Performance Profile of Islamic and Traditional Banks of Pakistan: A Comparative Study

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Abstract

The main objective of the study is to compare the performance of Islamic and traditional banks of Pakistan. The comparative performance analysis is based on Interbank factors known as CAMEL, bank size and governance structure. Seventeen traditional and three pure Islamic banks are selected for the analysis. The data is collected for the most recent period from year 2010-2015. Independent sample t-test is applied to test the significance of differences. It is found that Islamic banks are significantly outperforming in liquidity status, whereas traditional banks are better in profitability and asset quality. In operational efficiency and capital adequacy, Islamic banks are at par with traditional banks. Besides having small size, Islamic banks have larger albeit less independent boards. The findings exhibit significant inferences for regulatory authorities in designing the level of interbank factors and governance structure and in setting the path for future Islamic banking in Pakistan. This study is different from previous studies in terms of study period, variables, sample and methodology.

Keywords*: Performance, Islamic banks, Traditional banks, Interbank factors, Corporate governance, Pakistan.*

INTRODUCTION

Indeed, the most debatable and desirable area of research is the evaluation of performance and its comparison. These two areas are always remained in the attention of investors, managers, corporate readers and especially regulators (Muhmad & Hashim, 2015). Good performance serves as a means of awareness and confidence in investors and other stakeholders, and helps in bringing additional capital in the economy. Moreover, performance of banks plays a significant role in developing the overall financial system, economic growth and allocation of resources. In Pakistan, Islamic banking is new[1] and is operating under the supervision of state bank alongside tradition banking. However, the growth of assets of Islamic banking is better[2] than tradition banks. Therefore, it is interesting to match the performance of both types of banks in other areas as well.

A popular tool for evaluating and comparing the performance of banks is CAMEL. It is used by US federal regulators (Kanagaretnam, Lobo, Wang, & Whalen, 2015). It is five dimensional, ratio based tool, consists of Capital adequacy, Asset quality, Management competency, Earning quality and Liquidity. These ratios serve as an internal tool for evaluating risk and allocating resources. Adoption of CAMEL model is supported by the fact that simple profitability ratios, such as ROA and ROE are not sufficient to cover all the aspects of performance.

Apart from ratios, performance of banks is significantly impacted through governance (Karami, Karimiyan, & Ghaznavi, 2016). According to Ciancanelli and Reyes-Gonzalez (2000) governance related issues are more important in banks than in corporate firms. Poor governance may lead banks to failure, mismanagement of assets and liabilities, which may cause loss of confidence of market. Furthermore, bad governance may enforce liquidity crises in banks (GAGANDEEP & KUMAR, 2016).

Therefore, keeping in mind the importance of banks performance and governance structure, along with the disheartening economic conditions and intense competition, the objective of the study is to compare the performance of Islamic and traditional banks of Pakistan under CAMEL

[1] First Islamic bank in Pakistan was Meezan Bank which was incorporated in 2002. [https://www.meezanbank.com/about-us/]. So far there are four Islamic banks operating in Pakistan along with twenty-two local commercial banks.

[2] As per state bank of Pakistan [http://www.sbp.org.pk/departments/stats/FSA-2010-14.pdf] Banks in Pakistan have showed an excellent performance in the last 4 years. Assets side of banks is showing a growth of 69.92 percent from Rs. 7.184 trillion in year 2010 to Rs. 12.207 trillion in year 2014. Similarly, deposit side of banks is showing a growth of 69.98 percent from Rs. 5.513 trillion in year 2010 to Rs. 9.371 trillion in year 2014. Where banks of Pakistan are showing an excellent growth in past 4 years, the growth of Islamic banks is faster than that of total banks, the statement is supported by 141.85 percent growth in assets of Islamic banks from Rs. 318.116 billion in year 2010 to Rs. 769.382 billion in year 2014. While, Islamic bank's deposits are showing a growth of 151.53 percent from Rs. 262.643 billion in year 2010 to Rs. 660.628 billion in year 2014 [Source authors own data analysis].

and governance structure, to estimate where banks are standing and how they are performing against their counterpart. A special feature, size of bank is also incorporated in the study.

Research Questions

In pursuance of the objective, the study is based on finding the answers of following research questions.

1. Are Islamic banks better than traditional banks in-terms of CAMEL ratios?
2. Are Islamic banks better than traditional banks in-terms of size?
3. Is governance structure of both types of banks differing from each other?

