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Financial Stability of Islamic Banks verses Conventional Banks: An Empirical Study of Pakistan and Malaysia

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Abstract

Purpose: Islamic banking is growing from the last decades. This is a study of the comparison about financial stability of the Islamic banks and conventional banks in Pakistan and Malaysia.
Findings: The overall finding of this research is that Islamic banks is financially stable than the conventional banks on the base of ratio and regression analysis. While the *z-* score analysis is described that the both sector of Pakistan is financially more stable than the both sectors of Malaysia.
Design / Methodology / Approach: In this research secondary data practice is used which contains panel data. Data is generated from annual reports and time series which is used in this paper is from 2011 to 2016. This study is adopted Z-score analysis, Liquidity ratio, and Credit risk ratio, loan to deposit ratio, to measure financial stability of Islamic banks and conventional banks. And regression analysis for the comparison of both sector of Pakistan and Malaysia.
Practical / Research Implications: This study will helpful for both institutions to find out the areas which needs more improvement. They can emphasis more on that sector by captivating affecting decisions. This will also help to identify which sector is best from both countries. The general public can also have a best image of financial stability of both institutions.
Originality / Value: Earlier it was exasperated to examine performance of both sectors in country wise like Malaysia, Indonesia etc. But this study is a pronounced contribution in research field to have a better evaluation among country wise. Particularly in Pakistan, and Malaysia which are the hub of Islamic banking.
Keywords: Islamic banking, Conventional banking, Financial Stability, Z-score.

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1. Introduction:

Financial sectors play a major role in the economic performance of any country. Organizations present Islamic financial services to launch a significant and growing share of the financial system in various countries. The number of research about Islamic financial sectors worldwide has risen from day to day. It was only one organization in one country in 1975 but now the number of organizations has been increases over 3000 in more than 75 countries (El Qorchi, 2015).

Islamic Banking:

Islamic banking and finance are the phenomenon, which operates according to Islamic rules, and regulations.it works in many Islamic and non-Islamic countries. It plays a very important role in the development of different economic and social departments of Islamic countries. Islamic banking has been started from last three decades. The practice of Islamic banking in the modern world has been acknowledged to be growing at an outstanding rate to such an excessive scope. The banking system is now begun start according to the Sharia'ah in many countries.

There is a Sharia'ah board under which supervision all Islamic banks doing their business. Various Muslim countries now have Islamic banking system moreover as full-fledged or window processes, some Muslim minorities' residences that support Islamic banking include England, Singapore, Hong Kong, United States of America, and South Africa and so on. Especially in 2008 when global financial crisis was happened some Islamic banks such as European finance house and Gatehouse bank were opened it was much appreciated. In Islamic banking and finance there are many new applicants which has continued to spur growth and development fir the sector.

Conventional banks:

Conventional banks deals with the prohibited elements like uncertainty (gharar), gambling (Al-maisir) and interest (Al-riba) in the investment actions which are in contradiction of the rules of Shariah. In Islamic banking there is profit and loss shearing between bank and customer but in conventional banking the bank is charged interest even if customer is suffering from loss. In conventional banking money is treated as a commodity which lead to higher inflation.

Evidence from Quran and Hadith:

"O you who believe! Be afraid of Allah and give up what remains (due to you) from Riba (usury) (from now onward), if you are (really) believers. If you do not, then expect a war from GOD and His messenger" (2:178-179)

"The Quran has categorically prohibited gambling" (Al-Bakarah, 2:219 and AlMaidah, 5:93).

From Hadith

From Ibn Mas'ud: The Prophet, said: "Even when interest is much, it is bound to end up into paltriness." (Ibn Majah, Kitab al-Tijarat, Bab al-taghlizi fi al-riba; also, in Musnad Ahmad)

Conventional and Islamic banking in Pakistan and Malaysia:

The initiative of Islamic banks in 2002 and as of 2015 there are six full-fledge Islamic banks were working in Pakistan. Most conventional banks are also successively Islamic banking comparable to their conventional banking business. According to the Malaysian Act. 1983 Islamic banks have the aims to respect and enhance the moral and material values of the individuals as well as society (Yahiya et al., 2012). The first Islamic bank of Malaysia was the Bank Islam Malaysia Berhad (BIMB) established in 1983. This study is conduct to find out the deep compression of financial stability of two types of banking sectors from Pakistan and Malaysia in which both sectors are working side by side.

Financial Stability:

The world economic forum was held in 2012. According to the financial report from that forum the contribution in the world's Gross Domestic Product (GDP) from global real sector is only about a quarter of the total. The remaining three quarter are dependent on the financial sectors. This is a cause of concentration towards financial activities and financial stability of financial sectors. There are numerous researches has been on the stability of the financial sectors in which many indicators are used.in this study Z – score test (NPL ratio, liquidity ratio and Loan-to-Deposit ratio) all financial ratios are used to calculate the stability.

