CHAPTER 1

1.1 Introduction:

The concept of Islamic banking is emerging in Muslim and non-Muslim countries because it is in harmony with Sharia and aims to serve Muslim customers. Although most Islamic banks are in the Middle East and the developing countries, some global banks in developed countries have started to meet the demands of Islamic finance products.

Over past two decades, there have been a lot of improvements in the Islamic world, supporting Islamic funding and regeneration. The latest unprecedented incentive in the revenue of most Muslim Arab countries enters petrodollars in those countries, subsequently encouraging non-Muslim investors and financiers in the attacks of 9 / 11. In the golf area now more vulnerability are captured. Finally, in order to attract these financial markets, a number of opportunistic states such as United Kingdom, United States and France are encouraging banks that provide Islamic banking services.

Several specific studies have analyzed the progression of this specific area of finance. In actual, few studies have observed the risk of leading Islamic funding to the international financial system, giving them the amount of collected gasoline and the globalization environment. (Suderrajan and Ergio, 2002) discussed how financial institutions should take into consideration the specialty of those companies and their products in managing risks; This is the same period in 2008 for Chickham and Hesse. They analyzed potential channels that could affect global financial stability of Islamic finance. Finally, (Jobst, 2007) analyzed the legitimate and economic necessitate of the Shariah Agreement on the composition of Islamic security transactions.

Previous researches have evaluated the Islamic banking ability supported by the financial and management ratio, or use the parameters or parameters used for conventional banks. Absus-Samat, quoted in 1999, to the first study group; (Bashir, 1999) and (Hassan and Bashir, 2003). These documents focus on most countries in some countries or in the lowest number of countries in one country. In fact, the data of Islamic banks is not just such comparisons, but comparative studies in countries.

The Islamic banking is flourishing day by day in the Middle East and developing countries. In those countries, financial authorities have made reforms or allowed the entire Islamization of their financial system and allowed the Islamic banks to compete with the regular banks. Therefore, our concern is to measure the efficiency of Islamic and commercial banks, to assess their evolution and decision-making. Our study has been studied in 17 nations in the Middle East, Asia and Africa and UK. This objective of analysis allows us to analyze the potency of Islamic banks through differences in attributes in those countries. Compare with a model of commercial banks in the same country. We used a standard border approach (SFA) when we take into account a range of boundaries, to estimate the cost efficiencies of the period of 2001-2008 and to assess the cost estimation efficiency. Our results show that Islamic banks are more cost-efficient than conventional banks. Except for countries that have made reforms to better the environment for Islamic banks.

The two main determinants of financial and financial capital structure. Liquidity refers to managing liquid assets or a company's money to operate its daily activities or functions. Inflationary influence in the management of the financial institution and other economic sectors is very attractive. (Chamberlain & Gordon, 2002) LIC of the company. This concept,

adopted by Jose, (Lancaster and Stevens, 1996), argues that the Liquidation administration was the first to highlight institutions.

Since (Rehman A, 2013) liquidating means investing money into current liabilities and current liabilities within a year or less, it is of great importance to the company's activity. Payment argues that capital is very closely related to the functioning of the company and the cash needed to fund the company's daily income. Its effect on a company management is very interesting and attractive, and it is true that financial performance measurements are very difficult to achieve.

Lots of statements, arguments and opinions on the nature, character and significance of cash flow control. As a result, a company needs to expand its budget, which keeps the future risk at lower levels. Since the credit management fees, bad loans, losses and the possibilities of money should not be reduced, the price must be controlled.

Cash flow refers to the value and ability to meet a person's or its current or short-term debts. Or simply selling assets that can easily be sold anywhere in short-term and immediate sites. Short-term and long-term stable growth and inflation for success is vital. The cash flow helps to maximize its current value and the wealth of the company's shareholders. At the same time, the capital structure represents the debt and equity of the company. Each company owns its total assets, which operate in the best way of capital structure through loans and capital. The ability of the capital system to determine how to combine assets can be determined by the efficiency of the administration because the revenue on investment is governed by the capital structure. Sometimes it is referred to as "turning to investment." Investing in each company's capital, inventory, accounts receivables, and cash or marketed securities is a means of corporate growth. The best combination of capital structure components of the company helps

the company's growth and profitability directly affect the company's profits and reduce the cost of capital to invest in profitable business channels. Providing loans and balances to raise financial health of companies. The company's capital structure is crucial to the survival and development of the company, which could affect instant profits.

Basically, the usual banking business is based on interest. Banks are simply obliged to pay money (installing customer deposits) and pay interest on given deposits. For making a profit, they pay and get high interest from debtors. On the way they are attracting new customers, they also offer their customers the largest and most essential banking services to their customers, including withdrawals, deposits, and cash purchase. While still questionable and debatable, some scholars have confirmed that the prohibition (in the words of Allah) is mentioned in the Qur'an. Therefore, in accordance with the Islamic rules, Islamic banks are banning other, money or interest.

With the fast growing of the Islamic Bank in the previous 30 years, many Muslims have withdrawn from conventional or traditional banks and converted to Islamic banks. According to The Economist (2014), the total assets of Islamic financial institution has increased which are about $ 2 trillion. Between 2009 and 2013, the annual rate of Islamic banking assets for Shariah-compliant claims increased to 17.6% and an increase of 19.7% by 2018. These increased or growth rates are relatively new for the relatively new industry.

The principal source or inflow of capital for Islamic and traditional or conventional banks is the deposit / investment accounts. Deposit bank is considered a duty in the regular banks. The capital structure of a regular bank consists of equity and debt. This means increase in debt or the amount of debt that is higher than the bank's risk. In Islamic banks, however,

deposit is not a responsibility or equality. It is now the capital system theory established in Islamic Banking (Altihani et al., 1999) and (Archer et al, 1998).

Banking sector is a major or main financial sector that affects economic growth. The development and growth of any economy depends largely on the stability of its banking sector means banks of the country are how much stable for investors and clients. It operates intermediate connecting surplus and defective units; Contributes to economic development by helping to fund the production purpose. Regular banking is based on interest. The Islamic bank implements Islamic Sharia as the basis of the process. In the GCC region, the Regular Bank and Islamic Bank offers its various products and services. Islamic banking services are of interest and are based on profit or loss and risk sharing and contribute and contribute Mudaaraba and Vakala (Agents) Agreement. In other words, the deposit approach was adopted rather than bank deposit based approach.

Islamic Banking collaborated with the Islamic Banking and Islamic Assessment System, co-ordinated by the Islamic Sharia policies with conventional well-being and risk management rules. Despite the differences and similarities between the traditional or usual bank and Islamic banks, both are in a competitive environment and should use the right risk management tool to prevent the dangers of the business. Number of studies have been carried out and researchers worked on regular banking and Islamic banking around the world including Awan, Hanif and Al Qasim. Most of the studies were centered on a comparison with the Islamic bank with the regular bank.

To ensure that the economy of any country is part of the economic and financial sector of the financial and banking sectors, so banking systems play an important or vital role in the world, and the government's economy stimulates monetary policy. However, all monetary or

financial transactions are made by banks. Although these instruments are strict, they cannot trust their financial areas especially after the financial crisis or decline. Central banks and Governments try to stimulate the economy by utilizing monetary tools, but this is simply not a trick. After the global financial crisis, mortgage loans and unemployment rose significantly as many were homeless.

Like the usual bank, the Islamic bank is a middle man and wealthier among the rich. Following a typical bank interest-based policy, based on Islamic banking, free policy and profit loss (PLS), their businesses participate in the implementation of intermediaries (Mohamed and Manaravi, 2011). In theory, Islamic funding differs significantly from the regular fund. Specifically, Sharia does not allow for a compatible financial interest (riba), because products and services are not permitted to set the price and does not allow speculation and prohibits financing for certain activities. This creates clear differences in the financial and operational structures of Islamic and traditional banks. In practice, in practice, Islamic scholars create products like conventional banking products, and exchange rates with discounted payments and regulatory payments (Beck Ed, 2013).

Since the beginning of 1970, the Islamic bank has gained popularity and recorded significant growth in the years mentioned by Chevy and Saraf.The combined balance of Islamic banks increased from $ 150 billion in 1990 to more than 300 sharia-compliant firms operating in 80 countries, with about $ 1 million in 2010. The study focuses on a comparative project assessment between the regular banks in the Islamic Bank and the GCC region. We particularly discuss how banks and Islamic banks meet its different performance indicators. Compare the efficiency and efficiency of the bank committees based on the returns on investors, the return of assets and other performance indications derived from the balance

sheet and income statement. This report is structured into four sections. Part two summarizes literature with the typical banking and Islamic banking. Part three explores methods of studying. Comparative Study on the Performance of Islamic Banks and Custom Banks in the GCC region in 2005 -11 Part IV. This study is important because it can best illustrate the psychic positions of the Islamic banks that are useful for identifying its strengths and weaknesses.

This theory has a number of implications in key issues such as corporate governance, asset management, dividend policy, management / investment behavior, banking performance, and many other issues (Ultimaani et al., 1999) and (Archer et.al, 1998) and detailed implications (1998).

On this basis, the relatively new theory is that the Islamic banks are getting the most conservative policies and aggressive investment policies they want to earn more than their usual things, since the bulk of their capital (deposit / investment accounts) are getting risk.

Therefore, the main hypothesis in this study is that Islamic banks do not have to increase their deposits to their share of additional risks because they have higher risks for investment. Hence, they are expected to invest in greater risk than the usual banks by accepting higher income and more aggressive investment policies of normal economic conditions. This hypothesis is cleared by the argument created by Archer and al. (1998) The shareholders of the Islamic Bank noted that "the amount of money that was deposited in the bank could not prevent a greater risk of their share by increasing their revenue from the macro bond." A similar argument was made by altihani and many others. (1999) "The concept of financial risk based on modern economic capital principles is not appropriate for Islamic banks". In fact, Wojciech and Hayes, three (1998) argued that the Islamic bank faces the lack

of Liquidity problems over a regular bank due to its guarantee of deposit capital ... The risk of depositors helps the company to deal with greater risk for its assets, as shares in Mudaraba Invest in

During this crisis, Islamic banks are expected to be affected by the usual banks due to this aggressive policy. It is interesting to compare Islamic banks with performance against the usual banks before and after the 2008 economic decline.

The economy considers any product that is produced to produce capital. Therefore, capital can be divided into production, manufacturing, and machinery and cash, and the fourth division (EPB, 2009). A skill to choose capital resources for the functioning is a difference between a well-managed capital system and a poorly managed capital system. The Liquidity of the company's existence is important. It has an impact on financial spending changes, sales changes in turn and influence at the firm's risk level.

According to (Kesimli&Gunayay, 2011), the cash flow would indicate investment relationship in current income and current liabilities and within the annual interest payable within the year, arguing that it would be highly imported into everyday activity. The relation of labor capital and cash flow is very close, revenue generation depends on labor capture and labor capital. (Wahid, Mohsen and Mohammed Raza, 2012), in its report on the importance of capital management, said capital management was very important and could now determine the success and failure of any organization. They added that corporate capital management directly affects the company's profits. (Philippe & Kruger, 2005) argued to manage the elements of the working capital business could be a high success. Some researchers such as (Alameal et al, 2012); (Lycorovas&Skanthalis, 2008) support that same positive effect on the financial performance of the companies, and companies have some aggressive approach to

other utility conservative capital management policies to achieve overall goals. In developing countries, most companies have analyzed the analysis of operational capital management on financial performance of the institution. Depending on how Nairobi Securities Exchange in Kenya monetizes financial performance. Although the effect of the cash flow on an enterprise management is very attractive and exciting, financial performance measurements are very subtle.

Monetary management companies are of utmost importance to financial performance. There are a number of scenarios in literature for its role, material and liquid management standards. Every company needs to manage the cash flow at the rate of sale rate, as well as the proportion of the risk at which the risk is acceptable. The liquidity management is seeking to control and control a remitted expenditure such as bad debts, debt management costs, losses and cost of financing the cost of financing the receivables. Therefore, Inqui (2006), which explains the LDT administration, generally maintains public trust, which is rapidly funded by the market and satisfied by the market, by focusing on sufficient funds.

Begg, Fisher and Rudiger (1991) argued that cash flow tells us the momentum that a company changes its assets. Very quickly, reducing its assets into cash makes it better than short-term assets to make profit and better use. Converting the short-term assets into liquidity will soon build up shareholders confidence. A company is called a mobilized company, which can quickly convert money into cash and with great speed. Usually the company uses various rates to calculate the Lecture, such as quick rates, current ratio, and soup quick rate and cash rates. This ratio is true about the company's fever. . While the two rates are similar, the quick rate provides the most accurate solution to the effectiveness of the business to pay its current debts. The quick rate avoids the most liquid of current assets. The most famous error in stock

is not to convert it into cash. The quickest rate is the practical identification of the short-term liquidity of the business. The quick rate shows a company's ability to meet short-term loans with the company's most liquid resources. Maximum quick rate of production shows improved conditions.

Credits, Operating margin, earnings interest and taxes, economic value added or sales growth are argued that financial performance is computed by using different accounting based tools. (Creder& Larker, 1997). The benefits of these forecasts are their public availability, because each profitable company creates this annual financial comment by Sen. and Longfield-Smith (2007). However, the balance sheet and accounting systems can also lead to values that allow only partial comparison of corporate finances. The rates fitted against another environment, such as the "class ideal" in the industrial situation or technology, are the biggest. This assessment helps to make financial goals and recognizes the problem. Horizontal and vertical inquiry can easily be used for recognition of changes in financial arrears. Various theories have been established to understand the effect of cash flow on financial performance.

The banking firms plays an important role in the development of international and national economic growth, with the Bank's performance assessment highly researchers and trainers (Darrene, 2006). In that structure, many studies focused on the performance of the banks and the banks in particular for European and American countries. However, there has been a limited study to analyze Arab banking operations such as the Arabian Bank during the role and significance of this region in economic development. These studies have only made a comparative analysis between the usual and Islamic banks, compare bank performance (Jogens, Isseldin, & Papas, 2012); (Onaki&Onaki, 2013). Therefore, lack of literature in

performance determinants is required to examine the factors affecting the efficiency of the banks and to link the factors to performance measurement. Banking performance assessment is important for many parties, such as depositors, bank managers, investors. It helps investors to make decisions for investment or is not in banks because bank managers can help the bank managers to make the best decision to improve bank conditions for bank executives. Depositors can offer some guidance to select the best service offered by the banks. From this point of view, the current objective is to examine differences in banking performance between Islamic banks.

