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Thesis Title: The Impact of Financial Risk on Banks' Financial Performance: A Comparative Study of Islamic Banks and Conventional Banks in Pakistan

The study made on Islamic and conventional banks scrutinizes the risks interconnected with credit and liquidity on productivity performance of Islamic and conventional banks that operate in Pakistan. Among the banks only 4 Islamic and 18 conventional banks have been selected to enrich the result of our study on Islamic banks performance in connection to the conventional banks. The selection of the banks to the panel is based on collecting quarterly unbalanced data ranges from the first quarter of 2007 to the last quarter of 2017. The data are collected from the Bank's web sites and State Bank of Pakistan. The data collection is carried out based on Delta-method test. The mentioned test is used to find out the empirical results. In the study, while collecting data on the banks, the return on assets and return on equity have been major factors that are used as significant proxies in determining profitability of the banks. Moreover, another major proxy is used in measuring credit and liquidity risks, the loan loss provision to total loan and the ratio of liquid assets to total liability. Meanwhile, with consideration to the previous literature, some other variables such as bank size, bank capital, bank branches and bank employees have been used to tentatively control the impact of those factors whose direct and indirect effects on profitability is understood. In conclusion, the study emphasizes that credit risk affects returns on asset and return on equity positively and there is no significant difference in term of credit risk between Islamic and conventional banks. Similarly, the liquidity risk has significant impact on the bank's profitability, though, the marginal effect of liquidity risk is higher for Islamic banks than conventional banks.