Islamic Banking Performance Versus Conventional Banking

Wafaa Sbeiti[1] and Ahmad Alqatan[2,*]

[1]*American University of Kuwait, Kuwait.*

[2]*Arab Open University, Kuwait.*

Abstract: The paper revisits the issue of the financial performance of Islamic banks in comparison to conventional banks. It focuses on financial performance measured by accounting data rather than looking only at stock market performance. This paper will list down all revenues, net profits, total assets and total liabilities of both conventional and Sharia banks to form a comprehensive stand on which form of banking has a significant lead over the other. The data will be collected from a ten-year time series. The study will analyze and interpret the change in the performance of a sample of shariah-compliant banks in relation to a sample of conventional banks. A random sampling method would be followed for unbiased results. The findings would be formed through a series of accounting ratios and the calculation of standard deviation and variance. This study aims to put an end to all doubts regarding the efficiency of shariah-compliant and conventional banks.

Keywords: Islamic Banking; Performance; Sharia; Accounting data.

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INTRODUCTION

The paper examines the financial performance of two banking models, namely the conventional banking model and the Sharia-compliant banking model, in a bid to see which model produces better performance. The Islamic Sharia or jurisprudence regulates Islamic banks. The Sharia strictly forbids the application of riba or interest charges on normal bank loans. Islamic banking is focused on a mutual concept of risk-sharing between both the lender and the borrower, and it heavily relies on a partnership between the provider of capital, or the lender, and the entrepreneur, or the borrower.

The advent of Shariah-compliant banks is very recent, with the first such bank coming to rise in 1963. The MitGhamr Savings Project in Egypt, which is the first microfinance entity to be focused on the concept of Sharia Banking, was launched by the Late Dr Ahmed Elnaggar in 1963. After considerable struggle, the Mit Ghamr project came to be known as the Nasser Social Bank in the1971. In the almost 50 years after that, Islamic banking has come a long way to catch up with the success of other conventional banks.

The objectives behind this research are:

RESEARCH OBJECTIVE

- To empirically compare and contrast the financial performance of Islamic and conventional banks in the MENA and GCC region by using numerous indicators such as Asset Quality, Management Quality, Capital Adequacy, Liquidity and Earnings.
- To test for the differences between the routine performance of Islamic banks when pitted against conventional banks in relation to Asset Quality, Capital Adequacy, Liquidity, Management Quality and Earnings.

To critically determine and examine the numerous determinants of profitability in both conventional and Islamic banks. This analysis would be done by keeping both bank-specific variables and external variables pertaining to the macro environment in mind. A conclusion will then be formed on which variables have the most significant impact on the profitability of the bank. Additionally, the moderating role of each bank type is tested to evaluate the significance it has on profitability.

LITERATURE REVIEW

The paper builds on Dominic Dudley (2009) paper. This article is directly related to the scope of our research study. The article said, "*even though institutions have been sucked into the turbulence of a global recession.*[1]*. But despite this, the Islamic banks are still growing, albeit at a slower pace than one year ago, and optimism is slowly returning*" (Dudley, 2009). Although this article can be found in EBSCO complete academic search, it is a general article that has been crafted through numerous quotes from different experts coming from the industry. These industry experts include CEOs, managing directors, and partners in law firms and other related people with related experience. The paper has been

*Address correspondence to this author at Arab Open University, Kuwait; E-mail: aalqatan@aou.edu.kw

[1] This piece will be referred to as "literature review 1" throughout the paper.

divided into five different sections, and it starts with an abstract. The second section of the paper talks about how most Islamic banks are restricted because of the Sharia rules pertaining to the type of investments they are permitted to pursue or partake in. This information is followed by an in-depth analysis of the increasing competition within this industry off late. The article mentions that there are currently 350 financial firms in the market that comply with the Islamic model of finance. All of these banks are continuously competing for limited shares in a limited market. The fourth section then goes on to talk about the seizing opportunity present within the market. Islamic banks operating within the market currently are considered to rebound a lot faster than other conventional banks operating currently. The last section then had the qualitative analysis and an in-depth study. It compared how the banks performed. The sample that was used as part of this research article consists of banks from all GCC countries, including KSA, UAE, Qatar, Bahrain, and Kuwait. Around 50 Islamic banks were selected, and the paper ranked them according to the size of their assets as per the year 2008.

Siraj and Pallili (2012) conducted an in-depth performance comparison between Conventional and Islamic banks operating within GCC countries. The comparison was carried out for the period between 2005 and 2010. The study used an equal number of Islamic banks and conventional banks. According to the figures, the study used a total of 6 Islamic banks and 6 Conventional banks for the research. The selected 12 banks were one of the major operators within the market in the region. In this case, the comparative study was carried out based on key performance indicators such as NPR, OER, ROA, EOA, and ROE. These indicators measured the operating expense, operating income, profits, deposits, total equity and assets of the banks. The study also made use of one-way ANOVA to find out the link between the operating profit generated through Islamic and conventional banks. Results from this study highlight that Islamic banks in the GCC area have a faster increase in operational profit than conventional banks. The results also showed a slight difference in movement pertaining to the operating profits, but the trends have a significant correlation. Conventional banks have been found to have a higher ratio for NPR; however, this rate does not follow the same pattern when placed between Islamic and Conventional Banks. Islamic banks reported a generally higher ROA; this indicator also does not follow the same pattern in the relationship between Conventional and Islamic banks. One-way ANOVA shows a significant relationship in the movement of financial indicators selection as part of the study.

MS Moin (2007) measured the performance of the very first Islamic bank present within Pakistan. The researcher conducted his research by comparing the returns of the first Islamic bank with the returns of 5 established conventional banks. The performance measure that he followed was related to liquidity, risk, profitability, and efficiency through the use of financial ratios. The researcher found out that Islamic banks are inherently different from conventional banks when it comes to Return on Equity (ROE) and that conventional banks are currently more profitable. His findings also showed that Islamic banks were getting closer to conventional ones when it comes to profitability. The researcher found out a positive relationship of the net profits with ROE and profitability indicators. However, the researcher could not find any difference between Islamic and conventional banks in terms of a loan to deposit ratio and liquidity. Conventional banks can be less solvent and more risky than Islamic banks due to higher profitability. Al-Kayed (2017) found that profitability, lagged dividends and leverage are significant determinants of Islamic Bank's dividend policy. Ulussever (2018) conclude that boards are strong and the CEOs are powerful in Islamic banks. The return variables of Islamic banks were found positively correlated with the financial disclosure index and board structure variables and negatively correlated with the risk closure index. Haddad et al.,(2019) found that conventional banks are more solvent than Islamic banks during a financial stable period. Khan et al.,(2017) also conclude that Islamic banks are better in profitability, efficiency, risk and liquidity management in comparison to conventional bank. They are also superior in asset quality. Julia & Kassim (2019) studied green banking in the context of Islamic banks and conventional banks and found that none of the banks fully meet the green/sustainable policy requirements but the Islamic banks are ahead in preserving faith, intellect and wealth circulation. Alzoubi (2018) studied variables such as bank size, equities to assets, loans to assets, deposits to assets and found that bank size, equities to assets and deposits to assets have a significant positive effect on Islamic bank's profitability, while they have a significant negative effect on conventional banks' profitability. Musa et al.,(2021) found that capital adequacy has a positive influence upon liquidity in both types of banks, but in Islamic banking, this influence is 5.4 times greater.