1.1 Statement of the problem:

Comparison between the strength and level of financial stability of conventional and Islamic banks of Pakistan & Malaysia. As to consider their reliability against any financial shocks.

1.2. Research Objectives

1. To identify the influence of performance indicators which effect the financial stability of Islamic banks and conventional banks in Pakistan and Malaysia.
2. To identify which sector is financially stable either conventional or Islamic between both countries.
3. To identify, overall which country's financial sector including both (Islamic & conventional) is best as compared to other country.

1.3. Research Questions

1. How performance indicators effect the financial stability of Islamic banks and conventional banks in Pakistan and Malaysia?
2. Which sector is financially stable either conventional or Islamic between both countries?
3. Which country's financial sector including both (Islamic & conventional) is best as compared to other country?

Significance of the study:

Comparatively little realistic analysis of the role of Islamic banks in financial stability is there. Many studies are available on risk in Islamic financial institutions, but the work was only in theoretical term as different to comprehensive analysis of data. Whereas observed papers on Islamic banks verses conventional banking focus on issue related to efficiency and stability. But this study has a great input because it contains the financial stability compression of both sectors (Islamic banks and conventional banks) from Pakistan and Malaysia. The compression not only between both countries (Pakistan and Malaysia) it also whitens the both sector of each country.

This study is supportive for both type of financial systems (conventional and Islamic) and also for general public. Management of the banks can check and examine the level of financial stability in these countries to mitigate any financial shock. They can also have check whether their banking sector is financially more or less stable than other. As Islamic banking is developing in Pakistan.

Therefore, this study is more helpful for administration of Islamic banking to make active approaches to increase stability through enhancing the profitability and performance. People or general public will also show more trust on that sector which is financially more stable.

2. Literature Review

Karim et al (2017) examined the financial stability of 50(Islamic and conventional) banks in Malaysia from the year 1999-2015.There was two methods used by him one is Z-score and second is CAMELS variables. Variables were ranked from highest as one and lowest as least or fifty. Average of total ranking for all variables were calculated. He suggested that Overall, both (local Islamic and conventional) banks ranking was favorable towards banks stability score, sensitivity to market risk, asset quality, earning and profitability. But it is recorded that local conventional banks are only favorable ranking towards liquidity. From the compression of both banks, it concludes that conventional banks are ranked better in liquidity, sensitivity to market risk, earning and profitability.

Ashraf, Rizwan & L'Huillier (2016) conducted a study to investigate the modified Net Stable Funding Ratio (NSFR) of 136 Islamic banks from 30 jurisdictions from 2000-2013 and explored the potential impact. Financial stability of Islamic banks after controlling for bank, country, and market-specific variables were calculates by NFSR. They conclude that NFSR has positive impact on the financial stability of Islamic banks in normal days. While negligible impact of the NSFR on stability diminishes as the bank size increases. They also concluded that result remain healthy when alternative measures of stability are applying and using an alternative estimation model based on an instrumental variable approach.

Mollah.S et al (2017) examined the difference in controlling structures influences the risk taking and performance of Islamic banks compared to conventional banks.52 Islamic and 104 conventional banks were used from year 2005-2013.The controlling structure plays a vital role in risk taking as well as financial performance in Islamic banking sector but not in conventional sector. Due to the product complexities and transaction mechanisms the governance structure of Islamic banking allows them to take higher risks and achieve better performance. Conventional banks maintain the lower capitalization as compared to Islamic banks. Their research supports the research on Islamic investment and risk taking.

Wali Ullah et al., (2016) investigated elements of profitability of non-life insurance companies in Bangladesh. He used panel data for the 8 companies from 2004 to 2014 and ordinary least squares regression model was functional. (ROA) was dependent variable used to measure profitability and independent variables were expense ratio, solvency underwriting risk, margin, asset growth, company size and premium growth. The findings of that study are opposite relationship between underwriting risk, size and by profitability (ROA). The positive and significant relationship is found between growth, expense ratio, margin, Solvency, and with the profitability (ROA).

Shahid and Abbas (2012) have adopted Z-score and econometric model to find out the financial stability of Islamic banking in Pakistan. They used the data of 6 existing Islamic banks and 10 conventional banks of Pakistan from 2006-2009.The data were captured from the financial reports of relevant banks. They found that the small-scale conventional banks and large-scale Islamic banks are not stronger than the small scale Islamic banks.it is also found that the large-scale Islamic banks are stronger than the large-scale conventional banks. This is the contradictory finding of the Cihak and Hesse (2008).

Mat Rahim and Zakaria (2013) assumed a study on comparative financial stability between Islamic and conventional sectors of Malaysia. Banks annual report and financial statement were used for the collection of data from the year 2005-2010.Z-score test were used for calculations of results and results showed that Islamic banks were more stable than the conventional banks in Malaysia.