The study is divided into following parts. Followed by introduction of the study, the 2nd part covers the literature review. 3rd part covers the methodology and rational for hypothesis development. 4th part covers the results and analysis and 5th part covers conclusion and policy recommendations.

LITERATURE REVIEW

Abbas et al., (2016) conducted an examination of the performance of Shariah compliance banks from efficiency and effectiveness perspective. They estimated the variation in each component of performance through the Tobit regression technique. The study finds that the performance of Shariah compliance banks is positively linked with age, size, market capitalization, non-interest expenditures, requirements of minimum capital and gross domestic products. On other hands, inflation, profitability, and concentration have negatively linked with performance. The study suggests that capturing the exact performance of Shariah compliance financial institutions is not an easy task because these intuitions are in the early stages of evolution.

Latif et al., (2016) conducted a study on five Shariah compliance and five traditional banks of Pakistan. The aim of the study was to capture and compare the performance of these selected banks. The study period was from the year 2006 to 2010. Findings of the study suggest that in efficiency, riskiness, and solvency Shariah compliance banks are better than traditional banks. However, it has observed a little difference in terms of profitability.

Mughal et al., (2015) estimated the performance of Shariah compliance and traditional banks of Pakistan for the period from the year 2010 to 2014. They have chosen three Islamic and three conventional banks. They measured profitability using assets based and equity-based return, in addition to assets and equity-based returns earning as per market shares was also added to measure the performance. The study found that the performance of traditional banks is better than Shariah compliance banks in all three selected measures of performance i-e assets and equitybased return and earning per market share.

Kouser and Saba (2012) estimated the performance of Shariah compliance and tradition banks by utilizing the CAMEL model. The results suggest that the quality of assets and capital sufficiency of Shariah compliance banks and Shariah compliance branches of traditional banks is better than traditional banks. Furthermore, it was also observed that in capabilities of management Shariah compliance banks are better than traditional banks, and Shariah compliance branches of traditional banks are earning more than fully fledged Shariah compliance banks and traditional banks.

Hanif, et al., (2012) explored the performance of Shariah compliance and traditional banks of Pakistan. The study was based on 22 traditional and 5 Shariah compliance banks. External factors such as perception and behavior of customers and internal factors such as profitability, liquidity risk of default and solvency are taken as indicators of performance. The findings indicate that in managing profitability and liquidity traditional banks are performing better while in managing default risk and solvency Shariah compliance banks are better than traditional banks. In terms of motivational factors, location and compliance with Shariah rules are the factors of motivation for customers of Shariah compliance banks. On other hands, a wide range of services and product diversity fascinate the customers of traditional banks.

Ally (2013) conducted a study on commercial banks of Tanzania. The period of study was from the year 2006 to 2012. Profitability and liquidity ratios are employed to capture the financial performance of banks. In the first two years of analysis period increasing trend was observed while in the period of financial crises from 2008 to 2009 a clear deviation was observed in performance. However, no statistical difference was observed in assets based return, but in terms of equity-based return and net interest margin statistically significant difference was observed.

Shahzad et al., (2013) explored the management of governance factors in Shariah compliance banks of Pakistan. Governance-related factors such as the board of directors, Shariah supervisory board, Shariah audit, investment account holders, disclosure and transparency information are included in the study. Five Shariah compliance banks and twelve traditional banks were included in the study. The study finds that significant factors that influence the corporate governance of Shariah banks are the board of directors and Shariah supervisory board. While in other factors no significant difference was observed.

Ansari and Rehman (2011) compared the financial performance of Shariah compliance and traditional banks of for the period 2006 to 2009. The performance was gauged through eighteen financial ratios that cover the areas such as profitability, liquidity, various risks, solvency, the sufficiency of capital and operational efficiency. The study finds that in liquidity, riskiness, and solvency Shariah compliance banks are better than traditional banks.

Akhter et al., (2011) and Husna and Rahman (2012) found that capital adequacy of Islamic banks is better than traditional banks.**[C]**. Subsequently Kamaruddin and Mohd (2013) and

Wasiuzzaman and Nair Gunasegavan (2013) found that capital adequacy ratios of Islamic banks are significantly better than traditional banks. In terms of asset quality **[A]**, which is a measure of credit risk, recently Azizud-din, Hussin, and Zahid (2016) found that traditional banks are better in asset quality as compared to Islamic banks.