Kamaruddin et al., (2018) found that accountability, political stability, regulatory quality, rule of law and control of corruption enhance the revenue efficiency of both Islamic and conventional banks. Saleh et al,(2017) compared the customer perception between Islamic and conventional banks and observed that Islamic bank customers' perceptions about reliability, responsiveness, security and reputation was better that those of conventional banks. Parashar (2010) found that Islamic banks have performed badly than conventional banks during global financial crisis of 2008 in terms of capital ratio, leverage and return on average equity. He also argued that conventional banks have suffered more than Islamic banks in terms of return on average assets and liquidity.

These studies give an interesting and diverse perspective into the matter and offer a way forward in understanding the different performances of Islamic and conventional banks. Our research paper takes the finding from these studies forward to create a fair understanding of the comparison between conventional and Islamic banks by taking ANOVA and CAMEL frameworks into the calculation. This paper will underpin all managerial matters and will take an approach that has no underlying assumptions related to the banks' objectives and the inter-bank differences in outlook.

AIMS AND METHODOLOGY

This section will fulfil the purpose of defining the aims and objectives behind the research paper and the hypotheses that are to be tested in this paper. The research methodology will serve as a guideline for analyzing the research and the met-

rics we inculcated during the sampling and quantifying process. Moreover, the research methodology also appropriates towards the research objective in analysis and the data collection and analysis techniques in place.

RESEARCH AIMS

The purpose behind this research is to examine the determinants of financial performance in both Islamic and conventional banks within the GCC and MENA region. The study will determine which banking model performs better in terms of profitability and liquidity. The determinants of financial performance will be calculated through the use of both internal factors specific to the bank and external factors related to the larger macro environment. The study will aim to find out whether there is a significant difference between the two diverse forms of banking systems. The differences would be gauged by assessing capital adequacy, management quality, asset quality, liquidity, and earnings quality.

HYPOTHESIS

Our hypothesis has been determined and mentioned to study the current gaps present in literature and also to see how the format of the bank can impact the important indicators of performance inside a bank.

The important indicators of performance we have highlighted are:

- Asset Quality Measures
- Capital Adequacy Measures
- Management Quality Measures
- Earnings Potential
- Better liquidity control

Our five hypotheses, which we look to prove as true or false by the end of this paper, are:

H1: Islamic banks have better asset quality measures as compared to conventional banks.

H2: Islamic banks have better capital adequacy measures as compared to conventional banks.

H3: Islamic banks have better management quality measures as compared to conventional banks.

H4: Islamic banks have better earnings potential when compared to conventional banks.

H5: Islamic banks have better control on their liquidity in comparison to conventional banks.

In this section, we not only mention but also scrutinize the research design and data collection techniques. These techniques are scrutinized to justify their selection for this particular study and to ensure a fair understanding of what is to come. This section also describes the process of sample selection along with the statistical data analysis tools used as part of the study. Finally, all model specifications, including independent and dependent variables, are presented.

DATA COLLECTION

The data for all banks present within this paper was compiled from the database for Bankscope. Individual research was also done for some banks. In this case, the data was compiled from the annual reports present on their respective websites. The collated secondary data obtained from financial statements and annual reports were used as input in the form of ratios and percentages so that a comparison could be made between all different banks. Theories from Financial Management provide a wide range of indices for measuring the financial performance of a bank. The most significant of these indices is the use of financial ratio analysis. Financial ratios have been commonly used by banks and organizations to gauge their income statements and to educate the readers about their current financial state. Financial ratios have also extensively been used in previous financial studies done by Javaid et al. (2011), Samad (2004), Momeneen et al. (2012) and Ikha et (20

11). Sirari (2009) mentions financial performance in his study and asserts, "Financial performance study is the process of scientifically making a critical and comparative evaluation of profitability and the financial health of banks through the applications of the techniques of financial statement ratio analysis." There are numerous ratios currently used by banks to measure and analyze their financial performance over time. These rations reveal their true financial standing and provide the basis for future research. However, this study utilizes the impact of the standardized CAMEL framework to help in identifying the relative weaknesses and strengths of the banks. The CAMEL framework is an authorized and identified framework for evaluating the performance of banks in relation to the five indicators that determine performance. The indicators form the acronyms for the word CAMEL itself. This framework is internationally recognized and is the core behind our hypothesis as well. Numerous rating agencies use this framework for identifying banks that have potential.

This paper also provides recommendations for working on these ratios and improving future performance.

RESEARCH DESIGN

Sample Size

Bank-level data for the study was collected by availing the resources on Bank scope's database and World Bank Database. The database provides a standardized measure of presenting financial statements in line with the IFRS regulations. In determining the sample and the size, researchers set the database in such a manner as to find out the top-listed banks from the GCC and MENA region. The rationale behind selecting banks that are listed is that financial data gathered from publicly traded institutions is more accurate. The accuracy is achieved because of their adherence to the strictly restricted rules in terms of practice, capital, disclosure, and governance. We used Bankscope's classification of bank specialization method as a starting point for classifying whether a bank is Islamic or commercial. Bankscope's database identifies and defines Islamic banks as those that come

under the International Association of Islamic Banks located worldwide. However, we further double-checked Bankscope's classification with the information readily available from the Global Banking and Finance Review databases to secure more reliability and accuracy. The Global Banking and Finance Review databases were related to the relevant country and the information presented on the respective bank's website. Parashar (2010) used a time period of four years (2006-2009) to compare Islamic banks and conventional banks. Kamaruddin *et al.*, (2018) used data envelopment analysis and panel regression for their study.

The banks we selected in our samples include all the top-ranked banks according to market capitalization (USD). The ratings are gathered from previous research works done by Loghod (2006), Momeneen (2012), Siraj and Pillali (2012), Merchant (2012) and Azam and Siddiqui, S. (2012).