Similarly, Umar Islam and Kozokov (2009) associated financial stability of Islamic banks and their conventional colleagues in Malaysia. Using z-score model to examine its data, the research originates that although conventional banks validated high changeability and instability as evaluated against Islamic banks. The NPL/asset ratio results indicated that Islamic banks were stronger than conventional banks in their operational activities.

Akhtar et al. (2011) used the data of Islamic banks in Pakistan over the period 2006-2009 to examine the effect of bank-specific factors on bank's profitability by calculating a multivariate regression model. They found that capital adequacy ratios had a significant and positive impact on bank's performance. But the size of the banks had the negative and insignificant impact on the performance of the banks.

Kabajeh & Dahmash (2012) showed a study to calculate the performance of Jordanian's insurance sector. They used the financial reports from 2002 to 2007 of that organization. they calculate the financial ratios like (ROI) return on investment, (ROA) return on assets (ROE) return on equity and market share price.they conclude that there is positive relationship between market share price and ratios.

Kabir et al (2017) measured the lack of competition using the Lerner index, and stability by both accounting-based measures involving the (Z-score and the nonperforming loan ratio) and market-based measures (including Merton's distance to default). they used the data of bot type of 16 developing banks from 2000-2012.penal data, two stage quartile regression and auto regression to find out the relationship. They conclude that competition–instability in both Islamic and conventional banks. They also find that the stability is more effected by the market power for conventional banks rather than Islamic banks. Concluded by gaining market power the banks in the median quartile of stability have a greater ability to reduce credit risk.

Farook, Hassan and Qinch (2012) had assessed the overall differences in the financial stability of Islamic banks and conventional banks which showed that conventional banks are more stable than the Islamic banks.in their research they used Z-score to analyze the data and it was collected from the database of bank scope from the year 1991-2005.the listed 50 Islamic and 150 conventional banks.

Leroy, A., Lucotte, Y. (2017) has re-investigated the relationship between competition and bank risk across a large sample of European listed banks from the year 2004-2013.They considered both individual and systemic magnitudes of risk. Bank-individual risk which was is measured by the Z-score and the distance-to-default, also found the SRISK as an alternative for bank systemic risk. They recommended competition encourages bank risk-taking and then increases individual bank instability. Their findings concern with the relationship between completion and systemic risk. They also found that the financial stability is increases by competition which decrees the systemic risk.it means the weak competition increase the correlation in the risk-taking factors of banks.

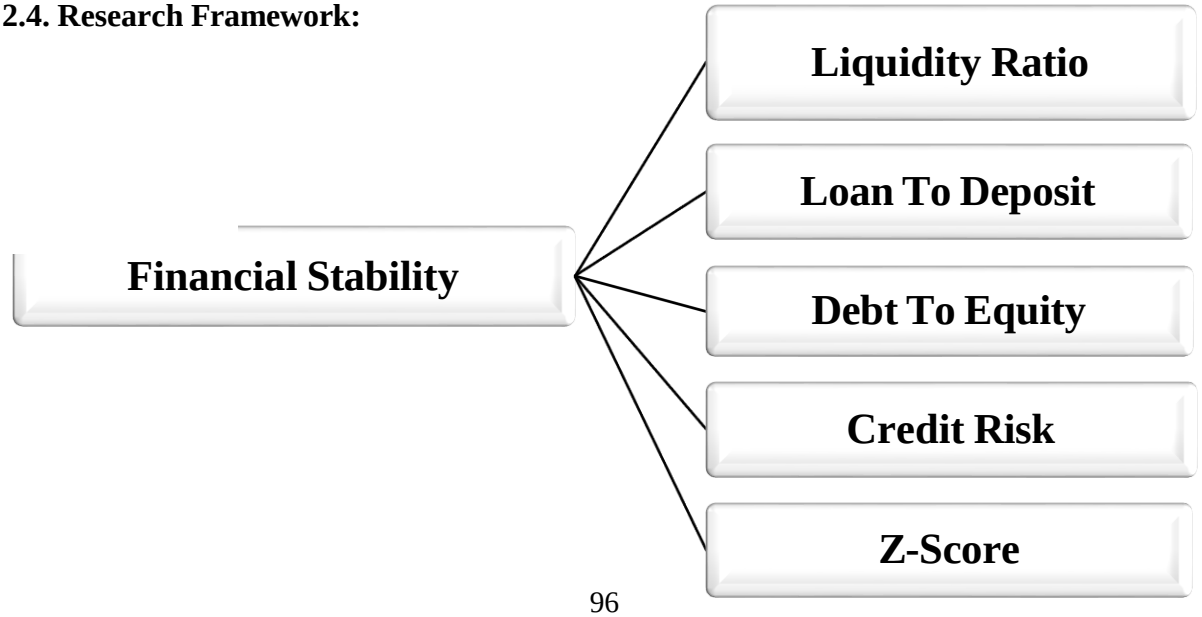
Fu, X et al (2014) has studied to investigate the effect of bank competition, awareness, regulation and national institutions on individual bank instability. They calculate their findings by the probability of bankruptcy and the bank's Z-score. The result found that the greater

attention raises financial instability and that lower pricing power also encourages bank risk revelation after regulatory for a variation of macroeconomic, bank-specific, regulatory and institutional factors. According to the results the restrictions for entry may benefits for banks stability while whereas stronger deposit insurance structures are related with superior bank instability.

