

A COMPARATIVE INVESTIGATION INTO THE FINANCIAL PERFORMANCE OF BANKING INDUSTRY OF PAKISTAN DURING COVID-19

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Abstract

Aim of the Study: The aim of the current study is to explore the variations into the financial performance of Islamic and conventional banks during COVID period in Pakistan.

Methodology: The researcher introduced indicators of CAMELS ratio and conducted comparative analysis of the financial performance taking annual data from financial reports of sample banks from Pakistan from 2018-2020 named as COVID period. The study applied descriptive statistics for comparing and classifying chosen CAMELS indicators of sample banks. For comparison, independent sample t-test was employed to confirm the significance of differences in the means of selected indicator' ratio.

Results: The results of the study indicate the existence of significant differences between the financial performances of both banking groups during COVID Period. The presence of differences depends on the variables investigated. It is concluded that despite of the global crisis caused by COVID, the financial performance of traditional and Islamic banks remained stable. Further, Islamic banks have been successful in maintaining their stability during these periods of stress shown by low operating and loans ratio.

Conclusion: Based on the obtained results, the study recommends that during stress phases, banking managers should enhance assets and earning quality of banking portfolios so that the confidence of the stakeholders can be increased during the stress timings.

Keywords: Islamic, Performance, CAMELS, Stress, Banking, COVID-19

1. INTRODUCTION

Corona virus started in 2019, became one of the most influential economic stressors in modern history and driven adverse effects on almost every sector of the economy (Ferrari, 2021). Apart from the high rate of causalities, the restrictions imposed to save human life

impacted economic and social activities throughout the globe. The rapid spread of the virus caused many uncertainties which lead to global crisis. Despite of tragic losses of many lives, the virus caused health crisis, and economic slowdown as well (Yoo & Managi, 2020). According to international monetary fund (IMF), the total global GDP can suffer from economic loss of over 9 trillion dollars during 2020-21 (IMF, 2020). As governments are allocating huge amounts to treat infected people and providing them sanitized environment and places, although there is gradual accumulation in economic losses caused by suspended/controlled economic activities due to lockdowns and other potential remedies to avoid infections (Samadi, Owjimehr, & Nezhad Halafi, 2020). The potential consequences spread by this crisis are expected to be larger than faced by any historical crisis (Jaspal, Assi, & Maatouk, 2020). This factor create a room for economic policymakers to create coordinated economic reactions to come out from the economic losses suffered by this pandemic.

Although the adverse effects of COVID-19 are devastating on global economies, while the virus provided the most significant shocks to the financial system (Jobst & Stole, 2020). The movement restrictions due to virus spread has created many hurdles for the financial service providers in the provision of consistent and smooth financial services to their linked stakeholders. This factor raised many questions regarding the resilience of Islamic financing in long run. Compared to the conventional banking during the period of crisis, Islamic banks are found to be highly exposed to the real economy. Resultantly, the slowdown of the real economy will cause reduction in financial activity leading towards low revenues forecast. This low growth of revenue during pandemic situation, will lead towards low asset quality and liquidity position. The reduction in liquidity will further leads towards the delays in the repayment of existing financing in many jurisdictions where Islamic banking is practiced leading towards banking distress. Keeping in view these factors, the study of banking response to the situation caused by COVID-19 becomes critically important as it will be end up with the formulation of appropriate financial policy measures to ensure the resilience and stability of the banking system.

As the study objective is to appraise the impact of stress caused by COVID-19 on the performance of Islamic banks, having structural difference among banks, it is expected that Islamic banks might be less exposed to crisis than conventional banks. Islamic banks do their business based on the risk sharing principle, therefore, this participatory financing enable them to be more capable to handle the stress caused by the crisis. So, the current study

