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Profitability of Islamic banks verses conventional banks in Pakistan

Abstract

This research study analyzes the profitability of Islamic banks versus conventional banks in Pakistan from 2006 to 2020. The main objective of this study was to examine the profitability of three Islamic banks, Bankislami, Dubai Islamic Bank Ltd, and Meezaan Bank, whereas three conventional banks like Habib Bank Limited (HBL), Muslim Commercial Bank (MCB), United Bank Limited (UBL) in Pakistan from the year 2006 to 2020. This study investigates whether Islamic banks are performing well in Pakistan compared to conventional banks. Ratio analysis has been used to measure profitability, and two variables have been used, ROA and ROE, to measure the banking sector's profitability. The study concluded that Islamic banks were more profitable during the year 2007-2008 only while conventional banks were more profitable in the year from 2006-2015 except 2008, in respect of ratio analysis, although in the year 2007-8 performance and profitability of Islamic banks are suitable according to the overall results conventionalbanks are more efficient and profitable than Islamic banks in Pakistan.

Keywords: performance/profitability, ROA, ROE, ratioanalysis, islamicbanks, conventional

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Abbreviations: HBL, habib bank limited; MCB, muslim commercial bank; UBL, united bank limited

Introduction

Islamic banking is a banking system in which profits, revenues, or charges of any service are not consumed or reinvested for all those revenue-generating activities or practicesbased on interest and avoided from unethical business un-social transactions. Islamic banksearn their money by profit and loss sharing, charging fees by giving services, leasing, trading, and using other sharia exchange contracts. While conventional banks are based on guaranteed principal and earn a fixed income by charging compounded interest rates. The profit of commercial banks is the basis of charging interest on capital.

Difference between islamic and conventional banking

Islamic banking and conventional banking differ in the following aspects.

i. Conventional banking is based on interest principles, and the Islamic banking sector is based on interest-free principles. The Islamic banking system's profit- loss sharing (PLS) principle makes the excellent relationship of financial trust and partnership between debtor and creditor. as well as an intermediary.[1]

ii. The conventional banking sector charges a compound interest rate, whereas the Islamic banking sector shares the losses.

iii. Islamic banks is acting as a partner with their depositors, on one side, and act as apartner with an organization or entrepreneur, on the other side, when an employee deposit funds indirect investment as compared to the commercial bank, which is a borrower or lender of funds.[2]

iv. In conventional banking, money is a commodity that can be used to exchange and store values. Therefore, it can be sold at a higher price than its par value andcan also be rented out. Whereas in Islamic banking, money is not a commodity, but it can be used as a medium of exchange and store of values. Therefore, it cannot be sold at a higher price than its par value or face value.

v. [2] also had given four rules which govern investment behavior in the Islamic banking sector.

a. Free from interest-based transactions such as (RIBA).

b. The concept of Islamic tax like (ZAKAT).

c. Discourage to produce of all those goods and services which areprohibited (HARAM) in Islam.

The great recession that started in 2007 and reached in 2008. When the recovery was not begun/ started this impact entangled not only the US economy but also the global economy as well. The contraction of wall-street investment banking giant, Lehman Brother collapsed causes to investor uncertainty. The reason behind the bankrupt and loses due to the illiquidity and insolvency. Islamic Finance began in the 1970s in the Middle East and North Africa to provide fundamentally the services to the Muslim population. The charging or paying and earning of interest namely in Arabic 'Riba', is prohibited in religion Islam, however, leading/guiding regarding to a banking system that is based on Islamic principles. Interest rate is forbidden in Islam because it is found a method for having a great deal of money to exploit those people whose are economically underprivileged by transferring burden of extra payments on the principle amount that has been lent out.[3]

This financial crisis caused a decrease in financial institutions' profits from 2007-to 2008. It is to accept that many banks were engaged in subprime lending to increase profit which helps them be competitive in the market. Banks changed interest on the loans according tomarket conditions. Similarly, the interest rate has been vital for banks and other financial institutions to formulate profits. In contrast, the comparatively new practice of finance --- Islamic Finance--- involves the same activities as commercial or conventional banks with a critical difference. Despite changing interests, Islamic Banks use their financing methods to make their practice effective to generate profit.[4]

Charging interest on loans disturbs the circulation of the wealth of those people who already have it because the creditor does not give loans to those people who are unable to pay back this way, the gap between the rich and poor increase that's why the interest rateis forbidden in Islam.