GCC during 2005-2012 Examine the profit of Islamic and traditional banks using samples of 71 regular banks and 46 Islamic banks operating in countries. Profitability is more profitable than conventional fruit for all rates used to measure the profitableness of Islamic banks. For performance determination, it shows that the size of the bank will affect the performance of the usual and Islamic banks. Therefore, big banks use better management, better technology and repay their investment, which leads to performance improvement. Operating spending has a significant and positive effect on the performance of regular and Islamic banks. The credit risk is significant and negative in typical banks and is positive but significant in Islamic banks. Economic variables, inflation and DPG growth have not had a significant impact on the usual banks' performance. For Islamic banks, inflation has positive and remarkable coefficient, so the rise in inflation leads to an increase in costs and revenues, and thus inflation increases the bank's profit.Adam (2003) asserted the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyze the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance. Capital structure has been explored in many studies.Similarly,Muritala(2012) also asserted the relationship between debts to equity and

Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Ebrati et al (2013) documented a negative correlation between the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

Berger (2007) examined various firms to find out the association between capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

Similarly, Bhoot et al (2001) also confined the association in debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Kajola (2010) asserted that a negative correlation in the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

Afeef, M (2011) certificated that liquidity is very vital for the firms performance the study used fixed effect models to analyze the data and documented that Quick ratio along with Current ratio positively affect the firm return on asset ROA.

While Afoniz et al (2014) also find the relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The more the firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively effecting the financial performance of firms.

Davoudi et al (2013) examined the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyzed the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

The solution vary depending on the performance between the usual and Islamic banks. In particular, credit risk does not affect the effectiveness of Islamic banking, and inflation and DGP growth will not affect the usual banks' performance.

The article makes many contributions. Firstly, the study combines the factors that influence the performance and the performance of the Bank of the Bank and the Bank's performance, thus helping the Islamic and traditional banks to improve their performance and develop competitiveness by learning factors affecting performance. Secondly, the GCC this is the first study to analyze and analyze analyzes in determining the performance of the usual and Islamic Bank for using Camel Evaluation in countries.

Since the 19th century, capitalism has existed. Central banks and Government are trying to improve the economy by using "monetary tools" after every financial crisis, but their goals do not reach the final stages to be completed. Kabir Hassan press the sheet, according to the web page "Islamic banks' sustainable development in the 1980s and 1990s, the Muslim world

financial landscape of the marker, More than 60 countries, $ 166 billion more than assets in a network; Islamic banks now their economies increasingly play an important role.

Human beings have suffered due to financial crisis, homeless due to mortgage loans, lost millions of people and even committing suicide. Nevertheless, it is not necessary for all people to get together and remove regular banking practices. It cannot live without any financial spending, all transactions involved in the bank process. The banking system simplifies the lives of people, producing the economy within the money and time. People need something for borrowers and depositors to provide benefits. Bank policies, rules, regulation and equity are different. Similarly, the global financial crisis, the global financial crisis badly affected the traditional banking institutions were affected, but Islamic banks, the CBI as the global financial crisis that is not affected simply say, simply the financial operations which are due to hit, and also because the Islamic banks, speculators, interest rate-related Bari Rttanai not involved, they are not affected by the global financial crisis. Several financial institutions and experts of Islamic have confirmed that Islamic banks are not affected by the global financial crisis. Because of the nature of the Islamic Bank of Riyadh, Assy Al-Alzat, that any consequences will be limited. Because Islamic banks do not lend money to Islamic banking banks, especially the lender and themselves do not take themselves out of market speculation in European and American banks. Adnan Ahmed Yousif, CEO of Bahrain-based Albaraka Bank, said that Islamic banks are not dependent on securities or shares, and are not usually borrowed and sold without the European and American banks. He said that Islamic banking was different because he was banned from buying under the Islamic Sharia law, Hence, Islamic banks are safe from the effects of the global economic crisis. "Moreover, in a world that exists a great controversy exists. The current banking system in

any kind of banking system must change, and it no longer valuvilakkatu the 19th century, first of all nerukkatikalinpotum financing effective and worthwhile, in other words, financial instruments or tools of a particular country's economy, induce To be used in an effective way that did not work. On the one hand, the Islamic banking the conventional banking , the optimum alternative is that a great debate arises. Therefore, two different banking systems, the analysis of the comparison of the financial performance in terms is important, in other words, the comparative analysis of the main focus, two different bank niruvanana S operating cross-country financial performance within statistical variation evaluated to measure. Banks's performance to evaluate various financial ratios paniyarrappatum. Performance measurement CAMEL framework is based. Kemeyel, capital equation, asset quality, management quality, earnings and liquidity of the basic In the scoring system that measures the reliability of financial institutions. The CAMEL rating system was adopted by NCUA in October 1987. The goal is to provide accurate and consistent assessment of the assets and capital of the credit union's financial position and property, quality, management, revenue, and property / liability management. "It will not be used, but an inner hand To risk the risk and allocate resources for supervision purposes ".

In this work, two review analyzes can only refer to the statistical differences between IB and CB based on the determination of profit and explain the variables that explain how profit rates or independent variables affect two different banking systems. First of all, the country's cross-bank level data base which is estimated by two disruptive analysis: general sample correction and pure sample review analysis. Apart from the Bank's characteristics, the entire sample review analysis covers the bank's largest economic variation and coins of the banks, which are marked for the IP 1 and CB. At the same time, this assessment results cannot be

changed in pure review analysis. As a result, all banks' profits indicate that ROE is favorably linked with the capitalist nature of the banks. Banks have a substantial capital of capital in order to retain any difficulties that banks have to pay. However, because they are statistically significant, we find that economic growth does not have any influence in determining profitability, but net interest levels are only related to the growth of GDP in the period 2006-2009. Compared to the distinction between Islamic and traditional banks, there are differences in profits, management, property and capital inequality, but the banks of the banks do not affect the banks' profits.

According to (Chandra, 2001), the maximum cash flows are usually a symbol of financial power, but according to some writers like (Neto, 2003), the maximum liquidity may be slightly objectionable. An important fact is that the current assets continue to be less profitable than sustainable profits. That is, the money financed in current assets creates fixed assets after the low income. Furthermore, the total amount involved in current assets will be successful in reducing other companies.

However, (Arnold, 2008) also provided some of the benefits, namely (1) providing cash for day expenses such as salaries, products and taxes. (2) It is true that future cash flows are not clear, money is paid out of inflation and finally (3) the money holder needs to withdraw the maximum amount of money needed for the grants. Therefore, a significant balance of payments to the financial executive and a reasonable profit for the company is a significant job.

Saeed (2011) has mentioned that a company's capital structure is divided into two parts. A company's owner or entity is invested in a company that is invested in the capital and the other part of the company to increase performance or bailout as a commitment or loan or

amount. The ability to meet the expectations of shareholders directly linked to the capital system. Being considered the strongest of capital structure, will definitely attract new investors, while fulfilling its investors' expectations. Similar courses have been conducted in Pakistan, but a relatively well-researched study in the same sector, i.e. regular and Islamic banks, has not yet been conducted. This study seeks to analyze the impact of liquidity and capital on the financial performance of the usual and Islamic banks in Pakistan.

Signaling theory argues that lucrative companies may increase their strength, as additional interest payments will compensate for some of the forerunner profits. Reasonable shareholders will measure a steady value from the higher credit level. This is a credit to the investors' credit value (Ross, 2010).

Additional financing, if necessary, the managers of external funds internally prefer, managers of credit (Rose, 2010), such as the safest bonds prefer, agency cost theory fifty years, research efforts in the capital construction firm value, which affects the administrators of behavior affecting, and the company's future performance and the half Um (Boodhoo, 2009).

One of the final goals of the banks is to achieve the optimal capital structure of the business by reducing corporate spending because financial intermediaries are different than different companies. Market economies (Siddiqui and Shoaib, 2011).

Islamic banks have no capital structure: Islamic banks operate with Sharia policies. Sharia stops, with repayment (interest) payments and receipts. This means that Islamic banks cannot pay or earn money in their financial instruments. As a result, banks must share their profits and losses with investors in accordance with the Sharia rules, in addition to funding

and utilization of funds using their non-use shiry-compatible tools (Hersey, 2009). The Mutherpa Agreement changes the relationship between the bank and its depositors into a partnership. This implies that this could trigger the bank to get more profits which in turn can affect the capital organization of Islamic banks.

1.2 Problem Statement:

The best combination of liquidity management and capital structure has always been a challenge for the management and policy makers of both Islamic and Conventional banks in Pakistan. The best combination of these variables is always a challenge for the decision makers. This research aims to investigate the practices and pattern of liquidity and capital structure and their effects on the financial performance of Conventional and Islamic banks in Pakistan for the period from 2005 to 2015.

1.3 Objectives of the Study:

This study will fulfill some objectives that are as follows:

1) To describe the pattern and practices of liquidity, capital structure and financial performance of the ten banks with five each Conventional and Islamic banks in Pakistan.
2) To investigate the effects of liquidity and capital structure on the financial performance of the five conventional and five Islamic banks in Pakistan for the period of 2005-2015.
3) To find out the difference in liquidity management and capital structure and their impact on the financial performance of the five conventional and five Islamic banks in Pakistan.

4) To draw a comparison between the researches outcomes of Conventional and Islamic banks under study.

1.4 Research Questions:

Q1. What are the prevailing practices and patterns of liquidity and capital structure of banking sector in Pakistan?

Q2. What is the impact of liquidity and capital structure on the banking sector financial performance of Pakistan?

Q3. Is there any difference in liquidity management and capital structure of conventional and Islamic banks in Pakistan?

1.5 Significance of the Study:

The study contains its importance in lines that are as follows.

This study will properly guide the management of these companies in framing the best capital structure and optimal level of liquidity which will help them to enhance the financial performance of these firms. For academic purposes the study adds new literature and most concurrent literature. This study will have an academic significance in getting my Master of Philosophy Degree. The study will provide a source of contribution to the society as well.

CHAPTER 2

2.1 LITERATURE REVIEW

Pouraghajan et al (2012) analyzed different firms for knowing the relationship between capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

Similarly,Muritala(2012) also asserted the relationship between debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Rehman (2011) analyzed the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyzed the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

Naveed (2012) asserted that liquidity is very vital for the firms performance the study used fixed effect models to analyze the data and documented that Quick ratio along with Current ratio positively affect the firm return on asset ROA.

While Cu yen et al (2014) also tested the relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The more the firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively effecting the financial performance of firms.

Virtually everything written in the greatest economic and economic literature is a direct or remote connection with the liquidity and capital structure, reflecting its importance as a factor in the investment decision and the coherence of economic growth. The evaluation of the relevant literature is extended to the study of the relevant factors, such as the wide range of banking, variable, the current model and the historical background of the entity, such as the review of the ideological framework of the theory.

There is a great literature studying the relationship between capital structure and organizational performance. Pouraghajan, et al., (2012) argued that capital structure is vital to influence the financial performance and found that the level of debts as enhances would effect the firm financial performance. In similar study, Mwangi, et al. (2014) also advocated that capital structure is the key which can effect the financial proxies of the firm. They said that debts to equity and debts ratios are very alarming for the firm, as these ratios significantly effect the financial performance. The non-financial institutions listed suggested that managers should limit the trust on long-term debt to the source of funding; (Muritala, 2012) The concept of negative relationship between capital structure and functioning company performance. (Akeem, and many others), Capital Structures (debt to total debt and equity

ratio) are often associated with company performance. It is recommended that companies use more than the debt to finance their business operations to a business's value using credit capital.

Islamic economics and financial research corporations are trying to investigate whether Islamic banking practices work effectively on the basis of performance, financial status, and risk level than regular banking practices during the economic crisis. High stability in the Islamic bank, which is represented by the lowest fluctuations in inflation rates and inflation rates (egKarim and Ali, 1989, Durran, 1996, Chihak and Hesse, 2010) ended up very closely. Over time, financial ratios have been widely used to measure such efficacy, compared with measuring the performance of banks across the country, using various indicators and enrichment criteria. A project of researchers analyzes banking efficiency in general without any comparisons between Islamic and legitimate companies (Mazar, 2003, Al-Tamimi and Saryf, 2011, Sufi and Nor 2012). The domestic performance of the domestic and foreign banks of Maher 3 GCC Though analyzed by estimating their financial ratios in countries, commercial banks in these countries are well capitalized and modern banking services are often funded by international standards. In addition, their activities are more satisfying than the capital / asset ratio, which requires satisfactory ownership. External performance calculated by the Bank's market shares, regulatory compliance and public confidence has shown improvement over time. Overall, findings proved that the Bank's performance would increase ... Another study of Al-Tamimi&Saref exploits the Bank's size by using multiple approaches to assess the performance factors of the United Arab Emirates commercial banks. Between 1996 and 2005, data of 15 major and 23 small banks were used. The study suggests that large banks generally perform significantly better than smaller banks. The total ratio of

total assets reflecting the importance of capital fluctuation to commercial banks is the most important performance indicator that takes into account the bank size. (2000-2008) has been examining internal and external factors affecting the profits of the banks in the developing economy by focusing on Indian banking sector (2000-2008) during the period (Sufi &Naar, 2012) (2000-2008) Descriptions All explanatory variables have a significant impact on the profits of the banks but the impact on the profitability of the local banksObjective and foreign banks' profitability over the negative impact indicated the study abroad is negative despite the credit risk and the bank's profitability is a positive relationship executes North America from the banks in general, overhead costs, the impact on bank profits is positive, but the Oppiya from countries in foreign banks is negative.

Analysed Islamic banks and found that capital structure is vital (Al Qaheed et al., 2014) is an independent research institute that deals with any comparison between Islamic and traditional institutions. Fraud and Ahmad study analyze the performance of 78 Islamic banks in 25 countries during 1992-2009. Efficiency estimates are evaluated using the Scalable Data Development Analysis (DEA) method. The results concluded that pure technical performance indicating that Islamic banking in the global Islamic banking sector had a higher rating. Technology performance is favorable and substantially associated with debt intensity, size and capital. In addition, higher market share and low level of non-performing debt ratio banks are still technically efficient banks. Positive contact between bank profits and technical competence indicates that highly efficient banks are highly profitable (Noor and Ahmad, 2012). Another study by Masud and Ashraf examines the role of bank-specific and economic and economic stability on the profit of Islamic banks by using the data of the 25 banks selected from 12 countries in four regions during 2006-2010.

