

Gauging Profitability and Liquidity of Islamic Banks: Evidence from Malaysia and Pakistan

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Abstract

This study aims at evaluating and comparatively analyzing the financial performance of all full-fledged Islamic banks operating in Pakistan and five Islamic banks from Malaysia conveniently chosen, subject to profitability and liquidity. Data has been compiled from annual reports for 2006-11. Famous ratios analysis model has been applied with descriptive and inferential statistics to analyze the results. Empirical results revealed that Malaysian Islamic banks are more profitable, liquid and well ahead to Pakistani Islamic banks in profit margin, profit to expense, earnings per share, cash ratio and loan to deposit ratio. However no significant difference is observed in return on asset, return on equity, current ratio, cash & portfolio investment to deposit and loan to asset ratio, although Malaysian Islamic banks are superior in maintaining healthy investment portfolio and high cash ratio while Pakistani Islamic banks have maintained high loan to deposits.

Keywords: Financial performance, Islamic banks, ratio analysis, profitability, liquidity

1. Introduction

The Islamic-banking is a system that is in agreement with spirit and value system, and fully governed by the Sharia principles. Generally, Islamic banking prohibits the interest based transactions as well as disallows unsocial and unethical endeavours. The Islamic banking model aims at gauging and achieving prosperous economy adjacent to socio benefits. Sharia strictly forbids the specific receipt or payment (Riba) for money lent or borrowed.

According to Islamic laws making profits by speculation, alcohol, tobacco, gambling and casino establishments, are also unlawful. Islamic banking is based on the rule of sharing the risks and rewards of an investment, whereas, interest based system lacking this principle raising major operational difference between two systems. Among all the arrangements of doing business according to Islamic principles, Mudaraba and Musharaka are the earliest forms of partnership business. Islamic banking philosophy has revoked the interest-based transactions and risk and return sharing ventures are acknowledged.

Islamic banking came into existence in Egypt in 1963 and Malaysia is pioneer in adoption by establishing the Band Islamic Malaysia Berhad (BIMB) in July 1983 in compliance with Shariah laws. In Pakistan efforts were made to establish Islamic banks in late fifties but this idea could not flourish and steps towards Islamization were made in late seventies. The Meezan Bank Limited (MBL) is first full-fledged Islamic commercial bank in Pakistan licensed in January 2002. Comparison of implementation of Islamic banking approaches adopted by Malaysia and Pakistan shows that, Malaysia allowed both streams of operation to function parallel and Pakistan tried to convert traditional setup into Islamic, which shows that long term planning and commitment is lacking.

Financial crisis heavily slowed down the economic activities but Islamic banking maintained steady growth and reported superior performance to conventional banking with mounting market share. In spite of several serious issues to be resolved regarding how to properly regulate the Islamic instruments in corresponding markets in compliance with Islamic law, Islamic financial institutions are successfully operating in around sixty countries worldwide and, majority in Asia and Middle East. Pakistan, Iran and Sudan tried to translate the interest based banking into interest free, but in other countries nominated, Islamic banking practices are still under conventional setup.

Embryonic Islamic banking in Pakistan is striving hard to cater the needs of customers at one end and complying with the directions and requirements of Sharia Board and Islamic Laws pertaining to the operations on other. Islamic banks and Islamic financial institutions are greatly contributing in economic progression of Pakistan, Malaysia and Islamic world. This contribution is in form of discovering variety of worthwhile Islamic economic segments by the means of investment and financing endeavours. Islamic financial institutions are not only boosting up economic activities, but, they are also administering the religious philosophy of operating in compliance to Shariah principles, which forbids interest base banking. Financial institutions are the chief component of a financial system and they drive financial markets through variety of Islamic financial instruments like Musharaka, Modaraba, Murabaha, Musawamah, Salam, Istisna, Ijarah and Diminishing Musharaka, and all these instruments are

designed to function on profit and loss sharing (PLS) criteria laid down by Shariah Board.