The economic growth of any country is based on different factors; one of the core factors is financial institutions, especially the banking sector, which is known as the backbone of economic growth. This sector can play a vital role in the whole economic performance of the country. In Pakistan, the banking sector has shown significant results before, during, and after the great recession of 2007-2008.[5]

Problem statement

Islamic banks in Pakistan are not growing faster because of the new practice in thebanking industry compared to conventional banks and secondly due to the lack of a strongsharia board. Islamic banks should organize a strong sharia boar which all Muslims follow. How to promote Islamic products to generate more revenues in order to compete with conventional banks and how to remove the problems.

Objective of the study

The practice of banking instead of charging interest, Islamic banks have used sharia-compliant modes of finance helping them to be profitable with Islamic Law. Some important financing methods are Mudaraba, Musharaka, Murabaha, used by Islamic banks to make them profitable. This study will examine the performance of two main banking sectors operating in Pakistan, namely Bankislami, Dubai Islamic and Meezaan Bank from Islamic banks and Habib Bank Limited (HBL), Muslim Commercial Bank (MCB), United Bank Limited (UBL) from conventional banks.

Significance of the study

This research study has been done to find out the profitability of Islamic banks compared with conventional banks in Pakistan. This area of study is subjected to the entire performance of Islamic and conventional banks in Pakistan, doing their business from 2006 to 2015. Conclusion: There are deficiencies and less work done in 2006-2015, therefore representing the profitability of both banking sectors during the ten years mentioned above in Pakistan. This study is also essential as it can highlight the position ofIslamic banks in front of conventional banks, which may be helpful to identify the strength and weaknesses of both sectors.

This research paper consists of five chapters. Chapter I provides the introduction, objective, significance, and problem statement of the study. Section 2 reveals the background of the existing research studies which had been done regarding banking profitability that have been defined in the past and the current research papers. Section 3 describes research methodology, data, sample, type, the study's population, and the study's analysis tool. Section 4 expresses the results and discussions of the study. Chapter 5 presents the conclusions and recommendations, limitations; delamination, and futuregap of the study lastly shows references and appendix.

Literature review

As if the volume of the Islamic Banking sector is rapidly expanding and Muslim researchers have done proper research during the last two decades as the Islamic bankingsector is a new industry and researchers face problems getting data because of the scarcity of relevant data. We intend to review some research papers studies on Islamic banking and conventional banking. Islamic banks were profitable in the year 2008 on ROA and ROE. However, on average, conventional banks' profitability was higher dueto a wide range of products and services than Islamic banks. While our study also elaborated that in the years 2007, 2011, and 2012 ROE of MB was higher than HBL. Let us see the researcher's papers what they assessed about the profitability of Islamic banks and conventional banks.

Expressed[6] in his study of Gulf Council Countries (GCC) countries findings that deposits directly relate to the profitability of conventional banks and inverse relation for Islamic banks. This means that Islamic banks' profitability is negative compared to conventional banks' profitability.

The performance of Islamic banks is better than conventional banks in the financing, deposits, assets, efficiency, investment, quality of services, and recovery of loans. It represented the bright future of the Islamic banking sector in Pakistan.[7] Due to the economic crisis of conventional banking, financial institutions tried to lower their interest rate to capture more depositors from the markets. However, they were failed in achieving the desired outputs. Various strong institutions were trapped in savior conditions.[8] Islamic Banks have their modes of finance and operate their principles. The empirical result showed that Islamic banks were more stable than conventional banks during the crisis from 2007-2008.

The writers elaborated that Islamic Banks were more stable during the crisis due to the requirements of sharia law.[9] Islamic banks are growing worldwide, especially in Pakistan, while conventional banks operate based on capitalism and the root of interest banking.[10]

The Islamic banking sector has unique functions wholly based on Islamic principles(Sharia) and laws. Islamic law prohibits charging the interest on the lent money; therefore,Islamic banks do not accept and pay interest in their business. These institutions are built ona profit and loss basis. However, the main aim of conventional banking sectors is to earn profit by charging interest on the lending money. There are two parties" creditor and debtor.The relationship between these two parties causes charging interest on the principal amount on the debtor; the creditor has the right to get the principal amount with interest within thestipulated time. Islamic banks performed better than conventional banks during the global financial crisis 2007-2009 because the Islamic Banks, based on Profit and loss sharing rule.Islamic Banks are interest-free institutions built on profit and loss sharing.[4]