The third stream funding was used to measure and compute programs of Islamic and traditional banks (Medlily, 1997). A study conducted by Medvali on 15 non-interest banks and 15 regular banks may be distinguished by the liquidity of the banks, foreign exchange and credit risk, but not on profits and performance (Medelli, 1997). Similarly,Muritala(2012) also asserted the relationship between debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.Pouraghajan et al (2012) analyzed different firms for knowing the relationship between capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

Similarly,Muritala(2012) also asserted the relationship between debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Similarly, Bhoot et al (2001) also confined the association in debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Kajola (2010) asserted that a negative correlation in the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

Zheka (2010) viewed that various business organizations for finding out the association in capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

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Tang and Chen (2008) examined different firms for knowing the relationship between capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

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Rehman (2011) analyzed the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyzed the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

Naveed (2012) asserted that liquidity is very vital for the firms performance the study used fixed effect models to analyze the data and documented that Quick ratio along with Current ratio positively affect the firm return on asset ROA.

While Cu yen et al (2014) also tested the relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The more the firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively affecting the financial performance of firms.

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Another researcher documented that a negative correlation exist between the capital structure proxies and firm financial performance. The study analyzed banking firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms(Al Harez, et.al, 2013). Another study by Peck and others has used a sample of Islamic and traditional banks in 22 countries from 1995 to 2009, which compares skill, property and stability. Discoveries Islamic banks are at a lower price than conventional banks, but there is a high median rate, higher property and high capital-asset rates. Furthermore, the differences between Islamic and traditional banks are of great importance to smaller Islamic banks (Beck Ed, 2013).Wasiuzzaman et al, (2013)recognized that capital structure is vital as it a negatively

effects the firm financial performance. The study analyzed firms of different industries and found that debts ratio as well as debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage

Performance of Islamic Banks In first, the first study groups are interested in financing rates in a given country. Those ratios gain profits, cash flow, risk and lending and performance. For example, Salle and Raimi (2006)nalyzed the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyzed the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance..A similar results have been obtained by various researchers (Qatari and Aspropa, 2007). They examine the balance sheets and income statement between 2000 and 2004 between Islamic Banks and Annual Reports. Their results show that Islamic banks are more profitable, less liquid, less hazardous and more efficient than regular activities. The SPL policy for the rapid growth of Islamic banks is the main reason for the two banks that have practically different traits that they need to be controlled and controlled.

The use of research related to each country and the use of financial ratios comes to an end. Islamic banks may be efficient in conventional ways; However, every banking system requires the need for reforms, control and control.

Third group research is interested in using performance modalities. (Utiestra, 2003) examined the impact of financial crises on the effectiveness of 18 Islamic banks in 1997-2000. This review is based on a non-parameter approach based on data development analysis (DEA). It respects a technological limit passed in the best practice banks. Performance Assessment indicates how a bank changes its entries into an optimal package release. He

raised the small incompetence of 18 Islamic banks compared to the usual banks. Suufian, (2007) also studied various firms and documented the various proxies of capital structure can effect the financial performance and market capitalization and found that debts to equity and debts ratio can effect the financial performance.

Begg, Fisher and Rudiger (1991) argued that cash flow tells us the momentum that a company changes its assets. Very quickly, reducing its assets into cash makes it better than short-term assets to make profit and better use. Converting the short-term assets into liquidity will soon build up shareholders confidence. A company is called a mobilized company, which can quickly convert money into cash and with great speed. Usually the company uses various rates to calculate the Lecture, such as quick rates, current ratio, and soup quick rate and cash rates. This ratio is true about the company's fever. . While the two rates are similar, the quick rate provides the most accurate solution to the effectiveness of the business to pay its current debts. The quick rate avoids the most liquid of current assets. The most famous error in stock is not to convert it into cash. The quickest rate is the practical identification of the short-term liquidity of the business. The quick rate shows a company's ability to meet short-term loans with the company's most liquid resources. Maximum quick rate of production shows improved conditions

As for Asia for the profit of commercial banks, we have the same number; However, since 2007 Islamic banks have increased profits. The ROAA decrease leads to less competitiveness. Two types of banks, net interest rates are rising. The share of total assets is declining for commercial banks while at the same level as their equivalent to their Islamic friends.

African commercial banks' profit margins have increased by 70%. In the fall of 2006, profits increased. We have an evolution of net interest rates, which is down 20% from 202% to 20%. However, the share of the total assets increases slightly. The data of the Islamic

banks shows a rise in the share (after the fall of 2004) and the total assets that represent the representation of their operations.

Finally, United Kingdom increases the profit of commercial banks after the collapse in 2005, while simultaneously showing a regular growth to the Islamic banks. The shareholders' shares are reduced to commercial banks for total assets, but they promise Islamic institutions. Besides, the net interest rate for commercial banks is decreasing.

These figures reveal various changes between Islamic and commercial banks. There are differences across territories. They can be explained by the environment, but the reforms made by finance and currency officials. Earlier the Islamic bank thrived in those regions. However, their practice followed different routes depending on different countries. The completion of the banking system of Iran and Sudan was selected by the 1983 Ureary Free Banking Act and 1992 Bank Proclamation. On the other hand, some Muslim countries are allowed to mixed financial system. Indicates the importance of respecting gradual steps in the same (2007) process. Malaysia successfully managed its banking system to attract capital from international investors and local Muslims. Malaysian authorities have followed four phases of its concern for providing a favorable environment for the Islamic bank. In 1963, a small Islamic savings fund was allowed to operate. After the Islamic banking Act of 1983, the first Islamic bank (Bang Islam Malaysia Berhard) was granted a full banking license and started operations. The usual banks also began to open Islamic windows under a pilot scheme. After a certain period of time running the Islamic Gulf, some typical banks converted Islamic corporations into a complete Islamic clientele. Finally, the government introduces other Islamic financial institutions and markets.

In addition, financial institutions should hand over their monitoring and regulatory role to the Islamic Bank. It may offer risks to conventional banks: moral risks, defending the interests of demand deposits, but system considerations. They also have a decisive development role in developing a situation for Islamic banking to provide Islamic banking with appropriate demands for Islamic banking customers' demands. In fact a level playing field should be provided. For example, the British Financial Services Authority has "no barriers, no special benefits," allowing the banks to oversee consumer control over Islamic banks rather than customers.

Boroujeni et al.(2013) analyzed the various firms of Tehran stock exchange and and argued that capital structure can affect the firm financial performance and market capitalization. On the contrary, fewer studies documented and confirmed no relationship between the capital structure and the bank's performance. (Clementine and ISU, 2013) analyzed the effects of capital structure on the effectiveness of commercial banks in Nigeria. In this study, long-term investment and positive relationship to profit have been identified. The study focused on improving the efficiency of business banks in Nigeria, improving their performance and restoring the confidence and confidence of customers in the banking process.

The influence of the capital structure (iodot, et al., 2014) examined the profit of Nigerian banks listed in the Nigerian Stock Exchange (NSE) since 2008. The findings of this study are the profit rate of Nigerian banks during the study of capital structure. Therefore, directors and management were recommended to use both finance and credit for business.

A sample of (Abbadi and Abu-Rub, 2013) analyzes the effectiveness of capital structure on the Bank's performance of the bank performance measured by the Palestinian financial

institutions, ROE, ROA. Assets Total Deposits, Assets Total Loans and Deposits The total loans used to measure capital structure. In the banking profits, foreign investors have a negative effect, increasing the ROA and total deposit increases will increase the bank's ability to increase. This has had a negative impact on the bank's market value, a positive and strong relationship between market value and ROA and bank deposit total deposits.

(Goyal, 2013) The National Stock Exchange analyzes the impact of capital structure based on the profits of public sector banks in India. From 2008 to 2012, times-review analysis is used to create relationships with ROE, ROA & EPS with the capital system. Findings exhibit a positive relationship with the short-term liabilities.

Soumadi and Hayajneh, (2012) examining the effects of capital structure on efficiency by using the data of 76 companies in Jordan, the results found that debts to equity and debts ratio is significantly effecting the financial performance. In addition, the study found that there was no substantial difference in the impact of the fiscal deficit between higher financial firms and their efficient low financial institutions. (Dani, 2013) The performance of Jordanian banks analyzed the impact of capital structure since 2007-2011. The performance of the bank calculated by net profit shows that the net interest rate working in capital is substantial and related to total debt. Total debt is seen as important in determining the return of equity to the banking industry in Jordan.

The capital structure tells of a mixture of a company that creates capital for business activity. In the right transaction market, there is no transaction in the market or the most challenging for all the companies in the same rate of interest and bankruptcy. In such a situation and environment, the management of the capital system is very important and challenging. Two findings found in these conditions are Moguliani and Miller. Firstly, the

value of a company is free from the capital structure. The second conclusion is that a transaction is equity of the company and it is equally as an unrevealed company share value and it is associated with risk premium. If foreign investment increases so the burden of personal risks has changed to various investors, so the total risks are not protected because they are protected. The capital structure is also defined as a different option for financing assets with a company. Reagan, Salvikmar and Mustafa (2007) argue that the concern with business is a mixture of equity and debt, and the company's firm will insure a company's liquidity and profits, as it emphasizes a company's market value.

The firm prominence of liquid is important for company development and at the same time is one of the important factors responsible for the company's market position. The cash flow for a strong balance is important. It often affects fiscal expenditure reduction or growth. The outcome of the money on an enterprise performance led to an end to the company's profitability. The main issue for the financial manager is to find a suitable mix of equity and debt for a company. The debt and equity mix is called the Capital Organization. The financial manager fights to achieve a better capital structure for companies that increase the financial value of the company and guarantees a more satisfying liquidation (Umradu, 2009).

The Capital Immigration Bank represents enough funds to expect any shock (Ong and The, 2013). Debts will increase performance, but have an impact on the company's performance in terms of risk creation. The use of debt is very important for the company to come back. When a return is increased and the risk is reduced, a company's share value is measured to be optimized. The capital structure of the company includes both financial debts (credit and equity financing) and financial short-term sources (the existence and presence of current assets). Myers (1984), a company's capital structure comes from internal and external

funding. Inland Revenue (R.Es) and external funding includes debt financing and equity financing. Some analysts conclude that the company results in a limited control company. This concept is pursued by Jose, Lancaster and Stevens, and argues that Liquidity management is important for leading companies. Capital structure is important for a company because it improves functions. In many studies, the previous researcher has been developing principles that promote capital mixes for companies' organizations to increase the value of shareholders. (Epoi, 2009). The company or company associated with the income or the operating income can either invest in capital as a way to earn money, either directly or as a small business organization or as a small business organization, although it is generally planned to increase the value.

Akinsulire (2002) represents an economist who looked at making money and making no money to make money. (BBC, 2009-2010) All of the companies that have been shown in the Ghana stock exchange are usually very well designed, along with income, in addition to income from financial institutions and corporations throughout Ghana (2000-2010). It has allocated more than this short term loan, which is affiliated with the short market loan associated with the largest loan bank associated with the liability of the Ghana. (Singing them, 2012).

Louis (2008) explained Islamic fundamentalism on Islamic banking activity. The Islamic bank focuses on the principle that loans should be provided free of charge based on livelihoods and profit sharing (PLS) and business purposes. In the profit and loss agreement, Islamic banks do not charge interest, but participate in the result of the use of funds. Depositors participate in the bank's profits according to the PLS ratio predefined.

Islamic banking and the usual banking approach found the business different, and its appearance was focused on specific focus groups. As traditional banks are often referred to as

'West Bank' (Beck et al, 2010), Walson pointed to its appearance in the Middle East. The development of the Islamic Bank has provoked comparative studies between the regular bank and Islamic bank since the launch of the Islamic Bank of Dubai in 1973. The purpose of these studies is different and comparing the functional structure by Auni, comparing the profitability and efficiency of Ansari and Rehman, Hassan on the differences and similarities, compared to Hazan risk management practices, Compared to customer satisfaction, liquid An Risk (Management Akhtar et al, 2009) as some suggest.

Unlike other types of banking, not only is based on its profits, but also the quality of assets, liquidity management and risk management. Most comparative studies comparing CB and I. Studies offer three different vision points. There are preliminary studies for Islamic banks in terms of various performance indicators such as Olson and Sofia, Samad and Hassan, Minuoye and Dussons. Considered and considered by the regular bank account for Islamic bank based on various performance indications, including (Shahid et al, 2006) Mokhdar, and others. A third group study, including regular banking operations, including the Islamic bank.

Toumi (et al 2007) explained the structural differences between the banking groups. Islamic banks have often identified their stake in their fiscal year. The usual banks are dependent on financing borrowed funds, indicating the potential of shocking Islamic banks in comparison to the typical banks. In comparison with the comparative analysis of Islamic banking and using CAMEL testing, Zafar and Manaravi saw the best performance of Islamic banks for adequate capital and cash flow compared to conventional banks. Traditional banks and Islamic banks have found solidarity in property quality. Regular banks were well aware of the management and ability of management.

In the modern days, the increasing influence of the Islamic bank can be traced to the financial crisis and the crisis due to its setback. Parashar and Venkatesh have pointed out that

Islamic banks affected by the financial crisis are not affected by the financial crisis of Islamic banks. Since Islamic banks have high capital and high liquidity reserves, this view has also issued a relatively excellent financial statement of Islamic banks with the support of Peck and Hassan and Tridy have been found to be based on a comparative analysis that Islamic banks have shown a downward spiral in the global financial crisis.

Yurematu (2004), one of the company's money and capital sums, trading of its fixed assets, helping stocks to help, account receivable Assistants, dollars or maybe marketable securities would have been helpful, "he says. Kavari addition to ahakiya (2011), the biggest alternative represent, The way to measure the real level of measurement to help someone or the company pay for the company or to make it faster to perform this device (Firm 2004) to perform faster than temporary obligations. A good sign of a company may adapt to its full assets. ROA provides an opinion about the way efficient operations using its assets to generate revenue. By simply dividing the 12-month revenue of a new company by its entire assets, ROA may be part of a part. Occasionally called "return to particular investment". (Umramudu, 2004).

