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Determinants of Financial Performance of Commercial Banks: A Comparison of Islamic and Conventional Banks in Pakistan

Abstract

This study has two major purposes. First, find determinants of financial performance of commercial banks in Pakistan. Second, A comparison of Islamic and conventional banks in Pakistan. This study is also related determinants of financial performance of commercial banks in Kenya, which has been written by Vincent Okoth Ongore& Gemechu Berhanu Kusa (2013). In that study the some same variable were discussed as in this study. Here the whole literature has been discussed in two important ways. First, we employ Ordinary Least Square (OLS) to determine the determinants of financial performance of commercial banks in Pakistan. Secondly, A comparison of Islamic and conventional banks in Pakistan. At the end of second step, this study is regressed by coefficients measures resulting from the OLS model in contradiction of the banks result variables to regulate the way and degree of the influence of final on the Return on assets, Return on equity and Net interest income. Numerous curious outcomes are obtained. First, pragmatic results designate that bank specific variables (assets quality & Liquidity ratio) are significantly effects with bank performance indicator while capital adequacy rarely significant for all commercial banks. However, macroeconomic GDP and inflation rate are significantly affected with bank performance indicator, while interest rate and exchange are un-significantly affect. Second, the results designate that bank specific variables (assets quality & capitaladequacy) are significantly effects with bank performance indicator while Liquidity ratio rarely significant for all Islamic banks.But macroeconomic (GDP, inflation rate, interest rate, Exchange rate) are un-significantly affected with bank performance indicator.

Keywords: Return on assets, Return on equity, Net interest income

Introduction

Bank plays an important role in reallocation of economic resources. As they continuously transfer the fund from depositors to investors. They generate sufficient income to cover their operating expenses (Ongore & kusa, 2013).

The performance of commercial banks can be affected by internal and external factors. These factors can classify in bank internal and micro economic variables. The internal factor is the individual bank characteristics which affects the bank performance. These factors are basically influenced by the internal decision of management and board. The external factors are sector wide or country wide factor which are beyond the control of the company and affect the profitability of banks (Hassan., 2010; Aburime., 2005).

Banking in Pakistan is carried on as per the banking Companies Ordinance 1962. In Pakistan the whole banking sector is managed and controlled by State Bank of Pakistan which is also called Central Bank of Pakistan. Banks are called financial institutes and they are performing financial activities. The central bank of Pakistan also regulates the different issues of the Commercial banks. The Central Bank formulates and regulates the monetary policy to control the inflation and deflation in the country. It also provides clearing house facility to all the scheduled banks of the country. Banks basically perform depositing and lending operations in an economy. The stable banking sector is the basic need of the every economy. There are more than twenty schedule banks and all of these are busy nowadaysto contribute their share in development of the economy. In order to achieve the financial resource businessmen need help to promote their business activities which are difficult to tackle but it can become easy to manage with the help of commercial banks. In every sector of the country, finance is the basic requirement and that is the main source for promoting the business. In Pakistan almost all types of banks are doing working. Nowadays banks are not only confined to perform services within the geographical limits but globally. These banks are almost performing all types of services such as like providing different types of loans such like Cash Credit, Bank Overdraft facility, ATM Card facility, Running finance facility, fixed deposit facility, Profit and loss saving account facility, funds transferring facility, Car loans facility and housing finance etc. The banks normally earn profit from lending of money. There are different parameters from which we can evaluate the financial performance of the banks. The financial performance of the banks can be checked through analysis of the

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different indicators like total assets, total shareholder equity by comparing with profit of the banks. The profitability indicates the financial performance of the banks. The bank having high profit rate is performing well (Abbas *et al.*, 2012).

Financial sector plays a significant role in the economic development. The financial sector in Pakistan comprises of Commercial Banks, Development Finance Institutions (DFIs), Microfinance Banks (MFBs), Non-banking Finance Companies (NBFCs) (leasing companies, Investment Banks, Discount Houses, Housing Finance Companies, Venture Capital Companies, Mutual Funds), Modarabas, Stock Exchange and Insurance Companies. Under the prevalent legislative structure the supervisory responsibilities in case of Banks, Development Finance Institutions (DFIs), and Microfinance Banks (MFBs) falls within legal ambit of State Bank of Pakistan while the rest of the financial institutions are monitored by other authorities such as Securities and Exchange Commission and Controller of Insurance (State Bank of Pakistan 2009).