The following represents the standard criteria used by us for the sample selection of banks:

1) The bank is listed on the stock exchange and has a market cap of over 2 Billion US Dollars.
2) The total assets of the bank are well over 5 Billion US Dollars.
3) The bank provides a complete data set with the provision of financial statements from 2009-2013.

Consequently, based on the criteria and the selection methods above, our sample process gave us a total of 43 banks. Out of the 43, 10 were Islamic banks, while the other 33 came with conventional methods of operation. The banks covered over ten countries (Saudi Arabia, Kuwait, United Arab Emirates, Oman, Bahrain, Qatar, Jordan, Egypt and Lebanon). It is to be noted that 38 of the banks selected as part of our sample were ranked among the top 50 banks in the GCC region by the Gulf Business Report of 2013.

Below is a table displaying the sample banks part of this research paper.

Table 1. Displays a sample of banks used for the study.

Countries	Conventional Banks	Islamic Banks
Kuwait	National Bank of Kuwait SAK.	Boubyan Bank KSC
	Burgan Bank SAK	Kuwait Finance House
	Kuwait Project Company Holding KSC	
	Gulf Bank KSC	
	Commercial Bank of Kuwait SAK	
	Al Ahli Bank of Kuwait KSC	
UAE	Emirates NBD PJSC	Dubai Islamic Bank PJSC
	Commercial Bank of Dubai P.S.C	Abu Dhabi Islamic Bank
	First Gulf Bank	
	Abu Dhabi Commercial Bank	
	Mashreq Bank PSC	
	Union National Bank	
	National Bank of Abu Dhabi	
Qatar	Qatar National Bank	Qatar Islamic Bank SAQ
	Commercial Bank of Qatar	Qatar International Islamic Bank
	Doha Bank	Masraf Al Rayan
	Al Khalij Commercial Bank	
	Ahli Bank QSC	
Egypt	Commercial International Bank Egypt	
	QNB Al Ahli	
	Bank of Alexandria	
Oman	Bank Muscat SAOG	
Lebanon	Bank Audi SAL	
Jordan	Arab Bank plc	
	Mirzahi Tefahot Bank LTD.	
Saudi Arabia	Samba Financial Group	Al Rajhi Bank
	Saudi British Bank	Alinma Bank
	Banque Saudi Fransi	Bank AlBilad
	Arab National Bank	
	Saudi Investment Bank	
	Saudi Hollandi Bank	
	Bank AL-Jazira	
Bahrain	Ali United Bank BSC	

The investigates the issues outlined earlier, this paper utilizes:

(1) descriptive statistics such as mean, standard deviation, and both minimum and maximum to compare and analyze the performance of the Islamic banks vs the conventional banks; why is this informative… We need to justify this. It does seem rather primitive, so it will be helpful to say why it is useful to use such measures. Have other studies used these, and if yes, how do they compare?

- ANOVA analysis to evaluate the financial performance of both Islamic and conventional banks. The financial performance will be gathered using variables from the CAMEL model. Again why is ANOVA still important. This has been used many years ago. So is there a recent study that uses this method. A good motivation is needed for this choice….

- ❖ Multiple linear regression models that aim to identify the important variables that affect the overall profitability of the banks under investigation. The moderating effect is evaluated by considering the bank type as a dummy variable this is not clear at all what it means. What is the moderating effect, and how it is important

The following models will be used for testing the determinants of profitability.

ROE= $\alpha 1 + \beta 1(CA) + \beta 2(AQ) + \beta 3(MQ) + \beta 4(ER) + \beta 5(LM) + \beta 6(GDP) + \beta 7(INF) + \varepsilon$

ROA= $\alpha 1 + \beta 1(CA) + \beta 2(AQ) + \beta 3(MQ) + \beta 4(ER) + \beta 5(LM) + \beta 6(GDP) + \beta 7(INF) + \varepsilon$

NIM= $\alpha 1 + \beta 1(CA) + \beta 2(AQ) + \beta 3(MQ) + \beta 4(ER) + \beta 5(LM) + \beta 6(GDP) + \beta 7(INF) + \varepsilon$

Where:

α = Intercept CA =Capital Adequacy of bank i at time t

AQ = Asset Quality of bank i at time t

MQ = Management Quality of Bank i at time t

ER= Earnings of Bank i at time t

LM =Liquidity Ratio of Bank i at time t

β1-β7= Coefficients parameters

GDP= Gross Domestic Product (GDP) at time t

INF = Average Annual Inflation Rate at time t

ε = Error term where i is cross-sectional and t time identifier

You just report these in the results section and comment on them if significant to the investigation. The table below shows the measurements and the ratios used in the study.

Table 2. Shows Measurements Used to Present Explanatory Variables in the Study.

Variable	Measurement
Return on Assets	Net income/ Total Assets (ROA)
Return on Equity	Net income/ Total Equity (ROE)
Net Interest Margin	Net interest income/Total Assets (NIM)
Capital Adequacy	Total Equity/Total assets (ETAR)
Asset Quality	Loan Loss Reserves/ Total Loans (LLR)
Management Quality	Loans/Deposits (LDR)
Earnings Quality	Total expenses/Total revenue (COSR)
Liquidity	Net loans/Total Assets (NLTA)
Gross Domestic Product	Annual Gross Domestic Product (GDP)
Inflation Rate	Annual average inflation (INF)

Dependent Variables Why are all these dependent variables needed. I assume that this is based on the choice of previous studies. So need to demonstrate how these have been used to measure performance and by whom and why more than one is needed.

ROA: Return on Assets is considered as an indicator of managerial efficiency and performance. It measures the capabilities of the management to convert the current assets of the bank into profitable net earnings. In other words, the ROA measures the efficiency and the ability of the bank to generate profit from its given assets at the time of research.

ROE: Return on Equity is a ratio used to measure the profitability of a business that is generated against the amount of capital that is invested by the shareholders. It is a decent indicator of business performance as it measures the rate at which return is flowing to the shareholders of the bank. The ratio approximates the net benefit that shareholders get out of investing their capital in the said bank.

NIM: Net Interest Margin is a ratio used to measure the difference between interest income earned through lending or other investments and interest expenses paid to depositors for their investments in the form of assets. This ratio usually gives an indication of whether the bank was wise in its decisions to invest across different loan investments.

INDEPENDENT VARIABLES

Capital Adequacy: Capital adequacy basically helps in measuring the viability and financial strength of the bank when it comes to its capital and assets like loans and investments. The ratio can help the bank's management during tough times since it comes in handy for understanding the shock bearing capability of the bank at times of risk. We have measured capital adequacy for all banks within our research, as it is an important metric for defining success within the institutions. We have used the equity to total assets ratio or ETAR as the method of measuring capital adequacy.