Banks and other landers who frequently transfer credit risk to release capital for further loan intermediation are studied. The main objective of that research was to discover the design, prevalence and effectiveness of credit risk transfer (CRT). The costs and benefits for the efficiency and stability of the financial system were under observation. The conclusion was motivations of banks for CRT, risk retention; theories of CDO design; specialty finance companies. An example was provided as a graphic of CLO plan, if efforts to control borrower's default risks as issuers than the credit quality of the borrowers can depreciate Darrell Duffie (2008).

Beck, T et al (2013) examined the all factors like explores market, regulatory and institutional features that can explain the variation in the relationship between bank competition and bank stability was large in cross-country variation. They showed that if the competition increases than the banks fragility also increases in those countries which contain the factors of stricter activity restrictions, lower systemic fragility, better developed stock exchanges, more substantial deposit insurance and more operative systems of credit information sharing. Z-score for the measures of bank soundness and Lerner index for the measures of pricing power were used there.

2.4. Research Framework:



2.4.1. Hypothesis:

H1 (A): Islamic banks are more stable than the conventional banks on the basis of z-score analysis in Pakistan.

H1 (B): Conventional banks are more stable than the Islamic banks on the basis of z-score analysis in Malaysia.

H2 (A): Islamic banks are more stable than the conventional banks on the basis of ratio analysis in Pakistan and Malaysia.

H2 (B): Conventional banks are more stable than the Islamic banks on the basis of ratio analysis in Pakistan and Malaysia.

H3 (A): Islamic banks are more stable than the conventional banks on the basis of regression analysis in Pakistan.

H3 (B): Conventional banks are more stable than the Islamic banks on the basis of regression analysis in Malaysia.

3. Research Methodology

3.1. Research Design

This study is adopted the Z – score and the financial ratios (NPL ratio, liquidity ratio and Loan-to-Deposit ratio). These techniques were used to measure the financial stability of Islamic and conventional banks. The Data is collected from the annual reports of (2012-2016) selected banks from Pakistan and Malaysia. Quantitative data technique is used in this paper.

3.2. Population:

All banks are included both Islamic and conventional banks from Pakistan and Malaysia.

3.3. Sample size and sampling technique:

Two samples are used in this study. The first sample contains 10 conventional banks. The second sample contains 10 Islamic banks from Pakistan and Malaysia. There is 10 banks from one sector and 6 years data is used of each (10 institute * 6 years of each = 60) total 60 observations. Z-score analysis, Liquidity ratio, Nonperforming financing as well as Credit risk ratio are used or calculate to measure financial stability of Islamic banks and conventional banks in both countries (Pakistan & Malaysia).

3.4. Proposed Data Collection Procedures

All the data and selected variables are extracted from balance sheet as well as from profit and loss accounts available in their annual reports of each selected bank. Firstly, values are captured from reports and then entered in excel sheet to find variables.

3.5. Level of Analysis / Data Analysis Technique

In this research Z-score test, Ratio analysis, liquidity ratio, credit risk analysis, loan to deposit ratio, debt to equity ratio are calculated by using excel to find the relationship between independent variables. Regression analysis is done through penal data on EViews to find the relationship between dependent variables.

3.6. Variables and Calculations

Dependent Variables

Variable	Notation	Measure
Return on Assets	ROA	Net Income / Total Assets
Return on Equity	ROE	Net Income / Equity

Independent Variables

Variable	Notation	Measure
Credit Risk	CR	Loan Loss Provision / Loans (Bad Debts / Total Debts)
Liquidity Ratio	LIQ	Cash + Bank / Total Assets
Loan to Deposit	LD	Loans / Deposits
Debt to Equity	DB	Debt / Equity
Z-Score	Z-Score	Total Assets – ROAA / Standard Deviation of ROAA

3.7. Variables - Definitions & Interpretations Z

score:

Z score is one of the statistical tools used in measuring the trustworthiness and stability of banks. It has been found to be an honestly objective measure of soundness. Regarding the adoption of Z-score as a measure of financial stability of banks,

Z-score Formula

Z-Score = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E

A = Working Capital/Total Assets

B = Retained Earnings/Total Assets

C = Earnings before Interest & Tax/Total Assets

D = Market Value of Equity/Total Liabilities

E = Sales/Total Assets

OR

$$Z - \text{score} = \frac{\text{Total Equity/Total Asset} + \text{ROAA}}{Standard\ deviation\ of\ ROAA}$$

The value of Z-score is equal to zero than it is consider as average. Strong stability is measure according to the value of *z-* score if the value is higher than the stability is higher.