Islamic finance has been successful with reasonable profitability before, during, andafter the great recession. The critical point was to be noted, which is provided by Islamic Banking that is sharia complaints by which this system grows. This system forbids interestand usury and has Islamic products such as mudaraba, Mutharika, etc. Islamic financial institutions provide the same services as conventional institutions without charging interest and focus on investing ethically. their mode of finance, which prohibits interest Islamic finance gives contract of partnership such as Mudaraba and Musharika andcontract of exchange like Mudaraba, Salan, and Istisna and also provide a contract of safety and security such that Wadia, Hiwala, Kofala, and Rahan.[5–16]

Islamic banking and finance

Islamic law (Sharia'a)

Islamic is the religion that sent Allah to his last messenger Prophet Mohammad (Peace Be Upon Him), in this world on the earth. It is a perfect religion that provides all angles and aspects of human life in this world, and in the next world, Kettell stated.Islam has declared

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three broad concepts. Aqidah is related to all those of faith and belief bya Muslim In Allah Almighty and His will, which raises from the fundamental faith in His being and the belief in His commands. Shari'a: which concerns all those forms of practicalactions by Muslims manifesting their faith and belief, including man-to-man activities (muamalat), which explain all humankind activities? Akhlaq: concerns with ethics, behaviors, attitude, and morality, under which Muslim perform their daily life activities. Sharia's law as Islamic law is referred to as Islamic fiqh (jurisprudence), the fundamental foundation of Islamic banking. Illustrates that a significant part of Muamalat is the conduct of economic activities that build up banking and financial servicesfrom the organizing principles of Islamic banking. broad concepts of Islam, as shown in the chart (Figure 1).

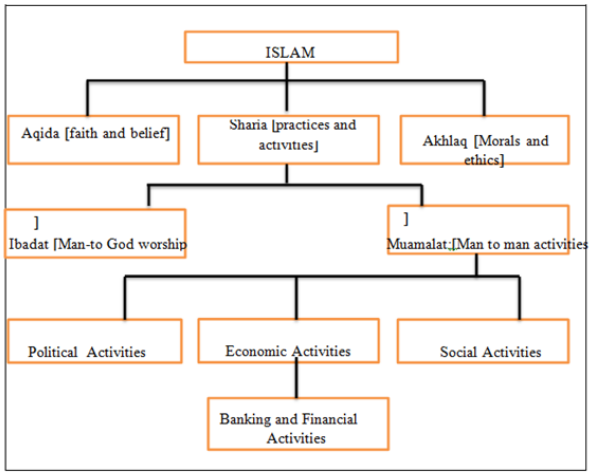

Figure 1 Islam ,sharia, muamalat and banking and finance.

Different points of view include Islam, such as Aqida [faith and belief] Sharia [practices and activities]. Akhlaq [Morals and ethics] SHRIA"A: Includes ibadat [Man-to God worship] Muamalat: [Man to man activities]. Among these Islamic point of view Muamalat is one of the more critical views regarding our topic,including the following activities, which are as given below.

a. Economic Activities
b. Political Activities
c. SocialActivities
d. Economic activities Includes
e. Banking and financial Institutions.

Modes and instruments of islamic banks

Contract of partnership

allows more or two parties to acquire wealth by sharing both risk rewards.

MUDARABA: This one party provides capital and another labor-and start business based on profit-loss sharing In its bilateral contract, Islamic banks act as an investor (KabutMall) who provides the (Mudarib) entrepreneur to second party the financial resources to finance the particular project.[17]

MUTHARIKA: It creates a joint venture in which both parties provide investment, Capital, Labor, organization, entrepreneurial skill. Both share the profit and loss in the activity. Two or more parties involve in joint Capital of investment and share profit and losses, according to thecontribution of Capital which is written in the contract.[14]

Contract of exchange is a sales contract that permits the transfer of one Commodity into other commodity. MUSHABAHA: Islamic financial institution sell to a buyer for its real cost plus profit margin, and both parties know the cost and profit in advance; the buyers accept commodity and payments.[11] also pointed out that actual sale of a real asset is a necessary condition for the contract that to accept with sharia"s principles.

SALAM: In this contract, the buyer pays the total amount of the commodity in advance, and the commodity is delivered in the future. It is a future contract.[16] asserts that it is used for products traded in secondary markets such as agriculture and mineral products.

IJARAH: (leasing) is an agreement made by Islamic banks to purchase tangible asset and lease it to the consumer with fixed rental charge for a specified period of time. Ijarah and iqtina, offers the option to lessee to own asset when the maturity period of leasse ended. By Kahf et al (2007).