The financial system of Pakistan is dominated by the commercial banks. The structure of banking system in Pakistan underwent significant changes after 1997 when the banking supervision process was aligned with international best practices. Privatization of public sector banks and the ongoing process of merger/consolidation brought visible changes in the ownership, structure, and concentration in the banking sector. Structural, institutional, and macroeconomic aspects of financial system stability are receiving growing attention both nationally and internationally. The magnitude and mobility of international capital flows have made it increasingly important to strengthen the foundations of domestic financial system as a way to buildup flexibility to capital flow volatility. Thus the soundness of financial system, especially the banking system, is a key part of the infrastructure for strong macroeconomic and monetary policy performance at the national level (Javid *et al.*, 2011).

Now bank customers are much concerned regarding the quality of services due to increased awareness. They continue to deal with their current bank only if they feel satisfied; otherwise they feel no hesitation to switch to other banks.

Globally two strategies are recommended. The first one is known as Revolutionary strategy which Iran followed in respect of introduction of Islamic Banking. The second one is evolutionary strategy which Pakistan announced for introducing Islamic Banking in the country. Similar approach is being followed

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in Indonesia and Malaysia. State Bank of Pakistan has developed the following four point strategies relating to development of Islamic Banking in the country.

Islamic bank offers a wide range of products on the basis of profit and loss according to principles of Shariah. It develops the sense of collective welfare by sharing the risk among different stakeholder. Islamic banks are primarily concerned to eliminate Riba from the economy by promotion of risk sharing practices for economic prosperity. Islamic banks work within the limits prescribed by Shariah to stimulate business and trade activities.

Galbraith (1975) reported, "The best economic system is one that supplies the most of what that most people want". It means that an ideal economic system has the ability to meet expectations of people what they wantin a transparent manner. Islamic economic system is superior because it is based on the principles of justice, transparency and accountability that ensure substantial economic growth. Islamic bank is beneficial due to its capability to spread risk in the economy among the concerned parities (depositor, banker, borrower etc.) according to their contribution (Siddiqui, 1973).

Islam is a complete code of life that consists upon the instructions given by the Allah Almighty and practices of the holy prophet Muhammad (peace be upon him). The holy Quran is the written instructions of Allah Almighty for the human beings. It covers all aspects of human life and all types of activities (i.e. religious, social and economic) that are performed for the success in this life and in the life hereafter. There are clear instructions about halal and haraam. Islam is a universal faith that promotes brotherhood, social equality and fairness in economic activities for the welfare of the mankind(Chapra, 1985).

The interest-based transactions of conventional banks promote materialistic and exploitative attitude that is fatal for society. It was proved that equity participation has a great potential for larger profits along with benefits of decentralized decision-making (Wieltzman, 1984; 1985). Equity contract is superior to debt contract due to a number of benefits. It improves the profitability of business units by eliminating the limitations as imposed by debt. Furthermore, equity based banking contracts stimulate the investment in the economy (Haque and Mirakhor, 1986). Riba& interest is strictly prohibited in Islam as dealing with Riba-based transactions means declaring war with Allah Almighty and His Messenger (Muhammad, peace be upon him). Interest is an additional amount paid/received on the principal amount according to an agreement due to a time period attached thereof. Even a single additional penny

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on the principal amount or any other benefit attached with this transaction is considered as Riba (Rehman, 1993).

The existence of two bank streams i.e. conventional banks and Islamic banks poses some questions about service quality and customers' satisfaction in Pakistan. It is also important to assess the effect of customer satisfaction on bank performance. Islamic banks have opened new avenues for acceptance of deposits on interest free-basis and extend credit facilities excluding interest e.g. Qarz-e-Hasana etc. (Najajmabadi, 1991).

Objective of study

➢   To find the determinants of financial performance of commercial banks in Pakistan.

➢   To compare the Islamic vs. Conventional banking performance in Pakistan.

Hypothesis Development

Study will base on the following hypothesis:

Hypothesis with Return on Assets

(H0): There is significant relationship between capital adequacy and ROA.

(H1): There is non-significant relationship between capital adequacy and ROA.

(H0): There is significant relationship between asset quality and ROA.

(H2): There is non-significant relationship between asset quality and ROA.