assumes little impact on the performance of the Islamic banks compared to conventional banks. Financial performance indicators are used to assess the success or failure of the banking companies in managing their assets. While before and during the outbreak, variations in the financial performance of Islamic banks can be published in the annual financial reports reflected by financial ratios (Safitri & Mukhibad, 2020). Therefore, the current study applied financial ratios as a proxy for financial performance using CAMELS framework (capital, assets, management, earning and liquidity). This sample of the study consists of Islamic and traditional banks registered on Pakistan Stock Exchange (PSE) to compares the performance of both banking groups during the crisis caused by COVID-19. Many researchers in the past has highlighted the importance of CAMELS framework in determination of bank performance (Awan, 2009; Babar & Zeb, 2011; Siraj & Pillai, 2012; Babar, Latief, Ashraf & Nawaz, 2019). Daly & Farikha, (2017) in this regard pointed out that directors of each bank must be aware of the CAMEL framework of their institutions as the rating of their institutions would be on various holistic indicators, apart from the other regulatory issues which mainly focus on risk assessment, risk management and quality. From the policymakers' point of view, it would be interesting to conduct empirical research on the topic to explore that how the financial performance of Islamic banks varies due to economic crisis caused by the COVID-19.

2. THEORETICAL JUSTIFICATION

Based on the fact that the financial stability of any economy is strongly linked to the resilience ability of banking to handle distress, it is important to evaluate the ex-ante difficulties to put in possible corrective actions to avoid adverse situations (Chen et al., 2013). Theory provides at least two justifications for the maintenance of the financial stability in the banking industry. The Supply Leading Hypothesis (SLH), suggests that stability in the performance of the banking tend to have a positive linkage with economic growth (Hogart et al., 2002; Jokipii & Monnin, 2013; Creel et al., 2015). The past empirical literature exploring the SL hypothesis argued that a stable banking system is capable to provide financing to the private sector hence, facilitating economic growth. The alternative argument is also provided by the Demand Following Hypothesis (DFH). The DF Hypothesis debates that both economic growth and performance of banking sector are associated positively (Carby et al., 2012; Louzis et al., 2012). Due to the fact that fast growing economies needs credit and funding more than other economies, therefore under the argument of DF hypothesis the study

assumes a positive linkage between banking soundness and economic growth. Now, during the phase of COVID-19, there has been ban on social gathering and movement restrictions were there. Due to which, the banking sector has faced a slump regarding deposits and withdrawals. All such factors have added difficulties for the banking to augment timely supply of funding to needy units. Therefore, the performance of the banking sector is important to determine during this period. So, the present study assumes that the performance of the banking sector is impacted due to COVID-19 and this factor is more pronounced in conventional banks than Islamic banks.

3. METHODOLOGY

The current study is explanatory and aim of the study is to examine differences in behavior of the study variables before and after the break of COVID-19 pandemic. The current research is quantitative because the selected variables and their association with dependent variable is constructed and examined using financial measurement. The data is collected from published financial statements of the individual bank and since the aim of the study is to compare the performance of Islamic banks before and after the outbreak of COVID-19, the study incorporated data from 2018-20. The study population consists of all traditional and Islamic banks of Pakistan. The study sample is further filtered out on the basis of some similar character like size, deposits, number of bank branches to make the inferences more realistic. Table-1 points out the list of selected sample banks for study analysis.

Table 1: *List of Sample Banks for Study Analysis*

S. N.	List of Sample Traditional Banks	List of Sample Islamic Banks
1.	Habib Bank Limited	Meezan Bank
2.	National Bank of Pakistan	Bank Islamic Pakistan
3.	United Bank Limited	Al-Baraka Bank
4.	MCB Bank	Dubai Islamic Bank

For meeting the desired objectives, the current research comprehend the methodology adopted by Qureshi & Kalim (2021) in their analysis regarding the determination of appropriate ranking and performance of particular bank using CAMELS indicators. The stability of the banking business can be best translated in term of CAMELS approach as this approach is considered internationally accepted to gauge the financial performance and standing of banks and further provides elasticity for on as well as off-site examination. The

study is forced to apply proxies for several bank specific indicators of CAMELS as data about the original CAMELS indicators is not available publicly (Gupta & Kashiramka, 2020). Using these indicators adopted in the study of Qureshi & Kalim (2021), the current study applied appropriate proxies for CAMELS indicators. The adopted bank specific ratios for each CAMELS indicator and their definition are given in table-2.

Most of the existing literature argued that regression analysis based on several performance indicators does not has the ability to offer a certain conclusion. Further, use of CAMELS indicators allows us to differentiate banking performance based on many indicators of CAMELS than relying on single performance measure because financial ratios are now become inadequate to map the different financial characteristics of financial institutions.