Liquidity Ratio:

Liquidity ratio tells to what extent an organization is able to meet its recurring financial obligations. It helps a lot to avoid defaulting on the financial requirements of the organization and helps it to keep away from experiencing financial suffering.

Loan-to-deposit ratio:

Loan to deposit ratio (LDR) is adopted to measure the credit risk circumstance of the banks. Regarding this, the loan is the advance for the conventional banks but in Islamic bank, it is financing.

Debt to Equity Ratio:

When company's or banks total liabilities are divide by the stockholders equity called debt to equity ratio. If the debt to equity ratio is less it means the company is running on its own finance rather than loans. So lower debt to equity ratio is best than the higher debt to equity ratio.

3.9. Empirical Models

(ROA) Return on asset as dependent variable:

$ROA_{it} = \beta 0 + \beta 1 CR + \beta 2\ LIQ + \beta 3\ DB + \beta 4\ LD_t + \beta 5\ Z\text{-score} + \varepsilon it$

Model 2: (ROE) Return on equity as dependent variable:

$ROE_{it} = \beta 0 + \beta 1 CR + \beta 2\ LIQ + \beta 3\ DB + \beta 4\ LD_t + \beta 5\ Z\text{-score} + \varepsilon it$

4. Results & Discussions

4.1. Ration Analysis - Mean

Table 1: Z-Score

No.	Islamic Banks	Mean		Conventional Banks	Mean
1	Al-Baraka Bank	4.89		Askari Bank Limited	4.32
2	Bank Islami Pakistan Limited	10.05		Habib Bank Limited	22.42
3	Dubai Islamic Bank Pakistan	8.31		Muslim Commercial Bank	6.86
4	Meezan Bank Limited	37.23		National Bank Limited	13.41
5	MCB Islamic Bank	2.11		United Bank Limited	12.06
6	Affine Islamic Bank Berhad	0.57		HSBC Bank Malaysia	0.12
7	Alliance Islamic Bank Berhad	0.26		Malayan Banking Berhad	2.26
8	Bank Islam Malaysia Berhad	1.87		Public Bank Berhad	1.09
9	CIMB Islamic Bank Berhad	1.81		RHB Bank Berhad	2.44
10	Hong Leong Islamic Bank	1.04		United Overseas Bank Bhd	0.70

Discussion (Table 1)

In overall analysis according to the above table there are 6 Islamic banks which has higher z-score value.

Only four conventional banks has more higher value than zero as compared to Islamic banks Habib Bank Limited (22.42), United Bank Limited (12.06), Malayan Banking Berhad (2.26),RHB Bank Berhad (2.44) , so Islamic banks are financially more strong than the conventional banks.

In Pakistan Meezan Bank Limited (37.23) is highly stable bank with the highest Z-score value. Habib Bank Limited with 22.42 z- score value is on number two. National Bank Limited with 13.41 z- score value is on number three. United Bank Limited with 12.06 z-score value is on number four. Bank Islami Pakistan Limited with 10.05 z- score value is on number five. Dubai Islamic Bank Pakistan with 8.31 z- score value is on number six. Muslim Commercial Bank with 6.86 z- score value is on number seven. Al-Baraka Bank with 4.89 z- score value is on number eight. Askari Bank Limited with 4.32 z- score value is on number nine. MCB Islamic Bank with 2.11 z- score value is on number ten.so there is no big difference between the stability of Islamic and conventional banks in Pakistan.

In Malaysia Malayan Banking Berhad 2.26 z- score value is on number one. RHB Bank Berhad with 2.44 is on number two. Public Bank Berhad with 1.09 is on number three. Bank Islam Malaysia Berhad with 1.87 is on number four. CIMB Islamic Bank Berhad with 1.81 is on number five. Hong Leong Islamic Bank with 1.04 is on number six. United Overseas Bank Berhad with 0.70 is on number eight. Affine Islamic Bank Berhad with 0.57 is on number eight.

Alliance Islamic Bank Berhad with 0.26 value is on number nine. HSBC Bank Malaysia with 0.12 value is on number 10.

The z- score value of both sectors of Pakistan is higher as compared to the sectors of Malaysia as well as they have big gap from number 0 .so the Islamic and conventional banks are more financially strong in Pakistan rather than Malaysia.

Verification of Hypothesis:

According to the above discussion Hypothesis H2 (A) is accepted and H2 (B) is rejected. It means the Islamic and conventional sectors are financially more strong or stable than Malaysian sectors.