Asset Quality: Loans often form the greater proportion of assets in the balance sheet of most banks; hence, the quality of loans as major assets is extremely important for both depositors and investors. This is because they are the main source of revenue for banks. Asset Quality in this study will be measured through the Loan Reserves over Total Loans formula. The formula is used by banks to evaluate the value of their loans and their creditworthiness.

Management Quality: This ratio is basically related to measuring the superiority of the management in position within the bank. The primary duty of the bank's management is to ensure that operations run smoothly and that there is nothing hindering them in any way. Faizulayev (2011) asserts that it is the role and duty of managers to ensure that it gets deposits from more financially strong and trustworthy depositors and reduces defaults from borrowers by only giving loans to creditworthy customers. Total loans over total deposits ratio, which is also known as LDR, is the ratio we have used here.

Earnings Quality: We should assess the bank's ability to increase productivity, control costs and achieve higher profits to measure the earnings quality and efficiency of a bank. Earnings quality, hence, plays an essential role in determining the overall efficiency of the bank. We will be using the

cost to income ratio (COSR) to measure earnings quality and efficiency in our study. COSR is basically defined as a ratio of profitability that determines the cost incurred by the bank to generate one dollar of income. Hence, we expect the COSR to remain low for banks performing well because a lower ratio means more profit generation by the bank.

Liquidity: This is an extremely crucial parameter of performance for all banks since it aids in assessing the risk of unforeseen circumstances that can lead towards insolvency or bankruptcy. The liquidity ratio does not have anything to do with profit generation within the bank. We will be using the net loan to total assets ratio, or NLTA, as part of measuring the liquidity of all banks. This ratio measures the ratio of net loans when put against net assets or the amount of assets that have been engaged against loans by the bank. A lower liquidity is perfect for the bank, which is why we expect banks performing well to maintain lower levels of liquidity.

GDP: This metric presents the Gross Domestic Product or GDP growth rate within the country that the bank currently resides in or has headquarters in.

INF: INF is used to refer to the annual inflation rate of a particular country that a bank resides in. Both GDP and INF tend to have a positive impact on the macroeconomic variables of the bank. This has been confirmed by Sufian et al. (2009) and Wasi uz Zaman et al. (2010). The data for these macroeconomic variables for each country was retrieved from the Database of the World Bank.

EMPIRICAL RESULTS AND INTERPRETATIONS

The section presents the results of the various investigations carried out. To start with, we present ……then ……We will begin by conducting a comparative analysis between the banking systems using the methods of descriptive statistics mentioned above. Then, we will determine whether these differences are in any way significant. We will do this by using the ANOVA tests also explicated above. Finally, we will scrutinize the results of the regression and the determinants of profitability to reach the final conclusion for this research study.

DESCRIPTIVE STATISTICS

We computed numerous descriptive statistics in order to compare the differences in financial performance for both Islamic and conventional banks. The following results were received.

Table. Descriptive Statistics for All Banks.

	N	Minimum	Maximum	Mean	Std Deviation	Skewness	
ETAR	224	.054	.902	.13959	.074404	6.174	.163
LLR	224	.000	.138	.03794	.023069	1.155	.163
LDR	224	.293	13.480	.90584	.977391	10.860	.163
COSR	224	-4.652	2.488	.50290	.423617	-7.564	.163
NLTA	224	.064	.807	.58785	.108916	-1.001	.163
ROA	224	-.054	.040	.01528	.009520	-1.666	.163
ROE	224	-.584	.255	.11481	.074530	-3.483	.163
NIM	224	-.022	.055	.02119	.014042	-1.060	.163
GDP	179	-.071	.167	.04952	.054150	-.130	.182
INF	179	-.242	.213	.04852	.132086	-.929	.182

Table. Descriptive Statistics for Islamic Banks.

	N	Minimum	Maximum	Mean	Std Deviation	Skewness	
ETAR	49	.072	.902	.18176	.137145	3.773	.340
LLR	49	.000	.075	.03103	.023747	.270	.340
LDR	49	.591	13.480	1.27602	2.035724	5.200	.340
COSR	49	-4.652	2.488	.41552	.829495	-4.584	.340
NLTA	49	.064	.736	.59532	.100544	-3.118	.340

ROA	49	-.054	.040	.01584	.015557	-1.805	.340
ROE	49	-.584	.235	.09510	.121364	-3.721	.340
NIM	49	.000	.055	.02855	.010403	-.397	.340
GDP	39	-.071	.167	.06151	.061263	-.390	.378
INF	39	-.242	.213	.04903	.143723	-.885	.378

Table. Descriptive Statistics for Conventional Banks.

	N	Minimum	Maximum	Mean	Std Deviation	Skewness	
ETAR	175	.054	.276	.12778	.035566	.528	.184
LLR	175	.008	.138	.03988	.022567	1.533	.184
LDR	175	.293	1.375	.80220	.178049	-0.92	.184
COSR	175	.245	1.270	.52737	.193453	1.270	.184
NLTA	175	.255	.807	.58576	.111330	-.579	.184
ROA	175	-.006	.029	.01513	.007019	-.402	.184
ROE	175	-.069	.255	.12033	.053998	-430	.184
NIM	175	-.022	.050	.01913	.14260	-1.086	.184
GDP	140	-.071	.167	.04618	.051743	-.098	.205
INF	140	-.242	.213	.04838	.129206	-.956	.205

Where;
ETAR- Equity to Assets, to measure capital adequacy of the bank
LLR- Loan Loss Reserves/Gross Loans, to measure asset quality of the bank.
LDR- Loans to Deposits Ratio, to measure the management quality of the bank
COSR- Cost to Income Ratio, to measure the quality of earnings
NLTA- Net Loans to Total Assets Ratio, to measure the liquidity status of the bank
ROA- Return on Assets, to measure profitability in terms of assets
ROE- Return on Equity, to measure profitability in terms of equity
NIM- Net Interest Margin, to measure profitability in terms of Interest incurred
GDP- Gross Domestic Product Growth Rate- to assess macroeconomic environment
INF- Annual Inflation Rate, another macroeconomic factor

ROA, NIM and ROE are financial measures or ratios undertaken to measure the profitability of both conventional and Islamic banks. The cumulative **ROA** of Islamic banks stands at 1.58 percent, which is higher than the return on assets for conventional banks— 1.51 percent. This suggests/indicates that the managerial quality in the aforementioned Islamic banks is more than the managerial quality of conventional banks as their managers are able to generate better profit from the assets under them. This suggests that Islamic banks are generally more profitable than conventional banks when it comes to measuring profits in relation to assets owned by the bank.

The ROE or Return on Equity for Islamic banks is 9.51 percent, which is considerably lower than the ROE of 12.78 for conventional banks. This ratio elaborates that conventional banks are generally more apt at raising profits from shareholders equity and capital and are, hence, more profitable when this particular measure of profitability is taken into consideration.

