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Interest Rate and Banks Performance: A Comparative Analysis of Islamic and Conventional Banks

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Abstract: This study investigated the impact of interest rate on the performance of banks of Pakistan including both Islamic and conventional banks by using data from 2007 to 2018. The study used most widely used techniques of correlation and regression to differentiate the impact of KIBOR on both of the banking system (Islamic and conventional). Performance of both of the banking systems has been measured through return on assets and return on equity. To investigate the relationship, KIBOR (interest rate) has been considered as an independent variable, while LNTA, IMTA, TETA, LTA, OHETA, GDP, and CPI, have been used as control variables, and return on assets and return on equity have been used as dependent variables. Based on the findings, it is observed that KIBOR and other control variables including LNTA, IMTA, TETA, LTA, OHETA, GDP, CPI have significant impact on return on assets and return on equity in conventional as well as on Islamic banks of Pakistan.

Keywords: Interest Rate, Islamic Banks, Conventional Banks, Return on Assets, Return on Equity, Pakistan

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1. Introduction

Banking industry has constantly assumed a fundamental job towards the monetary improvement and prosperity of people in general. Banking assumes a significant role for a country which is crucial for the performance of a healthy economy, which also leads nations to acquire the status of established countries (Ahmad et al., 2021). In the 18th century, the industrial revolution has extended the exchange and business exercises by the initiation of vast scale of product creation. To encourage business processes banks have assumed a central status to facilitate such businesses for their needs. Nowadays in the global markets and the markets which have no borders, product/service quality and consumer loyalty has already increased the efficiency of banking which is a good indicator (Haddad et al., 2019). When an economy needs funds, banks are the entities that play an important role in assembling reserves and delivering speculation for profitable endeavors. They accept payments and deposits from its clients or new customers and advance those assets in the form of loans to the entrepreneurs or potential customers to enhance their investment activities that may make a significant impact and are inevitable for a healthy economy. Banks tend to develop a relation between the surplus and deficit units to make sure the promotion of the trade and business activities (Alzoubi, 2018). Financial intermediaries such as mutual funds are the medium that financial specialists use to give money as indicated by their needs by considering the dangers and returns connected to various activities. The funds are accumulated by banks which are accumulated by accepting funds which are in the form of deposits from the savers or depositors and make sure that the wealth is transferred to entrepreneurs or potential new customer for ventures that will be beneficial to both bank and its clients to have more inflows which benefit them. With the strong degree of change to increase the returns for the use of using those funds for a definite period advice is needed in how to accumulate those funds in the first place (Mamun et al., 2018).

The banking industry as a whole has a positive impact that helps to increase the funds and savings activities to encourage the commerce and craft activities in the budget. This segment is knowledgeable harsh variations in 71 years (Hassan et al., 2018). The competition between banks that is related to Islam their counterpart of ordinary banking is quite high. To increase their market share, form a connection among clientele's (Nomran & Haron, 2019). A competition to gain the most market share and customer intensity has increased between both baking segments that healthy for competitive market. Existence both industries in Pakistan has shaped a never-ending competition for patrons to increase their return on investments. To satisfy customers' expectations and generate greater profits quality form of quality services are served. A comparative study is based on the existing literature to analyze the impact of KIBOR on the performance between Islamic Bank and Conventional in Pakistan (Ahmad, 2020). This study examines how interest rates affects whether high or low of its rate impact directly the performance of the Islamic banks as well as conventional banks in Pakistan.

This study seeks to investigate the influence of KIBOR rate and inflation rate on the return on assets and return on equity of Islamic and conventional banks in Pakistan.

1.1 Literature Review

1.2 Pakistan's Banking History: A Developmental Perspective

Pakistan is the only country that has declared its sovereignty in the year of 1947 which has the distinction to be created in the name of religion. The Pakistani regime has no choice but to obey the law directed by the teachings of Allah without any delay on the basis of Objective Resolution, which was passed into law with unanimous votes in 1949. In Pakistan the religion of Islam is declared as national religion which was decided on the basis of the ruling law in which guidelines and protocols are strictly followed bestowed by the Divine Almighty (Karim et al., 2018). To eradicate the use of Riba which has infected the state of affairs a governing body had to be established Council for Islamic Ideology was formed with the premise to eradicate Riba in the year of 1962. It was decided in the year 1973 that Riba has to be completely eradicated from the system but nonetheless it still remains regardless steps were taken by the influence of Constitution of Pakistan, but the unfair use of means remains till this day. A council was formed for the eradication of the use of unfair means of Riba which sought advice from many capable stakeholders but resulted to no avail (Haddad et al., 2019).