The joint venture with liquid stocks provides stimulus to increase the value of its share price (Diamond and Verrechia, 1981; Holmstrom and Drroll, 1993), and partner intervention (Gail and Vila; 1991; Gon and Wintan, 1998; mouk, 1998; no, 2002). Mouk (1998) provides a theoretical framework for displaying liquid stock markets to control hardship, and supports active corporate management. (Fong, No, and Dice, 2009) provide the source of evidence because the cash flow increases the stock value because it encourages trading with liberalization investors, as well as explanatory stock prices and improved management goals. However, Pang, 2009) does not find a definitive source of promotion of active personality and

surveillance. The real relationship between a firm stock liquidity and efficiency is often the corporate governance effects of stock Libya.

The company failed in stock Libya because there was no solid evidence of corporate governance effects: (i) The importance of corporation and industry is the corporate governance arrangements and shareholder value (Johnson, Mommaron and Soros, 2009; Lurker, Ormussabal, and Taylor, 2011); (ii) Monitoring the background of the employment relating to the relation of the equity related to stock liquidity and personality (Brockman and Chung, 2003; Chung, 2006); And (iii) the liquidity of the shares through improved corporate inflation (Holmström and Tirole, 1993, Maug, 1998). Different systems have a different capital system that they consider fit. The basic purpose of each organization is to build a better capital structure, which promotes valuable companies of performance exposure and increases the cost of equity capital. Pay back to our debtors and get back to our shareholders. Different systems have a different capital system that they consider fit. The basic purpose of each organization is to build a better capital structure, which promotes valuable companies of performance exposure and increases the cost of equity capital. Pay back to our debtors and get back to our shareholders.

The simplest definition of the optimal capital structure is to refer to the most appropriate mix of equity and debt financing for companies that play a key role in the company's performance and performance, the average cost capital (WACC). The capital structures of a (Gupta, 2000) company increase the shareholder's value and reduce the cost of the company's capital. The basic objective of the Capital Framework is to reduce the cost of capital and increase the value of shareholders' values and cooperatives.

Saleem (2013) said that shareholder prosperity is the best choice for debt and equity. According to the above statements, the purpose of choosing a capital structure is the

collection of stock and debt compounding the value of shareholders. More revenue by offering shareholders a priority provide, shareholder value and focus on the market for overall company's value will increase, (cautiri&Chowdhury, 2010), shareholder value and increase organizational long-term money moves Discount approach procedure using the company's cost and the value defining , WACC works. The intention of determining the proper capital construction with institutions, the price of the firm, the revenue and the investors will increase the chomady Deborah. It is generally conceptualized that the company's overall performance and capital construction provides strong attention through monetary economists in the monetary currency and non-financial trades. Many examiners behind the capital construction have found that many have found a link to the company's capital structure and overall performance, earnings and investors' capital. These industries must focus on the capital structure, then reduce their specific WACC and increase the price of a particular company.

Business Directors and weak team organization and poor monitoring are at risk for the company (Prak and Chidambaran, 2008). Francis and Armstrong (2003), more and more about ethics and risk relationships. Considering the fact that corporate ethics have significantly influenced, the risk of management can be reduced by following the adoptive algorithms in the corporate protocols. Group structure of the company structure and risk of financial performance of the company. Likewise, good governance reduces risk and the worst regime increases the risk of the company.Similarly,Muritala(2012) also asserted the relationship between debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

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According to PeroPeli, Perera and David,(2007), the optimal level of injecting should be injected during the decision on inflation. Different researchers have different opinions about liquidation such as Smith (1980); (Shin and Sonne, 1988); (Deloaf, 2003); (ElGeli, 2004); (Lajaritis and drifonides, 2006); (Badaachi, 2006); (Gill, Baker and Mathur, 2010); (Atari and Raza, 2012); (Banos Caballero, Garcia-Terrell and Martinez-Solano, 2012); (Owolabi and Obida, 2012), the company must end the significance of the liquidity of the company's performance, which must end the company's success. This problem is the subject of many theoretical and empirical principles, which is organized with others. Therefore, many theories need to outline that the withdrawal of the cash flow is not fully recognized. This often results in financial expenditures, changes in sales, as well as the effects of corporate risk. Cash Flow Significance is important for enterprise development and at the same time it is one of the most important factors responsible for corporate market position.

Claessens and Fan (2002) have done a lot of work on the liquidity and capital structure. Finally, the Equity Capital Framework stated that it helped fund the company and reduce the cost of capital. The responsibility of the Board of Directors is to maintain the company's full

functionality. The liquidity and capital system plays an important role in helping finance the end result. Claessens, Djankov, Fan and Lang (2002) encourage the administration to encourage management to reduce capital expenditure by exploring the possibility of funding from outside capital structure. Sunshine (2013) wants to reduce capital expenditure on capital expenditure, which is a fundamental issue for the group, but this leads to institutional conflict in the situation, creating strategies for improving management efficiency and avoiding corporate problem. According to (Graham and Harvey, 2001), the liquidity and capital system primarily relates to a company's financial system and portfolio management. Van Horn and Harlow (2009) are the company's primary target of liquidity and capital structure by increasing the company's values by acquiring company's stock prices. Objectives of the enterprises The sales volume and reduction increases revenue by increasing the total cost of production. The same procedures increase in stock prices. The financial system is an instrument that creates enterprise value and achieves enterprise goals.

The principles of liquidity and capital structure are reported by (Velnambi and Naresh, 2012), the company's profitability depends on the company's profitability and the decision of the capital structure and the decision of the group, such as debt and equity financing mixed. A substantial section of corporate finance strategies is a rich development option and capital usage. Relationship between liquidity, capital structure, and profits is very significant, which directly results in financial decisions. Companies' overall strategies depend on the capital structure. According to the company's theory, the "board and owner structure" of management and owners will have an impact on inactive corporate market efficiency and profit (Skoplila&Luo, 2012). Financial structure greatly affects banking performance and company risk. Determines the bank rate, financial ratio, debt and equity ratio. Every company's main

goal is to take action and fulfill financial resources. The need for a liquidity and capital structure on the financial performance of the banking industry in the developing country, like Pakistan, is necessary.

According to the business theory, the cost of debts generated in the form of an optimal capital system with the balance between the benefits received from the debt. Aimed at reducing corporate spending and achieving benefits of tax shield for company operations through credit financing. The benefit of the loans does not provide shareholder rights to the holders of securities from the tax price, the company's cost, but the shareholder's financial investment. We calculated the revenue that was tested on corporation's property to determine the effects of capital structure. Every company wants to choose a capital structure that will maximize its assets. (Chan &Heng, 2011), when we reduce our WACC, will have an increase in the value of the company, indicating the identity of the optimal capital system. We do not have any precise formula technology to design the company's optimal structure to increase the company's overall values. The method of controlling the WACC, which forms the shape to increase the value of companies known as the optimal capital system selection. Li & Cui (2003), depending on the manager's decision to fund its function, according to capital structure theory, when the value of investors increases. The primary purpose of the manager is to increase the value of the companies by increasing the earnings and the shareholder's value will increase because the capital system greatly affects the partner's values. Sun &Heng (2011) exposes that there is some kind of relationship between the company's performance and capital structure which has a positive or negative impact. Velanambi&Naresh (2012) revealed that the success of any company was dependent on capital structure, in which the company's credit gains were drawn up on the combination of loans and shares. The key part of corporate financial strategy is the successful choice and application of capital. Cooperative

capital for capital structure and institutional successes is crucial for the profit that directly affects the capital structure. Some of the researchers have found that the company's role is firmly in line with the probability of major board-related boards, in particular the compensation team and the management of the audit committee which has a major impact on the censor board and corporate executive. Finding (Maug, 1998) promotes management with partner care and shareholder recommendations. Brunen et al. (2009), and Pang, and many others. (2009), does not explicitly consider the basic corporate management components of stock lines.

A company's liquidity system can be ordered by using a proportional investigation. Rates that help liquid assessment include current rates, fast rates and revenue rates (operating cash flow rate = operational cash flow / current loans). The concerns are important for the unions and if they want to share, they need to buy that stock (Ghosh, 2009). The labor income rate is a function of a company's cash flow. While the job is likely to be lower than 1, the company has produced short-term business less than the time it lends to its quick lending. It can flag the need for more capital. In these ways, financial experts and investigators tend to tend to the working income rates generally. On the other hand, it should be noted that having at one time less labor earnings rates is not usually a bad thing. For example, in the event of a company making a second joint plant, the plant can pay the last one if it earns more money.

The impact of capital structure on Islamic banking performance has received a limited research attention. There are some studies comparing the impact of capital structure on the performance of Islamic banks and the usual banks. (Pratomo and Ismail, 2007) The Islamic banking agency in Malaysia tried to prove the cost hypotheses under which the High Cost Company tries to reduce company costs. The ability of a bank to reduce the cost of the

company and a bank's proportion of stocks in foreign exchange. Study that higher foreign capital or low equity capital ratio was more profitable.

The study suggests that the bank's capital ratio has a negative impact on their profitability, while the two banks of the Bank, al-Farsi and Henryvan, review the impact of capital structure on the performance of the usual and Islamic banks. Also, the negative effect for the Islamic banking team is comparable to the typical bank Untatu. These releases also show that the Islamic banks in Indonesia are able to maintain their position on a 20% high profit performance appraisal. The Indonesia Stock Exchange (Indonesia, Indonesia, Indonesia, Indonesia, Indonesia, Indonesia, 2014) analyzes the impact of capital structure on financial performance in Islamic banks listed in 2014. The capital system is calculated using the total debt to the capital ratio, while using capital is financial performance computed, assets, returns and cash flow rates. According to the study, 69% of the financial performance of Islamic banks is substantially affected. This is the capital structure of Indonesian Islamic banks, indicating that the effectiveness of Indonesian Islamic banks is higher or vice versa.

The study of the effectiveness of a capital structure on the efficiency of the banking banks in 19 countries, the sample results of 85 Islamic banks, the performance of the Islamic banks (the profit margin), to increase the value of the bank, i.e. loan and equity, i.e. capital structure (Islamic bank management, Equity (capital ratio).

This study sets out a model to measure the effects of capital structure on the bank performance calculated by ROA, ROE and EPS. Capital system has had a positive impact on bank performance. Significantly there are positive positions between ROE, EOA, EPS and Equity.

(Akhtar, et.al, 2016) tested the outcome of the capital structure (debt to equity) of profit, cash flow, interest rate, interest rate and growth rate to measure the performance of the banking sector of Pakistan. In this study, there are five banks' annual reports between 2005 and 2015. As a result, it shows that there are positively positive relations between profitability, determination, cash flow, interest rate and growth rate and capital structure.

For the Jordanian Islamic Banks (Raja and Alucate, 2014) to test the impact of capital structure using a number of capital models on the performance of Jordanian Islamic banks. This model is model of two Islamic banks: the Islamic Bank of Jordan and the Islamic Bank of Arabia (1998-2012). By using a number of financial ratios: (Equity Ratio, Total Assets, Total Asset Ratio, Total Asset and Concentration Rate of Liquid Assets "Index Hervndal" Rate: Tobin K. Survey Results A positive impact on each process: ikvit T-rate, total assets and financing rates for total assets) and the "index hervender" performance, the ratio of liquid assets of total assets on the performance of Islamic banks in Jordan.

Study examines the impact of capital structure on the effectiveness of Islamic Jordanian banks without comparing these effects to regular banks in Jordan. But my analysis examines the impact of capital structure towards the effectiveness of both the traditional and Islamic banks.

The historical background founded in the first constituency of banks and reserves, due to the liquidity management and role of the capital structure in financing the banks, the relation between the various parameters affecting the role of the liberal management and the capital structure,.

Uremadu (2004) This cash flotation refers to finding a short-term obligation or a range that can be easily saved by a company or individual that can be easily converted into cash.

According to (Nehua, 2006), managing a stance for the market, which attempts to cash in on sufficient funds, and the last expenditures, as well as supporting other shareholders.

BJech, Fischer &Rutger (1991) assumes that the accumulated money can always be converted into monetary formats, depending on the asset's wishes. The wealth in the form of cash is considered better. A company that has the ability to fulfill its current debts as defined by the accounting feature has its potential. Investment can be easily converted into invested money and is less or less costly. A company employing a employer to hire or earn money is called a liquid company for the customer's needs quickly or shortly to meet the need for a promise or pledge.

Chandra (2001) Generally, a company that effectively and efficiently monies funds a large company is considered a sign of its financial stronghold. However, some authors claim (Neto, 2003) is too risky because of overwhelming excess liquidity. It is not wrong to say that the current assets are less useful than fixed assets. This means that the invested cash is less profitable than the fixed asset. In addition to the current asset, it creates other additional fees for its maintenance, which certainly will ensure that the company's expected probability decreases.

Uremadu (2004) has defined the structure of the capital as a company demonstration of how to reclaim profits. This will help in determining if the management of the company is effective or not. If a company claims its management is very efficient, its management system is easy to see if its administration is more efficient. As the company successfully succeeds all

its set goals, it will be credible to repay its debts by sponsoring the financing of companies in the market. Thus, if the capital structure of the company is based on its ability and management ability, it would be collected by the management if it has a large or larger capital structure. A company's efficient management always fits profit to its related assets. This is determined by dividing the company's annual profit by dividing its assets. The income on the property is written in percentage.

Financial sources say that (Unus, 2014) financial institutions will directly affect the company's operations, such as salaries, rented buildings, heavy machinery and other equipment building. By entering these funds by making money through the company's financing, a company is paid by another company. Capital Ratio Short-Term Developments for Capital Ratio, Long-Term Developments for Capital Ratio and Capital Ratio (Mohamed, Ammar and Muhammad, 2013)

Bhubaneswar (2007) The structure of the capital that takes strategic financial decisions of the companies is a very important part. Many factors influence indoor and exterior a company's capital of capital architecture. The research on this issue mainly consists of industrialised countries. Little is known about the decision-making process of the capital structure of companies in underdeveloped countries.

Economists disagree with capitalists that the disagreements are the evidence used by merchants in the hope of separating human resources, technology, money and other resources in the hope of producing wealth. It is explored by (Ebb, 2008).

Also the ability to select appropriate sources based on the capital structure is a quality of effective management, and if it fails, it is a sign of inefficient management.

