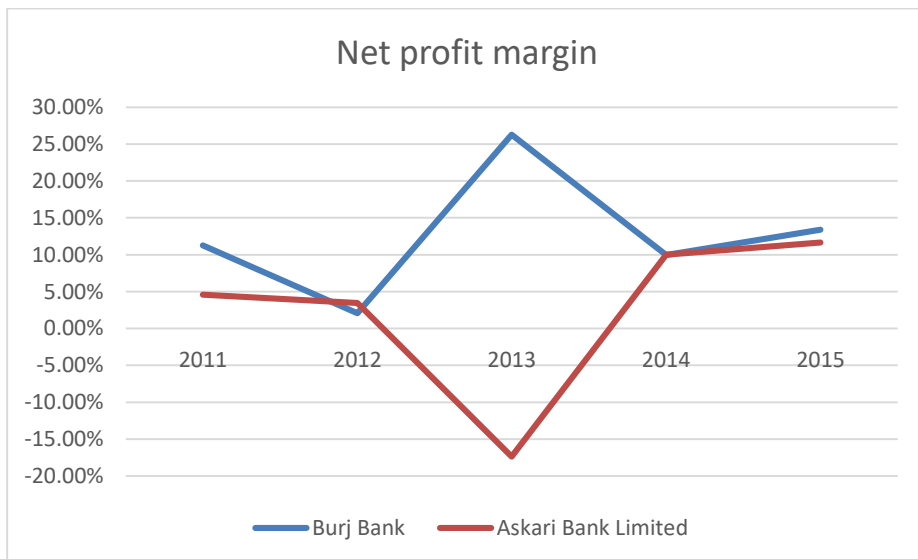


Figure 20 Net profit margins



6. FINDINGS AND RESULTS

We have compared the performance of Meezan bank and Alfalah Bank. We have chosen five indicators of every bank. The Results show that Return of Asset of Meezan Bank is increasing constantly, however, it is downward flopping because company's assets are increasing more rapidly as compared to net income. Return on Asset of Alfalah Bank is almost constant throughout the study period, showing more stable growth in income as well as assets. Return on deposit of Meezan Bank is decreasing constantly during the study period. This shows low margin of bank's earnings, which is effected due to tough competition with peer. Return on deposit of Alfalah Bank is increasing gradually. It shows there is improvement in the performance of bank's financial activities. Return on Equity of Meezan Bank is maintained at almost 20% constantly for many years. This shows company's earning is stable in the competitive environment. Return on Equity of Alfalah Bank is keep changing year by year. It depicts unstable earnings per share which is critical for bank. Earnings per Share for shareholders of Meezan Bank is almost kept at four Rupee per share. It shows good and steady earnings for the shareholders and handsome return on their investments. Earnings per Share of Alfalah Bank is increasing year by year. It can be seen that bank is trying to pay more and more dividend to its shareholders in order to build trust and increase potential growth. Net profit margin of Meezan Bank is decreasing constantly. It indicates that the expenses are not under control and bank needs to improve its performance by having control over its overheads. Net profit margin of Alfalah Bank was stable until 2014 and then

increased in 2015. It indicates that bank is having good control over its overhead and tries to reduce it as much as possible in order to earn high profit.

Our results show that Return on Asset of Al Baraka Bank is constantly remain stable between 1.00% to 1.50%, means consistent return is generated efficiently from utilization of assets during the study period. Return on Asset of Habib Metropolitan was also constant between 1.00% to 1.50%, but it was increased in year 2015 at 1.57% that shows improvement in return generated from existing assets. Return on deposits of Al Baraka Bank remains stable between 25.00% to 30.00%, which means consistent return generated from deposits. Return on Deposit of Habib Metropolitan Bank was increased from 12.06% to as high as 20.86% in year 2015, showing continuous improvement in revenue generation from operating assets. Return on Equity of Al Baraka Bank was increased from 11.80% to 13.66%. We can understand from this data that consistency in getting return from investments for shareholders throughout the years. Return on Equity of Habib Metropolitan is keep changing year by year, which is beneficial for banks and its shareholders. Earnings per Share for shareholders of Al Baraka Bank is high as compared to Habib Metropolitan Bank. Earnings per Share for shareholders of Habib Metropolitan shows that bank yields higher return for its shareholders. Net profit margin of Al Baraka Bank indicates that the expenses of bank is under control and its management have strict control on expenses to maintain constant return. Net profit margin of Habib Metropolitan shows improvement in revenue generation and efficiency of the bank.

For Bankislami Pakistan the results show that bank's assets are increasing more rapidly as compared to net income. Return on Asset of Bank Al Habib Limited is almost constant throughout the study; it shows more stable growth in

income as well as assets of the bank. Return on Deposit has good values for bank al Habib as compared to BankIslami. Earnings per Share for shareholders of BankIslami are decreasing study period. It can be seen that bank is trying to pay more and more dividend to its shareholders in order to gain their trust. .Net profit margin of Bank Al Habib Limited has good control over its overhead and try to reduce it as much as possible in order to earn high profit.

This Results show that Return on Asset of Askari Bank limited is almost constant throughout the year of 2012 but it decreases in 2013. However, it rapidly increased in 2014-2015.Net Profit Margin of Burj Banks decreased in 2012 then again increases rapidly then decreases constantly. Earnings per Share of Burj Banks decreased in 2012 then then slightly increased in 2013 and again decreased in 2014. It shows the bank's Assets are decreasing more rapidly as compare to it net income after 2013.Earning per Share of Askari Bank limited is almost constant in 2012 but it decreased in 2013. However, it rapidly increased 2014 and 2015. Return on deposits of Burj Banks decreased in 2012 but slightly increased in next year. Then again decreased in 2014 and 2015. It shows the bank's assets are decreasing more rapidly as compared to net income after 2013.

The Results show that Return on Asset of Dubai Islamic bank is on Zigzag path. It increased in 2012 then decreased in 2013 then again rapidly increased in 2014 and again decreased in 2015.Return on Asset of Soneri Bank Limited is on right path. It is constantly increasing since 2012. Return on Equity of Dubai Islamic bank is on Zigzag path. It increases in 2012 then decreased in 2013 but rapidly increased in 2014 and again decreased in 2015.Return on Asset of Soneri Bank Limited is on right path. It is constantly increasing. It has constantly increased during 2012-15. Net Profit Margin of Dubai Islamic bank is good for 2012. It

decreased in 2013 and then again rapidly increased in 2014 but decreased in 2015. Earning per share of Soneri Bank Limited is on right path. It constantly increased during the study period.

7. CONCLUSION

After carrying out ratio analysis, we conclude that the profitability of Conventional bank is more than Islamic bank because of fixed return on their loan portfolio and investment. Islamic banks' return is fluctuating because Islamic banks provide loans to their customers free of interest and their financing is on profit and loss basis. Islamic banks offer Murabah, Ijara, Mudarabah and Musharakah contracts to their customers. In these contracts, they follow Islamic Shariah's rules. That's why their customers are more satisfied than conventional banks because they know that under these contracts they will not have to pay fixed interest. The customers of both Islamic and conventional banks are bound to repay their loans at the completion of agreed time period. The working of Islamic bank is more efficient than conventional banks because most of their income is generated from services. The main difference between two segments of banks is interest. Conventional banks' business products are interest-based while the business products of Islamic banks are developed on profit and loss system (PLS). Thus, Islamic banking is customers 'welfare-oriented.

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