The NIM or Net Interest Margin for Islamic banks is at 2.85 percent, which is higher than the NIM of 1.91 percent for conventional banks. This indicates that Islamic banks have been generally more successful in finding the least costly funding options. They have been effective in loan borrowing decisions, as also confirmed by Madvari (2012).

Islamic banks are dominating conventional banks when it comes to capital adequacy, for they have higher equity to assets or ETAR ratio. Islamic banks have around 18 percent ETAR, with conventional banks following at 13 percent. A higher ETAR usually signifies that the bank is more capable of withstanding any unforeseen events or unexpected losses. Thus, this ratio indicates that Islamic banks are more prepared to manage an unforeseen loss than conventional banks

are. Additionally, Samad (2004) has also asserted that high equity to asset ratio aids the bank to provide a strong cushion for increasing all its credit undertakings, being prepared for asset losses, and to lower the risks of unanticipated events. The findings of Rahman et al. (2012) also confirm that Islamic banks are more prepared and stronger in regards to conventional banks when it comes to responding to balance sheet shocks, such as operational and credit risks, liabilities payments or any other losses.

The domination of Islamic banks over conventional banks continues with the loan loss reserves to gross loans, or the LLR ratio. Islamic banks mentioned here have fewer loan loss reserves as a proportion to their overall gross loans. The LLR ratio for Islamic banks is 3.10 percent, whereas it is 3.99 percent for conventional banks. The lower LLR ratio indicates that Islamic banks are more reliable and credible for superior asset quality in relation to conventional banks. These findings are consistent with the results released by Momeneen et al. (2012) in his study. Banks that maintain a higher provision for bad loans have every reason to be concerned because this ratio can signal possible future losses.

Additionally, Islamic Banks are also dominating in the loan to deposit ratio, or LDR, as they have a higher LDR percentage when compared to CBs. LDR, which is calculated by inputting total loans over total assets, reveals the percentage of all bank loans being funded through deposits. The greater the LDR ratio, the superior and more effective will be the ban management in gathering deposits from financially strong and trustworthy depositors. Islamic banks have an LDR of 127.6 percent, whereas conventional banks come with an LDR of 80.2 percent. These results are consistent with the findings of Faizulayev (2011) that also asserted that Islamic banks are superior to conventional banks in LDR but were opposing to the findings Rozzani et al. (2012) and Jaffar et al. (2011).

Islamic banks are dominating in COSR as well. COSR, or the cost to income ratio, measures the earning quality of a bank and indicates the cost undertaken by the bank to generate a Dollar of income. Islamic banks have a COSR of 41.5 percent, while conventional banks have a COSR of 52.7 percent. This lower cost to income ratio for Islamic banks indicates that they use lower costs to generate a dollar of income. Hence, they are more in control of their costs and know-how to tone down on them. This has also been asserted by Rozzani et al. (2012), Faizuayev (2011) and Momeneed et al. (2012).

Finally, conventional banks are leading in liquidity, as they have a lower NLTA in comparison to Islamic banks. The net loans to total assets ratio basically indicate the ability of a bank to pay back all liabilities in the case of bankruptcy by selling off assets. Islamic banks have a higher NLTA, which is not a good thing to have in respect to liquidity. Islamic Banks have an NLTA of 59.5 percent, while conventional banks have an NLTA of 58.5 percent. The lower net loans to total assets ratio for conventional banks indicates that they are more liquid in comparison to Islamic banks because they have lesser assets engaged in loans. Both Merchant (2012) and Iqbal et al. (2011) have found out that the NLTA should be as low as possible. This is because a higher NLTA means that a bank is engaged in the lending and may suffer some adverse effects.

ONE-WAY ANOVA

We will be using the method of one-way ANOVA to test the set hypothesis that was stated in the previous chapter for methodology. The model will be used to find out whether there are any significant or non-significant statistical differences between the performance and efficiency of conventional banks in relation with Islamic banks. The evaluation will be done based on the model measures of the CAMEL method.

H0: There are no significant differences in the operational procedures of both Islamic and conventional banks.

H1: There are major differences between the banking models of both conventional and Islamic banks.

The general rule is that:

If sig. < 0.05 - Reject H0 If sig. > 0.05 - Do not reject H0

One-Way ANOVA Table

Performance Measures	Hypothesis	Decision	Comment
Capital Adequacy	H1: Islamic banks or Islamic banks have better capital adequacy measures in place.	Supported	If sig. < 0.05 - Reject H0 -> Significant Differences
Asset Quality	H2: Islamic banks tend to have better asset quality measures than conventional banks.	Supported	If sig. < 0.05 - Reject H0 -> Significant Differences
Management Quality	H3: Islamic Banks are generally better than conventional banks in management quality.	Supported	If sig. < 0.05 - Reject H0 -> Significant Differences
Earnings	H4: Islamic banks have higher earnings in respect to conventional banks	Rejected	If sig. > 0.05 - Do not reject H0 -> No Significant Differences
Liquidity	H5: Islamic banks generally manage liquidity better than conventional banks.	Rejected	If sig. > 0.05 - Do not reject H0 -> No Significant Differences

- **Capital Adequacy**: Since the p-value has been measured to be .000<0.05, we can reject the null hypothesis with us. Based on the data and the evaluation, we can infer that the data suggests significant statistical differences between the capital adequacy of both conventional and Islamic banks. The findings made in relation to capital adequacy here are contrary to the findings of Mohd and Kamaruddin (2013) from Malaysia.

- **Asset Quality**: Since the p-value is believed to be somewhere around .017<0.05, we can reject the null hypothesis. Hence, we can infer that the analysis here suggests significant statistical differences between both conventional banks and Islamic banks when it comes to asset quality. The difference in Asset Quality and the rejection of the null hypothesis is contrary to what was suggested by Kamaruddin et al. (2013) from Malaysia.
- **Management Quality:** As the p-value is located between .003<0.05, we can reject the null hypothesis developed in the last section. From our data and the analysis run on it, we can infer that there are major statistical differences in the management quality seen at both Islamic banks and conventional banks. This is also inconsistent with the research study conducted by Kamarauddin et al. (2013) in Malaysia.
- **Earnings Quality:** As the p-value is between .102>0.05, we can reject the null hypothesis and accept that there are no significant differences found between both Islamic and conventional modes of banking when it comes to the quality of earnings made.

Liquidity: As the p-value is .588>0.5, we can reject the given null hypothesis and agree that there are no major statistical differences between the liquidity of both Islamic and conventional modes of banking chosen in our study. These results are completely consistent with the findings made by Kamaruddin et al. (2013) and Samad (2014). These findings have found out that there is a major difference in the liquidity ratios of both Islamic banks and conventional banks.