ISTIQNA: is an agreement which sell non-existent asset to the consumer which will be produced for future delivery at renegotiated price and specified quantity. These contracts are used to finance manufacturing and construction as mentioned by.[14]

Contract of safety and security

These are often used by Islamic Banks, this contracts help individuals and businesses consumers to keep their funds safe.

TAKAFUL: is a sharaiah complaint of insurance in which participants donate part of their contribution to pay claims for damages by some of the participants.

HIWALA: this contract is used by Islamic financial institutions to exchange money between two parties. In which debt is transferred from one debtor to second debtor then the first debtor is free from his obligation.

KAFALA: The third party accepts the existing obligation and becomes responsible for fulfilling someone"s liability. In conventional financing, this contract is called security or guarantee.

RAHAN: Property is kept against obligation" A property user has to pay some amount as a pledge to the property owner. This contract is used in Islamic banking to secure the property, to conduct a comparative analysis of Islamic banks and conventional banks in Pakistan. To examine whether Islamic banks are profitable or conventional banks are profitable in Pakistan.

Research questions

1. The Islamic banking sector is more profitable than the conventional banking sector inPakistan?
2. The conventional Banking sector is more profitable than the Islamic banking sector inPakistan?
3. **Islamic** banks' performance is more efficient than conventional banks in Pakistan?
4. Conventional banks' performance is more efficient than Islamic banks in Pakistan?

Data and methodology

Many banks in Pakistan, including Islamic commercial banks and conventional banks. A sample of six banks (three from Islamic and three from conventional banks) has been selected for this study, and data has been collected from 2006 to 2015 from the state bank of Pakistan.

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It is a comparative analysis research study according to conventional and Islamic banks in Pakistan.

The study population is based on entire conventional banks and Islamic banks in Pakistan.

Three conventional banks, Muslim Commercial Bank (MCB), Habib Bank Limited (HBL), and United Bank Limited (UBL), have been chosen with the help of random sampling on a convenience basis from the conventional banks because these are famous conventional banks explaining the overall population of the conventional banking sector in Pakistan. In contrast, three Islamic banks, BankIslami (BI), Meezan Bank (MB), and Dubai Islamic Bank (DIB), have been selected through random sampling from the Islamic banks. After all, these are the most famous Islamic banks sector, based on sharia principles, representing the entire population of the Islamic banks. The reason for choosing the random sampling technique on convenience basis and easily availability of data.

Source of data collection

Secondary data have been used to collect data. The sample frame size is ten years from 2006 to 2020 in this study.

a. Reports of MCB, Bankislami, HBL, UBL, Dubai Islamic Bank, Internet website.

b. Annual and quarterly financial statements of three Islamic banks and three Commercial Banks.

c. State Bank of Pakistan database.

There are many financial management theories provide different indexes to measure a bank's performance, and accounting ratio is commonly used to evaluate a bank's performance.[12] Financial ratios can be used to measure any financial instrument's performance. It is a tool that is used to calculate and compare the data on financial statements of companies.

Analyzed the profitability ratio to evaluate the Jordanian exposure to Islamic banking. The interbank profitability of Bank Islam Malaysia Berhad (BIMB) has been evaluated by[12] using a financial ratio analysis tool.[13] also used the profitability ratios to determine and evaluate the relative profitability of the Islamic Banking Scheme (IBS), which gives Islamic financial services in Malaysia.

There are many other authors, for example, Sabi[12] had also used ratio analysis to examine and analyze the bank's performance. [17] threw light in his book "Fundamentals of Financia Management," Chapter # 6: Financial Statements Analysis, Ratio analysis is used to measure profitability, and there are many indicators to measure profitability such as ROA, ROE, ROD, and NIM. Only two core indicators used in this study.

Data analysis

Ratio analysis is commonly used for analyzing the profitability/ performance of Islamic banks and commercial banks. In this method, we find the difference between all Islamicbanks with all commercial banks, as shown in the table, and obtain the average of these differences. Profitability Ratios**:** 1.Return on assets (ROA) 2.Return on equity (RO).

Results and discussion

After comparing all Islamic banks' ROA to all Commercial banks, ROA has shown in table-1 this study showed commercial banking sector performance is better profitable in terms of return on asset. It does not mean that Islamic banks are not profitably working. This study elaborates just in Pakistan commercial banks are more profitably work than Islamic banks because commercials banks have experience and goodwill and hold on to our whole economy and acting their performance from many years ago (Table 1).