Profitability and liquidity are basic factors on the basis of which financial performance of banks is evaluated and compared. Ability of a bank to earn profit is measured in terms of revenues generated during the period and their relationship with expenses. Liquidity is the ability of bank to pay obligations when they come due and this feature determines the level of liquidity risk associated with its operation. This indicator is of utmost importance for creditors and investors and inability to meet the liabilities at maturity makes stakeholders reluctant to transact with that bank, because there are chances of potential losses.

Existing studies have excellently contributed in Islamic banking procedures, policies, practices, monetary policy implication on Islamic bank performance, risk-return analysis, determinants of financial performance of Islamic banks and comparative performance analysis of Islamic and Non-Islamic banks. Therefore, inter-comparison of Islamic banks performance, across the countries is yet to be probed and worth demanding.

1.1 Research Objectives

The study was designed to evaluate and comparatively analyze the financial performance of Pakistani and Malaysian Islamic banks subject to profitability and liquidity. The study also addressed to contribute in abridging the knowledge gap that has been identified in the literature, regarding Islamic banking industry financial performance.

1.2 Significance of the Study

The comparative performance evaluation of Pakistani and Malaysian Islamic banks is quite rational and significant, because it will expatiate greatly, to mitigate the knowledge gap prevailing in literature regarding comparative financial performance evaluation and analysis of Islamic banks and it will also provide the policy makers a comprehensive analysis of profitability and liquidity of Islamic banks taken into account in the study.

2. Review of Literature

Ratio analysis is a powerful tool of financial analysis. In financial analysis the ratios are used as a benchmark for evaluation of financial position and the performance of the firms and Altman (1968) is pioneer in using financial ratios tool to predict the corporate level bankruptcy and his model revealed highly accurate results in correct classification of default banks by 90 percent as well as in indication about prospective difficulties by 80 percent.

Financial ratios analysis approach is applied by many of researchers to evaluate, measure and analyse the financial performance and efficiency of financial units, for example; Ali, Akhtar, & Ahmed (2011); Awan (2009); Bashir (2003); Beck, Kunt and Merrouche (2010); Haron (2004); Iqbal (2001); Jaskiran and Kunnath (2011); Olson and Zoubi (2007); Rosly and Bakar (2003); Sabi (1996); Sadaqat, Ali and Farhan (2011); Saiful and Bakar (2003); Saifullah (2010); Samad and Hasan (1999); Samad (2004); Shar, Shah and Jamali (2010) and Turen (1996). This research model is most optimal to accomplish the objectives of the current research work.

2.1 Islamic Banking Performance, Progress and Challenges

Shariah principles need to be analysed in such a way that their rational, wisdom and potential may be made understood to people. Strong consensus required to be developed among academicians, researchers and Islamic scholars to explore and probe Islamic banking profoundly to bring novelty in Islamic banking products. Government's role is vital in encouraging the newly introduced Ijara (El-Din & Abdullah, 2007).

One important issue is that there is not a well-organized connectivity and network among Islamic FIs around the world and products offered are not homogenous. Such impediments may be removed to enlarge the processes and marketing strategies should be reframed to gauge international customers (Garas, 2007). Lack of performance measure is evaluated in the light of ROE analysis model used on Islamic banks that is earlier used in conventional banks and findings suggested that such tools would be more effective in performance analysis of Islamic banks. It is also suggested that the previously measured performance of Islamic Banks is unsound and should be revised for accuracy and reliability because of the flawed methods used for measurement in the first place (Badreldin, 2009).

Ahmad and Noor (2010) have observed positive relationship in profitability and technical efficiency of Islamic banks; however, profit efficiency is progressive and substantial to operating expenses to asset, equity and non-performing loans against total loans. Furthermore, results showed that more profitable banks are those that have higher operating expenses against asset, more equity against asset and concentrated at high income countries demonstrating close relationship between monetary factors in determining Islamic banks profitability.