Regarding management competency **[M]**, Ahmad and Hassan (2007) claim that net interest margin ratio of commercial banks is significantly superior than Islamic banks. According to Abedifar, Molyneux, and Tarazi (2013) net interest margin ratio of Islamic banks is not significantly difference from traditional banks. Most recently Masud Rana, Hossain, and Rekha (2016) found that net interest margin ratio of Islamic banks is better than traditional banks.

In evaluating the earning quality **[E]** of Islamic and traditional banks Ali and Azmi (2016) conducted a study on Malaysian banks for the period 2005 to 2009, they found that performance of Islamic banks in terms of ROA is lower than traditional banks. In another study, by utilizing the data of different countries for the period 2009 to 2014, Rashwan and Ehab (2016) found that profitability of traditional banks is better than Islamic banks.

Liquidity **[L]** confirms the ability of the banks to meet their short-term obligations and to safe guard from insolvency. In a study Bourkhis and Nabi (2013) employed liquid assets to deposit ratio to measure the liquidity position of banks, they found that although the liquidity position of Islamic banks has been declined gradually after crises of 2007, but the liquidity position of Islamic banks is significantly better than tradition banks, in both pre and post crises period. Most recently Islam and Ashrafuzzaman (2016) found that Islamic banks retain more liquid assets than traditional banks. Regarding bank size in a recent study Ali and Azmi (2016) found that traditional banks are bigger in size than Islamic banks.

According to De Andres and Vallelado (2008) larger boards are associated with higher performance of banks. In contrary to above Belkhir (2009) argues that small size boards are more efficient, but hiring more directors does not weaken the performance of banks. Large boards are also related to improved coordination, but also associated with communication and process problems (Agoraki, Delis, & Staikouras, 2010). In a study of banks situated in GCC region an insignificant impact of board size on performance has been observed (Arouri, Hossain, & Muttakin, 2011). However, Wasiuzzaman and Nair Gunasegavan (2013) found that larger boards are related to low performance of banks and raised the agency problem. They also found that board size of Islamic banks is significantly different from traditional banks.

In earlier studies it is evident that presence of independent directors helps in protecting shareholder's interest by resisting against unfriendly takeover or by hosting target firm with better returns (Cotter, Shivdasani, & Zenner, 1997). According to Mollah and Zaman (2015) Islamic banks have more independent board during the period 2005 to 2011.

From literature, it is evident that no study is so far done which deals with the comparison of financial ratios and governance structure in one study. Further, selecting this area of study is supported by the fact that in Pakistan Islamic banking activities are increasing significantly, the statement is supported by the growth rate of Islamic banks assets. Therefore, this study is different from previous studies in terms of sample, variables, study period and methodology.

HYPOTHESES:

This section provides the basis and rational for hypothesis development. So, on the basis of literature review the study has the following hypotheses.

Capital Adequacy [C] Level of financial leverage of any bank is called capital adequacy (Al Freahat, 2009). It is also described as the tendency of the bank to protect its depositors from sudden losses (Nimalathasan, 2008). The first hypothesis of the study is,

H-1 *Capital adequacy of Islamic banks of Pakistan is better than traditional banks*.

Assets Quality [A] Ability of banks to recover its outstanding loan and advances at due time is called assets quality (Kabir & Dey, 2012). The second hypothesis of the study is, ***H-2*** *Traditional banks have better asset quality than Islamic banks.*

Management Competency [M] Management competency is a very important factor for determining the soundness of banks health and insurance (Roman & Şargu, 2013). Efficient management may result in increased profitability. Management should consist of professional competency and quality of service. Therefore, management can be a factor in determining performance of banks (Muhmad & Hashim, 2015). Third hypothesis of the study is,

H-3 *Islamic banks are better than traditional banks in-terms of management competency.*

Earning Quality [E] Assets and liabilities play a significant role in determining the effectiveness and efficiency of earning quality of an institution. For attracting potential depositors, creditors and inventors a significant increase in earnings is necessary. Similarly, present and future prospects of an institution are dependent on the quality of earning and profits. Therefore quality of earning is an important determinant of financial performance of banks (Shar, ali Shah, & Jamali, 2010). Fourth hypothesis of the study is,

H-4 *Traditional banks have higher earning quality than Islamic banks.*

Liquidity [L] Liquidity position of banks is regarded as protecting solvency and ability to pay its short-term obligations. Banks need to keep enough liquidity for future loan requirements and unexpected drain of deposits. On the contrary excessive dependency on liquidity may affect profitability of banks. The prime cause of the failure of banks is the shortage of optimal level of liquidity (Liu & Pariyaprasert, 2014). The fifth hypothesis of the study is,

H-5 *Islamic banks have better liquidity management than traditional banks.*

Size Bigger size banks perform better. Therefore, the sixth hypothesis of the study is, ***H-6***

Traditional banks are bigger than Islamic banks.