Table 1 Difference of returns on asset

Year	BI	HBL		BI	MCB		BI	UBL	
	ROA	ROA		ROA	ROA		ROA	ROA	
2020	0.55	0.9	-0.4	0.55	1.77	-1.22	0.55	1.1	-0.55
2019	0.44	0.5	-0.1	0.44	1.59	-1.15	0.44	1	-0.56
2018	0.1	0.4	-0.3	0.1	1.5	-1.4	0.1	0.8	-0.7
2017	0.78	0.3	0.5	0.78	1.86	-1.08	0.78	1.4	-0.62
2016	0.25	1.4	-1.2	0.25	2.16	-1.91	0.25	1.8	-1.55
2015	-0.14	1.7	-1.8	-0.1	4.5	-4.64	-0.1	2	-2.14
2014	0.5	2.7	-2.2	0.5	4.2	-3.7	0.5	3.1	-2.6
2013	0.4	2.2	-1.8	0.4	4.1	-3.7	0.4	2.8	-2.4
2012	0.56	1.39	-0.8	0.56	2.76	-2.2	0.56	2.01	-1.45
2011	0.7	1.96	-1.3	0.7	2.94	-2.24	0.7	1.84	-1.14
2010	0.09	1.84	-1.8	0.09	2.96	-2.87	0.09	1.52	-1.43
2009	-1.41	1.55	-3	-1.4	3.06	-4.47	-1.4	1.48	-2.89
2008	-0.28	1.39	-1.7	-0.3	3.47	-3.75	-0.3	1.36	-1.64
2007	-0.26	1.23	-1.5	-0.3	3.72	-3.98	-0.3	2.34	-2.6
2006	-0.21	2.14	-2.4	-0.2	3.55	-3.76	-0.2	1.74	-1.95
Average			-1.3			-2.8			-1.61

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Table Continued...

	DIB ROA	HBL ROA		DIB ROA	MCB ROA		DIB ROA	UBL ROA	
2020		0.9	-0.9		1.77	-1.77		1.1	-1.1
2019		0.5	-0.5		1.59	-1.59		1	-1
2018		0.4	-0.4		1.5	-1.5		0.8	-0.8
2017		0.3	-0.3		1.86	-1.86		1.4	-1.4
2016		1.4	-1.4		2.16	-2.16		1.8	-1.8
2015	1.2	2.8	-1.6	1.2	4.5	-3.3	-0.1	2	-2.14
2014	1	2.7	-1.7	1	4.2	-3.2	1	3.1	-2.1
2013	0.3	2.2	-1.9	0.3	4.1	-3.8	0.3	2.8	-2.5
2012	0.54	1.39	-0.9	0.54	2.76	-2.22	0.54	2.01	-1.47
2011	0.4	1.96	-1.6	0.4	2.94	-2.54	0.4	1.84	-1.44
2010	0.02	1.84	-1.8	0.02	2.96	-2.94	0.02	1.52	-1.5
2009	0.64	1.55	-0.9	0.64	3.06	-2.42	0.64	1.48	-0.84
2008	-0.57	1.39	-2	-0.6	3.47	-4.04	-0.6	1.36	-1.93
2007	-1.73	1.23	-3	-1.7	3.72	-5.45	-1.7	2.34	-4.07
2006	-4.88	2.14	-7	-4.9	3.55	-8.43	-4.9	1.74	-6.62
Average			-1.7			-3.148			-2.05
	MB ROA	HBL ROA		MB ROA	MCB ROA		MB ROA	UBL ROA	
2020	1.7	0.9	0.8	1.7	1.77	-0.07	1.7	ROA	
2019	1.5	0.5	1	1.5	1.59	-0.09	1.5	1.1	0.4
2018	1	0.4	0.6	1	1.5	-0.5	1	1	0
2017	0.9	0.3	0.6	0.9	1.86	-0.96	0.9	0.8	0.1
2016	0.9	1.4	-0.5	0.9	2.16	-1.26	0.9	1.4	-0.5
2015	1	2.8	-1.8	1	4.5	-3.5	1	1.8	-0.8
2014	1.8	2.7	-0.9	1.8	4.2	-2.4	1.8	3.1	-1.3
2013	1.9	2.2	-0.3	1.9	4.1	-2.2	1.9	2.8	-0.9
2012	1.28	1.39	-0.1	1.28	2.76	-1.48	1.28	2.01	-0.73
2011	1.69	1.96	-0.3	1.69	2.94	-1.25	1.69	1.84	-0.15
2010	1.23	1.84	-0.6	1.23	2.96	-1.73	1.23	1.52	-0.29
2009	1.34	1.55	-0.2	1.34	3.06	-1.72	1.34	1.48	-0.14
2008	0.73	1.39	-0.7	0.73	3.47	-2.74	0.73	1.36	-0.63
2007	1.43	1.23	0.2	1.43	3.72	-2.29	1.43	2.34	-0.91
2006	1.3	2.14	-0.8	1.3	3.55	-2.25	1.3	1.74	-0.44
Average			-0.2			-1.629			-0.45