Yusof, Wosabi, and Majid (2008) have regressed, the relationship between the monetary policy and Islamic bank deposits of Bahrain and Malaysia for a period from 2001 to 2006. Regression model showed the Bahrain Islamic banks are opened to have influence of monetary policy while Malaysian Islamic banks are least. Akhtar, Ali and Sadaqat (2011) probed the relationship underlying between the performance of IBs operating in Pakistan and to the bank specific factors and found a positive and significant relationship among the variables considered. Losses experienced by the Islamic banks at preliminary stage showed the only insignificant relation in models used.

Akhtar, Raza, Orangzab&Akram (2011) analysed the trends in progress is Islamic banks of Pakistan and results revealed positive improvements in financial position. There are three enormous challenges to the Islamic banks; 1) Compliance to Sharia while operating among the conventional banking sector that has captured the maximum portion of market share by its organized and widen network, 2) to cater the increasing need of industrial and business sector, and 3) to counter the embedded perception of Muslims that Islamic banking system is merely duplication of Interest-based system under the shade of Sharia (Hanif, 2011). Only the bank size is significant in determining the profitability with positive relationship. It is to be concluded then that, even though there is a lot of determining factors, only the bank's size may put confidence in the eyes of the consumers (Idris, Asari, Taufik, Salim, Mustafa&Jusoff, 2011).

El-Galfy and Khiyar (2012) argued that potential Islamic banking practices bring stability at macro level in economic development. Industry is in need of transforming regulatory framework, risk and retail banking, so, the operations can be optimized and integrated with technology and mitigation of risk may be made possible (Ernst & Young, 2012). In Islamic financial system, the most attractive segment is Islamic banking due to the encouragement it provides to economic factors and social forces.

The responsibility of the management is not limited to only shareholders, it is widen to all stakeholders as per their stakes. This responsibility is fulfilled to some extent by disclosure of monetary and non-monetary information. Disclosing such useful information is not in the similar way all-around and such diversities in procedure is directed towards the improvement in Islamic banking reports (Muhammad, 2013).

2.2 Comparative Performance of Islamic and Conventional Banking

A study of twelve Islamic and twelve non-Islamic banks around the Islamic world reported that Islamic bank have outer performed generally compared with controlling conventional banks (Iqbal, 2001). Ahmad and Hassan (2007) have suggested that unavailability of interbank money market is hampering the performance of Islamic banking and discriminatory practices for reserve ratio are prevailing and there should be an independent Islamic bank act for supervision and control of Islamic banking matters, so, the stakeholders might be safeguarded.

Conventional and Islamic banks of Malaysia for a period of 1997-2003, when investigated regarding efficiency, it is examined that conventional bank showing greater efficiency compared to well-established Islamic banks (Mokhtar, Abdullah, & Alhabshi, 2008). Samad (2009) empirically tested the managerial and operational efficiency of an Islamic and set of conventional banks of Malaysia, found that conventional banks are superior in managing the operations and not a significant difference is observed in case of productive efficiency.

Ahmad, Rehman and Saif (2010) studied the randomly selected sample of 720 Islamic and conventional bank customers in Pakistan; found that the customers are more satisfied from the services offered by Islamic banks due to quality, rather than conventional banks. Beck, Kunt and Merrouche (2010) explored that Islamic banks are found well capitalized and their performance is ahead to conventional banks though some operational variations are noticed in this study, in spite of this Islamic banks are declared cost effective.

Saifullah (2010) inferred that interest free banks are superior in financial performance and regarding productivity, commitment to economy and efficiency interest based banks were doing well whereas Islamic banks were more profitable, liquid, solvent and business developers. Ahmad, Rehman and Safwan (2011) have claimed that Islamic bank customer are comparatively more satisfied as per services and products offered thereon and the magnitude of satisfaction among male and female is not the same. However, perception among customer of conventional bank customer is stagnant for both male and female.