2.2 Islamic Banking and Conventional Banks

Islamic Bank and Regular Bank can help fund transfers from depositors , investors or debtors or investors. Regular routine banks, venture transactions or Islamic banks can not afford any transactions. But business banks are allow to do business. The main difference between Islamic banks and traditional banks, interest rate and speculation, investment in alcohol, tobacco and pork products are prohibited in accordance with Islamic principles. Generally, conventional banking policies are human, based on the principles and rules of the Islamic banks, based on Sharia, and the transactions of Islamic banks are between profits and losses. As we know, the interest rate for the regular banks is a key source of income. As a source of religion, not only Islam, but also interest in Christianity. Similarly, as stated in the Qur'an, "Believers, do not eat interest, multiply, multiply, but fear God for you to win." 4 Another source in the Qur'an is "Allah has permitted, interest" 5. In the Bible, "earn money, food or anything else, do not charge your brother interest." Unlike Islamic banks, traditional banks are not allowed to buy products by reselling them. It is forbidden to acquire capital assets or fixed assets: if the building, tracks, cars, and machinery are not used for their own use, they should be resold by mark.

By studying the profit of the Islamic banks and the usual banks (Faisal, 2004). Profit Indicators are two different types of banks in ROE, ROA and NIM. He used an independent variable: macritique of assets, equity of assets, deposits on assets, and total loans for assets. He used the quality of the bank in cross-country to the GCC countries of the Gulf Cooperation Council. He found the results of the Islamic banks with Hassan and Bashir (2004). In its analysis relations between banks, profits indicators vary widely as a result of "the characteristics of the usual banks and the profits for profit". Logically, total assets TA have a

negative relationship with performance measures in the usual banking system, but positive on the Islamic banking system. The capital ratio or share ratio, the performance of the typical banks and the positive relationship with Islamic banks, is negligible. If both the Islamic and the usual banks identify the increase in profits, and in other words, total loans are determined to determine the profits of both the banks. In addition, he found that the deposit rate has a lucrative relationship with Islamic banks that resemble earlier courses of Bashir (2000) and Hassan and Bashir (2004). However, deposits are usually lucrative decisions for typical banks. It is related to the lucrative determination of debts of Islamic and traditional banks. According to Spathis (2002), he was aimed at investigating the difference between small and large conventional banks in profits and proficiency in Greece. In other words, he is based on the size or total assets of the usual banks in a small and large scale. To examine the profits and potential of the Greek banks, Spathis (2002) uses a multicaster system, which means that he uses M.H.DIS and UTADIS to determine the rate of Greek banks. Sources indicate that those big banks are more efficient than banks. Higher Education Capital Income, Higher Interest Yield Marg, Higher Financial DA TE / TA and / or high capital enough TE / TA. Big banks, property yields, and low capital and interest rate yield vary. M.H.DIS and UTADIS support retreat analysis decisions. Anor Hassan (2002), based on the return of the Islamic banks to the ROE, studied the returns on the ROA by comparing it to regular members in the GCC countries. He used ROE performance measurement and ROA as profitable. Furthermore, he found that Islamic banks were profitable to the typical banks on the basis of balance sheet structure. He explained his experiences in the way that Islamic banks benefit from the ambitions of the market. Moreover, he found weak Islamic banking lending, concentration risks and performance efficiency. AbdusSamat& MR. Kabir Hassan (1997) The Bank of Malaysia estimates the differences between Malaysia BHHD PIM and Performance

Activities eight regular conventional banks based on leasing, liquidity, risk and bankruptcy. BIMB is relatively comparable to eight regular groups, bringing out the output of experimental results claiming them to be more liquid and less dangerous. Additionally, Islamic banks have made substantial improvements in ROA and ROE in 1984-1997. However, Samad& M. Kabir (1997) BIMB compared to a 8 banks group shows that the difference in efficiency activity is statistically trivial. They found the risk of BIMB rising and it was statistically significant. Rima Turk Aries (2006) analyzed the situation in Islamic and routine global bank markets regarding the difference between lucrative operations between Islamic banks and regular banks. Islamic banks, Musharak, Mudarba, Ijara, and many more are allocating their assets to finance. In other words, Islamic banks are subject to huge credit risk. Generally, he has examined the differences between Islamic and traditional banking markets and has been shown to be more intensive and less competitive banking divisions by focusing more on the Islamic global banking market. (Mon, 2007) The performance of the first Islamic bank in Pakistan is measured by 5 regular banks. The effectiveness of this study was in the fields of profit, liquidity, risk and efficiency using financial ratios. Traditional banks saw him as the most profitable and substantial difference from the first Islamic bank on the ROE. His findings showed that the Islamic banks are approaching the usual ones for profit. He found a positive relationship with net profit margins with ROE. There is, however, no difference between the Islamic bank and the regular banks. Regular banks are more hazardous and less solvent than the Islamic bank due to high profits. (Gosmito, 2004) estimated the performance and efficiency of the Commercial and Cooperative Bank in Greece and Europe in 2003-2004. She has 16 cooperative banks and 14 commercial banks. The banks are divided into two major banks and small groups in total assets. Based on CAMEL architecture, he used a number of basic methods to evaluate the efficiency of business and

cooperative banks by using financial accounting rates for EBT / TA, EBT / TE, Asset Loans, etc. Compared to cooperative banks, commercial banks are increasing their accounts, more competitive, and generally increasing market share. (Trippe, 2002) studied the relationship between the banks' share capital in the new Geeland and Australia in 1996-2002. He took 9 Australian banks and 6 new Zeiland banks. Gross domestic product and interest rate were also considered in the analysis. He categorized Australian banks as large and small banks, but newly-refined banks were evaluated individually. Kanger's experimental check to see whether there is a link between capital ratio and income on equity. As a result, he saw a moderate positive relationship between capital and ROE in both countries. The economic environment for profit has a positive effect, and the new Zeeland interest rate has the same effect on the profit rate, but it is not clear whether it has a relationship with profit. (Chukwuogor, 2002) The comparative performance of American commercial banks in the period 1997-2002. He categorized commercial banks through small, medium and large assets. To measure profitability efficiency using income on assets, interest income, interest on non-interest and credit loss. In 1997, 2579, 2651 in 1998, 2655 in 1999, 2693 in 2000, 2724 in 2002 and 2728 in 2002. Experience analysis was analyzed to measure efficiency among banks. He found that small banks had made profits for banks and lower middle banks. He found that in 1999 the profitability of small businesses was lower in small banks than middle and large banks. The medium-sized banks have become more profitable in this period. During the period 1997-2002 all 3 banks were identical to the ROA period. Smaller banks in net interest rates were lower than middle-level banks during 1997-2009, lower than the middle banks of 2000- 2002. In contrast to non-interest income, the smaller banks are the lowest, the largest banks are the highest. Smaller banks have very little lending to pay for better management in smaller banks, but big banks have the highest credit losses in this period.

Many studies focus on comparing efficiency of Islamic and traditional banks. Some studies support Islamic banks, as well as the usual banks (Samad& Hassan, 1999); (Iqbal, 2001); & (Abu Bakar, 2003); (Ziyyullah, 2010). In GCC countries, using 6 different rates to measure performance, and in 2006-2009, (Parashar and Venkatesh, 2010) found that Islamic banks were more profitable than traditional banks in the region. (Ryu et al., 2012) This shows the fact that the Islamic system is less dangerous and very careful to find out that the Islamic financial system is more profitable than the regular financial system. Using the LFB (2013) financial ratio analysis, Qatar finds the same conclusion in 2006-2010.

There are other contradictory studies: the usual banks are more profitable than the Islamic banks, due to their high assets and large market size (Olson & Sophie, 2008). The decision was justified by the management's performance and higher operating costs, as (Ashraf and Rahman, 2011) demonstrated that Islamic banks were less lucrative than regular banks. (Ansari and Rahman, 2011) compare Pakistani-based Islamic and traditional banks using various financial ratios that represent profit, cash flow, risk, capital equity and performance during 2006-2009. They found that Islamic banks were more fluid, less efficient and less dangerous than conventional banks. (Hanif,,Tahir and Waje, 2012) The usual banks in Pakistan are highly profitable and liquid, while the Islamic banks are better at credit risk management and lending. (Hasey and Khilani, 2013) show that regular banks in Malaysia are much more lucrative than Islamic banks, and the latter are still liquid and less dangerous. Oranakia and many others. Compare the performance of regular banks and Islamic banks in the UK during the period of 2007-2011. Traditional banks are finding it more profitable, more useful and timely than low-cost and low-cost Islamic banks.

Other studies have demonstrated that there is no significant difference in financial performance between Islamic and regular banks (Samat, 2004, Hamid &Azmi, 2011). Johans and many others. (2012) Compared to the performance of Islamic and traditional banks before and during the financial crisis. By using data culture analysis (DEA), they found a significant difference between genetic and Islamic banks. At the same time, as a result of the Meta-Frederian Analysis (MFA), Islamic banks claim that they are less efficient than the usual thing. (Rozzani and Rahman, 2013) are using Stoicistic Frontier Analysis to analyze banking ability in Malaysia. They point out that they are capable of measuring both genetic and Islamic banks.

All of the above studies are not the same result because different cultures are conducted in different ways in different times in different countries. We decide that Islamic banks are highly profitable and more fluid, less expensive, less dangerous, but less efficient.

2.3 Origins of the Banks

The first regular bank was established 424 years ago. "Modern Traditional Banking Organization was established around 420 years ago and was founded in Bangkok in Rio de Janeiro, Rio de Janeiro, 1587, although it was not until modern CB 1640 in England, in the UK in 1694 (Sumner, 1971). "In addition, although an Islamic bank was founded in 1963, it does not mean that Islamic history and bank loans existed in Islamic history.

2.3 Shariah Compliant Instruments

2.3.1 Equity Structure Instruments

Musharak represents the coalition. This policy, known as sponsorship, is a partnership if there is not a significant contribution in the absence of a joint venture. In other words, the agreement between the two parties with the aim of making a certain business activity or profit in a particular program is like a joint venture in the usual banking market. Under this policy, both parties come to capitalize on specific business activities and may participate in an investor or lender provider administration. Profit or loss allocation is predetermined and not based on total capital provided by the relevant shareholders. Muturahah is a profit contributor to discourse finance, lectures or shareholder. Basically, according to this, the lender or investors with capital are offering their money to another party to conduct a venture or specific business dealing with the terms and conditions of Sharia. Investors or lenders will not engage in business activity or program and the borrower who has agreed to carry out capital, business or venture, will return the principal amount to the investor and borrow at the time specified in the particular business, after the expiration of the specified period. In fact, profit rates are based on a contractual agreement, and investors are not guaranteed to investors, so all losses will bear the investor. The borrower or agent manager only loses on time and effort.

2.3.2 Debt Structure Instruments and capital structure studies

Murumpah is a price rise or goal, essentially referring to the demands of temporary customers from third parties and refers to customers at an earlier comparative price by adding a profit margin to customers. On the one hand, the sale of goods at a price that includes price and other profits. This functional policy relies on traditional lending operations, where the borrowers buy the goods they need to buy raw materials, machinery or other equipment, and then resold the borrowers to the borrowers at a higher price agreed by the two parties.Pouraghajan et al (2012) analyzed different firms for knowing the relationship

between capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

Similarly,Muritala(2012) also asserted the relationship between debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Ebrati et al (2013) documented a negative correlation between the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

Berger (2007) examined various firms to find out the association between capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

Similarly, Bhoot et al (2001) also confined the association in debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Kajola (2010) asserted that a negative correlation in the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

Zheka (2010) viewed that various business organizations for finding out the association in capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

Grichonuk (2009) also certificated the relationship in debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Smith (1990) examined a negative correlation between the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

Priya (2013) analyzed different firms to find out the association between capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

Similarly, Abor (2005) also documented the association in debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Campello (2007) viwed that a negative correlation in the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

Tang and Chen (2008) examined different firms for knowing the relationship between capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

Champion (2010) also confined the relationship between debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Era (2010) viewed a negative correlation between the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

Chowdhury (2010) analyzed various firms to find out the association between capital structure and financial performance. They used regression to analyzed the relationship and found that the proxies of capital structure significantly effecting the financial performance.

Similarly, Ismail (2011) also cerficated the association in debts to equity and Return on asset (ROA) and found that this ratio negatively affect the firms ROA. The study also found that debt ratio is very alarming for the firm financial performance negatively.

Aman (2011) documented that a negative correlation in the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

Park and Jang (2013) asserted that a negative correlation in the capital structure proxies and firm financial performance. The study analyzed mixed firms and found that both debts ratio and debt to equity ratio have negative association with financial performance of these firms. They also predicted that funded capital ratio and funded leverage ratio negatively associated with the financial performance of these firms.

However, this credit activity is not allowed on a normal typical banking system. Furthermore, the mark should not be too high, the buyer or the customers should always be charged, or before the purchase of the goods. Ijara is a contract that can be purchased or rented or rented for eight items such as equipment, equipment, machinery, building, housing, and land. As the property, the tenant is leasing the customers to lease the owner's end. Similarly, this is equivalent to the transaction of traditional banks that provide equipment, facilities and campuses in a leased form that ends with the rights of those assets. According to the Islamic banking, lease him for a specified period. This is a lucrative effort by the Islamic banks and avoids charging interest rates. Irraya Sharia's comment is a conventional legitimate leasing lease. The borrower will be willing to pay any amount by paying the borrower or the amount payable to the loan amount. This kind of financing is used to encourage and assist micro enterprises. In practice, it is used for short-term financial aid and social welfare. If the borrower is in trouble or the probability of default increases, it is expected to go out of debt either from the borrower or from the borrower's entire area or as a whole. Wadiah refers to a contract with a charity bank to obtain a consumer savings or bank permission to use that customer's own risk unless the bank and other items deposit bank deposits in the bank will own the bank. Depositors will not earn anything, make sure to earn money. Customer can never withdraw his deposit or total amount, and he wants to do so, and the banks assure that

such a request should be respected. The capital structure of the two type's banks is different. The capital structure is financed by the company to finance its assets either from financing or stock markets, or at the same time. In Islamic banks, the basis of the capital structure equation is the opposite of typical banks, mostly debt financing and some equity. For example, capital is said to be capital of $ 10 billion, debt is $ 90 billion, 10% equity financing and 90% lending. Furthermore, the total debt ratio for equity is 90%, in this example the bank is a foreign investment. In total, all the above transactions are not free interest and speculative activities. Furthermore, despite the complications of the borrower, despite the difficult problems, he made the most effort to achieve his goal of making profits, but due to unexpected expectations he would be the default, for example, unexpected circumstances: war, great recession, military regime change, and so on. In this case the debtor will not be liable for debt, i.e. obligation to repay the loan

2.4 Liquadity and performance

Rehman (2011) analyzed the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyzed the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

Naveed (2012) asserted that liquidity is very vital for the firms performance the study used fixed effect models to analyze the data and documented that Quick ratio along with Current ratio positively affect the firm return on asset ROA.