Part 1

The above table shows the values of ROA from the year 2006 to 2020 of three Islamicbanks, Bank Islami Pakistan Limited, Meezan Bank, and Dubai Islamic Limited vertically and three commercial banks ROA has highlighted vertically in the table from the year 2006 to 2020, United Bank Limited, Muslim Commercial Bank and Habib Bank Limited. ROA average difference has been found in the table among six banks, two from Islamic banks and three from conventional banks. The ROA difference between Bankislami and HBL is on average -1.302, the ROA difference between Bankislami and MCB is onaverage -2.80 and the ROA difference between BankIslami with UBL are on average -1.614. The difference between ROA of DIB with HBL is on average -7.718, with MCB is on average. -3.148 and with UBL is on average -2.047. By

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comparing the ROA ofMeezan Bank (MB) with HBL is on average –0.2, MB with MCB is on average -0.449,and MB with UBL is on average -0.624. However, in the year 2007, the ROA on Meezanis higher than HBL means that the profitability of Islamic bank is higher thanconventional bank in great recession of 2007-2008. He above result shows that due tointerest free principles built on profit and loss sharing (Table 2).

Table 2 Difference of returns on equity

Year	**BI**	**HBL**		**BI**	**MCB**		**BI**	**UBL**	
	ROE	**ROE**		**ROE**	**ROE**		**ROE**	**ROE**	
2020	10.67	14.4	-3.73	10.7	23.21	-12.5	10.67	13.9	-3.23
2019	7.84	8.1	-0.26	7.84	18.94	-11.1	7.84	13.8	-5.96
2018	1.7	7.1	-5.4	1.7	17.65	-16	1.7	11.6	-9.9
2017	13.46	5.2	8.26	13.5	15.48	-2.02	13.46	20.6	-7.14
2016	4.27	18.1	-13.8	4.27	16.84	-12.6	4.27	24.9	-20.63
2015	-2.73	16.33	-19.1	-2.7	23.25	-26	-2.73	15.37	-18.1
2014	7.2	31	-23.8	7.2	29.7	-22.5	7.2	28.6	-21.4
2013	5.3	26.3	-21	5.3	29.7	-24.4	5.3	27.2	-21.9
2012	7.4	18.78	-11.4	7.4	23.43	-16	7.4	23.29	-15.89
2011	7.96	22.3	-14.3	7.96	23.82	-15.9	7.96	20.13	-12.17
2010	0.87	19.62	-18.8	0.87	23.69	-22.8	0.87	17.24	-16.37
2009	10.31	17.84	-7.53	10.3	24.82	-14.5	10.31	16.97	-6.66
2008	-1.02	16.32	-17.3	-1	29.43	-30.5	-1.02	18.74	-19.76
2007	-0.01	0.16	-0.17	-0	0.34	-0.35	-0.01	0.37	FALSE
2006	0	0.28	-0.28	0	0.28	-0.28	0	0.27	-0.27
			-9.91			-15.2			-12.81
Years	DIB	HBL		DIB	MCB		DIB	UBL	
	ROE	ROE		ROE	ROE		ROE	ROE	
2020	10.2	14.4	-4.2	10.2	23.21	-13	10.2	13.9	-3.7
2019	6.2	8.1	-1.9	6.2	18.94	-12.7	6.2	13.8	-7.6
2018	2.3	7.1	-4.8	2.3	17.65	-15.4	2.3	11.6	-9.3
2017	8.2	5.2	3	8.2	15.48	-7.28	8.2	20.6	-12.4
2016	5.13	18.1	-13	5.13	16.84	-11.7	5.13	24.9	-19.77
2015	4.09	16.33	-12.2	4.09	23.25	-19.2	4.09	15.37	-11.28
2014	12.9	31	-18.1	12.9	29.7	-16.8	12.9	27.2	-14.3
2013	3.1	26.3	-23.2	3.1	29.7	-26.6	3.1	28.6	-25.5
2012	5.1	18.78	-13.7	5.1	23.43	-18.3	5.1	23.29	-18.19
2011	3.05	22.3	-19.3	3.05	23.82	-20.8	3.05	20.13	-17.08
2010	0.13	19.62	-19.5	0.13	23.69	-23.6	0.13	17.24	-17.11
2009	3.75	17.84	-14.1	3.75	24.82	-21.1	3.75	16.97	-13.22
2008	-3.6	16.32	-19.9	-3.6	29.43	-33	-3.6	18.74	-22.34
2007	-0.08	0.16	-0.24	-0.1	0.34	-0.42	-0.08	0.37	-0.45
2006	-0.12	0.28	-0.4	-0.1	0.28	-0.4	-0.12	0.27	-0.39
Average			-10.8			-16			-12.84

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Table Continued...