Akhtar, Raza, Orangzab and Akram (2011) probed that there is not a meaningful difference regarding profitability and risk but some variations are observed in liquidity, and trend analysis revealed that statement of financial position for Islamic banks are showing

improvement while statement of financial performance is showing trends like conventional banks. There is no significant difference in profitability during these two periods, BIMB is relatively more liquid and less risky as compared to conventional banks and Mudarabah and Musharaka is not the significant financing portfolio for BIMB (Hamid & Azmi, 2011). Rosnia, Ibrahim, Osman and Wahab (2011) have analysed that IBs are less profitable and highly liquid compared to interest based banks. Conventional banks are yielding high profit due to the high financing ratio and the sound quality of assets.

Sadaqat, Ali and Farhan (2011) investigated that the Liquidity risk is one of the major challenges for Islamic banks in Pakistan and this study found an insignificant but positive relationship of the networking capital ratio and bank size to liquidity risk management and significant and positive association of capital adequacy ratio in conventional banks and ROA for Islamic banks. During the global financial crises Islamic banking has outperformed conventional banking regarding profitability, operational efficiency, growth and liquidity.

The results indicate that Islamic banking system has the potential to survive, sustain and compete with traditional banking system even in era of financial crises (Al-samdi & Abdal-majeed, 2013). The managerial finance practices are varying respectively, and different ratios are applied during pre and post crises era and the best ratios for managing profitability, liquidity and risk and default prevention is possibly controlled on the basis of these ratios and it is suggested to policy makers to keep using financial ratios to safeguard the operations (Najjar, 2013).

Review of literature theoretically and empirically articulates the Islamic philosophy of practicing banking, the Shariah guidance, progress in this sector, challenges faced by Islamic banking industry, comparative performance analysis of traditional banking and comparative evaluation and analysis of Islamic and conventional banking. There is a need to enrich the literature with an evaluation and analysis of Islamic banking across the countries.

3. Methodology

Backed up by literature and keeping in view the features, wide range of applicability and understandability, commonly and universally used ratios analysis has been applied to evaluate and measure the financial performance of selected Islamic banks from Pakistan and Malaysia.

3.1 Explanation of the Ratio Model

Ratios analysis is as an analytical tool applied by investors and lenders to safeguard their decisions. Besides this financial performance, financial health and financial position of an endeavour, venture or a bank can be examined by the help of financial ratios. Financial performance of the selected Islamic banks is evaluated on the basis of profitability and liquidity.