CORRELATION ANALYSIS

This section presents and explores the explanatory variables present within this study. The exploration is done to gauge the explanatory variables and their relationship with the bank, as expressed by the three independent variables, namely ROA, NIM and ROE.

Pearson's correlation coefficient will come in handy here as it describes and demonstrates the direction and magnitude of the relationships discussed in the study. The model will discuss whether the relationship is positive or negative and strong or weak.

Another purpose behind using correlation is to test for the problem of multicollinearity independently. This problem, if described in simple words, relates to finding out whether the independent variables used in this study are highly correlated with each other or not. Since most independent variables tend to have a correlation of around 0.4 or less, this signals a rather weak relationship between independent variables used in this study and indicates the absence of serious or significant correlation. This absence of significant correlation helps us in separating the effects of the explanatory variables from the model for regression.

Capital adequacy has a positive relationship with both NIM and ROA, but it has an inverse relation to ROE. This relationship is consistent with the findings made by Sheikh (2010), Ongore et al. (2013), and Mehta (2012). As the ETAR of the bank increases, it will have a stronger cushion to absorb any and all credit losses and undertakings. The negative correlation with the return on equity or ROE is based on the suitable argument that generally higher capital ratios motivate banks towards investing in safer assets, such as T-bonds, T-bills. This may affect the performance of the bank— something Mehta (2012) also asserted.

Asset Quality has a negative correlation between both ROA and ROE. This is because the bank's profitability is at stake when the loan reserves of the bank in relation to the total loans increase. The negative correlation between ROE and ROA is extremely strong because of the fact that loans usually account for the largest share of assets involved within a bank. These loans are used to generate income for shareholders and have the ability to influence the bank's profitability in a negative manner if the LLR is increased.

LDR or management quality also has an inverse relation with the ROA and ROE of the bank. This ratio, however, has a positive relation with NIM. As the bank increases the percentage of loans it gives from customers' deposits; it goes towards a higher risk of bankruptcy or insolvency. This negatively affects the profitability of the bank. The positive relation between NIM and LDR is influenced by the fact that bigger loans often generate a higher net interest income for the bank, which then results in a higher NIM eventually. Management quality refers to how productively bank managers fund loans by attracting more financially strong depositors and by getting deposits. Therefore, profitability is expected to increase as LDR increases for the bank in question. This notion has been confirmed by Momeneen et al. (2012) and Jaivid et al. (2011). However, the empirical results from our findings offer an opposing result as the LDR is seen to have a negative relationship with profitability. This negative relationship may possibly be due to numerous liquidity problems arising when the customer's deposits are tied up in loans to other customers.

Earnings quality (COSR), however, is found to have a positive relationship with both ROE and ROA. The same COSR has a negative relationship with the Net Interest Margin or NIM. Liquidity (NLTA) has a visible negative correlation with the findings of ROA. As we can see, this is because liquidity decreases as the amount of assets engaged in loans significantly increases. This has a negative impact on the performance of the bank. However, this relationship is found to be comparatively weak and cannot be considered as statistically significant because of the p-value denoting it.

Finally, the macroeconomic variable of GDP has an extremely strong relationship with all of the three measures of performance. This means that as the economy starts growing, bank performance will also grow alongside it. Inflation also has a positive and significant impact on the indicators, which is opposing to what was mentioned by Rehman et al. (2012) and Ali et al. (2012). Inflation has a significant positive correlation with the three indicators of profitability; however, this relationship is not statistically significant.

REGRESSION ANALYSIS

This section will present the results of the regression analysis done on the data gathered during this study. The regression analysis will be done to explain the impact any changes in the explanatory or independent variables have on the determinants of profitability, including Return on Assets, Return on Equity and Net Interest Margin. The independent and explanatory variables will be gauged by external macroeconomic variables and the internal CAMEL factors. Six of the regression models here were tested as previously studied by Ongore et al. (2013) and Faizulayev (2011). All external and internal factors are duly taken into consideration for the pure regression model as regression is duly run on all the banks, and their data is gathered through the sample. However, we have accounted for the moderating role of the type of bank on the performance of banks in the second type of model for regression to evaluate whether these differences in both the banking systems have a different impact on the overall profitability of the bank.

As it has been previously explained, we ran several diagnostic tests on all of the six regression models to ensure that the data gathered by us is in line with the assumptions to be made as part of the linear regression models. These results are based on the multicollinearity test (no real and significant relationships among all the independent variables because the correlation coefficient is way below 0.4) and the normality tests (where the data usually follows a normal distribution of sorts).

PURE REGRESSION MODEL

The following regression table below shows the impact of macro-economic and bank-specific variables on the overall performance of the banks located in the GCC and MENA region.

Table. Regression Output of Macroeconomic and Bank-Specific Variables.

	ROA	ROE	NIM
Constant	0.0138	0.1536	0.0138
	0.0066	0.0001	0.0972
ETAR	0.1055	0.1055	4.5619
	0.14822	0.0006	0.0000
LLR	-0.2557	-0.2557	4.3018
	0.0008	0.00001	0.0000
LDR	-0.2106	-0.2106	-0.0304
	0.0018	0.0014	0.9758
COSR	0.0727	0.0727	-0.8836
	0.2643	0.0000	0.3781
NLTA	0.0371	0.0371	2.5599
	0.5983	0.8139	0.0113
GDP	0.2766	0.2766	2.8933
	0.0004	0.01852	0.0043
INF	0.0761	0.0761	-0.4779
	0.2628	0.0546	0.6333
R2	30.54%	32.29%	17.78%
Adjusted R2	27.69%	29.52%	14.42%
SSE	0.0087	0.0676	0.0132
F-Test	10.738	11.648	5.283
P-Value	0.00	0.00	0.00
Durbin Watson	1.0508	1.0454	0.4333

Where:
ETAR- Equity to Assets, to measure capital adequacy of the bank
LLR- Loan Loss Reserves/Gross Loans, to measure asset quality of the bank.
LDR- Loans to Deposits Ratio, to measure the management quality of the bank
COSR- Cost to Income Ratio, to measure the quality of earnings
NLTA- Net Loans to Total Assets Ratio, to measure the liquidity status of the bank
ROA- Return on Assets, to measure profitability in terms of assets
ROE- Return on Equity, to measure profitability in terms of equity
NIM- Net Interest Margin, to measure profitability in terms of Interest incurred
GDP- Gross Domestic Product Growth Rate- to assess macroeconomic environment
INF- Annual Inflation Rate, another macroeconomic factor