(H0): There is significant relationship between liquidity ratio and ROA.

(H3): There is non-significant relationship between liquidity ratio and ROA.

(H0): There is significant relationship between gross domestic product and ROA.

(H4): There is non-significant relationship between gross domestic product and ROA.

(H0): There is significant relationship between inflation rate and ROA.

(H5): There is significant relationship between inflation rate and ROA.

(H0): There is significant relationship between interest rate and ROA.

(H6): There is significant relationship between interest rate and ROA.

(H0): There is significant relationship between exchange rate and ROA.

(H7): There is non-significant relationship between exchange rate and ROA.

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Hypothesis with Return on Equity

(H0): There is significant relationship between capital adequacy and ROE.

(H1): There is non-significant relationship between capital adequacy and ROE.

(H0): There is significant relationship between asset quality and ROE.

(H2): There is non-significant relationship between asset quality and ROE.

(H0): There is significant relationship between liquidity ratio and ROE.

(H3): There is non-significant relationship between liquidity ratio and ROE.

(H0): There is significant relationship between gross domestic product and ROE.

(H4): There is non-significant relationship between gross domestic product and ROE.

(H0): There is significant relationship between inflation rate and ROE.

(H5): There is significant relationship between inflation rate and ROE.

(H0): There is significant relationship between interest rate and ROE.

(H6): There is significant relationship between interest rate and ROE.

(H0): There is significant relationship between exchange rate and ROE.

(H7): There is non-significant relationship between exchange rate and ROE.

Hypothesis with Net Interest income

(H0): There is significant relationship between capital adequacy and NII.

(H1): There is non-significant relationship between capital adequacy and NII.

(H0): There is significant relationship between asset quality and NII.

(H2): There is non-significant relationship between asset quality and NII.

(H0): There is significant relationship between liquidity ratio and NII.

(H3): There is non-significant relationship between liquidity ratio and NII.

(H0): There is significant relationship between gross domestic product and NII.

(H4): There is non-significant relationship between gross domestic product and NII.

(H0): There is significant relationship between inflation rate and NII.

(H5): There is significant relationship between inflation rate and NII.

(H0): There is significant relationship between interest rate and NII.

(H6): There is significant relationship between interest rate and NII.

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(H0): There is significant relationship between exchange rate and NII.

(H7): There is non-significant relationship between exchange rate and NII.

Data and Sample selection

Data is consisted on the 11 commercial banks and 4 Islamic banks of Pakistani industry. This data is derived from the following banking statements (income statement and balance sheet). The data is ranged from 2001 to 2013 for commercial banks. Data ranged of Islamic banks is 2006-2013.

Annual data 2001 to 2013 used to find the determinants of financial performance of commercial banks as well as Annual data 2006 to 2013 used to comparison of Islamic and conventional banks in Pakistan.

The reason behind choosing 13 years data (2001-2013) was unusual variation to find out the financial performance of commercial banks. A comparison of Islamic andconventional banks in Pakistan.

Model Specification

The major dependent variables for performance indicators used Return on Asset (ROA), Return on Equity (ROE) and Net Interest Income (NII).The major Independent variables will be Capital adequacy, asset quality and liquidity management. The macroeconomic variables will be used as independent variables are GDP growth rate, Inflation rate, Interest rate & Exchange Rate. This approach is consistent with that followed by (Vincent OkothOngore&GemechuBerhanuKusa 2013).

ROA=

$$\alpha_0 + \alpha_1 CA_{it} + \alpha_2 AQ_{it} + \alpha_3 LM_{it} + \alpha_4 GDP_{it} + \alpha_5 INF_{it} + \alpha_6 INT_{it} + \alpha_7 EXH_{it} + \varepsilon_{it}\ldots\ldots\ldots(1)$$

ROE =

$$\alpha_0 + \alpha_1 CA_{it} + \alpha_2 AQ_{it} + \alpha_3 LM_{it} + \alpha_4 GDP_{it} + \alpha_5 INF_{it} + \alpha_6 INT_{it} + \alpha_7 EXH_{it} + \varepsilon_{it}\ldots\ldots\ldots (2)$$

NII=

$$\alpha_0 + \alpha_1 CA_{it} + \alpha_2 AQ_{it} + \alpha_3 LM_{it} + \alpha_4 GDP_{it} + \alpha_5 INF_{it} + \alpha_6 INT_{it} + \alpha_7 EXH_{it} + \varepsilon_{it}\ldots\ldots\ldots (3)$$

