

This research meant to find out the factors affecting the profitability of conventional and Islamic banks working in Pakistan from 2006 to 2012. By applying the panel data regression model, the factors affecting the profitability of conventional and Islamic banks were comparatively analyzed. When ROE is taken as a measure of profitability, first hypothesis tests revealed that all variables of conventional banks have an insignificant relationship with profitability. Second hypothesis tests revealed that all variables of Islamic banks have an insignificant relationship with profitability. When ROA is taken as a measure of profitability, first hypothesis tests revealed that bank specific variable non-performing loan ratio, deposit structure, Capital structure and liquidity has a positive significant relationship with profitability of conventional banks while expenditure structure and size of bank do not. Second hypothesis tests revealed that expenditure structure, Capital structure, Deposits structure, size of bank and non-performing loan ratio of Islamic banks have an insignificant relationship with profitability, but the liquidity of Islamic banks has a positive significant relationship with return on assets.

When NIM is taken as a measure of profitability, first hypothesis tests revealed that non-performing loan ratio has positive and expenditure structure has a significant negative relationship with the profitability of conventional banks while other variables are not significant. Second hypothesis tests revealed that capital structure has a positive and expenditure structure has a significant negative relationship with the profitability of Islamic banks while other variables are not significant. Third hypothesis tests revealed that there is a statistical difference in the men of Capital structure, Deposits structure and non-performing loan ratio of Islamic and conventional banks whereas liquidity and expenditure of Islamic and conventional are homogenous.

Survey results indicate that current deposits, investments, loans, size of Conventional banks and market share is most important for determining the profitability. Current deposits, investments, loans and size of Islamic banks is also most important for determining the profitability, but market share is not most important for Islamic banks. Savings deposits, time deposits and equity is more important as well as important for determining the profitability of the Conventional and Islamic banks. The capital structure is important but inflation is not much important for determining the profitability of the banks.

The study did not find any variety of least importance regarding profitability determinants of banks. Many bankers highlighted variables in the questionnaire other than studying which also affect the profitability of the banks such as region, government policies, state bank policies and political and economic stability.