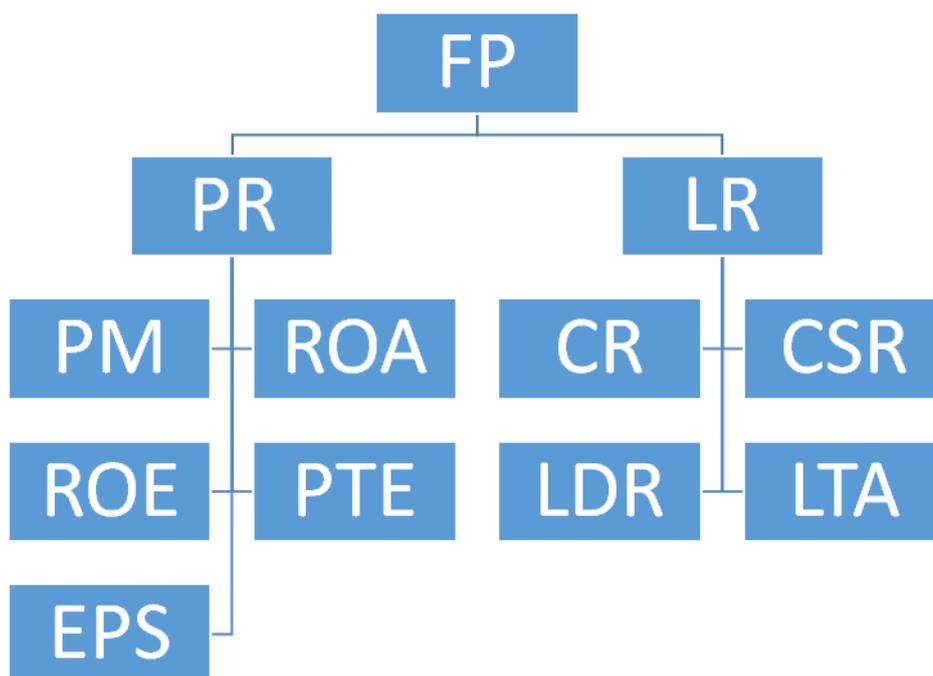


Figure 1-has portrayed the relationship among variables

Figure 1 has pictorially presented the relationship among the variables considered in the study. Where, FP = Financial Performance, PR = Profitability, LQ = Liquidity, PM = Profit Margin, ROA = Return of Assets, ROE = Return of Equity, PER = Profit to Expenses Ratio, EPS = Earnings per Share, CR = Current Ratio, CSR = Cash Ratio, CPID = Cash and Portfolio Investment to Deposit Ratio and LTA = Loan to Asset Ratio.

3.1.1 Profitability Ratios

The ability to earn profit is measured in terms of profit margin (PM), return of assets (ROA), return of equity (ROE), profit to expenses ratio (PER) and earnings per share (EPS) ratios collectively determine the earning potential of banks.

3.1.2 Liquidity Ratios

Liquidity ratios measure the ability of the firm to pay its current obligations when they come due. Greater the liquidity greater the chances to get more short term funds and in case of low liquidity short term lenders will be reluctant to provide short term funds. To have an idea about financial failure financial risk may be faced; liquidity serves as an important factor. Bank may face serious hurdle in case of withdrawals of current account deposits and saving deposits. Current Ratio (CR), Cash Ratio, Cash and Portfolio Investment to Deposit Ratio (CPID) and Loan (financing) to Asset Ratio (LTA ratio) are liquidity ratios.

3.2 Hypothesis

To evaluate and analyze the financial performance of Pakistani and Malaysian Islamic banks and to draw the comprehensive comparison, following hypothesis are to be tested:

Research hypothesis: ***“On average the financial performance of Pakistani and Malaysian***

Islamic Banks is same”

3.3 Data, Sampling and Statistics

The data has been compiled from the annual reports of the respective Islamic banks for the period of six years from 2006 to 2011. The sample has been chosen from Pakistani and Malaysian Islamic banking industry and all five Islamic banks from Pakistani banking industry were taken into account whilst to have convenience in comparative analysis five Islamic banks were also chosen from Malaysia banking industry using convenience sampling. Simple statistics; mean, standard deviation, coefficient of variation and T-test are applied for analysis and interpretations of results.

List of selected Islamic Banks

Pakistani Islamic Bank (PIB)	Malaysian Islamic Bank (MIB)
AlBaraka Bank (Pakistan) Limited	Affin Islamic Bank Berhad
BankIslami Pakistan Limited	AmIslamic Bank Berhad
Burj Bank Limited	Bank Islam Malaysia Berhad
Dubai Islamic Bank Pakistan Limited	Bank Muamalat Malaysia Berhad
Meezan Bank Limited	Hong Leong Islamic Bank Berhad

Source: State Bank of Pakistan (SBP) and Bank Negara Malaysia (BNM).

4. Data Analysis and Discussions

4.1 Profitability

Profitability of the selected Islamic banks in this study is measured in terms of PM, ROA, ROE, PTE and EPS and these are discussed respectively.

4.1.1 Profit Margin (PM)

Table 1 reflects the descriptive statistics results and profitability indicators of Pakistani and Malaysian Islamic banks. The Mean of PM for MIB is 0.1535 which is way ahead to PM of PIB which is 0.0364. Standard deviation and coefficient of variation columns are reflecting greater fluctuation in PM for MIB and for PIB it is quiet stable. Overall PIB and MIB are profitable, that supports Saifullah (2010). Value of t-statistics is 1.8707 for PM resulting in rejection of research hypothesis. This rejection indicated a significant difference in average performance and consequently another hypothesis is tested and result states that MIB have enjoyed better profit margin compared to PIB.