While Cu yen et al (2014) also tested the relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The

more the firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively affecting the financial performance of firms.

Adam (2003) asserted the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyze the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

Afeef, M (2011) certificated that liquidity is very vital for the firms performance the study used fixed effect models to analyze the data and documented that Quick ratio along with Current ratio positively affect the firm return on asset ROA.

While Afoniz et al (2014) also find the relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The more the firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively effecting the financial performance of firms.

Davoudi et al (2013) examined the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyzed the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

Bokhari (2013) documented that liquidity is very vital for the firms performance the study used fixed effect models to analyze the data and documented that Quick ratio along with Current ratio positively affect the firm return on asset ROA.

While Ebaid et al (2009) analyzed the relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The more the

firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively affecting the financial performance of firms.

Fama et al (2002) documented the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyze the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

Galbreath J (2008) certificated that liquidity is very vital for the firms performance the study used fixed effect models to analyze the data and documented that Quick ratio along with Current ratio positively affect the firm return on asset ROA.

While Gombola M J (2015) asserted that relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The more the firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively effecting the financial performance of firms.

While Gregory et al (2014) confined that the relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The more the firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively affecting the financial performance of firms.

Hacker et al (2006) viewed that the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyze the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

Harrison (2012) documented that liquidity is very vital for the firms performance the study used fixed effect models to analyze the data and documented that Quick ratio along with Current ratio positively affect the firm return on asset ROA.

While Kim D and Perron (2009) also analyzed the relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The more the firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively effecting the financial performance of firms.

Sur D (2001) viewed the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyzed the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

Wang Y.J (2002) noted that liquidity is very vital for the firms performance the study used fixed effect models to analyze the data and documented that Quick ratio along with Current ratio positively affect the firm return on asset ROA.

While Zivot et al (2002) examiend the relationship between the firms. Liquidity and financial performance argued that liquidity is very vital for the smooth study of the firm. The more the firm will leave liquidity the better the performance is guaranteed. Both Quick ratio and Current ratio are found positively affecting the financial performance of firms.

Kartal (2016) asseted the firms for the relationship between the firm's liquidity ratio and financial performance. The study used simple OLS to analyze the data. The study found that both Quick ratio and Current ratio are positively associated with the financial performance.

Comparative analysis of Islamic and traditional banks is very important based on profitable decisions based on the CAMEL approach. All banks play an important role in contributing to the development of the economy. A number of studies have been done to improve the lucrative indicators and bank qualities. Recent paperwork uses different traits, structures and widespread economic variables in banking standards in different countries. (Bashir, 2000), (Kabir Hassan, 1997), his research was about "some sources of the Middle East, which determine the profits of Islamic banks". She used setback analysis to see the relationship between the bank's character and financial performance in Islamic banks. He opposed the use of cross-country group data to assess the risks of capital and debt by increasing the operations of Islamic banks with profits. Financial rates are used to measure efficiency measures of Islamic banks. 14 of the Islamic banks were taken in 8 countries. He took the proportions: withdrawal equity, withdrawal of pre-tax assets and profits on total assets. He brings to the conclusion that the assets of the total gross asset and the assets of high assets are profitable with the growth of gross domestic product and increase profits. This decision plays an important role in the financial performance of Islamic banks. (Bashir, 2000) found that Lafatdat determiners have a positive relationship with OVERHEADS, that means higher earnings, wages and investment expenses may make banks more profitable. The findings and results are relevant to previous studies. In addition, changing the profits of the profits he came with the foreign property that contributed substantially to Islamic banks, that is, statistically significant statistical relations between foreign property and profit marks. He also used tax factors, and using financial taxes on Islamic banks to have negative impacts on non-profit indicators, in other words, the government tax tax structure has a negative impact on the financial program of Islamic banks. In addition, the (Bashir, 2000) reserve ratio is negative The positive economic growth will improve the rate of profit rates and assets in favor

of fixing credit profits.(Basheer and Hassan, 2004) are continuously reviewing analyzes of (Basheer, 2000) research, which is a few independent and independent variables To improve the value of the value: Margoanomic variables, lucrative indicators and financial institutions are a non-net interest rate that is added as a profit indicator First, both of them presented an experimental analysis of the characteristics of the bank's performance level of Islamic banking. As a result, prospective indicators have been found to be favorably linked to the capital ratio. And (Bashir, 2000), according to the previous study, has a negative relationship with debt ratios. Experiential findings suggest that higher assets on the capital ratio or assets will lead to higher profit margins. Furthermore, NNIM (net interest rate) found that they were favorably linked to OVERHEADS, and the banks were still getting wages and wages would be distributed. The government's tax structure is the same significant impact on lucrative indicators such as the previous study (Bashir, 2000). However, the rate of reserve ratio in Islamic banking finance performance has not had a strong impact. On the one hand, the positive economic environment is said to have positive implications in the profit margin, the GDP growth increases, which will increase the efficiency of the Islamic banks. Nonetheless, statistically significant in GDP per capita and GDP, otherwise they would not affect the effectiveness of Islamic banks. Finally, the size of the banking system, except NNIM, has a negative impact on the determination of profits.

2.5 Performance Determinants

In the GCC countries, (Stree, 2009) earned profits during the banking period between 1999 and 2006 between banking, mutual economic factors and bank profits. The results show that credit risks, performance efficiency, and capital equity affect the bank's performance of

Islamic and traditional banks. The results show that excluding inflation rates can affect the positive effect of economic changes.

(Zeitun, 2012) for recent literature conducted a study to evaluate factors affecting the effectiveness of Islamic and traditional banks in the GCC during the period 2002-2009. This study was a model of 13 Islamic and 38 regular banks. Analyzed factors are foreign property, bank specific variables and large economic variables. The bank's role is a key factor in increasing profits to the typical banks, but it has been reviewed that the Islamic banks have been negatively impacted. Cost of revenue ratio reflects the negative and significant effect of the performance of the two banks. The amount of banks supported the level of the economy by using ROE to Islamic banks. However, foreign banks have no effect on both banks, while gross domestic product is in favor of; Inflation relates to the bank's performance.

From 1996 to 2008 In his research of factors affecting the Islamic and traditional banks, (al-Tamimi, 2010), affected by the performance, liquidity and concentration of traditional banks, the branches and expenditures for Islam are the most important factors.

2.6 Historical Perspective of Islamic Banking: A Glance

Like all Islamic things, the origin of Islamic funding goes up to the period of Prophet Muhammad (pbuh). The prophetic example is very reasonable. Absolute lack of transparency and complete honesty of Al-Ameen (trustee) who gave priority to Islamic Arabia (Suhian).

In Muslim societies, the Prophet Muhammad (pbuh) will go to him, such as accepting limited banking activity and deposits. Prophet Muhammad (pbuh) or Abu BakrZdidi (let him please him), Islam is the first Khalifi.

Ahmad El Najar tried a pioneer and established a savings bank by earning profit in the Egyptian city of Mid Camar. In 1967 there were nine banks in the country. These banks have not received any interest or any interest, mostly invested directly or in partnership with the business and industry and share profits from their depositors (Siddiqi l988). These banks are mainly operating as savings banks and commercial banks instead of investment companies. Islam, or Sharia (according to Islamic law) does not make any reference, the Nasser Social Bank established in L97L in Egypt was declared an interest rate commercial bank (Arif 1988).

Several Islamic banks were established in the Middle East through the seventies, e.g Islamic Bank of Dubai, Faisal Islamic Bank Egypt (l977), Faisal Islamic Bank Sudan (l977), Bahrain Islamic Bank. For example, the Philippine Amana Bank (PAB) was established as the special banking institution of the Presidential Decree, without specifying its Islamic character in the L973. Bank charter. PAB is definitely not an Islamic bank; Nevertheless, attempts to transform PAB as the entire Islamic bank (Mastura, l988). The Islamic bank was introduced in L983 in Malaysia. Thabung Haji won the main thrust of establishing Islamic Malaysian Behrath (BIMB), a bank representing Malaysia's entire Islamic (business) bank. The Organization of Islamic Countries (OIC) established the Islamic Development Bank (IDB) in December l973. IDB provides not only fees based fees but its member countries (source: IDB).

Muslims should also be given a reference to some Islamic financial institutions established in the minority countries. In the seventies (citicky, l988) in India there was no interest in savings and credit unions. The Islamic Banking System (now known as the Islamic Fundraiser), founded in Luxembourg, Luxembourg, is the first attempt of the Islamic Islamic Bank of China's 6 Islamic Bank for 2013, the innovative and applicable fund of Mohammed

SheshatMoin / International. Islamic Bank International is also in Copenhagen in Denmark, and the Islamic Investment Company was set up in Melbourne, Australia (Arif, 1988). In the late 20th century, several specific Islamic banks were created.

2.7 Difference between Islamic Banking and Conventional Banking

Like the usual bank, the Islamic bank is a broker and trustee of others, but the difference is the profit and loss of its depositors. This difference introduces the interaction of the Islamic bank with its depositors having some of its owners (Dar and Presley, 2000).

Like non-Islamic banks, they both offer the same (financial) services and play an important role in the economic development of their communities. But they are different from Islamic banks. Non-Islamic banks are obliged to follow Islamic Sharia in their activities. For example, according to Islamic Sharia's exploitation agreements based on Riba (interest interest or interest) or risk or speculation involving unjust contracts,can not be expected.

When Islamic Banking and Regular Banking vary, following the usual bank interest-based policies, the Islamic bank is based on the principle of free policy and profit and loss (PLS). Many Islamic studies have been discussed in the context of the importance of interest in Islamic banking and the importance of the PLS.

Islamic finance is an economic institution that fulfills teachings of Holy Qur'an to oppose harvested maximum revenue on financial assets. The main concern of the Islamic financial system is to adhere to the Islamic ethics standards. These algorithms of Islamic ethics govern all transactions in an Islamic financial system in Shariah.

2.8 Development of Conventional Banks

The origins of the banks were associated with religious beliefs, and the temples were bankers. In the 2500s, after Hammurabi's theory of banking, commercial banking transactions at a time are taken from the actual banking industry. Banks are not only producing money but they know. In the Lombardy region, in Italy, the first beginnings of the Bank, such as the Modern Trading Bank were found. Casa Di San Giorgio in Genoa, established in 1407 was considered to be the first bank.

After the development of the banks in Italy . The 15th century, Benedict Kotruljević from Dubnnik in his book describes bankers as dealers rather than borrowers.

History has greatly affected the growing human needs of the bank's growth, manufacture and skill. Growing absorption of capital into creation and trade has increased the capital in the bank. Various economic and political conditions have introduced new practices for the Bank today. Thus, the period between the 19th century and WW1 is described by the concentration of the banks. Banking period between the 1st and 2nd World War is remarkable, while modern banking evolution is seen through globalization. Nikolić and Pečarić in 2007 said that globalization process is a global financial institution providing a banking company that generates a bank of D-specializing a bank. A prerequisite for survival in the globalized financial market will lead to a solid struggle from non-banking companies.

2.9 Development of Islamic Banks

The beginning of the Islamic Bank in Egypt in 1963 is considered the start of 1st official non-banking bank. Islamic Development Bank (IDB) was established by OIC in 1974. It aims to provide funding for economic development and development of Shariah 2 rules in Muslim countries. By the late 1970s, many banking institutions were established in the Muslim world;

1st private bank in 1975 in Dubai, in 1977 Sudan (Faisal Islamic Bank of Sudan) and Bahrain (Islamic Bank of Islamic Banking) in 1979.

In the early stages of the development of the Islamic financial market in the 1980s, the IP companies did not have quality investment opportunities, and CBs from West Bengal acted as mediators in using IP funds. Therefore, the IBS helped finance the banks in business and business activities, and acknowledged that a buyer purchased a customer on behalf of a buyer and sells them at interest rates. Western banks have taken care of Islamic commercial markets and attracted Islamic financial products and began without mediation on the IBPS.

Today's world has over 300 IPs in more than 70 countries. In addition to Muslim countries they are situated in many other parts of the world like USA, Germany, Australia, Bahamas, Luxembourg, France, Ireland, Denmark, Switzerland and Albania.

2.10 BASIC FEATURES, RELATIONSHIPS AND CHANGES BETWEEN CONVENTIONAL AND ISLAMIC BANKING SYSTEM

The foundation of Islam and teachings of prophet Muhammad □ is the base for Islamic financial system. It is fabricated on religious values and rules (sharia), allowing business, which prohibits interest and interests (riba) as a safe, scheduled and fixed income. Thus, the Bank of Islamic Bank is based on a promise on bank and its customers for profit and loss sharing.

In Islamic Banking, money is invested based on investment and moral, ethical and religious principles, reflecting the potential capital to pay up unity of human work through trade activities and trade activities (Čočić, 2012). According to (Hajj, 2005), Islamic

ideologies offer a way to earn profits without having to pay for interest rate (interest rate) in interest rate (the interest rate) they receive. This Islamic method of interest is like the old method of philosophers and traditional economists. This indicates that people are encouraging interest from Islamic teachings, mutual exchange of production and manufacturing goods. If interest is prohibited, individuals will happily borrow one another and do good things only to others.

According to Islam, as a result of economic and social development, interest in the investment process decreases. In Islamic bank, the risk is shared amongst the Bank and capital users. The bank is directly concerned with the success of customer and is keenly involved in handling the future business. Using funds can earn more profit than earnings; however, risk is higher.

(Kpodar and Imam, 2010), combined with interest ban (riba), argue that an IP measures should follow other restrictions on Islamic law:

• Prohibition of actions that create imbalance information, so encourage greater uncertainty, I am. e. Financial uncertainty (kahar),

• Speculative business activities (Masir),

• Prohibition of acts affecting society (Harat).

Considering the basic fundamental principles of the IB, it is doubtful that the first IPS foundation was because Western analysts believed that banking would not be banking because of lack of interest in banking. Non-interest bank (Iqbal and Miracor, 2009):

• Unlimited funds for availability of funds and supply deficits,

• Dearth of savings,

• Unbelievable funds and growth,

• Failure of financial policy, because without a fixed, predetermined interest rate,

One way of capital is "escaped"

On the aforesaid basis, IBS has a right to work and a commission, even though the Islamic monetary system and IP companies can do investment procedures like the CBI, and free-of-charge policies offered by their customers. Moreover, they defend their business based on clearly defined contracts described below.