Table 2: Credit Risk

No.	Islamic Banks	Mean		Conventional Banks	Mean
1	Al-Baraka Bank	6.62		Askari Bank Limited	7.91
2	Bank Islami Pakistan Limited	1.88		Habib Bank Limited	0.75
3	Dubai Islamic Bank Pakistan	2.42		Muslim Commercial Bank	0.94
4	Meezan Bank Limited	5.01		National Bank Limited	3.28
5	MCB Islamic Bank	3.48		United Bank Limited	1.69
6	Affin Islamic Bank Berhad	19.47		HSBC Bank Malaysia	1.12
7	Alliance Islamic Bank Berhad	0.15		Malayan Banking Berhad	5.41
8	Bank Islam Malaysia Berhad	5.90		Public Bank Berhad	8.05
9	CIMB Islamic Bank Berhad	0.43		RHB Bank Berhad	4.02
10	Hong Leong Islamic Bank	22.06		United Overseas Bank Bhd	3.87

Discussion (Table 2):

According to the above table 6 Islamic banks has the higher mean values from credit risk ratio it means that the Islamic banks are financially stable than the conventional banks in overall analysis of both countries.

Bank Islami Pakistan Limited (1.88), Dubai Islamic Bank Pakistan (2.42), Meezan Bank Limited (5.01), MCB Islamic Bank (3.48) four Islamic banks from the 5 Islamic banks have the higher mean value rather than conventional banks from Pakistan.so it is concluded that the Islamic banks are financially stable than the conventional banks in Pakistan.

Malayan Banking Berhad (5.41), Public Bank Berhad (8.05), RHB Bank Berhad (4.02) three conventional banks from the 5 selected conventional banks against the 5 Islamic banks has the greater credit risk value from Malaysia. So, in Malaysia the conventional banks (on the bases of credit risk) are more stable than the Islamic banks.

Table 3: Liquidity Ratio

No.	Islamic Banks	Mean		Conventional Banks	Mean
1	Al-Baraka Bank	8.63		Askari Bank Limited	6.31
2	Bank Islami Pakistan Limited	6.09		Habib Bank Limited	8.80
3	Dubai Islamic Bank Pakistan	8.15		Muslim Commercial Bank	6.84
4	Meezan Bank Limited	7.91		National Bank Limited	9.71
5	MCB Islamic Bank	3.84		United Bank Limited	10.47
6	Affine Islamic Bank Berhad	26.85		HSBC Bank Malaysia	18.92
7	Alliance Islamic Bank Berhad	4.90		Malayan Banking Berhad	8.17
8	Bank Islam Malaysia Berhad	7.17		Public Bank Berhad	3.98
9	CIMB Islamic Bank Berhad	12.84		RHB Bank Berhad	4.69
10	Hong Leong Islamic Bank	10.17		United Overseas Bank Bhd	12.89

Discussion (Table 3):

According to the table 3 the liquidity ratio of five Islamic banks from 10 Islamic banks is greater against the 10 conventional banks from both countries.so there is no big difference between the financial stability (on the basis of liquidity ratio) of both sectors in overall analysis of Pakistan and Malaysia.

But in Pakistan only Al-Baraka Bank (8.63) and Dubai Islamic Bank Pakistan (8.15) has the higher liquidity ratio from 5 Islamic banks where's three conventional banks Habib Bank Limited (8.80), National Bank Limited (9.71), United Bank Limited (10.47) has the greater liquidity ratio from 5 selected conventional banks. So, the liquidity ratio of conventional banks is higher than the Islamic banks in Pakistan.

In Malaysia Affine Islamic Bank Berhad (26.85), Bank Islam Malaysia Berhad (7.17), CIMB Islamic Bank Berhad (12.84) has the higher liquidity ratio from 5 Islamic banks where's two conventional banks Malayan Banking Berhad (8.17) and United Overseas Bank Berhad (12.89) has the greater liquidity ratio from 5 selected conventional banks. So, the liquidity ratio of conventional banks is lower than the Islamic banks in Malaysia.

Table 4: Loan to Deposit

No.	Islamic Banks	Mean		Conventional Banks	Mean
1	Al-Baraka Bank	54.58		Askari Bank Limited	16.90
2	Bank Islami Pakistan Limited	46.84		Habib Bank Limited	43.07
3	Dubai Islamic Bank Pakistan	63.72		Muslim Commercial Bank	47.65
4	Meezan Bank Limited	45.06		National Bank Limited	51.43
5	MCB Islamic Bank	18.81		United Bank Limited	49.12
6	Affine Islamic Bank Berhad	17.58		HSBC Bank Malaysia	0.90
7	Alliance Islamic Bank Berhad	5.86		Malayan Banking Berhad	0.12
8	Bank Islam Malaysia Berhad	0.12		Public Bank Berhad	0.10
9	CIMB Islamic Bank Berhad	1.35		RHB Bank Berhad	1.38
10	Hong Leong Islamic Bank	0.22		United Overseas Bank Bhd	2.03

Discussion (Table 4):

According to the above table 6 Islamic banks has the higher mean values from loan to deposit ratio it means that the Islamic banks are financially stable than the conventional banks (on the bases of loan to deposit ratio) in overall analysis of both countries.

