ABSTRACT

This research performs proportional study of Islamic and conventional Banks working in Pakistan. This study lays down the difference between Islamic and conventional banks regarding its past derivation, assembling of financial resources, and methods for making profit, employed values ,product constructing and scheming and capital structure. This study evaluates and measures the difference in product and performance of the two dissimilar banking system working in pakistan.Financial Performance is assessed through financial ratios.Financial Performance is measured by taking profitability, assets quality, liquidity and risk and solvency ratios. For this reason, I haved refered the banks financial statement in order to know most commonly used ratios. Consequently, results from financial ratio examination show that there is distinction in financial determinants.

Islamic banking is based on the concept of Islamic law which performs interest-free activities and carries out only Halaal transactions. Hence Islamic Law has forbidden the collection and payment of interest (Riba). While the conventional banking is a type of retail banking system that renders services such as business loans accepting deposits which is based on man-made principle.Islamic banking contributes to the economic development so it follows the relationship with development of economic system by manipulating business transactions hence money is associates with tangible assets but in conventional banks money is use as thing which causes inflation.Even the Islamic banks cannot claim the interest on their accounts which they maintain with other banks and on the cash reserves with the central banks which are mandatory for the bank, they cannot invest in the securities offered by the government, bonds which pay interests, do not even claim the concept of time value of money from the customer in the situation of default and they can carry risks to their sale and leasing based activities. Islamic banks involve only in the securities based investment which are shariah based they

cannot take the advantage of types of equity financing as the conventional banks are able to invest.Three Islamic banks and three conventional banks are selected for this study. The secondary data is collected from the annual reports, for the purpose of descriptive analyses and statistical analysis. This research has chosen the period from 2009 to 2014 for the analysis and accurate results.

For descriptive analysis data is gathered from all the Islamic modes of finance but only those modes are discussed which can be comparable with the conventional banking methods on the other hand for statistical analysis SPSS Tool M-ANOVA is used which shows better performance of conventional banks than Islamic banks in terms of profitability whereas Islamic banks are less riskier and more solvent than conventional banks.