Andtak, based on commercial relations, describes the methods of economic measures in the Islamic financial system (2008).

Mutualaba (Agency Establishment) - Contract Agreement between at least two parties, in which parties to the contract, the other party financier - auditor provider, loses plans while distributing profits according to the pre-agreed conditions. Musharaka (joint venture) - Two or more parties who desires to be partner in business venture funds to financial resources, thus making a profit margin at any rate, contributing to investment.

- Murabaha (cost and financing) - purchase from a financier based on late payment; Customer buys products for customers and controls the purchase cost, repayment payments and repayment payments in additional installments.
- Croat Hassan (compassionate loans) - polishing without contract fees.
- IJARA, IJARA WA-IQDINA (PAYMENT ORGANIZATION) - Adopt a functional and financial lease in regular financial institutions.

- Importance (concession agreement) - Acquisition of capital goods is a model suitable for long-term funds.

Murdarpa and Musharakah refer to two fundamental forms based on Islamic banking based Islamic investment.

The key variation between CBS and IPS is found in risk distribution and interest sanction. These are the fundamental traits of the Islamic bank, using the usual banks, interest in repayment and other instruments to guard themselves against risk of capital investment. This way, CBs completely change the threat for debtors, thus making the customer unsuitable for commercial achievement. The payments of customers in the IBPS are reflected safe, as the successful investments only bring profits, and IB does not invest in uncertain projects. Therefore, IB is investor-based (most products take this feature) and the customer's success (shares the same "fate" with the banks). In addition, IPs are measured generally more accountable than CBs (alcohol, tobacco, prostitution, pornography, gambling, army) and religiously controlled (they are within the limits of their power, against their wishes).

Alternatively, IBPS (Bozana Bank International) offers its clients various products and services in CBs:

- Using credit cards free of interest, where a person pays one time fee (including bank expenses)
- In a joint venture with non-interest-free savings of customers, but a bank and a customer.
- Customer's deductible overdraft on the current account that does not interest, but the bank's predetermined fixed commission.

Since Islamic Banking, Commission and several charges for banking facilities are not considered to be a banned Islamic affair, one can take a decision on the aforesaid. It generates profits and answers the common questions of survival because of indifference in IBS, because interest-free banking bank is not a non-profit bank, but a standard and safe alternative. Likewise, IB is secured with clear settlements signed with customers, so if a customer finances to buy a residence, IB becomes a partner; I. e. To save themselves against non-customer fees, the minimum share of assets is required. In such cases, the lack of interest in securitization by banks, customers' connections, fees and commissions, should be pointed out that IPS products are not less than CBSs.

2.11 Defining Islamic banking versus conventional banking.

That's great for the wealthiest of its shareholders: most business entities will only remain for one purpose. An example of a bank.A bank, Islamic or regular, seeking money (deposits) from savers, and then expenses (loans). After a period of time, savers are expected to withdraw their money from the bank, and the earners are expected to repay the money received from the bank and receive income. One efficient bank tax return and the increase in spending 'revenue is one of the reductions.

Regular banks use preset interest to pay savers and preset interest to charge spenders. Islamic banks, however, are prevented from using Sharia (Islamic law) using preset interest in its operations. They repay the savers from the money generated by Musharakah and Mudaraba where the investor does not know the investor again and their expenses are Murubaha, BaiMajjal, Istina, Istisra, Musharaka, Ijara and Bai Salaam (Hanif, 2011).

2.12 CONVENTIONAL AND ISLAMIC BANKS BEFORE, DURING AND AFTER THE FINANCIAL CRISIS

Following this audit comes from the perspective of CBS and IPS activities in terms of their financial stability and efficiency. Then, based on the analysis of the market power of the banking industry, explains the relationship between the control and financial crisis in bank lending, and the impact of the restrictions on CBs and IPS operations.

2.12.1 Operations of Conventional and Islamic Banks

Today, there are a number of financial resources that control the competition between banks, the Islamic bank is one of the fastest growing businesses in the world. (Ernst & Young, 2012) In the report on the Competitiveness of the Islamic Bank of the World, IB's assets were estimated at $ 1.3 trillion in 2011, which also recorded growth despite the financial crisis. During this period, in Islamic countries, IPs grew by 50% faster than CBs. According to the ranking of 2014, Abu Dhabi and many others. The Islamic funding assets are estimated to be worth $ 2 trillion. 80% of these are IB (or Islamic windows). Between 2009 and 2013, IBPS's assets grew at 17.6%, anticipated growth rate of 19.7% in 2018 (The Economist, 2014).

Although the data is mentioned on December 31, 2015, it is not in comparison with the eurozone, but the largest (regular) European bank (HSBC Holdings, UK) 2,18 trillion euros, assets of TOP 10 European banks, 15,06 trillion The euros, the assets of the top 50 European banks, are worth 29,99 trillion euros Keep. Seven of the 50 largest banks were from Germany, 6 from France, Spain and Britain (HSBC, 2016).

2.12.2 Financial Stability of Conventional and Islamic Banks

While many communicator agree, it is not effortless to define financial stability (Cattenz and Jairam, 2009), taking into consideration the complex relationship between the complex natural economies and the different sectors. There is no clear agreement on how to define financial stability, how to define its value or any policy measures (Cox and others, 2004) to apply for its implementation. (Laiil, 2002) defines the potential of a financial system to oppose a problem for financial stability. (Huban et al. 2004) and (Shinsei, 2004) to financially stabilize economic resources and to promote wealth, economic growth, social risks, financial risks, and to perform these functions, even if the system is exposed to external shocks. Lai argues that it is necessary to eliminate uncertainty (risk and impact sources) by reducing the cost of the crisis by reducing the possibilities of the financial crisis by securing the financial system and ensuring financial stability (2002) and all relevant parties (financial institutions and officials) risk You need to be introduced. According to the ECB, the first line against the financial crisis is the banks, insurance companies and other financial institutions. It is the obligation to be liquid and solvent, to check credit rating of borrowers and manage their further dangers. The second line of defense measures being taken by public authorities to reduce the financial crisis. This leads to the conclusion that banking stability is part of financial stability, and concludes that the importance of the banks is financial institutions, and the concept of banking stability is generally identified with financial stability. (Moore and many others, 2008) Banking stability is the important part of financial stability. (Schwartz, 1987) states that financial stability will not be achieved without bank stability, and financial crisis occurs when banking stability is vulnerable. And, (Barth et al, 2001) A fixed banking system is an important component of a fixed financial system. Considering the finances and bank stability, the ideas of the financial and banking situation are often used because the stability indicates the lack of a crisis.

2.12.3. Efficiency of Conventional and Islamic Banks

Literature differs between the basic idea of skill, technology and price. (Farrell, 1957) defines technical (productivity) performance, resulting from the result (decisions, outputs) and investments (investments, investments) and describes the ability of a company to obtain maximum outputs from the available inputs, or in other words, given the (given) Lower outputs An entity with entries. On other hand, a firm defines the cost efficiency (cost, reservation or parse capacity) to involve different entries at their optimal rate (mix) on price and performance technology.

According to the writer's opinion, proper performance can be achieved when achieving both technical and price efficiency, and it is economic efficiency.

A number of studies have attempted to measure IBPS's performance, comparing it to CBs before and after the crisis, and comparing performance efficiency.

Various concepts are significant in coordinating the effects of previous studies of CBS and IPS performance. Some people (Bader et al, 2008); Mohamed et al., 2008) there is no significant difference the CBS and IBPS performance, the others are the CBS (al-jarra and molinos, 2005) IPS (I. Hassan, 2006); (Abdul-Majeed and others, 2011); (Utiestra, 2003), the third opinion is that CBs are more efficient. However, a closer analysis shows some regulations. In times of crisis (small and large), there is not a significant difference between CBS and IPS, or slightly higher efficiency in IBPS's performance. But as the time of the crisis is approaching, IBS performance is low compared to the CBS. In addition, there is a consensus between the teachers who have noticed the banks at the time of crisis, and in general, has demonstrated the crisis on the bank's ability.

Since 2004, all analysts have been able to find potential sources of IBS's problems (2004-2010), with the exception of two authors (Mugaieth and Cancell, 2015), except for the two teachers who give some advantages over IPC's performance, (2013) loan and more And their inability to risk their inefficiency in risk management is particularly obvious during the crisis, rather than the (paddered, 2008), IPS (1990-2005) more than resources Considerable.

2.13 Analysis of Market Power in the Banking Sector

Inhomogeneity of the number of participants and goods, accounting for the banking structure of the banking system is not the perfect match, but certainly absurd and close to the different oligopoly (type, 2002).

2.13.1 Regulation and the Financial Crisis in the Banking Sector: the Opinion of a Nobel Prize winner

The US has a long history of regulating and supervising banking operations in the world, introduced in 1913, before the establishment of the Federal Reserve System (Federal Reserve System (FED), Supervising (1863) and the National Banking Act (1864). The Great Depression (1929-1933) erupts in the United States, and then the Federal Deposit Insurance Institute (FDIC) was established (Militia, 2008). As a response to the financial crisis, a Regulatory Agreement was introduced, known as the Class-Steagall Act, which was split into finance and traditional banking. Beginning in the first half of 2000 (Vujčić, 2013), starting from the time when the financial system controls.

This defeat (self-control), essentially a defeat, may be related to theory of Adam Smith, who opposes the government's intervention and supports the regulation of "invisible hand".

The research found that Demirgüç-Kunt and Detragiache (1997) carried out in 65 countries in 65 countries in the 80s and 90s in 20 countries and financial liberalization has significantly increased the probability of the banking crisis; In addition to research in Kamenski and Reinhardt (1999), before the financial liberalization banking crisis 70%.

The banking and economic crisis spread in the US in 2007 and Europe in 2008 and other than the lack of sufficient control, a French economist and a Nobel Prize for his analysis of market and regulation in 2014. His research was an important role in analyzing the competitiveness and analyzing ways of controlling large businesses business. Trilal insisted on the significance of control in the report: "Credit cards or industry sectors such as web browsing are similar to the possibility of taking non-competitive companies to the competitor, but controllers must do this" (competing defense company), a natural monopoly against a monopoly they show me.

Prior to recording its first work. The regulation of control was uncommon and the state government was afraid about how to step in and control in two serious market structures: monopoly and proper competition. To counter this, Trool began his research and began to analyze the regulatory regulatory and various regulatory industries. He made a deep analysis of the new, profound study and market power (drill, 2014). "Policying the Banks: Public Lessons for the Fischer Crisis", which was written in the second chapter by (Drrol, 2010) the 2007-2008 financial crisis described as follows:

- Weakly enforced control, especially in the United States and Europe, was able to predict the risk of business enterprises, mostly taxpayers and investors
- An impact such as the market and the useless regulation surplus liquidity was not discouraging dangerous behavior.

Considering the significance of (trolloline, 2010), considering the small depositors, policyholders and investor protection as the main factor in the pension fund. If the risk of saving mediators, the given situation will be a problem for taxpayers' security. Another reason for regulatory requirement is the security risk against the system risk or domino effect indicating the risk of banking system from one bank to other, which took place in the financial crisis.

Controllers should pay special basic cognitive process to all market shareholders, so as to discourage the rules of a free competition, a well-known dispute over the personalization of the banking industry in 20th century (Pavlovich, 2004).

The bank regulatory system and recent crisis, (Dewatripont and Tirole, 2012) states: "The policy of disregard the massive economic shock in Basel I and Basel II in the recession and excessive linens during the earth".

However, in response to the crisis, control is again a necessary practice in all sectors of the economy, particularly in the banking sector. However, prior to the trolleys, economists and legislators have imposed the same basic rules for all economic organizations, showing that simple and simple solutions for all markets, such as trolleys, provide such good results, and even worse than good. Therefore, in order to take into account every issue, you should carefully use the regulatory principles. Thanks to Tirole, competitive security systems have done with a new set of applications that serve as a framework for adapting technologies with a strong market like banking. In that sense, The question is whether Basel II and Basel III are global instruments of bank regulation, or they must be retained for specific needs and business policies of CBS and IP companies.

2.13.2 The Impact of Regulation on Operations of Conventional and Islamic Banks

A stable banking system is one of the basic demand for economic growth and development, so the need for its discipline helps in the bankruptcy of the banking sector, cash flow and efficiency.

The banks supervision structure can be found at international level since 1988, and the Basel I framework has been established by the Basel Committee on banking Supervision. This was Basel II in 2004, which aims to check financial stability by maintaining the risk that each bank has revealed the capital requirements. Responding to the financial crisis and the resulting financial crisis, a proposal for Basel III was aimed at solving the process of capital requirements and the quality of capital. Stock capital 4% to 6% of risk assets and increase in capital requirements are the other security layers for maintaining the same amount of capital in credit expansion rates at 2.5% from capital buffers. Changes to new capital requirements for various aspects of adjustment from 2013 to 2019 (KundiNovoget, 2015).

Vujcić (2013) claims over the past two decades has shown that the financial crisis, the high costs, about 20 percent of GDP worldwide, the direct loss of bank recovery and the gross domestic product of what is missing is a violation of the banking system.

In this regard, regulatory framework reforms are necessary, they are necessary:

- Increasing the capital of the bank companies, high capitalization and ensuring greater commitment to lower lending banks
- Large capital gain and severe risk control, with more lag in the center of the system or more formal institutions

- Increase in business transparency
- I provide an algorithm for solving problems in the major major companies. e. A restructuring machine, a minimum risk / cost of taxpayers
- Not directly or indirectly associated with other banks of the financial system, as a direct replacement for banking operations, which is not or is not regulated, such as shadow banking and derivative trade.

Considering the difference in business operation between CBS and IBS, the control structure of these banks should be addressed to their business policies, which are managed by the economic, corporate and cultural environment.

(Alam, 2013) highlights three barriers to establishing an effective and regulatory framework of Islamic financial institutions:

Incompatibility between Sharia policies based on Islamic finance and legal structure;

Introduce a tax system that does not penalize Islamic financial users because of the profits and losses in the Islamic financial transaction, since these taxes are not liable for regular financial transactions or lending

The use of the laws of the Western world to conflicts and is often conflicting to Sharia policies.