	MB	HBL		MB	MCB		MB	UBL	
	ROE	ROE		ROE	ROE		ROE	ROE	
2020	34.6	14.4	20.2	34.6	23.21	11.4	34.6	13.9	20.7
2019	30.7	8.1	22.6	30.7	18.94	11.8	30.7	13.8	16.9
2018	23.8	7.1	16.7	23.8	17.65	6.15	23.8	11.6	12.2
2017	19.3	5.2	14.1	19.3	15.48	3.82	19.3	20.6	-1.3
2016	19.6	18.1	1.5	19.6	16.84	2.76	19.6	24.9	-5.3
2015	23.4	16.33	7.07	23.4	23.25	0.15	23.4	15.37	8.03
2014	32.2	31	1.2	32.2	29.7	2.5	32.2	28.6	3.6
2013	31.8	26.3	5.5	31.8	29.7	2.1	31.8	27.2	4.6
2012	22.66	18.78	3.88	22.7	23.43	-0.77	22.66	23.29	-0.63
2011	25.45	22.3	3.15	25.5	23.82	1.63	25.45	20.13	5.32
2010	17.69	19.62	-1.93	17.7	23.69	-6	17.69	17.24	0.45
2009	17.08	17.84	-0.76	17.1	24.82	-7.74	17.08	16.97	0.11
2008	9.8	16.32	-6.52	9.8	29.43	-19.6	9.8	18.74	-8.94
2007	0.17	0.16	0.01	0.17	0.34	-0.17	0.17	0.37	-0.2
2006	0.13	0.28	-0.15	0.13	0.28	-0.15	0.13	0.27	-0.14
Average			5.77			0.52			3.693
Years	MB	HBL		MB	MCB		MB	UBL	
	ROA	ROA		ROA	ROA		ROA	ROA	
2020	1.7	0.9	0.8	1.7	1.77	-0.07	1.7	ROA	
2019	1.5	0.5	1	1.5	1.59	-0.09	1.5	1.1	0.4
2018	1	0.4	0.6	1	1.5	-0.5	1	1	0
2017	0.9	0.3	0.6	0.9	1.86	-0.96	0.9	0.8	0.1
2016	0.9	1.4	-0.5	0.9	2.16	-1.26	0.9	1.4	-0.5
2015	1	2.8	-1.8	1	4.5	-3.5	1	1.8	-0.8
2014	1.8	2.7	-0.9	1.8	4.2	-2.4	1.8	3.1	-1.3
2013	1.9	2.2	-0.3	1.9	4.1	-2.2	1.9	2.8	-0.9
2012	1.28	1.39	-0.11	1.28	2.76	-1.48	1.28	2.01	-0.73
2011	1.69	1.96	-0.27	1.69	2.94	-1.25	1.69	1.84	-0.15
2010	1.23	1.84	-0.61	1.23	2.96	-1.73	1.23	1.52	-0.29
2009	1.34	1.55	-0.21	1.34	3.06	-1.72	1.34	1.48	-0.14
2008	0.73	1.39	-0.66	0.73	3.47	-2.74	0.73	1.36	-0.63
2007	1.43	1.23	0.2	1.43	3.72	-2.29	1.43	2.34	-0.91
2006	1.3	2.14	-0.84	1.3	3.55	-2.25	1.3	1.74	-0.44
Average			-0.2			-1.63			-0.449

Part 2

In the above table ROE of six banks has been shown vertically. Three banks from the Islamic banking sector, namely BIL, MB, and DIBL, and three banks from theconventional banking sector, namely HBL, UBL, and MCB. From 2006 to 2020, Thedifference between ROE of Bankislami and HBL is on average -9.907, the ROE difference between BI and MCB is on average -15.15, and the ROE difference betweenBI with UBL is on average -12.81.