Table 2: *Definition of Selected CAMEL Indicators*

S. No.	CAMELS Indicator	Symbol	Formula
1.	Capital Adequacy (CAD)	TCA	Total Capital to Total Assets Ratio
		TLC	Total Loans to Total Capital Ratio
		CAR	Tier-1 Capital Ratio
2.	Assets Quality (AQY)	TLA	Total Loans to Total Assets Ratio
3.	Management Efficiency (MEF)	OEA	Operational Expense to Total Assets Ratio
		IEA	Interest Expense to Total Assets Ratio
4.	Earnings Quality (EQY)	NIA	Net Income to Total Assets Ratio
		NIIA	Net Interest Income to Total Assets Ratio
5.	Liquidity (LIQ)	LAR	Total Liquid Assets to Total Assets Ratio
		LAD	Total Liquid Assets to Total Deposit Ratio
6.	Sensitivity (SEN)	PGL	Provision to Gross Loans

The current study applied descriptive statistics for achieving study objectives for comparing and classifying chosen CAMELS indicators of sample banks. For comparison, independent sample t-test was employed to confirm the significance of differences in the means of selected indicator' ratio. The purpose of independent sample t- test is to specify that means of each performance variable is significantly different between two groups.

4. RESULTS AND CONCLUSION

The role of banking industry cannot be ignored within an economy where banks are considered crucial for economic growth. As a suppliers of the finance to different sectors of

the economy, banks create their value and competitive advantage based on the products offered into the market. Since the inclusion of Islamic financing into the banking business, the banking business has diversified from their core area and now along with the interest income, banks can also earn from other revenue sources arising out of Islamic counterparts. In this regard, most of the commercial banks have included Islamic financing into their traditional banking business which is currently called dual banking (Sarifudin & Faturohman, 2017). Since, there are many that rely pure on Islamic financing system and therefore comes under the umbrella of Islamic banks.

Table 3: Comparison of Main Performance Variables during Distress Periods

Mean (%Age)											
			2018-19		2019-20		Overall Sample Period		2018-19	2019-20	Overall Sample
Sr. No.	Performance Variable	Proxy	Islamic Banks	Traditional Banks	Islamic Banks	Traditional Banks	Islamic Banks	Traditional Banks	Performance Comparison		
1.	Capital Ratio	CAR	14.67	15.96	15.70	17.13	15.09	16.68	Lower	Lower	Lower
2.	Return on Assets	ROA	5.19	5.85	5.70	6.80	5.30	6.15	Lower	Lower	Lower
3.	Return on Equity	ROE	8.54	9.09	11.54	10.95	9.972	10.26	Lower	Higher	Lower
4.	Operating Profits	EBITDA	1.15	2.44	1.51	2.63	1.32	2.62	Lower	Lower	Lower
5.	Interest Margin	NIM	5.23	3.10	5.32	3.26	5.23	3.97	Higher	Higher	Higher
6.	Non-Performing Loan	NPL	6.64	7.43	8.95	8.53	7.89	8.09	Lower	Higher	Lower
7.	Profit per Employee	PPE	15.11	11.97	19.56	18.17	18.24	15.89	Higher	Higher	Higher
8.	Profit per Branch	PPB	13.57	13.34	11.71	19.39	12.64	16.93	Higher	Lower	Lower

The banking financial strength is the power that provides banks standing within the financial intermediaries business. The loss of financial strength will weaken its financial standing and ultimately banks have to suffer from financial distress. The changing market environment plays a vital role in defining the financial stability of banking business as banks have to deal in different financial markets. Further, the banking business has the ability to absorb contagious effects from other regions and markets in which they are dealing in. This factors highlights the importance for the determination of banking resilience specifically during distress conditions. As current pandemic is impacting the banking business around the globe, therefore the role of COVID-19 in shaping banking stability is addressed in this paper. This section of results define the performance analysis in term of CAMELS rating for selected sample banks.