Governance Structure Fama and Jensen (1983 p.301) defined the corporate governance as "the range of control system to maintain and increase the interests of the commercial units stockholders". It explains that it's a distinctive system which helps to control and monitor the company's operations to secure the interest of both parties such as shareholders and the managers. Furthermore, Tosi et al., (2000) also simplified that corporate governance is a package of controlling in and out of the company staples that properly guarantee the rights of stockholders as well as the board of the managers while maintaining the good relationship each other. Therefore, Governance related issues are more important in banks (Ciancanelli & Reyes-Gonzalez, 2000). The seventh and eighth hypotheses are:

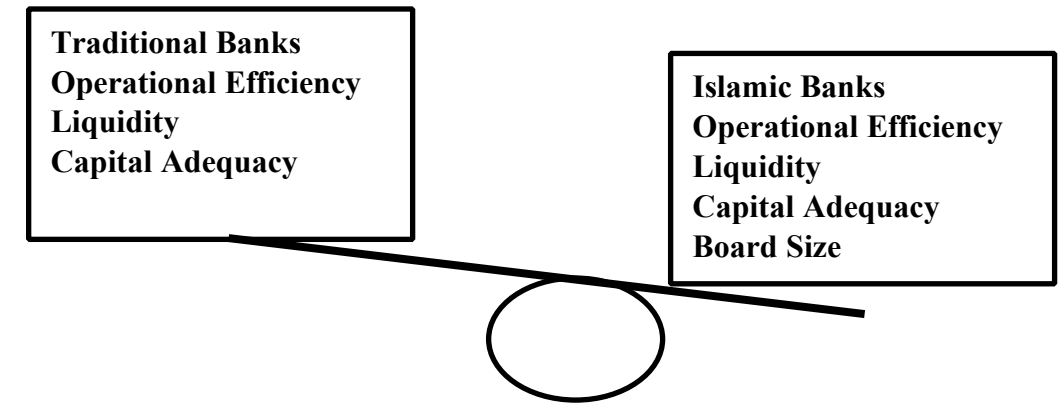
H-7 *Board size of Islamic banks in Pakistan is significantly different from board size of traditional banks.*

H-8 *Board independence of Islamic banks in Pakistan is significantly different from board independence of traditional banks.*

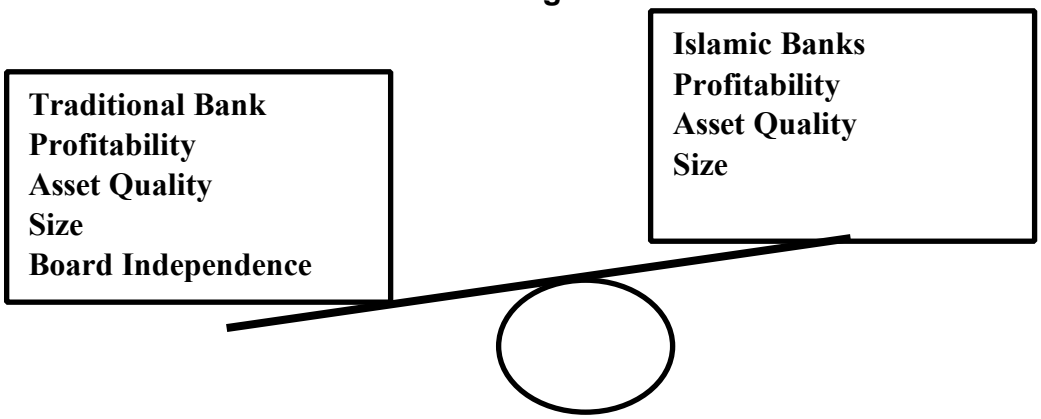
CONCEPTUAL FRAMEWORK

Figure 1 and 2 represents the conceptual framework by comparing Islamic and traditional banks of Pakistan in terms of performance based on CAMEL structure and governance framework. Based on literature, it is found that out of five CAMEL standards, Islamic banks are better than traditional banks in three standards i-e operational efficiency, liquidity, capital adequacy and out of two corporate governance related performance standard i-e board size and board independence, Islamic banks are better in board size than traditional banks (see Figure # 1). On the other hand, traditional banks are better than Islamic banks in profitability, asset quality, size and board independence (see Figure # 2).