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According to a difference of ROE table difference between ROE of DIB with HBL is on average -10.76, with MCB is on average -16.01 and with UBL is on average -12.84. By comparing the ROE of Meezan Bank (MB) with three commercial banks, HBL, MCB, and UBL is on average 5.77, MB with MCB is on average 0.52, 3.69, and 3.69, whereas the difference between ROE of Meezan Bank (MB) with HBL, UBL and MCB is on average -0.2, -1.62, and -0.449.

By comparing all Islamic banks' ROE to all commercial banks' ROE chosen for this study, we know the results say that the commercial bank's function is more profitable than Islamic banks against return on equity. However, in the year 2009 to 2020 ROE of Meezan Bank is higher than HBL. The overall ROA of commercial banks is higher than, Islamic banks.

Conclusion

Three Islamic banks mentioned in the above diagrams, Bank Islami, Dubai Islamic, and Meezan Bank Ltd and three conventional banks are also given in the above diagram Habib Bank, Limited (HBL), Muslim Commercial Banks (MCB), and United Bank Limited (UBL) to measure the profitability of commercial banks and Muslim banks the ratio analysis is used. ROA is a measure of profitability. It is measured as net income over total assets. ROA suggests that all commercial banks have ROA positive each year, which means that specified banks remain profitable during the analysis except 2007. ROAof Mezaan bank is 1.43%, and HBL is 1.23%, where ROA of Islamic banks is 0.2%, slightly higher than that of conventional banks.

The ROA difference between Bank Islamic and HBl is -1.75%, with MCB on average -1.32% and on average -1.87%. The ROA difference between Dubai Islamic withHBL is 2.44%, with MCB, is 4.00%. Moreover, with UBL is on average -2.55%. ROA difference between Meezan Bank and HBL is on average -0.35%, with MCB, is on average -1.92% and difference with UBL is on average 0.47%.

As regarded ROE difference between Bank Islamic and HBL is on average - 12.91%, with MCB is on average -17.27% and with UBL is on average -1.87%. ROE difference between Dubai Islamic and HBL is on average -12.43%, with MCB is on average -16.79% and with UBL is on average -12.68%. ROA difference between Meezan Bank and HBL is on average -0.331%, with MCB is on average -4.69% and difference with UBL is on average -0.57%.

Islamic had a negative value of ROA from 2006 to 2020, which means that banks remain do not profitable in that years. ROE is also a measure of profitability which supports the results of the ROA (Explain same as ROA).

The results reveal that the Islamic banks' profitability performance is less than commercial banks. The financial position of any financial institution (banks are the financial institutions of our economy) is determined with the help of financial statements of the relevant sector. One of the critical measures is profitability to assess the performance. The results showed clearly that the profitability, which ROA and ROE measure, of conventional banking, is greater than the Islamic banks.

The reason for higher profitability is that Commercial banks have a significant role in our economy; they have sound experience, goodwill, and higher ability of managerial performance. However, Islamic banks are also an important sector of our economy and get profit and growth day by day. This difference can also affect the behavior of depositors according to the investment decision. Every depositor likes to invest in those banks which give a high return on his investment.

Recommendation

Pakistan is an Islamic country. The banking sector of this country allows customers to follow the Islamic rules, regulations, and principles in banking and guide this sector provides their services as conventional banks do not provide. Commercial Banks maximize their profit by charging an interest rate.

In this study, commercial banks' ROA and ROE are higher than Islamic banks. However, we cannot neglect the role of the Islamic banking sector because this sector has also significantly contributed to our economy over time. The Islamic banking sector invites people to invest money to earn a profit under the umbrella of Islamic rules and regulationsby following the laws and principles of Islam. This study finds that the overall ROA and ROE of commercial banks are higher than Islamic banks. Islamic banks are competing and growing in size and number day by day. Because commercial banks have more experience and goodwill in the economy. I hope that one day will come Islamic banking sector will become a more significant sector in our economy and earn profit as like commercial banks with the help of sharia complaints.

Limitation and delimitation

In our study we have use two variable which measure the probability of banking sector. There are many other variable which are used to measure probability too but due to lack of time we could not be included all these variable in our analysis Such as, Capital Employed Ratio (CER,) and Net Interest Margin (NIM) etc. we only just margin the probability of conventional banking sector and Islamic banking Sector in the year 2006-2020.

This study is not applicable for all those variables which are used to measure probability Such as CER, NIM etc., these have not mentioned in our analysis so future work require to measure the probability of banking sector by using different variables which have beenmentioned above, which we could not include in our study .For further Study it is suggested to comprehensively our all those variable which we have left in our study.

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Conflicts of interest

The authors declare they have no conflicts of interest that are directly or indirectly related to the research.

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