The descriptive analysis of main performance variables for Islamic and traditional banks are given in table-3. *It is clear from the obtained results that overall traditional banks performed better in terms of non-performing loans, interest margins and return on equity during COVID-19 than Islamic banks.* Table-3 also shows that conventional banks are better in performance in terms of CAR, ROA, ROE and EBITDA during 2018-19 period and conventional banks have shown higher NPL ratio during this period stating that although banks are better in performance compared Islamic banks still they applied aggressive credit strategy which incorporated high NPL into the banking business. Further during 2019-20, the ratio of ROE, NIM and PPE were better for Islamic banks showing that during the wake of pandemic, Islamic banks have adopted proactive strategies to safeguard their profit ratios. This is the reason that the ratio of NIM is found to be stable for Islamic banks for the whole study period. Overall, the obtained results from the table-3 also indicates that CAR, ROA, operating profits and profits per branch is found to be lower for Islamic banks while traditional banks are at better ranked during the years of distress. These factors indicated that traditional banks have adopted some risk mitigating strategies during the peak of COVID-19 to prevent financial distress.

While descriptive statistics of the sample banks are presented in table-4. Here, apart from providing the overall sample statistics, the descriptive statistics of Islamic and traditional banks are given separately to make differentiation in the mean differences of the sample banks as per their type. Table-4 clearly reported that for most of the study variables, traditional banks are better in their financial performance than Islamic banks during COVID-19. It is clear from the results described in table-4 that performance of traditional banks is

found to be better than pure Islamic banks during the periods of COVID-19. The main performance variables Capital ratio and assets management is higher in commercial banks than Islamic banks. While, in terms of

Table-4: Descriptive Statistics of Study Variables

Sr. No.	Variables	Proxy	Mean	SD	Min.	Max.
Overall Sample						
1.	Capital Adequacy	TCA	0.0671	0.0273	0.0092	0.1046
		TLC	0.1378	0.1083	0.0283	0.4466
		CAR	0.1588	0.0245	0.1177	0.1978
2.	Assets Quality	TLA	0.7243	0.2526	0.2477	0.9324
		CIR	0.6529	0.5308	0.3295	2.5806
3.	Management Efficiency	IER	2.6860	2.5134	0.3925	10.0625
		NIA	0.0082	0.0057	0.0009	0.0260
4.	Earning Quality	IIA	0.0580	0.0230	0.0095	0.0857
		LTA	0.3699	0.2810	0.0816	0.8306
5.	Liquidity	LTD	0.7879	0.8042	0.1613	3.0075
		PGL	0.0731	0.1117	0.0002	0.4006
6.	Sensitivity to Risk					
Traditional Banks						
1.	Capital Adequacy	TCA	0.0812	0.0113	0.0658	0.1046
		TLC	0.0951	0.0398	0.0283	0.1335
		CAR	0.1668	0.0278	0.1200	0.1978
2.	Assets Quality	TLA	0.7457	0.2759	0.2447	0.9264
		CIR	0.5498	0.1158	0.3649	0.7642
3.	Management Efficiency	IER	4.1275	2.4394	1.0832	10.0652
		NIA	0.0175	0.0061	0.0041	0.0260
4.	Earning Quality	IIA	0.0615	0.0220	0.0269	0.0857
		LTA	0.3909	0.2749	0.0991	0.8306
5.	Liquidity	LTD	0.8673	1.0736	0.1613	3.0075
		PGL	0.1377	0.1302	0.0034	0.4006
6.	Sensitivity to Risk					
Islamic Banks						
1.	Capital Adequacy	TCA	0.0529	0.0315	0.0092	0.0837
		TLC	0.1870	0.1426	0.0730	0.4466
		CAR	0.1593	0.0162	0.0129	0.1782
2.	Assets Quality	TLA	0.6833	0.2385	0.3493	0.9324
		CIR	0.7706	0.7773	0.3295	2.5806
3.	Management Efficiency	IER	0.0105	1.7175	0.3925	4.8674
		NIA	0.0063	0.0044	0.0009	0.0145
4.	Earning Quality	IIA	0.0538	0.0254	0.0095	0.0835
		LTA	0.3694	0.3131	0.0081	0.8306
5.	Liquidity	LTD	0.7057	0.4518	0.3285	1.8090
		PGL	0.0189	0.0070	0.0002	0.0193
6.	Sensitivity to Risk					