Where:

- ROA= Return on Asset
- ROE= Return on Equity
- NII = Net Interest Income
- CAit=Capital Adequacy of bank *i* at time *t*
- AQit= Asset Quality of bank *i* at time *t*
- LMit =Liquidity Ratio of Bank *i* at time *t*
- GDPt = Gross Domestic Product (GDP) at time *t*
- INFt = Average annual Inflation rate at time *t*
- INTt = Average annual Interest rate at time t

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➢   EXHt= Average annual Exchange rate at time t
➢ ε_{it}= Error term where i is cross sectional and t time identifier

The above models examined for comparison of Islamic and Conventional Banks in Pakistan.

Return on assets

Dependent variable for performance indicators used Return on Asset (ROA).The major Independent variables will be Capital adequacy, asset quality and liquidity management. The macroeconomic variables will be used as independent variables are GDP growth rate, Inflation rate, Interest rate & Exchange Rate. This approach is consistent with that followed by (Vincent OkothOngore&GemechuBerhanuKusa 2013).

ROA=

$\alpha_0 + \alpha_1 CA_{it} + \alpha_2 AQ_{it} + \alpha_3 LM_{it} + \alpha_4 GDP_{it} + \alpha_5 INF_{it} + \alpha_6 INT_{it} + \alpha_7 EXH_{it} + \varepsilon_{it}$…………(1)

Where:

Dependent variable

➢   ROA= Return on Asset

Independent variables

➢   CAit=Capital Adequacy of bank i at time t
➢   AQit= Asset Quality of bank i at time t
➢   LMit =Liquidity Ratio of Bank i at time t
➢   GDPt = Gross Domestic Product (GDP) at time t
➢   INFt = Average annual Inflation rate at time t
➢   INTt = Average annual Interest rate at time t
➢   EXHt= Average annual Exchange rate at time t
➢ ε_{it}= Error term where i is cross sectional and t time identifier

Return on equity

Dependent variable for performance indicators used   Return on Equity (ROE) .The major Independent variables will be Capital adequacy, asset quality and liquidity management. The macroeconomic variables will be used as independent variables are GDP growth rate, Inflation rate, Interest rate & Exchange Rate. This approach is consistent with that followed by (Vincent OkothOngore&GemechuBerhanuKusa 2013).

ROE =

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$\alpha_0 + \alpha_1 CA_{it} + \alpha_2 AQ_{it} + \alpha_3 LM_{it} + \alpha_4 GDP_{it} + \alpha_5 INF_{it} + \alpha_6 INT_{it} + \alpha_7 EXH_{it} + \varepsilon_{it} \dots\dots\dots$ (2)

Where:

Dependent variable

➢   ROE= Return on Equity

Independent variables

➢   CA$_{it}$=Capital Adequacy of bank *i* at time *t*
➢   AQ$_{it}$= Asset Quality of bank *i* at time *t*
➢   LM$_{it}$ =Liquidity Ratio of Bank *i* at time *t*
➢   GDP$_t$ = Gross Domestic Product (GDP) at time *t*
➢   INF$_t$ = Average annual Inflation rate at time *t*
➢   INT$_t$ = Average annual Interest rate at time t
➢   EXH$_t$= Average annual Exchange rate at time t
➢ ε_{it}= Error term where *i* is cross sectional and *t* time identifier

Net interest income

Dependent variable for performance indicators Interest Income (NII).The major Independent variables will be Capital adequacy, asset quality and liquidity management. The macroeconomic variables will be used as independent variables are GDP growth rate, Inflation rate, Interest rate & Exchange Rate. This approach is consistent with that followed by (Vincent OkothOngore&GemechuBerhanuKusa 2013).