Islamic banks started their own venture in Pakistan and proficient a vigorous struggle from its industry as well as from the industry of conventional banks. Now there are limited banks affiliated with Islam which are five with eighteen different services and commodities are offered by ordinary banks in different parts belonging to the state having to participation in rivalries with other banks environment providing good expectations to its consumers by offering just services (Pambuko et al., 2018). Banking clients increasingly worried concerning service value of their banks due to the rapid increase of awareness. Banks affiliated with Islam has diversity in quality grade commodity and commodity service such as profit loss accounts according to principles of Islam. To share the risk among the stakeholders it has setup a collective warfare for that purpose to fulfill the gap. For the case of conventional banking interest rate is one of the medium to make cash inflows and increase their clients return on their deposits it has made a history of unfaithful and exploitative practices which is harmful to a healthy economy (Ulussever, 2018).

Ordinary banks in Pakistan compete with banks linked to banks affiliated with Islam that requires performance evaluation. When there is a healthy competition in the market it is easier for new banks to arise and fulfills the requirement to conduct evaluation of bank performance and raise the customers' awareness for the improvement of service quality. An organizational performance might be weighed by the use of means which can be called by the term resource-based view as it is researched in detail by researchers like (Yanikkaya et al., 2018). It can adequately be linked with orientation of markets, organizing learning organization, human resources, improvement of quality of products and services. The presentation of Pakistani financial division has improved fundamentally and significantly after the privatization development. It has been indicated that Pakistan banks have an uncommon development as the best performing segment having banking resources greater at $75 billion. Assets that belong to the banks accumulate to 86% while total paid up capital that is invested by foreign investors contributed 46% of investment. Islamic banks are effectively contending with the ordinary banks by catching a sensible portion of the market as a result Islamic banks (Shawtari et al., 2019).

1.3 Performance

Organization is a planned body which is recognized to have achieved particular goals. It varies in different concerned resources such as stakeholders which are formulated to make sure the realization laid out objectives. Business association is essentially framed for benefit by performing legitimate exercises. Bank is additionally one of the business associations that offer an enormous number of items and administration for benefit. Association as it is objective arranged, limit kept up and socially built frameworks of human movement (Mkadmi, 2020). Each association is attempting to upgrade the potential of people for large improvement of the entire firm. Execution assessment empowers the association to survey its productivity and viability over some stretch of time by contrasting and its targets or with showcase pioneer to defeat its shortcomings. Specialists investigated various pointers to quantify authoritative execution (Haddad et al., 2019).

There are a few criteria to assess the exhibition of banks for effective endurance in the time of globalization and rivalry. Numerous perspectives like gainfulness, liquidity, the board execution, influence, and efficiency, and advancement, nature of items, management and deals impact can assess any association. Commencement of Islamic banks required the significance relationship to contend with conventional banks in Pakistan (Ali & Naeem, 2019). Ahmad et al. (2021) focused at financial and hierarchical variables. They presumed that authoritative elements affected the gainfulness more than that of the financial variables. Organizational performance emulates an association's understanding and information in regard to client needs and desires. It is accounted for that an organization can augment the consumer loyalty for better benefit, expanded deals variety that will eventually improve its exhibition for benefits which are to be fruitful later on (Haddad et al., 2019).

1.4 Performance Evaluation of Islamic Banks

Banks are in search for additional clients with one another other with a healthy duel with. There are a few estimates that were embraced by the scientists to survey the bank execution like gainfulness, liquidity, the executives' execution, overall industry, sales volume, advancement, efficiency, and human resource, nature of equipment and administration and so forth. There are distinctive subjective and quantitative instruments that are utilized to quantify the bank execution (Alzoubi, 2018). The proportion of execution assessment ought to be important. It reflects the executives' clearness about association's present circumstance and its reasonability to accomplish its objectives. It ought to be sensible as it tends to be dealt with effectively dependent on basic figuring and control of information. Its obligation must be quantifiable as it ought to be measurable and operationalized. It might be material, as it ought to give material consequences of huge improvement (Hassan et al., 2018).

Khalil & Siddiqui (2019) analyzed the impact of value on the presentation of an association. The research measured the organization influence on utilizing monetary proportions, for example, profit on investors' assets, return on absolute resources and work efficiency proportion. It is discovered that there is a positive connection between key quality markers and budgetary execution parameters. It is accounted for that workers of residential banks don't contribute towards benefit. In any case, representatives of remote banks essentially contributed towards productivity.