Note: Total capital to total assets (TCA), Total loan to total assets (TLA), Capital Adequacy ratio (CAR), Operating Efficiency (CIR), Interest Expenses to total assets (IEA), Net income to total assets (NIA), Net interest-income to total assets (IIA), Liquid assets to total assets (LTA), Liquid assets to total deposits (LTD), Provisions for loans to Gross loan (PGL)

management efficiency, conventional banks are found to be more cost efficient. Similarly, the interest income and net income are also better for commercial banks than Islamic banks during the period of stress. This is because that traditional banks adopted more proactive strategies during distress phase and tend to be competitive in term of performance relative to their Islamic counterparts. Further, normality test for each variable is performed for both type of banks. The results of the normality tests (not reported here) confirmed that data is normally distributed and further analysis can be proceeded with this data. While, table-5 reports the statistics for variance test ratio for each variable from both types of banking.

Table-5: *Statistics for Variance Tests Ratio*

Sr. No.	Variables	Proxy	Mean		Tests for Equality of Variance		Variance
			Islamic Banks	Traditional Banks	F-value	p-value	
1.	Capital Adequacy	TCA	0.0529	0.0812	0.1304	0.0010	Unequal
		TLC	0.1870	0.0951	0.0834	0.0001	Unequal
		CAR	0.1593	0.1668	2.2115	0.1019	Equal
2.	Assets Quality	TLA	0.6833	0.7457	1.3539	0.3119	Equal
		CIR	0.7706	0.5498	0.0254	0.3257	Equal
3.	Management Efficiency	IER	0.0105	4.1275	2.1856	0.1052	Equal
		NIA	0.0063	0.0175	1.9274	0.1457	Equal
4.	Earning Quality	IIA	0.0538	0.0615	0.8155	0.3706	Equal
		LTA	0.3694	0.3909	0.8531	0.3984	Equal
5.	Liquidity	LTD	0.7057	0.8673	6.2082	0.0026	Unequal
		PGL	0.0189	0.1377	365.6879	0.0000	Unequal

To meet the 3rd assumption for independent sample t-test, the variance test ratio is conducted for the determination of equality or inequality of variances for each of the selected variable stating that variables have equal variances for null hypothesis. The results of independent sample t-test with equal and unequal variances are depicted separately in table-5 respectively. If the probability value (p-value) of F-stat is found to be greater than 5% (0.05), the variables will be considered having equal variances. Variable along with their equal and unequal variance positions are recognized using F-stat and their p-values. The results for the tests for equality of variance are stated separately in table-5. it is obvious from the obtained results that only four of the variables, (TCA, TLC, LTD, PGL) are found to have unequal variance as their corresponding p-values are greater than 0.05. Remaining variables are found to have equal variances. Variables with unequal variance have been treated separately and independent sample t-test is conducted differently for these variables after the controlling of the effects of unequal variances.

To further comprehend the analysis, the significance level of each of the study variable having null that both group has equal means has been checked. If the obtained p-value would be less than 0.05, than the null hypothesis will not be accepted which stated that there exists no difference between mean of groups (Rosly & Bakar, 2003).

3.1 Capital Adequacy (CAD)

For measuring capital adequacy, the current study has applied three measures. The first measure was total capital to total assets ratio (TCA), second measure was total loans to capital ratio (TLC) and third measure was traditional capital adequacy ratio (CAR). Table 6 & 7 define the results of differences in means assuming equal and unequal variances for each of the capital adequacy variable. The p-value of t-stat was found to be less than 0.05 (p-value $0.035 < 0.05$) for TCA variable. The results further indicate that 5.29% of the assets for Islamic banks are financed by equity capital, while for traditional commercial banks this ratio stood at 8.12% during the period of COVID-19 which is slightly high from previous years.

Similarly, the significance level of the TLC variable is also found to be less than 0.05 (p-value $0.0296 < 0.05$) indicating that there exists differences in means of sample groups. Further, Islamic banks are found to finance their liabilities via capital at 18.70% while for traditional commercial banks, this ratio stood at 9.51% which is slightly below than the Islamic banks stating the differences in approach adopted by both banks in financing their liabilities through capital. The third measure of capital adequacy is traditional capital adequacy ratio (CAR). The obtained p-value for this measure is found to be greater than 0.05 (p-value $0.0578 > 0.05$) but found to be less than 0.10 stating that the differences in group mean exists when 10% level of significance is assumed.