Conceptual Framework Figure 1



Conceptual Framework
Figure 2



METHODOLOGY AND DATA

CAMEL standard, bank size and governance structure are applied to estimate the performance of both types of banks operating in Pakistan. CAMEL standard consists of five categories of ratios. These are Capital adequacy, Asset quality, Management capability, Earning ability and Liquidity. Governance structure consists of board size and board independence. These variables and their calculations are grouped in Table-1.

Data Collection Banking sector and corporate governance data is obtained from financial statements, such as income statement, balance sheet, notes to the accounts and statement of compliance to the best practice of corporate governance, of Islamic and traditional banks for each year. Means of six years (from year 2010 to 2015) for each of the above ratios are calculated, to estimate the financial and managerial performance of Islamic banks and traditional banks.

Sample Banks At present total five Islamic banks and twenty-two traditional banks are working in Pakistan. In this study three Islamic banks and seventeen traditional banks are chosen for

comparison. The main reason to select these only three Islamic banks is the availability of the data related to the Governance structure. Detail of sample banks is given in appendix A.

Methodology Descriptive statistics are applied in this study for measuring, comparing and classifying the financial and managerial performance of Islamic banks and traditional banks of Pakistan. Then the independent sample *t-test* is applied to confirm whether there are significant differences in means of each ratio of CAMEL standard, bank size and governance structure for two categories of banks. For testing the NULL hypothesis of equality of means of Islamic banks and traditional banks, the *t*-test has applied. The *t*-test indicates that means of each sample is different and the difference is true and not due to chance.

Table 1

	Symbol	**Calculation**	**References**
Capital Adequacy (C)	LENL	Log of Equity/Net Loans	Wasiuzzaman and Nair Gunasegavan (2013), Hong and Razak (2015)
Asset Quality (A)	LLLRGL	Log of Loan Loss Reserve/Gross Loan	Wasiuzzaman and Nair Gunasegavan (2013), Chowdhury, Haque, Alhabshi, and Masih (2016)
Management Competency (M)	NIM	Net Interest Income/Earning Assets (For Islamic Banks) Net Spread/Earning Assets	Wasiuzzaman and Nair Gunasegavan (2013), Azhar Rosly and Afandi Abu Bakar (2003)
Earning Quality (E)	ROA	Net Income/Total Assets	Wasiuzzaman and Nair Gunasegavan (2013), Azhar Rosly and Afandi Abu Bakar (2003)
Liquidity (L)	LLATD	Log of Liquid Assets/Total Deposit	Wasiuzzaman and Nair Gunasegavan (2013), Kamaruddin and Mohd (2013)
Size	LBsize	Log of Assets	Wasiuzzaman and Nair Gunasegavan (2013), Chowdhury et al. (2016)
Board Size	Boardsize	Total Number of Directors	Wasiuzzaman and Nair Gunasegavan (2013), Belkhir (2009)
Board Independence	Bindep	Independent Directors/Total Directors	Wasiuzzaman and Nair Gunasegavan (2013), Sarkar and Sarkar (2016)

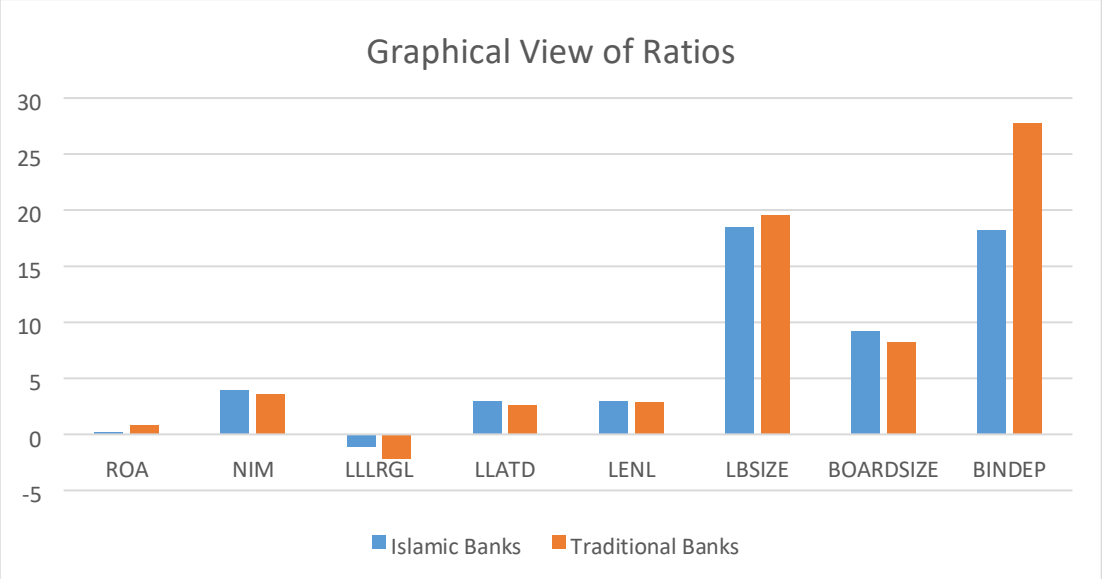
In coming section empirical analysis in terms of performance comparison between two categories of banks is presented. This section also scrutinizes whether the Islamic banks are superior, equal to or lowers than traditional banks.