1.5 Commercial Bank and Islamic Banks Performance

Mamun et al. (2018) focused on the comparison of Islamic banks against conventional banks that are based in Turkey. This research can be shown as a benchmark in Turkey when contrasted with different nations, as Turkey remains as a model for the world in usury free financial framework. The research was led by methods which include regression model during the time of 2001-2009. The CAMELS approach is used to survey the administrative and monetary execution of banks. The outcomes denote that Islamic banks working in Turkey perform better in profitability and asset management ratios in contrast conventional banks yet slack in sensitivity to market risk criterion. These discoveries may principally be attributed to the way that these banks permit allow lower provisional losses in contrast with conventional banks and have some tax advantages. The show that there is favorable results for potential entrants into Turkish banking sector particularly those that are interested in foreign investors (Mamun et al., 2018).

Recognizing the effect of the interest rates upon Islamic banks is vital to comprehend the commitment of such organizations to the money related strength, structuring financial approaches forming a proper risk management approach to these institutions. This article examines and researches the effect of financing cost stun upon the stores and advances held by the traditional and Islamic saves money with specific reference to the period between December 2005 and July 2009 dependent on Vector Error Correction (VEC) system. It is hypothetically anticipated that the Islamic banks, depending on premium free banking, will not be influenced by the loan costs; in any case, in simultaneousness with the past investigations, the article finds that the Islamic banks in Turkey are unmistakably impacted by financing costs (Nomran & Haron, 2019). Pambuko et al. (2018) has used nine-ratio relating to finance which are assembled into three portions, it incorporates profitability, liquidity and capital/leverage ratios. Ordinary bank's arrival on resource has demonstrated improved pattern which implies that commercial bank effectively uses their assets and resources, and upgrading their business advertise development.

1.6 Research Hypotheses

We have drawn the following two hypotheses based on the review of previous studies:

H1: Interest rate has a positive influence on performance of conventional banks.

H2: Interest rate has a positive influence on performance of Islamic banks.

2. Method

2.1 Research Design

There are two ways to properly examine the data which have been collected for the research study. One is qualitative analysis and the other is quantitative analysis. This research has been based on secondary source of data. So, quantitative research method has been used in this study.

2.2 Research Nature

Nature of this research study has been exploratory, as this study is based on exploring the relationship between KIBOR (interest rate) and performance of conventional and Islamic banks in Pakistan.

2.3 Research Data

The following are the sample size, data and type of data which are discussed below:

2.3.1 *Sampling*

Total banks that operates in Islamic Republic of Pakistan is 54, in the financial year 2018. The sample of this research study consists of ten banks that are operating in Pakistan, out of ten; five banks are of conventional banks whereas as remaining five are of full-fledged Islamic Banks.

Table 1: Sample of the Research

S. No.	Islamic Banks	Conventional Banks
1	Al-Baraka	Allied-Bank
2	Bank-islami	Askari-Bank

3	Dubai-islamic	Habib-Bank
4	Meezan-bank	Bankal-Habib
5	MCB-Bank Ltd.	Alfalah-Bank

Source: Author's findings

2.3.2 *Data Collection*

Data is gathered from secondary sources based on annual reports from which financial positions statements and income statements of both conventional and Islamic banks are taken. Data is also gathered from SBP, where KIBOR is taken out of the published economic data.

2.3.3 Measurement of Variables

In order to achieve the research objectives, the object is to measure the performance of Conventional and Islamic banks by financial ratios which are the dependent variable whereas the independent variable Interest Rates and also with the use of control variables which are Macroeconomic Variables and Bank Specific Characteristics which are discussed in the following table.

Table 2: Key Variables

Variable	Proxies	Definition
Profitability	ROA	(Profit Before Tax/ Total Assets) *100
	ROE	(Profit Before Tax/ Total Equity) *100
Bank Specific Characteristics	Size	Log of Total Assets
	Equity	Total Equity / Total Assets
	Overhead Expenses	Total Overhead Expenses/ Total Assets
	Loan	Total Loans / Total Assets
Macroeconomic Variables	Inflation	Gathered from world bank
	GDP Growth	Gathered from world bank

Source: Author's findings

2.3.4 Data Analysis Technique

To convert the raw data into a form that is readable also known as informative form data analysis technique is used. There are numerous methods to configure the data, it is helpful method to make the information optimizable to a form that is easy to read and help decision makers to make decisions on the raw data that is converted to informational data.