The complete discussion on obtained values of capital adequacy stated that during the phase of COVID-19, commercial banks have adopted proactive strategies to avoid unexpected losses by maintain adequate level of capital. Further, sufficient level of capital maintenance also ensures the reduction into the cost of funds which ultimately leads towards better profitability and helps to handle financial distress.

3.2 Assets Quality (AQY):

The measure used for the determination of assets quality is total loans to total assets ratio (TLA). It is clear from the obtained results from table 6 that the p-value for the stated variable is found to be less than 0.05 (p-value $0.0342 < 0.05$) ensuring the presence of differences in means of both group. Further, the mean value of TLA measure defined that Islamic banks

cover their loans from assets at 68.33% while traditional banks have 74.57% of the loan covered by assets. In literature, it is found that higher loan ratio within a bank signals that there would be high provisions for non-performing assets if banks will not be able to cover back their loans in time. It means that assets quality of the banks is reflected when banks guarantee high quality loans and their repayments.

Table 6: *t-test for Equal Variance*

Sr. No.	Variables	Proxy	Mean		Diff	t-stat	p-value
			Islamic Banks	Traditional Banks			
1.	Capital Adequacy	CAR	0.1593	0.1668	0.0075	1.6380	0.0578
2.	Assets Quality	TLA	0.6833	0.7457	0.0624	0.4089	0.0342
3.	Management Efficiency	CIR	0.7706	0.5498	-0.2208	-0.9493	0.0176
		IER	0.0105	4.1275	4.1170	3.3906	0.0013
4.	Earning Quality	NIA	0.0063	0.0175	0.0112	2.0877	0.0643
		IIA	0.0538	0.0615	0.0077	0.7313	0.0236
5.	Liquidity	LTA	0.3694	0.3909	0.0215	0.3598	0.1171

Table 7: *t-test for Un-Equal Variance corrected through Satterthwaite's degrees of freedom*

Sr. No.	Variables	Proxy	Mean		diff	t-stat	p-value
			Islamic Banks	Traditional Banks			
1.	Capital Adequacy	TCA	0.0529	0.0812	0.0283	2.9165	0.0035
		TLC	0.1870	0.0951	-0.0919	-2.0666	0.0296
2.	Liquidity	LTD	0.7057	0.8673	0.1616	0.4754	0.0329
3.	Sensitivity to Risk	PGL	0.0189	0.1377	0.1188	3.4298	0.0028

3.3 Management Efficiency (MEF):

The indicator of management efficiency taken for the current study are cost to income ratio (CIR) and interest expense ratio (IER). The obtained p-value for the measure of CIR is found to be less than 0.05 (p-value $0.0176 < 0.05$) stating the differences in group means for the said variable. While the p-value for IER is found to be less than 0.05 (p-value $0.0013 < 0.05$). Both of the measures management efficiency show the existence of mean differences between the groups. Further, it can be concluded that during the phase of COVID-19, the commercial banks management have shown keen interest towards managing efficiencies to avoid financial distress due to ongoing market conditions. Further, to keep the banking business on normal pace, the maximum effort was put in by Islamic banks by lowering IER (shown by less mean value of IER 0.0105 than traditional banks). Further, the low value of CIR for

Islamic banks and high IER for traditional banks indicated that banks have adopted aggressive strategies towards maintenance of their normal course of business to avoid financial distress during COVID-19.

3.4 Earning Quality (EQY):

The measure used for earning quality indicators are net profit to assets ratio (NIA) and interest income to assets ratio (IIA). The obtained results for both of the indicators show the profitability of the banks at gross and net level. Table-6 indicates the obtained p-values of NIA ratio which is found to be insignificant between both banking groups as the p-value $0.0643 > 0.05$. While, the presence of significant difference in IIA ratio is ensured by p-value $0.0223 < 0.05$. The result shows that Islamic banks are found to be better in maintenance of IIA ratio during the period of COVID-19.