4.1.2 Return on Assets (ROA)

Table 1 displayed that the scenario is exactly like PM for both set of banks. The MIB outer performed and accounted the mean ROA 0.007 which is more than two time to the mean of PIB. Greater fluctuation in MIB ROA compared with PIB is revealed by standard deviation

and CV. In case of ROA, research hypothesis is accepted that there is not a significant difference in performance of PIB and MIB, although both are improving in profit but this movement is very steady.

Table 1: Descriptive statistics and profitability indicators

	Indicator	Bank	Mean	S.D	CV	t-value	Remarks
PROFITABILITY	PM	PIB	0.0364	0.0335	0.9203	1.8707	Rejected
		MIB	0.1535	0.3307	2.1544		
	ROA	PIB	0.0030	0.0031	1.0333	0.7695	Accepted
		MIB	0.0070	0.0177	2.5286		
	ROE	PIB	0.0281	0.0348	1.2384	0.8240	Accepted
		MIB	0.0471	0.0929	1.9724		
	PTE	PIB	0.1095	0.1472	1.3443	2.5428	Rejected
		MIB	0.6069	1.0798	1.7792		
	EPS	PIB	0.2995	0.3707	1.2377	15.8699	Rejected
		MIB	18.2833	5.3079	0.2903		

Source: Authors calculations on the basis of secondary data

4.1.3 Return on Equity (ROE)

According to the table 1 the MIB are ahead to PIB and deviation is also greater than PIB. PIB have deviation of 0.0348 which is indication of consistency in return while MIB's 0.0929 deviation revealed the inconsistency and same indications are observed in CV. Referred to t-stat research hypothesis is accepted that shows there is not a significant difference in ROE for PIB and MIB, though frictional increase has been noted.

4.1.4 Profit to Expense Ratio (PTE)

Table 1 revealed that PTE of MIB is impressive compared with mean value of PIB for the period but deviation of 1.0798 and 0.1472 respectively. Results of deviation and CV are reflecting the consistent performance of PIB and inconsistent performance of MIB over the period. PTE ratio of MIB is better but not consistent. On the basis of t-statistics, research hypothesis is rejected which signifies that there is significant difference in PTE for both countries IBs. That's why testing of another hypothesis to know which one is better regarding PTE ratio and rejection of it ensures that MIB are performing better in response to PTE.

4.1.5 Earnings per Share (EPS)

Table 1 clearly expressed that the EPS for PIB is comparatively very low that of MIB. Average EPS for PIB and MIB are 0.2995 and 18.2833 respectively, which revealed optimum earnings per share for MIB. Value of standard deviation for PIB is 0.3707 which ensures the consistency in earnings while it is 5.3079 for MIB that points out the inconsistency in EPS, but CV column pointed out the inconsistency of PIB and consistent practices of MIB, and the indication of CV is more reliable. On the basis of t-statistics rejection of hypothesis articulates that there is significant difference in EPS for both countries IBs and it confirms that EPS for MIB is very high.

4.2 Liquidity

The ability to defray the short term obligations at the maturity of the PIB and MIB is measured in reference to CR, CSR, LDR, CPID and LTA and these are discussed below with reference to corresponding table.

4.2.1 Current Ratio (CR)

Table 2 reflects the CR of PIB and MIB for the period. Mean CR for MIB is 0.5365 which is a few points ahead to CR of PIB which is 0.4601. Standard deviations column is reflecting greater fluctuation in CR for MIB i.e. 0.3613 and for PIB it is comparatively stable with 0.0939 and same fluctuation is observed by CV. Mean value of PIB and MIB is almost same if rounded to one decimal place but MIB have slightly better paying potential respect to short term obligations. On the basis of t-statistics, research hypothesis is accepted, which states that there is not a significant difference in CR for both PIB and MIB over the period, however, CR is improving for PIB and it is declining for MIB.