RESULTS AND ANALYSIS

Tabel-2 presents three-sectional descriptive view of data. Section A depicts the combined data of Islamic and traditional banks. Section B and C are depicting the data of Islamic and traditional banks separately. Looking at the values, it is observed that mean and median values are in between the rang of maximum and minimum values, with skewness near to zero and kurtosis near to 3. Moreover, probability values of Jarque-Bera are insignificant. The above indications confirm the normal distribution of sample data.

LENL, LLLRGL, NIM, and LLATD ratios of Islamic banks are higher than traditional banks. It can be inferred that in capital adequacy, operating performance and liquidity, Islamic banks are in a better position than traditional banks. Asset quality of Islamic banks seems to be lower than traditional banks due to higher LLLRGL ratio. The ROA ratio of traditional banks is about four times greater than Islamic banks. Furthermore, in-terms of size traditional banks are larger than Islamic banks. Islamic banks have larger but less independent board than traditional banks.

Figure 3 Graphical View of Descriptive Statistics (Year 2010-2015)



From descriptive view of data set it can be inferred that differences are likely to exist between financial measures and governance structure of two types of banks. However, to confirm the statistical significance of the differences, independent sample *t*-test is applied on each variable. Results of independent sample *t*-test are presented in Table-3.

[C] Capital Adequacy

Capital adequacy ratio (LENL) is higher for Islamic banks as per descriptive statistics. The result suggests that Islamic banks are in a better position to absorb unexpected losses. Similar findings are also observed by Akhter et al. (2011) and Wasiuzzaman and Nair Gunasegavan (2013). But, the variance is very minor and statistically insignificant at 10% level as the p-value of 0.806 is > than 0.10. **[A] Asset Quality**

Quality of asset ratio (LLLRGL) of traditional banks is better as compared to Islamic banks. Since traditional banks have lower loan loss reserve to gross loan ratio (LLLRGL). The difference is significant at 1% level, as the p-value is < than 0.01. Similar observation is quoted by Azizud-din et al. (2016).

[M] Management Competency

Operating efficiency ratio (NIM) of Islamic banks is higher than traditional banks. The result suggests that Islamic banks are efficiently managing their lending activities and expenses. However, the difference is insignificant at 10% level as the p-value is > than 0.10. The result is consistent with the findings of Abedifar et al. (2013) and Masud Rana et al. (2016).

[E] Earning Quality

Profitability ratio (ROA) of tradition banks is greater than Islamic banks. The difference is statically significant at 5 percent level, because the probability value is 0.021 which is < than 0.05. The result suggests that traditional banks are more profitable due higher net financing. The result is consistent with the finding of Ali and Azmi (2016).

[L] Liquidity

Liquidity ratio (LLATD) of Islamic banks is better than traditional banks. The difference between liquidity ratio of Islamic and traditional banks is significant at 1% level, because the probability value of 0.000 is < than 0.01. Hassan and Bashir (2003), Akhter et al. (2011) and Wasiuzzaman and Nair Gunasegavan (2013) have also quoted the same observations. The result suggests that Islamic banks are exceedingly reliant on their financing activities that lead to their higher liquid ratio.

Bank Size

In-term of size traditional banks are larger than Islamic banks. The difference in size of these group of banks is significant at 1% level, the probability value of P is 0.000 which is < than 0.01. The result is consistent with the finding of Ali and Azmi (2016).