The Islamic funding on the world stage, Basel II and Basel III have no differences between the CBS and the IBS on the adjustment of regulatory measures to the specific characteristics of the financial institutions. The Islamic Financial Services Board (IFSB) makes every effort to provide guidelines for the Islamic Financial Services Board (Basel).

(Ahmad and Hassan, 2007) point to this problem in Bangladesh, arguing that Sharia needs IBs to have a limited regulatory and supervisory model for their successful business.

The following studies are required by the Bank's control of financial resources and the efficiency of the banks.

In the study of banks conducted in 72 countries during 1999- 2007, Barth and others. (2013) The Bank's performance controls and strict limits prove to be negatively linked to the bank's performance, with the effect of high capital control in favor of the bank's performance. Furthermore, they say that independent institutions controlling banks in achieving banking capabilities play an important role. During 2006-2010 70 applications were studied in 11 countries and (Alim, 2013) regulation and severe supervision of the bank system would affect IB's technological efficiency, as well as the tight controls of the bank system IBs.Chortareas and others. (2012) Kinetic analysis among various aspects of banking capabilities on key regulatory and supervising policies and 22 European countries model during 2000-2008. Results of their analysis, severe capital controls and official bank supervision will improve the bank's performance. Furthermore, the regulatory policy that controls bank operations can have a high level of bank efficiency. In 46 African countries, Trichy and others are looking at the relationship between the control over the model and the ability of the banks. (2013) tight controls may have adverse impact on the bank's performance, while the availability of coverage net8 affects banking ability based on bank size and risk of banking activity. Smaller banks reach less efficiently during higher capital requirements, as well as banks' ability to lower the risk of oversight and oversight of the bank's banks, regardless of the size of the bank. All the conclusions are supported by the amount of banking regulations to adjust the

size and trade risks to the rules governing the banking, economic, enterprise and cultural environment.

RESEARCH METHODOLOGY

CHAPTER 3

This chapter is all about the type of research, research design, which consist of the data collection method, sampling plan and procedures, this chapter also explains the different statistical tools used in this research and the operational definitions of the variables.

3.1 Type of Research

As for as research is concerned it has a lot of kinds and many researchers use variety of kinds in their researches. Like research may be applied and basic and at the same time it may be quantitative and qualitative. This is an applied research as this study used the methodology and techniques used by other researchers in their studies.

3.2 Type of study

As for as type of study is concerned, variety of approaches are used by the researchers. Some of the researchers use descriptive study approach; some of them use the causal and correlational approach and some researcher's pursue the experimental approach. This study is a correlational and causal study.

3.3 Population and Sampling

Population represents the total number in any set up to be taken for the research purposes. Like population of banking sector firms mean all banks registered on stock exchange. The population of this study is all conventional and Islamic banks listed on KSE. Total 20 banks have been randomly selected for the data analysis of this study.

3.4 Sources of data and data collection

Data has been collected from the State bank of Pakistan (SBP), Annual reports of banks, Karachi Stock Exchange (KSE) and other secondary sources for the period from 2005 to 2015.

Numerous types of approaches are being used for the collection of data in different researches that is. primary data and secondary data. As primary data is quite fresh data that is collected through discussion, interviews and questionnaires. Whereas, Secondary data is available in ready for use i.e. books, research papers, journals etc. Secondary type of data will be used to collect data from balance sheets of joint stock companies by state bank of Pakistan SBP, annual reports of banks and the Karachi stock exchange data will also be used for the data analysis of this study.

3.5 Statistical Tools

The data was analyzed by the statistical techniques like correlations and regression to know the relationship between variables and the impact of independent variables on dependent variables.

3.6 Operational Definitions and measurement

a. Debt to Equity Ratio:

To measure the financial leverage of a firm this ratio is widely used. This ratio reflects the long term obligation of the firm based on the equity of the firm. The firm long term financial policies are well reflected from this ratio. The same ratio was used by shah &hijazi (2005) and alam (2011).

The following formula was used.

Total liabilities / Share Holder Equity

b. Debt Ratio:

Debt ratio tells the combination of the firm total debts in the firm total assets. The debts ratio is the indicator of the firm paying its debts. The greater the amount of debts in the firm equity the tougher the situation for the firm to deal with. The company having more of this ratio is the more driven firm towards leverage.The same ratio was used by shah &hijazi (2005) and alam (2011).

This has been calculated as follow.

Total Liabilities / Total Asset

c. Funded Capital Ratio (FCR)

Formula: FCR= Long term Debt + Owners' Equity

Fixed Assets

This ratio tells the combination of LTL and equity in respect to fixed assets. The same ratio was used by Rehman A (2011) measured in the same way the same variable was similarly measured and operationally defined by Shapiro (2013) Fama and Jensen (2011) and Vishny (2012)

d. Funded debt Ratio (FDR)

It has been operationally defined as follow. Vishny (2012)

Defined it in the same way.

Formula: $FDR = \frac{\text{Long term Debt}}{\text{Ordinary share capital}}$

d. Current Ratio (CR)

This ratio was defined as Current Assets/ current liabilities

The same was used by many researchers. Shah and hijazi (2005) also used the same ratio.

e. Quick Ratio

This ratio was calculated as Current assets –inventory/current liabilities

f. Return on Equity (ROE))

Formula: $ROE = \frac{\text{Net Income}}{\text{Total Share Equity}}$

This above ROE has been widely used in researches.

g. Return on Asset (ROA)

Formula: ROI= Net Income

Total Assets

3.6 Research Models

ROA= $B_0 + B_1D_1E + B_2DR + B_3FCR + B_4FDR + B_5QR + B_6CR + \mu$

ROE= $B_0 + B_1D_1E + B_2DR + B_3FCR + B_4FDR + B_5QR + B_6CR + \mu$

CHAPTER 4

4.1DIAGNOSTIC TEST:

HETEROSCEDASTICITY TEST:

Cook-Weisberg has been performed to predict and investigate the hetroscadesticity in data.The obtained results in this paper are 0.234 which is insignificant at 5% probability level,which means no heteroscadesticity in the data.

4.1: Wooldeidge Test For Serial Correlation (Autocorrelation)

To test the serial correlation in dependent variable this test has been used,whichpridicted that there is no serial correlation in the independent variable of the study , as the tabulated value is insignificant at 5% probibility level that is 0.345 which signifies that independent are not serially correlated.

This chapter comprehensively analyzes the data in term the use of different techniques like correlation and regression for the analysis of data.

4.1 Pearson correlation

Correlation has been applied here to understand the correlation among different variables of this study that is. the Liquidity and capital structure with financial performance.

Table 4.1 Correlation

	ROA	ROE	D/E	DR	FCR	FDR	QR	CR
ROA	**1.000**							
ROE	**0.35**	**1.000**						
D/E	**-0.08**	**-0.05**	**1.000**					
DR	**-0.09**	**-0.07**	**0.22**	**1.000**				
FCR	**-0.19**	**-0.13**	**0.23**	**0.24**	**1.000**			

FDR	-0.22	-0.28	0.22	0.13	0.14	1.000		
QR	0.26	0.32	0.08	0.22	0.27	0.23	1.000	
CR	0.32	0.29	0.08	0.17	0.36	0.25	0.36	1.000

The table 4.1 shows the correlation matrix regarding the all independent and dependent variables which have been used in this particular research study. The results proves that the firm liquidity having positive association with firm financial performance as the proxies being used to show liquidity are QR and CR which indicates positive correlation with the dependent variable of this study the financial performance. However the proxies of capital structure showing negative association with firm financial performance. All the capital structure facets known as the capital structure proxies showing negative association.

4.2 Regression analysis for Conventional Banks

Regression has been applied in this research to find the result of the independent variables of this study on dependent variable.

Model 1: $\mathbf{ROA = B_0 + B_1 D/E + B_2 DR + B_3 FCR + B_4 FDR + B_5 QR + B_6 CR + \mu}$

Table 4.2 Regression of model 1 for conventional banks

Variables	T. value	P . value

D/E	**-1.35**	**0.067**
DR	**-2.56**	**0.012**
FCR	**-1.61**	**0.053**
FDR	**-2.31**	**0.021**
QR	**2.27**	**0.020**
CR	**3.22**	**0.001**

R.square.0.42, adjusted R square 0.41

F.value=34.67

The table 4.2 represents the results of the first model of this research. The results indicating that all capital structure proxies showing negative impact on the financial performance of firm. DR and FDR these two proxies have shown negative but significant impact , however D/E and FCR showing negative but insignificant impact on the financial proxy ROA. Further the results showing that both proxies of liquidity has positive but significant effects on the firm return on assets. The R-square of the model is 0.42 which tells that almost 42 % changes are occurred in ROA due to changes in these set of independent variables. The F-value is 24.67 which tell that this over all model is significant.

MODEL 2

$ROE = B_0 + B_1D_1E + B_2DR + B_3FCR + B_4FDR + B_5QR + B_6CR + \mu$

Table 4.3 Regression of Model 2 for conventional banks

Variable	T. values	P. values
D/E	**-1.54**	**0.066**
DR	**-2.35**	**0.024**
FCR	**-1.59**	**0.066**
FDR	**-2.20**	**0.023**
QR	**2.73**	**0.014**
CR	**2.76**	**0.012**

R. square =0.43, F. values = 20.56

The table 4.3 represents the results of the 2nd model of this research. The results indicating that all capital structure proxies showing negative impact on the financial performance of firm. DR and FDR these two proxies has shown negative but significant impact, however D/E and FCR showing negative but insignificant impact on the financial proxy ROE. Further the results showing that both proxies of liquidity have positive but significant effects on the firm return on equity. The R-square of the model is 0.43 which tells

that almost 43 % changes are occurred in ROE due to changes in these set of independent variables. The F-value is 20.56 which tells that this over all model is significant.

4.3 REGRESSION ANALYSIS FOR ISLAMIC BANKS

$$ROA = B_o + B_1 D/E + B_2 DR + B_3 FCR + B_4 FDR + B_5 QR + B_6 CR + \mu$$

Table 4.4 Regression of model 1 for Islamic banks

Variables	T. Values	P. Values
D/E	**-0.97**	**0.180**
DR	**-2.15**	**0.022**
FCR	**-1.32**	**0.074**
FDR	**-2.13**	**0.023**
QR	**2.27**	**0.020**
CR	**2.92**	**0.012**

R. square 0.35 F.value =18.45

The table 4.4 represents the results of the ist model of this research for Islamic banks. The results indicating that all capital structure proxies showing negative impact on the financial performance of firm. DR and FDR these two proxies has shown negative but significant impact, however D/E and FCR showing negative but insignificant impact on the financial proxy EPS. Further the results showing that both proxies of liquidity have positive

but significant effects on the firm EPS. The R-square of the model is 0.35 which tells that almost 46 % changes are occurred in EPS, due to changes in these set of independent variables. The F-value is 18.42 which tells that this over all model is significant.

MODEL 2

$ROE = B_o + B_1 D/E + B_2 DR + B_3 FCR + B_4 FDR + B_5 QR + B_6 CR + \mu$

Table 4.5 Regression of Model 2 for Islamic banks

Variables	**T. Values**	**P , values**
D/E	**-1.01**	**0.067**
DR	**-2.42**	**0.011**
FCR	**-1.51**	**0.068**
FDR	**-3.09**	**0.004**
QR	**2.81**	**0.013**
CR	**3.21**	**0.005**

R-square 0.32, F-value 16.45

The table 4.5 represents the results of the 2nd model of this research for Islamic banks. The results indicating that all capital structure proxies showing negative impact on the financial performance of firm. DR and FDR these two proxies has shown negative but significant impact, however D/E and FCR showing negative but insignificant impact on the financial proxy Net income. Further the results showing that both proxies of liquidity have positive but significant effects on the firm NI. The R-square of the model is 0.32 which tells that almost 32 % changes are occurred in Net income , due to changes in these set of independent variables. The F-value is 16.45 which tell that this over all models is significant.

CHAPTER 5

FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Findings

Following are the findings of this research study

1. The results found that all capital structure proxies have negative correlation with the financial performance proxies of this study.
2. The results found that liquidity proxies have positive correlation with the financial performance of both conventional and Islamic banks.
3. The results revealed that debts to equity ratio has negative impact on the financial proxies of both conventional and Islamic banks i.e. ROA, ROE, , However the impact was found insignificant.
4. The results indicate that debts ratio of both conventional and Islamic banks showing negative but significant impact on the financial performance proxies of these banks.
5. The results showed that funded capital Ratio has negative impact on the financial performance of these both classes I,e conventional and Islamic, but the severity is insignificant.
6. The results found that funded debts ratio has negative significant effect on the financial proxies of both conventional and Islamic banks..
7. The results revealed that both proxies' i.e quick ratio and current ratio has positive significant impact on the financial performance of the both conventional and Islamic banks.

5.2 Conclusion

This research was conducted to know the impact of firm capital structure and liquidity on the financial performance of banking sector firms in pakistan. The study used the secondary data of sample 20 banks, ie conventional as well as islamic. The data was collected from the annual reports and balance sheet analysis of joint stock companies by state bank of Pakistan. The data was collected for the period 2005 to 2015. The data was analyzed through statistical tools like correlation and regression. The results revealed that the capital structure proxies have negative correlation with financial performance proxies of the cement sector firms. The results indicated that debts to equity ratio and funded capital ratio has negative insignificant impact however the debts ratio and Funded debts ratio were found having negative significant impact on the financial proxies of these conventional and Islamic banks. The results indicated a positive correlation of the liquidity with the financial performance of these banks. The results found that quick ratio and current ratio have positive significant impact on the financial performance of both conventional and Islamic banks..

5.3 Recommendation

Following are the recommendations based on the results of this study.

1. As the capital structure proxies showing negative impact on firm performance, so it is suggested that the financial managers of both categories banks should wisely use the combination of debt to equity, debts and debts and capital. They should ensure such a combination which will help the firm in achieving its goals.
2. Both quick ratio and current ratio has shown positive impact on the financial proxies of both conventional and Islamic banks, it is therefore suggested that the more the

firm have the cash and near to cash resources the more firm will perform better in term of its financial performance.

5.4 Future directions for research

Similar studies if conducted are to be based on sectorial comparison to further elaborate these variables in the context of Pakistan. Researchers perusing similar studies can compare the data of two neighbouring countries i.ePakistan and India or Pakistan and Bangladesh.