Table 2: Descriptive statistics and liquidity indicators

	Indicator	Bank	Mean	S.D	CV	t-value	Hypothesis
LIQUIDITY	CR	PIB	0.4601	0.0939	0.2041	1.0497	Accepted
		MIB	0.5365	0.3613	0.6734		
	CSR	PIB	0.2706	0.1101	0.4069	3.2386	Rejected
		MIB	0.5927	0.5154	0.8696		
	LDR	PIB	0.7189	0.1618	0.2251	6.2539	Rejected
		MIB	0.4548	0.1548	0.3404		
	CPID	PIB	0.3560	0.1072	0.3011	1.3107	Accepted
		MIB	0.2596	0.3609	1.3902		
	LTA	PIB	0.4865	0.0681	0.1400	0.3778	Accepted
		MIB	0.4725	0.1590	0.3365		

Source: Authors calculations on the basis of secondary data

4.2.2 Cash Ratio (CSR)

Table 2 reflected that MIB outer performed and accounted the mean CSR 0.5927 which is more than two time to the mean of PIB which is 0.2706. S.D and CV indicate greater fluctuation in MIB CSR compared with PIB. Standard deviation for PIB is 0.1101 which is comparatively lesser that is indication of consistency in CSR, whereas, it is 0.5154 for MIB which is alarm of inconsistency in this ratio. Similar indications are provided by CV. In case of CSR, t-statistics has rejected research hypothesis, which states that there is a significant difference in CSR for PIB and MIB. To see this significance, further formulated hypothesis is tested and rejected on the basis of test statistics and it indicated PIB are less liquid and vulnerable to short term solvency and arguments have favoured Sadaqat (2011) study results that liquidity is a challenge for Islamic banks in Pakistan. While MIB are more liquid and low short run default risk is associated with them.

4.2.3 Loans to Deposits Ratio (LDR)

Table 2 illustrates the comparative LDR of PIB and MIB for the said period. Average LDR of PIB is 0.7189 which is greater than the average LDR of MIB by 0.2641, indicated that PIB have cultivated more funds in term of loan compared with MIB. Deviation in LDR for PIB is slightly high reflects little inconsistency in lending practices. But CV figures are pointing out that MIB are inconsistent compared to PIB. In case of loan to deposits ratio hypothesis is rejected that there is a significant difference in LDR and to know this significance another

hypothesis is tested and accepted subject to t-value that infers a better LDR is maintained by PIB compared to MIB.

4.2.4 Cash and Portfolio Investment to Deposits Ratio (CPID)

Table 2 portrays the mean CPID for PIB is 0.3560 which is greater than the mean CPID for MIB by 0.0964, which designates that PIB have more short term funds to dispose of deposits compared to MIB. Deviation value of CPID for PIB is 0.1072 which reflects the consistency in keeping short term safeguard while it is 0.3609 for MIB that hints the inconsistency in managing short term funds. CV reveals the same picture as did by SD. PIB are more liquid and lesser chances of short term insolvency which is consistent with the findings demonstrated in literature that Islamic banks greatly concentrate upon short term investment and financing, which is less risky and gives prompt yield that is consistent with Ariff (1988) while, MIB are less liquid and more open to default risk which contradict his study. However, acceptance of research hypothesis stated no significant difference in CPID for both PIB and MIB over the period, meanwhile CPID is improving for PIB and it is declining for MIB.

4.2.5 Loans to Assets Ratio (LTA)

Table 2 reflects that the mean LTA of PIB is 0.4865 which is slightly greater than the mean LTA for MIB is 0.4725, which points out LTA is higher for PIB and a bit lesser for MIB. Deviation value of LTA for PIB is 0.0681 which reflects the consistency in lending practices, while, it is 0.1590 for MIB that indicates the inconsistency in such practices. SD results are consistent with CV results. PIB are comparatively less liquid as they have extended slightly greater portion of funds as loan. While, on the basis of t-statistics, hypothesis is accepted that expressed that there is no significant difference in LTA ratio for IBs under investigation over the period, however, LTA is improving for MIB and it is declining for PIB.