As it is clearly explained and illustrated in the table above, the bank-specific internal factors studied by us have a clear and significant impact on the overall profitability and liquidity of banks, as expressed by the NIM, ROA and ROE at the 95 percent confidence levels. Asset Quality, Management Quality and Capital Adequacy are all the internal factors that tend to have a major impact on the profitability of the bank— as also concluded by Akhtar et al. (2011), Rehman et al. (2012) and Javaid et al. (2011). As the levels of capital adequacy increase, so does the profitability of the bank. However, on the flipside of things, if the loan loss reserves (LLR) of the banks decrease, the profitability is expected to react differently by increasing. Moving onwards, we expected the management quality, depicted and measured by the loan to deposit ratio (LDR), to have a positive relation to the profitability of the bank, as was asserted by Faizulayev (2011), but the results provided above differ from these assertions. From what we see in the table above, LDR has a negative relation to the performance of the bank because as LDR increases, the profitability of the bank decreases. The profitability of the bank is being measured in relation to ROA and ROE over here. However, another result showed that as LDR increased, the profitability, as measured in relation to the Net Interest Margin or NIM, also increased due to the additional interest income coming in by lending more loans from the outside world.

Moving onwards, some of the other internal factors, including those that are often considered to be positively related to the performance of the bank, such as liquidity and earnings

quality, had no impact whatsoever on the bank's profitability indicators, as in NIM, ROE and ROA. The statistics pertaining to the relation between liquidity and profitability within banks selected from the MENA and GCC region over the period 2009-2013 is believed to be insignificant. This relation, along with the one between earnings quality and profitability, is considered insignificant. These findings are in line with the ones reported by Ongore et al. (2013) and Faizulayev (2011).

The impact of all macroeconomic variables on the performance of the bank was also evaluated as part of this study. The results have been summarized in the table above, and they present a story onto their own. GDP has a positive relationship with the profitability of the bank— as measured through Return on Equity, Net Interest Margin and Return on Assets. The relation is significant. On the contrary, although we had expected INF to have a considerable positive relationship with profitability, the results garnered here are not exactly significant.

The results generated here are truly inconsistent with the findings and assertions of Ongore et al. (2013), who studied banks with Kenya and came to the conclusion that most macroeconomics factors do not have a significant impact on the profitability of the bank. However, we can deduce that the banks related with the MENA and GCC region have a close relationship with the macroeconomic stability and growth of the economy. This was also agreed upon by similar studies that were conducted by Wasiuzzaman et al. (2010) and Sufian et al. (2009).

MODERATED REGRESSION MODEL:

In order to determine and understand the difference in the performance achieved by each bank type, we performed another analysis based on regression. This was done to assess the differences in the performance of banks within the MENA and GCC region for the years 2009 and 2013.

	ROA	ROE	NIM
(Constant)	0.0152	0.1204	0.0192
	0.0000	0.0000	0.0000
ETAR M	0.0609	-0.3174	0.1806
	0.4999	0.0003	0.0728
LLR M	-0.2131	-0.2196	0.1650
	0.0634	0.0475	0.1951
LDR M	-0.1292	-0.1547	-0.0319
	0.0824	0.0315	0.6992
COSR M	0.2083	0.4128	0.1135
	0.0026	0.0000	0.1365
NLTA M	-0.0962	-0.0326	-0.0676
	0.5502	0.8338	0.7059
GDP M	0.4702	0.2628	0.0504
	0.0000	0.0127	0.6759
INF M	-0.0627	0.0510	-0.0179
	0.3803	0.4594	0.8214
R2	26.77%	31.80%	9.43%
Adjusted R2	24.28%	29.48%	6.35%
SSE	0.0084	0.0634	0.0138
F-Test	10.7577	13.7228	3.0649
P-Value	0.00	0.00	0.00
Durbin Watson	0.9009	0.9058	0.2300

Where:

ETAR - Equity to Assets, to measure capital adequacy of the bank

LLR - Loan Loss Reserves/Gross Loans, to measure asset quality of the bank.

LDR - Loans to Deposits Ratio, to measure the management quality of the bank

COSR - Cost to Income Ratio, to measure the quality of earnings

NLTA - Net Loans to Total Assets Ratio, to measure the liquidity status of the bank

ROA - Return on Assets, to measure profitability in terms of assets

ROE - Return on Equity, to measure profitability in terms of equity

NIM - Net Interest Margin, to measure profitability in terms of Interest incurred

GDP - Gross Domestic Product Growth Rate- to assess macroeconomic environment

INF - Annual Inflation Rate, another macroeconomic factor

As it is observed from the data present in the table above, the moderating role of each bank type is considerably strong. This suggests that there were certain significant differences found in the coefficient after moderation of the bank type.

The results from most of the internal factors related to the bank— asset quality, capital adequacy, earnings quality, and management quality—showed significant change after being moderated by the type of bank. The coefficient of determination (R-squared and adjusted R-squared) are used to analyze changes before and after moderation. For ROA, the R-squared value decreased from 30.54% to 26.77%, indicating a reduced explanative power of the independent variable after moderation. For RoE, the R-squared value decreased from 32.29% to 31.8%, indicating a minor reduced explanative power of the independent variable after moderation. For NIM, the R-squared value decreased from 17.78% to 9.43%, indicating a higher reduced explanative power (than RoA and RoE) of the independent variable after moderation. This indicates that moderation has reduced the effect of independent variables, although the three pure regression and moderation regression were found statistically significant.

Capital adequacy showed a significant positive relationship with both profitability terms ROA and ROE in the model for pure regression. However, after being moderated, it now has an insignificant negative relationship with both ROE and ROA. Both asset quality and management quality were seen as having a significant effect on the profitability of the bank. But after being moderated in the table above, they have both become insignificant determinants towards the bank's per-

formance. On the flipside of affairs, earnings quality, which was previously marked as being insignificant to profitability, now has quite a major effect— after being duly moderated according to bank type.

However, the type of the bank didn't really moderate the performance of the bank in relation to the macroeconomic variables of inflation and GDP. This can be due to the fact that there is a significant difference between the significance level of these factors. Moreover, the insignificant negative relationship of liquidity with profitability remained almost the same.

Finally, the coefficient determinants R2 and the adjusted R2 decreased in their magnitude as a result of the moderating effect.

- Coefficients of Determination Before and After the Moderation

Although the cumulative decrease in the adjusted regression for Return on Equity was minimal, the percentage decrease was seen across Return on Assets, and Net Interest Margin was relatively higher. This elaborated that the type of the bank, i.e. Islamic or conventional, has a major impact on the financial performance and profitability of all banks presented in the MENA and GCC region. This was elaborated by the coefficient of determinants within both the categories of the regression models.