Governance Structure

Finally, Islamic banks have larger board size. The difference between the size of board of two types of banks is significant at 5% level as the P-value of 0.020 is < than 0.05. However, the board of Islamic banks are less independent. The difference between board independence is significant at 5% level as the P-value of 0.031 is < than 0.05. The results are consist with Wasiuzzaman and Nair Gunasegavan (2013) and Mollah and Zaman (2015) in terms of significant differences.

Table 2 Descriptive Statistics of All Banks for the Period 2010-2015
Section-A

	LENL	**LLLRGL**	**NIM**	**ROA**	**LLATD**	**LBSIZE**	**BOARDSIZE**	**BINDEP**
Mean	2.932252	-2.002843	3.675724	0.702654	2.651766	19.35364	8.398230	26.29021
Median	2.873361	-1.657841	3.554777	0.863279	2.599737	19.47923	8.000000	28.57143
Maximum	4.180288	0.496688	6.398373	2.635821	3.866159	21.47699	13.00000	62.50000
Minimum	1.707066	-6.318494	0.121805	-2.122206	1.888851	17.13495	4.000000	0.000000
Std. Dev.	0.483272	1.545908	1.131000	0.981837	0.390663	1.113591	1.509138	16.91186
Skewness	0.457507	-0.549026	-0.199654	-0.842964	0.568514	-0.132392	0.227329	-0.225248
Kurtosis	3.062350	2.682741	3.704228	3.639563	2.950516	2.110974	4.120626	2.073338
Jarque-Bera	3.960365	6.150823	3.085765	15.30863	6.098609	4.051420	6.886020	4.998596
Probability	0.138044	0.046171	0.213764	0.000474	0.047392	0.131900	0.031968	0.082143
Sum	331.3444	-226.3213	415.3568	79.39994	299.6496	2186.962	949.0000	2970.794
Sum Sq. Dev.	26.15777	267.6612	143.2661	107.9684	17.09314	138.8896	255.0796	32033.25
Observations	113	113	113	113	113	113	113	113

Section-B

	LENL	LLLRGL	NIM	ROA	LLATD	LBSIZE	BOARDSIZE	BINDEP
Mean	2.958898	-1.076581	3.946139	0.199128	2.965420	18.44609	9.176471	18.18245
Median	2.906947	-1.616777	4.004058	0.297742	2.950902	18.27976	9.000000	22.22222
Maximum	4.006891	0.470116	5.416325	1.691118	3.866159	20.09187	12.00000	40.00000
Minimum	2.510610	-2.157920	2.076167	-2.122206	2.235677	17.13495	7.000000	0.000000
Std. Dev.	0.352376	1.023273	0.940041	1.071166	0.464445	0.949601	1.467791	14.38148
Skewness	1.445856	0.407246	-0.444940	-0.726974	0.032710	0.299263	0.054140	-0.078315
Kurtosis	5.612095	1.452258	2.408533	2.549842	2.256003	1.805441	2.270061	1.649557
Jarque-Bera	10.75607	2.166722	0.808717	1.640930	0.395117	1.264519	0.385712	1.309161

Probability	0.004617	0.338456	0.667405	0.440227	0.820732	0.531390	0.824601	0.519660
Sum	50.30127	-18.30188	67.08436	3.385175	50.41214	313.5835	156.0000	309.1017
Sum Sq. Dev.	1.986696	16.75340	14.13882	18.35836	3.451349	14.42788	34.47059	3309.230
Observations	17	17	17	17	17	17	17	17

Table 2 (Cont.) Descriptive Statistics of Traditional Banks for the Period 2010-2015 Section-C

	LENL	LLLRGL	NIM	ROA	LLATD	LBSIZE	BOARDSIZE	BINDEP
Mean	2.927533	-2.166869	3.627838	0.791820	2.596223	19.51436	8.260417	27.72596
Median	2.869599	-1.660176	3.506317	0.885731	2.549506	19.56460	8.000000	28.57143
Maximum	4.180288	0.496688	6.398373	2.635821	3.608768	21.47699	13.00000	62.50000
Minimum	1.707066	-6.318494	0.121805	-2.034566	1.888851	17.23360	4.000000	0.000000
Std. Dev.	0.504265	1.568572	1.159238	0.943323	0.350536	1.066129	1.481427	16.98563
Skewness	0.409207	-0.486846	-0.135347	-0.855608	0.471198	-0.216847	0.268258	-0.316671
Kurtosis	2.832379	2.457784	3.762969	3.870457	2.812230	2.215057	4.628778	2.143275
Jarque-Bera	2.791594	4.968292	2.621589	14.74381	3.693469	3.216906	11.76307	4.540399
Probability	0.247636	0.083397	0.269606	0.000629	0.157751	0.200197	0.002791	0.103292
Sum	281.0432	-208.0194	348.2725	76.01476	249.2374	1873.378	793.0000	2661.692
Sum Sq. Dev.	24.15687	233.7396	127.6641	84.53659	11.67319	107.9799	208.4896	27408.62
Observations	96	96	96	96	96	96	96	96