2.3.5 Formulas

The following regression model is used independently for each type of banks to analyze the relationship among the variables.
Please Write the method used in the article with details. Place Tables and Figures in the article.

For Islamic banks the equations are as follows:

$ROA_{IT} = \alpha + \beta KIBOR_{IT} + \beta\ LNTA_{IT} + \beta IMTA_{IT} + \beta\ TETA_{IT} + \beta\ LTA_{IT} + \beta\ OHETA_{IT} + \beta GDP_{IT} + \beta CPI_{IT}$

$ROE= \alpha + \beta KIBOR_{IT} + \beta\ LNTA_{IT} + \beta IMTA_{IT} + \beta\ TETA_{IT} + \beta\ LTA_{IT} + \beta\ OHETA_{IT} + \beta GDP_{IT} + \beta CPI_{IT}$

For Conventional Banks the equations are as follows:

$ROA_{CT} = \alpha + \beta KIBOR_{CT} + \beta\ LNTA_{CT} + \beta IMTA_{CT} + \beta\ TETA_{CT} + \beta\ LTA_{CT} + \beta\ OHETA_{CT} + \beta GDP_{CT} + \beta CPI_{CT}$

$ROE_{CT} = \alpha + \beta KIBOR_{CT} + \beta\ LNTA_{CT} + \beta IMTA_{CT} + \beta\ TETA_{CT} + \beta\ LTA_{CT} + \beta\ OHETA_{CT} + \beta GDP_{CT} + \beta CPI_{CT}$

Where
ROA = Return on Assets.
ROE = the Return on Equities.
$LNTA_{CT}$ = natural log of total assets for conventional banks.
$LNTA_{IT}$ = natural log of total assets for Islamic banks.
IMTA = interest margin to total assets
TETA = Total Equity to Total Assets
LTA = Loan to Total Assets
OHETA = Overhead expenses to Total Assets.
GDP = Gross Domestic Product
CPI = Consumer Price Index, Inflation
α = the intercept.
B = the slope.
e = error of the regression model.

3. Findings and Discussions

3.1 Descriptive Statistics

Table 3: Descriptive Statistics

Variables	Mean	Std. Deviation	Mean	Std. Deviation
	Conventional		Islamic	
ROA	.01180	.00637	.00344	.00861
ROE	.19040	.10178	.06174	.09747
KIBOR	.09931	.02905	.09931	.02905
LNTA	8.79940	.31449	7.98494	.45612
IMTA	.03433	.00765	.03088	.01148
TETA	.05965	.01409	.13708	.17877
LTA	.06610	.09903	.02866	.02451
OHETA	.08010	.17621	.03579	.01211
GDP	.08946	.05032	.08946	.05032
CPI	.03995	.01433	.03995	.01433

Source: Author's findings

The summary values for the main variables used in our study for Islamic and Conventional banks are shown in table 3. The results show that return on equity is positive with a result of 6.17% for Islamic banks while the return on equity for conventional banks is 19.04% which means that conventional banks are using their equity efficiently. Further, we come to know that return of assets is positive with a value of 0.344% for Islamic banks while return on assets for conventional banks is 1.180% which means that conventional banks are performing better than Islamic banks and getting a return higher on their invested capital as compared to Islamic banks. The standard deviation for Islamic and conventional banks is also observed. Firstly, in the case of return on assets, the standard deviation for conventional banks is 0.637% and is deviating at a mean value of 1.180% while in the case of Islamic Banks the standard deviation is at 0.861% and is deviating at a mean value of 0.344%. Finally, in the case of return on equity, the standard deviation for conventional banks is 10.17% and is deviating at a mean value of 19.04% while in Islamic Banks the standard deviation is at 9.74% and is deviating at a mean value of 6.17%.

3.2 Correlation Analysis

Table 4: Pearson Correlation Matrix Islamic Banks

Variables	ROA	ROE	LNTAC	IMTA	TETA	LTA	OHETA	GDP	CPI	KIBOR
ROA	1									
ROE	.903**	1								
LNTA	.462**	.627**	1							
IMTA	.281*	.335**	.198	1						
TETA	-.218	-.307*	-.379**	-.244*	1					
LTA	-.317*	-.370**	.047	-.336**	.249*	1				
OHETA	.550**	-.561**	-.757**	-.032	.129	-.097	1			
GDP	.217	.269*	.513**	.036	-.241*	-.034	-.420**	1		
CPI	-.215	-.257*	-.576**	.046	.245*	-.109	.503**	-.915**	1	
KIBOR	-.151**	-.199*	-.589**	.079	.350**	-.050	.452**	-.903**	.907**	1