5. Conclusions and Recommendations

5.1 Conclusion

Profitability indicators revealed that in term of PM, ROA, ROE, PTE and EPS Pakistani and Malaysian Islamic banks are profitable, while findings demonstrated that MIB are way ahead to Pakistani Islamic banks in PM, PTE and EPS. MIB have experienced losses in earlier years but came up with sound policies and not only got rid of losses but also reported grooming and profitable operations in rest of the periods. On average Aggregate ROA is 0.007 and 0.003 for MIB and PIB respectively, which is reflecting good performance of MIB for the period. ROE has been noted 0.0471 for MIB and 0.0281 for PIB. It is found that there is not a significant difference in performance of ROA and ROE for PIB and MIB, though both indicators are steadily increasing. Both set of banks are growing in profit and this growth is steady for PIB while accelerated trend is observed in case of MIB. MIB have been observed performing outclass regarding PM, PTE and EPS compared to PIB.

Findings reflect that PIB and MIB are although liquid but result of current ratio has no significant difference. MIB are significantly superior in maintaining healthy investment portfolio and high CSR. It safeguards better short term liquidity position and CSR is

gradually improving for PIB while a declining trend is noted in case of MIB. It is revealed that PIB have maintained high LDR ratio compared to MIB and this relationship is adversely spinning for both sets. As discussed in profitability that MIB catching sound amount of deposits and this ratio is low for PIB. Extending short term loans is curtailing for PIB and magnifying for MIB, which indicates that PIB have adopted the less risky policies, whereas, MIB are playing with aggressive short term strategies and that's why they are more profitable. Respect to CR, CPID and LTA no significant difference is inferred. Whereas, MIB are better in CSR and PIB have maintained high loan to deposit (LDR).

5.2 Summary

The study portrayed that profitability of PIB is steadily progressing and despite that MIB have observed losses in earlier years but they recovered briskly and accounted higher earning potential in rest of the years. Results revealed that both sets of Islamic banks have experienced losses at initial stages but improvement is noted while operations progressed. This improvement is stable and consistent for PIB, while greater deviation and inconsistency has been observed in case of MIB. It indicates that short term profit maximization policies are devised by MIB policy makers which yield them higher profit in one year and abrupt decline in immediate next. Both sets of bank units have maintained good liquidity position, which improved for PIB with the passage of time pertaining to CR, CSR and CPID, while lessened for MIB. MIB have reported enhancement in two components of liquidity, LDR and LTA whereas, liquidity wilted for PIB in response to these two indicators.

5.3 Policy Recommendations

On the basis of research findings following recommendations are made to administrators and policy makers to cater the emerging demand for Islamic products and services, to cope up with the stiff conventional banking competition encountered, be the successful and trustworthy units in the financial sector and compliance with Shariah principles in true sense:

- i. Research results have revealed that MIB have kept operating expenses totally under control and cultivating them in best efficient manner and enjoying lucrative operations. PIB failed to control the outflow of operational expenses, the volume is increasing day by day but revenues are not speeding up with the same rate. Administration of PIB should have close eyes on these expenses and all those segments need to be reengineer which are expensive but less profitable. It is suggested that every segment should be analysed subject to cost-benefit and cost effective endeavours should be encouraged, while those should be eliminated which are less profitable.
- ii. It is also notable that PIB are struggling to attract the deposits, while extending the short term loans at regular intervals, which is highly risky approach, that may result in difficulties in managing the working capital needs. Policy formulators may consider this aspect as most important one and they should probe, why customers are reluctant to place excessive funds with Islamic banks.
- iii. Malaysian Islamic banks have yielded higher profits and Pakistani Islamic banks are tumbling at counterpart. One reason is that MIB are fully supported by government,

which has launched full-fledged Islamic banking system parallel to conventional banking. While most of the Islamic banks operating in Pakistan are in private hands. Due to non-public ownership they are reluctant to formulate the risky and profitable policies. They are striving to play safe and that is the embedded reason of low profits. It is suggested that Islamic banking should fully be assisted by Pak government, so that they may have abundance of equitable funds and their administrators and policy makers may reframe the risk aversion policies and become courageous in taking aggressive and profitable steps.

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