Notes:

LENL-Log of Equity to Net Loan, LLLRGL-Log of Loan Loss Reserve to Gross Loan, NIM-Net Interest Margin, ROA-Return on Assets, LLATD-Log of Liquid Assets to Total Deposits, LBSIZE-Log of Total Assets, Boardsize-Board Size, Bindep-Board Independence.

Table 3
Results of Independent Sample *t*-Test
Islamic VS Traditional Banks

Variables	**Islamic Banks**	**Traditional Banks**	***t*-Test**		**Conclusion**	
	Mean	**Mean**	***t*-Statistics**	***P*-Value**	**Hypothesis**	**Status**

LENL	2.958898	2.927533	0.245609	0.8064	H-1	Rejected
LLLRGL	-1.076581	-2.166869	2.758199	0.0068***	H-2	Accepted
NIM	3.946139	3.627838	1.070228	0.2868	H-3	Rejected
ROA	0.199128	0.791820	-2.339455	0.0211**	H-4	Accepted
LLATD	2.965420	2.596223	3.801011	0.0002***	H-5	Accepted
LBsize	18.44609	19.51436	-3.865981	0.0002***	H-6	Accepted
Boardsize	9.176471	8.260417	2.353075	0.0204**	H-7	Accepted
Bindep	18.18245	27.72596	-2.180192	0.0314**	H-8	Accepted

Notes:

Significant at 1% *** Significant at 5% ** Significant at 10% *

Table-4 Summary of Results of Comparison between Islamic and Traditional Banks (2010-2015)

Sr.	Performance Indicators	Measures	Difference	Performance Compared to Traditional Banks
1	Capital Adequacy	LENT	Insignificant	At par
2	Assets Quality	LLLRGL	Significant	Low
3	Management Competency	NIM	Insignificant	At Par
4	Earning	ROA	Significant	Low
5	Liquidity	LLATD	Significant	High
6	Size	LBsize	Significant	Low
7	Board Size	Boardsize	Significant	High
8	Board Independence	Bindep	Significant	Low

CONCLUSION AND POLICY RECOMMENDATIONS

The aim of the study is to compare the performance of Islamic and traditional banks of Pakistan. The relative performance investigations are conducted by means of descriptive statistics and t-test for the period 2010-2015. CAMEL ratios, bank size along with governance structure were applied to identify the operational and financial performance of Islamic and traditional banks of Pakistan. It is found that Islamic banks are significantly outperforming in liquidity status, whereas traditional banks are better in profitability and asset quality. In operational efficiency and capital adequacy, Islamic banks are at par with traditional banks. Besides having small size, Islamic banks have larger albeit less independent boards. It also suggests the factors, which have significantly contributed towards the current performance set-up of both banking system in Pakistani.

Practical implications This study leads the investors in the process of their decision-making as well as the higher management of both Islamic and Conventional Banking. Further, this study has significant implications for the managers, in particular, to choose better capital adequacy, asset quality, operational efficiency, earning quality and liquidity for their banks. The findings exhibit significant inferences for regulatory authorities in designing the level of interbank factors and governance structure and in setting the path for future Islamic banking in Pakistan.

Limitations and Future Research The findings of this study can only be generalized on the similar banks included in the study. Further research can be done on a larger sample consists of various banks across different countries.

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Appendix-A

List of Sample Banks

Sr.	Islamic Banks	Sr.	Traditional Banks
1	BankIslami Limited	1	Askari Bank Limited
2	Burj Bank Limited	2	Allied Bank Limited
3	Meezan Bank Limited	3	Bank of Khyber Limited
		4	Bank Al-Habib Limited
		5	Bank Alfalah Limited
		6	Faysal Bank Limited
		7	Habib Bank Limited
		8	Habib Metropolitan Bank Limited
		9	JS Bank Limited
		10	Muslim Commercial Bank Limited
		11	NIB Limited
		12	National Bank of Pakistan Limited
		13	Soneri Bank Limited
		14	Summit Bank Limited

		15	Samba Bank Limited
		16	Silk Bank Limited
		17	United Bank Limited