NII=

$\alpha_0 + \alpha_1 CA_{it} + \alpha_2 AQ_{it} + \alpha_3 LM_{it} + \alpha_4 GDP_{it} + \alpha_5 INF_{it} + \alpha_6 INT_{it} + \alpha_7 EXH_{it} + \varepsilon_{it} \dots\dots\dots$ (3)

Where:

Dependent variable

➢   NII   = Net Interest Income

Independent variables

➢   CA$_{it}$=Capital Adequacy of bank *i* at time *t*
➢   AQ$_{it}$= Asset Quality of bank *i* at time *t*
➢   LM$_{it}$ =Liquidity Ratio of Bank *i* at time *t*
➢   GDP$_t$ = Gross Domestic Product (GDP) at time *t*
➢   INF$_t$ = Average annual Inflation rate at time *t*
➢   INT$_t$ = Average annual Interest rate at time t
➢   EXH$_t$= Average annual Exchange rate at time t

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➢ ε_{it}= Error term where *i* is cross sectional and *t* time identifier

Model Assumptions:

The following diagnostic tests were carried out to ensure that the data suits the basic

assumptions of classical linear regression model:

Normality: To check for normality, descriptive statistics were used. Kurtosis and Skewness of the distribution of the data were examined.

Muliticollinearity: The existence of strong correlation between the independent variables was tested using Variance Inflation Factor (VIF) and correlation coefficient.

Heteroscedasticity: To avoid the problem of heteroscedasticity of disturbance terms, weighted

Generalized Least Square (GLS) was employed in establishing the relationship.

Statistical/ Analysis tool

Multiple regression models will be used to find out the main objective of the study. For Analysis researcher used E-views software.

Empirical Result
Estimation of models

The major dependent variables for performance indicators used Return on Asset (ROA), Return on Equity (ROE) and Net Interest Income (NII).The major Independent variables will be Capital adequacy, asset quality and liquidity management. The macroeconomic variables will be used as independent variables are GDP growth rate, Inflation rate, Interest rate & Exchange Rate. This approach is consistent with that followed by (Vincent OkothOngore&GemechuBerhanuKusa 2013). Estimation of models is carried out using the OLS techniques.The results of the estimation models are presented in Tables 3.

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Table 2

Regression output of all commercial banks

Variables	Return on assets	Return on equity	Net interest income
Capital Adequacy	0.014904 (1.335806)	- 0.009374 (-0.079631)	0.01983 (2.007474)**
Asset Quality	- 0.058451 (-2.908323)*	- 0.601127 (-2.83466)*	-0.051235 (-2.879318)*
Liquidity Ratio	0.094178 (3.571427)*	1.207086 (4.338258)*	0.170349 (7.296402)*
Gross Domestic Product	17.4247 (2.979159)*	163.4686 (2.648795)*	6.295514 (1.215727)
Inflation rate	- 1.151459 (-0.489093)	- 51.44747 (-2.071057)**	4.505223 (2.161402)**
Interest rate	0.0492 (1.06048)	- 0.110905 (-0.226557)	0.071273 (1.735162)***
Exchange rate	0.004015 (0.439999)	- 0.066499 (-0.690656)	-0.003701 -0.458092

Method: GLS(cross Section Weights)

*   Statistically significant at the 1% level
**   Statistically significant at the 5% level
*** Statistically significant at the10% level

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Explanation regression output of commercial banks

The following regression result shows that the effect of bank specific and macroeconomic variables on the financial performance of commercial banks in Pakistan. The first objective of this study is to answer whether bank specific variables and macroeconomic variables affect the financial performance of commercial banks in Pakistan or not.

First the bank specific factors regression output are explained. Capital adequacy is significant effect at that 95% confidence level on net interest income.Return on asset & return on equity non-significant. The above results thus lead to the rejection of Hypothesis H0 of ROA & ROE. Only net interest income accepted of Hypothesis H0.

Asset quality is significant effect at that 99% confidence level on return on asset, return on equity and net interest income. The above results thus lead to the accepted of Hypothesis H0.

Liquidity ratio is significant effect at that 99% confidence level on return on asset, return on equity and net interest income. The above results thus lead to the accepted of Hypothesis H0.

Second the macroeconomic variables regression output are explained. Gross domestic product is significant effect at that 99% confidence level on ROA & ROE. So the above results lead to the accepted of Hypothesis H0 for ROA & ROE. But non-significant with NII. So the above results lead to rejection of Hypothesis H0 for NII.

Inflation rate is non-significant relationship with ROA. So the above results lead to rejection of Hypothesis H0 for ROA. But inflation rate is significant effect at that 95% confidence level on ROE & NII. So the above results lead to the accepted of Hypothesis H0 for ROE & NII.