The results obtained in this regard oppose the findings made by Athanasologou et al. (2005) while studying the performance of numerous banks and Ongore et al. (2013) within Kenya. Ongore et al. (2013) concluded that the ownership identity of the bank did not moderate the relationship between the determinants and the performance of the banks in Kenya. Hence, the ownership status from these studies appeared insignificant in affecting the overall profitability of all banks. The possible reason behind these differences, in conclusion, could be because of the different samples of banks and countries used within this study.

CONCLUSION

This chapter will draw to an end the main findings presented within this research study and the empirical results that we have garnered. We will also discuss the limitations of this study, the major implications encountered while assessing the findings and all future recommendations for research.

Key Aims and Findings

The main purpose of this research paper was to study and evaluate the performance of different Islamic and conventional banks within the MENA region from the period of 5 years between 2009 and 2013. We used the CAMEL model approach to evaluate results and uncover findings. The period of 5 years from 2009 to 2013 was selected to assess the performance of both bank types in the immediate aftermath of the global crisis of 2008 and the stability that followed. Bank data from these years gave us both an indication of how the banks performed directly after the global crisis, and how they performed in the years after, or during times of stability.

The precise objectives behind this study were to; compare the banking performance of both Islamic and conventional banks, using the measures of capital adequacy, management quality, asset quality, liquidity and earnings as determinants of performance; secondly to evaluate and test for any major differences between the performance of both Islamic and conventional banks; and, finally to determine the specific determinants of profitability by using both macroeconomic and bank-specific variables, while concurrently moderating for the impact of the bank type on yearly performance.

The findings of our first objective were generated through detailed descriptive statistics. Through these statistics and studies, it was concluded that Islamic banks have dominance over conventional banks in asset quality, capital adequacy, earnings and management quality, while they are considered weaker than conventional banks in liquidity management. To find out whether these differences in the performance indicators were significant, we performed one-way ANOVA tests. Through this, we found numerous significant differences in the performance indicators for Islamic and conventional banks in terms of asset quality, capital adequacy and management quality, whereas no significant differences were found in the liquidity management and earnings for both the banks. Additionally, Pearson's correlation coefficient model was used to test for the relationship between bank-specific and economic variables (explanatory variables) and profitability (independent variables). The results indicated a strong and positive relationship between earnings quality, capital adequacy, liquidity, inflation and GDP with the profitability of the bank. On the contrary, we found negative relationships between poor management quality and asset quality with profitability. Finally, results from the regression analysis also revealed that the most significant internal determinants of the bank performance within the MENA and GCC region from 2009 to 2013 were asset quality, management quality and capital adequacy. The significant macroeconomic variables were the annual inflation rate and GDP growth rate. However, after we considered the moderating role of the type of bank in the regression model, we discovered that there were significant differences present in the coefficient of all the parameters and saw the significance levels drastically changing. The empirical results from our study were at times consistent with the results of those mentioned in our literature but at times contradictory of these studies.

Implications of Theory

It is worth noting here that the empirical tests performed for liquidity management suggest that conventional banks outperform Islamic banks, something which is largely inconsistent with the typical and popular conviction that Islamic banks are often haunted by the problem of excess liquidity. This conviction is supported by the notion that Islamic banks carry surplus cash and numerous other data sources in comparison to conventional banks. This study has utilized the NLTA, or net loans to total assets ratio, for measuring the liquidity of all banks in the sample. We hence discovered that Islamic banks have a relatively higher ratio, which makes them more illiquid than conventional banks. This higher ratio places conventional banks on a superior level than Islamic banks when it comes to liquidity.

We believe that this difference might be because of the different sample selection methods or due to the differences in the ratios used for measuring the liquidity of the banks.

We also believe it is imperative for further studies to be undertaken in this regard so that these details can be examined further.

The macroeconomic variables, GDP and the inflation rate, are both expected to have a positive relationship with the profitability of the bank. However, from our empirical findings, we can illustrate that GDP has a rather significant impact on profitability, whereas the inflation rate has an insignificant impact.

RESEARCH LIMITATIONS

Obviously, as is the case with most researches, there were some limitations involved here as well. The biggest limiting factor in our study was the overall absence of complete, recorded financial statements for some of the banks selected in the sample. This resulted in an incomplete data set, with limited space for us to apply further statistical models of evaluation and analysis. Additionally, we discovered a lot of contrasting and odd results during the course of this study. One such contrasting result was the positive relationship of the cost to income ratio with the profitability of the bank. This positive relationship does not make any sense, as all the given costs should be kept bare minimum to ensure that the bank achieves the required profitability. This contrasting result could have emerged because of factors not made part of the study or could just be because of basic discrepancies. Additionally, part of the data studied in this research provides a non-normal distribution. Furthermore, we believe that in order to generalize and form the conclusion of this empirical study, more countries from across the globe should also be included. Many nation-states are seeing unprecedented growth in relations to Islamic banking, and restricting the sample to just the MENA and GCC region does not give full proof of how the system matches up against the likes of a conventional bank. In this regard, we believe that countries including Malaysia, Pakistan and Indonesia should also be included to form a broader understanding of how Islamic banks are performing across the globe.

THE DIRECTION OF FUTURE RESEARCH

As we have previously mentioned, Islamic banking is still fairly nascent and new to the market in comparison with the concept of conventional banking. This is, hence, a fundamental reason behind the current challenges impeding the growth of Islamic banking across the globe. Considering the nascent stage Islamic banking is currently going through, we believe that several other studies should also be undertaken to provide a scrupulous comparative analysis of the determinants of profitability for the different banks. This should be done in an attempt to solidify the model of Islamic banking and to replicate the successful determinants and practices of conventional banks.

Conversely, as Islamic banks face crucial challenges to improve their current risk management strategies, successful corporate governance and other bank-related practices, due to the adherence to Sharia, there is an imperative need for precisely tailored and innovative solutions to resolve all of these challenges for the future.

However, it is pretty evident that Islamic banking is by no means a temporary or negligible phenomenon. Islamic banks are here to stay for a long time, and there are some evident signs that suggest they will continue to increase with the passage of time and eventually expand worldwide. Concurrently, it is also imperative that Islamic banks overcome any and all challenges that they are currently facing along the way and rapidly adapt to the environment around them.

This will, nevertheless, be achieved through the release of continuous empirical studies for providing insights into the model for Islamic banking and the effective recommendations that all Islamic banks can effectively adopt to improve their performance in the present world. Therefore, we suggest and recommend the need for further studies to be performed in this regard, for measuring the corporate governance and risk management practices of prominent Islamic banks in prominent locations.

CONFLICT OF INTEREST STATEMENT

The authors declare that they have no conflict of interest.

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