Al-Baraka Bank (54.58), Bank Islami Pakistan Limited (46.84), Dubai Islamic Bank Pakistan (63.72), MCB Islamic Bank (18.81) four Islamic banks from the 5 Islamic banks have the higher mean value rather than conventional banks from Pakistan.so it is concluded than the Islamic banks are financially stable (on the base of loan to deposit ratio) than the conventional banks in Pakistan.

Alliance Islamic Bank Berhad (17.58) Alliance Islamic Bank Berhad (5.86) Bank Islam Malaysia Berhad (5.86) three Islamic banks from 5 Islamic banks against five conventional banks has the higher loan to deposit ratio. So, on the basis of loan to deposit ratio Islamic banks are financially stable or strong than the conventional banks in Malaysia.

Table 5: Debt to Equity

No.	Islamic Banks	Mean		Conventional Banks	Mean
1	Al-Baraka Bank	4.75		Askari Bank Limited	3.17
2	Bank Islami Pakistan Limited	6.07		Habib Bank Limited	4.49
3	Dubai Islamic Bank Pakistan	7.48		Muslim Commercial Bank	3.03
4	Meezan Bank Limited	16.85		National Bank Limited	5.42
5	MCB Islamic Bank	0.88		United Bank Limited	4.60
6	Affine Islamic Bank Berhad	2.78		HSBC Bank Malaysia	0.08
7	Alliance Islamic Bank Berhad	0.64		Malayan Banking Berhad	0.01
8	Bank Islam Malaysia Berhad	0.01		Public Bank Berhad	0.01
9	CIMB Islamic Bank Berhad	0.22		RHB Bank Berhad	0.12
10	Hong Leong Islamic Bank	0.03		United Overseas Bank Bhd	0.24

Discussion (Table 5):

In overall analysis of Pakistan and Malaysia there are only two Islamic banks from 10 selected Islamic banks has the lowest debt to equity ratio MCB Islamic Bank (0.88), Hong Leong Islamic Bank (0.03) it means conventional banks are financially stable then the Islamic banks in the bases of debt-to-equity ratio analysis in both countries.

MCB Islamic Bank (0.88) only one bank has lowest debt to equity ratio from 5 Islamic banks against the 5 conventional banks from Pakistan. Same case in Malaysia only one Islamic bank Hong Leong Islamic Bank (0.03) has lowest debt to equity ratio from 5 Islamic banks against the 5 conventional banks. So conventional sectors are more stable than the Islamic in both countries.

Hypothesis Verification:

On the base of the description of above table # 2,3 ,4, and 5 H2 (A) is accepted and H2 (B) is rejected it means According to ratio analysis that the Islamic banks are financially more stable than the conventional banks in Pakistan and Malaysia.

4.2. Regression Analysis

Table 6: Regression Analysis – Islamic & Conventional Banks (Overall Comparison)

ROA as Dependent Variable					ROE as Dependent Variable				
	Islamic		**Conventional**			**Islamic**		**Conventional**	
Variable	Coef	Prob.	Coef	Prob.	Variable	Coef	Prob.	Coef	Prob.
AGE	0.00	0.93	0.02	0.13	AGE	0.20	0.23	0.31	0.06
SIZE	0.00	0.54	0.01	0.67	SIZE	-0.01	0.95	-0.10	0.79
LIQ	-0.01	0.07	0.01	0.29	LIQ	-0.12	0.29	0.14	0.52
FON	-0.01	0.00	0.06	0.00	FON	-0.39	0.00	0.33	0.03
EQA	0.03	0.25	-0.60	0.00	EQA	1.99	0.00	-3.42	0.03
F-Stat	0.001721		0.000000		F-Stat	0.000000		0.023405	

Discussion: ROA as dependent variable. Table 6

Level of significance is 5% or p value is 5% according to this benchmark in the above table FON has p value less than 5 % in both Islamic and conventional sectors. EQA is also significant in conventional banks. EQA has more negative impact in conventional sector. LIQ and FON has negative impact but it is too much low. F-stat value is less than 5 in both sectors it means overall model is significant.

Discussion: ROE as dependent variable. Table 6

FON and EQA have significant values in both sectors. Other than all variables are insignificant in both sectors. LIQ and FON has negative impact with low percentage in Islamic banks. While EQA has more negative impact in conventional sector. Whole models are significant in both sectors.

Overall, Islamic banking sector is financially best in Pakistan and Malaysia.

Table 7: Regression Analysis – Islamic & Conventional Banks (Pakistan Comparison)

Discussion: ROA as dependent variable. Table 7

FON and EQA have significant values in both sectors. Farm size has negative impact on the both sectors but it is more in conventional banks. Value of F-state is less than 5% which means over all model is significant.