Interest rate is non-significant relationship with ROA & ROE. So the above results lead to rejection of Hypothesis H0 for ROA & ROE. But interest rate is significant relationship with NII at that 90% confidence level. So the above results lead to the accepted of Hypothesis H0 for NII.

Exchange rate is non-significant relationship with ROA, ROE & NII. So the above results lead to the accepted of Hypothesis H0 for ROA, ROE & NII.

Table 3

Regression output of all Islamic banks

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Variables	ROA	ROE	NII
Capital Adequacy	-0.06448 (-2.67116)**	-0.405263 (-2.012549)***	-0.016176 (-0.94257)
Asset Quality	-0.088878 (-3.33121)*	-1.320033 (-6.26382)*	-0.041038 (-2.16347)**
Liquidity Ratio	-0.091459 (-0.66145)	-0.0168 (-0.01538)	-0.038809 (-0.39479)
Gross Domestic Product	21.32025 (0.827782)	182.3687 (0.896443)	-3.568331 (-0.19487)
Inflation rate	0.421895 (0.074155)	2.718822 (0.060501)	10.61511 (2.624326)**
Interest rate	0.142761 (0.754724)	2.324397 (1.555744)	0.103826 (0.77205)
Exchange rate	-0.014695 (-0.52591)	-0.049069 (-0.22233)	-0.007662 (-0.38568)

Method: GLS(cross Section Weights)

* Statistically significant at the 1% level

** Statistically significant at the 5% level

*** Statistically significant at the10% level

Explanation regression output of Islamic banks

The following regression result shows that the effect of bank specific and macroeconomic variables on the financial performance of Islamic banks in Pakistan. The first objective of this study is to answer whether bank specific variables and macroeconomic variables affect the financial performance of Islamic banks in Pakistan or not.

First the bank specific factors regression output are explained. Capital adequacy is significant effect at that 95% confidence level on return on asset &90% confidence level return on equity. The above results thus lead to the accepted of Hypothesis H0 of ROA & ROE. But net interest income is non-significant. So the above result shows rejection of Hypothesis H0.

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Asset quality is significant effect at that 99% confidence level on return on asset, return on equity and net interest income at 95% confidence level. The above results thus lead to the accepted of Hypothesis H0.

Liquidity ratio is non-significant effect on return on asset, return on equity and net interest income. The above results thus lead to the rejection of Hypothesis H0.

Second the macroeconomic variables regression output are explained. Gross domestic product is non-significant effect on ROA, ROE& NII. So the above results lead to the rejection of Hypothesis H0 for ROA, ROE & NII.

Inflation rate is non-significant relationship with ROA& ROE. So the above results lead to rejection of Hypothesis H0 for ROA& ROE. But inflation rate is significant effect at that 95% confidence level on NII. So the above results lead to the accepted of Hypothesis H0 NII.

Interest rate is non-significant relationship with ROA, ROE& NII. So the above results lead to rejection of Hypothesis H0 for ROA, ROE & NII.

Exchange rate is non-significant relationship with ROA, ROE & NII. So the above results lead to the accepted of Hypothesis H0 for ROA, ROE & NII.

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Table 4

Comparison of Islamic and conventional Banks in Pakistan

Regression output of all Islamic banks			
Variables	**Return on assets**	**Return on equity**	**Net interest income**
Capital Adequacy	-0.06448 (-2.67116)**	-0.405263 (-2.012549)***	-0.016176 (-0.94257)
Asset Quality	-0.088878 (-3.33121)*	-1.320033 (-6.26382)*	-0.041038 (-2.16347)**
Liquidity Ratio	-0.091459 (-0.66145)	-0.0168 (-0.01538)	-0.038809 (-0.39479)
Gross Domestic Product	21.32025 (0.827782)	182.3687 (0.896443)	-3.568331 (-0.19487)
Inflation rate	0.421895 (0.074155)	2.718822 (0.060501)	10.61511 (2.624326)**
Interest rate	0.142761 (0.754724)	2.324397 (1.555744)	0.103826 (0.77205)
Exchange rate	-0.014695 (-0.52591)	-0.049069 (-0.22233)	-0.007662 (-0.38568)
Regression output of all conventional banks			
Variables	**Return on assets**	**Return on equity**	**Net interest income**
Capital Adequacy	0.014904 (1.335806)	-0.009374 (-0.079631)	0.01983 (2.007474)**
Asset Quality	-0.058451 (-2.908323)*	-0.601127 (-2.83466)*	-0.051235 (-2.879318)*
Liquidity Ratio	0.094178 (3.571427)*	1.207086 (4.338258)*	0.170349 (7.296402)*
Gross Domestic Product	17.4247 (2.979159)*	163.4686 (2.648795)*	6.295514 (1.215727)
Inflation rate	-1.151459 (-0.489093)	-51.44747 (-2.071057)**	4.505223 (2.161402)**
Interest rate	0.0492 (1.06048)	-0.110905 (-0.226557)	0.071273 (1.735162)***
Exchange rate	0.004015 (0.439999)	-0.066499 (-0.690656)	-0.003701 -0.458092