Note: * and ** represent the level of significance at 5% and 1% respectively

Source: Author's findings

The table above shows the relationship that exists between LNTA and ROA is significant with the magnitude of .462 and in a positive direction. Whereas, relationship that exists between LNTA and ROE is significant with the magnitude of .627 and in a positive direction. In addition, relationship that exists between IMTA and ROA is insignificant with the magnitude of .281 and in a positive direction. However, relationship that exists between IMTA and ROE is insignificant with the magnitude of .335 and in a positive direction. In addition, relationship that exists between TETA and ROA is insignificant with the magnitude of .218 and in a negative direction. Furthermore, relationship that exists between TETA and ROE is insignificant with the magnitude of .307 and in a negative direction. Similarly, relationship that exists between LTA and ROA is insignificant with the magnitude of .317 and in a negative direction.

Whereas, relationship that exists between LTA and ROE is insignificant with the magnitude of .370 and in a negative direction. In addition, relationship that exists between OHETA and ROA is significant with the magnitude of .550 and in a positive direction. However, relationship that exists between OHETA and ROE is significant with the magnitude of .561 and in a negative direction. In addition, relationship that exists between GDP and ROA is insignificant with the magnitude of .217 and in a positive direction. Furthermore, relationship that exists between GDP and ROE is insignificant with the magnitude of .269 and in a positive direction. In addition, relationship that exists between CPI and ROA is insignificant with the magnitude of .215 and in a negative direction. However, relationship that exists between CPI and ROE is insignificant with the magnitude of .257 and in a negative direction. In addition, relationship that exists between KIBOR and ROA is insignificant with the magnitude of .151 and in a negative direction.

Furthermore, relationship that exists between KIBOR and ROE is insignificant with the magnitude of .199 and in a negative direction.

Table 5: Pearson Correlation Matrix Conventional Banks

Variables	ROA	ROE	LNTAC	IMTA	TETA	LTA	OHETA	GDP	CPI	KIBOR
ROA	1									
ROE	.879*	1								
LNTA	.096	-.051	1							
IMTA	.605*	.375*	-.074	1						
TETA	.639**	.226	.358**	.677**	1					
LTA	-.147	-0.255	.576*	-.071	.161	1				
OHETA	-.135	-.189	.611*	-.111	.106	.947*	1			
GDP	-.199	-.080	.506*	-.630**	-.252*	.233	.313*	1		
CPI	.163	.048	-.537**	.555*	.237	-.236	-.287*	-.915**	1	
KIBOR	.242*	.118	-.557	.594*	.270*	-.251*	-.334*	-.903**	.907*	1

Note: * and ** represent the level of significance at 5% and 1% respectively
Source: Author's findings

The table above shows the relationship that exists between LNTA and ROA is insignificant with the magnitude of .096 and in a positive direction. Whereas, relationship that exists between LNTA and ROE is insignificant with the magnitude of .051 and in a negative direction. In addition, relationship that exists between IMTA and ROA is significant with the magnitude of .605 and in a positive direction. However, relationship that exists between IMTA and ROE is insignificant with the magnitude of .375 and in a positive direction. In addition, relationship that exists between TETA and ROA is significant with the magnitude of .639 and in a positive direction. Furthermore, relationship that exists between TETA and ROE is insignificant with the magnitude of .226 and in a positive direction. Similarly, relationship that exists between LTA and ROA is insignificant with the magnitude of .147 and in a negative direction.

Whereas, relationship that exists between LTA and ROE is insignificant with the magnitude of .255 and in a negative direction. In addition, relationship that exists between OHETA and ROA is insignificant with the magnitude of .135 and in a negative direction. However, relationship that exists between OHETA and ROE is insignificant with the magnitude of .189 and in a negative direction. In addition, relationship that exists between GDP and ROA is insignificant with the magnitude of .199 and in a negative direction. Furthermore, relationship that exists between GDP and ROE is insignificant with the magnitude of .080 and in a negative direction. In addition, relationship that exists between CPI and ROA is insignificant with the magnitude of .163 and in a positive direction. However, relationship that exists between CPI and ROE is insignificant with the magnitude of .048 and in a positive direction. In addition, relationship that exists between KIBOR and ROA is insignificant with the magnitude of .242 and in a positive direction. Furthermore, relationship that exists between KIBOR and ROE is insignificant with the magnitude of .118 and in a positive direction.