3.5 Liquidity (LIQ)

The selected measure for the indicator of liquidity are liquid assets to total assets ratio (LTA) and loans to deposits ratio (LTD). The p-values for both measures of liquidity are found to be higher than 0.05 (p-value $0.1171 > 0.05$) for LTA while for LTD it is found to be lower than 0.05 (p-value $0.0329 < 0.05$) suggesting the presence of mean differences between group mean of both banks. The liquidity is the ability of any institutions to meet short term obligations in time. The mean values for LTA measure represent that traditional banks remained better in managing their liquidity during COVID-19 while the mean value of LTD represents that Islamic banks are better in term of liquidity management during COVID-19.

3.6 Sensitivity to Risk (SEN)

The measure used for the indicator of SEN is provision to gross loans (PGL). The PGL ratio was found to be different significantly between both groups of sample banks. The p-value for the PGL measure was found to be less than 0.05 (p-value $0.0028 < 0.05$). The obtained results indicate that Islamic banks maintained 1.89% provision against their gross loan while the ratio of PGL for traditional banks are found to be 13.77% which is slightly higher showing the risk averse attitude of the traditional banks. Obtained results further indicate that Islamic banks were less risk sensitive compared to traditional ones during the phase of COVID-19 owing to less involvement in interest based activities. Based on the above discussions table-8 pointed the brief summary of the obtained results.

Table 8: *Summary of the Obtained Results*

Sr. No.	Indicators	Proxy	Statistical Significance	Performance Comparison
1.	Capital Adequacy	TCA	Yes	Low
		TLC	Yes	High
		CAR	Yes	Low
2.	Assets Quality	TLA	Yes	Low
		CIR	Yes	High
3.	Management Efficiency	IER	Yes	Low
		NIA	No	-
4.	Earning Quality	IIA	Yes	Low
		LTA	No	-
5.	Liquidity	LTD	Yes	Low
		PGL	Yes	Low
6.	Sensitivity to Risk			

5. CONCLUSION

Apart from macro-economic variables, market volatilities can also affect the business performance in today's dynamic world. Therefore, the aim of the every business is to safeguard them from unexpected stress caused by market forces. Banking is the business of risk which is affected more by market dynamics than any other business of the world. Further, the spread of COVID-19 has also impacted the banking performance. Due to severe lockdowns, social distancing and the precautionary measures taken up by the government, there have been a decline in normal banking activities which also led towards the decline in financial performance. So, the aim of the present research is to investigate the impact on financial performance of commercial banks during the phase of COVID-19. For this purpose, a comparison has been made between Islamic and traditional banking to have a look that which type of bank has performed better during COVID-19. Further, the traditional CAMELS methodology was adopted to explore the financial performance of Islamic and traditional banks from Pakistan.

The obtained results clearly showed that both types of banks have performed differently during COVID-19 phase and it depend on the underlying variables of interest. The study clearly showed that performance of both group of banks is somehow different as the basic strategy for conducting business is different. Overall, traditional banks are found to be better in financial performance than Islamic banks during the period of interest. Islamic banks were found to better in handling loans to capital and operating expense ratio. While, traditional banks were expected to applied aggressive risk aversion strategy to avoid the costly financial distress. Further, Islamic banks were found to have less sensitive aptitude towards risk aversion than traditional banks.

Based upon the obtained results, it can be recommended that State bank of Pakistan must play its role in enhancing the share of Islamic banking assets into the country because by doing so the factor of Riba can be controlled. Further, Islamic banks are profit oriented compared to traditional banks due to absence of non-performing loans in their lending portfolios. The present study is an attempt to guide banking policymakers to adopt proactive strategies while framing banking portfolios during stress phases. Further, study also recommends banking managers to carefully select assets and earnings quality for their banks which in turn will lead towards the confidence building of the investors and banking stakeholders. This research is limited to the use of set of financial ratios which enables to measure banking performance. Future researchers can adopt other methodologies and financial ratios to measure the impact of COVID-19 on banking performance. Apart from this, the role of banking level governance to mitigate the adverse effects of COVID-19 on banking performance would be an interesting area to explore.

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