Table 7: Regression Analysis – Islamic & Conventional Banks (Pakistan Comparison)

ROA as Dependent Variable					ROE as Dependent Variable				
	Islamic		**Conventional**			**Islamic**		**Conventional**	
Variable	Coef	Prob.	Coef	Prob.	Variable	Coef	Prob.	Coef	Prob.
AGE	0.00	0.77	0.02	0.26	AGE	0.10	0.67	0.24	0.32
SIZE	-0.06	0.06	-0.02	0.63	SIZE	-0.24	0.64	-0.77	0.30
LIQ	0.05	0.43	-0.05	0.39	LIQ	0.99	0.31	-0.76	0.48
FON	-0.03	0.00	0.06	0.00	FON	-0.65	0.00	0.24	0.31
EQA	0.04	0.33	-0.56	0.00	EQA	2.16	0.00	-1.10	0.70
F-Stat	0.013941		0.000037		F-Stat	0.000000		0.150502	

Discussion: ROE as dependent variable. Table 7

FON and EQA has the significance value in Islamic banks. On the other hand, there is no value significant value of conventional sector. While firm size in both sectors has negative impact on the return on equity but it is more in conventional banks. LIQ has highly negative impact in conventional banks and highly positive impact in Islamic banks. FON has highly positive impact in conventional banks but highly negative impact in Islamic banks.

Overall Islamic banks are financial best in Pakistan.

Table 8: Regression Analysis - Islamic & Conventional Banks (Malaysia Comparison)

ROA as Dependent Variable					ROE as Dependent Variable				
	Islamic		**Conventional**			**Islamic**		**Conventional**	
Variable	Coef	Prob.	Coef	Prob.	Variable	Coef	Prob.	Coef	Prob.
AGE	0.00	0.96	-0.02	0.61	AGE	0.23	0.52	0.01	0.96
SIZE	0.00	0.66	0.04	0.31	SIZE	0.02	0.51	0.73	0.06
LIQ	-0.02	0.01	0.03	0.06	LIQ	-0.12	0.17	0.29	0.05
FON	-0.04	0.14	-0.48	0.25	FON	-0.79	0.04	-2.65	0.55
EQA	0.22	0.19	3.56	0.32	EQA	4.58	0.08	38.1	0.32
F-Stat	0.003042		0.107660		F-Stat	0.064284		0.078002	

Discussion: ROA as dependent variable. Table 8

All of the variables are insignificant in Islamic and conventional banks except LIQ in Islamic banks. Whole mode of Islamic banks is significant while for conventional banks, it iw insignificant. Bank age has negative effect in conventional banks while EQA has more positive impact on conventional banks. Overall Islamic banks are best in performance.

Discussion: ROE as dependent variable. Table 8

All of the variables are insignificant in Islamic and conventional banks except FON in Islamic banks and LIQ in conventional banks. Whole model of both sectors is insignificant. FON has

more negative impact in conventional banks than in Islamic banks. EQA has more positive impact in conventional banks. Age has more positive impact in Islamic banks. On the basis of ROE, the very little difference between both sectors. Overall Islamic banking sector is financially best is Malaysia.

Hypothesis Verification:

Based on all above regression results. Islamic banking sector is financially best based on ROA and ROE. It is best not only as overall analysis but also as country wise in Pakistan and Malaysia.

5. Conclusion:

This research opinion that the Islamic banks are financially more stable and can withstand any financial shock than the conventional banks in overall analysis of Pakistan and Malaysia on the base of ratio analysis. They are also able to control their credit risk ratio, liquidity ratio and loan to deposit ratio but their debt-to-equity ratio is in deficit.

Z-score analysis shows that the both sectors (Islamic and conventional) banks are financially more stable in Pakistan because they have the values with highest gap from zero or average. On the base of above all regression analysis Islamic banking sector is financially strong on ROA and ROE.it is best not only as overall analysis but also as country wise in Pakistan and Malaysia.

So, it is concluded that the Islamic banking is more stable financially than the conventional sectors in both countries.

6. Recommendation:

The future research can use the data as their concern while in this study 6 years data from 2011-2016 is used. They can use the pattern or analysis method of this paper to find the stability of banks in other countries. They can change their variables as well as they can include the external factor which influence the stability of banks while in this research paper external factors are examined.

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APPENDICES

Banks List

Country	Malaysia	Pakistan
Islamic Banks	1. Affin Islamic Bank Berhad 2. Alliance Islamic Bank Berhad 3. Bank Islam Malaysia Berhad 4. CIMB Islamic Bank Berhad 5. Hong Leong Islamic Bank	1. Al-Baraka Bank 2. Bank Islami Pakistan Ltd. 3. Dubai Islamic Bank Pakistan 4. Meezan Bank Ltd. 5. MCB Islamic Bank
Conventional Banks	6. HSBC Bank Malaysia 7. Malayan Banking Berhad 8. Public Bank Berhad 9. RHB Bank Berhad 10. United Overseas Bank Bhd	6. Askari Bank Ltd. 7. Habib Bank Ltd. 8. Muslim Commercial Bank 9. National Bank Ltd. 10. United Bank Ltd.