

Financial performance of Islamic and conventional banks during and after US sub-prime crisis in Pakistan: a comparative study

Abstract

Islamic banking system that is based on Shariah principles is considered more resilient to the financial shocks due to its interest free nature. This study is aimed to compare the financial performances and investigate whether Islamic banks are more profitable, liquid, less risky and operationally efficient compared to conventional banks during and after US Sub-prime crisis in Pakistan. The time span used for the study was from 2007 to 2012. Thirteen financial ratios composed of five Islamic and five conventional banks to measure the financial performance in terms of profitability, risk and solvency, liquidity and capital adequacy. Independent sample t-test is used to determine the significance of mean differences of selected ratios. The results of profitability measures indicate that Islamic banks remained less profitable; however, liquidity performances of Islamic banks were better than conventional banks. However, overall operational efficiency measures are not in favour of Islamic banks. The study concluded that conventional banks performed more efficiently and profitably as compared to Islamic banks. The opportunity of future empirical study is recommended at the end of this paper.