3.3 Regression Analysis

Table 6: Determinants of Profitability

Variables	ROA		ROE	
	Islamic Bank	Conventional Bank	Islamic Bank	Conventional Bank
LNTAC	.120*	-.058*	.574***	-0.064**
	(.552)	(-.286)	(3.215)	(-0.256)
IMTA	.073***	.457**	.008**	0.543*
	(.533)	(2.345)	(.070)	(2.210)
TETA	-.095	.433***	-.092	0.015
	(-.675)	(2.296)	(-.790)	(0.064)
LTA	-.313**	-.174*	-.369***	-0.841*
	(-2.375)	(-1.231)	(-3.397)	(-1.868)
OHETA	-.536***	.271*	-.251*	0.626**
	(-2.882)	(.843)	(-1.634)	(1.330)
GDP	.196	-.187	.316	0.217
	(.557)	(-.600)	(1.091)	(0.536)
CPI	-.166	.176	-.167	-0.373
	(-.480)	(.580)	(-.585)	(-0.939)
KIBOR	.502*	.250**	.702***	0.288*
	(1.450)	(.825)	(2.464)	(0.761)
F-Statistics	4.752	6.129	9.306	2.14
Adjusted R	.390	.466	.586	0.16
F-Sig	.000401	.000041	.000	0.054
N	47	47	47	47

Note: *, ** and *** represent the level of significance at 10%, 5% and 1% respectively

Source: Author's findings

Table 6, presents the results of regression analysis for both banking industries. It is observed that for Islamic banking, KIBOR affects both return on assets and return equity which means change in KIBOR may affect ROA or ROE positively or negatively. Regression analysis has shown that KIBOR (interest rate) is having a relation with ROA or ROE which gives an indication that increase in KIBOR (interest rate) will have a significant impact on return on assets and return on equity in Islamic banks of Pakistan. On the other hand, we observe that in case of conventional banking, KIBOR affects return on assets but not return on equity which means change in KIBOR may affect ROA or ROE positively or negatively. Regression analysis has shown that KIBOR (interest rate) is having a significant relation with ROA and does not a significant relationship with ROE which gives an indication that increase in KIBOR (interest rate) will have a significant impact on return on assets and insignificant impact on return on equity in conventional banks of Pakistan.

4. Conclusion

Objective of this study has been to analyze the impact of KIBOR on performance of conventional and Islamic banks in Pakistan. In this study, KIBOR has been considered as an independent variable. Whereas, LNTA, IMTA, TETA, LTA, OHETA, GDP, and CPI have been used as the control variables. Whereas, return on asset and return on equity have been considered as dependent variable. In addition, Islamic and conventional banks of Pakistan have been chosen for investigating the relationship between variables mentioned above. To investigate the relationship, secondary sources of data have been used for data collection regarding variables of this study and to assess the impact of each variable in this study. Historical data has been collected concerning KIBOR, LNTA, IMTA, TETA, LTA, OHETA, GDP, CPI, return on assets, and return on equity, from annual financial statements of conventional and Islamic banks in Pakistan.

However, a scale has been set which ranges 5% of the significance level in order to test the acceptance and rejection of hypotheses of this study. Based on the significance level, H_1 and H_2, would be accepted or rejected. Based on significance level of KIBOR (independent variable) and LNTA, IMTA, TETA, LTA, OHETA, GDP, CPI (control variables), for return on assets and return on equity (dependent variable), H_1 and H_2 have been accepted and proved significant. Therefore, it has been proved that KIBOR and LNTA, IMTA, TETA, LTA, OHETA, GDP, CPI have certain impact on return on assets and return on equity in conventional and Islamic banks of Pakistan.

4.1 Recommendations for Future Study

The research was based on different banking sectors with the analysis of interest rate. The data gathered was of 12 years and was small due to the circumstance they were limited banks that are related to Islamic products which is five as matched by 18 non-Islamic banks. Research was completed with the availability of secondary data which is not optimal and can be changed with the passage of time by the primary data. Only four dependent variables were taken to determine the position of both banking sectors performance out of which three dependent variables were highly significant for the study for Islamic banks and two dependent variables were significant for conventional banking.

4.2 Limitations of the study

Many other studies included in the literature has used sophisticated and different variety of models having data with many observations but in case for this study that data was collected was limited and didn’t provide enough data to get good results in which two calculations were affected with close calls the study use about ten samples. For the purpose of comparative analysis, to calculate performance, it is measured by Interest Rates as dependent variable and financial ratios as independent variables.

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