Method: GLS(cross

Section Weights)

   *   Significant at 1% level

   **   Significant at 5% level

   *** Significant at10% level

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Explanation of comparison Islamic and conventional banks

First the bank specific factors regression output are explained. Capital adequacy is significant effect at that 95% confidence level on return on asset &90% confidence level return on equity. But net interest income is non-significant. Asset quality is significant effect at that 99% confidence level on return on asset, return on equity and net interest income at 95% confidence level. Liquidity ratio is non-significant effect on return on asset, return on equity and net interest income. Second the macroeconomic variables regression output are explained. Gross domestic product is non-significant effect on ROA, ROE& NII. Inflation rate is non-significant relationship with ROA& ROE. But inflation rate is significant effect at that 95% confidence level on NII. Interest rate is non-significant relationship with ROA, ROE& NII. Exchange rate is non-significant relationship with ROA, ROE & NII.

First the bank specific factors regression output are explained. Capital adequacy is significant effect at that 95% confidence level on net interest income. Return on asset & return on equity non-significant. Asset quality is significant effect at that 99% confidence level on return on asset, return on equity and net interest income. Liquidity ratio is significant effect at that 99% confidence level on return on asset, return on equity and net interest income.Second the macroeconomic variables regression output are explained. Gross domestic product is significant effect at that 99% confidence level on ROA & ROE. But non-significant with NII. Inflation rate is non-significant relationship with ROA. But inflation rate is significant effect at that 95% confidence level on ROE & NII. Interest rate is non-significant relationship with ROA & ROE. But interest rate is significant relationship with NII at that 90% confidence level.Exchange rate is non-significant relationship with ROA, ROE & NII.

In above results it is found that the conventional banks show some bank specific factor and macroeconomic factor positive direction. Which shows that the bank performance significantly. In Islamic banks the bank specific factor shows significantly effect on Islamic bank performance. But macroeconomic factor shows that non-significantly effect on Islamic bank performance.

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Conclusion

The first bank-specific factors are defined regression output. Capital adequacy, net interest income has a significant impact on the 95% confidence level. Return on assets and return on equity unimportant. Asset quality return on equity and net interest income, return on assets has a significant impact on the 99% confidence level. Liquidity ratios return on equity and net interest income, return on assets has a significant impact on the 99% confidence level. Other economic variables are defined regression output. GDP ROA & ROE has a significant impact on the 99% confidence level. But with NII unimportant. With inflation ROA is an important relationship. But inflation Roe & Immunology has a significant impact on the 95% confidence level. With interest rates ROA & ROE is an important relationship. But the rate of interest on 90% level of confidence is important relationship with NII. Exchange rate ROA, ROE & Immunology important relationship with.

The first bank-specific factors are defined regression output. Capital Adequacy 90% level of confidence return on equity and return on assets that have significant impact on 95% confidence level. But net interest income is unimportant. Return on assets Asset Quality 99% confidence level that the main effect, 95% confidence level return on equity and net interest income. Liquidity ratios return on equity and net interest income, return on assets is a non-significant effect. Other economic variables are defined regression output. GDP ROA, ROE & Immunology is a non-significant effect. With inflation ROA & ROE is an important relationship. But inflation NII has a significant impact on the 95% confidence level. Interest rates ROA, ROE & Immunology important relationship with. Exchange rate ROA, ROE & Immunology important relationship with.Traditional banks in the above results and some bank-specific factors shows that the economic factor is the positive direction. Shows that bank performance significantly. Islamic banks in the bank-specific factor significantly affects performance.

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